News Release

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## GRUPO FINANCIERO HSBC, S.A. DE C.V.
## 1Q 2022 FINANCIAL RESULTS HIGHLIGHTS

- As of 01 January 2022, Grupo Financiero implemented the changes in the Mexican accounting standards to make them consistent with national and international financial reporting standards which will allow having transparent and comparable financial information with other countries. Changes result in profit and loss lines, balance sheet and performance indicators not being fully comparable with 2021. Relevant changes and impacts are described later in the document.

- For the three months to 31 March 2022, profit before tax was MXN2,609m, a decrease of MXN291m or 10.0% compared to the same period of 2021[1].

- For the three months to 31 March 2022, net income was MXN2,081m, a decrease of MXN815m or 28.1% compared with MXN2,896m for the same period of 2021.

- Total operating income excluding loan impairment charge for the three months to 31 March 2022 was MXN12,200m, an increase of MXN1,236m or 11.3% compared with MXN10,964m for the same period of 2021.

- Loan impairment charges for the three months to 31 March 2022 were MXN2,134m, an increase of MXN913m or 74.8% compared with MXN1,221m for the same period of 2021. The increase is mainly driven by the release of additional provisions from Covid-19 in March 2021 (MXN1,371m) partially offset by the positive impact of the initial recognition of the new methodology from January 2022 (MXN500m).

- Administrative and personnel expenses for the three months to 31 March 2022 were MXN7,488m, an increase of MXN612m or 8.9%, compared with MXN6,876m for the same period of 2021.

- The cost efficiency ratio was 61.4% for the 3 months to 31 March 2021, compared with 62.7% for the same period of 2021.

- Net loans and advances to customers were MXN375.4bn at 31 March 2022, showing an increase of MXN24.0bn or 6.8% compared with MXN351.4bn at 31 March 2021.

- Total stage 3 loans as of 31 March 2022 were MXN18.4bn of which 44.0% have less than 90 days past due. Stage 3 loans as a percentage of gross loans and advances at 31 March 2022 were 4.7%.

- At 31 March 2022, total deposits were MXN504.2bn, an increase of MXN28.4bn, or 6.0%, compared with MXN475.9bn as at 31 March 2021.

- Return on equity was 11.5% for the three months to 31 March 2022, whereas three months to 31 March 2021 it was 15.7%.

*[1] In August 2021, HSBC Pensiones transferred its pension portfolio to Pensiones Banorte S.A. The result of HSBC Pensiones as of March 2021 was restated in the consolidated income statement for comparison with March 2022 results. The amount of total restatement was MXN16m and is reflected as discontinued operations in income statement.*

- At 31 March 2022, the bank's preliminary total capital adequacy ratio was 13.3% and the common equity tier 1 capital ratio was 11.1%, compared with 14.9% and 12.3%, respectively, at 31 March 2021.

On a reported IFRS basis, for the three months to 31 March 2022, profit before tax for the period was MXN2,662m, a decrease of MXN963m compared with the profit of MXN3,625m reported for the same period in 2021. The decrease is mainly driven by higher loan impairment charges compared to March 2021, when additional reserves related to Covid-19 outbreak were released, coupled with increase in expenses, partially offset by increase in net interest income.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2022 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, additional tier 1 (AT1) instrument valuation and pensions and insurance liabilities.

**Highlights of Mexican Accounting Standards implementation:**

Grupo Financiero HSBC implemented the changes in the Mexican Accounting Standards that make them consistent with national and international financial reporting standards on 01 January 2022, with the exception of the effective interest method that will be adopted on 01 January 2023 for which the CNBV was previously notified. In accordance with the regulation, HSBC will not restate the 2021 financial statements to make them comparable to the financial statements in 2022.

Main impacts of the implementation in profit and loss and balance sheet are:

- Expected credit loss loans (ECL): After implementing the new methodology to expected loss by stages and model recalibration there was a positive impact in profit and loss during January 2022 of MXN500m and of MXN133m in retained earnings.
- ECL Financial instruments (other than loans): Initial ECL of MXN-44m in retained earnings.
- Credit Risk Adjustments Provisions (Derivatives): Implementation of CVA[2] /DVA[3] /Bid-Offer derivatives provisions reducing retained earnings (net impact of MXN18m)
- IFRS16 – In balance sheet, initial recognition of Right-of-Use (ROU) and lease liability of MXN3bn without impact in profit and loss or retained earnings.

A summary of the profit and loss main accounting reclassifications in 2022 compared to 2021 are as follow:

| **Profit and Loss** | **As of 2021** | **As of 2022** |
|---|---|---|
| Net Interest Income | ❶ Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) | ❷ Net Interest Income from Trading Derivatives |
| Net Fees | ❸ Insurance Fees Payable | |
| Insurance Acquisition Cost | | ❸ Insurance Fees Payable |
| Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) | | ❶ Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) |
| Trading income | ❷ Net Interest Income from Trading Derivatives | |
| Other operating income | | ❹ IPAB Fee[4] |
| Administrative and personnel expenses | ❹ IPAB Fee[4] | |

[2] CVA – Credit Valuation Adjustment
[3] DVA – Debit Valuation Adjustment

Other Considerations:

Starting from 2022 HSBC classifies the following exposures as Stage 3:

i) Exposures to an obligor which are equal or greater than 90 days past due; or
ii) Exposures with indications of unlikeliness to pay despite not being 90 days past due.

Under the new regulatory definition, impaired loans are now Stage 3 loans (previously past due loans). Considering HSBC's approach for the classification of stage 3 loans figures and related metrics are not comparable to 2021.

Liquidity requirements:

On 23 August 2021, the rules for the calculation of the Net Stable Funding Ratio (NSFR) were published and making the calculation mandatory as of 01 March 2022.

The objective of NSFR is for entities to maintain liabilities whose term and stability characteristics are related to the term and liquidity characteristics of their assets. The indicator must be calculated monthly and the minimum regulatory level is 100%.

## Overview

The Mexican economy grew 2.5% year over year as of February 2022. On an annual basis, services and industrial production rose 2.7% and 2.5% year over year, respectively. In contrast, agriculture fell 2.9% year over year. This reflects that the economy continues to recover, although at a gradual and differentiated pace across sectors.

Inflation climbed to 7.5% in annual terms by the end of 1Q22 from 7.4% in 4Q21. Higher prices in both core and non-core components were the main drivers. Core inflation accelerated on the back of higher tradable goods prices, while non-core inflation surged due to higher energy and non-processed food prices.

The central bank (Banxico) lifted the monetary policy twice in 1Q22 by 50bp in February and March. This took the benchmark rate to 6.50% by the end of 1Q22 from 5.50% in 4Q21.

## Financial Performance – Key Metrics

- For the three months to 31 March 2022, Grupo Financiero's profit before tax was MXN2,609m, a decrease of MXN291m or 10.0% compared to the same period of 2021[1].

- Net interest income for the three months to 31 March 2022 was MXN9,560m, an increase of MXN1,389m or 17.0% compared with the same period of 2021. The increase is mainly explained by higher interest rate environment and growth in retail portfolio.

- Loan impairment charges for the three months to 31 March 2022 were MXN2,134m, an increase of MXN913m or 74.8% compared with MXN1,221m for the same period of 2021. The increase is mainly driven by the release of additional provisions from Covid-19 in March 2021 (MXN1,371m) partially offset by the positive impact of the initial recognition of the new methodology from January 2022 (MXN500m).

- Net fee income for the three months to 31 March 2022 was MXN2,078m, in line with same period of 2021.

- Trading income for the three months to 31 March 2022 was MXN694m, an increase of MXN315m or 83.1% compared with MXN379 for the same period of 2021 mainly driven by better results in the securities portfolio.

- Other operating income for the three months to 31 March 2022 was MXN-316m, a decrease of MXN722m or over 100% compared with MXN406m for the same period of 2021 mainly due to IPAB[4] fee reclassified from expenses to 'other operating income' line for MXN549m in 2022, following the new regulatory guidelines coupled with losses from sale of selected corporate loans.

- Administrative and personnel expenses for the three months to 31 March 2022 were MXN7,488m, an increase of MXN612m or 8.9%, compared with MXN6,876m for the same period of 2021, mainly driven by higher staff and IT related costs, coupled with increase in VAT expense partially offset by 2022 reclassification of IPAB fee to other operating income, following the new regulatory guidelines.

- The cost efficiency ratio was 61.4% for the three months to 31 March 2022, compared with 62.7% for the same period of 2021.

- The effective tax rate was 20.2% for the three months to 31 March 2022, compared with 0.7% reported for the same period of 2021. The variation is mainly driven by the reassessment of deferred tax assets.

- Net loans and advances to customers were MXN375.4bn at 31 March 2022, showing an overall increase of MXN24.0bn, or 6.8% compared with MXN351.4bn at 31 March 2021. The increase is backed

[4] IPAB Fee i.e. "*Cuota IPAB"* is the deposits insurance scheme fee from government.

by 26.9% growth in total retail portfolio compared to 31 March 2021 with mortgage loans growing 28.7%, coupled with an increase of 24.5% in consumer loans partially offset by a decrease in wholesale portfolio by 7.1%. Credit cost ratios[5] and loan loss reserves ratios[6] as of March 2022 were 2.2% (1.3% as of March 2021) and 4.3% (4.9% as of March 2021), respectively.

- Return on equity was 11.5% for the three months to 31 March 2022, whereas for the three months to 31 March 2021 it was 15.7%.

- Total loan loss allowances at 31 March 2022 were MXN17.0bn, a decrease of MXN963m or 5.4% compared to 31 March 2021. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 92.7% at 31 March 2022.

- As of 31 March 2022, total deposits were MXN504.2bn, an increase of MXN28.4bn or 6.0%, compared with MXN475.9bn at 31 March 2021, mainly driven by higher demand deposits by MXN51.8bn partially offset by the reduction in wholesale funding in MXN28.6bn.

- HSBC Bank Mexico ('the bank') profit before tax for the three months to 31 March 2022 was MXN2,269m, a decrease of MXN393m or 14.8% compared with the same period of 2021 mainly driven by higher loan impairment charges and expenses partially offset by an increase in net interest income.

- HSBC Bank Mexico net income for the three months to 31 March 2022 was MXN1,816m, a decrease of MXN835m or 31.5% compared with the same period of 2021.

- HSBC Bank Mexico net interest income for the three months to 31 March 2022 was MXN9,445m an increase of MXN1,512m or 19.1%, compared with the same period of 2021.

- At 31 March 2022, the bank's preliminary total capital adequacy ratio was 13.3% and the common equity tier 1 capital ratio was 11.1%, compared with 14.9% and 12.3%, respectively, at 31 March 2021. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the three months to 31 March 2022 was MXN225m, an increase of MXN447m or over 100% compared with the same period of 2021, mainly driven by higher premiums coupled with lower claims.

*HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 March 2022) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance subsidiary.*

*All numbers are as reported, except for the reclassification of Grupo Financiero' March 2021 Consolidated Income Statement which includes the reclassification of Pensions Profit after tax to discontinued operations.*

*Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).*

[5] Credit Cost Ratio: Loan Impairment charges (annualized)/Gross Loans.

[6] Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

**Business highlights**[7] *(Amounts described include the impact of internal cost and value of funds applied to different lines of business).*

*As a result of the GB&M re-organization announced last year and taking into consideration the new regulations implemented together with IFRS9, an analysis was performed on segment reporting for 2022 onwards impacting in particular GB&M, concluding to report separately two segments (GB and MSS) starting in 1Q 2022.*

### Wealth and Personal Banking (WPB)[8]

Wealth and Personal Banking profit before tax for the three months to 31 March 2022 was MXN814m (MXN839m with Markets Treasury allocation), MXN105m lower compared to the same period in 2021. The decrease is mainly driven by higher expected credit loss provision partially compensated by higher revenues.

Total revenue was MXN8,070m, which is MXN946m higher compared to 1Q21. This is mainly driven by higher volumes in deposits, consumer loans and mortgages.

Loan impairment charges increased more than 100% compared to the same period of last year, explained by provision releases made in 2021 to cover potential losses due to Covid-19 outbreak, coupled with higher volumes in loans.

Administrative and personal expenses were MXN342m lower compared to 2021 mainly due to reclassification of IPAB fee to ‘other operating income’, following the new regulatory guidelines partially compensated by higher staff cost and IT developments.

Loan balances[9] have grown 27.8% compared to the same period of 2021, where unsecured lending portfolio grew by 25.8%, with sales being 31.0% higher. Furthermore, mortgage portfolio grew by 29.4%, with sales being 9% higher. High level of productivity is maintained throughout different commercial channels, such as the branch network, mortgage brokers and developers.

Demand deposits grew by 11% as a result of campaigns on saving accounts. Time deposits grew by 6% compared to last year.

HSBC continues to improve customer experience in Branches, CDMs (cash deposit machines) and Mobile Banking.

### Commercial Banking (CMB)

Profit before tax for the three months to 31 March 2022 was MXN1,167m, an increase of MXN237m or 25.5% higher compared to the same period in 2021 mainly explained by higher net interest income and lower expected credit loss provisions. Administrative and personnel expenses were in line with March 2021. With Markets Treasury allocation, the profit before tax was MXN1,178m.

Total revenue was MXN1,951m, showing an increase of 11.3% compared to the same period in 2021 mainly explained by the higher net interest income driven by the growth in commercial activity both in loans and deposits and rising interest rate environment.

Loan impairment charges during the period were MXN282m, a decrease of MXN58m or 25.9% better compared to the same period of 2021, driven by new expected credit loss methodology coupled with better performance of the portfolio.

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[7] *In 2022, BSM (Balance Sheet Management) was renamed to Markets Treasury. Markets Treasury total profit before tax for the three months ended at 31 of March 2022 was MXN46m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the three months to 31 of March 2022 profit before tax allocation by business was – MXN25m to WPB, MXN11m to CMB and MXN8m to GB and MXN2m to MSS.*

[8] *WPB does not include Insurance results which was MXN225m in profit before tax as of three months to 31 March 2022.*

[9] *Balances presented exclude stage 3 loans.*

## Global Banking (GB)

Profit before tax for the three months to 31 March 2022 was MXN790m, an increase of MXN416m or over 100% compared with the same period of 2021, mainly driven by loan impairment charge releases and lower administrative expenses, partially offset by lower net interest income and fees. With Markets Treasury allocation, profit before tax was MXN798m.

Total revenue was MXN926m, a decrease of MXN138m or 12.9% compared with the same period of 2021, mostly explained by lower net interest income and lower fees following the loan portfolio contraction.

Loan impairment charges reduced by more than 100% mainly explained by new expected credit loss methodology coupled with a contraction in the loan portfolio.

Administration and personnel expenses reduced 25.3% compared to the same period of 2021, as a consequence of the strategy to reduce the loan portfolio and reclassification of IPAB fee to 'other operating income', following the new regulatory guidelines.

Global Banking maintained its strategic focus on the cross-sale of products including Global Markets solutions, Trade Services and Liquidity and Cash Management, with an operating model that leverages from our international footprint and global capabilities thus allowing us to capture relevant transactions with international customers.

## Markets and Security Services (MSS)

Profit before tax for the three months to 31 March 2022 was MXN316m, an increase of MXN543m compared with the same period of 2021. The increase is mainly explained by a better performance in the trading activity partially offset by a lower net interest income, coupled with increase in expenses. With Markets Treasury allocation, profit before tax was MXN318m.

Total revenue increase is driven by better trading performance, leveraging market volatility primarily in fixed income products and FX partially offset by a lower net interest income.

Administrative and personnel expenses' increase of MXN42m is mainly explained by transactional and exchange membership costs.

## Awards and Recognitions

Euromoney Recognition

HSBC Mexico is, for the fifth consecutive year, the leading bank in foreign trade services and solutions. Both awards from the Euromoney are based on a survey of companies that require financial services to accompany their international activity. In addition to providing liquidity in the face of supply chain disruption in recent years and trade finance innovations that have helped improve business resilience, HSBC Mexico has incorporated more digital innovations into its foreign trade solutions in recent years. Likewise, the bank is focusing its efforts on developing sustainable solutions that allow monitoring, under sustainable criteria, the projects and needs of companies that carry out transactions outside the country, with which HSBC Mexico reaffirms its global commitment to become a bank active in the transition to a net-zero carbon emissions global economy.

**Grupo Financiero HSBC's first quarter to 2022 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS).**

On a reported IFRS basis, for the three months to 31 March 2022, profit before tax for the period was MXN2,662m, a decrease of MXN963m compared with the profit of MXN3,625m reported for the same period in 2021. The decrease is mainly driven by higher loan impairment charges compared to March 2021, when additional reserves related to Covid-19 outbreak were released, coupled with increase in expenses, partially offset by increase in net interest income.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2022 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, AT1 instrument valuation and pensions and insurance liabilities.

## About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 892 branches, 5,577 ATMs and 14,514 employees as of 31 March 2022.

For more information, visit www.hsbc.com.mx.

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$3,022bn at 31 March 2022, HSBC is one of the world's largest banking and financial services organisation.

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**Consolidated Income Statement – GROUP three months ended 31 March 2022**

*Figures in MXN Millions*

| | Group<br>31 Mar 2022 |
|---|---|
| Interest income | 13,707 |
| Interest expense | (4,147) |
| Net interest income | 9,560 |
| Loan impairment charges | (2,134) |
| Risk-adjusted net interest income | 7,426 |
| Fees and commissions receivable | 2,745 |
| Fees payable | (667) |
| Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) | 184 |
| Trading income | 694 |
| Other operating income | (316) |
| Total operating income | 12,200 |
| Administrative and personnel expenses | (7,488) |
| Net operating income | 2,578 |
| Share of profits in equity interest | 31 |
| Profit/(loss) before tax | 2,609 |
| Income tax | (528) |
| Net income before discontinued operations | 2,081 |
| Discontinued Operations | - |
| Net income | 2,081 |

**Consolidated Income Statement – GROUP three months ended 31 March 2021***

*Figures in MXN millions*

| | Group<br>31 Mar 2021 |
|---|---|
| Interest income | 12,913 |
| Interest expense | (4,804) |
| Net interest income | 8,109 |
| Loan impairment charges | (1,221) |
| Risk-adjusted net interest income | 6,888 |
| Fees and commissions receivable | 2,640 |
| Fees payable | (570) |
| Trading income | 379 |
| Other operating income | 406 |
| Total operating income | 9,743 |
| Administrative and personnel expenses | (6,876) |
| Net operating income | 2,867 |
| Share of profits in equity interest | 33 |
| Profit/(loss) before tax | 2,900 |
| Income tax | (181) |
| Deferred income tax | 161 |
| Net income before discontinued operations | 2,880 |
| Discontinued Operations* | 16 |
| Net income | 2,896 |

**Following the reclassification to discontinued operations of the results of HSBC Pensions business, the consolidated income statement of Group for three months to 31 March 2021 differs from the figures previously reported to make the year over year figures comparable. Refer to 'Discontinued Operations' section for figures for 2021.*

**Consolidated Income Statement – BANK three months ended 31 March 2022**

*Figures in MXN Millions*

| | Bank<br>31 Mar 2022 |
|---|---|
| Interest income | 13,601 |
| Interest expense | (4,156) |
| Net interest income | 9,445 |
| Loan impairment charges | (2,134) |
| Risk-adjusted net interest income | 7,311 |
| Fees and commissions receivable | 2,612 |
| Fees payable | (805) |
| Trading income | 728 |
| Other operating income | (161) |
| Total operating income | 11,819 |
| Administrative and personnel expenses | (7,448) |
| Net operating income | 2,237 |
| Share of profits in equity interest | 32 |
| Profit/(loss) before tax | 2,269 |
| Income tax | (453) |
| Net income before discontinued operations | 1,816 |
| Discontinued Operations | - |
| Net income | 1,816 |

**Consolidated Income Statement – BANK three months ended 31 March 2021**

*Figures in MXN millions*

| | Bank<br>31 Mar 2021 |
|---|---|
| Interest income | 11,434 |
| Interest expense | (3,501) |
| Net interest income | 7,933 |
| Loan impairment charges | (1,221) |
| Risk-adjusted net interest income | 6,721 |
| Fees and commissions receivable | 2,495 |
| Fees payable | (614) |
| Trading income | 545 |
| Other operating income | 299 |
| Total operating income | 9,437 |
| Administrative and personnel expenses | (6,811) |
| Net operating income | 2,626 |
| Share of profits in equity interest | 36 |
| Profit/(loss) before tax | 2,662 |
| Income tax | (116) |
| Deferred income tax | 105 |
| Net income | 2,651 |

## Consolidated Balance sheet - 2022

| *Figures in MXN millions* | **Group** | **Bank** |
|---|---|---|
| | **31 Mar 2022** | **31 Mar 2022** |
| **Assets** | | |
| Cash and cash equivalents | 69,693 | 69,567 |
| Margin accounts | 129 | 129 |
| **Financial Investments** | **178,227** | **168,292** |
| Trading financial investments | 67,228 | 63,482 |
| Financial investments hold to collect or sale | 91,739 | 85,621 |
| Financial investments hold to collect principal and interest (securities) (net) | 19,260 | 19,189 |
| Reverse repurchase agreements | 35,235 | 35,235 |
| Derivative transactions | 44,178 | 44,178 |
| Loan and advances - credit risk stage 1 | | |
| Commercial loans | 195,120 | 195,120 |
| Consumer loans | 72,222 | 72,222 |
| Mortgage loans | 102,720 | 102,720 |
| Total loan portfolio with credit risk stage 1 | 370,062 | 370,062 |
| Loan and advances - credit risk stage 2 | | |
| Commercial loans | 226 | 226 |
| Consumer loans | 2,223 | 2,223 |
| Mortgage loans | 1,432 | 1,432 |
| Total loan portfolio with credit risk stage 2 | 3,881 | 3,881 |
| Loan and advances - credit risk stage 3 | | |
| Commercial loans | 13,543 | 13,543 |
| Consumer loans | 1,832 | 1,832 |
| Mortgage loans | 2,985 | 2,985 |
| Total loan portfolio with credit risk stage 3 | 18,360 | 18,360 |
| Gross loans and advances to customers | 392,303 | 392,303 |
| Expected credit losses | (17,024) | (17,024) |
| Net loans and advances to customers - insurance | 108 | - |
| **Total net loans and advances to customers** | **375,387** | **375,279** |
| Premium receivables | 1,997 | - |
| Accounts receivables from reinsurers | 47 | - |
| Other accounts receivable | 43,705 | 43,705 |
| Foreclosed assets | 235 | 235 |
| Long term assets held for sale | 10 | 10 |
| Property, Furniture and Equipment (Net) | 6,010 | 6,010 |
| Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU) | 2,998 | 2,990 |
| Prepayments and other assets | 5,186 | 5,013 |
| Long-term investments in equity securities | 1,310 | 1,269 |
| Deferred income tax asset (net) | 7,082 | 6,933 |
| Intangible assets (net) | 6,038 | 5,874 |
| Goodwill | 955 | - |
| **Total assets** | **778,422** | **764,515** |

## Consolidated Balance Sheet - 2022 (continued)

| *Figures in MXN millions* | Group | Bank |
|---|---|---|
| | **31 Mar 2022** | **31 Mar 2022** |
| **Liabilities** | | |
| **Deposits** | **504,244** | **505,208** |
| Demand deposits | 352,651 | 353,055 |
| Time deposits | 133,024 | 133,584 |
| Bank bond outstanding | 17,592 | 17,592 |
| Global deposit account without movements | 977 | 977 |
| Bank deposits and other liabilities | **13,796** | **13,796** |
| Short-term | 8,422 | 8,422 |
| Long-term | 5,374 | 5,374 |
| Technical reserves | 8,332 | - |
| Repurchase agreements | 10,902 | 10,902 |
| Collateral sold | **34,641** | **34,641** |
| Repurchase agreements | 21,831 | 21,831 |
| Securities lending | 12,810 | 12,810 |
| Derivative transactions | 43,362 | 43,362 |
| Accounts payable from reinsurers | 12 | - |
| Lease liabilities | 3,054 | 3,046 |
| **Other payable accounts** | **70,280** | **69,500** |
| Settlement accounts | 40,030 | 39,644 |
| Income tax and employee profit sharing payable | 10,130 | 10,130 |
| Other contributions | 1,221 | 1,183 |
| Sundry creditors and other accounts payable | 18,899 | 18,543 |
| Financial instruments qualifying as liabilities (subordinated debt) | 11,558 | 11,558 |
| Income tax liabilities | 383 | 414 |
| Employee benefit liabilities | 3,475 | 3,439 |
| Deferred credits and receivable in advance | 1,523 | 1,419 |
| **Total liabilities** | **705,562** | **697,285** |
| **Equity** | | |
| Paid in capital | **43,373** | **38,318** |
| Capital stock | 6,218 | 6,132 |
| Additional paid in capital | 37,155 | 32,186 |
| Other reserves | **33,411** | **32,741** |
| Capital reserves | 1,244 | 13,234 |
| Retained earnings - prior years | 30,086 | 17,692 |
| Net income | 2,081 | 1,816 |
| Result from the mark-to-market from financial investments hold to collect or sale | (1,120) | (1,025) |
| Result from cash flow hedging transactions | (1,093) | (1,093) |
| Adjustment in the employee pension | (1,720) | (1,720) |
| Total controlling interest | 72,851 | 67,222 |
| Minority interest | 9 | 8 |
| Total equity | **72,860** | **67,230** |
| **Total liabilities and equity** | **778,422** | **764,515** |

**Consolidated Balance Sheet** – **2022** (continued)

| *Figures in MXN millions* | **Group** **31 Mar 2022** | **Bank** **31 Mar 2022** |
|---|---|---|
| **Off-Balance sheet accounts** | | |
| **Third party accounts** | **3,643** | **0** |
| Clients current accounts | 2,627 | 0 |
| Custody operations | 1,016 | 0 |
| **Proprietary accounts** | **4,925,365** | **4,751,261** |
| Irrevocable loan commitments | 277,400 | 277,400 |
| Goods in trust or mandate | **174,456** | **174,456** |
| Trusts | 173,650 | 173,650 |
| Mandate | 806 | 806 |
| Goods in custody or under administration | 1,432,558 | 1,432,558 |
| Collateral received by the institution | 50,813 | 50,813 |
| Collateral received and sold or delivered as guarantee | 36,436 | 36,436 |
| Uncollected accrued interest on stage 3 loans | 466 | 466 |
| Other accounts | 2,953,236 | 2,779,132 |
| **Total Off-Balance sheet accounts** | **4,929,008** | **4,751,261** |

## Consolidated Balance Sheet - 2021

| *Figures in MXN millions* | Group<br>31 Mar 2021 | Bank<br>31 Mar 2021 |
|---|---|---|
| **Assets** | | |
| Cash and deposits in banks | 52,939 | 52,819 |
| Margin accounts | 205 | 205 |
| Investment in securities | **177,384** | **161,324** |
| Trading securities | 67,061 | 64,955 |
| Available-for-sale securities | 83,071 | 77,394 |
| Held to maturity securities | 27,252 | 18,975 |
| Repurchase agreements | 25,793 | 25,793 |
| Derivative transactions | 53,768 | 53,768 |
| Performing loans | | |
| Commercial loans | 170,836 | 170,836 |
| Loans to financial intermediaries | 9,098 | 9,098 |
| Loans to government entities | 38,540 | 38,540 |
| Consumer loans | 59,195 | 59,195 |
| Mortgage loans | 80,514 | 80,514 |
| Total performing loans | **358,183** | **358,183** |
| Impaired loans | | |
| Commercial loans | 6,408 | 6,408 |
| Consumer loans | 2,063 | 2,063 |
| Mortgage loans | 2,748 | 2,748 |
| Total impaired loans | **11,219** | **11,219** |
| Gross loans and advances to customers | **369,402** | **369,402** |
| Allowance for loan losses | (17,987) | (17,987) |
| Net loans and advances to customers | **351,415** | **351,415** |
| Accounts receivables from insurers and bonding companies | 86 | - |
| Premium receivables | 1,844 | - |
| Accounts receivables from reinsurers | 44 | - |
| Other accounts receivable | 47,581 | 47,037 |
| Foreclosed assets | 319 | 319 |
| Property, furniture and equipment, net | 4,504 | 4,504 |
| Long-term investments in equity securities | 1,028 | 988 |
| Long-term assets available for sale | 240 | 240 |
| Deferred taxes | 11,031 | 10,830 |
| Goodwill | 1,048 | - |
| Other assets, deferred charges and intangibles | 6,661 | 6,162 |
| **Total assets** | **735,890** | **715,404** |

**Consolidated Balance Sheet – 2021 (continued)**

| *Figures in MXN millions* | **Group**<br>**31 Mar 2021** | **Bank**<br>**31 Mar 2021** |
|---|---|---|
| **Liabilities** | | |
| Deposits | **475,885** | **478,794** |
| Demand deposits | 300,873 | 303,322 |
| Time deposits | 128,794 | 128,384 |
| Bank bond outstanding | 46,218 | 46,218 |
| Global deposit account without movements | - | 870 |
| Bank deposits and other liabilities | **17,792** | **17,792** |
| On demand | 2,612 | 2,612 |
| Short-term | 9,624 | 9,624 |
| Long-term | 5,556 | 5,556 |
| Repurchase agreements | 33,840 | 33,840 |
| Collateral sold | 6,962 | 6,962 |
| Derivative transactions | 45,611 | 45,611 |
| Technical reserves | 14,737 | - |
| Accounts payable from reinsures and rebonding companies | 5 | - |
| Other payable accounts | **53,070** | **51,889** |
| Income tax and employee profit sharing payable | 188 | 180 |
| Sundry creditors and other accounts Payable | 52,882 | 51,709 |
| Subordinated debentures outstanding | 11,876 | 11,876 |
| Deferred credits and receivable in advance | 1,300 | 1,195 |
| **Total liabilities** | **661,078** | **647,959** |
| **Equity** | | |
| Paid in capital | **43,373** | **38,318** |
| Capital stock | 6,218 | 6,132 |
| Additional paid in capital | 37,155 | 32,186 |
| Other reserves | **31,433** | **29,122** |
| Capital reserves | 1,244 | 13,202 |
| Retained earnings | 28,469 | 16,664 |
| Result from the mark-to-market of available-for-sale securities | (780) | (853) |
| Result from cash flow hedging transactions | (396) | (396) |
| Adjustment in the employee pension | - | (2,146) |
| Net income | 2,896 | 2,651 |
| Minority interest in capital | 6 | 5 |
| Total equity | **74,812** | **67,445** |
| **Total liabilities and equity** | **735,890** | **715,404** |

## **Consolidated Balance Sheet** – **2021** (continued)

| *Figures in MXN millions* | **Group** | **Bank** |
|---|---|---|
| | **31 Mar 2021** | **31 Mar 2021** |
| **Memorandum Accounts** | **5,584,875** | **5,404,086** |
| **Third party accounts** | **30,293** | **26,818** |
| Clients current accounts | 2,446 | - |
| Custody operations | 1,029 | - |
| Third party investment banking operations, net | 26,818 | 26,818 |
| **Proprietary position** | **5,554,582** | **5,377,268** |
| Irrevocable lines of credit granted | 278,929 | 278,929 |
| Goods in trust or mandate | 198,459 | 198,459 |
| Goods in custody or under administration | 1,426,286 | 1,420,068 |
| Collateral received by the institution | 54,169 | 54,169 |
| Collateral received and sold or delivered as guarantee | 29,281 | 29,281 |
| Suspended interest on impaired loans | 364 | 364 |
| Other control accounts | 3,567,094 | 3,395,998 |

## Consolidated Statement of Changes in Shareholders' Equity

*Figures in MXN millions*

| Group | Capital contributed | Capital reserves | Retained earnings – prior years | Valuation of financial investments hold to collect or sale | Valuation of cash flow hedging transactions | Remeasurement of defined benefits to employees | Total controlling interest | Minority interest | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| **Total Balances at 01 Jan 2022** | 43,373 | 1,244 | 28,160 | (655) | (713) | - | 71,409 | 6 | **71,415** |
| **Comprehensive Income:** | | | | | | | | | |
| Net Income | - | - | 2,081 | - | - | - | **2,081** | - | **2,081** |
| **Other comprehensive income** | - | - | 1,926 | (465) | (380) | (1,720) | **(639)** | - | **(639)** |
| Valuation of financial investments hold to collect or sale | - | - | - | (465) | - | - | **(465)** | - | **(465)** |
| Valuation of cash flow hedging transactions | - | - | - | - | (380) | - | **(380)** | - | **(380)** |
| Remeasurement of defined benefits to employees | - | - | 1,926 | - | - | (1,720) | **206** | - | **206** |
| **Total** | **-** | **-** | **4,007** | **(465)** | **(380)** | **(1,720)** | **1,442** | - | **1,442** |
| Participation in Comprehensive income of other entities | - | - | - | - | - | - | - | 3 | **3** |
| **Final balances as of 31 March 2022** | **43,373** | **1,244** | **32,167** | **(1,120)** | **(1,093)** | **(1,720)** | **72,851** | 9 | **72,860** |

**Consolidated Statement of Changes in Shareholders' Equity**

*Figures in MXN million*

| **Bank** | Capital contributed | Capital reserves | Retained earnings – prior years | Valuation of financial investments hold to collect or sale | Valuation of cash flow hedging transactions | Remeasurement of defined benefits to employees | Total controlling interest | Minority interest | **Total Equity** |
|---|---|---|---|---|---|---|---|---|---|
| **Total Balances at 01 Jan 2022** | 38,318 | 13,202 | 17,602 | (616) | (712) | (1,750) | 66,044 | 2 | **66,046** |
| **Movements inherent to the shareholders' decision:** | | | | | | | | | |
| Capitalization of other equity items | - | 32 | 90 | - | - | - | 122 | 6 | **128** |
| **Comprehensive income:** | | | | | | | | | |
| Net income | - | - | 1,816 | - | - | - | 1,816 | - | **1,816** |
| **Other comprehensive income:** | | | | | | | | | |
| Valuation of financials investments hold to collect and sale | - | - | - | (409) | - | - | (409) | - | **(409)** |
| Valuation of cash flow hedging transactions | - | - | - | - | (381) | | (381) | - | **(381)** |
| Remeasurement of defined benefits to employees | - | - | - | - | - | 30 | 30 | - | **30** |
| **Total** | **-** | **-** | **1,816** | **(409)** | **(381)** | **30** | **1,056** | - | **1,056** |
| **Final balances as of 31 Mar 2022** | **38,318** | **13,234** | **19,508** | **(1,025)** | **(1,093)** | **(1,720)** | **67,222** | 8 | **67,230** |

**Consolidated Statement of Cash Flow - Group**

| *Figures in MXN millions* | **31 Mar 2022** |
|---|---|
| **Profit/(loss) before tax** | **2,609** |
| **Adjustments for items associated with investing activities** | **970** |
| Depreciation of property, furniture and equipment | 280 |
| Amortization of intangible assets | 659 |
| Participation in the net income of other entities | 31 |
| **Adjustments for items associated with financing activities** | **572** |
| Interest associated with bank deposits and other liabilities | 188 |
| Financial instruments qualifying as liabilities (subordinated debt) | 384 |
| **Changes in items related to operating activities** | **4,875** |
| Bank deposits and other liabilities | (12,836) |
| Margin accounts | (207) |
| Financial investments | (14,165) |
| Reverse repurchase agreements | (1,105) |
| Derivative transactions (assets) | (1,994) |
| Loans and advances (net) | (3,771) |
| Debtors of re-insurance | 203 |
| Recoverable amounts for reinsurance (net) | 13 |
| Other accounts receivable (net) | (17,560) |
| Foreclosed assets (net) | 13 |
| Deposits | 5,278 |
| Technical reserves | 227 |
| Repurchase agreements | 830 |
| Collaterals sold or given in guarantee | 24,855 |
| Derivative transactions (liabilities) | 4,090 |
| Accounts payable for reinsurers | 1 |
| Adjustments for employee benefits | (139) |
| Other accounts payable | 22,691 |
| Other provisions | (603) |
| Income tax payments | (946) |
| **Net cash flows from operating activities** | **9,026** |
| **Investing activities:** | |
| Payments for the acquisition of property, furniture and equipment | (683) |
| Charges for disposal of property, furniture and equipment | 3 |
| Payments for acquisition of intangible assets | (787) |
| Other payments for investing activities | 507 |
| **Net cash flows from investing activities** | **(960)** |
| **Financing activities:** | |
| Lease liability payments | (142) |
| Collections for the issuance of financial instruments that qualify as liabilities | 148 |
| **Net cash flows from financing activities** | **6** |
| Increase/decrease in cash and equivalents | 8,072 |
| Cash and equivalents at beginning of period | 61,621 |
| **Cash and equivalents as of 31 March 2022** | **69,693** |

## Consolidated Statement of Cash Flow - Bank

| *Figures in MXN millions* | **31 Mar 2022** |
|---|---|
| **Profit/(loss) before tax** | **2,269** |
| **Adjustments for items associated with investing activities** | **971** |
| Depreciation of property, furniture and equipment | 280 |
| Amortization of intangible assets | 659 |
| Participation in the net result of other entities | 32 |
| **Adjustments for items associated with financing activities** | **572** |
| Interest associated with bank deposits and other liabilities | 189 |
| Financial instruments qualifying as liabilities (subordinated debt) | 384 |
| **Changes in items related to operating activities:** | **5,718** |
| Bank deposits and other liabilities | (12,836) |
| Margin accounts | (207) |
| Financial investments | (14,118) |
| Reverse repurchase agreements | (1,105) |
| Derivative transactions (assets) | (1,482) |
| Loans and advances (net) | (3,662) |
| Foreclosed assets (net) | 13 |
| Other Operating Assets | (21,076) |
| Deposits | 5,137 |
| Repurchase agreements | 830 |
| Collaterals sold or given in guarantee | 24,855 |
| Derivative transactions (liability) | 4,090 |
| Adjustments for employee benefits | 154 |
| Other accounts payable | 25,305 |
| Other provisions | 686 |
| Income tax payments | (866) |
| **Net cash flows from operating activities** | **9,530** |
| **Investing activities:** | |
| Payments for the acquisition of property, furniture and equipment | (683) |
| Charges for disposal of property, furniture and equipment | 3 |
| Payments for acquisition of intangible assets | (787) |
| **Net cash flows from investing activities** | **(1,467)** |
| **Financing activities:** | |
| Lease liability payments | (142) |
| Collections for the issuance of financial instruments that qualify as liabilities | 148 |
| **Net cash flows from financing activities** | **6** |
| Increase/decrease in cash and equivalents | 8,069 |
| Cash and equivalents at beginning of period | 61,498 |
| **Cash and equivalents as of 31 March 2022** | **69,567** |

**Detail of reclassification to discontinued operations of the results of HSBC Pensions business:**

*Figures in MXN millions*

| | Discontinued Operations 31 Mar 2021 |
|---|---|
| Interest income | 103 |
| Interest expense | (229) |
| Net interest income | (126) |
| Trading income | 173 |
| Total operating income | 47 |
| Administrative and personnel expenses | (6) |
| Net operating income | 41 |
| Profit/(loss) before tax | 41 |
| Income tax | (25) |
| Net income re-classed to discontinued operations | 16 |

## Changes in Mexican accounting standards

### Introduction

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different.

Subsidiaries financial statements are prepared in accordance with accounting standards issued by CNBV applicable to banks, excepting by the Insurance Company (HSBC Seguros) which are prepared in line with accounting standards issued by National Insurance and Bonding Commission (CNSF for its acronym in Spanish).

The recent changes in accounting standards issued by CNBV or CINIF applicable to the bank as principal subsidiary of Grupo Financiero HSBC, are described below:

### *I. Improvements of NIF 2022 issued by CINIF applicable to Financial Institutions.*

CINIF issued a document called “Improvements of NIF 2022”, which mainly includes the following changes and improvements:

*Improvements involving accounting changes.*

NIF B-17 “Business Combinations” – Introduction of new guidance to recognize Business Combinations under common control (BCUCC) where this control is not temporary. Previously, these BCUCC transaction were out of the scope of the previous version of this standard.  In general terms, the BCUCC under this standard are recognized by the acquirer using “the predecessor accounting” value, therefore any difference with the consideration is recognized in equity, excepting by those acquired entities in which non-related party are investors or those quote in the stock exchange market, in which case “the acquisition method” is applicable.

NIF B-15 “The Effects of Changes in Foreign Exchange Rates” – Addition of the practical expedient to elaborate financial statements in the reporting currency without the translation process from transactional to functional currency, when both reporting and transactional currencies are the same. It is applicable as long as the financial statements are prepared to legal and taxation purposes and the entity has no subsidiaries, parent or users of financial information that need financial statements with impacts from the translation to functional currency.

This practical expedient superseded the INIF 15- “Financial statements which reporting currency is the same than transactional, but different to functional”.

NIF D-3 “Employee Benefits” – Given the changes issued on April, 23th, 2021 by the Mexican government to introduce a threshold in the calculation of the “Employee Profit Sharing” (PTU by its acronym in Spanish) (the more favourable to the employee between a cap of three months of employee’s wages or the average of PTU paid during the three last periods), some modifications were included in the NIF to determine the new procedure to calculate deferral PTU (this concept is a difference between Mex GAAP and IFRS):

Step 1.- Calculate the temporary differences between accounting and taxable for PTU at the reporting end period.

Step 2.- Determine the PTU rate expected to be incurred during the following years, based on financial and tax projections or the PTU incurred in the current period.

Step 3.- PTU rate x temporary differences amount.

***Elimination of some disclosures.***

NIF B-1 "Accounting Policies, Changes in Accounting Estimates and Errors" – It is no longer necessary to disclose pro-forma information upon a change in entity structure occurs, such as in acquisition or disposal of a business, among others.

NIF B-10 "Inflation effects in financial reporting" – No requirement to disclose information when economic environment is considered not inflationary under the NIF, unless the entity considers relevant facts that predict the inflation will increase in the foreseeable future to turn into an inflationary economy.

NIF B-17 "Fair Value measurement" – No requirement to disclose information based on NIF B-1, in case of a change in estimation originated by a valuation technique modification.

NIF C-6 "Property, Plant and Equipment" – Elimination of the requirement to disclose information for those PP&E items in building process, as long as there are approved plans to their execution.

*Improvements which not originate accounting changes.*

Note No. 44 "Accounting treatment of Unidades de Inversión (UDIS) (Investment Units)" – Given the changes of NIF B-3 "Income Statement", NIF B-10 "Inflation effects in financial reporting" and NIF B-15 "The Effects of Changes in Foreign Exchange Rates", to cover the accounting treatment of UDIS, this note was derogated.

NIF C-3 "Accounts receivables" – Some wording enhancements were included to widen the scope of this standard and not refer to a specific type of commercial account receivables concept as the previous version. The change originated some amendments in NIF C-16 "Impairment of financial instruments hold to collect principal and interest" and NIF B-6 "Balance Sheet".

Additionally, some amendments in the wording of the NIF B-1 y B-17, as well as changes and additions of some term in NIF Glossary.

No significant financial impacts have been observed in the implementation of the changes.

***II. New NIF A-1* "*Conceptual framework".***

On December, 23th, 2021, the CINIF approved this new NIF with the objective to converge with the Conceptual Framework of IFRS recent issued by IASB in 2018. The main changes in comparison with previous standard are:

- The structure of previous Conceptual Framework was changed from eight different standards to integrate in a single NIF divided by nine chapters.
- Chapter 10 – NIF structure – Technical Reports issued by CINIF will be part of the accounting guidance in emergent topics.
- Chapter 20 –Accounting Principles – The concept of accounting period, which was previously related to accrual basis principle, was reallocated into the "Chapter 30 – Financial Statements objective", given its closely relation with the preparation of financial statements.

- Chapter 30 – Financial Statements objective – The title was modified.

- Chapter 40 – Qualitative characteristics of financial statements – A restructure of qualitative characteristics was done, now being “Fundamental”: relevance and faithful representation and “Enhancing”: understanding and comparability.

- Chapter 50 – Basic elements of financial statements – Amendments in assets and liabilities definition.

- Chapter 60 – Recognition – No relevant changes.

- Chapter 70 – Measurement bases – Changes in the structure to separate Measurement and Recognition. Incorporation of amortised cost as the basis for historical cost valuation for financial instruments, and equity method and fulfilment value method as the basis of current valuation.

- Chapter 80 – Presentation and disclosure – Incorporation of requirements related to effective communication and the addition of guidance to offset and recognize in aggregate basis items in the financial statements.

- Chapter 90 – Supplementary process of Mexican GAAP – No changes.

This NIF will be in place in 2023, but it is allowed its anticipated adoption. HSBC is not expecting relevant impacts in adoption.

***III. Implementation of new CNBV accounting standards and NIF.***

In 2022 was implemented the update of the accounting framework applicable to Financial Institutions and subsidiaries of Financial Group in Mexico, which has the purpose to converge with the latest changes in IFRS such as IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from contracts with customers”, IFRS 16 “Leases” and the adoption of a Mexican accounting standard related to the measurement and disclosure of fair value (NIF B-17 “Fair Value Measurement”).

In summary this implementation comprised the following:

- Adoption of the following NIF:

  - B-17 “Fair Value Measurement”,
  - C-2 “Investment in Financial Instruments”,
  - C-3 “Accounts receivables”,
  - C-9 “Provisions, Contingent assets and liabilities and commitments”,
  - C-10 “Derivative financial instruments and hedge relationship”,
  - C-16 “Impairment of financial instruments hold to collect principal and interest””,
  - C-19 “Financial liabilities”,
  - C-20 “Financial instruments hold to collect principal and interest”,
  - C-22 “Crypto-currencies”,
  - D-1 “Revenue from contracts with customers”,
  - D-2 “Costs for contracts with customers”,
  - D-5 “Leases”.

- Changes in the accounting standard B-6 Loans of Annex 33 to implement the “Effective Interest Rate (EIR)” method to measure the amortised cost of loans under the business model Hold-to-Collect (HTC) that meet Solely Payment of Principal and Interest (SPPI) test.

Additionally, loans are categorised in different stages that represent their level of credit risk: *Stage 1- Performing,* Stage 2- *Significant increase in credit risk* and Stage 3- *Credit Impaired,* rather than still being classified as "Performing" and "Non-performing".

- New methodology to calculate the expected credit losses (ECL) based on the stage of the loans in accordance with their credit risk.
- The following accounting standards issued by CNBV were superseded by the implementation of certain NIF:

| Particular Accounting standard issued by CNBV to be superseded | NIF |
|---|---|
| A-3 General accounting rules applicable to offsetting | NIF B-12 "Offsetting of financial assets and liabilities" |
| B-2 Investment in financial instruments. | NIF C-2 "Investment in Financial Instruments". |
| B-5 Derivatives and hedge relationship. | NIF C-10 "Derivatives and hedge accounting". |
| B-11 Collection rights. | NIF C-20 "Financial instruments hold to collect principal and interest". |
| C-1 Recognition and derecognition of financial assets. | NIF C-14 "Recognition and derecognition of financial assets" |
| C-3 Related parties. | NIF C-13 "Related parties". |
| C-4 Operating segment information. | NIF B-5 "Operating segment information". |

- Changes in regulatory reporting.

In summary, HSBC implemented the NIF and changes in accounting standards issued by CNBV (excepting by the EIR method) without relevant financial impacts on its balance sheet and income statement at adoption, being the most representative:

- **<u>Implementation of the new methodology to calculate ECL</u>. -** Reduction of 2.9% of the credit losses recognized on balance sheet in comparison with those based on old methodology. The release was recognized in income statement in accordance with accounting standards included in Annex 33.

- **<u>Adoption of the NIF D-5 Leases</u>. -** Acting as lessee, HSBC recognized the same amount of Right-of-Use (RoU) and lease liability for leases agreement related to its national branches, representing an increment of 0.45% of assets and 0.50% of liabilities in comparison with those recognized on its balance sheet at 31 December 2021.

Based on the issuance of the original resolution of accounting changes dated on 13 March 2020 and its subsequent modification issued on 04 December 2020, either the adoption process and calculation of the initial financial impacts were determined.

**<u>Implementation of EIR (effective interest rate)</u>**

On 23 September 2021, the CNBV issued in the official gazette an option to defer the implementation of the EIR to 2023, in consequence during 2022 the accrual of interest will be based on the use of straight-line basis to recognize transaction costs and fees charged to borrowers related to the origination of the loans.

On 15 December 2021, HSBC notified in written to the CNBV, its willingness to adhere to this option.

On this regard, HSBC has shared with the CNBV a detailed plan including all the action points, responsible and deadline to complete the implementation of EIR, estimating that the plan will be finished before 01 January 2023.

## Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)
***Grupo Financiero HSBC***

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the three months ended at 31 March 2022 and an explanation of the key reconciling items.

| *Figures in MXN millions* | **31 Mar 2022** |
|---|---|
| **Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP** | **2,609** |
| Differences arising from: | |
| Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits | 36 |
| Loan impairment charges and other differences in presentation under IFRS | 196 |
| Recognition of the present value in-force of long-term insurance contracts | (18) |
| Other insurance adjustments[10] | (10) |
| Fair value adjustments on financial instruments | (37) |
| Deferred profit sharing | 12 |
| AT1 Valuation[2] | (111) |
| Others | (15) |
| **Profit before/(loss) tax under IFRS** | **2,662** |
| Add back significant items | 324 |
| **Adjusted profit/(loss) before tax under IFRS** | **2,986** |
| *Significant items under IFRS:* | |
| -Debit valuation adjustment on derivative contracts | **14** |
| -Costs to achieve | **(338)** |
| **-Profit/(loss) before tax under IFRS**[11] | **US$134m** |

[10] *Includes technical reserves and effects from Solvency II*

[11] *Banxico rate at 31 March 2022 MXN19.8911. HSBC Holdings plc considers the exchange rate as MXN20.5001, resulting in profit before tax (IFRS) of US$130m.*

***Summary of key differences between results as reported under Mexican GAAP and IFRS***

**1. Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits**

***Mexican GAAP***
The present value of Defined Benefit Obligations "DBO" (including indemnity benefits for other reasons that restructuring), are calculated at the reporting date by the schemes" actuaries through the Projected Unit Credit Method using a corporate/governmental bond rate as a base rate to determine the discount rate applicable.

The net costs recognize in the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities (the discount rate used could be either corporate or government rate as long as it is applicable on consistent way), less the expected return on plan assets. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

According to Mexican Accounting standard, actuarial gains and losses could be: 1) recognized separately in "shareholders" Other Comprehensive Income in the bank's consolidated financial statements" and recycling through P&L over the average working life of the employees or 2) fully recognized in income statement, as election of the entity.

***IFRS***
The main differences between Mexican GAAP and IFRS comprise:

- Actuarial gains/losses are recognized in OCI under IFRS not subject to be recycling or recognize totally in income statement.

- The measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.

- There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

**2. Deferral of fees paid and received on the origination of loans and other effective interest rate adjustments**

***Mexican GAAP***
Given the adherence of HSBC to the option to defer to 2023 the adoption of the EIR method, the commissions charged to the borrowers at loan inception are recorded into a deferred credit account (liability), which will be deferred against interest income in income statement on straight-line basis during contractual life of loan, excepting by those related to credit cards which should be recognized directly in income statement.

In the case of commissions charged to borrowers for restructuring or renewals loans, they must be accumulated to the outstanding balance of commissions from original loan and deferring in interest income using the straight-line method during the new term of the loan.

On the other hand, for incremental costs incurred in loan inception, they are recognized as an asset, which is amortized on straight-line basis over the contractual life of the loan as interest expense in income statement, excepting by those related to credit cards which should be recognized immediately in income statement.

Both commissions charged to borrowers and incremental costs incurred in loan inception, are recognized in separately accounts in balance sheet, i.e. they are not considered as part of amortised cost of the loan to presentation.

***IFRS***
After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate "EIR" method.

The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognition of the financial asset.

### 3. Loan impairment charges and other differences in presentation under IFRS

***Mexican GAAP***
Loan impairment charges are calculated following the rules issued by the CNBV which since 2022 adopted an approach of Expected Credit Losses (ECL), nevertheless it will maintain some differences with IFRS methodology. Such rules establish different methodologies for ECL provisions for each type of loan.

***IFRS***
The impairment requirements under IFRS 9 are based on ECL concept that requires the recognition of provisions on a timely basis and forward-looking manner. ECL is determined via a two-step approach: 1) where the financial instruments are first assessed at inception regarding to for their relative credit deterioration, and 2) on ongoing basis followed by the measurement of the ECL (which depends on the credit deterioration categories).

Financial instruments with status of "performing" are considered in "Stage 1". Financial instruments which are considered to have experienced a significant increase in credit risk are in "Stage 2". Financial instruments for which there is objective evidence of impairment (in default or credit deterioration) are in "Stage 3". Financial instruments that are credit-impaired upon initial recognition are POCI, remaining this category until derecognition.

### 4. Fair value adjustments on financial instruments

***Mexican GAAP***
Since 2022, the NIF B-17 "Fair Value Measurement" requires that for those derivatives and financial instruments that should be measured at fair value, its value should be adjusted to reflect factors that would not be captured by the internal methodology of valuation, such as Debit and Credit Value Adjustments (CVA/DVA) and the use of a price into the Bid/Offer differential, as long as those financial instruments are included in the scope of article 175 Bis 3 of CNBV regulation.

***IFRS***
Fair Value Adjustments ("FVAs") include additional factors than those specified in Mexican GAAP.

### 5. Deferred-profit sharing (PTU diferida)

***Mexican GAAP***
Accounting standards requires that a Deferred-Employee Profit Sharing (Deferral PTU) shall be calculated applying a similar model to deferred income tax (assets and liabilities method). It is derived from temporary differences between the accounting profit and income to be used to calculate the profit sharing. Given the changes issued on 23 April 2021 by the Mexican government to introduce a threshold in the calculation of the "Employee Profit Sharing" (PTU by its acronym in Spanish) (the more favourable to the employee between a cap of three months of employee's

wages or the average of PTU paid during the three last periods), some modifications to determine the new procedure to calculate deferral PTU:

Step 1.- Calculate the temporary differences between accounting and taxable for PTU at the reporting end period.

Step 2.- Determine the PTU rate expected to be incurred during the following years, based on financial and tax projections or the PTU incurred in the current period.

Step 3.- PTU rate x temporary differences amount.

An asset or liability for the Deferral PTU would be recognized according to method of comparing assets and liabilities sets out in Income Tax standards applicable in Mexico (*NIF D-4 "Income Taxes"*).

***IFRS***
Deferral PTU is not allowed to recognize under IFRS.

### 6. Present value of in-force long-term life insurance contracts

***Mexican GAAP***
Mexican GAAP criteria does not recognize this concept, hence do not exists for local purposes.

***IFRS***
This concept is an intangible asset, referred to as "PVIF" and reflects the present value of the equity holders" interest in the issuing insurance companies" profits expected to emerge from insurance contracts in force written at the balance sheet date. PVIF considers insurance contracts in force that are classified as long-term insurance business or long-term investment contracts with discretionary participating features ("DPF").

PVIF is determined by discounting the equity holders" interest in future profits expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in "Other operating income" on a gross of tax basis.

### 7. Insurance liabilities and Insurance premiums recognized on an annualised basis

***Mexican GAAP***
Insurance liabilities are determined based on Solvency II methodology established by local regulator (CNSF) which considers best estimate liability and a risk margin concept. The best estimate is based on up-to-date credible information and realistic assumptions and aims to represent a total liability valuation aligned to its expected pricing transfer to the customer. The risk margin is calculated as the cost of providing an amount of capital equal to 10% of the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognized under annualization criteria which is based in determine the total premium for the coverage period (one year), consequently total premium is recognized since the moment where insurance contracts are written.

***IFRS***
IFRS reserving process is based on a liability adequacy test to ensure that the carrying amount of liabilities is sufficient in the light of estimated future cash flows defined by a prudent, non-market

consistent set of rules for such estimated cash flows (instead of using realistic assumptions) and not using risk margins components.

For Annuities business there is a securities valuation reserve, “Reserva para Fluctuación de Inversiones”, which is required specifically by CNSF, however, this reserve does not meet MX GAAP criteria nor IFRS to be considered as a liability, therefore this reserve is cancelled for IFRS purposes and recognized into retained earnings.

IFRS criteria does not recognize annualization insurance premium concept, hence annualization effect it is cancelled for IFRS purposes

## 8. Perpetual Subordinated Debt – AT1

***Mexican GAAP***

The perpetual subordinated debt is considered as compound financial instrument, i.e. principal meets financial liability definition while coupon of interest meets equity definition given the discretionary in its payment by the issuer according to “NIF C-11 Share Capital” and “NIF C-12 Financial Instruments with liability and equity features”. Based on this, principal is measured as a financial liability at amortised cost and coupons are accounted as dividends from retained earnings. Given the instrument is denominated in US$, principal is recognized as foreign currency transaction and reported using the closing rate. Exchange rate changes are recognized in income statement. On the other hand, coupons of interest are recognized in equity when holder has the right to receive payment at historical cost (equity is non-monetary item under “NIF B-15 “The Effects of Changes in Foreign Exchange Rates”).

***IFRS***

Considering the features of the instruments, the perpetual subordinated debt (AT1) is measured according to IFRS9 as an equity instrument. As such, equity instruments are not re-measured subsequent to initial recognition. As the AT1 is classified and accounted for as equity, coupons interest payments are accounted as dividends from retained earnings and recognized when the holder’s right to receive payment is established. No subsequent gains or losses are recognized in profit or loss in respect of the AT1 during its life. For instruments in a foreign currency which is different to functional currency of the issuer, no retranslation is applicable (equity is a non-monetary item under IAS 21 – The Effects of Changes in Foreign Exchange Rates).