

28 October 2022

## **GRUPO FINANCIERO HSBC, S.A. DE C.V. 3Q 2022 FINANCIAL RESULTS HIGHLIGHTS**

- For the nine months to 30 September 2022, profit before tax was MXN9,874m, an increase of MXN3,671m or 59.2% compared with MXN6,203m for the same period in 2021.
- Net income for the nine months to 30 September 2022 was MXN8,408m, an increase of MXN3,705m or 78.8% compared with MXN4,703m for the same period in 2021.
- Total operating income excluding loan impairment charge for the nine months to 30 September 2022 was MXN38,343m, an increase of MXN4,331m or 12.7% compared with MXN34,012m for the same period in 2021. Total operating income excluding IPAB Fee reclassification<sup>1</sup> would have been of MXN39,982 or 17.6% higher.
- Loan impairment charges for the nine months to 30 September 2022 were MXN6,299m, an increase of MXN1,882m or 42.6% compared with MXN4,417m for the same period in 2021.
- Administrative and personnel expenses for the nine months to 30 September 2022 were MXN22,316m, a decrease of MXN1,379m or 5.8%, compared with MXN23,695m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification<sup>1</sup> would have increase to MXN23,955m or 1.1% mainly driven by higher staff cost, IT related costs and VAT expenses.
- The cost efficiency ratio was 58.2% for the nine months to 30 September 2022 compared with 69.7% for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the cost efficiency ratio would have been of 59.9%.
- At 30 September 2022, net loans and advances to customers were MXN407.4bn, an increase of MXN45.4bn or 12.5% compared with MXN362.1bn at 30 September 2021.
- At 30 September 2022, total stage 3 loans were MXN12.8bn and 3.0% as a percentage of gross loans compared to June 2022 when stage 3 loans were MXN17.9bn and 4.4% as a percentage of gross loans.
- At 30 September 2022, total deposits were MXN501bn, an increase of MXN19.8bn, or 4.1%, compared with MXN481.2bn at 30 September 2021.
- Return on equity was 14.9% for the nine months to 30 September 2022, whereas for the nine months to September 2021 it was 8.4%.
- At 30 September 2022, the bank's preliminary total capital adequacy ratio was 13.7% and the common equity tier 1 capital ratio was 12.2%, compared with 13.9% and 11.5%, respectively, at 30 September 2021.

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<sup>1</sup> IPAB Fee is the deposit insurance scheme fee from government. Please refer to Highlights of Mexican Accounting Standards Implementation section for greater detail on the reclassification.

**Grupo Financiero HSBC's financial results for the nine months to 30 September 2022 as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards ("IFRS").**

Profit before tax for the period was MXN9,572m, a decrease of MXN1,271m compared with the profit of MXN10,843m reported for the same period in 2021. The decrease is mainly driven by higher loan impairment charges compared to September 2021, when additional reserves related to Covid-19 outbreak were released, coupled with higher expenses partially offset by higher net interest income.

The main differences between Mexican GAAP and IFRS the results for the nine months to 30 September 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 1 January 2022, with the exception of the effective interest method that will be adopted on 1 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.

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

| <b>Profit and Loss</b>   | <b>As of 2021</b>  | <b>As of 2022</b>  |
|--|--|--|
| 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 <sup>4</sup>  |
| Administrative and personnel expenses                                    | ❹ IPAB Fee <sup>4</sup>  |  |

#### **Other Considerations:**

As of 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 unlikelihood 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.

### **Revocation of HSBC Pensiones SA license.**

On September 2022, CNSF (the insurance regulator) declared the revocation of HSBC Pensiones license after HSBC Pensiones Shareholders Assembly approved its dissolution and liquidation in an extraordinary meeting a month earlier.

The result of HSBC Pensiones as of September 2021 of MXN462m was reclassified to discontinued operations after transferring its pension portfolio (assets and liabilities related to pension insurance policies) to Pensiones Banorte SA Grupo Financiero Banorte in August 2021.

### ***Consejo Impulsor de Negocios HSBC Mexico* (“Business Council”)**

The Business Council was created with the aim of promoting private investment and boosting employment and contributing to the well-being of the Mexican population.

The Councils will be made up of HSBC directors and businessmen from all over Mexico, committed to contributing to the economic, social and sustainable development of Mexico.

The benefits that the Councils seek to achieve are:

- Create seven regional Councils, which develop business opportunities and private investment.
- Connecting local businesses with the world, with a focus on priority issues in each of the geographic areas covered by the seven Councils.
- Strengthen the collaboration of the private sector with chambers of commerce and authorities.
- Be recognised as a forum leader in sustainable finance, to achieve the transition to a net zero emissions economy.

### **Overview**

Mexican economy expanded 2.2% in July 2022 at annual rate. The dynamism was confirmed by the August data that showed a growth of 1.0% at the monthly rate and 5.7% at annual rate. At the sector level, services lead this expansion, followed by agriculture activities and industrial production.

Inflation rose to 8.7% year on year by the end of 3Q22 from 8.0% in 2Q22. The main driver was the core component, which continued to show pressures in both tradable goods and service sector prices. The non-core component also contributed due to higher non-processed food prices.

Against this backdrop, the central bank (Banxico) lifted the monetary policy twice in 3Q22. In both cases (August and September), the hike was of 75bp, resulting in a policy rate increase to 9.25% by the end of 3Q22 from 7.75% in 2Q22.

### **Financial Performance – Key Metrics**

- Grupo Financiero's profit before tax for the nine months to 30 September 2022 was MXN9,874m, an increase of MXN3,671m or 59.2% compared with MXN 6,203m for the same period in 2021.
- Net interest income for the nine months to 30 September 2022 was MXN29,739m, an increase of MXN4,824m or 19.4% compared with MXN24,915m for the same period in 2021. The increase is mainly explained by higher interest rate environment and growth in retail portfolio.
- Loan impairment charges for the nine months to 30 September 2022 were MXN6,299m, an increase of MXN1,882m or 42.6% compared with MXN4,417m for the same period in 2021. The increase is mainly driven by the release of additional provisions from Covid-19 during the first nine months of 2021 (MXN2,661m) and the growth in the loan portfolio, partially offset by the positive impact of the initial recognition of the new methodology from January 2022 (MXN500m).

## Grupo Financiero HSBC, S.A. de C.V. 3Q 2022 Financial Results Highlights

- Net fee income for the nine months to 30 September 2022 was MXN6,555m, an increase of MXN543m or 9.0% compared with MXN6,012m for the same period in 2021 mainly driven by increase in commercial activity.
- Trading income for the nine months to 30 September 2022 was MXN2,153m, an increase of MXN588m or 37.6% compared with MXN1,565m for the same period in 2021 mainly driven by larger trading activity from fixed income and FX portfolios.
- Other operating income for the nine months to 30 September 2022 was MXN-733m, a decrease of MXN1,520m or over 100% compared with MXN787m for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the other operating income would have been of MXN906m, an increase of MXN119m or 15.1% higher than September 2021 figures explained lower losses estimation for foreclosed assets and lower operational losses partially offset by higher losses from the sale of selected corporate loans.
- Administrative and personnel expenses for the nine months to 30 September 2022 were MXN22,316m, a decrease of MXN1,379m or 5.8%, compared with MXN23,695m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification<sup>1</sup>, the administrative and personnel expenses would have been of MXN23,955m, an increase by MXN260m or 1.1% mainly driven by higher staff cost, IT related costs and VAT expenses.
- The cost efficiency ratio was 58.2% for the nine months to 30 September 2022 compared with 69.7% for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the cost efficiency ratio would have been of 59.9%.
- The effective tax rate was 14.8% for the nine months to 30 September 2022, compared with 24.2% reported for the same period in 2021. The variation is mainly driven by inflationary effects and reassessment of deferred tax assets.
- At 30 September 2022, net loans and advances to customers were MXN407.4bn showing an overall increase of MXN45.4bn, or 12.5% compared with MXN362.1bn. The increase is driven by 20.6% growth in total retail portfolio compared to 30 September 2021 with mortgage loans growing 22.5%, coupled with an increase of 17.1% in consumer loans and an increase in wholesale portfolio by 6.5%. Credit cost ratios<sup>2</sup> and loan loss reserves ratios<sup>3</sup> as of September 2022 were 2.0% (1.6% as of September 2021) and 3.7% (4.5% as of September 2021), respectively.
- Return on equity was 14.9% for the nine months to 30 September 2022, whereas for the nine months to 30 September 2021 it was 8.4%.
- Total stage 3 loans at 30 September 2022 were MXN12.8bn and 3.0% as a percentage of gross loans. Following the HSBC approach to stage 3 of the 3%, 0.7% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.3% relates to loans with 90 or more days past due. As of Jun 2022, stage 3 loans were MXN17.9bn and 4.4% as a percentage of gross loans, of which 1.7% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.7% relates to loans with 90 or more days of past due.
- At 30 September 2022, total loan loss allowances were MXN15.6bn, a decrease of MXN1.3bn or 7.4% compared to 30 September 2021. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 122.2% at 30 September 2022 compared with 99.0% as of June 2022.
- At 30 September 2022, total deposits were MXN501.0bn, an increase of MXN19.8bn or 4.1%, compared with MXN481.2bn at 30 September 2021, mainly driven by higher demand deposits by

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<sup>2</sup> Credit Cost Ratio: Loan Impairment charges (annualized)/Gross Loans.

<sup>3</sup> Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

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MXN21.0bn and MXN8.0bn in money market partially offset by the reduction in wholesale funding in MXN7.9bn.

- HSBC Bank Mexico ('the bank') profit before tax for the first nine months to 30 September 2022 was MXN8,702m, an increase of MXN3,538m or 68.5% compared with MXN5,164m for the same period in 2021 mainly driven by an increase in net interest income partially offset by higher loan impairment charges.

- HSBC Bank Mexico net income for the first nine months to 30 September 2022 was MXN7,536m, an increase of MXN4,113m or over 100% compared with MXN3,423m for the same period in 2021.

- HSBC Bank Mexico net interest income for the first nine months to 30 September 2022 was MXN29,345m an increase of MXN4,934m or 20.2%, compared with MXN24,411m for the same period in 2021.

- From August to October 2022, Grupo Financiero HSBC paid a dividend of MXN 4,249m, of which the bank paid MXN2,329m.

- At 30 September 2022, the bank's preliminary total capital adequacy ratio was 13.7% and the common equity tier 1 capital ratio was 12.2%, compared with 13.9% and 11.5%, respectively, at 30 September 2021. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- On November 2022, HSBC Mexico Shareholders' Meeting will vote to approve the issuance of capital instruments to comply with the local TLAC (Total Loss-Absorbing Capacity) applicable to DSIBs (Domestic Systemically Important Banks). DSIBs must maintain an additional capital buffer of 6.5% of RWAs or 3.75% of the Leverage Exposure measure, whichever is higher. By December 2022 DSIBs will have to meet 25% of the requirement and will increase by an additional 25% for each of the following three years, so that it is fully implemented by December 2025.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the first nine months to 30 September 2022 was MXN774m, an increase of MXN508m or over 100% compared with MXN266m for the same period in 2021, mainly driven by lower technical reserves partially offset by higher 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 30 September 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.*

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

**Business highlights<sup>4</sup>** *(Amounts described include the impact of internal cost and value of funds applied to different lines of business).*

**Wealth and Personal Banking (WPB)<sup>5</sup>**

Profit before tax for the first nine months to 30 September 2022 was MXN3,004m an increase of MXN931m or 44.9% compared with MXN2,073m for the same period in 2021, this increase is mainly driven by higher revenues and lower administrative expense. With markets treasury reallocation, profit before tax result was MXN2,890m.

Total revenue for the first nine months to 30 September 2022 was MXN25,764m, an increase of MXN3,854m or 17.6% compared with MXN21,910m for the same period in 2021. Total revenue excluding IPAB Fee reclassification<sup>1</sup> would have been of MXN26,555m, an increase of MXN4,645m or 21.2% mainly driven by higher volumes in deposits, consumer loans, credit cards and mortgages coupled with higher spreads in deposits.

Loan impairment charges for the first nine months to 30 September 2022 was MXN7,722m, an increase of MXN3,117m or 67.7% compared with MXN4,605m for the same period in 2021, 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 for the nine months to 30 September 2022 was MXN15,179m, a decrease of MXN343m or 2.2% compared with MXN15,522m for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the administrative and personnel expenses would have been of MXN15,970m, an increase of MXN448m or 2.9% compared with same period in 2021 mainly driven by higher staff costs and IT developments.

At 30 September 2022, net loans and advances to customers were MXN199.5bn showing an overall increase of MXN31.0bn or 18.4% compared with MXN168.5bn for the same period in 2021. The increase is driven by 20.3% growth in total retail portfolio compared to 30 September 2021 with mortgage loans growing 22.5%, coupled with an increase of 17.1% in consumer loans. High level of productivity is maintained throughout different commercial channels, such as the branch network, mortgage brokers and developers.

At 30 September 2022, total deposits were MXN255.3bn, an increase of MXN20.3bn or 8.6% compared with MXN234.9bn for the same period in 2021, mainly interest bearing balances as the rates increased in the market.

HSBC Mexico launched the Global Private Banking ("GPB") proposition in September with the purpose of connecting customers with a world of opportunities for investment, as well as fulfilling their businesses needs around the globe with tailored solutions across HSBC.

Jointly with GPB launch, HSBC Mexico introduced Titanium, a credit card designed for the Global Private Banking Customers, in partnership with American Express and Mastercard. HSBC Titanium is the first dual card offer in Mexico, with high-end travel benefits, combining the potential of two card networks under the same credit line statement and rewards programme.

During September, in partnership with Mastercard and Viva Aerobus, HSBC Mexico launched the Viva and Viva Plus credit cards. Aiming to be the best value offer for travellers in Mexico, increasing the frequency of flying and creating the best experience in redeeming flight rewards.

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<sup>4</sup> Markets Treasury total loss before tax for the nine months of 2022 was MXN241m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the nine months of 2022 loss before tax allocation by business was – MXN114m to WPB, MXN62m to CMB and MXN43m to GB and MXN22m to MSS.

<sup>5</sup> WPB does not include Insurance results which was MXN774m in profit before tax as of the nine months to 30 September 2022.

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Furthermore, within the Auto Loans, HSBC Mexico made a prominent deal with Kavak. Through this deal HSBC will acquire current and future loan portfolio from Kavak for up to MXN13,600m.

HSBC Mexico added Yastás to the extensive list of alliances where customers can carry out banking transactions such as payments and withdrawals, among others. Yastás is a Genera subsidiary that has c.6,700 points nationwide in about 1,500 municipalities. Such collaboration increases the transactional banking options for HSBC Mexico customers up to c.31k points of service (Oxxo, Telecomm, Chedraui, Soriana, Yastas, Farmacias del Ahorro).

Aligned with the HSBC global commitment with sustainability, HSBC Mexico jointly with Grupo Expansion sponsored the new ECOBICI network. ECOBICI is the public bicycle system operated by the Mexico City government to offer a sustainable solution for mobility to the citizens. The evolution of this mobility programme and the expansion throughout the city will be supported by 9.3k bicycles HSBC Mexico customers that use their cards, will receive a 15% discount in their ECOBICI membership. HSBC Mexico continues collaborating to reduce the carbon footprint.

### **Commercial Banking (CMB)**

Profit before tax for the nine months to 30 September 2022 was MXN4,560m, an increase of MXN3,628m or over 100% compared with MXN932m for the same period in 2021 mainly explained by higher releases on loan impairment charge in 2021 coupled with higher net interest income. With Markets Treasury allocation, profit before tax was MXN4,498m.

Total revenue for the first nine months to 30 September 2022 was MXN6,379m, an increase of MXN978m or 18.1% compared with MXN5,401m for the same period in 2021. Total revenue excluding IPAB Fee reclassification<sup>1</sup> would have been of MXN6,903m, an increase of MXN1,502m or 27.8% mainly explained by the higher interest income driven by the growth in commercial activity both in loans and deposits and rising interest rate environment.

Loan impairment charges for the first nine months to 30 September 2022 was a release MXN1,235m, a decrease of MXN2,005m or over 100% compared with MXN770m for same period in 2021, driven by the release of additional provisions during this year for cases that raised provisions in 2021.

Administration and personnel expenses for the nine months to 30 September 2022 was MXN3,060m, a decrease of MXN660m or 17.7% compared with MXN3,720m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification<sup>1</sup> would have been of MXN3,584m, a decrease by MXN136m or 3.7%.

At 30 September 2022, net loans and advances to customers were MXN137.2bn, an increase of MXN20.1bn or 17.1% compared with MXN117.1bn for the same period in 2021.

At 30 September 2022, total deposits were MXN152.6bn, an increase of MXN1.2bn or 0.8% compared with MXN151.4bn for the same period in 2021.

### **Global Banking (GB)**

Profit before tax for the first nine months to 30 September 2022 was MXN2,117m, a decrease of MXN682m or 24.4% compared with the same period in 2021, mainly driven by higher loan impairment releases during in 2021. With Markets Treasury allocation, profit before tax was MXN2,074m.

Total revenue for the first nine months to 30 September 2022 was MXN3,033m, a decrease of MXN127m or 4.0% compared MXN3,160m for the same period in 2021. Total revenue excluding

## **Grupo Financiero HSBC, S.A. de C.V. 3Q 2022 Financial Results Highlights**

IPAB Fee reclassification<sup>1</sup> would have been of MXN3,293m, an increased by MXN133m or 4.2%, mostly explained by higher net interest income benefiting from a rising interest rate environment.

Loan impairment charges for the first nine months to 30 September 2022 was a release of MXN188m, a decrease by MXN770m or 80.4% compared with MXN958m release for the same period in 2021; mainly explained by the loan portfolio contraction.

Administration and personnel expenses for the nine months to 30 September 2022 was MXN1,103m a decrease of MXN208m or 15.9% compared with MXN1,311m for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the administrative and personnel expenses would have been of MXN1,363m, an increase of MXN52m or 4.0% compared with same period in 2021 mainly driven by higher staff costs and IT developments.

At 30 September 2022, net loans and advances to customers were MXN70.6bn, a decrease of MXN5.8bn or 7.6% compared with MXN76.4bn for the same period in 2021.

At 30 September 2022, total deposits were MXN73.3bn, a decrease of MXN21.6bn or 22.8% compared with MXN94.9bn for the same period in 2021.

HSBC in partnership with EY held the first edition of the Sustainable Innovation Leader Companies Awards, in which Companies that had an outstanding performance on generating a positive impact to the community and environment were recognized across different categories.

During October, HSBC was an intermediary in social bonds issuance for KOF and BANOBRAS in the local market. KOF is the first corporation on consumer goods sector to issue a social bond in America.

### **Markets and Security Services (MSS)**

Profit before tax for the first nine months to 30 September 2022 was MXN610m, with an increase of MXN990m compared with MXN-380m for same period in 2021. The increase is mainly explained by combination of higher revenues related to Treasury products obtained from commercial and trading activities, and slight decrease in expenses. With Markets Treasury allocation, profit before tax was MXN588m.

Total revenue for the first nine months to 30 September 2022 was MXN1,282m, an increase of MXN881m or over 100% compared with MXN401m for same period in 2021. Total revenue excluding IPAB Fee reclassification<sup>1</sup> would have been of MXN1,346m, an increase of MXN945m or over 100%, mostly explained by a better performance in the trading activity leveraging the market volatility coupled with higher profits from fixed income products principally linked to inflation.

Administrative and personal expenses for the nine months to 30 September 2022 was MXN672m, a decrease of MXN109m or 14.0% with MXN781m for the same period in 2021. Excluding IPAB fee reclassification<sup>1</sup>, the administrative and personnel expenses would have been of MXN736m, a decrease of MXN45m or 5.8% compared with same period in 2021 mainly driven by lower function costs.



## Awards and Recognitions

### *Éntrale*

For the fourth consecutive year, HSBC Mexico received the *Éntrale* distinction, from *Alianza Éntrale A.C.*, which recognizes the bank's continuous work and commitment to the labour inclusion of people with disabilities. The *Alianza Éntrale A.C.* is an initiative of the *Consejo Mexicano de Negocios*. The distinction considers the work that HSBC Mexico carries out for the implementation and strengthening of projects that benefit the hiring and retention of talent with disabilities.

## About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 879 branches, 5,621 ATMs and 14,506 employees as of 30 September 2022.

For more information, visit [www.hsbc.com.mx](http://www.hsbc.com.mx).

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 63 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,992bn at 30 September 2022, HSBC is one of the world's largest banking and financial services organisation.

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**Consolidated Income Statement – GROUP nine months ended 30 September 2022**

*Figures in MXN Millions*

|  | <b>Group<br/>30 Sep 2022</b> |
|--|------------------------------|
| Interest income  | 45,047                       |
| Interest expense   | (15,308)                     |
| Net interest income  | 29,739                       |
| Loan impairment charges  | (6,299)                      |
| Risk-adjusted net interest income  | 23,440                       |
| Fees and commissions receivable  | 8,391                        |
| Fees payable   | (1,836)                      |
| Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) | 629                          |
| Trading income   | 2,153                        |
| Other operating income   | (733)                        |
| Total operating income   | 32,044                       |
| Administrative and personnel expenses                                    | (22,316)                     |
| Net operating income   | 9,728                        |
| Share of profits in equity interest                                      | 146                          |
| Profit/(loss) before tax   | 9,874                        |
| Income tax   | (1,466)                      |
| Net income before discontinued operations                                | 8,408                        |
| Discontinued Operations  | -                            |
| Net income   | 8,408                        |

**Consolidated Income Statement – GROUP nine months ended 30 September 2021\***

*Figures in MXN millions*

|   | <b>Group<br/>30 Sep 21</b> |
|---|----------------------------|
| Interest income                           | 39,746                     |
| Interest expense                          | (14,098)                   |
| Net interest income                       | 25,648                     |
| Loan impairment charges                   | (4,417)                    |
| Risk-adjusted net interest income         | 21,231                     |
| Fees and commissions receivable           | 8,099                      |
| Fees payable                              | (2,087)                    |
| Trading income                            | 1,565                      |
| Other operating income                    | 787                        |
| Total operating income                    | 29,595                     |
| Administrative and personnel expenses     | (23,695)                   |
| Net operating income                      | 5,900                      |
| Share of profits in equity interest       | 303                        |
| Profit/(loss) before tax                  | 6,203                      |
| Income tax                                | (1,324)                    |
| Deferred income tax                       | (638)                      |
| Net income before discontinued operations | 4,241                      |
| Discontinued Operations*                  | 462                        |
| <b>Net income</b>                         | <b>4,703</b>               |

**Consolidated Income Statement – BANK nine months ended 30 September 2022**

*Figures in MXN Millions*

|   | <b>Bank</b>        |
|---|--------------------|
|   | <b>30 Sep 2022</b> |
| Interest income                           | 44,698             |
| Interest expense                          | (15,353)           |
| Net interest income                       | 29,345             |
| Loan impairment charges                   | (6,299)            |
| Risk-adjusted net interest income         | 23,046             |
| Fees and commissions receivable           | 7,956              |
| Fees payable                              | (2,207)            |
| Trading income                            | 2,318              |
| Other operating income                    | (387)              |
| Total operating income                    | 30,726             |
| Administrative and personnel expenses     | (22,170)           |
| Net operating income                      | 8,556              |
| Share of profits in equity interest       | 146                |
| Profit/(loss) before tax                  | 8,702              |
| Income tax                                | (1,166)            |
| Net income before discontinued operations | 7,536              |
| Discontinued Operations                   | -                  |
| Net income                                | 7,536              |

**Consolidated Income Statement – BANK nine months ended 30 September 2021**

*Figures in MXN millions*

|                                       | <b>Bank</b>        |
|---------------------------------------|--------------------|
|                                       | <b>30 Sep 2021</b> |
| Interest income                       | 34,794             |
| Interest expense                      | (10,383)           |
| Net interest income                   | 24,411             |
| Loan impairment charges               | (4,417)            |
| Risk-adjusted net interest income     | 19,994             |
| Fees and commissions receivable       | 7,650              |
| Fees payable                          | (2,230)            |
| Trading income                        | 1,830              |
| Other operating income                | 1,093              |
| Total operating income                | 28,337             |
| Administrative and personnel expenses | (23,478)           |
| Net operating income                  | 4,859              |
| Share of profits in equity interest   | 305                |
| Profit/(loss) before tax              | 5,164              |
| Income tax                            | (1,090)            |
| Deferred income tax                   | (651)              |
| Net income                            | 3,423              |

**Consolidated Balance Sheet – 2022**

*Figures in MXN millions*

**Assets**

Cash and cash equivalents

Margin accounts

**Financial Investments**

Trading financial investments

Financial investments hold to collect or sale

Financial investments hold to collect principal and interest (securities) (net)

Reverse repurchase agreements

Derivative transactions

Loan and advances - credit risk stage 1

Commercial loans

Consumer loans

Mortgage loans

Total loan portfolio with credit risk stage 1

Loan and advances - credit risk stage 2

Commercial loans

Consumer loans

Mortgage loans

Total loan portfolio with credit risk stage 2

Loan and advances - credit risk stage 3

Commercial loans

Consumer loans

Mortgage loans

Total loan portfolio with credit risk stage 3

Loan Portfolio measured at Fair Value

Gross loans and advances to customers

Expected credit losses

Gross loans and advances to customers - Insurance

**Total net loans and advances to customers**

Premium receivables

Accounts receivables from reinsurers and rebonding companies

Other accounts receivable (net)

Foreclosed assets

Long term assets held for sale

Property, Furniture and Equipment (Net)

Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)

Prepayments and other assets

Long-term investments

Deferred income tax asset (net)

Intangible assets (net)

Intangible Assets (Net) - Rights of Use Assets

Goodwill

**Total assets**

|   | <b>Group<br/>30 Sep 22</b> | <b>Bank<br/>30 Sep 22</b> |
|---|----------------------------|---------------------------|
|   |                            |                           |
| Cash and cash equivalents   | 53,951                     | 53,821                    |
| Margin accounts   | 251                        | 251                       |
| <b>Financial Investments</b>  | <b>150,718</b>             | <b>140,621</b>            |
| Trading financial investments   | 60,620                     | 56,516                    |
| Financial investments hold to collect or sale                                   | 70,847                     | 64,854                    |
| Financial investments hold to collect principal and interest (securities) (net) | 19,251                     | 19,251                    |
| Reverse repurchase agreements   | 45,012                     | 45,012                    |
| Derivative transactions   | 42,975                     | 42,975                    |
| Loan and advances - credit risk stage 1   |                            |                           |
| Commercial loans  | 215,290                    | 215,290                   |
| Consumer loans  | 78,007                     | 78,007                    |
| Mortgage loans  | 112,419                    | 112,419                   |
| Total loan portfolio with credit risk stage 1                                   | 405,716                    | 405,716                   |
| Loan and advances - credit risk stage 2   |                            |                           |
| Commercial loans  | 623                        | 623                       |
| Consumer loans  | 2,199                      | 2,199                     |
| Mortgage loans  | 1,618                      | 1,618                     |
| Total loan portfolio with credit risk stage 2                                   | 4,440                      | 4,440                     |
| Loan and advances - credit risk stage 3   |                            |                           |
| Commercial loans  | 8,001                      | 8,001                     |
| Consumer loans  | 1,834                      | 1,834                     |
| Mortgage loans  | 2,961                      | 2,961                     |
| Total loan portfolio with credit risk stage 3                                   | 12,796                     | 12,796                    |
| Loan Portfolio measured at Fair Value   |                            |                           |
| Gross loans and advances to customers   | 422,952                    | 422,952                   |
| Expected credit losses  | (15,634)                   | (15,634)                  |
| Gross loans and advances to customers - Insurance                               | 128                        | -                         |
| <b>Total net loans and advances to customers</b>                                | <b>407,446</b>             | <b>407,318</b>            |
| Premium receivables   | 1,901                      | -                         |
| Accounts receivables from reinsurers and rebonding companies                    | 35                         | -                         |
| Other accounts receivable (net)   | 39,597                     | 39,614                    |
| Foreclosed assets   | 202                        | 202                       |
| Long term assets held for sale  | 10                         | 10                        |
| Property, Furniture and Equipment (Net)   | 6,273                      | 6,273                     |
| Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)            | 2,410                      | 2,402                     |
| Prepayments and other assets  | 6,251                      | 6,172                     |
| Long-term investments   | 1,338                      | 1,298                     |
| Deferred income tax asset (net)   | 6,887                      | 6,682                     |
| Intangible assets (net)   | 6,649                      | 6,649                     |
| Intangible Assets (Net) - Rights of Use Assets                                  | 218                        | -                         |
| Goodwill  | 955                        | -                         |
| <b>Total assets</b>   | <b>773,079</b>             | <b>759,300</b>            |

**Consolidated Balance Sheet** (continued)

Figures in MXN millions

|  | <b>Group<br/>30 Sep 22</b> | <b>Bank<br/>30 Sep 22</b> |
|--|----------------------------|---------------------------|
| <b><u>Liabilities</u></b>  |                            |                           |
| <b>Deposits</b>  | <b>501,033</b>             | <b>501,623</b>            |
| Demand deposits  | 346,472                    | 347,062                   |
| Time deposits  | 141,746                    | 141,746                   |
| Bank bond outstanding  | 11,413                     | 11,413                    |
| Global deposit account without movements                                   | 1,402                      | 1,402                     |
| Bank deposits and other liabilities  | <b>15,542</b>              | <b>15,542</b>             |
| On demand  | 4,275                      | 4,275                     |
| Short-term   | 6,058                      | 6,058                     |
| Long-term  | 5,209                      | 5,209                     |
| Technical reserves   | 8,753                      | -                         |
| Repurchase agreements  | 22,871                     | 22,871                    |
| Collateral sold  | <b>35,382</b>              | <b>35,382</b>             |
| Reports (credit balance)   | 29,304                     | 29,304                    |
| Securities lending   | 6,078                      | 6,078                     |
| Derivative Financial Liabilities   | 42,946                     | 42,946                    |
| Trading Derivatives  | 42,918                     | 42,918                    |
| Hedging Derivatives  | 28                         | 28                        |
| Accounts Payable from reinsurers and rebonding companies                   | 2                          | -                         |
| Lease liabilities  | 2,610                      | 2,603                     |
| <b>Other payable accounts</b>  | <b>50,614</b>              | <b>49,600</b>             |
| Settlement accounts  | 22,626                     | 22,093                    |
| Income tax and employee profit sharing payable                             | 9,698                      | 9,698                     |
| Contributions for future capital increases                                 | 955                        | 911                       |
| Sundry creditors and other accounts payable                                | 17,335                     | 16,898                    |
| <b>Financial instruments qualifying as liabilities (subordinated debt)</b> | <b>11,714</b>              | <b>11,714</b>             |
| Subordinated debentures outstanding  | 11,714                     | 11,714                    |
| Income tax liabilities   | 139                        | -                         |
| Employee benefit liabilities   | 3,904                      | 3,854                     |
| Deferred credits and receivable in advance                                 | 1,559                      | 1,466                     |
| <b>Total liabilities</b>   | <b>697,069</b>             | <b>687,601</b>            |
| <b><u>Equity</u></b>   |                            |                           |
| Paid in capital  | <b>43,373</b>              | <b>38,318</b>             |
| Capital stock  | 6,218                      | 6,132                     |
| Additional paid in capital   | 37,155                     | 32,186                    |
| Other reserves   | <b>37,820</b>              | <b>38,312</b>             |
| Capital reserves   | 1,244                      | 13,510                    |
| Retained earnings - prior years  | 28,168                     | 17,266                    |
| Net income   | 8,408                      | 7,536                     |
| Result from the mark-to-market of available- for-sale securities           | (1,905)                    | (1,651)                   |
| Result from cash flow hedging transactions                                 | (1,445)                    | (1,445)                   |
| Adjustment in the employee pension   | (1,843)                    | (1,843)                   |
| Total Controlling Interest's   | 76,000                     | 71,691                    |
| Minority interest in capital   | 10                         | 8                         |
| Total Shareholder's Equity   | <b>76,010</b>              | <b>71,699</b>             |
| <b>Total liabilities and equity</b>  | <b>773,079</b>             | <b>759,300</b>            |

**Consolidated Balance Sheet** (continued)

*Figures in MXN millions*

|  | <b>Group</b><br><b>30 Sep 22</b> | <b>Bank</b><br><b>30 Sep 22</b> |
|--|----------------------------------|---------------------------------|
| <b><u>Memorandum Accounts</u></b>                      |                                  |                                 |
| <b>Third party accounts</b>                            | <b>30,365</b>                    | -                               |
| Clients current accounts                               | 1,252                            | -                               |
| Custody operations                                     | 29,113                           | -                               |
| <b>Proprietary position</b>                            | <b>4,707,552</b>                 | <b>4,515,766</b>                |
| Irrevocable lines of credit granted                    | 301,889                          | 301,889                         |
| Goods in trust or mandate                              | <b>191,119</b>                   | <b>191,119</b>                  |
| Trusts   | 190,284                          | 190,284                         |
| Mandate  | 835                              | 835                             |
| Goods in custody or under administration               | 1,383,150                        | 1,383,150                       |
| Collateral received by the institution                 | 52,393                           | 52,393                          |
| Collateral received and sold or delivered as guarantee | 38,103                           | 38,103                          |
| Suspended interest on stage 3 loans                    | 525                              | 525                             |
| Other control accounts                                 | 2,740,373                        | 2,548,587                       |
| <b>Total Memorandum Account</b>                        | <b>4,737,917</b>                 | <b>4,515,766</b>                |



**Consolidated Balance Sheet - 2021**

*Figures in MXN millions*

|  | <b>Group<br/>30 Sep 21</b> | <b>Bank<br/>30 Sep 21</b> |
|--|----------------------------|---------------------------|
| <b><u>Assets</u></b>   |                            |                           |
| Cash and deposits in banks                                   | 49,183                     | 49,052                    |
| Margin accounts  | 317                        | 317                       |
| Investment in securities                                     | <b>176,243</b>             | <b>167,452</b>            |
| Trading securities   | 78,681                     | 76,090                    |
| Available-for-sale securities                                | 78,153                     | 72,309                    |
| Held to maturity securities                                  | 19,409                     | 19,053                    |
| Repurchase agreements  | 35,943                     | 35,943                    |
| Derivative transactions                                      | 43,413                     | 43,413                    |
| Performing loans   |                            |                           |
| Commercial loans   | 169,490                    | 169,490                   |
| Loans to financial intermediaries                            | 8,672                      | 8,672                     |
| Loans to government entities                                 | 29,032                     | 29,032                    |
| Consumer loans   | 67,743                     | 67,743                    |
| Mortgage loans   | 92,701                     | 92,701                    |
| Total performing loans                                       | <b>367,638</b>             | <b>367,638</b>            |
| Impaired loans   |                            |                           |
| Commercial loans   | 6,782                      | 6,782                     |
| Consumer loans   | 1,701                      | 1,701                     |
| Mortgage loans   | 2,827                      | 2,827                     |
| Total impaired loans   | <b>11,310</b>              | <b>11,310</b>             |
| Gross loans and advances to customers                        | <b>378,948</b>             | <b>378,948</b>            |
| Allowance for loan losses                                    | (16,887)                   | (16,887)                  |
| Net loans and advances to customers                          | <b>362,061</b>             | <b>362,061</b>            |
| Accounts receivables from insurers and bonding companies     | 95                         | -                         |
| Premium receivables  | 1,782                      | -                         |
| Accounts receivables from reinsurers and rebonding companies | 37                         | -                         |
| Other accounts receivable                                    | 47,412                     | 46,523                    |
| Foreclosed assets  | 231                        | 231                       |
| Property, furniture and equipment, net                       | 5,289                      | 5,289                     |
| Long-term investments in equity securities                   | 1,274                      | 1,233                     |
| Long-term assets available for sale                          | -                          | -                         |
| Deferred taxes   | 9,667                      | 9,512                     |
| Goodwill   | 955                        | -                         |
| Other assets, deferred charges and intangibles               | 7,458                      | 7,243                     |
| <b>Total assets</b>  | <b>741,360</b>             | <b>728,269</b>            |

**Consolidated Balance Sheet (continued)**

*Figures in MXN millions*

|   | <b>Group<br/>30 Sep 21</b> | <b>Bank<br/>30 Sep 21</b> |
|---|----------------------------|---------------------------|
| <b><u>Liabilities</u></b>                                       |                            |                           |
| Deposits  | <b>481,245</b>             | <b>482,239</b>            |
| Demand deposits   | 325,497                    | 325,862                   |
| Time deposits   | 136,412                    | 136,022                   |
| Bank bond outstanding   | 19,336                     | 19,336                    |
| Global deposit account without movements                        | -                          | 1,019                     |
| Bank deposits and other liabilities                             | <b>31,628</b>              | <b>31,628</b>             |
| On demand   | 17,772                     | 17,772                    |
| Short-term  | 7,398                      | 7,398                     |
| Long-term   | 6,458                      | 6,458                     |
| Repurchase agreements   | 33,962                     | 33,962                    |
| Collateral sold   | 3,906                      | 3,906                     |
| Derivative transactions   | 40,050                     | 40,050                    |
| Technical reserves  | 7,225                      | -                         |
| Accounts payable from reinsures and rebounding companies        | 9                          | -                         |
| Other payable accounts  | <b>58,385</b>              | <b>56,693</b>             |
| Income tax and employee profit sharing payable                  | 1,215                      | 1,142                     |
| Sundry creditors and other accounts Payable                     | 57,170                     | 55,551                    |
| Subordinated debentures outstanding                             | 11,948                     | 11,948                    |
| Deferred credits and receivable in advance                      | 1,328                      | 1,221                     |
| <b>Total liabilities</b>  | <b>669,686</b>             | <b>661,647</b>            |
| <b><u>Equity</u></b>  |                            |                           |
| Paid in capital   | <b>43,373</b>              | <b>38,318</b>             |
| Capital stock   | 6,218                      | 6,132                     |
| Additional paid in capital                                      | 37,155                     | 32,186                    |
| Other reserves  | <b>28,296</b>              | <b>28,302</b>             |
| Capital reserves  | 1,244                      | 13,202                    |
| Retained earnings   | 23,725                     | 14,931                    |
| Result from the mark-to-market of available-for-sale securities | (778)                      | (776)                     |
| Result from cash flow hedging transactions                      | (598)                      | (598)                     |
| Adjustment in the employee pension                              | -                          | (1,880)                   |
| Net income  | 4,703                      | 3,423                     |
| Minority interest in capital                                    | 5                          | 2                         |
| <b>Total equity</b>   | <b>71,674</b>              | <b>66,622</b>             |
| <b>Total liabilities and equity</b>                             | <b>741,360</b>             | <b>728,269</b>            |

**Consolidated Balance Sheet** (continued)

*Figures in MXN millions*

|  | <b>Group</b>     | <b>Bank</b>      |
|--|------------------|------------------|
|  | <b>30 Sep 21</b> | <b>30 Sep 21</b> |
| <b>Memorandum Accounts</b>                             | <b>5,115,879</b> | <b>4,914,164</b> |
| <b>Third party accounts</b>                            | <b>40,670</b>    | <b>33,071</b>    |
| Clients current accounts                               | 6,582            | -                |
| Custody operations                                     | 1,017            | -                |
| Third party investment banking operations, net         | 33,071           | 33,071           |
| <b>Proprietary position</b>                            | <b>5,075,209</b> | <b>4,881,093</b> |
| Irrevocable lines of credit granted                    | 285,161          | 285,161          |
| Goods in trust or mandate                              | 192,196          | 192,196          |
| Goods in custody or under administration               | 1,466,393        | 1,460,175        |
| Collateral received by the institution                 | 58,099           | 58,099           |
| Collateral received and sold or delivered as guarantee | 20,925           | 20,925           |
| Suspended interest on impaired loans                   | 409              | 409              |
| Other control accounts                                 | 3,052,026        | 2,864,128        |

## 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   |
|--|---------------------|------------------|---------------------------------|--|---|--|----------------------------|-------------------|----------------|
| <b>Total Balances at 01 Jan 2021</b>                       | 43,373              | 1,244            | 28,160                          | (655)  | (713)                                       | -  | 71,409                     | 6                 | <b>71,415</b>  |
| Adjustments for accounting changes                         | -                   | -                | 1,928                           | -  | -   | (1,928)  | -                          | -                 | -              |
| Cash Dividends   | -                   | -                | (1,920)                         | -  | -   | -  | <b>(1,920)</b>             | -                 | <b>(1,920)</b> |
| Capitalization of other equity items                       | -                   | -                | -                               | -  | -   | -  | -                          | 4                 | <b>4</b>       |
| <b>Comprehensive Income:</b>                               |                     |                  |                                 |  |   |  |                            |                   |                |
| Net Income   | -                   | -                | 8,408                           | -  | -   | -  | <b>8,408</b>               | -                 | <b>8,408</b>   |
| <b>Other comprehensive income:</b>                         |                     |                  |                                 |  |   |  |                            |                   |                |
| Valuation of financial investments hold to collect or sale | -                   | -                | -                               | (1,250)  | -   | -  | <b>(1,250)</b>             | -                 | <b>(1,250)</b> |
| Valuation of cash flow hedging transactions                | -                   | -                | -                               | -  | (732)                                       | -  | <b>(732)</b>               | -                 | <b>(732)</b>   |
| Remeasurement of defined benefits to employees             | -                   | -                | -                               | -  | -   | 85   | <b>85</b>                  | -                 | <b>85</b>      |
| <b>Total</b>   | -                   | -                | <b>8,408</b>                    | <b>(1,250)</b>   | <b>(732)</b>                                | <b>85</b>                                      | <b>6,511</b>               | -                 | <b>6,511</b>   |
| <b>Final balances as of 30 September 2022</b>              | <b>43,373</b>       | <b>1,244</b>     | <b>36,576</b>                   | <b>(1,905)</b>   | <b>(1,445)</b>                              | <b>(1,843)</b>                                 | <b>76,000</b>              | <b>10</b>         | <b>76,010</b>  |

## 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   |
|--|---------------------|------------------|---------------------------------|--|---|--|----------------------------|-------------------|----------------|
| <b>Total Balances at 01 Jan 2021</b>                       | 38,318              | 13,202           | 17,602                          | (616)  | (712)                                       | (1,750)  | 66,044                     | 2                 | <b>66,046</b>  |
| Adjustments for accounting changes                         | -                   | 29               | 73                              | -  | -   | -  | 102                        | -                 | 102            |
| <b>Movements inherent to the shareholders' decision:</b>   |                     |                  |                                 |  |   |  |                            |                   |                |
| Dividends Declared (AT1 coupon payments)                   | -                   | -                | (130)                           | -  | -   | -  | <b>(130)</b>               | -                 | <b>(130)</b>   |
| Capitalization of other equity items                       | -                   | -                | -                               | -  | -   | -  | -                          | 6                 | <b>6</b>       |
| Reserve Movements  | -                   | 279              | (279)                           | -  | -   | -  | -                          | -                 | -              |
| <b>Comprehensive Income:</b>                               |                     |                  |                                 |  |   |  |                            |                   |                |
| Net Income   | -                   | -                | 7,536                           | -  | -   | -  | <b>7,536</b>               | -                 | <b>7,536</b>   |
| <b>Other comprehensive income:</b>                         |                     |                  |                                 |  |   |  |                            |                   |                |
| Valuation of financial investments hold to collect or sale | -                   | -                | -                               | (1,035)  | -   | -  | <b>(1,035)</b>             | -                 | <b>(1,035)</b> |
| Valuation of cash flow hedging transactions                | -                   | -                | -                               | -  | (733)                                       | -  | <b>(733)</b>               | -                 | <b>(733)</b>   |
| Remeasurement of defined benefits to employees             | -                   | -                | -                               | -  | -   | (93)   | <b>(93)</b>                | -                 | <b>(93)</b>    |
| Participation in comprehensive income of other entities    | -                   | -                | -                               | -  | -   | -  | -                          | -                 | -              |
| <b>Total</b>   | <b>-</b>            | <b>-</b>         | <b>7,536</b>                    | <b>(1,035)</b>   | <b>(733)</b>                                | <b>(93)</b>                                    | <b>5,675</b>               | <b>-</b>          | <b>5,675</b>   |
| <b>Final balances as of 30 September 2022</b>              | <b>38,318</b>       | <b>13,510</b>    | <b>24,802</b>                   | <b>(1,651)</b>   | <b>(1,445)</b>                              | <b>(1,843)</b>                                 | <b>71,691</b>              | <b>8</b>          | <b>71,699</b>  |

## Consolidated Statement of Cash Flow – Group

Figures in MXN millions

**30 Sep 2022**

|   |                 |
|---|-----------------|
| <b>Profit/(loss) before taxes</b>   | <b>9,874</b>    |
| <b>Adjustments for items associated with investing activities</b>                 | <b>2,785</b>    |
| Depreciation of property, furniture and equipment                                 | 831             |
| Amortization of intangible assets   | 2,100           |
| Participation in the net result of other entities                                 | (146)           |
| <b>Adjustments for items associated with financing activities</b>                 | <b>1,687</b>    |
| Interest associated with bank deposits and other liabilities                      | 646             |
| Financial instruments qualifying as liabilities (subordinated debt)               | 1,041           |
| <b>Changes in items related to operating activities</b>                           | <b>(14,379)</b> |
| Bank deposits and other liabilities   | (12,966)        |
| Margin accounts   | 86              |
| Financial investments   | 11,597          |
| Reverse repurchase agreements   | (10,882)        |
| Derivative transactions (assets)  | (1,838)         |
| Loan Portfolio (net)  | (35,743)        |
| Debtors of re-insurance   | 298             |
| Recoverable amounts for reinsurance and refinancing (net)                         | 24              |
| Other accounts receivable (net)   | (19,860)        |
| Foreclosed assets (net)   | 46              |
| Deposits  | 2,197           |
| Technical Reserves  | 648             |
| Repurchase agreements   | 12,798          |
| Collaterals sold or given in guarantee  | 25,596          |
| Derivative transactions (liabilities)   | 3,674           |
| Accounts payable for reinsurers   | (8)             |
| Change of assets/liabilities for employee benefits                                | 290             |
| Other accounts payable  | 9,528           |
| Other provisions  | 2,021           |
| Income tax payments   | (1,885)         |
| <b>Net cash flows from operating activities</b>                                   | <b>(33)</b>     |
| <b>Investing activities:</b>  |                 |
| Payments for the acquisition of property, furniture and equipment                 | (1,405)         |
| Collections of cash dividends from permanent investments                          | 49              |
| Payments for acquisition of intangible assets                                     | (4,015)         |
| Other receipts from investing activities  | -               |
| Other payments from investing activities  | (15)            |
| <b>Net cash flows from investing activities</b>                                   | <b>(5,386)</b>  |
| <b>Financing activities:</b>  |                 |
| Payments of bank loans and other organizations                                    | (201)           |
| Dividends Paid  | (1,920)         |
| Collections for the issuance of financial instruments that qualify as liabilities | (130)           |
| <b>Net cash flows from financing activities</b>                                   | <b>(2,251)</b>  |
| Increase/decrease in cash and equivalents   | (7,670)         |
| Cash and equivalents at beginning of period                                       | 61,621          |
| <b>Cash and equivalents as of 30 September 2022</b>                               | <b>53,951</b>   |

**Consolidated Statement of Cash Flow - Bank**

*Figures in MXN millions*

|  | <b>30 Sep 2022</b> |
|--|--------------------|
| <b>Profit/(loss) before taxes</b>  | <b>8,702</b>       |
| <b>Adjustments for items associated with investing activities</b>          | <b>2,785</b>       |
| Depreciation of property, furniture and equipment                          | 831                |
| Amortization of intangible assets  | 2,100              |
| Other adjustments for items associated with investing activities           | (146)              |
| <b>Adjustments for items associated with financing activities</b>          | <b>1,687</b>       |
| Interest associated with bank deposits and other liabilities               | 646                |
| Financial instruments qualifying as liabilities (subordinated debt)        | 1,041              |
| <b>Changes in items related to operating activities:</b>                   | <b>(15,134)</b>    |
| Bank deposits and other liabilities  | (12,966)           |
| Margin accounts  | 86                 |
| Financial investments  | 12,625             |
| Reverse repurchase agreements  | (10,882)           |
| Derivative transactions (assets)   | (1,838)            |
| Loans and advances (net)   | (35,730)           |
| Other accounts receivable (net)  | (14,350)           |
| Foreclosed assets (net)  | 46                 |
| Other Operating Assets   | (228)              |
| Deposits   | 1,829              |
| Repurchase agreements  | 12,798             |
| Collaterals sold or given in guarantee                                     | 25,596             |
| Derivative transactions (liability)  | 3,674              |
| Adjustments for employee benefits  | 6,698              |
| Other accounts payable   | 693                |
| Change of assets/liabilities for employee benefits                         | (3,344)            |
| Other accounts payable   | 1,952              |
| Other provisions   | (1,793)            |
| Income tax payments  | (1,793)            |
| <b>Net cash flows from operating activities</b>                            | <b>(1,960)</b>     |
| <b>Investing activities:</b>   |                    |
| Payments for the acquisition of property, furniture and equipment          | (1,405)            |
| Collections of cash dividends from permanent investments                   | 49                 |
| Payments for acquisition of intangible assets                              | (4,015)            |
| Other payments from investing activities                                   | (15)               |
| <b>Net cash flows from investing activities</b>                            | <b>(5,386)</b>     |
| <b>Financing activities:</b>   |                    |
| Lease liability payments   | (201)              |
| Payments associated with financial instruments that qualify as a liability | (130)              |
| <b>Net cash flows from financing activities</b>                            | <b>(331)</b>       |
| Increase/decrease in cash and equivalents                                  | (7,677)            |
| Cash and equivalents at beginning of period                                | 61,498             |
| <b>Cash and equivalents as of 30 September 2022</b>                        | <b>55,927</b>      |

## 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 transactions 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 an 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 held 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 recently 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.

## **Grupo Financiero HSBC, S.A. de C.V. 3Q 2022 Financial Results Highlights**

- 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”.

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- 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 held 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:

- **Implementation of the new methodology to calculate ECL.** - 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.
- **Adoption of the NIF D-5 Leases.** - 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.

### **Implementation of EIR (effective interest rate)**

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.

## **Grupo Financiero HSBC, S.A. de C.V. 3Q 2022 Financial Results Highlights**

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. At the end of the reporting period, the plan has been fully completed on time, so HSBC will be ready for the implementation in 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 first nine months ended at 30 September 2022 and an explanation of the key reconciling items.

|   | <u>30 Sep 2022</u>  |
|---|---------------------|
| <i>Figures in MXN millions</i>  |                     |
| <b>Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP</b>                                      | <b>9,874</b>        |
| Differences arising from:   |                     |
| Deferred profit sharing   | (257)               |
| Recognition of the present value in-force of long-term insurance contracts  | 231                 |
| Loan impairment charges and other differences in presentation under IFRS  | (126)               |
| Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits | 107                 |
| IFRS16  | (86)                |
| AT1 Valuation   | (68)                |
| Fair value adjustments on financial instruments   | (51)                |
| Other insurance adjustments <sup>6</sup>  | 29                  |
| Others  | (81)                |
| <b>Profit before/(loss) tax under IFRS</b>  | <b>9,572</b>        |
| Add back significant items  | 1,371               |
| <b>Adjusted profit/(loss) before tax under IFRS</b>   | <b>10,943</b>       |
| <i>Significant items under IFRS:</i>  |                     |
| -Debit valuation adjustment on derivative contracts   | (16)                |
| -Costs to achieve   | (1,355)             |
| <br><b>-Profit/(loss) before tax under IFRS<sup>7</sup></b>   | <br><b>US\$476m</b> |

### 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.

<sup>6</sup> Includes technical reserves and effects from Solvency II

<sup>7</sup> Banxico rate at 30 September 2022 MXN20,1271. HSBC Holdings plc considers the exchange rate as MXN20.73814, resulting in profit before tax (IFRS) of US\$473m.

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 IFRS 9 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).