

27 February 2023

GRUPO FINANCIERO HSBC, S.A. DE C.V. 4Q 2022 FINANCIAL RESULTS HIGHLIGHTS

- For the 12 months to 31 December 2022, profit before tax was MXN13,945m, an increase of MXN7,020m or over 100% compared with MXN6,925m for the same period in 2021.
- Net income for the 12 months to 31 December 2022 was MXN11,235m, an increase of MXN6,823m or over 100% compared with MXN4,412m for the same period in 2021.
- Total operating income excluding loan impairment charge for the 12 months to 31 December 2022 was MXN52,727m, an increase of MXN6,851m or 14.9% compared with MXN45,876m for the same period in 2021. Total operating income excluding IPAB Fee reclassification¹ would have been of MXN54,927m or 19.7% higher.
- Loan impairment charges for the 12 months to 31 December 2022 were MXN8,558m, an increase of MXN1,908m or 28.7% compared with MXN6,650m for the same period in 2021.
- Administrative and personnel expenses for the 12 months to 31 December 2022 were MXN30,468m, a decrease of MXN2,163m or 6.6%, compared with MXN32,631m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification¹ would have increased to MXN32,668m or 0.1% in line with last year.
- The cost efficiency ratio was 57.8% for the 12 months to 31 December 2022 compared with 71.1% for the same period in 2021. Excluding IPAB fee reclassification¹, the cost efficiency ratio would have been of 59.5%.
- At 31 December 2022, net loans and advances to customers were MXN402.7bn, an increase of MXN31.1bn or 8.4% compared with MXN371.6bn at 31 December 2021.
- At 31 December 2022, total stage 3 loans were MXN12.7bn and 3.0% as a percentage of gross loans compared to September 2022 when stage 3 loans were MXN12.8bn and 3.0% as a percentage of gross loans.
- At 31 December 2022, total deposits were MXN515.2bn, an increase of MXN16.2bn, or 3.3%, compared with MXN499bn at 31 December 2021.
- Return on equity was 14.7% for the 12 months to 31 December 2022, whereas for the 12 months to December 2021 it was 6.2%.
- At 31 December 2022, the bank's total capital adequacy ratio was 15.5% and the common equity tier 1 capital ratio was 11.5%, compared with 13.6% and 11.3%, respectively, at 31 December 2021.

¹ 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 12 months to 31 December 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 MXN12,313m, an increase of MXN840m compared with f MXN11,473m reported for the same period in 2021. The increase is mainly driven by higher net interest income partially offset by higher loan impairment charges compared to December 2021, when additional reserves related to Covid-19 outbreak were released.

The main differences between Mexican GAAP and IFRS results for the 12 months to 31 December 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:

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

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 and related metrics, figures are not comparable to 2021.

Overview

Mexican economy expanded 0.4% quarter on quarter and 3.5% year on year in 4Q22, according to preliminary figures. At the sector level, services, industrial production and agriculture rose 0.2%, 0.4% and 2.0% quarter on quarter, respectively. These results prompted real GDP to grow 3.0% in 2022.

Inflation rose to 7.82% year on year by the end of 4Q22 from 8.70% year on year by the end of 3Q22. The main driver was the non-core component, which eased to 6.27% y-o-y in December from 9.96% y-o-y in September, mainly due to lower energy prices. Meanwhile, core inflation remained under pressure in 4Q22, mostly driven by tradable goods prices.

Against this backdrop, the central bank (Banxico) lifted the monetary policy twice in 4Q22. The first hike (November) was of 75bp, while the second one (December) was of 50bp. These adjustments took the policy rate to 10.50% by the end of 4Q22 from 9.25% in 3Q22. In February 2023, Banxico hiked the policy rate by 50bp to 11.00%.

Financial Performance – Key Metrics

- Grupo Financiero's profit before tax for the 12 months to 31 December 2022 was MXN13,945m, an increase of MXN7,020m or over 100% compared with MXN6,925m for the same period in 2021.
- Net interest income for the 12 months to 31 December 2022 was MXN40,509m, an increase of MXN5,161m or 14.6% compared with MXN35,348m 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 12 months to 31 December 2022 were MXN8,558m, an increase of MXN1,908m or 28.7% compared with MXN6,650m for the same period in 2021. The increase is mainly driven by the release of additional provisions from Covid-19 during 2021 (MXN2,669m) 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)².
- Net fee income for the 12 months to 31 December 2022 was MXN8,878m, an increase of MXN920m or 11.6% compared with MXN7,958m for the same period in 2021 mainly driven by increase in commercial activity.
- Trading income for the 12 months to 31 December 2022 was MXN3,397m, an increase of MXN1,695m or 99.6% compared with MXN1,702m for the same period in 2021 mainly driven by larger trading activity from fixed income and FX portfolios.
- Other operating income for the 12 months to 31 December 2022 was MXN-1,024m, a decrease of MXN1,892m or over 100% compared with MXN868m for the same period in 2021. Excluding IPAB fee reclassification¹, other operating income would have been of MXN1,176m, an increase of MXN308m or 35.5% higher than December 2021 figures explained by lower operational losses partially offset by higher losses from the sale of selected corporate loans.
- Administrative and personnel expenses for the 12 months to 31 December 2022 were MXN30,468m, a decrease of MXN2,163m or 6.6%, compared with MXN32,631m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification¹, the administrative and personnel expenses would have been MXN32,668m, an increase by MXN37m or 0.1% in line with last year.

² Local standard IFRS9 methodology implemented as of January 2022.

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- The cost efficiency ratio was 57.8% for the 12 months to 31 December 2022 compared with 71.1% for the same period in 2021. Excluding IPAB fee reclassification¹, the cost efficiency ratio would have been of 59.5%.
- The effective tax rate was 19.4% for the 12 months to 31 December 2022, compared with 43.0% reported for the same period in 2021. The variation is mainly driven by inflationary effects and reassessment of deferred tax assets.
- At 31 December 2022, net loans and advances to customers were MXN402.7bn showing an overall increase of MXN31bn, or 8.4% compared with MXN371.6bn. The increase is driven by 19.0% growth in total retail portfolio compared to 31 December 2021 with mortgage loans growing 20.7%, coupled with an increase of 16.6% in consumer loans and a decrease in wholesale portfolio by 0.6%. Credit cost ratios³ and loan loss reserves ratios⁴ as of December 2022 were 2.0% (1.7% as of December 2021) and 3.7% (4.4% as of December 2021), respectively.
- Return on equity was 14.7% for the 12 months to 31 December 2022, whereas for the 12 months to 31 December 2021 it was 6.2%.
- Total stage 3 loans at 31 December 2022 were MXN12.7bn and 3.0% as a percentage of gross loans. Following the HSBC approach to stage 3 of the 3%, 0.6% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.4% relates to loans with 90 or more days past due. As of September 2022, stage 3 loans were MXN12.8bn and 3.0% as a percentage of gross loans, of which 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 of past due.
- At 31 December 2022, total loan loss allowances were MXN15.6bn, a decrease of MXN1.6bn or 9.5% compared to 31 December 2021. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 122.6% at 31 December 2022 compared with 122.2% as of September 2022.
- At 31 December 2022, total deposits were MXN515.2bn, an increase of MXN16.2bn or 3.3%, compared with MXN499bn at 31 December 2021, mainly driven by higher demand and time deposits partially offset by the reduction in wholesale funding.
- HSBC Bank Mexico ('the bank') profit before tax for the 12 months to 31 December 2022 was MXN12,209m, an increase of MXN6,733m or over 100% compared with MXN5,476m for the same period in 2021 mainly driven by an increase in net interest and trading income partially offset by higher loan impairment charges.
- HSBC Bank Mexico net income for the 12 months to 31 December 2022 was MXN9,937m, an increase of MXN7,131m or over 100% compared with MXN2,806m for the same period in 2021.
- HSBC Bank Mexico net interest income for the 12 months to 31 December 2022 was MXN39,974m an increase of MXN6,495m or 19.4%, compared with MXN33,479m for the same period in 2021.
- During 2022 Grupo Financiero HSBC paid dividends of MXN 4,249m.
- At 31 December 2022, the bank's total capital adequacy ratio was 15.5% and the common equity tier 1 capital ratio was 11.5%, compared with 13.6% and 11.3%, respectively, at 31 December 2021. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

³ Credit Cost Ratio: Loan Impairment charges (annualized)/Gross Loans.

⁴ Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

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- On December 2022, HSBC Mexico issued USD500m Tier 2 capital instruments on a private placement to HSBC Latin America Holdings (UK) Limited 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. Starting on December 2022 DSIBs 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 12 months to 31 December 2022 was MXN1,199m, an increase of MXN651m or over 100% compared with MXN548m for the same period in 2021, mainly driven by the increase in premiums and 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 31 December 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 highlights⁵ *(Amounts described include the impact of internal cost and value of funds applied to different lines of business).*

Wealth and Personal Banking (WPB)⁶

Profit before tax for the 12 months to 31 December 2022 was MXN5,650m an increase of MXN4,108m or over 100% compared with MXN1,542m for the same period in 2021 this increase is mainly driven by higher revenues. With markets treasury reallocation, profit before tax result was MXN5,244m.

Total revenue for the 12 months to 31 December 2022 was MXN35,915m, an increase of MXN5,577m or 18.4% compared with MXN30,338m for the same period in 2021. Total revenue excluding IPAB Fee reclassification¹ would have been of MXN36,983m, an increase of MXN6,645m or 21.9% mainly driven by higher volumes in deposits, mortgages, credit cards and payroll loans coupled with higher spreads in deposits.

Loan impairment charges for the 12 months to 31 December 2022 was MXN10,049m, an increase of MXN3,238m or 47.5% compared with MXN6,811m 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 12 months to 31 December 2022 was MXN20,449m, a decrease of MXN1,852m or 8.3% compared with MXN22,301m for the same period in 2021. Excluding IPAB fee reclassification¹, the administrative and personnel expenses would have been of MXN21,517m, a decrease of MXN784m or 3.5% compared with same period in 2021

At 31 December 2022, net loans and advances to customers were MXN210.8bn showing an overall increase of MXN34.8bn or 19.8% compared with MXN176.0bn for the same period in 2021. The increase is driven by credit cards with a 32% year on year growth, coupled with auto loans growing at 27% given the agreement with Kavak executed at the end of 2022 (through this deal HSBC acquires current and future loan portfolio from Kavak), in addition mortgage loans grew 20.7%. High level of productivity is maintained throughout different commercial channels, such as the branch network, strategic alliances, mortgage brokers and developers.

At 31 December 2022, total deposits were MXN278.5bn, an increase of MXN26.0bn or 10.3% compared with MXN252.5bn for the same period in 2021, mainly interest bearing balances as the rates increased in the market.

Since December 2022, customers of HSBC Mexico debit cards are able to access the cash withdrawal service offered by OXXO in more than 20,000 stores in the country. This initiative complements the bank's digital offer and its physical infrastructure: branches, ATMs, CDMs (Cash & Deposit Machine) and services through partners.

HSBC Mexico extended the commercial relationship with AXA for five more years to distribute general insurance products through its channels (branches, digital, ATM, Call Centre). Collaboration between both institutions allows to HSBC increase the insurance products offer to fulfil costumers needs.

In January 2023, the alliance MULTIREN was presented, integrating 9,300 ATMs from HSBC Mexico and five other banks. From now on, more than 13.2 million customers of the six banks are able to make cash withdrawals and balance inquiries of their credit and debit cards at no cost, as

⁵ Markets Treasury total loss before tax for the 12 months of 2022 was MXN742m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the twelve months of 2022 loss before tax allocation by business was – MXN406m to WPB, MXN192m to CMB and MXN128m to GB and MXN16m to MSS.

⁶ WPB does not include Insurance results which was MXN1,199m in profit before tax as of the twelve months to 31 December 2022.

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many times as required, at all ATMs of the network. MULTIRED is a response in favour of financial inclusion and allows to strengthen the ATM footprint.

Commercial Banking (CMB)

Profit before tax for the 12 months to 31 December 2022 was MXN5,826m, an increase of MXN4,703m or over 100% compared with MXN1,123m 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 MXN5,634m.

Total revenue for the 12 months to 31 December 2022 was MXN8,823m, an increase of MXN1,405m or 18.9% compared with MXN7,418m for the same period in 2021. Total revenue excluding IPAB Fee reclassification¹ would have been of MXN9,521m, an increase of MXN2,103m or 28.3% mainly explained by the higher interest income both in loans and deposits in a rising interest rate environment.

Loan impairment charges for the 12 months to 31 December 2022 was a release MXN1,346m, a decrease of MXN2,675m or over 100% compared with MXN1,329m for same period in 2021, driven by the release of additional provisions during this year.

Administration and personnel expenses for the 12 months to 31 December 2022 was MXN4,355m, a decrease of MXN633m or 12.7% compared with MXN4,988m for the same period in 2021. Administrative and personnel expenses excluding IPAB Fee reclassification¹ would have been of MXN5,053m, an increase by MXN65m or 1.3% in line with last year.

At 31 December 2022, net loans and advances to customers were MXN126.2bn, a decrease of MXN2.5bn or 1.9% compared with MXN128.7bn for the same period in 2021.

At 31 December 2022, total deposits were MXN139.1bn, a decrease of MXN11.7bn or 7.8% compared with MXN150.8bn for the same period in 2021.

During the 4Q'22 HSBC Mexico sustainable lending transactions were mainly dedicated to finance renewables energy projects using different green products. With this, HSBC Mexico continues as one of the leaders in the Mexican market that supports our clients in the transition to a net zero economy.

Global Banking (GB)

Profit before tax for the 12 months to 31 December 2022 was MXN2,891m, a decrease of MXN472m or 14.0% compared with MXN3,363m for the same period in 2021, mainly driven by higher net interest income and lower expenses partially offset by lower releases of loan impairment charges. With Markets Treasury allocation, profit before tax was MXN2,763m.

Total revenue for the 12 months to 31 December 2022 was MXN4,265m, an increase of MXN432m or 11.3% compared MXN3,833m for the same period in 2021. Total revenue excluding IPAB Fee reclassification¹ would have been of MXN4,614m, an increase of MXN781m or 20.4%, mostly explained by higher net interest income benefiting from a rising interest rate environment.

Loan impairment charges for the 12 months to 31 December 2022 was a release of MXN145m, a decrease by MXN1,345m or 90.3% compared with MXN1,490m release for the same period in 2021.

Administration and personnel expenses for the 12 months to 31 December 2022 was MXN1,518m a decrease of MXN432m or 22.2% compared with MXN1,950m for the same period in 2021.

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Excluding IPAB fee reclassification¹, the administrative and personnel expenses would have been of MXN1,867m, a decrease of MXN83m or 4.3% compared with same period in 2021.

At 31 December 2022, net loans and advances to customers were MXN65.5bn, a decrease of MXN1.4bn or 2.1% compared with MXN66.9bn for the same period in 2021.

At 31 December 2022, total deposits were MXN78.2bn, a decrease of MXN0.2bn or 0.3% compared with MXN78.4bn for the same period in 2021.

Markets and Security Services (MSS)

Profit before tax for the 12 months to 31 December 2022 was MXN894m, an increase of MXN1,160m or over 100% compared with MXN-266m 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. With Markets Treasury allocation, profit before tax was MXN878m.

Total revenue for the 12 months to 31 December 2022 was MXN1,838m, an increase of MXN1,144m or over 100% compared with MXN694m for same period in 2021. Total revenue excluding IPAB Fee reclassification¹ would have been of MXN1,923m, an increase of MXN1,229m 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.

Administrative and personal expenses for the 12 months to 31 December 2022 was MXN944m, a decrease of MXN18m or 1.9% with MXN962m for the same period in 2021. Excluding IPAB fee reclassification¹, the administrative and personnel expenses would have been of MXN1,029m, an increase of MXN67m or 7.0% compared with same period in 2021.

Awards and Recognitions

Euromoney

HSBC Mexico was recognized for the third consecutive year as the market leader and leader in cash management services in the country by the British magazine Euromoney. Both distinctions are the result of a survey carried out independently by the publication among 20,000 businesses around the world. This year, the bank continued improving its digital solutions, which allow companies to streamline the management of their Treasury. Euromoney has also recognized HSBC Mexico for the sixth consecutive year for its performance in foreign trade solutions. The distinction is based on a survey carried out by the publication among companies that use financial services focused on international trade. Mexico's distinctions were as Market Leader and Best Service, thanks to its orientation towards the inherent needs of international business, which is relevant because at the moment Mexico is a country it is seen as a relevant option to mitigate the risk of interruptions in supply chains and as an investment opportunity.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 878 branches, 5,630 ATMs and 14,343 employees as of 31 December 2022.

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

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,967bn at 31 December 2022, HSBC is one of the world's largest banking and financial services organisation.

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Consolidated Income Statement – GROUP 12 months ended 31 December 2022

Figures in MXN Millions

	Group 31 Dec 22
Interest income	63,749
Interest expense	(23,240)
Net interest income	40,509
Loan impairment charges	(8,558)
Risk-adjusted net interest income	31,951
Fees and commissions receivable	11,383
Fees payable	(2,505)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	967
Trading income	3,397
Other operating income	(1,024)
Total operating income	44,169
Administrative and personnel expenses	(30,468)
Net operating income	13,701
Share of profits in equity interest	244
Profit/(loss) before tax	13,945
Income tax	(2,710)
Net income before discontinued operations	11,235
Discontinued Operations	-
Net income	11,235

Consolidated Income Statement – GROUP 12 months ended 31 December 2021*

Figures in MXN millions

	Group 31 Dec 21
Interest income	54,430
Interest expense	(19,082)
Net interest income	35,348
Loan impairment charges	(6,650)
Risk-adjusted net interest income	28,698
Fees and commissions receivable	11,040
Fees payable	(3,082)
Trading income	1,702
Other operating income	868
Total operating income	39,226
Administrative and personnel expenses	(32,631)
Net operating income	6,595
Share of profits in equity interest	330
Profit/(loss) before tax	6,925
Income tax	(1,704)
Deferred income tax	(1,272)
Net income before discontinued operations	3,949
Discontinued Operations*	463
Net income	4,412

Consolidated Income Statement – BANK 12 months ended 31 December 2022

Figures in MXN Millions

	Bank 31 Dec 22
Interest income	63,270
Interest expense	(23,296)
Net interest income	39,974
Loan impairment charges	(8,558)
Risk-adjusted net interest income	31,416
Fees and commissions receivable	10,801
Fees payable	(3,037)
Trading income	3,452
Other operating income	(368)
Total operating income	42,264
Administrative and personnel expenses	(30,299)
Net operating income	11,965
Share of profits in equity interest	244
Profit/(loss) before tax	12,209
Income tax	(2,272)
Net income before discontinued operations	9,937
Discontinued Operations	-
Net income	9,937

Consolidated Income Statement – BANK 12 months ended 31 December 2021

Figures in MXN millions

	Bank 31 Dec 21
Interest income	47,401
Interest expense	(13,922)
Net interest income	33,479
Loan impairment charges	(6,650)
Risk-adjusted net interest income	26,829
Fees and commissions receivable	10,426
Fees payable	(3,157)
Trading income	1,914
Other operating income	1,346
Total operating income	37,358
Administrative and personnel expenses	(32,213)
Net operating income	5,145
Share of profits in equity interest	331
Profit/(loss) before tax	5,476
Income tax	(1,419)
Deferred income tax	(1,251)
Net income	2,806

Consolidated Balance Sheet – 2022

Figures in MXN millions

	Group 31 Dec 22	Bank 31 Dec 22
Assets		
Cash and cash equivalents	63,461	63,326
Margin accounts	588	588
Financial Investments	146,486	135,754
Trading financial investments	57,657	53,064
Financial investments hold to collect or sale	69,423	63,284
Financial investments hold to collect principal and interest (securities) (net)	19,406	19,406
Reverse repurchase agreements	74,645	74,645
Derivative transactions	36,968	36,968
 Loan and advances - credit risk stage 1		
Commercial loans	200,481	200,481
Consumer loans	81,736	81,736
Mortgage loans	119,211	119,211
Total loan portfolio with credit risk stage 1	401,428	401,428
 Loan and advances - credit risk stage 2		
Commercial loans	213	213
Consumer loans	2,116	2,116
Mortgage loans	1,646	1,646
Total loan portfolio with credit risk stage 2	3,975	3,975
 Loan and advances - credit risk stage 3		
Commercial loans	7,645	7,645
Consumer loans	2,015	2,015
Mortgage loans	3,081	3,081
Total loan portfolio with credit risk stage 3	12,741	12,741
 Loan Portfolio measured at Fair Value	-	-
Gross loans and advances to customers	418,144	418,144
Expected credit losses	(15,619)	(15,619)
Gross loans and advances to customers - Insurance	137	-
Total net loans and advances to customers	402,662	402,525
Premium receivables	2,234	-
Accounts receivables from reinsurers and rebonding companies	52	-
Other accounts receivable (net)	34,993	35,283
Foreclosed assets	251	251
Long term assets held for sale	10	10
Property, Furniture and Equipment (Net)	6,542	6,542
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	2,070	2,063
Prepayments and other assets	5,749	5,666
Long-term investments	1,428	1,387
Deferred income tax asset (net)	6,697	6,542
Intangible assets (net)	7,304	7,304
Intangible assets (Net) - Rights of use assets	212	-
Goodwill	955	-
Benefits Receivable in Securitization Transactions	10	10
Total assets	793,317	778,864

Consolidated Balance Sheet - 2022 (continued)

Figures in MXN millions

	Group 31 Dec 22	Bank 31 Dec 22
<u>Liabilities</u>		
Deposits	515,205	516,008
Demand deposits	364,834	365,637
Time deposits	137,403	137,403
Bank bond outstanding	11,293	11,293
Global deposit account without movements	1,675	1,675
Bank deposits and other liabilities	23,941	23,941
On demand	13,424	13,424
Short-term	6,235	6,235
Long-term	4,282	4,282
Technical reserves	9,544	-
Repurchase agreements	28,178	28,178
Collateral sold	35,202	35,202
Reports (credit balance)	31,090	31,090
Securities lending	4,112	4,112
Derivative Financial Liabilities	35,940	35,940
Trading Derivatives	35,931	35,931
Hedging Derivatives	9	9
Accounts Payable from reinsurers and rebonding companies	16	-
Lease liabilities	2,357	2,350
Other payable accounts	38,826	38,192
Settlement accounts	12,472	12,389
Income tax and employee profit sharing payable	8,568	8,568
Contributions for future capital increases	986	939
Sundry creditors and other accounts payable	16,800	16,296
Financial instruments qualifying as liabilities (subordinated debt)	21,137	21,137
Subordinated debentures outstanding	21,137	21,137
Income tax liabilities	282	110
Employee benefit liabilities	4,537	4,469
Deferred credits and receivable in advance	1,611	1,526
Total liabilities	716,776	707,053
<u>Equity</u>		
Paid in capital	43,373	38,318
Capital stock	6,218	6,132
Additional paid in capital	37,155	32,186
Other reserves	37,923	38,057
Capital reserves	1,244	13,510
Retained earnings - prior years	25,444	14,610
Net income	11,235	9,937
Result from the mark-to-market of available- for-sale securities	(1,510)	(1,315)
Result from cash flow hedging transactions	(1,121)	(1,121)
Adjustment in the employee pension	(2,133)	(2,135)
Total Controlling Interest's	76,532	71,804
Minority interest in capital	9	7
Total Shareholder's Equity	76,541	71,811
Total liabilities and equity	793,317	778,864

Grupo Financiero HSBC, S.A. de C.V. 4Q 2022 Financial Results Highlights

Consolidated Balance Sheet – 2022 (continued)

Figures in MXN millions

	Group	Bank
	31 Dec 22	31 Dec 22
<u>Memorandum Accounts</u>		
Third party accounts	29,512	-
Clients current accounts	343	-
Custody operations	29,169	-
Proprietary position	4,706,120	4,514,334
Irrevocable lines of credit granted	306,915	306,915
Goods in trust or mandate	190,297	190,297
Trusts	189,459	189,459
Mandate	838	838
Goods in custody or under administration	1,415,426	1,415,426
Collateral received by the institution	80,626	80,626
Collateral received and sold or delivered as guarantee	36,344	36,344
Suspended interest on stage 3 loans	596	596
Other control accounts	2,675,916	2,484,130
Total Memorandum Account	4,735,632	4,514,334

Consolidated Balance Sheet - 2021

Figures in MXN millions

	Group	Bank
	31 Dec 21	31 Dec 21
<u>Assets</u>		
Cash and deposits in banks	61,621	61,498
Margin accounts	337	336
Investment in securities	164,062	154,671
Trading securities	66,351	63,027
Available-for-sale securities	78,515	72,517
Held to maturity securities	19,196	19,127
Repurchase agreements	34,130	34,130
Derivative transactions	42,184	42,184
Performing loans		
Commercial loans	170,244	170,244
Loans to financial intermediaries	7,449	7,448
Loans to government entities	29,403	29,404
Consumer loans	71,618	71,618
Mortgage loans	99,994	99,994
Total performing loans	378,708	378,708
Impaired loans		
Commercial loans	5,438	5,438
Consumer loans	1,948	1,948
Mortgage loans	2,781	2,781
Total impaired loans	10,167	10,167
Gross loans and advances to customers	388,875	388,875
Allowance for loan losses	(17,257)	(17,257)
Net loans and advances to customers	371,618	371,618
Accounts receivables from insurers and bonding companies	101	-
Premium receivables	2,099	-
Accounts receivables from reinsurers and rebonding companies	59	-
Other accounts receivable	25,151	25,264
Foreclosed assets	248	248
Property, furniture and equipment, net	6,175	6,175
Long-term investments in equity securities	1,239	1,196
Long-term assets available for sale	10	10
Deferred taxes	8,744	8,588
Goodwill	955	-
Other assets, deferred charges and intangibles	8,002	7,667
Total assets	726,735	713,585

Consolidated Balance Sheet – 2021 (continued)

Figures in MXN millions

	Group 31 Dec 21	Bank 31 Dec 21
<u>Liabilities</u>		
Deposits	498,965	499,923
Demand deposits	354,823	354,608
Time deposits	126,671	126,827
Bank bond outstanding	17,471	17,471
Global deposit account without movements	-	1,017
Bank deposits and other liabilities	26,821	26,821
On demand	11,884	11,884
Short-term	8,517	8,517
Long-term	6,420	6,420
Repurchase agreements	10,072	10,072
Collateral sold	9,786	9,786
Derivative transactions	39,271	39,271
Technical reserves	8,105	-
Accounts payable from reinsures and rebounding companies	10	-
Other payable accounts	49,033	48,514
Income tax and employee profit sharing payable	1,246	1,217
Sundry creditors and other accounts Payable	47,787	47,297
Subordinated debentures outstanding	11,915	11,915
Deferred credits and receivable in advance	1,342	1,237
Total liabilities	655,320	647,539
<u>Equity</u>		
Paid in capital	43,373	38,318
Capital stock	6,218	6,132
Additional paid in capital	37,155	32,186
Other reserves	28,036	27,726
Capital reserves	1,244	13,202
Retained earnings	23,748	14,796
Result from the mark-to-market of available-for-sale securities	(655)	(616)
Result from cash flow hedging transactions	(713)	(712)
Adjustment in the employee pension	-	(1,750)
Net income	4,412	2,806
Minority interest in capital	6	2
Total equity	71,415	66,046
Total liabilities and equity	726,735	713,585

Consolidated Balance Sheet – 2021 (continued)

Figures in MXN millions

	Group	Bank
	31 Dec 21	31 Dec 21
Memorandum Accounts	5,074,721	4,874,295
Third party accounts	28,257	27,051
Clients current accounts	261	-
Custody operations	945	-
Third party investment banking operations, net	27,051	27,051
Proprietary position	5,046,464	4,847,244
Irrevocable lines of credit granted	283,631	283,631
Goods in trust or mandate	169,124	169,124
Goods in custody or under administration	1,406,806	1,400,589
Collateral received by the institution	59,148	59,148
Collateral received and sold or delivered as guarantee	23,418	23,418
Suspended interest on impaired loans	422	422
Other control accounts	3,103,915	2,910,912

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN millions

Group	Capital contributed	Capital reserves	Retained earnings – prior years	Valuation of financial investments hold to collect or sale	Valuation of cash flow hedging transactions	Remeasurement of defined benefits to employees	Total controlling interest	Minority interest	Total equity
Total Balances at 01 Jan 2021	43,373	1,244	28,160	(655)	(713)	-	71,409	6	71,415
Adjustments for accounting changes	-	-	1,789	-	-	(1,789)	-	-	-
Cash Dividends	-	-	(4,505)	-	-	-	(4,505)	-	(4,505)
Capitalization of other equity items	-	-	-	-	-	-	-	3	3
Comprehensive Income:									
Net Income	-	-	11,235	-	-	-	11,235	-	11,235
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	(855)	-	-	(855)	-	(855)
Valuation of cash flow hedging transactions	-	-	-	-	(408)	-	(408)	-	(408)
Remeasurement of defined benefits to employees	-	-	-	-	-	(344)	(344)	-	(344)
Total	-	-	11,235	(855)	(408)	(344)	9,628	-	9,628
Final balances as of 31 December 2022	43,373	1,244	36,679	(1,510)	(1,121)	(2,133)	76,532	9	76,541

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN million

Bank	Capital contributed	Capital reserves	Retained earnings – prior years	Valuation of financial investments hold to collect or sale	Valuation of cash flow hedging transactions	Remeasurement of defined benefits to employees	Total controlling interest	Minority interest	Total equity
Total Balances at 01 Jan 2021	38,318	13,202	17,602	(616)	(713)	(1,750)	66,043	2	66,045
Adjustments for accounting changes	-	29	(128)	-	-	-	(99)	-	(99)
Movements inherent to the shareholders' decision:									
Dividends Declared (including AT1 coupon payments)	-	-	(2,585)	-	-	-	(2,585)	-	(2,585)
Capitalization of other equity items	-	-	-	-	-	-	-	5	5
Reserve Movements	-	279	(279)	-	-	-	-	-	-
Comprehensive Income:									
Net Income	-	-	9,937	-	-	-	9,937	-	9,937
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	(699)	-	-	(699)	-	(699)
Valuation of cash flow hedging transactions	-	-	-	-	(408)	-	(408)	-	(408)
Remeasurement of defined benefits to employees	-	-	-	-	-	(385)	(385)	-	(385)
Participation in comprehensive income of other entities	-	-	-	-	-	-	-	-	-
Total	-	-	9,937	(699)	(408)	(385)	8,445	-	8,445
Final balances as of 31 December 2022	38,318	13,510	24,547	(1,315)	(1,121)	(2,135)	71,804	7	71,811

Grupo Financiero HSBC, S.A. de C.V. 4Q 2022 Financial Results Highlights

Consolidated Statement of Cash Flow – Group

Figures in MXN millions

	31 Dec 2022
Profit/(loss) before taxes	13,945
Adjustments for items associated with investing activities	3,667
Depreciation of property, furniture and equipment	1,136
Amortization of intangible assets	2,775
Participation in the net result of other entities	(244)
Adjustments for items associated with financing activities	2,366
Interest associated with bank deposits and other liabilities	908
Financial instruments qualifying as liabilities (subordinated debt)	1,458
Changes in items related to operating activities	(13,563)
Bank deposits and other liabilities	(3,788)
Margin accounts	(251)
Financial investments	16,384
Reverse repurchase agreements	(40,515)
Derivative transactions (assets)	4,632
Loan Portfolio (net)	(31,044)
Debtors of re-insurance	(35)
Recoverable amounts for reinsurance and refinancing (net)	7
Change in benefits from receiving securitization operations	(10)
Change in inventories	(883)
Other accounts receivable (net)	(13,916)
Foreclosed assets (net)	(4)
Deposits	15,040
Technical Reserves	1,439
Repurchase agreements	18,105
Collaterals sold or given in guarantee	25,416
Derivative transactions (liabilities)	(3,331)
Accounts payable for reinsurers	5
Change of assets/liabilities for employee benefits	923
Other accounts payable	(1,998)
Other provisions	2,608
Income tax payments	(2,347)
Net cash flows from operating activities	6,415
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(2,242)
Proceeds from the sale of property, furniture and equipment	230
Collections of cash dividends from permanent investments	49
Payments for acquisition of intangible assets	(6,646)
Other receipts from investing activities	-
Other payments from investing activities	(7)
Net cash flows from investing activities	(8,616)
Financing activities:	
Payments of bank loans and other organizations	(1,165)
Cash Dividend Payments	(4,249)
Proceeds from the issuance of financial instruments that qualify as liabilities	9,711
Collections for the issuance of financial instruments that qualify as liabilities	(256)
Net cash flows from financing activities	4,041
Increase/decrease in cash and equivalents	1,840
Cash and equivalents at beginning of period	61,621
Cash and equivalents as of 31 December 2022	63,461

Grupo Financiero HSBC, S.A. de C.V. 4Q 2022 Financial Results Highlights

Consolidated Statement of Cash Flow - Bank

Figures in MXN millions

31 Dec 2022

Profit/(loss) before taxes	12,209
Adjustments for items associated with investing activities	3,667
Depreciation of property, furniture and equipment	1,136
Amortization of intangible assets	2,775
Other adjustments for items associated with investing activities	(244)
Adjustments for items associated with financing activities	2,366
Interest associated with bank deposits and other liabilities	908
Financial instruments qualifying as liabilities (subordinated debt)	1,458
Changes in items related to operating activities:	(13,759)
Bank deposits and other liabilities	(3,788)
Margin accounts	(251)
Financial investments	17,967
Reverse repurchase agreements	(40,515)
Derivative transactions (assets)	4,632
Loans and advances (net)	(30,907)
Change in benefits from receiving securitization operations	(10)
Other accounts receivable (net)	(10,019)
Foreclosed assets (net)	(4)
Other Operating Assets	(982)
Deposits	15,041
Repurchase agreements	
Collaterals sold or given in guarantee	18,105
Derivative transactions (liability)	25,416
Adjustments for employee benefits	(3,331)
Other accounts payable	(1,060)
Change of assets/liabilities for employee benefits	1,309
Other accounts payable	(5,683)
Other provisions	2,557
Income tax payments	(2,236)
Net cash flows from operating activities	4,483
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(2,242)
Proceeds from the sale of property, furniture and equipment	230
Collections of cash dividends from permanent investments	49
Payments for acquisition of intangible assets	(6,646)
Other payments from investing activities	(7)
Net cash flows from investing activities	(8,616)
Financing activities:	
Lease liability payments	(1,165)
Cash Dividend Payments	(2,329)
Proceeds from the issuance of financial instruments that qualify as liabilities	9,711
Payments associated with financial instruments that qualify as a liability	(256)
Net cash flows from financing activities	5,961
Increase/decrease in cash and equivalents	1,828
Cash and equivalents at beginning of period	61,498
Cash and equivalents as of 31 December 2022	63,326

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. 4Q 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”.

Grupo Financiero HSBC, S.A. de C.V. 4Q 2022 Financial Results Highlights

- 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.

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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 the implementation will be from 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 12 months ended at 31 December 2022 and an explanation of the key reconciling items.

31 Dec 2022

Figures in MXN millions

Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP **13,945**

Differences arising from:

Recognition of the present value in-force of long-term insurance contracts 186

Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits 93

Other insurance adjustments⁷ (38)

Fair value adjustments on financial instruments (71)

IFRS16 (167)

Deferred profit sharing (171)

AT1 Valuation (180)

Loan impairment charges and other differences in presentation under IFRS (1,234)

Others (50)

Profit before/(loss) tax under IFRS **12,313**

Add back significant items 2,669

Adjusted profit/(loss) before tax under IFRS **14,983**

Significant items under IFRS:

-Debit valuation adjustment on derivative contracts (29)

-Costs to achieve (2,640)

-Profit/(loss) before tax under IFRS⁸ **US\$631**

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

⁷ Includes technical reserves and effects from Solvency II

⁸ Banxico rate at 31 December 2022 MXN19.5089. HSBC Holdings plc considers the exchange rate as MXN20.12, resulting in profit before tax (IFRS) of US\$612m.

Grupo Financiero HSBC, S.A. de C.V. 4Q 2022 Financial Results Highlights

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

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

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

IFRS

The main differences between Mexican GAAP and IFRS comprise:

- Actuarial gains/losses are recognized in OCI under IFRS not subject to be recycling or recognize totally in income statement.
- The measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.
- There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

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

Mexican GAAP

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

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

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

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

IFRS

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

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

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

Mexican GAAP

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

IFRS

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

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

4. Fair value adjustments on financial instruments

Mexican GAAP

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

IFRS

Fair Value Adjustments (“FVAs”) include additional factors than those specified in Mexican GAAP.

5. Deferred-profit sharing (PTU diferida)

Mexican GAAP

Accounting standards requires that a Deferred-Employee Profit Sharing (Deferral PTU) shall be calculated applying a similar model to deferred income tax (assets and liabilities method). It is derived from temporary differences between the accounting profit and income to be used to calculate the profit sharing. Given the changes issued on 23 April 2021 by the Mexican government to introduce a threshold in the calculation of the “Employee Profit Sharing” (PTU by its acronym in Spanish) (the more favourable to the employee between a cap of three months of employee’s wages or the average of PTU paid during the three last periods), some modifications to determine the new procedure to calculate deferral PTU:

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

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

Step 3.- PTU rate x temporary differences amount.

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

IFRS

Deferral PTU is not allowed to recognize under IFRS.

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

Mexican GAAP

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

IFRS

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

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

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

Mexican GAAP

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

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

IFRS

IFRS reserving process is based on a liability adequacy test to ensure that the carrying amount of liabilities is sufficient in the light of estimated future cash flows defined by a prudent, non-market consistent set of rules for such estimated cash flows (instead of using realistic assumptions) and not using risk margins components.

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

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

8. Perpetual Subordinated Debt – AT1

Mexican GAAP

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

IFRS

Considering the features of the instruments, the perpetual subordinated debt (AT1) is measured according to 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).