

28 July 2022

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
2Q 2022 FINANCIAL RESULTS HIGHLIGHTS**

- For the first half of 2022, profit before tax was MXN5,504m, a decrease of MXN623m or 10.2% compared to the same period of 2021¹.
- For the first half of 2022, net income was MXN5,118m, a decrease of MXN817m or 13.8% compared with MXN5,935m for the same period of 2021.
- Total operating income excluding loan impairment charge for the first half of 2022 was MXN25,114m, an increase of MXN2,803m or 12.6% compared with MXN22,311m for the same period of 2021. Total operating income excluding IPAB Fee reclassification² would have been of MXN26,216 or 17.5%.
- Loan impairment charges for the first half of 2022 were MXN5,278m, an increase of MXN3,723m or over 100% compared with MXN1,555m for the same period of 2021.
- Administrative and personnel expenses for the first half of 2022 were MXN14,412m, a decrease of MXN278m or 1.9%, compared with MXN14,690m for the same period of 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have increase by MXN824m or 5.6% mainly driven by higher IT related costs and VAT expenses.
- The cost efficiency ratio was 57.4% for the first half of 2022 compared with 65.8% for the same period of 2021. Excluding IPAB fee reclassification², the cost efficiency ratio would have been of 59.2%.
- Net loans and advances to customers were MXN387.9bn as of 30 June 2022, showing an increase of MXN28.4bn or 7.9% compared with MXN359.5bn at 30 June 2021.
- Total stage 3 loans as of 30 June 2022 were MXN17.9bn and 4.4% as a percentage of gross loans. Following HSBC approach to stage 3³ of the 4.4%, 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 past due. As of March 2022, stage 3 loans were MXN18.4bn and 4.7% as a percentage of gross loans, of which 2.1% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.6% relates to loans with 90 or more days of past due.
- At 30 June 2022, total deposits were MXN489.2bn, an increase of MXN18.3bn, or 3.9%, compared with MXN470.9bn as at 30 June 2021.
- Return on equity was 13.9% for the first half of 2022, whereas for first half of 2021 it was 15.6%.
- At 30 June 2022, the bank's preliminary total capital adequacy ratio was 13.3% and the common equity tier 1 capital ratio was 11.1%, compared with 14.3% and 11.9%, respectively, at 30 June 2021.

¹ In August 2021, HSBC Pensiones transferred its pension portfolio to Pensiones Banorte S.A. The result of HSBC Pensiones as of June 2021 was restated in the consolidated income statement for comparison with June 2022 results. The amount of total restatement was MXN611m and is reflected as discontinued operations in income statement.

² 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.

³ Please refer to Other Considerations section for greater detail

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On a reported IFRS basis, for the first half of 2022, profit before tax for the period was MXN5,414m, a decrease of MXN1,862m compared with the profit of MXN7,276m reported for the same period in 2021. The decrease is mainly driven by higher loan impairment charges compared to June 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 results for the first half of 2022 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, additional tier 1 (AT1) instrument valuation and pensions and insurance liabilities.

Highlights of Mexican Accounting Standards implementation:

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

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:

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

- i) Exposures to an obligor which are equal or greater than 90 days past due; or
 - ii) Exposures with indications of unlikeliness to pay despite not being 90 days past due.
- Under the new regulatory definition, impaired loans are now Stage 3 loans (previously past due loans). Considering HSBC's approach for the classification of stage 3 loans figures and related metrics are not comparable to 2021.

Overview

After growing 1.0% quarter over quarter and 1.8% year over year in 1Q22, the economy kept positive momentum in early 2Q22. In April, economic activity rose 1.1% month over month and 1.3% year over year, mainly driven by services, which expanded 1.3% month over month and 0.6% year over year. This was followed by industrial production, which increased 0.6% month over month and 2.7% year over year. In contrast, agriculture activities dropped 1.3% month over month, but increased 4.9% year over year. Inflation rose to 8.0% year over year by the end of 2Q22 from 7.5% in 1Q22. Higher prices in both core and non-core components remained the main drivers. Core inflation accelerated mainly due to higher tradable goods prices, while non-core inflation surged mainly thanks to non-processed food prices.

The central bank (Banxico) lifted the monetary policy twice in 2Q22. The first time occurred in May, when Banxico hiked the benchmark rate by 50bps to 7.0% and in June lifting the policy rate to 7.75% compared with 6.50% rate as of March 2022.

Financial Performance – Key Metrics

- For the first half of 2022, Grupo Financiero's profit before tax was MXN5,504m, a decrease of MXN623m or 10.2% compared to the same period of 2021¹.
- Net interest income for the first half of 2022 was MXN19,362m, an increase of MXN2,569 m or 15.3% compared with the same period of 2021. The increase is mainly explained by higher interest rate environment and growth in retail portfolio.
- Loan impairment charges for the first half of 2022 were MXN5,278m, an increase of MXN3,723m or over 100% compared with MXN1,555m for the same period of 2021. The increase is mainly driven by the release of additional provisions from Covid-19 during the first half of 2021 (MXN1,908m) and the growth in the retail loan portfolio, partially offset by the positive impact of the initial recognition of the new methodology from January 2022 (MXN500m).
- Net fee income for the first half of 2022 was MXN4,335m, an increase of MXN323m or 8.1% compared with same period of 2021 mainly driven by increase in commercial activity.
- Trading income for the first half of 2022 was MXN1,435m, an increase of MXN537m or 59.8% compared with MXN898m for the same period of 2021 mainly driven by fixed income portfolio and the foreign exchange revaluation.
- Other operating income for the first half of 2022 was MXN433m, a decrease of MXN1,041m or over 100% compared with MXN608m for the same period of 2021. Excluding IPAB fee reclassification², the increase would have been of MXN61m in line with June 2021 figures.
- Administrative and personnel expenses for the first half of 2022 were MXN14,412m, a decrease of MXN278m or 1.9%, compared with MXN14,690m for the same period of 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have increase by MXN824m or 5.6% mainly driven by higher IT related costs and VAT expenses.
- The cost efficiency ratio was 57.4% for the first half of 2022 compared with 65.8% for the same period of 2021. Excluding IPAB fee reclassification², the cost efficiency ratio would have been of 59.2%.
- The effective tax rate was 7.0% for the first half of 2022, compared with 13.1% reported for the same period of 2021. The variation is mainly driven by inflationary effects and reassessment of deferred tax assets.
- Net loans and advances to customers were MXN387.9bn at 30 Jun 2022, showing an overall increase of MXN28.4bn, or 7.9% compared with MXN359.5bn at 30 June 2021. The increase is driven by 25.2% growth in total retail portfolio compared to 30 June 2021 with mortgage loans growing 26.4%,

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coupled with an increase of 23.4% in consumer loans partially offset by a decrease in wholesale portfolio by 3.9%. Credit cost ratios⁴ and loan loss reserves ratios⁵ as of June 2022 were 2.6% (0.8% as of June 2021) and 4.4% (4.2% as of June 2021), respectively.

- Return on equity was 13.9% for the first half of 2022, whereas for the first half of 2021 it was 15.6%.
- Total loan loss allowances at 30 June 2022 were MXN17.8bn, an increase of MXN1,840m or 11.5% compared to 30 June 2021. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 99.0% at 30 June 2022 compared with 92.7% as of March 2022.
- As of 30 June 2022, total deposits were MXN489.2bn, an increase of MXN18.3bn or 3.9%, compared with MXN470.9bn at 30 June 2021, mainly driven by higher demand deposits by MXN36.7bn partially offset by the reduction in wholesale funding in MXN11.5bn.
- HSBC Bank Mexico ('the bank') profit before tax for the first half of 2022 was MXN4,749m, a decrease of MXN622m or 11.6% compared with the same period of 2021 mainly driven by higher loan impairment charges partially offset by an increase in net interest income.
- HSBC Bank Mexico net income for the first half of 2022 was MXN4,562m, a decrease of MXN172m or 3.6% compared with the same period of 2021.
- HSBC Bank Mexico net interest income for the first half of 2022 was MXN19,118m an increase of MXN3,153m or 19.7%, compared with the same period of 2021.
- At 30 June 2022, the bank's preliminary total capital adequacy ratio was 13.3% and the common equity tier 1 capital ratio was 11.1%, compared with 14.3% and 11.9%, respectively, at 30 June 2021. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.
- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the first half of 2022 was MXN507m, an increase of MXN373m or over 100% compared with the same period of 2021, mainly driven by lower technical reserves partially offset by higher claims¹.

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 June 2022) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance subsidiary.

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

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

⁴ Credit Cost Ratio: Loan Impairment charges (annualized)/Gross Loans.

⁵ Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

Business highlights⁶ *(Amounts described include the impact of internal cost and value of funds applied to different lines of business).*

Wealth and Personal Banking (WPB)⁷

Wealth and Personal Banking profit before tax for the first half of 2022 was MXN2,367m (with markets treasury reallocation, profit before tax result was MXN2,358m), MXN582m higher compared to the same period in 2021. This increase is mainly driven by higher revenues and lower administrative expenses offset by higher loan impairment charges.

Total revenue was MXN16,848m, an increase of MXN2,593 or 18% compared to 1H21. Total revenue excluding IPAB Fee reclassification² would have increased by MXN3,121 or 21.9% mainly driven by higher volumes in deposits, consumer loans and mortgages coupled with higher spreads in deposits.

Loan impairment charges increased by 80.9% compared to the same period of last year, explained by provision releases made in 2021 to cover potential losses due to Covid-19 outbreak, coupled with higher volumes in loans.

Administrative and personal expenses were MXN247m lower compared to 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have increased by MXN281m or 2.9% compared with same period of 2021 mainly driven by higher staff costs and IT developments.

Loan gross balances have grown 25% compared to the same period of 2021, where unsecured lending portfolio grew by 25.8%, with sales being 7.3% higher. Furthermore, mortgage portfolio grew by 26.4%. High level of productivity is maintained throughout different commercial channels, such as the branch network, mortgage brokers and developers.

Total deposits grew by 8% compared to last year.

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

HSBC Mexico incorporates Farmacias del Ahorro point of services as branches for third party correspondent operations to support HSBC customers with financial transactions. The new partner is adding 1.5k point of service to the current 23.7k supported by Soriana, Chedraui, Telecom Telégrafos and Oxxo. Such commercial network supporting HSBC services will facilitate the customer interaction for low complexity transactions.

As part of our commitment with the financial inclusion in Mexico, and having this as strategic pillar, in HSBC we want to be the strategic allied for all Mexican women, accompanying her personal, financial and professional development. This is why “Mujeres al Mundo” was launched as value proposition for female banking customers, which include financial offering, training, mentoring, networking and connectivity.

Commercial Banking (CMB)

Profit before tax was MXN1,679m, a decrease of MXN252m or 13.1% compared to the same period in 2021 mainly explained by higher loan impairment charge releases in 2021, partially offset by higher net interest income and lower expenses (with Markets Treasury allocation, profit before tax was MXN1,676m).

Total revenue was MXN4,023m, showing an increase of MXN441m or 12.3% compared to the same period in 2021. Total revenue excluding IPAB Fee reclassification² would have increased by MXN797 or 22.3%

⁶ Markets Treasury total loss before tax for the first half of 2022 was MXN22m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the first half of 2022 loss before tax allocation by business was – MXN9m to WPB, MXN3m to CMB and MXN3m to GB and MXN7m to MSS.

⁷ WPB does not include Insurance results which was MXN507m in profit before tax as of first half of 2022.

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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 during the period were MXN295m, an increase of MXN757m compared to the same period of 2021, driven by the release of additional provisions from Covid-19 during the first half of 2021 (MXN714m) and the commercial reactivation bringing on higher loans balances.

Administration and personnel expenses decreased by MXN80m or 3.7% compared to the same period of 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have increased by MXN277m mainly driven by higher staff costs and IT developments.

Global Banking (GB)

Profit before tax was MXN1,337m, a decrease of MXN709m or 34.7% compared with the same period of 2021, mainly driven by loan impairment charge releases in 2021 and lower revenues. With Markets Treasury allocation, profit before tax was MXN1,334m.

Total revenue was MXN1,937m, a decrease of MXN224m or 10.4% compared with the same period of 2021. Total revenue excluding IPAB Fee reclassification² would have decreased by MXN49m or 2.3%, mostly explained by lower net interest income and lower fees following the loan portfolio contraction.

Loan impairment charges during the period was a release by MXN123m, an increase of MXN682m compared to the same period of 2021; mainly explained by loan impairment charge releases in 2021 (MXN805m).

Administration and personnel expenses decreased by MXN189m or 20.7% when compared with same period of 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have decreased by MXN14m.

Markets and Security Services (MSS)

Profit before tax for the first half of 2022 was MXN451m, with an increase of MXN695m compared with the same period of 2021. The increase is mainly explained by higher revenues. With Markets Treasury allocation, profit before tax was MXN444m.

Total revenue was MXN906m, an increase of MXN727m or over 100% compared with the same period of 2021. Total revenue excluding IPAB Fee reclassification² would have increased by MXN770m, mostly explained by a better performance in the trading activity leveraging the market volatility coupled with higher net interest income.

Administrative and personal expenses increased by MXN32m compared to the same period of 2021. Administrative and personnel expenses excluding IPAB Fee reclassification² would have increased by MXN75m explained mainly by higher staff costs.

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

On a reported IFRS basis, for the first half of 2022, profit before tax for the period was MXN5,414m, a decrease of MXN1,862m compared with the profit of MXN7,276m reported for the same period in 2021. The decrease is mainly driven by higher loan impairment charges compared to June 2021, when additional reserves related to Covid-19 outbreak were released, coupled with higher expenses partially offset by an increase in net interest income.

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

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 879 branches, 5,558 ATMs and 14,377 employees as of 30 June 2022.

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

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

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Consolidated Income Statement – GROUP six months ended 30 June 2022

Figures in MXN Millions

| | Group |
|--------------------------------------------------------------------------|--------------------|
| | 30 Jun 2022 |
| Interest income | 28,462 |
| Interest expense | (9,100) |
| Net interest income | 19,362 |
| Loan impairment charges | (5,278) |
| Risk-adjusted net interest income | 14,084 |
| Fees and commissions receivable | 5,560 |
| Fees payable | (1,225) |
| Premiums, Technical Provisions, Claims and Other Liabilities (Insurance) | 415 |
| Trading income | 1,435 |
| Other operating income | (433) |
| Total operating income | 19,836 |
| Administrative and personnel expenses | (14,412) |
| Net operating income | 5,424 |
| Share of profits in equity interest | 80 |
| Profit/(loss) before tax | 5,504 |
| Income tax | (386) |
| Net income before discontinued operations | 5,118 |
| Discontinued Operations | - |
| Net income | 5,118 |

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Consolidated Income Statement – GROUP six months ended 30 June 2021*

Figures in MXN millions

| | Group 30 Jun 2021 |
|-------------------------------------------|------------------------------|
| Interest income | 26,038 |
| Interest expense | (9,245) |
| Net interest income | 16,793 |
| Loan impairment charges | (1,555) |
| Risk-adjusted net interest income | 15,238 |
| Fees and commissions receivable | 5,376 |
| Fees payable | (1,364) |
| Trading income | 898 |
| Other operating income | 608 |
| Total operating income | 20,756 |
| Administrative and personnel expenses | (14,690) |
| Net operating income | 6,066 |
| Share of profits in equity interest | 61 |
| Profit/(loss) before tax | 6,127 |
| Income tax | (559) |
| Deferred income tax | (244) |
| Net income before discontinued operations | 5,324 |
| Discontinued Operations* | 611 |
| Net income | 5,935 |

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

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Consolidated Income Statement – BANK six months ended 30 June 2022

Figures in MXN Millions

| | Bank 30 Jun 2022 |
|-------------------------------------------|-----------------------------|
| Interest income | 28,241 |
| Interest expense | (9,123) |
| Net interest income | 19,118 |
| Loan impairment charges | (5,278) |
| Risk-adjusted net interest income | 13,840 |
| Fees and commissions receivable | 5,271 |
| Fees payable | (1,505) |
| Trading income | 1,589 |
| Other operating income | (199) |
| Total operating income | 18,996 |
| Administrative and personnel expenses | (14,329) |
| Net operating income | 4,667 |
| Share of profits in equity interest | 82 |
| Profit/(loss) before tax | 4,749 |
| Income tax | (187) |
| Net income before discontinued operations | 4,562 |
| Discontinued Operations | - |
| Net income | 4,562 |

Consolidated Income Statement – BANK six months ended 30 June 2021

Figures in MXN millions

| | Bank 30 Jun 2021 |
|---------------------------------------|-----------------------------|
| Interest income | 22,861 |
| Interest expense | (6,896) |
| Net interest income | 15,965 |
| Loan impairment charges | (1,555) |
| Risk-adjusted net interest income | 14,410 |
| Fees and commissions receivable | 5,074 |
| Fees payable | (1,469) |
| Trading income | 1,129 |
| Other operating income | 720 |
| Total operating income | 19,864 |
| Administrative and personnel expenses | (14,557) |
| Net operating income | 5,307 |
| Share of profits in equity interest | 64 |
| Profit/(loss) before tax | 5,371 |
| Income tax | (402) |
| Deferred income tax | (235) |
| Net income | 4,734 |

Consolidated Balance Sheet – 2022

Figures in MXN millions

| | Group 30 Jun 2022 | Bank 30 Jun 2022 |
|---------------------------------------------------------------------------------|------------------------------|-----------------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | 56,053 | 55,927 |
| Margin accounts | 243 | 243 |
| Financial Investments | 152,715 | 142,257 |
| Trading financial investments | 60,669 | 56,609 |
| Financial investments hold to collect or sale | 72,734 | 66,359 |
| Financial investments hold to collect principal and interest (securities) (net) | 19,312 | 19,289 |
| Reverse repurchase agreements | 51,010 | 51,010 |
| Derivative transactions | 43,893 | 43,893 |
| Loan and Advances - Credit Risk Stage 1 | | |
| Commercial loans | 200,128 | 200,128 |
| Consumer Loans | 75,527 | 75,527 |
| Mortgage loans | 108,084 | 108,084 |
| Total Loan Portfolio with Credit Risk Stage 1 | 383,739 | 383,739 |
| Loan and Advances - Credit Risk Stage 2 | | |
| Commercial Loans | 190 | 190 |
| Consumer Loans | 2,210 | 2,210 |
| Mortgage loans | 1,434 | 1,434 |
| Total Loan Portfolio with Credit Risk Stage 2 | 3,834 | 3,834 |
| Loan and Advances - Credit Risk Stage 3 | | |
| Commercial Credits | 13,099 | 13,099 |
| Consumer Loans | 1,945 | 1,945 |
| Mortgage loans | 2,916 | 2,916 |
| Total Loan Portfolio with Credit Risk Stage 3 | 17,960 | 17,960 |
| Loan Portfolio measured at Fair Value | | |
| Gross loans and advances to customers | 405,533 | 405,533 |
| Expected Credit Losses | (17,778) | (17,778) |
| Gross loans and advances to customers - Insurance | 118 | 0 |
| Total Net loans and advances to customers | 387,873 | 387,756 |
| Premium receivables | 1,897 | 0 |
| Accounts receivables from reinsurers and rebonding companies | 41 | 0 |
| Other Accounts Receivable (net) | 46,246 | 46,657 |
| Foreclosed assets | 250 | 250 |
| Long Term Assets Held for Sale | 10 | 10 |
| Property, Furniture and Equipment (Net) | 5,937 | 5,937 |
| Property, Furniture and Equipment (Net) - Rights of Use Assets | 2,646 | 2,639 |
| Prepayments and Other Assets | 6,117 | 6,029 |
| Long-term investments | 1,220 | 1,228 |
| Deferred Income Tax Asset (Net) | 7,510 | 7,308 |
| Intangible Assets (Net) | 6,381 | 6,381 |
| Intangible Assets (Net) - Rights of Use Assets | 159 | 0 |
| Goodwill | 955 | 0 |
| Total Assets | 771,156 | 757,525 |

Consolidated Balance Sheet (continued)

Figures in MXN millions

| | Group 30 Jun 2022 | Bank 30 Jun 2022 |
|------------------------------------------------------------------|------------------------------|-----------------------------|
| <u>Liabilities</u> | | |
| Deposits | 489,203 | 490,568 |
| Demand deposits | 346,134 | 347,499 |
| Time deposits | 129,787 | 129,787 |
| Bank bond outstanding | 12,288 | 12,288 |
| Global deposit account without movements | 994 | 994 |
| Bank deposits and other liabilities | 12,868 | 12,868 |
| Short-term | 7,733 | 7,733 |
| Long-term | 5,135 | 5,135 |
| Technical Reserves | 8,455 | 0 |
| Repurchase Agreements | 20,789 | 20,789 |
| Collateral sold | 38,905 | 38,905 |
| Reports (credit balance) | 31,920 | 31,920 |
| Securities Lending | 6,985 | 6,985 |
| Derivative Financial Liabilities | 43,733 | 43,733 |
| Trading Derivatives | 43,701 | 43,701 |
| Hedging Derivatives | 32 | 32 |
| Accounts Payable from reinsurers and rebonding companies | 2 | 0 |
| Lease Liabilities | 2,859 | 2,851 |
| Other payable accounts | 62,505 | 61,928 |
| Settlement Accounts | 34,457 | 34,345 |
| Income tax and employee profit sharing payable | 10,245 | 10,245 |
| Contributions for future capital increases | 1,105 | 1,043 |
| Sundry creditors and other accounts Payable | 16,698 | 16,295 |
| Financial Instruments qualifying as liabilities | 11,711 | 11,711 |
| Subordinated debentures outstanding | 11,711 | 11,711 |
| Employee Benefit Liabilities | 3,817 | 3,773 |
| Deferred credits and receivable in advance | 1,587 | 1,485 |
| Total Liabilities | 696,434 | 688,611 |
| <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 | 36,272 | 35,329 |
| Capital reserves | 1,244 | 13,510 |
| Retained earnings - prior years | 29,910 | 17,257 |
| Net income | 5,118 | 4,562 |
| Result from the mark-to-market of available- for-sale securities | (1,781) | (1,589) |
| Result from cash flow hedging transactions | (1,355) | (1,355) |
| Adjustment in the employee pension | (1,798) | (1,798) |
| Total Controlling Interest's | 74,711 | 68,906 |
| Minority interest in capital | 11 | 8 |
| Total Shareholder's Equity | 74,722 | 68,914 |
| Total liabilities and equity | 771,156 | 757,525 |

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Consolidated Balance Sheet (continued)

Figures in MXN millions

| | Group | Bank |
|--------------------------------------------------------|--------------------|--------------------|
| | 30 Jun 2022 | 30 Jun 2022 |
| <u>Memorandum Accounts</u> | | |
| Third Party Accounts | 2,479 | 0 |
| Clients current accounts | 1,601 | 0 |
| Custody operations | 878 | 0 |
| Proprietary position | 4,807,842 | 4,616,120 |
| Irrevocable lines of credit granted | 284,155 | 284,155 |
| Goods in trust or mandate | 188,710 | 188,710 |
| Trusts | 187,858 | 187,858 |
| Mandate | 852 | 852 |
| Goods in custody or under administration | 1,408,001 | 1,408,001 |
| Collateral received by the institution | 60,632 | 60,632 |
| Collateral received and sold or delivered as guarantee | 39,987 | 39,987 |
| Suspended interest on Stage 3 loans | 508 | 508 |
| Other control accounts | 2,825,849 | 2,634,062 |
| Total Memorandum Account | 4,810,321 | 4,616,155 |

Grupo Financiero HSBC, S.A. de C.V. 2Q 2022 Financial Results Highlights

Consolidated Balance Sheet - 2021

Figures in MXN millions

Assets

| | Group 30 Jun 2021 | Bank 30 Jun 2021 |
|--------------------------------------------------------------|------------------------------|-----------------------------|
| Cash and deposits in banks | 54,967 | 54,845 |
| Margin accounts | 224 | 224 |
| Investment in securities | 180,455 | 162,618 |
| Trading securities | 74,363 | 71,530 |
| Available-for-sale securities | 78,337 | 72,054 |
| Held to maturity securities | 27,755 | 19,034 |
| Repurchase agreements | 48,910 | 48,910 |
| Derivative transactions | 46,469 | 46,469 |
| Performing loans | | |
| Commercial loans | 175,369 | 175,369 |
| Loans to financial intermediaries | 8,916 | 8,916 |
| Loans to government entities | 32,714 | 32,714 |
| Consumer loans | 62,684 | 62,684 |
| Mortgage loans | 85,923 | 85,923 |
| Total performing loans | 365,606 | 365,606 |
| Impaired loans | | |
| Commercial loans | 4,978 | 4,978 |
| Consumer loans | 1,871 | 1,871 |
| Mortgage loans | 2,993 | 2,993 |
| Total impaired loans | 9,842 | 9,842 |
| Gross loans and advances to customers | 375,448 | 375,448 |
| Allowance for loan losses | (15,938) | (15,938) |
| Net loans and advances to customers | 359,510 | 359,510 |
| Accounts receivables from Insurers and Bonding companies | 89 | - |
| Premium receivables | 1,767 | - |
| Accounts receivables from reinsurers and rebonding companies | 38 | - |
| Other accounts receivable | 42,741 | 42,613 |
| Foreclosed assets | 333 | 333 |
| Property, furniture and equipment, net | 4,857 | 4,857 |
| Long-term investments in equity securities | 1,035 | 995 |
| Long-term assets available for sale | - | - |
| Deferred taxes | 10,645 | 10,503 |
| Goodwill | 1,048 | - |
| Other assets, deferred charges and intangibles | 7,108 | 6,754 |
| Total assets | 760,196 | 738,631 |

Consolidated Balance Sheet (continued)

Figures in MXN millions

| | Group | Bank |
|-----------------------------------------------------------------|--------------------|--------------------|
| | 30 Jun 2021 | 30 Jun 2021 |
| Liabilities | | |
| Deposits | 470,918 | 473,805 |
| Demand deposits | 309,397 | 311,934 |
| Time deposits | 137,743 | 137,352 |
| Bank bond outstanding | 23,778 | 23,778 |
| Global deposit account without movements | | 741 |
| Bank deposits and other liabilities | 27,937 | 27,937 |
| On demand | 12,271 | 12,271 |
| Short-term | 10,964 | 10,964 |
| Long-term | 4,702 | 4,702 |
| Repurchase agreements | 21,281 | 21,281 |
| Collateral sold | 17,453 | 17,453 |
| Derivative transactions | 40,812 | 40,812 |
| Technical reserves | 15,201 | - |
| Accounts payable from reinsures and rebounding companies | 3 | - |
| Other payable accounts | 76,028 | 75,196 |
| Income tax and employee profit sharing payable | 617 | 477 |
| Sundry creditors and other accounts Payable | 75,411 | 74,719 |
| Subordinated debentures outstanding | 11,566 | 11,566 |
| Deferred credits and receivable in advance | 1,270 | 1,163 |
| Total liabilities | 682,469 | 669,213 |
| Equity | | |
| Paid in capital | 43,373 | 38,318 |
| Capital stock | 6,218 | 6,132 |
| Additional paid in capital | 37,155 | 32,186 |
| Other reserves | 34,349 | 31,098 |
| Capital reserves | 1,244 | 13,202 |
| Retained earnings | 28,546 | 16,531 |
| Result from the mark-to-market of available-for-sale securities | (789) | (828) |
| Result from cash flow hedging transactions | (587) | (587) |
| Adjustment in the employee pension | - | (1,954) |
| Net income | 5,935 | 4,734 |
| Minority interest in capital | 5 | 2 |
| Total equity | 77,727 | 69,418 |
| Total liabilities and equity | 760,196 | 738,631 |

Grupo Financiero HSBC, S.A. de C.V. 2Q 2022 Financial Results Highlights

Consolidated Balance Sheet (continued)

Figures in MXN millions

| | Group | Bank |
|--------------------------------------------------------|--------------------|--------------------|
| | 30 Jun 2021 | 30 Jun 2021 |
| Memorandum Accounts | 5,098,744 | 4,903,581 |
| Third party accounts | 29,712 | 27,213 |
| Clients current accounts | 1,564 | - |
| Custody operations | 935 | - |
| Third party investment banking operations, net | 27,213 | 27,213 |
| Proprietary position | 5,069,032 | 4,876,368 |
| Irrevocable lines of credit granted | 273,730 | 273,730 |
| Goods in trust or mandate | 181,063 | 181,063 |
| Goods in custody or under administration | 1,452,476 | 1,446,258 |
| Collateral received by the institution | 88,875 | 88,875 |
| Collateral received and sold or delivered as guarantee | 45,065 | 45,065 |
| Suspended interest on impaired loans | 389 | 389 |
| Other control accounts | 3,027,434 | 2,840,988 |

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN millions

| Group | Capital contributed | Capital reserves | Retained earnings – prior years | Valuation of financial investments hold to collect or sale | Valuation of cash flow hedging transactions | Remeasurement of defined benefits to employees | Total controlling interest | Minority interest | Total equity |
|------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------|------------------------------|-------------------------|
| Total Balances at 01 Jan 2022 | 43,373 | 1,244 | 28,160 | (655) | (713) | - | 71,409 | 6 | 71,415 |
| Adjustments for accounting changes | - | - | 1,750 | - | - | (1,750) | - | - | - |
| Capitalization of other equity items | - | - | - | - | - | - | - | 5 | 5 |
| Comprehensive Income: | | | | | | | | | |
| Net Income | - | - | 5,118 | - | - | - | 5,118 | - | 5,118 |
| Other comprehensive income: | | | | | | | | | |
| Valuation of financial investments hold to collect or sale | - | - | - | (1,126) | - | - | (1,126) | - | (1,126) |
| Valuation of cash flow hedging transactions | - | - | - | - | (642) | - | (642) | - | (642) |
| Remeasurement of defined benefits to employees | - | - | - | - | - | (48) | (48) | - | (48) |
| Total | - | - | 5,118 | (1,126) | (642) | (48) | (48) | - | 3,302 |
| Final balances as of 30 June 2022 | 43,373 | 1,244 | 35,028 | (1,781) | (1,355) | (1,798) | 74,711 | 11 | 74,722 |

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN million

| Bank | Capital contributed | Capital reserves | Retained earnings – prior years | Valuation of financial investments hold to collect or sale | Valuation of cash flow hedging transactions | Remeasurement of defined benefits to employees | Total controlling interest | Minority interest | Total Equity |
|--------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------|------------------------------|-------------------------|
| Total Balances at 01 Jan 2022 | 38,318 | 13,202 | 17,602 | (616) | (713) | (1,750) | 66,043 | 2 | 66,045 |
| Adjustments for accounting changes | - | 29 | 65 | | | | 94 | | 94 |
| Movements inherent to the shareholders' decision: | | | | | | | | | |
| Dividends Declared (AT1 coupon payments) | - | - | (130) | - | - | - | (130) | - | (130) |
| Reserve Movements | - | 279 | (279) | - | - | - | - | - | - |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | 4,562 | - | - | - | 4,562 | - | 4,562 |
| Other comprehensive income: | | | | | | | | | |
| Valuation of financials investments hold to collect and sale | - | - | - | (973) | - | - | (973) | - | (973) |
| Valuation of cash flow hedging transactions | - | - | - | - | (642) | | (642) | - | (642) |
| Remeasurement of defined benefits to employees | - | - | - | - | - | (48) | (48) | - | (48) |
| Participation in comprehensive income of other entities | - | - | - | - | - | - | - | 6 | 6 |
| Total | - | 279 | 4,283 | (973) | (642) | (48) | 2,899 | 6 | 2,905 |
| Final balances as of 30 June 2022 | 38,318 | 13,481 | 21,820 | (1,589) | (1,355) | (1,798) | 68,906 | 8 | 68,914 |

Consolidated Statement of Cash Flow – Group

Figures in MXN millions

30-Jun-22

| | |
|-----------------------------------------------------------------------------------|----------------|
| Profit/(loss) before taxes | 5,504 |
| Adjustments for items associated with investing activities | 2,037 |
| Depreciation of property, furniture and equipment | 527 |
| Amortization of intangible assets | 1,430 |
| Participation in the net result of other entities | 80 |
| Adjustments for items associated with financing activities | 1,110 |
| Interest associated with bank deposits and other liabilities | 401 |
| Financial instruments qualifying as liabilities (subordinated debt) | 709 |
| Changes in items related to operating activities | (8,660) |
| Bank deposits and other liabilities | (13,954) |
| Margin accounts | (93) |
| Financial investments | 11,348 |
| Reverse repurchase agreements | (16,880) |
| Derivative transactions (assets) | (1,709) |
| Loan Portfolio (net) | (16,257) |
| Debtors of re-insurance | 303 |
| Recoverable amounts for reinsurance and refinancing (net) | 19 |
| Other accounts receivable (net) | (17,086) |
| Foreclosed assets (net) | (2) |
| Deposits | (10,676) |
| Technical Reserves | 351 |
| Repurchase agreements | 10,717 |
| Collaterals sold or given in guarantee | 29,120 |
| Derivative transactions (liabilities) | 4,462 |
| Accounts payable for reinsurers | (9) |
| Accounts payable for reinsurers | 203 |
| Other accounts payable | 15,269 |
| Other provisions | (2,305) |
| Income tax payments | (1,481) |
| Net cash flows from operating activities | (9) |
| Investing activities: | |
| Payments for the acquisition of property, furniture and equipment | (880) |
| Collections of cash dividends from permanent investments | 49 |
| Payments for acquisition of intangible assets | (3,314) |
| Other receipts from investing activities | (159) |
| Net cash flows from investing activities | (4,304) |
| Financing activities: | |
| Payments of bank loans and other organizations | (212) |
| Collections for the issuance of financial instruments that qualify as liabilities | (1,043) |
| Net cash flows from financing activities | (1,255) |
| Increase/decrease in cash and equivalents | (5,568) |
| Cash and equivalents at beginning of period | 61,621 |
| Cash and equivalents as of 30 June 2022 | 56,053 |

Consolidated Statement of Cash Flow - Bank

Figures in MXN millions

30 June 2022

| | |
|----------------------------------------------------------------------------|----------------|
| Profit/(loss) before taxes | 4,749 |
| Adjustments for items associated with investing activities | 1,875 |
| Depreciation of property, furniture and equipment | 527 |
| Amortization of intangible assets | 1,430 |
| Participation in the net result of other entities | (82) |
| Adjustments for items associated with financing activities | 1,110 |
| Interest associated with bank deposits and other liabilities | 401 |
| Financial instruments qualifying as liabilities (subordinated debt) | 709 |
| Changes in items related to operating activities: | (7,905) |
| Bank deposits and other liabilities | (15,064) |
| Margin accounts | 93 |
| Financial investments | 11,054 |
| Reverse repurchase agreements | (16,880) |
| Derivative transactions (assets) | (2,627) |
| Loans and advances (net) | (15,997) |
| Foreclosed assets (net) | (3) |
| Other Operating Assets | (24,819) |
| Deposits | (8,443) |
| Repurchase agreements | 10,729 |
| Collaterals sold or given in guarantee | 29,120 |
| Derivative transactions (liability) | 4,462 |
| Other accounts payable | 21,049 |
| Other provisions | 817 |
| Income tax payments | (1,396) |
| Net cash flows from operating activities | (171) |
| Investing activities: | |
| Payments for the acquisition of property, furniture and equipment | (880) |
| Collections of cash dividends from permanent investments | 49 |
| Payments for acquisition of intangible assets | (3,314) |
| Net cash flows from investing activities | (4,145) |
| Financing activities: | |
| Lease liability payments | (212) |
| Payments associated with financial instruments that qualify as a liability | (1,043) |
| Net cash flows from financing activities | (1,255) |
| Increase/decrease in cash and equivalents | (5,571) |
| Cash and equivalents at beginning of period | 61,498 |
| Cash and equivalents as of 30 June 2022 | 55,927 |

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

Figures in MXN millions

| | Discontinued Operations 30 Jun 2021 |
|--------------------------------------------------|----------------------------------------------------|
| Interest income | 201 |
| Interest expense | (353) |
| Net interest income | (152) |
| Trading income | 1,045 |
| Total operating income | 893 |
| Administrative and personnel expenses | (12) |
| Net operating income | 881 |
| Profit/(loss) before tax | 881 |
| Income tax | (270) |
| Net income re-classed to discontinued operations | 611 |

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 hold to collect principal and interest” and NIF B-6 “Balance Sheet”.

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

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

II. New NIF A-1 “Conceptual framework”.

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

- The structure of previous Conceptual Framework was changed from eight different standards to integrate in a single NIF divided by nine chapters.
- Chapter 10 – NIF structure – Technical Reports issued by CINIF will be part of the accounting guidance in emergent topics.

- Chapter 20 –Accounting Principles – The concept of accounting period, which was previously related to accrual basis principle, was reallocated into the “Chapter 30 – Financial Statements objective”, given its closely relation with the preparation of financial statements.
- Chapter 30 – Financial Statements objective – The title was modified.
- Chapter 40 – Qualitative characteristics of financial statements – A restructure of qualitative characteristics was done, now being “Fundamental”: relevance and faithful representation and “Enhancing”: understanding and comparability.
- Chapter 50 – Basic elements of financial statements – Amendments in assets and liabilities definition.
- Chapter 60 – Recognition – No relevant changes.
- Chapter 70 – Measurement bases – Changes in the structure to separate Measurement and Recognition. Incorporation of amortised cost as the basis for historical cost valuation for financial instruments, and equity method and fulfilment value method as the basis of current valuation.
- Chapter 80 – Presentation and disclosure – Incorporation of requirements related to effective communication and the addition of guidance to offset and recognize in aggregate basis items in the financial statements.
- Chapter 90 – Supplementary process of Mexican GAAP – No changes.

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

III. Implementation of new CNBV accounting standards and NIF.

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

In summary this implementation comprised the following:

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

- Changes in the accounting standard B-6 Loans of Annex 33 to implement the “Effective Interest Rate (EIR)” method to measure the amortised cost of loans under the business model Hold-to-Collect (HTC) that meet Solely Payment of Principal and Interest (SPPI) test.
Additionally, loans are categorised in different stages that represent their level of credit risk: *Stage 1- Performing*, *Stage 2- Significant increase in credit risk* and *Stage 3- Credit Impaired*, rather than still being classified as “Performing” and “Non-performing”.
- New methodology to calculate the expected credit losses (ECL) based on the stage of the loans in accordance with their credit risk.
- The following accounting standards issued by CNBV were superseded by the implementation of certain NIF:

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

- Changes in regulatory reporting.

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

- **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.

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 no delays estimating that it will be completed before 01 January 2023.

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

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the three months ended at 30 Jun 2022 and an explanation of the key reconciling items.

| | <u>30 Jun 2022</u> |
|-------------------------------------------------------------------------------------------------------------------|---------------------|
| <i>Figures in MXN millions</i> | |
| Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP | 5,504 |
| Differences arising from: | |
| Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits | 71 |
| Loan impairment charges and other differences in presentation under IFRS | 563 |
| Recognition of the present value in-force of long-term insurance contracts | (18) |
| Other insurance adjustments ⁸ | (39) |
| Fair value adjustments on financial instruments | (44) |
| Deferred profit sharing | (496) |
| AT1 Valuation ² | (67) |
| Others | (60) |
| Profit before/(loss) tax under IFRS | 5,414 |
| Add back significant items | 744 |
| Adjusted profit/(loss) before tax under IFRS | 6,158 |
| <i>Significant items under IFRS:</i> | |
| -Debit valuation adjustment on derivative contracts | (10) |
| -Costs to achieve | (734) |
| -Profit/(loss) before tax under IFRS⁹ | US\$269m |

⁸ Includes technical reserves and effects from Solvency II

⁹ Banxico rate at 30 June 2022 MXN20,1353.

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

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

Mexican GAAP

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

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

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

IFRS

The main differences between Mexican GAAP and IFRS comprise:

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

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

Mexican GAAP

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

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

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

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

IFRS

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

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

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

Mexican GAAP

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

IFRS

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

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

4. Fair value adjustments on financial instruments

Mexican GAAP

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

IFRS

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

5. Deferred-profit sharing (PTU diferida)

Mexican GAAP

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

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

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

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

Step 3.- PTU rate x temporary differences amount.

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

IFRS

Deferral PTU is not allowed to recognize under IFRS.

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

Mexican GAAP

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

IFRS

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

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

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

Mexican GAAP

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

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

IFRS

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

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

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

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

8. Perpetual Subordinated Debt – AT1

Mexican GAAP

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

IFRS

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