HSBC

News Release

28 April 2023

GRUPO FINANCIERO HSBC, S.A. DE C.V.1Q 2023 FINANCIAL RESULTS HIGHLIGHTS

- For the three months to 31 March 2023, profit before tax was MXN3,362m, an increase of MXN753m or 28.9% compared with MXN2,609m for the same period in 2022.

- Net income for the three months to 31 March 2023 was MXN2,372m, an increase of MXN291m or 14.0% compared with MXN2,081m for the same period in 2022.

- Total operating income excluding loan impairment charge for the three months to 31 March 2023 was MXN13,710m, an increase of MXN1,510m or 12.4% compared with MXN12,200m for the same period in 2022.

- Loan impairment charges for the three months to 31 March 2023 were MXN3,319m, an increase of MXN1,185m or 55.5% compared with MXN2,134m for the same period in 2022.

- Administrative and personnel expenses for the three months to 31 March 2023 were MXN7,072m, a decrease of MXN416m or 5.6%, compared with MXN7,488m for the same period in 2022.

- The cost efficiency ratio was 51.6% for the three months to 31 March 2023 compared with 61.4% for the same period in 2022.

- At 31 March 2023, net loans and advances to customers were MXN414.1bn, an increase of MXN38.8bn or 10.3% compared with MXN375.4bn at 31 March 2022.

- At 31 March 2023, total stage 3 loans were MXN12.4bn and 2.9% as a percentage of gross loans compared to March 2022 when stage 3 loans were MXN18.4bn and 4.7% as a percentage of gross loans.

- At 31 March 2023, total deposits were MXN502.1bn, a decrease of MXN2.1bn, or 0.4%, compared with MXN504.2bn at 31 March 2022.

- Return on equity was 12.2% for the three months to 31 March 2023, whereas for the three months to 31 March 2022 it was 11.5%.

- At 31 March 2023, the bank’s preliminary total capital adequacy ratio was 14.8% and the common equity tier 1 capital ratio was 11.3%, compared with 13.3% and 11.1%, respectively, at 31 March 2022.

Grupo Financiero HSBC's financial results for the three months to 31 March 2023 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 MXN4,012m, an increase of MXN1,350m compared with MXN2,662m reported for the same period in 2022. The increase is mainly driven by higher net interest income and lower expenses partially offset by higher loan impairment charges.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2023 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing and additional tier 1 (AT1).

Implementation of the new Business Indicator Approach:

On 19 November 2020, CNBV published the final rule under which all existing approaches for calculating operational risk RWAs are replaced by a new methodology called Business Indicator Approach ('BIA'). HSBC Mexico replaced the Alternative Standardized Approach used since 2015 for BIA starting on January 2023. The impact when comparing January 2023 Operational RWAs and December 2022's is an uplift of MXN27.0bn RWAs.

HSBC Mexico, remains as DSIB (Domestic Systematically Important Bank)

On April 10 2023 CNBV published the result of the annual evaluation of banks that are deemed systemically important in Mexico based on figures at year end 2022. In this evaluation, CNBV designated HSBC Mexico as a grade I Domestic Systemically Important Bank for which an additional capital conservation buffer of 0.6% is required.

Merger of Commercial Banking (CMB) and Global Banking (GB) into one business Model

Starting January,2023 HSBC Mexico merged its Commercial Banking and Global Banking business into one business model under Commercial Banking. This merger has the objective to continue covering the financials needs of these clients in a more efficient way.

Unrealised losses on Hold to Collect (HTC) and Hold to Collect and Sale (HTC&S) Financial Investments

At 31 March 2023, the investment portfolio under HTC&S business model has MXN1,416m of unrealised losses recognized as part of the Group's equity. In particular for the Bank, the unrealised losses amounts to MXN1,233 which are included on regulatory capital (Common Equity Tier 1).

At 31 March 2023, HTC investment portfolio amounts MXN19.5bn comprised of Mexican Central Bank and Government bonds. If this investment were mark to market, the impact of the unrealized losses would be immaterial (MXN -8m).

Overview

Economic activity decelerated its monthly growth to 0.1% in February from a 0.6% increase in January. At the sector level, services decreased 0.1% month-over-month, industrial production increased 0.7% as well as agriculture which grew 4.2% m-o-m. On an annual basis, the economy grew 3.9% year-over-year, as services, industrial production and agriculture activities increased 3.8%, 3.5% and 8.2% y-o-y, respectively.

Inflation eased to 6.24% y-o-y in H1 April from 7.82% y-o-y by the end of 4Q22. The main driver of the easing was the non-core component, which eased to 1.82% y-o-y in H1 April from 6.27% y-o-y in December, mainly due to lower energy prices. Meanwhile, core inflation remained under pressure, but eased in April standing at 7.75% y-o-y, with an improvement in tradable goods prices and a decrease in other services.

The Central Bank (Banxico) lifted the monetary policy rate twice in 1Q23. The first hike (February) was of 50bp, while the second one (March) was of 25bp. These adjustments took the policy rate to 11.25% by the end of 1Q23 from 10.50% in 4Q22.

Financial Performance – Key Metrics

- Grupo Financiero's profit before tax for the three months to 31 March 2023 was MXN3,362m, an increase of MXN753m or 28,9% compared with MXN2,609m for the same period in 2022.

- Net interest income for the three months to 31 March 2023 was MXN10,640m, an increase of MXN1,080m or 11.3% compared with MXN9,560m for the same period in 2022. The increase is mainly explained by higher interest rate environment and retail loan portfolio growth.

- Loan impairment charges for the three months to 31 March 2023 were MXN3,319m, an increase of MXN1,185m or 55.5% compared with MXN2,134m for the same period in 2022. The increase is mainly driven by retail loan portfolio growth and wholesale's release of additional provisions during 2022.

- Net fee income for the three months to 31 March 2023 was MXN2,249m, an increase of MXN171m or 8.2% compared with MXN2,078m for the same period in 2022 mainly driven by increase in commercial activity.

- Trading income for the three months to 31 March 2023 was MXN726m, an increase of MXN32m or 4.6% compared with MXN694m for the same period in 2022.

- Other operating income for the three months to 31 March 2023 was MXN-140m, a decrease of MXN176m or 55.5% compared with MXN-316m for the same period in 2022 explained by the losses from the sale of selected corporate loans in Q1 2022.

- Administrative and personnel expenses for the three months to 31 March 2023 were MXN7,072m, a decrease of MXN416m or 5.6%, compared with MXN7,488m for the same period in 2022 mainly driven by lower leasing expenses, coupled with lower IT costs, partially offset by higher marketing expenses.

- The cost efficiency ratio was 51.6% for the three months to 31 March 2023 compared with 61.4% for the same period in 2022.

- The effective tax rate was 29.4% for the three months to 31 March 2023, compared with 20.2% reported for the same period in 2022.

- At 31 March 2023, net loans and advances were MXN414.1bn showing an overall increase of MXN38.8bn, or 10.3% compared with MXN375.4bn. The increase is driven by 20.0% growth in Wealth and Personal Banking (WPB) portfolio compared to 31 March 2022 with mortgage loans growing 20.9%, coupled with an increase Commercial Banking (CMB) portfolio by 1.1%.

- Credit cost ratios[1] and loan loss reserves ratios[2] as of March 2023 were 3.1% (2.2% as of March 2022) and 3.8% (4.3% as of March 2022), respectively.

- Return on equity was 12.2% for the three months to 31 March 2023, whereas for the three months to 31 March 2022 it was 11.5%.

- Total stage 3 loans at 31 March 2023 were MXN12.4bn and 2.9% as a percentage of gross loans. Following the HSBC approach to stage 3 of the 2.9%, 0.4% relates to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.5% relates to loans with 90 or more days past due. As of March 2022, stage 3 loans were MXN18.3bn and 4.7% as a percentage of gross loans, of which 2.1% were related to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.6% were related to loans with 90 or more days of past due.

- At 31 March 2023, total loan loss allowances were MXN16.5bn, a decrease of MXN0.5bn or 2.8% compared to 31 March 2022. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 133.0% at 31 March 2023 compared with 92.7% at 31 March 2022.

- At 31 March 2023, total deposits were MXN502.1bn, a decrease of MXN2.1bn or 0.4%, compared with MXN504.2bn at 31 March 2022, mainly driven by lower wholesale funding and demand deposits partially offset by higher time deposits.

- HSBC Bank Mexico ('the bank') profit before tax for the three months to 31 March 2023 was MXN2,938m, an increase of MXN669m or 29.5% compared with MXN2,269m for the same period in 2022 mainly driven by an increase in net interest, lower administrative and personnel expenses partially offset by higher loan impairment charges.

- HSBC Bank Mexico net income for the three months to 31 March 2023 was MXN2,063m, an increase MXN 247m or 13.6% compared with MXN1,816m for the same period in 2022.

- HSBC Bank Mexico net interest income for the three months to 31 March 2023 was MXN10,484m an increase of MXN1,039m or 11.0%, compared with MXN9,445m for the same period in 2022.

- At 31 March 2023, the bank's preliminary total capital adequacy ratio was 14.8% and the common equity tier 1 capital ratio was 11.3%, compared with 13.3% and 11.1%, respectively, at 31 March 2022. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the three months to 31 March 2023 was MXN297m, an increse of MXN72m or 32.0% compared with MXN225m for the same period in 2022.

HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 March 2023) 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).

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

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

Business highlights[3] *(Amounts described include the impact of internal cost and value of funds applied to different lines of business).*

The description of line of business is as follows:

Wealth and Personal Banking (WPB): Line of business serving individuals that includes mostly consumer products, among which are credit cards, personal and car loans, as well as mortgage loans and deposits. Additionally, a group of individuals with business activity is also served, whose main products are credit lines for working capital; as well as a specific group of small businesses, with term loan products and financial services related to checking accounts and cash management.

Commercial Banking (CMB): Line of business serving local companies, multinationals and Institutional clients with financials needs in Mexican Pesos and other currencies like loans for working capital, term loans, financing products for export activities; Treasury management, including current Accounts, payments, corporate cards and liquidity management. Additionaly, it offers Global Markets solutions to serve a local & domestic clients with simple financial needs and solutions that requiere a global presence in other financial markets.

Market & Securities Services (MSS): Line of business specialized in financial markets and securities custody, which offers a diversity of money market and capital markets products, including liquidity instruments, foreign exchange, government and corporate debt, derivatives and structured products, as well as intermediation in the stock market. MSS provides solutions mainly to governments, central banks, local corporations, international investors, institutional investors and, in general, financial market participants.

Derived from the merge of CMB and GB into one business model under CMB on January 2023, 2022 figures were restated for comparison purposes.

Wealth and Personal Banking (WPB)[4]

Profit before tax for the three months to 31 March 2023 was MXN1,749m an increase of MXN1,240m compared with the MXN509m for the same period in 2022. Increase is mainly driven by higher revenues due to larger volumes in deposits coupled with higher spreads. With markets treasury reallocation, profit before tax result was MXN1,360m.

Total revenue for the three months to 31 March 2023 was MXN9,676m, an increase of MXN1,606m or 19.9% compared with MXN8,070m for the same period of 2022. This is mainly driven by higher volumes in deposits, credit cards and payroll loans, coupled with higher spreads in deposits.

Loan impairment charges for the three months to 31 March 2023 were MXN2,992m, an increase of MXN359m or 13.6% compared with MXN2,633m for 2022, explained by loan portfolio growth.

Administrative and personal expenses for the three months to 31 March 2023 were MXN4,983m, an increase of MXN23m or 0.5% compared with MXN4,960m in line with last year.

Net loans and advances to customers were MXN220.1bn at 31 March 2023 showing an overall increase of MXN36.6bn or 20.0% compared with MXN183.4bn for 2022. This increase is mainly due to Mortgages with a 20.9% increase compared to the same period last year.

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[3] *Markets Treasury total loss before tax for the three months of 2023 was MXN780m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the three months of 2023 loss before tax allocation by business was MXN-389m to WPB, MXN-320m to CMB and MXN-71m to MSS.*

[4] *WPB does not include Insurance results which was MXN297m in profit before tax as of the three months to 31 March 2023.*

Total deposits were MXN270.0bn, an increase of MXN22.1bn or 8.9% compared with MXN247.9bn for 2022.

Commercial Banking (CMB)

Profit before tax for the three months to 31 March 2023 was MXN2,279m, an increase of MXN325m or 16.6% compared with MXN1,954m for the same period in 2022 mainly explained by higher net interest income coupled with lower administration and personnel expenses. With Markets Treasury allocation, profit before tax was MXN1,959m.

Total revenue for the three months to 31 March 2023 was MXN3,853m, an increase of MXN976m or 33.9% compared with MXN2,877m for the same period in 2022, mainly explained by the higher spreads from deposits, derived from a rising interest rate environment.

Loan impairment charges for the three months to 31 March 2023 was MXN327m, an increase of MXN826m or over 100% compared with a release of MXN499m for same period in 2022, driven by the release of additional provisions during 2022.

Administration and personnel expenses for the three months to 31 March 2023 was MXN1,242m, a decrease of MXN179m or 12.6% compared with MXN1,421m for the same period in 2022, mainly driven by the optimization of the structure after the merger.

At 31 March 2023, net loans and advances to customers were MXN193.9bn, an increase of MXN 2.1bn or 1% compared with MXN191.8bn for the same period in 2022.

At 31 March 2023, total deposits were MXN220.1bn, a decrease of MXN18.4bn or 7.7% compared with MXN238.5bn for the same period in 2022 following a strategy to optimize the funding cost and improve spreads.

During the 1Q23 HSBC Mexico's sustainable lending transactions were mainly dedicated to finance renewables energy projects using different green products. In terms of social dimension, our Program Women to the World (Mujeres al Mundo) now concentrate more than 1.2k women-led companies. 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 and women-led business growth.

Markets and Security Services (MSS)

Profit before tax for the three months to 31 March 2023 was MXN95m, a decrease of MXN213m or a 69.2% compared with MXN308m for same period in 2022. The decrease is mainly explained by less revenues related to treasury products obtained from commercial and trading activities. With Markets Treasury allocation, profit before tax was MXN24m.

Total revenue for the first quarter of 2023 was MXN325m, a decrease of MXN209m or a 39.0% compared with MXN534m for same period in 2022, mostly explained by a lower trading activity due to reduction in the market volatility.

Administrative and personal expenses for the three months to 31 March 2023 were MXN230m, an increase of MXN4m or a 1.8% compared with MXN226m for the same period in 2022.

Awards and Recognitions

HSBC Mexico was awarded by the Global Banking & Finance Review magazine in the categories Asset Management Company of the Year Mexico and Best Private Wealth Manager Mexico.

For the fifth consecutive year, HSBC México received the Éntrale distinction, from Alianza Éntrale A.C., which recognizes its commitment to the labour inclusion of people with disabilities. The Éntrale A.C. alliance is an initiative of the Mexican Business Council. The distinction considers the work carried out by the bank for the implementation and strengthening of projects that benefit the hiring and retention of talent with disabilities.

On April 2023, HSBC México ranked on the LinkedIn Top Companies 2023 list, a ranking of the 25 best companies to boost professional careers. This list is compiled from exclusive LinkedIn data that assesses different aspects of career development and highlights companies that are helping their employees to prepare for future success.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 865 branches, 5,609 ATMs and 14,350 employees as of 31 March 2023.

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. 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 three months ended 31 March 2023

Figures in MXN Millions

	Group	
	31-Mar-23	**31-Mar-22**
Interest income	19,486	13,707
Interest expense	(8,846)	(4,147)
Net interest income	10,640	9,560
Loan impairment charges	(3,319)	(2,134)
Risk-adjusted net interest income	7,321	7,426
Fees and commissions receivable	3,000	2,745
Fees payable	(751)	(667)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	235	184
Trading income	726	694
Other operating income	(140)	(316)
Total operating income	13,710	12,200
Administrative and personnel expenses	(7,072)	(7,488)
Net operating income	3,319	2,578
Share of profits in equity interest	43	31
Profit/(loss) before tax	3,362	2,609
Income tax	(990)	(528)
Net income before discontinued operations	2,372	2,081
Discontinued Operations	-	
Net income	2,372	2,081

Consolidated Income Statement – BANK three months ended 31 March 2023

Figures in MXN Millions

	Bank	
	31-Mar-23	**31-Mar-22**
Interest income	19,344	13,601
Interest expense	(8,860)	(4,156)
Net interest income	10,484	9,445
Loan impairment charges	(3,319)	(2,134)
Risk-adjusted net interest income	7,165	7,311
Fees and commissions receivable	2,857	2,612
Fees payable	(888)	(805)
Trading income	662	728
Other operating income	93	(161)
Total operating income	13,208	11,819
Administrative and personnel expenses	(6,994)	(7,447)
Net operating income	2,895	2,238
Share of profits in equity interest	43	31
Profit/(loss) before tax	2,938	2,269
Income tax	(875)	(453)
Net income before discontinued operations	2,063	1,816
Discontinued Operations	-	-
Net income	2,063	1,816

Grupo Financiero HSBC, S.A. de C.V. 1Q 2023 Financial Results Highlights

Consolidated Balance Sheet – 2023(Comparatives)

Figures in MXN millions	Group		Bank	
	31 Mar 23	31 Mar 22	31 Mar 23	31 Mar 22
Assets				
Cash and cash equivalents	62,224	69,693	62,035	69,567
Margin accounts	109	129	109	129
Financial Investments	**157,899**	**178,227**	**146,445**	**168,292**
Trading financial investments	69,737	67,228	64,657	63,482
Financial investments hold to collect or sale	68,618	91,739	62,244	85,621
Financial investments hold to collect principal and interest (securities) (net)	19,544	19,260	19,544	19,189
Reverse repurchase agreements	39,627	35,235	39,627	35,235
Derivative transactions	39,917	44,178	39,917	44,178
Loan and advances - credit risk stage 1				
Commercial loans	204,168	195,120	204,168	195,120
Consumer loans	84,815	72,222	84,815	72,222
Mortgage loans	124,596	102,720	124,596	102,720
Total loan portfolio with credit risk stage 1	413,579	370,062	413,579	370,062
Loan and advances - credit risk stage 2				
Commercial loans	316	226	316	226
Consumer loans	2,434	2,223	2,434	2,223
Mortgage loans	1,774	1,432	1,774	1,432
Total loan portfolio with credit risk stage 2	4,524	3,881	4,524	3,881
Loan and advances - credit risk stage 3				
Commercial loans	7,396	13,543	7,396	13,543
Consumer loans	2,079	1,832	2,079	1,832
Mortgage loans	2,968	2,985	2,968	2,985
Total loan portfolio with credit risk stage 3	12,443	18,360	12,443	18,360
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	430,546	392,303	430,546	392,303
Expected credit losses	(16,544)	(17,024)	(16,544)	(17,024)
Gross loans and advances to customers - Insurance	142	108	-	-
Total net loans and advances to customers	**414,144**	**375,387**	**414,002**	**375,279**
Premium receivables	2,162	1,997	-	-
Accounts receivables from reinsurers and rebonding companies	45	47	-	-
Other accounts receivable (net)	45,606	43,705	45,940	43,501
Foreclosed assets	269	235	269	235
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,369	6,010	6,369	6,010
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	2,098	2,998	2,091	2,990
Prepayments and other assets	6,953	5,186	6,886	5,013
Long-term investments	1,810	1,310	1,353	1,269
Deferred income tax asset (net)	6,786	7,082	6,653	6,933
Intangible assets (net)	7,362	6,038	7,362	5,874
Intangible Assets (Net) - Rights of Use Assets	231	-	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	10	-	10	-
Total assets	**794,586**	**778,422**	**779,078**	**764,515**

Consolidated Balance Sheet - 2023 (continued)
Figures in MXN millions

	Group		Bank	
	31 Mar 23	**31 Mar 22**	**31 Mar 23**	**31 Mar 22**
Liabilities				
Deposits	**502,128**	**504,244**	**502,376**	**505,208**
Demand deposits	345,097	352,651	345,345	353,055
Time deposits	144,111	133,024	144,111	133,584
Bank bond outstanding	11,412	17,592	11,412	17,592
Global deposit account without movements	1,508	977	1,508	977
Bank deposits and other liabilities	**11,817**	**13,796**	**11,817**	**13,796**
On demand	3,001	-	3,001	-
Short-term	5,214	8,422	5,214	8,422
Long-term	3,602	5,374	3,602	5,374
Technical reserves	10,087	8,332	-	-
Repurchase agreements	34,683	10,902	34,683	10,902
Collateral sold	**39,228**	**34,641**	**39,228**	**34,641**
Reports (credit balance)	27,030	21,831	27,030	21,831
Securities lending	12,198	12,810	12,198	12,810
Derivative Financial Liabilities	40,417	43,362	40,417	43,362
Trading Derivatives	40,414	43,330	40,414	43,330
Hedging Derivatives	3	32	3	32
Accounts Payable from reinsurers and rebonding companies	19	12	-	-
Lease liabilities	2,394	3,054	2,387	3,046
Other payable accounts	**48,621**	**70,280**	**48,181**	**69,501**
Settlement accounts	22,555	40,030	22,682	39,644
Income tax and employee profit sharing payable	7,182	10,130	7,182	10,130
Contributions for future capital increases	1,440	1,221	1,341	1,183
Sundry creditors and other accounts payable	17,444	18,899	16,976	18,544
Financial instruments qualifying as liabilities (subordinated debt)	**19,528**	**11,558**	**19,528**	**11,558**
Subordinated debentures outstanding	19,528	11,558	19,528	11,558
Income tax liabilities	645	383	601	414
Employee benefit liabilities	4,039	3,475	3,997	3,439
Deferred credits and receivable in advance	1,579	1,523	1,500	1,419
Total liabilities	**715,185**	**705,562**	**704,715**	**697,286**
Equity				
Paid in capital	**43,373**	**43,373**	**38,318**	**38,318**
Capital stock	6,218	6,218	6,132	6,132
Additional paid in capital	37,155	37,155	32,186	32,186
Other reserves	**40,295**	**33,411**	**40,120**	**32,741**
Capital reserves	1,244	1,244	13,510	13,234
Retained earnings - prior years	36,679	30,086	24,547	17,692
Net income	2,372	2,081	2,063	1,815
Result from the mark-to-market of available- for-sale securities	(1,416)	(1,120)	(1,233)	(1,025)
Result from cash flow hedging transactions	(857)	(1,093)	(857)	(1,093)
Adjustment in the employee pension	(2,005)	(1,720)	(1,993)	(1,720)
Total Controlling Interest's	79,390	72,851	74,355	67,221
Minority interest in capital	11	9	8	8
Total Shareholder's Equity	**79,401**	**72,860**	**74,363**	**67,229**
Total liabilities and equity	**794,586**	**778,422**	**779,078**	**764,515**

Consolidated Balance Sheet – **2023** (continued)
Figures in MXN millions

	Group		Bank	
	31-Mar-23	**31-Mar-23**	**31-Mar-23**	**31-Mar-23**
Memorandum Accounts				
Third party accounts	**30,975**	**3,643**	-	-
Clients current accounts	1,755	2,627	-	-
Custody operations	29,220	1,016	-	-
Proprietary position	**4,803,597**	**4,925,365**	**4,600,475**	**4,751,261**
Irrevocable lines of credit granted	311,550	277,400	311,550	277,400
Goods in trust or mandate	**197,785**	**174,456**	**197,785**	**174,456**
Trusts	196,960	173,650	196,960	173,650
Mandate	825	806	825	806
Goods in custody or under administration	1,542,355	1,432,558	1,542,355	1,432,558
Collateral received by the institution	52,137	50,813	52,137	50,813
Collateral received and sold or delivered as guarantee	39,416	36,436	39,416	36,436
Suspended interest on stage 3 loans	658	466	658	466
Other control accounts	2,659,696	2,953,236	2,456,574	2,779,132
Total Memorandum Account	**4,834,572**	**4,929,008**	**4,600,475**	**4,751,261**

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 2023	43,373	1,244	36,679	(1,510)	(1,121)	(2,133)	76,532	9	**76,541**
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Cash Dividends	-	-	-	-	-	-	**-**	-	**-**
Capitalization of other equity items	-	-	-	-	-	-	**-**	2	**2**
Comprehensive Income:									
Net Income	-	-	2,372	-	-	-	**2,372**	-	**2,372**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	94	-	-	**94**	-	**94**
Valuation of cash flow hedging transactions	-	-	-	-	264	-	**264**	-	**264**
Remeasurement of defined benefits to employees	-	-	-	-	-	128	**128**	-	**128**
Total	**-**	**-**	**2,372**	**94**	**264**	**128**	**2,858**	-	**2,858**
Final balances as of 31 March 2023	**43,373**	**1,244**	**39,051**	**(1,416)**	**(857)**	**(2,005)**	**79,390**	**11**	**79,401**

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 2023	38,318	13,510	24,547	(1,315)	(1,121)	(2,135)	71,804	7	**71,811**
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Movements inherent to the shareholders' decision:									
Dividends Declared (including AT1 coupon payments)	-	-	-	-	-	-	**-**	-	**-**
Capitalization of other equity items	-	-	-	-	-	-	**-**	1	**1**
Reserve Movements	-	-	-	-	-	-	**-**	-	**-**
Comprehensive Income:									
Net Income	-	-	2,063	-	-	-	**2,063**	-	**2,063**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	82	-	-	**82**	-	**82**
Valuation of cash flow hedging transactions	-	-	-	-	264	-	**264**	-	**264**
Remeasurement of defined benefits to employees	-	-	-	-	-	142	**142**	-	**142**
Participation in comprehensive income of other entities	-	-	-	-	-	-	**-**	-	**-**
Total	**-**	**-**	**2,063**	**82**	**264**	**142**	**2,551**	**-**	**2,551**
Final balances as of 31 March 2023	**38,318**	**13,510**	**26,610**	**(1,233)**	**(857)**	**(1,993)**	**74,355**	**8**	**74,363**

Consolidated Statement of Cash Flow – Group

Figures in MXN millions	31 Mar 2023
Profit/(loss) before taxes	**3,362**
Adjustments for items associated with investing activities	**904**
Depreciation of property, furniture and equipment	305
Amortization of intangible assets	642
Participation in the net result of other entities	(43)
Adjustments for items associated with financing activities	**837**
Interest associated with bank deposits and other liabilities	266
Financial instruments qualifying as liabilities (subordinated debt)	571
Changes in items related to operating activities	**(5,509)**
Bank deposits and other liabilities	(12,390)
Margin accounts	479
Financial investments	(11,274)
Reverse repurchase agreements	35,018
Derivative transactions (assets)	(2,571)
Loan Portfolio (net)	(11,496)
Debtors of re-insurance	72
Recoverable amounts for reinsurance and refinancing (net)	7
Change in benefits from receiving securitization operations	-
Change in inventories	-
Other accounts receivable (net)	(11,266)
Foreclosed assets (net)	(18)
Deposits	(13,650)
Technical Reserves	543
Repurchase agreements	6,506
Collaterals sold or given in guarantee	4,026
Derivative transactions (liabilities)	4,476
Accounts payable for reinsurers	3
Change of assets/liabilities for employee benefits	(357)
Other accounts payable	4,131
Other provisions	3,089
Income tax payments	(837)
Net cash flows from operating activities	**(406)**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(149)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	79
Payments for acquisition of intangible assets	(476)
Other receipts from investing activities	-
Other payments from investing activities	11
Net cash flows from investing activities	**(535)**
Financing activities:	
Payments of bank loans and other organizations	(296)
Cash Dividend Payments	-
Proceeds from the issuance of financial instruments that qualify as liabilities	-
Collections for the issuance of financial instruments that qualify as liabilities	-
Net cash flows from financing activities	**(296)**
Increase/decrease in cash and equivalents	(1,237)
Cash and equivalents at beginning of period	63,461
Cash and equivalents as of 31 Mar 2023	**62,224**

Consolidated Statement of Cash Flow - Bank
Figures in MXN millions

	31 Mar 2023
Profit/()loss before taxes	**2,938**
Adjustments for items associated with investing activities	**904**
Depreciation of property, furniture and equipment	305
Amortization of intangible assets	642
Other adjustments for items associated with investing activities	(43)
Adjustments for items associated with financing activities	**837**
Interest associated with bank deposits and other liabilities	266
Financial instruments qualifying as liabilities (subordinated debt)	571
Changes in items related to operating activities:	**(5,178)**
Bank deposits and other liabilities	(12,390)
Margin accounts	479
Financial investments	(10,571)
Reverse repurchase agreements	35,018
Derivative transactions (assets)	(2,571)
Loans and advances (net)	(11,476)
Change in benefits from receiving securitization operations	-
Other accounts receivable (net)	(10,657)
Foreclosed assets (net)	(18)
Other Operating Assets	(1,587)
Deposits	(13,857)
Repurchase agreements	
Collaterals sold or given in guarantee	6,506
Derivative transactions (liability)	4,026
Adjustments for employee benefits	4,476
Other accounts payable	9,210
Change of assets/liabilities for employee benefits	(472)
Other accounts payable	2,348
Other provisions	(3,057)
Income tax payments	(585)
Net cash flows from operating activities	**(499)**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(149)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	79
Payments for acquisition of intangible assets	(476)
Other payments from investing activities	11
Net cash flows from investing activities	**(535)**
Financing activities:	
Lease liability payments	(257)
Cash Dividend Payments	-
Proceeds from the issuance of financial instruments that qualify as liabilities	-
Payments associated with financial instruments that qualify as a liability	-
Net cash flows from financing activities	**(257)**
Increase/decrease in cash and equivalents	(1,291)
Cash and equivalents at beginning of period	63,326
Cash and equivalents as of 31 Mar 2023	**62,035**

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 or new developments 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 2023 issued by CINIF applicable to Financial Institutions.

CINIF issued a document called “Improvements of NIF 2023”, which mainly includes the following changes and improvements:

Improvements involving accounting changes.

NIF B-11 “Non-current assets held for sale and discontinued operations” – Inclusion of the accounting treatment for the difference between the carrying amount of non-cash assets distributed to owners and the carrying amount of dividends declared or return of capital, which should be recognised in retained earnings. This Mex GAAP accounting treatment differs from IFRIC 17 Distributions of Non-cash Assets to Owners, where it indicates that the difference should be recognised in profit or loss.

NIF B-15 “The Effects of Changes in Foreign Exchange Rates” – Some clarifications were included related to 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. They aim to fully clarify that the practical expedient is only applicable for legal and taxation financial statements for entities that have no subsidiaries, parent or neither they are subsidiaries or joint ventures and, in both cases, their users of financial information does not need financial impacts from the translation to functional currency of financial statements.

Improvements which not originate accounting changes.

NIF B-10 “Inflationary effects in financial reporting” – Inclusion of some amendments to remove the annual inflationary average of 8%, as an indicator of an inflationary economy for Mex GAAP purposes, clarifying that only if the inflationary annual percentage in Mexican economy from the last three years in aggregated is equal or over 26%, the accounting requirements for inflationary economy are triggered.

NIF C-3 “Investment in financial instruments” – In the section of the converge with IFRS 9 was added a paragraph to clarify the difference in the accounting treatment in cases when there is a significant difference in consideration paid for the financial instrument and its fair value (only if the fair value is determined based on unobservable data), because for Mex GAAP the consideration paid should be considered as its fair value while for IFRS 9, the fair value obtained from unobservable data is considered in the initial recognition of the financial instrument and the difference is recognised on deferral basis in profit or loss.

NIF C-3 “Accounts receivables” – The inclusion of some modifications to remove references to “commercial accounts receivables” in order to avoid misunderstandings in the terms used by this NIF, given that the correct accounting term is “Accounts receivables”. Also, it was added a clarification to emphasize that “Other accounts receivables” are also in its scope.

Additionally, amendments in the wording of some NIF and NIF Glossary to include the updates and modifications from the new NIF A-1 “Conceptual framework” adopted from 2023.

No significant financial impacts were observed in the implementation of all these 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 is in place from 2023. HSBC was not relevant impacts in adoption .

III. New NIF B-14 “Earnings per share”.

On December, 15th, 2022, the CINIF approved the new NIF B-14 which superseded Bulletin B-14. The implementation of the new NIF B-14 does not carry accounting changes at initial adoption, given it only includes some clarifications to ease the calculation of earnings per share (UPA by its acronym in Spanish):

The structure of the NIF is modified to clarify the calculation of UPA, separating standards applicable to profit or loss attributable and shares to be considered in the calculation of weighted-average of UPA Basic and Diluted.
Some clarifications are included in the standards related to the calculation of UPA Basic regarding to dividends on preference shares.
In the standards related to the calculation of UPA Diluted some clarifications are included to understand in a better way if the effect from financial instruments that originates potential ordinary shares is diluted or undiluted.
Clarification related to the inclusion in the calculation of UPA Basic of the ordinary shares that would be issued upon the conversion of a mandatorily convertible equity instrument, classified as such under NIF C-12 “Financial instruments with liability and equity features” from the date in which the agreement was entered into.

This NIF is in place from 2023. HSBC was not relevant impacts in adoption.

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

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the three months ended at 31 March 2023 and an explanation of the key reconciling items.

	31 Mar 2023
Figures in MXN millions	
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**3,362**
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	1,105
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	78
Other insurance adjustments[5]	36
Fair value adjustments on financial instruments	28
Deferred profit sharing	75
Others	(111)
IFRS16	(143)
AT1 Valuation	(268)
Profit before/(loss) tax under IFRS	**4,012**

-Profit/(loss) before tax under IFRS (Banxico rate at 31 March 2023 MXN 18.0201)	**US$223**

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.

[5] *Includes technical reserves and effects from IFRS 17*

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. 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

7. 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).