HSBC

News Release

27 October 2023

GRUPO FINANCIERO HSBC, S.A. DE C.V. 3Q 2023 FINANCIAL RESULTS HIGHLIGHTS

- For the nine months to 30 September 2023, profit before tax was MXN9,883m in line with the same period in 2022.

- Net income for the nine months to 30 September 2023 was MXN7,533m, a decrease of MXN875m or 10.4% compared with MXN8,408m for the same period in 2022.

- Total operating income excluding loan impairment charges for the nine months to 30 September 2023 was MXN41,077m, an increase of MXN2,734m or 7.1% compared with MXN38,343m for the same period in 2022.

- Loan impairment charges for the nine months to 30 September 2023 were MXN8,896m, an increase of MXN2,597m or 41.2% compared with MXN6,299m for the same period in 2022.

- Administrative and personnel expenses for the nine months to 30 September 2023 were MXN22,461m, an increase of MXN145m or 0.6%, compared with MXN22,316m for the same period in 2022.

- The cost efficiency ratio was 54.7% for the nine months to 30 September 2023 compared with 58.2% for the same period in 2022.

- At 30 September 2023, net loans and advances to customers were MXN434.0bn, an increase of MXN26.5bn or 6.5% compared with MXN407.4bn at 30 September 2022.

- At 30 September 2023, total stage 3 loans were MXN12.0bn, representing 2.7% of gross loans compared to September 2022 when stage 3 loans were MXN12.8bn representing 3.0% of gross loans.

- At 30 September 2023, total deposits were MXN507.5bn, an increase of MXN6.5bn, or 1.3%, compared with MXN501.0bn at 30 September 2022.

- Return on equity was 12.3% for the nine months to 30 September 2023, whereas for the nine months to 30 September 2022 it was 14.9%.

- At 30 September 2023, the bank’s preliminary total capital adequacy ratio was 15.3% and the common equity tier 1 capital ratio was 12.0%, compared with 13.7% and 12.2%, respectively, at 30 September 2022.

Grupo Financiero HSBC's financial results for the first half of 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 MXN11,699m, an increase of MXN2,127m compared with MXN9,572m reported for the same period in 2022. The increase is mainly driven by higher net interest income, net fees and trading income partially offset by higher loan impairment charges.

The main differences between Mexican GAAP and IFRS results for the first half of 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).

Overview

After a better-than-expected performance in Q2 2023, August remained strong, as economic activity grew 0.4% on a monthly basis, from 0.2% in July. At the sector level, all three components expanded; agriculture rose 2.6%, while both services and industrial production grew 0.3% on a monthly basis. On an annual basis, the economy grew 3.5%, using seasonally-adjusted figures. Agriculture, industrial output and services grew 2.7%, 5.0% and 2.8% in annual terms, respectively.

The disinflationary process became more evident in Q3 2023, as inflation eased to 4.5% year-over-year from 5.1% year-over-year by the end of Q2 2023. Non-core component stood at 0.6% year-over-year in Q3 2023 from -0.4% year-over-year by the end of Q2 2023. Meanwhile, core inflation pressures are easing at a slower pace, as it eased to 5.8% year-over-year from 6.9% by the end of Q2 2023, mainly driven by an improved performance of tradable goods prices.

Mexico's central bank (Banxico) kept the monetary policy rate on hold at 11.25% at its two monetary policy decisions in August and September.

Financial Performance – Key Metrics

- Grupo Financiero's profit before tax for the nine months to 30 September 2023 was MXN9,883m, in line with the same period in 2022.

- Net interest income for the nine months to 30 September 2023 was MXN31,663m, an increase of MXN1,924m or 6.5% compared with MXN29,739m for the same period in 2022. The increase is mainly explained by higher interest rate environment and the growth of retail loan portfolio.

- Loan impairment charges for the nine months to 30 September 2023 were MXN8,896m, an increase of MXN2,597m or 41.2% compared with MXN6,299m for the same period in 2022. The increase is mainly driven by retail loan portfolio growth and wholesale ECL release during Q3 2022.

- Net fee income for the nine months to 30 September 2023 was MXN7,308m, an increase of MXN753m or 11.5% compared with MXN6,555m for the same period in 2022 mainly driven by increase in commercial activity.

- Trading income for the nine months to 30 September 2023 was MXN2,443m, an increase of MXN290m or 13.5% compared with MXN2,153m for the same period in 2022 mainly driven by fixed income business in both insurance subsidiary and bank, partially offset by lower derivatives results in bank.

- Other operating income (expense) for the nine months to 30 September 2023 was MXN -1,048m, an increase of MXN-315m or 43% compared with MXN-733m for the same period in 2022, explained by lower insurance income partially offset by higher recoveries.

- Administrative and personnel expenses for the nine months to 30 September 2023 were MXN22,461m, an increase of MXN145m or 0.6%, compared with MXN22,316m for the same period in 2022 mainly due to higher staff expenses, higher IT costs and an increase in marketing expenses.

- The cost efficiency ratio was 54.7% for the nine months to 30 September 2023 compared with 58.2% for the same period in 2022.

- The effective tax rate was 23.8% for the nine months to 30 September 2023, compared with 14.8% reported for the same period in 2022. The variation is mainly driven by inflationary effects and the reassessment of deferred tax assets made in 2022.

- At 30 September 2023, net loans and advances were MXN434.0bn showing an overall increase of MXN26.5bn, or 6.5% compared with MXN407.4bn. The increase is driven by 21.0% growth in Wealth and Personal Banking (WPB) portfolio compared to 30 September 2022 with mortgage loans growing 20.8%, partially offset by a decrease in Commercial Banking (CMB) portfolio by 7.4%.

- Credit cost ratios[1] and loan loss reserves ratios[2] as of September 2023 were 2.6% (2.0% as of September 2022) and 3.7% (same for September 2022), respectively.

- Return on equity was 12.3% for the nine months to 30 September 2023, whereas for the nine months to September 2022 was 14.9%.

- Total stage 3 loans at 30 September 2023 were MXN12.0bn representing 2.7% of gross loans. Following the HSBC approach to stage 3, of the 2.7%, 0.4% relates to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.3% relates to loans with 90 or more days past due. As of September 2022, stage 3 loans were MXN12.8bn and 3.0% as a percentage of gross loans, of which 0.7% were related to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.3% were related to loans with 90 or more days of past due.

- At 30 September 2023, total loan loss allowances were MXN16.8bn, an increase of MXN1.2bn or 7.7% compared to 30 September 2022. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 139.9% at 30 September 2023 compared with 122.2% at 30 September 2022.

- At 30 September 2023, total deposits were MXN507.5bn, an increase of MXN6.5bn or 1.3%, compared with MXN501.0bn at 30 September 2022, mainly driven by higher time deposits partially offset by lower demand deposits.

- During the third quarter of 2023, Grupo Financiero HSBC paid a dividend of MXN 1,200m, supported by the dividend received from the bank for the same amount.

- HSBC Bank Mexico (‘the bank’) profit before tax for the nine months to 30 September 2023 was MXN8,477m, a decrease of MXN225m or 2.6% compared with MXN8,702m for the same period in 2022 mainly driven by higher loan impairment charges and lower trading income partially offset by an increase in net interest income and net fees.

- HSBC Bank Mexico net income for the nine months to 30 September 2023 was MXN6,550m, a decrease of MXN -986m or 13.1% compared with MXN7,536m for the same period in 2022.

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

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

- HSBC Bank Mexico net interest income for the nine months to 30 September 2023 was MXN31,250m an increase of MXN1,905m or 6.5%, compared with MXN29,345m for the same period in 2022.

- At 30 September 2023, the bank's preliminary total capital adequacy ratio was 15.3% and the common equity tier 1 capital ratio was 12.0%, compared with 13.7% and 12.2%, respectively, at 30 September 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 nine months to 30 September 2023 was MXN973m, an increase of MXN199m or 25.7% compared with MXN774m for the same period in 2022, mainly driven by the increase in premiums and higher financial income partially offset by higher technical reserves.

HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 30 September 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).

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. Additionally, it offers Global Markets solutions to serve a local and domestic client with simple financial needs and solutions that require 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 nine months to 30 September 2023 was of MXN4,071m an increase of MXN1,067m compared with the MXN3,004m for the same period in 2022, mainly driven by higher revenues partially offset by higher LICs due to portfolio growth and higher expenses. With markets treasury reallocation, profit before tax result was MXN3,114m.

Total revenue for the nine months to 30 September 2023 was MXN29,850m, an increase of MXN4,086m or 15.9% compared with MXN25,764m for the same period of 2022. This is mainly driven by higher volumes in credit cards and payroll loans, coupled with higher spreads across the deposits portfolio and higher transactional fees in cards.

Loan impairment charges for the nine months to 30 September 2023 were MXN9,232m, an increase of MXN1,510m or 19.6% compared with MXN7,722m for 2022, explained by provisions derived from higher loan portfolio.

Administrative and personal expenses for the nine months to 30 September 2023 were MXN16,728m, an increase of MXN1,549m or 10.2% compared with MXN15,179m for the same period of 2022, driven by higher IT and marketing strategic investments, coupled with staff costs increase due to inflation.

Net loans and advances to customers were MXN241.4bn at September 2023 showing an overall increase of MXN41.9bn or 21.0% compared with MXN199.5bn for 2022. This increase is mainly in

[3] *Markets Treasury total loss before tax for the nine months of 2023 was MXN2,015m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the nine months of 2023 loss before tax allocation by business was MXN-957m to WPB, MXN-783m to CMB and MXN-275m to MSS.*

[4] *WPB does not include Insurance results which was MXN973m in profit before tax as of 30 September 2023.*

Cards with a 33.8% compared to the same period last year, followed by Mortgage and Auto (20.8% and 56.9% respectively).

Total deposits were MXN266.4bn, an increase of MXN11.1bn or 4.3% compared with MXN255.3bn for 2022, mainly driven by time deposits increase partially offset by a decrease in demand deposits.

There were relevant milestones in the third quarter, aligned with our strategy to boost our growth:

Level 4 digital account opening: This account can be opened from a mobile device in less than 15 minutes, intuitively and without deposit limit. Its security mechanisms are based on a process of cutting-edge technology in facial recognition that allows validating the identity of users with the INE, their address and other personal data.

Opening of Express Branches: An innovative new branch model where all banking services are offered with service times of a maximum of 20 minutes as all services within the branch are digital. At the moment there are three express branches in Mexico (Mexico City, Cancún and Mérida).

Launch of HSBC Green Mortgage: This mortgage finances the purchase of homes that have certifications with high levels of sustainability. It can finance up to 97% of the home purchase and take the term to 25 years, which reduces the monthly payment and reaches greater lines of credit.

First Exchange Traded Fund (ETF) related to biodiversity in Mexico: Asset Management list in the SIC of the Mexican Stock Exchange an innovative financial product to provide investors an effective tool to incorporate biodiversity considerations into their investment portfolios, investing in companies that stand out for their solid commitment to biodiversity.

Commercial Banking (CMB)

Profit before tax for the nine months to 30 September 2023 was MXN6,747m, an increase of MXN70m or 1% compared with MXN6,677m for the same period in 2022 mainly explained by higher net interest income and lower administration and personnel expenses, partially offset by an increase on loan impairment charges given lower amount of credit reserves releases this year. With Markets Treasury allocation, profit before tax was MXN5,964m.

Total revenue for the nine months to 30 September 2023 was MXN10,317m, an increase of MXN905m or 9.6% compared with MXN9,412m for the same period in 2022, mainly explained by higher spreads from deposits, derived from a rising interest rate environment coupled with increase on fee income and trading FX resulting from commercial activity.

Loan impairment charges for the nine months to 30 September 2023 were a release of MXN336m, an increase of MXN1,087m or 76% compared with a release for MXN1,423m for same period in 2022, driven by a higher amount of releases on certain individual clients on the Local Corporate segment during third quarter of 2022.

Administration and personnel expenses for the nine months to 30 September 2023 were MXN3,891m, a decrease of MXN272m or 7% compared with MXN4,163m for the same period in 2022, mainly driven by the optimization of the structure following the merger of wholesale business.

At 30 September 2023, net loans and advances to customers were MXN192.4bn, a decrease of MXN15.4bn or 7.4% compared with MXN207.8bn for the same period in 2022, explained by the strategic optimization of the loan portfolio.

At 30 September 2023, total deposits were MXN229.9bn, an increase of MXN4.1bn or 1.8% compared with MXN225.9bn for the same period in 2022, with time deposits increasing and demand deposits decreasing.

HSBC participated alongside with other book runners on the issuance of four bonds:

- FEFA: first Social Gender issuance in the local market focusing on microcredits for women.
- EDUCA: first SLB (Sustainability Linked Bond) focused on education in Mexico.
- BETTERWARE: second issuance in the local market to support the company financing plan.
- CABEI: new issuance that makes the eight consecutive transaction done with HSBC acting as book runner.

New initiative launched named “Escala Sustentable”, consisting on a series of webinars with the purpose of providing our clients with useful information and tools on the most relevant ESG (Environmental Social and Governance) topics so that they can integrate them into their business strategy.

New edition of the “Sustainability Award” where 10 companies were recognized on different categories including environmental, social and governance in which each strategy registered is evaluated by an independent jury with subject matter experts. For this edition, the amount of strategies received were three times higher to the ones received in the previous event.

For ESG transactions, a SLL (Sustainability Linked Lending) was done with ALPEK where we acted as joint lead arranger and the purpose is to support the improvement on ESG & social metrics for emissions reduction, trainings and gender aligned to their sustainability strategy.

Sustainability tracker launched in Mexico, a tool that helps businesses to self-assess how sustainable they are, identify opportunities and risks that the transition presents and support with the understanding of what they can do to get started and track their progress.

Markets and Security Services (MSS)

Profit before tax for the nine months to 30 September 2023 was MXN413m, a decrease of MXN197m which represents 32.4% compared with MXN610m for same period in 2022. The decrease is mainly explained by higher revenues distributed to CMB and WPB impacting the reported figures (revenue allocation changes after the merger of CMB and GB). Additionally, from July to September 2023, MSS was impacted by lower trading revenues as result of a decrease in FX client activity and revenues generated by government bond positions. With Markets Treasury allocation, profit before tax was MXN138m.

Administrative and personal expenses for the nine months to 30 September 2023 were MXN742m, an increase of MXN70m or a 10.4% compared with MXN672m for the same period in 2022 mainly driven by inflation impacting staff costs.

Awards and Recognitions

Flexible Companies Ideal for Working

HSBC México was recognized with the distinctive "Flexible Companies Ideal for Working" awarded by Beyond Work and Forbes México for promoting strategies and tools so that employees can find a balance between their personal needs and work dynamics. The bank is in the Top 15 among 100 Mexican companies.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 866 branches, 5,603 ATMs and 14,089 employees as of 30 September 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$3,041bn at 30 June 2023, HSBC is one of the world's largest banking and financial services organisation.

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Consolidated Income Statement – GROUP nine months ended 30 September 2023

Figures in MXN Millions

	Group	
	30-Sep-23	**30-Sep-22**
Interest income	61,120	45,047
Interest expense	(29,457)	(15,308)
Net interest income	31,663	29,739
Loan impairment charges	(8,896)	(6,299)
Risk-adjusted net interest income	22,767	23,440
Fees and commissions receivable	9,341	8,391
Fees payable	(2,033)	(1,836)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	711	629
Trading income	2,443	2,153
Other operating income (expense)	(1,048)	(733)
Total operating income	32,181	32,044
Administrative and personnel expenses	(22,461)	(22,316)
Net operating income	9,720	9,728
Share of profits in equity interest	163	146
Profit/(loss) before tax	9,883	9,874
Income tax	(2,350)	(1,466)
Net income before discontinued operations	7,533	8,408
Discontinued Operations	-	
Net income	7,533	8,408

Consolidated Income Statement – BANK nine months ended 30 Sep 2023

Figures in MXN Millions

	Bank	
	30-Sep-23	**30-Sep-22**
Interest income	60,707	44,698
Interest expense	(29,457)	(15,353)
Net interest income	31,250	29,345
Loan impairment charges	(8,896)	(6,299)
Risk-adjusted net interest income	22,354	23,046
Fees and commissions receivable	8,821	7,956
Fees payable	(2,396)	(2,207)
Trading income	2,089	2,318
Other operating income (expense)	(307)	(387)
Total operating income	30,561	30,726
Administrative and personnel expenses	(22,247)	(22,170)
Net operating income	8,314	8,556
Share of profits in equity interest	163	146
Profit/(loss) before tax	8,477	8,702
Income tax	(1,927)	(1,166)
Net income before discontinued operations	6,550	7,536
Discontinued Operations	-	-
Net income	6,550	7,536

Consolidated Balance Sheet – 2023 (Comparatives)

Figures in MXN millions	Group		Bank	
	30 Sep 23	30 Sep 22	30 Sep 23	30 Sep 22
Assets				
Cash and cash equivalents	67,745	53,951	67,579	53,821
Margin accounts	79	251	79	251
Financial Investments	**165,235**	**150,718**	**151,651**	**140,621**
Trading financial investments	66,422	60,620	58,690	56,516
Financial investments hold to collect or sale	76,111	70,847	70,259	64,854
Financial investments hold to collect principal and interest (securities) (net)	22,702	19,251	22,702	19,251
Reverse repurchase agreements	40,382	45,012	40,382	45,012
Derivative transactions	31,682	42,975	31,682	42,975
Loan and advances - credit risk stage 1				
Commercial loans	201,458	215,290	201,458	215,290
Consumer loans	93,608	78,007	93,608	78,007
Mortgage loans	136,105	112,419	136,105	112,419
Total loan portfolio with credit risk stage 1	431,171	405,716	431,171	405,716
Loan and advances - credit risk stage 2				
Commercial loans	2,701	623	2,701	623
Consumer loans	2,852	2,199	2,852	2,199
Mortgage loans	1,901	1,618	1,901	1,618
Total loan portfolio with credit risk stage 2	7,454	4,440	7,454	4,440
Loan and advances - credit risk stage 3				
Commercial loans	6,532	8,001	6,532	8,001
Consumer loans	2,422	1,834	2,422	1,834
Mortgage loans	3,086	2,961	3,086	2,961
Total loan portfolio with credit risk stage 3	12,040	12,796	12,040	12,796
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	450,665	422,952	450,665	422,952
Expected credit losses	(16,840)	(15,634)	(16,840)	(15,634)
Gross loans and advances to customers - Insurance	159	128	-	-
Total net loans and advances to customers	**433,984**	**407,446**	**433,825**	**407,318**
Premium receivables	2,102	1,901	-	-
Accounts receivables from reinsurers and rebonding companies	45	35	-	-
Other accounts receivable (net)	46,224	39,597	46,090	39,614
Foreclosed assets	321	202	321	202
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,452	6,273	6,452	6,273
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	1,705	2,410	1,699	2,402
Prepayments and other assets	6,255	6,251	6,136	6,172
Long-term investments	1,432	1,338	1,390	1,298
Deferred income tax asset (net)	7,145	6,887	7,112	6,682
Intangible assets (net)	7,455	6,649	7,455	6,649
Intangible Assets (Net) - Rights of Use Assets	251	218	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	10	-	10	-
Total assets	**819,469**	**773,079**	**801,875**	**759,300**

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

	Group		Bank	
	30 Sep 23	**30 Sep 22**	**30 Sep 23**	**30 Sep 22**
Liabilities				
Deposits	**507,503**	**501,033**	**507,860**	**501,623**
Demand deposits	341,042	346,472	341,399	347,062
Time deposits	153,449	141,746	153,449	141,746
Bank bond outstanding	11,414	11,413	11,414	11,413
Global deposit account without movements	1,598	1,402	1,598	1,402
Bank deposits and other liabilities	**8,553**	**15,542**	**8,553**	**15,542**
On demand	-	4,275	-	4,275
Short-term	5,143	6,058	5,143	6,058
Long-term	3,410	5,209	3,410	5,209
Pending Securities to pay	-	-	-	-
Technical reserves	12,393	8,753	-	-
Repurchase agreements	44,766	22,871	44,766	22,871
Collateral sold	**48,683**	**35,382**	**48,684**	**35,382**
Reports (credit balance)	36,185	29,304	36,185	29,304
Securities lending	12,498	6,078	12,499	6,078
Derivative Financial Liabilities	34,140	42,946	34,140	42,946
Trading Derivatives	34,137	42,918	34,137	42,918
Hedging Derivatives	3	28	3	28
Accounts Payable from reinsurers and rebonding companies	11	2	-	-
Lease liabilities	2,036	2,610	2,029	2,603
Other payable accounts	**53,497**	**50,614**	**52,532**	**49,600**
Settlement accounts	29,141	22,626	28,699	22,093
Income tax and employee profit sharing payable	5,485	9,698	5,485	9,698
Contributions for future capital increases	1,255	955	1,192	911
Sundry creditors and other accounts payable	17,616	17,335	17,156	16,898
Financial instruments qualifying as liabilities (subordinated debt)	**18,894**	**11,714**	**18,894**	**11,714**
Subordinated debentures outstanding	18,894	11,714	18,894	11,714
Income tax liabilities	145	139	126	-
Employee benefit liabilities	4,898	3,904	4,823	3,854
Deferred credits and receivable in advance	1,897	1,559	1,868	1,466
Total liabilities	**737,416**	**697,069**	**724,275**	**687,601**
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	**42,875**	**37,820**	**43,297**	**38,312**
Capital reserves	1,244	1,244	14,510	13,510
Retained earnings - prior years	34,098	28,168	22,237	17,266
Net income	7,533	8,408	6,550	7,536
Result from the mark-to-market of available- for-sale securities	(1,403)	(1,905)	(1,149)	(1,651)
Result from cash flow hedging transactions	(628)	(1,445)	(628)	(1,445)
Adjustment in the employee pension	(2,166)	(1,843)	(2,240)	(1,843)
Total Controlling Interest's	82,051	76,000	77,598	71,691
Minority interest in capital	2	10	-	8
Total Shareholder's Equity	**82,053**	**76,010**	**77,598**	**71,699**
Total liabilities and equity	**819,469**	**773,079**	**801,873**	**759,300**

Consolidated Balance Sheet – **2023** (continued)

Figures in MXN millions

	Group		Bank	
	30-Sep-23	**30-Sep-22**	**30-Sep-23**	**30-Sep-22**
Memorandum Accounts				
Third party accounts	**76,819**	**30,365**	-	-
Clients current accounts	1,565	1,252	-	-
Custody operations	75,254	29,113	-	-
Proprietary position	**3,620,471**	**4,707,552**	**3,419,230**	**4,515,766**
Irrevocable lines of credit granted	333,285	301,889	333,285	301,889
Goods in trust or mandate	**195,902**	**191,119**	195,902	191,119
Trusts	195,068	190,284	195,068	190,284
Mandate	834	835	834	835
Goods in custody or under administration	330,063	1,383,150	330,063	1,383,150
Collateral received by the institution	54,222	52,393	54,222	52,393
Collateral received and sold or delivered as guarantee	49,221	38,103	49,221	38,103
Suspended interest on stage 3 loans	645	525	645	525
Other control accounts	2,657,133	2,740,373	2,455,892	2,548,587
Total Memorandum Account	**3,697,290**	**4,737,917**	**3,419,230**	**4,515,766**

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*	-	-	(2,581)	-	-	-	**(2,581)**	-	**(2,581)**
Capitalization of other equity items	-	-	-	-	-	-	**-**	(7)	**(7)**
Comprehensive Income:									
Net Income	-	-	7,533	-	-	-	**7,533**	-	**7,533**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	107	-	-	**107**	-	**107**
Valuation of cash flow hedging transactions	-	-	-	-	493	-	**493**	-	**493**
Remeasurement of defined benefits to employees	-	-	-	-	-	(33)	**(33)**	-	**(33)**
Total	**-**	**-**	**7,533**	**107**	**493**	**(33)**	**8,100**	-	**8,100**
Final balances as of 30 September 2023	**43,373**	**1,244**	**41,631**	**(1,403)**	**(628)**	**(2,166)**	**82,051**	**2**	**82,053**

***Include AT1 coupon payments**

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	24,548	(1,315)	(1,121)	(2,135)	71,805	7	**71,812**
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Movements inherent to the shareholders' decision:									
Dividends Declared (including AT1 coupon payments)	-	-	(1,311)	-	-	-	**(1,311)**	-	**(1,311)**
Capitalization of other equity items	-	-	-	-	-	-	**-**	(7)	**(7)**
Reserve Movements	-	1,000	(1,000)	-	-	-	**-**	-	**-**
Comprehensive Income:									
Net Income	-	-	6,550	-	-	-	**6,550**	-	**6,550**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	166	-	-	**166**	-	**166**
Valuation of cash flow hedging transactions	-	-	-		493	-	**493**	-	**493**
Remeasurement of defined benefits to employees	-	-	-	-	-	(105)	**(105)**	-	**(105)**
Participation in comprehensive income of other entities	-	-	-	-	-	-	**-**	-	**-**
Total	**-**	**1,000**	**5,550**	**166**	**493**	**(105)**	**7,104**	**-**	**7,104**
Final balances as of 30 September 2023	**38,318**	**14,510**	**28,787**	**(1,149)**	**(628)**	**(2,240)**	**77,598**	**0**	**77,598**

Consolidated Statement of Cash Flow – Group

Figures in MXN millions	30 Sep 2023
Profit/(loss) before taxes	**9,883**
Adjustments for items associated with investing activities	**2,802**
Depreciation of property, furniture and equipment	974
Amortization of intangible assets	1,991
Participation in the net result of other entities	(163)
Adjustments for items associated with financing activities	**2,529**
Interest associated with bank deposits and other liabilities	801
Financial instruments qualifying as liabilities (subordinated debt)	1,728
Changes in items related to operating activities	**(3,566)**
Bank deposits and other liabilities	(16,190)
Margin accounts	509
Financial investments	(18,593)
Reverse repurchase agreements	34,263
Derivative transactions (assets)	6,109
Loan Portfolio (net)	(31,320)
Debtors of re-insurance	132
Recoverable amounts for reinsurance and refinancing (net)	7
Change in benefits from receiving securitization operations	-
Change in inventories	-
Other accounts receivable (net)	(10,136)
Foreclosed assets (net)	(69)
Deposits	(8,274)
Technical Reserves	2,849
Repurchase agreements	16,588
Collaterals sold or given in guarantee	13,482
Derivative transactions (liabilities)	(1,800)
Accounts payable for reinsurers	(5)
Change of assets/liabilities for employee benefits	255
Other accounts payable	13,105
Other provisions	(1,346)
Income tax payments	(3,132)
Net cash flows from operating activities	**11,648**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(825)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(3,393)
Other receipts from investing activities	-
Other payments from investing activities	15
Net cash flows from investing activities	**(4,049)**
Financing activities:	
Payments of bank loans and other organizations	(734)
Cash Dividend Payments	(2,470)
Proceeds from the issuance of financial instruments that qualify as liabilities	-
Collections for the issuance of financial instruments that qualify as liabilities	(111)
Net cash flows from financing activities	**(3,315)**
Increase/decrease in cash and equivalents	4,284
Cash and equivalents at beginning of period	63,461
Cash and equivalents as of 30 September 2023	**67,745**

Consolidated Statement of Cash Flow - Bank
Figures in MXN millions

	30 Sep 2023
Profit/()loss before taxes	**8,477**
Adjustments for items associated with investing activities	**2,802**
Depreciation of property, furniture and equipment	974
Amortization of intangible assets	1,991
Other adjustments for items associated with investing activities	(163)
Adjustments for items associated with financing activities	**2,529**
Interest associated with bank deposits and other liabilities	801
Financial instruments qualifying as liabilities (subordinated debt)	1,728
Changes in items related to operating activities:	**(3,461)**
Bank deposits and other liabilities	(16,190)
Margin accounts	509
Financial investments	(15,676)
Reverse repurchase agreements	34,263
Derivative transactions (assets)	6,109
Loans and advances (net)	(31,298)
Change in benefits from receiving securitization operations	-
Other accounts receivable (net)	(10,807)
Foreclosed assets (net)	(69)
Other Operating Assets	10
Deposits	(8,831)
Repurchase agreements	-
Collaterals sold or given in guarantee	16,588
Derivative transactions (liability)	13,482
Adjustments for employee benefits	(1,800)
Other operational liabilities	14,706
Change of assets/liabilities for employee benefits	353
Other accounts payable	(1,761)
Other provisions	(462)
Income tax payments	(2,587)
Net cash flows from operating activities	**10,347**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(825)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(3,393)
Other payments from investing activities	15
Net cash flows from investing activities	**(4,049)**
Financing activities:	
Lease liability payments	(734)
Cash Dividend Payments	(1,200)
Proceeds from the issuance of financial instruments that qualify as liabilities	-
Payments associated with financial instruments that qualify as a liability	(111)
Net cash flows from financing activities	**(2,045)**
Increase/decrease in cash and equivalents	4,253
Cash and equivalents at beginning of period	63,326
Cash and equivalents as of 30 Jun 2023	**67,579**

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 does not have 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 does not have 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 nine months ended at 30 September 2023 and an explanation of the key reconciling items.

	30 Sep 2023
Figures in MXN millions	
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**9,883**
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	2,067
Effective Interest Rate	756
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	234
Other insurance adjustments[5]	4
Fair value adjustments on financial instruments	(75)
Others	(141)
Deferred profit sharing	(276)
AT1 Valuation	(375)
IFRS16	(378)
Profit before/(loss) tax under IFRS	**11,699**

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

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

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. Effective interest rate (EIR) adjustments

Mexican GAAP

From 2023, HSBC completed the adoption of the EIR method, where the commissions charged to the borrowers and incremental costs incurred to third parties at loan inception are recorded into a deferred credit account (liability) and as an asset, respectively. Both are part of loan net value to determine the effective interest rate and being recognised using the EIR method in the net interest income during the expecting life of the financial instruments in accordance with CNBV accounting standards.

Nevertheless, there are still some differences in EIR calculation for Mex GAAP in comparison with IFRS, such as: the exception of the use of EIR in credit cards and the possibility to not adjust the original EIR for those loans which the interest rate is resettable during their expected life.

Important to highlight that HSBC applies the EIR for those loans originated at or after the implementation date (01Jan23) using a portfolio approach in accordance with the CNBV accounting standards and transitory provisions applicable to the implementation.

IFRS

After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate "EIR" method without exceptions.

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

For insurance liabilities starting in 2023, INMX applied IFRS17 accounting standard, that Aims to align insurance accounting with the principles applied by other industries, while recognizing the specific complexities of the contracts, their long term nature, and the linkages to underlying assets (especially for participating contracts).

Establish Globally consistent standard, setting a framework for measuring insurance contracts consistent with observable market parameters, and based on best estimate assumptions, the. Profits recognised in line with service provision (i.e. over the life of the contract) and included Enhanced and more granular disclosures.

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).