

28 July 2023

GRUPO FINANCIERO HSBC, S.A. DE C.V. 2Q 2023 FINANCIAL RESULTS HIGHLIGHTS

- For the first half of 2023, profit before tax was MXN7,142m, an increase of MXN1,638m or 29.8% compared with MXN5,504m for the same period in 2022.
- Net income for the first half of 2023 was MXN5,209m, an increase of MXN91m or 1.8% compared with MXN5,118m for the same period in 2022.
- Total operating income excluding loan impairment charges for the first half of 2023 was MXN27,896m, an increase of MXN2,782m or 11.1% compared with MXN25,114m for the same period in 2022.
- Loan impairment charges for the first half of 2023 were MXN6,045m, an increase of MXN767m or 14.5% compared with MXN5,278m for the same period in 2022.
- Administrative and personnel expenses for the first half of 2023 were MXN14,814m, an increase of MXN402m or 2.8%, compared with MXN14,412m for the same period in 2022.
- The cost efficiency ratio was 53.1% for the first half of 2023 compared with 57.4% for the same period in 2022.
- At 30 June 2023, net loans and advances to customers were MXN422.3bn, an increase of MXN34.4bn or 8.9% compared with MXN387.9bn at 30 June 2022.
- At 30 June 2023, total stage 3 loans were MXN12.4bn, representing 2.8% of gross loans compared to June 2022 when stage 3 loans were MXN18.0bn representing 4.4% of gross loans.
- At 30 June 2023, total deposits were MXN503.1bn, an increase of MXN13.9bn, or 2.8%, compared with MXN489.2bn at 30 June 2022.
- Return on equity was 13.0% for the first half of 2023, whereas for the first half of 2022 it was 13.9%.
- At 30 June 2023, the bank's preliminary total capital adequacy ratio was 15.4% and the common equity tier 1 capital ratio was 12.1%, compared with 13.3% and 11.1%, respectively, at 30 June 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 MXN7,909m, an increase of MXN2,494m compared with MXN5,414m reported for the same period in 2022. The increase is mainly driven by higher net interest income, net fees and trading income.

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).

CNBV Model Approvals in Q2 2023:

Capital Ratios:

Mexico's local regulator (CNBV) approved HSBC Bank Mexico to start using the Global Large Corporate Scorecard (GLCS) model for the calculation of credit risk RWAs under International Ratings-Based foundation (IRB-F) approach. Additionally, CNBV approved the use of an internal model to determine the amount of prepayment in fixed-rate mortgage loans used in the duration calculation for Market Risk RWAs (prepayment model).

Liquidity Ratios:

CNBV approved the Operational Deposits Model to be used for the calculation of cash outflows for the local LCR (Liquidity Coverage Ratio). With the implementation of the model, the LCR improved c. +30 pp.

Overview

After a positive performance in Q1 2023, April and May remained steady, although with some moderation in the latter month. In May, activity was unchanged on a monthly basis. At the sector level, the performance was mixed, as the 1.0% and 0.3% growth rates of industrial production and agriculture was offset by a decrease of 0.4% in services. On an annual basis, the economy grew 3.2%, using seasonally-adjusted figures.

Inflation eased more than expected to 5.06% year-over-year in June from 6.85% year-over-year by the end of Q1 2023. The main driver of the easing was the non-core component, which eased to -0.36% year-over-year in June from 3.27% year-over-year by the end of Q1 2023. Meanwhile, core inflation pressures are easing at a slower pace, as it eased to 6.89% year-over-year in June from 8.09% by the end of Q1 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 May and June.

Financial Performance – Key Metrics

- Grupo Financiero's profit before tax for the first half of 2023 was MXN7,142m, an increase of MXN1,638m or 29.8% compared with MXN5,504m for the same period in 2022.
- Net interest income for the first half of 2023 was MXN21,483m, an increase of MXN2,121m or 11.0% compared with MXN19,362m for the same period in 2022. The increase is mainly explained by higher interest rate environment and retail loan portfolio growth.

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

- Loan impairment charges for the first half of 2023 were MXN6,045m, an increase of MXN767m or 14.5% compared with MXN5,278m for the same period in 2022. The increase is mainly driven by retail loan portfolio growth.
- Net fee income for the first half of 2023 was MXN4,878m, an increase of MXN543m or 12.5% compared with MXN4,335m for the same period in 2022 mainly driven by increase in commercial activity.
- Trading income for the first half of 2023 was MXN1,592m, an increase of MXN157m or 10.9% compared with MXN1,435m for the same period in 2022 mainly driven by trading activity with corporate and institutional clients through fixed income and FX business.
- Other operating income (expense) for the first half of 2023 was MXN-531m, an increase of MXN98m or 22.6% compared with MXN-433m for the same period in 2022 explained by lower insurance income partially offset by the losses from the sale of selected corporate loans last year.
- Administrative and personnel expenses for the first half of 2023 were MXN14,814m, an increase of MXN402m or 2.8%, compared with MXN14,412m for the same period in 2022 mainly due to higher staff expenses, IT higher costs and increase in marketing expenses.
- The cost efficiency ratio was 53.1% for the first half of 2023 compared with 57.4% for the same period in 2022.
- The effective tax rate was 27.1% for the first half of 2023, compared with 7.0% 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 June 2023, net loans and advances were MXN422.3bn showing an overall increase of MXN34.4bn, or 8.9% compared with MXN387.9bn. The increase is driven by 20.2% growth in Wealth and Personal Banking (WPB) portfolio compared to 30 June 2022 with mortgage loans growing 20.7%, partially offset by a decrease in Commercial Banking (CMB) portfolio by 2.2%.
- Credit cost ratios¹ and loan loss reserves ratios² as of June 2023 were 2.8% (2.6% as of June 2022) and 3.9% (4.4% as of June 2022), respectively.
- Return on equity was 13.0% for the first half of 2023, whereas for the first half of 2022 it was 13.9%.
- Total stage 3 loans at 30 June 2023 were MXN12.4bn representing 2.8% of gross loans. Following the HSBC approach to stage 3, of the 2.8%, 0.4% relates to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.4% relates to loans with 90 or more days past due. As of June 2022, stage 3 loans were MXN18.0bn and 4.4% as a percentage of gross loans, of which 1.7% were related to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.7% were related to loans with 90 or more days of past due.
- At 30 June 2023, total loan loss allowances were MXN16.7bn, a decrease of MXN1.1bn or 6.3% compared to 30 June 2022. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 134.2% at 30 June 2023 compared with 99.0% at 30 June 2022.
- At 30 June 2023, total deposits were MXN503.1bn, an increase of MXN13.9bn or 2.8%, compared with MXN489.2bn at 30 June 2022, mainly driven by higher time deposits partially offset by lower demand deposits.

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

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

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

- On 29 June 2023, Grupo Financiero HSBC paid a dividend of MXN 1,270m.
- HSBC Bank Mexico ('the bank') profit before tax for the first half of 2023 was MXN6,187m, an increase of MXN1,438m or 30.2% compared with MXN4,749m for the same period in 2022 mainly driven by an increase in net interest income, net fees and trading income partially offset by higher loan impairment charges and administrative and personnel expenses.
- HSBC Bank Mexico net income for the first half of 2023 was MXN4,555m, a decrease of MXN 7m or 0.2% compared with MXN4,562m for the same period in 2022.
- HSBC Bank Mexico net interest income for the first half of 2023 was MXN21,198m an increase of MXN2,080m or 10.8%, compared with MXN19,118m for the same period in 2022.
- At 30 June 2023, the bank's preliminary total capital adequacy ratio was 15.4% and the common equity tier 1 capital ratio was 12.1%, compared with 13.3% and 11.1%, respectively, at 30 June 2022. The benefit from the implementation of IRB-F and the prepayment models was of c. +125 bp. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.
- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the first half of 2023 was MXN667m, an increase of MXN160m or 30.6% compared with MXN507m for the same period in 2022, mainly driven by the increase in premiums, higher financial income partially offset by higher technical reserves and slightly higher claims.

HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 30 June 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 highlights³ (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 & 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

Wealth and Personal Banking profit before tax for the first half of 2023 was of MXN2,893m an increase of MXN526m compared with the MXN2,367m for the same period in 2022, mainly driven by increase revenues due to higher balances, favourable interest rates and higher fees in credit cards. With markets treasury reallocation, profit before tax result was MXN2,244m.

Total revenue for the first half of 2023 was MXN19,771m, an increase of MXN2,923m or 17.3% compared with MXN16,848m for the same period of 2022. This is mainly driven by higher volumes in time deposits, credit cards and payroll loans, coupled with higher spreads across deposits portfolio and higher transactional fees in cards.

Loan impairment charges for the first half of 2023 were MXN6,025m, an increase of MXN919m or 18% compared with MXN5,106m for 2022, explained by provisions derived from higher loan portfolio.

Administrative and personal expenses for the first half of 2023 were MXN10,976m, an increase of MXN1,525m or 16.1% compared with MXN9,451m for the same period of 2022, driven by higher marketing and IT costs, coupled with staff costs increase due to inflation.

³ Markets Treasury total loss before tax for the six months of 2023 was MXN1,401m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the six months of 2023 loss before tax allocation by business was MXN-649m to WPB, MXN-532m to CMB and MXN-220m to MSS.

⁴ WPB does not include Insurance results which was MXN667m in profit before tax as of the six months to 30 June 2023.

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Net loans and advances to customers were MXN230.9bn at 30 June 2023 showing an overall increase of MXN38.8bn or 20.2% compared with MXN192.1bn for 2022. This increase is mainly in Cards with a 34.0% compared to the same period last year, followed by Mortgage and Auto (20.7% and 44.9% respectively). Other consumer loans (mainly payroll and personal) remain flat compared to last year.

Total deposits were MXN270.0bn, an increase of MXN18.1bn or 7.2% compared with MXN251.9bn for 2022, mainly driven by time deposits with a 16.2% increase, followed by Retail Business Banking Deposits demand deposits increase of 22.5%.

In the second quarter of 2023, HSBC repositioned the “Y SI SI” campaign, focused on customer acquisition, transactionality and savings. aiming to improve our brand positioning with our clients.

Digital capabilities keep improving, with the release of express transfers, where HSBC clients can transfer up to 11k Mexican Pesos to other banks without having to register the receiving account, reports of lost or stolen cards (both credit and debit) through an authenticated chat and purchases deferrals for credit cards, through the app.

WPB Mexico, in collaboration with CMB, evolved the alliance with Endeavor with the program "Welcome to Mexico" to connect opportunities for scale-ups in the country, through comprehensive solutions designed for Start-ups.

HSBC Mexico added Seven Eleven stores to its retail partner network in July. Customers will be able to withdraw cash 24 hours a day in over 1,900 Seven Eleven stores in the country. The maximum amount per transaction is \$2,000 Mexican pesos with an accumulated daily limit of \$5,000 pesos.

Commercial Banking (CMB)

Profit before tax for the first half of 2023 was MXN5,128m, an increase of MXN2,112m or 70% compared with MXN3,016m for the same period in 2022 mainly explained by higher net interest income coupled with reduction on loan impairment charges and lower administration and personnel expenses. With Markets Treasury allocation, profit before tax was MXN4,596m.

Total revenue for the first half of 2023 was MXN7,695m, an increase of MXN1,735m or 29.1% compared with MXN5,960m for the same period in 2022, mainly explained by the 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 first half of 30 June 2023 was of MXN20m, a decrease of MXN152m or 88% compared with MXN172m for same period in 2022, driven by individual client releases during 1H23 mainly on Local Corporates due to credit risk rating improvements.

Administration and personnel expenses for the six months to 30 June 2023 was MXN2,531m, a decrease of MXN245m or 8.8% compared with MXN2,776m for the same period in 2022, mainly driven by the optimization of the structure following the merger of wholesale business.

At 30 June 2023, net loans and advances to customers were MXN191.2bn, a decrease of MXN4.4bn or 2.2% compared with MXN195.6bn for the same period in 2022.

At 30 June 2023, total deposits were MXN215.7bn, a decrease of MXN8.0bn or 3.6% compared with MXN223.7bn for the same period in 2022 following a strategy to optimize the funding cost and improve spreads.

During Q2 2023, HSBC Mexico launched “HSBC Firma Digital App” to simplify the onboarding process of customers.

HSBC participated alongside other Banks as joint-book runners on the issuance of 4 ESG Bonds:

- BIMBO: inaugural SLB (Sustainability-Linked Bond) in the local and international market
- CABEL: its third Social Bond. Proceeds will be used to support vulnerable population projects within the Central American Region,
- CFE: the largest order book in more than 5 years that makes them one of the top 5 Mexican ESG-bond issuers
- America Móvil: Largest issuance in the market.

Aligned with “Mujeres al Mundo” programme we launched an alliance with Endeavor to provide personalized support to develop personal and professional growth of women that are leading local companies, including trainings, mentoring, networking and international connectivity.

Markets and Security Services (MSS)

Profit before tax for the first half of 2023 was MXN225m, a decrease of MXN226m which represents 50% compared with MXN451m 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, this semester MSS was impacted by higher credit risk reserves in derivatives with a negative impact of MXN140m.

Administrative and personal expenses for the first half of 2023 were MXN506m, an increase of MXN51m or a 11.2% compared with MXN455m for the same period in 2022 mainly driven by inflation impacting staff costs.

Awards and Recognitions

For the first time, HSBC México participated and positioned in top 15 of the Súper Empresas 2023 ranking "Places where everyone wants to work" in the category of companies with more than 3,000 employees. This ranking is carried out every year by the magazine Expansión and Top Companies, a leading firm in the diagnosis and strengthening of the work culture, where various parameters of the culture and the organizational climate are rated. Derived from this ranking, the bank was also recognized in the Super Companies for Women 2023 ranking thanks to the actions it carries out to promote gender equity as part of its diversity and inclusion policy.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 865 branches, 5,578 ATMs and 14,225 employees as of 30 June 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\$2,990bn at 31 March 2023, HSBC is one of the world's largest banking and financial services organisation.

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Consolidated Income Statement – GROUP six months ended 30 June 2023

Figures in MXN Millions

	Group	
	30-Jun-23	30-Jun-22
Interest income	39,986	28,462
Interest expense	(18,503)	(9,100)
Net interest income	21,483	19,362
Loan impairment charges	(6,045)	(5,278)
Risk-adjusted net interest income	15,438	14,084
Fees and commissions receivable	6,185	5,560
Fees payable	(1,307)	(1,225)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	474	415
Trading income	1,592	1,435
Other operating income (expense)	(531)	(433)
Total operating income	27,896	25,114
Administrative and personnel expenses	(14,814)	(14,412)
Net operating income	7,037	5,424
Share of profits in equity interest	105	80
Profit/(loss) before tax	7,142	5,504
Income tax	(1,933)	(386)
Net income before discontinued operations	5,209	5,118
Discontinued Operations	-	-
Net income	5,209	5,118

Consolidated Income Statement – BANK six months ended 30 June 2023

Figures in MXN Millions

	Bank	
	30-Jun-23	30-Jun-22
Interest income	39,721	28,241
Interest expense	(18,523)	(9,123)
Net interest income	21,198	19,118
Loan impairment charges	(6,045)	(5,278)
Risk-adjusted net interest income	15,153	13,840
Fees and commissions receivable	5,887	5,271
Fees payable	(1,583)	(1,505)
Trading income	1,370	1,589
Other operating income (expense)	(71)	(199)
Total operating income	26,801	24,724
Administrative and personnel expenses	(14,674)	(14,329)
Net operating income	6,082	4,667
Share of profits in equity interest	105	82
Profit/(loss) before tax	6,187	4,749
Income tax	(1,632)	(187)
Net income before discontinued operations	4,555	4,562
Discontinued Operations	-	-
Net income	4,555	4,562

Consolidated Balance Sheet – 2023 (Comparatives)

Figures in MXN millions

	Group		Bank	
	30 Jun 23	30 Jun 22	30 Jun 23	30 Jun 22
Assets				
Cash and cash equivalents	61,011	56,053	60,849	55,927
Margin accounts	237	243	237	243
Financial Investments	168,891	152,715	156,937	142,257
Trading financial investments	79,287	60,669	72,913	56,609
Financial investments held to collect or sale	68,353	72,734	62,773	66,359
Financial investments held to collect principal and interest (securities) (net)	21,251	19,312	21,251	19,289
Reverse repurchase agreements	31,147	51,010	31,147	51,010
Derivative transactions	34,540	43,893	34,540	43,893
Loan and advances - credit risk stage 1				
Commercial loans	200,255	200,128	200,255	200,128
Consumer loans	88,900	75,527	88,900	75,527
Mortgage loans	130,926	108,084	130,926	108,084
Total loan portfolio with credit risk stage 1	420,081	383,739	420,081	383,739
Loan and advances - credit risk stage 2				
Commercial loans	1,931	190	1,931	190
Consumer loans	2,509	2,210	2,509	2,210
Mortgage loans	1,867	1,434	1,867	1,434
Total loan portfolio with credit risk stage 2	6,307	3,834	6,307	3,834
Loan and advances - credit risk stage 3				
Commercial loans	7,213	13,099	7,213	13,099
Consumer loans	2,232	1,945	2,232	1,945
Mortgage loans	2,962	2,916	2,962	2,916
Total loan portfolio with credit risk stage 3	12,407	17,960	12,407	17,960
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	438,795	405,533	438,795	405,533
Expected credit losses	(16,650)	(17,778)	(16,650)	(17,778)
Gross loans and advances to customers - Insurance	153	118	-	-
Total net loans and advances to customers	422,298	387,873	422,145	387,755
Premium receivables	2,128	1,897	-	-
Accounts receivables from reinsurers and rebonding companies	35	41	-	-
Other accounts receivable (net)	53,824	46,246	53,829	46,658
Foreclosed assets	290	250	290	250
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,456	5,937	6,456	5,937
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	1,872	2,646	1,865	2,639
Prepayments and other assets	7,245	6,117	7,214	6,029
Long-term investments	1,381	1,220	1,339	1,228
Deferred income tax asset (net)	7,069	7,510	6,974	7,308
Intangible assets (net)	7,487	6,381	7,487	6,381
Intangible Assets (Net) - Rights of Use Assets	241	159	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	10	-	10	-
Total assets	807,127	771,156	791,329	757,525

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

Consolidated Balance Sheet - 2023 (continued)

Figures in MXN millions

	Group		Bank	
	30 Jun 23	30 Jun 22	30 Jun 23	30 Jun 22
<u>Liabilities</u>				
Deposits	503,124	489,203	503,416	490,568
Demand deposits	343,463	346,134	343,755	347,499
Time deposits	146,828	129,727	146,828	129,787
Bank bond outstanding	11,290	12,288	11,290	12,288
Global deposit account without movements	1,543	994	1,543	994
Bank deposits and other liabilities	10,703	12,868	10,703	12,868
On demand	2,051	-	2,051	-
Short-term	5,394	7,733	5,394	7,733
Long-term	3,258	5,135	3,258	5,135
Technical reserves	11,057	8,455	-	-
Unsettled transactions	1	-	-	-
Repurchase agreements	42,040	20,789	42,040	20,789
Collateral sold	39,927	38,905	39,927	38,905
Reports (credit balance)	22,661	31,920	22,661	31,920
Securities lending	17,266	6,985	17,266	6,985
Derivative Financial Liabilities	36,144	43,733	36,144	43,733
Trading Derivatives	36,141	43,701	36,141	43,701
Hedging Derivatives	3	32	3	32
Accounts Payable from reinsurers and rebonding companies	11	2	-	-
Lease liabilities	2,193	2,859	2,186	2,851
Other payable accounts	55,424	62,505	54,658	61,928
Settlement accounts	26,239	34,457	25,922	34,345
Income tax and employee profit sharing payable	5,292	10,245	5,292	10,245
Contributions for future capital increases	1,163	1,105	1,116	1,043
Sundry creditors and other accounts payable	22,730	16,698	22,328	16,295
Financial instruments qualifying as liabilities (subordinated debt)	18,551	11,711	18,551	11,711
Subordinated debentures outstanding	18,551	11,711	18,551	11,711
Income tax liabilities	636	-	617	-
Employee benefit liabilities	4,688	3,817	4,629	3,773
Deferred credits and receivable in advance	1,732	1,587	1,683	1,485
Total liabilities	726,231	696,434	714,554	688,611
<u>Equity</u>				
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	41,751	36,272	42,502	35,330
Capital reserves	1,244	1,244	14,510	13,510
Retained earnings - prior years	35,298	29,910	23,437	17,258
Net income	5,209	5,118	4,555	4,562
Result from the mark-to-market of available- for-sale securities	(1,320)	(1,781)	(1,158)	(1,589)
Result from cash flow hedging transactions	(671)	(1,355)	(671)	(1,355)
Adjustment in the employee pension	(2,248)	(1,798)	(2,224)	(1,798)
Total Controlling Interest's	80,885	74,711	76,767	68,906
Minority interest in capital	11	11	8	8
Total Shareholder's Equity	80,896	74,722	76,775	68,914
Total liabilities and equity	807,127	771,156	791,329	757,525

Consolidated Balance Sheet – 2023 (continued)

Figures in MXN millions

Memorandum Accounts

Third party accounts

Clients current accounts

Custody operations

Proprietary position

Irrevocable lines of credit granted

Goods in trust or mandate

Trusts

Mandate

Goods in custody or under administration

Collateral received by the institution

Collateral received and sold or delivered as guarantee

Suspended interest on stage 3 loans

Other control accounts

Total Memorandum Account

	Group		Bank	
	30-Jun-23	30-Jun-22	30-Jun-23	30-Jun-22
	33,187	2,479	-	-
Clients current accounts	5,673	1,601	-	-
Custody operations	27,514	878	-	-
Proprietary position	4,748,972	4,807,842	4,545,731	4,616,055
Irrevocable lines of credit granted	322,603	284,155	322,603	284,155
Goods in trust or mandate	194,569	188,710	194,569	188,710
Trusts	193,749	187,858	193,749	187,858
Mandate	820	852	820	852
Goods in custody or under administration	1,417,065	1,408,001	1,417,065	1,408,001
Collateral received by the institution	48,724	60,632	48,724	60,632
Collateral received and sold or delivered as guarantee	43,028	39,987	43,028	39,987
Suspended interest on stage 3 loans	641	508	641	508
Other control accounts	2,722,342	2,825,849	2,519,101	2,634,062
Total Memorandum Account	4,782,159	4,810,321	4,545,731	4,616,055

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*	-	-	(1,381)	-	-	-	(1,381)	-	(1,381)
Capitalization of other equity items	-	-	-	-	-	-	-	2	2
Comprehensive Income:									
Net Income	-	-	5,209	-	-	-	5,209	-	5,209
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	190	-	-	190	-	190
Valuation of cash flow hedging transactions	-	-	-	-	450	-	450	-	450
Remeasurement of defined benefits to employees	-	-	-	-	-	(115)	(115)	-	(115)
Total	-	-	5,209	190	450	(115)	5,734	-	5,734
Final balances as of 30 June 2023	43,373	1,244	40,507	(1,320)	(671)	(2,248)	80,885	11	80,896
*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)	-	-	(111)	-	-	-	(111)	-	(111)
Capitalization of other equity items	-	-	-	-	-	-	-	1	1
Reserve Movements	-	1,000	(1,000)	-	-	-	-	-	-
Comprehensive Income:									
Net Income	-	-	4,555	-	-	-	4,555	-	4,555
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	157	-	-	157	-	157
Valuation of cash flow hedging transactions	-	-	-	-	450	-	450	-	450
Remeasurement of defined benefits to employees	-	-	-	-	-	(89)	(89)	-	(89)
Participation in comprehensive income of other entities	-	-	-	-	-	-	-	-	-
Total	-	-	4,555	157	450	(89)	5,073	-	5,073
Final balances as of 30 June 2023	38,318	14,510	27,992	(1,158)	(671)	(2,224)	76,767	8	76,775

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

Consolidated Statement of Cash Flow – Group

Figures in MXN millions

30 Jun 2023

Profit/(loss) before taxes	7,142
Adjustments for items associated with investing activities	1,851
Depreciation of property, furniture and equipment	612
Amortization of intangible assets	1,344
Participation in the net result of other entities	(105)
Adjustments for items associated with financing activities	1,686
Interest associated with bank deposits and other liabilities	539
Financial instruments qualifying as liabilities (subordinated debt)	1,147
Changes in items related to operating activities	(7,972)
Bank deposits and other liabilities	(13,777)
Margin accounts	351
Financial investments	(22,101)
Reverse repurchase agreements	43,498
Derivative transactions (assets)	3,179
Loan Portfolio (net)	(19,635)
Debtors of re-insurance	107
Recoverable amounts for reinsurance and refinancing (net)	17
Change in benefits from receiving securitization operations	-
Change in inventories	-
Other accounts receivable (net)	(17,515)
Foreclosed assets (net)	(39)
Deposits	(12,534)
Technical Reserves	1,514
Repurchase agreements	13,863
Collaterals sold or given in guarantee	4,725
Derivative transactions (liabilities)	204
Accounts payable for reinsurers	(5)
Change of assets/liabilities for employee benefits	61
Other accounts payable	13,589
Other provisions	(1,337)
Income tax payments	(2,137)
Net cash flows from operating activities	(2,707)
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(521)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(2,904)
Other receipts from investing activities	-
Other payments from investing activities	(3)
Net cash flows from investing activities	(3,274)
Financing activities:	
Payments of bank loans and other organizations	(502)
Cash Dividend Payments	(1,270)
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	(1,883)
Increase/decrease in cash and equivalents	(2,450)
Cash and equivalents at beginning of period	63,461
Cash and equivalents as of 30 Jun 2023	61,011

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

Consolidated Statement of Cash Flow - Bank

Figures in MXN millions

	30 Jun 2023
Profit/(loss) before taxes	6,187
Adjustments for items associated with investing activities	1,851
Depreciation of property, furniture and equipment	612
Amortization of intangible assets	1,344
Other adjustments for items associated with investing activities	(105)
Adjustments for items associated with financing activities	1,686
Interest associated with bank deposits and other liabilities	539
Financial instruments qualifying as liabilities (subordinated debt)	1,147
Changes in items related to operating activities:	(8,315)
Bank deposits and other liabilities	(13,777)
Margin accounts	351
Financial investments	(20,926)
Reverse repurchase agreements	43,498
Derivative transactions (assets)	3,179
Loans and advances (net)	(19,618)
Change in benefits from receiving securitization operations	-
Other accounts receivable (net)	(18,549)
Foreclosed assets (net)	(39)
Other Operating Assets	(896)
Deposits	(13,045)
Repurchase agreements	13,863
Collaterals sold or given in guarantee	4,725
Derivative transactions (liability)	204
Adjustments for employee benefits	11,529
Other operational liabilities	160
Change of assets/liabilities for employee benefits	4,026
Other accounts payable	(1,271)
Other provisions	(1,729)
Income tax payments	(1,729)
Net cash flows from operating activities	1,409
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(521)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(2,904)
Other payments from investing activities	(3)
Net cash flows from investing activities	(3,274)
Financing activities:	
Lease liability payments	(501)
Cash Dividend Payments	-
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	(612)
Increase/decrease in cash and equivalents	(2,477)
Cash and equivalents at beginning of period	63,326
Cash and equivalents as of 30 Jun 2023	60,849

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 has 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 had 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 six months ended at 30 June 2023 and an explanation of the key reconciling items.

30 Jun 2023

Figures in MXN millions

Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	7,142
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	1,627
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	156
Other insurance adjustments ⁵	57
Fair value adjustments on financial instruments	(90)
Others	(163)
Deferred profit sharing	(186)
IFRS16	(203)
AT1 Valuation	(431)
Profit before/(loss) tax under IFRS	7,909

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 ressetable 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

Grupo Financiero HSBC, S.A. de C.V. 2Q 2023 Financial Results Highlights

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).