

**GRUPO FINANCIERO HSBC, S.A. DE C.V. 2Q 2024 FINANCIAL RESULTS HIGHLIGHTS**

- For the first half of 2024, profit before tax was MXN7,649m, an increase of MXN507m or 7.1% compared with MXN7,142m for the same period in 2023.
- Net income for the first half of 2024 was MXN5,312m, an increase of MXN103m or 2.0% compared with MXN5,209m for the same period in 2023.
- Total operating income excluding loan impairment charges for the first half of 2024 was MXN30,037m, an increase of MXN2,141m or 7.7% compared with MXN27,896m for the same period in 2023.
- Loan impairment charges for the first half of 2024 were MXN6,077m, an increase of MXN32m or 0.5% compared with MXN6,045m for the same period in 2023.
- Administrative and personnel expenses for the first half of 2024 were MXN16,445m, an increase of MXN1,631m or 11.0%, compared with MXN14,814m for the same period in 2023.
- The cost efficiency ratio was 54.7% for the first half of 2024 compared with 53.1% for the same period in 2023.
- At 30 June 2024, net loans and advances to customers were MXN470.7bn, an increase of MXN48.4bn or 11.5% compared with MXN422.3bn at 30 June 2023.
- At 30 June 2024, total stage 3 loans were MXN10.9bn, representing 2.3% of gross loans compared to June 2023 when stage 3 loans were MXN12.4bn representing 2.9% of gross loans.
- At 30 June 2024, total deposits were MXN571.9bn, an increase of MXN68.8bn, or 13.7%, compared with MXN503.1bn at 30 June 2023.
- Return on equity was 12.6% for the first half of 2024, whereas for the same period in 2023 it was 13.0%.
- At 30 June 2024, the bank's total capital adequacy ratio was 16.5% and the common equity tier 1 capital ratio was 11.9%, compared with 15.4% and 12.1%, respectively, at 30 June 2023. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

**Grupo Financiero HSBC, S.A. DE C.V. financial results for the first half of 2024 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 MXN7,979m, an increase of MXN70m compared with MXN7,909m for the same period in 2023. The increase is mainly driven by higher net interest income and net fee income & Trading Income partially offset by loan impairment charges and operating expenses.

The main differences between Mexican GAAP and IFRS results for the first half of 2024 relate to differences in loan impairment charges, post-employment benefit, effective interest rate, deferred profit sharing, other insurance adjustment and additional tier 1 (AT1).

## **Overview**

Economic activity grew 0.7% month over month in May 2024, reflecting a recovery with respect to April's slower growth. The latest economic activity figures show that services and industrial activity led the increase, followed by primary activities. However, in annual terms, economic activity moderated its pace of growth as it expanded 1.6%, using seasonally adjusted figures. Services led the expansion, followed by industrial output; in contrast, primary activities dropped. Overall, these results confirm a more modest increase in 2Q 2024.

Inflation accelerated to 5.0% year over year in June 2024 from 4.4% in March 2024. This was led by non-core prices, mainly due to supply shocks in fruits and vegetables prices. In contrast, core inflation continued to decline, as it reached an annual rate of 4.1% in June 2024 from 4.6% in March 2024.

Inflation accelerated to 5.6% year over year in the first half of July 2024. In comparison, core inflation continued to decline, as it reached an annual rate of 4% in first half in July from 4.1% in June 2024.

After cutting the policy rate by 25bp in March, Mexico's central bank (Banxico) kept the monetary policy rate unchanged at 11.00% in Q2 2024 (May and June meetings).

## **Financial Performance – Key Metrics**

- Profit before tax for the first half of 2024 was MXN7,649m, an increase of MXN507m or over 7.1% compared with MXN7,142m for the same period in 2023.
- Net interest income for the first half of 2024 was MXN23,451m, an increase of MXN1,968m or 9.2% compared with MXN21,483m for the same period in 2023. The increase is mainly explained by the growth of retail loan portfolio.
- Loan impairment charges for the first half of 2024 were MXN6,077m, an increase of MXN32m compared with MXN6,045m for the same period in 2023. The amount is aligned with the previous year.
- Net fee income for the first half of 2024 was MXN5,175m, an increase of MXN297m or 6.1% compared with MXN4,878m for the same period in 2023 mainly driven by increase in commercial activity.
- Trading income for the first half of 2024 was MXN2,328m, an increase of MXN736m or 46.2% compared with MXN1,592m for the same period in 2023, driven by lower credit reserves and higher revenues from FX and structuring products with corporates clients.
- Other operating income/(expenses) for the first half of 2024 was an expense of MXN745m, increased by MXN214m or over 40.3% compared with an expense of MXN531m for the same

### Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/3

period in 2023, main drivers were an increase insurance technical reserves and higher IPAB contributions, partially offset by recoveries.

- Administrative and personnel expenses for the first half of 2024 were MXN16,445m, an increase of MXN1,631m or 11.0%, compared with MXN14,814m for the same period in 2023 mainly due to higher staff expenses, IT and related tax costs.
- The cost efficiency ratio was 54.7% for the first half of 2024 for income statement compared with 53.1% for the same period in 2023.
- The effective tax rate was 30.6% for the first half of 2024, compared with 27.1% reported for the same period in 2023. The variation is mainly driven by the inflationary effects generated by a higher position on the monetary assets.
- At 30 June 2024, net loans and advances were MXN470.7bn showing an overall increase of MXN48.4bn, or 11.5% compared with MXN422.3bn. The increase is driven by 12.8% growth in Mortgage Loans compared to 30 June 2024, with Commercial Banking (CMB) portfolio growing 12.3%, additionally to an increase in Wealth and personal Banking (WPB) portfolio by 11.3%.
- At 30 June 2024, Credit cost ratios<sup>1</sup> and loan loss reserves ratios<sup>2</sup> were 2.5% (2.8% as of June 2023) and 3.4% (3.8% as of June 2023) respectively.
- Return on equity was 12.6% for the first half of 2024, whereas for the same period 2023 was 13.0%.
- Total stage 3 loans at 30 June 2024 were MXN10.9bn representing 2.3% of gross loans. Following the HSBC approach to stage 3, of the 2.2%, 0.1% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.1% relates to loans with 90 or more days past due. As of June 2023, stage 3 loans were MXN12.4bn and 2.9% as a percentage of gross loans, of which 0.4% were related to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.4% were related to loans with 90 or more days of past due.
- At 30 June 2024, total loan loss allowances were MXN16.5bn, a decrease of MXN0.2bn or 1.2% compared with MXN16.7bn to same period in 2023. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 151.8% at 30 June 2024 compared with 134.2% at 30 June 2023.
- At 30 June 2024, total deposits were MXN571.9bn, an increase of MXN68.8bn or 13.7%, compared with MXN503.1bn at 30 June 2023, mainly driven by higher demand deposits and time deposits.
- On 28 June 2024, HSBC Mexico S.A. ('the bank') paid a dividend of MXN 1,303m. On the same day, Grupo Financiero HSBC, S.A. de C.V. paid a dividend of MXN 2,830m.
- HSBC Mexico S.A. ('the bank') profit before tax for the first half of 2024 was MXN6,665m, an increase of MXN478m or 7.7% compared with MXN6,187m for the same period in 2023 mainly driven by higher Interest Income & Trading income and partially offset by expenses.
- HSBC Bank Mexico S.A. ('the bank') net income for the first half of 2024 was MXN4,583m, an increase of MXN28m or 0.6% compared with MXN4,555m for the same period in 2023.

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<sup>1</sup> Credit Cost Ratio: Loan Impairment charges annualized/Gross Loans.

<sup>2</sup> Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

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- HSBC Bank Mexico S.A. ('the bank') net interest income for the first half of 2024 was MXN23,158m an increase of MXN1,960m or 9.2%, compared with MXN21,198m for the same period in 2023.
- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the first half of 2024 was MXN562m, a decrease of MXN105m or 15.77% compared with MXN667m for the same period in 2023, mainly driven by increase in technical reserves partially offset by premiums and market to market from financial instruments.

*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 2024) 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<sup>3</sup>** (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.

#### **Wealth and Personal Banking (WPB)<sup>4</sup>**

Profit before tax for the first half of 2024 was of MXN2,088m, a decrease of MXN805m compared with the MXN2,893m for the same period in 2023. The primary factors influencing this outcome were elevated administrative expenses and loan impairment charges, though these were somewhat mitigated by an increase in revenues. With Markets Treasury allocation, profit before tax was MXN2,032m.

Total revenue for the first half of 2024 was MXN20,944m, an increase of MXN1,173m or 5.9%, compared with MXN19,771m for the same period of 2023. This revenue growth was propelled by enhanced volumes in our lending (11%) and deposits (4%) portfolios, alongside an uptick in fees, predominantly within our Cards segment.

Loan impairment charges for the first half of 2024 were MXN6,769m, an increase of MXN744m or 12.3% compared with MXN6,025m for the same period in 2023. This increase is largely attributable to provisions associated with an expanded loan portfolio.

Administrative and personnel expenses for the first half of 2024 were MXN12,212m, an increase of MXN1,236m or 11.3% compared with MXN10,976m for the same period of 2023. This surge was primarily due to escalated Global functions costs, IT and Staff costs.

At 30 June 2024 for balance sheet, Net loans and advances to customers were MXN255.9bn, it is showing an overall increase of MXN25bn or 10.8% compared with MXN230.9bn for the same period of 2023. This growth was predominantly observed in Mortgages (12.6m or 10%), followed by Cards (5.5m or 17%) and Auto (2.9m or 25%).

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<sup>3</sup> Markets Treasury total loss before tax for the six month of 2024 was MXN111m. 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 2024 loss before tax allocation by business was MXN-54m to WPB, MXN-15m to CMB and MXN-13m to MSS.

<sup>4</sup> WPB does not include Insurance results which was MXN562 in profit before for the six months of 2024.

## Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/6

Total deposits at 30 June 2024 amounted to MXN281.2bn, an increase of MXN11.2bn or 4.1% from MXN270.0bn in 2023, with significant contributions from Demand Deposits (4.8m or 4%) and Time Deposits (5.2m or 4%). Additionally, Funds experienced a robust growth of 24%, reaching MXN174.7bn compared to 2023.

Grupo Financiero HSBC, S.A. de C.V. continues its path to become the main bank of its customers. Relevant milestones achieved include:

- **Full mortgage.** HBMX has designed a punctual payment, relationship & cash out mortgage product to compete in the market, meet customer needs & reward customers with adjusting interest rates when they meet conditions of: (i) Punctual repayment, (ii) Meet minimum spend criteria on HSBC Credit card, thus, deepening their banking relationship and (iii) Active engagement/ transactions on Internet/Mobile banking. Additionally, customers can benefit from a cash-out line of credit.
- **New Payroll value proposition.** To guarantee the right competitiveness vs the top banks in the market. Grupo Financiero HSBC, S.A. de C.V. added new benefits of the payroll value proposition that now includes more than 25 new coverages and assistance services for NTB and ETB customers.
- **ATM Safe.** A new insurance whose objective is to protect clients against: (i) theft in cash withdrawals at ATMs and branch tellers, (ii) violent theft of personal belongings inside the car and (iii) 24/7 Assistance.

### Commercial Banking (CMB)

Profit before tax for the first half of 2024 was MXN5,369m, an increase of MXN241m or 4.7% compared with MXN5,128m for the same period in 2023, mainly explained by higher releases from loan impairment charges, partly offset by lower Revenues and higher administration and personnel expenses. With Markets Treasury allocation, profit before tax was MXN5,341m.

Total revenue for the first half of 2024 was MXN7,620m, a decrease of MXN75m or 1% compared with MXN7,695m for the same period in 2023, mainly explained by lower fee income from Asset transactions coupled with negative impact from deposit insurance; this is partly offset by higher net interest income following increase on asset & deposits.

Loan impairment charges for the first half of 2024 were a MXN692m release, a reduction of MXN712m compared with MXN20m credit provisions for same period in 2023, explained by a higher amount of releases on certain individual clients on the Local Corporate segment during this year, as well as an improvement on client's internal risk ratings.

Administrative and personnel expenses for the first half of 2024 were MXN2,952m, an increase of MXN421m or 16.6% compared with MXN2,531m for the same period in 2023, explained by higher staff expenses, IT costs, higher spend related to commercial activity and tax related costs.

At 30 June 2024, net loans and advances to customers were MXN214.7bn, an increase of MXN23.5bn or 12.3% compared with MXN191.2bn for the same period in 2023, driven by increase on International Corporates & Multinational segments observed since 4Q23.

At 30 June 2024, total deposits were MXN253.8bn, an increase of MXN38.1bn or 17.7% compared with MXN215.7bn for the same period in 2023, mainly to support the strong increase on the asset side.

After four years, HSBC Mexico successfully issued an MXN10bn transaction in the local market, comprising tenors for 3yrs, 5yrs & 7yrs. HSBC Mexico achieved a well-diversified investor base (~2.1x oversubscription). The tranche in USD marked the first transaction of its type in the local markets since 2020 for the banking sector and since 2022 considering all the markets.

## **Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/7**

HSBC Mexico, S.A. has been actively involved in several major Corporate and Multinational issuances with a total of 9 Bonds issued (including social bonds and acting in some transactions as joint book runners) for a total amount of nearly MXN 32bn (~USD 1.8bn). This continues to position HSBC Mexico as a key player on ESG Bond issuances in the market.

### **Markets and Security Services (MSS)**

Profit before tax for the first half of 2024 was MXN 261.4m, an increase of MXN 36.4m which represents 16.2% compared with profit MXN 225m in 2023. The increase is mainly coming from fixed income trading. With Markets Treasury allocation, Loss before tax was MXN 230m.

Administrative and personal expenses for first half of 2024 were MXN 464m, a decrease of MXN42m or an 8.3% compared with MXN 506m for the same period in 2023 mainly driven by lower administrative cost.

### **Awards and Recognitions**

#### **Responsible Companies 2024**

Expansión magazine recognized HSBC México for being part of its “Responsible Companies 2024” ranking. This year the bank was ranked 22nd out of 152 ranked companies, being the best-rated financial institution in the environmental, social and governance areas. This exercise, carried out year after year by Expansión magazine, systematically and methodologically evaluates the application of ESG criteria in the strategy of companies in various sectors in Mexico.

#### **Best Bank for ESG**

HSBC México was recognized by the British magazine Euromoney as the Best Bank for ESG in Mexico thanks to the comprehensive work that the financial institution has carried out by incorporating sustainability as a central element in operations, services and decision making. This is the second consecutive year in which HSBC Mexico obtains this recognition, through collaboration, the bank works to reduce its environmental impact, support its clients in the transition to a net-zero carbon economy and reduce investors' exposure to risk with the implementation of solid policies.

### **About HSBC**

Grupo Financiero HSBC, S.A. de C.V., is one of the leading financial groups in Mexico with 842 branches, 5,558 ATMs and 13,589 employees as of 30 June 2024.

For more information, visit [www.hsbc.com.mx](http://www.hsbc.com.mx).

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 60 countries and territories. With assets of US\$2,975bn at 30 Jun 2024, 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 2024**

*Figures in MXN Millions*

	<b>30-Jun-24</b>	<b>Group 30-Jun-23</b>
Interest income	45,759	39,986
Interest expense	(22,308)	(18,503)
Net interest income	23,451	21,483
Loan impairment charges	(6,077)	(6,045)
Risk-adjusted net interest income	17,374	15,438
Fees and commissions receivable	6,840	6,185
Fees payable	(1,665)	(1,307)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	(172)	474
Trading income	2,328	1,592
Other operating income (expense)	(745)	(531)
Total operating income	23,960	21,851
Administrative and personnel expenses	(16,445)	(14,814)
Net operating income	7,515	7,037
Share of profits in equity interest	134	105
Profit/(loss) before tax	7,649	7,142
Income tax	(2,337)	(1,933)
Net income before discontinued operations	5,312	5,209
Discontinued Operations	-	-
<b>Net income</b>	<b>5,312</b>	<b>5,209</b>



**Consolidated Income Statement – BANK six months ended 30 June 2024**

*Figures in MXN Millions*

	<b>Bank</b>	
	<b>30-Jun-24</b>	<b>30-Jun-23</b>
Interest income	45,484	39,721
Interest expense	(22,326)	(18,523)
Net interest income	23,158	21,198
Loan impairment charges	(6,077)	(6,045)
Risk-adjusted net interest income	17,081	15,153
Fees and commissions receivable	6,346	5,887
Fees payable	(1,876)	(1,583)
Trading income	1,655	1,370
Other operating income (expense)	(438)	(71)
Total operating income	22,768	26,801
Administrative and personnel expenses	(16,234)	(14,674)
Net operating income	6,534	6,082
Share of profits in equity interest	133	105
Profit/(loss) before tax	6,665	6,187
Income tax	(2,082)	(1,632)
Net income before discontinued operations	4,583	4,555
Discontinued Operations	-	-
<b>Net income</b>	<b>4,583</b>	<b>4,555</b>

Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/10

Consolidated Balance Sheet – 2024 (Comparatives)

Figures in MXN millions

	Group		Bank	
	30 Jun 24	30 Jun 23	30 Jun 24	30 Jun 23
<b>Assets</b>				
Cash and cash equivalents	85,694	61,011	85,536	60,849
Margin accounts	42	237	42	237
<b>Financial Investments</b>	<b>185,812</b>	<b>168,891</b>	<b>165,694</b>	<b>156,937</b>
Trading financial investments	74,754	79,287	60,102	72,913
Financial investments hold to collect or sale	74,212	68,353	68,746	62,773
Financial investments hold to collect principal and interest (securities) (net)	36,846	21,251	36,846	21,251
Reverse repurchase agreements	34,031	31,147	34,031	31,147
Derivative transactions	25,294	34,540	25,294	34,540
Loan and advances - credit risk stage 1				
Commercial loans	227,381	200,255	227,381	200,255
Consumer loans	98,872	88,900	98,872	88,900
Mortgage loans	144,687	130,926	144,687	130,926
Total loan portfolio with credit risk stage 1	470,940	420,081	470,940	420,081
Loan and advances - credit risk stage 2				
Commercial loans	309	1,931	309	1,931
Consumer loans	2,866	2,509	2,866	2,509
Mortgage loans	2,075	1,867	2,075	1,867
Total loan portfolio with credit risk stage 2	5,250	6,307	5,250	6,307
Loan and advances - credit risk stage 3				
Commercial loans	4,275	7,213	4,275	7,213
Consumer loans	2,924	2,232	2,924	2,232
Mortgage loans	3,656	2,962	3,656	2,962
Total loan portfolio with credit risk stage 3	10,855	12,407	10,855	12,407
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	487,045	438,795	487,045	438,795
Expected credit losses	(16,481)	(16,650)	(16,481)	(16,650)
Gross loans and advances to customers - Insurance	174	153	-	-
<b>Total net loans and advances to customers</b>	<b>470,738</b>	<b>422,298</b>	<b>470,564</b>	<b>422,145</b>
Premium receivables	2,411	2,128	-	-
Accounts receivables from reinsurers and rebonding companies	102	35	-	-
Other accounts receivable (net)	49,069	53,824	49,073	53,829
Foreclosed assets	244	290	244	290
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,576	6,456	6,576	6,456
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	3,366	1,872	3,362	1,865
Prepayments and other assets	6,258	7,245	6,114	7,214
Long-term investments	1,412	1,381	1,367	1,339
Deferred income tax asset (net)	6,579	7,069	6,456	6,974
Intangible assets (net)	7,329	7,487	7,329	7,487
Intangible Assets (Net) - Rights of Use Assets	283	241	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	10	10	10	10
<b>Total assets</b>	<b>886,215</b>	<b>807,127</b>	<b>861,701</b>	<b>791,329</b>

**Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/11**

**Consolidated Balance Sheet - 2024** (continued)

Figures in MXN millions

	Group		Bank	
	30 Jun 24	30 Jun 23	30 Jun 24	30 Jun 23
<b>Liabilities</b>				
<b>Deposits</b>	<b>571,914</b>	<b>503,124</b>	572,363	<b>503,416</b>
Demand deposits	372,506	343,463	372,942	343,755
Time deposits	178,477	146,828	178,490	146,828
Bank bond outstanding	18,880	11,290	18,880	11,290
Global deposit account without movements	2,051	1,543	2,051	1,543
Bank deposits and other liabilities	<b>13,743</b>	<b>10,703</b>	<b>13,743</b>	<b>10,703</b>
On demand	0	2,051	0	2,051
Short-term	4,749	5,394	4,749	5,394
Long-term	8,994	3,258	8,994	3,258
Pending Securities to pay	-	-	-	-
Technical reserves	19,936	11,057	-	-
Unsettled transactions	-	1	-	-
Repurchase agreements	48,514	42,040	48,514	42,040
Collateral sold	<b>30,553</b>	<b>39,927</b>	<b>30,553</b>	<b>39,927</b>
Reports (credit balance)	26,439	22,661	26,439	22,661
Securities lending	4,114	17,266	4,114	17,266
Derivative Financial Liabilities	<b>28,129</b>	<b>36,144</b>	<b>28,128</b>	<b>36,144</b>
Trading Derivatives	28,124	36,141	28,123	36,141
Hedging Derivatives	5	3	5	3
Accounts Payable from reinsurers and rebonding companies	20	11	-	-
Lease liabilities	3,416	2,193	3,412	2,186
<b>Other payable accounts</b>	<b>48,846</b>	<b>55,424</b>	<b>48,149</b>	<b>54,658</b>
Settlement accounts	27,529	26,239	27,358	25,922
Income tax and employee profit sharing payable	2,906	5,292	2,906	5,292
Contributions for future capital increases	1,080	1,163	1,012	1,116
Sundry creditors and other accounts payable	17,331	22,730	16,873	22,328
<b>Financial instruments qualifying as liabilities (subordinated debt)</b>	<b>28,606</b>	<b>18,551</b>	<b>28,606</b>	<b>18,551</b>
Subordinated debentures outstanding	28,606	18,551	28,606	18,551
Income tax liabilities	242	636	205	617
Employee benefit liabilities	5,599	4,688	5,536	4,629
Deferred credits and receivable in advance	2,019	1,732	2,019	1,683
<b>Total liabilities</b>	<b>801,538</b>	<b>726,231</b>	<b>781,230</b>	<b>714,554</b>
<b>Equity</b>				
Paid in capital	<b>43,373</b>	<b>43,373</b>	<b>38,318</b>	<b>38,318</b>
Capital stock	6,218	6,218	6,132	6,132
Additional paid in capital	37,155	37,155	32,186	32,186
Other reserves	<b>45,139</b>	<b>41,751</b>	<b>45,796</b>	<b>42,502</b>
Capital reserves	1,244	1,244	15,304	14,510
Retained earnings - prior years	38,583	35,298	25,909	23,437
Net income	5,312	5,209	4,583	4,555
Result from the mark-to-market of available- for-sale securities	(900)	(1,320)	(723)	(1,158)
Result from cash flow hedging transactions	(302)	(671)	(302)	(671)
Adjustment in the employee pension	(2,636)	(2,248)	(2,620)	(2,224)
Total Controlling Interest's	84,674	80,885	80,469	76,767
Minority interest in capital	3	11	-	8
Total Shareholder's Equity	<b>84,677</b>	<b>80,896</b>	<b>80,469</b>	<b>76,775</b>
<b>Total liabilities and equity</b>	<b>886,215</b>	<b>807,127</b>	<b>861,701</b>	<b>791,329</b>

Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/12

**Consolidated Balance Sheet – 2024** (continued)

Figures in MXN millions

	Group		Bank	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
<b>Memorandum Accounts</b>				
<b>Third party accounts</b>	<b>1,165</b>	<b>33,187</b>	-	-
Clients current accounts	1,165	5,673	-	-
Custody operations	-	27,514	-	-
<b>Proprietary position</b>	<b>3,765,251</b>	<b>4,748,972</b>	<b>3,551,832</b>	<b>4,545,731</b>
Irrevocable lines of credit granted	404,126	322,603	404,126	322,603
Goods in trust or mandate	<b>200,654</b>	<b>194,569</b>	<b>200,654</b>	<b>194,569</b>
Trusts	199,792	193,749	199,792	193,749
Mandate	862	820	862	820
Goods in custody or under administration	371,890	1,417,065	371,890	1,417,065
Collateral received by the institution	39,128	48,724	39,128	48,724
Collateral received and sold or delivered as guarantee	30,992	43,028	30,992	43,028
Suspended interest on stage 3 loans	510	641	510	641
Other control accounts	2,717,951	2,722,342	2,504,532	2,519,101
<b>Total Memorandum Account</b>	<b>3,766,416</b>	<b>4,782,159</b>	<b>3,551,832</b>	<b>4,545,731</b>

**Consolidated Statement of Changes in Shareholders' Equity**

Figures in MXN millions

<b>Group</b>	<b>Capital contributed</b>	<b>Capital reserves</b>	<b>Retained earnings – prior years</b>	<b>Valuation of financial investments hold to collect or sale</b>	<b>Valuation of cash flow hedging transactions</b>	<b>Remeasurement of defined benefits to employees</b>	<b>Total controlling interest</b>	<b>Minority interest</b>	<b>Total equity</b>
<b>Total Balances at 01 Jan 2024</b>	43,373	1,244	41,530	(916)	(199)	(2,568)	82,463	3	<b>82,467</b>
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Cash Dividends*	-	-	(2,948)	-	-	-	<b>(2,948)</b>	-	<b>(2,948)</b>
Capitalization of other equity items	-	-	-	-	-	-	-	-	-
<b>Comprehensive Income:</b>									
Net Income	-	-	5,313	-	-	-	<b>5,313</b>	-	<b>5,313</b>
<b>Other comprehensive income:</b>									
Valuation of financial investments hold to collect or sale	-	-	-	16	-	-	<b>16</b>	-	<b>16</b>
Valuation of cash flow hedging transactions	-	-	-	-	(103)	-	<b>(103)</b>	-	<b>(103)</b>
Remeasurement of defined benefits to employees	-	-	-	-	-	(68)	<b>(68)</b>	-	<b>(68)</b>
<b>Total</b>	-	-	<b>5,313</b>	<b>16</b>	<b>(103)</b>	<b>(68)</b>	<b>5,158</b>	-	<b>5,158</b>
<b>Final balances as of 30 June 2024</b>	<b>43,373</b>	<b>1,244</b>	<b>43,895</b>	<b>(900)</b>	<b>(302)</b>	<b>(2,636)</b>	<b>84,674</b>	<b>3</b>	<b>84,677</b>

\*Include AT1 coupon payments

**Consolidated Statement of Changes in Shareholders' Equity**

Figures in MXN million

<b>Bank</b>	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	<b>Total equity</b>
<b>Total Balances at 01 Jan 2024</b>	38,318	14,510	28,125	(754)	(199)	(2,551)	77,449	-	<b>77,499</b>
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
<b>Movements inherent to the shareholders' decision:</b>									
Dividends Declared (including AT1 coupon payments)	-	-	(1,421)	-	-	-	(1,421)	-	(1,421)
Capitalization of other equity items	-	-	-	-	-	-	-	-	-
Reserve Movements	-	795	(795)	-	-	-	-	-	-
<b>Comprehensive Income:</b>									
Net Income	-	-	4,583	-	-	-	4,583	-	4,583
<b>Other comprehensive income:</b>									
Valuation of financial investments hold to collect or sale	-	-	-	32	-	-	32	-	32
Valuation of cash flow hedging transactions	-	-	-	-	(103)	-	(103)	-	(103)
Remeasurement of defined benefits to employees	-	-	-	-	-	(69)	69	-	(69)
Participation in comprehensive income of other entities	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	4,583	32	(103)	(69)	4,443	-	4,443
<b>Final balances as of 30 June 2024</b>	<b>38,318</b>	<b>15,305</b>	<b>29,776</b>	<b>(722)</b>	<b>(302)</b>	<b>(2,620)</b>	<b>80,471</b>	-	<b>80,471</b>

## Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/15

### Consolidated Statement of Cash Flow – Group

Figures in MXN millions

	<u>30 Jun 2024</u>
<b>Profit/(loss) before taxes</b>	<b>7,649</b>
<b>Adjustments for items associated with investing activities</b>	<b>2,128</b>
Depreciation of property, furniture and equipment	589
Amortization of intangible assets	1,673
Participation in the net result of other entities	(134)
<b>Adjustments for items associated with financing activities</b>	<b>2,426</b>
Interest associated with bank deposits and other liabilities	685
Financial instruments qualifying as liabilities (subordinated debt)	1,741
<b>Changes in items related to operating activities</b>	<b>8,178</b>
Bank deposits and other liabilities	(2,393)
Margin accounts	70
Financial investments	(39,553)
Reverse repurchase agreements	12,013
Derivative transactions (assets)	3,122
Loan Portfolio (net)	(19,560)
Debtors of re-insurance	299
Recoverable amounts for reinsurance and refinancing (net)	(8)
Change in benefits from receiving securitization operations	-
Change in inventories	-
Other accounts receivable (net)	(13,553)
Foreclosed assets (net)	107
Deposits	47,947
Technical Reserves	5,102
Repurchase agreements	20,207
Collaterals sold or given in guarantee	(11,407)
Derivative transactions (liabilities)	(1,460)
Accounts payable for reinsurers	8
Change of assets/liabilities for employee benefits	220
Other accounts payable	10,522
Other provisions	(1,929)
Income tax payments	(1,576)
<b>Net cash flows from operating activities</b>	<b>20,381</b>
<b>Investing activities:</b>	
Payments for the acquisition of property, furniture and equipment	(339)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	181
Payments for acquisition of intangible assets	(961)
Other receipts from investing activities	-
Other payments from investing activities	-
<b>Net cash flows from investing activities</b>	<b>(1,119)</b>
<b>Financing activities:</b>	
Payments of bank loans and other organizations	(639)
Cash Dividend Payments	(2,830)
Proceeds from the issuance of financial instruments that qualify as liabilities	3,040
Collections for the issuance of financial instruments that qualify as liabilities	119
<b>Net cash flows from financing activities</b>	<b>(548)</b>
Increase/decrease in cash and equivalents	18,714
Cash and equivalents at beginning of period	66,981
<b>Cash and equivalents as of 30 June 2024</b>	<b>85,695</b>

## Grupo Financiero HSBC, S.A. de C.V. 2Q 2024 Financial Results Highlights/16

### Consolidated Statement of Cash Flow - Bank

Figures in MXN millions

30 Jun 2024

<b>Profit/(loss) before taxes</b>	<b>6,665</b>
<b>Adjustments for items associated with investing activities</b>	<b>2,129</b>
Depreciation of property, furniture and equipment	589
Amortization of intangible assets	1,673
Other adjustments for items associated with investing activities	(133)
<b>Adjustments for items associated with financing activities</b>	<b>2,426</b>
Interest associated with bank deposits and other liabilities	685
Financial instruments qualifying as liabilities (subordinated debt)	1,741
<b>Changes in items related to operating activities:</b>	<b>7,642</b>
Bank deposits and other liabilities	(2,393)
Margin accounts	70
Financial investments	(35,369)
Reverse repurchase agreements	12,013
Derivative transactions (assets)	3,122
Loans and advances (net)	(19,549)
Change in benefits from receiving securitization operations	-
Other accounts receivable (net)	(12,876)
Foreclosed assets (net)	107
Other Operating Assets	(150)
Deposits	47,975
Repurchase agreements	
Collaterals sold or given in guarantee	20,207
Derivative transactions (liability)	(11,407)
Adjustments for employee benefits	(1,460)
Other operational liabilities	14,571
Change of assets/liabilities for employee benefits	317
Other accounts payable	(4,539)
Other provisions	(1,847)
Income tax payments	(1,150)
<b>Net cash flows from operating activities</b>	<b>18,862</b>
<b>Investing activities:</b>	
Payments for the acquisition of property, furniture and equipment	(339)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	181
Payments for acquisition of intangible assets	(961)
Other payments from investing activities	-
<b>Net cash flows from investing activities</b>	<b>(1,119)</b>
<b>Financing activities:</b>	
Lease liability payments	(638)
Cash Dividend Payments	(1,303)
Proceeds from the issuance of financial instruments that qualify as liabilities	3,040
Payments associated with financial instruments that qualify as a liability	(119)
<b>Net cash flows from financing activities</b>	<b>980</b>
Increase/decrease in cash and equivalents	18,723
Cash and equivalents at beginning of period	66,814
<b>Cash and equivalents as of 30 June 2024</b>	<b>85,537</b>



## Changes in Mexican accounting standards

### Introduction

Grupo Financiero HSBC, S.A. DE C.V. 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, S.A. DE C.V. are described below:

#### ***I. Improvements of NIF 2024 issued by CINIF applicable to Financial Institutions.***

CINIF issued a document called “Improvements of NIF 2024”, which mainly includes the following changes and improvements:

Improvements involving accounting changes.

NIF A-1 “Conceptual Framework of Financial Reporting Standards” – The CINIF split disclosures requirements of NIF in two sections: i) Disclosures applicable to all entities and ii) Additional disclosures applicable to public interest entities. In consequence, the conceptual framework of NIF adds the definition of public interest entities and explanations to understand the separation of disclosures in particular standards by each type of entity. These changes will be in force in 2025, but it is allowed early adoption in 2024.

NIF D-6 “Capitalisation of Integral Financial Result (RIF by its acronym in Spanish)” – The CINIF was questioned about if a productor biological asset should be recognised as asset and in consequence being recognised the capitalisation of the RIF, as part of its acquisition cost. As a result, the CINIF concluded in a positive way to recognise it as an asset and RIF as part of acquisition cost, while it is not ready to produce. This change drove some changes in NIF D-6, which, even if it is applicable to banks, no expectation that it would originate financial impacts, due to these types of assets are not applicable to financial institutions.

NIF C-10 “Derivatives and Hedging relationships” – Inclusion of the accounting treatment of the hedging for equity instruments measure at Fair Value through Other Comprehensive Income in accordance with NIF C-2, “Financial Instruments”.

NIF B-17 “Determination of Fair Value”, NIF C-2 “Financial Instruments”, NIF C-16 “Impairment of Financial Instruments to Collect and/or Hold to Collect & Sale”, NIF C-20, Financial Instruments to Hold to Collect and INIF-24 Accounting Recognition in the Adoption of Free-Risk Rates” –By definition of NIF Glossary, the objective of Hold-to-Collect or Sale financial instruments is to collect principal and interest cash flows or obtain a profit by their sale in the market. Nevertheless, the purpose of these instruments must be to get a profit in the market by their sale once market conditions could be favourable to the holder, rather than choosing between collect the principal and interest or sale. In consequence, the definition was changed to reconfirm that the purpose should be to Hold-to-Collect

& Sale, even if eventually they are not sold because unfavourable market conditions, but not affecting their original classification.

Due to the changes in the definition, this originates a serial of updates in other NIF (NIF B-17, C-16, C-20 e INIF 24) not representing accounting changes.

NIF D-4 "Income Tax" –Clarification about that the income tax rate that should be used to recognise assets and liabilities of current or deferred income taxes for earnings non-distributable to shareholders.

Improvements which do not originate accounting changes.

NIF B-7 "Business combinations" – Discarding the accounting recognition in acquirer balance sheet of those unaccrued employee benefits liabilities, because NIF D-3 Employee Benefits, indicates those unaccrued expenses are not subject to be recognised.

Likewise, it was included a precision to indicate that an acquisition in stages are not limited to associates, instead any type of entity in which the acquirer had had a previous participation before it obtains control, such as a joint venture or other permanent investment.

NIF B-8 "Consolidation of Financial Statements" – A precision was included to clarify a difference with IFRS 10 in the holding's requirements to exercise the option to not consolidate financial statements, which is related to the non-consolidation follows an specific purpose knows by the holding entity such as for statutory purposes.

NIF B-11 "Non-current assets Held-for-Sale and Discontinued Operations" – A clarification was included to consider the term of "Entity's component" as a synonym of "Cash Generating Unit or Group of Cash Generating Unit" in the interpretation of the standard to identify Discounted Operations.

NIF C-2 "Financial Instruments" – It was included that FX translation differences originated by those equity instruments designated irrevocable to be measured at fair value in Other Comprehensive Income (OCI), should be recognised in the same OCI.

NIF C-5 "Prepayments", NIF C-9 "Provisions, Contingencies and Commitments" and NIF C-10 "Derivatives and Hedging relationships" – Precisions added to understand better the accounting treatment for financial guarantees by both issuer and holder.

NIF C-6 "Property, Plant & Equipment" – Costs incurred and revenue earned by the PP&E item, while it has not been allocated in the place and conditions envisaged to be used by the entity, are not capitalised and should be recognised on income statement, as they are accrued/incurred.

NIF C-6 "Property, Plant & Equipment" and NIF C-8 "Intangible Assets" – A precision added to determine that these assets are subject to a review at the end of the reporting annual period to confirm that their residual value, expected useful life and depreciation/amortisation methodology are still appropriated and they do not have to change.

NIF C-7 "Associates, Joint Ventures and Other Permanent Investments" – A clarification was included to indicate that the accounting treatment applicable to non-monetary assets capital contributions included in NIF C-7, are just applicable for those that do not meet "business" definition included in NIF B-7 "Business Combinations".

NIF C-8 "Intangible Assets" – Clarification added to indicate that expenses incurred in pre-operating phases of the entity would be recognised as intangible assets as they meet requirements set out in NIF C-8, otherwise they should be expensed.

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NIF C-19 “Financial Liabilities” – Precisions added to clarify in renegotiated debts what commissions should be included in quantitative de-recognition test of 10% and in which income statement line should be presented the gain or loss in renegotiation or de-recognition of these financial instruments.

NIF D-8 “Shared Based Payments” – It was included the specification of a difference between NIF D-8 and IFRS 2, which is related to the accounting recognition of a liability with a third-party for goods or services received, that will be settled by a variable number of entity’s equity instruments in accordance with their fair value. The capitalisation of the liability occurs upon the issuance of the shares.

ONIF 3 “Summary of Financial Instruments Standard” – Elimination of the reference of differences between NIF and IFRS, because they are included in introduction paragraphs of each NIF related to Financial Instruments and the book called “Differences between NIF and IFRS” issued by the CINIF.

NIF Glossary – By improvements, they were included some new terms and modifications of others.

No significant financial impacts were observed in the implementation of all these changes.

### ***II. NIF Disclosures.***

On December 14th, 2023, the CINIF approved changes in the disclosures of each NIF, splitting disclosures in two sections: i) Disclosures applicable to all entities and ii) Additional disclosures applicable to public interest entities.

These changes will be in force in 2025, but it is allowed early adoption in 2024. No relevant impacts are expected by its implementation.

### ***III. Special accounting rules issued by National Banking Commission applicable to borrowers affected by the OTIS hurricane in the state of Guerrero during October, 2023.***

CNBV issued temporary special accounting rules “the benefit programme” applicable to borrowers of retail, mortgages and commercial loans affected by natural disaster occurred in the state of Guerrero in October 2023. Loans are subject to receive the benefit programme if they are classified for accounting purposes as stage of credit risk 1 or 2 on its balance sheet at October, 24th, 2023 and documentation is completed no later than October, 31<sup>th</sup>, 2024 (During first days of April, 2024, the CNBV extended the period to adhere to “the benefit programme”).

In summary, “the benefit programme” granted by HSBC provides to borrowers partial or total payment holidays until 6 months, which could involve a change in original term of the loans, extending their maturity for the same period. During the benefit programme period, loans will not be flagged as restructure transactions and they will still be reported on their current stage 1 or 2 for accounting purposes.

Important to highlight that “the benefit programme” HSBC granted is adhered to criteria established by CNBV, with the purpose to provide a relief to those borrowers affected by this natural disaster.

**Financial Impacts**

At the reporting end period, the outstanding balance of loans adhered to the programme are:

Loan Category	Gross loans carrying amount (MXN \$m)	Gross Loans in the benefit programme (MXN \$m)	Gross Loans in the benefit programme/ Gross Loans carrying amount %	Balances of principal and interest deferred (MXN \$m)
Corporate	231,965	17	0.007%	2
Consumer	104,662	244	0.233%	28
Mortgages	150,418	383	0.254%	23
<b>Total</b>	<b>487,045</b>	<b>644</b>		<b>53</b>

Below, an estimation of the financial impacts under Mex GAAP calculated at the reporting period end, assuming that loans would have not been adhered to the programme:

Loan Category	Balances transfer from stage 1 to 2 (MXN \$m)	Balances transfer from stage 2 to 3 (MXN \$m)	Additional Increase in loan loss provision (MXN \$m)	Interest not recognised in B/S and PnL (MXN \$m)
Corporate	-	17	4	-
Consumer	11	231	162	2
Mortgages	22	361	60	3
<b>Total</b>	<b>33</b>	<b>609</b>	<b>226</b>	<b>5</b>

*Note: These impacts were calculated assuming that customers with temporary payment reliefs became past due since the day the benefit was granted.*

**Differences between Mexican GAAP and International Financial Reporting Standards (IFRS) Grupo Financiero HSBC, S.A. DE C.V.**

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, S.A. DE C.V., reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC, S.A. DE C.V. from Mexican GAAP to IFRS for the three months ended at 31 March 2024 and an explanation of the key reconciling items.

	<b><u>30 Jun 2024</u></b>
<i>Figures in MXN millions</i>	
<b>Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP</b>	<b>7,649</b>
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	(357)
IFRS16	118
Effective Interest Rate	170
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	119
Fair value adjustments on financial instruments	10
Deferred profit sharing	141
AT1 Valuation	238
Other insurance adjustments <sup>5</sup>	(22)
Others	(87)
<b>Profit before/(loss) tax under IFRS</b>	<b>7,979</b>

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<sup>5</sup> Includes technical reserves and effects from IFRS 17

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

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

#### ***Mexican GAAP***

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

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

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

#### ***IFRS***

The main differences between Mexican GAAP and IFRS comprise:

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

### **2. 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 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).