GRUPO FINANCIERO HSBC, S.A. DE C.V.

Fourth Quarter ended 31 December 2024 Report

Highlights

Quarter ended 31 December 2024

Total operating income excluding loan impairment charges	Profit before income tax expense	Return on equity
MXN61,993m ↑ 10.4% or MXN5,851m	MXN12,729m ↑ 0.2% or MXN30m	9.7% ↓ 190bps
(2023: MXN56,142m)	(2023: MXN12,699m)	(2023: 11.6%)

Net Income	Profit before income tax expense (under IFRS)[1]
MXN8,403m ↓ 11.9% or MXN1,139m	MXN13,036m ↓ 8.7% or MXN1,246m
(2023: MXN9,542m)	(2023: MXN14,282m)

Quarter ended December 2024

Net Loans	Total Deposits	Capital adequacy ratio	Common equity tier 1 ratio
MXN492.9bn ↑ 9.2% or MXN41.7bn	MXN618.1bn ↑ 18.0% or MXN94.5bn	16.9% ↑ 110 bps	10.9% ↓ 50 bps
(At 31 Dec 2023: MXN451.2bn)	(At 31 Dec 2023: MXN523.6bn)	(At 31 Dec 2023: 15.8%)	(At 31 Dec 2023: 11.4%)

Quarter report contents

Award and recognition

HSBC Mexico obtained the HRC Equidad MX 2021 certification: best places to work LGBTQ+ thanks to its commitment and actions to promote the inclusion of people from the LGBTQ+ community. The certification is granted by the Human Rights Campaign (HRC) Foundation, in alliance with ADIL, Diversidad e Institución Laboral, who established the HRC Equidad MX program, the leading evaluation on LGBTQ+ inclusion at the corporate level in Mexico. Some of the items that were evaluated by HRC Equidad MX were having non-discrimination and equal employment opportunity policies and public commitment to the LGBTQ+ community, among others.

[1] Grupo Financiero HSBC, S.A. DE C.V. financial results for the twelve months to 2024 as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards ('IFRS').
The main differences between Mexican GAAP and IFRS results for the twelve months to 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).

Economic review and outlook

Economic activity grew

Preliminary Q4 2024 GDP fell 0.6% quarter over quarter in seasonally adjusted terms. Industrial production and agriculture activities dropped 1.2% and 8.9% quarter over quarter, while services expanded 0.2% quarter over quarter. In annual terms, GDP expanded 0.6% year over year in Q4 2024. Services grew 2.1% year over year, while industrial production and agriculture dropped 1.7% and 4.6% year over year, respectively. With the Q4 2024 result, GDP grew 1.5% year over year in the full year.

Monetary Policy

Mexico's central bank (Banxico) cut the policy rate by 25bp twice in Q4 2024 (November and December). With these moves, the monetary policy rate fell to 10.0% in Q4 2024 from 10.5% in Q3 2024.

Inflation results

Inflation eased to 4.2% year over year in December 2024 from 4.6% in September 2024. This was driven by a better performance in both core and non-core components. The former reached an annual rate of %3.7 in December 2024 from 3.9% in September 2024.

Financial Performance – Key Metrics

Profit before tax for the twelve months to 2024 was MXN12,729m, in line with the same period of 2023

Net interest income for the twelve months to 2024 was MXN47,242m, an increase of MXN4,436m or 10.4% compared with MXN42,806m for the same period in 2023. The increase is mainly explained by the growth of retail and wholesale loan portfolios.

Loan impairment charges for the twelve months to 2024 were MXN14,697m or 13.7%, an increase of MXN1,772m compared with MXN12,925m for the same period in 2023. The variation is mainly driven by loans portfolio increase.

Net fee income for the twelve months to 2024 was MXN11,479m, an increase of MXN1,203m or 11.7% compared with MXN10,276m for the same period in 2023 mainly driven by increase in commercial activity, credit card and investment funds.

Trading income for the twelve months to 2024 was MXN5,153m, an increase of MXN1,877m or 57.3% compared with MXN3,276m for the same period in 2023, mainly driven by Interest Rate Swap and Mexican Government Bonds trading activity which took advantage of market conditions during the last quarter of 2024 where MXN interest rates decreased 150 bp.

Other operating income/(expenses) for the twelve months to 2024 was an expense of MXN1,327m, decreased by MXN157m or 10.6% compared with an expense of MXN1,484m for the same period in 2023, the main driver was a lower lost by credit portfolio sale.

Administrative and personnel expenses for the twelve months to 2024 were MXN34,841m, an increase of MXN4,070m or 13.2%, compared with MXN30,771m for the same period in 2023 mainly due to higher staff expenses, IT and related tax costs.

The cost efficiency ratio was 56.2% for the twelve months to 2024 compared with 54.8% for the same period in 2023.

The effective tax rate was 34.0% for the twelve months to 2024, compared with 24.9% reported for the same period in 2023. The variation is mainly driven by reassessments in tax sufficiency and reserves accrued related to tax matters.

At 31 December 2024, **net loans and advances** were MXN492.9bn showing an overall increase of MXN41.7bn, or 9.2% compared with MXN451.2bn. The increase is driven mainly by 15.4% growth in Commercial Banking (CMB) compared to 31 December 2023, with Wealth and personal Banking (WPB) portfolio growing 4%.

At 31 December 2024, **Credit cost ratios**[2] **and loan loss reserves ratios**[3] were 2.9% (2.8% as of December 2023) and 3.6% (3.8% as of December 2023) respectively.

Return on equity was 9.7% for the twelve months to 2024 compare with 11.6% for the same period in 2023.

Total stage 3 loans at 31 December 2024 were MXN11.7bn representing 2.3% of gross loans. Following the HSBC approach to stage 3, of the 2.3%, 0.1% relates to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.2% relates to loans with 90 or more days past due. As of December 2023, stage 3 loans were MXN12.7bn and 2.7% as a percentage of gross loans, of which 0.3% were related to loans with an indication of unlikeliness to pay despite not being 90 days past due and 2.4% were related to loans with 90 or more days of past due.

[2] Credit Cost Ratio: Loan Impairment charges annualized/Gross Loans

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

At 31 December 2024, **total loan loss allowances** were MXN18.3bn, an increase of MXN0.5bn or 2.7% compared with MXN17.8bn to same period in 2023. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 156.1% at 31 December 2024 compared with 139.7% at 31 December 2023.

At 31 December 2024, **total deposits** were MXN618.1bn, an increase of MXN94.5bn or 18.1%, compared with MXN523.6bn at 31 December 2023, mainly driven by higher demand deposits and time deposits.[4]

HSBC Mexico S.A. ('the bank') profit before tax for the twelve months to 2024 was MXN10,579m, an increase of MXN120m or 1.1% compared with MXN10,459m for the same period in 2023 mainly driven by higher net interest income & trading income and partially offset by expenses.

HSBC Bank Mexico S.A. ('the bank') net income for the twelve months to 2024 was MXN6,866m, a decrease of MXN1,132m or 14.0% compared with MXN7,998m for the same period in 2023.

HSBC Bank Mexico S.A. ('the bank') net interest income for the twelve months to 2024 was MXN46,707m an increase of MXN4,451m or 10.5%, compared with MXN42,256m for the same period in 2023.

The **profit before tax of Grupo Financiero HSBC's insurance subsidiary** for the twelve months to 2024 was MXN1,305m, a decrease of MXN327m or 20.0% compared with MXN1,632m for the same period in 2023, mainly driven by increase in technical reserves partially offset by premiums and mark 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 31 December 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).

[4] *Figures split by segment are MXN317.4bn WPB, MXN297.0bn CMB and MXN3.8bn MSS.*

Commercial Banking (‘CMB’)

Line of business serving local companies, multinationals and Institutional clients with financial 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.

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.

Markets and Securities Services (‘MSS’)

We provide financial services and products to corporates, governments and institutions. Our comprehensive range of products and solutions can be combined and customized to meet our customers’ specific objectives - from debt capital, global trade and receivables finance to global liquidity and cash management.

Commercial Banking (CMB)

Commercial Banking (‘CMB’) offers a full range of commercial financial services and tailored solutions to clients ranging from small enterprises to large corporates operating internationally.

Review of financial performance

	Year Ended	
	31-Dec-24	**31-Dec-23**
Net interest income	14,210	12,485
Non-interest income	1,410	1,496
Total Revenue	**15,620**	**13,981**
Loan impairment charges	(991)	(59)
Net operating income	**14,629**	**13,922**
Administrative and personnel expenses	(6,204)	(5,313)
Share of profits in equity interest	19	(11)
Profit/(loss) before tax	**8,444**	**8,598**

Key metrics

Profit before tax for the twelve months to 2024 was MXN8,444m, a decrease of MXN154m or 1.8% compared with MXN8,598m for the same period in 2023, mainly explained by higher administration and personnel expenses, coupled with an increase on loan impairment charges. With Markets Treasury allocation, profit before tax was MXN8,432m.

Total revenue for the twelve months to 2024 was MXN15,620m, an increase of MXN1,639m or 11.7% compared with MXN13,981m for the same period in 2023, mainly explained by higher net interest income following increase on assets & deposit volumes coupled with higher fee income from lending and trade transactions; this is partly offset by higher deposit insurance cost.

Loan impairment charges for the twelve months to 2024 were MXN991m, an increase of MXN932m more than 100% compared with MXN59m provision for same period in 2023, mainly explained by portfolio growth coupled with higher provisions in specific customers.

Administrative and personnel expenses for the twelve months to 2024 were MXN6,204m, an increase of MXN891m or 16.8% compared with MXN5,313m for the same period in 2023, explained by higher staff expenses, IT costs, higher spend related to commercial activity and tax related costs.

At 31 December 2024, **net loans and advances to customers** were MXN233.1bn, an increase of MXN31.1bn or 15.4% compared with MXN202bn for the same period in 2023, driven by continuous increase on International Corporates & Multinational segments observed since 4Q23.

At 31 December 2024, **total deposits** were MXN297.0bn, an increase of MXN74.7bn or 33.6% compared with MXN222.3bn for the same period in 2023, mainly coming from International Corporates & Multinationals as well as to support the increase on the asset side.

Milestones

ESG. A new product was launched alongside Ecovadis, the Sustainability Improvement Loan, that is intended for mid-market companies and the objective is to get a ESG rating from Ecovadis that allows our clients to measure KPIs and transition towards green funding. This continues to position HSBC Mexico in the market.

ESG. HSBC Mexico, S.A. continues to be actively involved in different events regarding Sustainability; during October, the French Chamber

[5] *Markets Treasury total loss before tax for the twelve months of 2024 was MXN108m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the twelve months of 2024 loss before tax allocation by business was MXN-54m to WPB, MXN-12m to CMB and MXN-42m to MSS.*

[6] *WPB does not include Insurance results which was MXN1,306m in profit before for the twelve months of 2024.*

[7] *Corporate Centre & Other MXN 784 loss before tax for the twelve months of 2024 is not included.*

organized an event that HSBC sponsored and participated with panellists to talk about the challenges of sustainable finance.

In addition, HSBC Mexico continues to lead roundtables in certain geographies to incentivize business growth and on December the HSBC Business Growth Councils annual event was held, where CEO as well as Business Directors and guest speakers discussed the country's economic outlook, the results of the US elections and their impact on Mexico, Geopolitical risks and the challenges and realities of the work environment.

Wealth and Personal Banking (WPB)

Wealth and Personal Banking (WPB) offers a full range of competitive banking products and services to help manage the finances of our clients, buy their homes, and save and invest for the future.

Review of financial performance

	Year Ended	
	31-Dec-24	**31-Dec-23**
Net interest income	33,325	32,480
Non-interest income	9,114	8,188
Total Revenue	**42,439**	**40,668**
Loan impairment charges	(13,706)	(12,866)
Net operating income	**28,733**	**27,802**
Administrative and personnel expenses	(25,508)	(22,953)
Share of profits in equity interest	255	265
Profit/(loss) before tax	**3,480**	**5,114**

Key metrics

Profit before tax for twelve months of 2024 was of MXN3,480m, a decrease of MXN1,634m or 32.0% compared with the MXN5,114m for the same period in 2023. This outcome was predominantly driven by increased administrative expenses and loan impairment charges, partially offset by higher revenues. With Markets Treasury allocation, profit before tax was MXN3,426m.

Total revenue for the twelve months of 2024 was MXN42,439m, an increase of MXN1,771m or 4.4%, compared with MXN40,668m for the same period of 2023. This revenue growth was driven by higher lending (7%) and deposits (2%) portfolios, alongside an increase in fees, as well as higher investments.

Loan impairment charges for the twelve months of 2024 were MX13,706m, an increase of MXN840m or 6.5% compared with MXN12,866m for the same period in 2023. This the increase is driven mainly by portfolio growth mainly in addition to higher charge-offs compared to 2023.

Administrative and personnel expenses for the twelve months of 2024 were MXN25,508m, an increase of MXN2,555m or 11.1% compared with MXN22,953m for the same period of 2023. This increase was primarily due to IT, Staff costs and inflation.

At 31 December 2024 for balance sheet, **Net loans and advances to customers** were MXN259.7bn, it is showing an overall increase of MXN10.7bn or 4.3% compared with MXN249bn for the same period of 2023. This growth was predominantly observed in Mortgages (4%), followed by Cards (8%) and personal loans (16%)

Total deposits at 31 December 2024 amounted to MXN317.4bn, an increase of MXN16.1bn or 5.3% from MXN301.3bn in 2023, with significant contributions from savings accounts (11%) and time Deposits (7%). Additionally, funds experienced a growth of 21% compared to 2023, reaching MXN184.9bn.

Milestones

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

Digital Investment Account Opening. August marked the launch of this feature on the HSBC app, allowing customers to seamlessly open investment accounts from their phones. This major innovation strengthens our wealth value proposition and brings us closer to becoming Mexico´s leading Wealth Bank.

DiMo: We recently introduced on the HSBC Mexico app a central bank platform enabling instant money transfers without requiring account or card numbers. This significant feature enhances our digital capabilities and service offering.

Linkage: Our linkage metric grew from 27% to 34% in 2024 including a 62.5% linkage for our Premier clients.

Markets and Security Services (MSS)

Markets and Securities Services ('MSS') provides tailored financial services and products to major government, corporate and institutional clients.

Review of financial performance

	Year Ended	
	31-Dec-24	**31-Dec-23**
Net interest income	574	1,256
Non-interest income	907	151
Total Revenue	**1,481**	**1,407**
Loan impairment charges	-	-
Net operating income	**1,481**	**1,407**
Administrative and personnel expenses	(1,090)	(985)
Share of profits in equity interest	-	-1
Profit/(loss) before tax	**391**	**421**

Key metrics

Profit before tax for 2024 was MXN 391.0m, a decrease of MXN 30m which represents -7.2% compared with profit of MXN 421m in 2023. Although revenues increased by MXN 74m after taken advantage of market conditions, expenses had an even greater increase of MXN 105m, generating a negative differential in PBT of MXN 30m. With Markets Treasury allocation, profit before tax was MXN 349m.

Administrative and personal expenses for 2024 there were expenses of MXN 1,090m, an increase of MXN 105m which represents 10.7% compared with MXN 985m for the same period in 2023 mainly driven by higher administrative costs due to inflation.

About HSBC

Grupo Financiero HSBC, S.A. de C.V., is one of the leading financial groups in Mexico with 812 branches, 5,338 ATMs and 13,397 employees as of 31 December 2024.

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 58 countries and territories. With assets of USD 3,017bn at 31 December 2024, HSBC is one of the world's largest banking and financial services organisation.

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Consolidated Income Statement – GROUP twelve months ended 31 December 2024

Figures in MXN Millions

	Group	
	31-Dec-24	**31-Dec-23**
Interest income	94,135	82,966
Interest expense	(46,893)	(40,160)
Net interest income	**47,242**	**42,806**
Loan impairment charges	(14,697)	(12,925)
Risk-adjusted net interest income	32,545	29,881
Fees and commissions receivable	14,409	12,863
Fees payable	(2,930)	(2,587)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	(554)	1,268
Trading income	5,153	3,276
Other operating income (expense)	(1,327)	(1,484)
Total operating income	**47,296**	**43,217**
Administrative and personnel expenses	(34,841)	(30,771)
Net operating income	**12,455**	**12,446**
Share of profits in equity interest	274	253
Profit/(loss) before tax	**12,729**	**12,699**
Income tax	(4,326)	(3,157)
Net income before discontinued operations	**8,403**	**9,542**
Discontinued Operations	-	-
Net income	**8,403**	**9,542**

Consolidated Income Statement – BANK twelve months ended 31 December 2024

Figures in MXN Millions

	Bank	
	31-Dec-24	**31-Dec-23**
Interest income	93,687	82,455
Interest expense	(46,980)	(40,199)
Net interest income	**46,707**	**42,256**
Loan impairment charges	(14,697)	(12,925)
Risk-adjusted net interest income	32,010	29,331
Fees and commissions receivable	13,465	12,137
Fees payable	(3,403)	(3,066)
Trading income	3,358	2,643
Other operating income (expense)	(808)	(389)
Total operating income	**44,622**	**40,656**
Administrative and personnel expenses	(34,311)	(30,446)
Net operating income	10,311	**10,210**
Share of profits in equity interest	268	249
Profit/(loss) before tax	**10,579**	**10,459**
Income tax	(3,713)	(2,461)
Net income before discontinued operations	**6,866**	**7,988**
Discontinued Operations	-	-
Net income	**6,866**	**7,988**

Consolidated Balance Sheet – 2024 (Comparatives)

Figures in MXN millions	Group		Bank	
	31 Dec 24	**31 Dec 23**	**31 Dec 24**	**31 Dec 23**
Assets				
Cash and cash equivalents	68,898	66,981	68,727	66,814
Margin accounts	96	112	96	112
Financial Investments	**217,212**	**146,217**	**188,527**	**130,293**
Trading financial investments	79,481	56,150	56,964	46,465
Financial investments hold to collect or sale	90,756	64,796	84,588	58,557
Financial investments hold to collect principal and interest (securities) (net)	46,975	25,271	46,975	25,271
Reverse repurchases agreements	86,024	46,044	86,024	46,044
Derivative transactions	26,850	28,588	26,850	28,588
Loan and advances - credit risk stage 1				
Commercial loans	243,241	213,316	243,241	213,316
Consumer loans	101,160	96,581	101,160	96,581
Mortgage loans	147,280	140,630	147,280	140,629
Total loan portfolio with credit risk stage 1	491,681	450,527	491,681	450,526
Loan and advances - credit risk stage 2				
Commercial loans	2,526	626	2,526	626
Consumer loans	2,968	2,799	2,968	2,799
Mortgage loans	2,138	2,112	2,139	2,112
Total loan portfolio with credit risk stage 2	7,632	5,537	7,633	5,537
Loan and advances - credit risk stage 3				
Commercial loans	4,763	6,449	4,763	6,449
Consumer loans	3,167	2,885	3,167	2,885
Mortgage loans	3,803	3,375	3,803	3,375
Total loan portfolio with credit risk stage 3	11,733	12,709	11,733	12,709
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	511,046	468,773	511,047	468,772
Expected credit losses	(18,312)	(17,758)	(18,312)	(17,758)
Gross loans and advances to customers - Insurance	176	162	-	-
Total net loans and advances to customers	**492,910**	**451,177**	**492,735**	**451,014**
Premium receivables	2,684	2,710	-	-
Accounts receivables from reinsurers and rebonding companies	81	94	-	-
Other accounts receivable (net)	39,262	36,120	39,381	36,197
Foreclosed assets	276	351	276	351
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,612	6,756	6,612	6,757
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	3,252	3,322	3,252	3,317
Prepayments and other assets	6,425	6,181	6,062	6,140
Long-term investments	1,554	1,519	1,502	1,475
Deferred income tax asset (net)	7,467	6,930	7,358	6,797
Intangible assets (net)	7,416	7,575	7,416	7,575
Intangible Assets (Net) - Rights of Use Assets	265	270	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	-	10	-	10
Total assets	**968,249**	**811,922**	**934,828**	**791,494**

Consolidated Balance Sheet - 2024 (continued)
Figures in MXN millions

	Group		Bank	
	31 Dec 24	**31 Dec 23**	**31 Dec 24**	**31 Dec 23**
Liabilities				
Deposits	**618,133**	**523,612**	**618,654**	**523,914**
Demand deposits	406,257	350,068	406,705	350,357
Time deposits	190,147	163,065	190,220	163,048
Bank bond outstanding	19,259	8,574	19,259	8,574
Global deposit account without movements	2,470	1,935	2,470	1,935
Bank deposits and other liabilities	**10,301**	**15,450**	**10,301**	**15,450**
On demand	-	7,007	-	7,007
Short-term	5,881	5,141	5,881	5,141
Long-term	4,420	3,302	4,420	3,302
Pending Securities to pay	-	-	-	-
Technical reserves	28,173	14,835	-	-
Unsettled transactions	-	-	-	-
Repurchase agreements	32,918	28,307	32,918	28,307
Collateral sold	**69,984**	**41,959**	**69,984**	**41,959**
Reports (credit balance)	62,059	32,809	62,059	32,809
Securities lending	7,925	9,150	7,925	9,150
Derivative Financial Liabilities	**31,300**	**29,588**	**31,300**	**29,588**
Trading Derivatives	31,284	29,579	31,284	29,579
Hedging Derivatives	16	9	16	9
Accounts Payable from reinsurers and rebonding companies	13	12	-	-
Lease liabilities	3,314	3,329	3,310	3,324
Other payable accounts	**38,470**	**39,607**	**37,859**	**38,929**
Settlement accounts	18,172	11,518	18,173	11,497
Income tax and employee profit sharing payable	2,750	3,959	2,750	3,959
Contributions for future capital increases	1,302	1,333	1,225	1,265
Sundry creditors and other accounts payable	16,245	22,797	15,711	22,208
Financial instruments qualifying as liabilities (subordinated debt)	**40,153**	**25,401**	**40,153**	**25,401**
Subordinated debentures outstanding	40,153	-	40,153	25,401
Income tax liabilities	1,289	135	1,244	45
Employee benefit liabilities	6,131	5,311	6,039	5,219
Deferred credits and receivable in advance	2,240	1,909	2,240	1,909
Total liabilities	**882,421**	**729,455**	**854,003**	**714,045**
Equity				
Paid in capital	**43,373**	**43,373**	**38,318**	**38,318**
Capital stock	6,218	6,218	6,132	6,132
Additional paid in capital	37,155	37,155	32,186	32,186
Other reserves	**46,159**	**42,774**	**46,019**	**42,635**
Capital reserves	1,244	1,244	15,305	14,510
Retained earnings - prior years	36,512	31,988	23,849	20,127
Net income	8,403	9,542	6,866	7,998
Result from the mark-to-market of available- for-sale securities	(647)	(916)	(471)	(754)
Result from cash flow hedging transactions	(204)	(199)	(204)	(199)
Adjustment in the employee pension	(2,856)	(2,568)	(2,841)	(2,551)
Total Controlling Interest's	85,825	82,464	80,822	77,449
Minority interest in capital	3	3	-	-
Total Shareholder's Equity	**85,828**	**82,467**	**80,822**	**77,449**
Total liabilities and equity	**968,249**	**811,922**	**934,826**	**791,494**

Consolidated Balance Sheet – **2024** (continued)
Figures in MXN millions

	Group		Bank	
	31-Dec-24	**31-Dec-23**	**31-Dec-24**	**31-Dec-23**
<u>Memorandum Accounts</u>				
Third party accounts	23	**79,817**	-	-
Clients current accounts	23	887	-	-
Custody operations	-	78,030	-	-
Proprietary position	2,885,569	**3,582,700**	**2,672,149**	**3,381,459**
Irrevocable lines of credit granted	439,226	342,013	439,226	342,013
Goods in trust or mandate	205,548	**200,803**	**205,548**	**200,803**
Trusts	204,733	199,934	204,733	199,934
Mandate	815	869	815	869
Goods in custody or under administration	401,821	345,276	401,821	345,276
Collateral received by the institution	95,831	55,524	95,831	55,524
Collateral received and sold or delivered as guarantee	75,586	49,337	75,586	49,337
Suspended interest on stage 3 loans	547	726	547	726
Other control accounts	1,667,010	2,589,021	1,453,590	2,387,780
Total Memorandum Account	**2,885,592**	**3,661,617**	**2,672,149**	**3,381,459**

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 2024	43,373	1,244	41,530	(916)	(199)	(2,568)	82,464	3	**82,467**
Adjustments for accounting changes	-	-	-	-	-	-	(59)	-	**(59)**
Cash Dividends*	-	-	(4,940)	-	-	-	(4,940)	-	**(4,940)**
Capitalization of other equity items	-	-	-	-	-	-	-	-	**-**
Comprehensive Income:									
Net Income	-	-	8,403	-	-	-	8,403	-	**8,403**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	269	-	-	269	-	**269**
Valuation of cash flow hedging transactions	-	-	-	-	(5)	-	(5)	-	**(5)**
Remeasurement of defined benefits to employees	-	-	(78)	-	-	(288)	(366)	-	**(366)**
Total	**-**	**-**	**8,325**	**269**	**(5)**	**(288)**	**8,301**	**-**	**8,301**
Final balances as of 31 December 2024[8]	**43,373**	**1,244**	**44,915**	**(647)**	**(204)**	**(2,856)**	**85,825**	**3**	**85,828**

8 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 2024	38,318	14,510	28,125	(754)	(199)	(2,551)	77,449	-	**77,449**
Adjustments for accounting changes	-	-	(69)	-	-	-	(69)	-	(69)
Movements inherent to the shareholders' decision:									
Dividends Declared (including AT1 coupon payments)	-	-	(3,412)	-	-	-	**(3,412)**	-	**(3,412)**
Capitalization of other equity items	-	-	-	-	-	-	**-**	-	**-**
Reserve Movements	-	795	(795)	-	-	-	**-**	-	**-**
Comprehensive Income:									
Net Income	-	-	6,866	-	-	-	**6,866**	-	**6,866**
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	283	-	-	**283**	-	**283**
Valuation of cash flow hedging transactions	-	-	-	-	(5)	-	**(5)**	-	**(5)**
Remeasurement of defined benefits to employees	-	-	-	-	-	(290)	**(290)**	-	**(290)**
Participation in comprehensive income of other entities	-	-	-	-	-	-	**-**	-	**-**
Total	**-**	**-**	**6,866**	**283**	**(5)**	**(290)**	**6,854**	**-**	**6,854**
Final balances as of 31 December 2024	**38,318**	**15,305**	**30,715**	**(471)**	**(204)**	**(2,841)**	**80,822**	**-**	**80,822**

Consolidated Statement of Cash Flow – Group

Figures in MXN millions

	31 Dec 2024
Profit/(loss) before taxes	**12,729**
Adjustments for items associated with investing activities	**4,216**
Depreciation of property, furniture and equipment	1,069
Amortization of intangible assets	3,421
Participation in the net result of other entities	(274)
Adjustments for items associated with financing activities	**5,541**
Interest associated with bank deposits and other liabilities	1,313
Financial instruments qualifying as liabilities (subordinated debt)	4,228
Changes in items related to operating activities	**(22,292)**
Bank deposits and other liabilities	(6,461)
Margin accounts	17
Financial investments	(70,655)
Reverse repurchases agreements	(39,980)
Derivative transactions (assets)	1,754
Loan Portfolio (net)	(41,733)
Debtors of re-insurance	26
Recoverable amounts for reinsurance and refinancing (net)	13
Change in benefits from receiving securitization operations	10
Change in inventories	-
Other accounts receivable (net)	(3,767)
Foreclosed assets (net)	75
Deposits	93,204
Technical Reserves	13,339
Repurchase agreements	4,611
Collaterals sold or given in guarantee	28,023
Derivative transactions (liabilities)	1,712
Accounts payable for reinsurers	1
Change of assets/liabilities for employee benefits	532
Other accounts payable	122
Other provisions	480
Income tax payments	(3,615)
Net cash flows from operating activities	**194**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	**(1,416)**
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	244
Payments for acquisition of intangible assets	(2,221)
Other receipts from investing activities	-
Other payments from investing activities	-
Net cash flows from investing activities	**(3,393)**
Financing activities:	
Payments of bank loans and other organizations	**(1,344)**
Cash Dividend Payments	(4,690)
Proceeds from the issuance of financial instruments that qualify as liabilities	11,401
Collections for the issuance of financial instruments that qualify as liabilities	(250)
Net cash flows from financing activities	**5,117**
Increase/decrease in cash and equivalents	1,918
Cash and equivalents at beginning of period	66,981
Cash and equivalents as of 31 December 2024	**68,899**

Consolidated Statement of Cash Flow - Bank
Figures in MXN millions

	31 Dec 2024
Profit/(loss) before taxes	**10,579**
Adjustments for items associated with investing activities	**4,221**
Depreciation of property, furniture and equipment	1,069
Amortization of intangible assets	3,421
Other adjustments for items associated with investing activities	(269)
Adjustments for items associated with financing activities	**5,541**
Interest associated with bank deposits and other liabilities	1,313
Financial instruments qualifying as liabilities (subordinated debt)	4,228
Changes in items related to operating activities:	**(21,681)**
Bank deposits and other liabilities	(6,461)
Margin accounts	17
Financial investments	(57,913)
Reverse repurchases agreements	(39,981)
Derivative transactions (assets)	1,754
Loans and advances (net)	(41,719)
Change in benefits from receiving securitization operations	10
Other accounts receivable (net)	(3,184)
Foreclosed assets (net)	75
Other Operating Assets	(1,385)
Deposits	93,423
Repurchase agreements	
Collaterals sold or given in guarantee	4,611
Derivative transactions (liability)	28,023
Adjustments for employee benefits	1,712
Other operational liabilities	8,863
Change of assets/liabilities for employee benefits	820
Other accounts payable	(8,252)
Other provisions	548
Income tax payments	(2,642)
Net cash flows from operating activities	**(1,340)**
Investing activities:	
Payments for the acquisition of property, furniture and equipment	**(1,415)**
Payments for the acquisition of affiliates	-
Collections of cash dividends from permanent investments	244
Payments for acquisition of intangible assets	(2,221)
Other payments from investing activities	-
Net cash flows from investing activities	**(3,392)**
Financing activities:	
Lease liability payments	**(1,342)**
Cash Dividend Payments	(3,163)
Proceeds from the issuance of financial instruments that qualify as liabilities	11,401
Payments associated with financial instruments that qualify as a liability	(250)
Net cash flows from financing activities	**6,646**
Increase/decrease in cash and equivalents	1,914
Cash and equivalents at beginning of period	66,814
Cash and equivalents as of 31 December 2024	**68,728**

Introduction

These consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, effective as of the date of the consolidated statement of financial position, issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish), who is in charge of inspecting and supervising financial group holding companies and reviewing their financial information. The subsidiaries financial statements have been prepared in accordance with the accounting criteria established by the National Banking and Securities Commission (CNBV, for its acronym in Spanish), except for the consolidated financial statements of HSBC Insurance Company, which are prepared under the criteria applicable to Finance and Insurance Institutions in Mexico, issued by the National Insurance and Bonding Commission (CNSF, for its acronym in Spanish).

The accounting criteria established by the National Banking and Securities Commission and the National Insurance and Bonding Commission, generally follow the requirements of the Mexican Financial Reporting Standards (NIF, for its acronym in Spanish), issued by the Mexican Financial Reporting and Sustainability Standards Board (CINIF, for its acronym in Spanish), and additionally include rules for the recognition, valuation, presentation and disclosures for banking sector particular transactions, which in some cases could be different from NIF.

The accounting criteria states that the Banking Commission will issue specific rules for specialized operations. In the absence of express accounting criteria, the supplementary process established in NIF A-8 (now integrated in NIF A-1, Conceptual framework of Financia Reporting Standards) will be observed, and in accordance with this, only in the event that International Financial Reporting Standards do not provide a solution to the accounting recognition, a supplementary standard belonging to any other regulatory scheme may be applied in the following order: Accounting Principles Generally Accepted In the United States of America and any accounting standards that is part of a set of formal and recognized standards, provided that they meet all the requirements set forth in the aforementioned NIF.

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 2024 issued by CINIF applicable to Financial Institutions*.

CINIF issued a document called "Improvements to NIF 2024", which mainly includes the following changes and improvements:

Improvements that generate 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 improvements are effective for the year beginning on or after January 1, 2025, early application in 2024 is permitted.

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 "Derivative Financial Instruments and Hedging relationships" – The necessary amendments are made to include the accounting treatment of a hedge of equity financial instruments whose valuation at fair value is recognized in ORI in accordance with NIF C-2 "Investment in Financial Instruments", which converges with the established in IFRS 9 "Financial Instruments".

NIF B-17 "Determination of Fair Value", NIF C-2 "Investment in 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 generate 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 is 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 "Combined or Consolidated 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 a 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 "Investment in 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 "Derivative Financial Instruments 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.

NIF C-19 "Financial Liabilities instruments" – 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.

New terms:

- Public interest entity: generally speaking, an entity that is publicly accountable either because its equity and/or debt instruments are traded in a public market, it holds assets in a fiduciary capacity for a large group of third parties as one of its core businesses, or its decisions could have a systemic risk.

- Public accountability: when there is a wide group of external users of the entity's financial statements (other than owners and managers) such as current and potential investors and creditors, who rely primarily on the entity's financial information for their decision-making but lack the power to demand it for themselves.

Improvements to existing terms:

- Category and type of investments in financial instruments, financial instrument receivable or for sale (IFCV, for its acronym in Spanish) Financial Instruments Receivable (IFC, for its acronym in Spanish): an adjustment to the term "Financial Instrument receivable or for sale" for Financial Instruments receivable and for Sale.

- Financial Guarantee contract: improvements were made to the term to aid in its understanding.

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

I. 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.

The disclosures will be effective as of January 1, 2025, early adoption is allowed as of January 1, 2024. No relevant impacts are expected by its implementation.

II. 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 on October 24, 2023 and documentation is completed no later than October, 31th, 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

As of December 31, 2024 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	250,530	17	0.007%	2
Consumer	107,295	244	0.227%	38
Mortgages	153,221	383	0.249%	32
Total	**511,046**	**644**		**73**

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	143	3
Mortgages	23	360	56	3
Total	**34**	**608**	**203**	**6**

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

IV. Clarifications to transfer into stage 3 for INFONAVIT and/or FOVISSSTE loans acquired by HSBC.

On December 30th, 2024, in the official gazette was issued by CNBV a clarification for the limit of maximum 180 past due days to transfer into stage 3 INFONAVIT and/or FOVISSSTE loans under the Ordinary Amortization Regime acquired by HSBC.

The clarification was effective from the following day, not having financial impacts in its implementation.

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 twelve months ended at 31 December 2024 and an explanation of the key reconciling items.

	31 Dec 2024
Figures in MXN millions	
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**12,729**
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	(859)
IFRS16	319
Effective Interest Rate	318
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	204
Fair value adjustments on financial instruments	11
Deferred profit sharing	(259)
AT1 Valuation	611
Other insurance adjustments[9]	(52)
Others	14
Profit before/(loss) tax under IFRS	**13,036**

[9] *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 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.

1. 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.

2. 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 recognized in line with service provision (i.e., over the life of the contract) and included Enhanced and more granular disclosures.

During September was reviewed some policies of UL product and after review, the treatment of liabilities for these specific policies were moved from IFRS17 to IFRS9, without impact in equity, only a reclassification was made between Insurance Liabilities & Financial Liabilities.

3. 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).