HSBC

News Release

24th February 2021

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

- For the 12 months to 31 December 2020, Grupo Financiero's profit before tax was MXN2,145m, a decrease of MXN9,876m, or 82.2%, compared with MXN12,021m for the same period of 2019. In January 2019, HSBC launched a joint venture with Global Payments to operate its merchant acquiring services. This joint venture was completed by the sale of 50% of Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN1,296m gain on sale impacting other operating income. Excluding the gain on sale of the merchant acquiring business, profit before tax decreased MXN8,580m, or 80.0%.

- For the 12 months to 31 December 2020, net income was MXN64m, a decrease of MXN8,935m or 99.3%, compared with MXN8,999m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income decreased MXN8,028m or 99.2%.

- Total operating income excluding loan impairment charges was MXN47,601m, a decrease of MXN760m or 1.6%, compared with MXN48,361m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, operating income increased MXN536m or 1.1%.

- Loan impairment charges for the 12 months to 31 December 2020 were MXN16,069m, an increase of MXN6,920m or 75.6%, compared with MXN9,149m for the same period of 2019. The increase was mainly driven by deterioration in credit quality in both retail and wholesale portfolios and includes MXN3,426m as additional reserves to the ones calculated under the existing methodologies, to cover potential losses due to Covid-19 outbreak.

- Administrative and personnel expenses for the 12 months to 31 December 2020 were MXN29,491m, an increase of MXN2,221m or 8.1%, compared with MXN27,270m for the same period of 2019.

- The cost efficiency ratio for the 12 months to 31 December 2020 was 62.0%, compared with 56.4% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio increased 4.0%.

- Net loans and advances to customers were MXN348.8bn at 31 December 2020, showing a decrease of MXN38.5bn or 10.0%, compared with MXN387.3bn at 31 December 2019. Total impaired loans as a percentage of gross loans and advances at 31 December 2020 was 2.8%, compared to 2.0%, reported at 31 December 2019.

- At 31 December 2020, total deposits were MXN495.8bn, a decrease of MXN17.7bn, or 3.4%, compared with MXN513.4bn at 31 December 2019.

- Return on equity was 0.1% for the 12 months to 31 December 2020, whereas for the 12 months to 2019 it was 12.5%, showing a decrease of 12.4 percentage points. Excluding the gain on sale of the merchant acquiring business booked in 2019, return on equity decreased 11.0 percentage points compared with the same period of 2019.

- At 31 December 2020, the bank's total capital adequacy ratio was 14.1% and the common equity tier 1 capital ratio was 11.7% compared with 13.4% and 11.1%, respectively, at 31 December 2019.

On a reported IFRS basis, for the 12 months to 31 December 2020, loss before tax for the period was MXN4,174m, a decrease of MXN17,404m compared to the same period in 2019, mainly driven by higher impairment charges as a consequence of IFRS9 Forward Economic Guidance (FEG) provisions built during the period, along with gain on sale of the merchant acquiring business booked in 2019.

The main differences between Mexican GAAP and IFRS results for the 12 months to 31 December 2020 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, AT1 instrument valuation and pensions and insurance liabilities.

Covid-19

The Covid-19 outbreak has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. The outbreak has caused disruption to our customers, suppliers and staff. We have invoked our business continuity plan to help ensure the safety and wellbeing of our staff, as well as our ability to support our customers remaining operationally resilient.

Following the Regulator's relief program published in March and June 2020, we initiated measures to support our customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. HSBC provided temporary payment reliefs to customers that demonstrated to be affected by the pandemic under special accounting rules issued by the Regulator (CNBV). For wholesale, as of June 2020 we provided reliefs equivalent to MXN27bn, representing almost 10.0% of the portfolio, from which 99.8% have already expired as of December 2020. As of that date, circa of 5.0% of the Corporate portfolio and 20.0% of the business banking portfolios benefited by relief programmes continue showing distress. For WPB portfolios, relief programmes achieved MXN 22bn as of June 2020, representing 16.0% of the portfolio, from which 99.0% has expired by the end of 2020. As of year end, 64.0% have resumed regular payment and 36.0% show different levels of distress (either received an extension or missed at least one instalment).

There remains a range of potential economic outcomes for 2021, partly dependent on the extent of any future impacts from possible new waves of Covid-19 outbreak, the path to the distribution and widespread administration of the vaccines, as well as general confidence levels. Should the Covid-19 outbreak continue to cause disruption to economic activity, it is expected to trigger an increase in expected credit losses, a reduction in our income due to lower lending and transaction volumes and lower interest rates which will negatively impact net interest income.

At 31 December 2020, our capital and liquidity ratios remain solid, allowing us to continue supporting our customers throughout the Covid-19 outbreak.

Overview

The Mexican economy started to recover in 3Q20, as sectors began to resume operations gradually in June 2020. This improvement prevailed in early 4Q20 economic activity indicators, although the recovery remained uneven across sectors. On the one hand, sectors with higher exposition to external demand, especially to the US, experienced a faster recovery process while those depending on domestic demand saw a slower improvement process.

Furthermore, a surge in Covid-19 cases in the country during the last months of the year prompted another round of lockdowns in some regions, effective since 19 December 2020. In particular, Mexico City and the State of Mexico, the two largest contributors to GDP had to temporarily shut some service sector activities.

Inflation ended 2020 at 3.15%, mainly considering lower prices, in particular for non-processed foods.

In light of the atypical effects on inflation during 4Q20, Mexico's central bank - Banxico, paused the easing cycle of the policy rate, as more clarity was needed to assess the evolution of prices. However, despite keeping the policy rate on hold at 4.25% during November and December, Banxico resumed the monetary policy easing in February 2021 by cutting the benchmark rate by 25bps to 4.00%.

- For the 12 months to 31 December 2020, Grupo Financiero's profit before tax was MXN2,145m, a decrease of MXN9,876m, or 82.2%, compared with MXN12,021m for the same period of 2019. In January 2019, HSBC launched a joint venture with Global Payments to operate its merchant acquiring services. This joint venture was completed by the sale of 50% of Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN1,296m gain on sale impacting other operating income. Excluding the gain on sale of the merchant acquiring business, profit before tax decreased MXN8,580m, or 80.0%.

- Net interest income for the 12 months to 31 December 2020 was MXN33,944m, an increase of MXN277m or 0.8%, compared with the same period of 2019. The decrease in funding costs more than compensated the reduction in interest income from performing loans driven by the reduction in Central Bank reference interest rate, as well as lower portfolio volumes.

- Loan impairment charges for the 12 months to 31 December 2020 were MXN16,069m, an increase of MXN6,920m or 75.6%, compared with MXN9,149m for the same period of 2019. The increase was mainly driven by deterioration in credit quality in both retail and wholesale portfolios and includes MXN3,426m as additional reserves to the ones calculated under the existing methodologies, to cover potential losses due to Covid-19 outbreak.

- Net fee income for the 12 months to 31 December 2020 was MXN7,776m, an increase of MXN38m, or 0.5%, compared with same period of 2019.

- Trading income for the 12 months to 31 December 2020 was MXN4,335m, a decrease of MXN371m, or 7.9%, compared with the same period of 2019, mainly driven by lower derivatives results.

- Other operating income for the 12 months to 31 December 2020 was MXN1,546m, a decrease of MXN704m or 31.3% compared with the same period of 2019, mainly driven by the gain on sale of the merchant acquiring business booked in January 2019.

- Administrative and personnel expenses for the 12 months to 31 December 2020 were MXN29,491m, an increase of MXN2,221m, or 8.1%, compared with MXN27,270m for the same period of 2019 driven by IT expenses, Covid-19 related expenses and higher IPAB costs.

- The cost efficiency ratio was 62.0% for the 12 months to 31 December 2020, compared with 56.4% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio increased 4.0%.

- The effective tax rate was 97.0% for the 12 months to 31 December 2020, compared with 25.1% reported for the same period of 2019. The increase was mainly driven to the reassessment of the deferred tax asset.

- Net loans and advances to customers were MXN348.8bn at 31 December 2020, showing a decrease of MXN38.5bn, or 10.0% compared with MXN387.3bn at 31 December 2019. The performing corporate portfolio observed a reduction of 16.3%, with respect to 31 December 2019 mainly driven by the decrease in commercial loans. The performing retail portfolio increased by 6.2% with respect to 31 December 2019 driven by mortgage loans growing 21.4%, partially offset by consumer loans reducing 8.8%. Credit cost ratios[1/] and loan loss reserves ratios[2/] as of December 2020 were 4.4% (2.3% as of December 2019) and 5.1% (3.3% as of December 2019), respectively.

- Total impaired loans as a percentage of gross loans and advances at 31 December 2020 was 2.8%, compared to 2.0% at 31 December 2019.

- Return on equity was 0.1% for the 12 months to 31 December 2020, whereas for the 12 months to 2019 it was 12.5%, showing a decrease of 12.4 percentage points. Excluding the gain on sale of the merchant acquiring business booked in January 2019, return on equity decreased 11.0% percentage points, mainly driven by the adverse effects of Covid-19 increasing loan impairment charges.

- Total loan loss allowances at 31 December 2020 were MXN18.9bn, an increase of MXN5.7bn or 43.3% compared with 31 December 2019. The total coverage ratio (allowance for loan losses divided by impaired loans) was 183.4%, at 31 December 2020 compared with 167.9% at 31 December 2019.

- At 31 December 2020, total deposits were MXN495.8bn, a decrease of MXN17.7bn or 3.4%, compared with MXN513.5bn at 31 December 2019 mainly driven by reduction in time deposits partially offset by an increase in demand deposits, improving the blended cost of funds.

- HSBC Bank Mexico profit before tax for the 12 months to 31 December 2020 was MXN1,127m, a decrease of MXN8,754m or 88.6% compared with the same period of 2019 mainly driven by the increase in loan impairment charges of MXN6,920m. Excluding the gain on sale of the merchant acquiring business booked in 2019, profit before tax decreased MXN7,458m, or 86.9%.

- HSBC Bank Mexico net loss for the 12 months to 31 December 2020 was MXN709m, a decrease of MXN8,083m or 109.6% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income decrease by MXN7,176m or 111.0%.

- HSBC Bank Mexico net interest income for the 12 months to 31 December 2020 was MXN32,646m an increase of MXN1,265m or 4.0%, compared with the same period of 2019.

- At 31 December 2020, the bank's total capital adequacy ratio was 14.1% and the common equity tier 1 capital ratio was 11.7%, compared with 13.4% and 11.1% respectively, at 31 December 2019. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the 12 months to 31 December 2020 was MXN429m, a decrease of MXN979m or 69.5%, mainly driven by higher claims and technical reserves and investment income.

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

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

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 2020) 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.

All numbers are as reported and there were no significant items distorting period-on-period comparisons, with the exception of the impact of the gain on sale of the acquiring business recognised in Other Income.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business. For comments on general expenses variances, please refer to the financial overview for Grupo Financiero). As part of the Strategic announcements made by HSBC Group Executive Committee, 'RBWM – Retail Banking and Wealth Management and GPB – Global Private Banking' line of business is merged to create one new line of business, 'WPB – Wealth and Personal Banking', additionally BSM (Balance Sheet Management) was renamed to Markets Treasury.*

Markets Treasury profit before tax for the 12 months ended at 31 of December 2020 was MXN2,160m, an increase of MXN1,123m compared with the same period of 2019, mainly driven by higher net interest income and gain on sale of the investment portfolio. From June 2020, Markets Treasury, which in the past was reported under Corporate Centre, has been reallocated to the line of businesses WPB, CMB and Global Banking and Markets. The reallocation methodology utilizes two drivers: commercial surplus and legal entity tangible equity by line of business. The reallocation to line of businesses for the 12 months ended 31 of December 2020 was MXN1,275m to WPB, MXN411m to CMB and MXN474m to GB&M.

Wealth and Personal Banking (WPB)

WPB revenue for the 12 months to 31 December 2020 decreased by 0.5% compared to same period of 2019, which included the gain on sale of the merchant acquiring business reported in January 2019. Excluding gain on sale impact, revenue increased by 2.3% driven by higher balances in mortgage portfolio and higher deposits and Mutual funds where assets under management increased comparing with same period of 2019 and higher trading income from foreign currency transactions. This was partially offset by Insurance higher net claims, incurred mainly in term life and endowment. Deposits increased 7.0% when compared with 2019 and performing balances increased 6.2% mainly driven by Mortgages (21.4%).

Loan impairment charges increased by 30.3%, compared to the same period last year, mainly driven by credit quality deterioration, coupled with an additional reserve of MXN2,038m to cover potential losses due to the Covid-19 outbreak.

Loss before tax for the period was of MXN953m, a decrease of MXN4,339m, compared with the same period of 2019. Excluding the impact of MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019, decrease is MXN3,510m compared to prior year, mainly driven by higher loan impairment charges. With Markets Treasury reallocation, profit before tax was positive MXN322m.

Mortgages portfolio grew significantly in 2020 compared to previous year. At the end of 2020 mortgages portfolio has registered maximum level of productivity across the branch network and key drivers for this evolution are enhancements in the origination process, re-launch of products, credit policies which were complemented by consistent connection with business partners such as realtors, developers and mortgage brokers, gaining market share year on year. During Q220 HSBC had participated in INFONAVIT co-participation governmental programs, accomplishing loans for MXN1,500m since the launch.

Demand deposits grew 27.0% year on year and Mutual Funds 19.0%.

In the middle of the second wave of Covid-19 outbreak, HSBC continues to cooperate and align with the government guidelines in order to ensure the banking services as an essential activity. Currently, most of our branches are opened and operating within the local regulations requirements.

Digital Banking, Contact Center and ATMs keeps providing services according to demand. In branches, tablets and biometrics' usage keep providing great support, to improve remote operation capability. It is worth to highlight that CoDi, a digital payments functionality promoted by Mexican Central Bank has been launched in HSBC through Mobile Banking from 4Q20.

Commercial Banking (CMB)

Revenue for the 12 months to 31 December decreased by 5.0% compared to same period of 2019, which included the gain on sale of the merchant acquiring business reported in January 2019. Excluding the gain on sale, revenue increased by 1.5%. Net interest income has reduced 4.6% significantly impacted by the lower interest rate environment, coupled with the reduced level of business activity across the economy that drove down the loans portfolio by 9.0%. The interest rate impact on deposits was partially mitigated by higher average balances, across most customer segments.

Loan impairment charges increased by more than 100% compared to same period of 2019, mainly driven by credit quality deterioration, coupled with an additional reserve of MXN1,208m to cover potential losses due to Covid-19 outbreak. Most impacted customer segments were Middle Market, Business Banking and Corporate Real Estate.

Loss before tax was MXN1,331m, a decrease of MXN3,984m or over 100% compared with the same period of 2019. This decrease is primarily explained by higher loan impairment charges during 2020, as well as the gain on sale (merchant acquiring business) that took place in January 2019. With Markets Treasury reallocation, loss before tax was MXN920m.

In October 2020, HSBC Mexico completed its first 'blockchain' transaction with a CMB customer. It was a pilot with this advanced technology platform, executed in less than 12 hours compared with up to 15 days of a traditional letter of credit transaction. It involved HSBC Mexico and Hong Kong. This is an important step in trade digitization and positions HSBC as a leader in innovation in the market.

Global Banking and Markets (GB&M)

Revenue for the 12 months ended at 31 December 2020 decreased by 12.8% compared with the same period of 2019 mainly from lower fee income which was significantly impacted by reduced economic activity associated with the pandemic, and lower trading income due to unfavorable revaluation of derivatives position.

In 2020, loan impairment charges increased by more than 100% compared with the same period of 2019, mainly driven by credit quality deterioration, coupled with an additional reserve of MXM180m to cover potential losses due to the Covid-19 outbreak.

Additionally, GB&M maintained its strategic focus on the cross-sale of products including Global Markets solutions, Trade Services and Liquidity and Cash Management, with an operating model that leverages from our international footprint and global capabilities thus allowing us to capture relevant transactions with local and international customers.

Profit before tax was MXN2,381m, a decrease of MXN2,548m or 51.7% compared with the same period of 2019, mainly driven by the aforementioned increase in loan impairment charges, and further impacted by lower revenues in Global Markets. With Markets Treasury reallocation, profit before tax was MXN2,855m.

HSBC to target net zero in operations and supply chain by 2030

On 9 October 2020, HSBC announced an ambitious plan to prioritize financing and investment that supports the transition to a net zero global economy, citing a landmark opportunity to build a thriving, resilient future for society and businesses.

The bank is committing to align its financed emissions – the carbon emissions of its portfolio of customers – to the Paris Agreement goal to achieve net zero by 2050 or sooner. HSBC has both the scale and global reach to play a leading role in guiding its customers through this transition and helping them to achieve this ambitious goal. The bank also aims to be net zero in its operations and supply chain by 2030.

HSBC pledged to work with its customers in all sectors to develop tailored solutions to reduce emissions. The bank will increasingly prioritize financing and investment that contributes to the low carbon transition and will apply a climate lens to financing decisions. HSBC's ambition is to support customers with between USD750bn and USD1 trillion of finance and investment by 2030 to help with their transition.

We have already reduced our CO2 emissions to 1.4 Tons/FTE overcoming our 2 Tons/ FTE goal. As of today 60% of the energy that our buildings and branches consume is generated through renewable sources.

Additionally, HSBC Mexico was the first bank in LATAM to issue a Social (Gender) Bond with FIRA (Trust Funds for Rural Development).

Awards

HSBC México was named by Euromoney magazine as the Best Bank in Treasury Services in Mexico (Cash Management Market Leader) and the Best Bank in Quality of Treasury Service in the country (Cash Management Best Service), in recognition of the quality of its products and services, and the added value they offer to their customers. These categories include, among other things, comprehensive solutions for collection and payments, optimal liquidity management and connectivity through the use of digital platforms. In these areas, HSBC México stood out for the implemented innovations that took on special relevance during the health contingency.

HSBC México obtained the HRC Equidad MX 2021 certification: Best LGBT places to work for the third consecutive year, thanks to its commitment and actions to promote the labor inclusion of people from the LGBT+ community. The certification is granted by the Human Rights Campaign Foundation (HRC), in alliance with ADIL(Diversidad e Inclusión Laboral), who established the HRC Equidad MX program, the leading assessment on LGBT + inclusion at the corporate level in Mexico. Some of the items evaluated by HRC Equidad MX were having policies of non-discrimination and equality of employment opportunity and public commitment to the LGBT+ community, among others.

In October 2020, Expansión magazine positioned HSBC México within the first 10 places in its ranking of Responsible Companies, being the only bank mentioned within the first positions.

Grupo Financiero HSBC's fourth quarter to 2020 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS).

On a reported IFRS basis, for the 12 months to 31 December 2020, loss before tax for the period was MXN4,174m, a decrease of MXN17,404m compared to the same period in 2019, mainly driven by higher impairment charges as a consequence of IFRS9 Forward Economic Guidance (FEG) provisions built during the period, along with gain on sale of the merchant acquiring business booked in 2019.

The main differences between Mexican GAAP and IFRS results for the 12 months to December 2020 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, AT1 instrument valuation and pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 930 branches, 5,506 ATMs and 15,036 employees. 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 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,984bn at 31 December 2020, HSBC is one of the world's largest banking and financial services organisations.

For further information, contact:

Mexico City
Lyssette Bravo
External Communication
Telephone: +52 (55) 5721 2888

London
Ankit Patel
Corporate Media Relations
Telephone: +44 (0)20 7991 9813

Investor enquiries to:
Diego Di Genova
Investor Relations
Telephone: +52 (55) 5721 6617

UK
+44 (0)20 7991 3643
Hong Kong
+852 2822 4908

USA
+1 224 880 8008

Consolidated Income Statement – GROUP 12 MONTHS ENDED 31 December 2020 and 2019

Figures in MXN millions

	Group	
	31 Dec 2020	**31 Dec 2019**
Interest income	57,750	67,841
Interest expense	(23,806)	(34,174)
Net interest income	33,944	33,667
Loan impairment charges	(16,069)	(9,149)
Risk-adjusted net interest income	17,875	24,518
Fees and commissions receivable	10,663	11,015
Fees payable	(2,887)	(3,277)
Trading income	4,335	4,706
Other operating income	1,546	2,250
Total operating income	31,532	39,212
Administrative and personnel expenses	(29,491)	(27,270)
Net operating income	2,041	11,942
Share of profits in equity interest	104	79
Profit/loss before tax	2,145	12,021
Income tax	(1,886)	(2,321)
Deferred income tax	(195)	(701)
Net income	64	8,999

Consolidated Income Statement – BANK 12 MONTHS ENDED 31 December 2020 and 2019

Figures in MXN millions

	Bank	
	31 Dec 2020	**31 Dec 2019**
Interest income	53,278	63,598
Interest expense	(20,632)	(32,217)
Net interest income	32,646	31,381
Loan impairment charges	(16,069)	(9,149)
Risk-adjusted net interest income	16,577	22,232
Fees and commissions receivable	10,017	10,473
Fees payable	(2,862)	(3,375)
Trading income	4,240	4,600
Other operating income	2,387	2,937
Total operating income	30,359	36,867
Administrative and personnel expenses	(29,331)	(27,062)
Net operating income	1,028	9,805
Share of profits in equity interest	99	76
Profit/loss before tax	1,127	9,881
Income tax	(1,637)	(1,826)
Deferred income tax	(199)	(681)
Net income	(709)	7,374

Consolidated Balance Sheet

Figures in MXN millions	Group		Bank	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Assets				
Cash and deposits in banks	52,524	60,214	52,395	60,102
Margin accounts	242	680	242	680
Investment in securities	**190,751**	**183,549**	**175,126**	**168,072**
Trading securities	82,189	66,412	80,268	65,531
Available-for-sale securities	80,882	89,277	75,940	83,870
Held to maturity securities	27,680	27,860	18,918	18,671
Repurchase agreements	72,300	40,727	72,300	40,727
Derivative transactions	74,105	49,152	74,105	49,152
Performing loans				
Commercial loans	180,359	211,093	180,359	211,093
Loans to financial intermediaries	10,698	15,024	10,698	15,024
Loans to government entities	31,011	39,132	31,011	39,132
Consumer loans	58,715	64,362	58,715	64,362
Mortgage loans	76,569	63,070	76,569	63,070
Total performing loans	**357,352**	**392,681**	**357,352**	**392,681**
Impaired loans				
Commercial loans	5,511	4,067	5,511	4,067
Consumer loans	2,432	2,482	2,432	2,482
Mortgage loans	2,357	1,301	2,357	1,301
Total impaired loans	**10,300**	**7,850**	**10,300**	**7,850**
Gross loans and advances to customers	**367,652**	**400,531**	**367,652**	**400,531**
Allowance for loan losses	(18,888)	(13,182)	(18,888)	(13,182)
Net loans and advances to customers	**348,764**	**387,349**	**348,764**	**387,349**
Accounts receivables from Insurers and Bonding companies	81	61	-	-
Premium receivables	1,849	1,779	-	-
Accounts receivables from reinsurers and rebonding companies	37	30	-	-
Other accounts receivable	35,232	62,371	35,136	62,335
Foreclosed assets	349	379	349	379
Property, furniture and equipment, net	4,648	4,698	4,648	4,472
Long-term investments in equity securities	992	998	951	963
Long-term assets available for sale	471	249	240	240
Deferred taxes	10,398	10,974	10,242	10,832
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	6,058	4,722	5,601	4,569
Total assets	**799,849**	**808,980**	**780,099**	**789,872**

Consolidated Balance Sheet (continued)

	Group		Bank	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Liabilities				
Deposits	**495,802**	**513,456**	**497,802**	**513,880**
Demand deposits	316,063	294,419	317,605	294,588
Time deposits	133,931	178,042	133,534	177,629
Bank bond outstanding	45,808	40,995	45,808	40,995
Global deposit account without movements			855	668
Bank deposits and other liabilities	**19,155**	**27,140**	**19,155**	**27,140**
On demand	4,955	91	4,955	91
Short-term	9,009	7,647	9,009	7,647
Long-term	5,191	19,402	5,191	19,402
Repurchase agreements	45,132	44,785	45,132	44,785
Collateral sold	1,625	11,161	1,625	11,161
Derivative transactions	61,670	42,862	61,670	42,862
Technical reserves	13,974	12,684	-	-
Accounts payable from reinsures and rebounding companies	3	5	-	-
Other payable accounts	**77,055**	**69,642**	**76,486**	**69,267**
Income tax and employee profit sharing payable	821	1,163	764	1,149
Sundry creditors and other accounts Payable	76,234	68,479	75,722	68,118
Subordinated debentures outstanding	11,569	13,051	11,569	13,051
Deferred credits and receivable in advance	1,395	1,616	1,290	1,479
Total liabilities	**727,380**	**736,402**	**714,729**	**723,625**
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	**29,089**	**29,198**	**27,047**	**27,925**
Capital reserves	1,244	1,244	13,202	12,474
Retained earnings	28,157	20,237	17,373	11,031
Result from the mark-to-market of available-for-sale securities	(283)	(1,105)	(477)	(1,148)
Result from cash flow hedging transactions	(93)	(177)	(93)	(177)
Adjustment in the employee pension	-	-	(2,249)	(1,629)
Net income	64	8,999	(709)	7,374
Minority interest in capital	7	7	5	4
Total equity	**72,469**	**72,578**	**65,370**	**66,247**
Total liabilities and equity	**799,849**	**808,980**	**780,099**	**789,872**

Consolidated Balance Sheet (continued)

	Group		Bank	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Memorandum Accounts	**5,520,122**	**6,738,494**	**5,338,366**	**6,565,860**
Third party accounts	**28,035**	**27,541**	**26,757**	**26,041**
Clients current accounts	309	97	-	-
Custody operations	969	1,403	-	-
Third party investment banking operations, net	26,757	26,041	26,757	26,041
Proprietary position	**5,492,087**	**6,710,953**	**5,311,609**	**6,539,819**
Irrevocable lines of credit granted	290,065	341,647	290,065	341,647
Goods in trust or mandate	194,651	215,937	194,651	215,937
Goods in custody or under administration	1,406,550	1,251,071	1,400,332	1,244,853
Collateral received by the institution	82,861	64,637	82,861	64,637
Collateral received and sold or delivered as guarantee	9,072	25,190	9,072	25,190
Suspended interest on impaired loans	320	214	320	214
Other control accounts	3,508,568	4,812,257	3,334,308	4,647,341

Consolidated Statement of Changes in Shareholders' Equity

GROUP *Figures in MXN million*	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net Income	Minority interest	**Total Equity**
Total Balances at 31 Dec 2019	**43,373**	**1,244**	**20,237**	**(1,105)**	**(177)**	**8,999**	**7**	**72,576**
Movements inherent to the shareholders' decision								
Transfer of result of prior years	-	-	8,999	-	-	(8,999)	-	**-**
Total	**-**	**-**	**8,999**	**-**	**-**	**(8,999)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	64	-	**64**
Result from valuation of available-for-sale securities	-	-	-	822	-	-	-	**822**
Result from cash flow hedging transactions	-	-	-	-	84	-	-	**84**
Others*	-	-	(1,079)		-		-	**(1,079)**
Total	**-**	**-**	**(1,079)**	**822**	**84**	**64**	**-**	**(109)**
Total Balances at 31 December 2020	**43,373**	**1,244**	**28,157**	**(283)**	**(93)**	**64**	**7**	**72,469**

**Includes local pension plan and valuation on technical risk reserves from Insurance entity*

Consolidated Statement of Changes in Shareholders' Equity

BANK	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plan	Net income	Minority interest	**Total equity**
Figures in MXN million									
Total Balances at 31 Dec 2019	**38,318**	**12,474**	**11,031**	**(1,148)**	**(177)**	**(1,629)**	**7,374**	**4**	**66,247**
Movements inherent to the shareholders' decision									
Transfer of result of prior years	-		7,374	-	-	-	(7,374)	-	**-**
Constitution of reserves	-	728	(728)	-	-	-	-	-	**-**
Others	-	-	(274)	-	-	-	-	-	(274)
Total	**-**	**728**	**6,372**	**-**	**-**	**-**	**(7,374)**	**-**	**(274)**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	(709)	1	**(708)**
Result from valuation of available-for-sale securities	-	-	-	671	-	-	-	-	**671**
Result from cash flow hedging transactions	-	-	-	-	84	-	-	-	**84**
Adjustment in defined benefit pension plan	-	-	(30)	-	-	(620)	-	-	**(650)**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**(30)**	**671**	**84**	**(620)**	**(709)**	**1**	**(603)**
Total Balances at 31 Dec 2020	**38,318**	**13,202**	**17,373**	**(477)**	**(93)**	**(2,249)**	**(709)**	**5**	**65,370**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Dec 2020**
Net income	**64**
Adjustments for items not involving cash flow:	**23,523**
Allowances for loan losses	16,069
Depreciation and amortization	1,990
Valuations	3,092
Technical reserves	470
Provisions	(75)
Income Tax and deferred taxes	2,081
Participation in the Results of Unconsolidated Subsidiaries	(104)
Changes in items related to operating activities:	
Margin accounts	437
Investment securities	(6,118)
Repurchase agreements	(31,573)
Derivative (assets)	(27,940)
Loan portfolio	22,516
Foreclosed assets	29
Operating assets	25,855
Deposits	(17,654)
Bank deposits and other liabilities	(7,985)
Creditors repo transactions	346
Collateral sold or delivered as guarantee	(9,536)
Derivative (liabilities)	18,808
Accounts receivables from reinsurers and coinsurers	(27)
Accounts receivables from premiums	(70)
Other operating liabilities	6,883
Income tax paid	(2,354)
Funds provided by operating activities	**(28,383)**
Investing activities:	
Acquisition of property, furniture and equipment	(1,210)
Intangible assets acquisitions & Prepaid expenses	(1,878)
Cash dividends	111
Proceeds on disposal of subsidiaries	3
Other investment activities	103
Funds used in investing activities	**(2,871)**
Financing activities:	
Others	(23)
Funds used in financing activities	**(23)**
Financing activities:	
Increase/decrease in cash and equivalents	(7,690)
Cash and equivalents at beginning of period	60,214
Cash and equivalents at end of period	**52,524**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Dec 2020**
Net income	**(709)**
Adjustments for items not involving cash flow:	**22,972**
Allowances for loan losses	16,069
Valuations	3,066
Depreciation	966
Amortization	1,024
Provisions	110
Income Tax and deferred taxes	1,836
Share of profits in equity interest	(99)
Changes in items related to operating activities:	
Margin accounts	437
Investment securities	(6,095)
Repurchase agreements	(31,573)
Derivative (assets)	(27,940)
Loan portfolio	22,516
Foreclosed assets	29
Operating assets	26,447
Deposits	(16,076)
Bank deposits and other liabilities	(7,985)
Creditors repo transactions	346
Collateral sold or delivered as guarantee	(9,536)
Derivative (liabilities)	18,808
Subordinated debentures outstanding	(1,482)
Other operating liabilities	7,338
Income tax paid	(2,054)
Funds provided by operating activities	**(4,557)**
Investing activities:	
Acquisition of property, furniture and equipment	(1,210)
Intangible assets acquisitions & Prepaid expenses	(1,878)
Proceeds on disposal of subsidiaries	3
Cash dividends	111
Other investment activities	98
Funds used in investing activities	**(2,876)**
Financing activities:	
Others	(274)
Funds used in financing activities	**(274)**
Financing activities:	
Increase/decrease in cash and equivalents	**(7,707)**
Cash and equivalents at beginning of period	60,102
Cash and equivalents at end of period	**52,395**

Changes in Mexican accounting standards

Introduction

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different.

Subsidiaries financial statements were 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 in accounting standards issued by either CNBV or CINIF applicable to Grupo Financiero HSBC, are described below:

I. Improvements of NIF 2020 issued by CINIF applicable to Financial Institutions.

CINIF issued a document called “Improvements of NIF 2020”, which mainly includes the following changes and improvements:

Improvements involving accounting changes “without financial impacts” in Grupo Financiero HSBC.

NIF C-16 “Expected credit losses of financial assets at amortized cost” – When renegotiations of loans under Hold-to-collect business model would not trigger de-recognition of financial assets, they should be measured using the original effective interest rate adjusted only by renegotiations transactional costs.

NIF C-19 “Financial Liabilities” and NIF C-20 “Financial Assets under Hold-to-Collect business model measure at amortized cost” – For financial instruments at variable interest rate, the use of effective interest rate method on measurement at amortized cost is not required, given immaterial financial effects in comparison to use interest contractual rate in measurement and several practice issues in the calculation. Therefore, transactional originations costs of financial instrument should be amortized using the initial effective interest rate which would not be recalculated.

NIF D-3 “Employee Benefits” – Given that employees participation in Profit Sharing (in Spanish “Participación de los Trabajadores en las Utilidades”) is calculated based on Income Tax legislation, which could be determined under uncertain tax positions, therefore a specific reference to NIF D-4 “Income taxes” was added to refer to section about accounting treatment of uncertain tax positions.

NIF D-4 “Income Taxes” – The following changes were added:

i).- Since 2019, “IFRIC 23 Uncertainty over Income Tax Treatments” issued by IASB was in force to set the accounting treatment when an uncertain tax position raises, CINIF considered that this interpretation should be incorporated in NIF, given that the acceptance or refuse of an specific tax treatment in calculation of income taxes could not be recognised in financial statements until tax authorities or court have ruled over the uncertainty, this situation could have impacts in accounting recognition of assets and liabilities of either current or deferred income taxes.

ii).- Accounting treatment of Income taxes originated by dividends distributions which should be recognised in retained earnings, net income or other comprehensive income, depending on agreement with shareholders.

NIF D-5 “Leases” - The following changes were added:

i).- Practical expedient to use a risk-free interest rate as discount rate to determine the present value of mandatory lease payments (Lease liability) instead of use of implicit interest rate in lease agreement or incremental interest rate which could be complex to obtain or impractical to calculate.

ii).- Lease liability should be measured after inception using the effective interest rate method.

iii).- The practical expedient to not separate non-lease components under lease agreement was changed to avoid that major and important non-lease components could be incorporated in measurement of right of use or lease liability.

Improvements which not originate accounting changes in Grupo Financiero HSBC.

NIF B-1. “Accounting changes and errors” – The term of “partial retrospectively adoption” is introduce in accounting standard to be applied once it is not possible to determine cumulative effects in prior periods, so only should be considered prior periods where is feasible to calculate them.

NIF B-8. “Consolidated or Combined Financial Statements” – The goodwill originated in a subsidiary which is measured as part of permanent investments should be measured using equity method described on NIF C-17 “Associates, Joint Ventures and Permanent Investments” as part of investment in subsidiaries category.

NIF B-11. “Non-current Assets Held for Sale and Discontinued Operations” – Clarifications about that a disposal of non-current assets does not have the same meaning of non-current assets held for sale, because the former has a broader meaning including also assets to distribute to shareholders, to be abandoned or donated.

NIF C-2. “Investments in Financial Instruments” – Clarifications about the irrevocable option to designate financial instruments at fair value through profit and loss.

NIF C-3 “Accounts receivables” – The base of conclusions chapter is amended to indicate that foreclosure assets should be recognised at the lower between their gross carrying amount and recoverable amount.

NIF D-5 “Leases” – Clarifications to be consistent with agreements that would meet lease agreements criteria.

It is important to highlight that changes and clarifications in NIF C-2, C-3, C-16, C-19 and D-5 should be adopted by Financial Institutions in conjunction with particular accounting changes issued by CNBV which are described in section III). No relevant impacts in adoptions of the rest of changes and clarifications were observed.

II. New NIF B-11 ‘Disposal of non-current assets held for sale and discontinued operations’.

CINIF issued this accounting standard with the purpose to separate the accounting treatment of 'Non-current Assets and Discontinued Operations' which mainly are focused on presentation and disclosure from 'Impairment of Assets' included in NIF C-15, in order to provided similarity with IFRS.

The following assets will be out of scope of NIF B-11, (only for measurement purposes, presentation and reclassification rules are applicable to all non-current assets):

- Biological assets (refers to NIF E-1 'Agriculture').
- Financial instruments (refers to NIF C-2 'Financial Instruments').
- Deferred taxes (refers to NIF D-4 'Income Taxes').
- Employee Benefit assets (refers to NIF D-3 'Employee Benefits').

In addition, NIF B-11 clarifies that assets in scope of this standard based on a liquidity presentation in balance sheet shall contemplate assets which recovery expectation is longer than 12 months.

This new standard is in place since 2020.

III. Changes in CNBV accounting standard A-2 "Aplicación de Normas Particulares."

Mexican Banking regulator "CNBV" has completed amendments in accounting standards applicable to Financial Institutions with the objective to converge to IFRS 9 Financial Instruments, IFRS 13 Fair Value and IFRS 15 Revenue from contracts with customers and IFRS 16 Leases. Furthermore, CNBV is planning to adopt the new NIF C-22 Crypto-currencies. As part of the implementation process, CNBV will require the adoption of some NIF already issued by CINIF that include the implementation of these international accounting standards:

NIF B-17 "Fair Value". This standard includes the different methodologies that entities would use to determine the fair value of the financial instruments maximizing the use of data inputs from observable transactions in the market rather than the use of those non-observable.

NIF C-2 "Investment in Financial Instruments". Setting out the accounting rules of measurement, presentation and disclosures required for Investment in Financial Instruments. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF C-3 "Accounts receivables". Regarding to the measurement, presentation and disclosures required for accounts receivables.

NIF C-9 "Provisions, Contingent assets and liabilities and commitments". Accounting rules of measurement, presentation and disclosures required for provisions and commitments, excluding the guidance for the accounting of financial liabilities that are included in NIF C-19.

NIF C-10 "Derivative financial instruments and hedge relationship". Including the characteristics to consider a derivative financial instrument for trading or hedging as well as the recognition, measurement, presentation and disclosure.

NIF C-16 "Impairment of financial instruments held to collect principal and interest"**.** Including the accounting standards for measurement, accounting recognition, presentation and disclosures of the impairment of financial instruments hold to collect cash flows. It is important to highlight that the CNBV has worked on special accounting standard which will cover the impairment for loans and advances that are held to collect cash flows, therefore this NIF would be partially adopted by Financial Institutions unless Financial Institution decides to adopt an internal methodology based on NIF C-16 which should be approved by CNBV.

NIF C-19 “Financial liabilities”. It includes the accounting standards of the measurement, accounting recognition, presentation and disclosures of financial liabilities. It also includes the methodology of effective interest rate to measure those financial liabilities at amortized cost.

NIF C-20 “Financial instruments hold to collect principal and interest”. Accounting standards about the measurement, accounting recognition, presentation and disclosures of financial instruments hold to collect principal and interest. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF C-22 “Crypto-currencies” This new standard provides guidance to initial recognition, measurement and disclosures related to financial transactions with digital-currencies, costs to generate digital-currencies. In summary, investments in digital-currencies would be recognised initially at acquisition cost with changes in their fair value directly in income statement. Their fair value should be measured in accordance with “NIF B-17”. Receivable and Payable accounts denominated in digital-currencies would be measured initially and subsequently at entity functional currency based on fair value of digital currencies at the date of the reporting period, changes in their fair value would be recognised in income statement. Costs incurred in order to generate digital-currencies would be recognised directly in income statement. Digital-currencies maintain in custody would not be recognised on balance sheet excepting by liabilities assuming for entities for losses suffered while custody services are provided.

NIF D-1 “Revenue from contracts with customers”. Measurement, accounting recognition, presentation and disclosures of income from contracts with customers. The recognition of the income is based on the transfer of control of services or products provided by the entity, obligations to comply with customers, allocation of the transaction price and collection rights.

NIF D-2 “Costs for contracts with customers”. Measurement, accounting recognition, presentation and disclosures of expenses from contracts with customers (such as incremental costs to obtain a contract and costs to fulfil a contract).

NIF D-5 “Leases”. New standard eliminates the classification of leases between ‘financial’ and ‘operating’ for lessees. One single accounting approach is provided for lessees in which a right to use should be recognised as assets and the present value of leases obligations as a liability. There is an exception in the standard to apply the accounting treatment aforementioned for leases in which the contractual term is until 12-months or where assets related to lease agreement are considered with a low value (no threshold is provided by CINIF, therefore it would be determined by each entity considering a materiality assessment). No relevant changes for lessor perspective are included.

On March 13th, 2020, CNBV has issued in Official Gazette changes in particular accounting standards applicable to Financial Institutions including in Annex 33 to match with the adoption of new NIF:

Loans and receivables:

- For measurement of loans and receivables under Hold to Collect Business Model which meets Solely Payment of Principal and Interest test, financial institutions must be used effective interest rate method excepting for those loans and receivables with variable interest rate.

- Implementation of stages in financial assets according to expected credit losses category (Stage 1, Stage 2 and Stage 3).

- New standard methodology to determine expected credit losses “ECL”.

  Financial negative impacts originated by adoption of the new standard methodology for ECL would be recognised either immediately or on deferral basis in following years (12 months) in

'Retained Earnings' category in share capital. In case that negative impacts were greater than 'Retained Earnings' balance, the difference should be recognised in income statement.

On the other hand, if adoption originates positive impacts, they should be recognised as a creditor movement in expected credit losses account in income statement.

- An option to adopt an internal methodology to determine expected credit losses which must be aligned with NIF C-16 "Impairment of financial instruments held to collect principal and interest".
- Changes in regulatory reporting.

Leases:

- There would be a practical expedient for those Financial Institutions that already adopted lease accounting standard for purposes to report their financial information to their holdings since 2019. There would be a recognition of the difference between amounts originated by the adoption of NIF D-5 according to accounting changes provided by CNBV and carrying the amount in lease accounting adopted in 'Retained Earnings' when NIF is in force.

  A prospective adoption of these changes whose initial impacts should be recognised in 'Retained Earnings' category in share capital unless there is a different indication.

Revocation of some particular accounting standards applicable to Financial Institutions:

Due to adoption of new NIF, the following particular accounting standards would be replaced:

Particular Accounting standard issued by CNBV to be superseded	NIF in adoption
A-3 General accounting rules applicable to offsetting	NIF B-12 "Offsetting of financial assets and liabilities"
B-2 Investment in financial instruments.	NIF C-2 "Investment in Financial Instruments".
B-5 Derivatives and hedge relationship.	NIF C-10 "Derivatives and hedge accounting".
B-11 Collection rights.	NIF C-20 "Financial instruments hold to collect principal and interest".
C-1 Recognition and derecognition of financial assets.	NIF C-14 "Recognition and derecognition of financial assets"
C-3 Related parties.	NIF C-13 "Related parties".
C-4 Operating segment information.	NIF B-5 "Operating segment information".

On December, 4th, 2020, CNBV issued in official gazette the adoption date of both NIF and Annex 33 changes aforementioned, which will be January, 1st, 2022.

At the end of reporting period, Grupo Financiero HSBC has identified the impacts originated by the adoption of NIF and Annex 33 changes. The process of implantation is ongoing in accordance with timelines agreed.

IV. Special accounting rules issued by National Banking Commission applicable to borrowers affected by the pandemic originated by Covid-19.

Background

CNBV issued temporary special accounting rules “the benefit programme” applicable to borrowers affected by the worldwide Covid-19 outbreak which produced a decrease in their liquidity given the lockdown of general population and the partial closing of many industries and entities which do not provide or produce essential services and goods. The benefit programme is applicable to retail, mortgages and wholesale borrowers excepting by those loans granted to related parties.

Loans were subject to receive the benefit programme if they are performing loans at February, 28th, 2020 and documentation is completed no later than 120 days after that date. According to last communication from CNBV received on June 23rd, 2020, loans that had not been adhered on that date, could receive the benefits if they are performing loans at March 31st, 2020 and documentation was formalized no later than July 31st, 2020.

The Benefit Programme

In summary, the benefit programme could provide 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. Likewise, the benefit programme could involve other type of benefits such as a temporary loan modification of terms as long as they not exceed 6 months. In this case, after that period, the loans should remain with the original features. During the benefit programme period, loans will not be flagged as restructure transactions and they will still be reported as performing loans.

Providing these benefits, Financial Institutions could forgive amounts recognised in balance sheet in order to provide more liquidity to borrowers, in which case financial impacts would be recognised against loan impairment allowances already booked or directly in income statement as appropriate.

CNBV prohibits the following practices in application of the programme:

- Capitalisation of interests (interests over interests).
- Charge additional fees to receive the temporary payment reliefs.
- Restrictions in use and decrease in revolving credit facilities excepting by those related to persons in which case they could restrict or decrease up to 50%.
- Request for providing or substitution of collaterals.

Based on this, HSBC decided to provide to customers that demonstrated to be affected by the pandemic, temporary payment reliefs which consist in the following:

Credit Cards

- Up to 6-months of skip payment of principal and interest.

Payroll and Personal loans

- Up to 6-months of skip payment of principal and/or interest.

Mortgages

- Up to 6-months of skip payment of principal and/or interest.
- Forgiveness of 50% of regular payments during 6-month.

Car loans

- Up to 6-months of skip payment of principal and/or interest.

SMEs loans

- Up to 6-months of skip payment of principal and/or interest.

Corporate loans (CMB and GB)

- Up to 6-months of skip payment of principal.

Financial Impacts

At the reporting end period, the outstanding balance of loans adhered to the programme and payments of principal and/or interest deferred amounts are (only loans with the benefits active at December, 31st, 2020):

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	227,579	7.09	0.003%	6.51

Below, an estimation of probable financial impacts under Mex GAAP calculated at the reporting period end, assuming that loans would have not been adhered to the programme (only loans with the benefits active at December, 31st, 2020):

Loan Category	Balances transfer from performing to non-performing (MXN $m)	Additional Increase in loan loss provision (MXN $m)*1/	Interest not recognised in B/S and P&L (MXN $m)*
Corporate	7.09	2.46	0.26

**In accordance to special accounting rules, in case of dividends payments, the amounts related to additional loan loss provisions and interests recognized in P&L, should be reduced from retained earnings in order to determine distributable profits.*

1/ Increase in loan loss provisions calculated assuming that customers with temporary payment reliefs became past due since the day the benefit was granted and considering the additional reserves amount recognised during 2020.

Additional Information

Accounting recognition of additional loan impairment allowances originated by Covid-19.

At December, 31st, 2020, HSBC has booked additional loan impairment allowances of $2,038m for Consumer and Mortgages and $1,388 for Corporate loans, on top of the methodological reserves. Additional loan impairment charges were originated by:

- *Consumer, mortgages and SME commercial loans:*- Some credit exposures have not properly reflected the expected credit losses through the current methodology to calculate the allowances given the skip payments granted as part of the benefit programme.

- *Corporate loans:-* The information used to calculate the probability at default of borrowers in certain economic sectors highly affected by the Covid-19 outbreak, was based on their financial information from December, 2019 (latest available) which was not capturing the expected credit impairment given the severe economic situation during 2020.

The release of additional loan impairment allowances will occur once the borrowers show ability payment in accordance with accounting standards issued by CNBV (generally after three consecutive monthly payments of principal and/or interest), the economic pandemic negative effects have been included in the methodology to calculate the allowances or the pandemic risk has been mitigated. At the end of the reporting period, the amount of release is MXN743m in relation to consumer, mortgages and SME commercial additional loan impairment allowances mainly driven by write-offs during the last quarter of 2020.

Regulatory facilities Covid-19.

New regulatory facilitation programme by Covid-19.

On September 24th, 2020, the CNBV issued a new facilitation programme including accounting, loan impairment charges and regulatory capital benefits that is optional to banks. The programme aims to offer additional benefits for borrowers that are still having credit distress originated by Covid-19 outbreak, but as performing loans at March 31st, 2020.

In summary, the programme includes long-term concessions such as: payment reductions, term extensions, change in loan scheme, debt consolidation, principal and/or interest accrued forgiveness, etc. based on a framework of terms and conditions prescribed by regulator. New modification loans would be subject to recognise the loan modified under current accounting standards as restructured or renewals, depending on changes in comparison with originals, and as performing or non-performing loans based on their terms/conditions and credit behaviour. When, the loan modified would be flagged as non-performing, there are some facilitations included in the programme to early change their status to performing loan. In addition, there are some specific rules to report these loans to the Credit Bureau Institutions.

Financial Institutions that adhere to this programme would have benefits in the accounting recognition of loan impairment charges and in regulatory capital requirements, while they would be subject to some restrictions in payment of dividends from reporting years of 2019 and 2020. Moreover, they are obliged to report financial impacts for the application of regulatory facilitation in their financial statements and provide detail information to CNBV on regular basis.

Restructuring Institutional Programme *(PIR by its acronym in Spanish)*.

On November 9th, 2020, CNBV issued the new facility PIR aiming to provide some flexibilities in the information provided by Financial Institutions to Credit Bureau Institutions for those loans modified by credit distress situations related to Covid-19 outbreak, which could be modified under *"the new regulatory facilitation programme by Covid-19"* aforementioned or independently. No accounting or regulatory facilities for Financial Institutions were included under this programme.

In order to meet criteria to be included in PIR programme, both original loans and modified loans should comply with certain terms and conditions similar to *"the new regulatory facilitation programme by Covid-19".*
Both programs are optional, so benefits and restrictions of each one were considered by HSBC, deciding to not adhere at the end of the reporting period.

V. Special accounting rules issued by National Banking Commission applicable to borrowers affected by natural disasters occurred during the period of October 29th and December, 31st, 2020.

On November 25th, 2020, the CNBV issued temporary special accounting rules (official response paper No. P-481/2020) “the programme” applicable to borrowers affected by natural disasters occurred from October, 29th, to December, 31st, 2020, as long as, their home address or the cash flows to pay the loan are located or originated in affected municipalities, cities, and states along Mexico that were declared by the Mexican Government as a disaster zone in the Official Gazette.

These special accounting rules are applicable to consumer, mortgages and commercial loans that were classified as “performing loans” at the disaster date according to CNBV accounting standards, as long as the borrower adhered to “the programme” during 120 days after the disaster date.

Basically, “the programme” provides skip payments of capital and/or interest or other type of temporary modification to original terms for a period no longer than 3 months (excepting by “microcreditos grupales” and agriculture or rural loans in which case the period would be no longer than 6 months or 18 months respectively). Under “the programme” loans modification would not be considered as restructured loan under CNBV accounting standards and they should be marked as “performing loans” during the benefit period.

Providing these benefits, Financial Institutions could forgive amounts recognised in balance sheet in order to provide more liquidity to borrowers, in which case financial impacts would be recognised against loan impairment allowances already booked or directly in income statement as appropriate. Financial Institutions could defer on straight-line basis the recognition of loan impairment charges during 12 months.

Although, HSBC is applying this programme, at the end of reporting period no loans have been adhered to.

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

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the Fourth quarter ended at December 2020 and an explanation of the key reconciling items.

Figures in MXN millions	**31 December 2020**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**64**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	103
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	(133)
Loan impairment charges and other differences in presentation under IFRS[1]	(4,392)
Recognition of the present value in-force of long-term insurance contracts	150
Other insurance adjustments[2]	78
Fair value adjustments on financial instruments	(300)
Deferred profit sharing	110
AT1 Valuation	120
Other	(159)
Tax over adjustments	88
Net income / (loss) under IFRS	**(4,271)**
Add back tax expense	97
Profit / (loss) before tax under IFRS	**(4,174)**
Add back significant items	632
Adjusted net income / (loss) before tax under IFRS	**(3,542)**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(12)**
-Costs to achieve	**(620)**
-Profit / (loss) before tax under IFRS	**USD (210) millions**
-Net income / (loss) under IFRS	**USD (215) millions**

[1] Includes IFRS 9 – Forward Economic Guidance ECL provision of MXN(4,641)m
[2] Includes technical reserves and effects from Solvency II
[3] Banxico rate at 31 December 2020 MXN19.9087

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

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 recognise in the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, 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) recognised 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) totally recognised in income statement.

Modification of plans are recognised in the early date between 1) immediately when the change takes place or 2) when the restructuring costs or indemnity benefits have been recognised.

Given that in 2015, the Mexican accounting standard related to Employee Benefits (*NIF D-3 Beneficios a los Empleados*) changed as part of converge process with IAS 18 Employee Benefits, the Mexican Banking Regulator issued some reliefs in order to recognise initial financial impacts from adoption prospectively over the following five years. Under reliefs' rules, financial impacts from plan modification would be recognised in retained earnings and actuarial gains/losses would be recognised in Other Comprehensive Income progressively over the relief term. Only, actuarial gains/losses would be recycling in income statement over the average working life projected of the employees in accordance to NIF D-3.

IFRS

The main differences between Mex GAAP and IFRS comprise:

1) For Group purposes, the measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.

2) There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

3) Actuarial gains/losses are recognised in OCI under IFRS not subject to be recycling or recognise totally in income statement.

4) Reliefs issued by Mexican Banking Regulator are not applicable to the preparation of IFRS financial information.

Deferral of fees paid and received on the origination of loans and other effective interest rate adjustments

Mexican GAAP

The commissions charged to the borrower at loan inception are recorded into a deferred credit account (liability), which will be deferred against interest income in income statement on straight-line basis during contractual life of loan, excepting by those loans regarding to revolving credit facilities in which the deferral period is three months. In the case of commissions charged to borrowers for restructuring or renewals loans, they must be accumulated to the outstanding balance of commissions from original loan and deferring in interest income using the straight- line method during the new term of the loan.

On the other hand, for incremental costs incurred in loan inception, they are recognised as an asset, which is amortised on straight-line basis over the contractual life of the loan as interest expense in income statement.

Both commissions charged to borrowers and incremental costs incurred in loan inception, are recognised in separately accounts in balance sheet, i.e. they are not considered as part of amortised cost of the loan to presentation purposes.

IFRS

After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate 'EIR' method.

The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognitions of the financial asset.

The effective interest rate is the rate that exactly discounts estimated future cash payments of the financial asset through its expected life.

Given the technical complication in core systems to apply a pure EIR method, HSBC Mexico decided to use as a proxy of EIR the amortised cost indicated for Mexican Banking Regulator, which use the straight-line basis to defer/amortise initial commission charged to borrowers/incremental costs paid to the origination of the loan.

Loan impairment charges and other differences in presentation under IFRS

Mexican GAAP

Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish methodologies for determining the amount of provision for each type of loan.

Cash recoveries from written-off loans and the positive excess of loan impairment charges are recognised in Loan Impairment Charges in the income statement.

IFRS

The impairment requirements under IFRS 9 are based on an Expected Credit Losses ('ECL') concept that requires the recognition of ECL 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). There are four credit deterioration categories:

i. Credit-impaired (Stage 3)
ii. Purchased or originated credit-impaired ('POCI')
iii. Significant increase in credit risk (Stage 2)

iv. Stage 1 (the rest of the financial assets in scope not falling into any of the above 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.

Fair value adjustments on financial instruments

Mexican GAAP

Mexican GAAP requires that for those Derivatives and Investment in Securities required to be fair valued, valuations shall be obtained from prices or application of internal valuation models, applied consistently among the operations with same nature.

Inputs for Internal valuation models such as interest rates, exchange rates and volatilities as well as prices used to valuate positions shall be obtained from authorised price vendors approved by Mexican Banking Regulators.

IFRS

Fair Value Adjustments (‘FVAs’) are applied to reflect factors not captured within the core valuation model that would nevertheless be considered by market participants in determining a market price.

Deferred-profit sharing (PTU diferida)

Mexican GAAP

Accounting standards requires that a Deferred-Profit Sharing ‘DPS’ 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. An asset or liability for the DPS would be recognised according to method of comparing assets and liabilities sets out in Income Tax standards applicable in Mexico (*NIF D-4 Impuestos a la utilidad*).

IFRS

DPS asset or liability is not allowed to recognise under IFRS.

Present value of in-force long-term life insurance contracts

Mexican GAAP

Mexican Gaap criteria does not recognise this concept, hence do not exists for local purposes.

IFRS

This concept is an intangible asset, referred to as ‘PVIF’ and reflects the present value of the equity holders’ interest in the issuing insurance companies’ profits expected to emerge from insurance contracts in force written at the balance sheet date. PVIF considers insurance contracts in force that are classified as long-term insurance business or long-term investment contracts with discretionary participating features (‘DPF’).

PVIF is determined by discounting the equity holders' interest in future profits expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

Insurance liabilities and Insurance premiums recognised 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 recognised under annualisation criteria which is based in determine the total premium for the coverage period (1 year), consequently total premium is recognised since the moment where insurance contracts are written.

IFRS

IFRS reserving process is based on a liability adequacy test to ensure that the carrying amount of liabilities is sufficient in the light of estimated future cash flows defined by a prudent, non-market consistent set of rules for such estimated cash flows (instead of using realistic assumptions) and not using risk margins components.

For Annuities business there is a securities valuation reserve, 'Reserva para Fluctuación de Inversiones', which is required specifically by CNSF, however, this reserve does not meet Mx Gaap citieria nor IFRS to be considered as a liability, therefore this reserve is cancelled for IFRS purposes and recognised into retained earnings.

IFRS criteria does not recognise annualisation insurance premium concept, hence annualisation effect it is cancelled for IFRS purposes

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 USD, principal is recognised as foreign currency transaction and reported using the closing rate. Exchange rate changes are recognised in income statement. On the other hand, coupons of interest are recognised in equity when holder has the right to receive payment at historical cost (equity is non-monetary item under "NIF B-15 Presentation of foreign currencies").

IFRS

Considering the features of the instruments, the perpetual subordinated debt (AT1) is measured according to IFRS9 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 recognised when the holder's right to receive payment is established. No subsequent gains or losses are recognised 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).

Financial instruments impacted by Ibor reform

Mexican GAAP

CNBV has not issued any statement about the Ibor reform, further developments are expected

IFRS

Interest Rate Benchmark Reform Phase 2, the amendments to IFRSs issued in August 2020, represents the second phase of the IASB's project on the effects of interest rate benchmark reform. The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments applied from 1 January 2021 with early adoption permitted. HSBC adopted the amendments from 1 January 2020.