News Release

28 July 2020

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2020 FINANCIAL RESULTS HIGHLIGHTS

- For the first half of 2020, Grupo Financiero's profit before tax was MXN4,848m, a decrease of MXN1,601m, or 24.8%, compared with MXN6,449m 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 MXN305m, or 5.9%.

- For the first half of 2020, net income was MXN3,605m, a decrease of MXN1,209m or 25.1%, compared with MXN4,814m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income decreased MXN302m or 7.7%.

- Total operating income excluding loan impairment charges was MXN24,348m, an increase of MXN201m or 0.8%, compared with MXN24,147m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, operating income increased MXN1,497m or 6.6%.

- Loan impairment charges for the first half of 2020 were MXN5,787m, an increase of MXN1,604m or 38.3%, compared with MXN4,183m for the same period of 2019.

- Administrative and personnel expenses for the first half of 2020 were MXN13,747m, an increase of MXN172m or 1.3%, compared with MXN13,575m for the same period of 2019.

- The cost efficiency ratio was 56.5% for the first half of 2020, compared with 56.2% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 2.9%.

- Net loans and advances to customers were MXN406.9bn at 30 June 2020, showing an increase of MXN11.9bn or 3.0%, compared with MXN395.0bn at 30 June 2019. Total impaired loans as a percentage of gross loans and advances at 30 June 2020 was 2.2%, compared to 1.9% reported at 30 June 2019.

- At 30 June 2020, total deposits were MXN539.3bn, an increase of MXN88.9bn, or 19.7%, compared with MXN450.4bn at 30 June 2019.

- Return on equity was 9.7% for the first half of 2020, whereas for the first half of 2019 it was 13.5%, showing a decrease of 3.8 percentage points. Excluding the gain on sale of the merchant acquiring business booked in 2019, return on equity decreased 1.4 percentage points compared with the same period of 2019.

- At 30 June 2020, the bank's total capital adequacy ratio was 13.8% and the common equity tier 1 capital ratio was 11.2%, compared with 12.7% and 10.8%, respectively, at 30 June 2019.

On a reported IFRS basis, for the first half of 2020, loss for the period was MXN -1,977m, a decrease of 126% 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 first half of 30 June 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.

Significant events

In January 2020, HSBC announced the appointment of Jorge Arce as CEO of HSBC Mexico starting February 2020 replacing Nuno Matos. Following that announcement, in February 2020, HSBC informed the appointment of Nuno Matos as Chief Executive Officer of HSBC Bank Plc and Chief Executive Officer Europe effective March 2020.

Covid-19

The outbreak of Covid-19 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 2020, we have 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. We remain responsive to our customers' changing needs.

HSBC decided to provide temporary payment reliefs to customers that demonstrated to be affected by the pandemic under special accounting rules issued by the Regulator (CNBV). As of June 2020, the following reliefs were provided to customers (customer loan balances with reliefs as percentage of total gross balances per portfolio as of June 2020): corporate loans represented 9.5%, consumer loans represented 9.4% and mortgage loans represented 22.3%.

There remains a wide range of potential economic outcomes for the second half of 2020 and into 2021, partly dependent on the extent of any future impacts from possible new waves of Covid-19, the path to the development of a vaccine, 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.

In addition to credit risk, the Covid-19 outbreak might have material impacts on capital and liquidity. The Bank Regulator (CNBV) and the Central Bank have initiated a series of capital and liquidity measures, including the reduction of certain regulatory capital buffers and minimum liquidity ratios, to support the ability of banks to supply credit to businesses and households through this period of economic disruption.

At 30 June 2020, our capital and liquidity ratios remain solid allowing to continue supporting our customers throughout the Covid-19 outbreak.

Overview

The main economic effects from the Covid-19 outbreak in Mexico started to be felt more clearly in 2Q20, after the temporary suspension of non-essential activities in April and May. In fact, April's economic activity experienced the largest fall on record, as it declined by 17.3% month over month and 19.7% year over year. This result was driven by contractions across the board, as services, industrial production and agriculture activities fell 14.4%, 25.1% and 6.4% month over month, respectively. In annual terms, services and industrial production dropped 16.1% and 29.6%. In contrast, agriculture activities rose 2.4%.

Given that the suspension of non-essential activities prevailed in May, early indicators suggest that the overall weakness persisted, as industrial production dropped 1.8% month over month and 29.7% year over year. However, the gradual reopening of the economy started in June is likely to translate into a gradual recovery among sectors, as shown by the improvement in auto-related figures.

Meanwhile, inflation accelerated slightly to 3.33% year over year by the end of Q2 from 3.25% year over year in the end of Q1. This increase was driven by both core and non-core components. Against this backdrop, Mexico's central bank, Banxico, cut the policy rate by an accumulated of 150bp in 2Q20, divided in three 50bp cuts in April, May and June. Also, in light of the expected negative economic effects from Covid-19, Banxico expanded the set of non-conventional measures to provide liquidity to markets and support credit channels.

- For the first half of 2020, Grupo Financiero's profit before tax was MXN4,848m, a decrease of MXN1,601, or 24.8%, compared with MXN6,449m 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 MXN 305m, or 5.9%.

- Net interest income for the first half of 2020 was MXN17,304m, an increase of MXN952m or 5.8%, compared with the same period of 2019. The increase was mainly driven by a decrease in funding costs partially offset by lower interest income from performing loans driven by the reduction in Central Bank reference interest rate.

- Loan impairment charges for the first half of 2020 were MXN5,787m, an increase of MXN1,604m or 38.3%, compared with MXN4,183m for the same period of 2019, driven by increase in retail loan portfolio and deterioration in credit quality in both retail and wholesale portfolios.

- Net fee income for the first half of 2020 was MXN3,886m, a decrease of MXN36mn, or 0.9%, compared with same period of 2019.

- Trading income for the first half of 2020 was MXN2,706m, an increase of MXN577m, or 25.9%, compared with the same period of 2019, mainly driven by gains on derivatives.

- Other operating income for the first half of 2020 was MXN452m, a decrease of MXN1,272m or 73.8% 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 first half of 2020 were MXN13,747m, an increase of MXN172m, or 1.3%, compared with MXN13,575m for the same period of 2019.

- The cost efficiency ratio was 56.5% for the first half of 2020, compared with 56.2% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 2.9%.

- The effective tax rate was 25.6% for the first half of 2020, in line with 25.4% reported for the same period of 2019.

- Net loans and advances to customers were MXN406.9bn at 30 June 2020, showing an increase driven in retail portfolios of MXN11.9bn, or 3.0%, compared with MXN395.0bn at 30 June 2019. The retail performing portfolio grew 9.9% compared with the first half of 2019 mainly driven by the increase in mortgage loans. The performing commercial loans decreased 3.6% with respect to 30 June 2019. Credit cost ratios[1/] and loan loss reserves ratios[2/] as of June 2020 were 2.7% (2% as of June 2019) and 3.4% (3.3% as of June 2019), respectively.

- Total impaired loans as a percentage of gross loans and advances at 30 June 2020 was 2.2%, compared to 1.9% that was reported at 30 June 2019.

- Return on equity was 9.7% for the first half of 2020, whereas for the first half of 2019 it was 13.5%, showing a decrease of 3.8 percentage points, mainly affected by the gain on sale of the merchant acquiring business booked in January 2019. Excluding such gain, return on equity decreased 1.4 percentage points.

- Total loan loss allowances at 30 June 2020 were MXN14.3bn, an increase of MXN0.9bn or 6.6% compared with 30 June 2019. The total coverage ratio (allowance for loan losses divided by impaired loans) was 154.5%, at 30 June 2020 compared with 168.9% at 30 June 2019.

- At 30 June 2020, total deposits were MXN539.3bn, an increase of MXN88.9bn, or 19.7%, compared with MXN450.4bn at 30 June 2019.

- HSBC Bank Mexico profit before tax for the first half of June 2020 was MXN4,227m, a decrease of MXN1,207m or 22.2% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, profit before tax increased MXN 89m, or 2.2%.

- HSBC Bank Mexico net income was MXN3,164m, a decrease of MXN892m, or 22% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income increased MXN 15m, or more than 0.5%.

- HSBC Bank Mexico net interest income for the first half of June 2020, was MXN16,584m an increase of MXN1,213m or 7.9%, compared with the same period of 2019.

- At 30 June 2020, the bank's total capital adequacy ratio was 13.8% and the common equity tier 1 capital ratio was 11.2%, compared with 12.7% and 10.8%, at 30 June 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 first half of 2020 was MXN345m, a decrease of MXN248m or 41.8%, mainly driven by higher claims and technical reserves and lower premiums.

[1/] Credit Cost Ratio: Loan Impairment charges (annualized)/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 30 June 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 earlier this year, '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'.*

During 2Q20, Balance Sheet Management (BSM, which in the past was reported under Corporate Centre, has been reallocated to the line of businesses WPB, CMB and Global Banking & Markets. The reallocation methodology used considered commercial surplus and legal entity tangible equity by line of business).

Wealth and Personal Banking (WPB)

WPB revenue for first half of 2020 decreased by 0.3% 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 5.6% driven by higher balances across all lending portfolios, mainly in Mortgages and higher deposits, higher fees in Credit Cards and Mutual funds where AUMs (assets under management) increased vs same period of 2019 and higher trading income from foreign currency user's transactions. This was partially offset by Insurance higher net claims incurred mainly in term life and endowment, coupled with lower premiums. Deposits increased 6.0% when compared with 2019 and loan balances increased 9.9% mainly in Mortgages (21.0%).

Loan impairment charges increased by 11.7%, compared to the same period last year, mainly following the volume increase and credit quality deterioration.

WPB profit before tax for the period was MXN955m, a decrease of MXN 936m or 49.5%, compared with the same period of 2019 (with BSM reallocation, profit before tax was MXN1,533m, a decrease of MXN658m or 30%). Excluding the impact of MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019, WPB is 10.1% below prior year mainly driven by higher loan impairment charges.

Mortgages business has grown, mainly driven by enhancements in new origination process, re-launch of products, credit policies complimented by consistent connect with business partners such as realtors, developers and mortgage brokers, gaining market share year on year. HSBC has been part of the INFONAVIT co-participation governmental programs booking MXN1,450m of balance since their launch.

Albeit Covid-19 has impacted the macroeconomic scenario, HSBC is cooperating with the Government in order to support the different measures across the country, ensuring the banking services as an essential activity. Currently we have re-opened some closed branches to support the healthy distance, having only 12.0% of branches working in closed-door mode. In order to facilitate its customers, HSBC has released skip payments schemes in lending products and keep close to detect their emerging needs.

Digital Banking, Contact Center and ATMs keeps providing services according demand. In branches tablets and biometrics usage keep providing great support in open branches and closed-doors for business continuity plan during Covid-19 outbreak.

Commercial Banking (CMB)

CMB revenue for first half of 2020 decreased by 10.8% 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 3.6%. Net interest income decreased by 4.9%, reflecting market interest rate contractions and lower business activity from the Covid-19 emergency lockdown despite the balance growth reflected in both deposits and assets.

Loan impairment charges increased more than 100% during the first half of 2020, mainly impacted by a deterioration of credit quality due to Covid-19 lockdown driven by business banking customers.

Loan portfolio grew 6.0% vs prior year driven by traditional lending, mainly in large corporates and mid-market. Deposits grew 24.0% driven by customer accounts across all customer segments mainly in Large Corporates, Mid-Market and International Subsidiaries Banking.

CMB profit before tax was MXN868m, a decrease of MXN1,171m or 57.4%, compared with the same period of 2019 (with BSM reallocation, profit before tax was MXN 1,106m a decrease of MXN1,029m or 48.2%). This decrease is mainly driven by higher loan impairment charges and a decrease in other income driven by the gain on sale of the merchant acquiring business accrued in January 2019.

Global Banking and Markets (GBM)

Revenues of first half of 2020 decreased by 12.2%, compared with the same period of 2019, the decrease is mainly explained by higher loan impairment charges during this period partially offset by higher trading income.

Net interest income decreased by 6.0% in the lending portfolio against 2019, as part of the balance decreased and another 6.0% decrease in its deposit portfolio driven primarily by spreads compression linked to lower central bank rates in 2020.

Loan impairment charges in 2020 increased by more than 100%, compared with the same period of 2019. The main driver of the increase was a change in calculation methodology and credit quality deterioration due to Covid-19 outbreak.

GBM maintained its strategy of reinforcing the cross-sale products including Global Market solutions, Trade Services and Liquidity and Cash Management offer, leveraging our international footprint with relevant transactions with local and international customers.

Profit before tax was MXN1,575m, a decrease of MXN434m or 21.6%, compared with the same period of 2019 (with BSM reallocation, profit before tax was MXN1,821m, a decrease of MXN300m or 14.1%) mainly driven by the increase in loan impairment charges partially offset by an increase in trading income.

Awards

- In January 2020, the British magazine Euromoney recognised HBSC for the third consecutive year as the Best Bank in Mexico in Foreign Trade Solutions and as the institution that provides the Best Quality of Services in Foreign Trade to its clients in the country.

- In June 2020, HSBC received the Triple A (Asset Asian Awards) as "The best bank to operate in Renminbis" (Best Renminbi Bank), the currency of China, in Mexico. The Triple A award is given by the Asian publishing group The Asset, which specializes in content generation for top executives in Asia. It is the first time that Mexico receives this distinction for promoting the use of renmbinbi.

Grupo Financiero HSBC's six months 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 first half of 2020, loss for the period was MXN -1,977m, a decrease of 126% 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 first half of June 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 938 branches, 5,513 ATMs and around 15,597 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$2,918bn at 31 March 2020, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP six months ENDED 30 June 2020 and 2019

Figures in MXN millions

	Group	
	30 Jun 2020	**30 Jun 2019**
Interest income	30,721	33,037
Interest expense	(13,417)	(16,685)
Net interest income	17,304	16,352
Loan impairment charges	(5,787)	(4,183)
Risk-adjusted net interest income	11,517	12,169
Fees and commissions receivable	5,135	5,222
Fees payable	(1,249)	(1,300)
Trading income	2,706	2,149
Other operating income	452	1,724
Total operating income	18,561	19,964
Administrative and personnel expenses	(13,747)	(13,575)
Net operating income	4,814	6,389
Share of profits in equity interest	34	60
Profit/loss before tax	4,848	6,449
Income tax	(1,241)	(1,380)
Deferred income tax	(2)	(255)
Net income	3,605	4,814

Consolidated Income Statement – BANK six months ENDED 30 June 2020 and 2019

Figures in MXN millions

Bank	30 Jun 2020	30 Jun 2019
Interest income	28,874	31,136
Interest expense	(12,290)	(15,765)
Net interest income	16,584	15,371
Loan impairment charges	(5,787)	(4,183)
Risk-adjusted net interest income	10,797	11,188
Fees and commissions receivable	4,886	4,914
Fees payable	(1,335)	(1,374)
Trading income	2,676	2,111
Other operating income	831	2,015
Total operating income	17,855	18,854
Administrative and personnel expenses	(13,662)	(13,476)
Net operating income	4,193	5,378
Share of profits in equity interest	34	56
Profit/loss before tax	4,227	5,434
Income tax	(1,056)	(1,122)
Deferred income tax	(7)	(256)
Net income	3,164	4,056

Consolidated Balance Sheet

Figures in MXN millions	**Group 30 Jun 2020**	**30 Jun 2019**	**Bank 30 Jun 2020**	**30 Jun 2020**
Assets				
Cash and deposits in banks	45,551	42,169	46,383	42,070
Margin accounts	292	390	292	390
Investment in securities	**184,832**	**237,216**	**168,481**	**220,379**
Trading securities	53,878	75,716	52,125	74,139
Available-for-sale securities	102,863	133,977	97,512	127,696
Held to maturity securities	28,091	27,523	18,844	18,544
Repurchase agreements	59,368	2,725	59,369	2,725
Derivative transactions	107,266	57,358	107,266	57,358
Performing loans				
Commercial loans	233,323	242,045	233,323	242,045
Loans to financial intermediaries	16,481	14,705	16,481	14,705
Loans to government entities	33,180	26,319	33,180	26,319
Consumer loans	61,087	62,188	61,087	62,188
Mortgage loans	67,912	55,186	67,912	55,186
Total performing loans	**411,983**	**400,443**	**411,983**	**400,443**
Impaired loans				
Commercial loans	4,574	4,752	4,574	4,752
Consumer loans	2,675	2,231	2,675	2,231
Mortgage loans	2,033	978	2,033	978
Total impaired loans	**9,282**	**7,961**	**9,282**	**7,961**
Gross loans and advances to customers	**421,265**	**408,404**	**421,265**	**408,404**
Allowance for loan losses	(14,339)	(13,445)	(14,339)	(13,445)
Net loans and advances to customers	**406,926**	**394,959**	**406,926**	**394,959**
Accounts receivables from Insurers and Bonding companies	71	60	-	-
Premium receivables	1,629	1,589	-	-
Accounts receivables from reinsurers and rebonding companies	19	29	-	-
Other accounts receivable	34,673	62,944	35,744	63,631
Foreclosed assets	337	368	337	368
Property, furniture and equipment, net	4,349	4,389	4,349	4,151
Long-term investments in equity securities	993	986	957	950
Long-term assets available for sale	471	-	240	-
Deferred taxes	11,116	12,226	10,968	12,061
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	5,552	4,519	5,416	4,315
Total Assets	**864,493**	**822,975**	**846,728**	**803,357**

Consolidated Balance Sheet (continued)

	Group		Bank	
Liabilities	**30 Jun 2020**	**30 Jun 2019**	**30 Jun 2020**	**30 Jun 2019**
Deposits	**539,307**	**450,422**	**540,875**	**451,325**
Demand deposits	312,853	250,707	313,932	251,314
Time deposits	176,029	165,261	175,643	164,874
Bank bond outstanding	50,425	34,454	50,425	34,454
Global deposit account without movements			875	683
Bank deposits and other liabilities	**38,983**	**37,725**	**38,983**	**37,725**
On demand	2,488	6,214	2,488	6,214
Short-term	7,044	4,712	7,045	4,712
Long-term	29,450	26,799	29,450	26,799
Repurchase agreements	29,069	113,162	29,069	113,162
Collateral sold	3,684	2,851	3,684	2,851
Derivative transactions	105,013	54,077	105,013	54,077
Technical reserves	13,111	12,584	-	-
Accounts payable from reinsures and rebounding companies	5	5	-	-
Other payable accounts	**44,588**	**68,330**	**45,257**	**68,570**
Income tax and employee profit sharing payable	592	976	563	967
Sundry creditors and other accounts Payable	43,996	67,354	44,694	67,603
Subordinated debentures outstanding	13,418	9,833	13,418	9,833
Deferred credits and receivable in advance	1,512	1,675	1,403	1,552
Total liabilities	**788,689**	**750,664**	**777,702**	**739,095**
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	**32,424**	**28,932**	**30,705**	**25,940**
Capital reserves	1,244	1,244	13,191	12,474
Retained earnings	28,807	25,239	17,524	12,422
Result from the mark-to-market of available-for-sale securities	(872)	(2,010)	(1,031)	(1,985)
Result from cash flow hedging transactions	(360)	(355)	(360)	(355)
Adjustment in the employee pension	-	-	(1,784)	(672)
Net income	3,605	4,814	3,164	4,056
Minority interest in capital	7	6	4	4
Total equity	**75,804**	**72,311**	**69,026**	**64,262**
Total Liabilities and Equity	**864,493**	**822,975**	**846,728**	**803,357**

Consolidated Balance Sheet (continued)

	Group		Bank	
	30 Jun 2020	**30 Jun 2019**	**30 Jun 2020**	**30 Jun 2019**
Memorandum Accounts	**6,549,012**	**6,563,263**	**6,367,351**	**6,389,278**
Third party accounts	**27,914**	**39,807**	**26,068**	**36,952**
Clients current accounts	1,022	1,138	-	-
Custody operations	824	1,717	-	-
Third party investment banking operations, net	26,068	36,952	26,068	36,952
Proprietary position	**6,521,099**	**6,523,456**	**6,341,283**	**6,352,326**
Irrevocable lines of credit granted	328,366	313,346	328,366	313,346
Goods in trust or mandate	204,182	241,810	204,182	241,810
Goods in custody or under administration	1,358,551	1,175,742	1,352,334	1,169,524
Collateral received by the institution	76,800	16,356	76,800	16,356
Collateral received and sold or delivered as guarantee	15,215	11,279	15,215	11,279
Suspended interest on impaired loans	276	207	276	207
Other control accounts	4,537,709	4,764,716	4,364,110	4,599,804

Consolidated Statement of Changes in Shareholders' Equity

GROUP	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**
Figures in MXN million								
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)	-	**-**
Constitution of reserves	-	-		-	-	-	-	**-**
Cash dividends	-	-	- -	-	-	-	-	**-**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**8,999**	**-**	**-**	**(8,999)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	3,605	-	**3,605**
Result from valuation of available-for-sale securities	-	-	- -	234	-	-	-	**234**
Result from cash flow hedging transactions	-	-	-	-	(183)	-	-	**(183)**
Others *	-	-	(428)		-		-	**(428)**
Total	**-**	**-**	**(428)**	**234**	**(183)**	**3,605**	**-**	**3,229**
Total Balances at 30 June 2020	**43,373**	**1,244**	**28,808**	**(871)**	**(360)**	**3,605**	**7**	**75,805**

**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)	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	-	**-**
Others	-	-	(149)	-	-	-	-	-	(149)
Total	**-**	**728**	**6,497**	**-**	**-**		**(7,374)**	**-**	**(149)**
Movements for the recognition of the comprehensive income						-			
Net income	-	-	-	-	-		3,164	-	**3,164**
Result from valuation of available-for-sale securities	-	-	-	117	-	-	-	-	**117**
Result from cash flow hedging transactions	-	-	-	-	(183)	-	-	-	**(183)**
Adjustment in defined benefit pension plan	-	(15)	-			(155)	-		**(170)**
Others	-	4	(4)	-	-	-	-	(1)	**(1)**
Total	**-**	**(11)**	**(4)**	**117**	**(183)**	**(155)**	**3,164**	**(1)**	**2,928**
Total Balances at 30 June 2020	**38,318**	**13,191**	**17,524**	**(1,031)**	**(360)**	**(1,784)**	**3,164**	**3**	**69,026**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Jun 2020**
Net income	**3,605**
Adjustments for items not involving cash flow:	**77**
Allowances for loan losses	5,787
Depreciation and amortisation	936
Valuations	(8,219)
Technical reserves	(58)
Provisions	419
Income Tax and deferred taxes	1,247
Participation in the Results of Unconsolidated Subsidiaries	(35)
Changes in items related to operating activities:	
Margin accounts	388
Investment securities	(1,051)
Repurchase agreements	(18,642)
Derivative (assets)	(50,146)
Loan portfolio	(25,364)
Foreclosed assets	42
Operating assets	26,672
Deposits	25,850
Bank deposits and other liabilities	11,843
Creditors repo transactions	(15,716)
Collateral sold or delivered as guarantee	(7,477)
Derivative (liabilities)	62,151
Accounts receivables from reinsurers and coinsurers	1
Accounts receivables from premiums	151
Other operating liabilities	(25,143)
Income tax paid	(965)
Funds provided by operating activities	**(17,406)**
Investing activities:	
Acquisition of property, furniture and equipment	(512)
Intangible assets acquisitions & Prepaid expenses	(2,318)
Cash dividends	38
Proceeds on disposal of subsidiaries	3
Other investment activities	1,845
Funds used in investing activities	**(944)**
Financing activities:	
Others	6
Funds used in financing activities	**6**
Financing activities:	
Increase/decrease in cash and equivalents	(14,662)
Cash and equivalents at beginning of period	60,214
Cash and equivalents at end of period	**45,552**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 June 2020**
Net income	**3,164**
Adjustments for items not involving cash flow:	**(105)**
Allowances for loan losses	5,787
Valuations	(8,229)
Depreciation and amortisation	935
Provisions	372
Income Tax and deferred taxes	1,063
Share of profits in equity interest	(34)
Others	1
Changes in items related to operating activities:	
Margin accounts	388
Investment securities	(283)
Repurchase agreements	(18,642)
Derivative (assets)	(50,146)
Loan portfolio	(25,364)
Foreclosed assets	42
Operating assets	25,665
Deposits	26,995
Bank deposits and other liabilities	11,843
Creditors repo transactions	(15,716)
Collateral sold or delivered as guarantee	(7,477)
Derivative (liabilities)	62,151
Subordinated debentures outstanding	367
Other operating liabilities	(24,066)
Income tax paid	(1,449)
Funds provided by operating activities	**(12,633)**
Investing activities:	
Acquisition of property, furniture and equipment	(513)
Intangible assets acquisitions & Prepaid expenses	(2,318)
Proceeds on disposal of subsidiaries	3
Cash dividends	38
Other investment activities	1,853
Funds used in investing activities	**(937)**
Financing activities:	
Others	(149)
Funds used in financing activities	**(149)**
Financing activities:	
Increase/decrease in cash and equivalents	**(13,719)**
Cash and equivalents at beginning of period	60,102
Cash and equivalents at end of period	**46,383**

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 amortised 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 amortised cost” – For financial instruments at variable interest rate, the use of effective interest rate method on measurement at amortised 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 amortised 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 an 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.

Changes are in force since January, 1st, 2020 prospectively.

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 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 a 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 new 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 force since 2020 using a prospective approach in adoption, allowing an anticipated implementation. Given that Mexican Banking regulator has not issued an opinion about this new issuance and no financial impacts are expected, HSBC had no intention to anticipate its adoption.

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

Mexican Banking regulator "CNBV" worked on some 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. As part of the implementation process, CNBV will require the adoption of some NIF already issued by CINIF which include the implementation of these international accounting standards. Furthermore, CNBV is planning to adopt the new NIF C-22 Crypto-currencies.

In this context, in November, 2019 the CNBV issued in the official gazette that NIF would be adopted by Financial Institutions in 2021. Nevertheless, it is highly probable that CNBV postpones the adoption date, because it has communicated that changes in particular accounting standards including in Annex 33 would be in force since 2022. So, given that NIF and changes in Annex 33 must be adopted at same time, they would have the same date in force.

A summary of the content of those NIFs are described below:

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". It comprises 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 receivable". It comprises the accounting rules of measurement, presentation and disclosures required for accounts receivables.

NIF C-9 "Provisions, Contingent assets and liabilities and commitments". It comprises the 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 accounting". It includes 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". It comprises the 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 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 comprises 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 amortised cost.

NIF C-20 "Financial instruments hold to collect principal and interest". It comprises 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". It comprises the 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". It comprises the 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. By now, particular changes in accounting standards should be in force since 2021, however, given recently events related to Covid-19 pandemic, CNBV has expressed through press release No. 022/2020 dated on April 8th, 2020 that those changes would have a new date in force, 2022. Communication is pending to be issued by CNBV in Official Gazette to formalise date changes.

Mainly changes are:

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.

- 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.

- 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.

- Financial negative impacts originated by adoption 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.

- 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. They would recognise 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.

Revocation of some particular accounting standards applicable to Financial Institutions:

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

B-2 Investment in financial instruments.
B-5 Derivatives and hedge accounting.
B-11 Collection rights.
C-1 Recognition and derecognition of financial assets.
C-3 Related parties.
C-4 Operating segment information.

Once, the new accounting standards are in place, Financial Institutions should replace the use of these particular accounting standards, adhering to new NIF.

Currently, Grupo Financiero HSBC is evaluating the possible impacts originated by the adoption of these NIFs and changes in particular accounting standards applicable to Financial Institutions including in Annex 33.

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 pandemic of Covid-19 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 have not been adhered on that date, could receive the benefits if they are performing loans at March 31st, 2020 and documentation is formalised 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
- 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.

<u>Financial Impacts</u>

At the reporting end period, the outstanding balance of loans adhered to the programme and payments of principal and/or interest deferred amounts.

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	287,558	27,429	9.5%	4,215
Consumer	63,762	5,978	9.4%	639
Mortgages	69,945	15,582	22.3%	434
Total	**$421,265**	**$48,989**	**11.6%**	**$5,288**

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:

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 PnL (MXN $m)*
Corporate	9,203	3,461	52.5
Consumer	1,087	165	9.0
Mortgages	203	33	0.5
Total	**$10,493**	**$3,659**	**$62.0**

**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.

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 first half ended at June 2020 and an explanation of the key reconciling items.

	30 June 2020
Figures in MXN millions	
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**3,605**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	80
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	(83)
Loan impairment charges and other differences in presentation under IFRS[1]	(4,882)
Recognition of the present value in-force of long-term insurance contracts	(41)
Other insurance adjustments[2]	(99)
Fair value adjustments on financial instruments	(218)
Deferred profit sharing	(32)
AT1 Valuation	521
Other	(85)
Tax over adjustments	(199)
Net income under IFRS	**(1,433)**
Add back tax expense	(544)
Profit before tax under IFRS	**(1,977)**
Add back significant items	(42)
Adjusted net income before tax under IFRS	**(2,019)**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	87
-Significant Items	(45)
-Profit / (loss) before tax under IFRS	**USD (86) Millions**
-Net income / (loss) under IFRS	**USD (62) Millions**

Exchange rate used for conversion[3]

[1] Includes IFRS 9 – Forward Economic Guidance ECL provision of MXN(5,334)m

[2] Includes technical reserves and effects from Solvency II

[3] Banxico rate at 30 June 2020 MXN23.0893

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).