HSBC

News Release

28 October 2020

GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2020 FINANCIAL RESULTS HIGHLIGHTS

- For the nine months to 30 September 2020, Grupo Financiero's profit before tax was MXN4,564m, a decrease of MXN4,671m, or 50.6%, compared with MXN9,235m 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 MXN3,375m, or 42.5%.

- For the nine months to 30 September 2020, net income was MXN3,580m, a decrease of MXN3,418m or 48.8%, compared with MXN6,998m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income decreased MXN2,511m or 41.2%.

- Total operating income excluding loan impairment charges was MXN36,031m, a decrease of MXN518m or 1.4%, compared with MXN36,549m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, operating income increased MXN778m or 2.2%.

- Loan impairment charges for the nine months to 30 September 2020 were MXN10,819m, an increase of MXN3,896m or 56.3%, compared with MXN6,923m for the same period of 2019. An additional reserve of MXN 2,038m was booked in September 2020 on top of methodological reserves to cover potential losses coming from customers under Covid-19 relief programs.

- Administrative and personnel expenses for the nine months to 30 September 2020 were MXN20,711m, an increase of MXN214m or 1.0%, compared with MXN20,497m for the same period of 2019.

- The cost efficiency ratio was 57.5% for the nine months to 30 September 2020, compared with 56.1% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 0.6%.

- Net loans and advances to customers were MXN379.7bn at 30 September 2020, showing a decrease of MXN18.7bn or 4.7%, compared with MXN398.4bn at 30 September 2019. Total impaired loans as a percentage of gross loans and advances at 30 September 2020 was 2.6%, compared to 1.8% reported at 30 September 2019.

- At 30 September 2020, total deposits were MXN495.8bn, an increase of MXN26.6bn, or 5.7%, compared with MXN469.2bn at 30 September 2019.

- Return on equity was 6.3% for the nine months to 30 September 2020, whereas for the nine months to 2019 it was 12.9%, showing a decrease of 6.6 percentage points. Excluding the gain on sale of the merchant acquiring business booked in 2019, return on equity decreased 5.0 percentage points compared with the same period of 2019.

This news release is issued by
Grupo Financiero HSBC S.A de C.V.

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- At 30 September 2020, the bank's total capital adequacy ratio was 14.5% and the common equity tier 1 capital ratio was 11.9%, compared with 12.7% and 11.0%, respectively, at 30 September 2019.

  On a reported IFRS basis, for the nine months to 30 September 2020, loss for the period was MXN 1,900m, a decrease of MXN12,634m 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 nine months to 30 September 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 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 and June 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 September 2020, the outstanding balance of loans adhered to the relief programme is (outstanding customer loan balances with reliefs as percentage of total gross balances per portfolio as of September 2020): corporate loans represented 8.4%, consumer loans represented 1.6% and mortgage loans represented 12.7%.

There remains a range of potential economic outcomes for the last part 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 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 September 2020, our capital and liquidity ratios remain solid, allowing us to continue supporting our customers throughout the Covid-19 outbreak.

Overview

After a steep economic contraction in 2Q 2020 driven by the Covid-19 outbreak in Mexico, economic activity started to recover in June and in early 3Q 2020. However, this process has been slow and uneven across sectors. July's economic activity saw an expansion of 5.7% month over month, as services, industrial production and agriculture activities rose by 4.6%, 6.9% and 13.9% month over month, respectively. However, on an annual basis, economic activity stood at -9.8%, mainly driven by services and industrial production, which fell by 10.0% and 11.6%. This reflects that the process to get back to pre-Covid-19 levels will likely prove gradual.

Against this backdrop, the annual inflation rate accelerated to 4.01% by the end of 3Q20 compared to 3.33% in 2Q20. The main drivers behind this pattern were increased pressures in both core and non-core components, partly due to temporary shocks related to the pandemic. In this context, Mexico's central bank, Banxico, continued to cut the policy rate by an accumulated of 75bps in 3Q20 to 4.25%, divided in one 50bps cut in August 2020 and one 25bps cut in September 2020. The reduction in the size of the last policy rate cut reflected that the monetary space has reduced, due to the combination of continued easing and current inflation levels.

- For the nine months to 30 September 2020, Grupo Financiero's profit before tax was MXN4,564m, a decrease of MXN4,671, or 50.6%, compared with MXN9,235m 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 MXN3,375m, or 42.5%.

- Net interest income for the nine months to 30 September 2020 was MXN26,689m, an increase of MXN675m or 2.7%, 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 nine months to 30 September 2020 were MXN10,819m, an increase of MXN3,896m or 56.3%, compared with MXN6,923m for the same period of 2019, driven by an additional reserve of MXN 2,038m booked in September 2020 on top of methodological reserves to cover potential losses coming from customers under Covid-19 relief programs impacting consumer, mortgages and SMEs portfolios and deterioration in credit quality in both retail and wholesale portfolios.

- Net fee income for the nine months to 30 September 2020 was MXN5,861m, a decrease of MXN264mn, or 4.3%, compared with same period of 2019.

- Trading income for the nine months to 30 September 2020 was MXN3,622m, an increase of MXN313m, or 9.5%, compared with the same period of 2019, mainly driven by gains on derivatives.

- Other operating income for the nine months to 30 September 2020 was MXN859m, a decrease of MXN1,242m or 59.1% 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 nine months to 30 September 2020 were MXN20,711m, an increase of MXN214m, or 1.0%, compared with MXN20,497m for the same period of 2019.

- The cost efficiency ratio was 57.5% for the nine months to 30 September 2020, compared with 56.1% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 0.6%.

- The effective tax rate was 21.6% for the nine months to 30 September 2020, compared with 24.2% reported for the same period of 2019. The reduction was mainly driven to the effect of tax inflation adjustment.

- Net loans and advances to customers were MXN379.7bn at 30 September 2020, showing a decrease of MXN18.7bn, or 4.7%, compared with MXN398.4bn at 30 September 2019. The performing corporate portfolio observed a reduction of 9.3%, compared with the third quarter of 2019 mainly driven by the decrease in commercial loans. The performing retail portfolio increased by 6.6% with respect to 30 September 2019 driven by mortgage loans growing 21.6%, partially offset by consumer loans reducing 7.2%. Credit cost ratios[1/] and loan loss reserves ratios[2/] as of September 2020 were 3.6% (2.2% as of September 2019) and 4.2% (3.2% as of September 2019), respectively.

- Total impaired loans as a percentage of gross loans and advances at 30 September 2020 was 2.6%, compared to 1.8% that was reported at 30 September 2019.

- Return on equity was 6.3% for the nine months to 30 September 2020, whereas for the nine months to 2019 it was 12.9%, showing a decrease of 6.6 percentage points, partially affected by the gain on sale of the merchant acquiring business booked in January 2019. Excluding such gain, return on equity decreased 5.0 percentage points.

- Total loan loss allowances at 30 September 2020 were MXN16.6bn, an increase of MXN3.5bn or 26.6% compared with 30 September 2019. The total coverage ratio (allowance for loan losses divided by impaired loans) was 160.7%, at 30 September 2020 compared with 172.7% at 30 September 2019.

- At 30 September 2020, total deposits were MXN495.8bn, an increase of MXN26.6bn, or 5.7%, compared with MXN469.2bn at 30 September 2019 mainly driven by growth in demand deposits, partially offset by a reduction in terms deposits.

- HSBC Bank Mexico profit before tax for the nine months to September 2020 was MXN3,775m, a decrease of MXN3,783m or 50.1% compared with the same period of 2019 mainly driven by the increase in loan impairment charges of MXN3,896m. Excluding the gain on sale of the merchant acquiring business booked in 2019, profit before tax decreased MXN2,487m, or 39.7%.

- HSBC Bank Mexico net income for the nine months to September 2020 was MXN3,004m, a decrease of MXN2,705m, or 47.4% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income decrease by MXN1,798m, or 37.4%.

- HSBC Bank Mexico net interest income for the nine months to September 2020, was MXN24,718m an increase of MXN1,399m or 6.0%, compared with the same period of 2019.

- At 30 September 2020, the bank's total capital adequacy ratio was 14.5% and the common equity tier 1 capital ratio was 11.9%, compared with 12.7% and 11.0%, at 30 September 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 nine months to 30 September 2020 was MXN387m, a decrease of MXN697m or 64.3%, 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 September 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'.*

BSM (Balance Sheet Management) profit before tax for the nine months ended 30 of September 2020 was MXN1,819m, an increase of MXN1,015m 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, 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. BSM profit before tax reallocation to line of businesses for the nine months ended 30 of September 2020 was MXN1,073m to WPB, MXN346m to CMB and MXN400m to GBM.

Wealth and Personal Banking (WPB)

Revenue for the nine months to 30 September 2020 decreased by 1.1% 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 2.8% driven by higher balances in mortgage portfolio and higher deposits, higher fees mainly in 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 9.6% when compared with 2019 and performing loan balances increased 6.6% mainly driven by Mortgages (21.6%).

Loan impairment charges increased by 39%, compared to the same period last year, following the inclusion of an additional reserve to cover potential losses coming from customers under the relief program, coupled with credit quality deterioration.

Loss before tax for the period was of MXN801m, a decrease of MXN 3,573m, compared with the same period of 2019 (with BSM reallocation, profit before tax was MXN273m). Excluding the impact of MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019, WPB is MXN2,744m below prior year mainly driven by higher loan impairment charges.

Mortgages business has grown mainly driven by enhancements in the origination process, re-launch of products, credit policies complemented by consistent connection 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, accomplishing loans for MXN1,500m since the 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 almost 100% branches opened, all of them operating within the local regulations requirements.

Digital Banking, Contact Center and ATMs keep providing services according demand. In branches, tablets and biometrics usage keep providing great support, to improve remote operation capability.

Commercial Banking (CMB)

Revenue for the nine months to 30 September 2020 decreased by 6.0% 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 2.0% mainly driven by other operating income. This was partially offset by net interest income which was significantly impacted by (i) the low interest rate environment affecting primarily deposits, and (ii) the reduced level of business activity across the entire economy that drove down the loans portfolio (-7%). The interest rate impact on deposits was partially mitigated by strong growth in average balance (+24%) across most customer segments, mainly in Large Corporates, Mid-Market, and International Subsidiaries Banking partly offset by a decrease in Public Sector.

Loan impairment charges increased by 62.8% compared to same period of 2019, mainly impacted by significant deterioration of credit quality across the book related to the economic challenges caused by Covid-19. Most impacted customer segments were Middle Market, Business Banking and Corporate Real Estate.

Profit before tax was MXN1,107m, a decrease of MXN1,224m or 52.5% compared with the same period of 2019. This decrease is primarily explained by higher loan impairment charges as well as the gain on sale (merchant acquiring business) that took place in January 2019 and will not reoccur in 2020. With BSM reallocation, profit before tax was MXN 1,453m.

Global Banking and Markets (GBM)

Revenue for the nine months to 30 September 2020 decreased by 3.9% compared with the same period of 2019 mainly explained by 29 % lower fee income related to the lending business where large one-off fees were generated in 2019. This was partially offset by an increase in net interest income of approximately 12% primarily due to higher average balances as well as higher spreads in the lending business caused by the economic downturn associated with COVID-19. On the deposits side, portfolio growth compensated the low interest rate environment and the associated tightening of deposits' spreads.

In 2020, loan impairment charges increased by more than 100% compared with the same period of 2019. This was mostly driven by significant credit quality deterioration in the lending book associated with the economic downturn (Covid-19).

Additionally, GBM 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 MXN1,987m, a decrease of MXN1,231m or 38.2% compared with the same period of 2019, mainly driven by the aforementioned increase in loan impairment charges, and further impacted by lower revenues. With BSM reallocation, profit before tax was MXN2,387m.

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.

Awards

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.

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.

During the first quarter of the year, HSBC Global Asset Management México was awarded the Asset Management Company of the Year Mexico 2020 award, granted by the Global Banking & Finance Awards. Similarly, in the 2020 edition of the Morningstar Awards, the HSBCF1 + fund was designated as the Best Long-Term Debt Fund in Mexico.

In January 2020, the British magazine Euromoney recognized 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.

Grupo Financiero HSBC's third 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 nine months to 30 September 2020, loss for the period was MXN1,900m, a decrease of MXN12,634m 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 nine months to September 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, 5,510 ATMs and around 15,226 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$2,956bn at 30 September 2020, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP nine months ENDED 30 September 2020 and 2019

Figures in MXN millions

	Group	
	30 Sep 2020	**30 Sep 2019**
Interest income	44,501	50,581
Interest expense	(18,812)	(25,567)
Net interest income	25,689	25,014
Loan impairment charges	(10,819)	(6,923)
Risk-adjusted net interest income	14,870	18,091
Fees and commissions receivable	7,785	8,076
Fees payable	(1,924)	(1,951)
Trading income	3,622	3,309
Other operating income	859	2,101
Total operating income	25,212	29,626
Administrative and personnel expenses	(20,711)	(20,497)
Net operating income	4,501	9,129
Share of profits in equity interest	63	106
Profit/loss before tax	4,564	9,235
Income tax	(1,433)	(1,737)
Deferred income tax	449	(500)
Net income	3,580	6,998

Consolidated Income Statement – BANK nine months ENDED 30 September 2020 and 2019

Figures in MXN millions

	Bank	
	30 Sep 2020	**30 Sep 2019**
Interest income	41,526	47,609
Interest expense	(16,808)	(24,290)
Net interest income	24,718	23,319
Loan impairment charges	(10,819)	(6,923)
Risk-adjusted net interest income	13,899	16,396
Fees and commissions receivable	7,374	7,636
Fees payable	(2,020)	(2,034)
Trading income	3,581	3,228
Other operating income	1,448	2,577
Total operating income	24,282	27,803
Administrative and personnel expenses	(20,570)	(20,349)
Net operating income	3,712	7,454
Share of profits in equity interest	62	104
Profit/loss before tax	3,774	7,558
Income tax	(1,224)	(1,333)
Deferred income tax	454	(516)
Net income	3,004	5,709

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**30 Sep 2020**	**30 Sep 2019**	**30 Sep 2020**	**30 Sep 2019**
Assets				
Cash and deposits in banks	54,238	47,903	54,120	47,793
Margin accounts	513	881	513	881
Investment in securities	**188,926**	**238,206**	**172,191**	**223,258**
Trading securities	72,666	69,486	70,725	68,854
Available-for-sale securities	87,901	140,997	82,560	135,749
Held to maturity securities	28,359	27,723	18,906	18,655
Repurchase agreements	23,183	2,479	23,183	2,479
Derivative transactions	88,418	54,870	88,418	54,870
Performing loans				
Commercial loans	206,681	243,638	206,681	243,638
Loans to financial intermediaries	12,300	13,626	12,300	13,626
Loans to government entities	36,259	24,013	36,259	24,013
Consumer loans	59,320	63,923	59,320	63,923
Mortgage loans	71,374	58,718	71,374	58,718
Total performing loans	**385,934**	**403,918**	**385,934**	**403,918**
Impaired loans				
Commercial loans	6,133	4,090	6,133	4,090
Consumer loans	2,068	2,390	2,068	2,390
Mortgage loans	2,126	1,114	2,126	1,114
Total impaired loans	**10,327**	**7,594**	**10,327**	**7,594**
Gross loans and advances to customers	**396,261**	**411,512**	**396,261**	**411,512**
Allowance for loan losses	(16,597)	(13,113)	(16,597)	(13,113)
Net loans and advances to customers	**379,664**	**398,399**	**379,664**	**398,399**
Accounts receivables from Insurers and Bonding companies	76	61	-	-
Premium receivables	1,622	1,647	-	-
Accounts receivables from reinsurers and rebonding companies	22	23	-	-
Other accounts receivable	43,495	56,484	43,166	56,418
Foreclosed assets	320	307	320	307
Property, furniture and equipment, net	4,449	4,468	4,449	4,232
Long-term investments in equity securities	1,023	1,028	986	994
Long-term assets available for sale	471	-	240	-
Deferred taxes	11,604	11,531	11,479	11,353
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	5,810	4,606	5,570	4,436
Total assets	**804,882**	**823,941**	**784,299**	**805,420**

Consolidated Balance Sheet (continued)

	Group		Bank	
Liabilities	**30 Sep 2020**	**30 Sep 2019**	**30 Sep 2020**	**30 Sep 2019**
Deposits	**495,764**	**469,169**	**496,413**	**469,752**
Demand deposits	289,523	255,654	289,689	255,949
Time deposits	158,701	171,829	158,317	171,440
Bank bond outstanding	47,540	41,686	47,540	41,686
Global deposit account without movements			867	677
Bank deposits and other liabilities	**22,765**	**34,796**	**22,765**	**34,796**
On demand	1,555	3,281	1,555	3,281
Short-term	11,644	18,317	11,644	18,317
Long-term	9,566	13,198	9,566	13,198
Repurchase agreements	33,579	103,684	33,579	103,684
Collateral sold	4,787	8,342	4,787	8,342
Derivative transactions	81,537	50,831	81,537	50,831
Technical reserves	13,413	12,523	-	-
Accounts payable from reinsures and rebounding companies	5	5	-	-
Other payable accounts	**62,907**	**60,338**	**62,094**	**59,892**
Income tax and employee profit sharing payable	568	886	458	874
Sundry creditors and other accounts Payable	62,339	59,452	61,636	59,018
Subordinated debentures outstanding	12,868	10,102	12,868	10,102
Deferred credits and receivable in advance	1,469	1,656	1,376	1,531
Total liabilities	**729,094**	**751,446**	**715,419**	**738,930**
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	**32,398**	**29,115**	**30,557**	**28,168**
Capital reserves	1,244	1,244	13,202	12,474
Retained earnings	28,581	22,519	17,509	12,415
Result from the mark-to-market of available- for-sale securities	(747)	(1,300)	(900)	(1,344)
Result from cash flow hedging transactions	(261)	(346)	(261)	(346)
Adjustment in the employee pension	-	-	(1,997)	(740)
Net income	3,580	6,998	3,004	5,709
Minority interest in capital	18	7	5	4
Total equity	**75,788**	**72,495**	**68,880**	**66,490**
Total liabilities and equity	**804,882**	**823,941**	**784,299**	**805,420**

Consolidated Balance Sheet (continued)

	Group		Bank	
	30 Sep 2020	**30 Sep 2019**	**30 Sep 2020**	**30 Sep 2019**
Memorandum Accounts	**5,894,503**	**6,757,431**	**5,711,247**	**6,584,073**
Third party accounts	**28,611**	**27,359**	**25,834**	**25,133**
Clients current accounts	2,011	775	-	-
Custody operations	766	1,451	-	-
Third party investment banking operations, net	25,834	25,133	25,834	25,133
Proprietary position	**5,865,892**	**6,730,072**	**5,685,413**	**6,558,940**
Irrevocable lines of credit granted	296,883	338,803	296,883	338,803
Goods in trust or mandate	194,680	209,493	194,679	209,493
Goods in custody or under administration	1,371,462	1,213,352	1,365,244	1,207,134
Collateral received by the institution	33,901	23,578	33,901	23,578
Collateral received and sold or delivered as guarantee	9,613	18,525	9,613	18,525
Suspended interest on impaired loans	304	214	304	214
Other control accounts	3,959,049	4,926,107	3,784,789	4,761,193

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)**	**8,997**	**7**	**72,576**
Movements inherent to the shareholders' decision								
Transfer of result of prior years	-	-	8,997	-	-	(8,997)	-	**-**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**8,997**	**-**	**-**	**(8,997)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	3,580	-	**3,580**
Result from valuation of available-for-sale securities	-	-	-	358	-	-	-	**358**
Result from cash flow hedging transactions	-	-	-	-	(84)	-	-	**(85)**
Others *	-	-	(653)	-	-	-	11	**(642)**
Total	**-**	**-**	**(653)**	**358**	**(85)**	**3,580**	**11**	**3,212**
Total Balances at 30 September 2020	**43,373**	**1,244**	**28,581**	**(747)**	**(262)**	**3580**	**18**	**75,788**

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

Consolidated Statement of Changes in Shareholders' Equity

BANK *Figures in MXN million*	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**
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	-	-	(146)	-	-	-	-	-	(146)
Total	**-**	**728**	**6,500**	**-**	**-**		**(7,374)**	**-**	**(146)**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	3,004	1	**3,005**
Result from valuation of available-for-sale securities	-	-	-	248	-	-	-	-	**248**
Result from cash flow hedging transactions	-	-	-	-	(84)	-	-	-	**(84)**
Adjustment in defined benefit pension plan	-	-	(22)	-	-	(368)	-	-	**(390)**
Total	**-**	**-**	**(22)**	**248**	**(84)**	**(368)**	**3,004**	**1**	**2,779**
Total Balances at 30 September 2020	**38,318**	**13,202**	**17,509**	**(900)**	**(261)**	**(1,997)**	**3,004**	**5**	**68,880**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Sep 2020**
Net income	**3,580**
Adjustments for items not involving cash flow:	**11,431**
Allowances for loan losses	10,819
Depreciation and amortisation	1,425
Valuations	(1,941)
Technical reserves	33
Provisions	174
Income Tax and deferred taxes	985
Participation in the Results of Unconsolidated Subsidiaries	(64)
Changes in items related to operating activities:	
Margin accounts	167
Investment securities	(4,933)
Repurchase agreements	17,543
Derivative (assets)	(37,507)
Loan portfolio	(3,134)
Foreclosed assets	58
Operating assets	17,349
Deposits	(17,693)
Bank deposits and other liabilities	(4,374)
Creditors repo transactions	(11,206)
Collateral sold or delivered as guarantee	(6,374)
Derivative (liabilities)	38,675
Accounts receivables from reinsurers and coinsurers	(7)
Accounts receivables from premiums	157
Other operating liabilities	(7,133)
Income tax paid	(965)
Funds provided by operating activities	**(19,378)**
Investing activities:	
Acquisition of property, furniture and equipment	(911)
Intangible assets acquisitions & Prepaid expenses	(2,683)
Cash dividends	38
Proceeds on disposal of subsidiaries	3
Other investment activities	1,964
Funds used in investing activities	**(1,588)**
Financing activities:	
Others	(22)
Funds used in financing activities	**(22)**
Financing activities:	
Increase/decrease in cash and equivalents	(5,977)
Cash and equivalents at beginning of period	60,214
Cash and equivalents at end of period	**54,238**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 September 2020**
Net income	**3,004**
Adjustments for items not involving cash flow:	**11,127**
Allowances for loan losses	10,819
Valuations	(1,962)
Depreciation	484
Amortisation	941
Provisions	137
Income Tax and deferred taxes	770
Share of profits in equity interest	(62)
Changes in items related to operating activities:	
Margin accounts	167
Investment securities	(3,765)
Repurchase agreements	17,543
Derivative (assets)	(37,507)
Loan portfolio	(3,134)
Foreclosed assets	58
Operating assets	17,841
Deposits	(17,468)
Bank deposits and other liabilities	(4,374)
Creditors repo transactions	(11,206)
Collateral sold or delivered as guarantee	(6,374)
Derivative (liabilities)	38,675
Subordinated debentures outstanding	(183)
Other operating liabilities	(6,881)
Income tax paid	(1,754)
Funds provided by operating activities	**(4,231)**
Investing activities:	
Acquisition of property, furniture and equipment	(911)
Intangible assets acquisitions & Prepaid expenses	(2,683)
Proceeds on disposal of subsidiaries	3
Cash dividends	38
Other investment activities	1,948
Funds used in investing activities	**(1,605)**
Financing activities:	
Others	(146)
Funds used in financing activities	**(146)**
Financing activities:	
Increase/decrease in cash and equivalents	**(5,982)**
Cash and equivalents at beginning of period	60,102
Cash and equivalents at end of period	**54,120**

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 in the adoption process of the 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 had 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

- 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.

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	261,373	21,947	8.4%	2,778
Consumer	61,388	976	1.6%	157
Mortgages	73,500	9,332	12.7%	285
Total	**$396,261**	**$32,255**	**8.2%**	**$3,220**

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	21,943	7,246	338
Consumer	938	544	27
Mortgages	8,650	1,280	95
Total	**$31,530**	**$9,070**	**$460**

**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 in September. 30th, 2020 allocated to these customers.

Additional Information

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

At September 30th, 2020, HSBC has booked an additional loan impairment charges reserve of $2,038m on top of the methodological reserves, following the notification provided to CNBV.

- **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 pandemic, 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.

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 third quarter ended at September 2020 and an explanation of the key reconciling items.

Figures in MXN millions	**30 September 2020**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**3,580**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	120
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	(102)
Loan impairment charges and other differences in presentation under IFRS[1]	(4,527)
Recognition of the present value in-force of long-term insurance contracts	130
Other insurance adjustments[2]	74
Fair value adjustments on financial instruments	(400)
Deferred profit sharing	(131)
AT1 Valuation	402
Other	(92)
Tax over adjustments	(431)
Net income under IFRS	**(1,377)**
Add back tax expense	(523)
Profit before tax under IFRS	**(1,900)**
Add back significant items	88
Adjusted net income before tax under IFRS	**(1,812)**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	85
-Significant Items	(173)
-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(5,534)m

[2] Includes technical reserves and effects from Solvency II

[3] Banxico rate at 30 September 2020 MXN22.1438

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).