HSBC

News Release

30 April 2021

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST QUARTER 2021 FINANCIAL RESULTS HIGHLIGHTS

- For the three months to 31 March 2021, Grupo Financiero's profit before tax was MXN2,941m, a decrease of MXN28m, or 1.0%, compared with MXN2,969m for the same period of 2020.

- For the three months to 31 March 2021, net income was MXN2,896m, an increase of MXN715m or 32.8%, compared with MXN2,181m for the same period of 2020.

- Total operating income excluding loan impairment charge was MXN11,011m, a decrease of MXN1,811 or 14.1%, compared with MXN12,822m for the same period of 2020.

- Loan impairment charges for the three months to 31 March 2021 were MXN1,221m, a decrease of MXN1,685m or 58.0%, compared with MXN2,906m for the same period of 2020. The first quarter included a release of MXN1,371m of additional reserves from a total of MXN3,426m booked in the second half of 2020 to cover potential losses due to Covid-19 outbreak, coupled by better performance in early delinquency across all portfolios, with the exception of Retail Business Banking customers, and lower portfolios in wholesale and retail unsecured.

- Administrative and personnel expenses for the three months to 31 March 2021 were MXN6,882m, a decrease of MXN84m or 1.2%, compared with MXN6,966m for the same period of 2020.

- The cost efficiency ratio was 62.5% for the three months to 31 March 2021, compared with 54.3% for the same period of 2020.

- Net loans and advances to customers were MXN351.4bn at 31 March 2021, showing a decrease of MXN64.5bn or 15.5%, compared with MXN415.9bn at 31 March 2020. Total impaired loans as a percentage of gross loans and advances at 31 March 2021 were 3.0%, compared to 1.9% reported at 31 March 2020.

- At 31 March 2021, total deposits were MXN475.9bn, a decrease of MXN16.9bn, or 3.4%, compared with MXN492.8bn as at 31 March 2020.

- Return on equity was 15.7% for the three months to 31 March 2021, whereas for the 3 months to 2020 it was 12.0%.

- At 31 March 2021, the bank's total capital adequacy ratio was 14.9% and the common equity tier 1 capital ratio was 12.3% compared with 13.2% and 10.7%, respectively, at 31 March 2020.

On a reported IFRS basis, for the three months to 31 March 2021, profit before tax for the period was MXN3,625m, an increase of MXN2,882m compared to the same period in 2020. The increase is mainly driven by lower impairment charges compared to March 2020, when higher impairment charges were created as a consequence of IFRS9 Forward Economic Guidance (FEG) due to Covid-19 outbreak.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2021 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, additional tier 1 (AT1) instrument valuation and pensions and insurance liabilities.

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

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Covid-19

The Covid-19 outbreak and its effect on the economy have continued to impact our customers and our performance, and the future effects of the pandemic remain uncertain. Renewed outbreaks, as a result of the emergence of the new variants of the virus, emphasise the ongoing threat of Covid-19. We continue to monitor the situation.

The outbreak has also resulted in changes in the behaviours of our retail and wholesale customers, leading some to require payment holidays and others to miss or delay payments on loan balances. During 2020, HSBC provided temporary payment reliefs to customers that demonstrated to be affected by the pandemic under special accounting rules issued by the Regulator (CNBV). These relief programmes have expired as of March 2021.

At 31 March 2021, our capital and liquidity ratios remain solid, allowing us to continue supporting our customers throughout the Covid-19 outbreak.

Overview

The Mexican economy continued to recover in 1Q21, but at a slower pace, due to the implementation of temporary new restrictions in some regions at the beginning of the year. At the sector level, industrial production and primary activities led the improvement, while service sector activities saw a mild setback in the first weeks of 2021. Overall, sectors with higher exposure to external demand continued to perform better than those depending on domestic demand.

Inflation saw a rapid increase in 1Q21, driven by higher prices in both core and non-core components. In particular, energy prices added significant pressure to the overall inflation print during the first three months of the year. After ending 2020 at 3.15%, the annual inflation rate climbed to 4.67% by the end of 1Q21, above Mexico's central bank's (Banxico) inflation target range.

Against this backdrop, although Banxico was able to resume the easing cycle in February 2021 by cutting the monetary policy rate by 25bp to 4.00%, it decided, unanimously, to keep the policy rate on hold at the March 2021 meeting.

- For the three months to 31 March 2021, Grupo Financiero's profit before tax was MXN2,941m, a decrease of MXN28m, or 1.0%, compared with MXN2,969m for the same period of 2020.

- Net interest income for the three months to 31 March 2021 was MXN7,983m, a decrease of MXN679m or 7.8%, compared with the same period of 2020. The decrease is mainly due to lower loan portfolio volumes as well as lower interest rates partially offset by a decrease in funding costs driven by the reduction in Central Bank reference interest rate and decrease in wholesale funding. In addition, net interest income reduced due to Insurance business reporting higher insurance claims and technical reserves impacted by Covid-19 partially offset by higher premiums.

- Loan impairment charges for the three months to 31 March 2021 were MXN1,221m, a decrease of MXN1,685m or 58.0%, compared with MXN2,906m for the same period of 2020. The first quarter included a release of MXN1,371m of additional reserves (from a total of MXN3,426m booked in the second half of 2020 to cover potential losses due to Covid-19 outbreak), of which MXN753m in retail and MXN618m in wholesale, coupled by better performance in early delinquency across all portfolios, with the exception of Retail Business Banking, and lower portfolios in wholesale and retail unsecured.

- Net fee income for the three months to 31 March 2021 was MXN2,070m, an increase of MXN152m, or 7.9%, compared with same period of 2020 mainly driven by lower fees payable.

- Trading income for the three months to 31 March 2021 was MXN552m, a decrease of MXN1,439m, or 72.3%, compared with the same period of 2020, mainly driven by lower derivatives results.

- Other operating income for the three months to 31 March 2021 was MXN406m, an increase of MXN155m or 61.8% compared with the same period of 2020 driven primarily by the sale of a real estate company.

- Administrative and personnel expenses for the three months to 31 March 2021 were MXN6,882m, a decrease of MXN84m, or 1.2%, compared with MXN6,966m for the same period of 2020 despite inflation during the period.

- The cost efficiency ratio was 62.5% for the three months to 31 March 2021, compared with 54.3% for the same period of 2020.

The effective tax rate was 1.5% for the three months to 31 March 2021, compared with 26.5% reported for the same period of 2020, the decrease is driven mainly by the effect of inflationary adjustments and deferred tax asset movements.

- Net loans and advances to customers were MXN351.4bn at 31 March 2021, showing a decrease of MXN64.5bn, or 15.5% compared with MXN415.9bn at 31 March 2020. The performing corporate portfolio observed a reduction of 25.2%, with respect to 31 March 2021 mainly driven by the decrease in commercial loans. The performing retail portfolio increased by 8.2% with respect to 31 March 2020 driven by mortgage loans growing 23.7%, partially offset by consumer loans reducing 7.5%. Credit cost ratios[1/] and loan loss reserves ratios[2/] as of March 2021 were 1.3% (2.7% as of March 2020) and 4.9% (3.2% as of March 2020), respectively.

- Total impaired loans as a percentage of gross loans and advances at 31 March 2021 was 3.0%, compared to 1.9% at 31 March 2020.

- Return on equity was 15.7% for the three months to 31 March 2021, whereas for the three months to 2020 it was 12.0%, mainly driven by a higher profit-after-tax.

- Total loan loss allowances at 31 March 2021 were MXN18.0bn, an increase of MXN4.2bn or 30.6% compared to 31 March 2020. The total coverage ratio (allowance for loan losses divided by impaired loans) was 160.3%, at 31 March 2021 compared with 165.1% at 31 March 2020.

- As of 31 March 2021, total deposits were MXN475.9bn, a decrease of MXN16.9bn or 3.4%, compared with MXN492.8bn at 31 March 2020 mainly driven by reduction in short term wholesale debts partially offset by an increase in demand deposits, improving the blended cost of funds.

- HSBC Bank Mexico profit before tax for the three months to 31 March 2021 was MXN2,662m, an increase of MXN46m or 1.8% compared with the same period of 2020 mainly driven by lower loan impairment charges.

- HSBC Bank Mexico net profit for the three months to 31 March 2021 was MXN2,651m, an increase of MXN718m or 37.1% compared with the same period of 2020.

- HSBC Bank Mexico net interest income for the three months to 31 March 2021 was MXN7,933m a decrease of MXN314m or 3.8%, compared with the same period of 2020.

- At 31 March 2021, the bank's total capital adequacy ratio was 14.9% and the common equity tier 1 capital ratio was 12.3%, compared with 13.2% and 10.7% respectively, at 31 March 2020. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The loss before tax of Grupo Financiero HSBC's insurance subsidiary for the three months to 31 March 2021 was MXN181m against a profit before tax of MXN217m when compared to same period of 2020, mainly driven by higher claims and technical reserves impacted by Covid-19, partially offset by higher premiums.

1/ Credit Cost Ratio: Loan Impairment charges (annualised)/Gross Loans.

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

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 March 2021) 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 [1/] *(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).*

Wealth and Personal Banking (WPB) [2/]

WPB revenue for the first three months to March 2021 decreased by 4.4% compared to same period of 2020, mainly driven by insurance higher claims due to Covid-19 pandemic environment and lower sales, central bank rate cuts affecting liabilities coupled with lower volumes in unsecured lending, business banking and term deposits. This was partially offset by higher demand deposits and mortgages volumes and higher mutual fund balances.

Profit before tax was MXN919m, an increase of MXN377m, compared with the same period of 2020 (with markets treasury reallocation, profit before tax was MXN1,400m). The increase is mainly driven by lower loan impairments charges due to the release of allowance for loan losses.

Loan impairment charges decreased by 46.3%, compared to the same period last year, primarily driven by the release of MXN753m in provisions from a total of MXN2,038m booked in the in second half of 2020 to cover potential losses due to Covid-19 outbreak.

Mortgages portfolio grew consistently in 2021, 23.7% higher compared to same period of 2020. At the end of first quarter 2021 mortgages portfolio continues to register maximum level of productivity across the branch network. HSBC continues to work with the government to retail discounted payroll loans through FOVISSSTE, accomplishing MXN1,600m since the program was launched (representing circa of 15% of WPB monthly sales).

Demand deposits grew year on year 28% and mutual funds 6%, with great response from customers, we continue increasing portability, reaching more than double versus the first quarter of 2020. It is worth mentioning that our recommendation index (using the strategic 'net promoter score' methodology) continues to grow in all channels.

HSBC continues to cooperate and align with the government guidelines in order to ensure the banking services as an essential activity. Currently, most of our branches are open and operating within the local regulations requirements.

Digital Banking, Contact Center and ATMs continue to offer services in accordance to demand. Cash deposit machines (CDMs) option is open for clients to carry out their transactions without visiting the branch, and is accessible on all days of a week. In branches, tablets and biometrics usage keep providing great support, improving remote operation capability. It is worth highlighting that CoDi, a digital payments functionality promoted by Mexican Central Bank since October 2019, has been launched in HSBC through Mobile Banking from 4Q20.

As of March 2021, Mobile penetration achieved 47% of the total active customer base. March digital sales of primary credit cards represented 48% of the total sales, personal loans 27% and balance transfer 55%. In order to offer better experience to our customers, during 1Q21 the bank started the digital engagement for Apple Pay, improved some Mobile Banking features like the express transfer and navigation, automated control monitoring and fraud prevention processes for digital banking. The net promotor score index keep a positive trend.

Commercial Banking (CMB)

Revenues for the three months to 31 March 2021 increased by 3.6% compared to the same period of 2020. This is mostly explained by higher spreads of loans and an increase in commercial activity resulting in higher fee and trading income from both lending and cash management. These effects were partially offset by lower margins on deposits as a result of lower interest rates.

Loan impairment charges improved by more than 100% explained by releases of MXN572m in provisions from a total of MXN1,208m booked in the in second half of 2020 to cover potential losses due to Covid-19 outbreak.

Profit before tax was MXN929m, an increase of MXN479m or 106.7% compared with the same period of 2020. The increase is primarily explained by the aforementioned release of allowance for loan losses combined with better revenues and lower spending. With Markets Treasury allocation, profit before tax for the current period was MXN1,089m.

Global Banking and Markets (GB&M)

Revenues for the three month to March 2021 reduced by 44.5% compared with the same period of 2020, mostly explained by derivatives business and lower revenues from deposits due to the reduction in central bank policy rate.

In 2021, loan impairment charges improved by 53.1% explained by releases of MXN46m in provisions from a total of MXN180m booked in the in second half of 2020 to cover potential losses due to Covid-19 outbreak.

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

Profit before tax was MXN147m, a decrease of MXN917m or 86.2% compared with the same period of 2020, mainly driven by reduction in income, especially in our Global Markets business. With Markets Treasury allocation, profit before tax for the current period was MXN285m.

[1/] *In 2020, BSM (Balance Sheet Management) was renamed to Markets Treasury. Markets Treasury total profit before tax for the three months ended at 31 of March 2021 was MXN778m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the three months to 31 of March 2021 profit before tax allocation by business was - MXN481m to WPB, MXN159m to CMB and MXN138m to GB&M.*

[2/] *As part of the Strategic announcements made by HSBC Group Executive Committee, 'RBWM – Retail Banking and Wealth Management and GPB – Global Private Banking' line of business is merged to create one new line of business, 'WPB – Wealth and Personal Banking'.*

Awards and Recognitions

Euromoney

For the fourth consecutive year, HSBC México was recognised by the British magazine Euromoney as the leading bank in foreign trade financial solutions and the bank with the best service in this same area, as a result of the survey carried out by this publication each year among users of financial services for commerce. HSBC was also recognised for the products focused on foreign trade that it offers both globally and in the Latin American region thanks to the investment in technology and digitisation that have allowed it to help more companies to continue with their international trade in an agile and safe way even during the Covid-19 pandemic. Examples of this are HSBC Mexico's first Blockchain operation for a client that imported sports shoes from Hong Kong; the launch of the Transaction Trade Tracker tool to monitor the status of imports and exports in real time, and the incorporation of new digital processes, such as HSBCNet and AIDA, to help companies access more financial services and make their operations more efficient

Asset Management Award

For the second consecutive year, HSBC Global Asset Management Mexico was recognised with the ‘Asset Management Company of the Year Mexico 2021’ award, given by the Global Banking & Finance Review magazine, a key global finance publication, in recognition of the significant growth of 21.64% in assets managed by HSBC Global Asset Management México during 2020. This area has maintained constant growth above the industry during the last three years, managing assets that have grown by 41.9%, which allowed the bank to go from eighth to seventh place in market share and start 2021 with 5.1% of the total. It is worth mentioning that in 2020 the bank complemented its international offer by adding two new investment funds: The Global Debt Fund in Pesos HSBCDGP and the HSBCUSA Active Stock Exchange Fund, which provide greater exposure to foreign markets by allowing diversification of investments.

Wealth Management Award

HSBC México achieved the ‘Best Private Wealth Manager Mexico 2021’ award for its remarkable growth of 21.64% in assets managed in both discretionary portfolios and investment funds during the last three years. The award was given by the Global Banking & Finance Review magazine, in recognition of the customer service focused on the institution's advice and the rapid adaptation that the bank had to continue serving its customers during the Covid-19 pandemic. As part of the constant improvement and adaptation, the bank implemented over the last year investment operations through digital tools, such as the HSBC eTrading platform, and virtual communication, in addition to increasing the frequency of market updates and introducing reviews of portfolio through video conferencing.

Grupo Financiero HSBC's first quarter to 2021 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 three months to 31 March 2021, profit before tax for the period was MXN3,625m, an increase of MXN2,882m compared to the same period in 2020. The increase is mainly driven by lower impairment charges compared to March 2020, when higher impairment charges were created as a consequence of IFRS9 Forward Economic Guidance (FEG) due to Covid-19 outbreak.

The main differences between Mexican GAAP and IFRS results for the three months to March 2021 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing, AT1 instrument valuation and pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 930 branches, 5,540 ATMs and 15,053 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$2,959bn at 31 March 2021, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP three months ended 31 March 2021 and 2020

Figures in MXN millions

	Group	
	31 Mar 2021	**31 Mar 2020**
Interest income	13,016	15,913
Interest expense	(5,033)	(7,251)
Net interest income	7,983	8,662
Loan impairment charges	(1,221)	(2,906)
Risk-adjusted net interest income	6,762	5,756
Fees and commissions receivable	2,640	2,686
Fees payable	(570)	(768)
Trading income	552	1,991
Other operating income	406	251
Total operating income	9,790	9,916
Administrative and personnel expenses	(6,882)	(6,966)
Net operating income	2,908	2,950
Share of profits in equity interest	33	19
Profit/loss before tax	2,941	2,969
Income tax	(206)	(382)
Deferred income tax	161	(406)
Net income	2,896	2,181

Consolidated Income Statement – BANK three months ended 31 March 2021 and 2020

Figures in MXN millions

	Bank	
	31 Mar 2021	**31 Mar 2020**
Interest income	11,434	14,794
Interest expense	(3,501)	(6,547)
Net interest income	7,933	8,247
Loan impairment charges	(1,221)	(2,906)
Risk-adjusted net interest income	6,712	5,341
Fees and commissions receivable	2,495	2,552
Fees payable	(614)	(805)
Trading income	545	1,969
Other operating income	299	444
Total operating income	9,437	9,501
Administrative and personnel expenses	(6,811)	(6,904)
Net operating income	2,626	2,597
Share of profits in equity interest	36	19
Profit/loss before tax	2,662	2,616
Income tax	(116)	(255)
Deferred income tax	105	(428)
Net income	2,651	1,933

Consolidated Balance Sheet

Figures in MXN millions	Group 31 Mar 2021	Group 31 Mar 2020	Bank 31 Mar 2021	Bank 31 Mar 2020
Assets				
Cash and deposits in banks	52,939	53,664	52,819	53,551
Margin accounts	205	250	205	250
Investment in securities	**177,384**	**186,609**	**161,324**	**170,525**
Trading securities	67,061	63,298	64,955	62,473
Available-for-sale securities	83,071	95,159	77,394	89,284
Held to maturity securities	27,252	28,152	18,975	18,768
Repurchase agreements	25,793	23,701	25,793	23,701
Derivative transactions	53,768	106,890	53,768	106,890
Performing loans				
Commercial loans	170,836	239,432	170,836	239,432
Loans to financial intermediaries	9,098	17,408	9,098	17,408
Loans to government entities	38,540	35,398	38,540	35,398
Consumer loans	59,195	64,028	59,195	64,028
Mortgage loans	80,514	65,065	80,514	65,065
Total performing loans	**358,183**	**421,331**	**358,183**	**421,331**
Impaired loans				
Commercial loans	6,408	4,393	6,408	4,393
Consumer loans	2,063	2,313	2,063	2,313
Mortgage loans	2,748	1,636	2,748	1,636
Total impaired loans	**11,219**	**8,342**	**11,219**	**8,342**
Gross loans and advances to customers	**369,402**	**429,673**	**369,402**	**429,673**
Allowance for loan losses	(17,987)	(13,773)	(17,987)	(13,773)
Net loans and advances to customers	**351,415**	**415,900**	**351,415**	**415,900**
Accounts receivables from Insurers and Bonding companies	86	67	-	-
Premium receivables	1,844	1,757	-	-
Accounts receivables from reinsurers and rebonding companies	44	24	-	-
Other accounts receivable	47,581	52,694	47,037	53,196
Foreclosed assets	319	355	319	355
Property, furniture and equipment, net	4,504	4,355	4,504	4,355
Long-term investments in equity securities	1,028	1,013	988	978
Long-term assets available for sale	240	466	240	240
Deferred taxes	11,031	11,014	10,830	10,857
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	6,661	5,297	6,162	5,175
Total assets	**735,890**	**865,104**	**715,404**	**845,973**

Consolidated Balance Sheet (continued)

	Group		Bank	
Figures in MXN millions	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**	**31 Mar 2020**
Liabilities				
Deposits	**475,885**	**492,774**	**478,794**	**493,551**
Demand deposits	300,873	285,211	303,322	285,506
Time deposits	128,794	163,435	128,384	163,059
Bank bond outstanding	46,218	44,128	46,218	44,128
Global deposit account without movements			870	858
Bank deposits and other liabilities	**17,792**	**45,076**	**17,792**	**45,076**
On demand	2,612	12,791	2,612	12,791
Short-term	9,624	4,687	9,624	4,687
Long-term	5,556	27,598	5,556	27,598
Repurchase agreements	33,840	47,282	33,840	47,282
Collateral sold	6,962	8,161	6,962	8,161
Derivative transactions	45,611	108,124	45,611	108,124
Technical reserves	14,737	13,035	-	-
Accounts payable from reinsures and rebounding companies	5	7	-	-
Other payable accounts	**53,070**	**61,945**	**51,889**	**61,775**
Income tax and employee profit sharing payable	188	94	180	86
Sundry creditors and other accounts Payable	52,882	61,851	51,709	61,689
Subordinated debentures outstanding	11,876	13,658	11,876	13,658
Deferred credits and receivable in advance	1,300	1,624	1,195	1,512
Total liabilities	**661,078**	**791,686**	**647,959**	**779,139**
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	**31,433**	**30,038**	**29,122**	**28,512**
Capital reserves	1,244	1,244	13,202	12,463
Retained earnings	28,469	29,255	16,664	18,409
Result from the mark-to-market of available-for-sale securities	(780)	(2,184)	(853)	(2,214)
Result from cash flow hedging transactions	(396)	(458)	(396)	(458)
Adjustment in the employee pension	-	-	(2,146)	(1,621)
Net income	2,896	2,181	2,651	1,933
Minority interest in capital	6	7	5	4
Total equity	**74,812**	**73,418**	**67,445**	**66,834**
Total liabilities and equity	**735,890**	**865,104**	**715,404**	**845,973**

Consolidated Balance Sheet (continued)

	Group		Bank	
Figures in MXN millions	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**	**31 Mar 2020**
Memorandum Accounts	**5,584,875**	**7,026,993**	**5,404,086**	**6,845,524**
Third party accounts	**30,293**	**26,505**	**26,818**	**25,005**
Clients current accounts	2,446	663	-	-
Custody operations	1,029	837	-	-
Third party investment banking operations, net	26,818	25,005	26,818	25,005
Proprietary position	**5,554,582**	**7,000,488**	**5,377,268**	**6,820,519**
Irrevocable lines of credit granted	278,929	373,311	278,929	373,311
Goods in trust or mandate	198,459	202,683	198,459	202,683
Goods in custody or under administration	1,426,286	1,197,831	1,420,068	1,191,613
Collateral received by the institution	54,169	61,630	54,169	61,630
Collateral received and sold or delivered as guarantee	29,281	32,166	29,281	32,166
Suspended interest on impaired loans	364	241	364	241
Other control accounts	3,567,094	5,132,626	3,395,998	4,958,875

Consolidated Statement of Changes in Shareholders' Equity

GROUP *Figures in MXN million*	Capital contributed	Capital Reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net Income	Minority interest	**Total Equity**
Total Balances at 31 Dec 2020	**43,373**	**1,244**	**28,157**	**(283)**	**(93)**	**64**	**7**	**72,469**
Movements inherent to the shareholders' decision								
Transfer of result of prior years	-	-	64	-	-	(64)	-	**-**
Others	-	-	22	-	-	-	-	**22**
Total	**-**	**-**	**86**	**-**	**-**	**(64)**	**-**	**22**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	2,896	(1)	**2,895**
Result from valuation of available-for-sale securities	-	-	-	(497)	-	-	-	**(497)**
Result from cash flow hedging transactions	-	-	-	-	(303)	-	-	**(303)**
Others*	-	-	226		-		-	**226**
Total	**-**	**-**	**226**	**(497)**	**(303)**	**2,896**	**(1)**	**2,321**
Total Balances at 31 March 2021	**43,373**	**1,244**	**28,469**	**(780)**	**(396)**	**2,896**	**6**	**74,812**

**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 2020	**38,318**	**13,202**	**17,373**	**(477)**	**(93)**	**(2,249)**	**(709)**	**5**	**65,370**
Movements inherent to the shareholders' decision									
Transfer of result of prior years	-		(709)	-	-	-	709	-	**-**
Constitution of reserves	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	103	-	-	103
Total	**-**	**-**	**(709)**	**-**	**-**	**103**	**709**	**-**	**103**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	2,651	-	**2,651**
Result from valuation of available-for-sale securities	-	-	-	(376)	-	-	-	-	**(376)**
Result from cash flow hedging transactions	-	-	-	-	(303)	-	-	-	**(303)**
Total	**-**	**-**	**-**	**(376)**	**(303)**	**-**	**2,651**	**-**	**1,972**
Total Balances at 31 Mar 2021	**38,318**	**13,202**	**16,664**	**(853)**	**(396)**	**(2,146)**	**2,651**	**5**	**67,445**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Mar 2021**
Net income	**2,896**
Adjustments for items not involving cash flow:	**2,140**
Allowances for loan losses	1,221
Depreciation and amortisation	562
Valuations	178
Technical reserves	517
Provisions	(350)
Income Tax and deferred taxes	45
Participation in the Results of Unconsolidated Subsidiaries	(33)
Changes in items related to operating activities:	
Margin accounts	37
Investment securities	12,748
Repurchase agreements	46,506
Derivative (assets)	19,554
Loan portfolio	(3,871)
Foreclosed assets	30
Operating assets	(12,859)
Deposits	(19,917)
Bank deposits and other liabilities	(1,362)
Creditors repo transactions	(11,291)
Collateral sold or delivered as guarantee	5,338
Derivative (liabilities)	(16,059)
Accounts receivables from reinsurers and coinsurers	(12)
Accounts receivables from premiums	5
Other operating liabilities	(22,701)
Income tax paid	(505)
Funds provided by operating activities	**(4,359)**
Investing activities:	
Acquisition of property, furniture and equipment	(238)
Intangible assets acquisitions & Prepaid expenses	(275)
Cash dividends	0
Proceeds on disposal of subsidiaries	604
Other investment activities	(333)
Funds used in investing activities	**(242)**
Financing activities:	
Others	(20)
Funds used in financing activities	**(20)**
Financing activities:	
Increase/decrease in cash and equivalents	415
Cash and equivalents at beginning of period	52,524
Cash and equivalents at end of period	**52,939**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Mar 2021**
Net income	**2,651**
Adjustments for items not involving cash flow:	**2,338**
Allowances for loan losses	1,221
Valuations	174
Depreciation	269
Amortisation	293
Provisions	406
Income Tax and deferred taxes	11
Share of profits in equity interest	(36)
Changes in items related to operating activities:	
Margin accounts	37
Investment securities	13,265
Repurchase agreements	46,506
Derivative (assets)	19,479
Loan portfolio	(3,871)
Foreclosed assets	30
Operating assets	(12,326)
Deposits	(19,010)
Bank deposits and other liabilities	(1,362)
Creditors repo transactions	(11,291)
Collateral sold or delivered as guarantee	5,338
Derivative (liabilities)	(16,059)
Subordinated debentures outstanding	308
Other operating liabilities	(24,881)
Income tax paid	(336)
Others	8
Funds provided by operating activities	**824**
Investing activities:	
Acquisition of property, furniture and equipment	(238)
Intangible assets acquisitions & Prepaid expenses	(275)
Other investment activities	113
Funds used in investing activities	**(400)**
Financing activities:	
Increase/decrease in cash and equivalents	**424**
Cash and equivalents at beginning of period	52,395
Cash and equivalents at end of period	**52,819**

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 CNBV or CINIF applicable to Grupo Financiero HSBC, are described below:

I. Improvements of NIF 2021 issued by CINIF applicable to Financial Institutions.

CINIF issued a document called ‘Improvements of NIF 2021’, which mainly includes the following changes and improvements:

Improvements involving accounting changes ‘without financial impacts’ in Grupo Financiero HSBC.

NIF C-2 ‘Financial Instruments’ – The option to irrevocable designation of measurement at fair value through Other Comprehensive Income for certain equity instruments not for trading was included in line with IFRS 9.

NIF C-19 ‘Financial Liabilities’ and NIF C-20 ‘Financial Assets under Hold-to-Collect business model measure at amortised cost’ – Gains and losses originated by forgiven amounts in the de-recognition of financial liabilities or renegotiation of financial assets measured at amortised cost should be presented separately in income statement within operating activities line.

Also, a clarification was included to determine that interest, commissions and other concepts paid in advance are not considered as part of transactional costs in the origination of financial assets and liabilities.

NIF D-5 ‘Leases’ – Inclusion of special disclosures for short-term and low-value leases which are part of the exemption to not to apply the lease accounting model. Elimination of disclosures about lease assets that have met ‘Investment Properties’ definition in the past, given that in the new NIF C-17 ‘Investment properties’ (see below), those leased properties would not meet that definition.

Improvements which not originate accounting changes in Grupo Financiero HSBC

NIF C-8. ‘Intangible Assets’ and NIF terms chapter– Inclusion of ‘amortisable amount’ definition which states that it is acquisition cost less residual value and accumulated impairments.

NIF terms chapter – Changes in some definitions such as Amortisation, Depreciation, Inventory, Expected Credit Losses, Free-risk rate and Residual Value.

NIF Interpretations issued by CINIF in 2020

INIF 23. 'Relief for lessees accounting for covid-19-related rent concessions' – The CINIF issued a relief to account for these rent concessions directly in income statement instead of being considered as a modification of the lease agreement in accordance with NIF D-5 'Leases'. The application of this relief covers rent concessions that reduce only lease payments due on or before 30 June 2021.

INIF 24. 'IBOR Reform' – Given the reform to transit from 'Interbank Offered Rates-IBOR' to Risk-Free-Rates (RFR), the CINIF issued some relief to be applied during the transitional period for financial instruments measured at amortised cost which are referenced to IBOR rates and hedge relationships that hedge IBOR interest rate risk.

The relief indicates that the de-recognition of original financial instrument would not be trigger as long as the new RFR is economic equivalent to the IBOR, i.e. it will generate similar cash flows for the remaining tenor of the instrument and the rest of the changes are part of the reform for financial instruments measured at amortised costs. So, it would only represent an adjustment in the reference rate once the change occurs.

On the other hand, for hedge relationships based on IBOR risks, when the change is to modify the interest rate risk to designate the new RFR, both hedge item and hedge instrument will still exist without discontinuing the hedge relationship.

Financial Institutions have not been adopted the NIF related to INIF 24 yet, instead particular accounting treatment issued by CNBV is applied, nevertheless the IBOR reform would carry financial implications anyway, therefore a position has been asked to the regulator in order to understand if similar reliefs will be issued to banks, but no response has been received.

No significant financial impacts have been observed in the implementation of the changes. It is important to highlight that NIF C-2, C-19, C-20, D-5, INIF 23 and INIF 24 will be in force for Financial Institutions in 2022.

II. New NIF C-17 'Investment Properties'.

The new accounting standard has the purpose to demise the use of IAS 40 'Investment Properties'. The standard indicates that the measurement basis of investment properties: cost or fair value is an accounting policy election, even when in the use of IAS 40 only the cost model was permitted.

There are some differences with guidance provided by IAS 40. One is related to the definition of 'Investment Property' which indicates that to meet this definition, the properties should be held with the main objective of capital appreciation rather than the celebration of lease agreements, while in IAS 40 both could meet the definition.

Additionally, NIF C-17 indicates that an Investment Property would not meet the Right of Use definition under the NIF D-5 'Leases', because typically the lessee will not have the possibility of capital appreciation over the leased property, nevertheless, in IAS 40 the Right of Use over a land or building in a lease agreement under IFRS 16 could be considered an Investment Property.

The new standard was in place 2021. Considering the objective of the properties held by Grupo Financiero HSBC's subsidiaries in Mexico is substantially for rental purposes instead of capital appreciation, the preliminary conclusion reached is that this rule would not have impacts for them in solo accounts. For consolidated accounts, all properties are considered PP&E because are totally used by entities which integrated the group, so no impacts are originated by NIF C-17.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans and receivables:

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

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

- New standard methodology to determine expected credit losses ‘ECL’.

Financial negative impacts originated by adoption of the new standard methodology for ECL would be recognised either immediately or on deferral basis in following years (12 months) in ‘Retained Earnings’ category in share capital. In case that negative impacts were greater than ‘Retained Earnings’ balance, the difference should be recognised in income statement.

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

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

- Changes in regulatory reporting.

Leases:

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

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

Revocation of some particular accounting standards applicable to Financial Institutions:

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

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

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

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

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

Background

CNBV issued temporary special accounting rules 'the benefit programme' applicable to borrowers affected by the worldwide 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.

The Benefit Programme

In summary, the benefit programme provided to borrowers partial or total payment holidays until six months, which could involve a change in original term of the loans, extending their maturity for the same period. Likewise, the benefit programme could have involved in some cases other type of benefits such as a temporary loan modification of terms as long as they not exceed six months. During the benefit programme period, loans were not flagged as restructure transactions and they were still reported as performing loans.

In addition, financial institutions could have forgiven 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.

Based on this, HSBC provided to customers affected by the pandemic, skip payments of principal and /or interest up to six months for Credit Cards, Payroll, Personal, Mortgages, Cars, SME and Corporate (CMB and GB) loans. Additionally, in Mortgages there was a benefit to forgive 50% of regular payments during 6-months.

All payment reliefs provided to borrowers have expired as of March 2021.

Additional Information

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

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

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

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

The release of additional loan impairment allowances will occur once the borrowers show ability payment in accordance with accounting standards issued by CNBV (generally after three consecutive monthly payments of principal and/or interest), the economic pandemic negative effects have been included in the methodology to calculate the allowances or the pandemic risk has been mitigated. At the end of the reporting period, the amount of release is $2,114 remaining an additional loan impairment balance of $1,312.

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

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

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

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

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

Although, HSBC applied this programme, at the end of reporting period no loans were adhered to.

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

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the first quarter ended at March 2021 and an explanation of the key reconciling items.

Figures in MXN millions	31 March 2021
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**2,941**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	70
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	(21)
Loan impairment charges and other differences in presentation under IFRS[1]	470
Recognition of the present value in-force of long-term insurance contracts	44
Other insurance adjustments[2]	(146)
Fair value adjustments on financial instruments	382
Deferred profit sharing	(180)
AT1 Valuation	96
Others	(31)
Profit / (loss) before tax under IFRS	**3,625**
Add back significant items	270
Adjusted profit / (loss) before tax under IFRS	**3,895**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(16)**
-Costs to achieve	**(254)**
-Profit / (loss) before tax under IFRS	**USD 177 millions**

[1] Includes IFRS 9 –Economic Guidance ECL provision of MXN(3,906)m
[2] Includes technical reserves and effects from Solvency II
[3] Banxico rate at 31 March 2021 MXN20.4400

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 Mexican 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 criteria nor IFRS to be considered as a liability, therefore this reserve is cancelled for IFRS purposes and recognised into retained earnings.

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

Perpetual Subordinated Debt – AT1

Mexican GAAP

The perpetual subordinated debt is considered as compound financial instrument, i.e. principal meets financial liability definition while coupon of interest meets equity definition given the discretionary in its payment by the issuer according to 'NIF C-11 Share Capital' and 'NIF C-12 Financial Instruments with liability and equity features'. Based on this, principal is measured as a financial liability at amortised cost and coupons are accounted as dividends from retained earnings. Given the instrument is denominated in USD, principal is recognised as foreign currency transaction and reported using the closing rate. Exchange rate changes are recognised in income statement. On the other hand, coupons of interest are recognised in equity when holder has the right to receive payment at historical cost (equity is non-monetary item under 'NIF B-15 Presentation of foreign currencies').

IFRS

Considering the features of the instruments, the perpetual subordinated debt (AT1) is measured according to IFRS9 as an equity instrument. As such, Equity instruments are not re-measured subsequent to initial recognition. As the AT1 is classified and accounted for as equity, coupons interest payments are accounted as dividends from retained earnings and recognised when the holder's right to receive payment is established. No subsequent gains or losses are recognised in profit or loss in respect of the AT1 during its life. For instruments in a foreign currency which is different to functional currency of the issuer, no retranslation is applicable (equity is a non-monetary item under IAS 21).

Financial instruments impacted by IBOR reform

Mexican GAAP

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

IFRS

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

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

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