HSBC

News Release

28 October 2021

GRUPO FINANCIERO HSBC, S.A. DE C.V.
3Q 2021 FINANCIAL RESULTS HIGHLIGHTS

- For the nine months to 30 September 2021, Grupo Financiero's profit before tax was MXN6,203m, an increase of MXN1,813 or 41.3% compared to the same period of 2020. In August 2021, HSBC Pensiones transferred its pension portfolio to Pensiones Banorte S.A. The result of HSBC Pensiones as of September 2021 was reclassified to discontinued operations (September 2020 results also reclassified for comparison purposes in the consolidated income statement).

- For the nine months to 30 September 2021, net income was MXN4,703m, an increase of MXN1,123m or 31.4% compared with MXN3,580m for the same period of 2020.

- Total operating income excluding loan impairment charge was MXN34,012m, a decrease of MXN1,825m or 5.1% compared with MXN35,837m for the same period of 2020.

- Loan impairment charges for the nine months to 30 September 2021 were MXN4,417m, a decrease of MXN6,402m or 59.2% compared with MXN10,819m for the same period of 2020. During the period there was a release of MXN2,661m of additional reserves booked in the second half of 2020 to cover potential losses due to the Covid-19 outbreak, leaving an immaterial outstanding balance as of September 2021.

- Administrative and personnel expenses for the nine months to 30 September 2021 were MXN23,695m, an increase of MXN3,004m or 14.5%, compared with MXN20,691m for the same period of 2020.

- The cost efficiency ratio was 69.7% for the nine months to 30 September 2021, compared with 57.7% for the same period of 2020.

- Net loans and advances to customers were MXN362.1bn at 30 September 2021, showing a decrease of MXN17.6bn or 4.6%, compared with MXN379.7bn at 30 September 2020. Total impaired loans as a percentage of gross loans and advances at 30 September 2021 were 3.0%, compared to 2.6% reported at 30 September 2020.

- At 30 September 2021, total deposits were MXN481.2bn, a decrease of MXN14.5bn, or 2.9%, compared with MXN495.8bn as at 30 September 2020.

- Return on equity was 8.4% for the nine months to 30 September 2021, whereas for the nine months to September 2020 it was 6.3%.

- At 30 September 2021, the bank's total capital adequacy ratio was 13.9% and the common equity tier 1 capital ratio was 11.5% compared with 14.5% and 11.9%, respectively, at 30 September 2020.

On a reported IFRS basis, for the nine months to 30 September 2021, profit before tax for the period was MXN11,238m, an increase of MXN13,138m compared with the loss of MXN1,900m reported for the same period in 2020. The increase is mainly driven by lower impairment charges compared to September 2020, when higher impairment charges were recognized 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 nine months to 30 September 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.

Covid-19

The vaccine rollout in Mexico gained traction during the third quarter of 2021 and new Covid-19 cases declined since peaking in December 2020 - January 2021, with the economy gradually returning to pre-pandemic levels. All relief programs granted have expired and all loan portfolios are being managed business as usual.

HSBC Pensiones Business

On 2 August, 2021 HSBC Pensiones SA, whose direct controller is HSBC Seguros, SA (subsidiary of Grupo Financiero HSBC) transferred its pension portfolio (assets and liabilities related to pension insurance policies) to Pensiones Banorte SA Grupo Financiero Banorte. The result of HSBC Pensiones as of September 2021 was reclassified to discontinued operations.

Overview

While the Mexican economy continued to recover in 3Q21, its growth pace slowed down, reflecting that the recovery peak occurred in 2Q21. The two largest sectors - services and industrial production - had positive performances in early 3Q21, according to the latest indicators. In fact, the gradual normalization of activities due to higher vaccination rates and declining Covid-19 cases proved supportive for some sectors, especially in those related to services.

Inflation climbed to 6.0% year over year by the end of 3Q21 from 5.8% in 2Q21. Higher prices in both core and non-core components were the main drivers. In particular, core inflation saw an acceleration mainly due to tradable goods prices, while non-core inflation surged due to higher non-processed food and energy prices.

Against this backdrop, Banxico lifted the monetary policy rate by 25bp in two consecutive meetings (August and September) to 4.75%.

Financial Performance – Key Metrics

- For the nine months to 30 September 2021, Grupo Financiero's profit before tax was MXN6,203m, an increase of MXN1,813 or 41.3% compared to the same period of 2020. In August 2021, HSBC Pensiones transferred its pension portfolio to Pensiones Banorte S.A. The result of HSBC Pensiones as of September 2021 was reclassified to discontinued operations (September 2020 results also reclassified for comparison purposes).

- Net interest income for the nine months to 30 September 2021 was MXN25,648m, a decrease of MXN74m or 0.3% compared with the same period of 2020. Variance is explained by a decrease of MXN4,419m in interest income due to lower wholesale loan portfolio volumes partially offset by a reduction in interest expense of MXN4,345m mainly due to lower wholesale funding coupled with a decrease in funding costs; and in addition, insurance business presented higher technical reserves impacted by Covid-19, partially offset by higher premiums.

- Loan impairment charges for the nine months to 30 September 2021 were MXN4,417m, a decrease of MXN6,402m or 59.2%, compared with MXN10,819m for the same period of 2020. During the period there was a release of MXN2,661m of additional reserves booked in the second half of 2020 to cover potential losses due to Covid-19 outbreak, of which MXN1,273m in retail and MXN1,388m in wholesale, coupled with better performance in early delinquency across retail portfolios and lower wholesale portfolios.

- Net fee income for the nine months to 30 September 2021 was MXN6,012m, an increase of MXN151m, or 2.6%, compared with same period of 2020, mainly driven by increase in commercial activity.

- Trading income for the nine months to 30 September 2021 was MXN1,565m, a decrease of MXN1,830m or 53.9% compared with the same period of 2020 mainly driven by lower derivatives results.

- Other operating income for the nine months to 30 September 2021 was MXN787m, a decrease of MXN72m or 8.4% compared with the same period of 2020.

- Administrative and personnel expenses for the nine months to 30 September 2021 were MXN23,695m, an increase of MXN3,004m, or 14.5%, compared with MXN20,691m for the same period of 2020, mainly driven by higher staff costs and increase in contingency reserves.

- The cost efficiency ratio was 69.7% for the nine months to 30 September 2021, compared with 57.7% for the same period of 2020.

- The effective tax rate was 31.6% for the nine months to 30 September 2021, compared with 21.6% reported for the same period of 2020, the increase is driven mainly by the reassessment of deferred tax assets.

- Net loans and advances to customers were MXN362.1bn at 30 September 2021, showing a decrease of MXN17.6bn, or 4.6% compared with MXN379.7bn at 30 September 2020. The performing corporate portfolio observed a reduction of 18.8%, with respect to 30 September 2021 mainly driven by the decrease in commercial loans. The performing retail portfolio increased by 22.8% with respect to 30 September 2020 driven by mortgage loans growing 29.9%, coupled with an increase in consumer loans by 14.2%. Credit cost ratios[1/] and loan loss reserves ratios[2/] as of September 2021 were 1.6% (3.6% as of September 2020) and 4.5% (4.2% as of September 2020), respectively.

- Total impaired loans as a percentage of gross loans and advances at 30 September 2021 was 3.0%, compared to 2.6% at 30 September 2020, increase driven by wholesale loan portfolio.

- Return on equity was 8.4% for the nine month to 30 September 2021, whereas for the nine month to 30 September 2020 it was 6.3%.

- Total loan loss allowances at 30 September 2021 were MXN16.9bn, a decrease of MXN0.3bn or 1.7% compared to 30 September 2020. The total coverage ratio (allowance for loan losses divided by impaired loans) was 149.3% at 30 September 2021, compared with 160.7% at 30 September 2020, driven by higher impaired loans.

- As of 30 September 2021, total deposits were MXN481.2bn, a decrease of MXN14.5bn or 2.9%, compared with MXN495.8bn at 30 September 2020, mainly driven by reduction in wholesale funding, improving the blended cost of funds.

- HSBC Bank Mexico profit before tax for the first nine months to 30 September 2021 was MXN5,164m, an increase of MXN1,390m or 36.8% compared with the same period of 2020 mainly driven by lower loan impairment charges partially offset by lower trading income and higher expenses.

- HSBC Bank Mexico net profit for the nine months to 30 September 2021 was MXN3,423m, an increase of MXN419m or 13.9% compared with the same period of 2020.

- HSBC Bank Mexico net interest income for the nine months to 30 September 2021 was MXN24,411m a decrease of MXN307m or 1.2%, compared with the same period of 2020.

- Following the analysis of CNBV recommendation related to dividend payment, in July 2021, HSBC Mexico paid a dividend of MXN1,600m and Grupo Financiero HSBC paid a dividend of MXN4,927m.

- At 30 September 2021, the bank's total capital adequacy ratio was 13.9% and the common equity tier 1 capital ratio was 11.5%, compared with 14.5% and 11.9%, respectively, at 30 September 2020. 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 month to 30 September 2021 was MXN266m, an increase of MXN53m or 24.9% compared with the same period of 2020, mainly driven by higher premiums partially offset by lower trading income and higher technical reserves impacted by Covid-19.

[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 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, except for the reclassification of Grupo Financiero' September 2020 Consolidated Income Statement which includes the reclassification of Pensions Profit after tax to discontinued operations.

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/]

Wealth and Personal Banking profit before tax for the first nine months to 30 September 2021 was MXN1,592m, an increase of MXN2,180m compared to the same period of 2020 (with markets treasury reallocation, profit before tax result was MXN2,261m). The increase in profit before tax compared to 2020 is mainly driven by lower loan impairments charges due to the release of expected credit losses provisions.

In August 2021, HSBC Pensiones transferred its pension portfolio to Pensiones Banorte S.A. The result of HSBC Pensiones as of September 2021 was reclassified to discontinued operations (September 2020 results also reclassified for comparison purposes in the consolidated income statement).

Total operating income excluding loan impairment charge, was MXN 22,867m, an increase of MXN16m compared to the same period of last year, mainly driven by higher volumes in sight deposits and mortgages. Also higher spreads in consumer loans and higher Assets Under Management. Partially offset by insurance higher net claims and reserves from Covid-19.

Loan impairment charges decreased by 48.3% compared to the same period last year, mainly driven by the release of MXN 1,273m in provisions constituted on 2020 from the potential losses due to Covid-19 outbreak.

Mortgage performing portfolio grew 29.9% compared to the same period of 2020, with sales being 84.6% higher than previous year. We maintain a high level of productivity through the different commercial channels, such as the branch network, mortgage brokers and developers. HSBC continues to participate with the government in the sales of loans through FOVISSSTE (Mexican government housing agency) and launching new products as construction and remodeling.

Demand deposits grew by 18.8% and time deposits by 2.2% compared to the same period of 2020. HSBC continues to cooperate and align with the government guidelines in order to ensure the banking services as an essential activity; and increasing functionalities to improve customer experience in Branches, CDMs (cash deposit machines) and Mobile Banking.

Commercial Banking (CMB)

Revenues for the nine month to 30 September 2021 reduced by 2.5% compared to the same period of 2020. This is the result of a low interest rate environment reducing our Deposit margins. These impacts were partly offset by an increase on commercial activity providing higher fee & trading income, coupled with higher spreads in lending and lower cost of funds.

Loan impairment charges during the period were MXN770m, a decrease of MXN277m or 26.5%, compared with MXN1,047m for the same period of 2020 explained by releases in provisions mainly done in the second half of 2020 to cover potential losses due to Covid-19 outbreak partially offset by higher provisions in specific corporate customers.

Profit before tax was MXN932m, a decrease of MXN175m or 15.8% compared with the same period of 2020. The decrease is primarily explained by higher contingency reserves partly offset by provisions releases. With Markets Treasury allocation, profit before tax for the current period was MXN1,246m.

Global Banking and Markets (GB&M)

Revenues for the nine month to the year up to 30 September 2021 decreased by 26.1% compared with the same period of 2020, mostly explained by a lower performance in derivatives and lower loan portfolio balances resulting in lower fees.

In 2021, loan impairment charges reduced by more than 100% explained by releases in provisions, mainly driven by portfolio reductions.

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 MXN2,417m, an increase of MXN430m or 21.6% compared with the same period of 2020, mainly driven by decrease in credit provisions partially offset by a lower performance in derivatives coupled with lower balances and fees from assets. With Markets Treasury allocation, profit before tax for the current period was MXN2,694m.

1/ *In 2020, BSM (Balance Sheet Management) was renamed to Markets Treasury. Markets Treasury total profit before tax for the nine months ended at 30 of September 2021 was MXN1,260m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the six months to 30 of September 2021 profit before tax allocation by business was – MXN669m to WPB, MXN314m to CMB and MXN277m to GB&M.*

2/ *WPB includes Insurance results.*

Grupo Financiero HSBC's nine months to 30 September 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 nine month to 30 September 2021, profit before tax for the period was MXN11,238m, an increase of MXN13,138m compared to the same period in 2020. The increase is mainly driven by lower impairment charges compared to September 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 nine months to September 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 921 branches, 5,553 ATMs and 14,734 employees[1].

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$2,969bn at 30 September 2021, HSBC is one of the world's largest banking and financial services organization.

[1/] The total employees count represent the employees hired by Grupo Financiero HSBC and its subsidiaries. Until June 2021, the employee count reported included Electronic Data Process Mexico S.A. de CV employees which is a subsidiary of HSBC Global Services Limited.

For further information, contact:

Mexico City
Lyssette Bravo
External Communication
Telephone: +52 (55) 5721 2222

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

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

Headquarters
+44 (0)20 7991 8096

Consolidated Income Statement – GROUP nine months ended 30 September 2021 and 2020*

Figures in MXN millions

	Group	
	30 Sep 21	**30 Sep 20**
Interest income	39,746	44,165
Interest expense	(14,098)	(18,443)
Net interest income	25,648	25,722
Loan impairment charges	(4,417)	(10,819)
Risk-adjusted net interest income	21,231	14,903
Fees and commissions receivable	8,099	7,785
Fees payable	(2,087)	(1,924)
Trading income	1,565	3,395
Other operating income	787	859
Total operating income	29,595	25,018
Administrative and personnel expenses	(23,695)	(20,691)
Net operating income	5,900	4,327
Share of profits in equity interest	303	63
Profit/loss before tax	6,203	4,390
Income tax	(1,324)	(1,396)
Deferred income tax	(638)	449
Net income before discontinued operations	4,241	3,443
Discontinued Operations*	462	137
Net income	4,703	3,580

**Following the reclassification to discontinued operations of the results of HSBC Pensions business, the consolidated income statement of Group for nine months to 30 September 2020 differs from the figures previously reported to make the year over year figures comparable. Refer to Discontinued Operations" section for figures for 2021 and 2020.*

Consolidated Income Statement – BANK nine months ended 30 September 2021 and 2020

Figures in MXN millions

	Bank	
	30 Sep 2021	30 Sep 2020
Interest income	34,794	41,526
Interest expense	(10,383)	(16,808)
Net interest income	24,411	24,718
Loan impairment charges	(4,417)	(10,819)
Risk-adjusted net interest income	19,994	13,899
Fees and commissions receivable	7,650	7,374
Fees payable	(2,230)	(2,020)
Trading income	1,830	3,581
Other operating income	1,093	1,448
Total operating income	28,337	24,282
Administrative and personnel expenses	(23,478)	(20,570)
Net operating income	4,859	3,712
Share of profits in equity interest	305	62
Profit/loss before tax	5,164	3,774
Income tax	(1,090)	(1,224)
Deferred income tax	(651)	454
Net income before discontinued operations	3,423	3,004
Discontinued Operations	-	-
Net income	3,423	3,004

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**30 Sep 2021**	**30 Sep 2020**	**30 Sep 2021**	**30 Sep 2020**
Assets				
Cash and deposits in banks	49,183	54,238	49,052	54,120
Margin accounts	317	513	317	513
Investment in securities	**176,243**	**188,926**	**167,452**	**172,191**
Trading securities	78,681	72,666	76,090	70,725
Available-for-sale securities	78,153	87,901	72,309	82,560
Held to maturity securities	19,409	28,359	19,053	18,906
Repurchase agreements	35,943	23,183	35,943	23,183
Derivative transactions	43,413	88,418	43,413	88,418
Performing loans				
Commercial loans	169,490	206,681	169,490	206,681
Loans to financial intermediaries	8,672	12,300	8,672	12,300
Loans to government entities	29,032	36,259	29,032	36,259
Consumer loans	67,743	59,320	67,743	59,320
Mortgage loans	92,701	71,374	92,701	71,374
Total performing loans	**367,638**	**385,934**	**367,638**	**385,934**
Impaired loans				
Commercial loans	6,729	6,133	6,729	6,133
Loans to government entities	53	-	53	-
Consumer loans	1,701	2,068	1,701	2,068
Mortgage loans	2,827	2,126	2,827	2,126
Total impaired loans	**11,310**	**10,327**	**11,310**	**10,327**
Gross loans and advances to customers	**378,948**	**396,261**	**378,948**	**396,261**
Allowance for loan losses	(16,887)	(16,597)	(16,887)	(16,597)
Net loans and advances to customers	**362,061**	**379,664**	**362,061**	**379,664**
Accounts receivables from Insurers and Bonding companies	95	76	-	-
Premium receivables	1,782	1,622	-	-
Accounts receivables from reinsurers and rebonding companies	37	22	-	-
Other accounts receivable	47,412	43,495	46,523	43,166
Foreclosed assets	231	320	231	320
Property, furniture and equipment, net	5,289	4,449	5,289	4,449
Long-term investments in equity securities	1,274	1,023	1,233	986
Long-term assets available for sale	-	471	-	240
Deferred taxes	9,667	11,604	9,512	11,479
Goodwill	955	1,048	-	-
Other assets, deferred charges and intangibles	7,458	5,810	7,243	5,570
Total Assets	**741,360**	**804,882**	**728,269**	**784,299**

Consolidated Balance Sheet (continued)

	Group		Bank	
Figures in MXN millions	**30 Sep 2021**	**30 Sep 2020**	**30 Sep 2021**	**30 Sep 2020**
Liabilities				
Deposits	**481,245**	**495,764**	**482,239**	**496,413**
Demand deposits	325,497	289,523	325,862	289,689
Time deposits	136,412	158,701	136,022	158,317
Bank bond outstanding	19,336	47,540	19,336	47,540
Global deposit account without movements			1,019	867
Bank deposits and other liabilities	**31,628**	**22,765**	**31,628**	**22,765**
On demand	17,772	1,555	17,772	1,555
Short-term	7,398	11,644	7,398	11,644
Long-term	6,458	9,566	6,458	9,566
Repurchase agreements	33,962	33,579	33,962	33,579
Collateral sold	3,906	4,787	3,906	4,787
Derivative transactions	40,050	81,537	40,050	81,537
Technical reserves	7,225	13,413	-	-
Accounts payable from reinsures and rebounding companies	9	5	-	-
Other payable accounts	**58,385**	**62,907**	**56,693**	**62,094**
Income tax and employee profit sharing payable	1,215	568	1,142	458
Sundry creditors and other accounts Payable	57,170	62,339	55,551	61,636
Subordinated debentures outstanding	11,948	12,868	11,948	12,868
Deferred credits and receivable in advance	1,328	1,469	1,221	1,376
Total liabilities	**669,686**	**729,094**	**661,647**	**715,419**
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	**28,296**	**32,397**	**28,302**	**30,557**
Capital reserves	1,244	1,244	13,202	13,203
Retained earnings	23,725	28,581	14,931	17,508
Result from the mark-to-market of available-for-sale securities	(778)	(747)	(776)	(900)
Result from cash flow hedging transactions	(598)	(261)	(598)	(261)
Adjustment in the employee pension	-	-	(1,880)	(1,997)
Net income	4,703	3,580	3,423	3,004
Minority interest in capital	5	18	2	5
Total equity	**71,674**	**75,788**	**66,622**	**68,880**
Total liabilities and equity	**741,360**	**804,882**	**728,269**	**784,299**

Consolidated Balance Sheet (continued)

	Group		Bank	
Figures in MXN millions	**30 Sep 2021**	**30 Sep 2020**	**30 Sep 2021**	**30 Sep 2020**
Memorandum Accounts	**5,115,879**	**5,894,503**	**4,914,164**	**5,711,247**
Third party accounts	**40,670**	**28,611**	**33,071**	**25,834**
Clients current accounts	6,582	2,011	-	-
Custody operations	1,017	766	-	-
Third party investment banking operations, net	33,071	25,834	33,071	25,834
Proprietary position	**5,075,209**	**5,865,892**	**4,881,093**	**5,685,413**
Irrevocable lines of credit granted	285,161	296,883	285,161	296,883
Goods in trust or mandate	192,196	194,680	192,196	194,679
Goods in custody or under administration	1,466,393	1,371,462	1,460,175	1,365,244
Collateral received by the institution	58,099	33,901	58,099	33,901
Collateral received and sold or delivered as guarantee	20,925	9,613	20,925	9,613
Suspended interest on impaired loans	409	304	409	304
Other control accounts	3,052,026	3,959,049	2,864,128	3,784,789

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)	-	**-**
Cash Dividends	-	-	(4,927)	-	-	-	-	**(4,927)**
Others	-	-	23	-	-	-	-	**23**
Total	**-**	**-**	**(4,840)**	**-**	**-**	**(64)**	**-**	**(4,904)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	4,703	(0)	**4,703**
Result from valuation of available-for-sale securities	-	-	-	(495)	-	-	-	**(495)**
Result from cash flow hedging transactions	-	-	-	-	(505)	-	-	**(505)**
Others*	-	-	408		-		(2)	**406**
Total	**-**	**-**	**408**	**(495)**	**(505)**	**4,703**	**(2)**	**4,109**
Total Balances at 30 Sep 2021	**43,373**	**1,244**	**23,725**	**(778)**	**(598)**	**4,703**	**5**	**71,674**

**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	-	**-**
Cash Dividends	-	-	(1,600)	-	-	-	-	-	**(1,600)**
Others	-	-	-	-	-	369	-	-	369
Total	**-**	**-**	**(2,309)**	**-**	**-**	**369**	**709**	**-**	**(1,231)**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	3,423	-	**3,423**
Result from valuation of available-for-sale securities	-	-	-	(299)	-	-	-	-	**(299)**
Result from cash flow hedging transactions	-	-	-	-	(505)	-	-	-	**(505)**
Adjustment in defined benefit pension plan	-	-	-	-	-	-	-	-	**-**
Others			(133)					(3)	**(136)**
Total	**-**	**-**	**(133)**	**(299)**	**(505)**	**-**	**3,423**	**(3)**	**2,483**
Total Balances at 30 Sep 2021	**38,318**	**13,202**	**14,931**	**(776)**	**(598)**	**(1,880)**	**3,423**	**2**	**66,622**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Sep 21**
Net income	**4,703**
Adjustments for items not involving cash flow:	**3,363**
Allowances for loan losses	4,417
Depreciation and amortisation	1,667
Valuations	(4,806)
Technical reserves	1,945
Provisions	(1,057)
Income Tax and deferred taxes	1,962
Discontinued operations	(462)
Participation in the Results of Unconsolidated Subsidiaries	(303)
Changes in items related to operating activities:	
Margin accounts	(74)
Investment securities	14,508
Repurchase agreements	36,357
Derivative (assets)	34,524
Loan portfolio	(17,716)
Foreclosed assets	118
Operating assets	(11,548)
Deposits	(14,557)
Bank deposits and other liabilities	12,474
Creditors repo transactions	(11,169)
Collateral sold or delivered as guarantee	2,282
Derivative (liabilities)	(21,620)
Accounts receivables from reinsurers and coinsurers	(14)
Accounts receivables from premiums	67
Other operating liabilities	(26,227)
Income tax paid	(847)
Funds provided by operating activities	**(3,442)**
Investing activities:	
Acquisition of property, furniture and equipment	(802)
Intangible assets acquisitions & Prepaid expenses	(1,844)
Cash dividends	37
Proceeds on disposal of subsidiaries	605
Other investment activities	(510)
Funds used in investing activities	**(2,514)**
Financing activities:	
Dividends paid	(4,927)
Others	(524)
Funds used in financing activities	**(5,451)**
Financing activities:	
Increase/decrease in cash and equivalents	(3,341)
Cash and equivalents at beginning of period	52,524
Cash and equivalents at end of period	**49,183**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 Sep 2021**
Net income	**3,423**
Adjustments for items not involving cash flow:	**1,998**
Allowances for loan losses	4,417
Valuations	(4,524)
Depreciation	751
Amortisation	916
Provisions	-998
Income Tax and deferred taxes	1,741
Share of profits in equity interest	(305)
Changes in items related to operating activities:	
Margin accounts	(74)
Investment securities	7,199
Repurchase agreements	36,357
Derivative (assets)	34,524
Loan portfolio	(17,716)
Foreclosed assets	118
Operating assets	(11,051)
Deposits	(15,564)
Bank deposits and other liabilities	12,474
Creditors repo transactions	(11,169)
Collateral sold or delivered as guarantee	2,281
Derivative (liabilities)	(21,620)
Subordinated debentures outstanding	379
Other operating liabilities	(19,367)
Income tax paid	(592)
Funds provided by operating activities	**1,600**
Investing activities:	
Acquisition of property, furniture and equipment	(802)
Intangible assets acquisitions & Prepaid expenses	(1,844)
Cash dividends	37
Other investment activities	(601)
Funds used in investing activities	**(3,210)**
Financing activities:	
Dividends paid	(1,600)
Others	(133)
Funds used in financing activities	**(1,733)**
Financing activities:	
Increase/decrease in cash and equivalents	**(3,343)**
Cash and equivalents at beginning of period	52,395
Cash and equivalents at end of period	**49,052**

Detail of reclassification to discontinued operations in Group:

Figures in MXN millions

	Discontinued Operations	
	30 Sep 21	**30 Sep 20**
Interest income	206	336
Interest expense	(419)	(369)
Net interest income	(213)	(33)
Risk-adjusted net interest income	(213)	(33)
Trading income	1,094	227
Other operating income	(162)	-
Total operating income	719	194
Administrative and personnel expenses	-	(20)
Net operating income	719	174
Income tax	(257)	(37)
Net income re-classed to discontinued operations	462	137

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 amortized cost’ – Gains and losses originated by forgiven amounts in the de-recognition of financial liabilities or renegotiation of financial assets measured at amortized 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 was asked to the regulator, who has confirmed in written, that as long as the changes are exclusively originated by IBOR reform, modified loans would not be subject to recognised as restructured loan as the current accounting standards state.

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.

The regulator has not confirmed if the NIF should be adopted as part of changes in CNBV accounting standards in 2022, as described in section below, or from 2021. Regulatory confirmation has not received so far.

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

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

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

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

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

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

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

NIF C-16 'Impairment of financial instruments held to collect principal and interest". Including the accounting standards for measurement, accounting recognition, presentation and disclosures of the impairment of financial instruments hold to collect cash flows. It is important to highlight that the CNBV has worked on special accounting standard which will cover the impairment for loans and advances that are held to collect cash flows, therefore this NIF would be partially adopted by Financial Institutions unless Financial Institution decides to adopt an internal methodology based on NIF C-16 which should be 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 13th 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 partial retrospective adoption of these changes whose initial impacts should be recognized in 'Retained Earnings' category in share capital unless there is a different indication or it is impractical.

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.

During September 2021, CNBV issued in official gazette the option for Financial Institutions to defer one year, the initial adoption of effective interest rate method applicable to loans, in such case, Financial Institutions must communicate its decision in written to CNBV and provide additional information in its disclosures of financial statements.

In addition, through the response paper No. DGDR-15556/2021 issued by CNBV, it acknowledges that the initial adoption of effective interest rate method applicable to loans is complex and require many efforts from Financial Institutions to try to collect the loan historical information, which in some instances could be difficult or almost impractical to find given the loan volume; therefore in instances when the retrospectively or partial retrospectively adoption method indicated by NIF B-1 for accounting changes is impractical, the prospectively method will be applied.

At the end of reporting period, Grupo Financiero HSBC is in the process of implantation in accordance with timelines agreed, but due to the complexities identified in initial adoption of effective interest rate applicable to loans, is possible the adherence to the implementation defer option given by CNBV.

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

At the end of 2020, HSBC booked additional loan impairment allowances of MXN2,038m for Consumer and Mortgages and MXN1,388m 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 program.

- *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 has been occurred and will still occur upon 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 MXN3,404m remaining an additional loan impairment balance of MXN22m.

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 program' 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 program' during 120 days after the disaster date.

Basically, 'the program' 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 6 months or 18 months respectively). Under 'the program' 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 recognized in balance sheet in order to provide more liquidity to borrowers, in which case financial impacts would be recognized 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 program, at the end of reporting period no loans were adhered to.

VI. Changes in several laws driven by new outsourcing regulation issued in Official Gazette on 23 April 2021.

Laws related to labor, social security and taxation were modified to have adherence to new outsourcing regulation. In particular, the Labor Law modifies the calculation of employees' participation in earnings from *entities ("Participación de los Trabajadores en las Utilidades-PTU")* introducing a new comparison between *i)* a cap of 3 months of wages of employees, and *ii)* the average of PTU paid during the previous 3 years, being the most favorable the amount payable to employees.

Although, these changes have not modified current neither accounting standards nor accounting policies, they have an impact in calculation of the asset or liability of deferred PTU, which is determined in accordance with NIF D-3 Employee benefits *("NIF D-3 Beneficios a Empleados")*. Financial impacts are still under determination, but probable immaterial.

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 six months ended at September 2021 and an explanation of the key reconciling items.

Figures in MXN millions	**30 Sep 2021**
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**6,203**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	188
Discontinued Operations	718
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	22
Loan impairment charges and other differences in presentation under IFRS	2,932
Recognition of the present value in-force of long-term insurance contracts	(237)
Other insurance adjustments[1]	341
Fair value adjustments on financial instruments	523
Deferred profit sharing	469
AT1 Valuation[2]	118
Others	(39)
Profit / (loss) before tax under IFRS	**11,238**
Add back significant items	771
Adjusted profit / (loss) before tax under IFRS	**12,009**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**7**
-Costs to achieve	**(778)**
-Profit / (loss) before tax under IFRS[2]	**US$547m**

[1] *Includes technical reserves and effects from Solvency II*
[2] *Banxico rate at 30 Sep 2021 MXN20.5623.*

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) recognized separately in 'shareholders' Other Comprehensive Income in the bank's consolidated financial statements' and recycling through P&L over the average working life of the employees or 2) totally recognized in income statement.

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

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 recognize initial financial impacts from adoption prospectively over the following five years. Under reliefs' rules, financial impacts from plan modification would be recognized in retained earnings and actuarial gains/losses would be recognized 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 recognized in OCI under IFRS not subject to be recycling or recognize 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 12 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 recognized as an asset, which is amortized 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 recognized in separately accounts in balance sheet, i.e. they are not considered as part of amortized cost of the loan to presentation purposes.

IFRS

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

The amortized 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 amortized cost indicated for Mexican Banking Regulator, which use the straight-line basis to defer/amortize 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 recognized 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 authorized 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 recognized 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 recognize under IFRS.

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

Mexican GAAP

Mexican GAAP criteria does not recognize 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 recognized on an annualized basis

Mexican GAAP

Insurance liabilities are determined based on Solvency II methodology established by local regulator (CNSF) which considers best estimate liability and a risk margin concept. The best estimate is based on up-to-date credible information and realistic assumptions and aims to represent a total liability valuation aligned to its expected pricing transfer to the customer. The risk margin is calculated as the cost of providing an amount of capital equal to 10% of the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognized under annualization criteria which is based in determine the total premium for the coverage period (one year), consequently total premium is recognized since the moment where insurance contracts are written.

IFRS

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 recognized into retained earnings.

IFRS criteria does not recognise annualization insurance premium concept, hence annualization 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 amortized cost and coupons are accounted as dividends from retained earnings. Given the instrument is denominated in US$, principal is recognized as foreign currency transaction and reported using the closing rate. Exchange rate changes are recognized in income statement. On the other hand, coupons of interest are recognized in equity when holder has the right to receive payment at historical cost (equity is non-monetary item under 'NIF B-15 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 recognized when the holder's right to receive payment is established. No subsequent gains or losses are recognized in profit or loss in respect of the AT1 during its life. For instruments in a foreign currency which is different to functional currency of the issuer, no retranslation is applicable (equity is a non-monetary item under IAS 21 – The Effects of Changes in Foreign Exchange Rates).

Financial instruments impacted by IBOR reform

Mexican GAAP

During this quarter, CNBV issued a statement about the IBOR reform, which indicates that no restructured loan would be originated for changes in terms and conditions, as long as those changes are exclusively originated by the reform requirements, otherwise modifications would be subject to be analyzed under current accounting standards. This is similar to Interest Rate Benchmark Reform Phase 2 for IFRS described below, so the expectation is that it would not represent a difference in accounting treatment.

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.