HSBC

News Release

25 February 2022

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

- For the 12 months to 31 December 2021, Grupo Financiero's profit before tax was MXN6,925m, an increase of MXN5,017 or over 100% 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 and same was reflected in December 2021 results (December 2020 results were also reclassified for comparison purposes in the consolidated income statement). The amount reclassified to discontinued operations was MXN463m and MXN195m for the year 2021 and 2020, respectively.

- For the 12 months to 31 December 2021, net income was MXN4,412m, an increase of MXN4,348m or over 100% compared with MXN64m for the same period of 2020.

- Total operating income excluding loan impairment charge for the 12 months to 31 December 2021 was MXN45,876m, a decrease of MXN1,453m or 3.1% compared with MXN47,329m for the same period of 2020.

- Loan impairment charges for the 12 months to 31 December 2021 were MXN6,650m, a decrease of MXN9,419m or 58.6% compared with MXN16,609m for the same period of 2020. During the period there was a release of MXN2,669m of additional reserves previously booked in the second half of 2020 to cover potential losses due to the Covid-19 outbreak, leaving an immaterial outstanding balance as of December 2021.

- Administrative and personnel expenses for the 12 months to 31 December 2021 were MXN32,631m, an increase of MXN3,175m or 10.8%, compared with MXN29,456m for the same period of 2020.

- The cost efficiency ratio was 71.1% for the 12 months to 31 December 2021, compared with 62.2% for the same period of 2020.

- Net loans and advances to customers were MXN371.6bn at 31 December 2021, showing an increase of MXN22.8bn or 6.6% compared with MXN348.8bn at 31 December 2020. Total impaired loans as a percentage of gross loans and advances at 31 December 2021 were 2.6%, compared to 2.8% reported as of 31 December 2020.

- At 31 December 2021, total deposits were MXN499.0bn, an increase of MXN3.2bn, or 0.6%, compared with MXN495.8bn as at 31 December 2020.

- Return on equity was 6.2% for the 12 months to 31 December 2020, whereas 12 months to 31 December 2020 it was 0.1%.

- At 31 December 2021, the bank's total capital adequacy ratio was 13.6% and the common equity tier 1 capital ratio was 11.3% compared with 14.1% and 11.7%, respectively, at 31 December 2020.

On a reported IFRS basis, for the 12 months to 31 December 2021, profit before tax for the period was MXN11,473m, an increase of MXN15,647m compared with the loss of MXN4,174m reported for the same period in 2020. The increase is mainly driven by lower impairment charges compared to December 2020, when higher impairment charges were recognised as a consequence of IFRS9 Forward Economic Guidance (FEG) due to Covid-19 outbreak.

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

Registered Office:
Paseo de la Reforma 347, Ciudad de Mexico, Mexico
Web: www.hsbc.com

The main differences between Mexican GAAP and IFRS results for the 12 months to 31 December 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 continued to gain traction during the fourth quarter of 2021 and even with new strains the economy is gradually returning to pre-pandemic levels. All relief programmes 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

The Mexican economy contracted 0.1% quarter over quarter in 4Q21, according to the preliminary GDP results. This represented a second consecutive decline in quarter over quarter terms. Weaker services sector was the main driver behind the contraction. In contrast, industrial output and agriculture activities registered positive growth rates, which helped to partially offset the decline from service sector activities. Overall, the performance remained uneven and differentiated across sectors.

Inflation climbed to 7.4% in annual terms by the end of 4Q21 from 6.0% in 3Q21. 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 and 50bp in November and December, respectively. This took the benchmark rate to 5.5% by the end of 4Q21.

Financial Performance – Key Metrics

- For the 12 months to 31 December 2021, Grupo Financiero’s profit before tax was MXN6,925m, an increase of MXN5,017 or over 100% 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 and same was reflected in December 2021 results (December 2020 results were also reclassified for comparison purposes in the consolidated income statement). The amount reclassified to discontinued operations was MXN463m and MXN195m for the year 2021 and 2020, respectively.

- Net interest income for the 12 months to 31 December 2021 was MXN35,348m, an increase of MXN1,316m or 3.9% compared with the same period of 2020. The increase is mainly explained by the reduction in interest expense due to lower wholesale funding and funding costs coupled with better performance in the insurance business partially offset by lower interest income derived from a reduction in the wholesale loan portfolio.

- Loan impairment charges for the 12 months to 31 December 2021 were MXN6,650m, a decrease of MXN9,419m or 58.6%, compared with MXN16,069m for the same period of 2020. During the period there was a release of MXN2,669m of additional reserves previously booked in the second half of 2020 to cover potential losses due to Covid-19 outbreak, of which MXN1,281m in retail and MXN1,388m in wholesale, coupled with better performance of the retail portfolios and lower wholesale portfolio.

- Net fee income for the 12 months to 31 December 2021 was MXN7,958m, an increase of MXN182m, or 2.3%, compared with same period of 2020, mainly driven by increase in consumer activity.

- Trading income for the 12 months to 31 December 2021 was MXN1,702m, a decrease of MXN2,273m or 57.2% compared with MXN3,975 for the same period of 2020 mainly driven by lower derivatives results and the sale of bonds portfolio.

- Other operating income for the 12 months to 31 December 2021 was MXN868m, a decrease of MXN678m or 43.9% compared with MXN1,546 for the same period of 2020, mainly driven by losses from sale of selected corporate loans.

- Administrative and personnel expenses for the 12 months to 31 December 2021 were MXN32,631m, an increase of MXN3,175m, or 10.8%, compared with MXN29,456m for the same period of 2020, mainly driven by contingency reserves and higher IT related costs.

- The cost efficiency ratio was 71.1% for the 12 months to 31 December 2021, compared with 62.2% for the same period of 2020.

- The effective tax rate was 43.0% for the 12 months to 31 December 2021, compared with 106.9% reported for the same period of 2020. The variation is mainly driven by the reassessment of deferred tax assets.

- Net loans and advances to customers were MXN371.6bn at 31 December 2021, showing an overall increase of MXN22.8bn, or 6.6% compared with MXN348.8bn at 31 December 2020. The performing corporate portfolio observed a reduction of 6.7%, with respect to 31 December 2021 mainly driven by the decrease in commercial loans. The performing retail portfolio increased by 26.9% with respect to 31 December 2020 driven by mortgage loans growing 30.6%, coupled with an increase in consumer loans by 22.0%. Credit cost ratios[1] and loan loss reserves ratios[2] as of December 2021 were 1.7% (4.4% as of December 2020) and 4.4% (5.1% as of December 2020), respectively.

- Total impaired loans as a percentage of gross loans and advances at 31 December 2021 was 2.6%, compared to 2.8% reported at 31 December 2020.

- Return on equity was 6.2% for the 12 months to 31 December 2021, whereas for the 12 months to 31 December 2020 it was 0.1%.

- Total loan loss allowances at 31 December 2021 were MXN17.3bn, a decrease of MXN1.6bn or 8.6% compared to 31 December 2020. The total coverage ratio (allowance for loan losses divided by impaired loans) was 169.7% at 31 December 2021, compared with 183.4% at 31 December 2020, driven by lower loan loss allowances.

- As of 31 December 2021, total deposits were MXN499.0bn, an increase of MXN3.2bn or 0.6%, compared with MXN495.8bn at 31 December 2020, mainly driven by higher demand deposits by MXN38.7bn partially offset by the reduction in wholesale funding in MXN28.3bn.

- HSBC Bank Mexico ('the bank') profit before tax for the 12 months to 31 December 2021 was MXN5,476m, an increase of MXN4,349m or over 100% compared with the same period of 2020 mainly driven by lower loan impairment charges and higher net interest income partially offset by lower trading income and higher expenses.

- HSBC Bank Mexico net income for the 12 months to 31 December 2021 was MXN2,806m, an increase of MXN3,515m or over 100% compared with the same period of 2020.

- HSBC Bank Mexico net interest income for the 12 months to 31 December 2021 was MXN33,479m an increase of MXN833m or 2.6%, 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 31 December 2021, the bank's total capital adequacy ratio was 13.6% and the common equity tier 1 capital ratio was 11.3%, compared with 14.1% and 11.7%, respectively, at 31 December 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 12 months to 31 December 2021 was MXN548m, an increase of MXN356m or over 100% compared with the same period of 2020, mainly driven by higher premiums partially offset by higher technical reserves and claims impacted by Covid-19.

HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 December 2021) and this information is publicly available. Given that this information is

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

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

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' December 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[3] *(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)[4]

Wealth and Personal Banking profit before tax for the 12 months to 31 December 2021 was MXN51m, an increase of MXN1,004m compared to 2020 (with markets treasury reallocation, profit before tax was MXN581m). The increase is mainly driven by lower loan impairment charges coupled with higher revenues, partially offset by higher expenses.

Total revenue was MXN30,338m, which is MXN1,101m higher compared to same period of last year. This is mainly driven by higher volumes in demand deposits, consumer loans, mortgages and Assets Under Management (AUMs).

Loan impairment charges decreased by 37.9% compared to same period of last year, explained by releases in provisions mainly done in the second half of 2020 to cover potential losses due to Covid-19 outbreak coupled with better portfolio performance during 2021, especially in unsecured lending.

Administration and personnel expenses as of 12 months to 31 December 2021 are 23.0% higher compared to same period of 2020, mainly due to contingency reserves and higher IT related costs.

Unsecured lending portfolio grew 21.7% compared to the same period of 2020, with sales being 58.0% higher than previous year. Furthermore, mortgage portfolio grew by 30.6%, with sales being 62.9% higher than last year. High level of productivity is maintained throughout different commercial channels, such as the branch network, mortgage brokers and developers.

Demand deposits grew by 13.8% and time deposits by 3.0% compared to 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)

Profit before tax was MXN1,356m, an increase of MXN2,687m or over 100% compared with the same period of 2020. The increase is primarily explained by loan impairment charges partially offset by higher expenses. With Markets Treasury allocation, profit before tax for the current period was MXN1,607m.

Total revenue for 12 months to 31 December 2021 was MXN7,418m which is slightly higher than the same period of 2020. This is resulting from reactivation on commercial activity leading to generate more transactional income. In regards of net interest income, increase is driven by assets considering higher loan volumes and better spreads, partially offset by deposits derived from the lower interest rate environment during the first three quarters of 2021, impacting margin.

Loan impairment charges during the period were MXN1,329m, a decrease of MXN2,726m or 67.2%, compared with MXN4,055m 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.

Administration and personnel expenses increase is explained by contingency reserves and higher IT related costs.

---

[3] *In 2021, BSM (Balance Sheet Management) was renamed to Markets Treasury. Markets Treasury total profit before tax for the 12 months ended at 31 of December 2021 was MXN1,000m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the 12 months to 31 of December 2021 profit before tax allocation by business was – MXN530m to WPB, MXN251m to CMB and MXN219m to GB&M.*

[4] *WPB does not include Insurance results which was MXN548m in profit before tax as of 12 months to 31 December 2021.*

Global Banking and Markets (GB&M)

Profit before tax was MXN2,850m, an increase of MXN470m or 19.7% compared with the same period of 2020, mainly driven by decrease in loan impairment charges partially offset by lower revenues following the client portfolio contraction. With Markets Treasury allocation, profit before tax for the current period was MXN3,069m.

Total revenue for the 12 months to 31 December 2021 was MXN4,527 a decrease of MXN1,739m or by 27.7% 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 done in the second half of 2020 to cover potential losses due to Covid-19 outbreak coupled with disposals of selected loans.

Administration and personnel expenses increase is explained by contingency reserves and higher IT related costs.

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.

Awards and Recognitions

Euromoney

HSBC Mexico was once again recognised by Euromoney magazine as the best bank in the country in terms of products and treasury services (cash management) for companies. This is the second year in a row that HSBC Mexico has received both the recognitions from Euromoney. The recognitions confirm HSBC Mexico's leadership in digital innovation, comprehensive collection and payment solutions, as well as in liquidity management and connectivity, and security standards. This year HSBC Mexico consolidated different digital innovations of value for the management of the company's treasury, such as digital banking, digital payments, APIs, webservices and CoDi.

Éntrale

HSBC Mexico received the *Éntrale* reward, from *Alianza Éntrale A.C.*, which recognizes its commitment for inclusion of people with disabilities. *Alianza Éntrale A.C* is an initiative of the *Consejo Mexicano de Negocios*. The reward considers the work that HSBC Mexico carries out for the implementation and strengthening of projects that benefit the hiring and retention of talent with disabilities.

HRC Equidad MX

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

Grupo Financiero HSBC's fourth 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 12 months to 31 December 2021, profit before tax for the period was MXN11,473m, an increase of MXN15,647m compared with the loss of MXN4,174m reported for the same period in 2020. The increase is mainly driven by lower impairment charges compared to December 2020, when higher impairment charges were recognised 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 12 months to 31 December 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 914 branches, 5,569 ATMs and 14,522 employees as of 31 December 2021.

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$2,958bn at 31 December 2021, HSBC is one of the world's largest banking and financial services organisation.

For further information, contact:

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

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

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

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

USA
+1 224 880 8008

Consolidated Income Statement – GROUP 12 months ended 31 December 2021 and 2020*

Figures in MXN millions	Group	
	31 Dec 21	**31 Dec 20**
Interest income	54,430	57,308
Interest expense	(19,082)	(23,276)
Net interest income	35,348	34,032
Loan impairment charges	(6,650)	(16,069)
Risk-adjusted net interest income	28,698	17,963
Fees and commissions receivable	11,040	10,663
Fees payable	(3,082)	(2,887)
Trading income	1,702	3,975
Other operating income	868	1,546
Total operating income	39,226	31,260
Administrative and personnel expenses	(32,631)	(29,456)
Net operating income	6,595	1,804
Share of profits in equity interest	330	104
Profit/(loss) before tax	6,925	1,908
Income tax	(1,704)	(1,844)
Deferred income tax	(1,272)	(195)
Net income before discontinued operations	3,949	(131)
Discontinued Operations*	463	195
Net income	4,412	64

**Following the reclassification to discontinued operations of the results of HSBC Pensions business, the consolidated income statement of Group for 12 months to 31 December 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 12 months ended 31 December 2021 and 2020

Figures in MXN millions

	Bank	
	31 Dec 2021	**31 Dec 2020**
Interest income	47,401	53,278
Interest expense	(13,922)	(20,632)
Net interest income	33,479	32,646
Loan impairment charges	(6,650)	(16,069)
Risk-adjusted net interest income	26,829	16,577
Fees and commissions receivable	10,426	10,017
Fees payable	(3,157)	(2,862)
Trading income	1,914	4,240
Other operating income	1,346	2,387
Total operating income	37,358	30,359
Administrative and personnel expenses	(32,213)	(29,331)
Net operating income	5,145	1,028
Share of profits in equity interest	331	99
Profit/(loss) before tax	5,476	1,127
Income tax	(1,419)	(1,637)
Deferred income tax	(1,251)	(199)
Net income before discontinued operations	2,806	(709)
Discontinued Operations	-	-
Net income	2,806	(709)

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Assets				
Cash and deposits in banks	61,621	52,524	61,498	52,395
Margin accounts	337	242	336	242
Investment in securities	**164,062**	**190,751**	**154,671**	**175,126**
Trading securities	66,351	82,189	63,027	80,268
Available-for-sale securities	78,515	80,882	72,517	75,940
Held to maturity securities	19,196	27,680	19,127	18,918
Repurchase agreements	34,130	72,300	34,130	72,300
Derivative transactions	42,184	74,105	42,184	74,105
Performing loans				
Commercial loans	170,244	180,359	170,244	180,359
Loans to financial intermediaries	7,449	10,698	7,448	10,698
Loans to government entities	29,403	31,011	29,404	31,011
Consumer loans	71,618	58,715	71,618	58,715
Mortgage loans	99,994	76,569	99,994	76,569
Total performing loans	**378,708**	**357,352**	**378,708**	**357,352**
Impaired loans				
Commercial loans	5,417	5,511	5,417	5,511
Loans to government entities	21	-	21	-
Consumer loans	1,948	2,432	1,948	2,432
Mortgage loans	2,781	2,357	2,781	2,357
Total impaired loans	**10,167**	**10,300**	**10,167**	**10,300**
Gross loans and advances to customers	**388,875**	**367,652**	**388,875**	**367,652**
Allowance for loan losses	(17,257)	(18,888)	(17,257)	(18,888)
Net loans and advances to customers	**371,618**	**348,764**	**371,618**	**348,764**
Accounts receivables from Insurers and Bonding companies	101	81	-	-
Premium receivables	2,099	1,849	-	-
Accounts receivables from reinsurers and rebonding companies	59	37	-	-
Other accounts receivable	25,151	35,232	25,264	35,136
Foreclosed assets	248	349	248	349
Property, furniture and equipment, net	6,175	4,648	6,175	4,648
Long-term investments in equity securities	1,239	992	1,196	951
Long-term assets available for sale	10	471	10	240
Deferred taxes	8,744	10,398	8,588	10,242
Goodwill	955	1,048	-	-
Other assets, deferred charges and intangibles	8,002	6,058	7,667	5,601
Total assets	**726,735**	**799,849**	**713,585**	**780,099**

Consolidated Balance Sheet (continued)

Figures in MXN millions	Group 31 Dec 2021	Group 31 Dec 2020	Bank 31 Dec 2021	Bank 31 Dec 2020
Liabilities				
Deposits	**498,965**	**495,802**	**499,923**	**497,802**
Demand deposits	354,823	316,063	354,608	317,605
Time deposits	126,671	133,931	126,827	133,534
Bank bond outstanding	17,471	45,808	17,471	45,808
Global deposit account without movements			1,017	855
Bank deposits and other liabilities	**26,821**	**19,155**	**26,821**	**19,155**
On demand	11,884	4,955	11,884	4,955
Short-term	8,517	9,009	8,517	9,009
Long-term	6,420	5,191	6,420	5,191
Repurchase agreements	10,072	45,132	10,072	45,132
Collateral sold	9,786	1,625	9,786	1,625
Derivative transactions	39,271	61,670	39,271	61,670
Technical reserves	8,105	13,974	-	-
Accounts payable from reinsures and rebounding companies	10	3	-	-
Other payable accounts	**49,033**	**77,055**	**48,514**	**76,486**
Income tax and employee profit sharing payable	1,246	821	1,217	764
Sundry creditors and other accounts Payable	47,787	76,234	47,297	75,722
Subordinated debentures outstanding	11,915	11,569	11,915	11,569
Deferred credits and receivable in advance	1,342	1,395	1,237	1,290
Total liabilities	**655,320**	**727,380**	**647,539**	**714,729**
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	**28,036**	**29,089**	**27,726**	**27,047**
Capital reserves	1,244	1,244	13,202	13,202
Retained earnings	23,748	28,157	14,796	17,373
Result from the mark-to-market of available-for-sale securities	(655)	(283)	(616)	(477)
Result from cash flow hedging transactions	(713)	(93)	(712)	(93)
Adjustment in the employee pension	-	-	(1,750)	(2,249)
Net income	4,412	64	2,806	(709)
Minority interest in capital	6	7	2	5
Total equity	**71,415**	**72,469**	**66,046**	**65,370**
Total liabilities and equity	**726,735**	**799,849**	**713,585**	**780,099**

Consolidated Balance Sheet (continued)

	Group		Bank	
Figures in MXN millions	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Memorandum Accounts	**5,074,721**	**5,520,122**	**4,874,295**	**5,338,366**
Third party accounts	**28,257**	**28,035**	**27,051**	**26,757**
Clients current accounts	261	309	-	-
Custody operations	945	969	-	-
Third party investment banking operations, net	27,051	26,757	27,051	26,757
Proprietary position	**5,046,464**	**5,492,087**	**4,847,244**	**5,311,609**
Irrevocable lines of credit granted	283,631	290,065	283,631	290,065
Goods in trust or mandate	169,124	194,651	169,124	194,651
Goods in custody or under administration	1,406,806	1,406,550	1,400,589	1,400,332
Collateral received by the institution	59,148	82,861	59,148	82,861
Collateral received and sold or delivered as guarantee	23,418	9,072	23,418	9,072
Suspended interest on impaired loans	422	320	422	320
Other control accounts	3,103,915	3,508,568	2,910,912	3,334,308

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	-	-	-	-	-	4,412	-	**4,412**
Result from valuation of available-for-sale securities	-	-	-	(372)	-	-	-	**(372)**
Result from cash flow hedging transactions	-	-	-	-	(620)	-	-	**(620)**
Others*	-	-	431		-		(1)	**430**
Total	**-**	**-**	**431**	**(372)**	**(620)**	**4,412**	**(1)**	**3,850**
Total Balances at 31 Dec 2021	**43,373**	**1,244**	**23,748**	**(655)**	**(713)**	**4,412**	**6**	**71,415**

**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	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**(2,309)**	**-**	**-**	**-**	**709**	**-**	**(1,600)**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	2,806	-	**2,806**
Result from valuation of available-for-sale securities	-	-	-	(139)	-	-	-	-	**(139)**
Result from cash flow hedging transactions	-	-	-	-	(619)	-	-	-	**(619)**
Adjustment in defined benefit pension plan	-	-	-	-	-	499	-	-	**499**
Others			(268)					(3)	**(271)**
Total	**-**	**-**	**(268)**	**(139)**	**(619)**	**499**	**2,806**	**(3)**	**2,276**
Total Balances at 31 Dec 2021	**38,318**	**13,202**	**14,796**	**(616)**	**(712)**	**(1,750)**	**2,806**	**2**	**66,046**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Dec 21**
Net income	**4,412**
Adjustments for items not involving cash flow:	**9,830**
Allowances for loan losses	6,650
Depreciation and amortisation	2,323
Valuations	(4,286)
Technical reserves	2,932
Provisions	28
Income Tax and deferred taxes	2,976
Discontinued operations	(463)
Participation in the Results of Unconsolidated Subsidiaries	(330)
Changes in items related to operating activities:	
Margin accounts	(94)
Investment securities	26,868
Repurchase agreements	38,170
Derivative (assets)	35,103
Loan portfolio	(29,504)
Foreclosed assets	101
Operating assets	11,061
Deposits	3,163
Bank deposits and other liabilities	7,667
Creditors repo transactions	(35,059)
Collateral sold or delivered as guarantee	8,161
Derivative (liabilities)	(22,399)
Accounts receivables from reinsurers and coinsurers	(43)
Accounts receivables from premiums	(249)
Other operating liabilities	(36,725)
Income tax paid	(1,121)
Funds provided by operating activities	**5,100**
Investing activities:	
Acquisition of property, furniture and equipment	(2,484)
Intangible assets acquisitions & Prepaid expenses	(2,760)
Cash dividends	64
Proceeds on disposal of subsidiaries	605
Other investment activities	(84)
Funds used in investing activities	**(4,659)**
Financing activities:	
Cash dividends	(4,927)
Others	(659)
Funds used in financing activities	**(5,586)**
Financing activities:	
Increase/decrease in cash and equivalents	9,097
Cash and equivalents at beginning of period	52,524
Cash and equivalents at end of period	**61,621**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Dec 2021**
Net income	**2,806**
Adjustments for items not involving cash flow:	**7,359**
Allowances for loan losses	6,650
Valuations	(4,028)
Depreciation	1,038
Amortisation	1,285
Provisions	75
Income Tax and deferred taxes	2,670
Share of profits in equity interest	(331)
Changes in items related to operating activities:	
Margin accounts	(94)
Investment securities	20,218
Repurchase agreements	38,170
Derivative (assets)	35,103
Loan portfolio	(29,504)
Foreclosed assets	101
Operating assets	10,736
Deposits	2,121
Bank deposits and other liabilities	7,667
Creditors repo transactions	(35,059)
Collateral sold or delivered as guarantee	8,161
Derivative (liabilities)	(22,399)
Subordinated debentures outstanding	346
Other operating liabilities	(28,707)
Income tax paid	(817)
Funds provided by operating activities	**6,043**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	
Acquisition of property, furniture and equipment	(2,484)
Intangible assets acquisitions & Prepaid expenses	(2,760)
Cash dividends	64
Other investment activities	(57)
Funds used in investing activities	**(5,237)**
Financing activities:	
Dividends paid	(1,600)
Others	(268)
Funds used in financing activities	**(1,868)**
Financing activities:	
Increase/decrease in cash and equivalents	**9,103**
Cash and equivalents at beginning of period	52,395
Cash and equivalents at end of period	**61,498**

Detail of reclassification to discontinued operations of the results of HSBC Pensions business:

Figures in MXN millions

	Discontinued Operations	
	31 Dec 21	**31 Dec 20**
Interest income	206	442
Interest expense	(418)	(530)
Net interest income	(212)	(88)
Trading income	1,094	360
Other operating income	(162)	-
Total operating income	720	272
Administrative and personnel expenses	-	(35)
Net operating income	720	237
Profit/(loss) before tax	720	237
Income tax	(257)	(42)
Net income re-classed to discontinued operations	463	195

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, 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 are 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 could 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 the acquisition cost less the 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 granted 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. CNBV advised that this NIF C-17 should not consider in the implementation of certain NIF in 2022, because the banks are not allowed to hold properties to capital appreciation in accordance with banking regulation. Considering that the objective of the properties held by Grupo Financiero HSBC's subsidiaries in Mexico is for rental purposes instead of capital appreciation, the conclusion is that there are not properties in balance sheet which could meet "Investment Property" definition in scope of 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 planned to adopt the new NIF C-22 Crypto-currencies. As part of the implementation process, CNBV requires 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 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 them.

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 reallocated 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 hold 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 covers 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, 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, 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, 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 and 30 December 2021, 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, being the most important changes:

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’.

  Negative financial impacts originated by the adoption of the new standard methodology for ECL could 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 recognised in 'Retained Earnings' category in share capital unless there is a different indication or it is impractical.

Fair value adjustments:

According to NIF B-17 and C-10, the fair value valuation for derivatives financial instruments (IFD) either being for trading or hedge relationships, should consider the economic effects of all risks that could affect their valuation including counterparty credit risk. Financial Institutions could apply the practical expedient to measure the fair value (including the credit risk adjustments) based on the net exposure by counterparty as long as they meet requirements including in the accounting standard. The fair value adjustments should be part of the Internal Methodology valuation applicable to financial assets differently from those listed in article 175 Bis 2 of the banking regulation.

At the end of reporting period, HSBC Mexico is in the process of implementing these fair value adjustments and determine the financial impacts on implementation.

Revocation of some particular accounting standards applicable to Financial Institutions:

Due to adoption of new NIF, the following particular accounting standards are 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 are on 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. At 31 December 2021, HSBC notified to CNBV its adherence to the option to defer the effective interest rate implementation.

In the last modification of accounting standards issued by CNBV in December 2021, some unexpected changes were included in regulatory reporting, which have been originated additional adjustments in the implementation project, therefore Financial Institutions in Mexico have pushed the regulator to provide a grace period of minimum 6 months to deliver regulatory reporting with inconsistencies originated by those changes without findings and penalties imposed by CNBV, nevertheless, no response has been received so far.

At the end of reporting period, Grupo Financiero HSBC is in the process of implementing in accordance with timelines agreed.

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 had not properly reflected the expected credit losses through the 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 did not capture the expected credit impairment given the severe economic situation during 2020.

The release of additional loan impairment allowances has been occurred 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 MXN3,412m with immaterial balance remaining as an additional loan impairment.

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 were 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’ provided 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 cannot be longer than 6 months or 18 months respectively). Under ‘the programme’, loans modification was not to be considered as restructured loan under CNBV accounting standards and they should have been marked as ‘performing loans’ during the benefit period.

Providing these benefits, financial institutions could have forgiven amounts recognised in balance sheet in order to provide more liquidity to borrowers, in which case financial impacts could have been recognised against loan impairment allowances already booked or directly in income statement as appropriate. Financial institutions could have deferred 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.

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 modified 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 favourable the amount payable to employees.

Although, these changes have not modified current neither accounting standards nor accounting policies, they had had 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")*. Neverthless, financial impacts were immaterial at the end of the reporting period.

VII. Modification in exchange rate used to translate balances and operations denominated in a foreign currency.

The regulation was issued on 15 December 2021, being in force in the same date to. The purpose of this change is substitute the exchange rate used to translate foreign operations called FIX for a new one called "cierre de jornada", given that the latter captures the quotations of last transactions executed by banks on at the end of the banking day (2pm GMT – 6) being close to those used by banks in the execution of financial transactions in foreign currencies, while the former only captures transactions executed until noon (12pm GMT – 6). Both are determined by the Mexican central bank (Banxico).

HSBC adopts this regulation without material financial impacts.

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 12 months ended at December 2021 and an explanation of the key reconciling items.

Figures in MXN millions	**31 Dec 2021**
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	**6,925**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	236
Discontinued Operations	718
Loan impairment charges and other differences in presentation under IFRS	2,514
Recognition of the present value in-force of long-term insurance contracts	(313)
Other insurance adjustments[5]	319
Fair value adjustments on financial instruments	582
Deferred profit sharing	749
AT1 Valuation[2]	108
Others	(365)
Profit before/(loss) tax under IFRS	**11,473**
Add back significant items	1,501
Adjusted profit/(loss) before tax under IFRS	**12,974**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(4)**
-Costs to achieve	**(1,497)**
-Profit/(loss) before tax under IFRS[6]	**US$559m**

[5] *Includes technical reserves and effects from Solvency II*

[6] *Banxico rate at 31 December 2021 MXN20.5075. HSBC Holdings plc considers the exchange rate as MXN20.1634, resulting in profit before tax (IFRS) of US$569m*

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 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 recognised 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 recognised 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 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 (one 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 US$, 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 – 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 analysed 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.