HSBC

News Release

30 April 2020

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

- For the three months to 31 March 2020, Grupo Financiero's profit before tax was MXN2,969m, a decrease of MXN470m, or 13.7%, compared with MXN3,439m for the same period of 2019. In January 2019, HSBC launched a joint venture with Global Payments to operate its merchant acquiring services. This joint venture was completed by the sale of 50% of Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN1,296m gain on sale impacting other operating income. Excluding the gain on sale of the merchant acquiring business, profit before tax increased MXN 826m, or 38.5%.

- For the three months to 31 March 2020, net income was MXN2,181m, a decrease of MXN343m, or 13.6%, compared with MXN2,524m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income increased MXN564m, or 34.9%.

- Total operating income excluding loan impairment charges was MXN12,822m, an increase of MXN421m or 3.4%, compared with MXN12,401m for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, operating income increased MXN 1,717m or 15.5%.

- Loan impairment charges for the three months to 31 March 2020 were MXN2,906m, an increase of MXN643m, or 28.4%, compared with MXN2,263m for the same period of 2019.

- Administrative and personnel expenses for the three months to 31 March 2020 were MXN6,966m, an increase of MXN249m, or 3.7%, compared with MXN6,717m for the same period of 2019.

- The cost efficiency ratio was 54.3% for the three months to 31 March 2020, compared with 54.2% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 6.2%.

- Net loans and advances to customers were MXN415.9bn at 31 March 2020, showing an increase of MXN39.7bn, or 10.5%, compared with MXN376.2bn at 31 March 2019. Total impaired loans as a percentage of gross loans and advances at 31 March 2020 was 1.9%, in line with was reported at 31 March 2019.

- At 31 March 2020, total deposits were MXN492.8bn, an increase of MXN45.4bn, or 10.2%, compared with MXN447.3n at 31 March 2019.

- Return on equity was 12.0% for the three months to 31 March 2020, whereas for the three months to 31 March 2019 it was 14.7%, showing a decrease of 2.7 percentage points. Excluding the gain on sale of the merchant acquiring business booked in 2019, return on equity increased 2.6 percentage points compared with the same period of 2019.

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

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- At 31 March 2020, the bank's total capital adequacy ratio was 12.96% and the common equity tier 1 capital ratio was 10.46%, compared with 12.93% and 10.96%, respectively, at 31 March 2019.

On a reported IFRS basis, for the three months to 31 March 2020, profit before tax was MXN743m, a decrease of 83% compared to the same period in 2019,mainly driven by higher impairment charges in 2020 and gain on sale of the merchant acquiring business booked in 2019.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2020 relate to differences in accounting for fair value adjustments on financial instruments, effective interest rate, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

Significant events

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

Covid-19

The outbreak of Covid-19 has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. The outbreak has caused disruption to our customers, suppliers and staff. Mexico has recently implemented severe restrictions on the movement of populations, with a resultant significant impact on economic activity. These restrictions are being determined by the governments of the states, including through the implementation of emergency powers.

The impacts of these restrictions, including the subsequent lifting of restrictions, may vary from jurisdiction to jurisdiction. We have invoked our business continuity plan to help ensure the safety and wellbeing of our staff, as well as our ability to support our customers and maintain our business operations. Many of our staff have continued to provide critical services in branches, contact and service centres and in offices, all with heightened safety measures, and we have equipped our staff to work remotely. It remains unclear how this will evolve through 2020 and we continue to monitor the situation closely.

Following the Regulator's relief program published in March 2020, we have initiated measures to support our customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. We remain responsive to our customers' changing needs.

Should the Covid-19 outbreak continue to cause disruption to economic activity globally through 2020, it is expected to trigger an increase in expected credit losses. In addition, it will have impacts on our income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue due to equity markets volatility and weakness and, lower interest rates which will negatively impact net interest income.

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

At 31 March 2020, our capital and liquidity ratios remain solid allowing to continue supporting our customers throughout the Covid-19 outbreak.

Overview

The economy started 2020 on a soft tone, as January's activity remained unchanged on a month to month basis and declined by 0.8% year on year. The main driver of this performance was a weakening in both industrial production and service sector activities. Moreover, these results did not show the negative effects from the COVID-19 outbreak, which became more evident in March. In fact, several social distancing measures, such as the suspension of non-essential activities were announced in March, in response to the escalation of COVID-19 in Mexico. Inflation stood at 3.2% year on year in March 2020, mainly driven by lower oil prices.

Against this backdrop and considering the deterioration of risks for the economy due to COVID-19, Mexico's central bank, Banxico, cut the policy rate by 75bp in Q1 2020; one 25bp cut in February and one 50bp cut in March. In addition, Banxico announced a first set of measures to provide liquidity to markets and support credit channels, in light of the more challenging outlook.

- For the three months to 31 March 2020, Grupo Financiero HSBC reported a profit before tax of MXN2,969m, a decrease of MXN470m, or 13.7%, compared with MXN3,439m for the same period of 2019. In January 2019, HSBC launched a joint venture with Global Payments to operate its merchant acquiring services. This joint venture was completed by the sale of 50% of Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN1,296m gain on sale impacting other operating income. Excluding the gain on sale of the merchant acquiring business, profit before tax increased MXN 826m, or 38.5%.

- Net interest income for the three months to 31 March 2020 was MXN8,662m, an increase of MXN590m, or 7.3%, compared with the same period of 2019. The increase was mainly driven by a decrease in funding costs partially offset by lower interest income from performing loans driven by the reduction in Central Bank reference interest rate.

- Loan impairment charges for the three months to 31 March 2020 were MXN2,906m, an increase of MXN643m, or 28.4%, compared with MXN2,263m for the same period of 2019, driven by increase in retail and wholesale loan portfolio.

- Net fee income for the three months to 31 March 2020 was MXN1,918m, in line with 31 March 2019.

- Trading income for the three months to 31 March 2020 was MXN1,991m, an increase of MXN922m, or 86.2%, compared with the same period of 2019, mainly driven by gains on FX derivatives.

- Other operating income for the three months to 31 March 2020 was MXN251m, a decrease of MXN1,099m or 81.4% compared with the same period of 2019, mainly driven by the gain on sale of the merchant acquiring business booked in January 2019.

- Administrative and personnel expenses for the three months to 31 March 2020 were MXN6,966m, an increase of MXN249m, or 3.7%, compared with MXN6,717m for the same period of 2019.

- The cost efficiency ratio was 54.3% for the three months to 31 March 2020, compared with 54.2% for the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, cost efficiency ratio decreased 6.2%.

- The effective tax rate was 26.5% for the three months to 31 March 2020, in line with 26.6% reported for the same period of 2019.

- Net loans and advances to customers were MXN415.9bn at 31 March 2020, showing an increase in both retail and wholesale portfolios of MXN39.7bn, or 10.5%, compared with

MXN376.2bn at 31 March 2019. The retail performing portfolio grew 16.6% compared with the three months to 31 March 2019 mainly driven by the increase in mortgage, credit cards and auto loans. The performing commercial loans, increased by 5.5%, compared with 31 March 2019. Credit cost ratios was 2.7% and 2.3% and loan loss reserves ratios was 3.2% and 3.4% at 31 March 2020 and 31 March 2019 respectively.

- Total impaired loans as a percentage of gross loans and advances at 31 March 2020 was 1.9%, in line with 31 March 2019.

- Return on equity was 12.0% for the three months to 31 March 2020, whereas for the three months to 31 March 2019 it was 14.7%, showing a decrease of 2.7 percentage points, mainly affected by the gain on sale of the merchant acquiring business booked in January 2019. Excluding such gain, return on equity increased 2.6 percentage points.

- Total loan loss allowances at 31 March 2020 were MXN13.7bn, an increase of MXN0.4bn or 2.9% compared with 31 March 2019. The total coverage ratio (allowance for loan losses divided by impaired loans) was 165.1%, at 31 March 2020 compared with 183.2% at 31 March 2019.

- At 31 March 2020, total deposits were MXN492.8bn, an increase of MXN45.4bn, or 10.2%, compared with MXN447.3bn at 31 March 2019.

- HSBC Bank Mexico profit before tax for the three months to 31 March 2020 was MXN2,616m, a decrease of MXN342m or 11.6% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, profit before tax increased MXN 954m, or 57.4%.

- HSBC Bank Mexico net income was MXN1,934m, a decrease of MXN272m, or 12.3% compared with the same period of 2019. Excluding the gain on sale of the merchant acquiring business booked in 2019, net income increased MXN 635m, or more than 48.9%.

- HSBC Bank Mexico net interest income for the three months to 31 March 2020, was MXN8,247m an increase of MXN652m or 8.6%, compared with the same period of 2019.

- At 31 March 2020, the bank's total capital adequacy ratio was 12.96% and the common equity tier 1 capital ratio was 10.46% compared with 12.93% and 10.96%, respectively, at 31 March 2019. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the three months to 31 March 2020 was MXN217m, a decrease of MXN 85m, or 27.9%, mainly driven by higher claims.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 March 2020) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance subsidiary.

All numbers are as reported and there were no significant items distorting period-on-period comparisons, with the exception of the impact of the gain on sale of the acquiring business recognised in Other Income.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business. For comments on general expenses variances, please refer to the financial overview for Grupo Financiero)*

Retail Banking and Wealth Management (RBWM)

RBWM revenue for 1Q20 decreased by 2%, negatively impacted by MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019. Excluding this impact, revenue increased by 10% driven by higher balances across all lending portfolios and deposits, Insurance lower annuities due to higher inflation rates and better spreads in loans due to lower cost of funds derived from local central bank rate cuts. Fees were higher in Credit Cards as per lower third parties' sales agencies paid in 2020, no usage fee in Zero Credit Card and increase of number of users in HSBC ATMs. Higher trading income from foreign currency customer transactions, partly offset by higher insurance claims incurred. End of period balances increased 16.6% in lending mainly in Mortgages, Auto and Credit Cards, which presented an increase of 28%, 18% and 7% respectively. Deposits increased 2% compared to 2019.

Loan impairment charges increased by 38%, compared to the same period last year, mainly following the volumes increase.

RBWM profit before tax for the period was MXN 542m, a decrease of MXN 988m, or 65%, compared with the same period last year. This was mainly due to MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019. Excluding this impact, RBWM is 23% below prior year mainly driven by higher LICs.

Stilo Connect, first fully digital onboarding process for debit accounts, has sold 19.000 accounts since launched in October 2019.

New Air Credit Card was launched at the end of December 2019, designed as the lowest Interest Rate Credit Card in the market, covering a customer segment that was not attended before by HSBC, booking since launched 59.000 cards during the first four months, which represents 41% of total primary cards sold during 2020.

Mortgages business has increased due to new origination process enhancements, relaunch of products and credit policies, as well as closeness with business partners such as realtors, developers and mortgage brokers. HSBC has been part of the INFONAVIT co-participation governmental programs booking MXN1,286m of balance since their launch.

COVID-19 macroeconomic scenario is affecting the business performance having a 25% of branches working closed-door in spite of the customers' lockdown and lowering the mobility and the consumption. In order to support our customers HSBC has released skip payments schemes in lending products.

As a result, other channels were strategically reinforced, such as Digital, Contact Center and ATM.

As strategic action, tablets and biometrics usage have been implemented in all branches. It is worth to mention that tablets have provided great flexibility for business continuity plan during COVID-19 outbreak.

Commercial Banking (CMB)

CMB revenue observed a lower performance in 1Q20, decreasing by 4% compared to the same period of 2019 after excluding the impact from the gain on sale of the merchant acquiring business. Net interest income improved by 1.5%, reflecting balance sheet expansion in both assets and liabilities despite market interest rate contractions.

Loan impairment charges increased 20% during the first quarter of 2020, according to the growth in loan portfolio.

Loan portfolio grew 13% vs prior year driven by traditional lending, mainly in large corporates and mid-market. Deposits grew 24% driven by customer accounts across all customer segments mainly in Mid-Market and International Subsidiaries Banking.

CMB profit before tax was MXN450m, a decrease of MXN375m or 45%, compared with the same period of 2019. The decrease was mainly derived from a decrease in other income of MXN570m driven by the gain on sale of the merchant acquiring business accrued in Jan 2019.

Global Banking and Markets

Global Banking and Markets revenues of 1Q20 grew 2.6% compared with the same period of 2019. The increase is mainly explained by higher trading income and increase in fees from commercial loans transactions (mainly fees from syndicated loans). These were partially offset by increase in expected credit losses during Q120 and decrease in margins in the lending and GLCM (Global Liquidity and Cash Management) product during this quarter of 2020.

Global Banking and Markets decreased its net interest income 10% in the lending portfolio against 2019 and another 12% in its deposit portfolio driven primarily by spreads compression in 2020.

Loan impairment charges in 2020 higher, which represents 86% than the same period of 2019, reflecting significant provision created during this year. The main driver was a change in calculation methodology following observations from the Regulator. It is worth to mention that loan portfolio grew 5% year on year.

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

Global Banking and Markets profit before tax was MXN1,064m, an increase of MXN259m or 32%, compared with the same period of 2019, derived by growth in trading income by MXN787m partly offset with a decrease in net interest income by MXN750m.

Awards

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

Grupo Financiero HSBC's three months to 2020 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS).

On a reported IFRS basis, for the three months to 31 March 2020, profit before tax was MXN743m, a decrease of 83% compared to the same period in 2019, mainly driven by higher impairment charges in 2020 and gain on sale of the merchant acquiring business booked in 2019.

The main differences between Mexican GAAP and IFRS results for the three months to 31 March 2020 relate to differences in accounting for fair value adjustments on financial instruments, effective interest rate, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 948 branches, 5,561 ATMs and around 15,800 employees. For more information, visit www.hsbc.com.mx. HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,918bn at 31 March 2020, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP three months ENDED 31 March 2020 and 2019

Figures in MXN millions

	Group	
	31 Mar 2020	**31 Mar 2019**
Interest income	15,913	16,433
Interest expense	(7,251)	(8,361)
Net interest income	8,662	8,072
Loan impairment charges	(2,906)	(2,263)
Risk-adjusted net interest income	5,756	5,809
Fees and commissions receivable	2,686	2,564
Fees payable	(768)	(654)
Trading income	1,991	1,069
Other operating income	251	1,350
Total operating income	9,916	10,138
Administrative and personnel expenses	(6,966)	(6,717)
Net operating income	2,950	3,421
Share of profits in equity interest	19	18
Profit/loss before tax	2,969	3,439
Income tax	(382)	(717)
Deferred income tax	(406)	(198)
Net income	2,181	2,524

Consolidated Income Statement – BANK three months ENDED 31 March 2020 and 2019

Figures in MXN millions

	Bank	
	31 Mar 2020	**31 Mar 2019**
Interest income	14,794	15,452
Interest expense	(6,547)	(7,857)
Net interest income	8,247	7,595
Loan impairment charges	(2,906)	(2,263)
Risk-adjusted net interest income	5,341	5,332
Fees and commissions receivable	2,552	2,391
Fees payable	(805)	(684)
Trading income	1,969	1,061
Other operating income	444	1,527
Total operating income	9,501	9,627
Administrative and personnel expenses	(6,904)	(6,684)
Net operating income	2,597	2,943
Share of profits in equity interest	19	15
Profit/loss before tax	2,616	2,958
Income tax	(254)	(528)
Deferred income tax	(428)	(224)
Net income	1,934	2,206

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Assets				
Cash and deposits in banks	53,664	66,242	53,551	66,136
Margin accounts	250	1,197	250	1,197
Investment in securities	**186,609**	**218,611**	**170,525**	**202,109**
Trading securities	63,298	48,542	62,473	46,987
Available-for-sale securities	95,159	142,358	89,284	136,684
Held to maturity securities	28,152	27,711	18,768	18,438
Loan Securities	-	14	-	
Repurchase agreements	23,701	9,180	23,701	9,180
Derivative transactions	106,890	64,817	106,890	64,817
Performing loans				
Commercial loans	239,432	226,977	239,432	226,977
Loans to financial intermediaries	17,408	20,435	17,408	20,435
Loans to government entities	35,398	24,166	35,398	24,166
Consumer loans	64,028	60,246	64,028	60,246
Mortgage loans	65,065	50,466	65,065	50,466
Total performing loans	**421,331**	**382,290**	**421,331**	**382,290**
Impaired loans				
Commercial loans	4,393	4,702	4,393	4,702
Consumer loans	2,313	1,965	2,313	1,965
Mortgage loans	1,636	640	1,636	640
Total impaired loans	**8,342**	**7,307**	**8,342**	**7,307**
Gross loans and advances to customers	**429,673**	**389,597**	**429,673**	**389,597**
Allowance for loan losses	(13,773)	(13,387)	(13,773)	(13,387)
Net loans and advances to customers	**415,900**	**376,210**	**415,900**	**376,210**
Accounts receivables from Insurers and Bonding companies	67	60	-	
Premium receivables	1,757	1,596	-	-
Accounts receivables from reinsurers and rebonding companies	24	35	-	-
Benefits to be received from trading operations	-	94	-	94
Other accounts receivable	52,694	38,056	53,196	37,837
Foreclosed assets	355	369	355	369
Property, furniture and equipment, net	4,355	4,462	4,355	4,223
Long-term investments in equity securities	1,013	983	978	947
Long-term assets available for sale	466	20	240	20
Deferred taxes	11,014	12,429	10,857	12,240
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	5,297	4,589	5,175	4,396
Total assets	**865,104**	**800,012**	**845,973**	**779,775**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
Liabilities	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Deposits	**492,774**	**447,342**	**493,551**	**448,138**
Demand deposits	285,211	276,664	285,506	277,163
Time deposits	163,435	152,798	163,059	152,404
Bank bond outstanding	44,128	17,880	44,128	17,880
Global deposit account without movements		-	858	691
Bank deposits and other liabilities	**45,076**	**32,183**	**45,076**	**32,183**
On demand	12,791		12,791	-
Short-term	4,687	5,739	4,687	5,739
Long-term	27,598	26,444	27,598	26,444
Repurchase agreements	47,282	99,786	47,282	99,786
Stock Borrowing	-	-	-	-
Settlement accounts	-	-	-	-
Collateral sold	8,161	4,410	8,161	4,396
Derivative transactions	108,124	61,677	108,124	61,677
Technical reserves	13,035	12,644	-	-
Accounts payable from reinsures and rebounding companies	7	6	-	-
Other payable accounts	**61,945**	**59,933**	**61,777**	**59,285**
Income tax and employee profit sharing payable	94	647	88	628
Sundry creditors and other accounts Payable	61,851	59,286	61,689	58,657
Subordinated debentures outstanding	13,658	9,918	13,658	9,918
Deferred credits and receivable in advance	1,624	1,650	1,510	1,531
Total liabilities	**791,686**	**729,549**	**779,139**	**716,914**
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	**30,038**	**27,083**	**28,513**	**24,539**
Capital reserves	1,244	1,244	12,463	11,891
Retained earnings	29,255	26,022	18,409	13,663
Result from the mark-to-market of available-for-sale securities	(2,184)	(2,389)	(2,214)	(2,299)
Result from cash flow hedging transactions	(458)	(318)	(458)	(318)
Adjustment in the employee pension			(1,621)	(604)
Net income	2,181	2,524	1,934	2,206
Minority interest in capital	7	7	3	4
Total equity	**73,418**	**70,463**	**66,834**	**62,861**
Total liabilities and equity	**865,104**	**800,012**	**845,973**	**779,775**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Memorandum Accounts	**7,026,993**	**6,637,848**	**6,845,524**	**6,472,405**
Third party accounts	**26,505**	**27,835**	**25,005**	**25,447**
Clients current accounts	663	766	-	-
Custody operations	837	1,608	-	-
Transactions on behalf of clients	-	14	-	-
Third party investment banking operations, net	25,005	25,447	25,005	25,447
Proprietary position	**7,000,488**	**6,610,013**	**6,820,519**	**6,446,958**
Guarantees granted		-	-	-
Contingent assets and liabilities		-	-	-
Irrevocable lines of credit granted	373,311	322,190	373,311	322,190
Goods in trust or mandate	202,683	250,627	202,683	250,627
Goods in custody or under administration	1,197,831	1,131,143	1,191,613	1,124,925
Collateral received by the institution	61,630	50,092	61,630	50,092
Collateral received and sold or delivered as guarantee	32,166	35,160	32,166	35,160
Deposit of assets		-		-
Suspended interest on impaired loans	241	214	241	214
Other control accounts	5,132,626	4,820,587	4,958,875	4,663,750

Consolidated Statement of Changes in Shareholders' Equity

GROUP	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	**Total equity**
Figures in MXN million								
Total Balances at 31 Dec 2019	**43,373**	**1,244**	**20,237**	**(1,105)**	**(177)**	**8,999**	**7**	**72,578**
Movements inherent to the shareholders' decision								
Transfer of result of prior years	-	-	8,999	-	-	(8,999)	-	**-**
Constitution of reserves	-	-		-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	**-**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**8,999**	**-**	**-**	**(8,999)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	-2,181	-	**2,181**
Result from valuation of available-for-sale securities	-	-	-	(1,079)	-	-	-	**(1,079)**
Result from cash flow hedging transactions	-	-	-		(281)	-	-	**(281)**
Others *	-	-	19	-	-	-	-	**19**
Total	**-**	**-**	**19**	**(1,079)**	**(281)**	**2,181**	**-**	**840**
Total Balances at 31 March 2020	**43,373**	**1,244**	**29,255**	**(2,184)**	**(458)**	**2,181**	**7**	**73,418**

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

Consolidated Statement of Changes in Shareholders' Equity

BANK	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plan	Net income	Minority interest	**Total equity**
Figures in MXN million									
Total Balances at 31 Dec 2019	**38,318**	**12,474**	**11,031**	**(1,148)**	**(177)**	**(1,629)**	**7,374**	**4**	**66,247**
Movements inherent to the shareholders' decision									
Transfer of result of prior years	-		7,378	- -	-	-	(7,374)	-	**4**
Constitution of reserves	-	(11)	-	-	-	-	-	-	**(11)**
Cash dividends	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**(11)**	**7,378**	**-**	**-**	-	**(7,374)**	**-**	**(7)**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	- -	-		1,934	-	**1,934**
Result from valuation of available-for-sale securities	-	-	-	(1,066)	-	-	-	-	**(1,066)**
Result from cash flow hedging transactions	-	-	-	-	(281)	-	-	-	**(281)**
Adjustment in defined benefit pension plan	-	-	-			8	-		**8**
Others	-	-	-	-	-	-	-	(1) -	**(1)**
Total	**-**	**-**	**-**	**(1,066)**	**(281)**	**8**	**1,934**	**(1)**	**594**
Total Balances at 31 March 2020	**38,318**	**12,463**	**18,409**	**(2,214)**	**(458)**	**(1,621)**	**1,934**	**3**	**66,834**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Mar 2020**
Net income	**2,181**
Adjustments for items not involving cash flow:	**(3,351)**
Allowances for loan losses	2,906
Depreciation and amortisation	433
Valuations	(8,956)
Technical reserves	107
Provisions	1,394
Income Tax and deferred taxes	784
Participation in the Results of Unconsolidated Subsidiaries	(19)
Changes in items related to operating activities:	
Margin accounts	430
Investment securities	(4,615)
Repurchase agreements	17,025
Derivative (assets)	(49,162)
Loan portfolio	(31,458)
Foreclosed assets	23
Benefits to be received from trading operations	23
Operating assets	8,906
Deposits	(20,682)
Bank deposits and other liabilities	17,935
Creditors repo transactions	2,497
Collateral sold or delivered as guarantee	(3,000)
Derivative (liabilities)	65,261
Accounts receivables from reinsurers and coinsurers	2
Accounts receivables from premiums	607
Other operating liabilities	(8,228)
Income tax paid	(965)
Funds provided by operating activities	**(5,401)**
Investing activities:	
Acquisition of property, furniture and equipment	(113)
Proceeds on disposals of subsidiaries	3
Other investment activities	129
Funds used in investing activities	**19**
Financing activities:	
Other	2
Funds used in financing activities	**2**
Financing activities:	
Increase/decrease in cash and equivalents	(6,550)
Cash and equivalents at beginning of period	60,214
Cash and equivalents at end of period	**53,664**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Mar 2020**
Net income	**1,934**
Adjustments for items not involving cash flow:	**(3,661)**
Allowances for loan losses	2,906
Valuations	(8,976)
Depreciation	111
Amortisation	322
Provisions	1,312
Income Tax and deferred taxes	683
Share of profits in equity interest	(19)
Changes in items related to operating activities:	
Margin accounts	430
Investment securities	(3,974)
Repurchase agreements	17,025
Derivative (assets)	(49,162)
Loan portfolio	(31,458)
Foreclosed assets	23
Operating assets	8,337
Deposits	(20,329)
Bank deposits and other liabilities	17,935
Creditors repo transactions	2,497
Collateral sold or delivered as guarantee	(3,000)
Derivative (liabilities)	65,261
Subordinated debentures outstanding	607
Other operating liabilities	(8,116)
Income tax paid	(908)
Funds provided by operating activities	**(4,832)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	118
Acquisition of property, furniture and equipment	(113)
Proceeds on disposal of subsidiaries	3
Funds used in investing activities	**8**
Financing activities:	
Increase/decrease in cash and equivalents	**(6,551)**
Cash and equivalents at beginning of period	60,102
Cash and equivalents at end of period	**53,551**

Changes in Mexican accounting standards
Introduction

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different.

Subsidiaries financial statements were prepared in accordance with accounting standards issued by CNBV applicable to banks, excepting by the Insurance Company (HSBC Seguros) which are prepared in line with accounting standards issued by National Insurance and Bonding Commission (CNSF for its acronym in Spanish).

The recent changes in accounting standards issued by either CNBV or CINIF applicable to Grupo Financiero HSBC, are described below:

i. Improvements of NIF 2020 issued by CINIF applicable to Financial Institutions.

CINIF issued a document called "Improvements of NIF 2020", which mainly includes the following changes and improvements:

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

NIF C-16 "Expected credit losses of financial assets at amortised cost" – When renegotiations of loans under Hold-to-collect business model would not trigger de-recognition of financial assets, they should be measured using the original effective interest rate adjusted only by renegotiations transactional costs.

NIF C-19 "Financial Liabilities" and NIF C-20 "Financial Assets under Hold-to-Collect business model measure at amortised cost" – For financial instruments at variable interest rate, the use of effective interest rate method on measurement at amortised cost is not required, given immaterial financial effects in comparison to use interest contractual rate in measurement and several practice issues in the calculation. Therefore, transactional originations costs of financial instrument should be amortised using the initial effective interest rate which would not be recalculated.

NIF D-3 "Employee Benefits" – Given that employees participation in Profit Sharing (in Spanish *"Participación de los Trabajadores en las Utilidades"*) is calculated based on Income Tax legislation, which could be determined under uncertain tax positions, therefore an specific reference to NIF D-4 "Income taxes" was added to refer to section about accounting treatment of uncertain tax positions.

NIF D-4 "Income Taxes" – The following changes were added:

i).- Since 2019, "IFRIC 23 Uncertainty over Income Tax Treatments" issued by IASB was in force to set the accounting treatment when an uncertain tax position raises, CINIF considered that this interpretation should be incorporated in NIF, given that the acceptance or refuse of an specific tax treatment in calculation of income taxes could not be recognised in financial statements until tax authorities or court have ruled over the uncertainty, this situation could have impacts in accounting recognition of assets and liabilities of either current or deferred income taxes.

ii).- Accounting treatment of Income taxes originated by dividends distributions which should be recognised in retained earnings, net income or other comprehensive income, depending on agreement with shareholders.

NIF D-5 "Leases" - The following changes were added:

i).- Practical expedient to use a risk-free interest rate as discount rate to determine the present value of mandatory lease payments (Lease liability) instead of use of implicit interest rate in lease agreement or incremental interest rate which could be complex to obtain or impractical to calculate.

ii).- Lease liability should be measured after inception using the effective interest rate method.

iii).- The practical expedient to not separate non-lease components under lease agreement was changed to avoid that major and important non-lease components could be incorporated in measurement of right of use or lease liability.

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

Improvements which not originate accounting changes in Grupo Financiero HSBC.

NIF B-1 "Accounting changes and errors" – The term of "partial retrospectively adoption" is introduce in accounting standard to be applied once it is not possible to determine cumulative effects in prior periods, so only should be considered prior periods where is feasible to calculate them.

NIF B-8 "Consolidated or Combined Financial Statements" – The goodwill originated in a subsidiary which is measured as part of permanent investments should be measured using equity method described on NIF C-17 "Associates, Joint Ventures and Permanent Investments" as part of investment in subsidiaries category.

NIF B-11 "Non-current Assets Held for Sale and Discontinued Operations" – Clarifications about that a disposal of non-current assets does not have the same meaning of non-current assets held for sale, because the former has a broader meaning including also assets to distribute to shareholders, to be abandoned or donated.

NIF C-2 "Investments in Financial Instruments" – Clarifications about the option to designate financial instruments at fair value through profit and loss.

NIF C-3 "Accounts receivables" – The base of conclusions chapter is amended to indicate that a foreclosure assets should be recognised at the lower between their gross carrying amount and recoverable amount.

NIF D-5 "Leases" – Clarifications to be consistent with agreements that would meet lease agreements criteria.

It is important to highlight that changes and clarifications in NIF C-2, C-3, C-16, C-19 and D-5 should be adopted by Financial Institutions in conjunction with particular accounting changes issued by CNBV which are described in section ***III).*** No relevant impacts in adoptions of the rest of changes and clarifications were observed.

ii. New NIF B-11 'Disposal of non-current assets held for sale and discontinued operations'.

CINIF issued this new accounting standard with the purpose to separate the accounting treatment of 'Non-current Assets and Discontinued Operations' which mainly are focused on presentation and disclosure from 'Impairment of Assets' included in NIF C-15, in order to provided similarity with IFRS.

The following assets will be out of scope of NIF B-11, (only for measurement purposes, presentation and reclassification rules are applicable to all non-current assets):

- Biological assets (refers to NIF E-1 'Agriculture').
- Financial instruments (refers to NIF C-2 'Financial Instruments').
- Deferred taxes (refers to NIF D-4 'Income Taxes').
- Employee Benefit assets (refers to NIF D-3 'Employee Benefits').

In addition, NIF B-11 clarifies that assets in scope of this standard based on a liquidity presentation in balance sheet shall contemplate assets which recovery expectation is longer than 12 months.

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

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

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

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

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

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

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

NIF C-3 "Accounts receivable". It comprises the accounting rules of measurement, presentation and disclosures required for accounts receivables.

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

NIF C-10 “Derivative financial instruments and hedge accounting”. It includes the characteristics to consider a derivative financial instrument for trading or hedging as well as the recognition, measurement, presentation and disclosure.

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

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

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

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

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

NIF D-2 “Costs for contracts with customers”. It comprises the measurement, accounting recognition, presentation and disclosures of expenses from contracts with customers (such as incremental costs to obtain a contract and costs to fulfil a contract).

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

On March, 13th, 2020, CNBV has issued in Official Gazette changes in particular accounting standards applicable to Financial Institutions including in Annex 33 to match with the adoption of new NIF. By now, particular changes in accounting standards should be in force since 2021, however given recently events related to COVID-19 pandemic, CNBV has expressed through press release No. 022/2020 dated on April,8th, 2020 that those changes would have a new date in force, 2022. Communication is pending to be issued by CNBV in Official Gazette to formalise date changes.

Mainly changes are:

Loans and receivables:

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

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

- New standard methodology to determine expected credit losses.

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

- Changes in regulatory reporting.

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

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

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

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

Revocation of some particular accounting standards applicable to Financial Institutions:

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

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

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

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

iv. Special accounting rules issued by National Banking Commission applicable to borrowers affected by the new Federal Law of Wages applicable to Governmental Employees enacted on November, 5th, 2018.

On February 26th, 2019, the CNBV issued temporary special accounting rules (official response paper No. P062/2019) "the benefit programme" applicable to borrowers affected by the enactment of the new Law which would produce a decrease in their wages or involuntary separation of their employment as long as this situation occurred between November, 6th, 2018 to September, 30th, 2019. The benefit programme would still be applicable when borrower acts as guarantor in loans.

These special accounting rules are applicable to consumer, and mortgages loans that were classified as "performing loans" at the date in which wages of borrowers decrease or their involuntary separation occurs as long as they adhered to the benefit programme no later than February, 28th, 2020. In addition, the adherence to the benefit programme should be no later than 120 days after the event for loans originated from revolving credit facilities.

Basically, the benefit programme brings an extension in loan term and skip payment of capital and interest accrued for a period no longer than three months. Each bank must decide if interests accrued during skip payment period are forgone or capitalised into the outstanding balance. The Bank has decided to apply a skip payment period forgoing the interest accrued. Under "the benefit programme" loans modification would not be considered as restructured loan under CNBV accounting rules provisions.

At the end of reporting period, few customers have adhered to the benefit programme, therefore no relevant amount is shown, so far.

v. Special accounting rules issued by National Banking Commission applicable to borrowers affected by the pandemic originated by COVID-19 disease which was issued on March 26th 2020.

On March 26th 2020, the CNBV issued temporary special accounting rules (official response paper No. P285/2020) "the benefit programme" applicable to borrowers affected by the worldwide pandemic of COVID-19 which produced a decrease in their liquidity given the lockdown of general population and the partial closing of many industries and entities which do not provide or produce essential services and goods. The benefit programme is applicable to retail, mortgages and wholesale borrowers excepting by those loans granted to related parties and loans subject to receive debt reliefs by FIRA (Trust funds for rural development).

Loans are subject to the benefit programme if they are performing loans at February, 28th, 2020 and documentation is completed no later than 120 days after that date. In summary, the benefit programme could provide to borrowers partial or total payment holidays until 6 months, which could involve a change in original term of the loans, extending their maturity for the same period. Likewise, the benefit programme could involve other type of benefits such as a temporary loan modification of terms as long as they not exceed 6 months. In this case after that period, the loans should remain with the original features. During the benefit programme period, loans will not be flagged as restructure transactions and they will still be reported as performing loans.

Providing these benefits, Financial Institutions could forgive amounts recognised in balance in order to provide more liquidity to borrowers, in which case financial impacts would be recognised against loan impairment allowances already booked or directly in income statement as appropriate.

CNBV prohibits the following practices in application of the programme:

- Capitalisation of interests (interests over interests).
- Charge additional fees to receive debt reliefs.
- Restrictions in use, decrease or cancellation of credit facilities granted before the programme.
- Request for providing or substitution of collaterals.

On April 15 2020, CNBV issued a second paper (official paper No. P293/2020) in connection to the first (No. P285/2020) in order to provide some additions and clarifications in the rules applicable to the programme:

- For providing debt reliefs to loans called *"microcréditos individuales o grupales"*, they should be performing loans at March 31st, 2020.
- New special period of debt reliefs until 18 months to loans granted to agriculture and rural sector.
- Restrictions to provide debt reliefs to loans subject to receive debt reliefs by FIRA, is superseded.
- Restrictions in use and decrease in revolving credit facilities amount are relaxed to allow up to 50% of decrease/restriction in use in case of facilities granted to persons.

Based on this, HSBC has decided providing to affected borrowers debt reliefs which consist in payment holidays during the period of relief, extending the original term of maturity the same period. Under Mexican GAAP rules, these changes should be recognised as restructured loans under particular accounting standards applicable to Financial Institutions including in Annex 33.

Balances that could have been collected of principal and interests if debt reliefs were not been granted at March, 31 2020, are included below:

Category	**MXN millions**
Retail	\$7.40
Mortgages	\$2.10
TOTAL	**\$9.50**

**In case of dividends payments, this amount should be reduced from retained earnings in order to determine distributable profits in accordance with official paper No. P285/2020.*

Currently, HSBC is analysing the implementation of other types of debt reliefs in line with CNBV programme, which will be reported in following months.

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 three months ended at 31 March of 2020 and an explanation of the key reconciling items.

	31 March 2020
Figures in MXN millions	
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**2,181**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	40
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	89
Loan impairment charges and other differences in presentation under IFRS[1]	(1,594)
Recognition of the present value in-force of long-term insurance contracts	(36)
Other insurance adjustments[2]	38
Fair value adjustments on financial instruments	(742)
Deferred profit sharing	87
AT1 Valuation	571
Other	(11)
Tax over adjustments	(84)
Net income under IFRS	**539**
Add back tax expense	204
Profit before tax under IFRS	**743**
Add back significant items	(223)
Adjusted net income before tax under IFRS	**521**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	(223)
- Profit before tax under IFRS	**USD 32 Millions**
-Net income under IFRS	**USD 23 Millions**

Exchange rate used for conversion[3]

[1] Includes IFRS 9 – Forward Economic Guidance ECL provision of MXN (1,977)

[2] Includes technical reserves and effects from Solvency II

[3] Banxico rate at 31 March 2020 MXN23.5122

Summary of key differences between results as reported under Mexican GAAP and IFRS

Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits

Mexican GAAP

The present value of Defined Benefit Obligations 'DBO' (including indemnity benefits for other reasons that restructuring), are calculated at the reporting date by the schemes' actuaries through the Projected Unit Credit Method using a corporate/governmental bond rate as a base rate to determine the discount rate applicable.

The net costs recognise in the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. According to Mexican Accounting standard, actuarial gains and losses could be: 1) recognised separately in 'shareholders' Other Comprehensive Income in the bank's consolidated financial statements' and recycling through P&L over the average working life of the employees or 2) totally recognised in income statement.

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

Given that in 2015, the Mexican accounting standard related to Employee Benefits (*NIF D-3 Beneficios a los Empleados*) changed as part of converge process with IAS 18 Employee Benefits, the Mexican Banking Regulator issued some reliefs in order to recognise initial financial impacts from adoption prospectively over the following five years. Under reliefs' rules, financial impacts from plan modification would be recognised in retained earnings and actuarial gains/losses would be recognised in Other Comprehensive Income progressively over the relief term. Only, actuarial gains/losses would be recycling in income statement over the average working life projected of the employees in accordance to NIF D-3.

IFRS

The main differences between Mex GAAP and IFRS comprise:

1) For Group purposes, the measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.

2) There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

3) Actuarial gains/losses are recognised in OCI under IFRS not subject to be recycling or recognise totally in income statement.

4) Reliefs issued by Mexican Banking Regulator are not applicable to the preparation of IFRS financial information.

Deferral of fees paid and received on the origination of loans and other effective interest rate adjustments

Mexican GAAP

The commissions charged to the borrower at loan inception are recorded into a deferred credit account (liability), which will be deferred against interest income in income statement on straight-line basis during contractual life of loan, excepting by those loans regarding to revolving credit facilities in which the deferral period is three months. In the case of commissions charged to borrowers for restructuring or renewals loans, they must be accumulated to the outstanding balance of commissions from original loan and deferring in interest income using the straight- line method during the new term of the loan.

On the other hand, for incremental costs incurred in loan inception, they are recognised as an asset, which is amortised on straight-line basis over the contractual life of the loan as interest expense in income statement.

Both commissions charged to borrowers and incremental costs incurred in loan inception, are recognised in separately accounts in balance sheet, i.e. they are not considered as part of amortised cost of the loan to presentation purposes.

IFRS

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

The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognitions of the financial asset.

The effective interest rate is the rate that exactly discounts estimated future cash payments of the financial asset through its expected life.

Given the technical complication in core systems to apply a pure EIR method, HSBC Mexico decided to use as a proxy of EIR the amortised cost indecated for Mexican Banking Regulator, which use the straight-line basis to defer/amortise initial commission charged to borrowers/incremental costs paid to the origination of the loan.

Loan impairment charges and other differences in presentation under IFRS

Mexican GAAP

Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish methodologies for determining the amount of provision for each type of loan.

Cash recoveries from written-off loans and the positive excess of loan impairment charges determined monthly were presented in Other Operating Income until December 2017. Since January 2019, Mexican Banking Regulator issued some changes in accounting standards that allow Banks to recognise either positive excess of loan impairment charges and/or cash recoveries from written-off loans as a credit adjustment 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 concepts. The best estimate is based on up-to-date credible information and realistic assumptions and aims to represent a total liability valuation aligned to its expected pricing transfer to the customer. The risk margin is calculated as the cost of providing an amount of capital equal to 10% of the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognised under annualisation criteria which is based in determine the total premium for the coverage period (1 year), consequently total premium is recognised since the moment where insurance contracts are written.

IFRS

IFRS reserving process is based on a liability adequacy test to ensure that the carrying amount of liabilities is sufficient in the light of estimated future cash flows defined by a prudent, non-market consistent set of rules for such estimated cash flows (instead of using realistic assumptions) and not using risk margins components.

For Annuities business there is a securities valuation reserve, 'Reserva para Fluctuación de Inversiones', which is required specifically by CNSF, however, this reserve does not meet Mx Gaap citieria nor IFRS to be considered as a liability, therefore this reserve is cancelled for IFRS purposes and recognised into retained earnings.

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

Perpetual Subordinated Debt – AT1

Mexican GAAP

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

IFRS

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