

HSBC HOLDINGS PLC  
Form 6-K  
March 01, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of  
the Securities Exchange Act of 1934

For the month of March

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes.....  No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.....).

1 March 2011

GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FOURTH QUARTER 2010 FINANCIAL RESULTS - HIGHLIGHTS

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- Net income before taxes and undistributed profits of subsidiaries for the year ended 31 December 2010 was MXN1,106 million, an increase of MXN972 million or 725.4 per cent compared with MXN134 million in 2009.
- Net income for the year ended 31 December 2010 was MXN2,119 million, an increase of MXN565 million or 36.4 per cent compared with MXN1,554 million in 2009.
- Total operating income for the year ended 31 December 2010 was MXN21,653 million, an increase of MXN1,505 million or 7.5 per cent compared with MXN20,148 million in 2009.
- Loan impairment charges for the year ended 31 December 2010 were MXN9,284 million, a decrease of MXN5,188 or 35.8 per cent compared with MXN14,472 million in 2009.
- Net loans and advances to customers were MXN162.1 billion at 31 December 2010, an increase of MXN12.6 billion or 8.4 per cent compared with MXN149.5 billion at 31 December 2009. Total impaired loans as a percentage of gross loans and advances to customers improved to 3.1 per cent compared with 5.0 per cent at 31 December 2009. The coverage ratio was 174.0 per cent compared with 131.6 per cent at 31 December 2009.
- Deposits were MXN253.3 billion at 31 December 2010, an increase of MXN14.8 billion or 6.2 per cent compared with MXN238.5 billion at 31 December 2009.
- Return on equity was 4.4 per cent for the year ended 31 December 2010, compared with 3.7 per cent in 2009.
- At 31 December 2010, the bank's capital adequacy ratio was 14.5 per cent and the tier 1 capital ratio was 11.2 per cent, compared with 17.8 per cent and 13.8 per cent respectively at 31 December 2009.

HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) primary subsidiary company 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 quarter ended 31 December 2010) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release.

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

### Overview

Mexico's economy continued to recover in 2010 and GDP rose by 5.5% in the year. Strong external demand was the main driver of the recovery, leading to robust growth in the production of Mexican manufactured goods. By contrast, domestic demand was lacklustre, reflecting high unemployment, restricted credit availability and low levels of consumer confidence. This weak domestic demand and the rise in the peso kept inflation subdued during 2010 and the Central Bank of Mexico maintained its policy rate at 4.5% throughout the year.

Within this economic environment, Mexican banks experienced moderate growth in their credit portfolios, mainly driven by commercial lending activity, offsetting a decrease in demand for consumer loans. Additionally, a general improvement in asset quality was reported across the financial system, resulting in lower loan impairment charges.

In 2010, Grupo Financiero HSBC benefited from actions deployed in previous periods, focussed on improving asset quality through cautious risk management and strengthened collection practices. This resulted in improved profitability, driven by lower loan impairment charges. Business plans and infrastructure projects continue to be supported by our solid capital base which is a key component to our strategy to become the best bank for its clients,

shareholders and employees.

For the year ended 31 December 2010, Grupo Financiero HSBC's net income was MXN2,119 million, an increase of MXN565 million or 36.4 per cent compared with 2009. A reduction in loan impairment charges in the bank and improved income from its subsidiaries, mainly in HSBC Seguros, were key drivers in achieving this result.

Net interest income was MXN19,966 million, a decrease of MXN1,254 million or 5.9 per cent compared with 2009. This was primarily driven by decreased deposit margins as a result of lower interest rates, coupled with a reduction in consumer lending volumes, particularly in the credit card portfolio. The bank has partially mitigated this through decreasing its reliance on higher cost wholesale market funding.

Loan impairment charges were MXN9,284 million, a decrease of MXN5,188 million or 35.8 per cent compared with 2009. During 2010, the bank continued its cautious origination criteria and enhanced collection practices, which reduced credit losses to their lowest levels since before the economic crisis. The reduction in loan impairment charges was achieved despite MXN597 million of additional reserves for the "Punto Final" programme recognised in July 2010, a government programme aimed to support mortgage loans impacted by the 1995 economic crisis.

Net fee income was MXN7,843 million, a decrease of MXN1,862 million or 19.2 per cent compared with 2009. This was mainly due to lower credit card fees as a result of the lower credit card volumes. In addition, lower transactional volumes from payments and cash management (PCM), and ATM transactions contributed to the decrease in fee income. Fee income was also affected by regulatory restrictions limiting the fees that can be charged for certain banking services.

Trading income was MXN2,228 million, a decrease of MXN633 million or 22.1 per cent compared with 2009. A decline in market volatility, which resulted in fewer trading opportunities, meant that the strong performance in foreign exchange and debt trading achieved in 2009 was not repeated. This was partially offset by an increase in derivative trading.

Administrative and personnel expenses were MXN23,819 million, an increase of MXN2,122 million or 9.8 per cent compared with 2009. This increase is largely driven by expenditure in relation to maintenance of the branch network and higher personnel expenses. In addition, regional infrastructure and technology projects have contributed to the increase.

The performance of Grupo Financiero HSBC's subsidiaries improved, particularly HSBC Seguros and HSBC Afore. The insurance company, HSBC Seguros, reported net profit of MXN1,232 million, up 6.5 per cent compared with 2009. This increase is primarily a result of higher earned premiums in the (T-5) individual life product and life endowment products, in addition to higher income in the investment portfolio. Results have also benefited from savings from renegotiation of reinsurance contracts and expense control. HSBC Afore reported net profit of MXN307 million, up 4.1 per cent compared with 2009, driven by higher income from pension fund investments coupled with decreased expenses.

Net loans and advances to customers increased MXN12.6 billion or 8.4 per cent to MXN162.1 billion at 31 December 2010 compared with 31 December 2009. This increase is driven mainly by growth in the commercial portfolio, particularly in financial institutions and government entities.

Total impaired loans decreased by 32.7 per cent to MXN5.3 billion at 31 December 2010 compared with 31 December 2009, due mainly to a 58.9 per cent reduction in impaired consumer loans. Total impaired loans as a percentage of gross loans and advances to customers improved to 3.1 per cent from 5.0 per cent at 31 December 2009.

Total loan loss allowances at 31 December 2010 were MXN9.3 billion, a decrease of MXN1.2 billion or 11.0 per cent when compared with 31 December 2009. The total coverage ratio (allowance for loan losses divided by impaired

loans) was 174.0 per cent at 31 December 2010, when compared with 131.6 per cent at 31 December 2009.

Total deposits were MXN253.3 billion at 31 December 2010, an increase of MXN14.8 billion or 6.2 per cent compared with 31 December 2009. This is due to an increased focus on sales and promotion of deposit products.

At 31 December 2010, the bank's capital adequacy ratio was 14.5 per cent compared with 17.8 per cent at 31 December 2009. The Tier 1 capital ratio was 11.2 per cent compared with 13.8 per cent at 31 December 2009.

## Business Highlights

### Personal Financial Services (PFS)

During 2010, PFS grew core customer deposits by 21 per cent. This was achieved primarily through the promotion of deposit product offerings to our affluent segments, the launch of the Advance proposition in May 2010, which provides differentiating services to wealth in progress individuals.

A key strategy relating to wealth management products was to increase sales and competitiveness in affluent segments specifically in respect of Balanced Funds which provided our relationship managers with straight forward and effective investment products that diversify the customer's investment portfolio according to their risk profile.

Special focus was placed in the promotion of Demand Deposit accounts, which resulted in increased account openings and growth in net payroll accounts. Payroll accounts growth was supported by significant improvements to the on-boarding process and post-sale services.

The loan portfolio decreased 17 per cent compared to 2009 in line with the general market. This decrease is mainly due to lower credit cards, partly offset by growth in personal and payroll loans.

Despite the contraction in the consumer lending market, several strategies were put in place to promote our products. In the credit card business, one of the main strategies implemented for the Advance segment was the launching of the Visa Advance card, which provides a superior credit card proposition for Advance customers. In addition, several promotions were deployed, such as instalments on all purchases, the "Back-to-school" program, balance transfers and cheques for cash advances.

In order to support our personal loan product offering and improve customer experience, the "Oferta Permanente" promotion was launched, providing simplified credit availability through our ATM network to our pre-approved payroll customers. In addition, in the second half of 2010, consumer products were promoted through direct mailing campaigns.

In the month of November, an agreement was signed with the Asociación Mexicana de Profesionales Inmobiliarios ("AMPI"), the largest realtor association in Mexico, to promote our mortgage products among all of their affiliates. This is expected to generate increased sales.

### Commercial Banking

During 2010, Commercial Banking grew its loan portfolio and its deposit base 37 per cent and 16 per cent respectively compared to 31 December 2009. The increase in the loan portfolio was mainly driven by the Commercial and States & Municipalities segments. Customer deposit growth was largely driven by Mexican peso demand deposits. While loan growth has been strong, asset quality has been maintained as result of prudent origination criterion and through adherence to our risk appetite levels.

During the fourth quarter of 2010, Business Banking reported strong results with approved loan applications increasing 48 per cent compared to the third quarter.

#### Global Banking and Markets

Global Markets reported strong results in 2010, driven by favourable positioning on Trading and efficient positioning on Rates in Balance Sheet Management. Significant achievements this year include the roll out of the HSBC FX Net platform, the automation of Delivery Versus Payment FX settlement solution, the launch of structured notes and 24 hour trading on Mexican bonds. These developments provide a solid base for future growth of the Global Markets franchise.

Debt Capital Markets further strengthened its client servicing capabilities by providing value added services and high quality execution in the global and local markets. This assisted the business in obtaining repeat issuances from our clients. The bank continues to be a leading underwriter in Mexico and maintained its second position in the local debt issuance league tables.

Service to our client base was enhanced with a specific focus on offering a best in class access to Foreign Exchange products. Sales efforts have already resulted in significant demand for the FX Net platform and it is expected to be a key driver of revenue growth.

Global Banking closed a number of deals with Corporate and Institutional clients, while maintaining a high quality asset base. During the year, Global Banking improved both market penetration and its share of available business, with increased cross-selling of existing products such as Debt, Custody, Trust, Trade Services, Advisory and Debt Capital Markets.

In 2010, we have originated new loans to corporate clients in excess of MXN20 billion, meeting their needs for working capital, debt refinancing, Debt Capital Markets and Advisory transactions. The Bank has participated in the majority of the main infrastructure deals in Mexico and is recognized as one of the top Project Finance Advisors.

The Advisory business, launched in Mexico in 2010, participated in important deals such as Embotelladoras Arca's acquisition of Ecuador Bottling Company; Casa Saba in its acquisition of Farmacias Ahumada and Petrotemex in its acquisition of some business assets from Eastman Chemical..

Within Global Banking, the Global Transactional Business (GTB), achieved particularly strong results, primarily in Trade Services and client Bank Deposits. Additionally, existing product capabilities have been upgraded and client-oriented solutions have been developed in order to provide an integrated GTB Product Offering to our clients, including Payroll, Deposits, Payments and Cash Management and LAM Connection.

HSBC Mexico 2010 Results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)

For the year ended 31 December 2010, HSBC Mexico reported pre-tax profits of MXN5,294 million, an increase of MXN1,488 million or 39 per cent compared with MXN3,806 in 2009.

The higher results compared to that reported under Mexican GAAP is largely due to lower loan impairment charges as result of the different provisioning methodologies. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

About HSBC

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Grupo Financiero HSBC, S.A. de C.V. is one of the leading financial groups in Mexico with 1,144 branches, 6,331 ATMs, approximately eight million total customer accounts and more than 20,000 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 7,500 offices in 87 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and assets of US\$2,455 billion at 31 December 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

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Consolidated Balance Sheet

| Figures in MXN millions           | GROUP          |                | BANK           |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 31 Dec<br>2010 | 31 Dec<br>2009 | 31 Dec<br>2010 | 31 Dec<br>2009 |
| Assets                            |                |                |                |                |
| Cash and deposits in banks        | 51,324         | 68,322         | 51,324         | 68,322         |
| Margin accounts                   | 42             | 3              | 42             | 3              |
| Investment in securities          | 142,456        | 121,471        | 139,540        | 120,241        |
| Trading securities                | 38,550         | 41,339         | 36,548         | 40,607         |
| Available-for-sale securities     | 96,229         | 71,630         | 95,315         | 71,132         |
| Held to maturity securities       | 7,677          | 8,502          | 7,677          | 8,502          |
| Repurchase agreements             | 1,856          | 1,593          | 1,856          | 1,593          |
| Derivative transactions           | 28,205         | 24,113         | 28,205         | 24,113         |
| Performing loans                  |                |                |                |                |
| Commercial loans                  | 81,084         | 76,091         | 81,084         | 76,091         |
| Loans to financial intermediaries | 12,684         | 6,951          | 12,684         | 6,951          |
| Consumer loans                    | 26,665         | 30,048         | 26,665         | 30,048         |
| Mortgage loans                    | 17,557         | 19,660         | 17,557         | 19,660         |

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|  |         |          |         |          |
|--|---------|----------|---------|----------|
| Loans to government entities                   | 28,087  | 19,263   | 28,087  | 19,263   |
| Total performing loans                         | 166,077 | 152,013  | 166,077 | 152,013  |
| Impaired loans                                 |         |          |         |          |
| Commercial loans                               | 1,669   | 1,745    | 1,669   | 1,745    |
| Consumer loans                                 | 1,574   | 3,826    | 1,574   | 3,826    |
| Mortgage loans                                 | 2,101   | 2,368    | 2,101   | 2,368    |
| Total impaired loans                           | 5,344   | 7,939    | 5,344   | 7,939    |
| Gross loans and advances to customers          | 171,421 | 159,952  | 171,421 | 159,952  |
| Allowance for loan losses                      | (9,296) | (10,447) | (9,296) | (10,447) |
| Net loans and advances to customers            | 162,125 | 149,505  | 162,125 | 149,505  |
| Other accounts receivable                      | 23,000  | 7,708    | 22,870  | 7,620    |
| Foreclosed assets                              | 162     | 174      | 162     | 174      |
| Property, furniture and equipment, net         | 9,069   | 7,525    | 9,069   | 7,525    |
| Long-term investments in equity securities     | 3,605   | 3,662    | 123     | 133      |
| Deferred tax assets                            | 5,225   | 4,268    | 5,318   | 4,305    |
| Goodwill                                       | 2,749   | 2,749    | -       | -        |
| Other assets, deferred charges and intangibles | 4,867   | 2,697    | 4,753   | 2,608    |
| Total assets                                   | 434,685 | 393,790  | 425,387 | 386,142  |

Consolidated Balance Sheet (continued)

| Figures in MXN millions             | GROUP       |             | BANK        |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
|                                     | 31 Dec 2010 | 31 Dec 2009 | 31 Dec 2010 | 31 Dec 2009 |
| Liabilities                         |             |             |             |             |
| Deposits                            | 253,336     | 238,539     | 253,613     | 238,726     |
| Demand deposits                     | 150,078     | 127,773     | 150,355     | 127,960     |
| Time deposits                       | 99,015      | 106,524     | 99,015      | 106,524     |
| Issued credit securities            | 4,243       | 4,242       | 4,243       | 4,242       |
| Bank deposits and other liabilities | 21,931      | 24,856      | 21,931      | 24,856      |
| On demand                           | 3,776       | 3,336       | 3,776       | 3,336       |
| Short-term                          | 16,630      | 20,236      | 16,630      | 20,236      |
| Long-term                           | 1,525       | 1,284       | 1,525       | 1,284       |
| Repurchase agreements               | 29,911      | 24,502      | 34,868      | 24,544      |
| Settlement accounts                 | 2,359       | -           | 2,359       | -           |
| Collateral sold                     | 11,784      | 6,305       | 6,827       | 6,305       |
| Derivative transactions             | 30,545      | 27,132      | 30,545      | 27,132      |
| Other payable accounts              | 24,575      | 14,515      | 26,304      | 14,130      |
|                                     | 841         | 1,179       | 654         | 1,014       |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Income tax and employee profit sharing payable                  |         |         |         |         |
| Contribution for future capital increases                       |         |         | 2,013   | -       |
| Sundry creditors and other accounts payable                     | 23,734  | 13,336  | 23,637  | 13,116  |
| Subordinated debentures outstanding                             | 10,007  | 10,221  | 10,007  | 10,221  |
| Deferred tax liabilities  | 730     | 731     | 730     | 731     |
| Total liabilities   | 385,178 | 346,801 | 387,184 | 346,645 |
| Equity  |         |         |         |         |
| Paid in capital   | 32,673  | 32,678  | 25,605  | 25,605  |
| Capital stock   | 5,111   | 9,434   | 5,087   | 5,087   |
| Additional paid in capital                                      | 27,562  | 23,244  | 20,518  | 20,518  |
| Other reserves  | 16,829  | 14,308  | 12,595  | 13,889  |
| Capital reserves  | 1,726   | 1,648   | 12,436  | 14,313  |
| Retained earnings   | 13,058  | 11,582  | -       | -       |
| Result from the mark-to-market of available-for-sale securities | 139     | (76)    | (48)    | (160)   |
| Result from cash flow hedging transactions                      | (213)   | (400)   | (213)   | (400)   |
| Net income  | 2,119   | 1,554   | 420     | 136     |
| Minority interest in capital                                    | 5       | 3       | 3       | 3       |
| Total equity  | 49,507  | 46,989  | 38,203  | 39,497  |
| Total liabilities and equity                                    | 434,685 | 393,790 | 425,387 | 386,142 |

Consolidated Balance Sheet (continued)

| Figures in MXN millions<br>Memorandum Accounts | GROUP          |                | BANK           |                |
|--|----------------|----------------|----------------|----------------|
|  | 31 Dec<br>2010 | 31 Dec<br>2009 | 31 Dec<br>2010 | 31 Dec<br>2009 |
| Guarantees granted                             | 21             | 30             | 21             | 30             |
| Contingent assets and liabilities              | 116            | 126            | 116            | 126            |
| Irrevocable lines of credit granted            | 16,201         | 15,071         | 16,201         | 15,071         |
| Goods in trust or mandate                      | 293,814        | 266,641        | 293,814        | 266,641        |
| Goods in custody or under administration       | 251,394        | 246,061        | 246,284        | 240,951        |
|  | 13,370         | 16,649         | 13,370         | 16,649         |



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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Collateral received by the institution                 |           |           |           |           |
| Collateral received and sold or delivered as guarantee | 15,143    | 20,130    | 10,182    | 15,203    |
| Third party investment banking operations, net         | 43,351    | 57,064    | 43,351    | 57,064    |
| Suspended interest on impaired loans                   | 254       | 250       | 254       | 250       |
| Other control accounts                                 | 1,888,928 | 1,488,011 | 1,846,445 | 1,444,023 |
|  | 2,522,592 | 2,110,033 | 2,470,038 | 2,056,008 |

Consolidated Income Statement

|  | GROUP       |             | BANK        |             |
|--|-------------|-------------|-------------|-------------|
| Figures in MXN millions                    | 31 Dec 2010 | 31 Dec 2009 | 31 Dec 2010 | 31 Dec 2009 |
| Interest income                            | 28,062      | 31,416      | 28,018      | 31,248      |
| Interest expense                           | (8,096)     | (10,196)    | (8,092)     | (10,026)    |
| Net interest income                        | 19,966      | 21,220      | 19,926      | 21,222      |
| Loan impairment charges                    | (9,284)     | (14,472)    | (9,284)     | (14,472)    |
| Risk-adjusted net interest income          | 10,682      | 6,748       | 10,642      | 6,750       |
| Fees and commissions receivable            | 9,318       | 10,714      | 8,360       | 9,765       |
| Fees payable                               | (1,475)     | (1,009)     | (1,429)     | (995)       |
| Trading income                             | 2,228       | 2,861       | 2,220       | 2,852       |
| Other operating income                     | 900         | 834         | 900         | 834         |
| Total operating income                     | 21,653      | 20,148      | 20,693      | 19,206      |
| Administrative and personnel expenses      | (23,819)    | (21,697)    | (23,685)    | (21,081)    |
| Net operating income                       | (2,166)     | (1,549)     | (2,992)     | (1,875)     |
| Other income                               | 4,337       | 3,311       | 4,515       | 3,240       |
| Other expenses                             | (1,065)     | (1,628)     | (1,010)     | (1,623)     |
| Net other income                           | 3,272       | 1,683       | 3,505       | 1,617       |
| Net income before taxes                    | 1,106       | 134         | 513         | (258)       |
| Income tax and employee profit sharing tax | (1,272)     | (2,230)     | (1,092)     | (2,035)     |
| Deferred income tax                        | 1,007       | 2,402       | 981         | 2,397       |

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|  |       |       |     |     |
|--|-------|-------|-----|-----|
| Net income before subsidiaries         | 841   | 306   | 402 | 104 |
| Undistributed income from subsidiaries | 1,273 | 1,248 | 13  | 33  |
| Income from ongoing operations         | 2,114 | 1,554 | 415 | 137 |
| Minority interest                      | 5     | -     | 5   | (1) |
| Net income                             | 2,119 | 1,554 | 420 | 136 |

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 |
|---|---------------------|------------------|-------------------|--|--|------------|-------------------|
| Figures in MXN million                                    |                     |                  |                   |  |  |            |                   |
| Balances at 1 January 2010                                | 32,678              | 1,648            | 11,582            | (76)   | (400)                                      | 1,554      |                   |
| Movements inherent to the shareholders' decision          |                     |                  |                   |  |  |            |                   |
| Subscription of Shares                                    | (5)                 | -                | -                 | -  | -  | -          |                   |
| Transfer of result of prior years                         | -                   | 78               | 1,476             | -  | -  | (1,554)    |                   |
| Total   | (5)                 | 78               | 1,476             | -  | -  | (1,554)    |                   |
| Movements for the recognition of the comprehensive income |                     |                  |                   |  |  |            |                   |
| Net income  | -                   | -                | -                 | -  | -  | 2,119      |                   |
| Result from valuation of available-for-sale securities    | -                   | -                | -                 | 215  | -  | -          |                   |

|  |        |       |        |     |       |       |
|--|--------|-------|--------|-----|-------|-------|
| Result from cash flow hedging transactions | -      | -     | -      |     | 187   |       |
| Total Balances at 31 December 2010         | -      | -     | -      | 215 | 187   | 2,119 |
|  | 32,673 | 1,726 | 13,058 | 139 | (213) | 2,119 |

## Consolidated Statement of Changes in Shareholders' Equity (continued)

## BANK

| Figures in MXN millions                                   | 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 |
|---|---------------------|------------------|-------------------|--|--|------------|-------------------|--------------|
| Balances at 1 January 2010                                | 25,605              | 14,313           | -                 | (160)  | (400)                                      | 136        | 3                 | 39,497       |
| Movements inherent to the shareholders' decision          |                     |                  |                   |  |  |            |                   |              |
| Transfer of result of prior years                         | -                   | 136              | -                 | -  | -  | (136)      | -                 | -            |
| Cash dividends  | -                   | (2,013)          | -                 | -  | -  | -          | -                 | (2,013)      |
| Total   | -                   | (1,877)          | -                 | -  | -  | (136)      | -                 | (2,013)      |
| Movements for the recognition of the comprehensive income |                     |                  |                   |  |  |            |                   |              |
| Net income  | -                   | -                | -                 | -  | -  | 420        | -                 | 420          |
| Result from valuation of available-for-sale securities    | -                   | -                | -                 | 112  | -  | -          | -                 | 112          |
| Result from cash flow hedging transactions                | -                   | -                | -                 | -  | 187  | -          | -                 | 187          |
| Total   | -                   | -                | -                 | 112  | 187  | 420        | -                 | 719          |
| Balances at 31 December 2010                              | 25,605              | 12,436           | -                 | (48)   | (213)                                      | 420        | 3                 | 38,203       |

## Consolidated Statement of Cash Flows

## GROUP

|  | 31 Dec<br>2010 |
|--|----------------|
| Figures in MXN millions  |                |
| Net income   | 2,119          |
| Adjustments for items not involving cash flow:                                 | 10,956         |
| Gain or loss on appraisal of activities associated with investment & financing | (1,873)        |
| Allowances for loan losses   | 9,407          |
| Depreciation and amortisation  | 1,612          |
| Provisions   | 2,823          |
| Income tax and deferred taxes  | 265            |
| Undistributed income from subsidiaries   | (1,278)        |
| Changes in items related to operating activities:                              |                |
| Margin accounts  | (39)           |
| Investment securities  | (20,268)       |
| Repurchase agreements  | (263)          |
| Derivative (assets)  | (2,507)        |
| Loan portfolio   | (21,903)       |
| Foreclosed assets  | -              |
| Operating assets   | (15,314)       |
| Deposits   | 14,797         |
| Bank deposits and other liabilities  | (2,925)        |
| Settlement accounts  | 2,359          |
| Creditors repo transactions  | 5,409          |
| Collateral sold or delivered as guarantee                                      | 5,479          |
| Derivative (liabilities)   | 3,413          |
| Subordinated debentures outstanding  | (214)          |
| Other operating liabilities  | 4,940          |
| Funds provided by operating activities   | (27,036)       |
| Investing activities:  |                |
| Acquisition of property, furniture and equipment                               | (1,659)        |
| Intangible assets acquisitions   | (1,365)        |
| Funds used in investing activities   | (3,024)        |
| Financing activities:  |                |
| Subscription of Shares   | 49,936         |
| Decrease of Shares   | (49,941)       |
| Funds used in financing activities   | (5)            |
| Financing activities:  |                |
| Decrease in cash and equivalents   | (16,990)       |
| Adjustments to cash flow variations in the exchange rate and inflation levels  | (8)            |
| Cash and equivalents at beginning of period                                    | 68,322         |
| Cash and equivalents at end of period  | 51,324         |

## Consolidated Statement of Cash Flows (continued)

## BANK

| Figures in MXN millions  | 31 Dec<br>2010 |
|--|----------------|
| Net income   | 420            |
| Adjustments for items not involving cash flow:                                 | 11,997         |
| Gain or loss on appraisal of activities associated with investment & financing | (1,871)        |
| Allowances for loan losses   | 9,407          |
| Depreciation and amortisation  | 1,612          |
| Provisions   | 2,756          |
| Income tax and deferred taxes  | 111            |
| Undistributed income from subsidiaries   | (18)           |
| Changes in items related to operating activities:                              |                |
| Margin accounts  | (39)           |
| Investment securities  | (18,733)       |
| Repurchase agreements  | (263)          |
| Derivative (assets)  | (2,507)        |
| Loan portfolio   | (21,903)       |
| Foreclosed assets  | -              |
| Operating assets   | (15,100)       |
| Deposits   | 14,887         |
| Bank deposits and other liabilities  | (2,925)        |
| Settlement accounts  | 2,359          |
| Creditors repo transactions  | 10,324         |
| Collateral sold or delivered as guarantee                                      | 522            |
| Derivative (liabilities)   | 3,413          |
| Subordinated debentures outstanding  | (214)          |
| Other operating liabilities  | 5,203          |
| Funds provided by operating activities   | (24,976)       |
| Investing activities:  |                |
| Acquisition of property, furniture and equipment                               | (2,966)        |
| Intangible assets acquisitions   | (1,465)        |
| Funds used in investing activities   | (4,431)        |
| Financing activities:  |                |
| Cash dividends   | (2,013)        |
| Contributions for future capital increases                                     | 2,013          |
| Funds used in financing activities   | -              |
| Financing activities:  |                |
| Decrease in cash and equivalents   | (16,990)       |
|  | (8)            |

Adjustments to cash flow variations in the exchange rate and inflation levels

|   |        |
|---|--------|
| Cash and equivalents at beginning of period | 68,322 |
| Cash and equivalents at end of period       | 51,324 |

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 year ended 31 December 2010 and an explanation of the key reconciling items.

| Figures in MXN millions   | 31 Dec<br>2010 |
|---|----------------|
| Grupo Financiero HSBC - Net Income Under Mexican GAAP                           | 2,119          |
| Differences arising from:   |                |
| Valuation of defined benefit pensions and post retirement healthcare benefits W | 179            |
| Acquisition costs relating to long-term investment contracts W                  | (29)           |
| Deferral of fees received and paid on the origination of loans                  | 17             |
| Recognition and provisioning for loan impairments W                             | 1,447          |
| Purchase accounting adjustments W   | (21)           |
| Recognition of the present value in-force of long-term insurance contracts W    | 2              |
| Other W   | 613            |
| Net income under IFRS   | 4,327          |
| US dollar equivalent (millions)   | 342            |
| Add back tax expense  | 967            |
| Profit before tax under IFRS  | 5,294          |
| US dollar equivalent (millions)   | 419            |
| Exchange rate used for conversion   | 12.64          |

W Net of tax at 30 per cent.

Summary of key differences between Grupo Financiero HSBC's results as reported under Mexican GAAP and IFRS

Valuation of defined benefit pensions and post retirement healthcare benefits  
Mexican GAAP

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method and real interest rates.

IFRS

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method. The net charge to 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, and is presented in operating expenses. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest. 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. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

Acquisition costs of long-term investment contracts

Mexican GAAP

All costs related to the acquisition of long-term investment contracts are expensed as they are incurred.

IFRS

Incremental costs relating to the acquisition of long-term investment contracts are deferred and amortised over the expected life of the contract.

Fees paid and received on the origination of loans

Mexican GAAP

From 1 January 2007, loan origination fees are required to be deferred and amortised over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were recognised up-front.

IFRS

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for using the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

Loan impairment charges

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.

IFRS

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying value.

Purchase accounting adjustments

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

Recognition of present value of in-force long-term life insurance contracts

Mexican GAAP

The present value of future earnings are not recognised. Premiums are accounted for on a received basis and reserves are calculated in accordance with guidance as set out by the Insurance Regulator (Comisión Nacional de Seguros y Fianzas).

IFRS

A value is placed on insurance contracts that are classified as long-term insurance business and are in-force at the balance sheet date. The present value of in-force long-term insurance business is determined by discounting future earnings expected to emerge from business currently in force using appropriate assumptions in assessing factors such as recent experience and general economic conditions.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 1 March, 2011