



28 October 2014

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2014 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before tax for the nine months to 30 September 2014 was MXN2,919m, a decrease of MXN1,202m or 29.2% compared with MXN4,121m for the same period in 2013. The results for the nine months to 30 September 2013 included MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes decreased 13.6% compared with the same period in 2013.
- Net income for the nine months to 30 September 2014 was MXN2,482m, a decrease of MXN523m or 17.4% compared with MXN3,005m for the same period 2013, mainly due to lower profit before taxes from reduced total operating income and higher administrative and personnel expenses; partially offset by lower loan impairment charges and tax expenses. Excluding the effect of the AXA distribution agreement and discontinued operations, net income increased 20.7% compared with the same period in 2013.
- Total operating income, net of loan impairment charges, for the nine months to 30 September 2014 was MXN19,409m, a decrease of MXN777m or 3.8% compared with MXN20,186m for the same period in 2013.
- Loan impairment charges for the nine months to 30 September 2014 were MXN5,233m, a decrease of MXN588m or 10.1% compared with MXN5,821m for the same period in 2013.
- Administrative and personnel expenses for the nine months to 30 September 2014 were MXN16,528m, an increase of MXN432m or 2.7% compared with MXN16,096m for the same period in 2013.
- The cost efficiency ratio increased to 67.1% for the nine months to 30 September 2014, compared with 61.9% for the same period in 2013, mainly due to reduced total operating income and higher administrative and personnel expenses.
- Net loans and advances to customers were MXN197.8bn at 30 September 2014, an increase of MXN11.3bn or 6.1% compared with MXN186.4bn at 30 September 2013. Total impaired loans as a percentage of gross loans and advances as at 30 September 2014 increased to 6.3% compared with 5.3% at 30 September 2013.
- At 30 September 2014, deposits were MXN269.3bn, an increase of MXN14.3bn or 5.6% compared with MXN255.0bn at 30 September 2013.
- Return on equity was 6.0% for the nine months to 30 September 2014 compared with 7.6% for the same period in 2013.

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- At 30 September 2014, the bank's total capital adequacy ratio was 13.9% and the tier 1 capital ratio was 11.4% compared with 15.6% and 12.7% respectively at 30 September 2013.
- In the first quarter of 2014, the bank paid a dividend of MXN576m, representing MXN0.30 per share, and Grupo Financiero HSBC paid a dividend of MXN3,781m, representing MXN1.34 per share.

2013 results have been restated to reflect the general insurance manufacturing businesses and HSBC Fianzas, the bonding company, which have been sold, as discontinued operations.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (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 quarter ended 30 September 2014) 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. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance group.

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

Overview

The second quarter of 2014 GDP figures surprised to the upside, reflecting a quarter-on-quarter increase of 1.0% in seasonally adjusted terms. This result was mainly supported by higher external demand, in particular from manufacturing exports to the US, while domestic demand also reflected some moderate improvement. Meanwhile, inflation surpassed the 4.0% level in annual terms on the back of a low comparison base and a stronger-than-expected rebound in agricultural prices. Hence, Banxico kept the monetary policy rate unchanged at 3.0%. The MXN-USD exchange rate has recently weakened to an average of 13.12 for the third quarter of 2014 on the back of better-than-expected results in the US, which may accelerate the tightening of its monetary policy.

For the nine months to 30 September 2014, Grupo Financiero HSBC's net income before tax was MXN2,919m a decrease of MXN1,202m or 29.2% compared with the same period in 2013. The decrease was driven mainly by lower trading income, lower net interest income, in particular from the insurance business, lower net fee income and higher administrative and personnel expenses; partially offset by a decrease in loan impairment charges. The results for the nine months to 30 September 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes decreased 13.6% compared with the same period in 2013.

Net income was MXN2,482m, a decrease of MXN523m or 17.4% compared with the same period in 2013 due to lower net income before tax partially offset by lower tax expenses, largely due to higher inflationary effects which benefited the effective tax rate for the nine months to 30 September 2014. Excluding the effect of the AXA distribution agreement income in 2013 and discontinued operations, net income increased 20.7% compared with the same period in 2013.

Net interest income was MXN16,548m, a decrease of MXN473m or 2.8% compared with the same period in 2013. The decrease is mainly due to the insurance related business which accounted for MXN456m of the decrease and lower spreads in non-interest bearing deposits due to a decrease in market rates, partially offset by higher average loan portfolio balances, as well as higher spreads in credit cards.

Loan impairment charges were MXN5,233m, a decrease of MXN588m or 10.1% compared with the same period in 2013. The decrease is mainly due to higher loan impairment charges in 2013 related to a finance project and to other commercial loans.

Net fee income was MXN4,886m, a decrease of MXN298m or 5.7% compared with the same period of 2013. This decrease is mainly due to lower account services and alternative channels fees, partially offset by MXN65.9m commissions related to the AXA distribution agreement for general insurance sales in branches signed in April 2013 and higher fees on Debt Capital Markets transactions.

Trading income was MXN1,295m, a decrease of MXN634m or 32.9% compared with the same period in 2013. This decrease is explained by losses in foreign exchange transactions and the negative mark to market of derivatives partially offset by gains in bond transactions.

Other operating income was MXN1,913m, an increase of MXN40m or 2.1% compared with the same period of 2013. The results for the nine months to 30 September 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, other operating income increased 69.4% compared with the same period of 2013, mainly due to an impairment provision on a defaulted derivative that was recognised as an account receivable in 2013 and higher loan recoveries recognised in 2014.

Administrative and personnel expenses were MXN16,528m, an increase of MXN432m or 2.7% compared with the same period of 2013. This increase is mainly due to investment in the compliance and risk functions partially funded by sustainable cost savings that had been achieved in previous years.

The cost efficiency ratio increased to 67.1% for the nine months to 30 September 2014, compared with 61.9% for the same period in 2013, mainly due to reduced total operating income and higher administrative and personnel expenses.

The effective tax rate was 10.8% for the nine months to 30 September 2014, compared with 35.0% for the same period in 2013. This variance is largely due to higher inflationary effects which benefited the effective tax rate in the nine months to 30 September 2014. As at 30 September 2014, the effective tax rate calculation considers the whole year projected inflation effect issued by the Central Bank as established in the Mexican Income Tax Law instead of considering the real inflation on a monthly basis; this change was in order to better reflect the expected tax consequences at the end of the reporting period.

Discontinued operations include the general insurance manufacturing businesses sold in April 2013 and HSBC Fianzas sold in December 2013. The results for the nine months to 30 September 2014 include a gain following adjustments at the completion of the insurance business sale and a provision for a probable legal case following the completion of the sale of HSBC Fianzas.

Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax of MXN1,136.2m for the nine months to 30 September 2014. Excluding discontinued operations and one-offs, net income before tax decreased 22.3% compared with the same period in 2013. The decrease is explained by lower premium income in life insurance products due to reduced sales. Additionally, the claim ratio increased to 58.8% from 43.6% for the nine months to 30 September 2013, mainly due to maturities of endowment policies that represent 67% of the total increase. Excluding maturities, the claim ratio increased to 41.5% from 36.9% for the nine months to 30 September 2013. Endowment insurance product gross written premiums increased 14.9% compared with the same period in 2013.

Net loans and advances to customers were MXN197.8bn at 30 September 2014, an increase of MXN11.3bn or 6.1% compared with MXN186.4bn at 30 September 2013. The performing loans to government entities increased by 19.3%, performing commercial loan portfolio increased by 2.4% primarily in the corporate segment, and the mortgage loan portfolio increased by 10.1%, compared with the same period in 2013. The performing consumer loan portfolio decreased by 3.6% mainly in payroll and personal loans, partially offset by credit cards that increased 6.8%, compared to the position at 30 September 2013.

At 30 September 2014, total impaired loans increased by 25.1% to MXN13.1bn compared with MXN10.5bn at 30 September 2013. The higher impaired loan portfolio is associated with the performance of certain home builders and other impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers increased to 6.3% compared with 5.3% at 30 September 2013. The non-performing loan ratio of mortgage and consumer impaired loan portfolios remain unchanged in 3.5% compared 30 September 2013.

Total loan loss allowances at 30 September 2014 were MXN11.9bn, an increase of MXN0.2bn or 1.8% compared with 30 September 2013. The total coverage ratio (allowance for loan losses divided by impaired loans) was 90.5% at 30 September 2014 compared with 111.3% at 30 September 2013. This decrease was primarily a result of the increase in impaired commercial loans.

Total deposits were MXN269.3bn at 30 September 2014, an increase of MXN14.3bn or 5.6% compared with 30 September 2013. Demand deposits increased by 7.4% while time deposits decreased 2.4%.

At 30 September 2014, the bank's total capital adequacy ratio was 13.9% and the tier 1 capital ratio was 11.4% compared with 15.6% and 12.7% respectively at 30 September 2013.

In the first quarter of 2014, the bank paid a dividend of MXN576m representing MXN0.30 per share and Grupo Financiero HSBC paid a dividend of MXN3,781m representing MXN1.34 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

Average consumer loans showed an 8.4% improvement compared with the same period of 2013, mainly driven by:

- A 21.0% increase in average mortgage loans compared with the same period in 2013, as a result of ongoing campaigns. This year, the campaign is based on an 8.45% mortgage rate.
- A 6.8% increase in credit card average balances compared with the same period in 2013, mainly due to a higher number of revolving accounts as a consequence of several strategies in Balance Transfer, Statement Financing, Cash advance and increase in credit lines.

In September 2014, HSBC relaunched the Advance proposition with the objective to attract new customers and strengthen the relationship with our current customer base. The proposition is focused to 25 to 40 year old customers, providing them with credit solution to their everyday needs. This relaunch was done on a nationwide basis.

Commercial Banking (CMB)

CMB results for the nine months to 30 September 2014, compared with the same period in 2013, were affected by lower performing loan balances, mainly related to

exposure to home builders' portfolios and a strategic reduction in the business banking loan balances, coupled with lower spreads in deposits.

Aligned to our global strategy of becoming the leading international trade and business bank, CMB continues to increase connectivity with global customers throughout the world. It is important to highlight the following points:

- Further action continues to support international SMEs through the MXN13bn International Growth Fund; approximately 91% of the Fund has been authorized to customers one year after launch and 36% has been deployed.
- In the second quarter of 2014 HSBC launched a financing programme (MXN26bn) together with NAFIN, addressed to the Energy Sector, which will provide support to suppliers or clients of both governmental and private institutions involved in the sector. This program provides financing for investment projects such as the creation and infrastructure development, modernization, environmental improvement and technological development. As of September 2014, approximately 17% (MXN4.1bn) of the program has been deployed.
- Continued progress in collaboration with Global Banking and Markets (GBM) and Global Private Banking (GPB). Closer coordination with GBM expertise has delivered growth in more complex products with sophisticated clients. In addition, GPB communication is continuing to strengthen, as there has been a wider collaboration between these two segments, trying to leverage our CMB client base, particularly in the Business Banking segment, as this part of the business is starting to be included as part of a local strategy.

Payments and Cash Management Mexico has been awarded Best Domestic Cash Management by Euromoney for the third consecutive year.

Global Banking and Markets

Trading income was MXN1,295m, a decrease of MXN634m or 32.9% compared with the same period in 2013. This decrease is explained by losses in foreign exchange transactions and the negative mark to market of derivatives partially offset by gains in bonds transactions.

During the third quarter of 2014, Equity Capital Markets business maintained its status as one of the top three in the local equity market league tables, mainly for the three significant deals closed during the year. In the last one at Fibra Terrafina, HSBC was elevated by the company as Joint Global Coordinator for its follow on, which further strengthens our equity capital markets and real estate sector credentials in Mexico and Latin America.

During the third quarter of 2014, Debt Capital Markets business improved its position as a leading underwriter in Mexico, reaching second place in the local debt capital market league tables.

As a result of the increased business in the bond and interest rate markets, at the end of the third quarter of 2014, HSBC was placed third in the ranking of Market Makers for the Mexican Ministry of Finance (SHCP).

Global Banking continued to grow average balances in its performing credit and lending business mainly in Government sector, which increased MXN6,071m or 12.5% compared with the same period of 2013. As result of growth in loan balances, the fees related to financial structuring services increased MXN18.0m or 46.9% compared with the same period of 2013.

Grupo Financiero HSBC's third quarter 2014 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS)

For the nine months to 30 September 2014, on an IFRS basis, Grupo Financiero HSBC reported a net income before tax of MXN1,228m, a decrease of MXN672m or 35.4% compared with MXN1,900m for the same period of 2013.

The higher net income before tax reported under Mexican GAAP is largely due to higher loan impairment charges under IFRS as a result of the different provisioning methodologies, coupled with a reduction of the present value of in-force long-term insurance business, a concept which is only recognised under IFRS, as well as with higher deferral of fees paid on the origination of loans. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 983 branches, 5,825 ATMs and approximately 17,500 employees. For more information, visit www.hsbc.com.mx.

Grupo Financiero HSBC is a 99.99% 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 6,200 offices in 74 countries and territories in Asia, Europe, North and Latin America, the Middle East and North Africa and with assets of US\$2,754bn at 30 June 2014, the HSBC Group is one of the world's largest banking and financial services organisations.

For further information contact:

Mexico City

Lyssette Bravo
Public Affairs
Telephone: +52 (55) 5721 2888

Rafael Toro
Investor Relations
Telephone: +52 (55) 5721 2864

London

Brendan McNamara
Corporate Media Relations
Telephone: +44 (0)20 7991 0655

Guy Lewis
Investor Relations
Telephone: +44 (0)20 7992 1938

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Consolidated Balance Sheet

	GROUP		BANK	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
<i>Figures in MXN millions</i>				
Assets				
Cash and deposits in banks	32,372	47,996	32,370	47,996
Margin accounts	5	-	5	-
Investment in securities	237,781	143,325	221,558	126,161
Trading securities	64,994	39,143	59,879	32,047
Available-for-sale securities	141,064	87,857	141,064	87,857
Held to maturity securities	31,723	16,325	20,615	6,257
Repurchase agreements	-	2,600	-	2,600
Derivative transactions	52,497	51,231	52,497	51,231
Performing loans				
Commercial loans	103,722	101,269	103,722	101,269
Loans to financial intermediaries	6,677	5,115	6,677	5,115
Consumer loans	36,544	37,896	36,544	37,896
Mortgage loans	25,176	22,876	25,176	22,876
Loans to government entities	24,406	20,453	24,406	20,453
Total performing loans	196,525	187,609	196,525	187,609
Impaired loans				
Commercial loans	10,778	8,210	10,778	8,210
Loans to financial intermediaries	-	2	-	2
Consumer loans	1,644	1,539	1,644	1,539
Mortgage loans	604	694	604	694
Loans to government entities	85	38	85	38
Total impaired loans	13,111	10,483	13,111	10,483
Gross loans and advances to customers	209,636	198,092	209,636	198,092
Allowance for loan losses	(11,869)	(11,664)	(11,869)	(11,664)
Net loans and advances to customers	197,767	186,428	197,767	186,428
Accounts receivable from insurers and bonding companies	41	12	-	-
Premium receivables	48	39	-	-
Accounts receivable from reinsurers and rebonding companies	56	114	-	-
Benefits to be received from trading operations	163	262	163	262
Other accounts receivable	57,284	31,258	56,148	31,048
Foreclosed assets	81	184	81	184
Property, furniture and equipment, net	6,362	6,910	6,362	6,910
Long-term investments in equity securities	228	221	141	134
Long-term assets available for sale	1	303	-	3
Deferred taxes	8,399	6,590	8,241	6,479
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	3,088	3,673	2,950	3,490
Total assets	597,221	482,194	578,283	462,926

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Consolidated Balance Sheet (continued)

	GROUP		BANK	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
<i>Figures in MXN millions</i>				
Liabilities				
Deposits	269,329	254,997	269,863	255,528
Demand deposits	166,078	154,656	166,612	155,187
Time deposits	96,939	99,302	96,939	99,302
Bank bonds outstanding	6,312	1,039	6,312	1,039
Bank deposits and other liabilities	31,882	25,118	31,882	25,118
On demand	9,641	4,017	9,641	4,017
Short-term	20,731	18,741	20,731	18,741
Long-term	1,510	2,360	1,510	2,360
Repurchase agreements	89,503	28,513	89,503	28,513
Stock borrowing	-	1	-	1
Settlement accounts	494	-	494	-
Collateral sold	17,506	3,796	17,506	3,796
Derivative transactions	51,750	49,754	51,750	49,754
Technical reserves	12,056	11,223	-	-
Accounts payable from reinsurers and rebonding companies	15	11	-	-
Other accounts payable	60,010	41,087	58,417	40,494
Income tax and employee profit sharing payable	441	818	366	700
Sundry creditors	59,569	40,269	58,051	39,794
Subordinated debentures outstanding	9,602	11,699	9,602	11,699
Deferred taxes	708	600	709	600
Total liabilities	542,855	426,799	529,726	415,503
Equity				
Paid in capital	37,823	37,823	32,768	32,768
Capital stock	5,637	5,637	5,680	5,680
Additional paid in capital	32,186	32,186	27,088	27,088
Other reserves	16,538	17,561	15,786	14,654
Capital reserves	2,644	2,458	11,188	10,973
Retained earnings	11,215	11,473	2,770	1,420
Result from the mark to market valuation of available-for-sale securities	200	539	200	539
Result from cash flow hedging transactions	(3)	86	(3)	86
Net income	2,482	3,005	1,631	1,636
Minority interest in capital	5	11	3	1
Total equity	54,366	55,395	48,557	47,423
Total liabilities and equity	597,221	482,194	578,283	462,926

Consolidated Balance Sheet (continued)

	GROUP		BANK	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
<i>Figures in MXN millions</i>				
Memorandum Accounts	4,730,217	4,235,729	4,717,356	4,195,270
Third party accounts	116,977	93,254	47,668	49,674
Clients current accounts	-	-	-	-
Custody operations	69,309	42,898	-	-
Transactions on behalf of clients	-	682	-	-
Third party investment banking operations, net	47,668	49,674	47,668	49,674
Proprietary position	4,613,240	4,142,475	4,669,688	4,145,596
Guarantees granted	-	-	-	-
Irrevocable lines of credit granted	32,801	24,915	32,801	24,915
Goods in trust or mandate	471,811	409,079	471,811	409,079
Goods in custody or under administration	352,342	298,790	413,799	293,153
Collateral received by the institution	17,861	13,584	17,861	13,584
Collateral received and sold or delivered as guarantee	17,506	10,289	17,506	10,289
Deposit of assets	-	47	-	-
Suspended interest on impaired loans	309	175	309	175
Recovery guarantees for issued bonds	-	19,104	-	-
Paid claims	-	13	-	-
Cancelled claims	-	9	-	-
Responsibilities from bonds in force	-	3,418	-	-
Other control accounts	3,720,610	3,363,052	3,715,601	3,394,401

Consolidated Income Statement

	GROUP		BANK	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
<i>Figures in MXN millions</i>				
Interest income	22,094	22,483	21,456	21,845
Interest expense	(5,941)	(6,313)	(5,949)	(6,325)
Earned premiums	2,182	2,281	-	-
Technical reserves	(494)	(592)	-	-
Claims	(1,293)	(838)	-	-
Net interest income	16,548	17,021	15,507	15,520
Loan impairment charges	(5,233)	(5,821)	(5,233)	(5,821)
Risk-adjusted net interest income	11,315	11,200	10,274	9,699
Fees and commissions receivable	6,167	6,478	5,755	6,200
Fees payable	(1,281)	(1,294)	(1,280)	(1,297)
Trading income	1,295	1,929	1,139	1,883
Other operating income	1,913	1,873	2,066	2,059
Total operating income	19,409	20,186	17,954	18,544
Administrative and personnel expenses	(16,528)	(16,096)	(16,423)	(15,968)
Net operating income	2,881	4,090	1,531	2,576
Share of profits in equity interest	38	31	35	30
Net income before taxes	2,919	4,121	1,566	2,606
Income tax	(1,206)	(1,503)	(755)	(1,009)
Deferred income tax	891	60	821	39
Net income before discontinued operations	2,604	2,678	1,632	1,636
Discontinued operations	(121)	328	-	-
Minority interest	(1)	(1)	(1)	-
Net income	2,482	3,005	1,631	1,636

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
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Figures in MXN millions

Balances at 1 January 2014	37,823	2,458	11,489	290	(9)	3,714	4	55,769
Movements inherent to the shareholders' decision								
Shares issue								-
Transfer of result of prior years			3,714			(3,714)		-
Constitution of reserves		186	(186)					-
Cash dividends			(3,781)					(3,781)
Total	-	186	(253)	-	-	(3,714)	-	(3,781)
Movements for the recognition of the comprehensive income								
Net income						2,482		2,482
Result from valuation of available- for-sale securities				(90)				(90)
Result from cash flow hedging transactions						6		6
Others			(21) ^W				1	(20)
Total	-	-	(21)	(90)	6	2,482	1	2,378
Balances at 30 September 2014	37,823	2,644	11,215	200	(3)	2,482	5	54,366

^W Methodology for calculating loan impairment allowances for financial entities implemented on March 2014. Net of tax at 30%.

Consolidated Statement of Changes in Shareholders' Equity (continued)

BANK

<i>Figures in MXN millions</i>	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 2014	32,768	10,973	1,436	290	(9)	2,146	2	47,606
Movements inherent to the shareholders' decision								
Share issue								-
Transfer of result of prior years			2,146			(2,146)		-
Constitution of reserves		215	(215)					-
Cash dividends			(576)					(576)
Others								
Total	-	215	1,355	-	-	(2,146)	-	(576)
Movements for the recognition of the comprehensive income								
Net income						1,631	1	1,632
Result from valuation of available- for-sale securities				(90)				(90)
Result from cash flow hedging transactions						6		6
Others			(21) ^W					(21)
Total	-	-	(21)	(90)	6	1,631	1	1,527
Balances at								
30 September 2014	32,768	11,188	2,770	200	(3)	1,631	3	48,557

^W Methodology for calculating loan impairment allowances for financial entities implemented on March 2014. Net of tax at 30%.

Consolidated Statement of Cash Flows

GROUP

Figures in MXN millions

30 Sep 2014

Net income	2,482
Adjustments for items not involving cash flow:	10,056
Allowances for loan losses	5,115
Depreciation	947
Amortisation	313
Provisions	2,879
Income tax and deferred taxes	315
Technical reserves	494
Discontinued operations	30
Share of profit in equity interest	(37)
Changes in items related to operating activities:	
Margin accounts	(5)
Investment securities	(65,953)
Repurchase agreements	500
Derivative (assets)	(2,696)
Loan portfolio	(10,137)
Benefits to be received from trading operations	19
Foreclosed assets	78
Operating assets	(16,193)
Deposits	(18,191)
Bank deposits and other liabilities	11,373
Creditors repo transactions	54,738
Collateral sold or delivered as guarantee	8,430
Derivative (liabilities)	4,106
Subordinated debentures outstanding	139
Accounts receivables from reinsurers and coinsurers	(6)
Accounts receivables from premiums	5
Reinsurers and bonding	2
Other operating liabilities	4,219
Income tax paid	(1,628)
Funds provided by operating activities	(31,200)
Investing activities:	
Acquisition of property, furniture and equipment	(425)
Intangible asset acquisitions & prepaid expenses	(182)
Cash dividends	37
Other investment activities	(22)
Funds used in investing activities	(592)
Financing activities:	
Cash dividends	(3,781)
Funds used in financing activities	(3,781)
Financing activities:	
Increase/Decrease in cash and equivalents	(23,035)
Cash and equivalents at beginning of period	55,407
Cash and equivalents at end of period	32,372

Consolidated Statement of Cash Flows *(continued)*

BANK

Figures in MXN millions

30 Sep 2014

Net income	1,631
Adjustments for items not involving cash flow:	8,801
Allowances for loan losses	5,115
Depreciation	947
Amortisation	313
Provisions	2,527
Income tax and deferred taxes	(67)
Share of profits in equity interest	(34)
Changes in items related to operating activities:	
Margin accounts	(5)
Investment securities	(67,697)
Repurchase agreements	500
Derivative (assets)	(2,696)
Loan portfolio	(10,137)
Benefits to be received from trading operations	19
Foreclosed assets	78
Operating assets	(15,220)
Deposits	(17,945)
Bank deposits and other liabilities	11,373
Creditors repo transactions	54,738
Collateral sold or delivered as guarantee	8,430
Derivative (liabilities)	4,106
Subordinated debentures outstanding	139
Other operating liabilities	3,229
Income tax paid	(1,208)
Funds provided by operating activities	(32,296)
Investing activities:	
Acquisition of property, furniture and equipment	(425)
Intangible asset acquisitions & prepaid expenses	(182)
Cash dividends	37
Others	(27)
Funds used in investing activities	(597)
Financing activities:	
Cash dividends	(576)
Funds used in financing activities	(576)
Financing activities:	
Increase / Decrease in cash and equivalents	(23,037)
Cash and equivalents at beginning of period	55,407
Cash and equivalents at end of period	32,370

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 nine months ended 30 Sep 2014 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Sep 2014
Grupo Financiero HSBC – Net Income Under Mexican GAAP	2,482
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits ^W	88
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments ^W	(41)
Loan impairment charges and other differences in presentation under IFRS ^W	(725)
Recognition of the present value in-force of long-term insurance contracts ^W	(197)
Other differences in accounting principles ^W	(337)
Net income under IFRS	1,270
US dollar equivalent (millions)	93
Add back tax expense	(43)
Profit before tax under IFRS	1,228
US dollar equivalent (millions)	96
 <i>Exchange rate used for conversion</i>	 13.12

^W Net of tax at 30%.

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.

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

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

Effective interest rate method is used for the recognition of fees and expenses received or paid that are directly attributable to the origination of a loan and for other transaction costs, premiums or discounts.

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.

Recoveries of written off loans are presented in Other Operating Income.

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.

Loan Impairment Charges increase in the first half of 2014 is partly due to refinements to the collective impairment model, primarily in RBWM.

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.

Recoveries of written off loans are presented in Loan Impairment Charges.

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

Mexican GAAP

The present value of future earnings is 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

The value placed on insurance contracts that are classified as long-term insurance business or long-term investment contracts with discretionary participating features ('DPF') and are in force at the balance sheet date is recognised as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date.

The present value of in-force long-term insurance business and long-term investment contracts with DPF, referred to as '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 asset 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.

Reduction of Present value of in-force long-term life insurance contracts for the nine months to 30 September 2014 is related to the reduction of sales.