28 July 2016

News Release

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2016 FINANCIAL RESULTS – HIGHLIGHTS

- Net income before taxes for the first half of 2016 was MXN2,499m. When excluding non-recurrent effects, net income before taxes increased MXN612m or 33.2% compared with the same period of 2015 as a result of higher net interest income following an increase in lending balances and higher margins and higher net fee income, partly offset by higher administrative expenses and lower trading income. As reported, net income before taxes increased by MXN16m or 0.6% compared with MXN2,483m for the same period of 2015.

  The non-recurrent events impacting the performance were: a) MXN640m benefit related to the release of a loan loss allowance recognised in the first half of 2015; b) MXN361m transition adjustment income related to Solvency II recognised in the first half of 2016; and c) MXN317m administrative expenses related to a decrease of a deferred profit sharing asset recognised in the first half of 2016.

- Net income for the first half of 2016 was MXN2,055m. Net income increased MXN425m or 26.6% when excluding the non-recurrent effects. The increase is due to higher net income before taxes, partly offset by higher tax expenses. As reported, net income increased MXN8m or 0.4% compared with MXN2,047m for the first half of 2015.

- Total operating income, excluding loan impairment charges, for the first half of 2016 was MXN17,775m, an increase of MXN1,699m or 10.6% compared with MXN16,076m for the first half of 2015, due to higher net interest income and net fee income, partly offset by lower trading income and other operating income.

- Loan impairment charges for the first half of 2016 were MXN3,458m. Loan impairment charges decreased MXN77m or 2.2% when excluding the non-recurrent release of loan loss allowances recognised in the first half of 2015. As reported, loan impairment charges increased MXN563m or 19.4% compared with MXN2,895m for the first half of 2015.

- Administrative and personnel expenses for the first half of 2016 were MXN11,843m. Expenses increased MXN803m or 7.5% when excluding the non-recurrent events. As reported, expenses increased MXN1,120 or 10.4% compared with MXN10,723m for the first half of 2015.

- The cost efficiency ratio was 66.6% for the first half of 2016, compared with 66.7% for the first half of 2015.

- Net loans and advances to customers were MXN253.3bn at 30 June 2016, an increase of MXN41.2bn or 19.4% compared with MXN212.1bn at 30 June 2015. Total impaired loans as a percentage of gross loans and advances at 30 June 2016 decreased to 4.2% compared with 5.7% at 30 June 2015.

- At 30 June 2016, deposits were MXN295.9bn, an increase of MXN3.5bn or 1.2% compared with MXN292.4bn at 30 June 2015.

- Return on equity was 7.8% for the first half of 2016 compared with 7.6% for the first half of 2015.

- At 30 June 2016, the bank's preliminary total capital adequacy ratio was 11.7% and the preliminary tier 1 capital ratio was 9.7% compared with 13.7% and 11.5% respectively at 30 June 2015. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- On 22 March 2016, the Grupo Financiero HSBC shareholders' assembly agreed to pay a dividend of MXN880m, representing MXN0.31 per share on 1 April 2016.

- Net income before taxes for the second quarter of 2016 was MXN997m. When excluding non-recurrent effects, net income before taxes increased MXN107m or 9.1% as a result of higher total operating income, following business growth, partly offset by higher loan impairment charges. As reported, net income before taxes decreased MXN505m or 33.6%. The results of the first quarter include the benefit of MXN361m income transition adjustment related to Solvency II and the second quarter includes a higher impact of MXN251m related to the decrease of deferred profit sharing asset.

- On an IFRS basis, Grupo Financiero HSBC reported a net income before taxes of MXN2,362m for the first half of 2016, an increase of MXN459m or 24.1% compared with MXN1,903m for the first half of 2015. The main differences between the Mexican GAAP and IFRS results for the first half of 2016 relate to differences in accounting for loan impairment charges and insurance liabilities.

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 quarter ended 30 June 2016) 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 group.

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

The results for the first half of 2016 include MXN361m transition adjustment income related to Solvency II (new regulatory framework for insurance companies which took effect on 1 January 2016), with no reclassification for the previous year.

Since the second quarter of 2016, the positive excess of loan impairment charges, determined monthly, to be classified in Other Operating Income, is measured on a portfolio basis rather than on an individual basis. Second quarter 2015 figures have been restated to reflect this change, which implies certain reclassifications between Loan Impairment Charges and Other Operating Income for a total of MXN3,430m. This restatement follows a clarification of the rule as per a formal consultation to the local regulator.

Finally, certain impairments of fixed/intangibles assets which were previously classified in Administrative and Personnel Expenses have been classified in Other Operating Income. First half 2015 figures have been restated to reflect this change for a total of MXN50m.

Overview

The Mexican economy continued to grow during the second quarter of 2016 on the back of the positive performance of the service sector. Nonetheless, some leading indicators of the consumer sector began showing a moderate expansion. Meanwhile, the recovery of the industrial sector was affected as non-oil related exports, and particularly car sales, continued losing momentum. Moreover the building and mining sectors continued being fragile, although oil prices recovered slightly compared to the prior quarter.

The rise in headline inflation continued during the second quarter of 2016 but it remained at relatively low levels and reached nearly 3.0% in annual terms. However, despite the context of moderate growth and low inflationary levels, Banxico decided to preemptively raise the objective interest rate by 50bp to position it in 4.25%. This decision was mainly a response to the depreciation of the Mexican peso.

Net income before taxes for the first half of 2016 was MXN2,499m. When excluding non-recurrent effects, net income before taxes increased MXN612m or 33.2% compared with the same period of 2015 as a result of higher net fee income following an increase in lending balances and higher margins and higher net fees, partly offset by higher administrative expenses and lower trading income. As reported, net income before taxes increased by MXN16m or 0.6% compared with MXN2,483m for the same period of 2015.
The non-recurrent events impacting the performance were: a) The results for the first half of 2015 include MXN640m benefit related to the release of loan loss allowances for one customer of the homebuilders' portfolio; b) The results for the first half of 2016 include a MXN361m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016); and c) The results of the first half of 2016 include an impact of MXN317m related to a decrease of deferred profit sharing asset driven by a reduction in the taxable income base for profit sharing due to the sale of one commercial loan

Net income for the first half of 2016 was MXN2,055m. Net income increased MXN425m or 26.6% when excluding the non-recurrent effects. The increase is due to higher net income before taxes, partly offset by higher tax expenses. As reported, net income increased MXN8m or 0.4% compared with MXN2,047m for the first half of 2015.

Net interest income was MXN13,236m, an increase of MXN2,250m or 20.5% compared with the first half of 2015. The increase is driven by higher loan volumes, particularly in consumer and commercial loan portfolios and higher average deposit spreads in the retail and corporate segments. In addition, the higher net interest income is due to the insurance-related business which accounted for an increase of MXN662m compared with the first half of 2015, explained by growth in term life portfolio due to higher sales coupled with the MXN361m Solvency II initial adjustment income.

Loan impairment charges for the first half of 2016 were MXN3,458m. Loan impairment charges decreased MXN77m or 2.2% when excluding the non-recurrent release of loan loss allowances recognised in the first half of 2015. The decrease relates to lower loan impairment charges in the commercial loan portfolio partly offset by higher loan impairment charges on the consumer portfolio, particularly in payroll and personal loans in line with portfolio balance increases. As reported, loan impairment charges increased MXN563m or 19.4% compared with MXN2,895m for the first half of 2015.

Oil and gas prices have remained low since the middle of 2015, however prices in 2016 have recovered slightly compared to 2015. Also the recent PEMEX (state oil and gas company) budget cut announcements and improved profile of its CDS were positively received by the market. This risk remains closely monitored.

Net fee income was MXN3,330m, an increase of MXN226m or 7.3% compared with the first half of 2015. This increase is mainly due to higher credit card and structuring loan portfolio fees.

Trading income was MXN37m, a decrease of MXN629m or 94.4% compared with the first half of 2015. This decrease is driven by mark-to-market results of derivatives and bonds transactions offset by higher results in FX transactions.

Other operating income was MXN1,172m, a decrease of MXN148m or 11.2% compared with the first half of 2015, mainly due to higher prior year tax provision releases.

Administrative and personnel expenses for the first half of 2016 were MXN11,843m. Expenses increased MXN803m or 7.5% when excluding the impact of MXN317m related to a decrease of deferred profit sharing asset recognised in the first half of 2016. This increase is explained by higher services contracted out and marketing expenses related to campaigns launched at the beginning of the 2016. As reported, expenses increased MXN1,120 or 10.4% compared with MXN10,723m for the first half of 2015.

The cost efficiency ratio was 66.6% for the first half of 2016, compared with 66.7% for the first half of 2015.

The effective tax rate was 17.9% for the first half of 2016 is flat compared with 17.8% for the first half of 2015.

Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax of MXN1,384m for the first half of 2016. This amount includes a benefit of MXN361m for the Solvency II transition adjustment recognised through P&L as recommended by the Comisión Nacional de Seguros y Fianzas. Excluding the transition impact, net income before tax increased by 7.0% compared with the same period of 2015. This positive performance is driven by higher sales in term life portfolio coupled with stable claims and operating expenses lower than prior year.

Net loans and advances to customers were MXN253.3bn at 30 June 2016, an increase of MXN41.2bn or 19.4% compared with MXN212.1bn at 30 June 2015. The performing consumer and mortgage loan portfolios increased by 33.4% and 16.9% respectively, while the performing commercial loan portfolio increased by 16.8, compared with 30 June 2015.

At 30 June 2016, total impaired loans decreased by 13.0% to MXN11.2bn compared with 30 June 2015, mainly due to a lower impaired commercial loan portfolio as a result of active management of the non performing portfolio. Total impaired loans as a percentage of total loans and advances to customers decreased to 4.2% compared with 5.7% at 30 June 2015. The non-performing loan ratio of mortgage and consumer impaired loan portfolios decreased to 2.6% compared with 2.8% at 30 June 2015.

Total loan loss allowances at 30 June 2016 were MXN13.4bn, a decrease of MXN0.8bn or 6.5% compared with 30 June 2015. The total coverage ratio (allowance for loan losses divided by impaired loans) was 120.0% at 30 June 2016 compared with 98.1% at 30 June 2015. The higher coverage ratio reflects the decrease of the impaired loans balance driven by the partial sale of the homebuilders' portfolio.

Total deposits were MXN295.9bn at 30 June 2016, an increase of MXN3.5bn or 1.2% compared with 30 June 2015. Demand deposits increased by 8.0% due to higher corporate and retail deposit balances, partly offset by lower estates and municipalities deposit balances. Time deposits decreased by 8.9% due to lower retail deposit balances and the maturity of money market deposits.

At 30 June 2016, the bank's preliminary total capital adequacy ratio was 11.7% and the preliminary tier 1 capital ratio was 9.7% compared with 13.7% and 11.5% respectively at 30 June 2015.

On 22 March 2016, the Grupo Financiero HSBC shareholders' assembly agreed to pay a dividend of MXN880m, representing MXN0.31 per share on 1 April 2016.

Business highlights

Retail Banking and Wealth Management (RBWM)

RBWM revenues for the first half of 2016 grew significantly compared to the same period of 2015. Revenue growth was mainly driven by higher loan portfolio volumes, reflecting RBWM's strategy to fulfil customer needs with special focus on payroll, personal, mortgage loans and credit cards. This first half of the year growth was supported by several strategies to grow payroll and personal portfolio. RBWM focused on new credits for middle and middle-high income customers (Advance and Premier segments), achieving a higher demand in these segments. Moreover, the growth in our payroll portfolios was supported by our customised credits specialised in State, Federal and Municipal government employees.

The performing RBWM consumer and mortgage loan portfolios at 30 June 2016 increased 26.7% compared with the same period of 2015. Average number of credit cards issued per month was 51,661 in the first half of 2016, an increase of 22.4% compared with the same period of 2015.

Personal loans and payroll loans portfolio balance at 30 June 2016 increased 107.4% and 48.2% respectively compared with the balances at 30 June 2015. Monthly average drawdowns of mortgages were MXN688m per month for the first half of 2016, increasing balances 16.9% compared with the same period of 2015.

Deposits have also contributed to higher revenues in the period with growth in both demand and time deposits' revenues. Total deposit balances for RBWM have also grown, driven by demand deposits mainly due to higher interest rates.
The insurance business continues to be focused on the affordability strategy to offer a premium payment according to client income. HSBC Mexico has experienced a positive impact from this strategy, benefiting the persistency for temporary life insurance portfolio. Additionally, annualised premiums of life product sales for the first half of 2016 have increased by 37% compared with the same period of 2015, leading to a portfolio growth of 17% compared with the same period of 2015.

Commercial Banking (CMB)

CMB results for the first half of 2016 registered higher revenues by 18.5% compared with the same period of 2015 mainly driven by an increase in loan portfolio volume of 15.7%, particularly in the Large Corporates and Mid-Markets Enterprises segments, higher spreads in deposits as a result of market rate increases and a change in mix of products. These were partially offset by lower volumes in deposits from States and Municipalities segment.

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:

- Improve Mexico profitability by streamlining the customer base in all businesses; exploring transactional and credit product cross-sell and investment in sales execution.

- Leverage strong NAFTA connectivity, and continue to develop product proposition and investment in technology to capture market share. Investments made in Mexico have enabled a more consistent NAFTA offering across Mexico, US and Canada to better serve international customers.

- Launch of new trade loan solutions through digital technology and enhancements to supply chain system coupled with improved foreign currency (US$) trade cost of funding, has resulted in more competitive alternate solutions to working capital finance. Expand product offering to provide Structured Trade Finance solutions to commodities customers.

- In order to better support international customers, Commercial Banking has strengthened the International Subsidiary Banking team (ISB), with a presence in key locations across Mexico. The ISB has been successful in supporting customers from key corridors, in particular NAFTA, China and Europe (German corporates are the third highest source of inbound revenues, after US and China corporates), evidenced by strong growth rates and high quality new-to-bank relationships. Through the ISB proposition, HSBC Mexico provides financial solutions and strengthens the links with our global network.

- In order to compensate the shortfall in deposits during this the first half of 2016 compared to expectations, GLCM launch in mid-May a strategy to enhance balance sheet growth focusing on: a) Tax Payments; b) Lending

Portfolio; c) Core Relations; d) High Yield Investments; e) Deposits Campaign – the target is to grow deposits base during the following 2-3 months. At the end of June, average deposits recovered to reach a 9% favourable to prior year.

Global Banking and Markets (GBM)

Trading income was MXN37m, a decrease of MXN629m or 94.4% compared with the first half of 2015. This decrease is driven by mark-to-market results of derivatives and bonds transactions offset by higher results in FX transactions.

Asset and Structured Finance business has been working with CMB clients who generated higher fees during the first half of 2016 by MXN20m in Global Banking (MXN40m across Global Banking and CMB).

Global Banking continued to grow balances in its credit and lending business mainly in the corporate sector in the second quarter of the year, which increased by MXN3.0bn or 5% compared with the same period of 2015. As result of the growth in loan balances, the net interest income increased by MXN76m or 23.4%

Net interest income in deposits increased MXN76m or 41.8% vs first half of 2015 as a consequence on increase in spread. In addition, trade services business increased its balances by MXN2.2bn or 48.5% compared with the same period of 2015, mainly in NAFTA corridor, which generated MXN32m or 23.4% higher net interest income

The Mexico Global Markets eCommerce FX business grew 7.45% in the first half of 2016; this growth is a key driver of our FX business in Mexico. CMB FX sales business continued its steady growth during 2016. The bank continues to diversify the customers base and customers product portfolio through the use of FX forwards and FX options, with the support of the Risk Advisory Team.

Improved services and relationship with corporate customers have increased revenues in the Payments & Cash Management business by 36.9% compared with the same period of 2015.

During the first half of 2016, the Debt Capital Markets business closed three international transactions with local customers, strengthening the outbound revenues and the link with our global network.

Grupo Financiero HSBC's first half 2016 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS)

For the first half of 2016, on an IFRS basis, Grupo Financiero HSBC reported a net income before taxes of MXN2,362m, an increase of MXN459m or 24.1% compared with MXN1,903m for the first half of 2015.

The higher net income before tax reported under Mexican GAAP compared with IFRS for the first half of 2016 is mainly due to differences in accounting for loan impairment charges and insurance liabilities. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

Awards

Infrastructure Journal, the British global platform related to energy and infrastructure, awarded HSBC with the 'Deal of the year' for the new Mexico City Airport financing, where the bank will act as the global coordinator on this financing structure.

In July 2016, HSBC Group was declared the World's Best Investment Bank by Euromoney at its 2016 Awards for Excellence ceremony held in London. The award is one of the most important in the industry. The HSBC Group also won the Best Bank for Corporates. Additionally HSBC won the award for the Best Bank for Financing in Latin America.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 974 branches, 5,610 ATMs and more than 16,000 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 6,000 offices in 71 countries and territories in Europe, Asia, Middle East and North Africa, North America and Latin America and assets of US$2,596bn at 31 March 2016, the HSBC Group is one of the world's largest banking and financial services organisations.

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Consolidated Balance Sheet	**GROUP**		**BANK**	
	30 Jun	**30 Jun**	**30 Jun**	**30 Jun**
Figures in MXN millions	**2016**	**2015**	**2016**	**2015**
Assets				
Cash and deposits in banks	**40,940**	32,734	**40,852**	32,734
Margin accounts	**-**	62	**-**	62
Investment in securities	**167,963**	180,592	**151,790**	165,133
Trading securities	**42,838**	59,495	**40,776**	55,784
Available-for-sale securities	**97,183**	89,874	**91,375**	88,735
Held to maturity securities	**27,942**	31,223	**19,639**	20,614
Repurchase agreements	**5,077**	9,411	**5,077**	9,411
Derivative transactions	**74,251**	72,820	**74,251**	72,820
Performing loans				
Commercial loans	**125,671**	107,633	**125,671**	107,633
Loans to financial intermediaries	**13,864**	6,322	**13,864**	6,322
Consumer loans	**51,888**	38,902	**51,888**	38,902
Mortgage loans	**31,266**	26,742	**31,266**	26,742
Loans to government entities	**32,897**	32,300	**32,897**	32,300
Total performing loans	**255,586**	211,899	**255,586**	211,899
Impaired loans				
Commercial loans	**9,001**	10,920	**9,001**	10,920
Loans to financial intermediaries	**-**	-	**-**	-
Consumer loans	**1,681**	1,345	**1,681**	1,345
Mortgage loans	**512**	552	**512**	552
Loans to government entities	**6**	50	**6**	50
Total impaired loans	**11,200**	12,867	**11,200**	12,867
Gross loans and advances to customers	**266,786**	224,766	**266,786**	224,766
Allowance for loan losses	**(13,443)**	(12,619)	**(13,443)**	(12,619)
Net loans and advances to customers	**253,343**	212,147	**253,343**	212,147
Accounts receivable from insurers and bonding companies	**112**	80	**-**	-
Premium receivables	**355**	46	**-**	-
Accounts receivable from reinsurers and rebonding companies	**45**	63	**-**	-
Benefits to be received from trading operations	**106**	133	**106**	133
Other accounts receivable	**71,026**	86,958	**70,794**	86,413
Foreclosed assets	**108**	80	**108**	80
Property, furniture and equipment, net	**5,198**	5,769	**5,198**	5,769
Long-term investments in equity securities	**267**	241	**176**	153
Long-term assets available for sale	**-**	-	**-**	-
Deferred taxes and deferred profit sharing	**9,987**	8,945	**9,888**	8,801
Goodwill	**1,048**	1,048	**-**	-
Other assets, deferred charges and intangibles	**2,829**	3,030	**2,824**	2,824
Total assets	**632,655**	614,159	**614,407**	596,480

Consolidated Balance Sheet *(continued)*

	GROUP		BANK	
Figures in MXN millions	**30 Jun 2016**	**30 Jun 2015**	**30 Jun 2016**	**30 Jun 2015**
Liabilities				
Deposits	**295,892**	292,380	**296,549**	293,095
Demand deposits	**190,263**	176,096	**190,625**	176,511
Time deposits	**100,443**	110,252	**100,064**	109,624
Bank bonds outstanding	**5,186**	6,032	**5,186**	6,032
Global deposit account without movements	**-**	-	**674**	928
Bank deposits and other liabilities	**45,002**	27,122	**45,002**	27,122
On demand	**10,000**	-	**10,000**	-
Short-term	**29,488**	23,504	**29,488**	23,504
Long-term	**5,514**	3,618	**5,514**	3,618
Repurchase agreements	**37,691**	37,379	**37,691**	37,379
Settlement accounts	**-**	4,276	**-**	4,276
Collateral sold	**16,465**	16,366	**16,465**	16,366
Derivative transactions	**80,926**	73,024	**80,926**	73,024
Technical reserves	**11,991**	12,315	**-**	-
Accounts payable from reinsurers and rebonding companies	**5**	13	**-**	-
Other accounts payable	**78,793**	85,727	**77,899**	84,792
Income tax and employee profit sharing payable	**178**	98	**5**	74
Sundry creditors	**78,615**	85,629	**77,894**	84,718
Subordinated debentures outstanding	**11,667**	10,529	**11,667**	10,529
Deferred taxes and deferred profit sharing	**1,010**	712	**993**	713
Total liabilities	**579,442**	559,843	**567,192**	547,296
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	**15,386**	16,489	**14,445**	16,414
Capital reserves	**2,644**	2,644	**11,273**	11,273
Retained earnings	**10,965**	11,646	**2,581**	3,539
Result from the mark to market valuation of available-for-sale securities	**(53)**	224	**(96)**	225
Result from cash flow hedging transactions	**(225)**	(72)	**(225)**	(72)
Adjustment in the employee pension	**-**	-	**(130)**	-
Net income	**2,055**	2,047	**1,042**	1,449
Minority interest in capital	**4**	4	**2**	2
Total equity	**53,213**	54,316	**47,215**	49,184
Total liabilities and equity	**632,655**	614,159	**614,407**	596,480

Consolidated Balance Sheet *(continued)*

	GROUP		BANK	
Figures in MXN millions	**30 Jun 2016**	**30 Jun 2015**	**30 Jun 2016**	**30 Jun 2015**
Memorandum Accounts	**5,082,770**	5,128,335	**5,071,964**	5,117,471
Third party accounts	**40,375**	42,359	**39,304**	41,277
Clients current accounts	**-**	-	**-**	-
Custody operations	**1,071**	1,082	**-**	-
Transactions on behalf of clients	**-**	-	**-**	-
Third party investment banking operations, net	**39,304**	41,277	**39,304**	41,277
Proprietary position	**5,042,395**	5,085,976	**5,032,660**	5,076,194
Guarantees granted	**-**	-		
Irrevocable lines of credit granted	**266,308**	245,360	**266,308**	245,360
Goods in trust or mandate	**455,859**	434,780	**455,859**	434,780
Goods in custody or under administration	**990,956**	586,685	**985,319**	581,049
Collateral received by the institution	**25,980**	27,099	**25,980**	27,099
Collateral received and sold or delivered as guarantee	**24,447**	17,423	**24,447**	17,423
Deposit of assets	**-**	-	**-**	-
Suspended interest on impaired loans	**258**	227	**258**	227
Recovery guarantees for issued bonds	**-**	-	**-**	-
Paid claims	**-**	-	**-**	-
Cancelled claims	**-**	-	**-**	-
Responsibilities from bonds in force	**-**	-	**-**	-
Other control accounts	**3,278,587**	3,774,402	**3,274,489**	3,770,256

Consolidated Income Statement

	GROUP		BANK	
Figures in MXN millions	**30 Jun 2016**	**30 Jun 2015**	**30 Jun 2016**	**30 Jun 2015**
Interest income	**17,135**	14,742	**16,643**	14,271
Interest expense	**(4,813)**	(4,113)	**(4,822)**	(4,058)
Earned premiums	**1,646**	1,410	**-**	-
Technical reserves	**338**	68	**-**	-
Claims	**(1,070)**	(1,121)	**-**	-
Net interest income	**13,236**	10,986	**11,821**	10,213
Loan impairment charges	**(3,458)**	(2,895)	**(3,458)**	(2,895)
Risk-adjusted net interest income	**9,778**	8,091	**8,363**	7,318
Fees and commissions receivable	**4,268**	3,994	**4,048**	3,735
Fees payable	**(938)**	(890)	**(959)**	(889)
Trading income	**37**	666	**89**	723
Other operating income	**1,172**	1,320	**1,277**	1,427
Total operating income	**14,317**	13,181	**12,818**	12,314
Administrative and personnel expenses	**(11,843)**	(10,723)	**(11,768)**	(10,683)
Net operating income	**2,474**	2,458	**1,050**	1,631
Share of profits in equity interest	**25**	25	**22**	23
Profit/loss before taxes	**2,499**	2,483	**1,072**	1,654
Income tax	**(475)**	(485)	**(27)**	(201)
Deferred income tax	**31**	48	**(3)**	(5)
Net income before discontinued operations	**2,055**	2,046	**1,042**	1,448
Discontinued operations	**-**	-	**-**	-
Minority interest	**-**	1	**-**	1
Profit/loss	**2,055**	2,047	**1,042**	1,449

Consolidated Income Statement – GROUP 2016
Non Recurrent Items Detail

	Reported	Solvency II	Deferred profit sharing	Excluding non-recurrent items
Interest income	**17,135**	(361)	-	**16,774**
Interest expense	**(4,813)**	-	-	**(4,813)**
Earned premiums	**1,646**	-	-	**1,646**
Technical reserves	**338**	-	-	**338**
Claims	**(1,070)**	-	-	**(1,070)**
Net interest income	**13,236**	(361)	-	**12,875**
Loan impairment charges	**(3,458)**	-	-	**(3,458)**
Risk-adjusted net interest income	**9,778**	-	-	**9,417**
Fees and commissions receivable	**4,268**	-	-	**4,268**
Fees payable	**(938)**	-	-	**(938)**
Trading income	**37**	-	-	**37**
Other operating income	**1,172**	-	-	**1,172**
Total operating income	**14,317**	(361)	-	**13,956**
Administrative and personnel expenses	**(11,843)**	-	317	**(11,526)**
Net operating income	**2,474**	(361)	317	**2,430**
Share of profits in equity interest	**25**	-	-	**25**
Profit/loss before taxes	**2,499**	(361)	317	**2,455**
Income tax	**(475)**	108	(95)	**(462)**
Deferred income tax	**31**			**31**
Net income before discontinued operations	**2,055**	(253)	222	**2,024**
Discontinued operations	**-**	-	-	**-**
Minority interest	**-**	-	-	**-**
Profit/loss	**2,055**	(253)	222	**2,024**

Consolidated Income Statement – GROUP 2015
Non Recurrent Items Detail

Figures in MXN millions	**Reported**	**Loan Impairment Charge release**	**Excluding non-recurrent items**
Interest income	14,742	-	14,742
Interest expense	(4,113)	-	(4,113)
Earned premiums	1,410	-	1,410
Technical reserves	68	-	68
Claims	(1,121)	-	(1,121)
Net interest income	10,986	-	10,986
Loan impairment charges	(2,895)	(640)	(3,535)
Risk-adjusted net interest income	8,091	(640)	7,451
Fees and commissions receivable	3,994	-	3,994
Fees payable	(890)	-	(890)
Trading income	666	-	666
Other operating income	1,320	-	1,320
Total operating income	13,181	(640)	**12,541**
Administrative and personnel expenses	(10,723)	-	(10,723)
Net operating income	2,458	(640)	**1,818**
Share of profits in equity interest	25	-	**25**
Profit/loss before taxes	2,483	(640)	**1,843**
Income tax	(485)	192	**(293)**
Deferred income tax	48		**48**
Net income before discontinued operations	2,046	(448)	**1,598**
Discontinued operations	-	-	**-**
Minority interest	1	-	**1**
Profit/loss	2,047	(448)	**1,599**

Consolidated Income Statement – BANK 2016
Non Recurrent Items Detail

	Reported	Deferred profit sharing	Excluding non-recurrent items
Interest income	**16,643**	-	**16,643**
Interest expense	**(4,822)**	-	**(4,822)**
Earned premiums	**-**	-	**-**
Technical reserves	**-**	-	**-**
Claims	**-**	-	**-**
Net interest income	**11,821**	-	**11,821**
Loan impairment charges	**(3,458)**	-	**(3,458)**
Risk-adjusted net interest income	**8,363**	-	**8,363**
Fees and commissions receivable	**4,048**	-	**4,048**
Fees payable	**(959)**	-	**(959)**
Trading income	**89**	-	**89**
Other operating income	**1,277**	-	**1,277**
Total operating income	**12,818**	-	**12,818**
Administrative and personnel expenses	**(11,768)**	317	**(11,451)**
Net operating income	**1,050**	317	**1,367**
Share of profits in equity interest	**22**	-	**22**
Profit/loss before taxes	**1,072**	317	**1,389**
Income tax	**(27)**	(95)	**(122)**
Deferred income tax	**(3)**		**(3)**
Net income before discontinued operations	**1,042**	222	**1,264**
Discontinued operations	**-**	-	**-**
Minority interest	**-**	-	**-**
Profit/loss	**1,042**	222	**1,264**

Consolidated Income Statement – BANK 2015
Non Recurrent Items Detail

Figures in MXN millions	**Reported**	**Loan Impairment Charge release**	**Excluding non-recurrent items**
Interest income	14,271	-	**14,271**
Interest expense	(4,058)	-	**(4,058)**
Earned premiums	-	-	**-**
Technical reserves	-	-	**-**
Claims	-	-	**-**
Net interest income	10,213		**10,213**
Loan impairment charges	(2,895)	(640)	(3,535)
Risk-adjusted net interest income	7,318	(640)	6,678
Fees and commissions receivable	3,735	-	**3,735**
Fees payable	(889)	-	**(889)**
Trading income	723	-	**723**
Other operating income	1,427	-	**1,427**
Total operating income	12,314	(640)	**11,674**
Administrative and personnel expenses	(10,683)	-	**(10,683)**
Net operating income	1,631	(640)	**991**
Share of profits in equity interest	23	-	**23**
Profit/loss before taxes	1,654	(640)	**1,014**
Income tax	(201)	192	**(9)**
Deferred income tax	(5)		**(5)**
Net income before discontinued operations	1,448	(448)	**1,000**
Discontinued operations	-	-	**-**
Minority interest	1	-	**1**
Profit/loss	1,449	(448)	**1,001**

Consolidated Statement of Changes in Shareholders' Equity

GROUP

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 2016	**37,823**	**2,644**	**11,646**	**(599)**	**(93)**	**510**	**4**	**51,935**
Movements inherent to the shareholders' decision								
Shares issue	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	-	510	-	-	(510)	-	**-**
Constitution of reserves		-	-	-	-	-	-	**-**
Cash dividends	-	-	(880)	-	-	-	-	**(880)**
Total	**-**	**-**	**(370)**	**-**	**-**	**(510)**	**-**	**(880)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	2,055	-	**2,055**
Result from valuation of available-for-sale securities	-	-	-	546	-	-	-	**546**
Result from cash flow hedging transactions	-	-	-	-	(132)	-	-	**(132)**
Loan loss allowance methodology for credit cards and other revolving loans	-	-	(248)	-	-	-	-	**(248)**
Defined benefit pension plans	-	-	(142)	-	-	-	-	**(142)**
Difference of market vs. contractual rates on technical reserves	-	-	79	-	-	-	-	**79**
Total	**-**	**-**	**(311)**	**546**	**(132)**	**2,055**	**-**	**(2,158)**
Balances at 30 June 2016	**37,823**	**2,644**	**10,965**	**(53)**	**(225)**	**2,055**	**4**	**53,213**

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

BANK

Figures in MXN millions	Capital con tributed	Capital re serves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plans	Net inc ome	Minority interest	Total equit y
Balances at 1 January 2016	**32,768**	**11,273**	**3,539**	**(595)**	**(93)**	**-**	**(698)**	**2**	**46,196**
Movements inherent to the shareholders' decision									
Share issue	-	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	-	(698)	-	-	-	698	-	**-**
Constitution of reserves	-	-	-	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**(698)**	**-**	**-**	**-**	**698**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	1,042		**1,042**
Result from valuation of available-for-sale securities	-	-	-	499			-	-	**499**
Result from cash flow hedging transactions	-	-	-	-	(132)	-	-	-	**(132)**
Adjustment in defined benefit pension plans	-	-	(12)	-	-	(130)	-	-	**(142)**
Loan loss allowance methodology for credit cards and other revolving loans	-	-	(248)	-	-	-		-	**(248)**
Total	**-**	**-**	**(260)**	**499**	**(132)**	**(130)**	**1,042**	**-**	**1,019**
Balances at 30 June 2016	**32,768**	**11,273**	**2,581**	**(96)**	**(225)**	**(130)**	**1,042**	**2**	**47,215**

Consolidated Statement of Cash Flows

GROUP

Figures in MXN millions	**30 Jun 2016**
Net income	**2,055**
Adjustments for items not involving cash flow:	**2,730**
Allowances for loan losses	-
Depreciation	463
Amortisation	152
Provisions	2,034
Income tax and deferred taxes	444
Technical reserves	(338)
Discontinued operations	-
Share of profit in equity interest	(25)
Others	-
Changes in items related to operating activities:	
Margin accounts	23
Investment securities	(27,527)
Repurchase agreements	16,529
Derivative (assets)	5,417
Loan portfolio	(21,446)
Benefits to be received from trading operations	14
Foreclosed assets	16
Operating assets	(32,729)
Deposits	15,849
Bank deposits and other liabilities	7,519
Creditors repo transactions	5,237
Collateral sold or delivered as guarantee	(4,184)
Derivative (liabilities)	(4,423)
Subordinated debentures outstanding	492
Accounts receivables from reinsurers and coinsurers	72
Accounts receivables from premiums	(325)
Reinsurers and bonding	-
Other operating liabilities	31,283
Income tax paid	(597)
Funds provided by operating activities	(8,780)
Investing activities:	
Acquisition of property, furniture and equipment	(299)
Intangible asset acquisitions & prepaid expenses	(230)
Cash dividends	27
Other investment activities	51
Funds used in investing activities	(451)
Financing activities:	
Cash dividends	(880)
Funds used in financing activities	**(880)**
Financing activities:	
Increase/Decrease in cash and equivalents	(5,326)
Cash and equivalents at beginning of period	46,266
Cash and equivalents at end of period	**40,940**

Consolidated Statement of Cash Flows *(continued)*

BANK

Figures in MXN millions	30 Jun 2016
Net income	**1,042**
Adjustments for items not involving cash flow:	**(1,228)**
Allowances for loan losses	-
Depreciation	463
Amortisation	152
Provisions	(1,851)
Income tax and deferred taxes	30
Share of profits in equity interest	(22)
Others	-
Changes in items related to operating activities:	
Margin accounts	23
Investment securities	(27,768)
Repurchase agreements	16,529
Derivative (assets)	5,417
Loan portfolio	(21,446)
Benefits to be received from trading operations	14
Foreclosed assets	16
Operating assets	(32,809)
Deposits	15,968
Bank deposits and other liabilities	7,519
Creditors repo transactions	5,237
Collateral sold or delivered as guarantee	(4,184)
Derivative (liabilities)	(4,423)
Subordinated debentures outstanding	492
Other operating liabilities	34,932
Income tax paid	(294)
Funds provided by operating activities	**(4,777)**
Investing activities:	
Acquisition of property, furniture and equipment	(299)
Intangible asset acquisitions & prepaid expenses	(230)
Proceeds on disposal of long-lived assets available for sale	-
Cash dividends	27
Long-term investments in equity securities	-
Others	51
Funds used in investing activities	**(451)**
Financing activities:	-
Cash dividends	-
Funds used in financing activities	**-**
Financing activities:	
Increase / Decrease in cash and equivalents	(5,414)
Cash and equivalents at beginning of period	46,266
Cash and equivalents at end of period	**40,852**

Changes in accounting rules

- Mexican GAAP new accounting rules for defined benefit pension plans are in force starting January 2016 (NIF D-3). Those are mostly aligned with IFRS.

CNBV issued a transitory rule to recognise accounting changes on defined benefit pension plans on an annual and progressive basis during a period of 5 years (20% each year). Grupo Financiero HSBC adhered to this option.

Main impacts are as follows:

a) Plan changes modifications: unrecognised balances on transition were recognised in Retained earnings, this effect was MXN12m, net of deferred taxes.
b) Actuarial gains and losses: unrecognised cumulative balance is recognised in 'Adjustment in the employee defined benefit pension plans' which is presented separately in shareholders' equity in the bank's consolidated financial statements, this effect was MXN130m, net of deferred taxes, at 30 June 2016. The recycling through P&L is done over the average working life of the employees.

On February 2016, Secretaría de Hacienda y Crédito Público 'SHCP' (Mexican Government Authority) recommended that Mexican domestic market is considered as a deep market managing high credit quality bonds for NIF D-3 purposes. This would result in a change in discount rates used to calculate liabilities at present value, using corporate bonds rates instead of governmental bonds rates. The Bank is analysing if a change in discount rate would be possible.

- During 2014, a new Insurance Law was issued which follows the European Solvency II principles proposing a new framework for operations, risk profile and prudential supervision of Insurance Companies in Mexico. Changes are in force starting January 2016. Main impacts are as follows:

  a) From an Insurance Liabilities perspective a Best Estimate Liabilities + Risk Margin approach is now considered;
  b) Insurance Premiums and Technical Reserves for short term insurance contracts are recognised on an annualised basis;
  c) From the Assets perspective, a Mark to Market assessment is considered for all financial assets; and
  d) Capital requirements are based on risks.

The initial application of Solvency II related to the insurance premiums now recognised on an annualised basis of MXN253m, net of deferred taxes, (MXN361m before taxes) was recognised through P&L as being defined by CNSF recommendation. Additionally, there was an initial application benefit of MXN135m, net of deferred taxes, also related to Solvency II, due to the difference of market vs. contractual rates on technical reserves, which was recognised in retained earnings; further movements were recognised in retained earnings for this concept for MXN-56m as at 30 June 2016.

- On December 2015, the CNBV issued a new loan loss allowance methodology for credit cards and other revolving loans. The new methodology is in force starting

1st April 2016. Main changes are related to the incorporation of new variables such as those obtained from credit bureau and to the period in which the client has maintained a relationship with the bank. Initial application of MXN248m, net of deferred taxes, was recognised in retained earnings.

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)

Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the first half of 2016 and an explanation of the key reconciling items.

Figures in MXN millions	**30 Jun 2016**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**2,055**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits †	146
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments†	38
Loan impairment charges and other differences in presentation under IFRS†	(621)
Recognition of the present value in-force of long-term insurance contracts †	147
Fair value adjustments on financial instruments †	102
Deferred profit sharing	253
Insurance liabilities and Insurance premiums recognised on an annualised basis †	(361)
Other differences in accounting principles†	(299)
Net income under IFRS	**1,460**
US dollar equivalent (millions)	**81**
Add back tax expense	(902)
Net income before taxes under IFRS	**2,362**
US dollar equivalent (millions)	**131**
Exchange rate used for conversion	***18.08***

† *Net of tax at 30%*

†† *Net of tax at 16%*

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, including post-employment 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. 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. 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 separately in 'shareholders' equity in the bank's consolidated financial statements' but then are recycled through P&L over the average working life of the employees. See also the Changes in Accounting rules section.

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. Indemnity payments are not considered as a liability for termination benefits.

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.

Cash recoveries of written off loans and the positive excess of loan impairment charges determined monthly, 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.

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.

Cash recoveries of written off loans and the positive excess of loan impairment charges recognised during the year 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.

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 uniformly and 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.

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 trade price.
In 2014, in line with evolving market practice, HSBC revised its estimation methodology for valuing the uncollateralised derivative portfolios by introducing a funding fair value adjustment.

Deferred profit sharing
Mexican GAAP
Mexican GAAP requires that a deferred profit sharing is determined by applying a similar model to deferred income taxes; it is derived from temporary differences between the accounting result and income for profit sharing. An asset is recognised only when it can be reasonably assumed that it will generate a benefit, and there is no indication that circumstances will change in such a way that the benefits will not be realised.

IFRS
Deferred profit sharing asset is not permitted under IFRS.

Insurance liabilities and Insurance premiums recognised on an annualised basis
Mexican GAAP
As explained in the Changes in accounting rules section, new Insurance accounting principles are in place from 2016.We only present differences in insurance liabilities and insurance premiums recognised on an annualised basis / P&L.

Insurance liabilities are calculated as the sum of a best estimate and a risk margin. 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 the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognised in the tenor of the insurance contract.

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.

Insurance premiums are recognised as incurred.