HSBC

News Release

27 October 2017

GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2017 FINANCIAL RESULTS –HIGHLIGHTS

- For the nine months to 30 September 2017, Grupo Financiero HSBC profit before tax excluding non-recurrent items was MXN4,653m an increase of MXN802m, or 20.8%, compared with the same period of 2016. Non-recurrent items for the nine months to 30 September 2016 include: a positive MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016), partially offset by MXN269m administrative expenses related to a decrease of a deferred profit sharing asset.

- On a reported basis, profit before tax for the nine months to 30 September 2017 was MXN4,653, an increase of MXN702m, or 17.8%, compared with MXN3,951m for the same period of 2016.

- Excluding non-recurrent items, net income for the nine months to 30 September 2017 was MXN3,458m, an increase of MXN375m or 12.2%. On a reported basis, net income for the nine months to 30 September 2017 was MXN3,458m, an increase of MXN304m, or 9.6%, compared with MXN3,154 for the same period of 2016.

- Excluding non-recurrent items and loan impairment charges, total operating income for the nine months to 30 September 2017 was MXN29,446m, an increase of MXN2,528m, or 9.4%, compared with MXN26,918 for the same period of 2016. On a reported basis, total operating income excluding loan impairment charges was MXN29,446m, an increase of MXN2,159m or 7.9%, compared with MXN27,287 for the same period of 2016.

- Loan impairment charges for the nine months to 30 September 2017 were MXN7,639m, an increase of MXN1,889m, or 32.9%, compared with MXN5,750m for the same period of 2016 reflecting growth and higher delinquency rates in unsecured lending balances.

- Administrative and personnel expenses for the nine months to 30 September 2017 were MXN17,179m. Excluding non-recurrent items, expenses decreased MXN182m showing a strict control of expenses. On a reported basis, expenses decreased MXN451m or 2.6% compared with the MXN17,630m, for the same period of 2016. We continue improving the leverage of own installed capacity to increase profitability.

- The cost efficiency ratio was 58.3% for the nine months to 30 September 2017, compared with 64.3% for the same period of 2016 excluding non-recurring items.

- Net loans and advances to customers were MXN275bn at 30 September 2017, an increase in both retail and wholesale portfolios of MXN17.2bn, or 6.7%, compared with MXN258bn at 30 September 2016. Total impaired loans as a percentage of gross loans and advances at 30 September 2017 was 2.9%, a decrease of 0.7% compared with 3.5% at 30 September 2016.

- At 30 September 2017, total deposits were MXN309bn, an increase of MXN12.9bn, or 4.4%, compared with MXN295.8bn at 30 September 2016.

- Return on equity was 7.5% for the nine months to 30 September 2017, whereas for the nine months to 30 September 2016 it was 7.8%, showing a decrease of 0.3%, mainly impacted by the capital injection materialised in Q4 2016.

- At 30 September 2017, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 11.2% compared with 12.3% and 10.2% respectively at 30 September 2016.

- On a reported IFRS basis, for the period January-September 2017, profit before tax was MXN5,218m, an increase of 39% compared to the same period 2016. On an adjusted basis, profit before tax for the nine months to 30 September 2017 was MXN5,954m, an increase of 45% compared to the same period of 2016. The main differences between the Mexican GAAP and IFRS results for the period January-September 2017 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 September 2017) 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).

Adjusted performance is computed by adjusting reported results for the period-on-period effects of non-recurring items, which distort period-on-period comparisons. We use 'non-recurrent items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance.

The results for the nine months to 30 September 2016 include MXN369m 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 and MXN269m administrative expenses related to a decrease of a deferred profit sharing asset.

ROE calculation includes for 2016 a benefit due to Solvency II of MXN259m net of tax and the retrospective recognition of deferred profit sharing net of tax which had a positive impact on equity of MXN1.7bn.

Overview

The Mexican economy grew solidly during H1 2017 by 2.3% year-on-year, prompting continuous upwards revisions from consensus for the first time in several years. Consensus now expects the economy to grow 2.1% in 2017. However, there are some signs of imminent moderation in the second half of the year.

The overall monthly economic activity index (IGAE) decreased 0.7% month-on-month and expanded 1.0% year-on-year in July, reflecting a weak start to H2 2017. Particularly, the services sector has started to see lower growth rates, as contracted on a monthly basis after ten consecutive months rising. Retail sales rose only 0.4% year-on-year in July, facing challenges such as higher inflation, lower real wages. These factors suggest a slightly more limited growth profile for services and private consumption going forward. Nonetheless, these continue to be the main drivers for growth and to offset the weakness in industrial production.

Manufacturing continues to be the only bright spot for industrial activity, supported the most by transportation and machinery and equipment production. An improved business environment and better figures for manufacturing PMIs in Mexico continued to contribute to the positive momentum of Mexican exports and output. Meanwhile, the mining sector continues depressed, and the outlook for construction looks weaker, as public building has remained subdued. As the growth in manufacturing was not enough to compensate for the decline in the other components, industrial production averaged -1.1% year-on-year in the first two months of Q3, similar to the contraction of -1.1% in Q2.

Inflation continued to rise in the first two months of Q3, on the back of further FX pass-through pressures and high volatility in the non-processed food prices. However, inflation seems to have peaked at 6.6% year-on-year in August, as for the first time in over a year, the rate of inflation decelerated to 6.35% year-on-year in September. Core inflation expanded at a slower pace in September, due to contained merchandise prices and a temporary reduction in some service sector prices, such as public transport and telecommunications, after the 19 September earthquake.

Given this backdrop, Banxico kept the monetary policy rate on hold at 7.00% throughout Q3. In its latest September meeting, the Board did not signal an earlier start to the easing cycle, emphasizing a contained and temporary impact from the recent earthquakes. Banxico also highlighted that the balance of risks for growth has deteriorated since the previous meeting in August, as the economic activity indicator in July was weaker than anticipated and threats of adverse scenarios for the bilateral relation between Mexico and the US are still on the table.

- For the nine months to 30 September 2017, Grupo Financiero HSBC reported a profit before tax of MXN4,653m, an increase of MXN702m, or 17.8%, compared with MXN3,951m for the same period of 2016.

- Excluding non-recurrent items, profit before tax for the nine months to 30 September 2017 was MXN4,653m, an increase of MXN802m, or 20.8%, compared with the same period of 2016.

- Non-recurrent items for the nine months to 30 September 2016 include: MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016) partially offset by MXN269m administrative expenses related to a decrease of a deferred profit sharing asset.

- Excluding non-recurrent items, net interest income for the nine months to 30 September 2017 was MXN21,862m, an increase of MXN2,007m or 10.1% compared with the same period of 2016. The increase is mainly driven by higher performing loans and investment in securities. On a reported basis net interest income for the nine months to 30 September 2017 was MXN21,862m, an increase of MXN1,630m, or 8.1%, compared with the same period of 2016.

- Loan impairment charges for the nine months to 30 September 2017 were MXN7,639m, an increase of MXN1,889m, or 32.9%, compared with MXN5,750m for the same period of 2016 reflecting growth and higher delinquency rates in unsecured lending balances.

- Net fee income for the nine months to 30 September 2017 was MXN5,143m, an increase of MXN126m, or 2.5%, compared with the same period of 2016. This increase is due to higher commercial loan fees, account services fees and credit facilities.

- Trading income for the nine months to 30 September 2017 was MXN1,236m, an increase of MXN808m or >100% compared with the same period of 2016. This increase is driven primarily by gains on MXN debt securities in the period against losses. FX Spot new business increases and interest derivatives marked-to-market as a result of MXN market rates increase, also contributed to the positive variance.

- Other operating income for the nine months to 30 September 2017 was MXN1,205m, a decrease of MXN405m or 25.2% compared with the third quarter of 2016, driven by the impairment of other receivables and sale of commercial loan.

- Administrative and personnel expenses for the nine months to 30 September 2017 were MXN17,179m. Excluding non-recurrent items, expenses decreased MXN182m showing a strict control of expenses. On a reported basis, expenses decreased MXN451m or 2.6% compared with MXN17,630m for the same period of 2016. We continue improving the leverage of own installed capacity to increase profitability.

- The cost efficiency ratio was 58.3% for the nine months to 30 September 2017, compared with 64.3% for the same period of 2016 excluding non-recurring items.

- The effective tax rate was 25.8% for the nine months to 30 September 2017, compared with 20.3% for the same period of 2016, an increase of 5.5%. This increase is mainly due to the recognition of tax from previous years.

- Excluding non-recurrent items, Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax for the nine months to 30 September 2017 of MXN1,099m, a decrease of 2% compared with the same period of 2016, driven by higher distribution fees. On a reported basis, net income before tax for the nine months to 30 September 2017 was MXN1,099m, a decrease of MXN393m, or 26%, driven by 2016 initial transition adjustment for Solvency II MXN369m (new regulatory framework for insurance companies effective since 1 January 2016).

- Net loans and advances to customers were MXN275bn at 30 September 2017, an increase in both retail and wholesale portfolios of MXN17.2bn, or 6.7%, compared with MXN258bn at 30 September 2016. The performing consumer and mortgage loan portfolios increased by 12.0% and 13.6%, respectively, while the performing commercial loan portfolio increased by 4.7% compared with the third quarter of 2016.

- Total impaired loans as a percentage of gross loans and advances at 30 September 2017 was 2.9%, a decrease of 0.7% compared with 3.5% at 30 September 2016 driven by the partial write-off of the homebuilders' portfolio and net repayments, loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 7.5 % for the nine months to 30 September 2017, whereas for the nine months to 30 September 2016 it was 7.8%, showing a decrease of 0.3%, mainly impacted by the capital injection materialised in Q4 2016.

- Total loan loss allowances at 30 September 2017 were MXN12.7bn, a decrease of MXN497m or 3.8% compared with 30 September 2016. The total coverage ratio (allowance for loan losses divided by impaired loans) was 154.7% at 30 September 2017 compared with 137.7% at 30 September 2016. The higher coverage ratio is in line active portfolio management over impaired loans, together with an increasing performing portfolio.

- At 30 September 2017, total deposits were MXN309bn, an increase of MXN12.9bn, or 4.4%, compared with MXN295.8bn at 30 September 2016. Demand deposits observed a decrease of 0.3% across all segments. Time deposits increased by 3.8%.

- At 30 September 2017, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 11.2% compared with 12.3% and 10.2%, respectively, at 30 September 2016. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business)*

Retail Banking and Wealth Management (RBWM)

RBWM revenues for the nine months to 30 September 2017 presented a significant growth compared to the same period of 2016 (13%). Higher revenues come mainly from, higher consumer balances and deposits, and higher insurance results and higher spreads in deposits from central bank increases, in the referral interest rate. End of period balances September 2016; 8% above in lending balances, and 4% higher in deposits. Lending balances presented a growth compared to prior year; personal loans (+8%) and payroll loans (+4%). Personal loans portfolio continues to outgrow the market reaching the 11.3% (+.5 pp) of the share that the top 6 banks country has. Mortgage balances increased by 13.6% compared with the same period of 2016.

Time deposits presents a 61% growth in revenue compared to 2016, this is due to the mix from higher spreads as consequence of central bank increases in the referral interest rate and 10% growth in balances, mainly in Premier proposition due to commercial activities. For demand deposits the trend is similar, presenting an increase of 17% in revenue. Mutual funds increase 15% since beginning of year.

The insurance business continues to be focused adding value for our customers, and at September 2017 the insurance revenue is 21% higher than the income generated in September 2016.

Commercial Banking (CMB)

CMB results for the nine months to 30 September 2017 increased compared to prior year maintaining a positive trend in the financial margin of both assets and liabilities, coupled with higher fees from Global Liquidity & Cash Management's as a result of increased transactional activity.

Deposits on average display a positive trend with a 9% growth, following efforts to capture operational balances and increase customer penetration. Average asset growth of 3% versus prior year driven by an increase in our corporate portfolio.

Aligned to our global strategy of becoming the leading international trade and business bank, CMB continues to increase connectivity with global customers and leverage from our network aligned to our global strategy reflecting growth in revenues from Global Trade & Receivable Finance.

Global Banking and Markets (GBM)

Total GBM revenues are increasing at double digit versus 2016. Loan impairment charges are below prior year considering specific provision releases. These improvements in the income statement lines represent an increase of more than >100% in pre-tax profit.

GBM recorded an increase with respect to 2016 in the credit portfolio with corporate and multinational clients as a result of following our business strategies. In addition, higher GLCM (Global, Liquidity & Cash Management) revenues were obtained during 2017 mainly due to margin increase.

Business synergies increased in 2017, particularly in Advisory and Leverage and Acquisition Finance following a joint effort with CMB customers reflecting higher revenues versus 2016. Additionally, during 3Q17 the Debt Capital Markets business closed relevant local and off-shore transactions with local customers.

Trading income increased more than >100% compared with the same period of 2016. This increase is driven primarily by gains in derivatives marked-to-market as a result of MXN market rates increase, and on gains on MXN debt securities in the period against losses the year before.

Foreign exchange sales continued to grow steadily in 2017. The bank continues to diversify the customer base and customer product portfolio through the use of forwards and options, with the support of the risk management team.

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Grupo Financiero HSBC's third quarter of 2017 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS).

- On a reported IFRS basis, for the period January-September 2017, profit before tax was MXN5,218m, an increase of 39% compared to the same period of 2016. On an adjusted basis, profit before tax for the nine months to 30 September 2017 was MXN5,954m, an increase of 45% compared to the same period of 2016. The main differences between the Mexican GAAP and IFRS results for the period January-September 2017 relate to differences in accounting for loan impairment charges and insurance liabilities.
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About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 973 branches, 5,532 ATMs and around 16,000 employees. For more information, visit www.hsbc.com.mx.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,000 offices in 67 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With assets of US$2,492bn at 30 June 2017, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP NINE MONTHS ENDED 30 SEPTEMBER 2017
Figures in MXN millions

	Reported	Excluding non-recurrent items *
Interest income	35,431	35,431
Interest expense	(13,569)	(13,569)
Net interest income	21,862	21,862
Loan impairment charges	(7,639)	(7,639)
Risk-adjusted net interest income	14,223	14,223
Fees and commissions receivable	6,804	6,804
Fees payable	(1,661)	(1,661)
Trading income	1,236	1,236
Other operating income	1,205	1,205
Total operating income	21,807	21,807
Administrative and personnel expenses	(17,179)	(17,179)
Net operating income	4,628	4,628
Share of profits in equity interest	25	25
Profit/loss before tax	4,653	4,653
Income tax	(2,532)	(2,532)
Deferred income tax	1,337	1,337
Net income before discontinued operations	3,458	3,458
Discontinued operations	-	-
Minority interest	-	-
Net income	3,458	3,458

*For Group entity during the third quarter of 2017 there were not non-recurrent items.

Consolidated Income Statement – GROUP NINE MONTHS ENDED 30 SEPTEMBER 2016

Figures in MXN millions

	Reported	Solvency II	Deferred profit sharing	Excluding non-recurrent items
Interest income	28,512	(373)		28,139
Interest expense	(8,280)	(4)		(8,284)
Net interest income	20,232	(377)	-	19,855
Loan impairment charges	(5,750)			(5,750)
Risk-adjusted net interest income	14,482	(377)	-	14,105
Fees and commissions receivable	6,455	25		6,480
Fees payable	(1,438)	-		(1,438)
Trading income	428	-		428
Other operating income	1,610	(17)		1,593
Total operating income	21,537	(369)		21,168
Administrative and personnel expenses	(17,630)	-	269	(17,361)
Net operating income	3,907	(369)	269	3,807
Share of profits in equity interest	44			44
Profit/loss before tax	3,951	(369)	269	3,851
Income tax	(637)	110	(81)	(608)
Deferred income tax	(160)			(160)
Net income before discontinued operations	3,154	(259)	188	3,083
Discontinued operations	-			-
Minority interest	-			- -
Net income	3,154	(259)	188	3,083

Consolidated Income Statement – BANK NINE MONTHS ENDED 30 SEPTEMBER 2017

Figures in MXN millions

	Reported	**Excluding non-recurrent items***
Interest income	32,397	32,397
Interest expense	(12,178)	(12,178)
Net interest income	20,219	20,219
Loan impairment charges	(7,639)	(7,639)
Risk-adjusted net interest income	12,580	12,580
Fees and commissions receivable	6,417	6,417
Fees payable	(1,737)	(1,737)
Trading income	1,225	1,225
Other operating income	1,694	1,694
Total operating income	20,179	20,179
Administrative and personnel expenses	(17,043)	(17,043)
Net operating income	3,136	3,136
Share of profits in equity interest	23	23
Profit/loss before tax	3,159	3,159
Income tax	(2,043)	(2,043)
Deferred income tax	1,276	1,276
Net income before discontinued operations	2,392	2,392
Discontinued operations	-	-
Minority interest	-	-
Net income	2,392	2,392

*For bank entity during the third quarter of 2017 there were not non-recurrent items.

Consolidated Income Statement – BANK NINE MONTHS ENDED 30 SEPTEMBER 2016
Figures in MXN millions

	Reported	Excluding non-recurrent items
Interest income	25,370	25,370
Interest expense	(7,145)	(7,145)
Net interest income	18,225	18,225
Loan impairment charges	(5,750)	(5,750)
Risk-adjusted net interest income	12,475	12,475
Fees and commissions receivable	6,129	6,129
Fees payable	(1,441)	(1,441)
Trading income	509	509
Other operating income	1,883	1,883
Total operating income	19,555	19,555
Administrative and personnel expenses	(17,513)	(17,244)
Net operating income	2,042	2,311
Share of profits in equity interest	39	39
Profit/loss before tax	2,081	2,350
Income tax	(34)	(115)
Deferred income tax	(214)	(214)
Net income before discontinued operations	1,833	2,021
Discontinued operations	-	-
Minority interest	-	-
Net income	1,833	2,021

Consolidated Balance Sheet	**Group**		**Bank**	
Figures in MXN millions	**As of September 30th**		**As of September 30th**	
	2017	**2016**	**2017**	**2016**
Assets				
Cash and deposits in banks	34,894	41,327	34,799	41,238
Margin accounts	464	175	464	175
Investment in securities	**183,173**	**149,415**	**167,399**	**132,982**
Trading securities	42,460	30,041	41,475	27,555
Available-for-sale securities	113,799	91,332	107,895	85,717
Held to maturity securities	26,914	28,042	18,029	19,710
Repurchase agreements	7,703	13,898	7,703	13,898
Derivative transactions	71,496	79,188	71,496	79,188
Performing loans				
Commercial loans	144,197	129,138	144,197	129,138
Loans to financial intermediaries	14,232	13,889	14,232	13,889
Loans to government entities	27,966	31,419	27,966	31,419
Consumer loans	56,746	54,442	56,746	54,442
Mortgage loans	36,367	32,529	36,367	32,529
Total performing loans	**279,508**	**261,417**	**279,508**	**261,417**
Impaired loans				
Commercial loans	5,044	7,180	5,044	7,180
Consumer loans	2,726	1,946	2,726	1,946
Mortgage loans	467	485	467	485
Total impaired loans	**8,237**	**9,611**	**8,237**	**9,611**
Gross loans and advances to customers	**287,745**	**271,028**	**287,745**	**271,028**
Allowance for loan losses	(12,743)	(13,240)	(12,743)	(13,240)
Net loans and advances to customers	**275,002**	**257,788**	**275,002**	**257,788**
Accounts receivables from Insurers and Bonding companies	80	121	-	-
Premium receivables	1,535	358	-	-
Accounts receivables from reinsurers and rebonding companies	41	44	-	-
Benefits to be received from trading operations	96	106	96	106
Other accounts receivable	56,201	66,512	54,836	65,717
Foreclosed assets	427	317	427	317
Property, furniture and equipment, net	4,660	5,043	4,660	5,043
Long-term investments in equity securities	167	286	136	189
Deferred taxes	13,299	10,119	13,092	11,662
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	3,647	3,016	3,641	3,013
Total assets	**653,933**	**628,761**	**633,751**	**611,316**

Consolidated Balance Sheet *(continued)*	**Group**		**Bank**	
	As of September 30th		**As of September 30th**	
Liabilities	**2017**	**2016**	**2017**	**2016**
Deposits	**308,781**	**295,864**	**309,671**	**296,416**
Demand deposits	199,995	200,644	200,606	200,901
Time deposits	101,516	89,799	101,155	89,424
Issued credit securities	7,270	5,421	7,270	5,421
Global deposit account without movements	-	-	640	670
Bank deposits and other liabilities	**24,560**	**39,593**	**24,560**	**39,593**
On demand	1,000	4,361	1,000	4,361
Short-term	15,061	29,274	15,061	29,274
Long-term	8,499	5,958	8,499	5,958
Repurchase agreements	89,414	46,695	89,414	46,695
Stock Borrowing	-	-	-	-
Settlement accounts	-	-	-	-
Collateral sold	7,455	13,397	7,455	13,397
Derivative transactions	73,090	86,050	73,090	86,050
Technical reserves	12,263	11,826	-	-
Accounts payable from reinsures and rebounding companies	12	8	-	-
Other payable accounts	**62,687**	**68,324**	**60,501**	**66,785**
Income tax and employee profit sharing payable	2,110	185	2,043	5
Sundry creditors and other accounts Payable	60,577	68,139	58,458	66,780
Subordinated debentures outstanding	11,555	12,048	11,555	12,048
Deferred taxes	1,480	1,243	1,364	1,226
Total liabilities	**591,297**	**575,048**	**577,610**	**562,210**
Equity				
Paid in capital	**43,373**	**37,823**	**38,318**	**32,768**
Capital stock	6,218	5,637	6,132	5,680
Additional paid in capital	37,155	32,186	32,186	27,088
Other reserves	**19,255**	**15,886**	**17,818**	**16,336**
Capital reserves	1,244	2,644	11,590	11,273
Retained earnings	16,177	10,901	5,329	4,252
Result from the mark-to-market of available-for-sale securities	(1,272)	(414)	(1,227)	(431)
Result from cash flow hedging transactions	(352)	(399)	(352)	(399)
Adjustment in the employee pension			86	(192)
Net income	3,458	3,154	2,392	1,833
Minority interest in capital	8	4	5	2
Total equity	**62,636**	**53,713**	**56,141**	**49,106**
Total liabilities and equity	**653,933**	**628,761**	**633,751**	**611,316**

Consolidated Balance Sheet *(continued)*	**Group**		**Bank**	
	As of September 30th		**As of September 30th**	
	2017	**2016**	**2017**	**2016**
Memorandum Accounts	**6,626,021**	**5,597,968**	**6,609,078**	**5,585,319**
Third party accounts	**43,223**	**41,436**	**38,586**	**38,524**
Clients current accounts	3,665	1,868	-	-
Custody operations	972	1,044	-	-
Transactions on behalf of clients	-	-	-	-
Third party investment banking operations, net	38,586	38,524	38,586	38,524
Proprietary position	**6,582,798**	**5,556,532**	**6,570,492**	**5,546,795**
Guarantees granted	-	-	-	-
Contingent assets and liabilities	-	-	-	-
Irrevocable lines of credit granted	268,134	271,987	268,134	271,987
Goods in trust or mandate	418,622	445,450	418,622	445,450
Trust	417,764	444,612	-	-
Mandate	858	838	-	-
Goods in custody or under administration	1,065,436	1,057,173	1,059,218	1,051,536
Collateral received by the institution	24,062	27,833	24,062	27,833
Collateral received and sold or delivered as guarantee	21,156	25,339	21,156	25,339
Deposit of assets	-	-	-	-
Suspended interest on impaired loans	161	214	161	214
Recovery guarantees for issued bonds	-	-	-	-
Paid claims	-	-	-	-
Cancelled claims	-	-	-	-
Claims recovery	-	-	-	-
Responsibilities from bonds in force	-	-	-	-
Other control accounts	4,785,227	3,728,536	4,779,139	3,724,436

Consolidated Income Statement	**Group**		**Bank**	
	Nine months 30 September		**Nine months 30 September**	
	2017	**2016**	**2017**	**2016**
Interest income	**33,426**	26,156	**32,397**	25,370
Interest expense	**(12,148)**	(7,130)	**(12,178)**	(7,145)
Earned premiums	**2,005**	2,356	**-**	-
Increase in technical reserves	**144**	472	**-**	-
Claims	**(1,565)**	(1,622)	**-**	-
Net interest income	**21,862**	20,232	**20,219**	18,225
Loan impairment charges	**(7,639)**	(5,750)	**(7,639)**	(5,750)
Risk-adjusted net interest income	**14,223**	14,482	**12,580**	12,475
Fees and commissions receivable	**6,804**	6,455	**6,417**	6,129
Fees payable	**(1,661)**	(1,438)	**(1,737)**	(1,441)
Trading income	**1,236**	428	**1,225**	509
Other operating income	**1,205**	1,610	**1,694**	1,883
Administrative and personnel expenses	**(17,179)**	(17,630)	**(17,043)**	(17,513)
Net operating income	**4,628**	3,907	**3,136**	2,042
Share of profits in equity interest	**25**	44	**23**	39
Profit / loss before taxes	**4,653**	3,951	**3,159**	2,081
Income tax	**(2,532)**	(637)	**(2,043)**	(34)
Deferred income tax	**1,337**	(160)	**1,276**	(214)
Net income before discontinued operations	**3,458**	3,154	**2,392**	1,833
Discontinued operations	**-**	-	**-**	-
Minority interest	**-**	-	**-**	-
Profit / Loss	**3,458**	3,154	**2,392**	1,833

Consolidated Statement of Changes in Shareholders' Equity

GROUP	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	**Total equity**
Figures in MXN million								
Total Balances at 31 Dec 2016	**43,373**	**2,644**	**13,248**	**(2,097)**	**(612)**	**3,300**	**5**	**59,861**
Movements inherent to the shareholders' decision								
Shares issue								**-**
Transfer of result of prior years	-		3,300	-	-	(3,300)	-	**-**
Constitution of reserves		(1,400)	1,400					**0**
Cash dividends	-	-	(1,254)	-	-	-	-	**(1,254)**
Others		-	-	-	-	-	-	-
Total	**-**	**(1,400)**	**3,446**	**-**	**-**	**(3,300)**	**-**	**(1,254)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	3,458	-	**3,458**
Result from valuation of available-for-sale securities	-	-	-	825	-	-	-	**825**
Result from cash flow hedging transactions	-	-	-	-	260	-	-	**260**
Others		-	(517)		-		3	**(514)**
Total	**-**	**-**	**(517)**	**825**	**260**	**3,458**	**3**	**4,029**
Total Balances at 30 September 2017	**43,373**	**1,244**	**16,177**	**(1,272)**	**(352)**	**3,458**	**8**	**62,636**

[1] Retained earnings movements in 2017 under the Others' line reflects mainly adjustments in defined benefit pension plans, impact related to new loans impairment provision rules set by CNBV for mortgage and consumer loans starting June 201717 and recognition of impact in insurance reserves due to Solvency II.

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

BANK	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plan	Net income	Minority interest	**Total equity**
Figures in MXN million									
Total Balances at 31 Dec 2016	**38,318**	**11,273**	**4,245**	**(1,969)**	**(612)**	**434**	**1,508**	**2**	**53,199**
Movements inherent to the shareholders' decision									
Shares issue									**-**
Transfer of result of prior years	-		1,191	-	-		(1,508)	-	**(317)**
Constitution of reserves		317	-						**317**
Cash dividends	-	-	-	-	-		-	-	**-**
Others		-	-	-	-		-	-	-
Total	**-**	**317**	**1,191**	**-**	**-**		**(1,508)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-		2,392	-	**2,392**
Result from valuation of available-for-sale securities	-	-	-	742	-		-	-	**742**
Result from cash flow hedging transactions	-	-	-	-	260		-	-	**260**
Adjustment in defined benefit pension plan			(16)			(348)			**(364)**
Others		-	(91)		-			3	**(88)**
Total	**-**	**-**	**(107)**	**742**	**260**	**(348)**	**2,392**	**3**	**2,942**
Total Balances at 30 September 2017	**38,318**	**11,590**	**5,329**	**(1,227)**	**(352)**	**86**	**2,392**	**5**	**56,141**

Consolidated Statement of Cash Flows

GROUP *Figures in MXN millions*	**30-sep-17**
Net income	**3,458**
Adjustments for items not involving cash flow:	**29,959**
Gain or loss on appraisal of activities associated with investment & financing	13,086
Allowances for loan losses	7,516
Depreciation	643
Amortisation	191
Technical reserves	(144)
Provisions	7,497
Income Tax and deferred taxes	1,195
Discontinued operations	-
Share of profits in equity interest	(25)
Others	-
Changes in items related to operating activities:	
Margin accounts	1,024
Investment securities	(32,254)
Repurchase agreements	2,387
Derivative (assets)	28,055
Loan portfolio	(16,799)
Benefits to be received from trading operations	9
Foreclosed assets	(63)
Operating assets	1,258
Deposits	5,850
Bank deposits and other liabilities	(11,219)
Settlement accounts	
Creditors repo transactions	40,533
Stock borrowing	
Collateral sold or delivered as guarantee	(1,133)
Derivative (liabilities)	(45,721)
Subordinated debentures outstanding	(1,011)
Accounts receivables from reinsurers and coinsurers	(24)
Accounts receivables from premiums	63
Reinsurers and bonding	1
Other operating liabilities	(19,145)
Income tax paid	(371)
Funds provided by operating activities	**(15,143)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	23
Acquisition of property, furniture and equipment	(229)
Intangible assets acquisitions & Prepaid expenses	(585)
Cash dividends	91
Other investment activities	79
Funds used in investing activities	**(621)**
Financing activities:	
Shares issue	-
Cash dividends	(1,254)
Decrease of Shares	
Others	4
Funds used in financing activities	**(1,250)**
Financing activities:	
Increase/decrease in cash and equivalents	(17,014)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,908
Cash and equivalents at end of period	**34,894**

Consolidated Statement of Cash Flows *(continued)*
BANK

Figures in MXN millions	**30-sep-17**
Net income	**2,392**
Adjustments for items not involving cash flow:	**25,879**
Gain or loss on appraisal of activities associated with investment & financing	13,086
Allowances for loan losses	7,516
Depreciation	643
Amortisation	191
Technical reserves	-
Provisions	3,699
Income Tax and deferred taxes	767
Discontinued operations	-
Share of profits in equity interest	(23)
Others	-
Changes in items related to operating activities:	
Margin accounts	1,024
Investment securities	(32,960)
Repurchase agreements	2,387
Derivative (assets)	28,055
Loan portfolio	(16,481)
Benefits to be received from trading operations	9
Foreclosed assets	(63)
Operating assets	2,120
Deposits	6,151
Bank deposits and other liabilities	(11,219)
Settlement accounts	-
Creditors repo transactions	40,533
Stock borrowing	-
Collateral sold or delivered as guarantee	(1,133)
Derivative (liabilities)	(45,721)
Subordinated debentures outstanding	(1,011)
Accounts receivables from reinsurers and coinsurers	-
Accounts receivables from premiums	-
Reinsurers and bonding	-
Other operating liabilities	(16,208)
Income tax paid	(118)
Funds provided by operating activities	**(16,364)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	23
Acquisition of property, furniture and equipment	(229)
Intangible assets acquisitions & Prepaid expenses	(585)
Cash dividends	91
Other investment activities	46
Funds used in investing activities	**(654)**
Financing activities:	
Shares issue	-
Cash dividends	-
Decrease of Shares	-
Others	-
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**(17,018)**
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,817
Cash and equivalents at end of period	**34,799**

Changes in Mexican accounting standards

I. Improvements of NIF 2017 applicable to Financial Institutions:

CINIF issued a document called "Improvements of NIF 2017", which mainly includes the following changes and improvements:

NIF B-7 "Business acquisition" –Improvements of NIF 2016 established that the acquisitions of entities under common control should not be part of the scope of this standard. Accounting changes originated by this improvement should be recognised retrospectively, however in the improvements of NIF 2017, CINIF changed from retrospectively to prospective recognition. Financial impacts are not expected for these changes.

NIF B-13 "Events after reporting period" – Establishes that when entity has assets (or liabilities) classified as short (or long) term and they are in default at reporting period, between the report date and the approval date of the financial statements, if debtor and creditor entered into an agreement to renegotiate the term of the contract in a long (or short) term, these assets (or liabilities) must be retained their original classification based on their substance at the reporting period. This situation must be disclosed on financial statements. This accounting change is in place from January, 1st, 2017 and its financial effects must be recognised prospectively. Financial impacts are not expected for these changes.

NIF C-11 "Equity" – Establishes that underwriting costs incurred to register shares in stock exchange market, should be recorded in income statement as they are incurred as long as at that date the shares are allocated to investors and funds were transferred to the issuer. Underwriting costs incurred in entities own shares' must be recognised as "costs for issuance" reducing the equity amount issued. Financial impacts are not expected for these changes.

NIF D-3 "Employee benefits" – This improvement gives the option to use either a high quality corporate bonds rate or government bonds rate to calculate the discount rate used to determine OBD balances. Accounting changes originated by the reference rate must be recognised prospectively. This improvement is not applicable to the Bank on period reported, because it has adhered to special rules issued by CNBV to adopt and recognise initial impacts originated by new version of this NIF, those are described in detail in section "Changes in accounting rules and estimations".

Furthermore, this improvement allows to recognise the differences originated by re-measurement of Net assets (liabilities) of Defined Benefits and gains/losses over Plan assets return, either on OCI or directly in income statement. Entities must be consistent in accounting recognition of those concepts. Accounting changes must be recognised prospectively.

These changes are in place since January, 1st, 2017 allowing the anticipated adoption.

II. Changes in loan impairment charges methodology applicable to consumer revolving and mortgages credit facilities

On January, 6th, 2017, CNBV issued some adjustments applicable to loan impairment charges "LIC" methodology, with the purpose to maintain an adequate recognition of LICs. Adjustments incorporated new features in the LIC's methodology such as: 1) Level of debt, 2) Payment behaviour of customer and 3) Specific profile for each product. Besides, concepts such as probability of default, loss given default and exposure at default were updated and adjusted.

Additionally, a specific LIC's methodology applicable to micro loans was included, considering concepts of probability of default, loss given default and exposure at default identifying, whether they were granted to individual or group of customers.

In June 2017, CNBV adoption rules to allow the amortization of the financial impact over a 12 months period. The Bank is therefore recognising a twelfth portion of the MXN346m initial financial impact on a monthly basis (MXN28.8m), Until the end of June, 2017, the Bank has recognised an accumulated amount of MXN115m, debiting in Retained Earnings and crediting in Loan Impairment Provision.

III. Special accounting rules issued by National Banking Commission applicable to borrowers affected by natural disasters occurred during September 2017 ("Lidia" and "Karla" hurricanes and earthquakes from September 7th and 19th, 2017).

On September 15th, 2017, the CNBV issued temporary special accounting rules (official response paper No. P-290/2017) "the programme" applicable to borrowers affected by natural disasters occurred during September 2017, as long as, their home address or the cash flows to pay the loan are located or originated in affected cities and states along Mexico that were declared by the Mexican Government as a disaster zone in the DOF

These special accounting rules are applicable to consumer, mortgages and commercial loans that were classified as "performing loans" at the disaster date according to CNBV accounting rules provisions, as long as the borrower adheres to "the programme" during 120 days after the disaster date.

Basically, "the programme" brings an extension in loan term and skip payment of capital and interest accrued for a period no longer than 3 months (excepting by microcredit in which case the tenor would be extended for a longer period not exceeding 6 months). Each bank must decide if interests accrued during skip payment period are forgone or capitalised into the outstanding balance. The Bank has decided to apply a skip payment period of 3 months for most of the credits. Under "the programme" loans modification would not be considered as restructured loan under CNBV accounting rules provisions.

Likewise, those loans modified would be considered as "performing loans" during skip payment period in order to determine their risk grade and loan impairment charges.

On October, 17th, 2017, the CNBV extended "the programme" to borrowers affected by the earthquake that hit Mexico on 19 September 2017 (through the official response paper No. 320-1/14057/2017).

At the end of reporting, the financial impacts originated by those borrowers adhered to "the programme" are immaterial.

IV. Insurance impacts regarding the application of Solvency II applied in 2016

The initial application of Solvency II related to the insurance premiums now recognised on an annualised basis of MXN253m, net of deferred tax, (MXN369m before tax) was recognised through P&L as being defined by CNSF recommendation.

Additionally, there was an initial application benefit of MXN135m, net of deferred tax, 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 September 2016 with impacts also in 2017.

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 nine months ended 30 September of 2017 and an explanation of the key reconciling items.

	30 September 2017
Figures in MXN millions	**3,458**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	84
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	1
Loan impairment charges and other differences in presentation under IFRS	404
Recognition of the present value in-force of long-term insurance contracts	244
Fair value adjustments on financial instruments	513
Deferred profit sharing	(220)
Insurance adjustments***	(283)
Other	(178)
Tax over adjustments	(162)
Net income under IFRS	**3,861**
US dollar equivalent (millions)	**212**
Add back tax expense	1,357
Net income before tax under IFRS	**5,218**
Add back significant items*	736
Adjusted net income before tax under IFRS	**5,954**
US dollar equivalent (millions)	**327**
Exchange rate used for conversion	***18.1840***
Significant items	
-Debit valuation adjustment on derivative contracts	**(93)**
-Costs to achieve**	**(643)**

* *Adjusted performance is computed by adjusting reported results for the year-on-year effects of significant items, which distort year-on-year comparisons and are excluded in order to understand better the underlying trends in the business. We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance.*

** *Costs to achieve comprise those specific costs relating to the achievement of the strategic actions set out in the Investor Update in June 2015. They comprise costs incurred between 1 July 2015 and 31 December 2017, and do not include ongoing initiatives such as Global Standards. Any costs arising within this category have been incurred as part of a significant transformation programme. Costs to achieve are included within significant items and incorporate restructuring costs that were identified as a separate significant item prior to 1 July 2015.*

****includes technical reserves and effects from Solvency II*

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
After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate method.
The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognitions of the financial asset.
The effective interest rate is the rate that exactly discounts estimated future cash payments of the financial asset through its expected life.

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 utilizes 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.

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.

Deferred profit sharing
Mexican GAAP
Mexican GAAP requires that a deferred profit sharing is determined by applying a similar model to deferred income tax; 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.