HSBC

News Release

28 April 2017

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

- For the first quarter of 2017, Grupo Financiero HSBC profit before taxes excluding non-recurrent items was MXN1,704m, an increase of MXN571m, or 50.4%, compared with the same period of 2016. Non-recurrent items for the first quarter of 2016 include a MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016).

- On a reported basis, profit before taxes for the first quarter of 2017 was MXN1,704m, an increase of MXN202m, or 13.4%, compared with MXN1,502m for the same period of 2016.

- Excluding non-recurrent items, net income for the first quarter of 2017 was MXN1,447m, an increase of MXN483m or 50.1%. On a reported basis, net income after minority interest for the first quarter of 2017 was MXN1,447m, an increase of MXN225m, or 18.4%, compared with MXN1,222m for the same period of 2016.

- Excluding non-recurrent items and loan impairment charges, total operating income for the first quarter of 2017 was MXN9,759m, an increase of MXN1,283m, or 15.1%, compared with MXN8,476m for the same period of 2016. On a reported basis, total operating income excluding loan impairment charges was MXN9,759m, an increase of MXN914, or 10.3%, compared with MXN8,845 for the same period of 2016.

- Loan impairment charges for the first quarter of 2017 were MXN2,166m, an increase of MXN575m, or 36.1%, compared with MXN1,591m for the same period of 2016.

- Administrative and personnel expenses for the first quarter of 2017 were MXN5,903m, an increase of MXN138m, or 2.4%, compared with MXN5,765m for the same period driven by investment in technology cost.

- The cost efficiency ratio was 60.5% for the first quarter of 2017, compared with 65.2% for the same period of 2016.

- Net loans and advances to customers were MXN260bn at 31 March 2017, an increase in both retail and wholesale portfolios of MXN18bn, or 7.4%, compared with MXN242bn at 31 March 2016. Total impaired loans as a percentage of gross loans and advances at 31 March 2017 decreased to 3.0% compared with 5.1% at 31 March 2016 driven by the partial sale of the homebuilders' portfolio, improvement in credit profile of non-performing customers, and an active portfolio management.

This news release is issued by
HSBC Holdings plc

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- At 31 March 2017, total deposits were MXN296.9bn, an increase of MXN32.7bn, or 12.4%, compared with MXN264.2bn at 31 March 2016.

- Return on equity was 9.6% for the first quarter of 2017 compared with 9.2% for the same period of 2016.

- At 31 March 2017, the bank's preliminary total capital adequacy ratio was 12.9% and the preliminary tier 1 capital ratio was 11.0% compared with 12.4% and 10.3% respectively at 31 March 2016. The increase is driven by the capital injection received in October 2016, partially offset by increase in the loan portfolio.

- On an adjusted IFRS basis, for the first quarter of 2017, profit before tax was MXN1,478m an increase of 13.2% compared to the same period of 2016. On a reported basis, profit before tax for the first quarter of 2017 was MXN1,217m. The main differences between the Mexican GAAP and IFRS results for the period January-March 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 31 March 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).

The results for the first quarter of 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.

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

Overview

The improvement in economic activity in the last quarter of 2016 helped the economy to grow at a relatively strong pace of 2.3% in 2016. So far in 2017, economic activity in Mexico has continued to expand. The first reading for economic activity surpassed expectations and accelerated 3.0% year-on-year in January, with monthly increases in services, industrial production and agricultural activities. Private consumption is still the main driver of growth, and consumer trust has recovered since it slumped at the beginning of the year, on the back of the liberalisation of oil prices and uncertainty regarding potential US policies regarding Mexico. Although it remains low, the recent strengthening of the Mexican peso and somewhat diminished concerns with US-Mexico relations has lifted consumer confidence. Industrial production continues to present muted growth overall, dragged down by a depressed mining sector and stagnant construction. However, the manufacturing sector has expanded in the past five months and some manufacturing surveys point to a pick-up in activity this year. The external sector also showed dynamism at the start of 2017, as the weakness of the Mexican peso and improvement in global demand boosted Mexican exports in the first two months of the year. All in all, the economy's performance in the first months of the year has shown resilience.

Inflation rose sharply at the beginning of the year to 4.7% year-on-year from 3.4% year-on-year, where it stood at the end of 2016, due to the surge in energy prices stemming from the government's new programme to liberalize gasoline prices. This was a one-off shock in gasoline prices that has not presented significant second order effects so far. In addition, the core component expanded further in the first quarter of 2017, as the FX pass-through effect has continued to pressure merchandise prices. The annual headline inflation rate stood at 5.35% in the latest reading in March. The notable rise in inflation, given the shock in energy prices, caused a spike in short-term inflation expectations, though medium and long-term expectations remain relatively well-anchored.

Banxico rate hiked twice thus far in 2017, by 50bp in February and by 25bp in March, driving the key monetary policy rate to stand at 6.50%. Both hikes intended to avoid further increases in short-term inflation expectations and to keep medium and long-term expectations low. The central bank noted in March that the outlook for growth has improved, that financial markets volatility has diminished and that the Mexican peso has performed strongly against the dollar year-to-date. These factors allowed for a smaller increase in rate hikes than the six previous ones of 50bp. Furthermore, maintaining stable monetary conditions between Mexico and the US is another priority for the central bank, and the Fed's hike in March was another motive behind Banxico's decision.

For the first quarter of 2017, Grupo Financiero HSBC reported a profit before tax of MXN1,704m, an increase of MXN202m, or 13%, compared with MXN1,502m for the same period of 2016.

Excluding non-recurrent items, profit before tax for the first quarter of 2017 was MXN1,704m, an increase of MXN571m, or 50.4%, compared with the same period of 2016.

Non-recurrent items in the profit before tax for the first quarter of 2016 include a MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016).

Excluding non-recurrent effects, net interest income was MXN660m or 10.3% higher than for the same period of 2016. The increase is driven by strong revenue performance from increased lending and deposits balances and spreads across all businesses. On a reported basis net interest income for the first quarter of 2017 was MXN7,048m, an increase of MXN283m, or 4.2%, compared with the same period of 2016.

Loan impairment charges for the first quarter of 2017 were MXN2,166m, an increase of MXN575m, or 36.1%, compared with MXN1,591m for the same period of 2016. This increase is driven by portfolio growth coupled with credit performance in consumer unsecured portfolios.

Net fee income was MXN1,662m, an increase of MXN82m, or 5.2%, compared with the first quarter of 2016. This increase is due to higher debt capital markets and structuring loan portfolio fees.

Trading income was MXN293m, an increase of MXN282m or >100% compared with the first quarter of 2016. This increase is driven by mark-to-market results of derivatives, gains on sale of available of sale debt securities, partially offset results in FX transactions.

Other operating income was MXN756m, an increase of MXN267m or 54.6% compared with the first quarter of 2016, driven by higher releases of loan loss allowances, and higher recoveries of right offs and partially offset by lower impairment of other receivable accounts.

Administrative and personnel expenses for the first quarter of 2017 were MXN5,903m, an increase of MXN138m, or 2.4%, compared with MXN5,765m for the first quarter of 2016, driven by higher investment in technology.

The cost efficiency ratio was 60.5% for the first quarter of 2017, compared with 65.2% for the same period of 2016.

The effective tax rate was 15.1% for the three months to March 2017, lower compared with 18.8% for the same period of 2016. The decrease is driven by higher deduction of inflationary effects for 2017.

Excluding non-recurrent items, Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, net income before tax for the first quarter of 2017 was MXN439m a decrease of 6.8% compared with the same period of 2016, decrease was driven by higher distribution fees. On a reported basis, net income before tax for the first quarter of 2017 was MXN439m, a decrease of MXN401m, or 48%, 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 MXN260bn at 31 March 2017, an increase in both retail and wholesale portfolios of MXN18bn, or 7.4%, compared with MXN242.0bn at 31 March 2016. The performing consumer and mortgage loan portfolios increased by 20.4% and 15.6% respectively, while the performing commercial loan portfolio increased by 4.7%, compared with the same period of 2016.

Total impaired loans as a percentage of gross loans and advances at 31 March 2017 decreased to 3.0% compared with 5.1% at 3 March 2016.

Total loan loss allowances at 31 March 2017 were MXN12.2bn, a decrease of MXN3.4bn or 21.6% compared with 31 March 2016. The total coverage ratio (allowance for loan losses divided by impaired loans) was 147.7% at 31 March 2017 compared with 119.5% at 31 March 2016. The higher coverage ratio is in line with the decrease of impaired loans balance driven by the partial sale of the homebuilders' portfolio, improvement in credit profile of non-performing customers, and an active portfolio management.

At 31 March 2017, total deposits were MXN296.9bn, an increase of MXN32.7bn or 12.4% compared with MXN264.3bn at 31 March 2016. Demand deposits increased by 13.6% due to higher deposit balances across all segments. Time deposits increased by 12.7%.

At 31 March 2017, the bank's preliminary total capital adequacy ratio was 12.9% and the preliminary tier 1 capital ratio was 11.0% compared with 12.4% and 10.3% respectively at 31 March 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 1Q 2017 presented significant growth compared to the same period of 2016. Higher revenues come mainly from higher spreads from central bank increases and pricing actions coupled with higher consumer balances. End of period balances were higher than first quarter of 2016, up 14.3% in lending balances and 8.3% higher in deposits. Lending balances presented a significant growth mainly in personal loans (37.5%) and payroll loans (15.3%) compared to first quarter of 2016. In both portfolios, HSBC continues to outgrow the market with personal loans reaching 11.3% (+1.8 pp) of the share within the top six banks and payroll loans reaching 8.9% (+0.5 pp). Mortgage balances increased by 16% compared with the same period of 2016.

The insurance business continues to be focused on offering fair value for our customers. This strategy has generated a positive impact, improving the persistency for temporary life insurance portfolio. By better targeting and segmentation, annualised premiums of life product sales for 2017 have increased 10% compared with the same period of 2016.

Aligned to our strategy, these are the six pillars to deliver our RBWM plan and core challenges:

- Expand our customer base in 2017 with focus on payroll customers and on better lifecycle management strategies.

- Continue growing balances focusing this year on upgrading our card proposition. Reduce our gap to market in cost of credit and improving our analytic capabilities.

- Grow our wealth business through a more competitive product set and our insurance business with new products and enhanced sales processes.

- Continue with the recent positive growth trends of retail business banking, strengthening the proposition, commercial model, product portfolio, processes and enablers.

- Continue the evolution in embedding Global Standards and Financial Crime Compliance through the execution of the agreed actions with optimised processes and practices, and continue delivering remediation targets according to the risk-based plan.

- Complete the execution of our Retail Transformation Programme to deliver sustainable improvements in sales and service processes, multichannel, sales processes and sales funnel to improve customer experience.

Commercial Banking (CMB)

CMB 1Q results increased compared to prior year with strong balance sheet growth particularly on the deposits side, coupled with higher fee income from organic growth in GLCM and fees coming from strategic synergies with retail on payroll acquisition.

Deposits display a positive trend with a 19% growth, following efforts to gain market share while capturing operative balances and increase customer penetration. Leveraging from our cross border capabilities in different products has yielded positive results in our US dollar portfolio.

Asset growth versus prior year (4%) was driven by strong targeted credit campaigns as well as accomplishment of CAOs (Critical Account Objectives) for customers in Corporate and Business Banking, partly offset by a decrease in States & Municipalities following a shift in market conditions for the segment.

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 double digit growth in revenues from Global Trade & Receivable Finance.

Global Banking and Markets (GBM)

Global Banking had a strong increase against 2016 in credit balances with both Mexican and multinationals costumers as a result of following our business strategies. In addition, there was an important growth of balances on active GLCM costumers (10.6%) and in GTRF (16.7%) and the revenues grew 15% and 8%, respectively in both business.

Global Banking total revenue is 12% higher compared to 2016. Loan impairment charges are lower (MXN55m) due to a better quality on the portfolio; additionally expenses remained under control (13% better than 2016). These improvements in all the P&L lines result in an increase of 120% in the profit before tax.

Business synergies increased in 1Q17, particularly in Advisory and Leverage and Acquisition Finance following a joint effort with two CMB costumers reflecting higher revenues versus 2016. Additionally, during 1Q17 the Debt Capital Markets business closed relevant local and off-shore transactions with local customers.

FX sales business continued its steady growth in 1Q17. The bank continues to diversify the customer base and customer product portfolio through the use of FX forwards and FX options, with the support of the Risk Advisory Team.

Trading income was MXN293m, which means an increase of MXN282m or >100% compared with 2016. This increase is driven by mark-to-market results of derivatives, gains on sale of available of sale debt securities, partially offset results in FX transactions

Grupo Financiero HSBC's first 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 an adjusted IFRS basis, for the first quarter of 2017, profit before tax was MXN1,478m an increase of 13.2% compared to the same period of 2016. On a reported basis profit before tax for the first quarter of 2017 was MXN1,217m. The main differences between the Mexican GAAP and IFRS results for the period January-March 2017 relate to differences in accounting for loan impairment charges and insurance liabilities. *(Refer to page 22)*

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 973 branches, 5,534 ATMs and 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 70 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With assets of US$2,375bn at 31 December 2016, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP FIRST QUARTER 2017
Figures in MXN millions

	Reported	Solvency II	Excluding non-recurrent items
Interest income	11,297	-	**11,297**
Interest expense	(4,249)	-	**(4,249)**
Net interest income	7,048	-	**7,048**
Loan impairment charges	(2,166)	-	**(2,166)**
Risk-adjusted net interest income	4,882	-	**4,882**
Fees and commissions receivable	2,243	-	**2,243**
Fees payable	(581)	-	**(581)**
Trading income	293	-	**293**
Other operating income	756	-	**756**
Total operating income	7,593	-	**7,593**
Administrative and personnel expenses	(5,903)	-	**(5,903)**
Net operating income	1,690	-	**1,690**
Share of profits in equity interest	14	-	**14**
Profit/loss before taxes	1,704	-	**1,704**
Income tax	(669)	-	**(669)**
Deferred income tax	412	-	**412**
Net income before discontinued operations	1,447	-	**1,447**
Discontinued operations	-	-	**-**
Minority interest	-	-	**-**
Profit/loss	1,447	-	**1,447**

Consolidated Income Statement – GROUP FIRST QUARTER 2016

Figures in MXN millions

	Reported	Solvency II	Excluding non-recurrent items
Interest income	9,449	(374)	9,075
Interest expense	(2,684)	(3)	(2,687)
Net interest income	6,765	(377)	6,388
Loan impairment charges	(1,591)	-	(1,591)
Risk-adjusted net interest income	5,174	(377)	4,797
Fees and commissions receivable	2,056	25	2,081
Fees payable	(476)	-	(476)
Trading income	11	-	11
Other operating income	489	(17)	472
Total operating income	7,254	(369)	**6,885**
Administrative and personnel expenses	(5,765)	-	(5,765)
Net operating income	1,489	(369)	**1,120**
Share of profits in equity interest	13	-	**13**
Profit/loss before taxes	1,502	(369)	**1,133**
Income tax	(280)	111	**(169)**
Deferred income tax	-	-	-
Net income before discontinued operations	1,222	(258)	**964**
Discontinued operations	-	-	-
Minority interest	-	-	-
Profit/loss	1,222	(258)	**964**

Consolidated Income Statement – BANK FIRST QUARTER 2017

Figures in MXN millions

	Reported	Excluding non-recurrent items*
Interest income	**10,162**	**10,162**
Interest expense	**(3,695)**	**(3,695)**
Net interest income	**6,467**	**6,467**
Loan impairment charges	**(2,166)**	**(2,166)**
Risk-adjusted net interest income	**4,301**	**4,301**
Fees and commissions receivable	**2,116**	**2,116**
Fees payable	**(600)**	**(600)**
Trading income	**277**	**277**
Other operating income	**866**	**866**
Total operating income	**6,960**	**6,960**
Administrative and personnel expenses	**(5,866)**	**(5,866)**
Net operating income	**1,094**	**1,094**
Share of profits in equity interest	**14**	**14**
Profit/loss before taxes	**1,108**	**1,108**
Income tax	**(498)**	**(498)**
Deferred income tax	**407**	**407**
Net income before discontinued operations	**1,017**	**1,017**
Discontinued operations	**-**	**-**
Minority interest	**-**	**-**
Profit/loss	**1,017**	**1,017**

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

Consolidated Income Statement – BANK FIRST QUARTER 2016

Figures in MXN millions

	Reported	Excluding non-recurrent items*
Interest income	8,079	8,079
Interest expense	(2,265)	(2,265)
Net interest income	5,814	5,814
Loan impairment charges	(1,591)	(1,591)
Risk-adjusted net interest income	4,223	4,223
Fees and commissions receivable	1,955	1,955
Fees payable	(468)	(468)
Trading income	32	32
Other operating income	527	527
Total operating income	6,269	6,269
Administrative and personnel expenses	(5,722)	(5,722)
Net operating income	547	547
Share of profits in equity interest	10	10
Profit/loss before taxes	557	557
Income tax	(2)	(2)
Deferred income tax	(2)	(2)
Net income before discontinued operations	553	553
Discontinued operations	-	-
Minority interest	-	-
Profit/loss	553	553

Consolidated Balance Sheet	GROUP		BANK	
	31 Mar	31 Mar	**31 Mar**	31 Mar
Figures in MXN millions	**2017**	2016	**2017**	2016
Assets				
Cash and deposits in banks	**48,017**	48,270	**47,926**	48,153
Margin accounts	**375**	20	**375**	20
Investment in securities	**156,211**	193,015	**140,885**	176,182
Trading securities	**31,677**	67,315	**30,385**	64,304
Available-for-sale securities	**96,661**	97,678	**91,366**	92,300
Held to maturity securities	**27,873**	28,022	**19,134**	19,578
Repurchase agreements	**1,175**	13,939	**1,175**	13,939
Derivative transactions	**92,536**	72,078	**92,536**	72,078
Performing loans				
Commercial loans	**129,603**	119,082	**129,603**	119,082
Loans to financial intermediaries	**14,211**	13,358	**14,211**	13,358
Consumer loans	**55,968**	49,465	**55,968**	49,465
Mortgage loans	**34,716**	30,134	**34,716**	30,134
Loans to government entities	**29,437**	32,527	**29,437**	32,527
Total performing loans	**263,935**	244,566	**263,935**	244,566
Impaired loans				
Commercial loans	**5,748**	10,996	**5,748**	10,996
Loans to financial intermediaries	**-**	-	**-**	-
Consumer loans	**2,070**	1,428	**2,070**	1,428
Mortgage loans	**463**	574	**463**	574
Loans to government entities	**-**	46	**-**	46
Total impaired loans	**8,281**	13,044	**8,281**	13,044
Gross loans and advances to customers	**272,216**	257,610	**272,216**	257,610
Allowance for loan losses	**(12,227)**	(15,590)	**(12,227)**	(15,590)
Net loans and advances to customers	**259,989**	242,020	**259,989**	242,020
Accounts receivable from insurers and bonding companies	**63**	101	**-**	-
Premium receivables	**1,565**	476	**-**	-
Accounts receivable from reinsurers and rebonding companies	**42**	44	**-**	-
Benefits to be received from trading operations	**100**	116	**100**	116
Other accounts receivable	**62,505**	50,244	**61,601**	48,131
Foreclosed assets	**436**	120	**436**	120
Property, furniture and equipment, net	**4,977**	5,274	**4,977**	5,274
Long-term investments in equity securities	**249**	281	**219**	191
Long-term assets available for sale	**6**	-	**6**	-
Deferred taxes and deferred profit sharing	**12,325**	11,628	**12,195**	11,569
Goodwill	**1,048**	1,048	**-**	-
Other assets, deferred charges and intangibles	**3,987**	3,322	**3,974**	3,312
Total assets	**645,606**	641,996	**626,394**	621,105

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

Consolidated Balance Sheet *(continued)*

	GROUP		BANK	
Figures in MXN millions	**31 Mar 2017**	31 Mar 2016	**31 Mar 2017**	31 Mar 2016
Liabilities				
Deposits	**296,926**	264,262	**297,602**	264,819
Demand deposits	**198,408**	174,580	**198,785**	175,136
Time deposits	**93,413**	82,884	**93,028**	82,884
Bank bonds outstanding	**5,105**	6,798	**5,105**	6,111
Global deposit account without Movements	**-**	-	**684**	688
Bank deposits and other liabilities	**37,776**	52,716	**37,776**	52,716
On demand	**9,511**	17,471	**9,511**	17,471
Short-term	**22,258**	30,211	**22,258**	30,211
Long-term	**6,007**	5,034	**6,007**	5,034
Repurchase agreements	**46,344**	77,288	**46,344**	77,288
Settlement accounts	**-**	-	**-**	-
Collateral sold	**11,319**	23,612	**11,319**	23,612
Derivative transactions	**91,477**	74,820	**91,477**	74,820
Technical reserves	**12,431**	12,254	**-**	-
Accounts payable from reinsurers and rebonding companies	**8**	7	**-**	-
Other accounts payable	**75,428**	70,377	**73,907**	66,872
Income tax and employee profit sharing payable	**282**	150	**223**	1
Sundry creditors	**75,146**	70,227	**73,684**	66,871
Subordinated debentures outstanding	**11,826**	11,176	**11,826**	11,176
Deferred taxes and deferred profit sharing	**1,277**	962	**1,161**	947
Total liabilities	**584,812**	587,474	**571,412**	572,250
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	**17,416**	16,695	**16,662**	16,085
Capital reserves	**2,644**	2,644	**11,273**	11,273
Retained earnings	**15,089**	12,962	**5,745**	4,508
Result from the mark to market valuation of available-for-sale securities	**(1,423)**	(67)	**(1,333)**	(104)
Result from cash flow hedging transactions	**(341)**	(66)	**(341)**	(66)
Adjustment in the employee pension Scheme	**-**	-	**301**	(79)
Net income	**1,447**	1,222	**1,017**	553
Minority interest in capital	**5**	4	**2**	2
Total equity	**60,794**	54,522	**54,982**	48,855
Total liabilities and equity	**645,606**	641,996	**626,394**	621,105

Consolidated Balance Sheet *(continued)*

	GROUP		BANK	
Figures in MXN millions	**31 Mar 2017**	31 Mar 2016	**31 Mar 2017**	31 Mar 2016
Memorandum Accounts	**6,042,415**	5,362,927	**6,025,017**	5,351,636
Third party accounts	**43,878**	41,576	**38,783**	40,017
Clients current accounts	**4,195**	1	**-**	-
Custody operations	**900**	1,558	**-**	-
Transactions on behalf of clients	**-**	-	**-**	-
Third party investment banking operations, net	**38,783**	40,017	**38,783**	40,017
Proprietary position	**5,998,537**	5,321,351	**5,986,234**	5,311,619
Guarantees granted	**-**	-	**-**	-
Irrevocable lines of credit granted	**285,387**	261,835	**285,387**	261,835
Goods in trust or mandate	**434,349**	461,087	**434,349**	461,087
Goods in custody or under administration	**1,025,328**	998,095	**1,019,110**	992,458
Collateral received by the institution	**33,022**	39,972	**33,022**	39,972
Collateral received and sold or delivered as guarantee	**32,558**	39,172	**32,558**	39,172
Deposit of assets	**-**	-	**-**	
Suspended interest on impaired loans	**202**	238	**202**	238
Recovery guarantees for issued bonds	**-**	-	**-**	-
Paid claims	**-**	-	**-**	-
Cancelled claims	**-**	-	**-**	-
Responsibilities from bonds in force	**-**	-	**-**	-
Other control accounts	**4,187,691**	3,520,952	**4,181,606**	3,516,857

Consolidated Income Statement

Figures in MXN millions	GROUP 31 Mar 2017	GROUP 31 Mar 2016	BANK 31 Mar 2017	BANK 31 Mar 2016
Interest income	**10,619**	8,402	**10,162**	8,079
Interest expense	**(3,687)**	(2,261)	**(3,695)**	(2,265)
Earned premiums	**678**	1,047	**-**	-
Technical reserves	**(71)**	79	**-**	-
Claims	**(491)**	(502)	**-**	-
Net interest income	**7,048**	6,765	**6,467**	5,814
Loan impairment charges	**(2,166)**	(1,591)	**(2,166)**	(1,591)
Risk-adjusted net interest income	**4,882**	5,174	**4,301**	4,223
Fees and commissions receivable	**2,243**	2,056	**2,116**	1,955
Fees payable	**(581)**	(476)	**(600)**	(468)
Trading income	**293**	11	**277**	32
Other operating income	**756**	489	**866**	527
Total operating income	**7,593**	7,254	**6,960**	6,269
Administrative and personnel expenses	**(5,903)**	(5,765)	**(5,866)**	(5,722)
Net operating income	**1,690**	1,489	**1,094**	547
Share of profits in equity interest	**14**	13	**14**	10
Profit/loss before taxes	**1,704**	1,502	**1,108**	557
Income tax	**(669)**	(280)	**(498)**	(2)
Deferred income tax	**412**	-	**407**	(2)
Net income before discontinued operations	**1,447**	1,222	**1,017**	553
Discontinued operations	**-**	-	**-**	-
Minority interest	**-**	-	**-**	-
Profit/loss	**1,447**	1,222	**1,017**	553

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 01 January 2017	**43,373**	**2,644**	**13,248**	**(2,097)**	**(612)**	**3,300**	**5**	**59,861**
Movements inherent to the shareholders' decision								
Subscription of shares	-	-	-	-	-	-	-	**-**
Shares issue	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	-	3,300	-	-	(3,300)	-	**-**
Constitution of reserves		-	-	-	-	-	-	**-**
Cash dividends	-	-	(1,254)	-	-	-	-	**(1,254)**
Total	**-**	**-**	**2,046**	**-**	**-**	**(3,300)**	**-**	**(1,254)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	1,447	-	**1,447**
Result from valuation of available-for-sale securities	-	-	-	674	-	-	-	**674**
Result from cash flow hedging transactions	-	-	-	-	271	-	-	**271**
Others	-	-	(205)	-	-	-	-	**(205)**
Total	**-**	**-**	**(205)**	**674**	**271**	**1,447**	-	**2,187**
Balances at 31 March 2017	**43,373**	**2,644**	**15,089**	**(1,423)**	**(341)**	**1,447**	**5**	**60,794**

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

BANK

Figures in MXN millions	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plans	Net income	Minority interest	Total equity
Balances at 1 January 2017	**38,318**	**11,273**	**4,245**	**(1,969)**	**(612)**	**434**	**1,508**	**2**	**53,199**
Movements inherent to the shareholders' decision									
Subscription of Shares	-	-	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	1,508	-	-	-	(1,508)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1,508**	**-**	**-**	**-**	**(1,508)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	1,017	-	**1,017**
Result from valuation of available-for-sale securities	-	-	-	636			-	-	**636**
Result from cash flow hedging transactions	-	-	-	-	271	-	-	-	**271**
Adjustment in defined benefit pension plans	-	-	-	-	-	(133)	-	-	**(133)**
Others	-	-	(8)	-	-	-		-	**(8)**
Total	**-**	**-**	**(8)**	**636**	**271**	**(133)**	**1,017**	**-**	**1,783**
Balances at 31 March 2017	**38,318**	**11,273**	**5,745**	**(1,333)**	**(341)**	**301**	**1,017**	**2**	**54,982**

Consolidated Statement of Cash Flows

GROUP

Figures in MXN millions	**31-Mar-17**
Net income	**1,447**
Adjustments for items not involving cash flow:	**4,144**
Gain or loss on appraisal of activities associated with investment & financing	69
Allowances for loan losses	2,066
Depreciation	219
Amortisation	20
Provisions	1,457
Income tax and deferred taxes	256
Technical reserves	71
Discontinued operations	-
Share of profit in equity interest	(14)
Others	-
Changes in items related to operating activities:	
Margin accounts	1,113
Investment securities	(5,939)
Repurchase agreements	8,914
Derivative (assets)	20,288
Loan portfolio	3,664
Benefits to be received from trading operations	6
Foreclosed assets	(73)
Operating assets	(4,995)
Deposits	(6,003)
Bank deposits and other liabilities	1,996
Creditors repo transactions	(2,538)
Collateral sold or delivered as guarantee	2,733
Derivative (liabilities)	(27,333)
Subordinated debentures outstanding	(740)
Accounts receivables from reinsurers and coinsurers	(9)
Accounts receivables from premiums	34
Reinsurers and bonding	(3)
Other operating liabilities	1,288
Income tax paid	(371)
Funds provided by operating activities	**(7,968)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	4
Acquisition of property, furniture and equipment	(82)
Intangible asset acquisitions and prepaid expenses	(206)
Cash dividends	-
Other investment activities	24
Funds used in investing activities	**(260)**
Financing activities:	
Shares issue	-
Cash dividends	(1,254)
Others	-
Funds used in financing activities	**(1,254)**
Financing activities:	
Increase/Decrease in cash and equivalents	(3,891)
Cash and equivalents at beginning of period	51,908
Cash and equivalents at end of period	**48,017**

Consolidated Statement of Cash Flows *(continued)*

BANK

Figures in MXN millions	**31-Mar-17**
Net income	**1,017**
Adjustments for items not involving cash flow:	**3,777**
Gain or loss on appraisal of activities associated with investment & financing	69
Allowances for loan losses	2,066
Depreciation	219
Amortisation	20
Provisions	1,326
Income tax and deferred taxes	91
Share of profits in equity interest	(14)
Others	-
Changes in items related to operating activities:	
Margin accounts	1,113
Investment securities	(7,046)
Repurchase agreements	8,914
Derivative (assets)	20,288
Loan portfolio	3,664
Benefits to be received from trading operations	6
Foreclosed assets	(73)
Operating assets	(4,264)
Deposits	(5,917)
Bank deposits and other liabilities	1,996
Creditors repo transactions	(2,538)
Collateral sold or delivered as guarantee	(2,733)
Derivative (liabilities)	(27,333)
Subordinated debentures outstanding	(740)
Other operating liabilities	1,383
Income tax paid	(588)
Funds provided by operating activities	**(2,377)**
Investing activities:	
Acquisition of property, furniture and equipment	(82)
Intangible asset acquisitions and prepaid expenses	(206)
Proceeds on disposal of property, furniture and equipment	4
Cash dividends	-
Others	1
Funds used in investing activities	**(283)**
Financing activities:	
Shares Issue	-
Funds used in financing activities	**-**
Financing activities:	
Increase / Decrease in cash and equivalents	**(3,891)**
Cash and equivalents at beginning of period	**51,817**
Cash and equivalents at end of period	**47,926**

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 recognize 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:
Plan changes modifications: unrecognized balances on transition were recognized in Retained earnings, this effect was MXN19m, net of deferred taxes.
Actuarial gains and losses: unrecognized cumulative balance is recognized 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 MXN411m, net of deferred taxes, at December 31st2016. 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 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 considered a change in discount rate using corporate bonds rate for the figures reported as of 31 December 2016.

- 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 recognized on an annualized 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 recognized on an annualized basis of MXN253m, net of deferred taxes, (MXN361m before taxes) was recognized through P&L in January 2016 as being defined by CNSF recommendation.

Additionally, there was an initial application benefit of MXN142m, net of deferred taxes, also related to Solvency II, due to the difference of market vs contractual rates on technical reserves, which was recognized in retained earnings; further movements were recognized in retained earnings for this concept for MXN-35m as at December 31st 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 recognized 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 quarter of 2017 and an explanation of the key reconciling items.

Figures in MXN millions	**Mar 31st 2017**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**1,447**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits ⌖	43
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments⌖	75
Loan impairment charges and other differences in presentation under IFRS⌖	(409)
Recognition of the present value in-force of long-term insurance contracts ⌖	68
Fair value adjustments on financial instruments ⌖	122
Deferred profit sharing⌖	(171)
Insurance liabilities and Insurance premiums recognised on an annualised basis ⌖	-
Other differences in accounting principles⌖	(214)
Taxex	(26)
Net income under IFRS	**935**
US dollar equivalent (millions)	**46**
Add back tax expense	282
Net income before taxes under IFRS	**1,217**
Add back significant items**	261
Adjusted net income before taxes under IFRS	**1,478**
US dollar equivalent (millions)	**73**
Exchange rate used for conversion	***20.2976***
Significant items	
-Debit valuation adjustment on derivative contracts	**14**
-Costs to achieve***	**247**

⌖*Net of taxes*

** *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.*

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 recognized 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 recognized 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 recognized 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 recognized 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 amortized over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were recognized up-front.
IFRS
After initial recognition, an entity shall measure the loan at its amortized cost using the effective interest rate method.
The amortized 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 method consist in allocating the interest income over the relevant period 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 recognized 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 recognized. 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 recognized 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 authorized 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 uncollateralized 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 recognized 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 realized.
IFRS
Deferred profit sharing asset is not permitted under IFRS.

Insurance liabilities and Insurance premiums recognized on an annualized 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 recognized on an annualized 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 recognized 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 recognized as incurred.