HSBC

News Release

28 July 2017

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

- For the first half of 2017, Grupo Financiero HSBC profit before tax excluding non-recurrent items was MXN2,983m, an increase of MXN536m, or 21.9%, compared with the same period of 2016. Non-recurrent items for the first half of 2016 include: MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016), partially offset by MXN317m administrative expenses related to a decrease of a deferred profit sharing asset.

- On a reported basis, profit before tax for the first half of 2017 was MXN2,983, an increase of MXN484m, or 19.4%, compared with MXN2,499m for the same period of 2016.

- Excluding non-recurrent items, net income for the first half of 2017 was MXN2,324m, an increase of MXN306m or 15.2%. On a reported basis, net income for the first half of 2017 was MXN2,324m, an increase of MXN269m, or 13.1%, compared with MXN2,055 for the same period of 2016.

- Excluding non-recurrent items and loan impairment charges, total operating income for the first half of 2017 was MXN19,427m, an increase of MXN2,021m, or 11.6%, compared with MXN17,406 for the same period of 2016, as a result of increased commercial effort. On a reported basis, total operating income excluding loan impairment charges was MXN19,427m, an increase of MXN1,652m or 9.3%, compared with MXN17,775 for the same period of 2016.

- Loan impairment charges for the first half of 2017 were MXN4,926m, an increase of MXN1,468m, or 42.4%, compared with MXN3,458m for the same period of 2016 reflecting growth in unsecured lending balances and higher delinquency rates.

- Administrative and personnel expenses for the first half of 2017 were MXN11,548m. Excluding non-recurrent items, expenses increased just MXN22m showing a strict control of expenses even after investments in technology. On a reported basis expenses decreased MXN295m or 2.5% compared with the MXN11,843m, for the same period of 2016. We continue improving the leverage of own installed capacity to increase profitability.

- The cost efficiency ratio was 59.4% for the first half of 2017, compared with 66.6% for the same period of 2016 excluding non-recurring items.

- Net loans and advances to customers were MXN284bn at 30 June 2017, an increase in both retail and wholesale portfolios of MXN30.9bn, or 12.2%, compared with MXN253bn at 30 June 2016. Total impaired loans as a percentage of gross loans and advances at 30 June 2017 was 2.8%, a decrease of 1.4% compared with 4.2% at 30 June 2016.

This news release is issued by
HSBC Holdings plc

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- At 30 June 2017, total deposits were MXN316bn, an increase of MXN20.2bn, or 6.8%, compared with MXN295.8bn at 30 June 2016.

- Return on equity was 7.6% for the first half of 2017, same as the 7.6% for the first half of 2016.

- At 30 June 2017, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.9% compared with 11.7% and 9.7% respectively at 30 June 2016.

- On a reported IFRS basis, for the period January-June 2017, profit before tax was MXN3,343m, an increase of 42% compared to the same period of 2016. On an adjusted basis, profit before tax for the first half of 2017 was MXN3,895m, an increase of 59% compared to the same period of 2016. The main differences between the Mexican GAAP and IFRS results for the period January-June 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 June 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 first half 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 and MXN317m 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

So far this year, economic activity has grown at an average pace of 2.1% year-on-year from January to May 2017, compared to 2.3% year-on-year during the same period in 2016. After the stronger than expected growth numbers in the first quarter of 2017, economic activity continued to show momentum in the second quarter, though with differentiated performance among sectors. Results for overall activity in the beginning of second quarter appeared to be weaker, though it was partly due to the reversal of March's positive calendar effect related to Easter. After the weak result in April, economic activity rose above expectations in May by 3.1% year-on-year. This was mostly due to the outperformance of the services sector, which continued as the main source of growth in second quarter of 2017. Services related to tourism and transportation were the ones with the highest growth rates in May, followed by commerce, financial and real estate services. In contrast, industrial production's weakness prevailed, as the positive evolution of manufacturing has been overshadowed by a sharp contraction in mining and modest construction. Manufacturing was highly supported by greater external demand and better prospects for the US manufacturing sector. Dominant sectors in Mexico, such as transportation, machinery and equipment, saw the largest expansion, thus propelling overall manufacturing. On the other hand, mining has continued to suffer due to significantly lower oil production and prices. Construction has remained subdued due to the contraction in public spending.

Inflation continued to rise in the second quarter of 2017 due to pressures on several fronts. The annual headline inflation rate climbed to 6.31% in the second quarter from 5.35% in first quarter. The prevailing FX pass-through effect on merchandise prices, combined with limited second order effects in services, added pressure to the core component. In addition, specific factors within non-core inflation such as the one-off increases in gasoline in the beginning of the year and public transportation prices along with high volatility in agricultural prices, added upwards pressure.

Given this backdrop, Banxico raised the monetary policy rate four times in 2017 for a total of 125bp. In second quarter, the Board hiked the key rate in both May and June by 25bp to 7.00%. The latest hike was driven by the temporary increase in inflation and the risk it could spill onto inflation expectations, and the recent decision by the Federal Reserve to hike 25bp. The latest statement stated that the policy rate is now consistent with a return of CPI inflation to its 3.0% target, and underlined the differing monetary policy conditions between Mexico and the US, thus potentially signalling the end of the tightening cycle.

- For the first half of 2017, Grupo Financiero HSBC reported a profit before tax of MXN2,983m, an increase of MXN484m, or 19.4%, compared with MXN2,499m for the same period of 2016.

- Excluding non-recurrent items, profit before tax for the first half of 2017 was MXN2,983m, an increase of MXN536m, or 21.9%, compared with the same period of 2016.

- Non-recurrent items for the first half of 2016 include: MXN369m transition adjustment income related to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016) partially offset by MXN317m administrative expenses related to a decrease of a deferred profit sharing asset.

- Excluding non-recurrent items, net interest income for the first half of 2017 was MXN14,217m, an increase of 1,359m or 10.6% 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 first half of 2017 was MXN14,217m, an increase of MXN981m, or 7.4%, compared with the same period of 2016.

- Loan impairment charges for the first half of 2017 were MXN4,926m, an increase of MXN1,468m, or 42.4%, compared with MXN3,458m for the same period of 2016 reflecting growth in unsecured lending balances and higher delinquency rates.

- Net fee income for the first half of 2017 was MXN3,400m, an increase of MXN70m, or 2.1%, compared with the same period of 2016. This increase is due to higher account services fees, credit facilities and cards fees.

- Trading income for the first half of 2017 was MXN703m, an increase of MXN666m or >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.

- Other operating income for the first half was MXN1,107m, a decrease of MXN65m or 5.5% compared with the first half of 2016, driven by impairment of other receivable accounts partially offset by releases of loan loss allowances, and higher write-offs recoveries .

- Administrative and personnel expenses for the first half of 2017 were MXN11,548m. Excluding non-recurrent items, expenses increased just MXN22m showing a strict control of expenses even after investments in technology. On a reported basis, expenses decreased MXN295m or 2.5% compared with MXN11,843m for the same period of 2016. We continue improving the leverage of own installed capacity to increase profitability.

- The cost efficiency ratio was 59.4% for the first half of 2017, compared with 66.6% for the same period of 2016 excluding non-recurring items.

- The effective tax rate was 22% for the first half of 2017, compared with 18% for the same period of 2016, an increase of 4.3%. 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 first half of 2017 of MXN768m, a decrease of 10% compared with the same period of 2016, driven by higher distribution fees. On a reported basis, net income before tax for the first half of 2017 was MXN768m, a decrease of MXN443m, or 37%, 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 MXN284bn at 30 June 2017, an increase in both retail and wholesale portfolios of MXN30.9bn, or 12.2%, compared with MXN253bn at 30 June 2016. The performing consumer and mortgage loan portfolios increased by14.8% and 13.2% respectively, while the performing commercial loan portfolio increased by 13.8% compared with the first half of 2016.

- Total impaired loans as a percentage of gross loans and advances at 30 June 2017 was 2.8%, a decrease of 1.4% compared with 4.2% at 30 June 2016 driven by the partial write-off of the homebuilders' portfolio and net repayments, improvement of credit profile and active portfolio management.

- Return on equity was 7.6 % for the first half of 2017, same as the 7.6% for the first half of 2016.

- Total loan loss allowances at 30 June 2017 were MXN12.5bn, a decrease of MXN854m or 6.4% compared with 30 June 2016. The total coverage ratio (allowance for loan losses divided by impaired loans) was 150.1% at 30 June 2017 compared with 120.0% at 30 June 2016. The higher coverage ratio is in line with the decrease of impaired loans balance driven by the partial write-off of the homebuilders' portfolio and net repayments, improvement of credit profile and active portfolio management.

- At 30 June 2017, total deposits were MXN316bn, an increase of MXN20.2bn, or 6.8%, compared with MXN295.8bn at 30 June 2016. Demand deposits increased by 9.4% across all segments. Time deposits increased by 2.4%.

- At 30 June 2017, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.9% compared with 11.7% and 9.7%, respectively, at 30 June 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 first half of 2017 presented a significant growth compared to the same period of 2016 (16%). Higher revenues come mainly from higher spreads in deposits from central bank rate increases, higher consumer balances and higher insurance results. End of period balances are above June 2016 considering 12% increase in lending balances, and 7% higher balances in deposits. Lending balances presented a significant growth mainly in personal loans (24.3%) and payroll loans (6.7%) compared to prior year. In both portfolios HSBC continues to outgrow the market with personal loans reaching 11.8% (+1.6 pp) of the market share of the top six banks in Mexico, and payroll loans reaching 8.7% (+0.1 pp).

Mortgage balances increased by 14.5% compared with the same period of 2016, reaching to 6.3% of market share. Time deposits demonstrated a 59% growth in revenue compared to 2016. This is due to the healthy mix from higher spreads as consequence of central bank rate increases and 12% growth in balances, mainly in the Premier proposition due to commercial activities. For demand deposits the trend is similar, presenting an increase of 17% in revenue and 2% in end of period balances.

Mutual funds increased by 9.04% in the first half of 2017, making HSBC the leader in growth of mutual funds market share, reaching 5.09% of share.

The insurance business continues to be focused on adding value for our customers; this strategy has generated a positive impact. Insurance revenue for the first half of 2017 is 17% above same period of 2016.

Commercial Banking (CMB)

CMB results in the first half of 2017 increased compared to prior year with strong balance sheet growth particularly on the deposits side, coupled with higher fees from Global Liquidity & Cash Management’s natural business growth.

Deposits display a positive trend with a 6% growth, following efforts to gain market share while capturing operational balances and increase customer penetration.

Asset growth of 4% versus prior year was driven by an increase in mid-market enterprise, large corporates and business banking, partially 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 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 multinational customers as a result of following our business strategies. In addition, there was an important growth of balances on active Global Liquidity & Cash Management customers (27%) while revenues grew 43%.

Global Banking total revenue is 30% higher compared to 2016. Loan impairment charges are lower (MXN328m) due to a better quality portfolio partially offset by an increase in expenses (4% higher than 2016). These improvements in the P&L lines resulted in an increase of 104% in the profit before tax.

Business synergies increased in 2Q17, particularly in Advisory and Leverage and Acquisition Finance following a joint effort with CMB customers reflecting higher revenues versus 2016. Additionally, during 2Q17 the Debt Capital Markets business closed relevant local and off-shore transactions with local customers.

FX sales business continued its steady growth in 2Q17. 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 MXN703m, an increase of MXN666m or >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.

Grupo Financiero HSBC's first half 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-June 2017, profit before tax was MXN3,343m, an increase of 42% compared to the same period of 2016. On an adjusted basis, profit before tax for the first half of 2017 was MXN3,895m an increase of 59% compared to the same period of 2016. The main differences between the Mexican GAAP and IFRS results for the period January-June 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, 5,532 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 70 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With assets of US$2,416bn at 31 March 2017, HSBC is one of the world's largest banking and financial services organisations.

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

	Reported	Excluding non-recurrent items
Interest income	22,860	22,860
Interest expense	(8,643)	(8,643)
Net interest income	14,217	14,217
Loan impairment charges	(4,926)	(4,926)
Risk-adjusted net interest income	9,291	9,291
Fees and commissions receivable	4,557	4,557
Fees payable	(1,157)	(1,157)
Trading income	703	703
Other operating income	1,107	1,107
Total operating income	14,501	14,501
Administrative and personnel expenses	(11,548)	(11,548)
Net operating income	2,953	2,953
Share of profits in equity interest	30	30
Profit/loss before tax	2,983	2,983
Income tax	(1,471)	(1,471)
Deferred income tax	812	812
Net income before discontinued operations	2,324	2,324
Discontinued operations	-	-
Minority interest	-	-
Profit/loss	2,324	2,324

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

Consolidated Income Statement – GROUP FIRST HALF 2016

Figures in MXN millions

	Reported	Solvency II	Deferred profit sharing	Excluding non-recurrent items
Interest income	18,781	(373)		18,408
Interest expense	(5,545)	(4)		(5,549)
Net interest income	13,236	(377)		12,859
Loan impairment charges	(3,458)	-		(3,458)
Risk-adjusted net interest income	9,778	(377)		9,401
Fees and commissions receivable	4,268	25		4,293
Fees payable	(938)	-		(938)
Trading income	37	-		37
Other operating income	1,172	(17)		1,155
Total operating income	14,317	(369)		**13,948**
Administrative and personnel expenses	(11,843)	-	317	(11,526)
Net operating income	2,474	(369)	**317**	**2,422**
Share of profits in equity interest	25	-		**25**
Profit/loss before tax	2,499	(369)	**317**	**2,447**
Income tax	(475)	110	**(95)**	**(460)**
Deferred income tax	31	-		31
Net income before discontinued operations	2,055	(259)	**222**	**2,018**
Discontinued operations	-	-		-
Minority interest	-	-		-
Profit/loss	2,055	(259)	**222**	**2,018**

Consolidated Income Statement – BANK FIRST HALF 2017

Figures in MXN millions

	Reported	Excluding non-recurrent items*
Interest income	**20,834**	**20,834**
Interest expense	**(7,654)**	**(7,654)**
Net interest income	**13,180**	**13,180**
Loan impairment charges	**(4,926)**	**(4,926)**
Risk-adjusted net interest income	**8,254**	**8,254**
Fees and commissions receivable	**4,316**	**4,316**
Fees payable	**(1,201)**	**(1,201)**
Trading income	**684**	**684**
Other operating income	**1,353**	**1,353**
Total operating income	**13,406**	**13,406**
Administrative and personnel expenses	**(11,472)**	**(11,472)**
Net operating income	**1,934**	**1,934**
Share of profits in equity interest	**30**	**30**
Profit/loss before tax	**1,964**	**1,964**
Income tax	**(1,160)**	**(1,160)**
Deferred income tax	**798**	**798**
Net income before discontinued operations	**1,602**	**1,602**
Discontinued operations	**-**	**-**
Minority interest	**-**	**-**
Profit/loss	**1,602**	**1,602**

*For bank entity during the first half of 2017 there were no non-recurrent items.

Consolidated Income Statement – BANK FIRST HALF 2016

Figures in MXN millions

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

Consolidated Balance Sheet

Figures in MXN millions	GROUP 30 Jun 2017	GROUP 30 Jun 2016	BANK 30 Jun 2017	BANK 30 Jun 2016
Assets				
Margin accounts	**454**	-	**454**	-
Cash and deposits in banks	**41,698**	41,028	**41,583**	40,852
Investment in securities	**179,416**	167,963	**163,874**	151,790
Trading securities	**38,235**	42,838	**37,199**	40,776
Available-for-sale securities	**113,132**	97,183	**107,442**	91,375
Held to maturity securities	**28,049**	27,942	**19,233**	19,639
Repurchase agreements	**-**	5,077	**-**	5,077
Derivative transactions	**79,412**	74,251	**79,412**	74,251
Performing loans				
Commercial loans	**147,466**	125,671	**147,466**	125,671
Loans to financial intermediaries	**20,661**	13,864	**20,661**	13,864
Consumer loans	**56,823**	51,888	**56,823**	51,888
Mortgage loans	**35,424**	31,266	**35,424**	31,266
Loans to government entities	**28,114**	32,897	**28,114**	32,897
Total performing loans	**288,488**	255,586	**288,488**	255,586
Impaired loans				
Commercial loans	**5,399**	9,001	**5,399**	9,001
Loans to financial intermediaries	**-**	-	**-**	-
Consumer loans	**2,557**	1,681	**2,557**	1,681
Mortgage loans	**431**	512	**431**	512
Loans to government entities	**-**	6	**-**	6
Total impaired loans	**8,387**	11,200	**8,387**	11,200
Gross loans and advances to customers	**296,875**	266,786	**296,875**	266,786
Allowance for loan losses	**(12,589)**	(13,443)	**(12,589)**	(13,443)
Net loans and advances to customers	**284,286**	253,343	**284,286**	253,343
Accounts receivable from insurers and bonding companies	**73**	112	**-**	-
Premium receivables	**1,503**	355	**-**	-
Accounts receivable from reinsurers and rebonding companies	**40**	45	**-**	-
Benefits to be received from trading operations	**98**	106	**98**	106
Other accounts receivable	**46,117**	71,026	**45,619**	70,794
Foreclosed assets	**449**	108	**449**	108
Property, furniture and equipment, net	**4,852**	5,198	**4,852**	5,198
Long-term investments in equity securities	**174**	267	**143**	176
Long-term assets available for sale	**-**	-	**-**	-
Deferred tax and deferred profit sharing	**12,513**	11,664	**12,354**	11,565
Goodwill	**1,048**	1,048	**-**	-
Other assets, deferred charges and intangibles	**3,599**	2,740	**3,592**	2,824
Total assets	**655,732**	634,331	**636,716**	616,084

Consolidated Balance Sheet *(continued)*

Figures in MXN millions	GROUP 30 Jun 2017	GROUP 30 Jun 2016	BANK 30 Jun 2017	BANK 30 Jun 2016
Deposits	**316,072**	295,892	**316,849**	296,549
Demand deposits	**208,110**	190,263	**208,601**	190,625

Time deposits	**102,900**	100,443	**102,535**	100,064
Bank bonds outstanding	**5,062**	5,186	**5,062**	5,186
Global deposit account without Movements	**-**	-	**651**	674
Bank deposits and other liabilities	**35,250**	45,002	**35,250**	45,002
On demand	**10,456**	10,000	**10,456**	10,000
Short-term	**16,225**	29,488	**16,225**	29,488
Long-term	**8,569**	5,514	**8,569**	5,514
Repurchase agreements	**74,828**	37,691	**74,828**	37,691
Settlement accounts	**-**	-	**-**	-
Collateral sold	**5,650**	16,465	**5,650**	16,465
Derivative transactions	**78,887**	80,926	**78,887**	80,926
Technical reserves	**12,390**	11,991	**-**	-
Accounts payable from reinsurers and rebonding companies	**12**	5	**-**	-
Other accounts payable	**58,003**	78,792	**56,875**	77,899
Income tax and employee profit sharing payable	**385**	178	**357**	5
Sundry creditors	**57,618**	78,614	**56,518**	77,894
Subordinated debentures outstanding	**11,507**	11,667	**11,507**	11,667
Deferred tax and deferred profit sharing	**1,385**	1,010	**1,270**	993
Total liabilities	**593,984**	579,441	**581,116**	567,192
Equity				
Paid in capital	**43,373**	37,823	**38,318**	32,769
Capital stock	**6,218**	5,637	**6,132**	5,680
Additional paid in capital	**37,155**	32,186	**32,186**	27,088
Other reserves	**18,371**	17,063	**17,282**	16,121
Capital reserves	**1,244**	2,644	**11,590**	11,273
Retained earnings	**16,352**	12,642	**5,392**	4,257
Result from the mark to market valuation of available-for-sale securities	**(1,142)**	(53)	**(1,089)**	(96)
Result from cash flow hedging transactions	**(407)**	(225)	**(407)**	(225)
Adjustment in the employee pension Scheme	**-**	-	**194**	(130)
Net income	**2,324**	2,055	**1,602**	1,042
Minority interest in capital	**4**	4	**-**	2
Total equity	**61,748**	54,890	**55,600**	48,892
Total liabilities and equity	**655,732**	634,331	**636,716**	616,084

Consolidated Balance Sheet *(continued)*

	GROUP		BANK	
	30 Jun	30 Jun	**30 Jun**	30 Jun
Figures in MXN millions	**2017**	2016	**2017**	2016
Memorandum Accounts	**6,536,779**	5,082,770	**6,522,605**	5,071,964

Third party accounts	**40,784**	40,375	**38,783**	39,304
Clients current accounts	**803**	-	**-**	-
Custody operations	**1,068**	1,071	**-**	-
Transactions on behalf of clients	**-**	-	**-**	-
Third party investment banking operations, net	**38,913**	39,304	**38,913**	39,304
Proprietary position	**6,495,995**	5,042,395	**6,483,692**	5,032,660
Guarantees granted	**-**	-	**-**	-
Irrevocable lines of credit granted	**262,163**	266,308	**262,163**	266,308
Goods in trust or mandate	**421,749**	455,859	**421,749**	455,859
Goods in custody or under administration	**1,034,522**	990,956	**1,028,304**	985,319
Collateral received by the institution	**6,689**	25,980	**6,689**	25,980
Collateral received and sold or delivered as guarantee	**6,175**	24,447	**6,175**	24,447
Deposit of assets	**-**	-	**-**	
Suspended interest on impaired loans	**182**	258	**182**	258
Recovery guarantees for issued bonds	**-**	-	**-**	-
Paid claims	**-**	-	**-**	-
Cancelled claims	**-**	-	**-**	-
Responsibilities from bonds in force	**-**	-	**-**	-
Other control accounts	**4,764,515**	3,278,587	**4,758,430**	3,274,489

Consolidated Income Statement

	GROUP		BANK	
	30 Jun	**30 Jun**	**30 Jun**	**30 Jun**
Figures in MXN millions	**2017**	**2016**	**2017**	**2016**
Interest income	**21,540**	17,135	**20,834**	16,643
Interest expense	**(7,635)**	(4,813)	**(7,654)**	(4,822)

Earned premiums	**1,320**	1,646	**-**	-
Technical reserves	**56**	338	**-**	-
Claims	**(1,064)**	(1,070)	**-**	-
Net interest income	**14,217**	13,236	**13,180**	11,821
Loan impairment charges	**(4,926)**	(3,458)	**(4,926)**	(3,458)
Risk-adjusted net interest income	**9,291**	9,778	**8,254**	8,363
Fees and commissions receivable	**4,557**	4,268	**4,316**	4,048
Fees payable	**(1,157)**	(938)	**(1,201)**	(959)
Trading income	**703**	37	**684**	89
Other operating income	**1,107**	1,172	**1,353**	1,277
Total operating income	**14,501**	14,317	**13,406**	12,818
Administrative and personnel expenses	**(11,548)**	(11,843)	**(11,472)**	(11,768)
Net operating income	**2,953**	2,474	**1,934**	1,050
Share of profits in equity interest	**30**	25	**30**	22
Profit/loss before tax	**2,983**	2,499	**1,964**	1,072
Income tax	**(1,471)**	(475)	**(1,160)**	(27)
Deferred income tax	**812**	31	**798**	(3)
Net income before discontinued operations	**2,324**	2,055	**1,602**	1,042
Discontinued operations	**-**	-	**-**	-
Minority interest	**-**	-	**-**	-
Profit/loss	**2,324**	2,055	**1,602**	1,042

Consolidated Statement of Changes in Shareholders' Equity

GROUP

	Capital contributed	Capital reserves	Retained	Result from valuation of	Result from cash flow	Net income	Minority interest	**Total Equity**

			earnings[1]	available-for-sale securities	hedging transactions			
Figures in MXN millions								
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		(1,400)	1,400	-	-	-	-	**-**
Cash dividends	-	-	(1,254)	-	-	-	-	**(1,254)**
Total	**-**	**(1,400)**	**3,446**	**-**	**-**	**(3,300)**	**-**	**(1,254)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	2,324	-	**2,324**
Result from valuation of available-for-sale securities	-	-	-	955	-	-	-	**955**
Result from cash flow hedging transactions	-	-	-	-	205	-	-	**5**
Others	-	-	(342)	-	-	-	(1)	**(343)**
Total	**-**	**-**	**(342)**	**955**	**205**	**2,324**	(1)	**3,141**
Balances at 30 June 2017	**43,373**	**1,244**	**16,352**	**(1,142)**	**(407)**	**2,324**	**4**	**61,748**

[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 17 and recognition of impact in insurance reserves due to Solvency II.

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	-	-	1,191	-	-	-	(1,191)	-	-
Constitution of reserves	-	317	-	-	-	-	(317)	-	-
Cash dividends	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**317**	**1,191**	**-**	**-**	**-**	**(1,508)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	1,602	-	**1,602**
Result from valuation of available-for-sale securities	-	-	-	880			-	-	**880**
Result from cash flow hedging transactions	-	-	-	-	205	-	-	-	**205**
Adjustment in defined benefit pension plans	-	-	-	-	-	(240)	-	-	**(240)**
Others	-	-	(44)	-	-	-		(2)	**(46)**
Total	**-**	**-**	**(44)**	**880**	**205**	**(240)**	**1,602**	**(2)**	**2,401**
Balances at 30 June 2017	**38,318**	**11,590**	**5,392**	**(1,089)**	**(407)**	**194**	**1,602**	**-**	**55,600**

Consolidated Statement of Cash Flows

GROUP

Figures in MXN millions	**30-Jun-17**
Net income	**2,324**
Adjustments for items not involving cash flow:	**18,865**
Gain or loss on appraisal of activities associated with investment & financing	7,872
Allowances for loan losses	4,837
Depreciation	432
Amortisation	118
Provisions	5,034
Income tax and deferred taxe	660
Technical reserves	(56)
Discontinued operations	-
Share of profit in equity interest	(30)
Others	-
Changes in items related to operating activities:	
Margin accounts	1,034
Investment securities	(28,801)
Repurchase agreements	10,088
Derivative (assets)	25,266
Loan portfolio	(23,405)
Benefits to be received from trading operations	8
Foreclosed assets	(85)
Operating assets	11,653
Deposits	13,142
Bank deposits and other liabilities	(529)
Creditors repo transactions	25,947
Collateral sold or delivered as guarantee	(2,937)
Derivative (liabilities)	(39,923)
Subordinated debentures outstanding	(1,060)
Accounts receivables from reinsurers and coinsurers	(16)
Accounts receivables from premiums	96
Reinsurers and bonding	2
Other operating liabilities	(19,875)
Income tax paid	(371)
Funds provided by operating activities	**(8,575)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	25
Acquisition of property, furniture and equipment	(191)
Intangible asset acquisitions and prepaid expenses	(359)
Cash dividends	91
Other investment activities	49
Funds used in investing activities	**(385)**
Financing activities:	
Shares issue	-
Cash dividends	(1,254)
Others	4
Funds used in financing activities	**(1,250)**
Financing activities:	
Increase/Decrease in cash and equivalents	(10,210)
Cash and equivalents at beginning of period	51,908
Cash and equivalents at end of period	**41,698**

Consolidated Statement of Cash Flows *(continued)*

BANK

Figures in MXN millions	**30-Jun-17**
Net income	**1,602**
Adjustments for items not involving cash flow:	**16,064**
Gain or loss on appraisal of activities associated with investment & financing	7,872
Allowances for loan losses	4,837
Depreciation	432
Amortisation	118
Provisions	2,473
Income tax and deferred tax	361
Share of profits in equity interest	(30)
Others	(1)
Changes in items related to operating activities:	
Margin accounts	1,034
Investment securities	(29,730)
Repurchase agreements	10,088
Derivative (assets)	25,266
Loan portfolio	(23,087)
Benefits to be received from trading operations	8
Foreclosed assets	(85)
Operating assets	12,595
Deposits	13,328
Bank deposits and other liabilities	(529)
Creditors repo transactions	25,947
Collateral sold or delivered as guarantee	(2,937)
Derivative (liabilities)	(39,923)
Subordinated debentures outstanding	(1,060)
Other operating liabilities	(18,284)
Income tax paid	(118)
Funds provided by operating activities	**(9,821)**
Investing activities:	
Acquisition of property, furniture and equipment	(191)
Intangible asset acquisitions and prepaid expenses	(359)
Proceeds on disposal of property, furniture and equipment	25
Cash dividends	91
Others	21
Funds used in investing activities	**(413)**
Financing activities:	
Shares Issue	-
Funds used in financing activities	**-**
Financing activities:	
Increase / Decrease in cash and equivalents	**(10,235)**
Cash and equivalents at beginning of period	**51,817**
Cash and equivalents at end of period	**41,583**

Changes in Mexican accounting standards

Improvements of NIF 2017 applicable to Financial Institutions involving accounting changes:

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

a. 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.

b. 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 1 January 2017 and its financial effects must be recognised prospectively. Financial impacts are not expected for these changes.

c. 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.

d. 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 defined obligation 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.

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 1 January 2017.

Changes in accounting policies and practices

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

On 6 January 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.

The initial financial impact MXN346m, which would be recognised by the Bank in 'Retained Earnings' account during the following 12 months after the change is in force basing on particular adoption rules issued during June 2017 in Official Gazette by CNBV. Until the end of June, 2017, the Bank has recognised MXN29m crediting in loan loss provision and debiting in retained earnings.

II. 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 June 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 the first half of 2017 and an explanation of the key reconciling items.

Figures in MXN millions	**Jun 30st 2017**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**2,324**
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	105
Loan impairment charges and other differences in presentation under IFRS	52
Recognition of the present value in-force of long-term insurance contracts	91
Fair value adjustments on financial instruments	368
Deferred profit sharing	(152)
Other differences in accounting principles	(189)
Tax	(109)
Net income under IFRS	**2,574**
US dollar equivalent (millions)	**143**
Add back tax expense	769
Net income before tax under IFRS	**3,343**
Add back significant items*	552
Adjusted net income before tax under IFRS	**3,895**
US dollar equivalent (millions)	**216**
Exchange rate used for conversion	***18.0207***
Significant items	
-Debit valuation adjustment on derivative contracts	**(95)**
-Costs to achieve**	**(457)**

* *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 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.