

29 Feb 2012

## GRUPO FINANCIERO HSBC SA DE CV 2011 FINANCIAL RESULTS

- Net income before taxes for the year ended 31 December 2011 was MXN3,214m, an increase of MXN856m or 36.3% compared with MXN2,358m for 2010. The 2011 results were affected by restructuring of our regional and country support functions. Excluding the effect of these charges, net income before taxes was MXN4,723m, up by MXN2,297m or 94.7% compared with 2010.
- Net income for the year ended 31 December 2011 was MXN2,510m, an increase of MXN391m or 18.5% compared with MXN2,119m for 2010. Excluding the effect of the restructuring charges, net income was MXN3,566m, up MXN1,400m or 64.6% compared with 2010.
- Total operating income, net of loan impairment charges, for the year ended 31 December 2011 was MXN28,813m, an increase of MXN3,361m or 13.2% compared with MXN25,452m for 2010.
- Loan impairment charges for the year ended 31 December 2011 were MXN6,737m, a decrease of MXN2,547m or 27.4% compared with MXN9,284m for 2010.
- Net loans and advances to customers were MXN176.7bn at 31 December 2011, an increase of MXN14.6bn or 9.0% compared with MXN162.1bn at 31 December 2010. Total impaired loans as a percentage of gross loans and advances improved to 2.7% compared with 3.1% at 31 December 2010. The coverage ratio (allowance for loan losses divided by impaired loans) was 214.5% compared with 174.0% at 31 December 2010.
- At 31 December 2011, deposits were MXN297.4bn, an increase of MXN44.2bn or 17.5% compared with MXN253.2bn at 31 December 2010.
- Return on equity was 5.2% for the year ended 31 December 2011 compared with 4.4% for 2010.
- At 31 December 2011, the bank's capital adequacy ratio was 15.3% and the tier 1 capital ratio was 11.7% compared with 14.5% and 11.2% respectively at 31 December 2010.
- From the first quarter of 2011, regulatory requirements issued by the Comisión Nacional Bancaria y de Valores (CNBV) require financial figures for both the insurance and bond companies, HSBC Seguros and Fianzas Mexico respectively, to be presented on a consolidated basis. As a result, 2010 annual results have been re-stated to be comparable with the same period of 2011.
- The sale of HSBC Afore, S.A. de C.V. to Principal Financial Group, S.A. de C.V. was successfully completed in August 2011.

*HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial*

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*information on a quarterly basis (in this case for the quarter ended 31 December 2011) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release.*

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

### Overview

Mexico's economy grew in 2011, although export growth moderated at the end of the year on the back of lower external demand. By contrast, domestic demand continued to strengthen, reflecting the greater availability of credit, growth in wages and a steady reduction in unemployment. The annual rate of CPI inflation rose at the end of 2011, to 3.8% due to a rebound in some agricultural prices and exchange rate depreciation. The Central Bank of Mexico maintained its policy rate at 4.5% throughout the year.

For the year ended 31 December 2011, Grupo Financiero HSBC's net income was MXN2,510m, an increase of MXN391m or 18.5% compared with 2010. Improved net income was mainly driven by higher trading income, increased other operating income and lower impairment charges, partially offset by lower net fee income and an increase in administrative expenses.

Net interest income was MXN21,495m, a decrease of MXN9m compared with 2010. This reduction was mainly a consequence of higher funding costs and a contraction in interest rate spreads, which were offset by higher insurance earned premiums and increased loan portfolio balances.

Loan impairment charges were MXN6,737m, a decline of MXN2,547m or 27.4% compared with 2010. This reflects the strategic reduction of the higher risk sections of the credit card portfolio, as well as improvements to both the collection and credit quality of the portfolio following targeted sales campaigns and enhanced pre-screening of new customers.

Net fee income was MXN5,995m, a decrease of MXN476m or 7.4% compared with 2010. This reduction was mainly as a consequence of lower credit card portfolio volumes and decreased fee income from account services and ATM transactions. Regulatory changes effective since the beginning of 2011 impacted fee income by limiting the fees that can be charged for ATM transactions and customer deposit services.

Trading income was MXN3,272m, an increase of MXN449m or 15.9% compared with the same period of 2010. Higher trading income was due to the completion of a small number of individually large derivative transactions with clients of Global Banking & Markets and the sale of an equity investment in the first quarter of 2011, partially offset by lower foreign exchange and debt trading results.

Other operating income was MXN4,788m, an increase of MXN850m or 21.6% compared with 2010. This increase is driven by recoveries of taxes paid in previous

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years, the gain on the sale and leaseback of certain branches in the network, the sale of HSBC Afore and lower operational losses recognised during the year.

Administrative and personnel expenses were MXN25,562m, an increase of MXN2,449m or 10.6% compared with 2010. This increase is mainly driven by the consolidation of our branch network and restructuring of our regional and country support functions. Excluding the effect of the restructuring charges, the increase in expenses would have been MXN1,008m or 4.4% compared with 2010.

The performance of all subsidiaries contributed positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported a net profit of MXN1,496m for the year ended 31 December 2011, up 21.4% compared with 2010. The higher results reported by HSBC Seguros were driven by increased product sales, mainly in life products, contributing to a 9.3% increase in total earned premiums, coupled with lower operating expenses. Additionally, the claims ratio decreased to 24.6% from 31.8% in 2010.

Net loans and advances to customers increased MXN14.6bn or 9.0% to MXN176.7bn at 31 December 2011 compared with 31 December 2010, mainly driven by growth in both the commercial and consumer portfolios. Commercial portfolio growth is mainly due to higher lending to corporate clients and MME's, while consumer portfolio growth was mainly driven by increased payroll and personal loans.

At 31 December 2011, total impaired loans decreased by 4.9% to MXN5.1bn compared with 31 December 2010, mainly as a result of a reduction in impaired consumer and mortgage loans, reflecting tightened underwriting standards, improved collection procedures and an overall improvement in the credit environment. This was partially offset by an increase in impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers improved to 2.7% compared with 3.1% reported at 31 December 2010.

Total loan loss allowances at 31 December 2011 were MXN10.9bn, an increase of MXN1.6m or 17.3% compared with 31 December 2010. The total coverage ratio (allowance for loan losses divided by impaired loans) was 214.5% at 31 December 2011 compared with 174.0% at 31 December 2010.

Total deposits were MXN297.4bn at 31 December 2011, an increase of MXN44.2bn or 17.5% compared with 31 December 2010. This is the result of increased sales efforts and targeted promotions particularly for 'Inversion diaria', 'Inversion Express' and 'Premier' deposit products, as well as increases in payroll and commercial deposits.

At 31 December 2011, the bank's capital adequacy ratio was 15.3% compared with 14.5% at 31 December 2010. The tier 1 capital ratio was 11.7% compared with 11.2% at 31 December 2010.

In December 2011, Grupo Financiero HSBC paid a dividend of MXN2,500m representing MXN0.97 per share.

### **Business highlights**

## **Retail Banking and Wealth Management (RBWM)**

RBWM reported deposit and loan growth in 2011, and continues to benefit from a general improvement in credit quality of the portfolios. Customer lending increased driven mainly by payroll and personal loans, as a result of a strong emphasis placed on targeted sales. Deposits grew strongly in 2011 achieving double digit growth.

In our wealth management business, our Premier customer base has been reviewed and aligned with the HSBC Global Premier qualifying requirements, allowing our personal relationship managers to provide improved services.

## **Commercial Banking**

During 2011, Commercial Banking achieved an increase in both customer deposits and loans compared with 2010.

During the year we recruited additional relationship managers to support business growth, particularly from the increasing number of businesses with international banking requirements as well as from business banking and mid market customers.

Aligned with our strategy to strengthen our international presence, we have reinforced our Trade and Supply Chain team through the creation of a dedicated Client Service team.

## **Global Banking and Markets**

Total Global Markets revenues were particularly strong in trading. Balance sheet management continues to be the significant contributor.

In the Debt Capital Markets business, Grupo Financiero HSBC consolidated its position as a leading underwriter in Mexico, maintaining its second place in the local debt capital market league tables. During 2011, we placed and participated in significant bond issuances including United Mexican States (UMS), CEMEX, Ideal, Santander, INFONAVIT, Bancomext, Alsea, Gas Natural, Interacciones, Scotiabank, Cadena Mexicana de Exhibición, ICA, PEMEX, VolksWagen Bank, ARCA and Inbursa.

In 2011, we were granted with a license to operate and set-up an equity derivatives platform, supporting growth and development in Global Markets.

The Project and Export Finance Business reported strong performance, executing transactions worth MXN8,305m (approximately US\$570m). Also during the year, two mergers and acquisitions deals were executed (Petrotemex and Arca-Contal).

## **Sale of HSBC Afore to Principal Financial Group**

On 11 April 2011, Grupo Financiero HSBC signed an agreement to sell HSBC Afore, S.A. de C.V., its pension funds management business, to Principal Financial Group, S.A. de C.V. ('Principal') for a cash consideration of MXN2,360m (approximately US\$198m). This sale transaction was successfully completed in August 2011.

## **Grupo Financiero HSBC SA de CV 2011 financial results**

Grupo Financiero HSBC 2011 financial results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)

For the year ended 31 December 2011, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN7,978m, an increase of MXN2,684m or 50.7% compared with MXN5,294m in 2010. The 2011 results were affected by restructuring of our regional and country support functions. Excluding the effect of these charges, net income before taxes would have been MXN9,487m, up by MXN4,125m or 76.9% compared with 2010.

The lower profit reported under Mexican GAAP is largely due to lower loan impairment charges under IFRS as result of the different provisioning methodologies and the amount recognised as profit on the sale of the pension funds management business (Afore). The goodwill allocated under IFRS on the disposal of Afore is based on the goodwill held in the Grupo Financiero HSBC legal entity, but allocated on the HSBC Group cash generating unit basis. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

### **About HSBC**

Grupo Financiero HSBC, is one of the leading financial groups in Mexico with 1,067 branches, 6,195 ATMs, approximately eight and a half million total customer accounts and approximately 19,000 employees. For more information, visit [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 7,200 offices in over 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and Africa and with assets of US\$2,556bn at 31 December 2011, HSBC is one of the world's largest banking and financial services organisations.

For further information contact:

#### ***London***

*Brendan McNamara*

*Group Media Relations*

*Telephone: +44 (0)20 7991 0655*

*Alastair Brown*

*Investor Relations*

*Telephone: +44 (0)20 7992 1938*

#### ***Mexico City***

*Lyssette Bravo*

*Public Affairs*

*Telephone: +52 (55) 5721 2888*

*Yordana Aparicio*

*Investor Relations*

*Telephone: +52 (55) 5721 5192*

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