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31 October 2012

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
THIRD QUARTER 2012 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before tax for the nine months to 30 September 2012 was MXN5,721m, an increase of MXN2,116m or 58.7% compared with MXN3,605m for the same period in 2011, mainly driven by reduced administrative and personnel expenses related to strict cost control and cost savings initiatives, lower loan impairment charges, and higher net interest income, partially offset by lower other operating income.
- Net income for the nine months to 30 September 2012 was MXN4,413m, an increase of MXN1,693m or 62.2% compared with MXN2,720m for the same period in 2011.
- Total operating income, net of loan impairment charges, for the nine months to 30 September 2012 was MXN21,999m, a decrease of MXN362m or 1.6% compared with MXN22,361m for the same period in 2011, mainly due to one-off gains recognised in 2011 resulting from the sale and leaseback of certain branches in the network and the sale of HSBC Afore, partially offset by increased net interest income.
- Loan impairment charges for the nine months to 30 September 2012 were MXN4,259m, a decrease of MXN491m or 10.3% compared with MXN4,750m for the same period in 2011 due to enhanced pre-screening of new customers and an overall improvement in asset quality.
- Administrative and personnel expenses were MXN16,313m, a decrease of MXN2,478m or 13.2% compared with the same period in 2011. Excluding the effect of restructuring charges, which were MXN856m lower than those incurred in the same period in 2011, the decrease would have been MXN1,622m or 9.2% compared with the same period in 2011 as a result of strict cost control and cost reduction strategies implemented since 2011.
- The cost efficiency ratio was 62.1% for the nine months to 30 September 2012, compared with 69.3% for the same period in 2011.
- Net loans and advances to customers were MXN180.8bn at 30 September 2012, an increase of MXN9.3bn or 5.4% compared with MXN171.5bn at 30 September 2011. Total impaired loans as a percentage of gross loans and advances improved to 2.0% compared with 3.6% at 30 September 2011. The coverage ratio (allowance for loan losses divided by impaired loans) was 270.2% compared with 158.4% at 30 September 2011.
- At 30 September 2012, deposits were MXN286.6bn, an increase of MXN5.8bn or 2.1% compared with MXN280.7bn at 30 September 2011.

## **Grupo Financiero HSBC, S.A. de C.V. Third Quarter 2012 Financial Results/2**

- Return on equity was 12.3% for the nine months to 30 September 2012 compared with 7.4% for the same period in 2011.
- At 30 September 2012, the bank's capital adequacy ratio was 14.4% and the tier 1 capital ratio was 11.3% compared with 15.2% and 11.6% respectively at 30 September 2011, and 15.3% and 11.7% respectively at 31 December 2011.
- In the first quarter of 2012, HSBC Mexico S.A. paid a dividend of MXN1,400m, representing MXN0.81 per share, and Grupo Financiero HSBC paid a dividend of MXN2,400m, representing MXN0.94 per share.

*Nine months to 30 September 2011 results have been restated to reflect the Afore and the general insurance manufacturing businesses as discontinued operations.*

*HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the quarter ended 30 September 2012) 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. 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).*

## **Overview**

The Mexican economy continued its strong performance, growing by 4.1% in the second quarter of 2012, despite difficult global conditions. This growth was a result of both a robust services and export sector together with improved credit and employment conditions. Inflation was above expectations largely due to agricultural price pressures and the knock-on effect of the currency depreciation against the US dollar. Banco de Mexico left the monetary policy rate unchanged at 4.5% during this period.

For the nine months to 30 September 2012, Grupo Financiero HSBC's net income was MXN4,413m, an increase of MXN1,693m or 62.2% compared with the same period of 2011. Improved net income was mainly driven by a decrease in administrative and personnel expenses, lower loan impairment charges, and higher net interest income, partially offset by lower other operating income.

Net interest income was MXN16,429m, an increase of MXN468m or 2.9% compared with the same period of 2011. Higher net interest income was due to loan portfolio growth, mainly in commercial and payroll loans, coupled with increased deposit volumes, partially offset by lower spreads in credit cards, payroll and business banking loans.

Loan impairment charges were MXN4,259m, a decrease of MXN491m or 10.3% compared with the same period of 2011. In April 2012, a change in the write-off policy for mortgage loans was implemented and generated a one-off increase in loan impairment charges of MXN659m. Excluding the change in write-off policy, loan impairment charges decreased MXN1,150m or 24.2% compared with the same period of 2011, reflecting enhanced pre-screening of new customers and an overall improvement in asset quality as a consequence of repositioning the loan portfolios to lower risk products.

Net fee income was MXN4,649m, an increase of MXN135m or 3.0% compared with the same period of 2011. The increase was mainly due to higher fees reported for structuring activities related to project finance, equity and debt capital markets, trade services and payroll loans.

Trading income was MXN2,429m, a decrease of MXN67m or 2.7% compared with the same period of 2011. The decrease was impacted by certain large derivatives deals and a gain of MXN279m arising from the sale of one of the Grupo Financiero HSBC's equity investments in the first quarter of 2011, partially offset by an increase in foreign exchange revenues and gains on available-for-sale transactions in 2012.

Other operating income was MXN2,751m a decrease of MXN1,389m or 33.6% compared with the same period of 2011. This decrease was mainly due to one-off gains recognised in 2011 resulting from the sale and leaseback of certain branches in the network, the gain from the sale of HSBC Afore and tax recoveries from previous years.

Administrative and personnel expenses were MXN16,313m, a decrease of MXN2,478m or 13.2% compared with the same period of 2011. Excluding the effect of restructuring charges, which were MXN856m lower than those incurred in the same period of 2011, the decrease would have been MXN1,622m or 9.2% compared with the same period of 2011. This decrease reflects cost reduction initiatives implemented in 2011 in both regional and local operations, such as rightsizing the regional structures and other rationalisation programmes, in addition to the write-off of intangible assets. As of 30 September 2012, full-time employees reduced by 1,497, or 7.8%, compared to 30 September 2011.

The cost efficiency ratio was 62.1% for the nine months to 30 September 2012, compared with 69.3% for the same period of 2011.

The performance of non-banking subsidiaries continued to contribute positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported net income before taxes of MXN1,710m for the nine months to 30 September 2012, up 10.4% compared with the same period of 2011. The main driver for this growth was a reduction in the claims ratio for the Term Life Insurance product to 19.4% from 26.7% reported at 30 September 2011. In addition, the endowment insurance product reported a 32.7% rise in sales compared to the same period of 2011.

Net loans and advances to customers increased MXN9.3bn or 5.4% to MXN180.8bn at 30 September 2012 compared with 30 September 2011. This increase was mainly driven by growth in government entities, consumer and commercial portfolios. Government entities portfolio growth was mainly due to higher lending to federal governmental institutions and the consumer portfolio growth was primarily driven by increased payroll and personal loans.

At 30 September 2012, total impaired loans decreased by 41.7% to MXN3.8bn compared with MXN6.5bn at 30 September 2011 due to the reclassification of a large government loan from impaired to performing in December 2011. The reduction in impaired mortgage loans included an MXN0.8bn decrease relating to the change in write-off policy in April 2012. Impaired consumer loans decreased 14.3%, as the portfolio repositioned to lower risk products. Total impaired loans as a percentage of total loans and advances to customers improved to 2.0% compared with 3.6% at 30 September 2011.

Total loan loss allowances at 30 September 2012 were MXN10.2bn, largely unchanged compared with 30 September 2011. The total coverage ratio (allowance for loan losses divided by impaired loans) was 270.2% at 30 September 2012 compared with 158.4% at 30 September 2011.

Total deposits were MXN286.6bn at 30 September 2012, an increase of MXN5.8bn or 2.1% compared with 30 September 2011. This increase was a result of continued sales efforts and targeted promotions.

Funds under management increased 31.4% compared 30 September 2011, as a result of marketing campaigns targeting Premier customers.

At 30 September 2012, the bank's capital adequacy ratio was 14.4% and the tier 1 capital ratio was 11.3% compared with 15.2% and 11.6% respectively at 30 September 2011, and 15.3% and 11.7% respectively at 31 December 2011.

In the first quarter of 2012, the bank paid a dividend of MXN1,400m representing MXN0.81 per share and Grupo Financiero HSBC paid a dividend of MXN2,400m representing MXN0.94 per share.

## **Business highlights**

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

RBWM reported strong balance sheet growth compared to 30 September 2011, increasing the loan portfolio by 11.6% and deposits by 4.9%.

Personal and payroll loans balances present a significant growth compared to 30 September 2011, increasing 54.0% and 35.7% respectively, on the back of sales strategies and promotions and supported by the synergies with commercial and global banking businesses.

Mortgage originations increased 65.2% compared to 30 September 2011. The strategy for the mortgage loan portfolio has been focused towards low risk customers with competitive pricing.

Funds under management increased 31.4% compared to 30 September 2011, as a result of marketing campaigns targeting Premier customers.

### **Commercial Banking**

Commercial Banking loans and deposits grew by 1.1% and 8.4% respectively compared to 30 September 2011. The credit quality of our book continued to improve, reflecting the strong economic environment in Mexico, as well as sound underwriting policies.

Aligned to the bank's strategy on international connectivity, total operating income, net of loan impairment charges, for trade transactions were MXN213m for the nine months to 30 September 2012, an increase of MXN52m or 32.0% compared to the same period of 2011.

For the nine months to 30 September 2012, foreign exchange operations revenues were MXN133m, an increase of MXN39m or 41.5% compared to the same period of 2011.

## **Global Banking and Markets**

Global Markets trading income decreased MXN67m compared with the same period of 2011. The decrease was impacted by certain large derivatives deals and a gain of MXN279m arising from the sale of one of the Grupo Financiero HSBC's equity investments in the first quarter of 2011, partially offset by an increase in foreign exchange revenues and gains on available for sale transactions by the Balance Sheet Management desk in 2012.

During the third quarter of 2012, Debt Capital Markets maintained its status as one of the top five leading Mexican underwriters<sup>1</sup>, placing and participating in bond issuances for a total transaction amount of MXN41,398m.

As of 30 September 2012, Equity Capital Markets acted as Joint Bookrunner on the Initial Public Offering of Santander Mexico. This was the second such transaction where the bank played a key role in large initial public offerings following the Alpek transaction earlier in the year. Both deals were allocated between Mexican and international tranches. The deals represented landmark transactions for Grupo Financiero HSBC as they are its first lead roles in the region.

Global Banking continues to grow average balances in its credit and lending business and customer deposits, which increased 15.7% and 37.6% respectively compared with the first nine months of 2011. In addition, for the nine months to 30 September 2012, Global Banking trade services revenues were MXN150m, up MXN56m or 59.6% compared to MXN94m for the same period of 2011.

### **Sale of HSBC general insurance manufacturing to AXA Group**

On 6 March 2012, Grupo Financiero HSBC announced that it has entered into agreements to sell its general insurance manufacturing portfolio to AXA Group.

HSBC and AXA Group are working together to ensure a seamless transition, subject to normal regulatory approvals.

### **Grupo Financiero HSBC nine months to 30 September 2012 financial results as reported to HSBC Holdings plc, our ultimate parent company, are under International Financial Reporting Standards (IFRS)**

For the nine months to 30 September 2012, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN7,555m, an increase of MXN324m or 4.5% compared with MXN7,231m in the same period of 2011.

The lower profit reported under Mexican GAAP is largely due to lower loan impairment charges under IFRS as a result of the different provisioning methodologies. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

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<sup>1</sup> Source: Bloomberg Finance

## **About HSBC**

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 1,055 branches, 6,364 ATMs, approximately 5.6m active customers and approximately 17,700 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 6,900 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\$2,652bn at 30 June 2012, the HSBC Group is one of the world's largest banking and financial services organisations.

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**Grupo Financiero HSBC, S.A. de C.V. Third Quarter 2012 Financial Results/8**

**Consolidated Balance Sheet**

	<b>GROUP</b>		<b>BANK</b>	
	<b>30 Sep 2012</b>	30 Sep 2011	<b>30 Sep 2012</b>	30 Sep 2011
<i>Figures in MXN millions</i>				
<b>Assets</b>				
Cash and deposits in banks	<b>43,430</b>	55,376	<b>43,430</b>	55,376
Margin accounts	<b>77</b>	-	<b>77</b>	-
Investment in securities	<b>156,125</b>	168,469	<b>140,291</b>	151,070
Trading securities	<b>41,729</b>	37,304	<b>34,661</b>	27,757
Available-for-sale securities	<b>99,171</b>	116,067	<b>99,171</b>	116,067
Held to maturity securities	<b>15,225</b>	15,098	<b>6,459</b>	7,246
Repurchase agreements	<b>5,836</b>	7,668	<b>5,836</b>	7,668
Derivative transactions	<b>47,048</b>	50,979	<b>47,048</b>	50,979
Performing loans				
Commercial loans	<b>103,060</b>	100,133	<b>103,060</b>	100,133
Loans to financial intermediaries	<b>5,119</b>	6,341	<b>5,119</b>	6,341
Consumer loans	<b>33,390</b>	29,101	<b>33,390</b>	29,101
Mortgage loans	<b>18,889</b>	17,828	<b>18,889</b>	17,828
Loans to government entities	<b>26,758</b>	21,880	<b>26,758</b>	21,880
Total performing loans	<b>187,216</b>	175,283	<b>187,216</b>	175,283
Impaired loans				
Commercial loans	<b>1,949</b>	2,014	<b>1,949</b>	2,014
Consumer loans	<b>1,076</b>	1,256	<b>1,076</b>	1,256
Mortgage loans	<b>674</b>	1,839	<b>674</b>	1,839
Loans to government entities	<b>70</b>	1,352	<b>70</b>	1,352
Total impaired loans	<b>3,769</b>	6,461	<b>3,769</b>	6,461
Gross loans and advances to customers	<b>190,985</b>	181,744	<b>190,985</b>	181,744
Allowance for loan losses	<b>(10,183)</b>	(10,231)	<b>(10,183)</b>	(10,231)
Net loans and advances to customers	<b>180,802</b>	171,513	<b>180,802</b>	171,513
Accounts receivables from insurers and bonding companies	<b>1</b>	-	-	-
Premium receivables	<b>228</b>	186	-	-
Accounts receivables from reinsurers and rebonding companies	<b>191</b>	237	-	-
Other accounts receivable	<b>42,915</b>	30,916	<b>41,189</b>	30,948
Foreclosed assets	<b>234</b>	195	<b>231</b>	191
Property, furniture and equipment, net	<b>7,371</b>	8,074	<b>7,371</b>	8,073
Long-term investments in equity securities	<b>216</b>	250	<b>130</b>	170
Assets held for sale	<b>89</b>	99	-	3
Deferred taxes	<b>5,923</b>	5,508	<b>5,824</b>	5,386
Goodwill	<b>1,199</b>	1,188	-	-
Other assets, deferred charges and intangibles	<b>2,801</b>	5,134	<b>2,693</b>	4,642
<b>Total assets</b>	<b>494,486</b>	505,792	<b>474,922</b>	486,019



**Grupo Financiero HSBC, S.A. de C.V. Third Quarter 2012 Financial Results/9**

**Consolidated Balance Sheet (continued)**

	<b>GROUP</b>		<b>BANK</b>	
	<b>30 Sep 2012</b>	30 Sep 2011	<b>30 Sep 2012</b>	30 Sep 2011
<i>Figures in MXN millions</i>				
<b>Liabilities</b>				
Deposits	<b>286,552</b>	280,730	<b>287,279</b>	281,464
Demand deposits	<b>171,126</b>	159,367	<b>171,853</b>	160,102
Time deposits	<b>111,162</b>	117,101	<b>111,162</b>	117,100
Money market instruments	<b>4,264</b>	4,262	<b>4,264</b>	4,262
Bank deposits and other liabilities	<b>23,754</b>	28,927	<b>23,754</b>	28,927
On demand	<b>1,560</b>	-	<b>1,560</b>	-
Short-term	<b>20,560</b>	27,243	<b>20,560</b>	27,243
Long-term	<b>1,634</b>	1,684	<b>1,634</b>	1,684
Repurchase agreements	<b>21,113</b>	17,176	<b>21,113</b>	22,598
Stock borrowing	-	4	-	4
Financial assets pending to be settled	<b>34</b>	-	<b>34</b>	-
Collateral sold	<b>1,557</b>	12,095	<b>1,557</b>	6,673
Derivative transactions	<b>45,267</b>	50,669	<b>45,267</b>	50,669
Technical reserves	<b>10,935</b>	10,389	-	-
Reinsurers	<b>71</b>	58	-	-
Other payable accounts	<b>45,344</b>	45,916	<b>43,238</b>	46,680
Income tax	<b>835</b>	1,996	<b>658</b>	1,113
Contributions for future capital increases	-	-	-	2,013
Sundry creditors and other accounts payable	<b>44,509</b>	43,920	<b>42,580</b>	43,554
Subordinated debentures outstanding	<b>10,158</b>	10,435	<b>10,158</b>	10,435
Deferred taxes	<b>522</b>	606	<b>508</b>	587
<b>Total liabilities</b>	<b>445,307</b>	457,005	<b>432,908</b>	448,037
<b>Equity</b>				
Paid in capital	<b>32,673</b>	32,673	<b>27,618</b>	25,605
Capital stock	<b>5,111</b>	5,111	<b>5,261</b>	5,087
Additional paid in capital	<b>27,562</b>	27,562	<b>22,357</b>	20,518
Other reserves	<b>16,496</b>	16,104	<b>14,394</b>	12,374
Capital reserves	<b>2,186</b>	1,832	<b>10,603</b>	11,069
Retained earnings	<b>8,833</b>	11,262	<b>(204)</b>	(301)
Result from the valuation of available-for-sale securities	<b>1,157</b>	758	<b>1,157</b>	758
Result from cash flow hedging transactions	<b>(93)</b>	(468)	<b>(93)</b>	(467)
Net income	<b>4,413</b>	2,720	<b>2,931</b>	1,315
Minority interest in capital	<b>10</b>	10	<b>2</b>	3
Total equity	<b>49,179</b>	48,787	<b>42,014</b>	37,982
<b>Total liabilities and equity</b>	<b>494,486</b>	505,792	<b>474,922</b>	486,019

**Grupo Financiero HSBC, S.A. de C.V. Third Quarter 2012 Financial Results/10**

**Consolidated Balance Sheet (continued)**

	<b>GROUP</b>		<b>BANK</b>	
	<b>30 Sep 2012</b>	30 Sep 2011	<b>30 Sep 2012</b>	30 Sep 2011
<i>Figures in MXN millions</i>				
<b>Memorandum Accounts</b>	<b><u>4,317,285</u></b>	<b><u>2,967,174</u></b>	<b><u>4,254,241</u></b>	<b><u>2,872,208</u></b>
<b>Third party accounts</b>	<b><u>54,129</u></b>	<b><u>96,899</u></b>	<b><u>53,002</u></b>	<b><u>51,821</u></b>
Clients current accounts	<b>1</b>	(169)	-	-
Custody operations	<b>146</b>	33,640	-	-
Transactions on behalf of clients	<b>980</b>	11,607	-	-
Third party investment banking operations, net	<b>53,002</b>	51,821	53,002	51,821
<b>Proprietary position</b>	<b><u>4,263,156</u></b>	<b><u>2,870,275</u></b>	<b><u>4,201,239</u></b>	<b><u>2,820,387</u></b>
Guarantees granted	<b>9</b>	14	<b>9</b>	14
Contingent assets and liabilities	-	95	-	95
Irrevocable lines of credit granted	<b>25,312</b>	19,193	<b>25,312</b>	19,193
Goods in trust or mandate	<b>379,835</b>	313,369	<b>379,835</b>	313,370
Goods in custody or under administration	<b>375,685</b>	253,350	<b>370,574</b>	248,240
Collateral received by the institution	<b>41,959</b>	35,774	<b>41,959</b>	35,774
Collateral received and sold or delivered as guarantee	<b>34,243</b>	36,971	<b>34,243</b>	31,561
Values in deposit	<b>53</b>	53	-	-
Suspended interest on impaired loans	<b>107</b>	230	107	230
Recovery guarantees for issued bonds	<b>41,787</b>	34,191	-	-
Paid claims	<b>15</b>	56	-	-
Cancelled claims	<b>9</b>	24	-	-
Responsibilities from bonds in force	<b>3,613</b>	3,416	-	-
Other control accounts	<b>3,360,529</b>	2,173,539	<b>3,349,200</b>	2,171,910

**Consolidated Income Statement**

<i>Figures in MXN millions</i>	<b>GROUP</b>		<b>BANK</b>	
	<b>30 Sep 2012</b>	30 Sep 2011	<b>30 Sep 2012</b>	30 Sep 2011
Interest income	<b>23,861</b>	22,657	<b>23,272</b>	22,098
Interest expense	<b>(8,313)</b>	(7,534)	<b>(8,328)</b>	(7,548)
Earned premiums	<b>2,367</b>	2,040	-	-
Technical reserves	<b>(612)</b>	(220)	-	-
Claims	<b>(874)</b>	(982)	-	-
Net interest income	<b>16,429</b>	15,961	<b>14,944</b>	14,550
Loan impairment charges	<b>(4,259)</b>	(4,750)	<b>(4,259)</b>	(4,750)
Risk-adjusted net interest income	<b>12,170</b>	11,211	<b>10,685</b>	9,800
Fees and commissions receivable	<b>6,323</b>	5,953	<b>5,957</b>	5,649
Fees payable	<b>(1,674)</b>	(1,439)	<b>(1,334)</b>	(1,063)
Trading income	<b>2,429</b>	2,496	<b>2,228</b>	2,011
Other operating income	<b>2,751</b>	4,140	<b>2,913</b>	4,313
Total operating income	<b>21,999</b>	22,361	<b>20,449</b>	20,710
Administrative and personnel expenses	<b>(16,313)</b>	(18,791)	<b>(16,669)</b>	(19,031)
Net operating income	<b>5,686</b>	3,570	<b>3,780</b>	1,679
Undistributed income from subsidiaries	<b>35</b>	35	<b>32</b>	35
Net income before taxes	<b>5,721</b>	3,605	<b>3,812</b>	1,714
Income tax	<b>(1,348)</b>	(1,469)	<b>(781)</b>	(652)
Deferred income tax	<b>(94)</b>	269	<b>(100)</b>	234
Net income before discontinued operations	<b>4,279</b>	2,405	<b>2,931</b>	1,296
Discontinued operations	<b>135</b>	295	-	-
Minority interest	<b>(1)</b>	20	-	19
Net income	<b>4,413</b>	2,720	<b>2,931</b>	1,315

Grupo Financiero HSBC, S.A. de C.V. Third Quarter 2012 Financial Results/12

Consolidated Statement of Changes in Shareholders' Equity

GROUP

	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for- sale securities	Result from cash flow hedging transactions	Net income	Minority interest	Total equity
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Figures in MXN millions

<b>Balances at 1 January 2012</b>	<b>32,673</b>	<b>1,832</b>	<b>8,849</b>	<b>547</b>	<b>(243)</b>	<b>2,510</b>	<b>11</b>	<b>46,179</b>
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**Movements inherent to  
the shareholders'  
decision**

Transfer of result of prior years	-	126	2,384	-	-	(2,510)	-	-
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Cash dividends	-	-	(2,400)	-	-	-	-	<b>(2,400)</b>
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<b>Total</b>	<b>-</b>	<b>126</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>(2,510)</b>	<b>-</b>	<b>(2,400)</b>
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**Movements for the  
recognition of the  
comprehensive income**

Net income	-	-	-	-	-	4,413	-	<b>4,413</b>
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Result from valuation of available- for-sale securities	-	-	-	610	-	-	-	<b>610</b>
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Result from cash flow hedging transactions	-	-	-	-	150	-	-	<b>150</b>
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Others	-	228	-	-	-	-	(1)	<b>227</b>
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<b>Total</b>	<b>-</b>	<b>228</b>	<b>-</b>	<b>610</b>	<b>150</b>	<b>4,413</b>	<b>(1)</b>	<b>5,400</b>
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**Balances at**

<b>30 September 2012</b>	<b>32,673</b>	<b>2,186</b>	<b>8,833</b>	<b>1,157</b>	<b>(93)</b>	<b>4,413</b>	<b>10</b>	<b>49,179</b>
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Consolidated Statement of Changes in Shareholders' Equity (continued)

**BANK**

<i>Figures in MXN millions</i>	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	<b>Total equity</b>
<b>Balances at 1 January 2012</b>	<b>27,618</b>	<b>11,057</b>	<b>(202)</b>	<b>547</b>	<b>(243)</b>	<b>716</b>	<b>3</b>	<b>39,496</b>
<b>Movements inherent to the shareholders' decision</b>								
Transfer of result of prior years	-	-	716	-	-	(716)	-	-
Constitution of reserves	-	716	(716)	-	-	-	-	-
Cash dividends	-	(1,400)	-	-	-	-	-	<b>(1,400)</b>
<b>Total</b>	<b>-</b>	<b>(684)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(716)</b>	<b>-</b>	<b>(1,400)</b>
<b>Movements for the recognition of the comprehensive income</b>								
Net income	-	-	-	-	-	2,931	-	<b>2,931</b>
Result from valuation of available-for-sale securities	-	-	-	610	-	-	-	<b>610</b>
Result from cash flow hedging transactions	-	-	-	-	150	-	-	<b>150</b>
Others	-	230	(2)	-	-	-	(1)	<b>227</b>
<b>Total</b>	<b>-</b>	<b>230</b>	<b>(2)</b>	<b>610</b>	<b>150</b>	<b>2,931</b>	<b>(1)</b>	<b>3,918</b>
<b>Balances at 30 September 2012</b>	<b>27,618</b>	<b>10,603</b>	<b>(204)</b>	<b>1,157</b>	<b>(93)</b>	<b>2,931</b>	<b>2</b>	<b>42,014</b>

**Consolidated Statement of Cash Flows**

**GROUP**

*Figures in MXN millions*

**30 Sep 2012**

<b>Net income</b>	<b>4,413</b>
<b>Adjustments for items not involving cash flow:</b>	<b>5,767</b>
Depreciation and amortisation	1,258
Provisions	2,625
Income tax and deferred taxes	1,441
Technical reserves	612
Discontinued operations	(135)
Undistributed income from subsidiaries	(34)
<b>Changes in items related to operating activities:</b>	
Margin accounts	(50)
Investment securities	21,960
Repurchase agreements	(87)
Stock borrowing	(4)
Derivative (assets)	(4,142)
Loan portfolio	(4,064)
Foreclosed assets	(27)
Operating assets	(13,628)
Deposits	(10,876)
Bank deposits and other liabilities	(8,782)
Settlement accounts	34
Creditors repo transactions	11,786
Collateral sold or delivered as guarantee	(16,147)
Derivative (liabilities)	1,971
Subordinated debentures outstanding	(330)
Accounts receivables from reinsurers and coinsurers	88
Accounts receivables from premiums	(68)
Reinsurers and bonding	41
Other operating liabilities	5,628
<b>Funds provided by operating activities</b>	<b>(16,697)</b>
<b>Investing activities:</b>	
Acquisition of property, furniture and equipment	(362)
Intangible asset acquisitions	1,257
<b>Funds used in investing activities</b>	<b>895</b>
<b>Financing activities:</b>	
Cash dividends	(2,400)
Others	228
<b>Funds used in financing activities</b>	<b>(2,172)</b>
<b>Financing activities:</b>	
Increase / Decrease in cash and equivalents	(7,794)
Cash and equivalents at beginning of period	51,224
<b>Cash and equivalents at end of period</b>	<b>43,430</b>

**Consolidated Statement of Cash Flows** *(continued)*

**BANK**

*Figures in MXN millions*

**30 Sep 2012**

<b>Net income</b>	<b>2,931</b>
<b>Adjustments for items not involving cash flow:</b>	<b>4,732</b>
Depreciation and amortisation	1,258
Provisions	2,625
Income tax and deferred taxes	881
Undistributed income from subsidiaries	(32)
<b>Changes in items related to operating activities:</b>	
Margin accounts	(50)
Investment securities	22,251
Repurchase agreements	(87)
Derivative (assets)	(4,142)
Loan portfolio	(4,063)
Foreclosed assets	(27)
Operating assets	(11,855)
Deposits	(10,842)
Bank deposits and other liabilities	(8,782)
Creditors repo transactions	5,740
Stock borrowing	(4)
Collateral sold or delivered as guarantee	(10,100)
Derivative (liabilities)	1,971
Subordinated debentures outstanding	(329)
Other operating liabilities	7,456
Income tax paid	(1,724)
<b>Funds provided by operating activities</b>	<b>(14,587)</b>
<b>Investing activities:</b>	
Acquisition of property, furniture and equipment	(511)
Intangible asset acquisitions	813
<b>Funds used in investing activities</b>	<b>302</b>
<b>Financing activities:</b>	
Cash dividends	(1,400)
Others	228
<b>Funds used in financing activities</b>	<b>(1,172)</b>
<b>Financing activities:</b>	
Increase / Decrease in cash and equivalents	(7,794)
Cash and equivalents at beginning of period	51,224
<b>Cash and equivalents at end of period</b>	<b>43,430</b>

**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 nine months ended 30 September 2012 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<b>30 Sep 2012</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>4,413</b>
Differences arising from:	
Valuation of defined benefit pensions and post retirement healthcare benefits <sup>‡</sup>	72
Deferral of fees received and paid on the origination of loans <sup>‡</sup>	58
Loan impairment charges <sup>‡</sup>	1,251
Purchase accounting adjustments <sup>‡</sup>	(9)
Recognition of the present value in-force of long-term insurance contracts <sup>‡</sup>	46
Other differences in accounting principles <sup>‡</sup>	(4)
<b>Net income under IFRS</b>	<b>5,827</b>
<b>US dollar equivalent (millions)</b>	<b>441</b>
Add back tax expense	1,728
<b>Profit before tax under IFRS</b>	<b>7,555</b>
<b>US dollar equivalent (millions)</b>	<b>571</b>
<i>Exchange rate used for conversion</i>	<b>13.22</b>

<sup>‡</sup> Net of tax at 29%<sup>2</sup>.

**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**

**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 and real interest rates.

**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.

**Deferral of fees paid and received on the origination of loans**

**Mexican GAAP**

<sup>2</sup> According to the gradual reduction of the income tax rate applicable for 2013, differences are presented net of tax at 29%



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**

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for using the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

**Loan impairment charges**

**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.

**IFRS**

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying value.

**Purchase accounting adjustments**

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

**Recognition of 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**

A value is placed on insurance contracts that are classified as long-term insurance business and are in-force at the balance sheet date. The present value of in-force long-term insurance business is determined by discounting future earnings expected to emerge from business currently in force using appropriate assumptions in assessing factors such as recent experience and general economic conditions.

The Board of Directors of HSBC Holdings plc as at the date of this announcement are: D J Flint, S T Gulliver, S A Catz†, L M L Cha†, M K T Cheung†, J D Coombe†, J Faber†, R A Fairhead†, J W J Hughes-Hallett†, W S H Laidlaw†, J P Lipsky†, J R Lomax†, I J Mackay, N R N Murthy†, Sir Simon Robertson† and J L Thornton†.

† Independent non-executive Director

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