27 February 2018

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

- For the 12 months to 31 December 2017, Grupo Financiero reported profit before tax was MXN5,521m, an increase of MXN620m, or 12.7%, compared with MXN4,901m for the same period of 2016.

- Excluding non-recurrent items for the 12 months to 31 December 2017 was MXN5,521m, an increase of MXN1,467m, or 36.2%, compared to MXN4,054m in the same period of 2016. Non-recurrent items for the year end to 31 December 2016 include: net operating income adjustment of MXN994m related to the transition to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016), partially offset by MXN147m of additional loan impairment charges in relation to the home builders portfolio.

- For the 12 months to 31 December 2017, reported net income was MXN4,535m, an increase of MXN1,235m, or 37.4%, compared with MXN3,300m for the same period of 2016. Excluding non-recurrent items, net income for the 12 months to 31 December 2017 was MXN4,535m, an increase of MXN1,828m or 67.5%.

- On a reported basis, total operating income excluding loan impairment charges was MXN40,160m, an increase of MXN3,095m or 8.4%, compared with MXN37,065m for the same period of 2016. Excluding non-recurrent items and loan impairment charges, total operating income for the 12 months to 31 December 2017 was MXN40,160m, an increase of MXN4,050m, or 11.2%, compared with MXN36,110m for the same period of 2016.

- On a reported basis, loan impairment charges for the 12 months to 31 December 2017 were MXN11,089m, an increase of MXN2,869m, or 34.9%, compared with MXN8,220m for the same period of 2016 reflecting growth and higher delinquency rates in unsecured lending balances. Excluding non-recurrent items, loan impairment charges for the 12 months to 31 December 2017 were MXN11,089m, an increase of MXN3,016m, or 37.4%, compared with MXN8,073m for the same period of 2016.

- On a reported basis, administrative and personal expenses for the 12 months to December 2017 were MXN23,621m, a decrease of MXN387m or 1.6% compared with MXN24,008m for the same period of 2016 showing a strict control of expenses. Excluding non recurring items, expenses decreased MXN426m or 1.8% compared with the same period of 2016.

- The cost efficiency ratio was 58.8% for the 12 months to 31 December 2017, compared with 66.6% for the same period of 2016 excluding non-recurring items.

- Net loans and advances to customers were MXN305.3bn at 31 December 2017, showing an increase in both retail and wholesale portfolios of MXN39.6bn, or 14.9%, compared with MXN265.7bn at 31 December 2016. Total impaired loans as a percentage of gross loans and advances at 31 December 2017 was 2.4%, a decrease of 0.6% compared with 3.0% at 31 December 2016.

- At 31 December 2017, total deposits were MXN374.1bn, an increase of MXN71.1bn, or 23.4%, compared with MXN303.0bn at 31 December 2016.

- On a reported basis, return on equity was 7.4% for the 12 months to 31 December 2017, whereas for the 12 months to 31 December 2016 it was 5.8%, showing an increase of 1.6% mainly impacted by the increase in profitability in 2017.

- At 31 December 2017, the bank's total capital adequacy ratio was 12.9% and the tier 1 capital ratio was 11.6% compared with 13.2% and 11.1% respectively at 31 December 2016.

- On a reported IFRS basis, for the 12 months to December 2017, profit before tax was MXN7,284m, an increase of 59.0% compared to the same period 2016. The main differences between the Mexican GAAP and IFRS results for the period January-December 2017 relate to differences in accounting for loan impairment charges, fair value adjustments on financial instruments 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 year ended 31 December 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.

ROE calculation includes for 2016 a benefit due to Solvency II of MXN696m net of tax and the retrospective recognition of deferred profit sharing net of tax, which had a positive impact on equity of MXN1.7bn.

Overview

The Mexican economy grew 1.0% quarter on quarter and 1.8% year on year in Q4 2017, according to preliminary results. Gross domestic product growth for 2017 stands at 2.1% year on year. The resilience of services remained the main driver of growth, and offset the decline in industrial production. Exports continued to show strength, and private consumption remained on an upward trend. Meanwhile, investment and industrial production remained subdued.

Services had a strong quarter in Q4 2017, rising 2.6% year on year. While all service sectors expanded in 2017, some components outshined others. In particular, lodging and restaurants lead growth in the services category, mostly due to Mexico's strong tourism sector. In addition, transportation, mail and storage activity continued to contribute strongly to overall services growth, especially as these relate to the manufacturing sector, which also performed soundly. However, while it remains strong, the pace of growth in transportation, mail and storage has declined significantly compared to 2016, which explains some of the slight moderation seen in overall services. Moreover, subdued growth in recreational, education and health, and government services also slowed down overall services. Nonetheless, the component continued serving as the main driver of growth in 2017, rising 3.1% year on year according to preliminary results (vs. 3.9% year on year in 2016), thanks to increases in all components.

Industrial production declined 0.7% year on year in Q4 2017, and has placed a drag on the economy, falling 0.6% year on year overall in 2017. The contraction is explained by weakness in the mining sector, due to low oil production and a decline in oil prices in 2017, and a subpar performance of construction. Declines in public building, linked to efforts to reduce government spending, offset otherwise solid construction in private and specialised construction activity. Manufacturing was the only bright spot of industrial activity in 2017, despite a drop in activity in December 2017. While the Mexican Institute of Financial Executive manufacturing index fell 0.7 points to 51.7 in December 2017, it remained in expansion zone for seven consecutive months. Manufacturing activity was supported by higher external demand, since manufacturing exports rose 9% year on year in 2017 after falling 1.0% year on year in 2016. The production of machinery, equipment and transport goods, among other, has and will continue to benefit from the external demand boost. Moreover, auto production was robust in 2017, despite a slowdown in domestic auto sales. In 2017, 3.8m autos were produced in Mexico, up from 3.4m the previous year, and 3.1m autos were exported.

Inflation continued to climb in Q4 2017, and ended the year at 6.8% year on year. A moderate but persistent FX pass-through effect continued to place upward pressure on prices. In addition, temporary movements in agricultural prices, especially given the rise in fruits and vegetables, and higher energy prices lifted overall inflation further.

This backdrop triggered additional tightening from Banxico in December 2017, when the Board decided to increase the policy rate by 25bp to 7.25%. The tightening cycle apparently concluded six months ago, but higher-than-expected inflation, a weaker Mexican peso due to external developments and the December Federal Reserve bank hike, among other factors, warranted a rate increase to keep inflation expectations in check. The tone in Banxico's December statement was more hawkish than expected, and thus contributed to broad market and economist expectations of an additional 25bp rise in February 2018. In its latest meeting in February, when the rate was in fact raised to 7.50%, Banxico noted that the balance of risks for economic growth remains tilted to the downside, but has improved, highlighting the strong expansion of the Mexican economy in Q4 2017. Further monetary policy decisions depend on the pace of decline in inflation expected in 2018, and the evolution of the Mexican peso, especially in light of several external risks such as NAFTA renegotiations and the 2018 presidential elections.

- For the 12 months to 31 December 2017, Grupo Financiero HSBC reported a profit before tax of MXN5,521m, an increase of MXN620m, or 12.7%, compared with MXN4,901m for the same period of 2016.

- Excluding non-recurrent items, profit before tax for the 12 months to 31 December 2017 was MXN5,521m, an increase of MXN1,467m, or 36.2%, compared with the same period of 2016.

- Non-recurrent items for the 12 months to 31 December 2016 include: net operating income adjustment of MXN994m related to the transition to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016), partially offset by MXN147m of additional loan impairment charges in relation to the home builders portfolio.

- On a reported basis net interest income for the 12 months to 31 December 2017 was MXN29,784m, an increase of MXN2,064m, or 7.4%, compared with the same period of 2016. Excluding non-recurrent items, net interest income for the 12 months to 31 December 2017 was MXN29,784m, an increase of MXN3,019m or 11.3% compared with the same period of 2016. The increase is mainly driven by higher performing loans and investment in securities.

- On a reported basis, loan impairment charges for the 12 months to 31 December 2017 were MXN11,089m, an increase of MXN2,869m, or 34.9%, compared with MXN8,220m for the same period of 2016 reflecting growth and higher delinquency rates in unsecured lending balances. Excluding non-recurrent items, loan impairment charges for the 12 months to 31 December 2017 were MXN11,089m, an increase of MXN3,016m, or 37.4%, compared with MXN8,073m for the same period of 2016.

- Net fee income for the 12 months to 31 December 2017 was MXN6,905m, an increase of MXN337m, or 5.1%, compared with the same period of 2016. This increase is due to higher commercial loan fees, account services fees and credit facilities.

- Trading income for the 12 months to 31 December 2017 was MXN1,684m, an increase of MXN743m or 79.0% compared with the same period of 2016. This increase is driven primarily by gains on MXN debt securities in the period against losses the year before. FX Spot new business increases and interest derivatives marked-to-market as a result of MXN market rates increase also contributed to the positive variance.

- Other operating income for the 12 months to 31 December 2017 was MXN1,787m, a decrease of MXN49m or 2.7% compared with the same period of 2016.

- On a reported basis, administrative and personal expenses for the 12 months to December 2017 were MXN23,621m, a decrease of MXN387m or 1.6% compared with MXN24,008m for the same period of 2016 showing a strict control of expenses. Excluding non recurring items, expenses decreased MXN426m or 1.8% compared with the same period of 2016.

- The cost efficiency ratio was 58.8% for the 12 months to 31 December 2017, compared with 66.6% for the same period of 2016 excluding non-recurring items.

- The effective tax rate was 17.9% for the 12 months to 31 December 2017, compared with 32.7% for the same period of 2016, a decrease of 14.8%. This decrease is mainly due to inflation adjustment and derivatives tax results.

- On a reported basis, HSBC Bank Mexico profit before tax for the 12 months to 31 December 2017 was MXN3,406m, an increase of MXN1,111m or 48.4% compared with the same period of 2016. Net income after tax was MXN3,006m, an increase of MXN1,498m, or 99.3% compared with the same period of 2016. Excluding non-recurrent items, profit before tax was MXN3,406m, an increase of MXN964m, or 39.5%, compared to MXN 2,442m in the same period of 2016. Net income after tax was MXN3,006m, an increase of MXN1,395m, or 86.6% compared with the same period of 2016.

- On a reported basis, Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros profit before tax for the 12 months to 31 December 2017 was MXN1,532m, a decrease of MXN781m, or 33.8%, driven by 2016 initial transition adjustment of MXN994m for Solvency II (new regulatory framework for insurance companies effective since 1 January 2016). Excluding non-recurrent items, profit before tax for the 12 months to 31 December 2017 was MXN1,532m, an increase of 16.1% compared with the same period of 2016, driven by a decrease in claims and insurance liabilities for life products.

- Net loans and advances to customers were MXN305.3bn at 31 December 2017, showing an increase in both retail and wholesale portfolios of MXN39.6bn, or 14.9%, compared with MXN265.7bn at 31 December 2016. The performing consumer and mortgage loan portfolios increased by 0.8% and 12.5% respectively, compared with 31 December 2016. In addition the performing commercial loan portfolio increased by 34.6% compared with 31 December 2016.

- Total impaired loans as a percentage of gross loans and advances at 31 December 2017 was 2.4%, a decrease of 0.6% compared with 3.0% at 31 December 2016 driven mainly by net repayments, loan sales, improvement of credit profile and active portfolio management.

- On a reported basis, return on equity was 7.4% for the 12 months to 31 December 2017, whereas for the 12 months to 31 December 2016 it was 5.8%, showing an increase of 1.6%, mainly impacted by the increase in profitability in 2017.

- Total loan loss allowances at 31 December 2017 were MXN12.6bn, an increase of MXN0.2bn or 1.5% compared with 31 December 2016. The total coverage ratio (allowance for loan losses divided by impaired loans) was 167.9% at 31 December 2017 compared with 150.8% at 31 December 2016. The higher coverage ratio is in line with active portfolio management over impaired loans, together with an increasing performing portfolio.

- At 31 December 2017, total deposits were MXN374.1bn, an increase of MXN71.1bn, or 23.8%, compared with MXN302.0bn at 31 December 2016. Demand deposits observed an increase of 21.6% across all segments. Time deposits increased by 23.6%.

- At 31 December 2017, the bank's total capital adequacy ratio was 12.9% and the tier 1 capital ratio was 11.6% compared with 13.2% and 11.1%, respectively, at 31 December 2016. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

Fighting financial crime

For the past five years, we have been weaving Global Standards into the fabric of HSBC. The investment that we have made in our financial crime risk management capabilities has considerably strengthened our ability to protect the integrity of the financial system. We have assembled a highly expert team which is helping to shape the debate about our industry's role in the fight against financial crime. We have made great strides in building a compliance function fit for the many evolving challenges we face, and built partnerships to combat financial crime with regulatory and law enforcement authorities around the world.

The expiration in December of the five-year deferred prosecution agreement ('DPA') that we entered into with the US Department of Justice in 2012 was an important milestone for HSBC. Nonetheless, exiting the DPA was a product rather than the focus of the essential work that we have done to transform our compliance capabilities and protect the financial system. This work will continue as we seek to ensure that the changes we have made are effective and sustainable. Combating financial crime is a never-ending exercise and will be a constant focus for the Group's management.

In January 2018, the Group entered into a new three-year deferred prosecution agreement ('DPA') with the US Department of Justice to resolve the Department's investigation into foreign exchange sales and trading activities within our Markets business in 2010. The agreement recognises the steps that we have already taken to strengthen our Global Markets compliance programme and internal controls. We have committed to making further improvements to ensure fair outcomes for our customers and protect the orderly and transparent operation of markets. There was no financial impact in Mexico regarding this DPA.

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 4Q 2017 showed significant growth compared to the same period of 2016, mainly regarding higher spreads in deposits due to central bank rate increases, coupled with higher consumer balances, deposits, and insurance results. End of period balances increased 7% in lending and 5% in deposits compared to the same period of 2016, as well as mortgage and auto, which presented significant growth of 14% and 19% respectively.

Market share growth of mortgage portfolio, outpaced the top six banks, reaching 6.4% (+10bp) and Auto increased from 5.3% to 5.4%.

Time deposits showed a 59% growth in revenue compared to 2016, driven by growth in balances of 9% mainly in the Premier proposition due to commercial activities such as special end-of-year campaigns and higher spreads, as a consequence of central bank rate increases, as well as Demand deposits which presented a similar trend, increasing 15% in revenue.

Mutual funds increased 13% in volume since the beginning of the year, achieving 6.87% market share comparing to the top six banks.

The insurance business continues to be focused on adding value for our customers and improving the sales quality. The premiums of life product increased 4% in 2017 as a result of better targeting and segmentation.

Commercial Banking (CMB)

CMB revenue results for 2017 increased 9% compared to prior year, maintaining a positive trend in the financial margin mainly for liabilities, where we have an 18% growth vs prior year. Additionally, we increased our revenues from markets activities from corporate clients which shows an increasing collaboration with GBM.

In 2017, total expenses decreased 12% following continued efforts to streamline the business and improve efficiency. This was partially compensated by an increase in impairment charges due to specific provisions booked during the year.

Deposits display a positive trend with a 26% growth, well above the average wholesale market growth (12%). Our strategic focus on US dollar deposits displayed a successful performance with 31% growth. Our loan portfolio also increased 4% versus the prior year, mainly driven by the corporate portfolio.

Global Banking and Markets (GBM)

Total GBM revenues increased 28% versus 2016. Loan impairment charges are below prior year due to the release of impairment allowances, as well as with better quality of the customer's portfolio. Costs remained under control aligned to prior year. This growth in the income statement lines represent an increase of over 100% in profit before tax.

GBM asset and liabilities balances grew above the industry average, including an increase of 28% in the credit portfolio with corporate and multinational clients compared to 2016. In addition, higher deposits volumes (58%) coupled with higher rates, translated into increased GLCM (Global, Liquidity & Cash Management) revenues.

Foreign exchange sales continued to grow steadily in 2017. The bank continues to diversify the customer base and customer product portfolio through the use of forwards and options, with the support of the risk management team.
Additionally, GBM maintained its strong strategy, strengthening its debt and capital markets business by growing more than 155% in revenues, closing relevant transactions with local customers.

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

On a reported IFRS basis, for the period January-December 2017, profit before tax was MXN7,284m, 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-December 2017 relate to differences in accounting for loan impairment charges and insurance liabilities. (Refer to page 23)

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 971 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 3,900 offices in 67 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With total assets of US$2,522bn at 31 December 2017, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP 12 MONTHS ENDED 31 December 2017
Figures in MXN millions

	Reported	**Excluding non-recurrent items ***
Interest income	48,959	48,959
Interest expense	(19,175)	(19,175)
Net interest income	29,784	29,784
Loan impairment charges	(11,089)	(11,089)
Risk-adjusted net interest income	18,695	18,695
Fees and commissions receivable	9,324	9,324
Fees payable	(2,419)	(2,419)
Trading income	1,684	1,684
Other operating income	1,787	1,787
Total operating income	29,071	29,071
Administrative and personnel expenses	(23,621)	(23,621)
Net operating income	5,450	5,450
Share of profits in equity interest	71	71
Profit/loss before tax	5,521	5,521
Income tax	(1,414)	(1,414)
Deferred income tax	428	428
Net	4,535	4,535

*For Group entity during the 12 months of 2017 there were not non-recurrent items.

Consolidated Income Statement – GROUP 12 MONTHS ENDED 31 December 2016

Figures in MXN millions

	Reported	Solvency II	Homebuilders loan impairment charges	Excluding non-recurrent items
Interest income	39,940	(955)	-	38,985
Interest expense	(12,220)	-	-	(12,220)
Net interest income	27,720	(955)	-	26,765
Loan impairment charges	(8,220)	-	147	(8,073)
Risk-adjusted net interest income	19,500	(955)	147	18,692
Fees and commissions receivable	8,742	-	-	8,742
Fees payable	(2,174)	-	-	(2,174)
Trading income	941	-	-	941
Other operating income	1,836	-	-	1,836
Total operating income	28,845	(955)	-	28,037
Administrative and personnel expenses	(24,008)	(39)	-	(24,047)
Net operating income	4,837	(994)	-	3,990
Share of profits in equity interest	64	-	-	64
Profit/loss before tax	4,901	(994)	-	4,054
Income tax	(782)	-	-	(782)
Deferred income tax	(819)	298	(44)	(565)
Net income	3,300	(696)	(44)	2,707

Consolidated Income Statement – BANK 12 MONTHS ENDED 31 December 2017

Figures in MXN millions

	Reported	Excluding non-recurrent items*
Interest income	44,791	44,791
Interest expense	(17,286)	(17,286)
Net interest income	27,505	27,505
Loan impairment charges	(11,089)	(11,089)
Risk-adjusted net interest income	16,416	16,416
Fees and commissions receivable	8,756	8,756
Fees payable	(2,514)	(2,514)
Trading income	1,691	1,691
Other operating income	2,432	2,432
Total operating income	26,781	26,781
Administrative and personnel expenses	(23,443)	(23,443)
Net operating income	3,338	3,338
Share of profits in equity interest	68	68
Profit/loss before tax	3,406	3,406
Income tax	(779)	(779)
Deferred income tax	379	379
Net income	3,006	3,006
Net income	3,006	3,006

*For bank entity during the 12 months of 2017 there were not non-recurrent items.

Consolidated Income Statement – BANK 12 MONTHS ENDED 31 December 2016
Figures in MXN millions

	Reported	Homebuilders loan impairment charges	Excluding non-recurrent items*
Interest income	34,606	-	34,606
Interest expense	(9,918)	-	(9,918)
Net interest income	24,688	-	24,688
Loan impairment charges	(8,220)	147	(8,073)
Risk-adjusted net interest income	16,468	147	16,615
Fees and commissions receivable	8,283	-	8,283
Fees payable	(2,096)	-	(2,096)
Trading income	1,053	-	1,053
Other operating income	2,224	-	2,224
Total operating income	25,932	147	26,079
Administrative and personnel expenses	(23,697)	-	(23,697)
Net operating income	2,235	147	2,382
Share of profits in equity interest	60	-	60
Profit/loss before tax	2,295	147	2,442
Income tax	(52)	-	(52)
Deferred income tax	(735)	(44)	(779)
Net incomes	1,508	103	1,611

*Non recurrent items are not considering MXN 123m reported in 2016 related with intercompany balances which does not have impact in Group's PBT.

Consolidated Balance Sheet

Figures in MXN millions	Group As of December 31th 2017	 2016	Bank As of December 31th 2017	 2016
Assets				
Cash and deposits in banks	46,046	51,908	45,949	51,817
Margin accounts	341	1,488	341	1,488
Investment in securities	184,850	149,007	168,500	132,611
Trading securities	35,192	25,859	34,239	23,250
Available-for-sale securities	122,635	95,569	116,222	90,313
Held to maturity securities	27,023	27,579	18,039	19,048
Repurchase agreements	22,707	10,088	22,707	10,088
Derivative transactions	93,396	113,009	93,396	113,009
Performing loans				
Commercial loans	181,274	134,697	181,274	134,697
Loans to financial intermediaries	9,549	11,980	9,549	11,980
Loans to government entities	24,745	33,062	24,745	33,062
Consumer loans	56,585	56,124	56,585	56,124
Mortgage loans	38,275	34,030	38,275	34,030
Total performing loans	310,428	269,893	310,428	269,893
Impaired loans				
Commercial loans	4,338	5,530	4,338	5,530
Consumer loans	2,660	2,203	2,660	2,203
Mortgage loans	488	476	488	476
Total impaired loans	7,486	8,209	7,486	8,209
Gross loans and advances to customers	317,914	278,102	317,914	278,102
Allowance for loan losses	(12,569)	(12,383)	(12,569)	(12,383)
Net loans and advances to customers	305,345	265,719	305,345	265,719
Accounts receivables from Insurers and Bonding companies	59	51	-	-
Premium receivables	1,575	1,598	-	-
Accounts receivables from reinsurers and rebonding companies	36	45	-	-
Benefits to be received from trading operations	94	106	94	106
Other accounts receivable	50,020	57,706	50,112	57,449
Foreclosed assets	426	364	426	364
Property, furniture and equipment, net	4,793	5,118	4,793	5,118
Long-term investments in equity securities	213	258	181	205
Long-term assets available for sale	164	6	164	6
Deferred taxes	12,707	11,878	12,494	11,849
Goodwill	1,048	1,081	-	-
Other assets, deferred charges and intangibles	3,917	3,959	3,907	3,961
Total assets	727,737	673,389	708,409	653,790

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	As of December 31th		As of December 31th	
Liabilities	**2017**	**2016**	**2017**	**2016**
Deposits	374,097	302,930	374,821	303,520
Demand deposits	255,683	210,319	256,121	210,608
Time deposits	108,292	87,584	107,920	87,210
Issued credit securities	10,122	5,027	10,122	5,027
Global deposit account without movements	-	-	658	675
Bank deposits and other liabilities	31,542	35,780	31,541	35,781
On demand	2,001	6,152	2,001	6,152
Short-term	16,004	23,580	16,004	23,581
Long-term	13,537	6,048	13,536	6,048
Repurchase agreements	69,112	48,881	69,112	48,881
Collateral sold	10,076	8,587	10,076	8,586
Derivative transactions	95,442	118,810	95,441	118,810
Technical reserves	12,203	12,392	-	-
Accounts payable from reinsures and rebounding companies	11	10	-	-
Other payable accounts	57,784	72,220	57,006	71,212
Income tax and employee profit sharing payable	266	151	222	166
Sundry creditors and other accounts Payable	60,323	72,069	59,589	71,046
Subordinated debentures outstanding	10,357	12,566	10,357	12,566
Deferred taxes	1,582	1,352	1,468	1,235
Total liabilities	665,011	613,528	652,627	600,591
Equity				
Paid in capital	43,373	43,373	38,318	38,318
Capital stock	6,218	6,218	6,132	6,132
Additional paid in capital	37,155	37,155	32,186	32,186
Other reserves	19,345	16,483	17,459	14,879
Capital reserves	1,244	2,644	11,590	11,273
Retained earnings	15,903	13,248	5,259	4,245
Result from the mark-to-market of available-for-sale securities	(2,057)	(2,097)	(1,950)	(1,969)
Result from cash flow hedging transactions	(280)	(612)	(280)	(612)
Adjustment in the employee pension			(166)	434
Net income	4,535	3,300	3,006	1,508
Minority interest in capital	8	5	5	2
Total equity	62,726	59,861	55,782	53,199
Total liabilities and equity	727,737	673,389	708,409	653,790

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	As of December 31th		As of December 31th	
	2017	2016	2017	2016
Memorandum Accounts	6,952,958	5,594,900	6,797,933	5,582,041
Third party accounts	47,439	40,504	43,422	39,361
Clients current accounts	1,972	321	-	-
Custody operations	2,045	822	-	-
Third party investment banking operations, net	43,422	39,361	43,422	39,361
Proprietary position	6,905,519	5,554,396	6,754,511	5,542,680
Irrevocable lines of credit granted	286,000	280,898	286,000	280,898
Goods in trust or mandate	420,456	437,117		437,117
Trust	419,589	436,265	419,589	436,265
Mandate	867	853	867	852
Goods in custody or under administration	1,064,015	952,994	1,057,797	947,358
Collateral received by the institution	50,719	31,815	50,719	31,815
Collateral received and sold or delivered as guarantee	34,512	29,416	34,512	29,416
Suspended interest on impaired loans	161	183	161	183
Other control accounts	5,049,656	3,821,973	4,904,866	3,815,893

Consolidated Income Statement

	Group		Bank	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Interest income	48,959	39,940	44,791	34,606
Interest expense	(19,175)	(12,220)	(17,286)	(9,918)
Net interest income	29,784	27,720	27,505	24,688
Loan impairment charges	(11,089)	(8,220)	(11,089)	(8,220)
Risk-adjusted net interest income	18,695	19,500	16,416	16,468
Fees and commissions receivable	9,324	8,742	8,756	8,283
Fees payable	(2,419)	(2,174)	(2,514)	(2,096)
Trading income	1,684	941	1,691	1,053
Other operating income	1,787	1,836	2,432	2,224
Total operating income	29,071	28,845	26,781	25,932
Administrative and personnel expenses	(23,621)	(24,008	(23,443)	(23,697)
Net operating income	5,450	4,837	3,338	2,235
Share of profits in equity interest	71	64	68	60
Profit/loss before tax	5,521	4,901	3,406	2,295
Income tax	(1,414)	(782)	(779)	(52)
Deferred income tax	428	(819)	379	(735)
Net income	4,535	3,300	3,006	1,508

Consolidated Statement of Changes in Shareholders' Equity

GROUP	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	**Total equity**
Figures in MXN million								
Total Balances at 31 Dec 2016	**43,373**	**2,644**	**13,248**	**(2,097)**	**(612)**	**3,300**	**5**	**59,861**
Movements inherent to the shareholders' decision								
Shares issue	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	-	3,300	-	-	(3,300)	-	**-**
Constitution of reserves	-	(1,400)	1,400	-	-	-	-	**-**
Cash dividends	-	-	(1,254)	-	-	-	-	**(1,254)**
Others	-	-	-	-	-	-	-	-
Total	**-**	**(1,400)**	**3,446**	**-**	**-**	**(3,300)**	**-**	**(1,254)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	4,535	-	**4,535**
Result from valuation of available-for-sale securities	-	-	-	40	-	-	-	**40**
Result from cash flow hedging transactions	-	-	-	-	332	-	-	**332**
Others[1]	-	-	(791)	-	-	-	3	**(788)**
Total	**-**	**-**	**(791)**	**40**	**332**	**4,535**	**3**	**4,119**
Total Balances at 30 December 2017	**43,373**	**1,244**	**15,903**	**(2,057)**	**(280)**	**4,535**	**8**	**62,726**

[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 2017 and recognition of impact in insurance reserves due to Solvency II.

BANK	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plan	Net income	Minority interest	**Total equity**
Figures in MXN million									
Total Balances at 31 Dec 2016	**38,318**	**11,273**	**4,245**	**(1,969)**	**(612)**	**434**	**1,508**	**2**	**53,199**
Movements inherent to the shareholders' decision									
Shares issue	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	1,191	-	-	-	(1,191)	-	-
Constitution of reserves	-	317	-	-	-	-	(317)	-	-
Cash dividends	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	-	**317**	**1,191**	**-**	**-**		**(1,508)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	3,006	-	**3,006**
Result from valuation of available-for-sale securities	-	-	-	19	-	-	-	-	**19**
Result from cash flow hedging transactions	-	-	-	-	332	-	-	-	**332**
Adjustment in defined benefit pension plan	-	-	(27)	-	-	(600)	-	-	**(627)**
Others		-	(150)	-	-	-	-	3	**(147)**
Total	-	**-**	**(177)**	**19**	**332**	**(600)**	**3,006**	**3**	**2,583**
Total Balances at 31 December 2017	**38,318**	**11,590**	**5,259**	**(1,950)**	**(280)**	**(166)**	**3,006**	**5**	**55,782**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31-Dec-17**
Net income	**4,535**
Adjustments for items not involving cash flow:	**14,750**
Gain or loss on appraisal of activities associated with investment & financing	1,193
Allowances for loan losses	10,816
Depreciation and amortization	1,136
Technical reserves	(102)
Provisions	793
Income Tax and deferred taxes	985
Share of profits in equity interest	(71)
Changes in items related to operating activities:	
Margin accounts	1,147
Investment securities	(35,827)
Repurchase agreements	(12,619)
Derivative (assets)	18,911
Loan portfolio	(50,442)
Benefits to be received from trading operations	12
Foreclosed assets	(63)
Operating assets	6,937
Deposits	71,167
Bank deposits and other liabilities	(4,239)
Creditors repo transactions	20,230
Collateral sold or delivered as guarantee	1,489
Derivative (liabilities)	(23,370)
Subordinated debentures outstanding	(2,209)
Accounts receivables from premiums	23
Other operating liabilities	(12,290)
Income tax paid	(1,429)
Funds provided by operating activities	**(3,287)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	27
Acquisition of property, furniture and equipment	(563)
Intangible assets acquisitions & Prepaid expenses	(831)
Cash dividends	91
Other investment activities	(49)
Funds used in investing activities	**(1,325)**
Financing activities:	
Cash dividends	(1,254)
Others	4
Funds used in financing activities	**(1,250)**
Financing activities:	
Increase/decrease in cash and equivalents	(5,862)
Cash and equivalents at beginning of period	51,908
Cash and equivalents at end of period	**46,046**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions

	31-dic-17
Net income	**3,006**
Adjustments for items not involving cash flow:	**14,186**
Gain or loss on appraisal of activities associated with investment & financing	1,193
Allowances for loan losses	10,816
Depreciation	835
Amortisation	302
Provisions	707
Income Tax and deferred taxes	401
Share of profits in equity interest	(68)
Changes in items related to operating activities:	
Margin accounts	1,147
Investment securities	(35,895)
Repurchase agreements	(12,619)
Derivative (assets)	18,911
Loan portfolio	(50,125)
Benefits to be received from trading operations	12
Foreclosed assets	(63)
Operating assets	6,219
Deposits	71,300
Bank deposits and other liabilities	(4,239)
Creditors repo transactions	20,230
Collateral sold or delivered as guarantee	1,489
Derivative (liabilities)	(23,370)
Subordinated debentures outstanding	(2,209)
Other operating liabilities	(11,949)
Income tax paid	(704)
Funds provided by operating activities	**(4,673)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	27
Acquisition of property, furniture and equipment	(563)
Intangible assets acquisitions & Prepaid expenses	(1,030)
Cash dividends	91
Other investment activities	280
Funds used in investing activities	**(1,195)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**(5,868)**
Cash and equivalents at beginning of period	51,817
Cash and equivalents at end of period	**45,949**

Changes in Mexican accounting standards

I. Improvements of NIF 2017 applicable to Financial Institutions:

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

Improvements involving accounting changes.

NIF B-7 "Business acquisition" Improvements of NIF 2017 which entered into force retrospectively since 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. No impacts are expected for these changes.

NIF B-13 "Events after reporting period" – Establishes that when entity has assets (or liabilities) classified as short (or long) term and they are in default at reporting period, between the report date and the approval date of the financial statements, if debtor and creditor entered into an agreement to renegotiate the term of the contract in a long (or short) term, these assets (or liabilities) must be retained their original classification based on their substance at the reporting period. This situation must be disclosed on financial statements. This accounting change is in place from January, 1st, 2017 and its financial effects must be recognised prospectively.   There were no impacts related to these change

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. There was no impacts related to these changes.

NIF D-3 "Employee benefits" – This improvement gives the option to use either a high quality corporate bonds rate or government bonds rate to calculate the discount rate used to determine the Present Value of a Defined Benefit Obligations (OBD) balances. Accounting changes originated by the reference rate must be recognised prospectively.

This improvement is not applicable to the Bank on period reported, because it has adhered to special rules issued by CNBV to adopt and recognise initial impacts originated by new version of this NIF, those are described in detail in section "Changes in accounting rules and estimations".

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

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

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

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

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

The initial financial impact amounted $346m, 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 December 2017, the Bank has recognised $202m debiting "Loan Impairment Allowances" account and crediting "Retained Earnings" account aforementioned.

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

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

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

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

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

On October, 17th, 2017, the CNBV extended "the programme" to borrowers affected by the earthquake that hit Mexico on September, 19th, 2017 (through official response paper).

At the end of reporting period, the amount of loans included in the programme is $399m. The total interest that will not bear in income statements during skip payment period is $26m. Given that "the programme" was based on an extension in loan term through the application of skip payment period, there were not accounting entries recognised either balance sheet or income statement.

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 12 months ended 31 December of 2017 and an explanation of the key reconciling items.

	31 December 2017
Figures in MXN millions **Grupo Financiero HSBC – Net Income Under Mexican GAAP**	**4,535**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	83
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	(10)
Loan impairment charges and other differences in presentation under IFRS	815
Recognition of the present value in-force of long-term insurance contracts	192
Other insurance adjustments (1)	(246)
Fair value adjustments on financial instruments	560
Deferred profit sharing	(53)
Other	(28)
Tax over adjustments	-
Net income under IFRS	**5,904**
US dollar equivalent (millions)	**300**
Add back tax expense	1,380
Profit before tax under IFRS	**7,284**
Add back significant items(3)	956
Adjusted net income before tax under IFRS	**8,241**
US dollar equivalent (millions)	**419**
Exchange rate used for conversion(4)	***19.6629***
Significant items under IFRS	
-Debit valuation adjustment on derivative contracts	**75**
-Costs to achieve(5)	**881**

(1)includes technical reserves and effects from Solvency II

(2) *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.*
(3) *Close BANXICO rate at 31 December 2017.*
(4) 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

The commissions charged for the granting of the credit will be recorded as a deferred credit, which will be amortized against the results of the year as an interest income, under the straight line method during the life of the loan, except those that originate from revolving credits which must be amortized for a period of 12 months. In the case of commissions charged for restructuring or renewals of credits, they must be added to the commissions that were originated according to the previous paragraph, recognizing them as a deferred credit, which will be amortized against the results of the year as interest income, under the method of a straight line during the new term of the credit.

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 until December 2017. Since January 2018 institutions are allowed to cancel the surpluses in the balance of loan impairment charges against the item of impairment charges in the income statement, as well as recognize the estimates of credits previously written off against the same item

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 allowed 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.