HSBC

News Release

26 July 2018

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2018 FINANCIAL RESULTS HIGHLIGHTS

- For the first half of 2018, Grupo Financiero profit before tax was MXN4,907m, an increase of MXN1,924m, or 64.5%, compared with MXN2,983m for the same period of 2017.

- For the first half of 2018, net income was MXN3,701m, an increase of MXN1,377m, or 59.3%, compared with MXN2,324m for the same period of 2017.

- Total operating income excluding loan impairment charges was MXN21,094m, an increase of MXN2,290m or 12.2%, compared with MXN18,804m for the same period of 2017[1].

- Loan impairment charges for the first half of 2018 were MXN4,060m, a decrease of MXN243m, or 5.6%, compared with MXN4,303m for the same period of 2017[1].

- Administrative and personnel expenses for the first half of 2018 were MXN12,197m, an increase of MXN649m, or 5.6%, compared with MXN11,548m for the same period of 2017.

- The cost efficiency ratio was 57.8% for the first half of 2018, compared with 61.4% for the same period of 2017[1].

- Net loans and advances to customers were MXN327.6bn at 30 June 2018, showing an increase in both retail and wholesale portfolios of MXN43.3bn, or 15.2%, compared with MXN284.3bn at 30 June 2017. Total impaired loans as a percentage of gross loans and advances at 30 June 2018 was 2.3%, a decrease of 0.5 percentage point compared with 2.8% at 30 June 2017.

- At 30 June 2018, total deposits were MXN374.4bn, an increase of MXN58.3bn, or 18.4%, compared with MXN316.1bn at 30 June 2017.

- Return on equity was 11.3% for the first half of 2018, whereas for the first half of 2017 it was 7.6%, showing an increase of 3.7 percentage points mainly impacted by the increase in profitability in 2018.

- At 30 June 2018, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.9% compared with 12.7% and 10.9%, respectively, at 30 June 2017.

This news release is issued by
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- On a reported IFRS basis, for the first half of 2018, profit before tax was MXN5,128m, an increase of 53.4% compared to the same period 2017. The main differences between the Mexican GAAP and IFRS results for the first half of 2018 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 period ended 30 June 2018) 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.

[1] CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN623m were reclassified from other operating income to loan impairment charges. This had an impact in the 2017 cost efficiency ratio from the original 59.4% to the current 61.4%

All numbers are as reported and there were no significant items distorting period-on-period comparisons.

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

Overview

The Mexican economy continued to grow at a healthy pace according to Q1 2018 figures, though preliminary data for Q2 2018 shows a slight moderation. Looking beyond the negative impact of fewer working days in March due to Easter holidays, economic activity surprised on the upside in Q1 2018 and grew 1.1% quarter on quarter seasonally adjusted and 2.4% year on year adjusted by calendar effect. This was up from the 1.6% year on year calendar-adjusted reading in Q4 2017. However, data for April suggested a temporary setback as overall activity fell 0.6% month on month and rose 1.4% year on year adjusted by calendar effects. Therefore, economic activity weakened in the first month of Q2 2018 with respect to the better-than-expected readings in Q1 2018, mainly explained by less dynamism in all three sectors: services, industrial production and agriculture. Services fell in month on month terms for the second month in a row. Nonetheless, the service sector continued as the main driver of economic activity in April. Transport, financial, restaurant and hotel, and government-related activities outshined the rest of the service sector. Meanwhile, commerce, which had been performing solidly year to date, lost some dynamism. Industrial production had another feeble result, mostly due to the drag from the mining sector. Although it has improved, the slump in oil production continues to cause negative figures for mining activities. Manufacturing activity was also subdued in April, while construction performed well. Meanwhile, exports continue strong. April figures showed total exports increased 17% year on year, setting the pace for solid export growth for the rest of Q2 2018.

Inflation continued to decline in Q2 2018, after climbing to 6.8% by the end of 2017. Inflation stood at 4.65% year on year in June, at the end of Q2 2018, having eased 215bp so far this year. However, the June inflation reading interrupted the consistent downward trend started in 2018, as the headline rate was lifted from 4.51% in May. Although the core component remained relatively stable throughout Q2 2018, mainly explained by a more contained FX pass-through effect, non-core inflation deteriorated in June, mainly driven by higher domestic gas, gasoline and electricity prices. Although the June reading came in above expectations, inflation averaged 4.6% year on year in Q2 2018, in line with Banxico forecast.

After a policy rate hike in February, the central bank decided to hike again in June by 25bp to 7.75%. The central bank explicitly indicated a deterioration in the balance of risks for inflation as the main trigger for its decision. Developments surrounding NAFTA and the July elections continued to act an important cause of volatility for the Mexican peso. Banxico mentioned that inflation remains in line with its projections, but upward risks for prices, mainly framed by a weaker Mexican peso, started to materialise. The central bank estimates that the impact from US tariffs on inflation is likely to be limited and short-lived, but there is the risk of a larger impact. In addition, the board reiterated that potential negative shocks in agricultural prices and pressure on wages have not played a relevant role so far, but can’t be ruled out in the coming months. Overall, the central bank communications after the June policy meeting reflected a hawkish tone. The publication of Banxico’s quarterly inflation forecasts continues to act as a new key tool to improve monetary policy guidance, as it allows the market to compare how inflation performed with respect to what the central bank had projected.

- For the first half of 2018, Grupo Financiero HSBC reported a profit before tax of MXN4,907m, an increase of MXN1,924m, or 64.5%, compared with MXN2,983m for the same period of 2017.

- Net interest income for the first half of 2018 was MXN14,959m, an increase of MXN742m, or 5.2%, compared with the same period of 2017. The increase is mainly driven by higher performing loans partially offset by an increase in funding costs.

- Loan impairment charges for the first half of 2018 were MXN4,060m, a decrease of MXN243m, or 5.6%, compared with MXN4,303m[1] for the same period of 2017 mostly driven by better performance in retail unsecured portfolio, partially offset with the higher loan impairment charge, mainly affected by significant provision releases booked in 2017, on the wholesale portfolio.

- Net fee income for the first half of 2018 was MXN3,789m, an increase of MXN389m, or 11.4%, compared with the same period of 2017. This increase is mostly driven by higher net fees in the bank.

- Trading income for the first half of 2018 was MXN1,609m, an increase of MXN906m or more than 100.0% compared with the same period of 2017. This increase is driven primarily by gains on sale of securities in the Insurance subsidiary and positive increase in FX revaluation in the bank subsidiary.

- Other operating income for the first half of 2018 was MXN737m, an increase of MXN253m or 52.3% compared with the same period of 2017[1].

- Administrative and personnel expenses for the first half of 2018 were MXN12,197m, an increase of MXN649m or 5.6% compared with MXN11,548m for the same period of 2017, mainly driven by higher staff cost.

- The cost efficiency ratio was 57.8% for the first half of 2018, compared with 61.4 % for the same period of 2017[1].

- The effective tax rate was 24.6% for the first half of 2018, compared with 22.1% for the same period of 2017, an increase of 2.5 percentage points mainly affected by annual inflation adjustment.

- Net loans and advances to customers were MXN327.6bn at 30 June 2018, showing an increase in both retail and wholesale portfolios of MXN43.3bn, or 15.2%, compared with MXN284.3bn at 30 June 2017. The performing commercial loans increased by 29.1%, compared with 30 June 2017. Retail performing portfolio grew 6.1% compared with June 2017.

- Total impaired loans as a percentage of gross loans and advances at 30 June 2018 was 2.3%, a decrease of 0.5 percentage point, compared with 2.8% at 30 June 2017, driven mainly by loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 11.3% for the first half of 2018, whereas for the first half of 2017 it was 7.6%, showing an increase of 3.7 percentage points, mainly impacted by the increase in profitability in 2018.

- Total loan loss allowances at 30 June 2018 were MXN12.3bn, a decrease of MXN0.2bn or 1.9% compared with 30 June 2017. The total coverage ratio (allowance for loan losses divided by impaired loans) was 160.8% at 30 June 2018 compared with 150.1% at 30 June 2017. The higher coverage ratio is in line with active portfolio management over impaired loans, together with an increasing performing portfolio.

- At 30 June 2018, total deposits were MXN374.4bn, an increase of MXN58.3bn, or 18.4%, compared with MXN316.1bn at 30 June 2017. Demand deposits observed an increase of 19.1% across all segments. Time deposits increased by13.2%.

- HSBC Bank Mexico net interest income for the first half of 2018, was MXN 14,329 an increase of MXN 1,149 or 8.7% compared with the same period of 2017.

- HSBC Bank Mexico profit before tax for the first half of 2018 was MXN3,433m, an increase of MXN1,469m or 74.8% compared with the same period of 2017. Net income after tax was MXN2,678m, an increase of MXN1,076m, or 67.2% compared with the same period of 2017.

- At 30 June 2018, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.9% compared with 12.7% and 10.9%, respectively, at 30 June 2017. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros profit before tax for the first half of 2018 was MXN1,040m, an increase of MXN 272m or 35.4% which includes a gain on sale of securities during Q1 2018. The reason for this sale was to lengthen the duration in order to have a reduction on the solvency capital requirement.

[1] *CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN623m were reclassified from other operating income to loan impairment charges. This had an impact in the 2017 cost efficiency ratio from the original 59.4% to the current 61.4%.*

All numbers are as reported and there were no items requiring the numbers to be adjusted to better reflect the performance of the bank.

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business)*

Retail Banking and Wealth Management (RBWM)

RBWM revenues for the first half of 2018 showed significant growth compared to the same period of 2017, mainly regarding higher spreads in deposits due to central bank rate increases, coupled with higher consumer balances, deposits, and insurance results. At the end of June 18 balances increased 6% in lending and 9% in deposits compared to the same period of 2017. Both auto and mortgage loans presented significant growth of 45% and 16% respectively.

Loan impairment charges decreased by 22% when compared to the same period of 2017, mainly driven by better portfolio performance in unsecured lending and better recoveries.

Operating expenses increased by 10% compared to the same period of 2017 mainly from higher staff costs.

Time deposits showed a 26% growth in revenue compared to 2017, driven by growth in balances of 11% mainly in the Premier proposition due to commercial activities such as special campaigns and higher spreads, and driven by central bank rate increases. Demand deposits presented a similar trend with a 10% increase in revenue.

Revenue from the insurance business increased compared to 2017 mainly driven by the sale and reinvestment of the securities portfolio of the Annuities business.

HSBC Fusion, the first comprehensive service to serve business owners in Mexico, has increased the attraction of new SME customers by 31% vs. the first semester of 2017. The growth in deposits and lending balances has been significant, achieving annualized growth of 28% and 29% respectively. Strategic alliances have been developed with the sectorial programs of Small and Medium Enterprises of Nacional Financiera (Nafin), mainly in support of women entrepreneurs with preferential conditions and financing of up to 10 million pesos.

As part of our transformation plan, during February 2018, the HSBC 2Now Credit Card was launched. This new credit card is the only one in the market that gives back 2% instantly, of all purchases made with the card. This amount can be used for new purchases in any establishment or it can be withdrawn in cash from any HSBC ATM. At 30 June 2018, more than 100 thousand credit cards have been sold through our digital channels, telephone banking and branch network.

Last 2 July 2018, HSBC retail bank in Mexico launched the new value proposition targeting the mass market segment that represents 88% of the population of Mexican with a bank account, aligned with the efforts of HSBC Mexico to continue to bring local innovations and transformations. The new value proposition, HSBC Stilo, is an important lever to Mexico customer growth. HSBC Stilo's main business goal is to accelerate our customer growth and to achieve our fair market share of 13.4% in coming years. HSBC Stilo offers banking services plans tailor-made to match young millennial and families' lifestyles (HSBC Stilo Personal and HSBC Stilo Familiar) with a single price and set of transactional banking products focused on these segments' financial needs.

Commercial Banking (CMB)

CMB revenue for the first half of 2018 continued with a positive trend increasing 7% compared to the same period prior year. This increase is mainly explained by the growth of the financial margin resulting from higher assets and liabilities added to an increase on central bank´s interest rates. Trading income and fees contributed positively with an increase of 11% compared to the first half of 2017.

Loan impairment charges for the first half of 2018 are 42% higher than same period prior year due to specific provisions for particular local and large corporates. Loan portfolio quality remain sound year over year.

Operating expenses increased 14% compared to the first half of 2017, driven by higher IPAB quote (Institute for saving protection – IPAB for its acronym in Spanish) and staff costs.

Deposits grew 12% versus first half of 2017, with a significant volume increase in demand deposits. Loan portfolio grew 11% vs prior year driven by traditional portfolio, mainly in large corporates and corporate real estate.

Global Banking and Markets (GB&M)

GB&M revenues for the first half of 2018 showed a growth of 31% compared with the same period of 2017. The increase is mainly explained by an increase in volumes for lending and deposits portfolios coupled with better spreads in lending.

Loan impairment charges in 2018 are higher by 33% driven mainly by significant provision releases booked in 2017. The loan portfolio quality indicators remain sound.

Operating expenses decreased 1% in comparison with 2017 considering lower functions costs and intercompany expenses.

GB&M had a significant growth against 2017 (27%) in lending portfolios due to corporate, local and multinational clients as a result of business strategies and our international focus. In addition, higher deposits balances from GLCM (Global, Liquidity & Cash Management) during 2018 showing a growth of 32% driven primarily by higher volumes and spreads.

Additionally, GBM maintained its strong strategy reinforcing the debt and capital markets business by growing more than 100%, closing relevant transactions with local and international customers.

On 18 July 2018 HSBC was recognized as the biggest underwriter of sustainability bonds in the first half of 2018, according to figures from *Environmental Finance*.The bank was involved with several deals in the first six months of the year, in particular Banobras's MXN 10 billion ($536.9 million) issue in Mexico.

Grupo Financiero HSBC's first half to 2018 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 first half of 2018, profit before tax was MXN5,128m, an increase of 53.4% compared to the same period of 2017. The main differences between the Mexican GAAP and IFRS results for the first half of 2018 relate to differences in accounting for loan impairment charges, fair value adjustments on financial instruments and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 968 branches, 5,546 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$2,652bn at 31 March 2018, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP FIRST HALF ENDED 30 June 2018 and 2017

Figures in MXN millions

	Group	
	30 Jun 2018	**30 Jun 2017**
Interest income	27,943	22,860
Interest expense	(12,984)	(8,643)
Net interest income	14,959	14,217
Loan impairment charges [1]	(4,060)	(4,303)
Risk-adjusted net interest income	10,899	9,914
Fees and commissions receivable	5,044	4,557
Fees payable	(1,255)	(1,157)
Net Fees	3,789	3,400
Trading income	1,609	703
Other operating income [1]	737	484
Total operating income	17,034	14,501
Administrative and personnel expenses	(12,197)	(11,548)
Net operating income	4,837	2,953
Share of profits in equity interest	70	30
Profit/loss before tax	4,907	2,983
Income tax	(1,857)	(1,471)
Deferred income tax	651	812
Net income	3,701	2,324

[1] CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN623m were reclassified from other operating income to loan impairment charges.

Consolidated Income Statement – BANK FIRST HALF ENDED 30 June 2018 and 2017

Figures in MXN millions

	Bank	
	30 Jun 2018	**30 Jun 2017**
Interest income	26,085	20,834
Interest expense	(11,756)	(7,654)
Net interest income	14,329	13,180
Loan impairment charges [1]	(4,060)	(4,303)
Risk-adjusted net interest income	10,269	8,877
Fees and commissions receivable	4,656	4,316
Fees payable	(1,297)	(1,201)
Net Fees	3,359	3,115
Trading income	801	684
Other operating income [1]	1,041	730
Total operating income	15,470	13,406
Administrative and personnel expenses	(12,106)	(11,472)
Net operating income	3,364	1,934
Share of profits in equity interest	69	30
Profit/loss before tax	3,433	1,964
Income tax	(1,386)	(1,160)
Deferred income tax	631	798
Net income	2,678	1,602

[1] CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN623m were reclassified from other operating income to loan impairment charges.

Consolidated Balance Sheet

	Group		Bank	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
Assets				
Cash and deposits in banks	43,850	41,698	43,750	41,583
Margin accounts	507	454	507	454
Investment in securities	205,653	179,416	188,160	163,874
Trading securities	42,261	38,235	40,044	37,199
Available-for-sale securities	136,308	113,132	129,897	107,442
Held to maturity securities	27,084	28,049	18,219	19,233
Loan Securities				
Repurchase agreements	9,745	-	9,745	-
Derivative transactions	84,848	79,412	84,848	79,412
Performing loans				
Commercial loans	190,399	147,466	190,399	147,466
Loans to financial intermediaries	18,331	20,661	18,331	20,661
Loans to government entities	25,630	28,114	25,630	28,114
Consumer loans	56,511	56,823	56,511	56,823
Mortgage loans	41,376	35,424	41,376	35,424
Total performing loans	**332,247**	**288,488**	**332,247**	**288,488**
Impaired loans				
Commercial loans	5,085	5,399	5,085	5,399
Consumer loans	2,181	2,557	2,181	2,557
Mortgage loans	412	431	412	431
Total impaired loans	**7,678**	**8,387**	**7,678**	**8,387**
Gross loans and advances to customers	**339,925**	**296,875**	**339,925**	**296,875**
Allowance for loan losses	(12,349)	(12,589)	(12,349)	(12,589)
Net loans and advances to customers	**327,576**	**284,286**	**327,576**	**284,286**
Accounts receivables from Insurers and Bonding companies	59	73	-	-
Premium receivables	1,504	1,503	-	-
Accounts receivables from reinsurers and rebonding companies	35	40	-	-
Benefits to be received from trading operations	94	98	94	98
Other accounts receivable	53,585	46,117	52,717	45,619
Foreclosed assets	410	449	410	449
Property, furniture and equipment, net	4,576	4,852	4,576	4,852
Long-term investments in equity securities	246	174	214	143
Long-term assets available for sale	-	-		
Deferred taxes	13,274	12,513	13,046	12,354
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	3,971	3,599	3,964	3,592
Total assets	**750,981**	**655,732**	**729,607**	**636,716**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
Liabilities				
Deposits	**374,380**	**316,072**	**375,136**	**316,849**
Demand deposits	247,830	208,110	248,292	208,601
Time deposits	116,463	102,900	116,065	102,535
Bank bond outstanding	10,087	5,062	10,087	5,062
Global deposit account without movements	-	-	692	651
Bank deposits and other liabilities	**28,517**	**35,250**	**28,517**	**35,250**
On demand	-	10,456	-	10,456
Short-term	14,756	16,225	14,756	16,225
Long-term	13,761	8,569	13,761	8,569
Repurchase agreements	95,443	74,828	95,443	74,828
Collateral sold	11,555	5,650	11,555	5,650
Derivative transactions	87,194	78,887	87,192	78,887
Technical reserves	12,417	12,390	-	-
Accounts payable from reinsures and rebounding companies	7	12	-	-
Other payable accounts	**65,659**	**58,003**	**64,047**	**56,875**
Income tax and employee profit sharing payable	1,130	385	945	357
Sundry creditors and other accounts Payable	64,529	57,618	63,102	56,518
Subordinated debentures outstanding	8,107	11,507	8,107	11,507
Deferred taxes	1,604	1,385	1,489	1,270
Total liabilities	**684,883**	**593,984**	**671,486**	**581,116**
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	**22,717**	**18,371**	**19,798**	**17,282**
Capital reserves	1,244	1,244	11,891	11,590
Retained earnings	20,179	16,352	7,836	5,392
Result from the mark-to-market of available-for-sale securities	(2,226)	(1,142)	(2,125)	(1,089)
Result from cash flow hedging transactions	(181)	(407)	(181)	(407)
Adjustment in the employee pension			(301)	194
Net income	3,701	2,324	2,678	1,602
Minority interest in capital	8	4	5	-
Total equity	**66,098**	**61,748**	**58,121**	**55,600**
Total liabilities and equity	**750,981**	**655,732**	**729,607**	**636,716**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Jun 2018	**30 Jun 2017**	**30 Jun 2018**	**30 jun 2017**
Memorandum Accounts				
Third party accounts	**39,138**	**40,784**	**35,906**	**38,913**
Clients current accounts	1,349	803	-	-
Custody operations	1,883	1,068	-	-
Third party investment banking operations, net	35,906	38,913	35,906	38,913
Proprietary position	**6,743,242**	**6,495,995**	**6,589,406**	**6,483,692**
Irrevocable lines of credit granted	307,457	262,163	307,457	262,163
Goods in trust or mandate	368,847	421,749	368,847	421,749
Goods in custody or under administration	1,060,712	1,034,522	1,054,494	1,028,304
Collateral received by the institution	39,028	6,689	39,028	6,689
Collateral received and sold or delivered as guarantee	36,438	6,175	36,438	6,175
Suspended interest on impaired loans	177	182	177	182
Other control accounts	4,930,583	4,764,515	4,782,965	4,758,430

Consolidated Income Statement

	Group		Bank	
	30 Jun 2018	**30 Jun 2017**	**30 Jun 2018**	**30 Jun 2017**
Interest income	27,943	22,860	26,085	20,834
Interest expense	(12,984)	(8,643)	(11,756)	(7,654)
Net interest income	14,959	14,217	14,329	13,180
Loan impairment charges [1]	(4,060)	(4,303)	(4,060)	(4,303)
Risk-adjusted net interest income	10,899	9,914	10,269	8,877
Fees and commissions receivable	5,044	4,557	4,656	4,316
Fees payable	(1,255)	(1,157)	(1,297)	(1,201)
Net Fees	3,789	3,400	3,359	3,115
Trading income	1,609	703	801	684
Other operating income [1]	737	484	1,041	730
Total operating income	17,034	14,501	15,470	13,406
Administrative and personnel expenses	(12,197)	(11,548)	(12,106)	(11,472)
Net operating income	4,837	2,953	3,364	1,934
Share of profits in equity interest	70	30	69	30
Profit/loss before tax	4,907	2,983	3,433	1,964
Income tax	(1,857)	(1,471)	(1,386)	(1,160)
Deferred income tax	651	812	631	798
Net income	3,701	2,324	2,678	1,602

[1] *CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN623m were reclassified from other operating income to loan impairment charges.*

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 2017	**43,373**	**1,244**	**15,903**	**(2,057)**	**(280)**	**4,535**	**8**	**62,726**
Movements inherent to the shareholders' decision								
Shares issue	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-		4,535	-	-	(4,535)	-	**-**
Constitution of reserves	-	-	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-
Total	**-**	**-**	**4,535**	**-**	**-**	**(4,535)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	3,701	-	**3,701**
Result from valuation of available-for-sale securities	-	-	-	(169)	-	-	-	**(169)**
Result from cash flow hedging transactions	-	-	-	-	99	-	-	**99**
Others[1]	-	-	(259)	-	-	-	-	**(259)**
Total	**-**	**-**	**(259)**	**(169)**	**99**	**3,701**	**-**	**3,372**
Total Balances at 30 Jun 2018	**43,373**	**1,244**	**20,179**	**(2,226)**	**(181)**	**3,701**	**8**	**66,098**

[1]Retained earnings movements in 2018 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 ending on May 2018, 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 2017	**38,318**	**11,590**	**5,259**	**(1,950)**	**(280)**	**(166)**	**3,006**	**5**	**55,782**
Movements inherent to the shareholders' decision									
Shares issue									**-**
Transfer of result of prior years	-	-	3,006	-	-	-	(3,006)	-	**-**
Constitution of reserves	-	301	(301)	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**301**	**2,705**	**-**	**-**	**-**	**(3,006)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	2,678	-	**2,678**
Result from valuation of available-for-sale securities	-	-	-	(175)	-	-	-	-	**(175)**
Result from cash flow hedging transactions	-	-	-	-	99	-	-	-	**99**
Adjustment in defined benefit pension plan	-	-	(15)	-	-	(135)	-	-	**(150)**
Others	-	-	(113)	-	-	-	-	-	**(113)**
Total	**-**	**-**	**(128)**	**(175)**	**99**	**(135)**	**2,678**	**-**	**2,339**
Total Balances at 30 Jun 2018	**38,318**	**11,891**	**7,836**	**(2,125)**	**(181)**	**(301)**	**2,678**	**5**	**58,121**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Jun 2018**
Net income	**3,701**
Adjustments for items not involving cash flow:	**9,861**
Gain or loss on appraisal of activities associated with investment & financing	842
Allowances for loan losses	4,062
Depreciation	710
Technical reserves	176
Provisions	2,934
Income Tax and deferred taxes	1,206
Share of profits in equity interest	(69)
Changes in items related to operating activities:	
Margin accounts	(167)
Investment securities	(20,743)
Repurchase agreements	12,962
Derivative (assets)	7,836
Loan portfolio	(26,294)
Loan securities	-
Foreclosed assets	16
Operating assets	(3,937)
Deposits	283
Bank deposits and other liabilities	(3,023)
Creditors repo transactions	26,331
Collateral sold or delivered as guarantee	1,479
Derivative (liabilities)	(8,248)
Subordinated debentures outstanding	(2,250)
Accounts receivables from reinsurers and coinsurers	2
Accounts receivables from premiums	71
Reinsurers and bonding	(4)
Other operating liabilities	923
Income tax paid	(579)
Funds provided by operating activities	**(1,780)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	25
Acquisition of property, furniture and equipment	(222)
Intangible assets acquisitions & Prepaid expenses	(424)
Cash dividends	37
Other investment activities	168
Funds used in investing activities	**(416)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Increase/decrease in cash and equivalents	(2,196)
Cash and equivalents at beginning of period	46,046
Cash and equivalents at end of period	**43,850**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 Jun 2018**
Net income	**2,678**
Adjustments for items not involving cash flow:	**9,092**
Gain or loss on appraisal of activities associated with investment & financing	4,062
Allowances for loan losses	846
Depreciation	416
Amortisation	294
Provisions	2,788
Income Tax and deferred taxes	755
Share of profits in equity interest	(69)
Changes in items related to operating activities:	
Margin accounts	(167)
Investment securities	(19,608)
Repurchase agreements	12,962
Derivative (assets)	7,832
Loan portfolio	(26,438)
Benefits to be received from trading operations	-
Foreclosed assets	16
Operating assets	(2,673)
Deposits	318
Bank deposits and other liabilities	(3,023)
Creditors repo transactions	26,331
Collateral sold or delivered as guarantee	1,479
Derivative (liabilities)	(8,248)
Subordinated debentures outstanding	(2,250)
Other operating liabilities	472
Income tax paid	(393)
Funds provided by operating activities	**(1,620)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	25
Acquisition of property, furniture and equipment	(222)
Intangible assets acquisitions & Prepaid expenses	(412)
Cash dividends	37
Other investment activities	(7)
Funds used in investing activities	**(579)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**(2,199)**
Cash and equivalents at beginning of period	45,949
Cash and equivalents at end of period	**43,750**

Changes in Mexican accounting standards

Introduction

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different from the NIF.

The recent changes in accounting standards issued by either CNBV or CINIF applicable to Grupo Financiero HSBC, are described below:

I. Improvements of NIF 2018 issued by CINIF applicable to Financial Institutions:

CINIF issued a document called 'Improvements of NIF 2018, which mainly includes the following changes and improvements:

Improvements involving accounting changes *'without financial impacts' in Grupo Financiero HSBC****.***

NIF B-10 'Effects of Inflation in Financial Reporting' – Additional disclosures are required about annual inflation percentage for the last three years which are considered to determine if there would be an inflationary economic framework for the following annual reporting period. Anticipated adoption in 2017 was allowed, even if the change has been in force since 1 January 2018.

Grupo Financiero HSBC has early adopted this change in Annual Financial Statements disclosures of 2017.

NIF C-6 'Property, Plant and Equipment' and NIF C-8 'Intangible Assets'– Some clarifications are included regarding to 'the consumption of economic benefits of an asset' in order to avoid that entities apply this concept based on a cash flows basis obtained from the asset instead of the time consumption of it benefits. The accounting change has been in force since 1 January 2018 with a retrospectively adoption.

Improvements which not originate accounting changes.

NIF B-7 'Business Combinations' – Contingent liabilities are only recognised at the date of the acquisition as provisions, as long as they meet the following criteria to be recognised as a provision: 1) the entity has a present obligation (legal or constructive) as a result of a past event, 2) it is probable that an outflow of resources embodying economics benefits will be required to settle the obligation and 3) a reliable estimate can be made of the amount of the obligation.

NIF B-15 'The Effects of Changes in Foreign Exchange Rates' – Entities shall measure assets, liabilities, equity, income and expenses in functional currency to determine their fair value, impairment of assets, deferred tax assets or liabilities, etc.

Other changes

Some amendments were included in NIF relate to financial instruments in order to eliminate the determination of fair value, because this topic is comprised in the new NIF B-17 Fair

Value in which is included the methodology that shall be followed by entities to determine it. This change modifies the following NIF: C-2, C-3, C-10, C-16, C-19 and C-20.

II. *Changes in CNBV accounting standard A-2 Aplicación de Normas Particulares*

Mexican Banking regulator 'CNBV' is working on some amendments in accounting standards applicable to Financial Institutions with the objective to adopt IFRS 9 Financial Instruments, IFRS 13 Fair Value and IFRS 15 Revenue from contracts with customers; this follows the amendments of the NIF already issued by CINIF to include the adoption of these international accounting standards.

In that context, in December 2017 the CNBV issued in the official gazette some specifications to be followed by Financial Institutions in the adoption of Mexican Accounting Standards 'NIFs' which include a certain number of principles of IFRS 9, IFRS 13 and IFRS 15. It dictates that although those standards are in force since 1 January 2018, Financial Institutions shall adopt them until 1 January 2019.

A summary of the content of those NIFs are described below:

NIF B-17 'Fair Value'. This standard includes the different methodologies that entities would use to determine the fair value of the financial instruments maximizing the use of data inputs from observable transactions in the market rather than the use of those non-observable.

NIF C-2 'Investment in Financial Instruments'. It comprises the accounting rules of measurement, presentation and disclosures required for Investment in Financial Instruments. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF C-3 'Accounts receivable'. It comprises the accounting rules of measurement, presentation and disclosures required for accounts receivables.

NIF C-9 'Provisions, Contingent assets and liabilities and commitments'. It comprises the accounting rules of measurement, presentation and disclosures required for liabilities, provisions and commitments, excluding the guidance for the accounting of financial liabilities that is included in NIF C-19.

NIF C-10 'Derivative financial instruments and hedge accounting'. It includes the characteristics to consider a derivative financial instrument for trading or hedging as well as the recognition, measurement, presentation and disclosure.

NIF C-16 'Impairment of financial instruments held to collect principal and interest'. It comprises the measurement, accounting recognition, presentation and disclosure of the impairment of financial instruments held to collect cash flows. It is important to highlight that the CNBV is still working on special accounting standard which will cover the impairment for loans and advances that are held to collect cash flows, therefore this NIF would be partially adopted by Financial Institutions.

NIF C-19 'Financial liabilities'. It comprises the measurement, accounting recognition, presentation and disclosure of financial liabilities. It also includes the methodology of effective interest rate to measure those financial liabilities at amortised cost.

NIF C-20 'Financial instruments hold to collect principal and interest'. It comprises the measurement, accounting recognition, presentation and disclosure of financial instruments held to collect principal and interest. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF D-1 'Revenue from contracts with customers'. It comprises the measurement, accounting recognition, presentation and disclosure of income from contracts with customers. The recognition of the income is based on the transfer of control of services or products provided by the entity, obligations to comply with customers, allocation of the transaction price and collection rights.

NIF D-2 'Costs for contracts with customers'. It comprises the measurement, accounting recognition, presentation and disclosure of expenses from contracts with customers.

Currently, Grupo Financiero HSBC is evaluating the possible impacts originated by the adoption of these NIFs. It is important to highlight that the CNBV has not issued so far all relevant accounting standards that shall be adopted jointly with these NIFs.

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

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

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

The initial financial impact amounted MXN$346m, which was recognised by the Bank debiting 'Loan Impairment Allowances' and crediting 'Retained Earnings' during the following 12 months after the change was in force (i.e. from June 2017 to May 2018), basing on particular adoption rules issued during June 2017 in Official Gazette by CNBV.

IV. *Special accounting rules issued by National Banking Commission applicable to borrowers affected by natural disasters occurred during September 2017 ('Lidia' and 'Karla' hurricanes and earthquakes from 7 and 19 September 2017)*

On 15 September 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 Official Gazette.

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 adhered 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 three 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 forgoing the interest accrued. 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 17 October 2017, the CNBV extended ‘the programme’ to borrowers affected by the earthquake that hit Mexico on 19 September 2017 (through the official response paper No. 320-1/14057/2017).

On 5 March 2018, the CNBV issued the official response paper No. P-071/2018 to modify ‘the programme’ for mortgages extending the skip payment period for four additional months.

Based on the information aforementioned, at the end of reporting period, the outstanding balances of loans adhered to the programme amounted MXN$399m. The total interests that were not accrued in income statement during skip payment period approximately amounted MXN27m. 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.

V. *Changes in loan impairment charges in regards recoveries and provision releases recognition in the profit and loss.*

On 27 December 2017, CNBV published in the Official Gazette changes to the accounting standards applicable to Financial Institutions, including the accounting criteria B-6 Loans.

The principal change is related to the recognition of all recoveries from written-off loans as a reduction of ‘Loan Impairment Charges’ in income statement instead of being recognised in ‘Other Operating Income’ as it was set out in the previous version.

The CNBV intention is to converge with IFRS standards in the recognition of those recoveries eliminating manual accounting entries for Financial Institutions which prepare financial information under IFRS for reporting purposes.

The change is applicable from 1 January 2019 with retrospectively accounting effects but Grupo Financiero HSBC has early adopted as permitted since 1 January 2018.

VI. *Changes in Leverage Ratio*

In July 2018, modifications to local rules, regarding the Leverage Ratio were sent to COFEMER(the agency of the federal government responsible for promoting the policy of regulatory improvement in the country), through which the 3% floor was established in order to align the national regulation according to the Basel standard. No impact is estimated in HSBC Mexico since the levels presented are higher than the minimum proposed.

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)
Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the first half ended 30 June of 2018 and an explanation of the key reconciling items.

Figures in MXN millions	**30 Jun 2018**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**3,701**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	42
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	15
Loan impairment charges and other differences in presentation under IFRS	262
Recognition of the present value in-force of long-term insurance contracts	(339)
Other insurance adjustments (1)	202
Fair value adjustments on financial instruments	152
Deferred profit sharing	(40)
Other	(104)
Tax over adjustments	(14)
Net income under IFRS	**3,877**
Add back tax expense	1,251
Profit before tax under IFRS	**5,128**
Add back significant items	(82)
Adjusted net income before tax under IFRS	**5,046**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(18)**
US dollar equivalent (millions):	
-Adjusted net income before tax under IFRS	**257**
-Net income under IFRS	**197**
Exchange rate used for conversion(2)	***19.6912***

(1)includes technical reserves and effects from Solvency II
(2)Banxico rate at 30 June 2018

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 profit and loss 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

The impairment requirements under IFRS 9 are based on an Expected Credit Losses (‘ECL’) concept that requires the recognition of ECL in a timely and forward-looking manner. ECL is determined via a two-step approach, where the financial instruments are first assessed for their relative credit deterioration, followed by the measurement of the ECL (which depends on the credit deterioration categories). There are four credit deterioration categories which will be covered in detail in the following sections:

i. Credit-impaired (Stage 3)
ii. Purchased or originated credit-impaired (‘POCI’)
iii. Significant increase in credit risk (Stage 2)
iv. Stage 1 (the rest of the financial assets in scope not falling into any of the above categories).

Financial instruments that are performing are considered to be ‘Stage 1’; financial instruments which are considered to have experienced a significant increase in credit risk are in ‘Stage 2’; and financial instruments for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in ‘Stage 3’. Financial instruments that are credit-impaired upon initial recognition are POCI. These instruments remains in this category until derecognition.

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 / profit and loss.

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.