News Release

25 October 2018

GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2018 FINANCIAL RESULTS HIGHLIGHTS

- For the nine months to 30 September 2018, Grupo Financiero profit before tax was MXN7,210m, an increase of MXN2,557m, or 55.0%, compared with MXN4,653m for the same period of 2017.

- For the nine months to 30 September 2018, net income was MXN5,460m, an increase of MXN2,002m, or 57.9%, compared with MXN3,458m for the same period of 2017.

- Total operating income excluding loan impairment charges was MXN31,970m, an increase of MXN3,439m or 12.1%, compared with MXN28,531m for the same period of 2017[1].

- Loan impairment charges for the nine months to 30 September 2018 were MXN6,665m, a decrease of MXN59m, or 0.9%, compared with MXN6,724m for the same period of 2017[1].

- Administrative and personnel expenses for the nine months to 30 September 2018 were MXN18,196m, an increase of MXN1,017m, or 5.9%, compared with MXN17,179m for the same period of 2017.

- The cost efficiency ratio was 56.9% for the nine months to 30 September 2018, compared with 60.2% for the same period of 2017[1].

- Net loans and advances to customers were MXN352.0bn at 30 September 2018, showing an increase in both retail and wholesale portfolios of MXN77.0bn, or 28.0%, compared with MXN275.0bn at 30 September 2017. Total impaired loans as a percentage of gross loans and advances at 30 September 2018 was 2.1%, a decrease of 0.8% compared with 2.9% at 30 September 2017.

- At 30 September 2018, total deposits were MXN381.9bn, an increase of MXN73.1bn, or 23.7%, compared with MXN308.8bn at 30 September 2017.

- Return on equity was 11.0% for the nine months to 30 September 2018, whereas for the nine months to 30 September 2017 it was 7.5%, showing an increase of 3.5 percentage points mainly impacted by the increase in net income of the third quarter of 2018 compared with the third quarter of 2017.

- At 30 September 2018, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.7% compared with 12.7% and 11.2%, respectively, at 30 September 2017.

- On a reported IFRS basis, for the nine months to 30 September 2018, profit before tax was MXN7,815m, an increase of 49.8% compared to the same period 2017. The main differences between the Mexican GAAP and IFRS results for the nine months to 30 September 2018 relate to differences in accounting for loan impairment charges, fair value adjustments on financial instruments and insurance liabilities.

This news release is issued by
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Overview

Although economic growth disappointed in Q2 2018, other post-election indicators show improved confidence among households and businesses, and suggest economic activity improved in Q3 2018. In July consumer confidence rose to its highest reading since 2008, albeit this does not necessarily permeate through to the real economy, it clearly reflects a strong shift in households' sentiment. In July, the Global Economic Activity Index (IGAE) rose 0.45% month on month in seasonally adjusted terms. In year on year terms, IGAE increased 3.3% or 2.8% year on year with seasonal adjustment, surpassing market expectations. Services led the way, but industrial production and agriculture also contributed to overall growth in the first reading for Q3 2018. Manufacturing and private construction are lifting overall industrial output, but weakness in the mining sector continues to act as a drag. The slump in oil production continues to cause negative figures for mining activities.

Mounting pressures from energy prices took headline inflation up to around 5.0% year on year in Q3 2018 from 4.6% in end of-Q2 2018, interrupting the fast disinflationary trajectory started at the beginning of 2018. The core component remained relatively stable throughout Q2 2018, suggesting a more contained FX pass-through effect. However, noncore inflation continued to climb in Q3 2018, mainly driven by higher domestic gas, gasoline and electricity prices.

The local central bank remained on hold throughout Q3 2018, after hiking the reference rate in June by 25bp to 7.75%. In the latest monetary policy decision, Banxico remained on hold after H1 2018. September inflation surprised on the downside and the USMCA (new commercial trade for Canada, Mexico and United States) announcement reduced trade uncertainties for Mexico. The local central bank’s tone on inflation was more cautious than in previous meetings since it emphasized that balance of risks for inflation remains tilted to the upside.

- For the nine months to 30 September 2018, Grupo Financiero HSBC reported a profit before tax of MXN7,210m, an increase of MXN2,557m, or 55.0%, compared with MXN4,653m for the same period of 2017.

- Net interest income for the nine months to 30 September 2018 was MXN22,869m, an increase of MXN1,007m, or 4.6%, 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 nine months to 30 September 2018 were MXN6,665m, a decrease of MXN59m, or 0.9%, compared with MXN6,724m[1] for the same period of 2017 mostly driven by better performance and smoother growth in retail unsecured portfolio.

- Net fee income for the nine months to 30 September 2018 was MXN5,729m, an increase of MXN586m, or 11.4%, compared with the same period of 2017.

- Trading income for the nine months to 30 September 2018 was MXN2,244m, an increase of MXN1,008m or 81.6% compared with the same period of 2017. This increase is driven primarily by gains on sale of securities in the Annuities business.

- Other operating income for the nine months to 30 September 2018 was MXN1,128m, an increase of MXN838m or more than 100.0% compared with the same period of 2017[1], mainly affected by a loss on disposal on credit portfolio in 2017.

- Administrative and personnel expenses for the nine months to 30 September 2018 were MXN18,196m, an increase of MXN1,017m or 5.9% compared with MXN17,179m for the same period of 2017, mainly driven by higher staff cost across all line of business.

- The cost efficiency ratio was 56.9% for the nine months to 30 September 2018, compared with 60.2 % for the same period of 2017[1].

- The effective tax rate was 24.2% for the nine months to 30 September 2018, compared with 25.8% for the same period of 2017, a decrease of 1.6%.

- Net loans and advances to customers were MXN352.0bn at 30 September 2018, showing an increase in both retail and wholesale portfolios of MXN77.0bn, or 28.0%, compared with MXN275.0bn at 30 September 2017. The performing commercial loans increased by 42.5%, compared with 30 September 2017. Retail performing portfolio grew 9.4% compared with September 2017.

- Total impaired loans as a percentage of gross loans and advances at 30 September 2018 was 2.1%, a decrease of 0.8%, compared with 2.9% at 30 September 2017, driven mainly by loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 11.0% for the nine months to 30 September 2018, whereas for the nine months to 30 September 2017 it was 7.5%, showing an increase of 3.5 percentage points, mainly impacted by the increase in net income as of the third quarter of 2018 compared with the third quarter of 2017.

- Total loan loss allowances at 30 September 2018 were MXN13.0bn, an increase of MXN0.3bn or 2.2% compared with 30 September 2017. The total coverage ratio (allowance for loan losses divided by impaired loans) was 172.3% at 30 September 2018 compared with 154.7% at 30 September 2017. The higher coverage ratio is in line with active portfolio management over impaired loans, together with an increasing performing portfolio.

- At 30 September 2018, total deposits were MXN381.9bn, an increase of MXN73.1bn, or 23.7%, compared with MXN308.8bn at 30 September 2017. Demand deposits observed an increase of 17.2%. Time deposits increased by 35.2%.

- HSBC Bank Mexico profit before tax for the nine months to 30 September 2018 was MXN5,298m, an increase of MXN2,139m or 67.7% compared with the same period of 2017. Net income after tax was MXN4,099m, an increase of MXN1,707m, or 71.4% compared with the same period of 2017.

- HSBC Bank Mexico net interest income for the nine months to 30 September 2018, was MXN 21,707 an increase of MXN 1,488 or 7.4% compared with the same period of 2017

- At 30 September 2018, the bank’s total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.7% compared with 12.7% and 11.2%, respectively, at 30 September 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 nine months to 30 September 2018 was MXN1, 354m, an increase of MXN 255m or 23.2% which includes a gain on sale of securities during Q1 2018. The reason for this sale was to lengthen the duration of the investment portfolio.

[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, MXN915m were reclassified from other operating income to loan impairment charges. This had an impact in the 2017 cost efficiency ratio from the original 58.3% to the current 60.2%

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 September 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.

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).

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business. For comments on general expenses variances, please refer to the financial overview for Grupo Financiero)*

Retail Banking and Wealth Management (RBWM)

RBWM revenue for the nine months to 30 September 2018 showed growth by 8% 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. End of period balances increased 9% in lending and 9% in deposits compared to the same period of 2017, as well as auto and mortgage, which presented significant growth of 45% and 21% respectively.

Loan impairment charges decreased by 17% compared to the same period of 2017, mainly driven by better portfolio performance and smoother growth in unsecured portfolio.

The insurance business presented higher revenue compared to 2017, mainly driven by the sale of securities in the Annuities portfolio.

Time deposits showed a 20% growth in revenue compared to 2017, driven by growth in balances of 15% mainly in the Premier proposition due to higher commercial activities and investment campaigns coupled higher spreads driven by central bank rate increases during the year. Demand deposits presented a similar trend with an 11% increase in revenue.

HSBC Fusion, the first comprehensive service to serve business owners in Mexico, has increased the attraction of new SME customers by 34% vs. the first nine months of 2017. The growth in deposits and lending balances has been significant, achieving annualized growth of 29% and 33% 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 MXN 10m .

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% cashback instantly, of all purchases made with the card. At 30 September 2018, more than 165,000 credit cards have been sold through our digital channels, telephone banking and branch network.

During July 2018, HSBC retail bank in Mexico launched the new value customer 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 offers banking services plans tailor-made to match young millennial and families' lifestyles (HSBC Stilo Personnel and HSBC Stilo Familiar) with a single price and set of transactional banking products focused on these segments' financial needs.

Value offer available for customers of the mass segment was strengthened during September 2018 with the launch of the New Zero Credit card, the only one in the market that does not have an annual fee or any other fee as long as the customer uses the card at least once a month. This new product targets customers with a monthly minimum personal income of five thousand pesos that value fee savings over other benefits from credit cards, such as rewards program and travel benefits.

Commercial Banking (CMB)

For the nine months to 30 September 2018, CMB revenue observed a positive trend, growing by 23% compared to the same period of 2017. Revenue increase is related mainly to balance sheet expansion in assets and liabilities, impacting and improving net interest income.

Loan impairment charges are 84% higher than prior year, impacted by specific provisions for Mid-Market, Large Corporates and Real Estate customers.

Loan portfolio grew 18% vs prior year driven by traditional portfolio and syndicated loans, mainly in Large Corporates and Corporate Real Estate. Deposits grew 24%, with a significant volume gain in demand deposit.

Global Banking and Markets

For the nine months to 30 September 2018, Global Banking and Markets revenue continued growing by 41%, when compared to the same period of 2017, mainly driven by an increase in loan portfolio (56%) and deposits coupled with higher spreads in lending.

Global Banking and Markets loan portfolio grew mainly in corporate, local and multinational clients as a result of business strategies and our leadership in products with international approach. In addition, higher deposits balances from GLCM (Global, Liquidity & Cash Management) both in USD and MXN during 2018, showing a growth of 35%.

Loan impairment charges are >200% higher than prior year, driven mainly by significant provision releases booked in 2017, coupled with portfolio increase. The loan portfolio quality indicators remain sound.

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

Awards

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 10,000m ($536.9 million) issue in Mexico.

HSBC México received the award as "Best Bank of Transformation in Latin America 2018" granted by the British magazine Euromoney, due to the actions carried out in 2017 to strengthen its business model and customer service. The annual Euromoney awards recognize the performance of banks and the quality of their services and are among the most prestigious in the financial sector.

Recognition to HSBC Mexico for its effort and work in the promotion of equality and inclusion of the LGBT + community granted by the Council to Prevent and Eliminate Discrimination in Mexico City (COPRED by its Spanish acronym), reason for which a fragment of the LGBT+ Monumental Flag was unveiled in the bank's facilities. HSBC Mexico is the first company to receive this relevant distinction.

Grupo Financiero HSBC's third quarter 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 nine months to 30 September 2018, profit before tax was MXN7,815m, an increase of 49.8% compared to the same period of 2017. The main differences between the Mexican GAAP and IFRS results for the nine months to 30 September 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 966 branches, 5,553 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 3,800 offices in 66 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With total assets of US$2,607bn at 30 June 2018, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP THIRD QUARTER ENDED 30 September 2018 and 2017

Figures in MXN millions

	Group	
	30 Sep 2018	**30 Sep 2017**
Interest income	43,044	35,431
Interest expense	(20,175)	(13,569)
Net interest income	22,869	21,862
Loan impairment charges [1]	(6,665)	(6,724)
Risk-adjusted net interest income	16,204	15,138
Fees and commissions receivable	7,611	6,804
Fees payable	(1,882)	(1,661)
Trading income	2,244	1,236
Other operating income [1]	1,128	290
Total operating income	25,305	21,807
Administrative and personnel expenses	(18,196)	(17,179)
Net operating income	7,109	4,628
Share of profits in equity interest	101	25
Profit/loss before tax	7,210	4,653
Income tax	(2,351)	(2,532)
Deferred income tax	601	1,337
Net income	5,460	3,458

[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, MXN915m were reclassified from other operating income to loan impairment charges.

Consolidated Income Statement – BANK THIRD QUARTER ENDED 30 September 2018 and 2017

Figures in MXN millions

	Bank	
	30 Sep 2018	**30 Sep 2017**
Interest income	40,121	32,397
Interest expense	(18,414)	(12,178)
Net interest income	21,707	20,219
Loan impairment charges [1]	(6,665)	(6,724)
Risk-adjusted net interest income	15,042	13,495
Fees and commissions receivable	7,120	6,417
Fees payable	(1,942)	(1,737)
Trading income	1,419	1,225
Other operating income [1]	1,623	779
Total operating income	23,262	20,179
Administrative and personnel expenses	(18,064)	(17,043)
Net operating income	5,198	3,136
Share of profits in equity interest	100	23
Profit/loss before tax	5,298	3,159
Income tax	(1,741)	(2,043)
Deferred income tax	542	1,276
Net income	4,099	2,392

[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, MXN915m were reclassified from other operating income to loan impairment charges.

Consolidated Balance Sheet

Figures in MXN millions	Group 30 Sep 2018	Group 30 Sep 2017	Bank 30 Sep 2018	Bank 30 Sep 2017
Assets				
Cash and deposits in banks	39,507	34,894	39,404	34,799
Margin accounts	588	464	588	464
Investment in securities	215,602	183,173	198,891	167,399
Trading securities	37,531	42,460	36,462	41,475
Available-for-sale securities	150,703	113,799	144,108	107,895
Held to maturity securities	27,368	26,914	18,321	18,029
Loan Securities				
Repurchase agreements	6,046	7,703	6,046	7,703
Derivative transactions	76,144	71,496	76,144	71,496
Performing loans				
Commercial loans	205,491	144,197	205,491	144,197
Loans to financial intermediaries	19,970	14,232	19,970	14,232
Loans to government entities	30,128	27,966	30,128	27,966
Consumer loans	57,925	56,746	57,925	56,746
Mortgage loans	43,976	36,367	43,976	36,367
Total performing loans	357,490	279,508	357,490	279,508
Impaired loans				
Commercial loans	5,051	5,044	5,051	5,044
Consumer loans	2,080	2,726	2,080	2,726
Mortgage loans	428	467	428	467
Total impaired loans	7,559	8,237	7,559	8,237
Gross loans and advances to customers	365,049	287,745	365,049	287,745
Allowance for loan losses	(13,024)	(12,743)	(13,024)	(12,743)
Net loans and advances to customers	352,025	275,002	352,025	275,002
Accounts receivables from Insurers and Bonding companies	60	80	-	-
Premium receivables	1,524	1,535	-	-
Accounts receivables from reinsurers and rebonding companies	39	41	-	-
Benefits to be received from trading operations	94	96	94	96
Other accounts receivable	43,026	56,201	42,395	54,836
Foreclosed assets	397	427	397	427
Property, furniture and equipment, net	4,449	4,660	4,449	4,660
Long-term investments in equity securities	276	167	244	136
Deferred taxes	13,280	13,299	13,015	13,092
Goodwill	1,048	1,048		
Other assets, deferred charges and intangibles	3,926	3,647	3,917	3,641
Total assets	**758,031**	**653,933**	**737,609**	**633,751**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Sep	30 Sep	30 Sep	30 Sep
Liabilities	**2018**	**2017**	**2018**	**2017**
Deposits	381,851	308,781	382,704	309,671
Demand deposits	234,306	199,995	234,869	200,606
Time deposits	137,220	101,516	136,814	101,155
Bank bond outstanding	10,325	7,270	10,325	7,270
Global deposit account without movements		-	696	640
Bank deposits and other liabilities	33,256	24,560	33,256	24,560
On demand	5,081	1,000	5,081	1,000
Short-term	5,139	15,061	5,139	15,061
Long-term	23,036	8,499	23,036	8,499
Repurchase agreements	113,606	89,414	113,606	89,414
Collateral sold	5,652	7,455	5,652	7,455
Derivative transactions	76,319	73,090	76,317	73,090
Technical reserves	12,399	12,263	-	-
Accounts payable from reinsures and rebounding companies	7	12	-	-
Other payable accounts	57,068	62,687	55,492	60,501
Income tax and employee profit sharing payable	1,290	2,110	1,109	2,043
Sundry creditors and other accounts Payable	55,778	60,577	54,383	58,458
Subordinated debentures outstanding	9,593	11,555	9,593	11,555
Deferred taxes	1,540	1,480	1,423	1,364
Total liabilities	**691,291**	**591,297**	**678,043**	**577,610**
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	23,359	19,255	21,243	17,818
Capital reserves	1,244	1,244	11,891	11,590
Retained earnings	18,961	16,177	7,837	5,329
Result from the mark-to-market of available-for-sale securities	(2,170)	(1,272)	(2,064)	(1,227)
Result from cash flow hedging transactions	(136)	(352)	(136)	(352)
Adjustment in the employee pension			(384)	86
Net income	5,460	3,458	4,099	2,392
Minority interest in capital	8	8	5	5
Total equity	**66,740**	**62,636**	**59,566**	**56,141**
Total liabilities and equity	**758,031**	**653,933**	**737,609**	**633,751**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
Memorandum Accounts	**6,645,582**	**6,626,021**	**6,481,142**	**6,609,078**
Third party accounts	31,163	43,223	27,985	38,586
Clients current accounts	1,392	3,665	-	-
Custody operations	1,786	972	-	-
Third party investment banking operations, net	27,985	38,586	27,985	38,586
Proprietary position	**6,614,419**	**6,582,798**	**6,453,157**	**6,570,492**
Irrevocable lines of credit granted	302,816	268,134	302,816	268,134
Goods in trust or mandate	303,540	418,622	303,540	418,622
Goods in custody or under administration	1,119,154	1,065,436	1,112,936	1,059,218
Collateral received by the institution	27,738	24,062	27,738	24,062
Collateral received and sold or delivered as guarantee	23,415	21,156	23,415	21,156
Suspended interest on impaired loans	186	161	186	161
Other control accounts	4,837,570	4,785,227	4,682,526	4,779,139

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Consolidated Statement of Changes in Shareholders' Equity
GROUP

Figures in MXN million	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**
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	-	-	(1,146)	-	-	-	-	**(1,146)**
								-
Others[1]	-	-	-	-	-	-	-	-
Total	**-**	**-**	**3,389**	**-**	**-**	**(4,535)**	**-**	**(1,146)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	5,460	-	**5,460**
Result from valuation of available-for-sale securities	-	-	-	(113)	-	-	-	**(113)**
Result from cash flow hedging transactions	-	-	-	-	144	-	-	**144**
Others	-	-	(331)	-	-	-	-	**(331)**
Total	**-**		**(331)**	**(113)**	**144**	**5,460**	**-**	**5,160**
Total Balances at 30 September 2018	**43,373**	**1,244**	**18,962**	**(2,170)**	**(136)**	**5,460**	**8**	**66,740**

[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 September 2017 and ending on May 2018, and recognition of impact in insurance reserves due to Solvency II.

Consolidated Statement of Changes in Shareholders' Equity

BANK

Figures in MXN million	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**
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	-	-	-	-	-		4,099	-	**4,099**
Result from valuation of available-for-sale securities	-	-	-	(114)	-		-	-	**(114)**
Result from cash flow hedging transactions	-	-	-	-	144		-	-	**144**
Adjustment in defined benefit pension plan			(22)			(218)			**(240)**
Others		-	(105)		-				**(105)**
Total	**-**	**-**	**(127)**	**(114)**	**144**	**(218)**	**4,099**	**-**	**3,784**
Total Balances at 30 September 2018	**38,318**	**11,891**	**7,837**	**(2,064)**	**(136)**	**(384)**	**4,099**	**5**	**59,566**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Sep 18**
Net income	**5,460**
Adjustments for items not involving cash flow:	**15,178**
Gain or loss on appraisal of activities associated with investment & financing	1,805
Allowances for loan losses	6,656
Depreciation	613
Amortisation	467
Technical reserves	208
Provisions	3,781
Income Tax and deferred taxes	1,749
Share of profits in equity interest	(101)
Changes in items related to operating activities:	
Margin accounts	(247)
Investment securities	(30,674)
Repurchase agreements	16,661
Derivative (assets)	15,630
Loan portfolio	(53,480)
Loan securities	-
Foreclosed assets	30
Operating assets	6,867
Deposits	7,754
Bank deposits and other liabilities	1,715
Creditors repo transactions	44,494
Collateral sold or delivered as guarantee	(4,424)
Derivative (liabilities)	(19,124)
Subordinated debentures outstanding	(765)
Accounts receivables from reinsurers and coinsurers	(2)
Accounts receivables from premiums	51
Reinsurers and bonding	(4)
Other operating liabilities	(8,494)
Income tax paid	(1,192)
Funds provided by operating activities	**(4,566)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	28
Acquisition of property, furniture and equipment	(295)
Intangible assets acquisitions & Prepaid expenses	(802)
Cash dividends	37
Other investment activities	205
Funds used in investing activities	**(827)**
Financing activities:	
Cash dividends	(1,146)
Funds used in financing activities	**(1,146)**
Increase/decrease in cash and equivalents	(6,539)
Cash and equivalents at beginning of period	46,046
Cash and equivalents at end of period	**39,507**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 Sep 18**
Net income	**4,099**
Adjustments for items not involving cash flow:	**14,271**
Gain or loss on appraisal of activities associated with investment & financing	-
Allowances for loan losses	6,656
Valuations	1,794
Depreciation	613
Amortisation	467
Provisions	3,642
Income Tax and deferred taxes	1,199
Share of profits in equity interest	(100)
Changes in items related to operating activities:	
Margin accounts	(247)
Investment securities	(30,316)
Repurchase agreements	16,661
Derivative (assets)	15,642
Loan portfolio	(53,481)
Benefits to be received from trading operations	-
Foreclosed assets	30
Operating assets	7,754
Deposits	7,884
Bank deposits and other liabilities	1,715
Creditors repo transactions	44,494
Collateral sold or delivered as guarantee	(4,424)
Derivative (liabilities)	(19,124)
Subordinated debentures outstanding	(765)
Other operating liabilities	(9,039)
Income tax paid	(706)
Funds provided by operating activities	**(5,552)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	28
Acquisition of property, furniture and equipment	(295)
Intangible assets acquisitions & Prepaid expenses	(765)
Cash dividends	37
Other investment activities	2
Funds used in investing activities	**(993)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**(6,545)**
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	45,949
Cash and equivalents at end of period	**39,404**

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 January, 1st, 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 January, 1st, 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 January, 1st, 2018, Financial Institutions shall adopt them until January, 1st, 2019; nevertheless a new project to extend the initial adoption date until 2020, was submitted to National Improvement Regulatory Commission (CONAMER in Spanish).

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.

CNBV has sent to Banks a new project with a proposal of changes in particular accounting standards applicable to Financial Institutions to match with the adoption of new NIF. Mainly changes are focused on:

Loans and receivables:

- Implementation of stages in financial assets according to expected credit losses category (Stage 1, Stage 2 and Stage 3).

- New standard methodology to determine expected credit losses.

- An option to adopt an internal methodology to determine expected credit losses which must be aligned with NIF C-16 “Impairment of financial instruments held to collect principal and interest”.

- A prospective adoption of these changes.

- Financial negative impacts in adoption would be recognised on deferral basis in following years (36 months).

New Accounting standard to recognise financial transactions with digital- currencies (also known as crypto-currencies):

This new standard provides guidance to initial recognition, measurement and disclosures related to financial transaction with digital-currencies. In summary, they would recognise in trade date according to their transaction price, while any change in their fair value would be recognise in Other Comprehensive Income “OCI”. In derecognition, balances previously recognised in OCI would be reclassified into income statement as part or gain/loss in disposal.

Revocation of some particular accounting standards applicable to Financial Institutions:

Due to adoption of new NIF, the following particular accounting standards would be substituted:

B-2 Investment in financial instruments.
B-5 Derivatives and hedge accounting.
B-11 Collection rights.
C-1 Recognition and derecognition of financial assets.

C-3 Related parties.
C-4 Operating segment.

When the new accounting standards are in place, Financial Institutions should replace the use of these particular accounting standards, adhering to new NIF.

Expectation is that these changes will be in force since 2020.

Currently, Grupo Financiero HSBC is evaluating the possible impacts originated by the adoption of these NIFs and changes in particular accounting standards applicable to Financial Institutions..

III. *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 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 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 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 October 17th, 2017, the CNBV extended “the programme” to borrowers affected by the earthquake that hit Mexico on September 19th, 2017 (through the official response paper No. 320-1/14057/2017).

On March, 5th, 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 $399m. The total interests that were not accrued in income statement during skip payment period approximately amounted $27m. 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 P&L.*

On December 27th, 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 January, 1st, 2019 with retrospectively accounting effects but Grupo Financiero HSBC has early adopted as permitted since January, 1st, 2017. It represented a reclassification from “Other Operating Income” to “Loan Impairment Charges” of $1,043m at the end of 2017.

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

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

	30 September 2018
Figures in MXN millions	
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**5,460**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	68
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	24
Loan impairment charges and other differences in presentation under IFRS	275
Recognition of the present value in-force of long-term insurance contracts	(143)
Other insurance adjustments (1)	96
Fair value adjustments on financial instruments	157
Deferred profit sharing	(28)
Other	(39)
Tax over adjustments	39
Net income under IFRS	**5,909**
Add back tax expense	1,906
Profit before tax under IFRS	**7,815**
Add back significant items	(73)
Adjusted net income before tax under IFRS	**7,742**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(73)**
US dollar equivalent (millions):	
-Adjusted net income before tax under IFRS	**413**
-Net income under IFRS	**315**
Exchange rate used for conversion(2)	***18.7231***

(1)includes technical reserves and effects from Solvency II
(2)Banxico rate at September 30th, 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 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

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 / 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.