News Release

22 February 2019

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

- For the 12 months to 31 December 2018, Grupo Financiero profit before tax was MXN9,748m, an increase of MXN4,227m, or 76.6%, compared with MXN5,521m for the same period of 2017.

- For the 12 months to 31 December 2018, net income was MXN7,294m, an increase of MXN2,759m, or 60.8%, compared with MXN4,535m for the same period of 2017.

- Total operating income excluding loan impairment charges was MXN43,322m, an increase of MXN4,478m or 11.5%, compared with MXN38,844m for the same period of 2017[1].

- Loan impairment charges for the 12 months to 31 December 2018 were MXN8,884m, a decrease of MXN889m, or 9.1%, compared with MXN9,773m for the same period of 2017[1].

- Administrative and personnel expenses for the 12 months to 31 December 2018 were MXN24,821m, an increase of MXN1,200m, or 5.1%, compared with MX23,621m for the same period of 2017.

- The cost efficiency ratio was 57.3% for the 12 months to 31 December 2018, compared with 60.8% for the same period of 2017[1].

- Net loans and advances to customers were MXN366.1bn at 31 December 2018, showing an increase in retail and wholesale portfolios totalling MXN60.8bn, or 19.9%, compared with MXN305.3bn at 31 December 2017. Total impaired loans as a percentage of gross loans and advances at 31 December 2018 was 1.9%, a decrease of 0.5 percentage points compared with 2.4% at 31 December 2017.

- At 31 December 2018, total deposits were MXN428.5bn, an increase of MXN54.4bn, or 14.5%, compared with MXN374.1bn at 31 December 2017.

- Return on equity was 10.9% for the 12 months to 31 December 2018, whereas for the 12 months to 31 December 2017 it was 7.4%, showing an increase of 3.5 percentage points.

- At 31 December 2018, the bank's total capital adequacy ratio was 12.3% and the tier 1 capital ratio was 10.4% compared with 12.9% and 11.6%, respectively, at 31 December 2017.

- On a reported IFRS basis, for the 12 months to 31 December 2018, profit before tax was MXN10,156m, an increase of 39.4% compared to the same period 2017. The main differences between the Mexican GAAP and IFRS results for the 12 months to 31 December 2018 relate to differences in accounting for fair value adjustments on financial instruments, pensions and insurance liabilities.

This news release is issued by
Grupo Financiero HSBC S.A de C.V.

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Overview

Economic activity slowed its pace of growth in Q4 2018 due to mixed results among different sectors. Preliminary Q4 2018 Gross Domestic Product grew 0.3% quarter on quarter basis, in seasonally adjusted terms, and 1.8% year on year basis in Q4 2018, prompting 2.0% overall growth for 2018. Services sector remained resilient and was the main source of growth in Q4 2018, followed by a mild contribution from agriculture activities. Nonetheless, industrial production, which had started to recover in the two previous quarters, posted significant contractions in both quarter on quarter and year on year terms.

At 31 December 2018, inflation reported was 4.83%, lower than the annualised inflation reported at Q3 2018, which was 5.02%. The observed decreased reflects that the declining pattern prevailed. In particular, core inflation remained steady and in combination with less pressure from the non-core component facilitate to see a lower reading. Energy prices performed better, partly due to the contraction of international oil prices during Q4 2018. Moreover, the exchange-rate pass-through effect on prices was limited, which provided extra support to contain the overall inflationary effect.

In Q4 2018, the local central bank delivered two 25bp policy rate hikes to 8.25% on the back of a deterioration in the balance of risks for inflation. In particular, market volatility that affected the Mexican peso in November and early December, after the cancellation of the construction of the new Mexico City airport (NAICM) was announced, it was the main trigger for such moves. Nevertheless, a realistic Economic Program for 2019 delivered by the Finance Ministry and a successful agreement between the government and NAICM bondholders helped to provide relief to Mexican financial indicators by the end of December.

- For the 12 months to 31 December 2018, Grupo Financiero HSBC reported a profit before tax of MXN9,748m, an increase of MXN4,227m, or 76.6%, compared with MXN5,521m for the same period of 2017.

- Net interest income for the 12 months to 31 December 2018 was MXN31,092m, an increase of MXN1,308m, or 4.4%, 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 12 months to 31 December 2018 were MXN8,884m, a decrease of MXN889m, or 9.1%, compared with MXN9,773m for the same period of 2017[1], mostly driven by better performance and smoother growth in retail unsecured portfolio partially offset by increase in wholesale portfolio.

- Net fee income for the 12 months to 31 December 2018 was MXN7,638m, an increase of MXN733m, or 10.6%, compared with the same period of 2017 mainly affected by the increase in fees coming from banking transactions.

- Trading income for the 12 months to 31 December 2018 was MXN3,123m, an increase of MXN1,439m, or 85.5%, 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 12 months to 31 December 2018 was MXN1,469m, an increase of MXN998m, or more than 100%, compared with the same period of 2017[1], mainly affected by a loss on disposal of credit portfolio in 2017.

- Administrative and personnel expenses for the 12 months to 31 December 2018 were MXN24,821m, an increase of MXN1,200m, or 5.1%, compared with MXN23,621m for the same period of 2017, mainly driven by higher staff cost across in all lines of business.

- The cost efficiency ratio was 57.3% for the 12 months to 31 December 2018, compared with 60.8 % for the same period of 2017[1].

- The effective tax rate was 25.2% for the 12 months to 31 December 2018. Compared with the 17.9% rate for the same period of 2017, it shows an increase of 7.3 percentage points. This increase is mainly driven by 2017 inflation adjustment due to a decrease in annual inflationary rate, which at the end of December 31 2018 was 4.8%, showing a decrease of 2 percentage points compared with 31 December 2017.

- Net loans and advances to customers were MXN366.1bn at 31 December 2018, showing an increase in both retail and wholesale portfolios of MXN60.8bn, or 19.8%, compared with MXN305.3bn at 31 December 2017. The performing commercial loans, in particular, increased by 15.3%, compared with 31 December 2017. Retail performing portfolio grew 11.9% compared with December 2017.

- Total impaired loans as a percentage of gross loans and advances at 31 December 2018 was 1.9%, a decrease of 0.5 percentage points, compared with 2.4% at 31 December 2017, driven mainly by impaired loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 10.9% for the 12 months to 31 December 2018, whereas for the 12 months to 31 December 2017 it was 7.4%, showing an increase of 3.5 percentage points.

- Total loan loss allowances at 31 December 2018 were MXN12.9bn, an increase of MXN0.3bn or 2.7% compared with 31 December 2017. The total coverage ratio (allowance for loan losses divided by impaired loans) was 177.1% at 31 December 2018 compared with 167.9% at 31 December 2017. The higher coverage ratio is in line with active portfolio management over impaired loans.

- At 31 December 2018, total deposits were MXN428.5bn, an increase of MXN54.4bn, or 14.5%, compared with MXN374.1bn at 31 December 2017.

- HSBC Bank Mexico profit before tax for the 12 months to 31 December 2018 was MXN7,650m, an increase of MXN4,244m or more than 100.0% compared with the same period of 2017. Net income after tax was MXN5,836m, an increase of MXN2,830m, or 94.1% compared with the same period of 2017.

- HSBC Bank Mexico net interest income for the 12 months to 31 December 2018, was MXN29,386 an increase of MXN1,881, or 6.8%, compared with the same period of 2017.

- At 31 December 2018, the bank's total capital adequacy ratio was 12.3% and the tier 1 capital ratio was 10.4% compared with 12.9% and 11.6%, respectively, at 31 December 2017. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the 12 months to 31 December 2018 was MXN1,599m, an increase of MXN 67m, or 4.4%.

[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, MXN1,316m were reclassified from other operating income to loan impairment charges. This also had an impact in the 2017 cost efficiency ratio from the original 58.8% to the current 60.8%

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 31 December 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 subsidiary.

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 12 months to 31 December 2018 showed growth by 7% compared to the same period of 2017, mainly driven by higher deposit balances, insurance results from the reinvestment of the annuities portfolio, growth in the retail business banking proposition, and growth in secured lending proposition in auto and mortgages. End of period balances increased 12% in lending and 9% in deposits compared to the same period of 2017, as well as auto and mortgage, which presented significant growth of 36% and 24% respectively.

Loan impairment charges decreased by 15% 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.

For the 12 months at 31 December 2018, RBWM profit before tax was MXN 4,571, an increase of MXN 1,812m or 66%, compared with the same period of 2017, mainly affected by growth in Net Fees MXN 635m, Trading MXN 972m, Other income MXN 329m, a decrease in LIC's by MXN 1,306m (as previously commented) partially offset by an increase in Expenses of MXN1,397m.

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 has completed a year from its launch, with outstanding results during 2018 period. Year on year customer base growth was of 20% against December 2017. The growth in deposits and lending balances was significant, achieving annual growth of 21% and 51% respectively.

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 a 2% immediate cashback on all purchases, which can be used to pay at any POS terminal or withdrawn as cash from an HSBC ATM.

During July 2018, HSBC retail bank in Mexico launched HSBC Stilo, 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. HSBC Stilo, is an important lever to Mexico customer growth. It 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.

Our value proposition for customers of the mass market was strengthened during September 2018 with the launch of the new HSBC Zero Credit card, the only product in the market that does not charge annual fee or commissions 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 and travel benefits.

Commercial Banking (CMB)

CMB revenue observed a positive trend during 2018, growing by 11% compared to the same period of 2017. Revenue increase is related to balance sheet expansion in both assets and liabilities, along with increased deposit margins from increased interest rates improving net interest income by 14%.

Loan impairment charges are 55% higher than prior year, impacted by specific provisions and portfolio growth mainly from Large Corporate and Real State, partially offset by a better performance in Business Banking portfolio.

Loan portfolio grew 18% vs prior year driven by traditional lending and significant syndicated loan transactions, mainly in Large Corporates and Mid-Market. Deposits grew 5%, with a significant volume gain in demand deposits.

For the 12 months at 31 December 2018, CMB profit before tax was MXN 1,600m, an increase of MXN 255m or 19%, compared with the same period of 2017, derived by growth in Margin MXN 686m, Net Fees MXN 90m, Trading MXN 20m, Other income MXN 327m (by a loss on disposal of credit portfolio in 2017) partially offset by an increase in LICs of MXN 494m and in Expenses of MXN391m.

Global Banking and Markets

Global Banking and Markets revenues of 2018 showed a growth of 20% compared with the same period of 2017. The increase is mainly explained by higher volumes in lending and deposit portfolios coupled with higher spreads in corporate lending.

Global Banking and Markets had a significant growth of 26% in lending portfolios against 2017 due to corporate and multinational clients as a result of business strategies and our leadership in products with international approach. In addition, higher deposit balances from GLCM (Global, Liquidity & Cash Management) during 2018, showing a growth of 5% driven primarily by higher volumes and spreads.

Loan impairment charges were 34% lower than in the prior year, driven by provisions from two specific customers booked during 2017. The loan portfolio quality indicators remain sound.

For the 12 months at 31 December 2018, Global Banking and Markets profit before tax was MXN 2,990m, an increase of MXN 1,441m or 93%, compared with the same period of 2017, derived by growth in Margin MXN 770m from improved balances and spreads, Trading MXN 793m, decrease in Expenses MXN 48m and LICs MXN 77m; partially offset by a decrease in Other income by MXN 282m.

Awards

On 18 July 2018, HSBC was recognised as the biggest underwriter of sustainability bonds in the first half of 2018, according to figures from *Environmental Finance*.The bank was involved in several deals in the first six months of the year, in particular Banobras's MXN10,000m (USD537 m) 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 recognise the performance of banks and the quality of their services and are among the most prestigious in the financial sector.

HSBC Mexico was recognised for its effort and work in the promotion of equality and inclusion of the LGBT + community by the Council to Prevent and Eliminate Discrimination in Mexico City (COPRED), 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.

In November, HSBC Mexico received the HRC Equity MX 2019 certification, awarded by the Human Rights Campaign Foundation (HRC), which recognises the culture and actions of companies to encourage the participation and inclusion of people from the LGBT community in its workforce. The policies and practices that were evaluated includes the culture of non-discrimination, the existence of internal diversity and inclusion councils and groups of employees, as well as the public commitment of the company to society and LGBT issues.

Subsequent events

In January, HSBC launched a joint venture in Mexico with Global Payments to operate its merchant acquiring services, provide best-in-class sales capabilities and bring to Mexico new card payment technologies. This JV has been materialised by the sale on 31 January 2019 of 50% in Global Payments Technology Mexico S.A. de C.V. to Global Payments Acquisition Corporation 7 S.A.R.L.

Grupo Financiero HSBC's fourth 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 12 months to 31 December 2018, profit before tax was MXN10,156m, an increase of 39.4% compared to the same period of 2017. The main differences between the Mexican GAAP and IFRS results for the 12 months to 31 December 2018 relate to differences in accounting for fair value adjustments on financial instruments, pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 960 branches, 5,579 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 across 66 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With total assets of US$2,558bn at 31 December 2018, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP 12 MONTHS ENDED 31 December 2018 and 2017

Figures in MXN millions

	Group	
	31 Dec 2018	**31 Dec 2017**
Interest income	59,305	48,959
Interest expense	(28,213)	(19,175)
Net interest income	31,092	29,784
Loan impairment charges	(8,884)	(9,773)
Risk-adjusted net interest income	22,208	20,011
Fees and commissions receivable	10,399	9,324
Fees payable	(2,761)	(2,419)
Trading income	3,123	1,684
Other operating income	1,469	471
Total operating income	34,438	29,071
Administrative and personnel expenses	(24,821)	(23,621)
Net operating income	9,617	5,450
Share of profits in equity interest	131	71
Profit/loss before tax	9,748	5,521
Income tax	(2,103)	(1,414)
Deferred income tax	(351)	428
Net income	7,294	4,535

[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, MXN1,316m were reclassified from other operating income to loan impairment charges.*

Consolidated Income Statement – BANK 12 MONTHS ENDED 31 December 2018 and 2017

Figures in MXN millions

	Bank	
	31 Dec 2018	**31 Dec 2017**
Interest income	55,169	44,791
Interest expense	(25,783)	(17,286)
Net interest income	29,386	27,505
Loan impairment charges [1]	(8,884)	(9,773)
Risk-adjusted net interest income	20,502	17,732
Fees and commissions receivable	9,819	8,756
Fees payable	(2,817)	(2,514)
Trading income	2,267	1,691
Other operating income [1]	2,364	1,116
Total operating income	32,135	26,781
Administrative and personnel expenses	(24,664)	(23,443)
Net operating income	7,471	3,338
Share of profits in equity interest	179	68
Profit/loss before tax	7,650	3,406
Income tax	(1,512)	(779)
Deferred income tax	(302)	379
Net income	5,836	3,006

[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, MXN1,316m were reclassified from other operating income to loan impairment charges.

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Assets				
Cash and deposits in banks	44,457	46,046	44,352	45,949
Margin accounts	525	341	525	341
Investment in securities	**220,167**	**184,850**	**203,367**	**168,500**
Trading securities	52,486	35,192	51,104	34,239
Available-for-sale securities	140,165	122,635	133,926	116,222
Held to maturity securities	27,516	27,023	18,337	18,039
Loan Securities				
Repurchase agreements	12,228	22,707	12,228	22,707
Derivative transactions	80,831	93,396	80,831	93,396
Performing loans				
Commercial loans	209,072	181,274	209,072	181,274
Loans to financial intermediaries	22,120	9,549	22,120	9,549
Loans to government entities	34,388	24,745	34,388	24,745
Consumer loans	58,606	56,585	58,606	56,585
Mortgage loans	47,553	38,275	47,552	38,275
Total performing loans	**371,739**	**310,428**	**371,738**	**310,428**
Impaired loans				
Commercial loans	4,580	4,338	4,580	4,338
Consumer loans	2,221	2,660	2,221	2,660
Mortgage loans	485	488	485	488
Total impaired loans	**7,286**	**7,486**	**7,286**	**7,486**
Gross loans and advances to customers	**379,025**	**317,914**	**379,024**	**317,914**
Allowance for loan losses	(12,903)	(12,569)	(12,903)	(12,569)
Net loans and advances to customers	**366,122**	**305,345**	**366,121**	**305,345**
Accounts receivables from Insurers and Bonding companies	61	59		
Premium receivables	1,582	1,575	-	-
Accounts receivables from reinsurers and rebonding companies	41	36	-	-
Benefits to be received from trading operations	94	94	94	94
Other accounts receivable	47,646	50,020	48,232	50,112
Foreclosed assets	396	426	396	426
Property, furniture and equipment, net	4,613	4,793	4,385	4,793
Long-term investments in equity securities	251	213	220	181
Long-term assets available for sale	27	164	27	164
Deferred taxes	13,219	12,707	13,045	12,494
Goodwill	1,048	1,048		
Other assets, deferred charges and intangibles	4,240	3,917	4,033	3,907
Total assets	**797,548**	**727,737**	**777,856**	**708,409**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
Liabilities	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Deposits	**428,497**	**374,097**	**429,273**	**374,821**
Demand deposits	267,227	255,683	267,706	256,121
Time deposits	143,720	108,292	143,326	107,920
Bank bond outstanding	17,550	10,122	17,550	10,122
Global deposit account without movements		-	691	658
Bank deposits and other liabilities	**34,935**	**31,541**	**34,935**	**31,541**
On demand	2,000	2,001	2,000	2,001
Short-term	5,970	16,004	5,970	16,004
Long-term	26,965	13,536	26,965	13,536
Repurchase agreements	99,664	69,112	99,664	69,112
Collateral sold	11,074	10,076	11,074	10,076
Derivative transactions	79,708	95,441	79,708	95,441
Technical reserves	12,543	12,203	-	-
Accounts payable from reinsures and rebounding companies	7	11	-	-
Other payable accounts	**52,458**	**60,589**	**51,902**	**59,811**
Income tax and employee profit sharing payable	716	266	519	222
Sundry creditors and other accounts Payable	51,742	60,323	51,383	59,589
Subordinated debentures outstanding	10,063	10,357	10,063	10,357
Deferred credits and receivables in advance	1,637	1,582	1,519	1,468
Total liabilities	**730,586**	**665,011**	**718,138**	**652,627**
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	**23,582**	**19,345**	**21,396**	**17,459**
Capital reserves	1,244	1,244	11,891	11,590
Retained earnings	18,821	15,903	7,834	5,259
Result from the mark-to-market of available-for-sale securities	(3,403)	(2,057)	(3,232)	(1,950)
Result from cash flow hedging transactions	(374)	(280)	(374)	(280)
Adjustment in the employee pension	-	-	(559)	(166)
Net income	7,294	4,535	5,836	3,006
Minority interest in capital	7	8	4	5
Total equity	**66,962**	**62,726**	**59,718**	**55,782**
Total liabilities and equity	**797,548**	**727,737**	**777,856**	**708,409**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Memorandum Accounts	**6,696,201**	**6,952,958**	**6,530,925**	**6,797,933**
Third party accounts	**27,033**	**47,439**	**25,303**	**43,422**
Clients current accounts	187	1,972	-	-
Custody operations	1,543	2,045	-	-
Third party investment banking operations, net	25,303	43,422	25,303	43,422
Proprietary position	**6,669,168**	**6,905,519**	**6,505,622**	**6,754,511**
Irrevocable lines of credit granted	311,120	286,000	311,120	286,000
Goods in trust or mandate	279,217	420,456	279,217	420,456
Goods in custody or under administration	1,085,412	1,064,015	1,079,194	1,057,797
Collateral received by the institution	48,862	50,719	48,862	50,719
Collateral received and sold or delivered as guarantee	34,215	34,512	34,215	34,512
Suspended interest on impaired loans	205	161	205	161
Other control accounts	4,910,137	5,049,656	4,752,809	4,904,866

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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	-	-	-	-	-	7,294	-	**7,294**
Result from valuation of available-for-sale securities	-	-	-	(1,346)	-	-	-	**(1,346)**
Result from cash flow hedging transactions	-	-	-	-	(94)	-	-	**(94)**
Others	-	-	(471)	-	-	-	(1)	**(472)**
Total	**-**		**(471)**	**(1,346)**	**(94)**	**7,294**	**(1)**	**5,382**
Total Balances at 31 December 2018	**43,373**	**1,244**	**18,821**	**(3,403)**	**(374)**	**7,294**	**7**	**66,962**

[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 December 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 December 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	-	-	-	-	-		5,836	-	**5,836**
Result from valuation of available-for-sale securities	-	-	-	(1,282)	-		-	-	**(1,282)**
Result from cash flow hedging transactions	-	-	-	-	(94)		-	-	**(94)**
Adjustment in defined benefit pension plan			(30)			(393)			**(423)**
Others		-	(100)		-			(1)	**(101)**
Total	**-**	**-**	**(130)**	**(1,282)**	**(94)**	**(393)**	**5,836**	**(1)**	**3,936**
Total Balances at 31 December 2018	**38,318**	**11,891**	**7,834**	**(3,232)**	**(374)**	**(559)**	**5,836**	**4**	**59,718**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Dec 2018**
Net income	**7,294**
Adjustments for items not involving cash flow:	**20,191**
Gain or loss on appraisal of activities associated with investment & financing	3,956
Allowances for loan losses	8,884
Depreciation and amortisation	1,453
Technical reserves	345
Provisions	3,230
Income Tax and deferred taxes	2,454
Share of profits in equity interest	(131)
Changes in items related to operating activities:	
Margin accounts	(184)
Investment securities	(37,278)
Repurchase agreements	10,479
Derivative (assets)	8,562
Loan portfolio	(69,806)
Foreclosed assets	31
Operating assets	1,791
Deposits	54,399
Bank deposits and other liabilities	3,395
Settlement accounts	
Creditors repo transactions	30,553
Stock borrowing	
Collateral sold or delivered as guarantee	998
Derivative (liabilities)	(15,732)
Subordinated debentures outstanding	(295)
Accounts receivables from reinsurers and coinsurers	(5)
Accounts receivables from premiums	(7)
Reinsurers and bonding	(4)
Other operating liabilities	(11,743)
Income tax paid	(1,582)
Funds provided by operating activities	**1,057**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	46
Acquisition of property, furniture and equipment	(693)
Intangible assets acquisitions & Prepaid expenses	(1,109)
Cash dividends	87
Acquisition of subsidiaries	(240)
Other investment activities	408
Funds used in investing activities	**(1,501)**
Financing activities:	
Cash dividends	(1,146)
Others	1
Funds used in financing activities	**(1,145)**
Financing activities:	
Increase/decrease in cash and equivalents	(1,589)
Cash and equivalents at beginning of period	46,046
Cash and equivalents at end of period	**44,457**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Dec 2018**
Net income	**5,836**
Adjustments for items not involving cash flow:	**18,227**
Gain or loss on appraisal of activities associated with investment & financing	0
Allowances for loan losses	8,884
Valuations	3,921
Depreciation	817
Amortisation	636
Provisions	2,334
Income Tax and deferred taxes	1,814
Share of profits in equity interest	(179)
Changes in items related to operating activities:	
Margin accounts	(184)
Investment securities	(36,766)
Repurchase agreements	10,479
Derivative (assets)	8,597
Loan portfolio	(69,807)
Foreclosed assets	31
Operating assets	1,671
Deposits	54,453
Bank deposits and other liabilities	3,395
Creditors repo transactions	30,553
Collateral sold or delivered as guarantee	998
Derivative (liabilities)	(15,732)
Subordinated debentures outstanding	(295)
Other operating liabilities	(10,740)
Income tax paid	(963)
Funds provided by operating activities	**(247)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	46
Acquisition of property, furniture and equipment	(693)
Intangible assets acquisitions & Prepaid expenses	(1,078)
Proceeds on disposal of subsidiaries	240
Cash dividends	87
Other investment activities	48
Funds used in investing activities	**(1,350)**
Financing activities:	
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**(1,597)**
Cash and equivalents at beginning of period	45,949
Cash and equivalents at end of period	**44,352**

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.

Subsidiaries financial statements were prepared in accordance with accounting standards issued by CNBV applicable to banks, excepting by the Insurance Company (HSBC Seguros) which are prepared in line with accounting standards issued by National Insurance and Bonding Commission (CNSF for its acronym in Spanish).

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 its benefits. The accounting change has been in force since 1 January 2018 with a prospectively 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: 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 initially adopt them until 1 January 2019; nevertheless on 15 November 2018, CNBV issued a new adoption date until 2020.

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'. 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'. Comprises the accounting rules of measurement, presentation and disclosures required for accounts receivables.

NIF C-9 'Provisions, Contingent assets and liabilities and commitments'. 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'. This 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'. 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'. 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’. This comprises the measurement, accounting recognition, presentation and disclosure of financial instruments hold 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’. This 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’. Comprises the measurement, accounting recognition, presentation and disclosure of expenses from contracts with customers (such as incremental costs to obtain a contract and costs to fulfil a contract).

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 information.

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 in 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 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) Borrower's level of indebtedness, 2) Borrower's payment behaviour and 3) Specific profile for each product. In addition, 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 MXN346m, 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 six 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 MXN399m. 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 P&L.*

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, however Grupo Financiero HSBC has early adopted as permitted since 1 January 2018. At 31 December 2017, it represented a reclassification from ‘Other Operating Income’ to ‘Loan Impairment Charges’ which amounted MXN1,316m.

VI. *Special accounting rules issued by National Banking Commission applicable to borrowers affected by natural disasters occurred during 2018.*

On 16 October 2018, the CNBV issued temporary special accounting rules (official response paper No. P-285/2018) ‘the programme’ applicable to borrowers affected by natural disasters occurred from September to December 2018, 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 six 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.

Based on the information aforementioned, at the end of reporting period, few customers has been adhered to the programme, therefore no relevant amount is shown.

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

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the 12 months ended 31 December of 2018 and an explanation of the key reconciling items.

	31 Dec 2018
Figures in MXN millions	
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**7,294**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	101
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	57
Loan impairment charges and other differences in presentation under IFRS	(27)
Recognition of the present value in-force of long-term insurance contracts	(85)
Other insurance adjustments[1]	112
Fair value adjustments on financial instruments	246
Deferred profit sharing	(72)
Other	(59)
Tax over adjustments	(78)
Net income under IFRS	**7,489**
Add back tax expense	2,667
Profit before tax under IFRS	**10,156**
Add back significant items	(155)
Adjusted net income before tax under IFRS	**10,001**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(155)**
US dollar equivalent (millions):	
-Adjusted net income before tax under IFRS	**509**
-Net income under IFRS	**381**
Exchange rate used for conversion[2]	***19.6566***

[1] Includes technical reserves and effects from Solvency II
[2] Banxico rate at 31 December 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

The present value of Defined Benefit Obligations 'DBO' (including indemnity benefits for other reasons that restructuring), are calculated at the reporting date by the schemes' actuaries through the Projected Unit Credit Method using a corporate/governmental bond rate as a base rate to determine the discount rate applicable.

The net costs recognise in 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. 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. According to Mexican Accounting standard, actuarial gains and losses could be: 1) recognised separately in 'shareholders' Other Comprehensive Income in the bank's consolidated financial statements' and recycling through P&L over the average working life of the employees or 2) totally recognised in income statement.

Modification of plans are recognised in the early date between 1) immediately when the change takes place or 2) when the restructuring costs or indemnity benefits have been recognised.

Given that in 2015, the Mexican accounting standard related to Employee Benefits (*NIF D-3 Beneficios a los Empleados*) changed as part of converge process with IAS 18 Employee Benefits, the Mexican Banking Regulator issued some reliefs in order to recognise initial financial impacts from adoption prospectively over the following five years. Under reliefs' rules, financial impacts from plan modification would be recognised in retained earnings and actuarial gains/losses would be recognised in Other Comprehensive Income progressively over the relief term. Only, actuarial gains/losses would be recycling in income statement over the average working life projected of the employees in accordance to NIF D-3.

IFRS

The main differences between Mex GAAP and IFRS comprise:

1) For Group purposes, the measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.

2) There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

3) Actuarial gains/losses are recognised in OCI under IFRS not subject to be recycling or recognise totally in income statement.

4) Reliefs issued by Mexican Banking Regulator are not applicable to the preparation of IFRS financial information.

Deferral of fees paid and received on the origination of loans and other effective interest rate adjustments

Mexican GAAP

The commissions charged to the borrower at loan inception are recorded into a deferred credit account (liability), which will be deferred against interest income in income statement on straight-line basis during contractual life of loan, excepting by those loans regarding to revolving credit facilities in which the deferral period is 12 months. In the case of commissions charged to borrowers for restructuring or renewals loans, they must be accumulated to the outstanding balance of commissions from original loan and deferring in interest income using the straight- line method during the new term of the loan.

On the other hand, for incremental costs incurred in loan inception, they are recognised as an asset, which is amortised on straight-line basis over the contractual life of the loan as interest expense in income statement.

Both commissions charged to borrowers and incremental costs incurred in loan inception, are recognised in separately accounts in balance sheet, i.e. they are not considered as part of amortised cost of the loan to presentation purposes.

IFRS

After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate 'EIR' 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.

Given the technical complication in core systems to apply a pure EIR method, HSBC Mexico decided to use as a proxy of EIR the amortised cost indicated for Mexican Banking Regulator, which use the straight-line basis to defer/amortise initial commission charged to borrowers/incremental costs paid to the origination of the loan.

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 from written-off loans and the positive excess of loan impairment charges determined monthly were presented in Other Operating Income until December 2017. Since January 2018, Mexican Banking Regulator issued some changes in accounting standards that allow Banks to recognise either positive excess of loan impairment charges and/or cash recoveries from written-off loans as a credit adjustment in Loan Impairment Charges in the income statement.

IFRS

The impairment requirements under IFRS 9 are based on an Expected Credit Losses ('ECL') concept that requires the recognition of ECL on a timely basis and forward-looking manner. ECL is determined via a two-step approach: 1) where the financial instruments are first assessed at inception regarding to for their relative credit deterioration, and 2) on ongoing basis followed by the measurement of the ECL (which depends on the credit deterioration categories). There are four credit deterioration categories:

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 with status of 'performing' are considered in 'Stage 1'. Financial instruments which are considered to have experienced a significant increase in credit risk are in 'Stage 2'. Financial instruments for which there is objective evidence of impairment (in default or credit deterioration) are in 'Stage 3'. Financial instruments that are credit-impaired upon initial recognition are POCI, remaining this category until derecognition.

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 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 approved by Mexican Banking Regulators.

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 market price.

Deferred-profit sharing (PTU diferida)

Mexican GAAP

Accounting standards requires that a Deferred-Profit Sharing 'DPS' shall be calculated applying a similar model to deferred income tax (assets and liabilities method). It is derived from temporary differences between the accounting profit and income to be used to calculate the profit sharing. An asset or liability for the DPS would be recognised according to method of comparing assets and liabilities sets out in Income Tax standards applicable in Mexico (*NIF D-4 Impuestos a la utilidad*).

IFRS

DPS asset or liability is not allowed to recognise under IFRS.

Present value of in-force long-term life insurance contracts

Mexican GAAP

Mexican Gaap criteria does not recognise this concept, hence do not exists for local purposes.

IFRS

This concept is an intangible asset, referred to as 'PVIF' and reflects the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from insurance contracts in force written at the balance sheet date. PVIF considers insurance contracts in force that are classified as long-term insurance business or long-term investment contracts with discretionary participating features ('DPF').

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 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.

Insurance liabilities and Insurance premiums recognised on an annualised basis

Mexican GAAP

Insurance liabilities are determined based on Solvency II methodology established by local regulator (CNSF) which considers best estimate liability and a risk margin concepts. 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 10% of the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognised under annualisation criteria which is based in determine the total premium for the coverage period (1 year), consequently total premium is recognised since the moment where insurance contracts are written.

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.

For Annuities business there is a securities valuation reserve, 'Reserva para Fluctuación de Inversiones', which is required specifically by CNSF, however, this reserve does not meet Mx Gaap citieria nor IFRS to be considered as a liability, therefore this reserve is cancelled for IFRS purposes and recognised into retained earnings.

IFRS criteria does not recognise annualisation insurance premium concept, hence annualisation effect it is cancelled for IFRS purposes