HSBC

News Release

29th April 2019

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST QUARTER 2019 FINANCIAL RESULTS HIGHLIGHTS

- For the three months to 31 March 2019, Grupo Financiero profit before tax was MXN3,439m, an increase of MXN826m, or 31.6%, compared with MXN2,613m for the same period of 2018.

- For the three months to 31 March 2019, net income was MXN2,524m, an increase of MXN634m, or 33.5%, compared with MXN1,890m for the same period of 2018.

- Total operating income excluding loan impairment charges was MXN12,401m, an increase of MXN1,941m or 18.6%, compared with MXN10,460m for the same period of 2018. In January 2019, HSBC launched a joint venture in Mexico with Global Payments to operate its merchant acquiring services. This JV has been materialised by the sale of 50% in Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN 1,296m gain on sale in total operating income.

- Loan impairment charges for the three months to 31 March 2019 were MXN2,263m, an increase of MXN509m, or 29.0%, compared with MXN1,754m for the same period of 2018.

- Administrative and personnel expenses for the three months to 31 March 2019 were MXN6,717m, an increase of MXN606m, or 9.9%, compared with MXN6,111m for the same period of 2018.

- The cost efficiency ratio was 54.2% for the three months to 31 March 2019, compared with 58.4% for the same period of 2018.

- Net loans and advances to customers were MXN376.2bn at 31 March 2019, showing an increase of MXN67.7bn, or 21.9%, compared with MXN308.5bn at 31 March 2018. Total impaired loans as a percentage of gross loans and advances at 31 March 2019 was 1.9%, a decrease of 0.4 percentage points compared with 2.3% at 31 March 2018.

- At 31 March 2019, total deposits were MXN447.3bn, an increase of MXN91.0bn, or 25.5%, compared with MXN356.3bn at 31 March 2018.

- Return on equity was 14.7% for the three months to 31 March 2019, whereas for the three months to 31 March 2018 it was 11.8%, showing an increase of 2.9 percentage points.

- At 31 March 2019, the bank's total capital adequacy ratio was 12.9% and the tier 1 capital ratio was 11.0% compared with 12.8% and 11.8%, respectively, at 31 March 2018.

- On a reported IFRS basis, for the three months to 31 March 2019, profit before tax was MXN4,325m, an increase of 81.7% compared to the same period 2018. The main differences between the Mexican GAAP and IFRS results for the three months to 31 March 2019 relate to differences in accounting for fair value adjustments on financial instruments, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

Significant events

In January 2019, HSBC launched a joint venture in Mexico with Global Payments to operate its merchant acquiring services and 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.

Overview

Economic activity started 2019 on a soft tone, as first economic indicators suggest an overall deceleration. In particular, January's economic activity grew at a mild pace of 1.3% year on year or 0.2% quarter on quarter on the back of mixed readings in the components. Service sector led the expansion, as it increased 2.2% year on year, but it has slowed down compared to previous quarters. Moreover, industrial production contracted 0.9% year on year in January, reflecting that its balance of risks for growth continued to deteriorate in Q1 2019.

Inflation year on year rate moved to 4.00% at the end of Q1 2019 from 4.83% in Q4 2018, which reflects that the disinflationary trend prevailed during the first months of 2019. This was mainly explained by a significant easing in the noncore component, mainly driven by energy and agriculture prices, combined with a steady performance of core inflation. The latter was supported by a relatively stable performance of the Mexican peso, which helped to avoid FX pass-through effects into the tradable and service sector prices.

Against this backdrop, the central bank maintained the monetary policy rate unchanged at 8.25% during Q1 2019. The central bank held a cautious tone on the balance of risks for inflation, as it remains tilted to the upside mainly due to fiscal risks and prevailing policy uncertainty.

- For the three months to 31 March 2019, Grupo Financiero HSBC reported a profit before tax of MXN3,439m, an increase of MXN826m, or 31.6%, compared with MXN2,613m for the same period of 2018.

- Net interest income for the three months to 31 March 2019 was MXN8,072m, an increase of MXN857m, or 11.9%, compared with the same period of 2018. The increase is mainly driven by higher performing loans partially offset by an increase in funding costs.

- Loan impairment charges for the three months to 31 March 2019 were MXN2,263m, an increase of MXN509m, or 29.0%, compared with MXN1,754m for the same period of 2018, mostly driven by higher loan impairment charges on the wholesale portfolio, as well as a bankruptcy of a wholesale client affecting the reserve in MXN348m.

- Net fee income for the three months to 31 March 2019 was MXN1,910m, a decrease of MXN29m, or 1.5%, compared with the same period of 2018 mainly affected by the sale of the acquiring business in January 2019, which represents a decrease of MXN50m. Excluding this effect, fees growing MXN21m or 1.1%.

- Trading income for the three months to 31 March 2019 was MXN1,069m, an increase of MXN57m, or 5.6%, compared with the same period of 2018, mainly affected by an increase in Bank subsidiary for MXN 854m, partially offset with a decrease in this line in Insurance entity by MXN 772 mainly driven by the sale of securities booked in Q1 2018.

- Other operating income for the three months to 31 March 2019 was MXN1,350m, an increase of MXN1,056m, or more than 100%, compared with the same period of 2018, mainly driven by the sale of the merchant acquiring business in January 2019.

- Administrative and personnel expenses for the three months to 31 March 2019 were MXN6,717m, an increase of MXN606m, or 9.9%, compared with MXN6,111m for the same period of 2018, mainly driven by higher staff cost across in all lines of business, and expenses associated with the gain recognition in the joint venture signed for the acquiring business.

- The cost efficiency ratio was 54.2% for the three months to 31 March 2019, compared with 58.4 % for the same period of 2018.

- The effective tax rate was 26.6% for the three months to 31 March 2019. Compared with the 27.7% rate for the same period of 2018, it shows a decrease of 1.1 percentage points.

- Net loans and advances to customers were MXN376.2bn at 31 March 2019, showing an increase in both retail and wholesale portfolios of MXN67.7bn, or 21.9%, compared with MXN308.5bn at 31 March 2018. The performing commercial loans, in particular, increased by 23.1%, compared with 31 March 2018. Retail performing portfolio grew 15.8% compared with March 2018.

- Total impaired loans as a percentage of gross loans and advances at 31 March 2019 was 1.9%, a decrease of 0.4 percentage points, compared with 2.3% at 31 March 2018, driven mainly by impaired loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 14.7% for the three months to 31 March 2019, whereas for the three months to 31 March 2018 it was 11.8%, showing an increase of 2.9 percentage points.

- Total loan loss allowances at 31 March 2019 were MXN13.4bn, an increase of MXN1.4bn or 11.9% compared with 31 March 2018. The total coverage ratio (allowance for loan losses divided by impaired loans) was 183.2% at 31 March 2019 compared with 163.1% at 31 March 2018. The higher coverage ratio is in line with active portfolio management over impaired loans.

- At 31 March 2019, total deposits were MXN447.3bn, an increase of MXN91.0bn, or 25.5%, compared with MXN356.3bn at 31 March 2018.

- HSBC Bank Mexico profit before tax for the three months to 31 March 2019 was MXN2,958m, an increase of MXN1,281m or more than 76.4% compared with the same period of 2018. Net income after tax was MXN2,206m, an increase of MXN922m, or 71.8% compared with the same period of 2018.

- HSBC Bank Mexico net interest income for the three months to 31 March 2019, was MXN7,595 an increase of MXN530 or 7.5%, compared with the same period of 2018.

- At 31 March 2019, the bank's total capital adequacy ratio was 12.9% and the tier 1 capital ratio was 11.0% compared with 12.8% and 11.8%, respectively, at 31 March 2018. 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 three months to 31 March 2019 was MXN302m, a decrease of MXN 419m, or 58.1%, mainly impacted by the non-recurrence of the gain on sale of securities booked in 2018.

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 March 2019) 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, with the exception of the impact of the gain on sale of the acquiring business recognized in Other Income.

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 first quarter of 2019 grew up to 66% compared with the same period in 2018, positively impacted by MXN829m derived from the gain on sale of 50% of the merchant acquiring business reported in January 2019. Excluding this impact, revenue increased by 5% driven by higher balances in lending portfolio and in retail business banking loans, coupled with higher deposits balances mainly in Time Deposits. In addition, higher trading income from our currency foreign exchange solutions implemented in the latter part of 2018. Balances at 31 March 2019, increased 18% in lending and 8% in deposits compared to the same period of 2018, as well as auto and mortgage, which presented significant growth of 28% and 26% respectively.

Loan impairment charges decreased by 13% compared to the same period of 2018, driven by better portfolio performance in the consumer portfolio and in mortgages.

For the first quarter of 2019, RBWM profit before tax was MXN1,531m, an increase of MXN917m or 149%, compared with the same period of 2018. Mainly impacted by growth in Other Income MXN796m, Net Interest Income MXN312m, Trading MXN75m, a decrease in Loan impairment charges by MXN250m partially offset by an increase in Expenses of MXN462m and a decrease in Net Fee Income by MXN54m linked to the de-recognition of the fees received from the merchant acquiring business following the sale of 50% in January 2019.

Deposits showed a 19% growth in revenue compared to 2018, driven by growth in Time Deposits balances of 14% mainly in the Premier proposition due to higher commercial activities and investment campaigns coupled with higher spreads in both Demand and Time Deposits driven by central bank rate hiked at the end of 2018.

Commercial Banking (CMB)

CMB revenue observed a positive trend during 2019, growing by 47% compared to the same period of 2018. Excluding the impact the gain on sale of the merchant acquiring business, revenue grew 18% reflecting balance sheet expansion in both assets and liabilities coupled with deposit margins from increased interest rates improving net interest income by +18%. Excluding the impact of the sale of the merchant acquiring business, fees grew 19% from higher trade services, lending and GLCM transactions.

Loan impairment charges was affected by a bankruptcy of a wholesale customer affecting the reserves in MXN348m partially offset by a release booked in January of MXN150m from a portfolio sale. The loan portfolio quality indicators remain sound.

Loan portfolio grew 18% vs prior year driven by traditional lending and significant syndicated loan transactions, mainly in Large Corporates, Corporate Real Estates and Mid-Market. Deposits grew 22%, with a significant volume gain in Public Sector and Large Corporates.

CMB profit before tax was MXN673m, an increase of MXN81m or 13.7%, compared with the same period of 2018, mainly derived by the gain on sale of the merchant acquiring business MXN507m, growth in Margin MXN187m and an increase of LICs of MXN493m. Expenses shows an increase of MXN198m.

Global Banking and Markets

Global Banking and Markets revenues of 2019 grew 19% compared with the same period of 2018. The increase is mainly explained by higher volumes in lending and deposit portfolios coupled with higher spreads in corporate lending and increased fees from debt capital markets (DCM) and infrastructure & real estate transactions.

Global Banking and Markets had a significant growth of 28% in lending portfolios against 2018 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 2019, showing a growth of 29% driven primarily by higher volumes and spreads.

Loan impairment charges in 2019 higher than the same period of 2018 reflecting portfolio growth and the impact of significant provision releases booked in 2018, as the loan portfolio quality indicators remain sound.

Additionally, Global Banking and Markets maintained its strategy of reinforcing the debt and capital markets business by closing relevant transactions with local and international customers.

Global Banking and Markets profit before tax was MXN992m, an increase of MXN219m or 28.4%, compared with the same period of 2018, derived by growth in net interest margin MXN96m from improved balances and spreads and higher trading income MXN 574m partly offset with higher loan impairment charges MXN265m, and increased expenses MXN75m.

Awards

Euromoney develops a survey every year among users of solutions focused on international trade with the aim of identifying those who provide them with the best products and services, by country, region and globally. In 2019, for the second year in a row, HBSC was recognized by the British magazine Euromoney as the Best Bank of Mexico in Foreign Trade Solutions and as the Best Bank in Mexico for Service Quality in Foreign Trade Solutions.

Grupo Financiero HSBC's first quarter to 2019 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 three months to 31 March 2019, profit before tax was MXN4,325m, an increase of 81.7% compared to the same period of 2018. The main differences between the Mexican GAAP and IFRS results for the three months to 31 March 2019 relate to differences in accounting for fair value adjustments on financial instruments, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 960 branches, 5,584 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 3 MONTHS ENDED 31 March 2019 and 2018

Figures in MXN millions

	Group	
	31 Mar 2019	**31 Mar 2018**
Interest income	16,433	13,818
Interest expense	(8,361)	(6,603)
Net interest income	8,072	7,215
Loan impairment charges	(2,263)	(1,754)
Risk-adjusted net interest income	5,809	5,461
Fees and commissions receivable	2,564	2,478
Fees payable	(654)	(539)
Trading income	1,069	1,012
Other operating income	1,350	294
Total operating income	10,138	8,706
Administrative and personnel expenses	(6,717)	(6,111)
Net operating income	3,421	2,595
Share of profits in equity interest	18	18
Profit/loss before tax	3,439	2,613
Income tax	(717)	(866)
Deferred income tax	(198)	143
Net income	2,524	1,890

Consolidated Income Statement – BANK 3 MONTHS ENDED 31 March 2019 and 2018

Figures in MXN millions

	Bank	
	31 Mar 2019	31 Mar 2018
Interest income	15,452	12,829
Interest expense	(7,857)	(5,764)
Net interest income	7,595	7,065
Loan impairment charges	(2,263)	(1,754)
Risk-adjusted net interest income	5,332	5,311
Fees and commissions receivable	2,391	2,275
Fees payable	(684)	(549)
Trading income	1,061	207
Other operating income	1,527	466
Total operating income	9,627	7,710
Administrative and personnel expenses	(6,684)	(6,051)
Net operating income	2,943	1,659
Share of profits in equity interest	15	18
Profit/loss before tax	2,958	1,677
Income tax	(528)	(536)
Deferred income tax	(224)	143
Net income	2,206	1,284

Consolidated Balance Sheet

Consolidated Balance Sheet

Figures in MXN millions	Group		Bank	
	31 Mar 2019	**31 Mar 2018**	**31 Mar 2019**	**31 Mar 2018**
Assets				
Cash and deposits in banks	66,242	52,372	66,136	52,259
Margin accounts	1,197	280	1,197	280
Investment in securities	**218,611**	**205,498**	**202,109**	**188,251**
Trading securities	48,542	47,406	46,987	45,599
Available-for-sale securities	142,358	131,042	136,684	124,526
Held to maturity securities	27,711	27,050	18,438	18,126
Loan Securities	14	14		
Repurchase agreements	9,180	25,081	9,180	25,081
Derivative transactions	64,817	72,548	64,817	72,548
Performing loans				
Commercial loans	226,977	184,430	226,977	184,430
Loans to financial intermediaries	20,435	8,550	20,435	8,550
Loans to government entities	24,166	24,512	24,166	24,512
Consumer loans	60,246	56,177	60,246	56,177
Mortgage loans	50,466	39,462	50,466	39,462
Total performing loans	**382,290**	**313,131**	**382,290**	**313,131**
Impaired loans				
Commercial loans	4,702	4,668	4,702	4,668
Consumer loans	1,965	2,224	1,965	2,224
Mortgage loans	640	442	640	442
Total impaired loans	**7,307**	**7,334**	**7,307**	**7,334**
Gross loans and advances to customers	**389,597**	**320,465**	**389,597**	**320,465**
Allowance for loan losses	(13,387)	(11,965)	(13,387)	(11,965)
Net loans and advances to customers	**376,210**	**308,500**	**376,210**	**308,500**
Accounts receivables from Insurers and Bonding companies	60	57	-	-
Premium receivables	1,596	1,529	-	-
Accounts receivables from reinsurers and rebonding companies	35	36	-	-
Benefits to be received from trading operations	94	94	94	94
Other accounts receivable	38,056	62,929	37,837	62,442
Foreclosed assets	369	411	369	411
Property, furniture and equipment, net	4,462	4,588	4,223	4,588
Long-term investments in equity securities	983	231	947	199
Long-term assets available for sale	20	-	20	-
Deferred taxes	12,429	12,491	12,240	12,284
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	4,589	4,123	4,396	4,116
Total assets	**800,012**	**751,830**	**779,775**	**731,053**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	31 Mar	31 Mar	31 Mar	31 Mar
Liabilities	**2019**	**2018**	**2019**	**2018**
Deposits	**447,342**	**356,350**	**448,138**	**357,212**
Demand deposits	276,664	227,883	277,163	228,457
Time deposits	152,798	118,205	152,404	117,816
Bank bond outstanding	17,880	10,262	17,880	10,262
Global deposit account without movements		-	691	677
Bank deposits and other liabilities	**32,183**	**29,233**	**32,183**	**29,233**
Short-term	5,739	16,095	5,739	16,095
Long-term	26,444	13,138	26,444	13,138
Repurchase agreements	99,786	114,865	99,786	114,865
Stock Borrowing	-	-	-	-
Settlement accounts	-	-	-	-
Collateral sold	4,410	4,844	4,396	4,830
Derivative transactions	61,677	72,500	61,677	72,498
Technical reserves	12,644	12,562	-	-
Accounts payable from reinsures and rebounding companies	6	8	-	-
Other payable accounts	**59,933**	**87,677**	**59,285**	**86,297**
Income tax and employee profit sharing payable	647	361	628	186
Sundry creditors and other accounts Payable	59,286	87,316	58,657	86,111
Subordinated debentures outstanding	9,918	7,502	9,918	7,502
Deferred credits and receivable in advance	1,650	1,557	1,531	1,443
Total liabilities	**729,549**	**687,098**	**716,914**	**673,880**
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	**27,083**	**21,351**	**24,539**	**18,850**
Capital reserves	1,244	1,244	11,891	11,590
Retained earnings	26,022	20,302	13,663	8,194
Result from the mark-to-market of available-for-sale securities	(2,389)	(1,932)	(2,299)	(1,847)
Result from cash flow hedging transactions	(318)	(153)	(318)	(153)
Adjustment in the employee pension	-	-	(604)	(218)
Net income	2,524	1,890	2,206	1,284
Minority interest in capital	7	8	4	5
Total equity	**70,463**	**64,732**	**62,861**	**57,173**
Total liabilities and equity	**800,012**	**751,830**	**779,775**	**731,053**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
Memorandum Accounts	**6,637,848**	**6,496,737**	**6,472,405**	**6,341,745**
Third party accounts	**27,835**	**40,677**	**25,447**	**38,127**
Clients current accounts	766	719	-	-
Custody operations	1,608	1,817	-	-
Transactions on behalf of clients	14	14	-	-
Third party investment banking operations, net	25,447	38,127	25,447	38,127
Proprietary position	**6,610,013**	**6,456,060**	**6,446,958**	**6,303,618**
Irrevocable lines of credit granted	322,190	269,908	322,190	269,908
Goods in trust or mandate	250,627	379,088	250,627	379,088
Goods in custody or under administration	1,131,143	1,050,968	1,124,925	1,044,750
Collateral received by the institution	50,092	41,108	50,092	41,108
Collateral received and sold or delivered as guarantee	35,160	14,987	35,160	14,987
Suspended interest on impaired loans	214	169	214	169
Other control accounts	4,820,587	4,699,832	4,663,750	4,553,608

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Consolidated Statement of Changes in Shareholders' Equity

GROUP	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	**Total equity**
Figures in MXN million								
Total Balances at 31 December 2018	**43,373**	**1,244**	**18,821**	**(3,403)**	**(374)**	**7,294**	**7**	**66,962**
Movements inherent to the shareholders' decision								
Shares issue								**-**
Transfer of result of prior years	-		7,294	-	-	(7,294)	-	**-**
Constitution of reserves		-						**-**
Cash dividends	-	-	-	-	-	-	-	**-**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**7,294**	**-**	**-**	**(7,294)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	2,524	-	**2,524**
Result from valuation of available-for-sale securities	-	-	-	1,014	-	-	-	**1,014**
Result from cash flow hedging transactions	-	-	-	-	56	-	-	**56**
Others *		-	(93)		-		-	**(93)**
Total	**-**	**-**	**(93)**	**1,014**	**56**	**2,524**	**-**	**3,501**
Total Balances at 31 March 2019	**43,373**	**1,244**	**26,022**	**(2,389)**	**(318)**	**2,524**	**7**	**70,463**

**Includes local pension plan and valuation on technical risk reserves from Insurance entity*

Consolidated Statement of Changes in Shareholders' Equity

BANK	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Adjustment in defined benefit pension plan	Net income	Minority interest	**Total equity**
Figures in MXN million									
Total Balances at 31 Dec 2018	**38,318**	**11,891**	**7,834**	**(3,232)**	**(374)**	**(559)**	**5,836**	**4**	**59,718**
Movements inherent to the shareholders' decision									
Shares issue									**-**
Transfer of result of prior years	-		5,836	-	-		(5,836)	-	**-**
Constitution of reserves		-	-	-					**-**
Cash dividends	-	-	-	-	-		-	-	**-**
Others		-	-	-	-		-	-	-
Total	**-**	**-**	**5,836**	**-**	**-**		**(5,836)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-		2,206	-	**2,206**
Result from valuation of available-for-sale securities	-	-	-	933	-		-	-	**933**
Result from cash flow hedging transactions	-	-	-	-	56		-	-	**56**
Adjustment in defined benefit pension plan			(7)			(45)			**(52)**
Others		-	-		-			-	**-**
Total	**-**	**-**	**(7)**	**933**	**56**	**(45)**	**2,206**	**-**	**3,143**
Total Balances at 31 March 2019	**38,318**	**11,891**	**13,663**	**(2,299)**	**(318)**	**(604)**	**2,206**	**4**	**62,861**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31 Mar 2019**
Net income	**2,524**
Adjustments for items not involving cash flow:	**3,537**
Allowances for loan losses	2,263
Depreciation and amortisation	660
Amortisation	379
Technical reserves	(661)
Provisions	914
Income Tax and deferred taxes	(18)
Changes in items related to operating activities:	
Margin accounts	(672)
Investment securities	2,989
Repurchase agreements	3,048
Derivative (assets)	15,415
Loan portfolio	(12,351)
Loan securities	(14)
Foreclosed assets	27
Operating assets	9,582
Deposits	18,847
Bank deposits and other liabilities	(2,752)
Creditors repo transactions	121
Collateral sold or delivered as guarantee	(6,664)
Derivative (liabilities)	(18,031)
Subordinated debentures outstanding	(145)
Accounts receivables from reinsurers and coinsurers	6
Accounts receivables from premiums	(14)
Other operating liabilities	6,768
Income tax paid	672
Funds provided by operating activities	**22,893**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	30
Acquisition of property, furniture and equipment	(196)
Intangible assets acquisitions & Prepaid expenses	(234)
Cash dividends	712
Acquisition of subsidiaries	(1,425)
Other investment activities	5
Funds used in investing activities	**(1,108)**
Financing activities:	
Cash dividends	0
Others	0
Funds used in financing activities	**0**
Financing activities:	
Increase/decrease in cash and equivalents	21,785
Cash and equivalents at beginning of period	44,457
Cash and equivalents at end of period	**66,242**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31 Mar 2019**
Net income	**2,206**
Adjustments for items not involving cash flow:	**3,332**
Allowances for loan losses	2,263
Valuations	654
Depreciation	328
Amortisation	35
Provisions	(685)
Income Tax and deferred taxes	752
Share of profits in equity interest	(15)
Changes in items related to operating activities:	
Margin accounts	(672)
Investment securities	2,609
Repurchase agreements	3,048
Derivative (assets)	39,865
Loan portfolio	(12,352)
Foreclosed assets	27
Operating assets	9,814
Deposits	18,866
Bank deposits and other liabilities	(2,752)
Creditors repo transactions	121
Collateral sold or delivered as guarantee	(6,678)
Derivative (liabilities)	(42,476)
Subordinated debentures outstanding	(145)
Other operating liabilities	7,861
Income tax paid	(308)
Funds provided by operating activities	**22,366**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	30
Acquisition of property, furniture and equipment	(196)
Intangible assets acquisitions & Prepaid expenses	(236)
Proceeds on disposal of subsidiaries	1,243
Acquisition of permanent investments	(1,425)
Cash dividends	
Other investment activities	2
Funds used in investing activities	**(582)**
Financing activities:	
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**21,784**
Cash and equivalents at beginning of period	44,352
Cash and equivalents at end of period	**66,136**

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:

Improvements of NIF 2019 issued by CINIF applicable to Financial Institutions:
CINIF issued a document called “Improvements of NIF 2019”, which mainly includes the following changes and improvements:

Improvements involving accounting changes “without financial impacts” in Grupo Financiero HSBC.

NIF B-19 “Interim Financial Reporting” – In order to converge with recent amendments to IAS 34 ‘Interim Financial Reporting’ originated by the implementation of IFRS 9 and IFRS 15, CINIF decided to amend NIF B-19 in same way including additional disclosures about fair value of financial instruments and revenue from contracts with customers. The accounting change has been in force since January, 1st, 2019 with a prospectively adoption.

Improvements which not originate accounting changes.

NIF A-6 “Recognition and Measurement” – CINIF includes clarification about the meaning of ‘Net sale value’ indicating that it would be the cash flows obtain in the market by the sale or exchange of an asset less it is costs to sell.

NIF C-6 “Property, Plant and Equipment” – Changes to refer the determination of fair value of a fixed asset to the new NIF B-17 ‘Fair Value determination’ instead of NIF A-6 ‘Recognition and Measurement’ as it was set in old version.

NIF C-20 “Hold to Collect Financial Instruments” – Changes comprise clarifications in the accounting treatment of collaterals received by an entity, indicating that those shall not be recognised on balance sheet, unless they are cash or borrower is at default on his payment obligations.

NIF D-3 “Employee Benefits” – Several clarifications were included in wording of this standard to contribute in a better comprehension of the accounting implications when: i) there is a transfer of employees between entities under common control and ii) in case of changes in interest rate used (from governmental bonds rates to corporative bonds rates or vice versa) to determine the discount rate applicable to calculate ‘Defined Benefits Plans’ provisions.

NIF D-5 “Leases” – Clarifications about the determination of enforceable term of an agreement lease and how a lessor should recognise payments from operating leases considering the pattern in which economic benefits from the asset would be obtained (accrual, straight line basis or other basis).

It is worth to highlight that Mexican accounting standards regarding to implementation of IFRS 9, IFRS 15 and IFRS 16 would not be in place for Financial Institutions until January 1st, 2020, for the rest of changes, the adoption date were at January, 1st, 2019.

New NIF B-11 'Disposal of non-current assets held for sale and discontinued operations'.
CINIF issued this new accounting standard with the purpose to separate the accounting treatment of 'Non-current Assets and Discontinued Operations' which mainly are focused on presentation and disclosure from 'Impairment of Assets' included in NIF C-15, on order to provided similarity with IFRS.

The following assets will be out of scope of NIF B-11, (only for measurement purposes, presentation and reclassification rules are applicable to all non-current assets):

Biological assets (refers to NIF E-1 'Agriculture').
Financial instruments (refers to NIF C-2 'Financial Instruments').
Deferred taxes (refers to NIF D-4 'Income Taxes').
Employee Benefit assets (refers to NIF D-3 'Employee Benefits').

In addition, NIF B-11 clarifies that assets in scope of this standard based on a liquidity presentation in balance sheet shall contemplate assets which recovery expectation is longer than 12 months.

This new standard will be in place since 2020 using a prospective approach in adoption, allowing an anticipated implementation. Given that Mexican Banking regulator has not issued an opinion about this new issuance and no financial impacts are expected, HSBC had no intention to anticipate its adoption.

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 initially adopt them until January, 1st, 2019; nevertheless on November, 15th, 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". 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 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”. 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 (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”.On derecognition, balances previously recognised in OCI would be reclassified into income statement as part or gain/loss on 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; expectations is that already mentioned 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.

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

On October 16th, 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 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.

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, so far.

Special accounting rules issued by National Banking Commission applicable to borrowers affected by the new Federal Law of Wages applicable to Governmental Employees enacted on November, 5th, 2018.

On February 26th, 2019, the CNBV issued temporary special accounting rules (official response paper No. P062/2019) “the benefit programme” applicable to borrowers affected by the enactment of the new Law which would produce a decrease in their wages or involuntary separation of their employment as long as this situation occurred between November, 6th, 2018 to September, 30th, 2019. The benefit programme would still be applicable when borrower acts as guarantor in loans.

These special accounting rules are applicable to consumer, and mortgages loans that were classified as “performing loans” at the date in which wages of borrowers decrease or their involuntary separation occurs as long as they adhered to the benefit programme no later than February, 28th, 2020. In addition, the adherence to the benefit programme should be no later than 120 days after the event for loans originated from revolving credit facilities.

Basically, the benefit programme brings an extension in loan term and skip payment of capital and interest accrued for a period no longer than three 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 benefit programme” loans modification would not be considered as restructured loan under CNBV accounting rules provisions.

At the end of reporting period, few customers has been adhered to the benefit programme, therefore no relevant amount is shown, so far.

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 3 months ended 31 March of 2019 and an explanation of the key reconciling items.

	31 Mar 2019
Figures in MXN millions	
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**2,524**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	21
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	2
Loan impairment charges and other differences in presentation under IFRS	472
Recognition of the present value in-force of long-term insurance contracts	100
Other insurance adjustments[1]	9
Fair value adjustments on financial instruments	(145)
Deferred profit sharing	157
Other	31
Tax over adjustments	116
Net income under IFRS	**3,287**
Add back tax expense	1,038
Profit before tax under IFRS	**4,325**
Add back significant items	145
Adjusted net income before tax under IFRS	**4,470**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**105**
Cost to achieve	40
US dollar equivalent (millions):	
-Adjusted net income before tax under IFRS	**223**
-Net income under IFRS	**170**
Exchange rate used for conversion[2]	***19.3793***

[1] Includes technical reserves and effects from Solvency II
[2] Banxico rate at 31 March 2019

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