News Release

26 July 2019

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

- For the first half of 2019, Grupo Financiero's profit before tax was MXN6,449m, an increase of MXN1,542m, or 31.4%, compared with MXN4,907m for the same period of 2018.

- For the first half of 2019, net income was MXN4,814m, an increase of MXN1,113m, or 30.1%, compared with MXN3,701m for the same period of 2018.

- Total operating income excluding loan impairment charges was MXN24,147m, an increase of MXN3,053m or 14.5%, compared with MXN21,094m for the same period of 2018. In January 2019, HSBC launched a joint venture with Global Payments to operate its merchant acquiring services. This joint venture was completed by the sale of 50% of Global Payments Technology Mexico S.A. de C.V. and the recognition of a MXN1,296m gain on sale in total operating income.

- Loan impairment charges for the first half of 2019 were MXN4,183m, an increase of MXN123m, or 3.0%, compared with MXN4,060m for the same period of 2018.

- Administrative and personnel expenses for the first half of 2019 were MXN13,575m, an increase of MXN1,378m, or 11.3%, compared with MXN12,197m for the same period of 2018.

- The cost efficiency ratio was 56.2% for the first half of 2019, compared with 57.8% for the same period of 2018.

- Net loans and advances to customers were MXN395.0bn at 30 June 2019, showing an increase of MXN67.4bn, or 20.6%, compared with MXN327.6bn at 30 June 2018. Total impaired loans as a percentage of gross loans and advances at 30 June 2019 was 1.9%, a decrease of 0.4 percentage points compared with 2.3% at 30 June 2018.

- At 30 June 2019, total deposits were MXN450.4bn, an increase of MXN76.0bn, or 20.3%, compared with MXN374.4bn at 30 June 2018.

- Return on equity was 13.5% for the first half of 2019, whereas for the first half of 2018 it was 11.3%, showing an increase of 2.2 percentage points.

- At 30 June 2019, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.8% compared with 12.7% and 10.9%, respectively, at 30 June 2018.

- On a reported IFRS basis, for the first half of 2019, profit before tax was MXN7,601m, an increase of 48.2% compared to the same period 2018. The main differences between Mexican GAAP and IFRS results for the first half of 2019 relate to differences in accounting for fair value adjustments on financial instruments, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

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

Registered Office:
Paseo de la Reforma 347, Ciudad de Mexico, Mexico
Web: www.hsbc.com

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 joint venture was completed with the sale on 31 January 2019 of 50% of Global Payments Technology Mexico S.A. de C.V. to Global Payments Acquisition Corporation 7 S.A.R.L.

Overview

Economic activity continued showing signs of weakness during the beginning of the second quarter of 2019. In particular, economic activity grew at a very moderate rate of 0.3% year on year in April, (discounting the calendar effects generated by the Easter holidays), or 0.1% compared to the previous month. The services sector led the expansion, since it increased 0.5% year on year with seasonally adjusted figures, which reflects a significant deceleration compared to previous periods. In addition, industrial production continued to contract at a rate of 0.5% and 3.1% year on year in April and May, respectively, which reflects that the balance of risks for economic activity has continued to deteriorate during the first months of the second quarter of 2019.

The annual inflation rate closed the second quarter at 3.95%, slightly below the 4.00% registered at the end of the first quarter. This was mainly due to a reduction in the annual rate of the non-core component, mainly driven by energy and agricultural prices. However, the annual rate of core inflation, composed of prices of tradable goods and services, registered an acceleration to 3.85% at the end of the second quarter from the 3.55% recorded at the end of the first quarter.

In this context, the central bank kept the monetary policy rate unchanged at 8.25% during the second quarter of 2019. The central bank maintained a cautious tone in the behavior of inflation, mainly due to the acceleration in the core component. However, it highlighted more elements related to a more accommodative stance, such as a larger-than-expected deceleration in growth and a shift in the monetary stance of several developed countries' economies.

- For the first half of 2019, Grupo Financiero HSBC reported a profit before tax of MXN6,449m, an increase of MXN1,542m, or 31.4%, compared with MXN4,907m for the same period of 2018.

- Net interest income for the first half of 2019 was MXN16,352m, an increase of MXN1,393m, or 9.3%, compared with the same period of 2018. The increase was mainly driven by higher performing loans partially offset by an increase in funding costs.

- Loan impairment charges for the first half of 2019 were MXN4,183m, an increase of MXN123m, or 3.0%, compared with MXN4,060m for the same period of 2018, driven mainly by the bankruptcy of a wholesale customer affecting the reserve in MXN414m, and higher provisions in retail in line with loan portfolio growth partially offset by improvement in PDs for certain wholesale customers.

- Net fee income for the first half of 2019 was MXN3,922m, an increase of MXN133m, or 3.5%, compared with the same period of 2018. Excluding the MXN125m impact from the sale of the acquiring business, net fee income grew by 6.8% during the period.

- Trading income for the first half of 2019 was MXN2,149m, an increase of MXN540m, or 33.6%, compared with the same period of 2018, mainly due to an increase in banking business of MXN1,310m, partially offset by a decrease of MXN763m driven by the sale of securities booked in Q1 2018.

- Other operating income for the first half of 2019 MXN1,724m, an increase of MXN987m or 74.7% 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 first half of 2019 were MXN13,575m, an increase of MXN1,378m, or 11.3%, compared with MXN12,197m for the same period of 2018. This was mainly driven by higher staff costs across all lines of business, technology expenses and IPAB (Institute for the Protection of Bank Savings) fee costs.

- The cost efficiency ratio was 56.2% for the first half of 2019, compared with 57.8 % for the same period of 2018.

- The effective tax rate was 25.4% for the first half of 2019, compared with the 24.6% for the same period of 2018, showing an increase of 0.8 percentage points.

- Net loans and advances to customers were MXN395.0bn at 30 June 2019, showing an increase in both retail and wholesale portfolios of MXN67.4bn, or 20.6%, compared with MXN327.6bn at 30 June 2018. The performing commercial loans, in particular, increased by 27.1%, compared with 30 June 2018. The retail performing portfolio grew 19.9% compared with the first half of 2018.

- Total impaired loans as a percentage of gross loans and advances at 30 June 2019 was 1.9%, a decrease of 0.4 percentage points, compared with 2.3% at 30 June 2018, driven mainly by impaired loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 13.5% for the first half of 2019, whereas for the first half of 2018 it was 11.3%, showing an increase of 2.2 percentage points.

- Total loan loss allowances at 30 June 2019 were MXN13.4bn, an increase of MXN1.1bn or 8.9% compared with 30 June 2018. The total coverage ratio (allowance for loan losses divided by impaired loans) was 168.9% at 30 June 2019 compared with 160.8% at 30 June 2018. The higher coverage ratio is in line with active portfolio management over impaired loans.

- At 30 June 2019, total deposits were MXN450.4bn, an increase of MXN76.0bn, or 20.3%, compared with MXN374.4bn at 30 June 2018.

- HSBC Bank Mexico profit before tax for the first half of 2019 was MXN5,434m, an increase of MXN2,001m or 58.3% compared with the same period of 2018. Net income was MXN4,056m, an increase of MXN1,374m, or 51.5% compared with the same period of 2018.

- HSBC Bank Mexico net interest income for the first half of 2019, was MXN15,371 an increase of MXN1,042 or 7.3%, compared with the same period of 2018.

- At 30 June 2019, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.8% compared with 12.7% and 10.9%, respectively, at 30 June 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 first half of 2019 was MXN593m, a decrease of MXN 447m, or 43.0%, mainly driven 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 30 June 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 recognised 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 after credit impairment for the first six months of 2019 grew by 14%, 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 growth in deposit balances and growth in secured lending proposition in auto and mortgages. End of period balances increased 20% in lending and 6% in deposits compared to the same period last year.

Loan impairment charges increased by 13%, compared to the same period last year.

The insurance business presented lower revenue compared to last year, mainly driven by the sale of securities in the annuities portfolio in 2018. Without this effect, revenue in the insurance business grew 18% versus the prior year.

RBWM profit before tax for the period was MXN1,891m, an increase of MXN621m, or 49%, compared with the same period last year. This was mainly due to growth in net interest income of MXN 871m and other income of MXN 798m, partially offset by an increase in LIC's by MXN475 and an increase in expenses of MXN702m.

Time deposits showed a 32% growth in revenue compared to the same period last year, driven by growth in balances of 12% mainly in the Premier proposition due to higher commercial activities and investment campaigns coupled with higher spreads. Demand deposits presented a similar trend with a 14% increase in revenue.

HSBC Fusion has completed a year and a half since its launch, with year-on-year SME customer base growth of 20% against June 2018. The year-on-year growth in deposits and lending balances was 14% and 47% respectively.

HSBC Zero Credit Card, a product designed to strengthen the mass market proposition, has been well accepted since its launch in September 2018. Customers using this product are not charged an annual fee or commission as long as they use the card at least once a month.

Commercial Banking (CMB)

CMB revenue after credit impairment observed a positive trend during 2019, growing by 41% compared to the same period of 2018. Excluding the impact from the gain on sale of the merchant acquiring business, revenue grew 12% reflecting balance sheet expansion in both assets and liabilities coupled with deposit margins from increased interest rates improving net interest income by 21%. Excluding the impact of the new joint venture model for acquiring business, fees grew 4% from higher trade services, lending and GLCM (Global, Liquidity & Cash Management) transactions.

Loan impairment charges reduced by 77% during the first half of 2019. The loan portfolio quality indicators remain sound.

Loan portfolio grew 9% vs prior year driven by traditional lending and significant syndicated loan transactions, mainly in large corporates, corporate real estate and mid-market. Deposits grew 23%, with a significant volume gain in public sector and large corporates.

CMB profit before tax was MXN2,039m, an increase of MXN1,104m or more than 100%, compared with the same period of 2018. The increase was mainly derived from growth in net interest income of MXN583m, a decrease of LICs of MXN320m and increase in other income of MXN 304 mainly driven by the gain on sale of the merchant acquiring business partially offset by increase in expenses of MXN52m.

Global Banking and Markets

In the first six months of 2019, Global Banking and Markets revenue after credit impairment grew 17% compared with the same period of 2018. The increase is mainly due to higher volumes in lending portfolios coupled with an increase in fees from debt capital markets (DCM), mergers and acquisitions (M&A) and restructuring fees.

Global Banking and Markets showed a significant growth of 30% 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.

Loan impairment charges in 2019 were lower by 34% than in the same period of 2018.

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.

After five months of negotiations, HSBC, in conjunction with other financial institutions, signed an agreement to extend a syndicated loan of US$8bn to Petroleos Mexicanos (PEMEX).

Global Banking and Markets profit before tax was MXN2,009m, an increase of MXN458m or 30%, compared with the same period of 2018.It was mainly derived by growth in trading income of MXN954m and an increase in fees of MXN113m, partly offset by a decrease in net interest income of MXN374m, a decrease in other income of MXN243m and increased expenses of MXN28m.

Awards

HSBC received the award for ‘Best Bank in Mexico’ granted by the British magazine *Euromoney*, due to the financial results obtained by the institution in the last year, the performance of its new products, its digital innovation and its corporate responsibility strategy focused on sustainable finance, among other aspects. 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.

On 10 April, during the ‘Sustainable Finance MX 19’ event in Mexico City, HSBC Mexico was recognised by the Green Finance Advisory Board and the Mexican Stock Exchange as the ‘Leading Investment Bank in the Placement of Green Bonds, Social and Sustainable Labeled in Mexico’, thereby recognising HSBC's leadership and commitment to sustainable development.

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 recognised by the British magazine *Euromoney* as the Best Bank in Mexico for Foreign Trade Solutions and as the Best Bank in Mexico for Service Quality in Foreign Trade Solutions.

Grupo Financiero HSBC’s first half 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 first half of 2019, profit before tax was MXN7,601m, an increase of 48.2% compared to the same period of 2018. The main differences between the Mexican GAAP and IFRS results for the first half of 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 962 branches, 5,600 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$2,659bn at 31 March 2019, HSBC is one of the world's largest banking and financial services organisations.

For further information contact:

Mexico City
Lyssette Bravo
External Communication
Telephone: +52 (55) 5721 2888

London
Ankit Patel
Corporate Media Relations
Telephone: +44 (0)20 7991 9813

Investor enquiries to:
Diego Di Genova
Investor Relations
Telephone: +52 (55) 5721 6617

UK
+44 (0)20 7991 3643
Hong Kong
+852 2822 4908

USA
+1 224 880 8008

Consolidated Income Statement – GROUP FIRST HALF ENDED 30 June 2019 and 2018

Figures in MXN millions

	Group	
	30 Jun 2019	**30 Jun 2018**
Interest income	33,037	27,943
Interest expense	(16,685)	(12,984)
Net interest income	16,352	14,959
Loan impairment charges	(4,183)	(4,060)
Risk-adjusted net interest income	12,169	10,899
Fees and commissions receivable	5,222	5,044
Fees payable	(1,300)	(1,255)
Trading income	2,149	1,609
Other operating income	1,724	737
Total operating income	19,964	17,034
Administrative and personnel expenses	(13,575)	(12,197)
Net operating income	6,389	4,837
Share of profits in equity interest	60	70
Profit/loss before tax	6,449	4,907
Income tax	(1,380)	(1,857)
Deferred income tax	(255)	651
Net income	4,814	3,701

Consolidated Income Statement – BANK FIRST HALF ENDED 30 June 2019 and 2018

Figures in MXN millions

	Bank	
	30 Jun 2019	**30 Jun 2018**
Interest income	31,136	26,085
Interest expense	(15,765)	(11,756)
Net interest income	15,371	14,329
Loan impairment charges	(4,183)	(4,060)
Risk-adjusted net interest income	11,188	10,269
Fees and commissions receivable	4,914	4,656
Fees payable	(1,374)	(1,297)
Trading income	2,111	801
Other operating income	2,015	1,041
Total operating income	18,854	15,470
Administrative and personnel expenses	(13,476)	(12,106)
Net operating income	5,378	3,364
Share of profits in equity interest	56	69
Profit/loss before tax	5,434	3,433
Income tax	(1,122)	(1,386)
Deferred income tax	(256)	631
Net income	4,056	2,678

Consolidated Balance Sheet

	Group		Bank	
Figures in MXN millions	**30 Jun 2019**	**30 Jun 2018**	**30 Jun 2019**	**30 Jun 2018**
Assets				
Cash and deposits in banks	42,169	43,850	42,070	43,750
Margin accounts	390	507	390	507
Investment in securities	**237,216**	**205,653**	**220,379**	**188,160**
Trading securities	75,716	42,261	74,139	40,044
Available-for-sale securities	133,977	136,308	127,696	129,897
Held to maturity securities	27,523	27,084	18,544	18,219
Repurchase agreements	2,725	9,745	2,725	9,745
Derivative transactions	57,358	84,848	57,358	84,848
Performing loans				
Commercial loans	242,045	190,399	242,045	190,399
Loans to financial intermediaries	14,705	18,331	14,705	18,331
Loans to government entities	26,319	25,630	26,319	25,630
Consumer loans	62,188	56,511	62,188	56,511
Mortgage loans	55,186	41,376	55,186	41,376
Total performing loans	**400,443**	**332,247**	**400,443**	**332,247**
Impaired loans				
Commercial loans	4,752	5,085	4,752	5,085
Consumer loans	2,231	2,181	2,231	2,181
Mortgage loans	978	412	978	412
Total impaired loans	**7,961**	**7,678**	**7,961**	**7,678**
Gross loans and advances to customers	**408,404**	**339,925**	**408,404**	**339,925**
Allowance for loan losses	(13,445)	(12,349)	(13,445)	(12,349)
Net loans and advances to customers	**394,959**	**327,576**	**394,959**	**327,576**
Accounts receivables from Insurers and Bonding companies	60	59		-
Premium receivables	1,589	1,504	-	-
Accounts receivables from reinsurers and rebonding companies	29	35	-	-
Benefits to be received from trading operations	-	94	-	94
Other accounts receivable	62,944	53,585	63,631	52,717
Foreclosed assets	368	410	368	410
Property, furniture and equipment, net	4,389	4,576	4,151	4,576
Long-term investments in equity securities	986	246	950	214
Long-term assets available for sale	-	-	-	-
Deferred taxes	12,226	13,274	12,061	13,046
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	4,519	3,971	4,315	3,964
Total assets	**822,975**	**750,981**	**803,357**	**729,607**

Consolidated Balance Sheet *(continued)*

Liabilities	Group 30 Jun 2019	Group 30 Jun 2018	Bank 30 Jun 2019	Bank 30 Jun 2018
Deposits	**450,422**	**374,380**	**451,325**	**375,136**
Demand deposits	250,707	247,830	251,314	248,292
Time deposits	165,261	116,463	164,874	116,065
Bank bond outstanding	34,454	10,087	34,454	10,087
Global deposit account without movements	-	-	683	692
Bank deposits and other liabilities	**37,725**	**28,517**	**37,725**	**28,517**
On demand	6,214		6,214	-
Short-term	4,712	14,756	4,712	14,756
Long-term	26,799	13,761	26,799	13,761
Repurchase agreements	113,162	95,443	113,162	95,443
Collateral sold	2,851	11,555	2,851	11,555
Derivative transactions	54,077	87,194	54,077	87,192
Technical reserves	12,584	12,417	-	-
Accounts payable from reinsures and rebounding companies	5	7	-	-
Other payable accounts	**68,330**	**65,659**	**68,570**	**64,047**
Income tax and employee profit sharing payable	976	1,130	967	945
Sundry creditors and other accounts Payable	67,354	64,529	67,603	63,102
Subordinated debentures outstanding	9,833	8,107	9,833	8,107
Deferred credits and receivable in advance	1,675	1,604	1,552	1,489
Total liabilities	**750,664**	**684,883**	**739,095**	**671,486**
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	**28,931**	**22,717**	**25,940**	**19,798**
Capital reserves	1,244	1,244	12,474	11,891
Retained earnings	25,239	20,179	12,422	7,836
Result from the mark-to-market of available-for-sale securities	(2,011)	(2,226)	(1,985)	(2,125)
Result from cash flow hedging transactions	(355)	(181)	(355)	(181)
Adjustment in the employee pension	-	-	(672)	(301)
Net income	4,814	3,701	4,056	2,678
Minority interest in capital	7	8	4	5
Total equity	**72,311**	**66,098**	**64,262**	**58,121**
Total liabilities and equity	**822,975**	**750,981**	**803,357**	**729,607**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Jun 2019	**30 Jun 2018**	**30 Jun 2019**	**30 Jun 2018**
Memorandum Accounts	**6,563,263**	**6,782,380**	**6,389,278**	**6,625,312**
Third party accounts	**39,807**	**39,138**	**36,952**	**35,906**
Clients current accounts	1,138	1,349	-	-
Custody operations	1,717	1,883	-	-
Third party investment banking operations, net	36,952	35,906	36,952	35,906
Proprietary position	**6,523,456**	**6,743,242**	**6,352,326**	**6,589,406**
Irrevocable lines of credit granted	313,346	307,457	313,346	307,457
Goods in trust or mandate	241,810	368,847	241,810	368,847
Goods in custody or under administration	1,175,742	1,060,712	1,169,524	1,054,494
Collateral received by the institution	16,356	39,028	16,356	39,028
Collateral received and sold or delivered as guarantee	11,279	36,438	11,279	36,438
Deposit of assets	-	-	-	-
Suspended interest on impaired loans	207	177	207	177
Other control accounts	4,764,716	4,930,583	4,599,804	4,782,965

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	-	-	(650)	-	-	-	-	**(650)**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**6,644**	**-**	**-**	**(7,294)**	**-**	**(650)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	4,814	-	**4,814**
Result from valuation of available-for-sale securities	-	-	-	1,393	-	-	-	**1,392**
Result from cash flow hedging transactions	-	-	-	-	19	-	-	**19**
Others *	-	-	(226)		-		(1)	**(226)**
Total	**-**	**-**	**(226)**	**1,393**	**19**	**4,814**	**(1)**	**5,999**
Total Balances at 30 June 2019	**43,373**	**1,244**	**25,239**	**(2,010)**	**(355)**	**4,814**	**6**	**72,311**

**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									
Transfer of result of prior years	-		5,836	-	-	-	(5,836)	-	**-**
Constitution of reserves	-	583	(583)	-	-	-	-	-	**-**
Cash dividends	-	-	(650)	-	-	-	-	-	**(650)**
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**583-**	**4,603**	**-**	**-**		**(5,836)**	**-**	**(650)**
Movements for the recognition of the comprehensive income						-			
Net income	-	-	-	-	-		4,056	-	**4,056**
Result from valuation of available-for-sale securities	-	-	-	1,247	-	-	-	-	**1,247**
Result from cash flow hedging transactions	-	-	-	-	19	-	-	-	**19**
Adjustment in defined benefit pension plan	-	-	(15)			(113)	-		**(128)**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**(15)**	**1,247**	**19**	**(113)**	**4,056**	**-**	**5,194**
Total Balances at 30 June 2019	**38,318**	**12,474**	**12,422**	**(1,985)**	**(355)**	**(672)**	**4,056**	**4**	**64,262**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Jun 2019**
Net income	**4,814**
Adjustments for items not involving cash flow:	**8,949**
Allowances for loan losses	4,183
Depreciation and amortisation	765
Valuations	1,068
Technical reserves	(116)
Provisions	1,474
Income Tax and deferred taxes	1,635
Participation in the Results of Unconsolidated Subsidiaries	(60)
Changes in items related to operating activities:	
Margin accounts	134
Investment securities	(15,146)
Repurchase agreements	9,503
Derivative (assets)	22,456
Loan portfolio	(33,019)
Loan securities	12
Foreclosed assets	27
Operating assets	(15,140)
Deposits	21,926
Bank deposits and other liabilities	2,789
Settlement accounts	94
Creditors repo transactions	13,498
Collateral sold or delivered as guarantee	(8,222)
Derivative (liabilities)	(25,632)
Subordinated debentures outstanding	(229)
Accounts receivables from reinsurers and coinsurers	(2)
Accounts receivables from premiums	(7)
Other operating liabilities	14,094
Income tax paid	(1,040)
Funds provided by operating activities	**(141)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	112
Acquisition of property, furniture and equipment	(405)
Intangible assets acquisitions & Prepaid expenses	(574)
Cash dividends	39
Payments for acquisition of subsidiaries	712
Acquisition of subsidiaries	(1,425)
Other investment activities	44
Funds used in investing activities	**(1,496)**
Financing activities:	
Cash dividends	(650)
Funds used in financing activities	**(650)**
Financing activities:	
Increase/decrease in cash and equivalents	(2,287)
Cash and equivalents at beginning of period	44,456
Cash and equivalents at end of period	**42,169**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 Jun 2019**
Net income	**4,056**
Adjustments for items not involving cash flow:	**8,020**
Allowances for loan losses	4,183
Valuations	1,041
Depreciation	527
Amortisation	235
Provisions	711
Income Tax and deferred taxes	1,379
Share of profits in equity interest	(56)
Changes in items related to operating activities:	
Margin accounts	135
Investment securities	(15,228)
Repurchase agreements	9,503
Derivative (assets)	22,456
Loan portfolio	(33,020)
Benefits to be received from trading operations	94
Foreclosed assets	27
Operating assets	(15,808)
Deposits	22,053
Bank deposits and other liabilities	2,789
Creditors repo transactions	13,498
Collateral sold or delivered as guarantee	(8,222)
Derivative (liabilities)	(25,632)
Subordinated debentures outstanding	(229)
Other operating liabilities	15,470
Income tax paid	(604)
Funds provided by operating activities	**(642)**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	112
Acquisition of property, furniture and equipment	(405)
Intangible assets acquisitions & Prepaid expenses	(575)
Proceeds on disposal of subsidiaries	1,243
Acquisition of permanent investments	(1,425)
Cash dividends	39
Other investment activities	21
Funds used in investing activities	**(990)**
Financing activities:	
Paid dividends	(650)
Funds used in financing activities	**(650)**
Financing activities:	
Increase/decrease in cash and equivalents	**(2,282)**
Cash and equivalents at beginning of period	44,352
Cash and equivalents at end of period	**42,070**

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 first half (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 first half. 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 6 months ended 30 June of 2019 and an explanation of the key reconciling items.

Figures in MXN millions	**30 Jun 2019**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**4,814**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	42
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	154
Loan impairment charges and other differences in presentation under IFRS	393
Recognition of the present value in-force of long-term insurance contracts	129
Other insurance adjustments[1]	(50)
Fair value adjustments on financial instruments	(190)
Deferred profit sharing	169
Other	123
Tax over adjustments	129
Net income under IFRS	**5,713**
Add back tax expense	1,888
Profit before tax under IFRS	**7,601**
Add back significant items	235
Adjusted net income before tax under IFRS	**7,836**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	142
Cost to achieve	93
US dollar equivalent (millions):	
- Profit before tax under IFRS	**USD 396 millions**
-Net income under IFRS	**USD 298 millions**
Exchange rate used for conversion[2]	***19.1685***

[1] Includes technical reserves and effects from Solvency II
[2] Banxico rate at 30 June 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