News Release

28 October 2019

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

- For the nine months to 30 September 2019, Grupo Financiero's profit before tax was MXN9,235m, an increase of MXN2,025m, or 28.1%, compared with MXN7,210m for the same period of 2018.

- For the nine months to 30 September 2019, net income was MXN6,998m, an increase of MXN1,538m, or 28.2%, compared with MXN5,460m for the same period of 2018.

- Total operating income excluding loan impairment charges was MXN36,549m, an increase of MXN4,579m or 14.3%, compared with MXN31,970m 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 nine months to 30 September 2019 were MXN6,923m, an increase of MXN258m, or 3.9%, compared with MXN6,665m for the same period of 2018.

- Administrative and personnel expenses for the nine months to 30 September 2019 were MXN20,497m, an increase of MXN2,301m, or 12.6%, compared with MXN18,196m for the same period of 2018.

- The cost efficiency ratio was 56.1% for the nine months to 30 September 2019, compared with 56.9% for the same period of 2018.

- Net loans and advances to customers were MXN398.4bn at 30 September 2019, showing an increase of MXN46.4bn, or 13.2%, compared with MXN352.0bn at 30 September 2018. Total impaired loans as a percentage of gross loans and advances at 30 September 2019 was 1.8%, a decrease of 0.3 percentage points compared with 2.1% at 30 September 2018.

- At 30 September 2019, total deposits were MXN469.2bn, an increase of MXN87.3bn, or 22.9%, compared with MXN381.9bn at 30 September 2018.

- Return on equity was 12.9% for the nine months to 30 September 2019, whereas for the nine months to 30 September 2018 it was 11.0%, showing an increase of 1.9 percentage points.

- At 30 September 2019, the bank's total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 11.0%, compared with 12.7% and 11.0%, respectively, at 30 September 2018.

- On a reported IFRS basis, for the nine months to 30 September 2019, profit before tax was MXN10,697m, an increase of 36.9% compared to the same period in 2018. The main differences between Mexican GAAP and IFRS results for the nine months to 30 September 2019 relate to differences in accounting for fair value adjustments on financial instruments, effective interest rate, loan impairment charges, deferred profit sharing, pensions and insurance liabilities.

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

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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 remained weak in the first months of the third quarter on the back of a broad-based softening. The main factor behind the overall slowdown is related to the prevailing contraction of industrial production. In particular, lower dynamism in mining and construction overshadowed the mild expansion of manufacturing activities. Moreover, although services are still the main driver for overall activity, they have moderated their growth pace as well. The combination of these trends prompted economic activity to grow below 1.0% year on year in the third quarter of 2019.

The annual inflation rate continued to ease, as it stood at 3.0% year on year in September. The slowdown was mainly due to lower prices in the non-core component stemming from a sharp reduction in energy and tamed agricultural prices. However, the annual rate of core inflation, composed of prices related to tradable goods and services, remains reluctant to fall below 3.7% year on year. The main contributors were tradable goods prices and service sector activities.

Slower growth, combined with lower inflation and more accommodative monetary policy stances globally allowed Banxico to cut the policy rate twice in the third quarter of 2019. These cuts of 25bp each, which were implemented in tandem with the Fed, took the policy rate to 7.75% in September from 8.25% in the end of the second quarter of 2019. However, the central bank maintained a cautious tone in the behavior of inflation.

- For the nine months to 30 September 2019, Grupo Financiero HSBC reported a profit before tax of MXN9,235m, an increase of MXN2,025m, or 28.1%, compared with MXN7,210m for the same period of 2018.

- Net interest income for the nine months to 30 September 2019 was MXN25,014m, an increase of MXN2,145m, or 9.4%, compared with the same period of 2018. The increase was mainly driven by performing loans increase partially offset by an increase in funding costs.

- Loan impairment charges for the nine months to 30 September 2019 were MXN6,923m, an increase of MXN258m, or 3.9%, compared with MXN6,665m for the same period of 2018, driven by increase in retail due to growth in the loan portfolio.

- Net fee income for the nine months to 30 September 2019 was MXN6,125m, an increase of MXN396m, or 6.9%, compared with the same period of 2018.

- Trading income for the nine months to 30 September 2019 was MXN3,309m, an increase of MXN1,065m, or 47.5%, compared with the same period of 2018, mainly due to an increase in banking business of MXN1,809m, partially offset by a decrease of MXN763m driven by the sale of securities booked in the first quarter of 2018.

- Other operating income for the nine months to 30 September 2019 MXN2,101m, showed an increase of MXN973m or 86.3% 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 nine months to 30 September 2019 were MXN20,497m, an increase of MXN2,301m, or 12.6%, compared with MXN18,196m 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 56.1% for the nine months to 30 September 2019, compared with 56.9 % for the same period of 2018.

- The effective tax rate was 24.2% for the nine months to 30 September 2019, compared with the 24.2% for the same period of 2018.

- Net loans and advances to customers were MXN398.4bn at 30 September 2019, showing an increase in both retail and wholesale portfolios of MXN46.4bn, or 13.2%, compared with MXN352.0bn at 30 September 2018. The performing commercial loans, in particular, increased by 18.6%, compared with 30 September 2018. The retail performing portfolio grew 20.4% compared with the nine months to 30 September 2018.

- Total impaired loans as a percentage of gross loans and advances at 30 September 2019 was 1.8%, a decrease of 0.3 percentage points, compared with 2.1% at 30 September 2018, driven mainly by impaired loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 12.9% for the nine months to 30 September 2019, whereas for the nine months to 30 September 2018 it was 11.0%, showing an increase of 1.9 percentage points.

- Total loan loss allowances at 30 September 2019 were MXN13.1bn, an increase of MXN0.1bn or 0.7% compared with 30 September 2018. The total coverage ratio (allowance for loan losses divided by impaired loans) was 172.7%, at 30 September 2019 compared with 172.3% at 30 September 2018.

- At 30 September 2019, total deposits were MXN469.2bn, an increase of MXN87.3bn, or 22.9%, compared with MXN381.9bn at 30 September 2018.

- HSBC Bank Mexico profit before tax for the nine months to 30 September 2019 was MXN7,558m, an increase of MXN2,260m or 42.7% compared with the same period of 2018. Net income was MXN5,709m, an increase of MXN1,610m, or 39.3% compared with the same period of 2018.

- HSBC Bank Mexico net interest income for the nine months to 30 September 2019, was MXN23,319 an increase of MXN1,612 or 7.4%, compared with the same period of 2018.

- At 30 September 2019, the bank’s total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 11.0% compared with 12.7% and 10.7%, respectively, at 30 September 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 nine months to 30 September 2019 was MXN1,084m, a decrease of MXN 270m, or 19.9%, 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 September 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 for the nine months to 30 September 2019 grew by 13.6%, positively impacted by MXN829m derived from the gain on sale of the merchant acquiring business reported in January 2019. Excluding this impact, revenue increased by 9.4% driven by higher spreads in deposits due to central bank rate increases, coupled with higher lending balances as well as higher results from our Retail Business Banking proposition. End of period balances increased 21% in lending mainly in mortgages and credit cards which presented and increase of 33% and 17% respectively. Deposits increased 5% compared to the same period of 2018.

Loan impairment charges increased by 17.3%, compared to the same period last year, aligned to the 21% lending portfolio growth.

RBWM profit before tax for the period was MXN2,772m, an increase of MXN562m, or 25.4%, compared with the same period last year. This was mainly due to growth in net interest income of MXN1,545m and other income of MXN793m driven by the gain on sale of the merchant acquiring business, partially offset by an increase in LIC's by MXN 943m and an increase in expenses of MXN1,155m.

Time deposits showed a 27% growth in revenue compared to the same period last year, driven by growth in balances of 12% mainly in the Premier proposition due to commercial activities such as special campaigns and higher spreads as a consequence of central bank rate increases.

HSBC Fusion, the first comprehensive service to serve business owners in Mexico, increased its SME customer base by 18.7% when compared to September 2018. The growth in lending balances has been significant, achieving annualized growth of 26%.

A year after its launch HSBC Zero Credit Card, a product designed to strengthen the mass market proposition, has been well accepted. Customers using this product are not charged an annual fee or commission as long as they use the card at least once a month. At 30 September 2019, more than 570 thousand HSBC Zero Credit cards have been sold through our digital channels, telephone banking and branch network.

Commercial Banking (CMB)

CMB revenue observed a positive trend during 2019, growing by 16% compared to the same period of 2018. Excluding the impact from the gain on sale of the merchant acquiring business, revenue grew 12%, improving net interest income by 15.6%, reflecting balance sheet expansion in both assets and liabilities coupled with deposit margins from increased interest rates. Excluding the impact of the new joint venture model for acquiring business, fees grew 5% from increased syndicated transactions and higher trade services.

Loan impairment charges reduced by 22% during the nine months of 2019. The loan portfolio quality indicators remain sound.

Loan portfolio grew 16% vs prior year driven by traditional lending and significant syndicated loan transactions, mainly in large corporates and mid-market. Deposits grew 21%.

CMB profit before tax was MXN2,331m, an increase of MXN916m or 65%, compared with the same period of 2018. The increase was mainly derived from growth in net interest income of MXN651m, increase in other income of MXN291m, coupled with a decrease of LICs of MXN183m. Expenses growing MXN77m or 2.7%, below inflation.

Global Banking and Markets

Global Banking and Markets revenues of 2019 grew 16.6% 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 4.2% 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, deposit balances from GLCM (Global, Liquidity & Cash Management) show a growth of 62% during 2019, driven primarily by higher volumes and spreads.

Loan impairment charges in 2019 lower, which represents more than 100% than the same period of 2018, reflecting significant provision releases booked during this year, and 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 MXN3,218m, an increase of MXN1,193m or more than 58.9%, compared with the same period of 2018, derived by growth in trading income by MXN1,494m partly offset with a decrease in net interest income by MXN676m and an increase in expenses by MXN36m.

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 third 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 nine months to 30 September 2019, profit before tax was MXN10,697m, an increase of 36.9% compared to the same period of 2018. The main differences between the Mexican GAAP and IFRS results for the nine months to 30 September 2019 relate to differences in accounting for fair value adjustments on financial instruments, loan impairment charges, effective interest rate, deferred profit sharing, pensions and insurance liabilities.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 962 branches, 5,621 ATMs and around 16,000 employees. For more information, visit www.hsbc.com.mx. HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 65 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,728bn at 30 September 2019, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP THIRD QUARTER ENDED 30 September 2019 and 2018

Figures in MXN millions

	Group	
	30 Sep 2019	**30 Sep 2018**
Interest income	50,581	43,044
Interest expense	(25,567)	(20,175)
Net interest income	25,014	22,869
Loan impairment charges	(6,923)	(6,665)
Risk-adjusted net interest income	18,091	16,204
Fees and commissions receivable	8,076	7,611
Fees payable	(1,951)	(1,882)
Trading income	3,309	2,244
Other operating income	2,101	1,128
Total operating income	29,626	25,305
Administrative and personnel expenses	(20,497)	(18,196)
Net operating income	9,129	7,109
Share of profits in equity interest	106	101
Profit/loss before tax	9,235	7,210
Income tax	(1,737)	(2,351)
Deferred income tax	(500)	601
Net income	6,998	5,460

Consolidated Income Statement – BANK THIRD QUARTER ENDED 30 September 2019 and 2018

Figures in MXN millions

	Bank	
	30 Sep 2019	**30 Sep 2018**
Interest income	47,609	40,121
Interest expense	(24,290)	(18,414)
Net interest income	23,319	21,707
Loan impairment charges	(6,923)	(6,665)
Risk-adjusted net interest income	16,396	15,042
Fees and commissions receivable	7,636	7,120
Fees payable	(2,034)	(1,942)
Trading income	3,228	1,419
Other operating income	2,577	1,623
Total operating income	27,803	23,262
Administrative and personnel expenses	(20,349)	(18,064)
Net operating income	7,454	5,198
Share of profits in equity interest	104	100
Profit/loss before tax	7,558	5,298
Income tax	(1,333)	(1,741)
Deferred income tax	(516)	542
Net income	5,709	4,099

Consolidated Balance Sheet

Figures in MXN millions	Group		Bank	
	30 Sep 2019	**30 Sep 2018**	**30 Sep 2019**	**30 Sep 2018**
Assets				
Cash and deposits in banks	47,903	39,507	47,793	39,404
Margin accounts	881	588	881	588
Investment in securities	**238,206**	**215,602**	**223,258**	**198,891**
Trading securities	69,486	37,531	68,854	36,462
Available-for-sale securities	140,997	150,703	135,749	144,108
Held to maturity securities	27,723	27,368	18,655	18,321
Loan Securities	-	-		
Repurchase agreements	2,479	6,046	2,479	6,046
Derivative transactions	54,870	76,144	54,870	76,144
Performing loans				
Commercial loans	243,638	205,491	243,638	205,491
Loans to financial intermediaries	13,626	19,970	13,626	19,970
Loans to government entities	24,013	30,128	24,013	30,128
Consumer loans	63,923	57,925	63,923	57,925
Mortgage loans	58,718	43,976	58,718	43,976
Total performing loans	**403,918**	**357,490**	**403,918**	**357,490**
Impaired loans				
Commercial loans	4,090	5,051	4,090	5,051
Consumer loans	2,390	2,080	2,390	2,080
Mortgage loans	1,114	428	1,114	428
Total impaired loans	**7,594**	**7,559**	**7,594**	**7,559**
Gross loans and advances to customers	**411,512**	**365,049**	**411,512**	**365,049**
Allowance for loan losses	(13,113)	(13,024)	(13,113)	(13,024)
Net loans and advances to customers	**398,399**	**352,025**	**398,399**	**352,025**
Accounts receivables from Insurers and Bonding companies	61	60	-	
Premium receivables	1,647	1,524	-	-
Accounts receivables from reinsurers and rebonding companies	23	39	-	-
Benefits to be received from trading operations	-	94	-	94
Other accounts receivable	56,484	43,026	56,418	42,395
Foreclosed assets	307	397	307	397
Property, furniture and equipment, net	4,468	4,449	4,232	4,449
Long-term investments in equity securities	1,028	276	994	244
Long-term assets available for sale	-	-	-	-
Deferred taxes	11,531	13,280	11,353	13,015
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	4,606	3,926	4,436	3,917
Total assets	**823,941**	**758,031**	**805,420**	**737,609**

Consolidated Balance Sheet *(continued)*

Liabilities	**30 Sep 2019**	**30 Sep 2018**	**30 Sep 2019**	**30 Sep 2018**
Deposits	**469,169**	**381,851**	**469,752**	**382,704**
Demand deposits	255,654	234,306	255,949	234,869
Time deposits	171,829	137,220	171,440	136,814
Bank bond outstanding	41,686	10,325	41,686	10,325
Global deposit account without movements		-	677	696
Bank deposits and other liabilities	**34,796**	**33,256**	**34,796**	**33,256**
On demand	3,281	5,081	3,281	5,081
Short-term	18,317	5,139	18,317	5,139
Long-term	13,198	23,036	13,198	23,036
Repurchase agreements	103,684	113,606	103,684	113,606
Collateral sold	8,342	5,652	8,342	5,652
Derivative transactions	50,831	76,319	50,831	76,317
Technical reserves	12,523	12,399	-	-
Accounts payable from reinsures and rebounding companies	5	7	-	-
Other payable accounts	**60,338**	**57,068**	**59,892**	**55,492**
Income tax and employee profit sharing payable	886	1,290	874	1,109
Sundry creditors and other accounts Payable	59,452	55,778	59,018	54,383
Subordinated debentures outstanding	10,102	9,593	10,102	9,593
Deferred credits and receivable in advance	1,656	1,540	1,531	1,423
Total liabilities	**751,446**	**691,291**	**738,930**	**678,043**
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	**29,115**	**23,359**	**28,168**	**21,243**
Capital reserves	1,244	1,244	12,474	11,891
Retained earnings	22,519	18,961	12,415	7,837
Result from the mark-to-market of available-for-sale securities	(1,300)	(2,170)	(1,344)	(2,064)
Result from cash flow hedging transactions	(346)	(136)	(346)	(136)
Adjustment in the employee pension	-	-	(740)	(384)
Net income	6,998	5,460	5,709	4,099
Minority interest in capital	7	8	4	5
Total equity	**72,495**	**66,740**	**66,490**	**59,566**
Total liabilities and equity	**823,941**	**758,031**	**805,420**	**737,609**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
Memorandum Accounts	**6,757,431**	**6,645,582**	**6,584,073**	**6,481,142**
Third party accounts	**27,359**	**31,163**	**25,133**	**27,985**
Clients current accounts	775	1,392	-	-
Custody operations	1,451	1,786	-	-
Third party investment banking operations, net	25,133	27,985	25,133	27,985
Proprietary position	**6,730,072**	**6,614,419**	**6,558,940**	**6,453,157**
Irrevocable lines of credit granted	338,803	302,816	338,803	302,816
Goods in trust or mandate	209,493	303,540	209,493	303,540
Goods in custody or under administration	1,213,352	1,119,154	1,207,134	1,112,936
Collateral received by the institution	23,578	27,738	23,578	27,738
Collateral received and sold or delivered as guarantee	18,525	23,415	18,525	23,415
Suspended interest on impaired loans	214	186	214	186
Other control accounts	4,926,107	4,837,570	4,761,193	4,682,526

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								
Transfer of result of prior years	-	-	7,294	-	-	(7,294)	-	**-**
Constitution of reserves	-	-		-	-	-	-	**-**
Cash dividends	-	-	(3,238)	-	-	-	-	**(3,238)**
Others		-	-	-	-	-	-	-
Total	**-**	**-**	**4,056**	**-**	**-**	**(7,294)**	**-**	**(3,238)**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	6,998	-	**6,998**
Result from valuation of available-for-sale securities	-	-	-	2,103	-	-	-	**2,103**
Result from cash flow hedging transactions	-	-	-	-	28	-	-	**28**
Others *	-	-	(358)	-	-	-	-	**(358)**
Total	**-**	**-**	**(358)**	**2,103**	**28**	**6,998**	**-**	**8,771**
Total Balances at 30 September 2019	**43,373**	**1,244**	**22,519**	**(1,300)**	**(346)**	**6,998**	**7**	**72,495**

**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 December 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	-	-	-	-	-		5,709	-	**5,709**
Result from valuation of available-for-sale securities	-	-	-	1,888	-	-	-	-	**1,888**
Result from cash flow hedging transactions	-	-	-		28	-	-	-	**28**
Adjustment in defined benefit pension plan	-	-	(22)	-		(181)	-		**(203)**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**(22)**	**1,888**	**28**	**(181)**	**5,709**	**-**	**7,422**
Total Balances at 30 September 2019	**38,318**	**12,474**	**12,415**	**(1,344)**	**(346)**	**(740)**	**5,709**	**4**	**66,490**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**30 Sep 2019**
Net income	**6,998**
Adjustments for items not involving cash flow:	**10,023**
Allowances for loan losses	4,183
Depreciation and amortisation	1,170
Valuations	1,094
Technical reserves	(322)
Provisions	1,767
Income Tax and deferred taxes	2,237
Participation in the Results of Unconsolidated Subsidiaries	(106)
Changes in items related to operating activities:	
Margin accounts	(356)
Investment securities	(15,171)
Repurchase agreements	9,749
Derivative (assets)	24,951
Loan portfolio	(36,459)
Loan securities	18
Foreclosed assets	88
Operating assets	(8,816)
Deposits	40,673
Bank deposits and other liabilities	(140)
Settlement accounts	94
Creditors repo transactions	4,019
Collateral sold or delivered as guarantee	(2,732)
Derivative (liabilities)	(28,877)
Subordinated debentures outstanding	39
Accounts receivables from reinsurers and coinsurers	(1)
Accounts receivables from premiums	(64)
Other operating liabilities	5,497
Income tax paid	(1,040)
Funds provided by operating activities	**8,493**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	121
Acquisition of property, furniture and equipment	(735)
Intangible assets acquisitions & Prepaid expenses	(574)
Cash dividends	39
Payments for acquisition of subsidiaries	712
Acquisition of subsidiaries	(1,425)
Other investment activities	53
Funds used in investing activities	**(1,809)**
Financing activities:	
Cash dividends	(3,238)
Funds used in financing activities	**(3,238)**
Financing activities:	
Increase/decrease in cash and equivalents	3,446
Cash and equivalents at beginning of period	44,457
Cash and equivalents at end of period	**47,903**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**30 Sep 2019**
Net income	**5,709**
Adjustments for items not involving cash flow:	**12,463**
Allowances for loan losses	6,923
Valuations	1,729
Depreciation	424
Amortisation	746
Provisions	896
Income Tax and deferred taxes	1,849
Share of profits in equity interest	(104)
Changes in items related to operating activities:	
Margin accounts	(356)
Investment securities	(17,185)
Repurchase agreements	9,749
Derivative (assets)	24,263
Loan portfolio	(39,199)
Benefits to be received from trading operations	94
Foreclosed assets	88
Operating assets	(8,796)
Deposits	40,479
Bank deposits and other liabilities	(140)
Creditors repo transactions	4,019
Collateral sold or delivered as guarantee	(2,732)
Derivative (liabilities)	(28,877)
Subordinated debentures outstanding	39
Other operating liabilities	6,752
Income tax paid	(977)
Funds provided by operating activities	**5,393**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	121
Acquisition of property, furniture and equipment	(735)
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	30
Funds used in investing activities	**(1,302)**
Financing activities:	
Paid dividends	(650)
Funds used in financing activities	**(650)**
Financing activities:	
Increase/decrease in cash and equivalents	**3,441**
Cash and equivalents at beginning of period	44,352
Cash and equivalents at end of period	**47,793**

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).

Regarding to implementation of IFRS 9, IFRS 15 and IFRS 16 the expected date is January 1st, 2021 in accordance with last project sent by CNBV, 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 and IFRS 16 Leases; this follows the amendments of the NIF already issued by CINIF to include the adoption of these international accounting standards. Furthermore, CNBV is planning to adopt the new NIF C-22 Crypto-currencies.

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.

During this quarter, CNBV sent to Comisión Nacional de Mejora Regulatoria "CONAMER" a project to change the date of implementation from January,1st,2020 to January,1st, 2021, but this project has not been issued in Official Gazette. .

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 C-22 “Crypto-currencies” This new standard provides guidance to initial recognition, measurement and disclosures related to financial transactions with digital-currencies, costs to generate digital-currencies . In summary, investments in digital-currencies would be recognised initially at acquisition cost with changes in their fair value directly in income statement. Their fair value should be measured in accordance with “NIF B-17”. Receivable and Payable accounts denominated in digital-currencies would be measured initially and subsequently at entity functional currency based on fair value of digital currencies at the date of the reporting period, changes in their fair value would be recognised in income statement. Costs incurred in order to generate digital-currencies would be recognised directly in income statement. Digital-currencies maintain in custody would not be recognised on balance sheet excepting by liabilities assuming for entities for losses suffered while custody services are provided.

Currently, NIF C-22 is under auscultation, therefore possible changes in wording are expected.

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).

NIF D-5 “Leases”. New standard eliminates the classification of leases between ‘financial’ and ‘operating’ for lessees. One single accounting approach is provided for lessees in which a right to use should be recognised as assets and the present value of leases obligations as a liability. There is an exception in the standard to apply the accounting treatment aforementioned for leases in which the contractual term is until 12-months or where assets related to lease agreement are considered with a low value (no threshold is provided by CINIF, therefore it would be determined by each entity considering a materiality assessment). No relevant changes for lessor perspective are included.

CNBV has sent to Banks different projects including proposal of changes in particular accounting standards applicable to Financial Institutions to match with the adoption of new NIF, nevertheless at the reporting date no final version has been issued on Official Gazette. Mainly changes are focused on:

Loans and receivables:

- For measurement of loans and receivables under Hold to Collect Business Model which meets Solely Payment of Principal and Interest test, financial institutions must be used effective interest rate method excepting for those loans and receivables with variable interest rate.

- 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”.

- Changes in regulatory reporting.

- A prospective adoption of these changes.

- Financial negative impacts in adoption would be recognised on deferral basis in following years (12 months).

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.

Current expectation based on newest version is that these changes will be in force in 2021.

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 have 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 9 months ended 30 September of 2019 and an explanation of the key reconciling items.

Figures in MXN millions	**30 Sep 2019**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**6,998**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	69
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	323
Loan impairment charges and other differences in presentation under IFRS	173
Recognition of the present value in-force of long-term insurance contracts	460
Other insurance adjustments[1]	(234)
Fair value adjustments on financial instruments	(200)
Deferred profit sharing	258
Other	18
Tax over adjustments	262
Net income under IFRS	**8,127**
Add back tax expense	2,570
Profit before tax under IFRS	**10,697**
Add back significant items	260
Adjusted net income before tax under IFRS	**10,957**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	111
Cost to achieve	149
US dollar equivalent (millions):	
- Profit before tax under IFRS	**USD 545 Millions**
-Net income under IFRS	**USD 414 Millions**
Exchange rate used for conversion[2]	***19.6363***

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