News Release

27 April 2018

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

- For the three months to 31 March 2018, Grupo Financiero profit before tax was MXN2,613m, an increase of MXN909m, or 53.3%, compared with MXN1,704m for the same period of 2017.

- For the three months to 31 March 2018, net income was MXN1,890m, an increase of MXN443m, or 30.6%, compared with MXN1,447m for the same period of 2017.

- Total operating income excluding loan impairment charges was MXN10,460m, an increase of MXN1,021m or 10.8%, compared with MXN9,439m for the same period of 2017[1].

- Loan impairment charges for the three months to 31 March 2018 were MXN1,754m, a decrease of MXN92m, or 5.0%, compared with MXN1,846m for the same period of 2017[1].

- Administrative and personal expenses for the three months to 31 March 2018 were MXN6,111m, an increase of MXN208m or 3.5% compared with MXN5,903m for the same period of 2017.

- The cost efficiency ratio was 58.4% for the three months to 31 March 2018, compared with 62.5% for the same period of 2017.

- Net loans and advances to customers were MXN308.5bn at 31 March 2018, showing an increase in both retail and wholesale portfolios of MXN48.5bn, or 18.7%, compared with MXN260.0bn at 31 March 2017. Total impaired loans as a percentage of gross loans and advances at 31 March 2018 was 2.3%, a decrease of 0.7% compared with 3.0% at 31 March 2017.

- At 31 March 2018, total deposits were MXN356.3bn, an increase of MXN59.4bn, or 20.0%, compared with MXN296.9bn at 31 March 2017.

- Return on equity was 11.8% for the three months to 31 March 2018, whereas for the three months to 31 March 2017 it was 9.6%, showing an increase of 2.2% mainly impacted by the increase in profitability in 2018.

- At 31 March 2018, the bank's total capital adequacy ratio was 12.8% and the tier 1 capital ratio was 11.8% compared with 12.9% and 11.0% respectively at 31 March 2017.

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- IFRS basis, for the three months to March 2018, profit before tax was MXN2,380m, an increase of 95.6% compared to the same period 2017. The main differences between the Mexican GAAP and IFRS results for the three months to 31 March 2018, relate to differences in accounting for loan impairment charges, fair value adjustments on financial instruments and insurance liabilities.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 March 2018) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance group.

[1] CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN320m were reclassified from other operating income to loan impairment charges.

All numbers are as reported and there were no items requiring the numbers to be adjusted to better reflect the performance of the bank.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

Overview

The Mexican economy started 2018 with solid figures, as economic activity grew 2.1% year on year in January on the back of expansions in services (2.9% year on year) and industrial production (0.9% year on year). Meanwhile, agricultural activities contracted by 0.7% year on year in January. The economy maintains an upward trend overall highly supported by two consecutive monthly growths in Q4 2017. For the first time in five months, January growth was explained by increases in both services and industrial production. This relatively more balanced performance in the components represents positive news for the overall economic activity, suggesting that resilient services along with a modest recovery in industrial activities will drive growth in 2018. Exports continue to trend upwards, while private consumption continues to rise, though at a slower pace. Investment also showed improvement at the beginning of 2018.

Inflation started to decline in Q1 2018, after climbing to 6.8% by the end of 2017. The initial drop in inflation in January to 5.55% year on year was explained by the high comparison base that stemmed from the one-off rise of gasoline prices in 2017. Subsequent readings saw reduced pressure from core inflation, reflecting a more contained FX pass-through effect on the more stable performance of the Mexican peso, and fewer negative shocks from the non-core component, including agricultural prices. As of March, inflation stood at 5.04%, down from 5.34% in February. Inflation averaged 5.3% year on year in Q1 2018, slightly below the 5.5% expected by Banxico.

The central bank hiked the policy rate in February by 25bp to 7.50%, reflecting a cautious stance on inflation, which had surprised to the upside at end of 2017. Banxico's January policy statement described a more complex outlook for inflation in 2018, following the higher than expected inflation reading in December 2017, driven by shocks in fruit and vegetable prices and energy prices, Mexican peso volatility and the increase in the minimum wage which took place in December 2017. Despite the decline year on year inflation during January 2018, the Banxico board argued that noncore inflation was still pressured upwards by the same shocks. In its latest March monetary policy meeting, Banxico kept the policy rate unchanged at 7.50%, strongly supported by lower than expected inflation in Q1 2018 and a favorable evolution of the Mexican peso. The publication of Banxico’s quarterly inflation forecasts is a new key tool to improve monetary policy guidance, as it allows the market to compare how inflation performed with respect to what the central bank had projected.

- For the three months to 31 March 2018, Grupo Financiero HSBC reported a profit before tax of MXN2,613m, an increase of MXN909m, or 53.3%, compared with MXN1,704m for the same period of 2017.

- Net interest income for the three months to 31 March 2018 was MXN7,215m, an increase of MXN167m, or 2.4%, compared with the same period of 2017. The increase is mainly driven by higher performing loans partially offset by an increase in funding costs. Net interest income for the bank for the three months to 31 March 2018 was MXN 7,065m an increase of MXN598m or 9.2%.

- Loan impairment charges for the three months to 31 March 2018 were MXN1,754m, a decrease of MXN92m, or 5.0%, compared with MXN1,846m[1] for the same period of

2017 mostly driven by better performance in retail unsecured portfolio, partially offset with the higher loan impairment charge on the wholesale portfolio.

- Net fee income for the three months to 31 March 2018 was MXN1,939m, an increase of MXN277m, or 16.7%, compared with the same period of 2017. This increase is mostly driven by higher net fees in the bank.

- Trading income for the three months to 31 March 2018 was MXN1,012m, an increase of MXN719m or more than 100.0% compared with the same period of 2017. This increase is driven primarily by gains on sale of securities in the Insurance subsidiary, partially offset by losses in FX Spot and Forwards.

- Other operating income for the three months to 31 March 2018 was MXN294m, a decrease of MXN142m or 32.6% compared with the same period of 2017[1].

- Administrative and personal expenses for the three months to March 2018 were MXN6,111m, an increase of MXN208m or 3.5% compared with MXN5,903m for the same period of 2017, mainly driven by higher staff cost.

- The cost efficiency ratio was 58.4% for the three months to 31 March 2018, compared with 62.5% for the same period of 2017.

- The effective tax rate was 27.7% for the three months to 31 March 2018, compared with 15.1% for the same period of 2017, an increase of 12.6% driven by a decrease in inflationary adjustment.

- HSBC Bank Mexico profit before tax for the three months to 31 March 2018 was MXN1,677m, an increase of MXN569m or 51.4% compared with the same period of 2017. Net income after tax was MXN1,284m, an increase of MXN267m, or 26.3% compared with the same period of 2017.

- Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros profit before tax for the three months to 31 March 2018 was MXN720m, an increase of MXN 281m or 64% which includes a gain on sale of securities during Q1 2018. The reason for this sale was to lengthen the duration and the reduction of the Solvency capital requirement.

- Net loans and advances to customers were MXN308.5bn at 31 March 2018, showing an increase in both retail and wholesale portfolios of MXN48.5bn, or 18.7%, compared with MXN260.0bn at 31 March 2017. The performing commercial loans increase by 42.3%, compared with 31 March 2017. Retail performing portolio grew 5.5% compared with March 2017.

- Total impaired loans as a percentage of gross loans and advances at 31 March 2018 was 2.3%, a decrease of 0.7% compared with 3.0% at 31 March 2017 driven mainly by loan sales, improvement of credit profile and active portfolio management.

- Return on equity was 11.8% for the three months to 31 March 2018, whereas for the three months to 31 March 2017 it was 9.6%, showing an increase of 2.2%, mainly impacted by the increase in profitability in 2018.

- Total loan loss allowances at 31 March 2018 were MXN12.0bn, a decrease of MXN0.3bn or 2.1% compared with 31 March 2017. The total coverage ratio (allowance for loan losses divided by impaired loans) was 163.1% at 31 March 2018 compared with 147.7% at 31 March 2017. The higher coverage ratio is in line with active portfolio management over impaired loans, together with an increasing performing portfolio.

- At 31 March 2018, total deposits were MXN356.3bn, an increase of MXN59.4bn, or 20.0%, compared with MXN296.9bn at 31 March 2017. Demand deposits observed an increase of 14.9% across all segments. Time deposits increased by 26.6%.

- At 31 March 2018, the bank's total capital adequacy ratio was 12.8% and the tier 1 capital ratio was 11.8% compared with 12.9% and 11.0%, respectively, at 31 March 2017. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

[1] CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN320m were reclassified from other operating income to loan impairment charges.

All numbers are as reported and there were no items requiring the numbers to be adjusted to better reflect the performance of the bank.

Business highlights *(Amounts described include the impact of internal cost and value of funds applied to different lines of business)*

Retail Banking and Wealth Management (RBWM)

RBWM revenue for Q1 2018 grew 4% compared to the same period in 2017, mainly due to higher spreads in deposits from the central bank´s rate rise, coupled with higher consumer balances, deposits, and insurance results. Performing loan portfolio increased 5.5% in consumer lending (total lending including retail business banking grew 7%) and 6% in deposits compared to the same period in 2017, as well as mortgage and auto which presented significant growth of 14% and 35% respectively.

Loan impairment charges are below prior year considering improvement in underwriting and collections over the past quarters, with impairment charges down 14% versus same period in 2017.

Operating expenses increased 4% compared to Q1 2017 mainly from higher staff costs in line with inflation.

Performing loans to customers grew 5.5% versus Q1 2017 driven in particular by growth in mortgage and auto that grew at a higher pace than the market.

Deposits grew 6% compared to the same period in 2017 driven by growth in both time deposits and current accounts, mainly from special collection campaigns aimed at our premier customer segment.

Commercial Banking (CMB)

CMB revenue for Q1 2018 continue with a positive trend increasing 7% compared to the same period prior year. This increase is mainly explained by the growth of the financial margin resulting from higher assets and liabilities added to an increase on central bank´s interest rates. In addition, positive impact from trading income and fees which together showed an increase of 2% compared to 2017.

Loan impairment charges are higher than prior year 53% aligned to specific provisions required to loan portfolio increase versus same period in 2017.

Operating expenses increased 7% compared to 2017, driven by higher staff costs.

Loan portfolio grew 9% vs prior year driven by traditional portfolio, mainly in large corporates and corporate real estate. Deposits grew 11% versus Q1 2017, with a significant increase in time deposits.

Global Banking and Markets (GBM)

GBM revenue from Q1 2018 showed a growth of 41% versus same period in 2017, explained by the positive result on trading >100% compared versus same period 2017, and higher financial margin aligned to the relevant increase of loan portfolio balances which closed 44% higher versus prior year.

Loan impairment charges are lower than prior year 212% considering specific provision releases jointly with better quality of the customer's portfolio.

Operating expenses increased 7% compared to 2017, driven by higher staff costs.

Income statement lines represent an increase of 63% in profit before tax.

Loan portfolio grew 44% in corporate clients, driven by business strategies with local and multinational clients. Deposits increased 52% versus Q1 2017.

The bank continues to diversify its customer base and customer product portfolio through the use of derivatives, with the support of the risk management team and new trading platforms.

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

Grupo Financiero HSBC's first quarter of 2018 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS).

On IFRS basis, for the three months to 31 March 2018, profit before tax was MXN2,380m, an increase of 95.6% compared to the same period of 2017. The main differences between the Mexican GAAP and IFRS results for the three months to 31 March 2018 relate to differences in accounting for loan impairment charges and insurance liabilities.
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About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 971 branches, 5,532 ATMs and around 16,000 employees. For more information, visit www.hsbc.com.mx.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 3,900 offices in 67 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With total assets of US$2,522bn at 31 December 2017, HSBC is one of the world's largest banking and financial services organisations.

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Consolidated Income Statement – GROUP THREE MONTHS ENDED 31 March 2018 and 2017
Figures in MXN millions

	31 March	
	2018	**2017**
Interest income	13,818	11,297
Interest expense	(6,603)	(4,249)
Net interest income	7,215	7,048
Loan impairment charges[1]	(1,754)	(1,846)
Risk-adjusted net interest income	5,461	5,202
Fees and commissions receivable	2,478	2,243
Fees payable	(539)	(581)
Trading income	1,012	293
Other operating income[1]	294	436
Total operating income	8,706	7,593
Administrative and personnel expenses	(6,111)	(5,903)
Net operating income	2,595	1,690
Share of profits in equity interest	18	14
Profit/loss before tax	2,613	1,704
Income tax	(866)	(669)
Deferred income tax	143	412
Net income before discontinued operations	1,890	1,447
Net income	1,890	1,447

[1] *CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN320m were reclassified from other operating income to loan impairment charges.*

Consolidated Income Statement – BANK THREE MONTHS ENDED 31 March 2018 and 2017

Figures in MXN millions

	31 March	
	2018	**2017**
Interest income	12,829	10,162
Interest expense	(5,764)	(3,695)
Net interest income	7,065	6,467
Loan impairment charges[1]	(1,754)	(1,846)
Risk-adjusted net interest income	5,311	4,621
Fees and commissions receivable	2,275	2,116
Fees payable	(549)	(600)
Trading income	207	277
Other operating income[1]	466	546
Total operating income	7,710	6,960
Administrative and personnel expenses	(6,051)	(5,866)
Net operating income	1,659	1,094
Share of profits in equity interest	18	14
Profit/loss before tax	1,677	1,108
Income tax	(536)	(498)
Deferred income tax	143	407
Net income before discontinued operations	1,284	1,017
Net income	1,284	1,017

[1] *CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN320m were reclassified from other operating income to loan impairment charges.*

. **Consolidated Balance Sheet**

Figures in MXN millions	Group As of March 31st		Bank As of March 31st	
	2018	**2017**	**2018**	**2017**
Assets				
Cash and deposits in banks	52,372	48,017	52,259	47,926
Margin accounts	280	375	280	375
Investment in securities	**205,498**	**156,211**	**188,251**	**140,885**
Trading securities	47,406	31,677	45,599	30,385
Available-for-sale securities	131,042	96,661	124,526	91,366
Held to maturity securities	27,050	27,873	18,126	19,134
Loan Securities	14			
Repurchase agreements	25,081	1,175	25,081	1,175
Derivative transactions	72,548	92,536	72,548	92,536
Performing loans				
Commercial loans	184,430	129,603	184,430	129,603
Loans to financial intermediaries	8,550	14,211	8,550	14,211
Loans to government entities	24,512	29,437	24,512	29,437
Consumer loans	56,177	55,968	56,177	55,968
Mortgage loans	39,462	34,716	39,462	34,716
Total performing loans	**313,131**	**263,935**	**313,131**	**263,935**
Impaired loans				
Commercial loans	4,668	5,748	4,668	5,748
Consumer loans	2,224	2,070	2,224	2,070
Mortgage loans	442	463	442	463
Total impaired loans	**7,334**	**8,281**	**7,334**	**8,281**
Gross loans and advances to customers	**320,465**	**272,216**	**320,465**	**272,216**
Allowance for loan losses	(11,965)	(12,227)	(11,965)	(12,227)
Net loans and advances to customers	**308,500**	**259,989**	**308,500**	**259,989**
Accounts receivables from Insurers and Bonding companies	57	63	-	-
Premium receivables	1,529	1,565	-	-
Accounts receivables from reinsurers and rebonding companies	36	42	-	-
Benefits to be received from trading operations	94	100	94	100
Other accounts receivable	62,929	62,505	62,442	61,601
Foreclosed assets	411	436	411	436
Property, furniture and equipment, net	4,588	4,977	4,588	4,977
Long-term investments in equity securities	231	249	199	219
Long-term assets available for sale	-	6	-	6
Deferred taxes	12,491	12,325	12,284	12,195
Goodwill	1,048	1,048	-	-
Other assets, deferred charges and intangibles	4,123	3,987	4,116	3,974
Total assets	**751,830**	**645,606**	**731,053**	**626,394**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	As of March 31st		As of March 31st	
Liabilities	**2018**	**2017**	**2018**	**2017**
Deposits	**356,350**	**296,926**	**357,212**	**297,602**
Demand deposits	227,883	198,408	228,457	198,785
Time deposits	118,205	93,413	117,816	93,028
Bank bond outstanding	10,262	5,105	10,262	5,105
Global deposit account without movements	-	-	677	684
Bank deposits and other liabilities	**29,233**	**37,776**	**29,233**	**37,776**
On demand	-	9,511	-	9,511
Short-term	16,095	22,258	16,095	22,258
Long-term	13,138	6,007	13,138	6,007
Repurchase agreements	114,865	46,344	114,865	46,344
Stock Borrowing	-	-	-	-
Settlement accounts	-	-	-	-
Collateral sold	4,844	11,319	4,830	11,319
Derivative transactions	72,500	91,477	72,498	91,477
Technical reserves	12,562	12,431	-	-
Accounts payable from reinsures and rebounding companies	8	8	-	-
Other payable accounts	**87,677**	**75,428**	**86,297**	**73,907**
Income tax and employee profit sharing payable	361	282	186	223
Sundry creditors and other accounts Payable	87,316	75,146	86,111	73,684
Subordinated debentures outstanding	7,502	11,826	7,502	11,826
Deferred taxes	1,557	1,277	1,443	1,161
Total liabilities	**687,098**	**584,812**	**673,880**	**571,412**
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	**21,351**	**17,416**	**18,850**	**16,662**
Capital reserves	1,244	2,644	11,590	11,273
Retained earnings	20,302	15,089	8,194	5,745
Result from the mark-to-market of available-for-sale securities	(1,932)	(1,423)	(1,847)	(1,333)
Result from cash flow hedging transactions	(153)	(341)	(153)	(341)
Adjustment in the employee pension			(218)	301
Net income	1,890	1,447	1,284	1,017
Minority interest in capital	8	5	5	2
Total equity	**64,732**	**60,794**	**57,173**	**54,982**
Total liabilities and equity	**751,830**	**645,606**	**731,053**	**626,394**

Consolidated Balance Sheet *(continued)*

	Group		Bank	
	As of March 31st		As of March 31st	
	2018	2017	2018	2017
Memorandum Accounts	**6,496,723**	**6,042,415**	**6,341,745**	**6,025,017**
Third party accounts	**40,663**	**43,878**	**38,127**	**38,783**
Clients current accounts	719	4,195	-	-
Custody operations	1,817	900	-	-
Third party investment banking operations, net	38,127	38,783	38,127	38,783
Proprietary position	**6,456,060**	**5,998,537**	**6,303,618**	**5,986,234**
Irrevocable lines of credit granted	269,908	285,387	269,908	285,387
Goods in trust or mandate	379,088	434,349	379,088	434,349
Trust	378,241	433,513	378,241	433,513
Mandate	847	836	847	836
Goods in custody or under administration	1,050,968	1,025,328	1,044,750	1,019,110
Collateral received by the institution	41,108	33,022	41,108	33,022
Collateral received and sold or delivered as guarantee	14,987	32,558	14,987	32,558
Suspended interest on impaired loans	169	202	169	202
Other control accounts	4,699,832	4,187,691	4,553,608	4,181,606

Consolidated Income Statement

	Group		Bank	
	31 March 2018	**31 March 2017**	**31 March 2018**	**31 March 2017**
Interest income	13,818	11,297	12,829	10,162
Interest expense	(6,603)	(4,249)	(5,764)	(3,695)
Net interest income	7,215	7,048	7,065	6,467
Loan impairment charges [1]	(1,754)	(1,846)	(1,754)	(1,846)
Risk-adjusted net interest income	5,461	5,202	5,311	4,621
Fees and commissions receivable	2,478	2,243	2,275	2,116
Fees payable	(539)	(581)	(549)	(600)
Trading income	1,012	293	207	277
Other operating income[1]	294	436	466	546
Total operating income	8,706	7,593	7,710	6,960
Administrative and personnel expenses	(6,111)	(5,903)	(6,051)	(5,866)
Net operating income	2,595	1,690	1,659	1,094
Share of profits in equity interest	18	14	18	14
Profit/loss before tax	2,613	1,704	1,677	1,108
Income tax	(866)	(669)	(536)	(498)
Deferred income tax	143	412	143	407
Net income before discontinued operations	1,890	1,447	1,284	1,017
Net income	1,890	1,447	1,284	1,017

[1] *CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017, for comparison purposes, MXN320m were reclassified from other operating income to loan impairment charges.*

Consolidated Statement of Changes in Shareholders' Equity

GROUP

Figures in MXN million	Capital con tributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	**Total equity**
Total Balances at 31 Dec 2017	**43,373**	**1,244**	**15,904**	**(2,057)**	**(280)**	**4,535**	**8**	**62,727**
Movements inherent to the shareholders' decision								
Shares issue	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	-	4,535	-	-	(4,535)	-	**-**
Constitution of reserves	-	-	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**4,535**	**-**	**-**	**(4,535)**	**-**	**-**
Movements for the recognition of the comprehensive income								
Net income	-	-	-	-	-	1,890	-	**1,890**
Result from valuation of available-for-sale securities	-	-	-	125	-	-	-	**125**
Result from cash flow hedging transactions	-	-	-	-	127	-	-	**127**
Others[1]	-	-	(137)	-	-	-	-	**(137)**
Total	**-**	**-**	**(137)**	**125**	**127**	**1,890**	**-**	**2,005**
Total Balances at 31 March 2018	**43,373**	**1,244**	**20,302**	**(1,932)**	**(153)**	**1,890**	**8**	**64,732**

[1]Retained earnings movements in 2018 under the Others' line reflects mainly adjustments in defined benefit pension plans, impact related to new loans impairment provision rules set by CNBV for mortgage and consumer loans starting June 2017 and recognition of impact in insurance reserves due to Solvency II.

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 2017	**38,318**	**11,590**	**5,259**	**(1,950)**	**(280)**	**(166)**	**3,006**	**5**	**55,782**
Movements inherent to the shareholders' decision									
Shares issue	-	-	-	-	-	-	-	-	**-**
Transfer of result of prior years	-	**-**	3,006	-	-	-	(3,006)	-	**-**
Constitution of reserves	-	-	-	-	-	-	-	-	**-**
Cash dividends	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**3,006**	**-**	**-**	**-**	**(3,006)**	**-**	**-**
Movements for the recognition of the comprehensive income									
Net income	-	-	-	-	-	-	1,284	-	**1,284**
Result from valuation of available-for-sale securities	-	-	-	103	-	-	-	-	**103**
Result from cash flow hedging transactions	-	-	-	-	127	-	-	-	**127**
Adjustment in defined benefit pension plan	-	-	(7)	-	-	(52)	-	-	**(59)**
Others	-	-	(64)	-	-	-	-	-	**(64)**
Total	**-**	**-**	**(71)**	**103**	**127**	**(52)**	**1,284**	**-**	**1,391**
Total Balances at 31 March 2018	**38,318**	**11,590**	**8,194**	**(1,847)**	**(153)**	**(218)**	**1,284**	**5**	**57,173**

Consolidated Statement of Cash Flows Group

Figures in MXN millions	**31-mar-18**
Net income	**1,890**
Adjustments for items not involving cash flow:	**4,414**
Gain or loss on appraisal of activities associated with investment & financing	(202)
Allowances for loan losses	1,753
Depreciation	305
Technical reserves	301
Provisions	1,552
Income Tax and deferred taxes	723
Share of profits in equity interest	(18)
Changes in items related to operating activities:	
Margin accounts	61
Investment securities	(20,212)
Repurchase agreements	(2,374)
Derivative (assets)	21,196
Loan portfolio	(4,910)
Loan securities	(14)
Foreclosed assets	15
Operating assets	(13,118)
Deposits	(17,746)
Bank deposits and other liabilities	(2,308)
Creditors repo transactions	45,754
Collateral sold or delivered as guarantee	(5,231)
Derivative (liabilities)	(22,942)
Subordinated debentures outstanding	(2,856)
Accounts receivables from reinsurers and coinsurers	4
Accounts receivables from premiums	46
Reinsurers and bonding	(3)
Other operating liabilities	25,260
Income tax paid	(579)
Funds provided by operating activities	**6,347**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	25
Acquisition of property, furniture and equipment	(28)
Intangible assets acquisitions & Prepaid expenses	(180)
Other investment activities	164
Funds used in investing activities	**(19)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Increase/decrease in cash and equivalents	6,326
Cash and equivalents at beginning of period	46,046
Cash and equivalents at end of period	**52,372**

Consolidated Statement of Cash Flows Bank

Figures in MXN millions	**31-mar-18**
Net income	**1,284**
Adjustments for items not involving cash flow:	**3,705**
Gain or loss on appraisal of activities associated with investment & financing	(196)
Allowances for loan losses	1,753
Depreciation	208
Amortisation	97
Provisions	1,468
Income Tax and deferred taxes	393
Share of profits in equity interest	(18)
Changes in items related to operating activities:	
Margin accounts	61
Investment securities	(19,341)
Repurchase agreements	(2,374)
Derivative (assets)	21,190
Loan portfolio	(4,997)
Benefits to be received from trading operations	-
Foreclosed assets	15
Operating assets	(12,301)
Deposits	(17,607)
Bank deposits and other liabilities	(2,308)
Creditors repo transactions	45,754
Collateral sold or delivered as guarantee	(5,245)
Derivative (liabilities)	(22,942)
Subordinated debentures outstanding	(2,856)
Other operating liabilities	24,865
Income tax paid	(410)
Funds provided by operating activities	**6,493**
Investing activities:	
Proceeds on disposal of property, furniture and equipment	25
Acquisition of property, furniture and equipment	(28)
Intangible assets acquisitions & Prepaid expenses	(180)
Cash dividends	
Other investment activities	
Funds used in investing activities	**(183)**
Financing activities:	
Others	-
Funds used in financing activities	**-**
Financing activities:	
Increase/decrease in cash and equivalents	**6,310**
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	45,949
Cash and equivalents at end of period	**52,259**

Changes in Mexican accounting standards.

Introduction.

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different from the NIF.

The recent changes in accounting standards issued by either CNBV or CINIF applicable to Grupo Financiero HSBC, are described below:

I. Improvements of NIF 2018 issued by CINIF applicable to Financial Institutions:

CINIF issued a document called "Improvements of NIF 2018", which mainly includes the following changes and improvements:

Improvements involving accounting changes *but with no financial impact in Grupo Financiero HSBC*

NIF B-10 "Effects of Inflation in Financial Reporting" – Additional disclosures are required about annual inflation percentage for the last three years which are considered to determine if there would be an inflationary economic framework for the following annual reporting period. Anticipated adoption in 2017 was allowed, even if the change has been in force since January, 1st, 2018.

Grupo Financiero HSBC has early adopted this change in Annual Financial Statements disclosures of 2017.

NIF C-6 "Property, Plant and Equipment" and NIF C-8 "Intangible Assets"– Some clarifications are included regarding to "the consumption of economic benefits of an asset" in order to avoid that entities apply this concept based on a cash flows basis obtained from the asset instead of the time consumption of it benefits. The accounting change has been in force since January, 1st, 2018 with a retrospectively adoption.

Improvements not involving accounting changes

NIF B-7 "Business Combinations" – Contingent liabilities are only recognised at the date of the acquisition as provisions, as long as they meet the following criteria to be recognised as a provision: 1) an entity has a present obligation (legal or constructive) as a result of a past event, 2) it is probable that an outflow of resources embodying economics benefits will be required to settle the obligation and 3) a reliable estimate can be made of the amount of the obligation.

NIF B-15 "The Effects of Changes in Foreign Exchange Rates" – Entities shall measure assets, liabilities, equity, income and expenses in functional currency to determine their fair value, impairment of assets, deferred tax assets or liabilities, etc.

Other changes.

Some amendments were included in NIF relate to financial instruments in order to eliminate the determination of fair value, because this topic is comprised in the new NIF B-17 Fair Value in which is included the methodology that shall be followed by entities to determine it. This change modifies the following NIF: C-2, C-3, C-10, C-16, C-19 and C-20.

II. Changes in CNBV accounting standard A-2 Aplicación de Normas Particulares.

Mexican Banking regulator "CNBV" is working on some amendments in accounting standards applicable to Financial Institutions with the objective to adopt IFRS 9 Financial Instruments, IFRS 13 Fair Value and IFRS 15 Revenue from contracts with customers; this follows the amendments of the NIF already issued by CINIF to include the adoption of these international accounting standards.

In that context, in December, 2017 the CNBV issued in the official gazette some specifications to be followed by Financial Institutions in the adoption of Mexican Accounting Standards "NIFs" which include a certain number of principles of IFRS 9, IFRS 13 and IFRS 15. It dictates that although those standards are in force since January, 1st, 2018, Financial Institutions shall adopt them until January, 1st, 2019.

A summary of the content of those NIFs are described below:

NIF B-17 "Fair Value". This standard includes the different methodologies that entities would use to determine the fair value of the financial instruments maximizing the use of data inputs from observable transactions in the market rather than the use of those non-observable.

NIF C-2 "Investment in Financial Instruments". It comprises the accounting rules of measurement, presentation and disclosures required for Investment in Financial Instruments. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF C-3 "Accounts receivable". It comprises the accounting rules of measurement, presentation and disclosures required for accounts receivables.

NIF C-9 "Provisions, Contingent assets and liabilities and commitments". It comprises the accounting rules of measurement, presentation and disclosures required for liabilities, provisions and commitments, excluding the guidance for the accounting of financial liabilities that is included in NIF C-19.

NIF C-10 "Derivative financial instruments and hedge accounting". It includes the characteristics to consider a derivative financial instrument for trading or hedging as well as the recognition, measurement, presentation and disclosure.

NIF C-16 “Impairment of financial instruments held to collect principal and interest”. It comprises the measurement, accounting recognition, presentation and disclosure of the impairment of financial instruments held to collect cash flows. It is important to highlight that the CNBV is still working on special accounting standard which will cover the impairment for loans and advances that are held to collect cash flows, therefore this NIF would be partially adopted by Financial Institutions.

NIF C-19 “Financial liabilities”. It comprises the measurement, accounting recognition, presentation and disclosure of financial liabilities. It also includes the methodology of effective interest rate to measure those financial liabilities at amortised cost.

NIF C-20 “Financial instruments hold to collect principal and interest”. It comprises the measurement, accounting recognition, presentation and disclosure of financial instruments held to collect principal and interest. It eliminates the intention as a main driver to determine the classification of the financial instruments and adopts the Business Model framework to manage financial investments.

NIF D-1 “Revenue from contracts with customers”. It comprises the measurement, accounting recognition, presentation and disclosure of income from contracts with customers. The recognition of the income is based on the transfer of control of services or products provided by the entity, obligations to comply with customers, allocation of the transaction price and collection rights.

NIF D-2 “Costs for contracts with customers”. It comprises the measurement, accounting recognition, presentation and disclosure of expenses from contracts with customers.

Currently, Grupo Financiero HSBC is evaluating the possible impacts originated by the adoption of these NIFs. It is important to highlight that the CNBV has not issued so far all relevant accounting standards that shall be adopted jointly with these NIFs.

III. Changes in loan impairment charges methodology applicable to consumer revolving and mortgages credit facilities.

On January, 6th, 2017, CNBV issued some adjustments applicable to loan impairment charges “LIC” methodology, with the purpose to maintain an adequate recognition of LICs. Adjustments incorporated new features in the LIC’s methodology such as: 1) Level of debt, 2) Payment behaviour of customer and 3) Specific profile for each product. Besides, concepts such as probability of default, loss given default and exposure at default were updated and adjusted.

Additionally, a specific LIC’s methodology applicable to micro loans was included, considering concepts of probability of default, loss given default and exposure at default identifying, whether they were granted to individual or group of customers.

IV. Special accounting rules issued by National Banking Commission applicable to borrowers affected by natural disasters occurred during September 2017 ("Lidia" and "Karla" hurricanes and earthquakes from September 7th and 19th, 2017).

On September 15th, 2017, the CNBV issued temporary special accounting rules (official response paper No. P-290/2017) "the programme" applicable to borrowers affected by natural disasters occurred during September 2017, as long as, their home address or the cash flows to pay the loan are located or originated in affected cities and states along Mexico that were declared by the Mexican Government as a disaster zone in the DOF

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 adheres 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. Under "the programme" loans modification would not be considered as restructured loan under CNBV accounting rules provisions.
Likewise, those loans modified would be considered as "performing loans" during skip payment period in order to determine their risk grade and loan impairment charges.

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

On March, 5th, 2018, the CNBV issued the official response paper No. P-071/2018 to modify "the programme" for mortgages extending the skip payment period for 4 additional months.

V. Changes in loan impairment charges in regards recoveries and provision releases recognition in the P&L.

On December 27th, 2017, CNBV published in the Official Gazette "DOF" changes to the accounting standards applicable to Financial Institutions, including the accounting criteria B-6 Loans.

The principal change is related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L.

The CNBV intention is to converge with IFRS standards in the recognition of those recoveries eliminating manual accounting entries for Financial Institutions which prepare financial information under IFRS for reporting purposes.

The change is applicable from January, 1st, 2019 with retrospectively accounting effects but Grupo Financiero HSBC has early adopted as permitted since January, 1st, 2017.

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 three months ended 31 March of 2018 and an explanation of the key reconciling items.

	31 March 2018
Figures in MXN millions	**1,890**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	19
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments	-
Loan impairment charges and other differences in presentation under IFRS	(147)
Recognition of the present value in-force of long-term insurance contracts	(364)
Other insurance adjustments (1)	260
Fair value adjustments on financial instruments	93
Deferred profit sharing	96
Other	(48)
Tax over adjustments	-
Net income under IFRS	**1,799**
Add back tax expense	581
Profit before tax under IFRS	**2,380**
Add back significant items	(18)
Adjusted net income before tax under IFRS	**2,362**
Significant items under IFRS:	
-Debit valuation adjustment on derivative contracts	**(18)**
US dollar equivalent (millions):	
-Adjusted net income before tax under IFRS	**129**
-Net income under IFRS	**98**
Exchange rate used for conversion(2)	***18.2709***

(1)includes technical reserves and effects from Solvency II

(2)Close Banxico rate at March 31st, 2018

Summary of key differences between Grupo Financiero HSBC's results as reported under Mexican GAAP and IFRS

Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits

Mexican GAAP

Defined benefit pension costs and the present value of defined benefit obligations, are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised separately in 'shareholders' equity in the bank's consolidated financial statements' but then are recycled through P&L over the average working life of the employees. See also the Changes in accounting rules section.

IFRS

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise. Indemnity payments are not considered as a liability for termination benefits.

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

Mexican GAAP

The commissions charged for the granting of the credit will be recorded as a deferred credit, which will be amortized against the results of the year as an interest income, under the straight line method during the life of the loan, except those that originate from revolving credits which must be amortized for a period of 12 months. In the case of commissions charged for restructuring or renewals of credits, they must be added to the commissions that were originated according to the previous paragraph, recognizing them as a deferred credit, which will be amortized against the results of the year as interest income, under the method of a straight line during the new term of the credit.

IFRS

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

The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognitions of the financial asset.

The effective interest rate is the rate that exactly discounts estimated future cash payments of the financial asset through its expected life.

Loan impairment charges and other differences in presentation under IFRS

Mexican GAAP

Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish methodologies for determining the amount of provision for each type of loan.

Cash recoveries of written off loans and the positive excess of loan impairment charges determined monthly, are presented in Other Operating Income until December 2017. Since January 2018 institutions are allowed to cancel the surpluses in the balance of loan impairment charges against the item of impairment charges in the income statement, as well as recognize the estimates of credits previously written off against the same item

IFRS

The impairment requirements under IFRS 9 are based on an Expected Credit Losses ('ECL') concept that requires the recognition of ECL in a timely and forward-looking manner. ECL is determined via a two-step approach, where the financial instruments are first assessed for their relative credit deterioration, followed by the measurement of the ECL (which depends on the credit deterioration categories). There are four credit deterioration categories which will be covered in detail in the following sections:

i. Credit-impaired (Stage 3)
ii. Purchased or originated credit-impaired ('POCI')
iii. Significant increase in credit risk (Stage 2)
iv. Stage 1 (the rest of the financial assets in scope not falling into any of the above categories).

Financial instruments that are performing are considered to be 'Stage 1'; financial instruments which are considered to have experienced a significant increase in credit risk are in 'Stage 2'; and financial instruments for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'Stage 3'. Financial instruments that are credit-impaired upon initial recognition are POCI. These instruments remains in this category until derecognition.

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

The present value of future earnings is not recognised. Premiums are accounted for on a received basis and reserves are calculated in accordance with guidance as set out by the Insurance Regulator (Comisión Nacional de Seguros y Fianzas).

IFRS

The value placed on insurance contracts that are classified as long-term insurance business or long-term investment contracts with discretionary participating features ('DPF') and are in force at the balance sheet date is recognised as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date.

The present value of in-force long-term insurance business and long-term investment contracts with DPF, referred to as 'PVIF', is determined by discounting the equity holders' interest in future profits expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

Fair value adjustments on financial instruments
Mexican GAAP

Mexican GAAP requires that for those Derivatives and Investment in Securities required to be fair valued, valuations shall be obtained from prices or application of internal valuation models, applied uniformly and consistently among the operations with same nature.
Inputs for Internal valuation models such as interest rates, exchange rates and volatilities as well as prices used to valuate positions shall be obtained from authorised price vendors.

IFRS

Fair Value Adjustments ('FVAs') are applied to reflect factors not captured within the core valuation model that would nevertheless be considered by market participants in determining a trade price.

Deferred profit sharing
Mexican GAAP

Mexican GAAP requires that a deferred profit sharing is determined by applying a similar model to deferred income tax; it is derived from temporary differences between the accounting result and income for profit sharing. An asset is recognised only when it can be reasonably assumed that it will generate a benefit, and there is no indication that circumstances will change in such a way that the benefits will not be realised.

IFRS

Deferred profit sharing asset is not allowed under IFRS.

Insurance liabilities and Insurance premiums recognised on an annualised basis
Mexican GAAP

As explained in the Changes in accounting rules section, new Insurance accounting principles are in place from 2016. We only present differences in insurance liabilities and insurance premiums recognised on an annualised basis / P&L.

Insurance liabilities are calculated as the sum of a best estimate and a risk margin. The best estimate is based on up-to-date credible information and realistic assumptions and aims to represent a total liability valuation aligned to its expected pricing transfer to the customer. The risk margin is calculated as the cost of providing an amount of capital equal to the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime. Insurance premiums are recognised in the tenor of the insurance contract.

IFRS

IFRS reserving[1] 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.