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## **HSBC Holdings plc**

### **Overseas Regulatory Announcement**

The attached announcement has been released to the other stock exchanges on which HSBC Holdings plc is listed.

The Board of Directors of HSBC Holdings plc as at the date of this announcement are: D J Flint, S T Gulliver, S A Catz<sup>†</sup>, L M L Cha<sup>†</sup>, M K T Cheung<sup>†</sup>, J B Comey<sup>†</sup>, J D Coombe<sup>†</sup>, J Faber<sup>†</sup>, R A Fairhead<sup>†</sup>, R Fassbind<sup>†</sup>, J W J Hughes-Hallett<sup>†</sup>, W S H Laidlaw<sup>†</sup>, J P Lipsky<sup>†</sup>, J R Lomax<sup>†</sup>, I J Mackay, Sir Simon Robertson<sup>†</sup> and J L Thornton<sup>†</sup>.

<sup>†</sup> Independent non-executive Director

Hong Kong Stock Code: 5



29 April 2013

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FIRST QUARTER 2013 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before tax for the first quarter of 2013 was MXN2,042m, an increase of MXN803m or 64.8% compared with MXN1,239m for the first quarter of 2012.
- Net income for the first quarter of 2013 was MXN1,484m, an increase of MXN286m or 23.9% compared with MXN1,198m for the first quarter of 2012.
- Total operating income, net of loan impairment charges, for the first quarter of 2013 was MXN7,120m, an increase of MXN375m or 5.6% compared with MXN6,745m for the first quarter of 2012.
- Loan impairment charges for the first quarter of 2013 were MXN1,539m, a decrease of MXN115m or 7.0% compared with MXN1,654m for the first quarter of 2012.
- Administrative and personnel expenses were MXN5,085m, a decrease of MXN429m or 7.8% compared with MXN5,514m for the first quarter of 2012.
- The cost efficiency ratio was 58.7% for the first quarter of 2013, compared with 65.7% for the first quarter of 2012.
- Net loans and advances to customers were MXN188.6bn at 31 March 2013, an increase of MXN9.0bn or 5.0% compared with MXN179.6bn at 31 March 2012. Total impaired loans as a percentage of gross loans and advances improved to 2.2% compared with 2.6% at 31 March 2012.
- At 31 March 2013, deposits were MXN265.0bn, a decrease of MXN36.3bn or 12.0% compared with MXN301.3bn at 31 March 2012.
- Return on equity was 11.2% for the first quarter of 2013 compared with 10.5% for the first quarter of 2012.
- At 31 March 2013, the bank's total capital adequacy ratio was 16.8% and the tier 1 capital ratio was 13.7% compared with 14.7% and 11.4% respectively at 31 March 2012.
- In the first quarter of 2013, the bank paid a dividend of MXN1,400m, representing MXN0.72 per share, and Grupo Financiero HSBC paid a dividend of MXN2,500m, representing MXN0.89 per share.
- On 1 April 2013, the sale of the general insurance manufacturing portfolio to AXA Group was completed.

## **Grupo Financiero HSBC, S.A. DE C.V. First Quarter 2013 Financial Results/2**

*2012 results have been restated to reflect the general insurance manufacturing businesses as a discontinued operation.*

*HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (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 quarter ended 31 March 2013) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. 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.*

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

## **Overview**

The Mexican economy slowed in the first quarter of 2013 as a result of lower manufacturing output due to reduced demand from the US. However, the Mexican peso appreciated against the US dollar largely due to optimism over proposed reforms by the new government. A favourable rate of inflation allowed the Banco de Mexico to cut the policy rate by 50bps to 4.0%.

For the quarter ended 31 March 2013, Grupo Financiero HSBC's net income was MXN1,484m, an increase of MXN286m or 23.9% compared with the first quarter of 2012. The improvement was driven mainly by reductions in administrative and personnel expenses and loan impairment charges, and increases in net interest income and net fee income, partially offset by higher tax expense and lower other operating income.

Net interest income was MXN5,712m, an increase of MXN403m or 7.6% compared with the first quarter of 2012. The improvement was due to higher average loan portfolio balances, mainly in commercial, payroll, personal and mortgage loans, coupled with higher average commercial loans and deposit spreads, partially offset by lower spreads in personal, payroll and credit card loans.

Loan impairment charges were MXN1,539m, a decrease of MXN115m or 7.0% compared with the first quarter of 2012. The reduction is a result of the strategy implemented in the past few years which has focused on improving credit quality and collection processes.

Net fee income was MXN1,631m, an increase of MXN128m or 8.5% compared with the first quarter of 2012. The improvement was driven by lower fee expenses, mainly as a result of a change in the presentation of certain insurance expenses to administration expenses in the first quarter of 2013, lower brokerage fees payable and lower fees paid to the government for guaranteeing small and medium enterprises loans.

Trading income of MXN722m was largely unchanged from the first quarter of 2012.

Administrative and personnel expenses were MXN5,085m, a decrease of MXN429m or 7.8% compared with the first quarter of 2012. This reduction is largely the result of lower restructuring charges in the first quarter of 2013. Excluding the effect of restructuring charges, the decrease would have been MXN133m or 2.6% compared with the first quarter of 2012.

The cost efficiency ratio was 58.7% for the quarter ended 31 March 2013, compared with 65.7% for the quarter ended 31 March 2012.

The effective tax rate was 30.7% for the quarter ended 31 March 2013, compared with 11.1% for the quarter ended 31 March 2012. A large part of this variance is explained by higher inflationary effects recognized in the first quarter of 2012.

The performance of non-banking subsidiaries continued to contribute positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported net

income before tax of MXN675m for the quarter ended 31 March 2013, up 28.8% compared with the first quarter of 2012. The main driver for this growth was an increase of 1.7% in direct premiums, mainly in life products (endowments). In addition, the claims ratio decreased to 26.5% from 36.1% as reported in the first quarter of 2012.

Net loans and advances to customers increased MXN9.0bn or 5.0% to MXN188.6bn at 31 March 2013 compared with 31 March 2012. The performing consumer loan portfolio increased by 13.9%, primarily in payroll and personal loans, and performing mortgage and commercial loan portfolios increased by 7.8% and 3.6% respectively.

At 31 March 2013, total impaired loans decreased by 13.1% to MXN4.3bn compared with MXN5.0bn at 31 March 2012. The reduction largely relates to the change in write-off policy for mortgages in April 2012, which resulted in a MXN0.8bn decrease. Impaired consumer loans increased 12.7% as a result of portfolio volume growth. Total impaired loans as a percentage of total loans and advances to customers improved to 2.2% compared with 2.6% at 31 March 2012.

Total loan loss allowances at 31 March 2013 were MXN9.5bn, a decrease of MXN1.5bn or 13.7% compared with 31 March 2012. The total coverage ratio (allowance for loan losses divided by impaired loans) was 220.5% at 31 March 2013 compared with 222.2% at 31 March 2012.

Total deposits were MXN265.0bn at 31 March 2013, a decrease of MXN36.3bn or 12.0% compared with 31 March 2012. Demand deposits decreased 6.3%, while time deposits decreased 20.4% primarily as a result of customers switching to mutual fund products.

Total assets under management in mutual funds increased 33.5% compared with 31 March 2012.

At 31 March 2013, the bank's total capital adequacy ratio was 16.8% and the tier 1 capital ratio was 13.7% compared with 14.7% and 11.4% respectively at 31 March 2012. On 30 January 2013, Grupo Financiero HSBC received a capital injection of US\$390m from HSBC Holdings plc, its parent company, through HSBC Latin America Holdings (UK) Limited. In addition, on 31 January 2013 the bank issued US\$110m of subordinated debt to HSBC Finance Netherlands. This investment will be used to increase lending throughout the country and the continuing refurbishment of our branch network.

In the first quarter of 2013, the bank paid a dividend of MXN1,400m representing MXN0.72 per share and Grupo Financiero HSBC paid a dividend of MXN2,500m representing MXN0.89 per share.

## **Business highlights**

### **Retail Banking and Wealth Management (RBWM)**

RBWM increased average demand deposit balances by 7.4% compared with the first quarter of 2012. This was mainly driven by higher balances in Advance, Flexible, Payroll and Premier Accounts.

During the first quarter of 2013, the e-statement strategy was launched to promote customers' use of electronic statements.

RBWM's assets under management in mutual funds increased 38.1%, reflecting the business' strategy of migrating balances from Time Deposits to Funds, which has been supported by specific campaigns.

RBWM increased average performing loan balances by 11.7% compared with 31 March 2012.

Performing personal and payroll loans reported strong growth compared with the first quarter of 2012, increasing average balances by 56.0% and 23.7% respectively. Personal loans achieved record sales, increasing 79.2%, mainly due to the "Gran Venta" campaign. In addition, auto loan sales volumes increased 13.3% compared with 31 March 2012, due to an increased focus on this product.

Mortgage sales volumes increased by 39.4% compared with the same period of 2012, as a result of the strategy of increasing the branch network sales force and developing relationships with real estate agents and developers. In April 2013 a new Mortgage product was launched for a limited time, offering the most competitive mortgage rates in the market, in order to improve sales and grow the portfolio.

### **Commercial Banking (CMB)**

Aligned to our strategy of becoming the leading international bank, CMB is increasing connectivity with global customers throughout the world.

As part of the HSBC Group's global strategy, we have increased the promotion of products such as foreign exchange and trade and receivable finance in order to capture new relationships and support our existing customers' international business opportunities and needs.

Trade revenues increased by 12.4% compared with the first quarter of 2012, reflecting higher trade-related lending. As a result our market share in Mexico increased.

A strong performance from Global Banking and Markets products allowed us to increase revenues in foreign exchange products by 77.2% compared with the first quarter of 2012.

## **Global Banking and Markets (GBM)**

During the first quarter of 2013, Debt Capital Markets business consolidated its position as a leading underwriter in Mexico, achieving second place in the local debt capital market league tables. This is a consequence of the appetite of our clients for this new financing option.

During the quarter, GBM completed its first Equity Capital Markets deal of 2013. This is in addition to the two previous Initial Public Offers executed during 2012 for Grupo Financiero HSBC in Mexico.

Global Banking continued to grow average balances in its performing credit and lending business and customer deposits, which increased by 3.1% and 12.2% respectively compared with 31 March 2012.

## **Sale of HSBC general insurance manufacturing to AXA Group**

On 1 April 2013, the sale of the general insurance manufacturing portfolio to AXA Group was completed. Under the terms of this agreement, the purchaser will provide general insurance products to Grupo Financiero HSBC for our retail customers. From April 2013, a long-term collaboration has begun which will broaden and strengthen the suite of general insurance products available to our customers. Additionally this transaction represents another step in the execution of the HSBC Group's global strategy.

## **Grupo Financiero HSBC first quarter 2013 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS)**

For the quarter ended 31 March 2013, on an IFRS basis, Grupo Financiero HSBC reported a net income before tax of MXN1,726m, a decrease of MXN398m or 18.7% compared with MXN2,124m for the quarter ended 31 March 2012.

The higher net income before tax reported under Mexican GAAP is largely due to a reduction of the present value of in-force long term insurance business, a concept which is only recognized under IFRS, as well as higher loan impairment charges under IFRS as a result of the different provisioning methodologies. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

## **About HSBC**

On 20 March 2013, the Fund Pro organization awarded Grupo Financiero HSBC the "Platinum Performance Awards" in three investment funds categories: Short term debt, Medium term debt and "Flexible Conservador".

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 1,040 branches, 6,453 ATMs and approximately 17,300 employees. For more information, visit [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 6,600 offices covering 81 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and North Africa and with assets of US\$2,693bn at 31 December 2012, the HSBC Group is one of the world's largest banking and financial services organisation.

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**Grupo Financiero HSBC, S.A. DE C.V. First Quarter 2013 Financial Results/8**

**Consolidated Balance Sheet**

	<b>GROUP</b>		<b>BANK</b>	
	<b>31 Mar 2013</b>	31 Mar 2012	<b>31 Mar 2013</b>	31 Mar 2012
<i>Figures in MXN millions</i>				
<b>Assets</b>				
Cash and deposits in banks	<b>55,703</b>	45,345	<b>55,703</b>	45,345
Margin accounts	-	43	-	43
Investment in securities	<b>158,437</b>	162,092	<b>142,207</b>	147,606
Trading securities	<b>37,680</b>	34,471	<b>30,589</b>	28,435
Available-for-sale securities	<b>105,095</b>	111,857	<b>105,095</b>	111,857
Held to maturity securities	<b>15,662</b>	15,764	<b>6,523</b>	7,314
Repurchase agreements	<b>3,229</b>	9,787	<b>3,229</b>	9,787
Derivative transactions	<b>54,171</b>	36,151	<b>54,171</b>	36,151
Performing loans				
Commercial loans	<b>107,067</b>	103,356	<b>107,067</b>	103,356
Loans to financial intermediaries	<b>5,427</b>	6,873	<b>5,427</b>	6,873
Consumer loans	<b>34,848</b>	30,603	<b>34,848</b>	30,603
Mortgage loans	<b>19,784</b>	18,355	<b>19,784</b>	18,355
Loans to government entities	<b>26,670</b>	26,471	<b>26,670</b>	26,471
Total performing loans	<b>193,796</b>	185,658	<b>193,796</b>	185,658
Impaired loans				
Commercial loans	<b>2,460</b>	2,292	<b>2,460</b>	2,292
Consumer loans	<b>1,194</b>	1,059	<b>1,194</b>	1,059
Mortgage loans	<b>673</b>	1,626	<b>673</b>	1,626
Loans to government entities	-	-	-	-
Total impaired loans	<b>4,327</b>	4,977	<b>4,327</b>	4,977
Gross loans and advances to customers	<b>198,123</b>	190,635	<b>198,123</b>	190,635
Allowance for loan losses	<b>(9,539)</b>	(11,059)	<b>(9,539)</b>	(11,059)
Net loans and advances to customers	<b>188,584</b>	179,576	<b>188,584</b>	179,576
Accounts receivable from insurers and bonding companies	<b>3</b>	-	-	-
Premium receivables	<b>58</b>	71	-	-
Accounts receivable from reinsurers and rebonding companies	<b>105</b>	207	-	-
Other accounts receivable	<b>53,246</b>	48,136	<b>52,631</b>	47,523
Foreclosed assets	<b>205</b>	204	<b>201</b>	201
Property, furniture and equipment, net	<b>7,138</b>	7,834	<b>7,138</b>	7,834
Long-term investments in equity securities	<b>234</b>	156	<b>145</b>	143
Assets held for sale	<b>341</b>	413	-	-
Deferred taxes	<b>5,655</b>	6,328	<b>5,574</b>	6,224
Goodwill	<b>950</b>	950	-	-
Other assets, deferred charges and intangibles	<b>3,239</b>	4,325	<b>3,044</b>	4,083
<b>Total assets</b>	<b>531,298</b>	501,618	<b>512,627</b>	484,516

**Grupo Financiero HSBC, S.A. DE C.V. First Quarter 2013 Financial Results/9**

**Consolidated Balance Sheet (continued)**

	<b>GROUP</b>		<b>BANK</b>	
	<b>31 Mar 2013</b>	31 Mar 2012	<b>31 Mar 2013</b>	31 Mar 2012
<i>Figures in MXN millions</i>				
<b>Liabilities</b>				
Deposits	<b>265,007</b>	301,271	<b>265,476</b>	302,116
Demand deposits	<b>162,072</b>	173,047	<b>162,541</b>	173,892
Time deposits	<b>98,666</b>	123,955	<b>98,666</b>	123,955
Money market instruments	<b>4,269</b>	4,269	<b>4,269</b>	4,269
Bank deposits and other liabilities	<b>29,849</b>	23,888	<b>29,849</b>	23,888
On demand	<b>7,031</b>	-	<b>7,031</b>	-
Short-term	<b>20,788</b>	22,487	<b>20,788</b>	22,487
Long-term	<b>2,030</b>	1,401	<b>2,030</b>	1,401
Repurchase agreements	<b>38,608</b>	12,637	<b>38,608</b>	18,219
Stock borrowing	-	3	-	3
Financial assets pending to be settled	<b>754</b>	-	<b>754</b>	-
Collateral sold	<b>4,084</b>	7,849	<b>4,084</b>	2,227
Derivative transactions	<b>50,472</b>	34,969	<b>50,472</b>	34,969
Technical reserves	<b>11,096</b>	10,504	-	-
Reinsurers	<b>20</b>	20	-	-
Other payable accounts	<b>64,481</b>	54,590	<b>63,620</b>	53,305
Income tax	<b>281</b>	1,462	<b>184</b>	1,079
Sundry creditors and other accounts payable	<b>64,200</b>	53,128	<b>63,436</b>	52,226
Subordinated debentures outstanding	<b>11,395</b>	10,153	<b>11,395</b>	10,153
Deferred taxes	<b>492</b>	507	<b>492</b>	505
<b>Total liabilities</b>	<b>476,258</b>	456,391	<b>464,750</b>	445,385
<b>Equity</b>				
Paid in capital	<b>37,823</b>	32,673	<b>32,768</b>	27,618
Capital stock	<b>5,637</b>	5,111	<b>5,680</b>	5,261
Additional paid in capital	<b>32,186</b>	27,562	<b>27,088</b>	22,357
Other reserves	<b>17,207</b>	12,545	<b>15,108</b>	11,513
Capital reserves	<b>2,157</b>	1,832	<b>10,573</b>	9,657
Retained earnings	<b>12,342</b>	8,959	<b>2,389</b>	514
Result from the valuation of available-for-sale securities	<b>1,314</b>	683	<b>1,314</b>	683
Result from cash flow hedging transactions	<b>(90)</b>	(127)	<b>(90)</b>	(127)
Net income	<b>1,484</b>	1,198	<b>922</b>	786
Minority interest in capital	<b>10</b>	9	<b>1</b>	-
<b>Total equity</b>	<b>55,040</b>	45,227	<b>47,877</b>	39,131
<b>Total liabilities and equity</b>	<b>531,298</b>	501,618	<b>512,627</b>	484,516

Consolidated Balance Sheet (continued)

	GROUP		BANK	
	31 Mar 2013	31 Mar 2012	31 Mar 2013	31 Mar 2012
<i>Figures in MXN millions</i>				
<b>Memorandum Accounts</b>	<b>4,660,318</b>	<b>2,794,342</b>	<b>4,619,129</b>	<b>2,683,426</b>
<b>Third party accounts</b>	<b>87,550</b>	96,836	<b>47,356</b>	48,062
Clients current accounts	-	100	-	-
Custody operations	<b>39,354</b>	36,268	-	-
Transactions on behalf of clients	<b>840</b>	12,406	-	-
Third party investment banking operations, net	<b>47,356</b>	48,062	<b>47,356</b>	48,062
<b>Proprietary position</b>	<b>4,572,768</b>	2,697,506	<b>4,571,773</b>	2,635,364
Guarantees granted	-	9	-	9
Irrevocable lines of credit granted	<b>23,431</b>	24,668	<b>23,431</b>	24,668
Goods in trust or mandate	<b>395,854</b>	348,119	<b>395,854</b>	348,119
Goods in custody or under administration	<b>321,855</b>	288,199	<b>355,566</b>	283,088
Collateral received by the institution	<b>21,188</b>	55,443	<b>21,188</b>	55,443
Collateral received and sold or delivered as guarantee	<b>14,351</b>	53,144	<b>14,351</b>	47,566
Values in deposit	<b>53</b>	53	-	-
Suspended interest on impaired loans	<b>122</b>	239	<b>122</b>	239
Recovery guarantees for issued bonds	<b>19,162</b>	35,535	-	-
Paid claims	-	9	-	-
Cancelled claims	<b>5</b>	-	-	-
Responsibilities from bonds in force	<b>3,763</b>	3,723	-	-
Other control accounts	<b>3,772,984</b>	1,888,365	<b>3,761,261</b>	1,876,232

**Consolidated Income Statement**

	<b>GROUP</b>		<b>BANK</b>	
	<b>31 Mar</b>	31 Mar	<b>31 Mar</b>	31 Mar
<i>Figures in MXN millions</i>	<b>2013</b>	2012	<b>2013</b>	2012
Interest income	<b>7,686</b>	7,932	<b>7,474</b>	7,742
Interest expense	<b>(2,258)</b>	(2,813)	<b>(2,262)</b>	(2,818)
Earned premiums	<b>763</b>	693	-	-
Technical reserves	<b>(289)</b>	(223)	-	-
Claims	<b>(190)</b>	(280)	-	-
Net interest income	<b>5,712</b>	5,309	<b>5,212</b>	4,924
Loan impairment charges	<b>(1,539)</b>	(1,654)	<b>(1,539)</b>	(1,654)
Risk-adjusted net interest income	<b>4,173</b>	3,655	<b>3,673</b>	3,270
Fees and commissions receivable	<b>2,051</b>	2,058	<b>1,969</b>	1,959
Fees payable	<b>(420)</b>	(555)	<b>(424)</b>	(448)
Trading income	<b>722</b>	716	<b>584</b>	607
Other operating income	<b>594</b>	871	<b>636</b>	971
Total operating income	<b>7,120</b>	6,745	<b>6,438</b>	6,359
Administrative and personnel expenses	<b>(5,085)</b>	(5,514)	<b>(5,076)</b>	(5,588)
Net operating income	<b>2,035</b>	1,231	<b>1,362</b>	771
Undistributed income from subsidiaries	<b>7</b>	8	<b>7</b>	6
Net income before taxes	<b>2,042</b>	1,239	<b>1,369</b>	777
Income tax	<b>(238)</b>	(293)	<b>(69)</b>	(137)
Deferred income tax	<b>(388)</b>	155	<b>(378)</b>	146
Net income before discontinued operations	<b>1,416</b>	1,101	<b>922</b>	786
Discontinued operations	<b>68</b>	97	-	-
Net income	<b>1,484</b>	1,198	<b>922</b>	786

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
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Figures in MXN millions

<b>Balances at 1 January 2013</b>	<b>32,673</b>	<b>2,157</b>	<b>8,833</b>	<b>902</b>	<b>(103)</b>	<b>6,016</b>	<b>11</b>	<b>50,489</b>
<b>Movements inherent to the shareholders' decision</b>								
Shares issue	5,150							5,150
Transfer of result of prior years	-	-	6,016	-	-	(6,016)	-	-
Cash dividends	-	-	(2,500)	-	-	-	-	(2,500)
<b>Total</b>	<b>5,150</b>	<b>-</b>	<b>3,516</b>	<b>-</b>	<b>-</b>	<b>(6,016)</b>	<b>-</b>	<b>2,650</b>
<b>Movements for the recognition of the comprehensive income</b>								
Net income	-	-	-	-	-	1,484	-	1,484
Result from valuation of available- for-sale securities	-	-	-	412	-	-	-	412
Result from cash flow hedging transactions	-	-	-	-	13	-	-	13
Others	-	-	(7)	-	-	-	(1)	(8)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>412</b>	<b>13</b>	<b>1,484</b>	<b>(1)</b>	<b>1,901</b>
<b>Balances at 31 March 2013</b>	<b>37,823</b>	<b>2,157</b>	<b>12,342</b>	<b>1,314</b>	<b>(90)</b>	<b>1,484</b>	<b>10</b>	<b>55,040</b>

Consolidated Statement of Changes in Shareholders' Equity (continued)

**BANK**

<i>Figures in MXN millions</i>	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from cash flow hedging transactions	Net income	Minority interest	<b>Total equity</b>
<b>Balances at 1 January 2013</b>	<b>27,618</b>	<b>10,573</b>	<b>(202)</b>	<b>902</b>	<b>(103)</b>	<b>3,997</b>	<b>2</b>	<b>42,787</b>
<b>Movements inherent to the shareholders' decision</b>								
Share issue	5,150	-	-	-	-	-	-	<b>5,150</b>
Transfer of result of prior years	-	-	3,997	-	-	(3,997)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-
Cash dividends	-	-	(1,400)	-	-	-	-	<b>(1,400)</b>
<b>Total</b>	<b>5,150</b>	<b>-</b>	<b>2,597</b>	<b>-</b>	<b>-</b>	<b>(3,997)</b>	<b>-</b>	<b>3,750</b>
<b>Movements for the recognition of the comprehensive income</b>								
Net income	-	-	-	-	-	922	-	<b>922</b>
Result from valuation of available-for-sale securities	-	-	-	412	-	-	-	<b>412</b>
Result from cash flow hedging transactions	-	-	-	-	13	-	-	<b>13</b>
Others	-	-	(6)	-	-	-	(1)	<b>(7)</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>412</b>	<b>13</b>	<b>922</b>	<b>(1)</b>	<b>1,340</b>
<b>Balances at 31 March 2013</b>	<b>32,768</b>	<b>10,573</b>	<b>2,389</b>	<b>1,314</b>	<b>(90)</b>	<b>922</b>	<b>1</b>	<b>47,877</b>

**Consolidated Statement of Cash Flows**

**GROUP**

*Figures in MXN millions*

**31 Mar 2013**

<b>Net income</b>	<b>1,484</b>
<b>Adjustments for items not involving cash flow:</b>	<b>2,612</b>
Depreciation and amortisation	445
Provisions	1,326
Income tax and deferred taxes	626
Technical reserves	289
Discontinued operations	(68)
Undistributed income from subsidiaries	(6)
<b>Changes in items related to operating activities:</b>	
Margin accounts	53
Investment securities	(1,225)
Repurchase agreements	4,477
Stock borrowing	-
Derivative / assets	(10,824)
Loan portfolio	1,014
Foreclosed assets	16
Operating assets	(21,169)
Deposits	(30,318)
Bank deposits and other liabilities	7,122
Settlement accounts	754
Creditors repo transactions	17,879
Collateral sold or delivered as guarantee	196
Derivative / liabilities	9,550
Subordinated debentures outstanding	1,199
Accounts receivables from reinsurers and coinsurers	42
Accounts receivables from premiums	13
Reinsurers and bonding	4
Other operating liabilities	15,398
Income tax paid	(758)
<b>Funds provided by operating activities</b>	<b>(6,577)</b>
<b>Investing activities:</b>	
Acquisition of property, furniture and equipment	(376)
Intangible asset acquisitions & prepaid expenses	(39)
Other investment activities	110
<b>Funds used in investing activities</b>	<b>(305)</b>
<b>Financing activities:</b>	
Shares issue	5,150
Cash dividends	(2,500)
Others	(7)
<b>Funds used in financing activities</b>	<b>2,643</b>
<b>Financing activities:</b>	
Increase / Decrease in cash and equivalents	(143)
Cash and equivalents at beginning of period	55,846
<b>Cash and equivalents at end of period</b>	<b>55,703</b>

**Consolidated Statement of Cash Flows** *(continued)*

**BANK**

*Figures in MXN millions*

**31 Mar 2013**

<b>Net income</b>	<b>922</b>
<b>Adjustments for items not involving cash flow:</b>	<b>2,211</b>
Depreciation and amortisation	445
Provisions	1,326
Income tax and deferred taxes	447
Undistributed income from subsidiaries	(7)
<b>Changes in items related to operating activities:</b>	
Margin accounts	53
Investment securities	(870)
Repurchase agreements	4,477
Derivative / assets	(10,822)
Loan portfolio	1,014
Foreclosed assets	16
Operating assets	(20,659)
Deposits	(30,397)
Bank deposits and other liabilities	7,123
Creditors repo transactions	17,879
Collateral sold or delivered as guarantee	196
Derivative / liabilities	9,550
Subordinated debentures outstanding	1,199
Other operating liabilities	15,323
Income tax paid	(758)
<b>Funds provided by operating activities</b>	<b>(6,676)</b>
<b>Investing activities:</b>	
Acquisition of property, furniture and equipment	(375)
Intangible asset acquisitions & prepaid expenses	32
<b>Funds used in investing activities</b>	<b>(343)</b>
<b>Financing activities:</b>	
Share issue	5,150
Cash dividends	(1,400)
Others	(7)
<b>Funds used in financing activities</b>	<b>3,743</b>
<b>Financing activities:</b>	
Increase / Decrease in cash and equivalents	(143)
Cash and equivalents at beginning of period	55,846
<b>Cash and equivalents at end of period</b>	<b>55,703</b>



**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 first quarter of 2013 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<b>31 Mar <u>2013</u></b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>1,484</b>
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits <sup>W</sup>	23
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments <sup>W</sup>	23
Loan impairment charges and other differences in presentation under IFRS <sup>W</sup>	(204)
Present value in-force of long-term insurance contracts <sup>W</sup>	(131)
Other differences in accounting principles <sup>W</sup>	18
<b>Net income under IFRS</b>	<b>1,213</b>
<b>US dollar equivalent (millions)</b>	<b>95</b>
Add back tax expense	513
<b>Profit before tax under IFRS</b>	<b>1,726</b>
<b>US dollar equivalent (millions)</b>	<b>136</b>
<i>Exchange rate used for conversion</i>	12.72

<sup>W</sup> Net of tax at 30%<sup>1</sup>.

**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  
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 and real interest rates.

**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.

<sup>1</sup> According to the gradual reduction of the income tax rate applicable for 2013, differences are presented net of tax at 30%

***Summary of key differences between Grupo Financiero's results as reported under Mexican GAAP and IFRS (continued)***

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

**Mexican GAAP**

From 1 January 2007, loan origination fees are required to be deferred and amortised over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were recognised up-front.

**IFRS**

Effective interest rate method is used for the recognition of fees and expenses received or paid that are directly attributable to the origination of a loan and for other transaction costs, premiums or discounts.

**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.

**IFRS**

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying value.

**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.