

HSBC HOLDINGS PLC
Form 6-K
July 31, 2012

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of July
HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes..... No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.....).

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2012 FINANCIAL RESULTS - HIGHLIGHTS

- Net income before taxes for the first half of 2012 was MXN2,959m, an increase of MXN1,065m or 56.2% compared with MXN1,894m in the first half of 2011.
- Net income for the first half of 2012 was MXN2,326m, an increase of MXN743m or 46.9% compared with MXN1,583m for the first half of 2011.
- Total operating income, net of loan impairment charges, for the first half of 2012 was MXN14,048m, a decrease of MXN768m or 5.2% compared with MXN14,816m in the first half of 2011, mainly due to a change in the write-off policy for mortgage loans in 2012 and reduced trading income.
- Loan impairment charges for the first half of 2012 were MXN3,335m, an increase of MXN133m or 4.2% compared with MXN3,202m in the first half of 2011.
- Administrative and personnel expenses were MXN11,117m, a decrease of MXN1,822m or 14.1% compared with the first half of 2011. Excluding the effect of the restructuring charges, which were MXN778m lower than those incurred in the first half of 2011, the decrease would have been MXN1,044m or 8.7% compared with the first half of 2011.
- In June 2012, HSBC Mexico fully provisioned a fine imposed by the National Banking and Securities Commission (CNBV), amounting to MXN379m, as a result of non-compliance with a number of prudential regulations identified by the CNBV in 2007 and 2008. HSBC Mexico has already put in place measures which address the past failures for which it has been fined.
- The cost efficiency ratio was 64.0% in the first half of 2012, compared with 71.8% in the first half of 2011.
- Net loans and advances to customers were MXN184.4bn at 30 June 2012, an increase of MXN11.7bn or 6.8% compared with MXN172.8bn at 30 June 2011. Total impaired loans as a percentage of gross loans and advances improved to 2.2% compared with 2.5% at 30 June 2011. The coverage ratio (allowance for loan losses divided by impaired loans) was 252.6% compared with 215.8% at 30 June 2011.
- At 30 June 2012, deposits were MXN295.5bn, an increase of MXN22.3bn or 8.2% compared with MXN273.3bn at 30 June 2011.
- Return on equity was 10.0% for the first half of 2012 compared with 6.5% for the same period in 2011.
- At 30 June 2012, the bank's capital adequacy ratio was 13.6% and the tier 1 capital ratio was 10.5% compared with 14.0% and 10.8% respectively at 30 June 2011, and 15.3% and 11.7% respectively at 31 December 2011.
- In the first quarter of 2012, the bank paid a dividend of MXN1,400m representing MXN0.81 per share and Grupo Financiero HSBC paid a dividend of MXN2,400m representing MXN0.94 per share.

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 30 June 2012) 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 annual pace of GDP growth in the Mexican economy accelerated to 4.6% in the first quarter of 2012. Despite the weakness of global growth, exports remained a key driver of Mexican activity. Domestic demand was also robust. Inflation remained moderate despite strong fluctuations in the currency and, accordingly, Banco de Mexico left the monetary policy rate unchanged at 4.5% during the period.

For the first half of 2012, Grupo Financiero HSBC's net income was MXN2,326m, an increase of MXN743m or 46.9% compared with the first half of 2011. Improved net income was mainly driven by lower administrative expenses, partially offset by increased loan impairment charges, lower trading income and foregone business from the sale of the Afore pension funds management business which completed in August 2011.2

Net interest income was MXN10,848m, an increase of MXN206m or 1.9% compared with the first half of 2011. Higher net interest income was due to loan portfolio growth, mainly in payroll, consumer and commercial loans, coupled with increased deposit volumes, partially offset by lower spreads in credit cards, payroll and business banking loans.

Loan impairment charges were MXN3,335m, an increase of MXN133m or 4.2% compared with the first half of 2011. This increase was mainly due to a change in the write-off policy for mortgage loans. The change was implemented in April 2012 and generated a one off increase in loan impairment charges of MXN659m. Excluding the change in write-off policy, loan impairment charges decreased MXN526m or 16.4% compared with the first half of 2011.

Net fee income was MXN3,003m, an increase of MXN55m or 1.9% compared with the first half of 2011. The increase was due to higher structuring fees earned from project finance, and increased equity and debt capital markets and trade services fees, mostly offset by lower account services fees, as customers migrated to electronic channels, coupled with an increase in brokerage, credit and debit card fees payable.

Trading income was MXN1,462m, a decrease of MXN434m or 22.9% compared with the first half of 2011. The decrease is mostly due certain large derivatives deals and a gain of MXN279m arising from the sale of one of the Grupo Financiero HSBC's equity investments in the first quarter of 2011.

Administrative and personnel expenses were MXN11,117m, a decrease of MXN1,822m or 14.1% compared with the first half of 2011. Excluding the effect of the restructuring charges, which were MXN778m lower than those incurred in the first half of 2011, the decrease would have been MXN1,044m or 8.7% compared with the first half of 2011. This decrease is mainly driven by the effect of cost reduction initiatives implemented in 2011 in both regional and local operations, such as rightsizing the regional structures and other rationalisation programmes, in addition to the write-off of intangible assets.

In June 2012, HSBC Mexico fully provisioned a fine imposed by the National Banking and Securities Commission (CNBV), amounting to MXN379m, as a result of non-compliance with a number of prudential regulations identified by the CNBV in 2007 and 2008. HSBC Mexico has already put in place measures which address the past failures for which it has been fined.

The cost efficiency ratio was 64.0% for the first half of 2012, compared with 71.8% for the first half of 2011. Excluding the effect of the restructuring expenses and the one-off gain on sale of an equity investment, the cost efficiency ratio was 62.8% for the period ended 30 June 2012, compared with 67.4% for the period ended 30 June 2011.

The performance of non-banking subsidiaries contributed positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported net income before taxes of MXN1,122m for the first half of 2012, up 14.9% compared with the first half of 2011. The main driver for this growth was a decrease in the claims ratio for the Term Life Insurance product to 20.6% from 25.1% reported at 30 June 2011, coupled with an improvement in persistency rates.³ In addition, insurance products such as Endowment and Motor reported a rise in sales.

Net loans and advances to customers increased MXN11.7bn or 6.8% to MXN184.4bn at 30 June 2012 compared with 30 June 2011, driven by growth in both the commercial and consumer portfolios. Commercial portfolio growth is mainly due to higher lending to mid-market enterprises, while consumer portfolio growth was mainly driven by increased payroll and personal loans.

At 30 June 2012, total impaired loans decreased by 6.5% to MXN4.2bn compared with MXN4.5bn at 30 June 2011. The reduction in impaired mortgage loans included a MXN0.8bn decrease relating to the change in write-off policy. Impaired consumer loans decreased 17.3%, as the portfolio shifted to lower risk products. These were partially offset by an increase in impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers improved to 2.2% compared with 2.5% reported at 30 June 2011.

Total loan loss allowances at 30 June 2012 were MXN10.6bn, an increase of MXN0.9bn or 9.5% compared with 30 June 2011. The total coverage ratio (allowance for loan losses divided by impaired loans) was 252.6% at 30 June 2012 compared with 215.8% at 30 June 2011.

Total deposits were MXN295.5bn at 30 June 2012, an increase of MXN22.3bn or 8.2% compared with 30 June 2011. This increase is a result of our sales efforts and targeted promotions across all lines of business.

At 30 June 2012, the bank's capital adequacy ratio was 13.6% and the tier 1 capital ratio was 10.5% compared with 14.0% and 10.8% respectively at 30 June 2011, and 15.3% and 11.7% respectively at 31 December 2011.

In the first quarter of 2012, the bank paid a dividend of MXN1,400m representing MXN0.81 per share and Grupo Financiero HSBC paid a dividend of MXN2,400m representing MXN0.94 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

RBWM reported growth in net income before taxes compared to the first half of 2011, mainly due to an improvement in the credit quality of the loan portfolios and growth in balances. Balance growth was supported by improved sales strategies and promotions.

The increase in customer lending was mainly in payroll and personal loans which continue to drive growth with a combined balance increase of 66.8% compared to 30 June 2011.

New credit cards issued have increased 35.0% compared to the same period of the previous year mainly driven by business intelligence strategies, which is beginning to lead to an improvement in balances.

Commercial Banking

At 30 June 2012, loans and deposits grew by 6.0% and 13.7% respectively compared to 30 June 2011.

Aligned to the bank's strategy of increased sales coordination across business lines, during the second quarter we have strengthened the Global Markets products proposition, simplifying processes and restructuring the specialized sales structure. Additionally, international products have been developed for trade customers, such as Export Factoring and Cross Border Reverse Factoring.

In Business Banking, several campaigns are being implemented in order to increase loan balances. These include special promotions for Tarjeta HSBC Empresas and installment loans to incentivise activation and usage, credit line increases for loyal customers and customer relationship management campaigns to activate credit lines.

In addition, we supported special government programs aimed at providing financing to business banking clients.

Global Banking and Markets

During the first half of 2012 Global Markets' Trading Income decreased MXN434m compared with the same period in the previous year. The decrease reflects certain large derivatives deals that closed in the first quarter of 2011 and the sale of one of the Grupo Financiero HSBC's equity investments. The decrease was partially offset by an increase on bond disposals by the Balance Sheet Management desk.

For the first half of 2012, Debt Capital Markets maintained its status as the leading Mexican underwriter, placing and participating in bond issuances for a total transaction amount of MXN29,273m, including INFONAVIT, Grupo Bimbo, Mexichem, Ford Credit, Bladex, NR Finance and Bancomext.

In addition, the Equity Capital Markets business acted as Joint Bookrunner on the Initial Public Offering of Alpek SA de CV. This deal was comfortably oversubscribed and allocation was split evenly between Mexican and International tranches. The deal represents a landmark transaction for Grupo Financiero HSBC as it is its first lead ECM role in the region as well as Mexico's first IPO since July 2011. Grupo Financiero HSBC acted as Sole Bookrunner on Petróleos Mexicanos' "PEMEX" (BBB / Baa1 / BBB) inaugural offshore Reg S Australian Dollar (AUD) issuance, the first ever from a Latin American issuer.

During this first half of 2012, Grupo Financiero HSBC recaptured a top 3 ranking in the Euromoney foreign exchange tables, for the first time since 2008 while achieving a 10.6% market share and a volume increase of 28.6%.

Global Banking continues to grow average balances in client bank deposits, which reported an increase of 43.5% compared to the first half of 2011. In the first half of 2012, Global Banking's credit and lending business originated MXN8,644m of new lending to corporate clients, an increase of 19.2% compared to the first half of 2011.

During the first half of 2012, Trade Services originated revenues of MXN94m, up MXN41m compared to MXN53m reported in the first half of 2011.

Sale of HSBC general insurance manufacturing to AXA Group

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On 6 March 2012, Grupo Financiero HSBC announced that it has entered into agreements to sell its general insurance manufacturing portfolio to AXA Group.

HSBC and AXA Group are working together to ensure a seamless transition with a target completion date in the second half of 2012, subject to normal regulatory approvals.

Grupo Financiero HSBC first half 2012 financial results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)

For the first half of 2012, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN4,704m, an increase of MXN1,271m or 37.0% compared with MXN3,433m in the first half of 2011.

The lower profit reported under Mexican GAAP is largely due to lower 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

Grupo Financiero HSBC, is one of the leading financial groups in Mexico with 1,067 branches, 6,240 ATMs, approximately 8.5m customer accounts and approximately 18,100 employees. For more information, visit 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 6,900 offices in over 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and Africa and with assets of US\$2,652bn at 30 June 2012, the HSBC Group is one of the world's largest banking and financial services organisations.

For further information contact:

Mexico City

Lyssette Bravo

Public Affairs

Telephone: +52 (55) 5721 2888

Andrea Colín

Investor Relations

Telephone: +52 (55) 5721 3001

London

Brendan McNamara

Group Media Relations

Telephone: +44 (0)20 7991 0655

Guy Lewis

Investor Relations

Telephone: +44 (0)20 7992 1938

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| Figures in MXN millions Assets | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 30 Jun 2012 | 30 Jun 2011 | 30 Jun 2012 | 30 Jun 2011 |
| Cash and deposits in banks | 51,365 | 53,637 | 51,374 | 53,634 |
| Margin accounts | 31 | 8 | 31 | 8 |
| Investment in securities | 158,463 | 177,551 | 143,224 | 163,419 |
| Trading securities | 40,923 | 37,280 | 34,366 | 30,808 |
| Available-for-sale securities | 102,451 | 125,401 | 102,451 | 125,401 |
| Held to maturity securities | 15,089 | 14,870 | 6,407 | 7,210 |
| Repurchase agreements | 5,402 | 7,774 | 5,402 | 7,773 |
| Derivative transactions | 45,847 | 28,633 | 45,847 | 28,633 |
| Performing loans | | | | |
| Commercial loans | 106,589 | 96,623 | 106,589 | 96,623 |
| Loans to financial intermediaries | 5,191 | 6,908 | 5,191 | 6,908 |
| Consumer loans | 31,916 | 28,613 | 31,916 | 28,613 |
| Mortgage loans | 18,629 | 17,834 | 18,629 | 17,834 |
| Loans to government entities | 28,535 | 27,992 | 28,535 | 27,992 |
| Total performing loans | 190,860 | 177,970 | 190,860 | 177,970 |
| Impaired loans | | | | |
| Commercial loans | 2,461 | 1,330 | 2,461 | 1,330 |
| Consumer loans | 1,095 | 1,324 | 1,095 | 1,324 |
| Mortgage loans | 655 | 1,850 | 655 | 1,850 |
| Total impaired loans | 4,211 | 4,504 | 4,211 | 4,504 |
| Gross loans and advances to customers | 195,071 | 182,474 | 195,071 | 182,474 |
| Allowance for loan losses | (10,639) | (9,720) | (10,639) | (9,720) |
| Net loans and advances to customers | 184,432 | 172,754 | 184,432 | 172,754 |
| Premium receivables | 238 | 194 | - | - |
| Accounts receivables from reinsurers and rebonding companies | 214 | 279 | - | - |
| Other accounts receivable | 42,999 | 32,804 | 42,784 | 32,887 |
| Foreclosed assets | 201 | 165 | 198 | 161 |
| Property, furniture and equipment, net | 7,714 | 8,205 | 7,714 | 8,205 |
| Long-term investments in equity securities | 197 | 192 | 111 | 113 |
| Assets held for sale | 95 | 2,428 | 7 | 1 |
| Deferred taxes | 6,042 | 5,454 | 5,946 | 5,328 |
| Goodwill | 1,197 | 1,197 | - | - |
| Other assets, deferred charges and intangibles | | | | |
| | 3,549 | 4,277 | 3,160 | 3,917 |
| Total assets | 507,986 | 495,552 | 490,230 | 476,833 |

Consolidated Balance Sheet (continued)

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| Figures in MXN millions | 30 Jun 2012 | 30 Jun 2011 | 30 Jun 2012 | 30 Jun 2011 |
| Liabilities | | | | |
| Deposits | 295,528 | 273,255 | 296,209 | 274,106 |
| Demand deposits | 171,314 | 158,190 | 171,995 | 159,041 |
| Time deposits | 119,977 | 110,829 | 119,977 | 110,829 |
| Money market instruments | 4,237 | 4,236 | 4,237 | 4,236 |
| Bank deposits and other liabilities | 25,034 | 30,161 | 25,034 | 30,161 |
| On demand | 2,001 | 3,950 | 2,001 | 3,950 |
| Short-term | 21,446 | 24,744 | 21,446 | 24,744 |
| Long-term | 1,587 | 1,467 | 1,587 | 1,467 |
| Repurchase agreements | 14,786 | 48,985 | 20,811 | 54,509 |
| Stock lending | - | 1 | - | 2 |
| Financial assets pending to be settled | 1,017 | - | 1,017 | - |
| Collateral sold | 8,748 | 10,292 | 2,723 | 4,769 |
| Derivative transactions | 45,760 | 27,274 | 45,760 | 27,274 |
| Technical reserves | 10,778 | 10,272 | - | - |
| Reinsurers | 62 | 54 | - | - |
| Other payable accounts | 48,497 | 37,495 | 47,559 | 38,743 |
| Income tax | 1,334 | 1,162 | 909 | 694 |
| Contributions for future capital increases | - | - | - | 2,013 |
| Sundry creditors and other accounts Payable | 47,163 | 36,333 | 46,650 | 36,036 |
| Subordinated debentures outstanding | 10,331 | 9,824 | 10,331 | 9,824 |
| Deferred taxes | 516 | 628 | 498 | 606 |
| Total liabilities | 461,057 | 448,241 | 449,942 | 439,994 |
| Equity | | | | |
| Paid in capital | 32,673 | 32,673 | 27,618 | 25,605 |
| Capital stock | 5,111 | 5,111 | 5,261 | 5,087 |
| Additional paid in capital | 27,562 | 27,562 | 22,357 | 20,518 |
| Other reserves | 14,246 | 14,627 | 12,669 | 11,231 |
| Capital reserves | 1,958 | 1,832 | 10,373 | 11,069 |
| Retained earnings | 8,833 | 11,262 | (202) | (302) |
| Result from the valuation of available-for-sale securities | 1,216 | 220 | 1,216 | 220 |
| Result from cash flow hedging transactions | (87) | (270) | (87) | (270) |

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| | | | | |
|------------------------------|---------|---------|---------|---------|
| Net income | 2,326 | 1,583 | 1,369 | 514 |
| Minority interest in capital | 10 | 11 | 1 | 3 |
| Total equity | 46,929 | 47,311 | 40,288 | 36,839 |
| Total liabilities and equity | 507,986 | 495,552 | 490,230 | 476,833 |

Consolidated Balance Sheet (continued)

| Figures in MXN millions | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 30 Jun 2012 | 30 Jun 2011 | 30 Jun 2012 | 30 Jun 2011 |
| Memorandum Accounts | 3,968,847 | 2,729,366 | 3,804,238 | 2,625,729 |
| Third party accounts | 104,431 | 95,467 | 49,701 | 51,453 |
| Clients current accounts | (78) | 149 | - | - |
| Custody operations | 41,655 | 31,969 | - | - |
| Transactions on behalf of clients | 13,153 | 11,896 | - | - |
| Third party investment banking operations, net | 49,701 | 51,453 | 49,701 | 51,453 |
| Proprietary position | 3,864,416 | 2,633,899 | 3,754,537 | 2,574,276 |
| Guarantees granted | 9 | 16 | 9 | 16 |
| Contingent assets and liabilities | - | 95 | - | 95 |
| Irrevocable lines of credit granted | 25,203 | 16,909 | 25,203 | 16,909 |
| Goods in trust or mandate | 368,631 | 311,753 | 368,630 | 311,753 |
| Goods in custody or under administration | 295,763 | 265,996 | 290,653 | 260,885 |
| Collateral received by the institution | 51,373 | 40,791 | 51,373 | 40,791 |
| Collateral received and sold or delivered as guarantee | 50,255 | 40,524 | 44,235 | 34,990 |
| Values in deposit | 53 | 53 | - | - |
| Suspended interest on impaired loans | 123 | 224 | 123 | 224 |
| Recovery guarantees for issued bonds | 82,821 | 36,649 | - | - |
| Paid claims | 12 | 14 | - | - |
| Cancelled claims | 7 | 2 | - | - |
| Responsibilities from bonds in force | 3,718 | 3,614 | - | - |
| Other control accounts | 2,986,448 | 1,917,259 | 2,974,311 | 1,908,613 |

Consolidated Income Statement

GROUP

BANK

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| Figures in MXN millions | 30 Jun 2012 | 30 Jun 2011 | 30 Jun 2012 | 30 Jun 2011 |
|---|----------------|----------------|----------------|----------------|
| Interest income | 15,831 | 14,800 | 15,444 | 14,447 |
| Interest expense | (5,609) | (4,799) | (5,615) | (4,810) |
| Earned premiums | 1,557 | 1,376 | - | - |
| Technical reserves | (339) | (115) | - | - |
| Claims | (592) | (620) | - | - |
| Net interest income | 10,848 | 10,642 | 9,829 | 9,637 |
| Loan impairment charges | (3,335) | (3,202) | (3,335) | (3,202) |
| Risk-adjusted net interest income | 7,513 | 7,440 | 6,494 | 6,435 |
| Fees and commissions receivable | 4,152 | 3,876 | 3,925 | 3,723 |
| Fees payable | (1,149) | (928) | (904) | (677) |
| Trading income | 1,462 | 1,896 | 1,347 | 1,521 |
| Other operating income | 2,070 | 2,532 | 2,173 | 2,731 |
| Total operating income | 14,048 | 14,816 | 13,035 | 13,733 |
| Administrative and personnel expenses | (11,117) | (12,939) | (11,376) | (13,096) |
| Net operating income | 2,931 | 1,877 | 1,659 | 637 |
| Undistributed income from subsidiaries | 28 | 17 | 25 | 18 |
| Net income before taxes | 2,959 | 1,894 | 1,684 | 655 |
| Income tax | (765) | (751) | (377) | (318) |
| Deferred income tax | 70 | 225 | 62 | 183 |
| Net income before discontinued operations | 2,264 | 1,368 | 1,369 | 520 |
| Discontinued operations | 62 | 221 | - | - |
| Minority interest | - | (6) | - | (6) |
| Net income | 2,326 | 1,583 | 1,369 | 514 |

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 |
|---|------------------------|---------------------|----------------------|---|---|
| Figures in MXN millions | | | | | |
| Balances at 1 January 2012 | 32,673 | 1,832 | 8,849 | 547 | (243) |
| Movements inherent to the shareholders' decision | | | | | |
| Transfer of result of prior years | - | 126 | 2,384 | - | - |
| Cash dividends | - | - | (2,400) | - | - |
| Total | - | 126 | (16) | - | - |
| Movements for the recognition of the comprehensive income | | | | | |
| Net income | - | - | - | - | - |
| Result from valuation of available- for-sale securities | - | - | - | 669 | - |
| Result from cash flow hedging transactions | - | - | - | - | 156 |
| Others | | | | | |
| Total | - | - | - | 669 | 156 |
| Balances at 30 June 2012 | 32,673 | 1,958 | 8,833 | 1,216 | (87) |

Consolidated Statement of Changes in Shareholders' Equity (continued)

BANK

| Figures in MXN millions | 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 |
|--|------------------------|---------------------|----------------------|---|---|---------------|----------------------|-----------------|
| Balances at 1 January 2012 | 27,618 | 11,057 | (202) | 547 | (243) | 716 | 3 | 39,496 |
| Movements inherent to the shareholders' decision | | | | | | | | |
| Transfer of result of prior years | - | - | 716 | - | - | (716) | - | - |
| Constitution of reserves | - | 716 | (716) | - | - | - | - | - |
| Cash dividends | - | (1,400) | - | - | - | - | - | (1,400) |
| Total | - | (684) | - | - | - | (716) | - | (1,400) |
| Movements for the recognition of the comprehensive income | | | | | | | | |
| Net income | - | - | - | - | - | 1,369 | - | 1,369 |
| Result from valuation of available- for-sale securities | - | - | - | 669 | - | - | - | 669 |
| Result from cash flow hedging transactions | - | - | - | - | 156 | - | - | 156 |
| Others | - | - | - | - | - | - | (2) | (2) |
| Total | - | - | - | 669 | 156 | 1,369 | (2) | 2,192 |
| Balances at | 27,618 | 10,373 | (202) | 1,216 | (87) | 1,369 | 1 | 40,288 |

30 June 2012

Consolidated Statement of Cash Flows

GROUP

Figures in MXN millions 30 Jun 2012

| | |
|---|----------|
| Net income | 2,326 |
| Adjustments for items not involving cash flow: | 4,142 |
| Depreciation and amortisation | 903 |
| Provisions | 2,097 |
| Income tax and deferred taxes | 695 |
| Technical reserves | 339 |
| Discontinued operations | 62 |
| Undistributed income from subsidiaries | 46 |
| Changes in items related to operating activities: | |
| Margin accounts | (4) |
| Investment securities | 19,280 |
| Repurchase agreements | 348 |
| Stock borrowing | (4) |
| Derivative (assets) | (2,941) |
| Loan portfolio | (7,693) |
| Foreclosed assets | 5 |
| Operating assets | (13,711) |
| Deposits | (1,901) |
| Bank deposits and other liabilities | (7,504) |
| Settlement accounts | 1,017 |
| Creditors repo transactions | 5,459 |
| Collateral sold or delivered as guarantee | (8,955) |
| Derivative (liabilities) | 2,464 |
| Subordinated debentures outstanding | (156) |
| Accounts receivables from reinsurers and coinsurers | 29 |
| Accounts receivables from premiums | (194) |
| Reinsurers and bonding | 52 |
| Other operating liabilities | 10,518 |
| Funds provided by operating activities | (3,891) |
| Investing activities: | |
| Acquisition of property, furniture and equipment | (528) |
| Intangible asset acquisitions | 492 |
| Funds used in investing activities | (36) |
| Financing activities: | |

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| | |
|---|---------|
| Cash dividends | (2,400) |
| Funds used in financing activities | (2,400) |
| Financing activities: | |
| Increase / Decrease in cash and equivalents | 141 |
| Cash and equivalents at beginning of period | 51,224 |
| Cash and equivalents at end of period | 51,365 |

Consolidated Statement of Cash Flows (continued)

BANK

Figures in MXN millions 30 Jun 2012

| | |
|---|----------|
| Net income | 1,369 |
| Adjustments for items not involving cash flow: | 3,290 |
| Depreciation and amortisation | 903 |
| Provisions | 2,097 |
| Income tax and deferred taxes | 315 |
| Undistributed income from subsidiaries | (25) |
| Changes in items related to operating activities: | |
| Margin accounts | (4) |
| Investment securities | 20,366 |
| Repurchase agreements | 348 |
| Derivative (assets) | (2,941) |
| Loan portfolio | (7,693) |
| Foreclosed assets | 5 |
| Operating assets | (13,450) |
| Deposits | (1,912) |
| Bank deposits and other liabilities | (7,504) |
| Creditors repo transactions | 5,439 |
| Stock borrowing | (4) |
| Collateral sold or delivered as guarantee | (8,935) |
| Derivative (liabilities) | 2,464 |
| Subordinated debentures outstanding | (156) |
| Other operating liabilities | 11,994 |
| Income tax paid | (978) |
| Funds provided by operating activities | (2,961) |
| Investing activities: | |
| Acquisition of property, furniture and equipment | (494) |
| Intangible asset acquisitions | 346 |
| Funds used in investing activities | (148) |
| Financing activities: | |
| Cash dividends | (1,400) |

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| | |
|---|---------|
| Funds used in financing activities | (1,400) |
| Financing activities: | |
| Increase / Decrease in cash and equivalents | 150 |
| Cash and equivalents at beginning of period | 51,224 |
| Cash and equivalents at end of period | 51,374 |

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 half year ended 30 June 2012 and an explanation of the key reconciling items.

| | 30 Jun 2012 |
|--|----------------|
| Figures in MXN millions | |
| Grupo Financiero HSBC - Net Income Under Mexican GAAP | 2,326 |
| Differences arising from: | |
| Valuation of defined benefit pensions and post retirement healthcare benefits* | 48 |
| Deferral of fees received and paid on the origination of loans* | 23 |
| Loan impairment charges* | 1,244 |
| Purchase accounting adjustments* | (6) |
| Recognition of the present value in-force of long-term insurance contracts* | (20) |
| Other differences in accounting principles* | (251) |
| Net income under IFRS | 3,364 |
| US dollar equivalent (millions) | 253 |
| Add back tax expense | 1,340 |
| Profit before tax under IFRS | 4,704 |
| US dollar equivalent (millions) | 354 |
| Exchange rate used for conversion | 13.29 |

* Net of tax at 30%.

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.

Deferral of fees paid and received on the origination of loans

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

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for using the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

Loan impairment charges

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.

Purchase accounting adjustments

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

Recognition of 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

A value is placed on insurance contracts that are classified as long-term insurance business and are in-force at the balance sheet date. The present value of in-force long-term insurance business is determined by discounting future earnings expected to emerge from business currently in force using appropriate assumptions in assessing factors such as recent experience and general economic conditions.

- 1 First half of 2011 results have been restated to reflect the Afore sale and the general insurance manufacturing businesses as discontinued operations
- 2 First half of 2011 results have been restated to reflect the Afore sale and the general insurance manufacturing businesses as discontinued operations
- 3 Persistency rates refer to the percentage of insurance policies remaining in force.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 31 July 2012