

Grupo Financiero HSBC

Financial information at 31 December 2011

4Q11

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Fourth Quarter 2011**

Release date:
29 February 2012



29 February 2012

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
2011 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before taxes for the year ended 31 December 2011 was MXN3,214m, an increase of MXN856m or 36.3% compared with MXN2,358m for 2010. The 2011 results were affected by restructuring of our regional and country support functions. Excluding the effect of these charges, net income before taxes was MXN4,723m, up by MXN2,297m or 94.7% compared with 2010.
- Net income for the year ended 31 December 2011 was MXN2,510m, an increase of MXN391m or 18.5% compared with MXN2,119m for 2010. Excluding the effect of the restructuring charges, net income was MXN3,566m, up MXN1,400m or 64.6% compared with 2010.
- Total operating income, net of loan impairment charges, for the year ended 31 December 2011 was MXN28,813m, an increase of MXN3,361m or 13.2% compared with MXN25,452m for 2010.
- Loan impairment charges for the year ended 31 December 2011 were MXN6,737m, a decrease of MXN2,547m or 27.4% compared with MXN9,284m for 2010.
- Net loans and advances to customers were MXN176.7bn at 31 December 2011, an increase of MXN14.6bn or 9.0% compared with MXN162.1bn at 31 December 2010. Total impaired loans as a percentage of gross loans and advances improved to 2.7% compared with 3.1% at 31 December 2010. The coverage ratio (allowance for loan losses divided by impaired loans) was 214.5% compared with 174.0% at 31 December 2010.
- At 31 December 2011, deposits were MXN297.4bn, an increase of MXN44.2bn or 17.5% compared with MXN253.2bn at 31 December 2010.
- Return on equity was 5.2% for the year ended 31 December 2011 compared with 4.4% for 2010.
- At 31 December 2011, the bank's capital adequacy ratio was 15.3% and the tier 1 capital ratio was 11.7% compared with 14.5% and 11.2% respectively at 31 December 2010.
- From the first quarter of 2011, regulatory requirements issued by the Comisión Nacional Bancaria y de Valores (CNBV) require financial figures for both the insurance and bond companies, HSBC Seguros and Fianzas Mexico respectively, to be presented on a consolidated basis. As a result, 2010 annual results have been re-stated to be comparable with the same period of 2011.
- The sale of HSBC Afore, S.A. de C.V. to Principal Financial Group, S.A. de C.V. was successfully completed in August 2011.

HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) primary subsidiary company 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 December 2011) 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.

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

Overview

Mexico's economy grew in 2011, although export growth moderated at the end of the year on the back of lower external demand. By contrast, domestic demand continued to strengthen, reflecting the greater availability of credit, growth in wages and a steady reduction in unemployment. The annual rate of CPI inflation rose at the end of 2011, to 3.8% due to a rebound in some agricultural prices and exchange rate depreciation. The Central Bank of Mexico maintained its policy rate at 4.5% throughout the year.

For the year ended 31 December 2011, Grupo Financiero HSBC's net income was MXN2,510m, an increase of MXN391m or 18.5% compared with 2010. Improved net income was mainly driven by higher trading income, increased other operating income and lower impairment charges, partially offset by lower net fee income and an increase in administrative expenses.

Net interest income was MXN21,495m, a decrease of MXN9m compared with 2010. This reduction was mainly a consequence of higher funding costs and a contraction in interest rate spreads, which were offset by higher insurance earned premiums and increased loan portfolio balances.

Loan impairment charges were MXN6,737m, a decline of MXN2,547m or 27.4% compared with 2010. This reflects the strategic reduction of the higher risk sections of the credit card portfolio, as well as improvements to both the collection and credit quality of the portfolio following targeted sales campaigns and enhanced pre-screening of new customers.

Net fee income was MXN5,995m, a decrease of MXN476m or 7.4% compared with 2010. This reduction was mainly as a consequence of lower credit card portfolio volumes and decreased fee income from account services and ATM transactions. Regulatory changes effective since the beginning of 2011 impacted fee income by limiting the fees that can be charged for ATM transactions and customer deposit services.

Trading income was MXN3,272m, an increase of MXN449m or 15.9% compared with the same period of 2010. Higher trading income was due to the completion of a small number of individually large derivative transactions with clients of Global Banking & Markets and the sale of an equity investment in the first quarter of 2011, partially offset by lower foreign exchange and debt trading results.

Other operating income was MXN4,788m, an increase of MXN850m or 21.6% compared with 2010. This increase is driven by recoveries of taxes paid in previous years, the gain on the sale and leaseback of certain branches in the network, the sale of HSBC Afore and lower operational losses recognised during the year.

Administrative and personnel expenses were MXN25,562m, an increase of MXN2,449m or 10.6% compared with 2010. This increase is mainly driven by the consolidation of our branch network and restructuring of our regional and country support functions. Excluding the effect of the restructuring charges, the increase in expenses was MXN1,008m or 4.4% compared with 2010.

The performance of all subsidiaries contributed positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported a net profit of MXN1,496m for the year ended 31 December 2011, up 21.4% compared with 2010. The higher results reported by HSBC Seguros were driven by increased product sales, mainly in life products, contributing to a 9.3% increase in total earned premiums, coupled with lower operating expenses. Additionally, the claims ratio decreased to 24.6% from 31.8% in 2010.

Net loans and advances to customers increased MXN14.6bn or 9.0% to MXN176.7bn at 31 December 2011 compared with 31 December 2010, mainly driven by growth in both the commercial and consumer portfolios. Commercial portfolio growth is mainly due to higher lending to corporate clients and MME's, while consumer portfolio growth was mainly driven by increased payroll and personal loans.

At 31 December 2011, total impaired loans decreased by 4.9% to MXN5.1bn compared with 31 December 2010, mainly as a result of a reduction in impaired consumer and mortgage loans, reflecting tightened underwriting standards, improved collection procedures and an overall improvement in the credit environment. This was partially offset by an increase in impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers improved to 2.7% compared with 3.1% reported at 31 December 2010.

Total loan loss allowances at 31 December 2011 were MXN10.9bn, an increase of MXN1.6m or 17.3% compared with 31 December 2010. The total coverage ratio (allowance for loan losses divided by impaired loans) was 214.5% at 31 December 2011 compared with 174.0% at 31 December 2010.

Total deposits were MXN297.4bn at 31 December 2011, an increase of MXN44.2bn or 17.5% compared with 31 December 2010. This is the result of increased sales efforts and targeted promotions particularly for 'Inversion diaria', 'Inversion Express' and 'Premier' deposit products, as well as increases in payroll and commercial deposits.

At 31 December 2011, the bank's capital adequacy ratio was 15.3% compared with 14.5% at 31 December 2010. The tier 1 capital ratio was 11.7% compared with 11.2% at 31 December 2010.

In December 2011, Grupo Financiero HSBC paid a dividend of MXN2,500m representing MXN0.97 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

RBWM reported deposit and loan growth in 2011, and continues to benefit from a general improvement in credit quality of the portfolios. Customer lending increased driven mainly by payroll and personal loans, as a result of a strong emphasis placed on targeted sales. Deposits grew strongly in 2011 achieving double digit growth.

In our wealth management business, our Premier customer base has been reviewed and aligned with the HSBC Global Premier qualifying requirements, allowing our personal relationship managers to provide improved services.

Commercial Banking

During 2011, Commercial Banking achieved an increase in both customer deposits and loans compared with 2010.

During the year we recruited additional relationship managers to support business growth, particularly from the increasing number of businesses with international banking requirements as well as from business banking and mid market customers.

Aligned with our strategy to strengthen our international presence, we have reinforced our Trade and Supply Chain team through the creation of a dedicated Client Service team.

Global Banking and Markets

Total Global Markets revenues were particularly strong in trading. Balance sheet management continues to be the significant contributor.

In the Debt Capital Markets business, Grupo Financiero HSBC consolidated its position as a leading underwriter in Mexico, maintaining its second place in the local debt capital market league tables. During 2011, we placed and participated in significant bond issuances including United Mexican States (UMS), CEMEX, Ideal, Santander, INFONAVIT, Bancomext, Asea, Gas Natural, Interacciones, Scotiabank, Cadena Mexicana de Exhibición, ICA, PEMEX, Volkswagen Bank, ARCA and Inbursa.

In 2011, we were granted with a license to operate and set-up an equity derivatives platform, supporting growth and development in Global Markets.

The Project and Export Finance Business reported strong performance, executing transactions worth MXN8,305m (approximately US\$570m). Also during the year, two mergers and acquisitions deals were executed (Petrotemex and Arca-Contal).

Sale of HSBC Afore to Principal Financial Group

On 11 April 2011, Grupo Financiero HSBC signed an agreement to sell HSBC Afore, S.A. de C.V., its pension funds management business, to Principal Financial Group, S.A. de C.V. ('Principal') for a cash consideration of MXN2,360m (approximately US\$198m). This sale transaction was successfully completed in August 2011.

Grupo Financiero HSBC 2011 financial results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)

For the year ended 31 December 2011, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN7,978m, an increase of MXN2,684m or 50.7% compared with MXN5,294m in 2010. The 2011 results were affected by restructuring of our regional and country support functions. Excluding the effect of these charges, net income before taxes was MXN9,487m, up by MXN4,125m or 76.9% compared with 2010.

The lower profit reported under Mexican GAAP is largely due to lower loan impairment charges under IFRS as result of the different provisioning methodologies and the amount recognised as profit on the sale of the pension funds management business (Afore). The goodwill allocated under IFRS on the disposal of Afore is based on the goodwill held in the Grupo Financiero HSBC legal entity, but allocated on the HSBC Group cash generating unit basis. 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, 6,195 ATMs, approximately eight and a half million total customer accounts and approximately 19,000 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 7,200 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\$2,556bn at 31 December 2011, HSBC is one of the world's largest banking and financial services organisations.

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Key Indicators

Grupo Financiero HSBC, S.A. de C.V.

For the quarter ended at

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
a) Liquidity	112.22%	122.15%	113.02%	109.07%	105.23 %
Profitability					
b) ROE (Return over equity)	1.87%	7.20%	6.28%	9.47%	(1.77)%
c) ROA (Return over assets)	0.20%	0.76%	0.60%	0.91%	(0.17)%
Asset quality					
d) Impaired loans/total loans	3.12%	2.74%	2.47%	3.56%	2.71%
e) Coverage ratio	173.96%	197.72%	215.81%	158.35%	214.48%
Capitalization					
f) Credit risk	24.28%	22.70%	22.81%	22.34%	22.05%
g) Credit and market risk operational	14.55%	14.41%	13.98%	15.16%	15.26%
Operating efficiency					
h) Expenses/Total Assets	5.77%	5.60%	5.41%	4.68%	5.34%
i) NIM	5.06%	5.14%	5.08%	4.94%	4.77%
Infrastructure					
Branches	1,144	1,147	1,078	1,079	1,067
ATM	6,331	6,361	6,134	6,062	6,195
Head Count	20,132	20,139	19,400	19,232	18,921

a) $Liquidity = Liquid\ Assets / Liquid\ Liabilities.$ $Liquid\ Assets = Cash\ and\ deposits\ in\ banks + Trading\ securities + Available\ for\ sale\ securities$ $Liquid\ Liabilities = Demand\ deposits + Bank\ deposits\ and\ other\ on\ demand + Bank\ deposits\ and\ other\ short\ term\ liabilities$ b) $ROE = Annualized\ quarter\ net\ income / Average\ shareholders\ equity.$ c) $ROA = Annualized\ quarter\ net\ income / Average\ total\ assets.$ d) $Impaired\ loans\ balance\ at\ quarter\ end / Total\ loans\ balance\ at\ quarter.$ e) $Coverage\ ratio = Balance\ of\ provisions\ for\ loan\ losses\ at\ quarter\ end / Balance\ of\ impaired\ loans$ f) $Capitalization\ ratio\ by\ credit\ risk = Net\ capital / Credit\ risk\ weighted\ assets.$ g) $Capitalization\ ratio\ by\ credit\ and\ market\ risk\ operational = Net\ capital / Credit\ and\ market\ risk\ weighted\ assets.$ h) $Operating\ efficiency = Expenses / Total\ assets$ i) $NIM = Annualized\ net\ interest\ income / Average\ performing\ assets.$ $Performing\ assets = Cash\ and\ deposits\ in\ banks + Investments\ in\ securities + Repurchase\ agreements + Derivatives\ operations + Performing\ loans.$

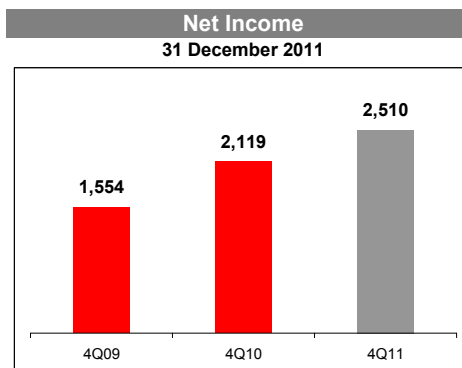
The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC at 31 December 2011 was MXN2,510m, an increase of 18.5% compared with the same period of 2010.

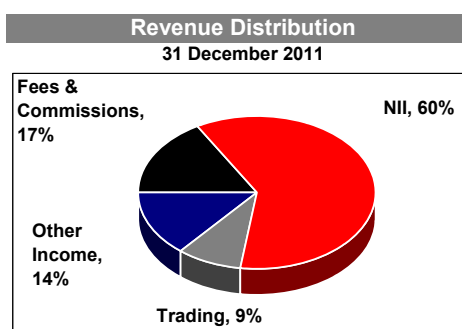
The Group's subsidiaries had solid results during the year, particularly HSBC Mexico, the Insurance Company and Brokerage Company. This strong performance was mainly due to higher trading revenues, higher earned premiums and lower allowances for loan losses. Charges associated with the restructuring of regional services provided by the bank and the consolidation of our branch network took place throughout the year.



Total Operating Income

At 31 December 2011, the Group's total operating income, was MXN28,813m, an increase of MXN3,361m (13.2%) compared with 2010.

Increased total operating income is the result of higher trading income and improved risk adjusted net interest margin due to lower loan impairment charges.



Net Interest Income

Net interest income for the year ended at 31 December 2011 decreased to MXN21,495m, down MXN9m compared to the same period of 2010.

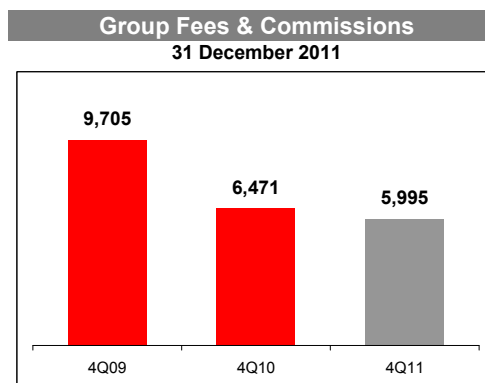
The decrease in interest income was mainly a consequence of increased interest expense mainly due to higher funding costs coupled with lower spread margin, partially offset by higher performing loan volumes and earned premiums.

Non-interest Income

Non-interest income for the year ended at 31 December 2011 was MXN14,055m; an increase of MXN823m or 6.2% compared with results from the same period in 2010.

► Fee income

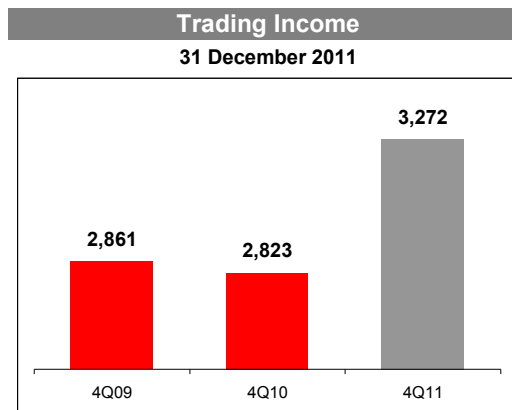
The Group's net fee income for the year ended at 31 December 2011 was MXN5,995m, a decrease of MXN476m or 7.4% compared with the same period in 2010. Lower fee income related to credit card and account services as well as a reduction in ATM transaction fees have negatively affected net fee income.



► **Trading income**

Trading income was MXN3,272m, which represents an increase of MXN449m (15.9%) compared with the same period of 2010. Higher trading income from derivative instruments and the sale of one of our equity investments in the first quarter of 2011 were partially offset by lower foreign exchange and debt trading results.

The Group's non-interest income to total revenue ratio increased from 38.1% at 31 December 2010 to 39.5% at 31 December 2011, driven by stronger trading and other operating income.

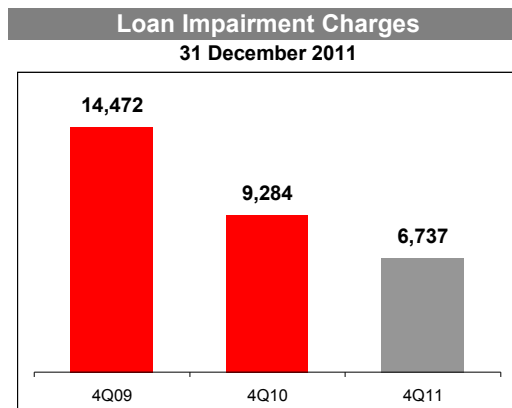


► **Other operating income**

Other operating income increased MXN850m for the year ended at 31 December 2011, reporting MXN4,788m, higher 21.6% compared to the same period of 2010. This increase was mainly driven by the gain resulting from the sale and leaseback of certain branches in the network, the sale of HSBC Afore, tax recoveries from previous years and lower operational losses recognised during the year.

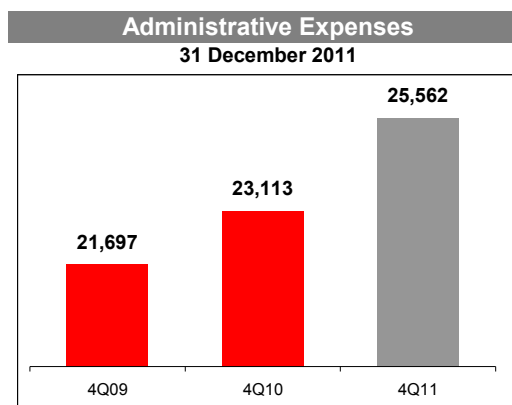
Loan Impairment Charges

At 31 December 2011, the Group's loan impairment charges were MXN6,737m, which represents a decrease of MXN2,547m or 27.4% compared with same period of the prior year. This is a result of a general improvement in asset quality and lower credit card volumes.



Administrative and Personnel Expenses

The Group's administrative and personnel expenses for the year ended at 31 December 2011 were MXN25,562m, a MXN2,449m or 10.6% increase compared to the same period in 2010. Excluding the effect of charges related with the restructuring of regional services provided by the bank, the increase in expenses was MXN1,008m or 4.4% compared with the same period of 2010.

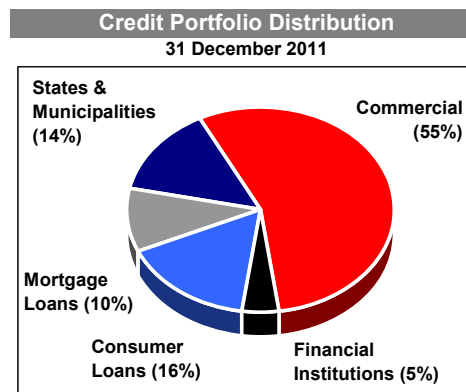


Balance sheet Variance Analysis

At 31 December 2011, the Group's total assets amounted MXN504,521m, which represents an increase of MXN58,473m or 13.1%, compared with the same period of 2010. This increase was driven by higher volumes in the net loan portfolio, mainly in commercial loans, higher investment in securities and derivative transactions.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN182,556m at 31 December 2011, an increase of 9.9% compared with 2010. This growth has been driven by higher commercial and consumer loan portfolios, which grew 17.7% and 9.9% respectively when compared to 31 December 2010.



► Commercial loans (including financial and government entities)

At 31 December 2011, the total commercial portfolio (including financial and government entities) increased 10.9% in comparison with 2010; mainly driven by commercial loan portfolio.

The commercial loan portfolio continues to report an important growth, up 17.7% compared to the same period of 2010, mainly driven by increased corporate and commercial portfolios. This growth is in line with the Bank's credit portfolio strategy in order to improve asset quality. The government loan portfolio decreased by MXN2,171m or 7.7% compared with the same period of 2010.

► Consumer loans

Consumer loans increased 9.9% compared to the same period in 2010. This result is mainly due to sound personal loans and payroll portfolio performance which shows an increase of 88.2% over the same period in 2010.

Credit card balances were MXN15,306m, down 6.1% compared to the same period of the prior year. Auto loan portfolio was MXN2,995m, showing a decrease of 31.5% compared to the same period in 2010.

► Mortgage loans

The mortgage loan portfolio decreased MXN501m or 2.9% compared with the same period of the prior year. As of December 2011, mortgage loan origination has improved according to the Group's asset quality criteria.

Asset quality

As of December 31 2011, the Group's impaired loan portfolio amounted to MXN5,082m, which represents a decrease of MXN262m or 4.9% compared to the same period of 2010. The Group's credit profile continues improving as a result of the actions deployed in order to improve asset quality.

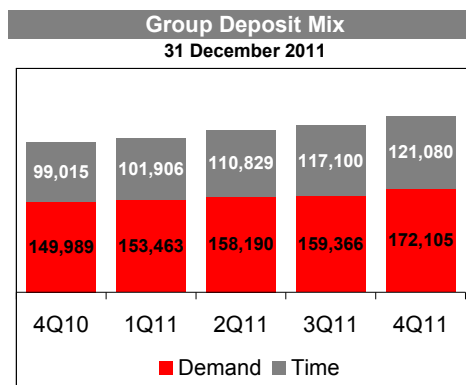
Total impaired loans as a percentage of gross loans and advances to customers decreased to 2.7% compared with 3.1% reported at 31 December 2010. The coverage ratio (allowance for loan losses divided by impaired loans) at 31 December 2011 was 214.5%, compared to 174.0% reported at 31

December 2010. This increase in the coverage ratio is mainly the result of higher allowances for loan losses.

Deposits

The Group's total deposits at 31 December 2011 amounted to MXN297,428m, an increase of 17.4% compared to the 31 December 2010, as a result of the sale and promotion of collection products such as "Inversion diaria", "Inversion Express" and "Premier" deposit products, as well as a increases in payroll and commercial deposits.

HSBC's presence in the commercial sector continues to deliver positive results, particularly in time deposits.



► Demand deposits

At 31 December 2011, demand deposits were MXN172,105m, up 14.7% compared with the same period of 2010, mainly as result of increased payroll accounts and sales efforts focussed on demand deposits from our customer base.

► Time deposits

Total time deposits increased 22.3% compared to 31 December 2010, primarily as a result of actions focused on increasing balances of our time deposit products.

Shareholder's equity

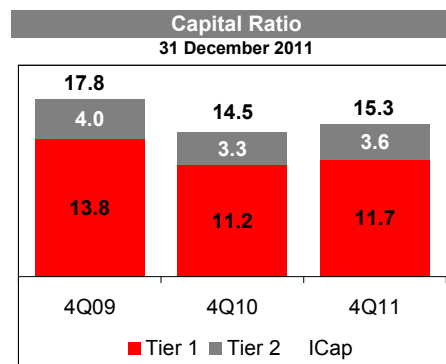
At 31 December 2011, the Group's equity amounted to MXN46,179m, representing a decrease of 6.7% compared to the same period in 2010.

The banks equity was MXN39,496m, at 31 December 2011, up 3.4% compared to 31 December 2010.

Capital Adequacy Ratio

The Bank's capital adequacy ratio at 31 December 2011 was 15.3%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 11.7%.

In December 2011, the Grupo Financiero HSBC paid a dividend of MXN2,500m representing MXN0.97 per share.



Financial Situation, Liquidity and Capital Resources

HSBC's balance structure has maintained its liquidity. Cash and investments in securities represent 45.4% of total assets, 37 basis points lower than in 2010. Total assets were MXN504.5bn, up by MXN58.5bn in comparison with 2010. The loan portfolio is adequately diversified across segments, the bank's main credit exposures are with Mexican institutions with top counterparty credit quality and governmental institutions.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at December 31, 2011

Grupo Financiero HSBC, S.A. de C.V.

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
Assets					
Cash and deposits in banks	48,804	53,883	53,637	55,376	51,224
Margin Accounts	42	50	8	-	27
Investments in Securities	155,257	170,743	172,448	163,264	177,700
Trading securities	44,160	37,234	37,665	37,699	51,089
Available-for-sale securities	95,683	118,799	119,913	110,467	111,164
Held to maturity securities	15,414	14,710	14,870	15,098	15,447
Repurchase agreements	1,856	362	7,774	7,668	5,749
Derivative transactions	28,205	25,379	28,633	50,979	42,906
Performing loans					
Commercial loans	121,855	127,399	131,523	128,354	135,196
Commercial entities	85,847	90,506	96,623	100,133	101,012
Loans to financial intermediaries	7,921	7,757	6,908	6,341	8,268
Loans to government entities	28,087	29,136	27,992	21,880	25,916
Consumer loans	26,665	26,948	28,613	29,101	29,302
Mortgages loans	17,557	17,553	17,834	17,828	18,058
Total performing loans	166,077	171,900	177,970	175,283	182,556
Impaired loans					
Commercial loans	1,669	1,721	1,330	3,366	2,027
Commercial entities	1,664	1,335	1,330	2,014	2,027
Financial entities	-	386	-	-	-
Loans to government entities	5	-	-	1,352	-
Consumer loans	1,574	1,260	1,324	1,256	1,234
Mortgages loans	2,101	1,854	1,850	1,839	1,821
Total non-performing loans	5,344	4,835	4,504	6,461	5,082
Loan portfolio	171,421	176,735	182,474	181,744	187,638
Allowance for loan losses	(9,296)	(9,560)	(9,720)	(10,231)	(10,900)
Net loan portfolio	162,125	167,175	172,754	171,513	176,738
Receivables	-	-	5,488	5,600	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	162,125	167,175	178,242	177,113	176,738
Premium receivables	270	312	310	295	267
Accounts receivables from reinsurers and rebonding companies	555	330	343	284	314
Benefits to be received from trading operations	-	-	-	-	-
Other accounts receivable, net	25,232	28,783	32,804	30,916	29,287
Foreclosed assets	162	165	165	195	207
Property, furniture and equipment, net	9,073	8,799	8,205	8,074	8,080
Long term investments in equity securities	203	200	192	250	221
Long-term assets available for sale	2,422	2,465	2,361	2	-
Deferred taxes, net	5,292	5,748	5,454	5,508	6,504
Goodwill	1,218	1,218	1,218	1,218	1,218
Other assets, deferred charges and intangibles	5,332	5,213	4,260	5,135	4,079
Total Assets	446,048	470,825	496,054	506,277	504,521

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Liabilities					
Deposits	253,247	259,637	273,255	280,728	297,428
Demand deposits	149,989	153,463	158,190	159,366	172,105
Time deposits	99,015	101,906	110,829	117,100	121,080
Retail	98,785	100,753	109,114	115,035	119,297
Money market	230	1,153	1,715	2,065	1,783
Bank bonds outstanding	4,243	4,268	4,236	4,262	4,243
Bank deposits and other liabilities	21,931	19,921	30,161	28,927	32,536
On demand	3,776	3,827	3,950	-	5,866
Short term	16,630	14,607	24,744	27,243	24,923
Long term	1,525	1,487	1,467	1,684	1,747
Repurchase agreements	29,911	49,816	48,985	17,176	9,327
Stock Borrowing	-	-	2	4	4
Settlement accounts	2,359	1,440	-	-	-
Collateral Sold	11,784	9,215	10,292	12,095	17,704
Repurchase	4,957	4,575	5,524	5,422	6,046
Securities to be received in repo transactions	6,827	4,640	4,768	6,673	11,658
Derivative transactions	30,545	24,009	27,274	50,669	43,296
Technical reserves	10,553	10,670	10,675	10,778	11,083
Reinsurers	197	35	83	90	49
Other accounts payable	25,235	40,073	37,547	45,965	35,873
Income tax and employee profit sharing payable	1,229	1,210	1,162	1,996	1,780
Creditors for settlement of transactions	12,785	23,622	23,110	35,971	18,354
Sundry creditors and others accounts payable	11,221	15,241	13,275	7,998	15,739
Subordinated debentures outstanding	10,007	9,881	9,824	10,435	10,488
Deferred credits	766	680	645	622	554
Total Liabilities	396,535	425,377	448,743	457,489	458,342
Stockholder's Equity					
Paid in capital	32,673	32,673	32,673	32,673	32,673
Capital stock	5,111	5,111	5,111	5,111	5,111
Additional paid in capital	27,562	27,562	27,562	27,562	27,562
Capital Gains	16,830	12,764	14,627	16,105	13,495
Capital reserves	1,726	1,726	1,832	1,832	1,832
Retained earnings	13,058	11,368	11,262	11,262	8,849
Result from the mark-to-market of					
Available-for-sale securities	140	(1,277)	220	758	547
Result from cash flow hedging transactions	(213)	92	(270)	(467)	(243)
Net Income	2,119	855	1,583	2,720	2,510
Non-controlling interest	10	11	11	10	11
Total Stockholder's Equity	49,513	45,448	47,311	48,788	46,179
Total Liabilities and Capital	446,048	470,825	496,054	506,277	504,521

Figures in MXN millions at December 31, 2011

Grupo Financiero HSBC, S.A. de C.V.

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Memorandum Accounts	2,586,456	2,490,065	2,729,366	2,967,174	2,783,257
Proprietary position	2,506,359	2,399,634	2,633,899	2,870,275	2,687,313
Guarantees granted	21	16	16	14	14
Contingent assets and liabilities	116	115	95	95	-
Irrevocable lines of credit granted	16,201	17,185	16,909	19,193	22,425
Goods in trust or mandate	293,814	310,733	311,753	313,369	328,375
Trust	293,051	306,644	307,939	309,526	327,848
Mandate	763	4,089	3,814	3,843	527
Goods in custody or under administration	251,394	257,710	265,996	253,350	256,883
Collateral received by the institution	13,370	14,220	40,791	35,774	54,796
Collateral received and sold or delivered as guarantee	15,143	17,926	40,524	36,971	53,869
Values in deposit	53	53	53	53	53
Suspended interest on impaired loans	254	236	224	230	236
Recovery guarantees for issued bonds	48,011	45,011	36,649	34,191	35,383
Paid claims	13	5	14	56	61
Cancelled claims	17	1	2	24	24
Recovery claims	-	-	-	-	1
Responsibilities from bonds in force	3,591	3,623	3,614	3,416	3,552
Other control accounts	1,864,361	1,732,800	1,917,259	2,173,539	1,931,641

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Third party accounts	80,097	90,431	95,467	96,899	95,944
Clients current accounts	(2)	(24)	149	(169)	13
Custody operations	25,396	29,793	31,969	33,640	35,328
Transactions on behalf of clients	11,352	10,120	11,896	11,607	13,585
Third party investment banking operations, net	43,351	50,542	51,453	51,821	47,018

The present balance statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Article 30 of the Law for Credit Institutions, of general observance and mandatory, applied in a consistent manner, this statement reflects all operations performed by the institution up to the date mentioned above, these operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of the signing officers.
Historical paid in capital of the Institution amounts to MXN 5,111 millions.
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www.cnbv.gob.mx.

LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at December 31, 2011

Grupo Financiero HSBC, S.A. de C.V.

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>	<i>30 Sep 2011</i>	<i>31 Dec 2011</i>	<i>31 Dec 2011</i>	
Interest Income	7,204	7,197	7,614	7,863	7,861	28,663	30,535
Earned premiums	602	778	741	758	713	2,740	2,990
Interest expense	(2,084)	(2,191)	(2,609)	(2,734)	(2,638)	(8,096)	(10,172)
Increase in technical reserves	(152)	(154)	21	(81)	(293)	(380)	(507)
Claims	(349)	(348)	(341)	(385)	(277)	(1,423)	(1,351)
Net interest income	<u>5,221</u>	<u>5,282</u>	<u>5,426</u>	<u>5,421</u>	<u>5,366</u>	<u>21,504</u>	<u>21,495</u>
Loan impairment charges	<u>(1,776)</u>	<u>(1,654)</u>	<u>(1,548)</u>	<u>(1,548)</u>	<u>(1,987)</u>	<u>(9,284)</u>	<u>(6,737)</u>
Risk adjusted net interest income	<u>3,445</u>	<u>3,628</u>	<u>3,878</u>	<u>3,873</u>	<u>3,379</u>	<u>12,220</u>	<u>14,758</u>
Fees and commissions receivable	2,190	1,913	1,963	2,077	2,087	8,727	8,040
Fees payable	(607)	(475)	(491)	(539)	(540)	(2,256)	(2,045)
Trading Income	462	1,215	683	604	770	2,823	3,272
Other operating income	1,263	1,108	1,489	1,640	551	3,938	4,788
Administrative and personnel expenses	<u>(6,730)</u>	<u>(6,418)</u>	<u>(6,542)</u>	<u>(5,865)</u>	<u>(6,737)</u>	<u>(23,113)</u>	<u>(25,562)</u>
Net operating income	<u>23</u>	<u>971</u>	<u>980</u>	<u>1,790</u>	<u>(490)</u>	<u>2,339</u>	<u>3,251</u>
Undistributed income from subsidiaries	17	8	9	18	(72)	19	(37)
Net income before taxes	<u>40</u>	<u>979</u>	<u>989</u>	<u>1,808</u>	<u>(562)</u>	<u>2,358</u>	<u>3,214</u>
Income tax and employee profit sharing tax	(659)	(322)	(454)	(748)	(866)	(1,661)	(2,390)
Deferred income tax	<u>767</u>	<u>127</u>	<u>102</u>	<u>46</u>	<u>1,051</u>	<u>996</u>	<u>1,326</u>
Income from ongoing operations	<u>148</u>	<u>784</u>	<u>637</u>	<u>1,106</u>	<u>(377)</u>	<u>1,693</u>	<u>2,150</u>
Discontinued operations	<u>87</u>	<u>74</u>	<u>94</u>	<u>5</u>	<u>186</u>	<u>420</u>	<u>359</u>
Non-controlling interest	<u>(3)</u>	<u>(3)</u>	<u>(3)</u>	<u>26</u>	<u>(19)</u>	<u>6</u>	<u>1</u>
Net income (loss)	<u>232</u>	<u>855</u>	<u>728</u>	<u>1,137</u>	<u>(210)</u>	<u>2,119</u>	<u>2,510</u>

"The consolidated income statement, with those of the other financial entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the other financial entities comprising of that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers."

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Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions
From 1 January to 31st December 2011

Grupo Financiero HSBC, S.A. de C.V.

	Paid in capital				Earned capital							Non-controlling interest	Total Stock-holders Equity
	Capital Stock	Advances for future capital increases	Subordinate Shares and debentures Premiums outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income				
Balances at 01 January 2011	5,111	-	27,562	-	1,726	13,058	(73)	-	-	2,119	10	49,513	
Movements Inherent to the Shareholders Decision													
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	
Transfer of result of prior years	-	-	-	-	106	2,013	-	-	-	(2,119)	-	-	
Cash dividends	-	-	-	-	-	(6,020)	-	-	-	-	-	(6,020)	
Others	-	-	-	-	-	-	-	-	-	-	-	-	
Total Movements Inherent to the Shareholders Decision	-	-	-	-	106	(4,007)	-	-	-	(2,119)	-	(6,020)	
Movements for the Recognition of the Comprehensive Income													
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-	
Net result	-	-	-	-	-	-	-	-	-	2,510	-	2,510	
Result from valuation of available-for-sale securities	-	-	-	-	-	-	407	-	-	-	-	407	
Result from cash flow hedging transactions	-	-	-	-	-	-	(30)	-	-	-	-	(30)	
Results from holding non-monetary assets	-	-	-	-	-	(202)	-	-	-	-	1	(201)	
Others	-	-	-	-	-	-	-	-	-	-	-	-	
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	(202)	377	-	-	2,510	1	2,886	
Balances at 31 December 2011	5,111	-	27,562	-	1,832	8,849	304	-	-	2,510	11	46,179	

"The present statement of changes in stockholder's equity, with those of other financial entities comprising the Group that are subject to consolidation, was prepared in accordance with the accounting criteria for financial group holding companies issued by the national Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the financial entities comprising the group that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The present statement of changes in stockholder's equity was approved by the Board of Directors under the responsibility of the following officers."

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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January to 31 December 2011

Grupo Financiero HSBC, S.A. de C.V.

Net income	2,510
Adjustments for items not involving cash flow:	6,621
Gain or loss on appraisal of activities associated with investment & financing	-
Allowances for loan losses	-
Depreciation and amortization	3,171
Provisions	2,201
Income Tax and deferred taxes	1,064
Technical reserves	507
Discontinued operations	(359)
Undistributed income from subsidiaries	37
Changes in items related to operating activities:	
Memorandum accounts	15
Investment securities	(24,180)
Repurchase agreements	(3,893)
Stock borrowing	4
Derivative (assets)	(14,744)
Loan portfolio	(14,903)
Receivables	-
Foreclosed assets	(44)
Operating assets	(2,344)
Deposits	44,182
Bank deposits and other liabilities	10,606
Settlement accounts	-
Creditors repo transactions	(20,585)
Collateral sold or delivered as guarantee	5,920
Derivative (liabilities)	12,751
Subordinated debentures outstanding	480
Accounts receivables from reinsurers and coinsurers	241
Accounts receivables from premiums	2
Reinsurers and bonding	(148)
Other operating liabilities	5,857
Funds provided by operating activities	(783)
Investing activities:	
Acquisition of property, furniture and equipment	(417)
Intangible assets acquisitions	563
Others	(54)
Funds used in investing activities	92
Financing activities:	
Cash dividends	(6,020)
Decrease of Shares	-
Others	-
Funds used in financing activities	(6,020)
Increase/decrease in cash and equivalents	2,420
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	48,804
Cash and equivalents at end of period	51,224

The present Consolidated Statement of Cash Flows, with those of other financial entities comprising the Group that are subject to consolidation, was prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the financial entities comprising the group that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions. This Consolidated Statement of Cash Flows, was approved by the Board of Directors under the responsibility of the following officers.
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Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at December 31, 2011

HSBC Mexico, S.A. (Bank)

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
Assets					
Cash and deposits in banks	48,801	53,881	53,634	55,376	51,224
Margin Accounts	42	50	8	-	27
Investment in Securities	139,540	156,672	157,931	145,470	161,747
Trading securities	36,548	30,554	30,808	27,757	43,313
Available-for-sale securities	95,315	118,799	119,913	110,467	111,164
Held to maturity securities	7,677	7,319	7,210	7,246	7,270
Repurchase agreements	1,856	362	7,773	7,668	5,749
Derivative transactions	28,205	25,379	28,633	50,979	42,906
Performing loans					
Commercial loans	121,855	127,399	131,523	128,354	135,196
Commercial entities	85,847	90,506	96,623	100,133	101,012
Loans to financial intermediaries	7,921	7,757	6,908	6,341	8,268
Loans to government entities	28,087	29,136	27,992	21,880	25,916
Consumer loans	26,665	26,948	28,613	29,101	29,302
Mortgages loans	17,557	17,553	17,834	17,828	18,058
Total performing loans	166,077	171,900	177,970	175,283	182,556
Impaired loans					
Commercial loans	1,669	1,721	1,330	3,366	2,027
Commercial entities	1,664	1,335	1,330	2,014	2,027
Loans to financial intermediaries	-	386	-	-	-
Loans to government entities	5	-	-	1,352	-
Consumer loans	1,574	1,260	1,324	1,256	1,234
Mortgage Loans	2,101	1,854	1,850	1,839	1,821
Total non-performing loans	5,344	4,835	4,504	6,461	5,082
Total loan portfolio	171,421	176,735	182,474	181,744	187,638
Allowance for loan losses	(9,296)	(9,560)	(9,720)	(10,231)	(10,900)
Net loan portfolio	162,125	167,175	172,754	171,513	176,738
Receivables	-	-	5,488	5,600	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	162,125	167,175	178,242	177,113	176,738
Other accounts receivable	25,393	28,839	32,887	30,948	29,335
Foreclosed assets	162	165	161	191	203
Property, furniture and equipment, net	9,069	8,795	8,205	8,073	8,080
Long term investments in equity securities	123	120	113	170	138
Long term assets available for sale	-	-	1	3	-
Deferred taxes	5,318	5,636	5,328	5,386	6,409
Other assets, deferred charges and intangibles	4,753	5,011	3,917	4,642	3,506
Total Assets	425,387	452,085	476,833	486,019	486,062

Figures in MXN millions at December 31, 2011

HSBC Mexico, S.A. (Bank)

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Liabilities					
Deposits	253,613	260,297	274,106	281,464	298,119
Demand deposits	150,355	154,123	159,041	160,102	172,797
Time deposits	99,015	101,906	110,829	117,100	121,079
Retail	98,785	100,754	109,114	115,035	119,296
Money market	230	1,152	1,715	2,065	1,783
Bank bonds outstanding	4,243	4,268	4,236	4,262	4,243
Bank deposits and other liabilities	21,931	19,921	30,161	28,927	32,536
On demand	3,776	3,827	3,950	-	5,866
Short term	16,630	14,607	24,744	27,243	24,923
Long term	1,525	1,487	1,467	1,684	1,747
Repurchase agreements	34,868	54,392	54,509	22,598	15,373
Stock Borrowing	-	-	2	4	4
Settlement accounts	2,359	1,440	-	-	-
Collateral Sold	6,827	4,639	4,769	6,673	11,658
Repurchase	-	-	-	-	-
Securities to be received in repo transactions	6,827	4,639	4,769	6,673	11,658
Derivative transactions	30,545	24,009	27,274	50,669	43,296
Other accounts payable	26,303	41,452	38,743	46,680	34,572
Income tax and employee profit sharing payable	654	918	694	1,113	795
Contributions for future capital increases	2,013	2,013	2,013	2,013	-
Creditors for settlement of transactions	12,773	23,440	22,900	25,897	18,353
Sundry creditors and others accounts payable	10,863	15,081	13,136	17,657	15,424
Subordinated debentures outstanding	10,007	9,881	9,824	10,435	10,488
Deferred credits	730	639	606	587	520
Total Liabilities	<u>387,183</u>	<u>416,670</u>	<u>439,994</u>	<u>448,037</u>	<u>446,566</u>
Stockholder's Equity					
Paid in capital	25,605	25,605	25,605	25,605	27,618
Capital stock	5,087	5,087	5,087	5,087	5,261
Additional paid in capital	20,518	20,518	20,518	20,518	22,357
Capital Gains	12,596	9,807	11,231	12,374	11,875
Capital reserves	12,437	10,636	11,069	11,069	11,057
Retained earnings	-	131	(302)	(301)	(202)
Result from the mark-to-market of					
Available-for-sale securities	(48)	(1,277)	220	758	547
Result from cash flow hedging transactions	(213)	92	(270)	(467)	(243)
Net Income	420	225	514	1,315	716
Non-controlling interest	3	3	3	3	3
Total Stockholder's Equity	<u>38,204</u>	<u>35,415</u>	<u>36,839</u>	<u>37,982</u>	<u>39,496</u>
Total Liabilities and Capital	<u>425,387</u>	<u>452,085</u>	<u>476,833</u>	<u>486,019</u>	<u>486,062</u>

	<u>31 Dec 2010</u>	<u>31 Mar 2011</u>	<u>30 Jun 2011</u>	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>
Memorandum Accounts					
Guarantees granted	21	16	16	14	14
Contingent assets and liabilities	116	115	95	95	-
Irrevocable lines of credit granted	16,201	17,185	16,909	19,193	22,425
Goods in trust or mandate	293,814	310,733	311,753	313,370	328,375
Goods	293,051	306,644	307,939	309,527	327,848
Trusts	763	4,089	3,814	3,843	527
Goods in custody or under administration	246,284	252,599	260,885	248,240	251,772
Collateral received by the institution	13,370	14,220	40,791	35,774	54,796
Collateral received and sold or delivered as guarantee	10,182	13,346	34,990	31,561	47,829
Third party investment banking operations, net	43,351	50,542	51,453	51,821	47,018
Suspended interest on impaired loans	254	236	224	230	236
Other control accounts	1,846,445	1,724,155	1,908,613	2,171,910	1,919,501
	<u>2,470,038</u>	<u>2,383,147</u>	<u>2,625,729</u>	<u>2,872,208</u>	<u>2,671,966</u>

The present income statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 and 102 of the Law for Credit Institutions, of general observance and mandatory, applied in a consistent manner, this statement reflects all operations performed by the institution up to the date mentioned above, these operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of the signing officers.

Historical paid in capital of the Institution amounts to MNX 3,287 millions.

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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at December 31, 2011

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date		
	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011	31 Dec 2011	
Interest income	7,046	7,017	7,430	7,651	7,643	28,018	29,741
Interest expense	(2,087)	(2,196)	(2,614)	(2,738)	(2,642)	(8,092)	(10,190)
Net interest income	<u>4,959</u>	<u>4,821</u>	<u>4,816</u>	<u>4,913</u>	5,001	<u>19,926</u>	19,551
Loan impairment charges	(1,776)	(1,654)	(1,548)	(1,548)	(1,987)	(9,284)	(6,737)
Risk adjusted net interest income	<u>3,183</u>	<u>3,167</u>	<u>3,268</u>	<u>3,365</u>	3,087	<u>10,642</u>	12,814
Fees and commissions receivable	2,089	1,841	1,882	1,926	2,001	8,360	7,650
Account management	164	120	126	121	120	672	487
Services	1,925	1,721	1,756	1,805	1,881	7,688	7,163
Fees payable	(409)	(328)	(349)	(386)	(386)	(1,429)	(1,449)
Trading Income	315	839	682	490	609	2,220	2,620
Foreign exchange	18	(556)	358	189	787	(28)	778
Securities trading, net	23	8	103	210	217	(51)	538
Repos	-	(8)	-	-	-	(5)	(8)
Swaps	287	691	245	31	373	714	1,340
Valuation off-shore agencies	(133)	50	131	170	(650)	1,468	(299)
Valuation for trading swaps	120	654	(28)	84	72	122	782
Valuation for FX options	-	-	(127)	(194)	(190)	-	(511)
Other operating income	1,348	1,124	1,607	1,582	802	4,405	5,115
Administrative and personnel expenses	6,890	6,477	6,619	5,935	6,861	23,685	25,892
Personnel expense	2,948	2,783	2,536	2,621	2,726	10,154	10,666
Administrative expense	3,513	2,920	3,296	2,924	3,297	12,081	12,437
Depreciation and amortization	429	774	787	390	838	1,450	2,789
Net operating income	<u>(364)</u>	<u>166</u>	<u>471</u>	<u>1,042</u>	(821)	<u>513</u>	858
Undistributed income from subsidiaries	13	9	9	17	(76)	13	(41)
Net income before taxes	(351)	175	480	1,059	(897)	526	817
Income tax	(549)	(41)	(277)	(334)	(761)	(1,092)	(1,413)
Deferred income tax	784	94	89	51	1,077	981	1,311
Net income before discontinued operations	<u>(116)</u>	<u>228</u>	<u>292</u>	<u>776</u>	(581)	<u>415</u>	715
Non-controlling interest	<u>(4)</u>	<u>(3)</u>	<u>(3)</u>	<u>25</u>	(18)	<u>5</u>	1
Net income (loss)	<u>(120)</u>	<u>225</u>	<u>289</u>	<u>801</u>	(599)	<u>420</u>	716

The present income statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 and 102 of the Law for Credit Institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all income and expenses derived from the operations performed by the Institution up to the date mentioned above. These operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of signing officers.
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LUIS PEÑA KEGEL
Chief Executive Officer

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Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January to 31 December 2011

	Paid in capital				Earned Capital				Non-controlling interest	Total stockholder's Equity		
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement			Results from holding non-monetary assets	Net Income
Balances at January 31, 2011	5,087	-	20,518	-	12,437	-	(261)	-	-	420	3	38,204
Movements Inherent to the Shareholders Decision												
Subscription of shares	174	-	1,839	-	-	-	-	-	-	-	-	2,013
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	420	(420)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	420	-	-	-	(420)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,800)	-	-	-	-	-	-	(1,800)
Total Movements Inherent to the Shareholders Decision	174	-	1,839	-	(1,380)	-	-	-	-	(420)	-	213
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-	-	716	-	716
Result from valuation of available-for-sale securities	-	-	-	-	-	-	595	-	-	-	-	595
Result from cash flow hedging transactions	-	-	-	-	-	-	(30)	-	-	-	-	(30)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	(202)	-	-	-	-	-	(202)
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	565	-	-	716	-	1,079
Balances as at December 31, 2011	5,261	-	22,357	-	11,057	(202)	304	-	-	716	3	39,496

The present statement of changes in stockholder's equity was prepared in accordance to the accounting principles for banking institutions which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 y 102 of the Law for Credit Institutions of General Observance and Mandatory, applied in a consistent manner. This statement reflects all movements in capital accounts derived from the operations performed by the Institution up to the date mentioned above.

These operations were performed following healthy banking practices and following applicable legal and administrative requirements.

The present statement has been approved by the Board of Directors under the responsibility of the signing officers.

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JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January to 31 December 2011

HSBC Mexico, S.A. (Bank)

	31 Dec 2011
Net income	716
Adjustments for items not involving cash flow:	5,342
Depreciation and amortization	1,407
Amortisations intangibles assets	1,760
Provisions	2,032
Income Tax and deferred taxes	103
Undistributed income from subsidiaries	40
Changes in items related to operating activities:	
Memorandum accounts	15
Investment securities	(23,651)
Repurchase agreements	(3,893)
Derivative (assets)	(14,744)
Loan portfolio	(14,903)
Foreclosed assets	(41)
Operating assets	(2,500)
Deposits	44,508
Bank deposits and other liabilities	10,606
Creditors repo transactions	(19,496)
Stock borrowing	4
Collateral sold or delivered as guarantee	4,830
Derivative (liabilities)	12,751
Subordinated debentures outstanding	480
Other operating liabilities	8,058
Income tax payable	(1,433)
Funds provided by operating activities	591
Investing activities:	
Acquisition of property, furniture and equipment	(417)
Intangible assets acquisitions	(1,954)
Others	(55)
Funds used in investing activities	(2,426)
Financing activities:	
Subscription of shares	-
Cash dividend	(1,800)
Others	-
Funds used or provided by financing activities	(1,800)
Increase/decrease in cash and equivalents	2,423
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	48,801
Cash and equivalents at end of period	51,224

The present Statement of Cash Flows was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission, as specified in Articles 99, 101 and 102 of the Law for Credit Institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all movements in funds derived from the operations performed by the Institution up to the date mentioned above.

These operations were performed following healthy banking practice and following applicable legal and administrative requirements.

The present Statement of Cash Flows has been approved by the Board of Directors under the responsibility of signing the officers.

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Financial Instruments**Grupo Financiero HSBC, S.A. de C.V.**

Figures in MXN millions at December 31, 2011

Investments in securities

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Government securities	35,237	31,289	29,422	27,423	42,888
Bank securities	3,590	2,338	3,265	2,345	2,402
Shares	27	337	313	2,945	1,538
Others	5,306	3,270	4,665	4,986	4,261
Trading securities	<u>44,160</u>	<u>37,234</u>	<u>37,665</u>	<u>37,699</u>	<u>51,089</u>
Government securities	88,564	111,732	112,768	102,764	108,236
Bank securities	-	-	-	-	-
Obligations and other securities	7,107	7,050	7,133	7,686	2,917
Shares	12	17	12	17	11
Available for sale securities	<u>95,683</u>	<u>118,799</u>	<u>119,913</u>	<u>110,467</u>	<u>111,164</u>
Special Cetes (net)	11,876	11,572	11,884	12,119	12,484
Bank securities	140	142	143	145	150
Corporate securities	3,398	2,996	2,843	2,834	2,813
Securities held to maturity	<u>15,414</u>	<u>14,710</u>	<u>14,870</u>	<u>15,098</u>	<u>15,447</u>
Total Financial Instruments	<u>155,257</u>	<u>170,743</u>	<u>172,448</u>	<u>163,264</u>	<u>177,700</u>

In the fourth quarter of 2011 investment in securities increase by MXN 14,436 million compared to the third quarter of 2011; mainly by increase government securities by MXN20,936 million.

Repos**HSBC México, S.A. de C.V. (Bank)**

Figures in MXN millions at December 31, 2011

	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>
Repo's Government securities (credit)	33,215	52,677	47,523	17,031	9,044
Repo's Bank securities (credit)	1,231	1,441	968	-	-
Repo's Others securities (credit)	406	265	380	-	2
Valuation increase (decrease)	-	-	-	-	-
Accrued interest payable	16	9	114	145	281
Credit balance in repo agreements	<u>34,868</u>	<u>54,392</u>	<u>48,985</u>	<u>17,176</u>	<u>9,327</u>
Repurchase agreements in government securities	5,000	9,000	29,951	27,300	40,200
Accrued interest receivable	7	13	42	32	39
Debit balance repo securities agreements	<u>5,007</u>	<u>9,013</u>	<u>29,993</u>	<u>27,332</u>	<u>40,239</u>
Government securities	3,147	8,641	22,215	19,661	34,470
Interest in collateral delivered as guarantee	4	10	4	3	20
Total in collateral delivered as guarantee	<u>3,151</u>	<u>8,651</u>	<u>22,219</u>	<u>19,664</u>	<u>34,490</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at December 31, 2011

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	79,418	66,172	10,818	10,909	105,833	105,635	13,353
Foreign currency	-	-	70,483	82,829	27,978	27,970	181,652	182,185	(12,871)
Interest Rate	439	439	-	-	-	-	164,800	164,008	859
Total	439	439	149,901	149,001	38,796	38,879	452,352	451,828	1,341
For hedging									
Pesos	-	-	-	-	-	-	6,122	-	6,122
Foreign currency	-	-	-	-	-	-	-	7,079	(7,079)
Interest Rate	-	-	-	-	-	-	4,692	5,466	(774)
Total	-	-	-	-	-	-	10,814	12,545	(1,731)

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at December 31, 2011

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
Stock borrowing					
Cetes	520	-	560	237	643
Valuation increase (decrease)	28	-	-	-	-
Bonds	6,187	4,640	4,188	6,462	11,021
Valuation increase (decrease)	84	(1)	(2)	(26)	(6)
Shares	8	-	24	-	-
Valuation increase (decrease)	-	-	(1)	-	-
Total	6,827	4,639	4,769	6,673	11,658

Participation by Subsidiary

Grupo Financiero HSBC, S.A. de C.V.

Group Subsidiaries at December 31, 2011

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,730,319,756	99.99%	1,730,243,530
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Fianzas, S.A.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	264,068,221	99.99%	264,068,217
HSBC Global Asset Management (México), S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	480,100	99.99%	480,099
Total	2,755,246,731		2,734,062,759

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at December 31, 2011

	For the quarter ending...				Year to date	
	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011	31 Dec 2011
Valuation	(66)	640	190	158	(373)	1,538
Derivatives	250	1,080	(303)	344	(499)	1,074
Repos	-	-	-	-	-	-
Debt Securities	(243)	(333)	386	31	(154)	474
Foreign Exchange	(73)	(107)	107	(217)	280	(10)
						-
Buying and Selling Instruments	381	199	492	332	982	682
Foreign Currency	89	(462)	243	293	685	(20)
Derivatives	314	439	8	(298)	191	(146)
Repos	-	-	-	-	-	-
Shares	(10)	(6)	(6)	(21)	20	(33)
Debt Securities	(12)	228	247	358	86	881
Total	315	839	682	490	609	2,220

Loan Portfolio

Grupo Financiero HSBC, S.A. de C.V.

By type of currency

Figures in MXN millions at 31 December 2011

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
Performing Loan Portfolio						
Pesos	73,647	8,138	24,491	29,302	16,568	152,146
US Dollars	27,366	130	1,425	-	-	28,921
Udis Banxico	-	-	-	-	1,489	1,489
Total	101,013	8,268	25,916	29,302	18,057	182,556
Non Performing Loans Portfolio						
Pesos	1,234	-	-	1,234	1,586	4,054
US Dollars	789	-	-	-	4	793
Udis Banxico	4	-	-	-	231	235
Total	2,027	-	-	1,234	1,821	5,082

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Global scale ratings			
Foreign currency			
Long term	-	BBB	A-
Long term deposits	Baa1		
Short term	P-2	A-3	F1
Local Currency			
Long term obligations	A2	BBB	A
Long term deposits	A2	BBB	-
Short term	P-1	A-3	F1
BFSR (Moody's)	C-	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mex)
Short term	MX-1	mxA -1+	F1+ (mex)
Outlook			
Stable	Stable	Stable	Stable
Last update	17-Jun-11	20-May-11	16-Ago-11

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at December 31, 2011

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	8,773				
Graded	201,306				
Risk A	86,831	439	39	42	520
Risk A-1	54,117	147	39	42	228
Risk A-2	32,714	292	0	0	292
Risk B	104,943	3,813	1,983	120	5,916
Risk B-1	65,627	1,245	1,238	120	2,603
Risk B-2	34,629	1,885	745	0	2,630
Risk B-3	4,687	683	0	0	683
Risk C	7,305	1,337	594	573	2,504
Risk C-1	6,446	992	594	573	2,159
Risk C-2	859	345	0	0	345
Risk D	1,471	132	1,040	5	1,177
Risk E	756	710	55	18	783
Total	210,079	6,431	3,711	758	10,900
Less:					
Constituted Reserves					10,900
Surplus					0

1. The rating and constitution of reserves correspond to last day of the balance sheet at December 31, 2011.

2. The lending portfolio is graded according to the rules for lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. The methodology distinguishes the qualification of the borrower and based on this determines the operation for the commercial portfolio excluding States and Municipalities in which the Institution applied the new Methodology since September 2011 based on CNBV provisions. For the consumer portfolio and mortgage is made based on the "General Regulations Applicable to Credit Institutions" issued by the CNBV, specifically using the standard methodology.

3. In order to comply with regulations published in the Official Gazette on August 12, 2009, related to the methodology of reserves for consumer loan portfolio for credit card operations the institution applied Section II of Article 91 of the general provisions applicable to credit institutions and Section II of second transitory article of the mentioned resolution. The article 91 of the Official Gazette of August 12, 2009 was changed by the 92 published on October 25 2010.

The score effect established in point II of second transitory resolution published August 2009, finished on August 2011. The total amount for this concept was MXN2,645m. The amount from interest due reserve was MXN98m.

The implementation of the methodology for qualification of the consumer loan portfolio for credit card operations, led a charge to income statement as December of this year, by the amount of MXN2,825m, which was credited to respective provision presented in the balance sheet.

4. On March 2011 considering the methodology change of reserves for non revolving consumer loan portfolio and for mortgages; the Institution conducted the recognition of initial cumulative financial effect resulting from the first application of Paragraph A of Section One and Section A of Section II, both of Chapter V of Title II of the General

provisions applicable to credit institutions accordance with the general provisions applicable to credit institutions, published on October 25, 2010.

The allowance for loan losses in the mortgage portfolio at March 2011 based on article 99 of the General provisions applicable to credit institutions published on October 25, 2010 generates an amount in excess by MXN207m, amount that was applied versus reserves to create on April 2011.

The allowance for consumer loan losses at March 2011 was by the amount of MXN715m, the increase originated by the methodology change was recognized in equity, in the cumulative earnings account by MXN289m, as indicated by the third paragraph of the resolution transitional mentioned.

Movement	Consumer loans
Previous balance	495
Application of the month	(70)
Balance	426
Allowance previous methodology	715
Capital. Cumulative Earnings	(289)

5. The new CNBV provisioning methodology for States and Municipalities was applied in September 2011 by the Institution. This new regulatory methodology applies to credit exposures with States & Municipalities (and their administrative bodies), and is based on an Expected Loss approach, taking into account a Probability of Default (PD), an Exposure at Default (EaD) and a Loss Given Default (LGD) for each customer and credit exposure, according to a set of rules defined by the Regulator, in comparison to the previous approach that was mainly based on the credit ratings assigned to the States and Municipalities by the Rating Agencies that were recognized by the Regulator for this purpose.

In order to comply with Article V of Transitory Dispositions of the general provisions applicable to credit institutions, published on October 5, 2011, the following details the P&L and Balance Sheet effect of the application of new and previous methodology of provisioning States and Municipalities:

	New Methodology	Previous Methodology	Net Effect
States & Municipalities	Million of pesos		
Loan Impairment Charges	(109)	987	(1,096)
Allowance for loan losses	907	2,003	(1,096)

The net release of these provisions was applied in the P&L in the Loan Impairment Charges Account.

As December 2011, the increase in loan loss reserves charged to Income Statement was by the amount of MXN6,736m, from this amount MXN15m belongs to foreclosed assets on the mortgage portfolio, MXN4,980m to write offs and MXN656m to debt forgiveness.

Non – Performing Loans**HSBC Mexico, S.A. (Bank)**

Figures in MXN millions

	At the quarter ending				
	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
Initial Balance of Impaired Loans	5,811	5,344	4,835	4,504	6,461
Increases	3,728	4,217	2,094	4,382	2,739
Transfer of current loans to past due status	3,728	4,217	2,094	4,382	2,739
Decreases	4,195	4,726	2,426	2,425	4,118
Restructurings	236	106	64	106	117
Liquidated credits	2,884	2,134	1,591	1,649	1,748
Charged in cash	901	516	278	357	398
Foreclosed assets	6	11	8	35	28
Write-offs	-	-	-	-	-
Sale of portfolio	1,977	1,607	1,305	1,257	1,322
Transfer to performing loan status	1,082	2,490	769	759	2,268
FX revaluations	7	4	(2)	89	15
Final Balance of Impaired Loan	5,344	4,835	4,504	6,461	5,082

Deferred Taxes**Grupo Financiero HSBC, S.A. de C.V.**

Figures in MXN millions at December 31, 2011

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
Loan loss reserves	4,780	5,001	5,077	5,181	5,618
Valuation of securities	(256)	231	(98)	(200)	(58)
Fiscal loss	13	67	11	6	8
Other reserves	1,092	705	866	796	1,309
PTU Payable	106	132	54	80	111
Foreclosed assets	89	120	134	165	190
Other	229	208	185	194	193
Differences in rates of fixed assets	55	114	69	144	6
Fiscal result UDIS-Banxico	(816)	(830)	(844)	(858)	(873)
Total Deferred Taxes	5,292	5,748	5,454	5,508	6,504

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>	<i>30 Sep 2011</i>	<i>31 Dec 2011</i>
MXN pesos					
Funding	2.28%	2.31%	2.43%	2.44%	2.40%
Bank and other loans	5.56%	5.51%	5.27%	5.10%	5.10%
Foreign currency					
Funding	0.08%	0.08%	0.08%	0.06%	0.08%
Bank and other loans	0.89%	0.64%	0.62%	0.68%	0.66%
UDIS					
Funding	0.24%	0.25%	0.30%	0.34%	0.29%

Long Term Debt

HSBC Mexico, S.A. (Bank)

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments pay monthly interest at a rate equivalent to the average 28-day TIIE (interbank rate) of the previous month.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Rate</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	6	2,206	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	3	1,821	20-SEP-2018
HSBC 08-2	18-DIC-2008	2,272	MXN	6	2,278	10-DIC-2018
HSBC 09D(USD300) ¹	26-JUN-2009	4,181	USD	2	4,183	28-JUN-2019
		10,471		17	10,488	

¹ Expressed in local currency at issuance date FX rate.

HSBC México, S.A., has also issued long term certified marketable securities listed in the Mexican Stock Exchange.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certified Marketable Securities	10-MAY-2006	4,220	MXN	23	4,243	27-ABR-2016
		4,220		23	4,243	

Capital

Grupo Financiero HSBC, S.A. de C.V.

Grupo Financiero HSBC

On March 3, 2011, the Board Directors authorized a dividend payment of \$1.3774 per share for each of the 2,555,351,034 shares outstanding. The total amount paid by the Group was MXN 3,520.

On March 31, 2011 was applied under the concept of previous year's financial results the amount of MXN 289, for implementing the new methodology for calculating reserves portfolio credit mortgage and consumer loans and current accounting standards.

The Ordinary Shareholders Meeting, held on April 28, 2011, approved the following distribution of the year 2010 financial results, amounting to MXN 2,119 million:

- Five per cent, MXN106 million, to increase legal reserves, and the remaining MXN2,013 million, at the Board's determination to be applied under the concept of previous year's financial results.

On December 7, 2011, the Board Directors authorized a dividend payment of \$0.978339 per share for each of the 2,555,351,034 shares outstanding. The total amount paid by the Group was MXN 2,500.

The capital stock is included in the amount of MXN 5,111 million, represented by 2,555,351,034 shares.

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

HSBC Mexico, S.A., net income in 2010, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN420 million.

- ▶ Ten per cent, MXN42 million, to increase legal reserves, and the remaining MXN378 million, at the Board's determination to be applied under the concept of other reserves.
- ▶ On March, 2011 one notice was published in accordance to the agreement of the Board meeting, a dividend of \$1.09531478619484 shall be paid per share for each one of the 1,643,363,189 shares. Such dividend was paid on one disbursement on March 18 of 2011.
- ▶ On March, 2011 were applied MXN\$289 at the retained earnings account because of the initial financial effect due to the new change of method for the calculation of loans impairment charges.
- ▶ On November 22, 2011 the Extraordinary General Assembly of Shareholders agreed to increase the capital stock through the issue of 173,913,134 shares. On December 14 the amount of 86,956,567 shares was released, which were subscribed and paid \$23.1515021984589 per share. Likewise 86,956,567 shares will be deposited in the Treasury and subsequently placed by the Board of Directors.

The capital stock increased to MXN 3,461 million representing 1,730'319,756 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at December 31, 2011

	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011
% of assets subject to credit risk					
Tier 1	18.75%	17.14%	17.56%	17.07%	16.96%
Tier 2	5.53%	5.56%	5.25%	5.27%	5.09%
Total regulatory capital	<u>24.28%</u>	<u>22.70%</u>	<u>22.81%</u>	<u>22.34%</u>	<u>22.05%</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	11.24%	10.88%	10.77%	11.58%	11.74%
Tier 2	3.31%	3.53%	3.22%	3.58%	3.52%
Total regulatory capital	<u>14.55%</u>	<u>14.41%</u>	<u>13.98%</u>	<u>15.16%</u>	<u>15.26%</u>
Tier 1	34,243	31,577	33,694	34,610	34,441
Tier 2	10,096	10,245	10,065	10,688	10,343
Total regulatory capital	<u>44,339</u>	<u>41,822</u>	<u>43,759</u>	<u>45,298</u>	<u>44,784</u>
RWA credit risk	182,631	184,191	191,870	202,792	203,092
RWA market risk	87,098	68,617	83,414	57,667	51,923
RWA operational risk	<u>35,043</u>	<u>37,379</u>	<u>37,704</u>	<u>38,298</u>	<u>38,454</u>
RWA credit and market risk	<u>304,772</u>	<u>290,187</u>	<u>312,988</u>	<u>298,757</u>	<u>293,469</u>

With a capital ratio above 10%, HSBC Mexico, S.A. is classified in category I, according to the General Standards referred in article 134 Bis from the Financial Institutions Law and according to the General Standards principles for financial institutions issued by the Mexican Banking and Securities Commission referred in article 220.

Other Operating Income (Expenses)

Grupo Financiero HSBC, S.A. de C.V.

Figures in MXN millions at December 31, 2011

	For the quarter ending					Year to date	
	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sep 2011	31 Dec 2011	31 Dec 2010	31 Dec 2011
Loans to employees	36	36	35	34	39	144	144
Recoveries	257	282	251	668	245	852	1,446
Credit portfolio recoveries	192	226	166	160	139	887	691
Result of Foreclosed assets	14	8	1	11	58	13	78
Property sales	-	-	604	9	-	-	613
Other items of income(expenses)	821	720	601	780	439	2,634	2,540
Other income (expenses) arising from op. Insurance and Bonding	104	106	106	111	116	397	439
Monetary position result	10	5	(1)	11	17	20	32
Other losses	<u>(171)</u>	<u>(275)</u>	<u>(274)</u>	<u>(144)</u>	<u>(234)</u>	<u>(1,009)</u>	<u>(927)</u>
Total Other Operating Income (expenses)	<u>1,263</u>	<u>1,108</u>	<u>1,489</u>	<u>1,640</u>	<u>819</u>	<u>3,938</u>	<u>5,056</u>

► Other items of income (expenses) are integrated by expense reimbursements, profits from property sales, furniture and equipment, management services, updates and other.

Related Party Transactions

Grupo Financiero HSBC, S.A. de C.V.

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices.

The balance of the transactions carried out as of December 31, 2011 is shown below:

Figures in MXN millions

	Bank	Brokerage house	Mutual funds management	Services	Group	Insurance	Bonding	Total
Balance Sheet								
Cash and deposits in banks	-	661	-	3	16	7	5	692
Demand deposits	(692)	-	-	-	-	-	-	(692)
Repurchase agreements (assets)	-	6,046	-	-	-	-	-	6,046
Repurchase agreements (liabilities)	(6,046)	-	-	-	-	-	-	(6,046)
Sundry debtors (assets)	364	5	9	6	-	30	-	414
Sundry creditors (liabilities)	(34)	(8)	(141)	-	-	(226)	(5)	(414)
Long Term investments in equity securities	-	-	-	-	74	-	-	74
Long-term assets available for sale	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	(74)	-	(74)
Total	(6,408)	6,704	(132)	9	90	(263)	-	-
P&L								
Payable commissions	(12)	-	(425)	-	-	(12)	-	(449)
Receivable commissions	391	63	18	-	-	-	-	472
Discontinued operations	-	-	-	-	(53)	-	-	(53)
Interest income	-	23	-	-	-	-	-	23
Interest expense	(23)	-	-	-	-	-	-	(23)
Repos	(230)	-	-	-	-	-	-	(230)
Reverse repos	-	230	-	-	-	-	-	230
Earned premiums	-	-	-	-	-	283	3	286
Administrative and personnel expenses	(206)	-	-	(6)	-	-	-	(212)
Administrative services	(312)	(167)	(81)	(1)	(13)	(642)	(18)	(1,234)
Undistributed income from subsidiaries	-	-	-	-	(74)	-	-	(74)
Other income	930	-	3	257	-	74	-	1,264
Total	538	149	(485)	250	(140)	(297)	(15)	-

Information on Customer Segment and Results

Grupo Financiero HSBC, S.A. de C.V.

Consolidated Income Statement by Customer Segment

The consolidated income statement by customer segment includes Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB) and Global Banking and Markets (GBM). The following is a brief description of the customer segments:

Retail Banking and Wealth Management (RBWM) – retail banking operations focusing on the individual by offering a the complete spectrum of financial needs from checking/deposits accounts to credit cards, personal and auto loans, and mortgages, among others.

Commercial Banking (CMB) – CMB covers all small and medium sized companies by offering lending in Mexican Pesos and other currencies, lines of credit for working capital, export financing, in addition to trade services, fiduciary and other financial services, among others.

Global Banking and Markets (GBM) – This segment includes product lines directed towards large, multinational corporations and consists of treasury and custody services, corporate finance advising, risk administration, trade services, and money market and capital investments.

The consolidated incomes statement information condensed by segments as of 30 September 2011, is shown below:

Figures in MXN millions at December 31, 2011

(MXN millions)	Year to date at 31 December 2011			
	RBWM	CMB	GBM	Total
Net Interest Income	13,675	6,085	1,735	21,495
Provision for Loan Loss	4,281	2,371	85	6,737
Net Interest Income adjusted	9,394	3,715	1,650	14,758
Fees and Commissions, net	3,467	1,762	766	5,995
Trading Income	479	158	2,634	3,272
Other operation income	3,142	745	901	4,788
Total Revenue	16,483	6,380	5,951	28,813
Administrative Expenses	15,429	7,061	3,073	25,562
Operating Income	1,054	(681)	2,878	3,251
Other Income (Expenses), net	(23)	(12)	(3)	(38)
Profit Before Taxes	1,031	(692)	2,874	3,213
Taxes	425	(285)	924	1,064
Net Income before discontinued operations	607	(407)	1,950	2,149
Discontinued operations	359	0	0	359
Minority Shareholders	1	0	0	1
Participated Net Income	966	(407)	1,950	2,510

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 six months ended 30 September 2011 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	31 Dec 2011
Grupo Financiero HSBC – Net Income Under Mexican GAAP	2,510
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	333
Deferral of fees received and paid on the origination of loans	40
Recognition and provisioning for loan impairments †	1,053
Purchase accounting adjustments †	(149)
Recognition of the present value in-force of long-term insurance contracts †	130
Sale of 100% of the outstanding shares of a Social Security Company (Afore) †	976
Other †	1,064
Net income under IFRS	5,957
US dollar equivalent (millions)	486
Add back tax expense	2,021
Profit before tax under IFRS	7,978
US dollar equivalent (millions)	652
<i>Exchange rate used for conversion</i>	12.24

† Net of tax at 30 per cent.

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.

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.

Risk Management

Risk management in Financial Group HSBC involves compliance with the norms and regulations on risk management included within the CNBV requirements, as well as with norms established by the Group on a worldwide level whose ultimate objective is to generate value for its shareholders while maintaining a conservative risk profile.

Fundamental to carry out this work is the recognition of the essential precepts for an efficient and integral risks management, including quantifiable risks (credit, market and liquidity), as well as non-quantifiable, operational risk (technological and legal), under the sights that the basic processes of identifying, measuring, monitoring, limiting, controlling and disclosure will be satisfied.

Bank's Risk management framework in their main subsidiaries, begins with the Council Administration, whose main responsibility is the approval of objectives, alignment and policies relative to the topic, such as the determination of risk exposure limits which are supported by the ALCO and RMC committees.

Assets and Liabilities Committee (ALCO)

This committee meets monthly, chaired by the CEO and Group General Manager and having the Group Executive Directors as members. These Directors are the heads of the bank's main business lines (RBWM, CMB, and GBM), and support areas like Treasury, Finance, Balance Management, Planning and Economic Capital.

ALCO is the main vehicle to achieve the objectives of an adequate assets and liabilities management. It has the following objectives:

- ▶ To provide strategic direction and assure the tactical monitoring of a structure balance that fulfils the objectives within the pre-established risk parameters.
- ▶ To identify, monitor, and control all relevant risks, including information generated by RMC.
- ▶ To disseminate the information that required to make decisions.
- ▶ General review of funds sources and destinations.
- ▶ To determine the most likely environment for the bank's assets and liabilities along with contingency scenarios to be used in planning activities.
- ▶ To evaluate rates, price alternatives and portfolio mixes.
- ▶ To review and take on the responsibility for: assets and liabilities distribution and maturity dates; interest margin size and position; liquidity levels and economic profit.

Local Assets and Liabilities Committees, as Mexico, report directly to the Group Finance Department in London as a way to strengthen the decision making process.

Risk Management Committee (RMC)

This committee also meets monthly, reporting to the Management Board and Asset and Liabilities Committee (ALCO).

The Risk Management Committee has three external members – one of them serving as President, so independent opinions and regulatory compliance is achieved. Internally, the member areas are: Executive Direction, Risks Management, CMB, GBM, RBWM, Finance, Audit, Treasury, Global Markets, Planning, Economic Capital, Legal and the Liquidity, Market and Subsidiaries Risks Management areas.

The main objectives of this committee are to:

- ▶ Develop mechanisms to identify actual and potential risks.
- ▶ Value material risk and its potential impact to the bank.
- ▶ Provide advanced solutions to improve risk exposure or mitigate specific and relevant risks.
- ▶ Develop a clear mapping of risk exposure and tendencies in the credit, market, and other risk areas, including potential change of the business strategy.

- ▶ Manage relevant, contingency, and mitigation risks along with consolidated report risk to be presented in the ALCO.
- ▶ Track market, credit, and other relevant risks. Additionally, review and approve objectives, operation, and control procedures along with risk tolerance based on market conditions.

Market Risk Management

Qualitative Information

Description of the qualitative aspects related to the Integral Management of Risks processes:

Market risk management at HSBC consists of identifying, measuring, monitoring, limiting, controlling, reporting and revealing the different risks the institution is facing.

The Board of Directors includes a Risk Committee that manages risk and ensures the operations to be executed in accordance with the objectives, policies and procedures for prudent risk management, as well as within the specific global limits set out by the Board.

Market risk is defined as “the risk that the rates and market prices on which the Group has taken positions – interest rates, exchange rates, stock prices, etc.- will oscillate in an adverse way to the positions taken, there by causing losses for the Group”, that is to say, the potential loss derived from changes in the risk factors will impact the valuation or the expected results of assets and liabilities operations or will cause contingent liabilities, such as interest rates, exchange rates, and price indices, among others.

The main market risks the Group is facing can be classified as follows:

- ▶ **Foreign exchange or currency risk.** - This risk arises in the open positions on different currencies to the local currency, which generates an exposure to potential losses due to the variation of the corresponding exchange rates.
- ▶ **Interest rate risk.** - Arises from asset and liability operations (real nominal or notional), with different expiration dates or re-capitalization dates.
- ▶ **Risk related to shares.** - This risk arises from maintaining open positions (purchase or sale) with shares or share-based instruments, causing an exposure to changes in share prices and the instruments based on these prices.
- ▶ **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the underlying price of the option (interest rates, actions, exchange rate, etc.).
- ▶ **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.
- ▶ **Credit Spread risk.** - This is the risk that mark-to-market value of a corporate bond, inter-bank bond or sovereign debt in foreign currency, decreases due to changes in the credit quality perception of the issuer.

Main elements of the methodologies employed in the management of market risks:

HSBC has decided to use Value at Risk (VaR) and the “Present Value of a Basis Point “(PVBP) in order to identify and quantify Market Risk. Both measures are monitored daily, based on market risk exposure limits set by the Board of Directors and marking-to-market all trading positions.

Value at Risk (VaR)

VaR is a statistical measure of the worst probable loss in a portfolio because of changes in the market risk factors of the instruments for a given period of time; therefore the calculation of VaR implies the use of a confidence level and a time horizon. VaR is obtained by Historical Simulation through full valuation, considering 500 historical daily changes on market risk factors. The Board of Directors has determined a confidence level of 99% with a holding period of one working day, therefore the VaR level becomes the maximum likely loss in a day with a 99% confidence level.

Present value of a Basis Point (PVBP) and Forward PVBP (F-PVBP)

PVBP is a measure of market risk exposure arising from movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates involved with the pricing of financial assets and liabilities, by re-evaluating the whole position exposed to interest rates.

Forward PVBP (F-PVBP) aims to measure the effect of movements in interest rates on the financial instruments exposed to them. This way, F-PVBP assumes the scenario of an increase of one basis point in the implied forward rates from the curve.

Spread over yield risk

Spread over yield risk is understood as the possible adverse fluctuation in the market value of positions in financial instruments quoted with an over yield (Mexican floating government bonds), arising from market fluctuations in this risk factor.

Basis Risk

Basis / Spread risk is a term used to describe the risk arising from the move of a market (by its internal factors) against other markets. Basis risk increases when an instrument is used to hedge another one and these two instruments are priced with different interest rate curves

These differences arise because of the diverse features between the markets, among them:

- ▶ Regulation
- ▶ Each Market Restrictions
- ▶ Calendars
- ▶ Market Conventions (term basis in interest rates)
- ▶ Others

Credit Spread Risk (CS01)

Credit spread risk or CS01 is used to describe the risk of holding private sector issued securities in the trading books that can change in value as a function of changes in the perceived creditworthiness of the respective issuer.

This market perceived credit quality of those corporate bonds is reflected in a spread over the risk free rate for those securities. HSBC uses limits to manage and control the corporate spread risk on its trading books.

Vega or implied volatility risk

HSBC takes positions on instruments that are price sensitive to changes in market implied volatilities such as interest rate and foreign exchange options. Vega limits are used to control the risk against changes in market implied volatilities.

Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts. The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical scenarios. Both negative and positive changes in interest rates are considered in order to fully measure the impact on the different portfolios.

Besides this calculus, a linear extrapolation is done using the Forward PVBP based on hypothetical extreme scenarios (assuming that the portfolio is completely linear) to compare both results and obtain portfolio's implied convexity. Also stress test is done in foreign exchange and equity positions.

Validation and Calibration Methods for Market Risk models:

Aiming to timely detect any decrease in the forecasting quality of the model, automatic data loading systems are used, in such a way that no manual feeding is required. Besides, in order to prove the reliability of the VaR calculation model, a back testing is carried out, which consists of evaluating that the maximum forecasted losses do not exceed, in average, the established confidence level, contrasting the P&L should had been generated if the portfolio had remained constant during the VaR's forecast horizon.

In the PVBP case, this is compared with the portfolios' sensitivity to market quotes. The obtained results had shown that the models are reliable. Also, with the purpose to reinforce the validation and verification of the risk factors, we design a selected set of matrices showing that risk factors' behavior are in line with the predominant financial market prices and consistent with the previous day values.

Applicable portfolios:

For a detail and accurate portfolio management, HSBC Mexico Market Risk Management Department, use the international standards (IAS) and local standards (local GAAP) to obtain an effective market risk management. The division between accounting schemes has strict control and every portfolio is perfectly well suited and identified in each accounting standard. This division allows calculating any market risk measure (sensitivity measures, potential loss measures and stress test) in sub portfolios in line with the accounting.

The Market Risk management calculates the VaR and the PVBP for the total Bank portfolio and for the specific "Accrual" and "All Trading" portfolios.

The VaR is calculated for each one of the mentioned portfolios and is also itemized by risk factors (Interest Rates, Exchange Rates, Interest Rates volatilities, FX volatilities and Equities).

The PVBP risk is presented by interest rate and portfolio subdivision (Accrual, Trading Desk and BST).

According to the International Accounting Standards 39 (IAS), the "MMT" portfolio (Money Market Trading) and BST (Balance Sheet Trading) should be part of the "All Trading" portfolio for market VaR calculation, but it has to be part of the "Accrual" portfolio for PVBP calculation.

The stress tests are carried out for the Bank's portfolio and for the "All Trading" and "Accrual" portfolios. Besides a special stress test for Available for Sale Securities (AFS) and for Hedging Securities (CFH) is carried out.

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "All Trading" and "Accrual" portfolios for the fourth quarter of 2011 (millions of dollars).

The following VaR and PVBP limits belongs to the latest updating Limit Mandate of Market Risk previously approved both by the Board and for the Risk Committee.

Value at Risk of Global Market (VaR) (Considering all Risk Factors)						
	Bank		All Trading **		Accrual	
	Average 4Q11	Limits*	Average 4Q11	Limits*	Average 4Q11	Limits*
Combined	13.77	40.00	2.89	27.50	11.99	40.00
Interest Rate	9.39	45.00	1.78	N/A	8.59	40.00
Credit Spread	9.44	24.00	1.75	4.00	7.71	24.00
FX	0.33	7.00	0.33	7.00	N/A	N/A
Volatility IR	0.10	8.00	0.09	N/A	0.00	2.00
Volatility FX	0.07	2.00	0.07	2.00	N/A	N/A
Equities	0.02	2.50	0.02	2.50	N/A	N/A

** Includes Trading Desk, BST, MMT, Strategic FX & Equity

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	30-Sep-11	31-Dec-11	Limits*	Average 3Q11	Average 4Q11
HBMI	24.03	13.15	40.00	15.12	13.77
Accrual	11.57	11.43	40.00	11.93	11.99
All Trading	12.07	2.30	27.50	3.90	2.89

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of 4Q11 change -45.28% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 4Q11 change -8.93% versus prior quarter. During the quarter the average VaR was within the limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for September 30th, 2011 and December 30th, 2011 (in millions of dollars).

Market VaR vs. Net Capital Comparison		
Net Capital in million Dollars		
	30-Sep-11	31-Dec-11
Total VaR*	15.12	13.77
Net Capital **	3,282.62	3,237.19
VaR / Net Capital	0.46%	0.43%

* The Bank's quarterly VaR average in absolute value

** The Bank's Net Capital at the close of the quarter

The average market VaR represents .43% of the net capital in 4Q2011.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	30-Sep-11	31-Dec-11	Limits*	Average 3Q11	Average 4Q11
Bank	(0.031)	0.017	1.650	(0.800)	(0.005)
Accrual	(0.013)	0.069	1.250	(0.591)	0.019
Trading Desk	0.063	(0.015)	0.450	(0.122)	0.023
Balance Sheet Trading	(0.081)	(0.036)	0.210	(0.087)	(0.048)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 4Q11 change -154.84% versus previous quarter. Bank's average PVBP for 4Q11 change -99.38% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate					
	30-Sep-11	31-Dec-11	Limits*	Average 3Q11	Average 4Q11
Bank	(0.110)	(0.123)	0.300	(0.096)	(0.114)
Accrual	(0.101)	(0.118)	0.300	(0.106)	(0.105)
Trading Desk	(0.021)	(0.017)	0.100	(0.006)	(0.017)
Balance Sheet Trading	0.012	0.012	0.070	0.016	0.008

* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 4Q11 change 11.82% versus previous quarter. Bank's average PVBP for 4Q11 change 18.75% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	30-Sep-11	31-Dec-11	Limits*	Average 3Q11	Average 4Q11
Bank	(0.266)	(0.099)	0.350	(0.089)	(0.087)
Accrual	(0.062)	(0.063)	0.300	(0.069)	(0.063)
Trading Desk	(0.193)	(0.025)	0.100	(0.007)	(0.012)
Balance Sheet Trading	(0.012)	(0.012)	0.050	(0.013)	(0.012)

* Absolute Value

NA = Non Applicable

Bank's UDI Rate PVBP for 4Q11 change -62.78% versus prior quarter. Bank's average PVBP for 4Q11 varied -2.25% versus previous quarter

Liquidity Risk

Qualitative Information

Liquidity risk is generated by gaps in the maturity of assets and liabilities of the institution. The liabilities considering the customer deposits, both current and time deposit accounts, have different maturities than the assets considering the loan portfolios and the investment in securities.

HSBC has implemented liquidity ratio limits, both in local currency and in U.S. dollars. These liquidity ratios are calculated at least monthly and compared with the limits approved by the Asset and Liability Committee and confirmed by the HSBC Group. Additionally, the institution conducts a review of the cash commitments and the requirements of major customers to diversify funding sources.

HSBC has implemented a methodology for measuring the risk of liquidity based on cash flow projections with different maturities and liquidity scenarios.

The institution has developed and implemented since 2003 a Liquidity Contingency Plan that defines the potential contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the alternate sources of funding the institution would have available. The plan is reviewed and approved by the local ALCO at the beginning of each year.

Quantitative Information

The institution presented at end of the quarter expected cash flows under the major stressed scenario of USD\$4,181m in the 7 days term; USD\$2,531m in the 1 month term and USD\$2,151m in 3 months; obtaining as a result positive cumulative net in all cases.

Along the quarter, average level was USD\$4,770m in the 7 days term USD\$2,916m in 1 month term and USD\$2,639m in 3 months term. Compared versus previous quarter, liquidity position change resulted from less repo transactions and the foreign exchange.

Credit Risk

Qualitative Information

Besides periodically monitoring the credit portfolio, HSBC Mexico (HBMX) develops implements and monitors credit risk models and tools for credit risk management. The main objective of this type of management is to have good information on the quality of the portfolio to take opportunistic measures to reduce the potential losses due to credit risk, complying at the same time with the policies and standards of the Group, Basel II and the CNBV.

Credit risk is defined as the risk that a client or counterpart can not or does not want to comply with a commitment celebrated with a member or members of the Group, i.e. the potential loss due to the lack of payment from a client or counterpart. For the correct measurement of credit risk, HSBC has credit risk measurement methodologies, as well as advanced information systems.

In general, the methodologies separate the client risk (probability that a client will default to his/her payment commitments: Probability of Default) from the transaction risk (risk related with the structure of the credit, including principally the value and type of guarantees).

In addition, HSBC Mexico has developed policies and procedures that include the different stages of the credit process: evaluation, authorization, origination, control, monitoring and recovery.

The system MRC (Credit Provision Module) was implemented in 4Q07 in order to improve the functionality of the grading system (SICAL). The “Matriz de Calificación” is still being applied to the commercial portfolio. This model is the core element of the regulatory risk grading process. The “Matriz de Calificación” determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, the level of support from shareholders and the type and value of guarantees, among others. Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

Based on the approval given by the CNBV, the “Matriz de Calificación” is used to calculate regulatory credit provisions based on the client risk, MRC (formerly SICAL) is used for the calculations. The internal client risk grade obtained from MRC is mapped to the regulatory one. The regulatory grades of the commercial portfolio can go from A to E.

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based to “Disposiciones de Carácter General Aplicables a las Instituciones de Crédito, publicated by CNBV”, which used the general methodology.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a risk evaluation tool is used: Moody’s Risk Advisor (MRA), which permits a deeper evaluation of the credit quality of clients based on their qualitative and financial information.

HSBC Mexico has developed eight models for assessing credit risk of customers of commercial portfolio with annual sales up to USD\$700m. These models were implemented in October 2010 and were developed based on a statistical analysis of the different economic activities that resulted in four major segments, which in turn were subdivided by annual turnover level, greater and less than MXN100m.

It is important to note that these models were reviewed and approved by experts in models development of HSBC Group Head Office.

In addition to the aforementioned models, HSBC Mexico has implemented the following global models that were developed by HSBC Group Head Office.

- ▶ A model for global customers to assess the corporate counterparties with annual sales equal or above to USD \$700 millones (GLCS).
- ▶ Another one to assess Bank Financial Institutions (RAfBanks)
- ▶ And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFIs).

The implementation of the abovementioned models was done along with the customers risk grading framework, known as Customer Risk Rating (CRR), which contemplates 23 levels, 21 of them are for performing customers and 2 for defaulted customers. The framework includes a direct correspondence to Probabilities of Default to each CRR and permits a more granular measurement of the customer's credit quality.

Regarding to the Loss Given Default (LGD) estimation, which represents the economic loss as a percentage of the Exposure at Default that HSBC Mexico will face at the time a customer defaults, HSBC Mexico developed a local model for assessing the Middle Market Enterprises and corporate customers, which was implemented in February 2011. In addition, for Bank Financial Institutions HSBC Mexico implemented (June 2010) a model developed by Group HSBC Head Office.

For Exposure at Default (EaD) estimation, HSBC México also developed a model for Middle Market Enterprises and corporate customers, which was implemented in October 2010. Besides the Exposure at Default estimation for Banking Financial Institutions is based on the guidelines established by the Group HSBC.

Locally developed models to estimate the Loss Given Default and Exposure at Default described above, were reviewed and approved by experts in model development of the HSBC Group Head Office.

In the second half of 2006 a risk-adjusted return model, which measures the profitability of each customer relationship, was introduced. During 1Q11 a new version were implemented.

Also, as part of the credit risk management and measurement infrastructure, HSBC Mexico has a system to manage, control and monitor the commercial credit approval process known as Approval Workflow (SIPAC). With this system the status of a credit application can be consulted in any stage of the credit process. For corporate banking the Credit Approval and Risk Management (CARM) system is used.

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a system was implemented in 2006, "Garantías II". Finally, it is important to comment that HSBC Mexico also has a system that controls the limits and utilization of credit facilities since their origination, "Líneas III".

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done periodically: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behavior from those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

Within the retail credit risk management activities, a several metrics about portfolio profiles and performance are reported on a monthly basis. These reports are divided by product and include general statistics of the portfolio as delinquent status, vintages analysis, and origination strategies, expected loss, among others. The expected loss approach adopted of the Credit Cards and Mortgages portfolios was developed under the Basel 2 Internal Rating Based approach. The rest of the portfolios adopted a bi dimensional framework that associates a Probability of Default and a Loss Given Default to every loan

Quantitative information

The Expected Loss of the cards, mortgage and other retail portfolio as at December 31st, 2011 is MXN \$ 5,228.5 millions of pesos, showing a decrease of MXN 98 millions of pesos (1.8%) in comparison with previous quarter

The Expected Loss of the commercial portfolio as at December 31st, 2011 is MXN 5,366.8 millions of pesos, showing an increase of MXN 336.7 millions of pesos (6.7%) compared to the figure reported in the previous quarter.

Operational Risk

Qualitative Information (including Legal and Technological Risk)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

In order to manage these risks, a central specialized unit has been established; and a group of middle managers within the business & support units has also been appointed to functionally report to this Unit and are responsible for spreading the Group's operational risk management framework. They both operate according to the policies, procedures, processes and

methodologies approved by the Risk Management Committee which are documented in manuals and instruction books as a complement to the Group's operational risk management and internal control framework.

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee and the Operational Risk Management Group, both sub-committees of the Risk Management Committee, which together are responsible for the fulfillment of applicable norms and regulations in force as well as to understand the institution's risk profile, to establish risk management priorities, assess the strategies and mitigation plans and monitor the evolution of operational risks' behavior and their mitigants.

An 8th annual assessment exercise took place during 2011 in order to identify and re-assess relevant operational risks throughout HSBC Mexico. The methodology applied during this exercise was reinforced based upon the Group's new Operational Risk Management Framework. As part of this exercise, relevant identifiable risks were denominated, described and classified into thirteen categories: Compliance, Fiduciary, Legal, Information, Accounting, Tax, External Fraud, Internal Fraud, People, Political, Physical, Business Continuity, Systems, Operations and Projects.

Technological Risk

HSBC México Technology Services (HTS) area keeps a continuous technological risk assessment in adherence to the local laws and regulations and their internal policies, attending the baselines of the local authorities and group's guidelines, between them, those related to the development of methodologies and installation of standard infrastructure, the above as stated on their Technology Functional Instruction Manual (IT FIM).

Interlaced to their operation schemes, HTS also is aligned to the statements within another manual and procedures, between them, the Operations Functional Instruction Manual (OPS FIM), the above due HTS acts as the entity that supplies technology and services for all bank channels and their business lines.

Inside their corporate governance framework, HSBC follow up the matters and requirements made for the local authority throughout their compliance area, where one of their main accountabilities is to keep a continuous review of the assessed risk as well as, the monitoring to comply with the local regulations.

The HTS keeps within their strategic plan a pillar that is related to regulatory matters.

Major methods/methodologies used on the assessment of technological risk are:

- I. Throughout agile, secure and reliable Governance structure, focused on maintain an adequate technological risk control and response capabilities for all bank services that are offered throughout the different distribution channels. Risk is managed at the higher level committees: HTS Steering Committee, Risk Management Committee (RMC), Operational Risk & Internal Control Committee (ORICC) and Operational Risk Management Group (ORMG).
- II. Keeping updated and testing the different case scenarios analyzed on their Businesses Continuity Plan (BCP) and related Disaster Recovery Plan (DRP), for those events that require reinstate their operation on alternate sites.
- III. Performing Risk Based Control Assessments (RCA).
- IV. The management of Information Technology Projects using a group standard tool called Risk Based Project Management (RBPM).
- V. Performing Risk Management activities with the active involvement of a specialized Internal Control area, including but not limited to operational risk, internal, external and regulatory audit management.
- VI. Throughout metrics and dashboards as tools that allow the measurement of the main goals defined within the strategic plans, which in overall refer to systems availability, the compliance on time and quality of major projects and budget, those measurements are reviewed on different forums and committees for decisions making.

Legal Risk

To manage and mitigate legal risk, in terms of financial loss, penalties and / or reputational damage that has been given detailed attention to the following risks identified as typical of the legal function:

- Contractual Risk, which is the risk that the rights and/or obligations within a contractual relationship are defective, and includes: misrepresentation, documentation, unintended consequences, unintended breach, enforceability and external factors.
- Dispute Risk, which is made up of the risks that HSBC is subject to when it is involved in or managing a potential or actual dispute, and includes: exposure and management of disputes.
- Legislative Risk, which is the risk that HSBC fails to adhere to the laws of the jurisdictions in which it operates, and includes: compliance with laws and change of law.
- Non-Contractual Rights Risk, which is the risk that HSBC's assets are not properly owned or are infringed by others or the infringement by a Group member of another party's rights, and includes: infringement, ownership rights and legal responsibility.

Policies are designed, controls and procedures to identify, measure and manage legal risk in order to avoid financial losses and operational errors. The specific risk mitigation is sought are:

- Contractual Risk, the contract being entered into on the basis of representations which are misleading, false or incomplete, the relationship not being properly documented; documentation being incomplete; or documentation not being properly maintained or recorded; contractual provisions being at variance with the intention of the parties, being uncertain or otherwise inadequate or binding relationships arising from documentation intended to be non-binding; insufficient business understanding of or adherence to a contract; rights of recourse are restricted or limited or there is no effective or fair dispute resolution procedure; or the contract being unenforceable in accordance with its terms; and the contract being subject to challenge due to external factors or parties to the contract having remedies outside the terms of the contract.
- Dispute Risk, to be exposed to greater risk of dispute and appropriate steps not being taken to resolve a potential or actual dispute.
- Legislative Risk, to fail complying with applicable laws; and the potential or actual introduction of restrictive or onerous legislation; or new legislation being introduced which is not anticipated, identified or reacted to on a timely basis.
- Non-Contractual Rights Risk, The infringement the rights of third parties or its rights being infringed by others; HSBC's assets not being properly owned or protected, or the ownership of such assets otherwise being potentially open to challenge; and be held to be legally responsible as a matter of general law.

Furthermore, institutional policies have been fulfilled, procedures necessary to Operational Risk and Internal Control have been established, legal audits have been conducted, estimating potential losses from adverse judgments has been carried out and an historical database on judicial decisions including causes and costs has been set up.

Quantitative Information (including Legal and Technological Risk)

From the assessment of operational risks resulting from the 8th assessment exercise carried out updated in the 2011, the set of risks is integrated by 358 identified and assessed relevant risks, distributed as follows: 3% (10) A type, 15% (61) B type, 44% (160) C type, and 38% (127) D type, which can also be classified according to their primary category onto:

Risk Categorization	Qty. of Risks	Percentage
Compliance	55	15%
Legal	26	7%
Information	39	11%
Accounting	12	3%
Tax	5	1%
Physical/ Instability	6	2%
External Fraud	23	6%
Internal Fraud	18	5%
People	18	5%
Business Continuity	13	4%
Systems	38	11%
Operations	105	29%
Fiduciary	0	0%
Proyectos	0	0%
Political	0	0%
Totals	358	100%

The institution holds an historical database since 2007, in which operational losses incidents are registered. Furthermore, the loss reporting threshold for individualized losses is of USD 10,000, where minor events are aggregated in a single record.

Total amount Operational Losses for 2011 is USD60m.

Both event types are recorded in the ad-hoc corporate system platform specifically designed for the management of operational risk and record of operational losses.

Treasury Policies

HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (HSBC Mexico) has three specific objectives in Treasury activities:

1. To fulfil the needs of our client base, mainly being Corporate and Institutional, and in some lesser degree Commercial clients.
2. Provide hedges for HSBC Mexico from interest rate, foreign exchange and liquidity risks. The latter as a part of its normal commercial activity.
3. Positioning and Market Maker activities.

All of the aforementioned is implemented in compliance with limits established by local regulating entities and with the high control standards from HSBC Group.

Dividends Policy

Grupo HSBC (including HSBC Mexico) does not have a fixed dividend policy. The decision to decret or no to make payment of dividends is determined by the shareholder assembly and the Board of Directors, such decision is based on the reinvestment and capitalization needs.

Paid Dividends

The frequency of the dividends paid by the Bank in the last four periods and the dividend decreted per share has been the following:

- During 2007, no dividend was paid.

- On 2 April 2008, the Board of Directors authorized a dividend payment for MXN2.8328 per share for the 1,235,526,706 outstanding shares.
- Based on the authorization granted by the Board of Directors on 30 March 2009, on 31 March 2009 a dividend payment was made for MXN0.81133657 per share for the 1,235,526,706 outstanding.
- Based on the authorization granted by the Board of Directors on 29 October 2010 a dividend payment was made for MXN1.22497679421977 per share for the 1,643,363,189 outstanding shares.
- Based on the authorization granted by the Board of Directors, on 18 March 2011 a dividend payment was made for MXN1.09531478619484 per share for the 1,643,363,189 outstanding shares.

Internal Control

The Management is responsible of the internal control in HSBC and for reviewing its effectiveness. Procedures have been developed to prevent the disposal or non authorized use of assets in order to maintain adequate accounting registers and to generate trustful financial information for internal use or for its publication. Such processes have been designed to manage risk and not to eliminate it; therefore they can only provide a reasonable safeguard against material deviations, errors, losses or frauds.

The key procedures that the Management has established have been designed to facilitate the effectivity of HSBC's internal controls and include the following:

- A clear due diligence has been established, supported by a detailed definition of authority limits enhancing effective operational controls. Responsibility is delegated through writings with instructions clearly defined, including transactional ranges. Appropriate information is considered to determine the level of authority as well as the approach of such responsibility granted in individual basis; this is accomplished through the implementation of monitoring and reporting procedures, adequate segregation of functions and a management structure designed to control responsibility limits. In summary, the administrative board authorises the CEO (Chief Executive Officer) to delegate faculties to the rest of the Managers who receive the appropriate authority to develop their activities.
- The administrative board in each of its meetings receives briefs about financial information, the development of business, management of key personnel and drafts copies of each committee reunion held. The administrative board also receives presentations of key business areas and of any other relevant affairs that have been requested.
- The systems and procedures that exist in HSBC to identify, manage and inform about relevant risks include: credit, changes in market prices of financial instruments, liquidity, operation errors, law or normativity infringements, non authorized activities and fraud. The exposure to such risks is supervised by the Assets and Liabilities Committee (ALCO) and by the Executive Committee. The Risk Management Committee (RMC), chaired by an external member of the Administrative Board, is celebrated in a monthly basis. In the RMC, assets and liabilities affairs are discussed. Each subsidiary holds individual RMCs that are discussed in HSBC's RMC.
- New procedures have been established in order to identify new risks arising from changes in market place practices as well as from client behaviour, which can increase risk exposure to losses or to reputation damage in HSBC's.
- Strategic plans are prepared for each client segment, product group and main support areas. In such manner, operational plans are prepared. These plans are approved annually and revised periodically, establishing key initiatives for our businesses and their possible financial effects.
- Responsibility on the financial performance, capital expenditure, budget exercise, credit risk and market risk are delegated with certain limits to the Management. Additionally, risk management policies are established by the Administrative Board for the following risk areas: credit risk, market risk, liquidity risk, operation risk, information technology risk, insurance risk, accounting risk, fiscal risk, legal risk, human resources risk, reputational risk, acquisition risk, and business risk.

- Internal audit supervises the effectivity of the internal control structure. Internal audit tasks are focused in supervising the areas that represent the higher risks for HSBC, to determine such areas, risk assessments take place. The head of this functions reports to the Audit Committee.
- The Management is responsible to assure that recommendations given by the internal audit area are implemented in the stipulated time; confirmation of implementations is handed to internal audit. The Management must also confirm in annual basis to internal audit that measures have been taken to implement recommendations given by an external author or the regulator.
- The Audit Committee revises periodically the effectiveness of Internal Control and also informs the Administrative Board about the latter. Among the main processes used by the committee in its revisions are: periodical reports of the heads of key risks, annual revision of the performance of internal control against key HSBC indicators, quarterly confirmations that no significant losses have taken place, contingency or uncertainty caused by deficiencies of the internal controls, internal audit reports, external audit reports and regulatory reports.
- The Management, through the Audit Committee, realizes an annual review of the effectivity of the internal control, which covers key financial, operational and compliance indicators as well as the effectivity of the risk management system. The Audit Committee receives periodically information about measures taken by the Administrative Board to correct or resolve any weakness or error detected through the operation of HSBC's internal control.

Corporate Sustainability (CSR)

We believe that being a sustainable bank involves several commitments in our actions; from a business perspective, implies sustainability profitable growth in the long run based on a relationship of trust between our institution and our clients. The sustainable standpoint involves reducing as much as possible the environment impact of our operations and to contribute in our community by supporting programs and projects that promote better education and environment which is the trust of our clients.

Sustainability is achieved through a strategy based on three pillars: Economic: aligning with the principles of Ecuador considering the environmental impact on the group's investments. Environment: Caring for the impact of our carbon footprint on the environment and promoting a sustainable culture within our organization. Social: Supporting education, culture and community projects which promote employee participation in volunteering programs. This is possible to the community investment which in 2011 represents 0.5% out of our PBT.

2011 is a challenging year not only to consolidate our business but to succeed in both, Community and Environmental Investment and the launch of flagship programs. This keeps on the strategy of focusing on giving to the development of hi-impact programs in Education, Environment and Community benefiting the communities where we operate.

The current flagship programs will consolidate like "Just Raise Your Hand " partnership with Lazos Foundation; community-oriented "Niños y adolescentes migrantes no acompañados" with Save the Children and DIF; as for environment matters, will support the model to combat climate change in water, waste and biodiversity projects.

These actions have enabled us to promote a sustainable commitment to our employees and customers.

Our community investment funds on 3 sources: PBT, Client Contribution and Sustainable Products getting a total of \$70,400,000.00 which comes out as follows: \$40,000,000.00 from PBT which was invested as Group policies as: 50% Education, 25% Environment and 25% for Community. \$14,400,000.00 in ATM'S with client contribution during 3 campaigns: Kids with Cancer, Becalos and Extreme Poverty. Plus, \$16,000,000.00 via Green Insurance which is invested in environment programs.

Education

Through our social programs, we are achieving a positive impact in the life of kids and teenagers, by getting involved and providing financial support to institutions that can give them the access to a better education and because of this they can reach success, a better future for themselves and then a better way of life for their families.

For HSBC, one of the subjects that matters the most for sustainability is education, and today we have three main axes inside this sector: Integral education, Scholarships in urban and rural areas and Financial Education.

Our Programs:

Just Raise your Hand

On October 26th, the annual event of the program "Just Raise Your Hand" was carried out. Luis Peña Kegel, HSBC Mexico's CEO, Fernando Landeros Verdugo, Lazos Founder and German Ahumada Russek, Consorcio ARA CEO's where present as guests of honor, also clients and core media stakeholders were invited. To note, the event was published in five different newspapers, two articles were paid for and three were not.

At the event, we announced that during the first phase of the program (2010 – 2011 school year) 1,013 children were sponsored by both HSBC employees and clients and that the 19 volunteering activities realized were a complete success. To note, 450 volunteers participated donating a total of 2,600 hours of work.

We also communicated that the infrastructure improvement constructions of the first stage, were concluded in the 8 schools that were supported thanks to HSBC client's donations and the alliances made with Consorcio ARA, Cementos Moctezuma, Pepsico and Metecno.

Thanks to the success reached during the 2010 – 2011 school year – sponsorships, infrastructure improvements and volunteering – almost USD\$1m were invested in the program "Just Raise Your Hand".

Also, the goals of the second phase of “Just Raise Your Hand” were launched: 1,201 children to be sponsored, 8 infrastructure improvement constructions and 24 volunteering activities will be carried out within the 16 schools belonging to the program.

The second phase of the program already started, and during October and November the financial education program “More Than Money” was implemented in the first 8 schools, benefiting 369 children of 5th and 6th grades. The constructions for infrastructure improvement for the new 8 schools of the second phase will start in January.

Attention and Prevention of Lonely Children and Teenage Migrants

We are currently working in the communities of San Mateo Ozolco, Suchiate, Huixtla, Tijuana, and header Atzalan Calpan, benefiting over 6,500 children.

Transportation

With regards to the costs of transporting children and youngsters in greater distance routes or risk, we expect to benefit 500 migrant children.

We will establish an agreement with Volaris and Aeromexico about donations and how they will operate. In high season we will work directly with the travel agency with which Save the Children has agreements because tickets that are donated are subject to availability.

Ozolco Community

We began working with Ozolco’s community, which has a high rate of migrant children. First of all, a detailed diagnosis of the demographic situation of Ozolco – including indicators such as health, education, religion and occupation - was made in order to have a detailed picture of the community’s current social situation.

Additionally, we started a program consisting of educational, recreational and sport activities with children in order to avoid migration by enabling them with tools that will help them have better opportunities. This program is benefiting 542 children.

Mentoring/Volunteering

We decided to organize, in cooperation with Save the Children, a volunteering programme for HSBC employees in Puebla. The volunteers will carry out different activities throughout the year, with the aim of getting to know the kids of San Mateo Ozolco primary school, and spending time with them. They will also serve as “mentors” for the children, as they will be giving them advice and financial orientation.

Scholarship Programme.

The main objective of the scholarship programme is to provide financial support for unaccompanied migrant children and adolescents, to continue with their studies and prevent dropout.

Around 400 scholarships were authorized for primary, secondary and highschool kids, plus 50 scholarships for university students.

In this regard, approximately 190 children have opened their accounts and they have received their first deposit. The beneficiaries will receive \$ 800 pesos per month over a period of 12 months.

The Hunger Project

We decided to explore a third model of social intervention, different from Save the Children and the DIF, which tackles the problem of lack of opportunities and as a result migration, from the root. This model will be developed by The Hunger Project foundation and consists on rebuilding the social network through the empowerment of the community. We only need to determine whether it is feasible to develop their model in the communities where DIF is already working or leave the initial proposal to work in Oaxaca, to start the programme immediately.

Zippy’s Friends

Zippy’s Friends is a program that helps young children to develop problem solving and social skills.

The first school cycle was successfully completed. Thanks to this, HSBC in alliance with Lazos Foundation 646 students from 1st and 2nd grades of 7 elementary schools and 19 teachers were benefited.

The second phase of the program started in November, benefiting 822 children and 29 teachers and will finish in July 2012.

Environment

Green Project HSBC Insurance

In order to continue the new projects supported by Green Project HSBC Insurance, the allocation committee met to assess the organizations for the second half of 2011. The projects listed below will generate a potential environmental impact of a volunteer team and bank employees and to ensure the final destination of resources.

1.- “Fideicomiso Pro Bosque Chapultepec”

Sanitation Forestry in El Sope, running track located in the second section of Chapultepec Park, as well as the rehabilitation of green areas in the same district park. This project is part of the Management Plan for the Rescue of Second Section of Forest Chapultepec. The main purpose of this project is to rehabilitate and rescue the Second Section of Chapultepec Park.

2.- “Parque Ecológico Chipinque”

Restoration and rehabilitation of Chipinque Ecological Park through dams of branches, well-stone dams, vegetative practices, planting grass and fertilizer application for the recovery and accumulation of soil, production of 25,000 pine trees in the forest nursery Park Chipinque, which will be used for reforestation in these areas, so it will carry out various activities for the rehabilitation of gaps and villages affected by the detachment and sliding of earthy material and vegetation.

3.- “Bosque La Primavera”

Investment through the strengthening of strategic capacities of local actors is encouraged participation and empowerment in actions that contribute to permanence of the environment of this protected natural area of the State of Jalisco and in turn drive that favor local enterprises improve their economic conditions.

4.- “Fábrica de Agua Nevado de Toluca”

Establishes the conditions for increasing water retention and recharge aquifers and promotes increasing environmental regeneration.

5.- “Todos por el agua en San Miguel de Allende”

To protect and restore watersheds that ensure the environmental well recharges the aquifer that ensures water quality and supply of urban and rural communities of San Miguel de Allende, Guanajuato.

6.- “Consejo Civil Mexicano para la Silvicultura ”

The aim is to reduce the accelerated deterioration of natural resources in Mexico, encouraging a greater number of communities, ejidos and forest producers to develop their productive activities under the rules of good forestry.

7.- “Grupo Ecológico Sierra Gorda”

The Biosphere Reserve of the Sierra Gorda is the most diverse protected area in Mexico and hosts some of the best preserved forest massifs of central Mexico. The purpose of this resource is to look after the forests that provide air and water, soil, heat balance and causes of biodiversity

8.- “Alternare”

This project aims to solve the main problems of the Biosphere Reserve of the Monarch Butterfly that requires capacity building of local people in different aspects such as generating processes that support them to make decisions regarding the use and care of their natural resources. It requires that the community is good information on the status of their resources especially water that can build a community environmental awareness.

9.- “Proyectos de Alto Impacto en Agua”

This semester has decided to support three high-impact projects in water: a) Water Hucholes Communities with an investment of one million pesos, b) Urban Island Federal District with a million dollars and another project in Tlaxcala.

HSBC Climate Partnership

In December of 2011, the HSBC Climate Partnership program came to an end. This was a five year program with a global investment of 100 million dollars. Of the 2,500 Climate Champions that were part of the world wide program, a total of 145 were from Mexico.

In November 2011 we held a Climate Champion workshop in the Sierra Gorda of Queretaro where in addition to reporting the results of the work carried out over the past five years, the Champions received training in order to continue the program at a local level.

In January 2012, the HCP Mexico program will be launched and will provide continuity to the bank's investment and the results obtained at local level. This program will be the environmental flagship program for HSBC Mexico.

Community

Under the community investment principle, HSBC has developed different projects in health, culture and emergency situations.

Our Programmes:

ATM's

During September and October the ATM's fundraising campaign was held in favor of the NGO "In Our Hands", rising more than USD \$138m.

The campaign "Extreme Poverty" was carried out during November and December sponsoring seven different NGO's throughout each of our 8 HSBC Mexico Divisions, rising more than USD \$145m and benefiting 7 different institutions, such as "Comamos y Crezcamos con Alegría, A.C.", "Comedores Santa María, A.C.", "Proyecto de Vida, I.A.P.", among others.

Future First

During 2011, Future First was a complete success for Mexico, six "Non SOS" and two "SOS" projects were supported by the Future First Global Committee, receiving a total of USD \$189,991 and benefiting 974 children. To note, HSBC Mexico was the second branch of all HSBC branches that received more funds.

Volunteering

Activities:

Ecotechnie

Volunteers attended the community "Piedra Grande" in Huixquilucan Edo. Mex to participate in the construction of a bio-bed intensive nopal, a wood-saving stoves, organoponics in tires and making waterproofing tanks maintain a rain water "catchment", eco-techniques models that have been replicated by community to improve their standard of living in harmony with the environment

Financial Education

The growing interest of our staff involved in the program for children from 5th. and 6th. grade in public schools, allowed us to include 200 volunteers in 16 cities.

Child Saving up day

In order to fulfill its commitment to society, the ABM, promoted financial education in our country. HSBC invited 35 volunteers in Queretaro and Colima to join their activity "day of savings".

Human Bond

80 HSBC volunteers joined to create a “human bond” at the Independence monument organized by “Casa de la Sal” institution to support AIDS.

Climate Entrepreneurs

The Climate Entrepreneurs program was successfully launched in Mexico City. It involved 78 volunteers and encouraged 1,390 students in 7 primary schools to take action and help fight climate change.

Collecting Toys

123 volunteers participated in different activities such as communication, collecting and packing toys; which is equivalent to 1,168 voluntary working hours.

“Learning with HSBC” (“Aprende con HSBC”)

This program was launched in September and the courses were given during October and November in seven sessions of approximately an hour each. Twenty-two volunteers reached 268 students in a total of four poorly funded public schools.

In addition, the volunteers arranged a visit for the students to the Museo Interactivo de Economía (MIDE). They also had the children’s eye sight checked and provided glasses for 66 of the children that were in need of them, thus helping to improve their performance at school.

Communication

During this quarter, the Corporate Sustainability Department gained 28 free press releases with an estimated value of MXN2.9m.

Recognitions

In December 2011 the Executive World (Mundo Ejecutivo) magazine awarded us the 6th place in the ranking of the 50 companies with greater social responsibility, when in 2010 we occupied the 33rd place.

The ranking includes financial groups, consumer companies, automotive, department stores and other industries covering basically all sectors of the economy.

Promotion of interaction with employees and areas

In alliance between Corporate Sustainability, RBWM and HR, HSBC Mexico is hiring people with disabilities through Manpower Foundation A.C., FHADI I.A.P., Colabore A.C. and Fundación Teletón. At the moment there are 36 candidates that have been hired, however each Tuesday a meeting is held in way to achieve the goal of 90 candidates hired by June 2012.

Conclusions

We have focused our investment community by developing and implementing flagship programs; this has strengthened the engagement with our stakeholders. Thanks to our campaigns through which not only involve our staff, but also has allowed active participation of our customers, providing not only financial, but also projects of corporate social responsibility and sustainability to their business.

We have had success in our social and environmental investment with the support of our customers through channels and sustainable products: where we expect to raise 45.00% from clients support.

HSBC Mexico seeks to maintain a balance between environment, society and the profitability of its business by establishing long term relationships with its customers, ensuring the success of HSBC in time, and thanks to their

commitment and actions. We then provide support in a multidimensional way, which will impact people and future generations of Mexico.

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