# Grupo Financiero HSBC

*Financial information at 31 December 2013*

# 4Q13

► **Press Release**

► **Quarterly Report**

► **Fourth Quarter 2013**

*Release date:*
*24 February 2014*

HSBC

24 February 2014

# GRUPO FINANCIERO HSBC, S.A. DE C.V.
# 2013 FINANCIAL RESULTS – HIGHLIGHTS

- Net income before tax for the year ended 31 December 2013 was MXN4,706m, a decrease of MXN3,027m or 39.1% compared with MXN7,733m for 2012.

- Net income for the year ended 31 December 2013 was MXN3,714m, a decrease of MXN2,302m or 38.3% compared with MXN6,016m for 2012.

- Total operating income, net of loan impairment charges, for the year ended 31 December 2013 was MXN26,365m, a decrease of MXN3,319m or 11.2% compared with MXN29,684m for 2012.

- Loan impairment charges for the year ended 31 December 2013 were MXN8,086m, an increase of MXN2,552m or 46.1% compared with MXN5,534m for 2012.

- Administrative and personnel expenses were MXN21,702m, a decrease of MXN291m or 1.3% compared with MXN21,993m for 2012.

- The cost efficiency ratio was 63.0% for the year ended 31 December 2013, compared with 62.4% for 2012.

- Net loans and advances to customers were MXN192.8bn at 31 December 2013, an increase of MXN3.2bn or 1.7% compared with MXN189.6bn at 31 December 2012. Total impaired loans as a percentage of gross loans and advances increased to 5.9% compared with 2.0% at 31 December 2012.

- At 31 December 2013, deposits were MXN287.5bn, a decrease of MXN7.8bn or 2.6% compared with MXN295.3bn at 31 December 2012.

- Return on equity was 7.0% for the year ended 31 December 2013 compared with 12.4% for 2012.

- At 31 December 2013, the bank's total capital adequacy ratio was 14.8% and the tier 1 capital ratio was 12.0% compared with 14.5% and 11.6% respectively at 31 December 2012.

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

*2012 results have been restated to reflect the general insurance manufacturing businesses and HSBC Fianzas, the bonding company, as discontinued operations.*

*HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the quarter ended 31 December 2013) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance group.*

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

## Overview

Mexico saw a material slowdown in economic activity in 2013, with GDP growth likely to have slowed to less than 1.5% from 3.9% in 2012. Inflationary pressures remained subdued and Banxico, the Mexican Central Bank, cut its key policy rate to 3.5% from 4.5% at the start of the year. However, a significant number of structural reforms should aid long-term performance of the Mexican economy.

For the year ended 31 December 2013, Grupo Financiero HSBC's net income was MXN3,714m, a decrease of MXN2,302m or 38.3% compared with 2012. The reduction was driven mainly by higher loan impairment charges, lower trading and other operating income, partially offset by an increase in net interest income and net fee income, lower tax expense, as well as reduced administrative and personnel expenses.

Net interest income was MXN22,592m, an increase of MXN477m or 2.2% compared with 2012. The improvement was due to higher average portfolio balances in mortgage, payroll, personal and credit cards loans, partially offset by lower interest income in non-interest bearing deposits due to a decrease in market rates and lower spreads in personal and payroll loans, as well as lower balances in commercial and government entities loans.

Loan impairment charges were MXN8,086m, an increase of MXN2,552m or 46.1% compared with 2012. The increase is mainly explained by the higher loan impairment charges related to specific customers in the home builders' portfolio as a result of a change in the public housing policy, and the increase in the impaired consumer loan portfolio arising from loan growth and portfolio deterioration, the latter being in line with general market experience. New regulations from Mexico's banking and securities regulator, CNBV, relating to the methodology for calculating loan impairment allowances for commercial lending were implemented on 30 June 2013. The implementation of this new methodology increased loan loss allowances by MXN799m, which were recognised through retained earnings.

Net fee income was MXN6,909m, an increase of MXN576m or 9.1% compared with 2012. The improvement was driven by lower fee expenses, mainly as a result of a change in the presentation of certain insurance expenses to administration expenses in the first half of 2013. Increased annual fees charged on credit cards and a higher number of transactions, coupled with higher investment funds and account services fees also contributed to the higher fee income.

Trading income of MXN2,420m decreased by MXN534m or 18.1% compared with 2012, mainly in bonds and derivatives as a consequence of interest rate market volatility.

Other operating income was MXN2,530m, a decrease of MXN1,286m or 33.7% compared with 2012. This reduction is mainly due to lower net releases of loan impairment charges during 2013 which according to the Mexican GAAP accounting regulation should be presented within this category, as well as an impairment provision on a defaulted derivative that is recognised as an account receivable.

Administrative and personnel expenses were MXN21,702m, a decrease of MXN291m or 1.3% compared with 2012. Excluding the impact of the non-recurrence of the MXN379m fine imposed by CNBV in 2012, administrative and personnel expenses would have increased by MXN88m or 0.4% compared with 2012. During 2013 sustainable savings of MXN511m

(USD40m) were generated which have been re-invested in the compliance and risk functions in line with the implementation of the HSBC Group's global standards.

The cost efficiency ratio was 63.0% for the year ended 31 December 2013, compared with 62.4% for 2012.

The effective tax rate was 25.0% for the year ended 31 December 2013, compared with 26.9% for 2012. A large part of this variance is explained by higher inflationary effects which benefited the effective tax rate in 2013, coupled with an increase in deferred tax assets as a result of the change in the statutory tax rate to be applied in future periods, partially offset by higher non-deductible expenses in 2013.

Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax of MXN1,886m for the year ended 31 December 2013, excluding discontinued operations, a decrease of 18.6% compared with 2012. This was mainly due to an increase in the claims ratio to 44.0% from 34.6% reported in 2012. In addition, investment income decreased 5.2% mainly due to market volatility in interest rates during 2013. Gross written premiums increased 1.0% in life products.

Net loans and advances to customers were MXN192.8bn at 31 December 2013, an increase of MXN3.2bn or 1.7% compared with MXN189.6bn at 31 December 2012. The performing mortgage loan portfolio increased by 26.9% and the performing consumer loan portfolio increased by 12.2% primarily in personal and payroll loans. Government loans decreased 35.5% mainly due to a repayment of one significant loan during 2013. The performing commercial loan portfolio decreased by 0.9% due to the reclassification of loans to certain home builders to the impaired portfolio.

At 31 December 2013, total impaired loans increased by 202.9% to MXN12.2bn compared with MXN4.0bn at 31 December 2012. The higher impaired loan portfolio is largely associated with increased impaired commercial loans related to the performance of certain home builders during 2013. Total impaired loans as a percentage of total loans and advances to customers increased to 5.9% compared with 2.0% at 31 December 2012. The non-performing loan ratio of mortgage and consumer impaired loan portfolios increased to 3.9% compared with 3.5% at 31 December 2012, as a result of the Mexican economic performance.

Total loan loss allowances at 31 December 2013 were MXN12.2bn, an increase of MXN2.8bn or 30.3% compared with 31 December 2012. A total of MXN799m of the increase in loan loss allowances was recognised through retained earnings in June 2013 as a consequence of applying the new CNBV methodology for commercial loans. The total coverage ratio (allowance for loan losses divided by impaired loans) was 100.6% at 31 December 2013 compared with 233.8% at 31 December 2012. This decrease was primarily a result of the increase in impaired commercial loans.

Total deposits were MXN287.5bn at 31 December 2013, a decrease of MXN7.8bn or 2.6% compared with 31 December 2012. Demand deposits decreased by 4.6% while time deposits decreased by 0.9%, mainly related to a reduction of high interest bearing accounts due to re-pricing strategies in order to offset the decrease in market interest rates.

At 31 December 2013, the bank's total capital adequacy ratio was 14.8% and the tier 1 capital ratio was 12.0% compared with 14.5% and 11.6% respectively at 31 December 2012.

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

**Business highlights**

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

RBWM increased demand deposits average balances by 1.7% compared with the previous year.

Sales of personal loans continued to be strong compared to the prior year, with sales volumes higher by 78.2%.

Mortgage sales volumes increased by 104.0% compared with the same period of 2012, largely as a result of a mortgage campaign launched in April 2013 which at the time was the most competitive mortgage rate in the market of 8.70%. In September 2013, new prices for mortgages of 8.45% were launched for premier customers, which was the lowest rate in the market.

The average balances of credit cards increased 7.6% compared with the same period of the prior year; whilst sales increased 1.6% versus last year.

**Commercial Banking (CMB)**

CMB results for 2013 were impacted by loan impairment charges, mainly related to provisions on exposures to certain home builders as a result of a change in the public housing policy.

Aligned to our global strategy of becoming the leading international trade and business bank, CMB continues to increase connectivity with global customers throughout the world. It is important to highlight the following points:

- Further action taken to support international SMEs through the US$1bn International Growth Fund; lending of MXN3,503m (US$276m) has been approved six months after launch. The International Growth Fund has played an important role in delivering overall Business Banking Upper segment average loan growth of 25.4% over prior year.

- CMB average deposits decreased 13.0% compared with 2012. From a more focused relationship-led approach, average deposits at 31 December 2013 were 13.1% higher compared to the figure at 30 June 2013.

- Continued progress in collaboration with Global Banking and Markets and Global Private Banking, with particularly strong year on year growth in revenues from foreign exchange. Closer coordination with GBM expertise has delivered growth in more complex products with sophisticated clients.

**Global Banking and Markets (GBM)**

During the last quarter of 2013 GBM acted as a joint mandated lead arranger, interest rate swap coordinator and hedging counterparty for a 16 year MXN1,245m financing for the acquisition, operation and maintenance of the company Grupo Mexico's 74MW Wind Farm in Istmo of Tehuantepec (Oaxaca) Mexico.

The project represents a landmark transaction both for the client and HSBC; it marks the first steps of Grupo Mexico into the wind renewable business, in line with its strategy to increase focus on sustainable energy development, as well as providing a cost efficient source of energy for its business division portfolio. The deal reinforces HSBC's commitment to support the renewable energy sector in line with our sustainability policy.

During the last quarter of 2013, Debt Capital Markets maintained its status as one of the top three leading Mexican underwriters.

**Sale of HSBC Fianzas to Afianzadora ASERTA**

In December 2013, the sale of HSBC Fianzas, Grupo Financiero HSBC's subsidiary which undertakes bonding and surety business, to Afianzadora Aserta was completed. This sale represents further progress in the execution of the HSBC Group's strategy.

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

For the year ended 31 December 2013, on an IFRS basis, Grupo Financiero HSBC reported a net income before tax of MXN1,637m, a decrease of MXN7,423m or 81.9% compared with MXN9,060m for 2012.

The higher net income before tax reported under Mexican GAAP is largely due to higher loan impairment charges under IFRS mainly as a result of recognising through the income statement the home builders loan impairment charges that were primarily recognised through retained earnings under Mexican GAAP, and a reduction of the present value of in-force long-term insurance business, a concept which is only recognised under IFRS. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

**About HSBC**

HSBC Mexico's Payments and Cash Management business won, for the second consecutive year, "Best Global Cash Management House Mexico 2013" from Euromoney.

HSBC Mexico was awarded as the "Best Infrastructure Financing in Mexico" by LatinFinance for the Red de Carreteras de Occidente's europeso project bond. This marked the first time a Mexican peso-denominated project bond had been sold to international investors. LatinFinance gave HSBC Mexico two awards: "Best Local Currency" and "Best Financing Innovation" both for the America Movil MXN15bn global peso bond.

HSBC Mexico was recognised as among the leading enterprises in the ‘Great Place to Work’ ranking of "Best Companies to Work for in Mexico: Gender Equality".

HSBC Mexico was the winning company in the category of Community Engagement at the Incluye Awards 2013 for the inclusion program, ‘Sumando Valor’.

HSBC Mexico came second, within the financial sector companies, in the ranking of the 50 companies with sustainable social responsibility published by the magazine "Mundo Ejecutivo".

On 20 December 2013, HSBC Mexico obtained "LEED (Leadership in Energy & Environmental Design) Volume in Operations and Maintenance" certification for the first package of 25 branches nationwide, being the first bank in Latin America to receive this certification.

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 987 branches, 6,120 ATMs and approximately 17,500 employees. For more information, visit www.hsbc.com.mx.

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 6,300 offices in 75 countries and territories in Europe, Hong Kong, Rest of Asia-Pacific, North and Latin America, the Middle East and North Africa and with assets of US$2,671bn at 31 December 2013, the HSBC Group 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 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
| a) Liquidity | 94.68% | 104.13% | 98.08% | 98.64% | **106.93%** |
| **Profitability** | | | | | |
| b) ROE (Return over equity) | 12.87% | 11.25% | 4.22% | 6.91% | **5.11%** |
| c) ROA (Return over assets) | 1.29% | 1.15% | 0.45% | 0.78% | **0.56%** |
| **Asset quality** | | | | | |
| d) Impaired loans/total loans | 2.02% | 2.18% | 4.29% | 5.29% | **5.93%** |
| e) Coverage ratio | 233.77% | 220.45% | 135.71% | 111.27% | **100.55%** |
| **Capitalization** | | | | | |
| f) Credit risk | 22.36% | 25.34% | 24.16% | 23.97% | 22.26% |
| g) Credit and market risk operational | 14.51% | 16.83% | 16.15% | 15.63% | 14.81% |
| **Operating efficiency** | | | | | |
| h) Expenses/Total Assets | 4.49% | 3.93% | 4.34% | 4.49% | **4.43%** |
| i) NIM | 5.20% | 5.00% | 5.10% | 5.28% | **4.98%** |
| **Infrastructure** | | | | | |
| Branches | 1,040 | 1,040 | 1,021 | 1,001 | **987** |
| ATM | 6,490 | 6,453 | 6,350 | 6,252 | **6,120** |
| Head Count | 17,518 | 17,326 | 17,287 | 17,570 | **17,527** |

*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.*

# Relevant Events

**Sale of HSBC Fianzas to Afianzadora ASERTA**

In December 2013, the sale of HSBC Fianzas, Grupo Financiero HSBC's subsidiary which undertakes bonding and surety business, to Afianzadora Aserta was completed. This sale represents further progress in the execution of the HSBC Group's strategy.

**Long-term Stock Exchange Certificates issuances**

As part of a permit issued by the CNBV to the Bank on December 3, 2013, the latter conducted during December 2013 two issuances of long-term Stock Exchange Certificates in the amount of MXN2,300m and MXN2,700m, maturing in December 2018 and November 2023 respectively. These issuances bear interest at 1m TIIE rate + 0.03% and 8.08%.

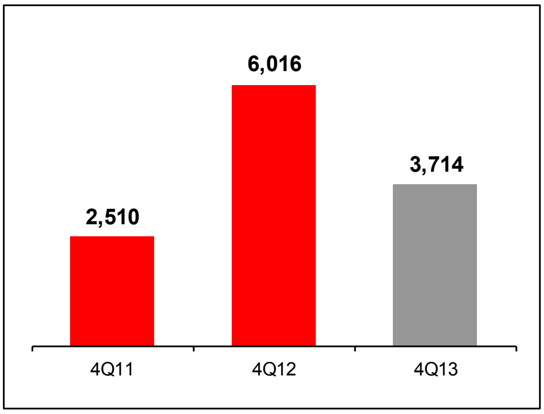
# Income Statement Variance Analysis

## Net Income

Net income for Grupo Financiero HSBC at 31 December 2013 was MXN3,714m, a decrease of 38.3% compared with 2012.

The decrease was mainly due to higher loan impairment charges, lower trading and other operating income, partially offset by an increase in net interest income and net fee income, lower tax expense, as well as reduced administrative and personnel expenses.

Net Income
31 December 2013

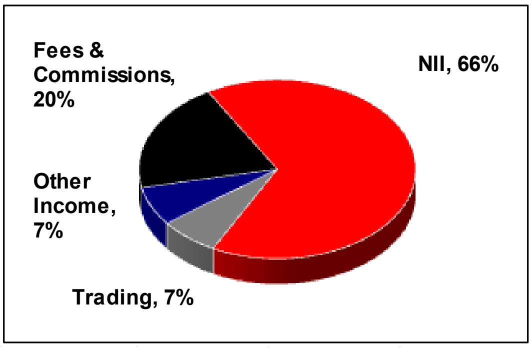



## Total Operating Income

The Group's total operating income, net of loan impairment charges, for the year ended 31 December of 2013 was MXN26,365m, a decrease of MXN3,319m (11.2%) compared with 2012.

The decrease in total operating income, net of loan impairment charges, is mainly due to increased loan impairment charges, lower other operating income and a reduction in trading income.

Revenue Distribution
31 December 2013




## Net Interest Income

Net interest income for the year ended 31 December of 2013 increased to MXN22,592m, an increase of MXN477m (2.2%) compared with 2012.

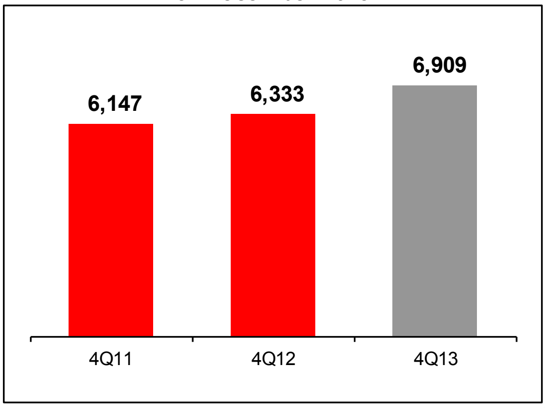
The increase in net interest income was mainly due to higher average loan portfolio balances in mortgage, payroll, personal and credit cards loans, partially offset by lower interest income in non-interest bearing deposits due to a decrease in market rates and lower spreads in personal and payroll loans, as well as lower balances in commercial and government entities loans.

## Non-interest Income

Non-interest income for the year ended 31 December of 2013 was MXN11,859m; a decrease of MXN1,244m or 9.5% compared with 2012.

The Group's non-interest income to total revenue ratio decreased from 37.2% for the year ended 31 December of 2012 to 34.4% for the year ended 31 December of 2013, driven by lower trading and other operating income.

Group Fees & Commissions
31 December 2013

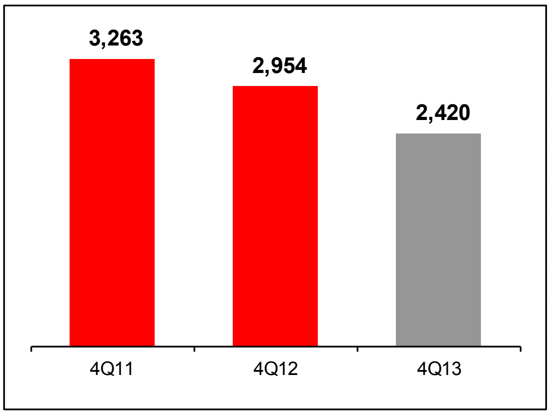



### ► Fee income

The Group's net fee income for the year ended 31 December of 2013 was MXN6,909m, an increase of MXN576m or 9.1% compared with 2012. This increase was mainly due to lower fee expenses related to a change in presentation of certain insurance expenses in the first half of 2013, higher fee income related to increased annual fees charged on credit cards and a higher number of transactions, coupled with higher investment funds and account services fees.

**Trading Income**

31 December 2013




► **Trading income**

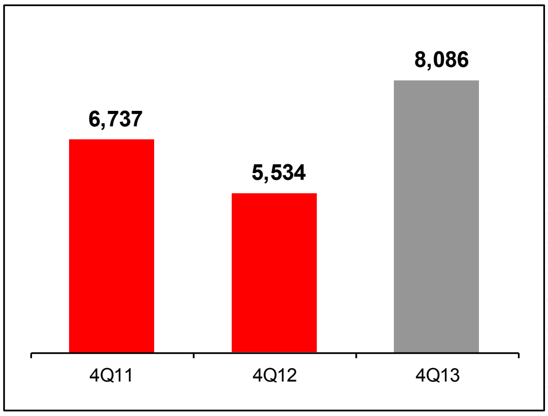
Trading income was MXN2,420m, a decrease of MXN534m or 18.1% compared with 2012, mainly in bonds and derivatives as a consequence of interest rate market volatility.

► **Other operating income**

Other operating income was MXN2,530m, a decrease of MXN1,286m or 33.7% compared with 2012. This reduction is mainly due to lower net releases of loan impairment charges during 2013 which according to the accounting regulation should be presented within this category as well as an impairment provision on a defaulted derivative that is recognised as an account receivable.

**Loan Impairment Charges**

31 December 2013



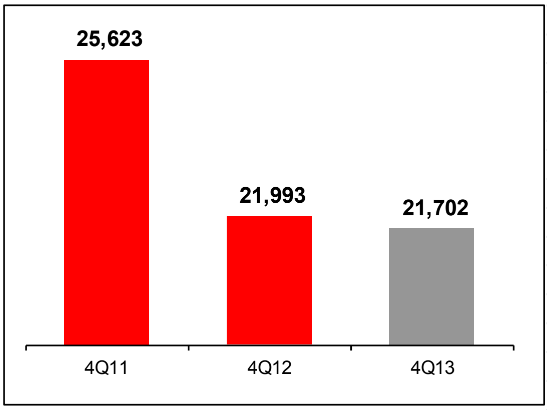

## Loan Impairment Charges

For the year ended 31 December of 2013, the Group's loan impairment charges were MXN8,086m, an increase of MXN2,552m or 46.1% compared with 2012. The increase is mainly explained by the higher loan impairment charges related to specific customers of the home builders' portfolio, and the increase in the impaired consumer loan portfolio arising from loan growth and portfolio deterioration, the latter being in line with general market experience.

## Administrative and Personnel Expenses

**Administrative Expenses**

31 December 2013




The Group's administrative and personnel expenses for the year ended 31 December of 2013 were MXN21,702m, a MXN291m or 1.3% decrease compared with 2012. Excluding the non-recurrence of the MXN379m CNBV fine in 2012, administrative and personnel expenses would have increased by MXN88m or 0.4% compared with 2012. During 2013 sustainable savings of MXN511m (USD40m) were generated which have been re-invested in compliance and risk costs as a result of the implementation of HSBC global standards.

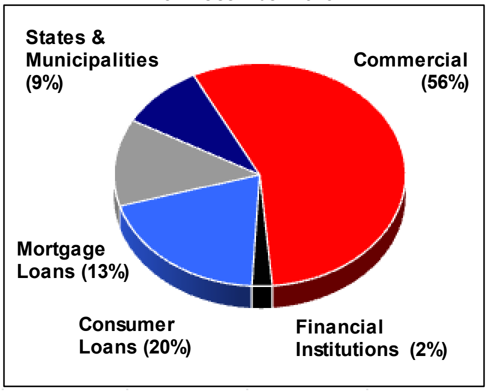
# Balance sheet Variance Analysis

At 31 December 2013, the Group's total assets amounted MXN530,540m, which represents an increase of MXN26,740m or 5.3%, compared with 31 December 2012. This increase was mainly driven by an increase in investment in securities, derivative transactions and total loan portfolio.

## Loan portfolio

The Group's performing loan portfolio balance was MXN192,834m at 31 December 2013, a decrease of 1.1% compared with 31 December 2012. This reduction has been driven by lower government and commercial loan portfolios, which decreased 35.5% and 0.9% respectively when compared to 31 December 2012. The latter was partially offset by higher balances in mortgage and consumer loan portfolios.

Credit Portfolio Distribution
31 December 2013




► **Commercial loans (including financial and government entities)**

At 31 December 2013, the performing commercial portfolio (including financial and government entities) decreased 8.0% in comparison with 31 December 2012; mainly driven by a reduction in government and commercial loan portfolio.

The performing government loan portfolio decreased 35.5% compared with 31 December 2012, due to a repayment in one significant loan in 2013. The performing financial intermediaries' loan portfolio decreased 10.0%. The performing commercial loan portfolio decreased 0.9% due to the reclassification of certain home builder loans to the impaired portfolio.

► **Consumer loans**

At 31 December 2013, performing consumer loans increased 12.2% compared with 31 December 2012. This result is mainly due to sound personal and payroll loan portfolios performance which show an increase of 59.0% and 4.1% respectively, compared with 31 December 2012.

Credit card performing balances were MXN17,948m, up 8.5% compared with 31 December 2012. Auto loan performing portfolio was MXN2,908m, an increase of 4.9% compared with 31 December 2012.

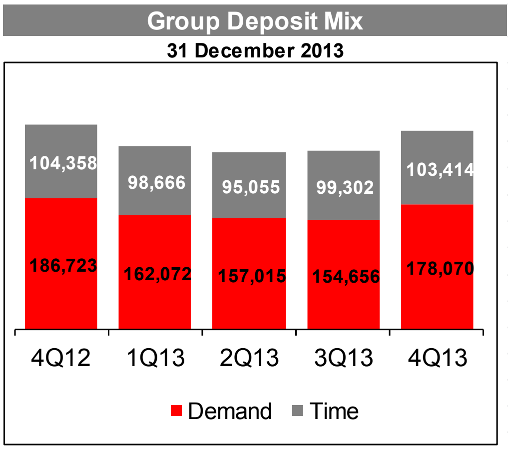
► **Mortgage loans**

The mortgage performing loan portfolio increased MXN5,193m or 26.9% compared with 31 December 2012. The increase was largely the result of a mortgage campaign, launched during April 2013, which offered the most competitive mortgage rate in the market at that time (8.70%). In September 2013, new prices for mortgages of 8.45% were launched for premier customers, which was the lowest rate in the market.

## Asset quality

As of 31 December 2013, the Group's impaired loan portfolio were MXN12,156m, an increase of MXN8,143m or 202.9% compared with 31 December 2012. This increase is largely associated with increased impaired commercial loans related with the performance of certain home builders loans during 2013.

Total impaired loans as a percentage of gross loans and advances to customers increased to 5.9% compared with 2.0% reported at 31 December 2012. The coverage ratio (allowance for loan losses divided by impaired loans) at 31 December 2013 was 100.6%, compared to 233.8% reported at 31 December 2012.




## Deposits

The Group's total deposits at 31 December 2013 were MXN287,520m, a decrease of 2.6% compared with 31 December 2012, as a result of reduced demand and time deposits.

### ► Demand deposits

At 31 December 2013, demand deposits were MXN178,070m, a decrease of 4.6% compared with 31 December 2012.

### ► Time deposits

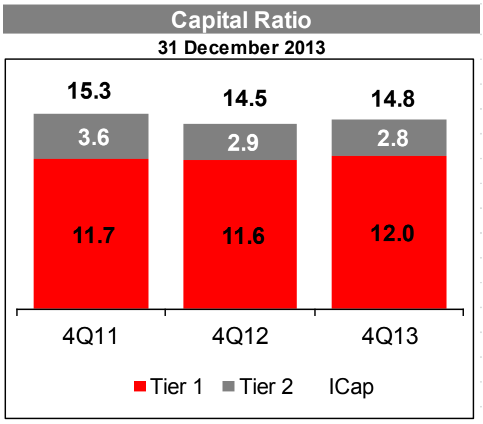
Total time deposits were MXN103,414m at 31 December 2013, a decrease of 0.9% compared to 31 December 2012.

The decrease in deposits is mainly related to a reduction of high interest bearing accounts due to re-pricing strategies in order to offset the decrease in market interest rates.

## Shareholder's equity

At 31 December 2013, the Group's equity amounted to MXN55,769m, an increase of 10.5% compared to 31 December 2012.

The banks equity was MXN47,606m, at 31 December 2013, an increase of 11.3% compared to 31 December 2012.




## Capital Adequacy Ratio

The Bank's capital adequacy ratio at 31 December 2013 was 14.8%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 12.0%.

## Financial Situation, Liquidity and Capital Resources

HSBC's balance structure has maintained its liquidity. Cash and investments in securities represent 42.8% of total assets, 0.69 percentage points higher than 2012. Total assets were MXN530,540m, an increase of MXN26,740m in comparison with 31 December 2012. The loan portfolio is adequately diversified across segments.

# Financial Statements Grupo Financiero HSBC

## Consolidated Balance Sheet

*Figures in MXN millions*

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

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and deposits in banks | 55,846 | 55,703 | 54,649 | 47,996 | **55,407** |
| Margin Accounts | 53 | - | 18 | - | **-** |
| Investments in Securities | 156,191 | 157,690 | 139,341 | 143,325 | **171,422** |
| Trading securities | 43,694 | 37,225 | 34,130 | 39,143 | **58,568** |
| Available-for-sale securities | 97,184 | 104,803 | 89,098 | 87,857 | **96,081** |
| Held to maturity securities | 15,313 | 15,662 | 16,113 | 16,325 | **16,773** |
| Repurchase agreements | 7,706 | 3,229 | 9,833 | 2,600 | **500** |
| Derivative transactions | 43,349 | 54,171 | 47,719 | 51,231 | **49,769** |
| Performing loans | | | | | |
| Commercial loans | 142,094 | 139,164 | 127,007 | 126,837 | **130,679** |
| Commercial entities | 109,164 | 107,067 | 100,489 | 101,269 | **108,207** |
| Loans to financial intermediaries | 4,823 | 5,427 | 4,978 | 5,115 | **4,339** |
| Loans to government entities | 28,107 | 26,670 | 21,540 | 20,453 | **18,133** |
| Consumer loans | 33,585 | 34,848 | 36,775 | 37,896 | **37,675** |
| Mortgages loans | 19,287 | 19,784 | 20,736 | 22,876 | **24,480** |
| Total performing loans | 194,966 | 193,796 | 184,518 | 187,609 | **192,834** |
| Impaired loans | | | | | |
| Commercial loans | 2,075 | 2,460 | 6,244 | 8,250 | **9,665** |
| Commercial entities | 2,072 | 2,460 | 6,237 | 8,210 | **9,617** |
| Financial entities | 3 | - | 7 | 2 | **3** |
| Loans to government entities | - | - | - | 38 | **45** |
| Consumer loans | 1,302 | 1,194 | 1,338 | 1,539 | **1,788** |
| Mortgages loans | 636 | 673 | 696 | 694 | **703** |
| Total non-performing loans | 4,013 | 4,327 | 8,278 | 10,483 | **12,156** |
| Loan portfolio | 198,979 | 198,123 | 192,796 | 198,092 | **204,990** |
| Allowance for loan losses | (9,381) | (9,539) | (11,234) | (11,664) | **(12,223)** |
| Net loan portfolio | 189,598 | 188,584 | 181,562 | 186,428 | **192,767** |
| Accounts receivable from insurance and bonding companies | 2 | 3 | 6 | 12 | **18** |
| Premium receivables | 69 | 55 | 35 | 39 | **53** |
| Accounts receivables from reinsurers and rebonding companies | 117 | 74 | 91 | 114 | **73** |
| Benefits to be received from trading operations | 155 | 292 | 264 | 262 | **182** |
| Other accounts receivable, net | 32,074 | 53,246 | 38,823 | 31,258 | **40,404** |
| Foreclosed assets | 218 | 201 | 181 | 184 | **159** |
| Property, furniture and equipment, net | 7,208 | 7,138 | 6,905 | 6,910 | **6,927** |
| Long term investments in equity securities | 227 | 233 | 221 | 221 | **234** |
| Long-term assets available for sale | 517 | 482 | 299 | 303 | **35** |
| Deferred taxes, net | 6,226 | 5,655 | 6,484 | 6,590 | **7,710** |
| Goodwill | 1,048 | 1,048 | 1,048 | 1,048 | **1,048** |
| Other assets, deferred charges and intangibles | 3,195 | 3,237 | 3,927 | 3,673 | **3,832** |
| **Total Assets** | 503,799 | 531,041 | 491,406 | 482,194 | **530,540** |

Figures in MXN millions

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

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits | 295,325 | 265,007 | 253,085 | 254,997 | **287,520** |
| Demand deposits | 186,723 | 162,072 | 157,015 | 154,656 | **178,070** |
| Time deposits | 104,358 | 98,666 | 95,055 | 99,302 | **103,414** |
| Retail | 104,358 | 98,666 | 95,055 | 99,302 | **103,414** |
| Money market | - | - | - | - | **-** |
| Bank bonds outstanding | 4,244 | 4,269 | 1,015 | 1,039 | **6,036** |
| Bank deposits and other liabilities | 22,727 | 29,849 | 26,646 | 25,118 | **20,510** |
| On demand | 1,980 | 7,031 | 2,901 | 4,017 | **2,900** |
| Short term | 19,140 | 20,788 | 21,455 | 18,741 | **15,466** |
| Long term | 1,607 | 2,030 | 2,290 | 2,360 | **2,144** |
| Repurchase agreements | 20,729 | 38,608 | 30,521 | 28,513 | **34,765** |
| Stock Borrowing | - | - | - | 1 | **-** |
| Financial assets pending to be settled | - | 754 | 248 | - | **-** |
| Collateral Sold | 3,888 | 4,084 | 7,086 | 3,796 | **9,076** |
| Repurchase | - | - | - | - | **-** |
| Securities to be received in repo transactions | 3,888 | 4,084 | 7,086 | 3,796 | **9,076** |
| Derivative transactions | 40,921 | 50,472 | 44,974 | 49,754 | **47,643** |
| Technical reserves | 10,703 | 10,863 | 11,016 | 11,223 | **11,432** |
| Reinsurers | 14 | 14 | 16 | 11 | **13** |
| Other accounts payable | 48,281 | 64,463 | 51,505 | 41,087 | **53,750** |
| Income tax and employee profit sharing payable | 930 | 280 | 651 | 818 | **954** |
| Creditors for settlement of transactions | 29,829 | 50,863 | 38,210 | 27,843 | **37,659** |
| Sundry creditors and others accounts payable | 17,522 | 13,320 | 12,644 | 12,426 | **15,137** |
| Subordinated debentures outstanding | 10,196 | 11,395 | 11,650 | 11,699 | **9,463** |
| Deferred credits | 526 | 492 | 585 | 600 | **599** |
| **Total Liabilities** | 453,310 | 476,001 | 437,332 | 426,799 | **474,771** |
| **Stockholder's Equity** | | | | | |
| Paid in capital | 32,673 | 37,823 | 37,823 | 37,823 | **37,823** |
| Capital stock | 5,111 | 5,637 | 5,637 | 5,637 | **5,637** |
| Additional paid in capital | 27,562 | 32,186 | 32,186 | 32,186 | **32,186** |
| Capital Gains | 17,805 | 17,207 | 16,240 | 17,561 | **17,942** |
| Capital reserves | 2,157 | 2,157 | 2,458 | 2,458 | **2,458** |
| Retained earnings | 8,833 | 12,342 | 11,473 | 11,473 | **11,489** |
| Result from the mark-to-market of Available-for-sale securities | 902 | 1,314 | 315 | 539 | **290** |
| Result from cash flow hedging transactions | (103) | (90) | (66) | 86 | **(9)** |
| Net Income | 6,016 | 1,484 | 2,060 | 3,005 | **3,714** |
| Non-controlling interest | 11 | 10 | 11 | 11 | **4** |
| Total Stockholder's Equity | 50,489 | 55,040 | 54,074 | 55,395 | **55,769** |
| **Total Liabilities and Capital** | 503,799 | 531,041 | 491,406 | 482,194 | **530,540** |

Figures in MXN millions

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Memorandum Accounts** | 4,608,204 | 4,660,318 | 3,997,875 | 4,235,729 | **4,262,890** |
| **Proprietary position** | 4,519,547 | 4,572,768 | 3,909,273 | 4,142,475 | **4,168,813** |
| Guarantees granted | 4 | - | - | - | **-** |
| Contingent assets and liabilities | - | - | - | - | **-** |
| Irrevocable lines of credit granted | 25,222 | 23,431 | 22,991 | 24,915 | **25,561** |
| Goods in trust or mandate | 402,770 | 395,854 | 406,324 | 409,079 | **439,469** |
| Trust | 402,114 | 395,135 | 405,643 | 408,294 | **438,533** |
| Mandate | 656 | 719 | 681 | 785 | **936** |
| Goods in custody or under administration | 332,846 | 321,855 | 297,620 | 298,790 | **341,218** |
| Collateral received by the institution | 48,967 | 21,188 | 23,022 | 13,584 | **17,291** |
| Collateral received and sold or delivered as guarantee | 43,200 | 14,351 | 16,017 | 10,289 | **16,583** |
| Values in deposit | 53 | 53 | 53 | 47 | **-** |
| Suspended interest on impaired loans | 113 | 122 | 143 | 175 | **221** |
| Recovery guarantees for issued bonds | 45,274 | 19,162 | 18,891 | 19,104 | **-** |
| Paid claims | 17 | - | 12 | 13 | **-** |
| Cancelled claims | 22 | 5 | 7 | 9 | **-** |
| Recovery claims | - | - | - | - | **-** |
| Responsibilities from bonds in force | 3,725 | 3,763 | 3,743 | 3,418 | **-** |
| Other control accounts | 3,617,334 | 3,772,984 | 3,120,450 | 3,363,052 | **3,328,470** |

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Third party accounts** | 88,657 | 87,550 | 88,602 | 93,254 | **94,077** |
| Clients current accounts | - | - | - | - | **-** |
| Custody operations | 38,267 | 39,354 | 41,553 | 42,898 | **43,724** |
| Transactions on behalf of clients | 944 | 840 | 717 | 682 | **-** |
| Third party investment banking operations, net | 49,446 | 47,356 | 46,332 | 49,674 | **50,353** |

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 5,637 millions.
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| LUIS PEÑA KEGEL | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

HSBC

# Consolidated Income Statement

*Figures in MXN millions*

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

| | *For the quarter ending* | | | | | *Year to date* | |
|---|---|---|---|---|---|---|---|
| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** | *31 Dec 2012* | ***31 Dec 2013*** |
| Interest Income | 8,279 | 7,681 | 7,465 | 7,337 | **7,378** | 32,112 | **29,861** |
| Earned premiums | 760 | 759 | 750 | 772 | **749** | 2,940 | **3,030** |
| Interest expense | (2,784) | (2,258) | (2,135) | (1,920) | **(1,927)** | (11,097) | **(8,240)** |
| Increase in technical reserves | (254) | (288) | (147) | (157) | **(298)** | (843) | **(890)** |
| Claims | (254) | (190) | (272) | (376) | **(331)** | (997) | **(1,169)** |
| Net interest income | 5,747 | 5,704 | 5,661 | 5,656 | **5,571** | 22,115 | **22,592** |
| Loan impairment charges | (1,220) | (1,568) | (2,735) | (1,518) | **(2,265)** | (5,534) | **(8,086)** |
| Risk adjusted net interest income | 4,527 | 4,136 | 2,926 | 4,138 | **3,306** | 16,581 | **14,506** |
| Fees and commissions receivable | 2,169 | 2,048 | 2,231 | 2,199 | **2,233** | 8,482 | **8,711** |
| Fees payable | (524) | (420) | (436) | (438) | **(508)** | (2,149) | **(1,802)** |
| Trading Income | 526 | 721 | 502 | 706 | **491** | 2,954 | **2,420** |
| Other operating income | 1,126 | 621 | 1,277 | (26) | **658** | 3,816 | **2,530** |
| Administrative and personnel expenses | (5,600) | (5,083) | (5,544) | (5,469) | **(5,606)** | (21,993) | **(21,702)** |
| Net operating income | 2,224 | 2,023 | 956 | 1,110 | **574** | 7,691 | **4,663** |
| Undistributed income from subsidiaries | 7 | 7 | 11 | 13 | **12** | 42 | **43** |
| Net income before taxes | 2,231 | 2,030 | 967 | 1,123 | **586** | 7,733 | **4,706** |
| Income tax and employee profit sharing tax | (696) | (235) | (757) | (511) | **(741)** | (1,985) | **(2,244)** |
| Deferred income tax | 1 | (388) | 203 | 245 | **1,007** | (95) | **1,067** |
| Income from ongoing operations | 1,536 | 1,407 | 413 | 857 | **852** | 5,653 | **3,529** |
| Discontinued operations | 67 | 77 | 163 | 88 | **(142)** | 364 | **186** |
| Non-controlling interest | - | - | - | (1) | **-** | (1) | **(1)** |
| **Net income (loss)** | 1,603 | 1,484 | 576 | 944 | **710** | 6,016 | **3,714** |

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

*From 1 January to 31 December 2013*

| | Paid in capital | | | | Earned capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Advances for future capital increases | Shares Premiums | Subordinated debentures outstanding | Capital Reserves | Retained earnings | Surplus/ Deficit from securities | Result from cash flow hedging transactions | Results from holding non-monetary assets (Valuation of permanent investments) | Net income | Non-controlling interest | **Total Stock-holders Equity** |
| **Balances at 01 January 2013** | **5,111** | **-** | **27,562** | **-** | **2,157** | **8,833** | **902** | **(103)** | **-** | **6,016** | 11 | **50,489** |
| **Movements Inherent to the Shareholders Decision** | | | | | | | | | | | | |
| Subscription of shares | 526 | - | 4,624 | - | - | - | - | - | - | - | - | 5,150 |
| Capitalization of retained earnings | - | - | - | - | - | - | - | - | - | - | - | - |
| Constitution of reserves | - | - | - | - | 301 | (301) | - | - | - | - | - | - |
| Transfer of result of prior years | - | - | - | - | - | 6,016 | - | - | - | (6,016) | - | - |
| Cash dividends | - | - | - | - | - | (2,500) | - | - | - | - | - | (2,500) |
| Others | | | | | | | | | | | | |
| **Total Movements Inherent to the Shareholders Decision** | **526** | - | **4,624** | - | **301** | **3,215** | - | - | - | **(6,016)** | - | **2,650** |
| **Movements for the Recognition of the Comprehensive Income** | | | | | | | | | | | | |
| **Comprehensive Income** | | | | | | | | | | | | |
| Net result | - | - | - | - | - | - | - | - | - | 3,714 | - | 3,714 |
| Result from valuation of available-for-sale securities | - | - | - | - | - | - | (612) | - | - | - | - | **(612)** |
| Result from cash flow hedging transactions | - | - | - | - | - | - | - | 94 | - | - | - | **94** |
| Results from holding non-monetary assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Movements Inherent for the Recognition of the Comprehensive Income** | - | - | - | - | - | (559) | - | - | - | - | (7) | **(566)** |
| | - | - | - | - | - | (559) | (612) | 94 | - | 3,714 | (7) | **2,630** |
| **Balances at 31 December 2013** | **5,637** | - | **32,186** | - | **2,458** | **11,489** | 290 | (9) | - | 3,714 | 4 | **55,769** |

"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 | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

## Consolidated Statement of Cash Flow

*Figures in MXN millions* | ***Grupo Financiero HSBC, S.A. de C.V.***
*From 1 January to 31 December 2013*

| | |
|---|---|
| **Net income** | **3,714** |
| **Adjustments for items not involving cash flow:** | **6,651** |
| Depreciation | 1,274 |
| Amortization | 389 |
| Provisions | 2,655 |
| Income Tax and deferred taxes | 1,671 |
| Technical reserves | 890 |
| Discontinued operations | (186) |
| Undistributed income from subsidiaries | (42) |
| | |
| **Changes in items related to operating activities:** | |
| Memorandum accounts | 53 |
| Investment securities | (16,138) |
| Repurchase agreements | 7,206 |
| Derivative (assets) | (6,287) |
| Loan portfolio | (3,968) |
| Foreclosed assets | 59 |
| Operating assets | (7,823) |
| Deposits | (7,805) |
| Bank deposits and other liabilities | (2,217) |
| Creditors repo transactions | 14,036 |
| Collateral sold or delivered as guarantee | 5,188 |
| Derivative (liabilities) | 6,722 |
| Subordinated debentures outstanding | (733) |
| Accounts receivables from premiums | 16 |
| Accounts receivables from reinsurers and coinsurers | 28 |
| Reinsurers and bonding | (1) |
| Other operating liabilities | 2,580 |
| Income tax payable | (2,514) |
| **Funds provided by operating activities** | **(11,598)** |
| | |
| **Investing activities:** | |
| Acquisition of property, furniture and equipment | (994) |
| Intangible assets acquisitions | (1,026) |
| Cash dividends | 34 |
| Other investment activities | 130 |
| **Funds used in investing activities** | **(1,856)** |
| | |
| **Financing activities:** | |
| Shares issue | 5,150 |
| Cash dividends | (2,500) |
| Others | - |
| **Funds used in financing activities** | **2,650** |
| Increase/decrease in cash and equivalents | **(439)** |
| **Adjustments to cash flow variations in the exchange rate and inflation levels** | - |
| Cash and equivalents at beginning of period | **55,846** |
| **Cash and equivalents at end of period** | **55,407** |

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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| LUIS PEÑA KEGEL | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

# Financial Statements HSBC Mexico, S.A.

## Consolidated Balance Sheet

*Figures in MXN millions* **HSBC Mexico, S.A. (Bank)**

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and deposits in banks | 55,846 | 55,703 | 54,649 | 47,996 | **55,407** |
| Margin Accounts | 53 | - | 18 | - | **-** |
| Investment in Securities | 140,003 | 141,915 | 122,701 | 126,161 | **153,455** |
| Trading securities | 36,338 | 30,589 | 27,065 | 32,047 | **51,121** |
| Available-for-sale securities | 97,184 | 104,803 | 89,098 | 87,857 | **96,081** |
| Held to maturity securities | 6,481 | 6,523 | 6,538 | 6,257 | **6,253** |
| Repurchase agreements | 7,706 | 3,229 | 9,833 | 2,600 | **500** |
| Derivative transactions | 43,349 | 54,171 | 47,719 | 51,231 | **49,769** |
| Performing loans | | | | | |
| Commercial loans | 142,094 | 139,164 | 127,007 | 126,837 | **130,679** |
| Commercial entities | 109,164 | 107,067 | 100,489 | 101,269 | **108,207** |
| Loans to financial intermediaries | 4,823 | 5,427 | 4,978 | 5,115 | **4,339** |
| Loans to government entities | 28,107 | 26,670 | 21,540 | 20,453 | **18,133** |
| Consumer loans | 33,585 | 34,848 | 36,775 | 37,896 | **37,675** |
| Mortgages loans | 19,287 | 19,784 | 20,736 | 22,876 | **24,480** |
| Total performing loans | 194,966 | 193,796 | 184,518 | 187,609 | **192,834** |
| Impaired loans | | | | | |
| Commercial loans | 2,075 | 2,460 | 6,244 | 8,250 | **9,620** |
| Commercial entities | 2,072 | 2,460 | 6,237 | 8,210 | **9,617** |
| Loans to financial intermediaries | 3 | - | 7 | 2 | **3** |
| Loans to government entities | - | - | - | 38 | **45** |
| Consumer loans | 1,302 | 1,194 | 1,338 | 1,539 | **1,788** |
| Mortgage Loans | 636 | 673 | 696 | 694 | **703** |
| Total non-performing loans | 4,013 | 4,327 | 8,278 | 10,483 | **12,156** |
| Total loan portfolio | 198,979 | 198,123 | 192,796 | 198,092 | **204,990** |
| Allowance for loan losses | (9,381) | (9,539) | (11,234) | (11,664) | **(12,223)** |
| Net loan portfolio | 189,598 | 188,584 | 181,562 | 186,428 | **192,767** |
| Benefits to be received from trading operations | 155 | 292 | 264 | 262 | **182** |
| Other accounts receivable | 31,972 | 52,631 | 38,090 | 31,048 | **40,293** |
| Foreclosed assets | 218 | 201 | 181 | 184 | **159** |
| Property, furniture and equipment, net | 7,207 | 7,138 | 6,905 | 6,910 | **6,927** |
| Long term investments in equity securities | 139 | 145 | 136 | 134 | **148** |
| Long term assets available for sale | - | - | - | 3 | **5** |
| Deferred taxes | 6,138 | 5,574 | 6,360 | 6,479 | **7,624** |
| Other assets, deferred charges and intangibles | 3,076 | 3,044 | 3,743 | 3,490 | **3,637** |
| **Total Assets** | 485,460 | 512,627 | 472,162 | 462,926 | **510,873** |

Figures in MXN millions **HSBC Mexico, S.A. (Bank)**

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits | 295,873 | 265,476 | 253,563 | 255,528 | **287,808** |
| Demand deposits | 187,271 | 162,541 | 157,493 | 155,187 | **178,358** |
| Time deposits | 104,358 | 98,666 | 95,055 | 99,302 | **103,414** |
| Retail | 104,358 | 98,666 | 95,055 | 99,302 | **103,414** |
| Money market | - | - | - | - | |
| Bank bonds outstanding | 4,244 | 4,269 | 1,015 | 1,039 | **6,036** |
| Bank deposits and other liabilities | 22,727 | 29,849 | 26,646 | 25,118 | **20,510** |
| On demand | 1,980 | 7,031 | 2,901 | 4,017 | **2,900** |
| Short term | 19,140 | 20,788 | 21,445 | 18,741 | **15,466** |
| Long term | 1,607 | 2,030 | 2,290 | 2,360 | **2,144** |
| Repurchase agreements | 20,729 | 38,608 | 30,521 | 28,513 | **34,765** |
| Stock Borrowing | - | - | - | 1 | **-** |
| Financial assets pending to be settled | - | 754 | 248 | - | **-** |
| Collateral Sold | 3,888 | 4,084 | 7,077 | 3,796 | **9,076** |
| Repurchase | - | - | - | - | **-** |
| Securities to be received in repo transactions | 3,888 | 4,084 | 7,077 | 3,796 | **9,076** |
| Derivative transactions | 40,921 | 50,472 | 44,974 | 49,754 | **47,643** |
| Other accounts payable | 47,813 | 63,620 | 50,408 | 40,494 | **53,401** |
| Income tax and employee profit sharing payable | 746 | 184 | 527 | 700 | **916** |
| Contributions for future capital increases | - | - | - | - | **-** |
| Creditors for settlement of transactions | 29,556 | 40,613 | 31,576 | 24,109 | **37,519** |
| Sundry creditors and others accounts payable | 17,511 | 22,823 | 18,305 | 15,685 | **14,966** |
| Subordinated debentures outstanding | 10,196 | 11,395 | 11,650 | 11,699 | **9,463** |
| Deferred credits | 526 | 492 | 585 | 600 | **601** |
| **Total Liabilities** | 442,673 | 464,750 | 425,672 | 415,503 | **463,267** |
| **Stockholder's Equity** | | | | | |
| Paid in capital | 27,618 | 32,768 | 32,768 | 32,768 | 32,768 |
| Capital stock | 5,261 | 5,680 | 5,680 | 5,680 | 5,680 |
| Additional paid in capital | 22,357 | 27,088 | 27,088 | 27,088 | 27,088 |
| Capital Gains | 15,167 | 15,108 | 13,721 | 14,654 | **14,836** |
| Capital reserves | 10,573 | 10,573 | 10,973 | 10,973 | **10,973** |
| Retained earnings | (202) | 2,389 | 1,420 | 1,420 | **1,436** |
| Result from the mark-to-market of Available-for-sale securities | 902 | 1,314 | 315 | 539 | **290** |
| Result from cash flow hedging transactions | (103) | (90) | (66) | 86 | **(9)** |
| Net Income | 3,997 | 922 | 1,079 | 1,636 | **2,146** |
| Non-controlling interest | 2 | 1 | 1 | 1 | **2** |
| Total Stockholder's Equity | 42,787 | 47,877 | 46,690 | 47,423 | **47,606** |
| **Total Liabilities and Capital** | 485,460 | 512,627 | 472,162 | 462,926 | **510,873** |

Figures in MXN millions

## Memorandum Accounts

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| Guarantees granted | 4 | - | - | - | **-** |
| Contingent assets and liabilities | - | - | - | - | **-** |
| Irrevocable lines of credit granted | 25,222 | 23,431 | 22,991 | 24,915 | **25,561** |
| Goods in trust or mandate | 402,770 | 395,854 | 406,324 | 409,079 | **439,469** |
| Goods | 402,114 | 395,135 | 405,643 | 408,294 | **438,533** |
| Trusts | 656 | 719 | 681 | 785 | **936** |
| Goods in custody or under administration | 365,995 | 355,566 | 291,983 | 293,153 | **378,679** |
| Collateral received by the institution | 48,967 | 21,188 | 23,022 | 13,584 | **17,291** |
| Collateral received and sold or delivered as guarantee | 43,200 | 14,351 | 16,017 | 10,289 | **16,583** |
| Third party investment banking operations, net | 49,446 | 47,356 | 46,332 | 49,674 | **50,353** |
| Suspended interest on impaired loans | 113 | 122 | 143 | 175 | **221** |
| Other control accounts | 3,606,407 | 3,761,261 | 3,150,463 | 3,394,401 | **3,318,620** |
| | 4,542,124 | 4,619,129 | 3,957,275 | 4,195,270 | **4,246,777** |

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 3,880 millions.
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| LUIS PEÑA KEGEL | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

# Consolidated Income Statement

*Figures in MXN millions*

**HSBC Mexico, S.A. (Bank)**

| | For the quarter ending | | | | | Year to date | |
|---|---|---|---|---|---|---|---|
| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** | 31 Dec 2012 | **31 Dec 2013** |
| Interest income | 8,075 | 7,474 | 7,246 | 7,125 | **7,149** | 31,347 | **28,993** |
| Interest expense | (2,789) | (2,262) | (2,138) | (1,925) | **(1,931)** | (11,117) | **(8,255)** |
| Net interest income | 5,286 | 5,212 | 5,108 | 5,200 | **5,218** | 20,230 | **20,738** |
| Loan impairment charges | (1,220) | (1,568) | (2,735) | (1,518) | **(2,265)** | (5,534) | **(8,086)** |
| Risk adjusted net interest income | 4,066 | 3,644 | 2,373 | 3,682 | **2,953** | 14,696 | **12,652** |
| Fees and commissions receivable | 2,057 | 1,969 | 2,119 | 2,112 | **2,158** | 8,014 | **8,358** |
| Account management | 104 | 89 | 95 | 87 | **85** | 415 | **356** |
| Services | 1,953 | 1,880 | 2,024 | 2,025 | **2,073** | 7,599 | **8,002** |
| Fees payable | (460) | (424) | (429) | (444) | **(513)** | (1,794) | **(1,810)** |
| Trading Income | 458 | 584 | 630 | 669 | **390** | 2,685 | **2,273** |
| Foreign exchange | (110) | (233) | 433 | 252 | **528** | 364 | **980** |
| Securities trading, net | 250 | 106 | 55 | 63 | **219** | 378 | **443** |
| Repos | (12) | - | - | - | **-** | (58) | **-** |
| Swaps | 103 | 311 | 1,296 | 518 | **(23)** | 943 | **2,102** |
| Valuation off-shore agencies | 454 | 663 | (1,009) | (70) | **(430)** | 1,205 | **(846)** |
| Valuation for trading swaps | 70 | 63 | 174 | 117 | **234** | 453 | **588** |
| Valuation for FX options | (297) | (326) | (319) | (211) | **(138)** | (600) | **(994)** |
| Other operating income | 1,148 | 665 | 1,369 | 25 | **749** | 4,116 | **2,808** |
| Administrative and personnel expenses | 5,674 | 5,076 | 5,486 | 5,406 | **5,605** | 22,343 | **21,573** |
| Personnel expense | 2,381 | 2,239 | 2,358 | 2,461 | **2,343** | 9,540 | **9,401** |
| Administrative expense | 2,925 | 2,391 | 2,674 | 2,505 | **2,939** | 11,176 | **10,509** |
| Depreciation and amortization | 368 | 446 | 454 | 440 | **323** | 1,627 | **1,663** |
| Net operating income | 1,595 | 1,362 | 576 | 638 | **132** | 5,375 | **2,708** |
| Undistributed income from subsidiaries | 3 | 7 | 14 | 9 | **13** | 35 | **43** |
| Net income before taxes | 1,598 | 1,369 | 590 | 647 | **145** | 5,410 | **2,751** |
| Income tax | (543) | (69) | (592) | (348) | **(668)** | (1,324) | **(1,677)** |
| Deferred income tax | 11 | (378) | 159 | 258 | **1,034** | (89) | **1,073** |
| Net income before discontinued operations | 1,066 | 922 | 157 | 557 | **511** | 3,997 | **2,147** |
| Non-controlling interest | - | - | - | - | **(1)** | - | **(1)** |
| Net income (loss) | 1,066 | 922 | 157 | 557 | **510** | 3,997 | **2,146** |

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 | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | 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 2013*

| | Paid in capital | | | | Earned Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Non-controlling interest | **Total stock-holder's Equity** |
| **Balances at January 31, 2012** | **5,261** | | **22,357** | | **10,573** | **(202)** | **902** | **(103)** | | **3,997** | **2** | **42,787** |
| **Movements Inherent to the Shareholders Decision** | | | | | | | | | | | | |
| Subscription of shares | 419 | | 4,731 | | | | | | | | | **5,150** |
| Capitalization of retained earnings | | | | | | | | | | | | |
| Constitution of reserves | | | | | 400 | (400) | | | | | | **-** |
| Transfer of result of prior years | | | | | | 3,997 | | | | (3,997) | | **-** |
| Cash dividends | | | | | | (1,400) | | | | | | **(1,400)** |
| Others | | | | | | | | | | | | |
| **Total Movements Inherent to the Shareholders Decision** | 419 | | 4,731 | | 400 | 2,197 | | | | (3,997) | | **3,750** |
| **Movements for the Recognition of the Comprehensive Income** | | | | | | | | | | | | |
| Comprehensive Income | | | | | | | | | | | | |
| Net result | | | | | | | | | | 2,146 | | **2,146** |
| Result from valuation of available-for-sale securities | | | | | | | (612) | | | | | **(612)** |
| Result from cash flow hedging transactions | | | | | | | | 94 | | | | **94** |
| Results from holding non-monetary assets | | | | | | | | | | | | |
| Others | | | | | | (559) | | | | | | **(559)** |
| **Total Movements Inherent for the Recognition of the Comprehensive Income** | | | | | | (559) | (612) | 94 | | 2,146 | | **1,069** |
| **Balances as at December 31, 2013** | **5,680** | | **27,088** | | **10,973** | **1,436** | **290** | **(9)** | | **2,146** | **2** | **47,606** |

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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| LUIS PEÑA KEGEL | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

# Consolidated Statement of Cash Flow

Figures in MXN millions
*From 1 January to 31 December 2013* ***HSBC Mexico, S.A. (Bank)***

| | 31 Dec 2013 |
|---|---|
| **Net income** | **2,146** |
| **Adjustments for items not involving cash flow:** | **5,309** |
| Depreciation and amortization | 1,663 |
| Provisions | 2,589 |
| Income Tax and deferred taxes | 1,099 |
| Undistributed income from subsidiaries | (43) |
| Other | 1 |
| | |
| **Changes in items related to operating activities:** | |
| Memorandum accounts | 53 |
| Investment securities | (14,360) |
| Repurchase agreements | 7,206 |
| Derivative (assets) | (6,287) |
| Loan portfolio | (3,968) |
| Foreclosed assets | 59 |
| Operating assets | (8,352) |
| Deposits | (8,065) |
| Bank deposits and other liabilities | (2,217) |
| Creditors repo transactions | 14,036 |
| Stock borrowing | - |
| Collateral sold or delivered as guarantee | 5,188 |
| Derivative (liabilities) | 6,722 |
| Subordinated debentures outstanding | (733) |
| Other operating liabilities | 2,678 |
| Income tax payable | (1,694) |
| **Funds provided by operating activities** | **(9,734)** |
| | |
| **Investing activities:** | |
| Cash of property, furniture and equipment | 3 |
| Acquisition of property, furniture and equipment | (994) |
| Intangible assets acquisitions | (950) |
| Others | 34 |
| **Funds used in investing activities** | **(1,910)** |
| | |
| **Financing activities:** | |
| Shares issue | 5,150 |
| Cash dividend | (1,400) |
| Others | - |
| **Funds used or provided by financing activities** | **3,750** |
| **Increase/decrease in cash and equivalents** | **(439)** |
| **Adjustments to cash flow variations in the exchange rate and inflation levels** | **-** |
| **Cash and equivalents at beginning of period** | **55,846** |
| **Cash and equivalents at end of period** | **55,407** |

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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| LUIS PEÑA KEGEL | GUSTAVO I. MÉNDEZ NARVÁEZ | NGAR YEE LOUIE | JUAN JOSÉ CADENA OROZCO |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Director of Internal Audit | Chief Accountant |

# Financial Instruments

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

*Figures in MXN millions*

## Investments in securities

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| Government securities | 29,978 | 25,840 | 26,795 | 34,285 | **49,152** |
| Bank securities | 2,101 | 1,566 | 954 | 256 | **2,240** |
| Shares | 9,832 | 8,765 | 5,186 | 3,497 | **5,519** |
| Others | 1,783 | 1,054 | 1,195 | 1,105 | **1,657** |
| Trading securities | 43,694 | 37,225 | 34,130 | 39,143 | **58,568** |
| | | | | | |
| Government securities | 93,139 | 100,977 | 85,250 | 83,951 | **92,117** |
| Bank securities | 1,840 | 1,888 | 1,854 | 1,893 | **508** |
| Obligations and other securities | 2,205 | 1,938 | 1,994 | 2,013 | **3,456** |
| Shares | - | - | - | - | **-** |
| Available for sale securities | 97,184 | 104,803 | 89,098 | 87,857 | **96,081** |
| | | | | | |
| Special Cetes (net) | 13,391 | 13,746 | 14,175 | 14,712 | **15,165** |
| Bank securities | 63 | 63 | 64 | 63 | **95** |
| Corporate securities | 1,859 | 1,853 | 1,874 | 1,550 | **1,513** |
| Securities held to maturity | 15,313 | 15,662 | 16,113 | 16,325 | **16,773** |
| | | | | | |
| Total Financial Instruments | 156,191 | 157,690 | 139,341 | 143,325 | **171,422** |

In the fourth quarter of 2013, investment in securities increased by MXN 28,097 million compared to the third quarter of 2013; mainly by increasing Government Securities MXN 23,033 Million.

# Repos

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

*Figures in MXN millions*

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sep 2013 | **31 Dec 2013** |
|---|---|---|---|---|---|
| Repo's Government securities (credit) | 20,484 | 38,466 | 30,295 | **28,398** | **34,552** |
| Repo's Bank securities (credit) | - | - | - | - | - |
| Repo's Others securities (credit) | - | - | - | - | - |
| Valuation increase (decrease) | - | - | - | - | - |
| Accrued interest payable | 245 | 142 | 226 | **115** | **213** |
| Credit balance in repo agreements | 20,729 | 38,608 | 30,521 | **28,513** | **34,765** |
| | | | | | |
| Repurchase agreements in government securities | 43,000 | 10,500 | 13,000 | **9,000** | **8,000** |
| Accrued interest receivable | 12 | 14 | 16 | **8** | **1** |
| Debit balance repo securities agreements | 43,012 | 10,514 | 13,016 | 9,008 | **8,001** |
| | | | | | |
| Government securities | 35,293 | 7,281 | 3,182 | **6,407** | **7,500** |
| Interest in collateral delivered as guarantee | 13 | 4 | 1 | **1** | **1** |
| Total in collateral delivered as guarantee | 35,306 | 7,285 | 3,183 | **6,408** | **7,501** |

# Derivative Financial Instruments

### HSBC Mexico, S.A. (Bank)

*Figures in MXN millions at December 31, 2013*

| | Futures | | Forwards Contracts | | Options | | Swaps | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asset position | Liability position | Asset position | Liability position | Asset position | Liability position | Asset position | Liability position | Total (net) |
| *For trading* | | | | | | | | | |
| Currency | - | - | 3,505 | 2,407 | 82 | 82 | 18,896 | 16,965 | 3,030 |
| Interest Rate | - | - | 36 | 32 | 128 | 92 | 26,908 | 27,229 | (282) |
| Equities | - | - | 45 | 45 | - | - | - | - | - |
| **Total** | **-** | **-** | **3,586** | **2,485** | **211** | **175** | **45,805** | **44,194** | **2,748** |
| *For hedging* | | | | | | | | | |
| Currency | - | - | - | - | - | - | - | 27 | 141 |
| Interest Rate | - | - | - | - | - | - | 168 | 763 | (763) |
| Total | **-** | **-** | **-** | **-** | **-** | **-** | **168** | **790** | **(622)** |

# Collateral Sold or delivered as guarantee

### HSBC Mexico, S.A. (Bank)

*Figures in MXN millions*

| **Stock borrowing** | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
|---|---|---|---|---|---|
| Cetes | 1,012 | 719 | 1,009 | 1,212 | **3,929** |
| Valuation increase (decrease) | - | - | - | - | |
| Bonds | 2,884 | 3,425 | 6,085 | 2,597 | **5,151** |
| Valuation increase (decrease) | (8) | (60) | (17) | (13) | **(4)** |
| Shares | - | - | - | - | **-** |
| Valuation increase (decrease) | - | - | - | - | **-** |
| **Total** | 3,888 | 4,084 | 7,077 | 3,796 | **9,076** |

# Loan Portfolio

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

**By type of currency**

*Figures in MXN millions at December 31, 2013*

| | Commercial or Business Activity | Financial Intermediaries | Government Entities | Consumer Loans | Mortgage Loans | Total |
|---|---|---|---|---|---|---|
| **Performing Loan Portfolio** | | | | | | |
| Pesos | 82,983 | 4,219 | 18,133 | 37,675 | 23,469 | 166,479 |
| US Dollars | 25,224 | 120 | - | - | - | 25,344 |
| Udis Banxico | - | - | - | - | 1,011 | 1,011 |
| **Total** | **108,207** | **4,339** | **18,133** | **37,675** | **24,480** | **192,834** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Non Performing Loans Portfolio** | | | | | | |
| Pesos | 8,919 | 3 | 45 | 1,788 | 631 | 11,386 |
| US Dollars | 698 | - | - | - | - | 698 |
| Udis Banxico | - | - | - | - | 72 | 72 |
| **Total** | **9,617** | **3** | **45** | **1,788** | **703** | **12,156** |

# Loan Portfolio Grading

## *HSBC Mexico, S.A. (Bank)*

*Figures in constant MXN millions at December 31, 2013*

| | | *Allowance for Loan Losses by type of loan* | | | |
|---|---|---|---|---|---|
| | *Total loan portfolio* | *Commercial loans* | *Consumer loans* | *Mortgages loans* | *Total reserves* |
| Excepted from rating | 386 | | | | |
| Rated | 230,165 | | | | |
| **Risk A** | **148,442** | **674** | **25** | **65** | **764** |
| Risk A-1 | 128,449 | 447 | 25 | 65 | 537 |
| Risk A-2 | 19,993 | 227 | 0 | 0 | 227 |
| **Risk B** | **59,408** | **627** | **2,327** | **159** | **3,113** |
| Risk B-1 | 33,996 | 211 | 1,468 | 159 | 1,838 |
| Risk B-2 | 16,429 | 132 | 859 | 0 | 991 |
| Risk B-3 | 8,983 | 284 | 0 | 0 | 284 |
| **Risk C** | **9,767** | **523** | **998** | **175** | **1,696** |
| Risk C-1 | 8,942 | 423 | 998 | 175 | 1,596 |
| Risk C-2 | 825 | 100 | 0 | 0 | 100 |
| **Risk D** | **10,996** | **4,281** | **1,474** | **8** | **5,763** |
| **Risk E** | **1,552** | **818** | **62** | **7** | **887** |
| Total | **230,551** | **6,923** | **4,886** | **414** | **12,223** |
| Less: | | | | | |
| Constituted loan loss provisions | | | | | 12,223 |
| Surplus | | | | | **0** |

The figures related to the rating and constitution of loan loss allowances correspond to those as at December 31, 2013.

The loan 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 Commission). On June 24, 2013, some changes were issued which relates to the loan loss provisions methodology applicable to credit institutions in Mexico (the Dispositions) and which are applicable to the methodology for grading commercial loans granted to the following clients: financial institutions, individuals with business activities and others different than: projects with own source of payment, trustees acting under trusts not included in the projects with own source of payment and credit schemes commonly known as " structured ". Although mandatory as of December 31, 2013, except for the methodology related to financial institutions which its application is mandatory as of January 1st 2014 and the financial effect on its application should be recognized no later than June 30, 2014, in accordance with Article Second of the Transitional Dispositions, HSBC chose to early adopt the methodology on June 2013 The rest of the commercial portfolio, except for States and Municipalities and Investment Projects, is rated according to the methodology issued by the CNBV which distinguishes client grading and based on this grading determines the one applicable for the operation. For States and Municipalities and Investment Projects, HSBC apply the methodology in force issued on October 5, 2011. For the consumer and mortgage portfolio, grading is based on the "General Regulations Applicable to Credit Institutions" issued by the CNBV, specifically using the standard methodology.

As at December 2013, the increase in loan loss reserves charged to Income Statement was MXN 8,086 million. In the other hand, MXN 5,765 million was related to write offs and MXN 272 million was related to debt forgiveness.

Below is the weighted average of the probability of default and severity of loss and exposure to default for each of the loan portfolios.

| Portfolio | Probability of default | Loss given default | MXN Million Exposure at default |
|---|---|---|---|
| Consumer | 13.11% | 70.53% | 42,432 |
| Mortgages | 3.97% | 27.41% | 24,845 |
| Commercial* | 11% | 47% | 116,428 |

Figures expressed as at December 2013
*Commercial - Excludes Projects with own source of payment and Loans to financial institutions, since the methodology does not consider the probability of default and the loss given default.

# Non – Performing Loans

## *HSBC Mexico, S.A. (Bank)*

*Figures in MXN millions*

| | *At the quarter ending* | | | | |
|---|---|---|---|---|---|
| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
| **Initial Balance of Impaired Loans** | 3,769 | 4,013 | 4,327 | 8,278 | **10,483** |
| Increases | 3,360 | 3,465 | 7,876 | 5,959 | **6,607** |
| Transfer of current loans to past due status | 3,360 | 3,465 | 7,876 | 5,959 | **6,607** |
| Decreases | 3,116 | 3,151 | 3,925 | 3,754 | **4,934** |
| Restructurings | 182 | 82 | 94 | 101 | **59** |
| Liquidated credits | 1,920 | 1,819 | 2,088 | 2,611 | **3,139** |
| Charged in cash | 741 | 608 | 868 | 1,232 | **1,579** |
| Foreclosed assets | 9 | 0 | 1 | 3 | **11** |
| Write-offs | - | 0 | - | - | **-** |
| Sale of portfolio | 1,170 | 1,211 | 1,219 | 1,376 | **11,549** |
| Transfer to performing loan status | 1,019 | 1,216 | 1,788 | 1,050 | **1,732** |
| FX revaluations | 5 | (34) | 45 | 8 | **(4)** |
| **Final Balance of Impaired Loan** | 4,013 | 4,327 | 8,278 | 10,483 | **12,156** |

# Federal Government support programs

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

As a result of the economic crisis in 1995, the Federal Government and the Mexican Bankers' Association established loan support programs and agreements with debtors of credit institutions:

- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benefits to Housing Loan Debtors (BADCV).

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of 31 December 2013 and 31 December 2012, receivables from the Federal Government in connection with discounts granted and the costs in charge of the Bank and the early termination scheme (ETA for its acronym in Spanish), are analyzed as follows:

| | | December 2013 | | December 2012 | |
|---|---|---|---|---|---|
| | | Portfolio | Cost | Portfolio | Cost |
| ETA/BADCV | $ | 386 | 3 | 582 | 10 |

The discounts related to the early termination agreement are shown as follows:

| | | In charge to | |
|---|---|---|---|
| | | Bank | Federal Government |
| Discountsgranted | $ | 457 | 973 |
| Additional discount granted by the Bank | | 93 | - |
| Discountgranted at December 31, 2010 | | 550 | 973 |
| Discounts to unallowed credits(a) | | (2) | (3) |
| Discounts of credits that did not demonstrated compliance with payment (b) | | (12) | (26) |
| Restructured loans under the agreement formalized up to the cut-off date | | (1) | - |
| Total discounts granted at December 31, 2011 | | 535 | 944 |
| Total additional discounts granted by the Bank that did not belong to ETS | | (93) | - |
| Total additional discounts granted by the Bank that belong to ETS | $ | 442 | 944 |

(a) Through communications issued in April 2011, the Banking Commission requested the replacement of the exhibits for the year ended on December 31, 2010, and later, during the issuance of the report on the correct application (ETS report) on September 29, 2011, the portfolio balances and the related discounts decreased, with 28 credits defined as not subject to the ETS, 24 of which were benefited from the Discount Program.
(b) This corresponds to the credit discounts that as of March 31, 2011 did not demonstrate a compliance with the payment and that would had been chargeable to of the Federal Government, in the event of complying with such condition.

As of December 31, 2010, the discount related to the Federal Government was reclassified to form part of the accounts receivable from the Federal Government which forms part of the current loans portfolio with government entities; the corresponding amount of discount related to the Bank was cancelled against the allowance for loan losses, in accordance with the special accounting criteria issued by the Banking Commission.
A reconciliation of movements in the allowance for loan losses related to the conditioned discount covered by the Bank is shown below:

| | | |
|---|---|---|
| Opening balance as of 2010 | $ | 70 |
| Debt forgiveness, discounts and/or rebates | | (2) |
| Conditioned discount assigned to the Bank | | (550) |
| Allowance charged to the statement of operations | | 496 |
| Final Balance at December 31, 2010 | | 14 |
| Adjustments to additional discounts granted by the Bank (loans not subject to or that did not demonstrate payment compliance) | | - |
| | $ | 14 |

Determination of obligations of the Federal Government:

The final base amount determined through the ETS Report is $944 divided in five installments of $189 each. As of 31 December 2012 two installments were received and the remaining installments will be payable on the first banking day of June, from 2013 to 2015.
Accordingly, the balance receivable as of 31 December 2013 and 31 December 2012 by ETS amounted to $378 and $566 respectively, of principal plus $8 and $15 corresponding to the accrued not collected financial cost.
The Government discount in Mexican pesos or UDIS related to those credits that should have shown sustained payment by March 31, 2011, according to the agreement, amounts to $167 at December 31, 2010.
There were no discount in charge to the Government related to credits in UDIS for which they received prior discounts over the outstanding balance before they were incorporated in to the "Discount program", as referred at the numeral 3.1.2 of the Circular 1430 issued by the Banking Commission.

At December 31, 2010 there were some clients that did not meet the requirements to be incorporated into to ETS. However, in accordance to the actual rules it is still possible that they will subsequently be incorporated in to the program; in such case the Bank must have to absorb 100% of the discount granted. The maximum amount of discount that the Bank would absorb for these credits at 31 December 2013 and 31 December 2012, amount to $7 and $23, respectively.

Respect to IMOR, below is a table with the detail from January 2013.

| PERIODO | Portfolio Balance | Total Portfolio | IMOR |
|---|---|---|---|
| Jan 13 | 56,953,259.61 | 1,134,862,460.63 | 5.02% |
| Feb 13 | 55,258,231.20 | 1,126,913,536.73 | 4.90% |
| Mar 13 | 55,673,831.42 | 1,121,316,476.98 | 4.97% |
| Apr 13 | 46,006,542.53 | 1,102,360,267.39 | 4.17% |
| May 13 | 59,176,359.17 | 1,081,382,118.96 | 5.47% |
| Jun 13 | 58,370,766.65 | 1,066,749,776.18 | 5.47% |
| Jul 13 | 62,489,335.34 | 1,040,515,897.32 | 6.01% |
| Aug 13 | 57,832,983.83 | 1,030,808,639.89 | 5.61% |
| Sep 13 | 54,515,604.09 | 1,010,509,789.23 | 5.39% |
| Oct 13 | 52,831,870.67 | 995,021,420.97 | 5.31% |
| Nov 13 | 45,059,146.77 | 986,667,011.36 | 4.57% |
| Dec-13 | 52,560,559.46 | 968,797,019.78 | 5.43% |

| | |
|---|---|
| Average | 5.19% |

The number of securities related to BADCV that are held by the Bank at 31 December 2013 are shown as follows:

| Program | Trust number | Term | Due date | Number of securities | |
|---|---|---|---|---|---|
| | | | | Special CETES | Special "C" CETES |
| Programs to support debtors of mortgage credits | 421-5 | 20 years | 13/07/2017 | 12,549,378 | 766,145 |
| | 422-9 | 25 years | 07/07/2022 | 5,772,652 | 184,517 |
| | 423-2 | 30 years | 01/07/2027 | 30,074,223 | - |
| Programs to support the construction of houses in the stage of individualize credits | 432-6 | 25 years - from 230 to 330 thousand Udis | 11/08/2022 | 74,389 | 50,693 |

# Deferred Taxes

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

*Figures in MXN millions*

| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
|---|---|---|---|---|---|
| Loan loss reserves | 5,342 | 5,485 | 5,783 | 5,957 | **6,705** |
| Valuation of securities | (333) | (515) | 103 | (41) | **258** |
| Fiscal loss | 9 | 11 | 6 | 5 | **4** |
| Other reserves | 1,221 | 667 | 677 | 670 | **1,142** |
| PTU Payable | 103 | 128 | 69 | 95 | **121** |
| Foreclosed assets | 237 | 249 | 258 | 265 | **277** |
| Other | 188 | 166 | 196 | 214 | **65** |
| Differences in rates of fixed assets | 331 | 351 | 293 | 337 | **994** |
| Fiscal result UDIS-Banxico | (872) | (887) | (901) | (912) | **(1,856)** |
| Total Deferred Taxes | 6,226 | 5,655 | 6,484 | 6,590 | **7,710** |

# Funding, Loans and Investments in Securities

## HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

| | ***At the quarter ending*** | | | | |
|---|---|---|---|---|---|
| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
| MXN pesos | | | | | |
| Funding | 2.35% | 2.21% | 1.88% | 1.89% | **1.87%** |
| Bank and other loans | 4.89% | 4.80% | 4.21% | 4.24% | **3.97%** |
| Foreign currency | | | | | |
| Funding | 0.05% | 0.06% | 0.05% | 0.06% | **0.05%** |
| Bank and other loans | 0.95% | 0.91% | 0.97% | 0.84% | **0.73%** |
| UDIS | | | | | |
| Funding | 0.18% | 0.17% | 0.16% | 0.15% | **0.17%** |

# Long Term Debt

## HSBC Mexico, S.A. (Bank)

HSBC Mexico, S.A. has issued convertible and non-convertible subordinated debentures listed at Mexican Stock Market (BMV)

*Figures in MXN millions*

| *Instrument* | | *Issue Date* | *Amount* | *Currency* | *Amount in circulation* | *Interest payable* | *Rate* |
|---|---|---|---|---|---|---|---|
| | | | *MXN millions* | | *MXN millions* | | |
| HSBC 08 | (1) | 02-OCT-2008 | 1,818 | MXN | 1,818 | 3 | 20-SEP-2018 |
| HSBC 08-2 | (2) | 22-DEC-2008 | 2,300 | MXN | 2,272 | 5 | 10-DEC-2018 |
| HSBC 09D | (3) | 30-JUN-2009 | 3,924 | US$ | 3,924 | 1 | 28-JUN-2019 |
| HSBC 13-1D | (4) | 31-JAN-2013 | 1,439 | US$ | 1,439 | 1 | 10-DEC-2022 |
| | | | **9,481** | | **9,453** | **10** | |

(1) Non-convertible. Monthly payment over 1m TIIE rate + 0.60
(2) Non-convertible. Monthly payment over 1m TIIE rate + 2.00
(3) Non-convertible. Original issue amount US$300 million, revaluated to Mexican Pesos at close exchange rate. Monthly payment over 1m LIBOR rate + 3.50 fixed margin over index
(4) Convertible debentures. Original issue amount US$110 million, revaluated to Mexican Pesos at close exchange rate. Monthly payment over 1m LIBOR rate + 3.65 fixed margin over index

HSBC México, S.A., has issued long-term Stock Exchange Certificates as follows:

*Figures in MXN millions*

| *Instrument* | | *Issue Date* | *Amount* | *Currency* | *Amount in circulation* | *Interest payable* | *Maturity Date* |
|---|---|---|---|---|---|---|---|
| | | | *MXN millions* | | *MXN millions* | | |
| HSB0001 06 | (1) | 10-MAY-2006 | 1,000 | MXN | 1,000 | 16 | 27-APR-2016 |
| HSBC 13 | (2) | 09-DEC-2013 | 2,300 | MXN | 2,300 | 6 | 03-DEC-2018 |
| HSBC 13-2 | (3) | 09-DEC-2013 | 2,700 | MXN | 2,700 | 14 | 27-NOV-2023 |
| | | | **6,000** | | **6,000** | **36** | |

(1) Stock Exchange Certificate fixed coupon 9.08%
(2) Stock Exchange Certificate floating rate 1m TIIE rate + 0.3 fixed margin over index.
(3) Stock Exchange Certificate semi-annually coupon 8.08%

# Capital

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

### Grupo Financiero HSBC

Grupo Financiero HSBC S.A. de C.V., net income in 2012, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN6,016 million.

Five per cent, MXN301 million, to increase legal reserves, and the remaining MXN5,715 million, at the Board's determination to be applied under the concept of other reserves.

The general extraordinary shareholders meeting, held on January 24, 2013 agreed to increase the capital stock amounting to MXN5,150 million of which are MXN526 million to capital stock and MXN4,624 million in shares premiums, by issuing 263'032,564 shares, which were subscribed and paid at a price of MXN19.57932476998380.

On March, 2013 one notice was published in accordance to the agreement of the shareholders meeting, a dividend of $0.88703326324 shall be paid per share for each one of the 2'818,383,598 shares. Such dividend was paid on one disbursement on March 26 of 2013.

The capital stock is included in the amount of MXN 5,637 million, represented by 2'818,383,598 shares.

**HSBC Mexico, S.A.**

HSBC Mexico, S.A., net income in 2012, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN3,997 million.

Ten per cent, MXN400 million, to increase legal reserves, and the remaining MXN3,597 million, at the Board's determination to be applied under the concept of other reserves

The general extraordinary shareholders meeting, held on January 24, 2013 agreed to increase the capital stock amounting to MXN5,150 million of which are MXN419 million to capital stock and MXN4,731 million in shares premiums, by issuing 209'689,909 shares, which were subscribed and paid at a price of MXN24.5600754890763

On March, 2013 one notice was published in accordance to the agreement of the shareholders meeting, a dividend of $0.721645889326020 shall be paid per share for each one of the 1,940,009,665 shares. Such dividend was paid on one disbursement on March 26 of 2013.

On December 17, 2012, the Extraordinary Shareholders agreed to issue and place subordinated preferred, convertible necessarily ordinary shares representing the share capital of the Company up to an amount of MX500 million, same as at March 31, 2013 were issued only US110 million.

The capital stock increased to MXN 3,880 million representing 1,940'009,665 shares.

# Capital Ratio

## *HSBC Mexico, S.A. (Bank)*

*Figures in MXN millions*

| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** |
|---|---|---|---|---|---|
| % of assets subject to credit risk | | | | | |
| Tier 1 | 17.9% | 20.6% | 20.1% | 19.52% | **18.00%** |
| Tier 2 | 4.5% | 4.7% | 4.1% | 4.45% | **4.26%** |
| Total regulatory capital | 22.4% | 25.3% | 24.2% | 23.97% | **22.26%** |
| % of assets subject to credit, market risk and operational risk | | | | | |
| Tier 1 | 11.6% | 13.7% | 13.4% | 12.73% | **11.98%** |
| Tier 2 | 2.9% | 3.1% | 2.7% | 2.90% | **2.83%** |
| Total regulatory capital | 14.5% | 16.8% | 16.1% | 15.63% | **14.81%** |
| Tier 1 | 38,373 | 44,749 | 42,561 | 43,134 | **41,871** |
| Tier 2 | 9,655 | 10,343 | 8,615 | 9,843 | **9,908** |
| Total regulatory capital | 48,028 | 55,092 | 51,176 | 52,977 | **51,779** |
| RWA credit risk | 214,756 | 217,415 | 211,851 | 221,027 | **232,602** |
| RWA market risk | 76,868 | 69,952 | 64,597 | 77,031 | **75,882** |
| RWA operational risk | 39,478 | 40,073 | 40,500 | 40,830 | **41,097** |
| RWA credit and market risk | 331,102 | 327,440 | 316,948 | 338,889 | **349,581** |

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.

Annex “A” of this document presents the disclosure required by Annex 1-O “Disclosure of information relating to the capitalization” of the Local regulation applicable to Credit Institutions (Circular unica de Bancos), in accordance with Article 2 bis 119 of that regulation.

# Trading income

## HSBC Mexico, S.A. (Bank)

*Figures in MXN millions*

| | *For the quarter ending* | | | | | *Year to date* | |
|---|---|---|---|---|---|---|---|
| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** | *31 Dec 2012* | ***31 Dec 2013*** |
| **Valuation** | 551 | 704 | (738) | 133 | **(178)** | 1,889 | **(79)** |
| Derivatives | 542 | 532 | (121) | (134) | **(64)** | 1,412 | **213** |
| Repos | - | - | - | - | **-** | - | **-** |
| Debt Securities | (4) | 194 | (713) | 183 | **(134)** | 258 | **(470)** |
| Foreign Exchange | 27 | (22) | 96 | 84 | **20** | 233 | **178** |
| Impairment loss on securities | (14) | - | - | - | - | (14) | - |
| **Buying and Selling Instruments** | (93) | (120) | 1,368 | 536 | **568** | 796 | **2,352** |
| Foreign Currency | (137) | (212) | 337 | 168 | **506** | 133 | **802** |
| Derivatives | (70) | (475) | 576 | 329 | **(40)** | (442) | **389** |
| Repos | - | - | - | - | **-** | - | **(1)** |
| Shares | 1 | 35 | (180) | (163) | **1** | 1 | **(307)** |
| Debt Securities | 113 | 532 | 635 | 202 | **101** | 1,104 | **1,469** |
| **Total** | 458 | 584 | 630 | 669 | **390** | 2,685 | **2,273** |

# Other Operating Income (Expenses)

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

*Figures in MXN millions*

| | *For the quarter ending* | | | | | *Year to date* | |
|---|---|---|---|---|---|---|---|
| | *31 Dec 2012* | *31 Mar 2013* | *30 Jun 2013* | *30 Sep 2013* | ***31 Dec 2013*** | *31 Dec 2012* | ***31 Dec 2013*** |
| Loans to employees | 34 | 34 | 34 | 34 | **35** | 136 | **137** |
| Recoveries | 11 | 5 | 4 | 1 | **11** | 619 | **21** |
| Credit portfolio recoveries | 195 | 187 | 174 | 166 | **166** | 730 | **693** |
| Result of Foreclosed assets | 30 | 18 | 27 | 33 | **17** | 42 | **95** |
| Property sales | - | - | - | - | **(213)** | - | **(213)** |
| Estimate for doubtful | - | - | (487) | (23) | **(6)** | - | **(516)** |
| Other items of income (expenses) | 407 | 329 | 1,023 | 268 | **714** | 1,782 | **2,334** |
| Other income (expenses) arising from op. Insurance and Bonding | 89 | 86 | 81 | 81 | **79** | 354 | **327** |
| Monetary position result | 14 | 6 | (6) | - | **-** | 29 | **-** |
| Allowance loan losses | 804 | 29 | 497 | (522) | **2** | 858 | **6** |
| Benefits to be received from trading operations | - | - | - | - | **(40)** | - | **(40)** |
| Other losses | (458) | (73) | (70) | (64) | **(107)** | (734) | **(314)** |
| Total Other Operating Income (expenses) | 1,126 | 621 | 1,277 | (26) | **658** | 3,816 | **2,530** |

# 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 31 December 2013 is shown below:

| *Figures in MXN millions* | **Year to date at 31 December 2013** | | | |
|---|---|---|---|---|
| | **RBWM** | **CMB** | **GBM** | **Total** |
| Net Interest Income | 14,969 | 5,973 | 1,651 | 22,593 |
| Provision for Loan Loss | 5,962 | 1,525 | 598 | 8,085 |
| **Net Interest Income adjusted** | **9,007** | **4,448** | **1,053** | **14,508** |
| Fees and Commissions, net | 4,752 | 1,498 | 658 | 6,908 |
| Trading Income | 246 | 184 | 1,989 | 2,419 |
| Other operation income | 2,330 | 480 | (280) | 2,530 |
| **Total Revenue** | **16,335** | **6,610** | **3,420** | **26,365** |
| Administrative Expenses | 13,571 | 5,524 | 2,607 | 21,702 |
| **Operating Income** | **2,764** | **1,086** | **813** | **4,663** |
| Undistributed income from subsidiaries | 26 | 14 | 4 | 44 |
| **Profit Before Taxes** | **2,790** | **1,100** | **817** | **4,707** |
| Taxes | 698 | 275 | 204 | 1,177 |
| **Net Income before discontinued operations** | **2,092** | **825** | **613** | **3,530** |
| Discontinued operations | 359 | (72) | (101) | 186 |
| **Net Income** | **2,451** | **753** | **512** | **3,716** |
| Minority shareholders | (1) | 0 | 0 | (1) |
| **Participated Net Income** | **2,450** | **753** | **512** | **3,715** |

# 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, 2013 is shown below:
*Figures in MXN millions*

| | Bank | Brokerage house | Mutual funds manage ment | Services | Group | Insurance | Bonding | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance Sheet** | | | | | | | | |
| Cash and deposits in banks | - | 267 | - | - | 15 | 6 | - | **288** |
| Demand deposits | (288) | - | - | - | - | - | - | **(288)** |
| Premium receivables | - | - | - | - | - | 38 | - | **38** |
| Sundry debtors (assets) | 394 | 68 | 12 | 14 | - | - | - | **488** |
| Sundry creditors (liabilities) | (119) | (140) | (46) | (83) | (9) | (130) | - | **(527)** |
| Long-term assets available for sale | - | - | - | - | - | 1 | - | **1** |
| Other assets, deferred charges | - | 2 | - | - | - | - | - | **2** |
| Deferred credits & Prepayments | (2) | - | - | - | - | - | - | **(2)** |
| **Total** | **(15)** | **197** | **(34)** | **(69)** | **6** | **(85)** | **-** | **-** |

| | Bank | Brokerage house | Mutual funds manage ment | Services | Group | Insurance | Bonding | Total |
|---|---|---|---|---|---|---|---|---|
| **P&L** | | | | | | | | |
| Payable commissions | (37) | - | (504) | - | - | (190) | - | **(731)** |
| Receivable commissions | 519 | 37 | 20 | - | - | - | - | **576** |
| Discontinued operations | - | - | - | - | - | (49) | (4) | **(53)** |
| Interest income | - | 15 | - | - | - | - | - | **15** |
| Interest expense | (15) | - | - | - | - | - | - | **(15)** |
| Earned premiums | - | - | - | - | - | 206 | - | **206** |
| Administrative and personnel expenses | (208) | (2) | - | - | - | (21) | - | **(231)** |
| Administrative services | (235) | (30) | (94) | (85) | (9) | (239) | - | **(692)** |
| Other income | 687 | - | - | 238 | - | - | - | **925** |
| **Total** | **711** | **20** | **(578)** | **153** | **(9)** | **(293)** | **(4)** | **-** |

# 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 year ended 31 December 2013 and an explanation of the key reconciling items.

| *Figures in MXN millions* | 31 Dec 2013 |
|---|---|
| **Grupo Financiero HSBC – Net Income Under Mexican GAAP** | **3,714** |
| Differences arising from: | |
| Valuation of defined benefit pensions and post-retirement healthcare benefits* | 127 |
| Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments* | (105) |
| Loan impairment charges and other differences in presentation under IFRS* | (2,180) |
| Recognition of the present value in-force of long-term insurance contracts * | (264) |
| Differences in tax criteria | (3,204) |
| Other differences in accounting principles* | 136 |
| **Net income under IFRS** | (1,776) |
| **US dollar equivalent (millions)** | **(139)** |
| Add back tax expense | **3,413** |
| **Profit before tax under IFRS** | **1,637** |
| **US dollar equivalent (millions)** | **128** |
| *Exchange rate used for conversion* | *12.77* |

* Net of tax at 30%.

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

**Valuation of defined benefit pensions and post-retirement healthcare benefits**

**Mexican GAAP**

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method and real interest rates.

**IFRS**

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

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

**Mexican GAAP**

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

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

**Loan impairment charges and other differences in presentation under IFRS**
**Mexican GAAP**
Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish methodologies for determining the amount of provision for each type of loan.

**IFRS**
Impairment losses on collectively assessed loans are calculated as follows:

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

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

**Present value of in-force long-term life insurance contracts**
**Mexican GAAP**
The present value of future earnings is not recognised. Premiums are accounted for on a received basis and reserves are calculated in accordance with guidance as set out by the Insurance Regulator (Comisión Nacional de Seguros y Fianzas).

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

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

**Differences in tax criteria**
**IFRS**

Deferred tax assets relates primarily to deductible temporary differences in respect of accounting provisions for the loan portfolio. The annual deduction for loan impairment charges was historically capped under Mexican legislation at 2.5% of the average qualifying loan portfolio. The balance is carried forward to future years without expiry.

On 31 May 2013 the Mexican Tax Authority issued a clarification related to deductions on loan portfolio sales. The impact was to reduce the amount of deferred tax assets recognised under IFRS. There is no impact under Mexican GAAP as the related deferred tax assets were not previously recognised.

Management's analysis of the recognition of these deferred tax assets now relies on the primary strategy of selling certain loan portfolios, the losses of which are deductible for tax in Mexico when sold. Any such deductions for tax would lead to the reversal of the carried forward loan impairment provision recognised for deferred tax purposes.

On the evidence available, including historic and projected levels of loan portfolio growth, loan impairment rates and profitability, it is anticipated that the business will now realise these assets over a shorter period, within the next 6 years, than originally was the case under the previous strategy of projecting loan portfolio growth, loan impairment rates and profitability, which anticipated that the assets would be realised within the next 15 years.

On 8 September 2013, the Mexican Government proposed a number of tax reforms that were approved by the Chamber of Senate on 31 October 2013 and published in the Official Gazette on 11 December 2013. The tax reforms include a new basis of tax deduction for loan impairment charges that will allow Banks to recognise tax deductions as and when loans are written off the balance sheet. The reforms also brought in transitional rules to allow Banks to continue to claim any unclaimed deductions with regard to the 2.5% pool as at 31 December 2013. These transitional rules are subject to further clarification by the Mexican fiscal authority. It is not expected that the tax reform will have a significant effect on the deferred tax assets held in HSBC's operations in Mexico.

# Participation by Subsidiary

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

*Group Subsidiaries at December 31, 2013*

| | Shares owned by subsidiaries | Participation Percentage | Number of Shares owned by HSBC Group |
|---|---|---|---|
| HSBC Mexico, S.A. | 1,940,009,665 | 99.99% | 1,939,933,439 |
| HSBC Seguros, S.A. de C.V. | 392,200 | 99.99% | 392,199 |
| HSBC Casa de Bolsa, S.A. de C.V. | 482,620,848 | 99.99% | 482,620,841 |
| HSBC Global Asset Management (México), S.A. de C.V. | 1,000 | 99.90% | 999 |
| HSBC Servicios, S.A. de C.V. | 480,089 | 99.99% | 480,088 |
| **Total** | **2,423,503,802** | | **2,423,427,566** |

# Ratings HSBC México, S.A.

## *HSBC Mexico, S.A. (Bank)*

| | Moody's | Standard & Poor's | Fitch |
|---|---|---|---|
| **Global scale ratings** | | | |
| **Foreign currency** | | | |
| Long term | - | BBB+ | A |
| Long term deposits | A3 | - | - |
| Short term | P-2 | A-2 | F1 |
| **Local Currency** | | | |
| Long term obligations | A2 | BBB+ | A+ |
| Long term deposits | A2 | BBB+ | - |
| Short term | P-1 | A-2 | F1 |
| **BFSR (Moody's)** | C- | - | - |
| **Individual / Support rating (Fitch)** | - | - | bbb / 1 |
| **National scale / Local currency** | | | |
| Long term | Aaa.mx | mxAAA | AAA (mex) |
| Short term | MX-1 | mxA -1+ | F1+ (mex) |
| **Outlook** | Stable | Stable | Stable |
| **Last update** | 12-Feb-14 | 20-Dec-13 | 14-Aug-13 |

# Accounting Policies

These financial statements are prepared under the banking law, in accordance with the accounting criteria for financial group holding companies in Mexico, at the balance sheet date, established by the Banking Committee (CNBV for its acronym in Spanish), who is responsible for the inspection and supervision of the financial group holding companies and for reviewing their financial information. The financial statements of subsidiaries have been prepared under the accounting criteria established by the CNBV, except for the financial statements of HSBC Seguros and HSBC Fianzas, which are prepared under the criteria for insurance and bonding institutions in Mexico, issued by the National Commission of Insurance and Bonds (CNSF for its acronym in Spanish)

The accounting criteria established by the CNBV and the CNSF, follow the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards (CINIF for its acronym in Spanish). The accounting criteria include specific rules for accounting, valuation, presentation and disclosure, which in some cases are different from the NIF.

The accounting criteria indicate that the commission diffuses specific rules for specialized operations, and when the CNBV or the NIF (as applicable) do not indicate a specific accounting criterion for financial group holding companies, it must be analyzed a supplementary process established in the NIF A-8, and just in case that the International Financial Reporting Standards (IFRS) referred in the NIF A-8 do not provide solution to the accounting recognition, can opt to apply another supplementary rule that belongs to any other regulatory scheme (it has to comply with all the requirements mentioned in the NIF). For apply the mentioned supplementary rules, it must be in the following order: Generally Accepted Accounting Principles of the United States (USGAAP) and any accounting standard that is part of a set of formal and recognized standards.

Modifications in to the policies, standards and accounting practices

I. Modifications to the NIF B-8 “Consolidated or combined financial statements”

a) Modification the definition of control;
b) Includes the terms of “protective rights” and “structured entity” and incorporates the concepts of principal and agent.
c) The term “Special Purpose Entity” or SPE is eliminated.

II. Modifications to the NIF C-7 “Associates, joint ventures and other permanent investments”

a) It is provided that investments in joint ventures should be accounted for by the equity method.
b) The term “Special Purpose Entity” or SPE is eliminated.
c) It is stipulated that all the effects that have an impact on the net profit or loss of a holding company, arising from its permanent investments in associates, joint ventures and others, should be recognized under the heading of “equity in the results of other entities”.
d) Additional disclosures are required.

III. Modifications to the NIF C-21 “Joint arrangements”

a) Defines the term of “joint arrangement”, and classifies into two types: “joint operations” and “joint ventures”.
b) A joint venture accounts for its interest in the joint venture as a permanent investment using the equity method.

In December 2012 the CINIF published a document called “Improvements to 2013 NIF, which contains specific amendments to certain existing NIF:

IV. Improvements to NIF C-5 “Prepayments”, Bulletins C-9 “Liabilities, provisions, contingent assets and liabilities and commitments” and C-12 “Financial instruments with characteristics of liabilities, equity or both”

Changes provide that expenses on the issue of debentures should be presented as a reduction of the corresponding liability and charged to income based on the effective interest method.

V. Improvements to NIF D-4 “Income taxes”

Establishes that current and deferred income tax shall be recognized and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognized in a different period, outside profit or loss, either in other comprehensive income or directly in equity.

VI. Improvements to Bulletin D-5 “Leases”

Define that costs incurred and directly attributable to negotiating and arranging a lease, both for the lessor and lessee shall be deferred in the lease.

VII. Changes in the loan loss provisions methodology for the commercial loan portfolio

On June 24, 2013, the CNBV issued changes to the loan loss provisions methodology applicable to credit institutions in Mexico (the Dispositions) which are applicable to the methodology for grading commercial loans granted to the following clients: financial institutions, individuals with business activities and others different than: projects with own source of payment, trustees acting under trusts not included in the projects with own source of payment and credit schemes commonly known as " structured ". In accordance with Article Second of the Transitional Dispositions, HSBC chose to early adopt on June 2013 the methodology for commercial portfolio included on section V of Article 110 of Dispositions. As result of the early adoption HSBC recognised in retained earnings on June 2013 MXN 799 million (MXN 559 million net of deferred tax).

The Bank has not determined the retrospective financial effect from the application of this new methodology related to the year 2012. Although management has made all reasonable efforts, it has not been possible to obtain the historical information required by the new methodologies, as well as the development of specific systems. Therefore, these consolidated financial statements do not include the information required by paragraph 11 of the Financial Reporting Standars B-1 "Accounting changes and correction of errors" required in this ruling by the Banking Commission.

Below is a comparison between the amounts of loan loss provisions, calculated with the methodology published on June 24, 2013 compared with the amounts of loan loss provisions calculated according to the methodology in force prior to that date, both as at June 2013:

| MXN millions<br>Prior methodology | Actual methodology |
|---|---|
| 3,944 | 4,547 |

VIII. Program to support victims of weather phenomena "Ingrid " and "Manuel"

As a consequence of some natural disasters caused by the weather phenomena " Ingrid " and " Manuel " in several locations in Mexico, and as action to support customers affected by these natural phenomena, the Banking Commission issued waver “P065/2013” dated October 18, 2013 for the special temporary accounting criteria for credits from customers who had their homes or source of payment of their credits in the localities of Mexico that were declared in emergency or natural disaster by the Secretary of the Interior (Secretaria de Gobernacion) by publication in the official gazette during the months of September and October 2013. The authorized accounting criteria refer not to consider as past due in accordance with paragraphs 56 to 61 of the standard B-6 of Appendix 33 of the Provisions, or as restructured in accordance with the provisions of paragraph 26 of the same criteria B-6, those loans to which would have applied them the benefit referred to in the following paragraph, provided they comply with the following: 1) that the credit would have been recognized as current on the date of the incident; 2) that the restructuring or renewal conclude no later than 120 calendar days after the date of loss , and 3) the new maturity date is not more than three months from the original maturity date.

The benefit that the Bank made available to customers, upon request, is defer the total payments for up to three months. The program applied for those loans included on the following portfolios: mortgages, auto, personal, payroll, credit card and SMEs.

At December 31, 2013, the amount that would have been recognised and presented in the consolidated balance sheet and consolidated income statement if the special accounting standards approved by the Banking Commission would not had been applied, which are related to interests, was immaterial.
Because the benefit applied by the Bank only was the deferral of payment of principal and interest up to 3 months, it was not necessary to make any record in accounting resulting from the application of this program to support victims.

# 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, Institutional and 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 decreet 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:

- 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.

- Based on the authorization granted by the Board of Directors, on 29 March 2012 a dividend payment was made for MXN0.809099009096675 per share for the 1,730,319,756 outstanding shares.

- Based on the authorization granted by the shareholder assembly, on 26 March 2013 a dividend payment was made for MXN 0.721645889326 per share for the 1,940,009,665 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 affectivity 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.

# 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 Bank 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 and Planning.

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)

The HBMX Board established the Risk Management Committee with the objective of controlling and managing the different types of risk. According to the guidelines for Risk Administration established by the Comisión Nacional Bancaria y de Valores ("CNBV"), the RMC carries out the following functions.

The Committee comprises diverse external advisors and high-level HBMX officials, including the HBMX CEO, LAM CRO, HBMX CRO, Head Audit HBMX, Head RBWM HBMX, Head CMB HBMX, Head GBM HBMX, Head CTSO HBMX, CFO HBMX, Head Legal HBMX, Head GM HBMX, Head PB HBMX, Risk Manager (secretary). The committee is chaired by and external advisor on a monthly basis

Objetives and responsibilities:

- Monitor current risks with the potential to have an impact on the Company's operation, evaluate its likelihood and effect on our financial results or reputation. Also, develop a focused and integrated methodology for the identification of such risks within HBMX.
- Propose solutions for improving risk profile and review risk strategies for mitigating specific or material risks.

- Develop a clear view of the overall risk profile and trends in credit, market, liquidity, insurance, operational and reputational risks and internal controls within HBMX which might have an impact on our long term business strategy.
- A Risk-focused process to manage material risks, contingencies and mitigating actions, and consolidate risk reporting as an input to the ALCO process.
- Approve/ratify (as appropriate) proposed changes in policies and guidelines for integral risk administration, in accordance with CNBV rules and regulations.
- Approval of the maximum tolerance for market risk, credit risk and other risks considered acceptable for the Bank in relation to derivative trading operations.
- The RMC reviews and approves goals, operations and control procedures, as well as required risk tolerance levels, based on market conditions.
- Authorize the Terms of Reference (TOR) of the Committees that report into the RMC, including the authorization of its members, as well as providing guidance and overseeing their activities.
- Approve the methodologies for measuring and identifying all types of risk.
- Oversight of New Product approvals and subsequent review / amendments.
- Approval of changes to the provisioning methodologies including Economic Factors and Emergence Periods.
- Develop and modify the objectives, guidelines and policies on credit management and loan origination.
- Review open significant issues to be included in the CEO Attestation (as per the timing of the CEO Attestation) and monitor the resolution of these issues.
- Monitor current risks that could have an impact in the legal entities that comprise "GrupoFinanciero HSBC Mexico S.A. de C.V.", according to the frequency defined for each entity:
  - ✓ Bank, Brokerage House (including Mutual Funds), Bonding, Global Asset Management, Insurance, Life Insurance and Pension entities on a monthly basis.
  - ✓ Real State and Foundation entities on a semiannually basis.
  - ✓ Services Provider and Financial Services entities on a quarterly basis.

Also the HBMX legal entities list and status should be updated on a semiannual basis.

## 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.).

- **Basis or margin risk. -** This risk arises when an instrument is utilized for hedging and each one of them is valuated 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-valuating 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 (CSO1)

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 “Trading Desk” 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, Credit Spread and Equities).

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

The stress tests are carried out for the Bank’s portfolio and for the “Trading Desk” and “Accrual” portfolios. Besides a special stress test for Available for Sale Securities (AFS) and for Hedging Securities (CFH and FVH) is carried out.

## Quantitative Information

Below, the market VaR and the Bank’s PVBP will be presented and their subdivisions in the “Trading Desk” and “Accrual” portfolios for the fourth quarter of 2013 (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.

| | Bank | | Trading Intent | | Accrual | |
|---|---|---|---|---|---|---|
| | Average 4Q13 | Limits* | Average 4Q13 | Limits* | Average 4Q13 | Limits* |
| Combined | 17.51 | 38.00 | 3.29 | 11.50 | 15.55 | 35.00 |
| Interest Rate | 14.08 | 40.00 | 2.82 | 6.50 | 13.00 | 38.00 |
| Credit Spread | 4.24 | 22.00 | 0.51 | 4.00 | 3.76 | 22.00 |
| FX | 0.77 | 5.00 | 0.78 | 5.00 | N/A | N/A |
| Volatility IR | 0.04 | 4.50 | 0.04 | 2.00 | 0.00 | 2.50 |
| Volatility FX | - | 2.00 | - | 2.00 | N/A | N/A |
| Equities | 0.00 | 2.50 | 0.00 | 2.50 | N/A | N/A |

*N/A = Not applicable*

** Absolute Value*

| | 30-Sep-13 | 31-Dec-13 | Limits* | Average 3Q13 | Average 4Q13 |
|---|---|---|---|---|---|
| HBMI | **19.81** | **16.78** | 38.00 | 19.72 | 17.51 |
| Accrual | **20.07** | **13.30** | 35.00 | 18.47 | 15.55 |
| Trading Intent | **1.83** | **4.11** | 11.50 | 2.35 | 3.29 |

N/A = Not applicable

* Absolute Value

The Bank's VaR at the end of 4Q13 change -15.30% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 4Q13 change -11.21% 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, 2013 and December 31st, 2013 (in millions of dollars).

**Market VaR vs. Net Capital Comparison**

*Net Capital in million Dollars*

| | 30-sep-13 | 31-dic-13 |
|---|---|---|
| Total VaR* | 19.72 | 17.51 |
| Net Capital ** | 4,020.91 | 3,957.35 |
| VaR / Net Capital | 0.49% | 0.44% |

** 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 0.44% of the net capital in 4Q2013.

**Present Value for 1bp (PVBP) for Mexican Pesos Rates**

| | 30-Sep-13 | 31-Dec-13 | Limits* | Average 3Q13 | Average 4Q13 |
|---|---|---|---|---|---|
| Bank | **(1.195)** | **(1.279)** | 1.900 | (0.963) | (1.196) |
| Accrual | **(1.167)** | **(1.101)** | 1.450 | (0.895) | (1.074) |
| Trading Intent | **(0.028)** | **(0.178)** | 0.300 | (0.068) | (0.122) |

** Absolute Value*

The bank's MXN Rate PVBP for 4Q13 change 7.03% versus previous quarter. Bank's average PVBP for 4Q13 change 24.20% versus previous quarter.

| Present Value for 1bp (PVBP) for USD Rate | | | | | |
|---|---|---|---|---|---|
| | 30-Sep-13 | 31-Dec-13 | Limits* | Average 3Q13 | Average 4Q13 |
| Bank | **0.080** | **0.034** | 0.430 | 0.026 | 0.043 |
| Accrual | **0.043** | **(0.008)** | 0.300 | (0.010) | 0.006 |
| Trading Intent | **0.036** | **0.042** | 0.130 | 0.036 | 0.037 |

** Absolute Value*

The bank's USD Rate PVBP for 4Q13 change -57.50% versus previous quarter. Bank's average PVBP for 4Q13 change 65.38% versus previous quarter.

| Present Value for 1bp (PVBP) for UDI Rates | | | | | |
|---|---|---|---|---|---|
| | 30-Sep-13 | 31-Dec-13 | Limits* | Average 3Q13 | Average 4Q13 |
| Bank | **(0.047)** | **(0.057)** | 0.150 | (0.049) | (0.047) |
| Accrual | **(0.035)** | **(0.031)** | 0.050 | (0.038) | (0.033) |
| Trading Intent | **(0.012)** | **(0.026)** | 0.100 | (0.011) | (0.013) |

** Absolute Value*

Bank's UDI Rate PVBP for 4Q13 change 21.28% versus prior quarter. Bank's average PVBP for 4Q13 change -4.08% 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 national currency and in U.S. dollars. These liquidity ratios are calculated on a monthly basis and compared with the limits permitted by the Asset and Liability Committee and confirmed by the HSBC Group. Additionally, the institution conducts a daily review of the cash commitments and the requirements of major customers to diversify funding sources.

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

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 has been reviewed and approved by the local ALCO at the beginning of the year.

### Quantitative Information

The institution presented at end of the quarter expected cash flows under the major stressed scenario of USD 4,210m in the 7 days term; USD 2,363m in the 1 month term and USD 1,169 m in 3 months; obtaining a net positive cumulative result in all cases.

Along the quarter, average level was USD 3,085 m in the 7 days term USD 1,589 m in 1 month term and USD 1,180 m in 3 months term. With respect to the last quarter, the liquidity position improved due to a seasonal increase in deposits, a reduced loan portfolio and more profitable securities bought to optimize liquidity allocation.

## Credit Risk

### Qualitative Information

HSBC Mexico (HBMX) develops, implements and monitors credit risk models and tools for credit risk management and portfolio monitoring and analysis. 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 customer or counterpart cannot 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 correct credit risk measurement, HSBC has credit risk measurement methodologies, as well as advanced information systems. In general, the methodologies separate the customer risk (probability that a customer 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.

## Models and Systems used for the quantification and Credit Risk management

## Commercial Portfolio

### 1. Credit Risk Preventive Provisions

HSBC Mexico adopted from June 2013 new rules for estimating credit loss provisions established by CNBV in the "*Disposiciones de carácter general aplicables a las instituciones de crédito*" (*Circular Única de Bancos*, CUB), which set up an Expected Loss approach.

### 2. Internal Management Models

Through an extensive methodological review process by HSBC Group experts, HSBC Mexico has different models for internal risk management, developed to encompass the three key parameters of Credit Risk:

1. Probability of default (PD),
2. Loss Given default (LGD),
3. Exposure at default (EAD)

These models are internally evaluated and monitored on a quarterly basis to assess their performing and their proper application, so as to carry out necessary adjustments in a timely manner.

With respect to the Probability of default Model (PD), the monitoring intent to make sure that this model are still differentiating customers that comply with the acquired HSBC obligations of those who will not, ordering the customers by appropriate risk levels. In addition, the model quantification is validated by comparing with the observed default rates to know its accuracy.

On the other hand, for the Exposure at default and Loss Given default Models, validates that the loss estimations in which the institution may be incurred in the event that the customer fails be more precise with a sufficient degree of conservatism.

It is important to note that each models version is subject to the HSBC Group expert review and the approval process of this are attached to the standards established by the Group.

## 2.1. Probability of default Model (PD)

HSBC Mexico has developed eight models for assessing the credit risk rating of the customers of Commercial Portfolio that are local Corporate or Corporate with annual sales up to MXN 7,000m. These models were developed based on a statistical analysis of different economic activities that resulted in four major segments, which in turn were subdivided by annual turnover level, greater and less than MXN 100m.

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 M (GLCS).
- Another one to assess Bank Financial Institutions (RAfBanks).
- And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFI DST).

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, of which 2 are for customers in default.

The framework includes a direct correspondence to Probabilities of Default and permits a granular measurement of the customer's credit quality.

The Probability of Default models included in the internal rating system are monitored on a quarterly basis with the aim of examining their proper performance, and if the monitoring results are not as expected according to HSBC Group standards, some action plans are taken to meet the established guidelines.

In the latest monitoring results for the local models of the Commercial Portfolio (for Corporates with annual turnover up to MXN 7,000m) there is generally a good statistical performance with an AR (Accuracy Ratio) of 0.57, which is above the threshold set by the HSBC Group; however the override rate is over the desired limits for the models. It is important to mention that currently these 8 models are under an enhancement process.

The global models, GLCS, RAfBanks y NBFI Models, are associated to low default portfolios, so it is not currently possible to measure their performance, but a monitoring is performed on their override rates, which are within the thresholds that have been established by HSBC Group.

## 2.2. Loss Given default Model (LGD)

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. In addition, for Bank Financial Institutions HSBC Mexico has implemented a model developed by Group HSBC Head Office.

The most recent monitoring shows a low correlation (17.89%) between the observed and estimated LGD. Currently, LGD model is under redevelopment process.

## 2.3. Exposure at default Model (EAD)

For Exposure at Default (EaD) estimation, HSBC México also developed a model for Middle Market Enterprises and Corporate customers. The Exposure at Default estimation for Banking Financial Institutions is based on the guidelines established by the Group HSBC.

With the purpose to get a more accurate measurement of risk, the Exposure at default model was modified in 2012, and is currently being evaluated under the Standards that HSBC Group has determined, to be subsequently updated in computing systems.

The latest quarterly monitoring performance of this model shows a satisfactory correlation (over 50%) between the values of the observed and estimated EaD.

## 3. Credit Evaluation Systems

In order to establish a better infrastructure management and risk measurement for the Commercial Portfolio, HSBC Mexico used a risk evaluation tool called *Moody´s Risk Analyst (RA),* which allows an assessment of the credit quality of customers based on its financial and qualitative information.

Furthermore, HSBC Mexico has a system used at global level to manage, control and monitoring the commercial credit approval process known as *Credit Application and Risk Management (CARM)* through the major of the cases are approved. With this system the status of a credit application can be consulted in any stage of the credit process. Also, the minor of the cases continue to be approved by Workflow Authorization (SIPAC), this system will be replaced by CARM at the end of this year.

In addition, and with the objective of enhancing the management of guarantees of the Commercial Portfolio, it's used a system called "*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*".

## Quantitative information

Regarding to the average balance of the Commercial Portfolio as of December 31th 2013, it is MXN 162,922m, showing an increase of MXN 5,155m (or 3%) compared to the previous quarter.

The Expected Loss of the Commercial Portfolio as of December 31th 2013 is MXN 12,228m, showing an increase of MXN 1,870m (or 18%) compared to the figure reported in the previous quarter.

It is detailed below the average balance and Expected Loss for the Commercial Portfolio by line of business:

MXN m

| Business Line | Quarterly Average Balance | | VAR | | Balance | | VAR | | Expected Loss | | VAR | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3Q2013 | 4Q2013 | ($) | (%) | Sep-13 | Dec-13 | ($) | (%) | Sep-13 | Dec-13 | ($) | (%) |
| CMB | $93,777 | $95,086 | $1,309 | 1% | $93,144 | $97,038 | $3,894 | 4% | $8,647 | $10,586 | $1,939 | 22% |
| GBM | $63,865 | $67,610 | $3,745 | 6% | $66,815 | $68,819 | $2,005 | 3% | $1,711 | $1,642 | -$69 | -4% |
| GBP | $125 | $226 | $100.99 | 81% | $130 | $275 | $145.39 | 112% | $0.11 | $0.01 | -$0.10 | -88% |
| **Total** | **$157,767** | **$162,922** | **$5,155** | **3%** | **$156,322** | **$160,088** | **$3,766** | **2%** | **$10,358** | **$12,228** | **$1,870** | **18%** |

## Retail Portfolio

### Qualitative Information

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 form 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 RBWM portfolio as at December 31th is MXN 5,094m, Credit Cards is MXN 3,300m Other Retail MXN1,113m and Mortgage MXN681m.

## Operational Risk

### Qualitative Information

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

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee (ORICC), sub-committee of the Risk Management Committee, which is responsible for the fulfilment 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' behaviour and their mitigants.

The Group adopts a **'Three Lines of Defence'** model to ensure that the risks and controls are properly managed by Global Businesses, Global Functions and HTS on an on-going basis. The model delineates management accountabilities and responsibilities over risk management and the control environment. The 'Three Lines of Defence' model should be applied with common sense and takes account of the Group's business and functional structures.

### First Line of Defence:

The First Line of Defence comprises predominantly management of Global Businesses and HTS (HSBC Tecnology & Service) who are accountable and responsible for their day to day activities, processes and controls. The First Line of Defence must ensure all key risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment that is commensurate with risk appetite. It is the responsibility of management to establish their own control teams where required to discharge these accountabilities.

### Second Line of Defence:

The Second Line comprises predominantly the Global Functions whose role is to ensure that the Group's Risk Appetite Statement is observed. They are responsible for:

- Providing assurance, oversight, and challenge over the effectiveness of the risk and control activities conducted by the First Line
- Establishing frameworks to identify and measure the risks being taken by their respective parts of the business
- Monitoring the performance of the key risks, through the key indicators and oversight/assurance programmes against defined risk appetite and tolerance levels

Global Functions must also maintain and monitor controls for which they are directly responsible.

### Third Line of Defence:

Internal Audit provides independent assurance as to the effectiveness of the design, implementation and embedding of the risk management frameworks, as well as the management of the risks and controls by the First Line and control oversight by the Second Line.

HSBC

## Use Test

Use test is ongoing verification to gather evidence of compliance with the ORIC management framework within the business decision making process. It is also a formal practice referred to gathering evidence that the following facts are carried out continuously:

- The Top Management is aware and is involved in the management of operational risk.
- Operational risk management information is used for decision-making.
- The Operational risk management information quality is adequate to support the business decisions making.

Senior management must inform to Local ORIC the results of their risks and controls assessment as part of its decision-making process, and these should be reflected in the reports of the entity.

The heads of the areas (senior management), should for their Operational Risk and Internal Control Process oversight:

- Establish an adequate organizational structure with BRCMs Team (Business Risk and Control Managers) in order to ensure effective coverage of all business and operations under their responsibility, ensuring that BRCMs Staff members are individuals with experience and skills suitable for the performance of their functions:
  - ✓ Identify and assess operational risks and controls as part of the decision making process (Use Test).
  - ✓ Identify and report operational loss incidents.

BRCM teams are responsible, within their respective areas of the following:

- Define key operational risks and set minimum standards of control and indicators / meters suitable;
- Undertake supervision to verify the adequacy of the monitoring of administrative control (functional). When these teams carry out supervision, ORIC can strengthen this work fulfilling its oversight responsibilities to avoid duplication of effort;
- Review and report key indicators and take the appropriate action when an area is operating or is under the risk of operating outside the established risk appetite;

ORIC team is responsible for ensuring compliance with the minimum standards.

An 10th annual assessment exercise in order to identify and re-assess relevant operational risks and Controls throughout HSBC Mexico. The methodology applied in accordance to the Group's Operational Risk Management Framework, specifies that all areas of the Group should conduct a Risk Assessment and Control (RCA) or a Questionnaire at least once a year. The methodology and Control Risk Assessment (RCA) replaced the ABCD approach identification and self-assessment of operational risk (RSA) and is applicable to all entities of HSBC.

ORIC department is responsible to lead and coordinate the annual RCA process. As part of this exercise, relevant identifiable risks were denominated, described and classified into fourteen categories: Compliance, Fiduciary, Legal, Information, Accounting, Tax, External Fraud, Internal Fraud, People, Political, Physical, Business Continuity, Systems, Operations and Project.

## Quantitative Information (including Legal and Technological Risk)

From the 10th Operational Risk assessment exercise carried out between 2012-2013, and with all changes and updates performed during 4Q13; there are 1,511 risks identified and assessed as relevant distributed as follows: 7.47% (113) A type, 14.09% (213) B type, 27.92% (422) C type, and 50.49% (763) D type.

The institution holds an Operational Risk 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.

A new quarterly report is being submitted to the CNBV in attendance to a local regulator requirement effective from 3Q13. All incidents from MXN1m and above will be quarterly reported into regulator specific database. Reports: R2811 and R2811 that aims to gather information on the largest losses recorded as consequence of: i) internal control failures or deficiences; ii) error in processing, operations or information transmission, iii) adverse administrative and judicial decisions, and iv) fraud or theft ; all grouped by line of business, processes and products.

The Operational Risk appetite statement for the bank is USD 34.42m for Operational Losses plus USD 9.12m for Credit Related Operational Losses (CROLs), and is monthly monitored through the BSC presented at the Risk Management Committee (RMC).

Year to date (31DEC13) total amount of Operational Losses in 2013, are USD 32.13m. 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.

## 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.

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), Operational Risk Management Group (ORMG) and HTS Risk Management Meeting (HTS RMM).

II. Keeping updated and testing the different case scenarios analysed 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 methodology called Risk Based Project Management (RBPM), specifically in the domain for software development is the SDLC (Software Development Life Cycle).

V. Performing Risk Management activities with the active involvement of a specialized Business Risk and Control Managers (BRCM's), including but not limited to operational risk, Sarbanes Oxley (SOX), 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 the Institution 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, compliance risk (the risk owner of this risk is Compliance's department) and change of law.

- Non-Contractual Rights Risk, which is the risk that Institution's assets are not properly owned or are infringed by others or the infringement by an Institutional member of another party's rights, and includes: infringement, ownership rights and legal responsibility.

Policies were designed to have controls and procedures to identify measure and manage legal risk in order to avoid financial losses and operational errors. The risk mitigation is sought with the following controls:

- Contractual Risk Control

Proper procedures are in place in order to assure that all the documents that generate a contractual relation to the Institution, have been reviewed by an internal or external lawyer, through the required documentation or standard contracts.

All the contracts that are signed by a member of the Institution that contain restrictions that may affect the business must have the authorization of the Legal Counsel, according to the level required. Additionally, there are procedures in order to have regular reviews of the standard contracts to assure that those maintain the required clauses.

- Dispute Risk Control

Robust procedures have been established in order to assure a proper response to the disputes against the institution and to defend those in an efficient way, being able to take actions in order to protect and maintain the institution´s rights, as well as communicating the status of the litigation cases to the Legal Head.

Practices or procedures are properly documented and placed to ensure that responsibility is not admitted involuntarily in dispute situations, and that responsibility is not inadvertently allowed inside and that cannot be inferred from any internal correspondence or third parties.

There are procedures and instructions in order to have an immediate notification to the Legal department if any litigation is commenced against the institution or employees and the following actions regarding the demand.

- Legislative Risk Control

There are implemented procedures and documented practices for monitoring of any new law or proposed regulation, as well as any court case that arises from the need of changing a procedure and the current documentation in their respective jurisdiction or in other.
With this action and together with Compliance are implemented the required regulatory changes in order to continue with the operation of the business according to the law.

- Non Contractual Rights Control:

There are established procedures in order to assure that the Legal department validates the use of Headquarters' trademark, local trademarks, commercial advertising and author rights.

The use of a mark by a third party is approved in advance by Marketing's department and Headquarters Advertising and Marketing Communication and is documented by a written license agreement which will be issued by Legal Department.

A procedure is established in order to have a previous validation of any use of trademarks or commercial advertising of a third party.

The legal department takes care of all the artistic and literary work that has been generated by an employee or external supplier or through a posterior acquisition of the rights with the proper documentation.

Legal department is involved in any social media activities and campaigns initiated by their business within their jurisdiction. Legal Headquarters approval is required for all social media activities.

Regarding Legal Operational Controls is based on the scheme of Three lines of defense, referred to in Operational Risk section, in order to ensure that risks and controls are properly managed through the exercise of first and second line of defense function.

All the institution´s policies have been established as well as the procedures needed to comply with the Operational Risk and Internal Control requirements; audits have been done, as well as estimations of potential losses from adverse judicial resolutions in order to have a historical database with a root-cause analysis.

- Anti-money laundering and sanctions-related

In October 2010, HSBC Bank USA entered into a consent cease and desist order with the OCC and the indirect parent of that company, HNAH, entered into a consent cease and desist order with the Federal Reserve Board (the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including various issues relating to US Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. Steps continue to be taken to address the requirements of the Orders to ensure compliance, and that effective policies and procedures are maintained.

In addition, in December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA and AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with the DoJ, the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the 'US DPA'), HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney (the 'DANY DPA'), and HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a monetary penalty order with the Federal Reserve Board ('FRB'). In addition, HSBC Bank USA entered into a monetary penalty consent order with FinCEN and a separate monetary penalty order with the OCC. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Services Authority, now a Financial Conduct Authority ('FCA') Direction, to comply with certain forward-looking AML- and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1,921m to US authorities and are continuing to comply with ongoing obligations. On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) will evaluate and regularly assess the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements. The monitorship, which began on 22 July 2013, is proceeding as anticipated and consistent with the timelines and requirements set forth in the relevant agreements.

If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DOJ's charges against those entities will be dismissed at the end of the five-year period of that agreement. Similarly, if HSBC Holdings fulfils all of the requirements imposed by the DANY DPA, DANY's charges against it will be dismissed at the end of the two-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA, and DANY may prosecute HSBC Holdings in relation to the matters which are subject of the DANY DPA if HSBC Holdings violates the terms of the DANY DPA.

HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance programme.
The settlement with US and UK authorities does not preclude private litigation relating to, among other things, HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

# Corporate Sustainability (CSR)

We strongly believe that being a sustainable bank involves several commitments in our daily act, from a business perspective; sustainability primarily involves a long-term profitable growth, based on a relationship of trust between our institution and our customers. From the Sustainable perspective, implies to reduce as much as possible the environmental impact of our operations and contribute to our community by supporting programs and projects promoting better education, environment and community integration.

Sustainability is achieved through 3 pillars:

1. Economic: alignment with the Ecuador principles and considering the environmental impact of the Group's investments.
2. Environmental: Controlling our carbon footprint and promoting a sustainable culture within our organization.
3. Social: Supporting education, community and environmental projects promoting the positive development of the communities where we operate and to actively involve our employees in volunteer activities. Globally, HSBC's policy is to invest 0.5% of its pre-tax profits to social projects in the communities where it operates.

2013 will be a challenging year for the business and the consolidation of our Community Investment and our flagship projects, which are as follows:

Education:

- "Just raise your hand", a partnership with ARA and Lazos foundations looking to improve the quality of education and prevent dropout in elementary schools with limited resources.
- English Programme, The aim is to offer high quality English courses to students and teachers and improve their work and development opportunities through the alliance with The British Council and Global English.
- Financial Education, to promote financial education among Mexican population, regardless the life stage on which they are.

Community:

- "Sumando Valor" inclusion programme to hire people with disabilities.
- "Mujeres Fuerza": Woman empowerment programme, aiming to enhance personal development

Environment

- "HSBC Seguros Green Project" and "Cuida tu Ambiente", a project aiming to create an employee environmental task force, aligned to the new Corporate Sustainability strategy.
- HSBC Water Programme, 5 year Global programme with an investment of USD 100m in alliance with Earthwatch, Water Aid and WWF

Our Community Investment fund comes from our profit before taxes and customer contributions. During 2013, we invested $61.9 million pesos, 100% of such investment was made by HSBC.

**<u>1. Climate Business (Sustainable Finance)</u>**

Corporate Sustainability continues working together with CMB and GBM, in the strategy for Climate Business, putting together the main stakeholders and coordinating progress.

The CMB work plan has been defined with focus on specific segments (Large Corporate Finance, Real Estate, Municipality & States and MME), providing the required training to properly identify Climate Business opportunities and potential customers, following up and communicating success deals and consolidating income.

To support the business model and providing guidance towards specific business opportunities, Corporate Sustainability translated and circulated technology briefings, including alternative sources of finance, electric and hybrid vehicles, solar technology, biomass and waste to energy generation.

The current pipeline of Climate Business projects includes: a wind farm development, the production of biodiesel with palm oil, and biomass project and energy efficiency equipment.

**2. Sustainable Operations**

During December 2013, HSBC Mexico obtained the LEED Volume Certification for Operations & Maintenance in 25 branches nationwide, becoming the first financial institution to obtain this certification in Latin America. The main objective of the project is to reduce the environmental impact of our operations through the implementation of different initiatives focused on improving indoor environmental quality, reduce energy and water consumption and waste generation.

With the Integrated Waste Management we work towards the correct segregation, disposition and recycling of waste generated in our corporate buildings. This program generated during 2013 $1.3 million pesos which will be used to support Education, Social or environmental projects.

REDUCE Global Campaign: We coordinated this global campaign aligned with CRE, HTS and communications, which aims to reduce our CO2 emissions by one ton per person per year by 2020. The REDUCE program implies that each of the employees review our daily actions and to implement changes that help us reduce our environmental footprint on the planet, such as turning off the computer at night, recycling our trash, or fail to print documents . The campaign was implemented at national level and is part of a sustainable business strategy.

**3. Communication**

During 2013, the Corporate Sustainability Department gained 151 free press releases with an estimated value of $852,000 USD.

Additionally, we successfully developed various campaigns: Toy Drive, Just Raise Your Hand, Water and Environmental Month, Month of the Diversity and Inclusion, Campaign United for Mexico and for our employees. In total we made seven videos of the various programs.

**Emergency Plan Natural Disasters:** We have received donations through ATMs, branches and internet summing up MXN1,575,007 on the 111 account and MXN949,603 on the 222 account.

**Sustainability Report 2012**- We launched the Corporate Sustainability Report 2012. We distributed 500 hard copies and shared it on the intranet, internet and with specialized media. Additionally we developed a digital APP downloadable for free on the ITunes store, however it is not available for downloads anymore.

**4. Community Investment – Volunteering**

**Junior Achievement: More than Money**
274 volunteers were trained so they could teach students about earning, spending, sharing and saving money. Students learn about businesses they can start or jobs they can perform to earn pocket money Thanks to this, 3,566 children were benefited during 2013.

**Junior Achievement – Future First Fund: Advantages Programme**
Thanks to the Future First fund, we launched the program “Ventajas” (Advantages), which is a practical and interactive program that enforces the importance of staying in school and consider the consequences and implications of deciding to leave school early.

This program strives to positively influence attitudes of students regarding the value of their education in ensuring lifelong self-sufficiency and reasonable living standards. The students see how their education relates to careers and future earnings potential.

Through this new activity, 869 teenagers were benefited thanks to the participation of 36 volunteers.

**Sports for Sharing (Deporte-es para compartir)**
We launched a new volunteer activity with the program “Deporte-es para compartir” (Sports for Sharing), that aims to form better citizens from childhood. Through using physical games that they can enjoy and relate to, children’s civic values and attitudes are enhanced and become more engaged citizens, capable of teaming up with their teachers and families to improve the living conditions in their communities.

To note, “Deporte-es para Compartir” is a program developed by the United Nations Association in Mexico (UNA Mexico). UNA Mexico belongs to the World Federation of United Nations Associations (WFUNA), as well as its youth network, the United Nations Youth Association in Mexico (UNYA Mexico).

Through this new activity, 348 children were benefited thanks to the participation of 23 volunteers.

**Volunteer Day**
On December 14 we celebrated the “Volunteer Day” with an activity for 250 volunteers and their families along some institutions supported by HBMX.

During this day they were able to play different games, had a bike trip and got to know a lot more about the programs that Corporate Sustainability has in Mexico, LAM and Global, such as “Just Raise Your Hand”, “More Than Money”, “Zippy’s Friends”, “Future First”, “Water Programme HSBC”, among others.

For the closure, Juan Pablo, an HSBC employee and who is part of our inclusion programme “Sumando Valor” (Adding Value), together with his band performed a dance show.

**Volunteering Results**
During 2013, we had a participation of 2,198 volunteers, donating 36,220 hours distributed in Education, Environment and Community activities.

## 5. Community Investment – Education

**“Just raise your hand”**

Our flagship educational program “Just raise your hand”, in alliance with Lazos & Ara foundations has benefited a total of 4548 underserved children through customers and employees sponsorships, and also 1,513 children through “Zippy’s Friends”, program that supports early elementary school kids to develop their emotional health. Additionally, during 3013, the 9 infrastructure improvements on the supported schools were finished. With these schools we sum a total of 26 schools supported in 22 states of Mexico, this has been possible thanks to our alliance with Ara foundation and our customers’ contributions.

The event to present the annual results of the programme was held on October 2013, announcing that a social investment of the program of over $50 million pesos, exceeding by 32% the goal communicated in 2010.

During 2014 we aim to sponsor 1,045 additional children and add 8 new schools to reach 34 schools in 27 states.

**“Zippy’s Friends”**

“Zippy’s Friends” is a program to support early elementary school kids to develop their emotional health. The third phase of the program was satisfactory concluded.

During the school cycle 2012 – 2013 and thanks to the Future First Global Committee approval, we worked the program together with NEMI foundation, benefiting 4,831 children, with 172 professors involved in 58 schools.

**See Better to Learn Better**

The programme is administered jointly with the association “Ver Bien para Aprender Mejor”, together with the Ministry of Public Education and offers top-quality corrective glasses for children in public primary and secondary schools who have been diagnosed with vision problems like nearsightedness, astigmatism and farsightedness. During 2013, a total of 43,478 children were benefited in Mexico.

Additionally, during 2013 the program worked together with our flagship education program "Just raise your hand", where 371 children with vision problems were assisted, enhancing the education quality in our schools and benefiting our children in a much more integral way.

**English Programme**

The aim is to offer high quality English courses to students and teachers and improve their work and development opportunities through the alliance with two different organizations:

The British Council: The pilot group of 363 master teachers was trained and has finished cascading the course, reaching 11,000 teachers who will reach 550,000 students. We are working to expand the project in 3 states: Guanajuato, Monterrey and Mexico City and 6 more states for next year.

Global English: (On-line software): 20,000 users have begun using the software; this represents 100% of the target. On total year investment, this has a cost of means a cost $ 3.3 USD per hour.

**Financial Education**

Financial Education: Through our alliance with Universidad del Valle de México on the 19th February we launched the Degree on Financial and Banking Business. This adds up to our efforts to consolidate financial education in different sectors of society.

Additionally, we offered 15 conferences by Gianco Abundiz, which will be delivered to employees, clients and students of Universidad del Valle de México. 13 conferences were already given.

We supported CONDUSEF and ABM during the National Week on Financial Education (SNEF) holding 3 magisterial conferences by Gianco Abundiz and 11 "comic-stories"; additionally we distributed 900 comics in alliance with VISA.

An APP on personal finances is in development together with Marketing and WOBI. We have launched the videos with tips on finance which are being featured on Youtube, Facebook and ConectaTV. The APP will be available in 2014.

**MUJERes fuerza (Women Empowerment in rural communities)**

After the first 8 months of working with NEMI and Social Value for our flagship community programme for the empowerment of women, we are proud to share the first results.

The objective of the programme is to develop actions to promote the empowerment of women living in poverty, seeking to encourage self-management capacities in order to improve their condition and quality of life. The beneficiaries of the programme are committed and inclusive women with leadership skills.

The empowerment of these women is achieved by working closely with them through seminars, conferences and different dynamics and topics such as: diagnosing the community, self-esteem, self-management, gender construction, communication, sustainable family, financial education and leadership. We have worked in 3 states (Edo. De México, Hidalgo and Morelos) and 12 municipalities. Up to date 754 women have been directly benefited by the programme and 5,438 indirectly.

**Sumando Valor- Social Inclusion**

In alliance between Corporate Sustainability and Human Resources, HBMX is hiring people with disabilities through Manpower Foundation A.C., FHADI I.A.P., Colabore A.C. and Teletón Foundation. At the moment, 60 candidates have been hired. The fifth Intensive Course for people with disabilities took place successfully and 58 people have graduated successfully from the course.
Since 2011 we have delivered 316 wheelchairs, 256 out of these, were donated in 2013.

During October (Month of Diversity and Inclusion) we had several activities lined up for the campaign, such as: Jorge Font Conference in Leones, one in the HSBC Tower on the 31st October, a volunteering activity with 60 employees and 100 children with disabilities. We held a Diversity and Inclusion Fair in the Tower, Tecnoparque and Monterrey where various foundations that work with vulnerable groups such as indigenous women, people with disabilities, children with cancer, etc. were invited to sell their products.

**Business Engagement:** During the last term, different integration activities were organized for various areas such as Wealth Management Products, Strategic Aliances, Payroll, CRM, etc. where employees spent a day with kids with Down Syndrome.

The video for Juan Pablo and Guadalupe was filmed, which has been used as sensitization to different areas and has been shown in ConectaTV this month. As part of the communication campaign, a brochure was printed with information about the program and employees can refer candidates for job positions.

Through our existing alliance with UVM and the foundations we work with, we are expanding the training center for people with disabilities in order to expand and to deliver the course in Campus Coyoacan. We have had working meetings and the UVM is currently working on the development of the content and assessment of the viability of the project.

## 6. Community Investment - Environment

### HSBC Water Programme

The HSBC Water Programme supported during 2013 the preservation of the Mayan Aquifer together with “Amigos de Sian Ka’an” through the implementation of state of the art research, developing a water conservation culture in local communities, promoting public policies related to waste water treatment, and the protection of tropical forest relevant for aquifer recharge

The program is also helping, together with Isla Urbana, to provide a sustainable source of water to families living in conditions of chronic water shortage through the installation of rainwater-harvesting (RWH) systems in low-income communities in southern Mexico City and indigenous Huichol communities in Jalisco.

Additionally, 7 Citizen Science Leaders (CSL’s) trainings were held in Xochimilco were 137 colleagues attended and will contribute with a fresh water Global research.

**“HSBC Cuida tu Ambiente” Programme – Citizens Scientist Leaders**
Thanks to the leadership of the environmental leaders of the program "HSBC Cuida Tu Ambiente" (HSBC Taking Care of the Environment), have been in charge of leading the rehabilitation in “Bosque de Chapultepec” in Mexico Ciy and “Bosque la Primavera” in Jalisco.

On December we had the 2013 closure, were 31 candidates achieved the certification as Environmental Leaders thanks to the 3,708 volunteer hours they donated during 2013. In recognition to their effort, they were invited to take an environmental training with “Grupo Ecológico Sierra Gorda IAP”, NGO sponsored by HSBC.

During 2013, we had 1,479 participants in 22 activities, including the environmental leaders, volunteers and family members.

## 7. Clients Contribution

During 2013 the total client contribution was MXN19,169,316.76 obtained through 2 money raising campaigns in branches and 4 in ATM’s:

January – April: “Just raise your hand” our flagship education program
May – August: “Bécalos”
September – October: “Unámonos” natural disasters support campaign
November – December: Support campaigns to diverse NGO’s located in each of our divisions dedicated to different causes, such as youth educational development, cancer, nutrition, among others.

## 8. Awards

- HBMX was awarded by Executive World Magazine (Mundo Ejecutivo) 13th place in its ranking amongst the 50 companies with the best social responsibility strategy in Mexico. The ranking includes financial groups, consumer companies, department stores, and other industries, covering almost all sectors of the economy. Against our competitors, HBMX is the second financial institution after Bancomer.

**Premios Incluye 2013**
-HBMX was the winning company for the Include Awards "Premios Incluye 2013" in the category of Community Engagement for our inclusion programme for people with disabilities: **Sumando Valor.**
This category recognizes companies that collaborate with public and private institutions that support people with disabilities through their actions, programmes and processes.

The award is given by "Movimiento Congruencia" and it recognizes excellence demonstrated by companies involved in the inclusion of the talent and potential who represent people with disabilities. The awards are aligned to the UN International Convention on the Rights of Persons with Disabilities enacted in 2006.

-In a study published by Tec de Monterrey and CIESC (**Centro de Investigación y estudios sobre la sociedad civil)** HSBC Foundation was ranked the 9th most important in Mexico and 3rd within the financial sector.

**9. Conclusions**

We continue to focus our Community Investment by strengthening our flagship programs; this has helped us develop further our stakeholder engagement. Thanks to these campaigns that involve not only our staff, but also our clients, we are being able to provide an added value to our customers, giving them the option of participating in socially responsible and environmentally friendly projects.

HSBC Mexico seeks to maintain a balance between environment, society and profits by establishing long term relationships with our customers. We are certain this will ensure our success in the long term.

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# Annex A

Table I

| Referencia | | Common equity Tier 1 capital | 31 Dec 2013 |
|---|---|---|---|
| 1 | | Ordinary shares graded for Common equity TIER 1 capital and related surplus | 32,768.5 |
| 2 | | Retained earnings | 1,375.8 |
| 3 | | Accumulated other comprehensive income (and other reserves) | 13,411.1 |
| 4 | | Total Common Equity Tier 1 capital attributable to parent company common shareholders | **NA** |
| 5 | | Total minority interest given recognition in Common Equity Tier 1 capital | **NA** |
| 6 | | Total group Common Equity Tier 1 capital prior to regulatory adjustments | 47,555.4 |
| | | **Total group Common Equity Tier 1 capital: regulatory adjustments** | |
| 7 | | Prudential valuation adjustments | **NA** |
| 8 | | Goodwill, net of related deferred tax liability | - |
| 9 | | Intangibles other than mortgage servicing rights, (net of related deferred tax liability) | 979.7 |
| 10 | | Deferred tax assets (excluding temporary differences only), net of related deferred tax liabilities | |
| 11 | | gains and losses on derivatives held as cash flow hedges | - |
| 12 | | actuarial reserve | - |
| 13 | | Securitisation gain on sale (expected future margin income) | - |
| 14 | | Cumulative gains and losses due to changes in own credit risk on fair valued liabilities | **NA** |
| 15 | | Defined benefit pension fund assets | - |
| 16 | | Investments in own shares | - |
| 17 | | Reciprocal cross holdings in common equity | - |
| 18 | | Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold) | **8.4** |
| 19 | | Significant investments in the common stock of financial entities (amount above 10% threshold) | - |
| 20 | | Mortgage servicing rights (amount above 10% threshold) | |
| 21 | | Deferred tax assets arising from temporary differences (amount above 10% threshold) | 3,048.4 |
| 22 | | Amount exceeding the 15% threshold | **NA** |
| 23 | | which: Significant investments in the common stock of financial entities amounting above 10% threshold | **NA** |
| 24 | | which: Mortgage servicing rights | **NA** |
| 25 | | which: Deferred tax assets arising from temporary differences | **NA** |
| 26 | | Local regulatory adjustments | 1,648.0 |
| | A | which: Accumulated other comprehensive income (and other reserves) | - |
| | B | which: investments in subordinated debt | 91.6 |
| | C | which: Profit or increase on the value of assets acquired on securitization positions (Institutions originators) | - |
| | D | which: Investments in multilateral organisms | - |
| | E | which: Investments in related companies | - |
| | F | which: Investments in risk capital | - |
| | G | which: Investments in Mutual funds | 8.9 |
| | H | which: own stock acquisition financing | |
| | I | which: Operations that infringe provisions | |
| | J | which: Deferred charges and prepaid expenses | 1,547.5 |
| | K | which: First Loss schemes positions | - |

| | | | |
|---|---|---|---|
| | L | which: Employee participation on deferred profits | - |
| | M | which: Relevant related people | - |
| | N | which: Defined benefit pension fund assets | - |
| | O | which: Adjustment for capital recognition | - |
| 27 | | Regulatory adjustments to be applied to Common Equity Tier 1 due to insufficient Additional Tier 1 to cover deductions | - |
| 28 | | Total Common Equity Tier 1 capital regulatory adjustments | 5,684.6 |
| 29 | | Common Equity Tier 1 capital (CET1) | 41,870.8 |

**Additional Tier 1 capital: Instruments**

| | | |
|---|---|---|
| 30 | Additional Tier 1 instruments issued by parent company of group (and any related surplus) | - |
| 31 | of which: Classified as capital under applicable accounting criteria | - |
| 32 | of which: Classified as liability under applicable accounting criteria | NA |
| 33 | Regulatory adjustments to be deducted from Additional Tier 1 capital | - |
| 34 | Instruments that meet the Additional Tier 1 criteria issued by subsidiaries to third parties that are given recognition in group Additional Tier 1 capital | NA |
| 35 | of which: Instruments issued by subsidiaries to be deducted | NA |
| 36 | Total Tier 1 capital prior to regulatory adjustments | - |

**Additional Tier 1 capital: regulatory adjustments**

| | | |
|---|---|---|
| 37 | Investment in own additional Tier 1 capital equity shares | NA |
| 38 | Reciprocal cross holdings in additional Tier 1 capital equity | NA |
| 39 | Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold) | NA |
| 40 | Significant investments in the capital of financial entities where the bank own more than 10% of the issued common share capital | NA |
| 41 | Local regulatory adjustments | - |
| 42 | Tier 2 regulatory adjustments which have to be deducted from Additional Tier 1 capital | NA |
| 43 | Total Tier 1 capital regulatory adjustments | - |
| 44 | Additional Tier 1 capital (AT1) | - |
| 45 | Tier 1 capital (T1=CET1+AT1) | 41,870.8 |

**Tier 2 Capital: instruments and reserves**

| | | |
|---|---|---|
| 46 | Tier 2 capital instruments issued by parent company of group (and any related surplus) | 1,439.3 |
| 47 | Tier 2 capital instruments issued by parent company of group to be deducted | 7,182.0 |
| 48 | Instruments that meet the Tier 2 criteria issued by subsidiaries to third parties that are given recognition in Tier 2 capital | NA |
| 49 | of which: Instruments issued by subsidiaries to third parties to be deducted from Tier 2 capital | NA |
| 50 | Provisions | 1,287.0 |
| 51 | Tier 2 capital prior to regulatory adjustments | 9,908.3 |

**Tier 2 capital: regulatory adjustments**

| | | |
|---|---|---|
| 52 | Investment in own Tier 2 capital instruments | NA |
| 53 | Reciprocal cross holdings in Tier 2 capital instruments | NA |
| 54 | Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold) | NA |
| 55 | Significant investments in the capital of financial entities where the bank own more than 10% of the issued common share capital | NA |
| 56 | Local regulatory adjustments | - |

| | | |
|---|---|---|
| 57 | Total Tier 2 capital regulatory adjustments | - |
| 58 | Tier 2 capital (T2) | 9,908.3 |
| 59 | Total Capital (TC=T1+T2) | 51,779.1 |
| 60 | Total Risk-weighted assets | 349,580.6 |
| | **Capital ratios and supplements** | |
| 61 | Common equity Tier 1 Capital (as % of total RWAs) | 11.98% |
| 62 | Tier 1 Capital (as % of total RWAs) | 11.98% |
| 63 | Total Capital (as % of total RWAs) | 14.81% |
| 64 | Institutional specific supplement (at least should include: the requirement of Tier 1 common equity plus the capital conservation buffer, plus countercyclical mattress, plus G-SIB mattress; expressed as a % of total RWAs) | 7% |
| 65 | Of which: Capital conservation supplement | 2.5% |
| 66 | Of which: Specific bank countercyclical supplement | **NA** |
| 67 | Of which: Global systemically important banks (G-SIBs) supplement | **NA** |
| 68 | Tier 1 common equity available to cover supplements (as a % of total RWAs) | 4.98% |
| | **National minimums (if different from Basel III)** | |
| 69 | Common equity Tier 1 capital minimum ratio (if different from minimum required by Basel 3) | **NA** |
| 70 | Tier 1 capital minimum ratio (if different from minimum required by Basel 3) | **NA** |
| 71 | Total capital minimum ratio (if different from minimum required by Basel 3) | **NA** |
| | **Amounts below deduction threshold (before risk weight)** | |
| 72 | Non-significant investments in the capital of financial entities | **NA** |
| 73 | Significant investments in common stock of financial entities | **NA** |
| 74 | Mortgage servicing rights (net of deferred income tax rate) | **NA** |
| 75 | Deferred income taxes from temporary differences (net of deferred income tax) | 4,491.9 |
| | **Applicable limits on the Tier 2 capital inclusion reserves** | |
| 76 | Eligible reserves on Tier 2 capital inclusion with respect to the exposures subject to the standardized methodology (prior to limit application) | - |
| 77 | Limit of inclusion reserves on Tier 2 capital under standardized methodology | 1,287.0 |
| 78 | Eligible reserves inclusion on Tier 2 capital with respect to the exposures subject to internal ratings methodology (prior to limits application) | **-** |
| 79 | Limit of inclusion reserves on Tier 2 capital under internal ratings methodology | **-** |
| | **Capital instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)** | |
| 80 | Actual instrument limits on CET1 subject to gradual elimination | **NA** |
| 81 | Excluded amount on CET1 due to limit (excess over the limit after amortization and maturities) | **NA** |
| 82 | Actual instrument limits on AT1 subject to gradual elimination | **-** |
| 83 | Excluded amount on AT1 due to limit (excess over the limit after amortization and maturities) | **-** |
| 84 | Actual instrument limits on T2 subject to gradual elimination | 7,980.0 |
| 85 | Excluded amount on T2 due to limit (excess over the limit after amortization and maturities) | 798.0 |

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## Table II

| Capital concept | Prior to capital recognition adjustment | % total RWAs | Capital recognition adjustment | Including capital recognition adjustment | % total RWAs |
|---|---|---|---|---|---|
| Tier 1 capital 1 | 41,870.82 | 11.98 | - | 41,870.82 | 11.98 |
| Tier 1 capital 2 | - | - | - | - | - |
| Tier 1 capital | 41,870.82 | 11.98 | - | 41,870.82 | 11.98 |
| Tier 2 capital | 9,908.29 | 2.83 | - | 9,908.29 | 2.83 |
| Total capital | 51,779.10 | 14.81 | - | 51,779.10 | 14.81 |
| Total RWAs | 349,580.62 | NA | NA | 349,580.62 | NA |
| Capitalization index | 14.81 | NA | NA | 14.81 | NA |

## Table III.1

| Reference | Balance Sheet concept | Amount |
|---|---|---|
| | **Assets** | **510,799** |
| BG1 | Cash and deposits in banks | 55,406 |
| BG2 | Margin accounts | - |
| BG3 | Investment in securities | 151,347 |
| BG4 | Repurchase agreements | 500 |
| BG5 | Stock borrowing | - |
| BG6 | Derivative transactions | 49,770 |
| BG7 | Financial assets hedging valuation adjustments | - |
| BG8 | Net loan portfolio | 192,485 |
| BG9 | Benefits to be received from trading operations | 182 |
| BG10 | Other accounts receivable (net) | 40,236 |
| BG11 | Foreclosed assets | 151 |
| BG12 | Property, furniture and equipment, net | 5,027 |
| BG13 | Long term investments in equity securities | 4,530 |
| BG14 | Long term assets available for sale | 5 |
| BG15 | Deferred taxes, net | 7,540 |
| BG16 | Other assets | 3,620 |
| | **Liabilities** | **463,243** |
| BG17 | Deposits | 287,808 |
| BG18 | Bank deposits and other liabilities | 20,510 |
| BG19 | Repurchase agreements | 34,765 |
| BG20 | Stock borrowing | - |
| BG21 | Collateral sold | 9,076 |
| BG22 | Derivative transactions | 47,643 |
| BG23 | Financial liabilities hedging valuation adjustments | - |
| BG24 | Debentures in trading operations | - |
| BG25 | Other accounts payable | 53,382 |
| BG26 | Subordinated debentures outstanding | 9,463 |
| BG27 | Deferred taxes, net | - |
| BG28 | Deferred credits | 596 |
| | **Stockholder's equity** | **47,556** |
| BG29 | Paid in capital | 32,769 |
| BG30 | Capital gains | 14,787 |
| | **Memorandum accounts** | **4,246,440** |
| BG31 | Guarantees granted | - |
| BG32 | Contingent assets and liabilities | - |

| | | |
|---|---|---|
| BG33 | Irrevocable lines of credit granted | 25,561 |
| BG34 | Goods in trust or mandate | 439,469 |
| BG35 | Federal government financial agent | |
| BG36 | Goods in custody or under administration | 378,679 |
| BG37 | Collateral received by the institution | 17,291 |
| BG38 | Collateral received and sold or delivered as guarantee | 16,583 |
| BG39 | Third party investment banking operations, net | 50,354 |
| BG40 | Suspended interest on impaired loans | 221 |
| BG41 | Other control accounts | 3,318,282 |

Table III.2

| Identifier | Regulatory concepts to be considered for the Net capital components calculation | Equity report reference | Amount according to the notes of the regulatory concepts considered for Net capital calculation | Balance Sheet report reference |
|---|---|---|---|---|
| | **Assets** | | | |
| 1 | Goodwill | 8 | 0.0 | |
| 2 | Other intangible assets | 9 | 979.7 | BG16 3620 |
| 3 | Deferred income tax from fiscal losses and credits | 10 | 0.0 | |
| 4 | Benefits to be received from trading operations | 13 | 0.0 | |
| 5 | Pension plan investments by defined benefits with unrestricted and unlimited access | 15 | 0.0 | |
| 6 | Own shares investments | 16 | 0.0 | |
| 7 | Common equity reciprocal investments | 17 | 0.0 | |
| 8 | Direct investment in the capital of financial entities where the institution does not own more than 10% of issued share capital | 18 | 0.0 | |
| 9 | Indirect investment in the capital of financial entities where the institution does not own more than 10% of issued share capital | 18 | 8.4 | BG13 4530 |
| 10 | Direct investment in the capital of financial entities where the institution own more than 10% of issued share capital | 19 | 0.0 | |
| 11 | Indirect investment in the capital of financial entities where the institution own more than 10% of issued share capital | 19 | 0.0 | |
| 12 | Deferred income tax from temporary differences | 21 | 3,048.4 | BG15 7540 |
| 13 | Recognized reserves as supplementary capital | 50 | 1,287.0 | BG8 192485 |
| 14 | Subordinated debt investment | 26 - B | 91.6 | BG8 192485 |
| 15 | Multilateral organisms investment | 26 - D | 0.0 | |
| 16 | Related parties investments | 26 - E | 0.0 | |
| 17 | Risk capital investment | 26 - F | 0.0 | |
| 18 | Mutual funds investment | 26 - G | 8.9 | BG13 4530 |
| 19 | Own shares acquisition financing | 26 - H | 0.0 | |
| 20 | Deferred charges and prepaid expenses | 26 - J | 1,547.5 | BG16 3620 |
| 21 | Employee participation in profit sharing (net) | 26 - L | 0.0 | |
| 22 | Pension plan investments by defined benefits | 26 - N | 0.0 | |
| 23 | Compensation chamber investment | 26 - P | 0.0 | |
| | **Liabilities** | | | |
| 24 | Deferred income tax associated to goodwill | 8 | 0.0 | |
| 25 | Deferred income tax associated to other intangibles | 9 | 0.0 | |

| | | | | |
|---|---|---|---|---|
| 26 | Pension plan liabilities by defined benefits with unrestricted and unlimited access | 15 | 0.0 | |
| 27 | Deferred income tax associated to pension plan by defined benefits | 15 | 3,048.4 | BG15 7540 |
| 28 | Deferred income tax associated to other different to previous concepts | 21 | 0.0 | |
| 29 | Subordinated debentures that coincide with 1-R annex | 31 | 0.0 | |
| 30 | Subordinated debentures subject to transience that counts as core capital 2 | 33 | 1,439.3 | BG26 9463 |
| 31 | Subordinated debentures that coincide with 1-S annex | 46 | 7,182.0 | BG26 9463 |
| 32 | Subordinated debentures subject to transience that counts as supplementary capital | 47 | 0.0 | |
| 33 | Deferred income tax associated to deferred charges and pre-paid expenses | 26 - J | | |
| | **Stockholders' equity** | | | |
| 34 | Paid in capital amount that coincide with Annex 1-Q | 1 | 32,768.5 | BG29 32769 |
| 35 | Retained earnings | 2 | 1,375.8 | BG30 14787 |
| 36 | Result from cash flow hedging transactions registered at fair value | 3 | 13,411.1 | BG30 14787 |
| 37 | Other elements of other capital reserves different to previous ones' | 3 | 0.0 | |
| 38 | Paid in capital amount that coincide with Annex 1-R | 31 | 0.0 | |
| 39 | Paid in capital amount that coincide with Annex 1-S | 46 | 0.0 | |
| 40 | Result from cash flow hedging transactions do not registered at fair value | 3, 11 | 0.0 | |
| 41 | Cumulative conversion effect | 3, 26 - A | 0.0 | |
| 42 | Results from holding non-monetary assets | 3, 26 - A | 0.0 | |
| | **Memo accounts** | | | |
| 43 | First loss schemes positions | 26 - K | | |
| | **Regulatory concepts do not considered in the Balance Sheet** | | | |
| 44 | Reserves pending to constitute | 12 | - | |
| 45 | Profit or increased asset value of acquired securitization positions | 26 - C | - | |
| 46 | Operations that contravene | 26 - I | - | |
| 47 | Relevant related parties operations | 26 - M | - | |
| 48 | Adjustment for capital recognition | 26 - O, 41, 56 | - | |

Table IV.1

| Concept | Equivalent position in Balance | Capital Requirements |
|---|---|---|
| Nominal rate operations in local currency | 66,526 | 5,322.1 |
| Surcharge and revisable rate debt operations in local currency | 909 | 72.8 |
| Real rate or UDIs operations in local currency | 1,222 | 97.8 |
| Minimum wages growth rate operations in local currency | - | - |
| UDIs o INPC profit referred positions | 8 | 0.7 |
| Minimum wages growth rate operations in local currency | - | - |
| Nominal rate operations in foreign currency | 6,503 | 520.3 |
| Foreign currency or indexed to exchange rate positions | 679 | 54.3 |
| Stock or price index stock positions | 33 | 2.6 |

Table IV.2

| Concept | RWAs | Capital Requirements |
|---|---|---|
| Group I (weighted at 0%) | 0.00 | 0.00 |
| Group I (weighted at 10%) | 0.00 | 0.00 |
| Group I (weighted at 20%) | 0.00 | 0.00 |
| Group II (weighted at 0%) | 0.00 | 0.00 |
| Group II (weighted at 10%) | 0.00 | 0.00 |
| Group II (weighted at 20%) | 6.00 | 0.00 |
| Group II (weighted at 50%) | 7,714.00 | 617.00 |
| Group II (weighted at 100%) | 0.00 | 0.00 |
| Group II (weighted at 120%) | 0.00 | 0.00 |
| Group II (weighted at 150%) | 0.00 | 0.00 |
| Group III (weighted at 2.5%) | 0.00 | 0.00 |
| Group III (weighted at 10%) | 36.00 | 3.00 |
| Group III (weighted at 11.5%) | 401.00 | 32.00 |
| Group III (weighted at 20%) | 3,960.00 | 317.00 |
| Group III (weighted at 23%) | 129.00 | 10.00 |
| Group III (weighted at 50%) | 0.00 | 0.00 |
| Group III (weighted at 57.5%) | 0.00 | 0.00 |
| Group III (weighted at 100%) | 465.00 | 37.00 |
| Group III (weighted at 115%) | 0.00 | 0.00 |
| Group III (weighted at 120%) | 0.00 | 0.00 |
| Group III (weighted at 138%) | 0.00 | 0.00 |
| Group III (weighted at 150%) | 0.00 | 0.00 |
| Group III (weighted at 172.5%) | 0.00 | 0.00 |
| Group IV (weighted at 0%) | 0.00 | 0.00 |
| Group IV (weighted at 20%) | 3,239.00 | 259.00 |
| Group V (weighted at 10%) | 0.00 | 0.00 |
| Group V (weighted at 20%) | 499.00 | 40.00 |
| Group V (weighted at 50%) | 1,681.00 | 134.00 |
| Group V (weighted at 115%) | 0.00 | 0.00 |
| Group V (weighted at 150%) | 5,694.00 | 456.00 |
| Group VI (weighted at 20%) | 0.00 | 0.00 |
| Group VI (weighted at 50%) | 5,203.00 | 416.00 |
| Group VI (weighted at 75%) | 3,446.00 | 276.00 |
| Group VI (weighted at 100%) | 43,799.00 | 3,503.00 |
| Group VI (weighted at 120%) | 0.00 | 0.00 |
| Group VI (weighted at 150%) | 0.00 | 0.00 |
| Group VI (weighted at 172.5%) | 0.00 | 0.00 |

| | | |
|---|---|---|
| Group VII_A (weighted at 10%) | 432.00 | 35.00 |
| Group VII_A (weighted at 11.5%) | 0.00 | 0.00 |
| Group VII_A (weighted at 20%) | 5,172.00 | 414.00 |
| Group VII_A (weighted at 23%) | 6,482.00 | 519.00 |
| Group VII_A (weighted at 50%) | 673.00 | 54.00 |
| Group VII_A (weighted at 57.5%) | 0.00 | 0.00 |
| Group VII_A (weighted at 100%) | 104,106.00 | 8,328.00 |
| Group VII_A (weighted at 115%) | 267.00 | 21.00 |
| Group VII_A (weighted at 120%) | 0.00 | 0.00 |
| Group VII_A (weighted at 138%) | 0.00 | 0.00 |
| Group VII_A (weighted at 150%) | 647.00 | 52.00 |
| Group VII_A (weighted at 172.5%) | 0.00 | 0.00 |
| Group VII_B (weighted at 0%) | 0.00 | 0.00 |
| Group VII_B (weighted at 20%) | 0.00 | 0.00 |
| Group VII_B (weighted at 23%) | 0.00 | 0.00 |
| Group VII_B (weighted at 50%) | 0.00 | 0.00 |
| Group VII_B (weighted at 57.5%) | 0.00 | 0.00 |
| Group VII_B (weighted at 100%) | 2,833.00 | 227.00 |
| Group VII_B (weighted at 115%) | 0.00 | 0.00 |
| Group VII_B (weighted at 120%) | 0.00 | 0.00 |
| Group VII_B (weighted at 138%) | 0.00 | 0.00 |
| Group VII_B (weighted at 150%) | 0.00 | 0.00 |
| Group VII_B (weighted at 172.5%) | 0.00 | 0.00 |
| Group VIII (weighted at 125%) | 8,489.00 | 679.00 |
| Group IX (weighted at 100%) | 23,430.00 | 1,874.00 |
| Group IX (weighted at 115%) | 0.00 | 0.00 |
| Group X (weighted at 1250%) | 998.00 | 80.00 |
| Securitizations with Risk rating 1 (weighted at 20%) | 151.00 | 12.00 |
| Securitizations with Risk rating 2 (weighted at 50%) | 10.00 | 1.00 |
| Securitizations with Risk rating 3 (weighted at 100%) | 0.00 | 0.00 |
| Securitizations with Risk rating 4 (weighted at 350%) | 0.00 | 0.00 |
| Securitizations with Risk rating 4, 5, 6 or not classified (weighted at 1250%) | 370.00 | 30.00 |
| Resecuritizations with Risk rating 1 (weighted at 40%) | 0.00 | 0.00 |
| Resecuritizations with Risk rating 2 (weighted at 100%) | 0.00 | 0.00 |
| Resecuritizations with Risk rating 3 (weighted at 225%) | 0.00 | 0.00 |
| Resecuritizations with Risk rating 4 (weighted at 650%) | | |
| Resecuritizations with Risk rating 5, 6 or not classified (weighted at 1250%) | 2,270.00 | 182.00 |

Table IV.3

| Operational RWAs | Capital Requirements |
|---|---|
| 41,097.0 | 3,287.8 |

| Average Market and credit RWAs of last 36 months | Average of positive net annual revenues for the last 36 months |
|---|---|
| 21,918.4 | 25,695.9 |

Table V

| Referencia | Característica | EN CAPITAL | EN PASIVO | EN PASIVO | EN PASIVO | EN PASIVO |
|---|---|---|---|---|---|---|
| 1 | Emisor | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero |
| 2 | Identificador ISIN, CUSIP o Bloomberg | INTENAL | HSBC 08 | HSBC 08-2 | HSBC 13-1D | HSBC 09-D |
| 3 | Marco legal | L.I.C.; C.U.B., L.G.S.M.; | L.I.C.; LGTOC., L.M.V, CUB | L.I.C.; LGTOC; L.M.V: CUB | L.I.C.; LGTOC; L.M.V: CUB | L.I.C.; LGTOC; L.M.V: CUB |
| | ***Tratamiento regulatorio*** | | | | | |
| 4 | Nivel de capital con transitoriedad | N.A. | Complementario | Complementario | Complementario | Complementario |
| 5 | Nivel de capital sin transitoriedad | Basico 1 | NA | NA | Complementario | NA |
| 6 | Nivel del instrumento | Institución de crédito sin consolidar subsidiarias | Institución de crédito sin consolidar subsidiarias | Institución de crédito sin consolidar subsidiarias | Institución de crédito sin consolidar subsidiarias | Institución de crédito sin consolidar subsidiarias |
| 7 | Tipo de instrumento | Acción serie "F" y "B" | Obligacion subordinada | Obligacion subordinada | Obligacion subordinada | Obligacion subordinada |
| 8 | Monto reconocido en el capital regulatorio | Acciones "F" 1,805,754,708; "B" 134,254,957 lo cual representa la cantidad de $3,880,019,330 de capital nominal a $2.00, más el | 1,636 | 2,045 | 1,439 | 3,501 |
| 9 | Valor nominal del instrumento | $32,768.00 | $1,817.60 | $2,272.65 | $1,439.27 | $3,925.29 |
| 9A | Moneda del instrumento | Pesos mexicanos | Pesos mexicanos | Pesos mexicanos | USD | USD |
| 10 | Clasificación contable | Capital | Pasivo | Pasivo | Pasivo | Pasivo |
| 11 | Fecha de emisión | 31/12/2007; 31/08/2009; 31/10/2009; 31/12/2009; | 02/10/2008 | 22/12/2008 | 31/01/2013 | 30/06/2009 |
| 12 | Plazo del instrumento | Perpetuidad | Vencimiento | Vencimiento | Vencimiento | Vencimiento |
| 13 | Fecha de vencimiento | Sin vencimiento | 20/09/2018 | 10/12/2018 | 10/12/2022 | 28/06/2019 |
| 14 | Cláusula de pago anticipado | No | SI | SI | SI | SI |
| 15 | Primera fecha de pago anticipado | N.A. | 26/09/2013 | 16/12/2013 | 05/01/2018 | 28/06/2014 |
| 15A | Eventos regulatorios o fiscales | No | No | No | Si | No |

| Referencia | Característica | EN CAPITAL | EN PASIVO | EN PASIVO | EN PASIVO | EN PASIVO |
|---|---|---|---|---|---|---|
| 15B | Precio de liquidación de la cláusula de pago anticipado | N.A. | Igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión. | Igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión. | Precio igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, previa autorización del Banco de México en términos del párrafo quinto del artículo 64 de la citada LIC, en cualquier Fecha de Pago de Intereses: (i) a partir del quinto año contado a partir de la Fecha de Emisión, o (ii) en caso que las Obligaciones Subordinadas dejen de computar como capital complementario del Emisor como resultado de modificaciones o reformas a las leyes, reglamentos y demás disposiciones aplicables, siempre y cuando (a) el Emisor informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente al Obligacionista, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (b) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere el numeral 11 del presente Título. | A un precio igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión |
| 16 | Fechas subsecuentes de pago anticipado | N.A. | 16/01/2014; Debera efectuarse en cualquier de las fechas señaladas para el pago de intereses y se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada. | 13/01/2014; Debera efectuarse en cualquier de las fechas señaladas para el pago de intereses y se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada. | 04/02/2018 se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada. | 28/07/2014 se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada. |
| | ***Rendimientos / dividendos*** | | | | | |
| 17 | Tipo de rendimiento/dividendo | Variable | Variable | Variable | Variable | Variable |
| 18 | Tasa de Interés/Dividendo | El último conocido fue de marzo 2013 que fue de 0.7216 por | Tiie 28 + 0.60 pp | Tiie 28 + 2.0 pp | Libor 1 mes + 3.65 pp | Libor 1 mes + 3.50 pp |
| 19 | Cláusula de cancelación de dividendos | No | No | No | No | No |
| 20 | Discrecionalidad en el pago | Obligatorio | Obligatorio | Obligatorio | Parcialmente Discrecional | Obligatorio |

| Referencia | Característica | EN CAPITAL | EN PASIVO | EN PASIVO | EN PASIVO | EN PASIVO |
|---|---|---|---|---|---|---|
| 21 | Cláusula de aumento de intereses | No | No | No | No | No |
| 22 | Rendimiento/dividendos | No Acumulables | No Acumulables | No Acumulables | No Acumulables | No Acumulables |
| 23 | Convertibilidad del instrumento | No Convertibles | No Convertibles | No Convertibles | Convertibles | No Convertibles |
| 24 | Condiciones de convertibilidad | N.A | N.A | N.A | Las Obligaciones Subordinadas serán de conversión obligatoria en acciones ordinarias representativas del capital social del Emisor,sin que este hecho se considere como un evento de incumplimiento, y la cual se llevará a cabo cuando se presente alguna de lascondiciones que a continuación se listan: 1.Cuando el resultado de dividir el capital básico 1 entre los activos ponderados sujetos a riesgo totales del Emisor se ubique en 4.5% o menos. Para efectos de lo dispuesto en el presente numeral, el Emisor deberá proceder a la conversión, el Día Hábil siguiente a la publicación del índice de capitalización a que se refiere el Artículo 221 de las Disposiciones de Capitalización. 2.Cuando la CNBV notifique al Emisor, conforme a lo dispuesto en el Artículo 29 Bis de la LIC, que ha incurrido en alguna de las causales a que se refieren las fracciones IV o V del Artículo 28 de la LIC y en el plazo previsto por el citado Artículo 29 Bis, el Emisor no subsane los hechos o tratándose de la causal de revocación referida en la fracción V no solicite acogerse al régimen de operación condicionada o no reintegre el capital. Para efectos de lo dispuesto en el presente numeral, el Emisor deberá proceder a la conversión, el Día Hábil siguiente a que hubiere concluido el plazo referido en el antes mencionado Artículo 29 Bis de la LIC. En todo caso, la conversión en acciones | N.A |
| 25 | Grado de convertibilidad | N.A | N.A | N.A | La conversión se realizará al menos por el monto que resulte | N.A |

| Referencia | Característica | EN CAPITAL | EN PASIVO | EN PASIVO | EN PASIVO | EN PASIVO |
|---|---|---|---|---|---|---|
| 26 | Tasa de conversión | N.A | N.A | N.A | La conversión así como la remisión o condonación aquí previstas, se realizarán a prorrata respecto de todos los títulos de la misma naturaleza que computen en el capital complementario del Emisor. La conversión de las Obligaciones Subordinadas se llevará a cabo mediante la entrega de 59.80678909 (cincuenta y nueve punto ocho cero seis siete ocho nueve cero nueve) acciones ordinarias representativas del capital social del Emisor por cada Obligación | N.A |
| 27 | Tipo de convertibilidad del instrumento | N.A | N.A | N.A | Obligatoria | N.A |
| 28 | Tipo de instrumento financiero de la convertibilidad | N.A | N.A | N.A | Acciones Ordinarias | N.A |
| 29 | Emisor del instrumento | N.A | N.A | N.A | HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero | N.A |
| 30 | Cláusula de disminución de valor (*Write-Down*) | No | No | No | No | No |
| 31 | Condiciones para disminución de valor | N.A | N.A | N.A | N.A | N.A |
| 32 | Grado de baja de valor | N.A | N.A | N.A | N.A | N.A |
| 33 | Temporalidad de la baja de valor | N.A | N.A | N.A | N.A | N.A |
| 34 | Mecanismo de disminución de valor temporal | N.A | N.A | N.A | N.A | N.A |
| 35 | Posición de subordinación en caso de liquidación | N.A | No Preferente | No Preferente | Preferente | No Preferente |
| 36 | Características de incumplimiento | No | Si | Yes | No | Yes |
| 37 | Descripción de características de incumplimiento | N.A | N.A | N.A | No | N.A |

Table VI

## Capital management

Concerning capital management, the Bank made semiannually an internal assessment of capital adequacy identifying and measuring exposure to different risks that the entity faces as well as the Insurance and Brokerage businesses. The document generated for this purpose is called Internal Capital Adequacy Assessment Process ("ICAAP"). This document serves to ensure that under a prospective analysis, the capital of the Financial Grupo (considering the equity of Bank, Insurance and Brokerage companies) is sufficient and supported by a strong risk management framework. This report is generated to meet the request of the Group (UK) in accordance with Pillar II of the Basel II guidelines.

The Bank has an internal frame rate of minimum levels of total and core capital above early warnings defined by the CNBV. These levels are approved annually by the Administration Committee of Assets and Liabilities (ALCO).

Moreover, on a quarterly basis the expected impacts on total capital ratio are calculated considering sensitivity to variables such as exchange rate, interest rate and credit spread where the following is evaluated:

1. Rate sensitivity: sensitivity is evaluated by monitoring the impact on core capital ratio and the capitalization ratio, where a 10% to 20% increase/decrease shock is applied in the exchange rate of each major currencies.

2. Sensitivity to interest rates: the impact of a movement in the interest rate in the core capital ratio and the capitalization ratio is measured. In this exercise, the impact on those classified as available for sale and cash flow hedges directly affecting capital reserves instruments is calculated. The shock is considered for this calculation is an increase / decrease in market interest rates of 200 basis points.

3. Sensitivity to credit spread: sensitivity in the core capital and the capitalization ratio to 300 basis point movement in the country risk is calculated, as well as on available for sale instruments. The shock considered is an increase / decrease of 300 basis points.

The results generated are presented in the Administration Committee of Assets and Liabilities (ALCO).

Finally, the Bank generates liquidity stress reports on a monthly basis which allows an analysis of the adequacy of the financial resources under certain stress scenarios.