Grupo Financiero HSBC

Financial information at 30 June 2014

2Q14

► **Press Release**

► **Quarterly Report**

► **Second Quarter 2014**

Release date:
28 July 2014

HSBC

28 July 2014

GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2014 FINANCIAL RESULTS – HIGHLIGHTS

- Net income before tax for the first half of 2014 was MXN2,365m, a decrease of MXN632m or 21.1% compared with MXN2,997m for the first half of 2013. The results for the first half of 2013 included MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes increased 5.0% compared with the first half of 2013.

- Net income for the first half of 2014 was MXN2,140m, an increase of MXN80m or 3.9% compared with MXN2,060m for the first half of 2013, mainly due to lower tax expenses. Excluding the effect of the AXA distribution agreement, net income increased 39.0% compared with the first half of 2013.

- Total operating income, net of loan impairment charges, for the first half of 2014 was MXN13,367m, a decrease of MXN239m or 1.8% compared with MXN13,606m for the first half of 2013.

- Loan impairment charges for the first half of 2014 were MXN3,168m, a decrease of MXN1,135m or 26.4% compared with MXN4,303m for the first half of 2013.

- Administrative and personnel expenses for the first half of 2014 were MXN11,025m, an increase of MXN398m or 3.7% compared with MXN10,627m for the first half of 2013.

- The cost efficiency ratio was 66.7% for the first half of 2014, compared with 59.3% for the first half of 2013.

- Net loans and advances to customers were MXN192.7bn at 30 June 2014, an increase of MXN11.1bn or 6.1% compared with MXN181.6bn at 30 June 2013. Total impaired loans as a percentage of gross loans and advances as at 30 June 2014 increased to 6.3% compared with 4.3% at 30 June 2013.

- At 30 June 2014, deposits were MXN266.8bn, an increase of MXN13.7bn or 5.4% compared with MXN253.1bn at 30 June 2013.

- Return on equity was 7.7% for the first half of 2014 compared with 7.9% for the first half of 2013.

- At 30 June 2014, the bank's total capital adequacy ratio was 14.2% and the tier 1 capital ratio was 11.8% compared with 16.1% and 13.4% respectively at 30 June 2013.

- In the first quarter of 2014, the bank paid a dividend of MXN576m, representing MXN0.30 per share, and Grupo Financiero HSBC paid a dividend of MXN3,781m, representing MXN1.34 per share.

2013 results have been restated to reflect HSBC Fianzas, the bonding company which has been sold, as a discontinued operation.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the quarter ended 30 June 2014) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance group.

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

Overview

The weak growth experienced by Mexico in 2013 extended to the first quarter of 2014. This was in large part because of the rise in VAT (part of the fiscal reform approved in 2013) which depressed consumer spending. In addition, exports to the US remained weak and planned fiscal spending has yet to materialise. In the second quarter, high frequency data showed a recovery in exports, while domestic demand kept on struggling to grow. Inflation remained subdued, which prompted the central bank to cut the monetary policy rate by 50bp to 3.0% in the first half of 2014.

For the first half of 2014, Grupo Financiero HSBC's net income before tax was MXN2,365m a decrease of MXN632m or 21.1% compared with the same half in 2013. The decrease was driven mainly by lower net interest income, lower net fee income, lower trading income and higher administrative and personnel expenses, partially offset by a decrease in loan impairment charges. The results for the first half of 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes increased 5.0% compared with the first half of 2013.

Net income was MXN2,140m, an increase of MXN80m or 3.9% compared with the first half of 2013 due to lower tax expenses, largely due to higher inflationary effects which benefited the effective tax rate in the first half of 2014, partially offset by lower net income before tax. Excluding the effect of the distribution agreement income in 2013, net income increased 39.0% compared with the first half of 2013.

Net interest income was MXN10,983m, a decrease of MXN382m or 3.4% compared with the first half of 2013. The decrease is mainly due to the insurance related business which accounted for MXN351m of the decrease and lower spreads in non-interest bearing deposits due to a decrease in market rates, partially offset by higher average portfolio balances in consumer and mortgage loans, as well as higher spreads in credit cards.

Loan impairment charges were MXN3,168m, a decrease of MXN1,135m or 26.4% compared with the first half of 2013. The decrease is mainly due to higher loan impairment charges in 2013 related to a finance project, and to other commercial loans.

Net fee income for the first half of 2014 was MXN3,196m, a decrease of MXN227m or 6.6% compared with the first half of 2013. This decrease is mainly due to lower account services, investment funds, alternative channels and credit card fees, partially offset by MXN61m commissions related to the AXA distribution agreement for general insurance sales in branches signed in April 2013.

Trading income for the first half of 2014 was MXN1,047m, a decrease of MXN176m or 14.4% compared with the first half of 2013. This decrease is explained by losses in foreign exchange transactions, partially offset by gains in derivatives and bonds transactions.

Other operating income was MXN1,309m, a decrease of MXN589m or 31.0% compared with the first half of 2013. The decrease is mainly due to MXN744m related to the recognition of a distribution agreement income on the sale of the general insurance manufacturing portfolio to AXA Group in 2013.

Administrative and personnel expenses were MXN11,025m, an increase of MXN398m or 3.7% compared with the first half of 2013. This increase is mainly due to investment in the compliance and risk functions partially funded by sustainable cost savings that had been launched in previous years.

The cost efficiency ratio was 66.7% for the first half of 2014, compared with 59.3% for the first half of 2013.

The effective tax rate was 4.4% for the first half of 2014, compared with 39.3% for the first half of 2013. This variance is largely due to higher inflationary effects which benefited the effective tax rate in the first half of 2014. As at 30 June 2014, the effective tax rate calculation considers the whole year projected inflation effect issued by the Central Bank as established in the Mexican Income Tax Law instead of considering the real inflation in a monthly basis; this change was in order to better reflect the expected tax consequences at the end of the reporting period.

Discontinued operations include the general insurance manufacturing businesses sold in April 2013 and HSBC Fianzas sold in December 2013. The first half 2014 results include a gain following adjustments at the completion of the insurance business sale and a provision for a probable legal case following the completion of the sale of HSBC Fianzas.

Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax of MXN785.3m for the first half of 2014, excluding discontinued operations and one-offs, a decrease of 19.1% compared with the first half of 2013. The decrease is explained by 21.3% lower gross written premiums of life insurance products due to less life insurance sales, partially offset by 15.7% increased gross written premiums in the endowment insurance product, compared with the same period of 2013. In addition, the claims ratio increased to 55.4% from 40.3% in the first half of 2013.

In order to deliver long-term sustainable performance, the insurance business strategy is focused on a long-term customer relationship to facilitate customer needs and enhanced benefits above market standards. This strategy aims to improve the portfolio's quality resulting in lower gross written premiums and increased claim ratios.

Net loans and advances to customers were MXN192.7bn at 30 June 2014, an increase of MXN11.1bn or 6.1% compared with MXN181.6bn at 30 June 2013. The performing mortgage loan portfolio increased by 19.3% and the performing commercial loan portfolio increased by 4.9%, primarily in corporate segment, compared to the position at 30 June 2013. The performing consumer loan portfolio decreased by 1.7%, while government loans decreased 9.3% mainly due to a significant loan repayment during 2013, compared to the position at 30 June 2013.

At 30 June 2014, total impaired loans increased by 55.6% to MXN12.9bn compared with MXN8.3bn at 30 June 2013. The higher impaired loan portfolio is associated with the performance of certain home builders and other impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers increased to 6.3% compared with 4.3% at 30 June 2013. The non-performing loan ratio of mortgage and consumer impaired loan portfolios increased to 3.7% compared with 3.4% at 30 June 2013, reflecting the performance of the Mexican economy.

Total loan loss allowances at 30 June 2014 were MXN11.6bn, an increase of MXN0.4bn or 3.5% compared with 30 June 2013. The total coverage ratio (allowance for loan losses divided by impaired loans) was 90.2% at 30 June 2014 compared with 135.7% at 30 June 2013. This decrease was primarily a result of the increase in impaired commercial loans.

Total deposits were MXN266.8bn at 30 June 2014, an increase of MXN13.7bn or 5.4% compared with 30 June 2013. Demand deposits increased by 1.8% while time deposits increased by 6.1%, mainly due to attraction and retention campaigns.

At 30 June 2014, the bank's total capital adequacy ratio was 14.2% and the tier 1 capital ratio was 11.8% compared with 16.1% and 13.4% respectively at 30 June 2013.

In the first quarter of 2014, the bank paid a dividend of MXN576m representing MXN0.30 per share and Grupo Financiero HSBC paid a dividend of MXN3,781m representing MXN1.34 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

Average consumer loans increased 11.7% mainly driven by:

- A 24.8% increase in average mortgage loans compared to the same period of 2013, as a result of the mortgage campaign launched during April 2013, offering the most competitive mortgage rate in the market at that time (8.70%). This year, the campaign is based on an 8.45% rate.
- An 8.2% increase in credit card average balances compared to the same quarter of 2013, mainly due to a higher number of transactions.
- A 1.8% increase in personal and payroll loans average balances, as a result of increased personal loans due to pre-approved customer relationship management offers, and an improvement in sales through our Contact Centre that took place last year, partially offset by lower payroll loans as underwriting standards were tightened.

Average time deposits balances increased 4.3% compared to the first half of 2013 based on attraction and retention campaigns, offering segmented customers a better rate.

Commercial Banking (CMB)

CMB results for the first half of 2014, compared with the first half of 2013, were affected by lower performing loan balances, mainly related to exposure to home builders' portfolios and a strategic reduction in the business banking loan balances, coupled with lower spreads in deposits.

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 continues to support international SMEs through the MXN13bn International Growth Fund; approximately 86% of the Fund has been authorized to customers one year after launch and 29% has been deployed.
- In the second quarter of 2014 HSBC launched a financing programme together with NAFIN (MXN26bn), addressed to the Energy Sector, which will provide support to suppliers or clients of both governmental and private institutions involved in the sector. This program provides financing for investment projects such as the creation and infrastructure development, modernization, environmental improvement and technological development. As of June 2014, approximately 17% of the program has been deployed.
- Continued progress in collaboration with Global Banking and Markets (GBM) and Global Private Banking. Closer coordination with GBM expertise has delivered growth in more complex products with sophisticated clients.

Global Banking and Markets

Trading income during the first half of 2014 was MXN1,047m, a decrease of MXN176m compared with the first half of 2013. This decrease is explained by realized losses in Foreign Exchange transactions partially offset by gains in the netted result of realized gains and the negative mark to market of derivatives and bonds transactions.

During the second quarter of 2014, HSBC Equity Capital Markets participated in two important transactions, one of them as a Joint Bookrunner in the local tranche of Fibra UNO’s follow-on offering, to support the financing of a significant portfolio acquisition and the development of the company’s existing pipeline; and in the second one as Lead Bookrunner on Alsea follow-on offering – the company’s first US-marketed equity transaction. With these transactions the business improved its position as a leading underwriter, achieving the first place in the local equity capital market league tables.

As a result of increased business in the bond and interest rate markets during the second quarter of 2014, HSBC improved to second place from third in the Mexican Ministry of Finance (SHCP) ranking of Market Makers. This increased activity and appropriate positioning during this first half of 2014 improved the Rates business realized gains to MXN1,474.1m, an increase of MXN594.6m or 67.6% compared with a gain of MXN879.5m in the same period of 2013.

Global Banking continued to grow average commercial loans portfolios, which increased by 6.5% compared with the same period of 2013. Higher loan balances resulted in 129.5% higher fees related to financial structuring services compared with the same period of 2013.

Grupo Financiero HSBC’s first half 2014 financial results as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards (IFRS)

For the half ended 30 June 2014, on an IFRS basis, Grupo Financiero HSBC reported a net income before tax of MXN812m, a decrease of MXN928m or 53.3% compared with MXN1,740m for the half ended 30 June 2013.

The higher net income before tax reported under Mexican GAAP is largely due to higher loan impairment charges under IFRS as a result of the different provisioning methodologies, coupled with a reduction of the present value of in-force long-term insurance business, a concept which is only recognised under IFRS, as well as with higher deferral of fees paid on the origination of loans and other effective interest rate adjustments. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 984 branches, 5,940 ATMs and approximately 17,600 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 Asia, Europe, North and Latin America, the Middle East and North Africa and with assets of US$2,758bn at 31 March 2014, the HSBC Group is one of the world's largest banking and financial services organisations.

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Key Financial Indicators

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

	For the quarter ended at				
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
a) Liquidity	98.08%	98.64%	106.93%	108.51%	**123.69%**
Profitability					
b) ROE (Return over equity)	4.22%	6.90%	5.11%	10.68%	**5.00%**
c) ROA (Return over assets)	0.45%	0.78%	0.56%	1.10%	**0.47%**
Asset quality					
d) Impaired loans/total loans	4.29%	5.29%	5.93%	6.18%	**6.31%**
e) Coverage ratio	135.71%	111.27%	100.55%	92.53%	**90.21%**
Capitalization					
f) Credit risk	24.16%	23.97%	22.26%	22.74%	**23.36%**
g) Credit, operational and market risk	16.15%	15.63%	14.81%	14.38%	**14.22%**
Operating efficiency					
h) Expenses/Total Assets	4.34%	4.49%	4.43%	4.04%	**3.94%**
i) NIM	5.10%	5.28%	4.95%	4.62%	**4.59%**
Infrastructure					
Branches	1,021	1,001	987	987	**984**
ATM	6,350	6,252	6,120	6,045	**5,940**
Head Count	17,287	17,570	17,527	17,752	**17,603**

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, operational and market risk = 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 of the balance of the quarter in analysis and the balance of the previous quarter.

Relevant Events

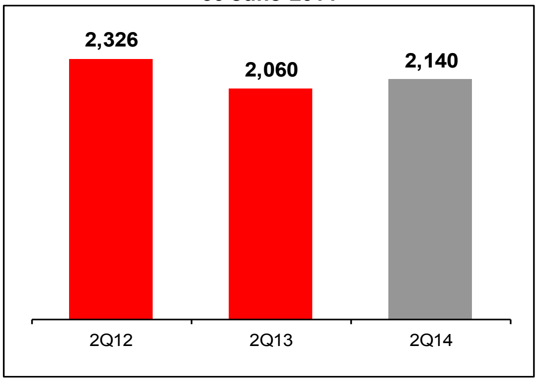
There are no relevant events to disclose during the first half of 2014.

Income Statement Variance Analysis

Net Income

Net Income

30 June 2014



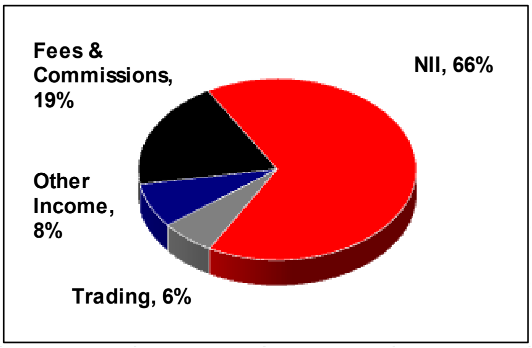
Net income for Grupo Financiero HSBC for the first half of 2014 was MXN2,140m, an increase of 3.9% compared with the same period of 2013.

The increase was driven by lower tax expenses and loan impairment charges, partially offset by lower net interest income, lower net fee income, lower trading income and higher administrative and personnel expenses. The results for the first half of 2013 include MXN744m income related to the recognition of the AXA distribution agreement. Excluding this effect, net income increased 39.0% compared with the first half of 2013.

Total Operating Income

Revenue Distribution

30 June 2014



The Group's total operating income, net of loan impairment charges, for the first half of 2014 was MXN13,367m, a decrease of MXN239m or 1.8% compared with the same period of 2013.

The decrease in total operating income, net of loan impairment charges, is due to lower net interest income, lower net fee income, lower trading income and lower other operating income, partially offset by a decrease in loan impairment charges.

Net Interest Income

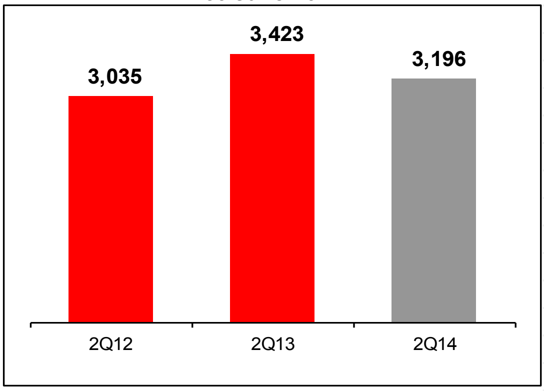
Net interest income for the first half of 2014 decreased to MXN10,983m, a reduction of MXN382m or 3.4% compared with the same period of 2013.

The reduction is mainly due to the insurance related business by the amount of MXN351m and lower spreads in non-interest bearing deposits due to a decrease in market rates, partially offset by higher average portfolio balances in consumer and mortgage loans, as well as higher spreads in credit cards.

Non-interest Income

Group Fees & Commissions

30 June 2014

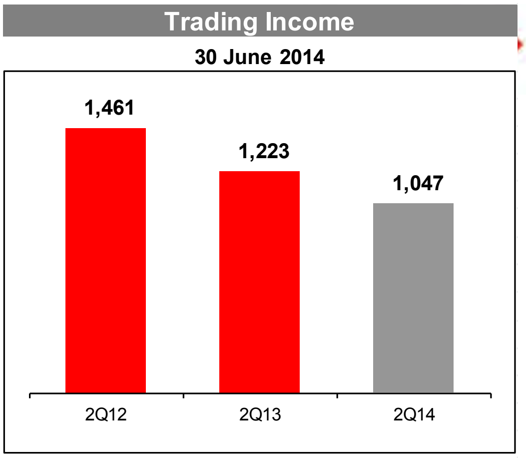


Non-interest income for the first half of 2014 was MXN5,552m; a decrease of MXN992m or 15.2% compared with the same period 2013.

The Group's non-interest income to total revenue ratio decreased from 36.5% for the first half of 2013 to 33.6% for the first half of 2014, mainly driven by lower other operating income.

► **Fee income**

The Group's net fee income for the first half of 2014 was MXN3,196m, a decrease of MXN227m or 6.6% compared with the same period 2013. This reduction is mainly due to lower account services, investment funds, alternative channels and credit card fees, partially offset by MXN61m fees related to the exclusive distribution agreement for general insurance sales distribution in branches signed in April 2013.



► Trading income

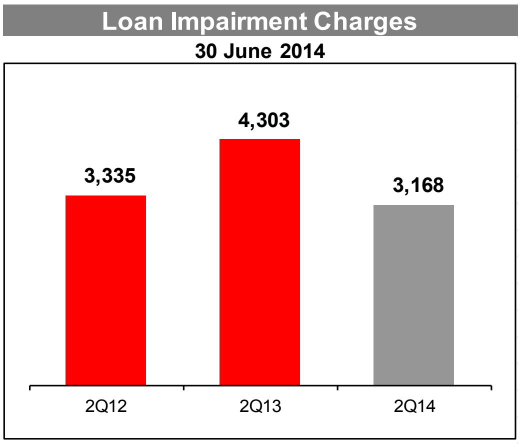
Trading income was MXN1,047m, a decrease of MXN176m or 14.4% compared with the same period of 2013. This decrease is explained by the loss in foreign exchange transactions, partially offset by gains in derivatives and bonds transactions.

► Other operating income

Other operating income was MXN1,309m, a decrease of MXN589m or 31.0% compared with the same period of 2013. This decrease is related to MXN744m from the recognition of the AXA distribution agreement income on the sale of the general insurance manufacturing portfolio.

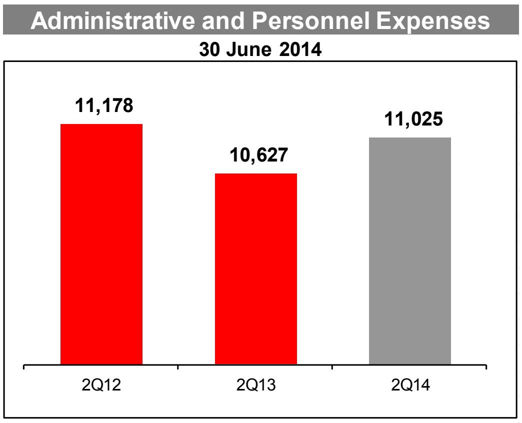
Loan Impairment Charges

For the first half of 2014, the Group's loan impairment charges were MXN3,168m, a decrease of MXN1,135m or 26.4% compared with the same period of 2013. The decrease is mainly due to higher loan impairment charges in 2013 related to a finance project and other commercial loans.



Administrative and Personnel Expenses

The Group's administrative and personnel expenses for the first half of 2014 were MXN11,025m, an increase of MXN398m or 3.7% compared with the same period of 2013. This increase is mainly due to investment in the compliance and risk functions partially funded by sustainable cost savings that had been launched in previous years.



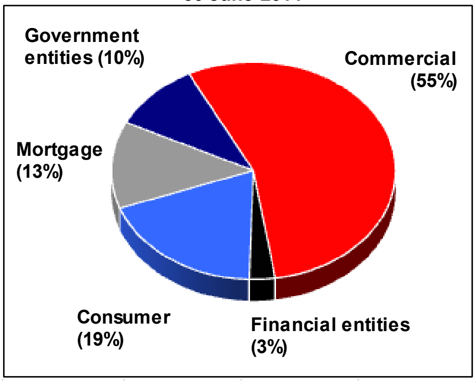
Balance sheet Variance Analysis

At 30 June 2014, the Group's total assets amounted MXN611,481m, which represents an increase of MXN120,075m or 24.4%, compared with 30 June 2013. This increase was mainly driven by an increase in investment in securities and total loan portfolio.

Loan portfolio

The Group's performing loan portfolio balance was MXN191,436m at 30 June 2014, an increase of 3.7% compared with 30 June 2013. This increase was mainly driven by higher mortgage and commercial loans balances, which increased 19.3% and 4.9%, respectively, partially offset by lower consumer and government loans portfolios.

Credit Portfolio Distribution
30 June 2014



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

At 30 June 2014, the performing commercial portfolio (including financial and government entities) increased 2.8% in comparison with 30 June 2013; mainly driven by an increase of MXN4,896m and MXN664m in commercial and financial entities loan portfolios, respectively.

The performing government loan portfolio decreased 9.3% mainly due to a significant loan repayment during 2013.

► **Consumer loans**

At 30 June 2014, performing consumer loans decreased 1.7% compared with 30 June 2013, due to a reduction in payroll loans, partially offset by an increase in credit card and auto portfolios.

► **Mortgage loans**

The mortgage performing loan portfolio increased MXN4,003m or 19.3% compared with 30 June 2013, as a result of the mortgage campaign launched during April 2013. This year, the campaign is based on an 8.45% rate.

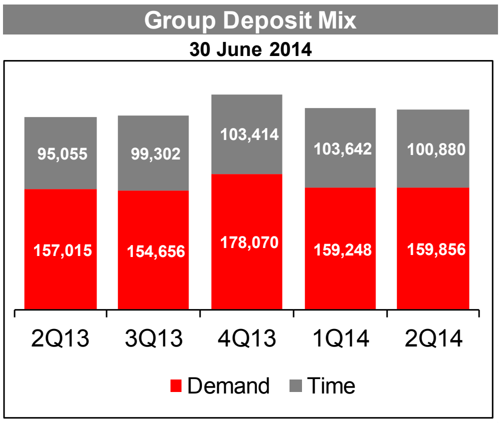
Asset quality

As of 30 June 2014, the Group's impaired loan portfolio was MXN12,884m, an increase of MXN4,606m or 55.6% compared with 30 June 2013. The higher impaired loan portfolio is associated with the performance of certain home builders during 2013 and other impaired commercial loans.

Total impaired loans as a percentage of total loans and advances to customers increased to 6.3% compared with 4.3% at 30 June 2013. The total coverage ratio (allowance for loan losses divided by impaired loans) was 90.2% at 30 June 2014 compared with 135.7% at 30 June 2013.

Deposits

The Group's total deposits at 30 June 2014 were MXN266,767m, an increase of 5.4% compared with 30 June 2013, mainly as a result of increased time deposits and bank bonds issuances.



► Demand deposits

At 30 June 2014, demand deposits were MXN159,856m, an increase of 1.8% compared with 30 June 2013.

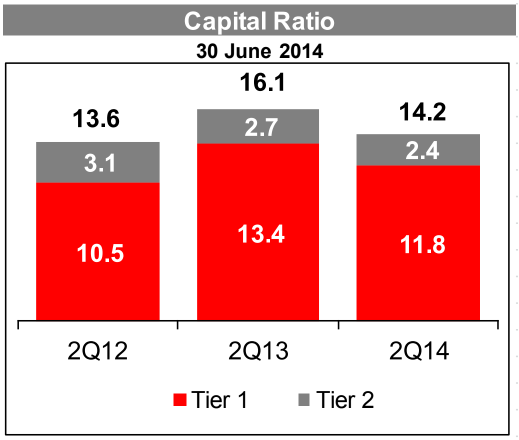
► Time deposits

Total time deposits were MXN100,880m at 30 June 2014, an increase of 6.1% compared to 30 June 2013 mainly due to attraction and retention campaigns.

Shareholder's equity

At 30 June 2014, the Group's equity amounted to MXN55,176m, an increase of 2.0% compared to 30 June 2013.

The Bank's equity was MXN49,723m, at 30 June 2014, an increase of 7.0% compared to 30 June 2013.



Capital Adequacy Ratio

The Bank's capital adequacy ratio at 30 June 2014 was 14.2%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 11.8%.

Financial Situation, Liquidity and Capital Resources

Group's balance structure has maintained its liquidity. Cash and investments in securities represent 44.5% of total assets, five percentage points higher than 30 June 2013. Total assets were MXN611,481m, an increase of MXN120,075m in comparison with 30 June 2013. 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.

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	30 Jun 2014
Assets					
Cash and deposits in banks	54,649	47,996	55,407	39,657	**48,365**
Margin Accounts	18	-	-	-	**5**
Investments in Securities	139,341	143,325	171,422	177,021	**223,957**
Trading securities	34,130	39,143	58,568	54,731	**54,364**
Available-for-sale securities	89,098	87,857	96,081	105,138	**138,007**
Held to maturity securities	16,113	16,325	16,773	17,152	**31,586**
Reverse repurchase agreements	9,833	2,600	500	-	**-**
Derivative transactions	47,719	51,231	49,769	48,873	**55,607**
Performing loans					
Commercial loans	127,007	126,837	130,679	132,366	**130,565**
Commercial entities	100,489	101,269	108,207	106,105	**105,385**
Loans to financial intermediaries	4,978	5,115	4,339	7,358	**5,642**
Loans to government entities	21,540	20,453	18,133	18,903	**19,538**
Consumer loans	36,775	37,896	37,675	36,497	**36,132**
Mortgages loans	20,736	22,876	24,480	24,538	**24,739**
Total performing loans	184,518	187,609	192,834	193,401	**191,436**
Impaired loans					
Commercial loans	6,244	8,250	9,665	10,417	**10,517**
Commercial entities	6,237	8,210	9,617	10,347	**10,432**
Financial entities	7	2	3	-	**-**
Loans to government entities	-	38	45	70	**85**
Consumer loans	1,338	1,539	1,788	1,634	**1,699**
Mortgages loans	696	694	703	699	**668**
Total non-performing loans	8,278	10,483	12,156	12,750	**12,884**
Loan portfolio	192,796	198,092	204,990	206,151	**204,320**
Allowance for loan losses	(11,234)	(11,664)	(12,223)	(11,798)	**(11,623)**
Net loan portfolio	181,562	186,428	192,767	194,353	**192,697**
Accounts receivable from insurance and bonding companies	6	12	18	28	**38**
Premium receivables	35	39	53	38	**38**
Accounts receivables from reinsurers and rebonding companies	91	114	73	69	**59**
Benefits to be received from trading operations	264	262	182	176	**168**
Other accounts receivable, net	38,823	31,258	40,404	54,654	**72,047**
Foreclosed assets	181	184	159	152	**139**
Property, furniture and equipment, net	6,905	6,910	6,927	6,822	**6,574**
Long term investments in equity securities	221	221	234	239	**218**
Long-term assets available for sale	299	303	35	24	**-**
Deferred taxes, net	6,484	6,590	7,710	7,603	**7,338**
Goodwill	1,048	1,048	1,048	1,048	**1,048**
Other assets, deferred charges and intangibles	3,927	3,673	3,832	3,256	**3,183**
Total Assets	491,406	482,194	530,540	534,013	**611,481**

Figures in MXN millions

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

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Liabilities					
Deposits	253,085	254,997	287,520	269,047	**266,767**
Demand deposits	157,015	154,656	178,070	159,248	**159,856**
Time deposits	95,055	99,302	103,414	103,642	**100,880**
Retail	95,055	99,302	103,414	103,642	**100,880**
Bank bonds outstanding	1,015	1,039	6,036	6,157	**6,031**
Bank deposits and other liabilities	26,646	25,118	20,510	26,710	**36,379**
On demand	2,901	4,017	2,900	2,767	**8,301**
Short term	21,455	18,741	15,466	21,864	**26,471**
Long term	2,290	2,360	2,144	2,079	**1,607**
Repurchase agreements	30,521	28,513	34,765	53,875	**83,300**
Stock Borrowing	-	1	-	-	**-**
Financial assets pending to be settled	248	-	-	220	**16**
Collateral Sold	7,086	3,796	9,076	8,490	**12,969**
Repurchase	-	-	-	-	**300**
Securities to be received in repo transactions	7,086	3,796	9,076	8,490	**12,669**
Derivative transactions	44,974	49,754	47,643	47,009	**55,222**
Technical reserves	11,016	11,223	11,432	11,759	**11,854**
Reinsurers	16	11	13	16	**15**
Other accounts payable	51,505	41,087	53,750	53,264	**79,720**
Income tax and employee profit sharing payable	651	818	954	237	**358**
Creditors for settlement of transactions	38,210	27,843	37,659	37,611	**64,264**
Sundry creditors and others accounts payable	12,644	12,426	15,137	15,416	**15,098**
Subordinated debentures outstanding	11,650	11,699	9,463	9,456	**9,414**
Deferred credits	585	600	599	604	**649**
Total Liabilities	437,332	426,799	474,771	480,450	**556,305**
Stockholder's Equity					
Paid in capital	37,823	37,823	37,823	37,823	**37,823**
Capital stock	5,637	5,637	5,637	5,637	**5,637**
Additional paid in capital	32,186	32,186	32,186	32,186	**32,186**
Capital Gains	16,240	17,561	17,942	15,735	**17,348**
Capital reserves	2,458	2,458	2,458	2,458	**2,644**
Retained earnings	11,473	11,473	11,489	11,401	**11,215**
Result from the mark-to-market of Available-for-sale securities	315	539	290	386	**1,230**
Result from cash flow hedging transactions	(66)	86	(9)	30	**119**
Net Income	2,060	3,005	3,714	1,460	**2,140**
Non-controlling interest	11	11	4	5	**5**
Total Stockholder's Equity	54,074	55,395	55,769	53,563	**55,176**
Total Liabilities and Capital	491,406	482,194	530,540	534,013	**611,481**

Figures in MXN millions

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Memorandum Accounts	3,997,875	4,235,729	4,262,890	4,415,235	4,640,886
Proprietary position	3,909,273	4,142,475	4,168,813	4,321,862	4,530,830
Irrevocable lines of credit granted	22,991	24,915	25,561	26,906	28,049
Goods in trust or mandate	406,324	409,079	439,469	444,093	453,989
Trust	405,643	408,294	438,533	443,442	453,328
Mandate	681	785	936	651	661
Goods in custody or under administration	297,620	298,790	341,218	334,311	370,899
Collateral received by the institution	23,022	13,584	17,291	8,719	13,531
Collateral received and sold or delivered as guarantee	16,017	10,289	16,583	8,490	12,969
Values in deposit	53	47	-	-	-
Suspended interest on impaired loans	143	175	221	264	295
Recovery guarantees for issued bonds	18,891	19,104	-	-	-
Paid claims	12	13	-	-	-
Cancelled claims	7	9	-	-	-
Recovery claims	-	-	-	-	-
Responsibilities from bonds in force	3,743	3,418	-	-	-
Other control accounts	3,120,450	3,363,052	3,328,470	3,499,079	3,651,098

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Third party accounts	88,602	93,254	94,077	93,373	110,056
Clients current accounts	-	-	-	-	-
Custody operations	41,553	42,898	43,724	42,616	59,302
Transactions on behalf of clients	717	682	-	-	-
Third party investment banking operations, net	46,332	49,674	50,353	50,757	50,754

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 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 million.
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LUIS PEÑA KEGEL	GUSTAVO I. MÉNDEZ NARVÁEZ	DAVID CRICHTON MEECHIE	JOSÉ CADENA OROZCO
Chief Executive Officer	Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Income Statement

Figures in MXN millions

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

	For the quarter ending					Year to date	
	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**	30 Jun 2013	**30 Jun 2014**
Interest Income	7,465	7,337	7,378	7,246	**7,444**	15,146	**14,690**
Earned premiums	750	772	749	702	**696**	1,509	**1,398**
Interest expense	(2,135)	(1,920)	(1,927)	(1,911)	**(2,057)**	(4,393)	**(3,968)**
Increase in technical reserves	(147)	(157)	(298)	(261)	**(95)**	(435)	**(356)**
Claims	(272)	(376)	(331)	(409)	**(372)**	(462)	**(781)**
Net interest income	5,661	5,656	5,571	5,367	**5,616**	11,365	**10,983**
Loan impairment charges	(2,735)	(1,518)	(2,265)	(1,525)	**(1,643)**	(4,303)	**(3,168)**
Risk adjusted net interest income	2,926	4,138	3,306	3,842	**3,973**	7,062	**7,815**
Fees and commissions receivable	2,231	2,199	2,233	1,986	**2,059**	4,279	**4,045**
Fees payable	(436)	(438)	(508)	(434)	**(415)**	(856)	**(849)**
Trading Income	502	706	491	726	**321**	1,223	**1,047**
Other operating income	1,277	(26)	658	805	**504**	1,898	**1,309**
Administrative and personnel expenses	(5,544)	(5,469)	(5,606)	(5,382)	**(5,643)**	(10,627)	**(11,025)**
Net operating income	956	1,110	574	1,543	**799**	2,979	**2,342**
Share of profits in equity interest	11	13	12	10	**13**	18	**23**
Net income before taxes	967	1,123	586	1,553	**812**	2,997	**2,365**
Income tax and employee profit sharing tax	(757)	(511)	(741)	(293)	**(427)**	(992)	**(720)**
Deferred income tax	203	245	1,007	176	**441**	(185)	**617**
Income from ongoing operations	413	857	852	1,436	**826**	1,820	**2,262**
Discontinued operations	163	88	(142)	25	**(146)**	240	**(121)**
Non-controlling interest	-	(1)	-	(1)	**-**	-	**(1)**
Net income (loss)	576	944	710	1,460	**680**	2,060	**2,140**

"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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LUIS PEÑA KEGEL	GUSTAVO I. MÉNDEZ NARVÁEZ	DAVID CRICHTON MEECHIE	JOSÉ CADENA OROZCO
Chief Executive Officer	Chief Financial Officer	Director of Internal Audit	Chief Accountant

HSBC

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions **Grupo Financiero HSBC, S.A. de C.V.**

From 1 January to 30 June 2014

	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 2014	**37,823**	**-**	**-**	**-**	**2,458**	**11,489**	**281**	**-**	**-**	**3,714**	**4**	**55,769**
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	186	(186)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	3,714	-	-	-	(3,714)	-	-
Cash dividends	-	-	-	-	-	(3,781)	-	-	-	-	-	(3,781)
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	**-**	**-**	**-**	**-**	**186**	**(253)**	**-**	**-**	**-**	**(3,714)**	**-**	**(3,781)**
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	2,140	-	2,140
Result from valuation of available-for-sale securities	-	-	-	-	-	-	940	-	-	-	-	940
Result from cash flow hedging transactions	-	-	-	-	-	-	128	-	-	-	-	128
Results from holding non-monetary assets												
Others	-	-	-	-	-	(21)	-	-	-	-	1	(20)
Total Movements Inherent for the Recognition of the Comprehensive Income	**-**	**-**	**-**	**-**	**-**	**(21)**	**1,068**	**-**	**-**	**2,140**	**1**	**3,188**
Balances at 30 June 2014	**37,823**	**-**	**-**	**-**	**2,644**	**11,215**	**1,349**	**-**	**-**	**2,140**	**5**	**55,176**

"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	DAVID CRICHTON MEECHIE	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 30 June 2014

Net income	**2,140**
Adjustments for items not involving cash flow:	**10,651**
Allowances for loan losses	3,133
Depreciation	626
Amortization	178
Provisions	6,156
Income Tax and deferred taxes	103
Technical reserves	356
Discontinued operations	121
Share of profits in equity interest	(22)
Changes in items related to operating activities:	
Memorandum accounts	(6)
Investment securities	(50,885)
Repurchase agreements	500
Derivative (assets)	(5,672)
Loan portfolio	(3,086)
Benefits to be received from trading operations	14
Foreclosed assets	19
Operating assets	(30,844)
Deposits	(20,753)
Bank deposits and other liabilities	15,869
Creditors repo transactions	48,535
Collateral sold or delivered as guarantee	3,893
Derivative (liabilities)	7,578
Subordinated debentures outstanding	(49)
Accounts receivables from reinsurers and coinsurers	(5)
Accounts receivables from premiums	15
Reinsurers and bonding	2
Other operating liabilities	20,505
Income tax payable	(1,185)
Funds provided by operating activities	**(15,555)**
Investing activities:	
Acquisition of property, furniture and equipment	(295)
Intangible assets acquisitions	(327)
Proceeds on disposal of long-lived assets available for sale	22
Cash dividends	33
Other investment activities	70
Funds used in investing activities	**(497)**
Financing activities:	
Cash dividends	(3,781)
Funds used in financing activities	**(3,781)**
Increase/decrease in cash and equivalents	**(7,042)**
Adjustments to cash flow variations in the exchange rate and inflation levels	**-**
Cash and equivalents at beginning of period	**55,407**
Cash and equivalents at end of period	**48,365**

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	DAVID CRICHTON MEECHIE	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)**

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Assets					
Cash and deposits in banks	54,649	47,996	55,407	39,657	**48,365**
Margin Accounts	18	-	-	-	**5**
Investment in Securities	122,701	126,161	153,455	161,642	**208,115**
Trading securities	27,065	32,047	51,121	50,216	**49,535**
Available-for-sale securities	89,098	87,857	96,081	105,138	**138,007**
Held to maturity securities	6,538	6,257	6,253	6,288	**20,573**
Reverse repurchase agreements	9,833	2,600	500	-	**-**
Derivative transactions	47,719	51,231	49,769	48,873	**55,607**
Performing loans					
Commercial loans	127,007	126,837	130,679	132,366	**130,565**
Commercial entities	100,489	101,269	108,207	106,105	**105,385**
Loans to financial intermediaries	4,978	5,115	4,339	7,358	**5,642**
Loans to government entities	21,540	20,453	18,133	18,903	**19,538**
Consumer loans	36,775	37,896	37,675	36,497	**36,132**
Mortgages loans	20,736	22,876	24,480	24,538	**24,739**
Total performing loans	184,518	187,609	192,834	193,401	**191,436**
Impaired loans					
Commercial loans	6,244	8,250	9,620	10,417	**10,517**
Commercial entities	6,237	8,210	9,617	10,347	**10,432**
Loans to financial intermediaries	7	2	3	-	**-**
Loans to government entities	-	38	45	70	**85**
Consumer loans	1,338	1,539	1,788	1,634	**1,699**
Mortgage Loans	696	694	703	699	**668**
Total non-performing loans	8,278	10,483	12,156	12,750	**12,884**
Total loan portfolio	192,796	198,092	204,990	206,151	**204,320**
Allowance for loan losses	(11,234)	(11,664)	(12,223)	(11,798)	**(11,623)**
Net loan portfolio	181,562	186,428	192,767	194,353	**192,697**
Benefits to be received from trading operations	264	262	182	176	**168**
Other accounts receivable	38,090	31,048	40,293	53,582	**71,380**
Foreclosed assets	181	184	159	152	**139**
Property, furniture and equipment, net	6,905	6,910	6,927	6,822	**6,574**
Long term investments in equity securities	136	134	148	156	**133**
Long term assets available for sale	-	3	5	2	**-**
Deferred taxes	6,360	6,479	7,624	7,489	**7,222**
Other assets, deferred charges and intangibles	3,743	3,490	3,637	3,157	**3,091**
Total Assets	472,162	462,926	510,873	516,061	**593,496**

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

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Liabilities					
Deposits	253,563	255,528	287,808	269,428	**267,218**
Demand deposits	157,493	155,187	178,358	159,629	**160,307**
Time deposits	95,055	99,302	103,414	103,642	**100,880**
Retail	95,055	99,302	103,414	103,642	**100,880**
Money market	-	-	-	-	**-**
Bank bonds outstanding	1,015	1,039	6,036	6,157	**6,031**
Bank deposits and other liabilities	26,646	25,118	20,510	26,710	**36,379**
On demand	2,901	4,017	2,900	2,767	**8,301**
Short term	21,445	18,741	15,466	21,864	**26,471**
Long term	2,290	2,360	2,144	2,079	**1,607**
Repurchase agreements	30,521	28,513	34,765	53,875	**83,300**
Stock Borrowing	-	1	-	-	**-**
Financial assets pending to be settled	248	-	-	220	**16**
Collateral Sold	7,077	3,796	9,076	8,490	**12,969**
Repurchase	-	-	-	-	**300**
Securities to be received in repo transactions	7,077	3,796	9,076	8,490	**12,669**
Derivative transactions	44,974	49,754	47,643	47,009	**55,222**
Other accounts payable	50,408	40,494	53,401	51,975	**78,605**
Income tax and employee profit sharing payable	527	700	916	215	**293**
Contributions for future capital increases	-	-	-	-	**-**
Creditors for settlement of transactions	31,576	24,109	37,519	36,525	**63,576**
Sundry creditors and others accounts payable	18,305	15,685	14,966	15,235	**14,736**
Subordinated debentures outstanding	11,650	11,699	9,463	9,456	**9,414**
Deferred credits	585	600	601	606	**650**
Total Liabilities	425,672	415,503	463,267	467,769	**543,773**
Stockholder's Equity					
Paid in capital	32,768	32,768	32,768	32,768	**32,768**
Capital stock	5,680	5,680	5,680	5,680	**5,680**
Additional paid in capital	27,088	27,088	27,088	27,088	**27,088**
Capital Gains	13,721	14,654	14,836	15,521	**16,952**
Capital reserves	10,973	10,973	10,973	10,973	**11,201**
Retained earnings	1,420	1,420	1,436	2,985	**2,757**
Result from the mark-to-market of Available-for-sale securities	315	539	290	386	**1,230**
Result from cash flow hedging transactions	(66)	86	(9)	30	**119**
Net Income	1,079	1,636	2,146	1,147	**1,645**
Non-controlling interest	1	1	2	3	**3**
Total Stockholder's Equity	46,690	47,423	47,606	48,292	**49,723**
Total Liabilities and Capital	472,162	462,926	510,873	516,061	**593,496**

Figures in MXN millions

Memorandum Accounts

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Guarantees granted	-	-	-	-	**-**
Contingent assets and liabilities	-	-	-	-	**-**
Irrevocable lines of credit granted	22,991	24,915	25,561	26,906	**28,049**
Goods in trust or mandate	406,324	409,079	439,469	444,093	**453,989**
Goods	405,643	408,294	438,533	443,442	**453,328**
Trusts	681	785	936	651	**661**
Goods in custody or under administration	291,983	293,153	378,679	370,679	**423,902**
Collateral received by the institution	23,022	13,584	17,291	8,719	**13,531**
Collateral received and sold or delivered as guarantee	16,017	10,289	16,583	8,490	**12,969**
Third party investment banking operations, net	46,332	49,674	50,353	50,757	**50,754**
Suspended interest on impaired loans	143	175	221	264	**295**
Other control accounts	3,150,463	3,394,401	3,318,620	3,493,224	**3,646,090**
	3,957,275	4,195,270	4,246,777	4,403,132	**4,629,579**

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 MXN 3,880 million.
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LUIS PEÑA KEGEL	GUSTAVO I. MÉNDEZ NARVÁEZ	DAVID CRICHTON MEECHIE	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*	
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***	*30 Jun 2013*	***30 Jun 2014***
Interest income	7,246	7,125	7,149	7,027	**7,240**	14,720	**14,267**
Interest expense	(2,138)	(1,925)	(1,931)	(1,913)	**(2,060)**	(4,400)	**(3,973)**
Net interest income	5,108	5,200	5,218	5,114	**5,180**	10,320	**10,294**
Loan impairment charges	(2,735)	(1,518)	(2,265)	(1,525)	**(1,643)**	(4,303)	**(3,168)**
Risk adjusted net interest income	2,373	3,682	2,953	3,589	**3,537**	6,017	**7,126**
Fees and commissions receivable	2,119	2,112	2,158	1,897	**1,909**	4,088	**3,806**
Account management	95	87	85	65	**67**	184	**132**
Services	2,024	2,025	2,073	1,832	**1,842**	3,904	**3,674**
Fees payable	(429)	(444)	(513)	(435)	**(414)**	(853)	**(849)**
Trading Income	630	669	390	602	**331**	1,214	**933**
Foreign exchange	433	252	527	53	**(106)**	200	**(53)**
Securities trading, net	55	63	220	140	**81**	161	**221**
Swaps	1,296	518	(22)	603	**840**	1,607	**1,443**
Valuation off-shore agencies	(1,009)	(70)	(431)	(23)	**(503)**	(346)	**(526)**
Valuation for trading swaps	174	117	234	(21)	**62**	237	**41**
Valuation for FX options	(319)	(211)	(138)	(150)	**(43)**	(645)	**(193)**
Other operating income	1,369	25	749	861	**551**	2,034	**1,412**
Administrative and personnel expenses	5,486	5,406	5,605	5,368	**5,597**	10,562	**10,965**
Personnel expense	2,358	2,461	2,343	2,460	**2,405**	4,597	**4,865**
Administrative expense	2,674	2,505	2,939	2,511	**2,785**	5,065	**5,296**
Depreciation and amortization	454	440	323	397	**407**	900	**804**
Net operating income	576	638	132	1,146	**317**	1,938	**1,463**
Share of profits in equity interest	14	9	13	12	**10**	21	**22**
Net income before taxes	590	647	145	1,158	**327**	1,959	**1,485**
Income tax	(592)	(348)	(667)	(159)	**(268)**	(661)	**(427)**
Deferred income tax	159	258	1,033	149	**439**	(219)	**588**
Net income before discontinued operations	157	557	511	1,148	**498**	1,079	**1,646**
Non-controlling interest	-	-	(1)	(1)			**(1)**
Net income (loss)	157	557	510	1,147	**498**	1,079	**1,645**

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	DAVID CRICHTON MEECHIE	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 30 June 2014

	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 01 January 2014	**5,680**		**27,088**		**10,973**	**1,436**	**290**	**(9)**		**2,146**	**2**	**47,606**
Movements Inherent to the Shareholders Decision												
Subscription of shares												-
Capitalization of retained earnings												
Constitution of reserves					228	(228)						-
Transfer of result of prior years						2,146				(2,146)		-
Cash dividends						(576)						**(576)**
Others												
Total Movements Inherent to the Shareholders Decision					228	1,342				(2,146)		**(576)**
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result										1,645	1	**1,646**
Result from valuation of available-for-sale securities							940					**940**
Result from cash flow hedging transactions								128				**128**
Results from holding non-monetary assets												
Others						(21)						**(21)**
Total Movements Inherent for the Recognition of the Comprehensive Income						(21)	940	128		1,645	1	**2,693**
Balances as at 30 June 2014	**5,680**		**27,088**		**11,201**	**2,757**	**1,230**	**119**		**1,645**	**3**	**49,723**

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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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 30 June 2014 ***HSBC Mexico, S.A. (Bank)***

	30 Jun 2014
Net income	1,645
Adjustments for items not involving cash flow:	9,670
Allowances for loan losses	3,133
Depreciation	626
Amortization	178
Provisions	5,916
Income Tax and deferred taxes	(161)
Share of profits in equity interest	(22)
Other	-
Changes in items related to operating activities:	
Memorandum accounts	(6)
Investment securities	(53,009)
Repurchase agreements	500
Derivative (assets)	(5,672)
Loan portfolio	(3,086)
Benefits to be received from trading operations	14
Foreclosed assets	19
Operating assets	(30,387)
Deposits	(20,590)
Bank deposits and other liabilities	15,869
Creditors repo transactions	48,535
Stock borrowing	-
Collateral sold or delivered as guarantee	3,893
Derivative (liabilities)	7,578
Subordinated debentures outstanding	(49)
Other operating liabilities	20,109
Income tax payable	(937)
Funds provided by operating activities	(17,219)
Investing activities:	
Acquisition of property, furniture and equipment	(295)
Intangible assets acquisitions	(327)
Proceeds on disposal of long-lived assets available for sale	22
Cash dividends	33
Others	5
Funds used in investing activities	(562)
Financing activities:	
Cash dividend	(576)
Funds used or provided by financing activities	(576)
Increase/decrease in cash and equivalents	(7,042)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	55,407
Cash and equivalents at end of period	48,365

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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Investment in securities

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

Figures in MXN millions

Investments in securities	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Government securities	26,795	34,285	49,353	48,347	**47,551**
Bank securities	954	256	2,240	2,170	**2,753**
Shares	5,186	3,497	5,319	2,624	**2,553**
Others	1,195	1,105	1,656	1,590	**1,507**
Trading securities	34,130	39,143	58,568	54,731	**54,364**
Government securities	85,250	83,951	92,117	101,179	**134,002**
Bank securities	1,854	1,893	508	538	**1,882**
Shares	-	-	-	-	**-**
Others	1,994	2,013	3,456	3,421	**2,123**
Available for sale securities	89,098	87,857	96,081	105,138	**138,007**
Government securities	14,175	14,712	15,165	15,543	**30,016**
Bank securities	64	63	95	96	**96**
Others	1,874	1,550	1,513	1,513	**1,474**
Held to maturity securities	16,113	16,325	16,773	17,152	**31,586**
Total Investment in Securities	139,341	143,325	171,422	177,021	**223,957**

In the second quarter of 2014, investment in securities increased by MXN46,936 million compared to the first quarter of 2014; mainly by increasing Government Securities MXN46,500 million.

Repurchase and Reverse repurchase agreements

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

Figures in MXN millions

	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	**30 Jun 2014**
Repurchase agreements Government securities (credit)	30,295	28,398	34,552	53,853	**83,262**
Repurchase agreements Bank securities (credit)	-	-	-	-	**-**
Repurchase agreements Others securities (credit)	-	-	-	-	**-**
Valuation increase (decrease)	-	-	-	-	**-**
Accrued interest payable	226	115	213	22	**38**
Total repurchase agreements	30,521	28,513	34,765	53,875	**83,300**
Reverse Repurchase agreements in government securities	9,818	2,593	500	-	**-**
Accrued interest receivable	15	7	-	-	**-**
Debit balance in repurchase agreements, net	9,833	2,600	500	-	**-**

Derivative transactions

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

Figures in MXN millions at June 30, 2014

Fair value of derivatives for trading purposes

	Swaps		*Forwards*		*Options*		*Futures*		*Net*
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	
Currency	17,158	15,686	4,517	3,739	69	69	-	-	2,250
Interest Rate	33,417	34,237	249	247	134	55	-	-	(739)
Equities	-	-	7	7	-	-	-	-	-
Total	**50,575**	**49,923**	**4,773**	**3,993**	**203**	**124**	**-**	**-**	**1,511**

Fair value of derivatives for hedging purposes

	Swaps		*Forwards*		*Options*		*Futures*		*Net*
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	
Currency	-	221	-	-	-	-	-	-	(221)
Interest Rate	56	961	-	-	-	-	-	-	(905)
Total	**56**	**1,182**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,126)**

Collateral Sold or delivered as guarantee

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

Figures in MXN millions

	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
Stock borrowing					
Cetes	1,009	1,212	3,929	1,213	**2,078**
Interest	-	-	-	-	**1**
Bonds	6,085	2,597	5,151	7,230	**10,562**
Valuation increase (decrease)	(17)	(13)	(4)	47	**28**
Shares	9	-	-	-	**-**
Valuation increase (decrease)	-	-	-	-	**-**
Repos					
Government	-	-	-	-	**300**
Total	7,086	3,796	9,076	8,490	**12,969**

Loan Portfolio

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

By type of currency

Figures in MXN millions at June 30, 2014

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Non Impaired Loan Portfolio						
Pesos	82,785	5,501	19,538	36,132	23,843	167,799
US Dollars	22,600	141				22,741
Udis Banxico					896	896
Total	**105,385**	**5,642**	**19,538**	**36,132**	**24,739**	**191,436**
Impaired Loan Portfolio						
Pesos	9,729	-	85	1,699	600	12,113
US Dollars	703					703
Udis Banxico					68	68
Total	**10,432**	**-**	**85**	**1,699**	**668**	**12,884**

Loan Portfolio Grading

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

Figures in constant MXN millions at June 30, 2014

		Allowance for Loan Losses by type of loan			
	Total loan portfolio	*Commercial loans*	*Consumer loans*	*Mortgages loans*	*Total reserves*
Excepted from rating	189				
Rated	232,180				
Risk A	**156,426**	**813**	**25**	**66**	**904**
Risk A-1	129,740	497	25	66	588
Risk A-2	26,686	316	0	0	316
Risk B	**56,613**	**598**	**2,166**	**144**	**2,908**
Risk B-1	32,727	195	1,290	144	1,629
Risk B-2	16,166	118	876	0	994
Risk B-3	7,720	285	0	0	285
Risk C	**6,736**	**306**	**885**	**176**	**1,367**
Risk C-1	6,371	260	885	176	1,321
Risk C-2	365	46	0	0	46
Risk D	**10,745**	**4,193**	**1,370**	**10**	**5,573**
Risk E	**1,660**	**776**	**89**	**6**	**871**
Total	**232,369**	**6,686**	**4,535**	**402**	**11,623**
Less:					
Constituted loan loss allowances					11,623
Surplus					**0**

The figures related to the rating and constitution of loan loss allowances correspond to those at 30 June 2014 and include figures related to credit lines of revolving credit.

The loan portfolio is graded according to the rules issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) based on loan loss provisions methodology applicable to credit institutions in Mexico (the Dispositions) issued by the Banking Commission (CNBV for its acronym in English).

On June 24, 2013, the CNBV issued changes related to the Dispositions, which are applicable to the methodology for grading commercial loans granted to the following customers: 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 ".

Except for the methodology for grading commercial loans granted to financial institutions, in accordance with Article Second of the Transitional Dispositions, HSBC elected to apply the methodology in advance, starting on June 2013. With regards to the methodology for grading commercial loans granted to financial institutions, Article Third of those Transitional Dispositions provides that the adoption the new methodology would be in force from January 1, 2014, and the financial impacts resulted from the changes on this methodology must be recognised no later than on June 30, 2014. HSBC elected to apply on March 2014 the new methodology for commercial loans granted to financial institutions, and as a result, a debit in retained earnings was recognised on March 2014 for MXN31m (MXN22m net of deferred taxes).

The rest of the commercial portfolio, except for States and Municipalities and Investment Projects, is graded according to the methodology established 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 which is based on concepts such as expected loss, probability of default, exposure at default and the loss given default, based primarily on grading's assigned by rating agencies.

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 June 2014, the increase in loan loss allowances charged to Income Statement was MXN3,168m. In the other hand, MXN3,657m was related to write offs and MXN107m 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	11.97%	71.24%	46,814
Mortgages	4.21%	27.06%	25,407
Commercial	10.93%	41.12%	130,363

The figures related to weighted average of the probability of default and severity of loss and exposure to default for each of the loan portfolios correspond to those at 30 June 2014, consumer portfolio includes figures related to revolving facilities, while commercial portfolio excludes the investment projects, not unconditionally cancellable commitments, prepayments of interest and overdrafts.

Impaired Loans

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

Figures in MXN millions

	At the quarter ending				
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
Initial Balance of Impaired Loans	4,327	8,278	10,483	12,156	**12,750**
Increases	7,876	5,959	6,607	8,516	**6,476**
Transfer of non-impaired loans to impaired loans	7,876	5,959	6,607	8,516	**6,476**
Decreases	3,925	3,754	4,948	7,922	**6,342**
Restructurings and renewals with cure period	94	101	58	38	**38**
Liquidated credits	2,088	2,611	3,140	4,699	**4,805**
Paid in cash	868	1,232	1,579	3,036	**3,078**
Foreclosed assets	1	3	11	1	**-**
Write offs	1,219	1,376	1,549	1,662	**1,727**
Transfers to non-impaired loans status	1,788	1,050	1,732	3,185	**1,496**
FX revaluations	45	8	(4)	-	**(3)**
Final Balance of Impaired Loan	8,278	10,483	12,156	12,750	**12,884**

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 the loan support program with debtors of credit institutions:

- Additional Benefits to Housing Loan Debtors (BADCV).

The financial support program consists 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 30 June 2014 and 2013, 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:

		June 2014		**June 2013**	
		Portfolio	**Cost**	**Portfolio**	**Cost**
ETA/BADCV	$	189	3	380	10

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

		In charge to	
		Bank	Federal Government
Discounts granted	$	457	973
Additional discount granted by the Bank		93	-
Discount granted 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

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 30 June four installments were received and the remaining installment will be payable on the first banking day of June2015.

Accordingly, the balance receivable as of 30 June 2014 by ETS amounts $189 of principal plus $14 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, amounted $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 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 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 30 June 2014 and 31 March 2013, amount to MXN55m and MXN57m, respectively.

The number of securities related to BADCV that are held by the Bank at 30 June 2014 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, net

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

Figures in MXN millions

	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
Loan loss reserves	5,783	5,957	6,705	6,826	6,871
Valuation of securities	103	(41)	24	64	(426)
Tax loss	6	5	4	11	3
Provisions	677	670	1,005	653	882
PTU Payable	69	95	121	141	72
Foreclosed assets	258	265	277	292	262
Differences in rates of fixed assets	293	337	347	407	476
Tax result UDIS-Banxico	(901)	(912)	(990)	(1,006)	(1,022)
Other	196	214	217	215	220
Total Deferred Taxes	6,484	6,590	7,710	7,603	7,338

Deposits and Bank Deposits and other liabilities

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

Average Interest rates

	At the quarter ending				
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
MXN pesos					
Deposits					
Demand deposits	0.83%	0.83%	0.88%	0.94%	0.69%
Time deposits	3.32%	3.35%	3.24%	3.08%	2.94%
Issued credit securities	6.51%	9.08%	7.55%	6.73%	6.55%
Bank deposits and other liabilities					
Call Money	3.48%	3.89%	3.44%	3.24%	3.39%
Banxico Loans	4.08%	3.99%	3.83%	3.47%	3.60%
Development Banking	5.51%	5.32%	5.08%	4.86%	4.83%
Development Funds	3.87%	3.77%	3.47%	3.90%	3.90%
Foreign currency					
Deposits					
Demand deposits	0.05%	0.06%	0.05%	0.05%	0.05%
Time deposits	0.25%	0.16%	0.13%	0.13%	0.10%
Bank deposits and other liabilities					
Call Money	0.95%	0.80%	0.68%	0.64%	0.64%
Development Banking	3.35%	3.64%	2.33%	3.14%	4.29%
Development Funds	1.14%	1.32%	1.33%	1.29%	1.25%
UDIS					
Deposits					
Time deposits	0.16%	0.15%	0.17%	0.17%	0.17%

Bank deposits and other liabilities

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

Bank deposits and other liabilities are integrated as follows:

	30 June 13		**30 Sept 13**		**31 Dec 13**		**31 March 14**		**30 June 14**	
	Term		Term		Term		Term		Term	
	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long
MXN Pesos:										
Banxico Loans	-	-	-	-	-	-	-	-	-	-
Development Banking	3,006	-	3,464	-	3,309	-	3,535	-	4,234	-
Commercial Banking (Call Money)	2,901	-	4,017	-	2,900	-	2,767	-	8,301	-
Development Funds	3,458	1,877	3,268	1,913	4,187	1,703	3,638	1,644	3,531	1,553
Subtotal	9,365	1,877	10,749	1,913	10,396	1,703	9,940	1,644	16,066	1,553
Foreign currency:										
Banxico Loans	-	-	-	-	-	-	-	-	-	-
Commercial Banking	14,385	-	11,559	-	7,548	-	14,073	-	17,896	-
Development Banking	16	9	8	8	15	7	3	6	9	5
Development Funds	590	404	442	439	407	434	615	429	801	49
Subtotal	14,991	413	12,009	447	7,970	441	14,691	435	18,706	54
Total Term	24,356	2,290	22,758	2,360	18,366	2,144	24,631	2,079	34,772	1,607
Total Bank and other liabilities	$	26,646	$	25,118	$	20,510	$	26,710	$	36,379

Subordinated debentures and bank bonds outstanding

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

HSBC Mexico, S.A. has issued convertible and non-convertible subordinated debentures, which are not convertible into shares of its capital stock, listed at Mexican Stock Market (BMV)

Figures in MXN millions

Instrument		*Issue Date*	*Amount*	*Currency*	*Amount in circulation*	*Interest payable*	*Maturity Date*
			MXN millions		*MXN millions*		
HSBC 08	(1)	02-OCT-2008	1,818	MXN	1,818	5	20-SEP-2018
HSBC 08-2	(2)	22-DEC-2008	2,300	MXN	2,272	-	10-DEC-2018
HSBC 09D	(3)	30-JUN-2009	3,891	USD	3,891	-	28-JUN-2019
HSBC 13-1D	(4)	31-JAN-2013	1,427	USD	1,427	1	10-DEC-2022
			9,436		**9,408**	**6**	

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

HSBC México, S.A., has issued long-term Bank Bonds Outstanding 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	2	03-DEC-2018
HSBC 13-2	(3)	09-DEC-2013	2,700	MXN	2,700	13	27-NOV-2023
			6,000		**6,000**	**31**	

(1) Stock Exchange Certificate fixed coupon 9.08%
(2) Stock Exchange Certificate floating rate 1m TIIE rate + 0.3 p.p. 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

The net income for 2013 of Grupo Financiero HSBC S.A. de C.V., figure that was audited by the Firm KPMG Cárdenas Dosal, S.C., was MXN3,714m.

On March 21, 2014 one notice was published in accordance to the agreement of the shareholders meeting, a dividend of $1.341549107326310 shall be paid per share for each one of the 2'818,383,598 shares. Such dividend was paid on one disbursement on March 28th of 2014, was MXN3,781m.

The general ordinary shareholders meeting, held on April 28, 2014 authorised the use of the net income for 2013 as follows:

- Five per cent, or MXN186 million, to increase legal reserves
- The remaining MXN3,528 million, at the Board's determination to be applied under the concept of other reserves

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

HSBC Mexico, S.A.

The net income for 2013 of HSBC Mexico, S.A., figure that was audited by the firm KPMG Cárdenas Dosal, S.C., was MXN2,146m.

On 21 March 2014, one notice was published in accordance to the agreement of the shareholders meeting, a dividend of $0.2969057373227060 was paid per share for each one of the 1,940,009,665 shares. Such dividend was paid on one disbursement on March 27st of 2014, was MXN576m.

The general ordinary shareholders meeting, held on April 28, 2014 authorised the use of the net income for 2013 as follows:

- Ten per cent, or MXN215 million, to increase legal reserves. On this quarter it was applied only Individual Bank reserve MXN228 million.
- The remaining MXN1,931m, at the Board's determination to be applied under the concept of other reserves

The capital stock is included in the amount of MXN 3,880m represented by 1,940'009,665 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***
% of assets subject to credit risk					
Tier 1	20.1%	19.52%	18.00%	18.79%	**19.43%**
Tier 2	4.1%	4.45%	4.26%	3.95%	**3.93%**
Total regulatory capital	24.2%	23.97%	22.26%	22.74%	**23.36%**
% of assets subject to credit, market risk and operational risk					
Tier 1	13.4%	12.73%	11.98%	11.88%	**11.83%**
Tier 2	2.7%	2.90%	2.83%	2.50%	**2.39%**
Total regulatory capital	16.1%	15.63%	14.81%	14.38%	**14.22%**
Tier 1	42,561	43,134	41,871	42,869	**44,685**
Tier 2	8,615	9,843	9,908	9,014	**9,037**
Total regulatory capital	51,176	52,977	51,779	51,883	**53,722**
RWA credit risk	211,851	221,027	232,602	228,156	**229,970**
RWA market risk	64,597	77,031	75,882	90,820	**105,345**
RWA operational risk	40,500	40,830	41,097	41,813	**42,565**
RWA credit and market risk	316,948	338,889	349,581	360,789	**377,880**

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

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

Figures in MXN millions

	For the quarter ending					*Year to date*	
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***	*30 Jun 2013*	***30 Jun 2014***
Investments in Securities	(883)	309	(45)	144	394	(623)	**538**
Trading derivatives	6	(179)	(71)	(107)	(809)	733	**(916)**
Currencies and metals	96	84	20	7	69	74	**76**
Valuation	(781)	214	(96)	44	**(346)**	184	**(302)**
Investments in Securities	67	(67)	14	474	257	330	**731**
Trading derivatives	879	391	65	161	586	583	**747**
Currencies and metals	337	168	508	47	(176)	126	**(129)**
Purchase / sale of securities	1,283	492	587	682	**667**	1,039	**1,349**
Total Trading Income	502	706	491	726	**321**	1,223	**1,047**

Other Operating Income (Expenses)

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

Figures in MXN millions

	For the quarter ending					*Year to date*	
	30 Jun 2013	*30 Sep 2013*	*31 Dec 2013*	*31 Mar 2014*	***30 Jun 2014***	*30 Jun 2013*	***30 Jun 2014***
Recoveries and reimbursements	178	167	177	312	**116**	370	**428**
Reimbursent of expenses incurred on behalf of related companies	43	2,677	1,430	17	**49**	164	**66**
Gain on sale of properties	0	0	1	13	**4**	0	**17**
Gain on sale of foreclosed assets	28	33	43	37	**55**	92	**92**
Accrued interest on loans granted to employees	34	35	34	34	**34**	68	**68**
Cancellation of excess of allowance for loan losses on a portfolio basis	497	(522)	2	86	**(52)**	526	**34**
Others	497	(2,416)	(1,029)	306	**298**	678	**604**
Total other operating income (expenses)	1,277	(26)	658	805	**504**	1,898	**1,309**

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 income statement information condensed by segments as of 30 June 2014 is shown below:

Figures in MXN millions	Year to date at 30 June 2014			
	RBWM	CMB	GBM	Total
Net Interest Income	7,106	2,723	1,154	10,983
Loan impairment charges	2,910	374	-116	3,168
Risk adjusted net interest income	**4,196**	**2,349**	**1,270**	**7,815**
Fees and Commissions, net	2,269	623	304	3,196
Trading Income	142	91	814	1,047
Other operating income	1,213	60	36	1,309
Total Revenue	**7,820**	**3,123**	**2,424**	**13,367**
Administrative and personnel expenses	6,937	2,723	1,365	11,025
Net operating income	**883**	**400**	**1,059**	**2,342**
Share of profits in equity interest	14	7	2	23
Net income before taxes	**897**	**407**	**1,061**	**2,365**
Tax expense	39	18	46	103
Income from ongoing operations	**858**	**389**	**1,015**	**2,262**
Discontinued operations	-113	-8	0	-121
Non-controlling interest	-1	-0	-0	-1
Net income (loss)	**744**	**381**	**1,015**	**2,140**

The balance sheet information condensed by segments as of 30 June 2014 is shown below:

Figures in MXN millions	RBWM	CMB	GBM	Total
Net loan portfolio	62,077	81,876	48,744	192,697
Deposits	150,648	91,661	24,458	266,767

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 at June 30, 2014 is shown below:
Figures in MXN millions

	Receivable	Payable
Balance:		
HSBC Latin America Holdings (UK) Limited	143	-
HSBC Bank Brazil, S. A. Banco Multiplo	155	91
HSBC Holdings Plc.	68	215
HSBC Bank Argentina S. A.	16	6
HSBC Private Bank (SUISSE) S. A.	1	12
The Hong Kong and Shangai Banking Corporation Limited	-	53
HSBC Software Development (India) Private Limited	-	22
HSBC Software development (Brazil)	-	8
HSBC Technologies and Services (USA) Inc.	-	52
HSBC Bank (Uruguay), S. A.	9	-
HSBC Bank Canada	-	4
HSBC Bank (Chile), S. A.	8	-
HSBC New York Life Seguros de Vida (Argentina), S. A.	11	-
HSBC Argentina Holding, S. A.	3	-
HSBC Bank plc.	11	38
HSBC PB Service (SUISSE) S. A.	-	5
HSBC Global Operations Company LTD	-	19
HSBC Software Development (Guangdong)	-	2
Total	**425**	**527**

	June 2014
Profit and Losses:	
Income Administrative Services	385
Administrative Expenses and promotion	(632)

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)

Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the half year ended 30 June 2014 and an explanation of the key reconciling items.

Figures in MXN millions	**30 June 2014**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**2,140**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits[♦]	60
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments[♦]	(88)
Loan impairment charges and other differences in presentation under IFRS[♦]	(679)
Recognition of the present value in-force of long-term insurance contracts [♦]	(145)
Other differences in accounting principles[♦]	(309)
Net income under IFRS	**978**
US dollar equivalent (millions)	**75**
Add back tax expense	(166)
Profit before tax under IFRS	**812**
US dollar equivalent (millions)	**63**
Exchange rate used for conversion	***12.97***

[♦] 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.

Recoveries of written off loans are presented in Other Operating Income.

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.

Loan Impairment Charges increase in the first half of 2014 is partly due to refinements to the collective impairment model, primarily in RBWM.

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.

Recoveries of written off loans are presented in Loan Impairment Charges.

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.

Investment in subsidiaries

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

Group Subsidiaries at June 30, 2014

	Participation %*
HSBC México, S.A.	99.99%
HSBC Seguros, S.A. de C.V.	100.00%
HSBC Casa de Bolsa, S.A. de C.V.	100.00%
HSBC Global Asset Management (México) , S.A. de C.V.	100.00%
HSBC Servicios, S.A. de C.V.	100.00%
Total	

*The controlling interest includes the direct and indirect interest of the Group in its subsidiaries.

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	03-Jul-14	20-Dec-13	14-Aug-13

Accounting Policies

These consolidated financial statements are prepared in accordance with the accounting criteria for financial group holding companies in Mexico, at the consolidated balance sheet date, established by the Banking Commission (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, 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. The CINIF has issued the NIF and Improvements listed below

NIF C-11 "Stockeholders'equity"

- Requires that in order to capitalise the advances for future capital stock increases, at the stockholders' or partners' meeting it shall be agreed that such advances be applied for future capital stock increases and also, the price per share to be issued pursuant to such contributions shall be fixed. Furthermore, it shall be agreed that these contributions shall not be refunded before being capitalized.

- Broadly identifies financial instruments with characteristics of equity which would otherwise, be regarded as liabilities. However, the specific standard that classifies financial instruments as either equity or liabilities, within the same compound financial instrument, is NIF C-12 "Financial instruments with characteristics of liabilities and equity".

Modifications to the NIF C-12 "Financial instruments with characteristics of liabilities and equity"

- This NIF sets forth that the primary characteristic to be met for a financial instrument to be classified as an equity instrument, is that its holder be exposed to the entity's risk and rewards rather than the right to charge the entity a fixed amount.

- By exception, if certain conditions apply and there is no other obligation virtually assured to require payment to the holder, a redeemable instrument is classified as equity.

- The subordination concept is included.

- An instrument may be classified as equity if there is an option to issue a fixed number of shares at a price fixed in a currency other than the issuer's functional currency, provided that all existing owners of the same class of equity instruments have that option, on a pro rata basis.

In December 2013 the CINIF published the document referred to as "2014 NIF improvements", which contains precise modifications to some NIF:

Improvements to NIF C-5 "Prepayments"

Provides that amounts paid in foreign currency be recognised at the exchange rate in force as of the transaction date, and shall not be modified as a result of foreign exchange fluctuations between the functional currency and the foreign currency in which the prices of goods and services regarding such prepayments are denominated. Additionally, it provides that impairment losses arising from prepayments, as well as the reversal of such losses, shall be reported as part of the net income or loss for the period.

Improvements to NIF C-15 “Impairment or disposal of long-lived assets”

Provides that the impairment loss for a long-lived asset in use, as well as the reversal thereof, and the impairment loss of long-lived, available-for-sale assets, including increases or decreases, shall be reported in the results of operations for the period, under the line items of costs and expenses, where depreciation and amortization is recognized. The impairment loss and reversal thereof, for indefinite-lived intangible assets, including goodwill, shall be presented in the results of operations for the period, under the line item for depreciation and amortization expenses on assets of the cash generating unit to which such tangible assets relate. Under no circumstances shall impairment losses be presented as part of the expenses that have been capitalized in the value of a certain asset.

Likewise, it sets out that in order to report the impairment losses of associates, joint ventures and other permanent investments, and the goodwill thereof, the provisions of NIF C-7 shall be complied with. NIF C-7 provides that impairment losses be recognized under the line item equity in the net income or loss of other entities.

Additionally, NIF C-15 sets out that assets and liabilities identified with discontinued operations shall be presented in the statement of financial position, grouped in a single line item of assets and a single line item of liabilities, classified as short-term, and shall not be offset between them. Furthermore, such items shall be reported as long-term in the event of sale agreements that are essentially purchase options and sale - leaseback agreements. It also provides that the entity shall not restate previously issued statements of financial position as a result of such reclassification.

II. 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 ". Article Third of the Transitional Dispositions provides that the new methodology for commercial portfolio granted to financial institutions included on section IV of Article 110 of Dispositions would be in force from January 1st, 2014; and the financial impacts resulted from the changes on this methodology must be recognised no later than June 30th, 2014. HSBC chose to adopt on March 2014 the methodology for commercial portfolio granted to financial institutions. As result of the adoption HSBC recognised a debit in retained earnings on March 2014 for MXN31m (MXN22m net of deferred tax).

HSBC has not determined the retrospective financial effect from the application of this new methodology related to the year 2013. 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 Standards B-1 "Accounting changes and correction of errors" required in this ruling by the CNBV.

Below is a comparison between the amounts of loan loss provisions for commercial portfolio granted to financial institutions, 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 March 2014

MXN millions	
Prior methodology	Actual methodology
134	174

III. 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 CNBV 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 HSBC made available to customers, upon request, is to 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 and June 30, 2014, 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 CNBV would not had been applied, which are related to interests, was immaterial.

Because the benefit applied by HSBC 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.

IV. Amendments to Annex 33 of the general provisions applicable to credit institutions

On May 19, 2014, the CNBV published in the DOF amendments to Annex 33 of the Provisions. Changes to accounting standards were performed in order to achieve consistency between the accounting criteria for banking institutions and IFRS.

Among the most important changes are the following:

- Clarifies and ensures consistency between the accounting criteria issued by the CNBV and IFRS.
- Presentation of overdrafts on deposit accounts for those customers who do not have a line of credit previously granted should be classified as "Other receivables" on the first time application of the accounting criteria. In addition, new accounting criteria states that such overdraft should be considered impaired and must necessarily be fully provided for credit risk purposes.
- More details are required in the loan portfolio disclosure and on the related regulatory reports.

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

Group HSBC (including HSBC Mexico) does not have a fixed dividend policy. The decision to decree or not 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 decreed per share has been the following:

- Based on the authorization granted by the Board of Directors on 29th 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 18th 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 29th 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 26th March 2013 a dividend payment was made for MXN 0.721645889326 per share for the 1,940,009,665 outstanding shares.
- Based on the authorization granted by the shareholder assembly, on 27th March 2014 a dividend payment was made for MXN 0.296905737322706 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 to provide a reasonable safeguard that the organisation operates in an effective and sound way.
The key procedures that the Management has established have been designed to facilitate the effectiveness 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 and the development of business. 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), is celebrated in a monthly basis. In the RMC, assets and liabilities affairs are discussed.
- 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, operational 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 effectiveness 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 is also responsible to implement recommendations given by the external auditor 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, periodical 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 effectiveness 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, as well as its subsidiaries, begins with the Board of Directors, 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's 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 to which this Institution is subject. 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 Subdirector (Secretary). The committee is chaired by and external advisor on a monthly basis.

Objectives 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.
- Risk monitoring and reporting – material risk trends in Credit, Market, Liquidity, Insurance, Asset Management, Private Banking, Reputational, Sustainability, Strategic and Operational risk and Internal Controls, including Financial Crime Compliance, Regulatory Compliance and Security & Fraud related matters and Audit issues, which have an impact on the Company´s subsidiaries, or have a local or wider Regional / Group impact.
- 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.
- 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.
- Appoint and remove the Head of the UAIR ("Unidad para la Administración Integral de Riesgos"). The appointment or removal shall respectively be ratified by the Board of the Company.
- Report to the Board, at least quarterly, on the exposure to the risk assumed by the Company, as well as the failure of exposure limits and Risk Appetite.
- Ensure, at all times, knowledge by all staff involved in risk decisions, on the Risk Appetite and levels of Risk Tolerance.
- 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.

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 valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.
- **Credit Spread risk. -** This is the risk that mark-to-market value of a corporate bond, inter-bank bond or sovereign debt in foreign currency, decreases due to changes in the credit quality perception of the issuer.

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

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

Value at Risk (VaR)

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

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

PVBP is a measure of market risk exposure arising from movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates involved with the pricing of financial assets and liabilities, by re-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, uses 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) 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 second quarter of 2014 (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 2Q14	Limits*	Average 2Q14	Limits*	Average 2Q14	Limits*
Combined	14.21	38.00	3.73	13.00	13.65	38.00
Interest Rate	13.35	40.00	3.82	9.50	12.98	38.00
Credit Spread	2.84	22.00	0.37	3.00	2.48	22.00
FX	1.20	5.00	1.20	5.00	N/A	N/A
Volatility IR	0.11	4.00	0.11	1.80	0.00	2.50
Volatility FX	0.01	2.00	0.01	2.00	N/A	N/A
Equities	0.01	2.50	0.01	2.50	N/A	N/A

N/A = Not applicable

** Absolute Value*

	31-Mar-14	30-Jun-14	Limits*	Average 1Q14	Average 2Q14
HBMI	**13.74**	**15.48**	38.00	16.51	14.21
Accrual	**11.63**	**14.05**	38.00	13.25	13.65
Trading Intent	**4.40**	**2.68**	13.00	3.97	3.73

N/A = Not applicable

* Absolute Value

The Bank's VaR at the end of 2Q14 changed 12.66% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 2Q14 changed -13.93% versus prior quarter. During the quarter the average VaR was within the limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for 31 March, 2014 and 30 June, 2014.

Market VaR vs. Net Capital Comparision

Net Capital in million Dollars

	31-Mar-14	30-Jun-14
Total VaR *	16.51	14.21
Net Capital **	3,974.22	4,141.78
VaR / Net Capital	0.42%	0.34%

** The Bank'squarterly VaR average in absolute value*

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

The average market VaR represents 0.34% of the net capital in the second quarter of 2014.

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

	31-Mar-14	30-Jun-14	Limits*	Average 1Q14	Average 2Q14
Bank	**(1.254)**	**(1.332)**	2.050	(1.382)	(1.273)
Accrual	**(1.139)**	**(1.219)**	1.550	(1.206)	(1.216)
Trading Intent	**(0.115)**	**(0.113)**	0.500	(0.175)	(0.057)

** Absolute Value*

The bank's MXN Rate PVBP for 2Q14 changed 6.22% versus previous quarter. Bank's average PVBP for 2Q14 changed -7.89% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate

	31-Mar-14	30-Jun-14	Limits*	Average 1Q14	Average 2Q14
Bank	**0.089**	**0.062**	0.430	0.045	0.041
Accrual	**0.021**	**0.043**	0.300	0.009	0.015
Trading Intent	**0.068**	**0.019**	0.130	0.036	0.026

** Absolute Value*

The bank's USD Rate PVBP for 2Q14 changed -30.34% versus previous quarter. Bank's average PVBP for 2Q14 changed -8.89% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates

	31-Mar-14	30-Jun-14	Limits*	Average 1Q14	Average 2Q14
Bank	**(0.064)**	**(0.079)**	0.150	(0.050)	(0.067)
Accrual	**(0.027)**	**(0.024)**	0.050	(0.029)	(0.026)
Trading Intent	**(0.037)**	**(0.055)**	0.100	(0.022)	(0.042)

** Absolute Value*

Bank's UDI Rate PVBP for 2Q14 changed 23.44% versus prior quarter. Bank's average PVBP for 2Q14 changed 34.00% 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 possible 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 the end of the quarter expected cash flows under the major stressed scenario of USD 1,764m in the 7 days term; USD 2,420m in the 1 month term and USD 861m in 3 months; obtaining a net positive cumulative result in all cases.

Along the quarter, average level was USD 2,605m in 7 days term, USD 1,644m in 1 month term and USD 496 in 3 months term. With respect to the last quarter, the liquidity position increased mainly due to the inclusion of the total amount of the regulatory deposit reserves as withdrawable in times of stress.

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 MXN12,500m. 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 MXN100m.

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 USD1,000m (GLCS).
- Another one to assess Bank Financial Institutions (RAfBanks).
- And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFI Models).

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 MXN12,500m) 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.

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.

Based on the last 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.

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*".

With the aim to ensure consistency in the local provisioning process of the Commercial and Financial Institutions Portfolios, the Risk Application was implemented in HSBC Mexico during 1H14.

Quantitative information

The Expected Loss of the Commercial Portfolio as of 30 June 2014 is MXN 14,523m, showing an increase of MXN 1,257m (or 9%) compared to the figure reported in the previous quarter.

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 30 June 2014 is MXN4,744m , Credit Cards is MXN 2,697m, Other Retail MXN 1,745m and Mortgage MXN 333m..

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 mitigates.

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 (HSBC Technology & Services) on an on-going basis. The model delineates management accountabilities and responsibilities over risk management and the control environment.

First Line of Defence:

The First Line of Defence comprises predominantly management of Global Businesses and 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.

Quantitative Information (including Legal and Technological Risk)

From the 10th Operational Risk assessment exercise carried out at the end of 2013, and considering further updates performed during 2Q14; 1,768 risks have been identified and assessed by the different areas of the Bank. From this inventory 7.987% (141 risks) are considered very high, 16.86% (298 risks) are considered High, 31.56% (558 risks) are considered Medium, and 43.60% (771 risks) are considered Low.

The institution holds an Operational Risk historical database since 2007, in which operational losses incidents are registered.

The Operational Risk appetite statement for the bank is USD42.76m for Operational Losses and is monthly monitored through the BSC presented at the Operational Risk and Internal Control Committee and Risk Management Committee (RMC).

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), incidents, 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, is the risk of the Institution suffering financial loss, legal or regulatory action or reputational damage because its rights and/or obligations under a contract to which it is a party are technically defective. Such technical defects include: misrepresentation, inadequate documentation, unintended consequences unintended breach and/or enforceability

  Notwithstanding the above, Contractual Risk does not include the risk of financial loss, legal or regulatory action or reputational damage caused by: (i) Commercial risks in a contract as a result of poor negotiation by the business of the core commercial terms (eg. on price, term, scope etc.); (ii) The business failing to comply with the terms of the contract including as a result of operational error; or
  (iii) Business error or oversight in the pre-contractual process.

- Dispute Risk, is the risk of the Institution suffering financial loss or reputational damage due to adverse dispute environment and/or failure of management of disputes

- Legislative Risk, which is the risk that the Institution fails to adhere to the laws of the jurisdictions in which it operates, and includes: compliance with laws and/or change of law.

- Non-Contractual Rights Risk, which is the risk that the Institution assets are not properly owned or protected or are infringed by others or the infringement of another party's rights, and includes: infringement, ownership rights and/or 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 changes or amendment to the legislation or 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 with current law and regulation.

- Non Contractual Rights Control:

There are established procedures in order to assure that the Legal department validates the use of the Group 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)

HSBC defines Sustainability as a business philosophy based on the application of integral actions perusing long term results, in compliance with its co-participation ideology generating a relationship of trust with its customers and ally institutions.

From the Sustainable perspective, Bank's efforts aim to improve life quality in the communities where it operates, supporting and/or developing programs in three areas: education, environment and community, all with the goal of achieving a significant social transformation and reduce as much as possible the environmental impact of its operations.

The Bank's strategy considers the 3 pillars of Sustainability:

1. Economic: alignment with the Ecuador principles and considering the environmental impact of the Group's investments.
2. Environmental: Controlling environmental direct impacts and promoting a sustainable culture within its organization.
3. Social: Supporting education, community and environmental projects promoting the positive development of the communities where the bank operates and to actively involve its employees in volunteer activities.

This year is expected to be a challenging year for the business and to maximize the impact of the Bank's Community Investment and its 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 Global English.

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

The Bank'sCommunity Investment fund comes from its profit before taxes and customer contributions. Globally, HSBC's policy is to invest 0.5% of its pre-tax profits to social projects.

For 2014, the target is to invest $41.5 million pesos, 75.9% of such investment is made by HSBC and 24.1% by its customers.

1. Climate Business (Sustainable Finance)

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

The CMB workplan has been defined to properly identify Climate Business opportunities and potential customers, following up and communicating success deals and consolidating income.

The current pipeline of Climate Business projects includes: efficiency equipment and BRT (Bus Rapid Transit).

2. Sustainable Operations

HSBC aims to reduce the environmental direct impact of its operations, for that end we had generated initiatives to reduce our energy and paper consumption, our CO2 generation and the amount of waste sent to landfill.

During the first half of 2014 the Bank recycled over 220 tons of waste generated in our main office buildings and 24 tons of electronic equipment. Additionally our premises consumed 270 MWh less energy than the same period of the last year, which represent149 lees tons of CO2 generated.

On March 2013, the Bank unveiled the LEED Volume Certification for Operations & Maintenance plaque in Hegel branch representing the 25 branches nationwide. The main objective of the project is to reduce the environmental impact of its 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 the bank works towards the correct segregation, disposition and recycling of waste generated in its corporate buildings. Due to this program, the bank had recycled 132.9 tons of waste during the first quarter of the year.

REDUCE Global Campaign: The Bank's Corporate Sustaintability department 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, headed by a short video of waste management shown in ConectaTV.

Also, the Bank launched the Mission Planet: Waste Management Magazine for kids that explains in a friendly way how to separate correctly the trash and concepts such as recycle, reduce, reuse, among others.

REDUCE

todos **podemos hacer más** para **usar menos**

Earth Hour

On March 29th HSBC Mexico took part in this global campaign by switching off 11 buildings. This year´s event took place at the HSBC Tower and all the event and communication campaign was aligned to REDUCE.

It was organized by Corporate Real Estate and Corporate Sustainability teams. More than 100 people attended and we generated around $193,000.00 USD of free press articles.

3. Communication

During this quarter, the Corporate Sustainability Department gained 36 free press releases with an estimated value of USD385,000.

Community Investment Report 2013

The Bank launched the annual report, 100 copies will be distributed among our stakeholders and the digital version and video will be shared in all the internal communication channels, HSBC Mexico webpage and social media. The report highlights all the Community Investment and Volunteering activities that took place in 2013.

Volunteering Campaign

HSBC Mexico launched the new volunteering campaign focused to communicate the new scheme and to encourage the leaders to participate with their teams in the volunteering activities.

REDUCE video

The bank launched the Waste Management video aligned to REDUCE that explains briefly how to separate properly the waste in the containers of the branches and principal buildings.

Additionally, HSBC Mexico successfully developed the Toy Drive campaign that won in the category “Best Toy Drive Comms” of the Future First Toy Drive Awards.

4. Community Investment – Volunteering

Financial Education "More Than Money"

For this project 118 volunteers in 7 cities 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 when they grow up, so they can have an income. Thanks to this, 1,620 children were benefited and 973 hours were donated.

Children Day

As part of the new Volunteer Programme, on April and May, 118 volunteers participared in 12 activities such as: visits to hospitals, NGO's supported by our Future First Programme and many other types of institutions that take care of low income children. Thank to this 580 hours were donated.

Junior Achievement – Future First Fund: Advantages Programme

Thanks to the Future First fund, the Bank continued 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, 287 teenagers were benefited thanks to the participation of 16 volunteers.

Aprende con HSBC

The program aims to integrate the partners of Business Heads in the communities where we operate through various volunteering activities with children. During this quarter, 26 volunteers taught "More than Money" to 324 primary school kids in 5 schools. At the end of the course Profesor Q, a theatre performance aimed at teaching basic finance was shown to 1,226 kids in 4 schools. Also, 71 students were benefited by receiving glasses to improve their learning and performance.

Moreover, the volunteers visited Asilo Primavera for mother's day and donated basic supplies for the shelter home. Finally, Rosy Sandoval has given 2 out of 6 courses on Personal and Emotional Development.

Toy Drive

The Toy Drive was implemented all across the country and colleagues from all HSBC Mexico Corporate Buildings and Divisions were involved.

Each Division selected a colleague to be the Toy Drive Coordinator and the same process was replicated in each of the Corporate Buildings in Mexico City.

The campaign was launched in two stages - Stage 1 - a call for action to all HSBC staff and Stage 2 - Communication on impact of the campaign to each Divisional Director, Head of RBWM Branch Network and Toy Drive Coordinators.

Over 15,000 toys in 46 cities were collected and reached out to over 10,000 children in 62 charities, hospitals, schools, shelter homes and the Female Prison of Santa Martha Acatitla. 838 volunteers volunteered more than 3,600 hours for this initiative.

To note, on February the Bank was recognized with two awards: Best Stakeholder Involvement and Best Toy Drive Communications for the Future First Toy Drive Awards 2013 on which 16 countries participated. The other two awards were given to HSBC in Turkey.

Junior Achievement Volunteering

HSBC Mexico involved 65 volunteers in 2 cities, and launched a new Junior Achievement programme, called "Values".

The goal of the program is to teach children about the importance to apply in every moment of their life values, such as: tolerance, respect, health and protect the environment.

Also, the Bank finished the first phase of the programme: "Advantages to stay in school". Thanks to this, 865 high school students now are able to understand in way much deeper about the importance of staying in school and continue studying.

To note, on May HSBC Mexico will start with More Than Money and Climate Entrepreneurs.

5. Community Investment - Education

"Just raise your hand"

The flagship educational program "Just raise your hand", in alliance with Lazos & Ara foundations has benefited a total of 4,548 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.

During 2014 the Bank aims to sponsor 1,045 additional children for a total of 5,593 sponsorships and add 8 new schools to reach 34 schools in 27 states.

The ATM's costumer contribution campaign for "Just raise your hand" lasted 4 months, starting in January and concluding in April 2014. The campaign rose over MXN4m which will be used for infrastructure improvement of the schools incorporated this school year.

"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.

The program is worked in alliance with NEMI foundation, during the first semester 7,953 children were benefited in 87 schools distributed in 3 states of Mexico: Mexico State, Jalisco and Morelos.

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.

Additionally, the program is working together with the Bank's flagship education program "Just raise your hand", where children with vision problems are assisted, enhancing the education quality in our schools and benefiting children in a much more integral way.

For the school cycle 2013 -2014 the Bank aims to benefit 44,122 children.

English Programme

The project's 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.

Global English (On-line software): this quarter 8,278 users have begun using the software, and in total they have completed 29,473 hours training.

Financial Education

This year the Bank has offered 8 conferences by Gianco Abundiz: 2 for HSBC Mexico employees, 3 to students of Universidad del Valle de México and 3 to commercial customers. The Bank will have 8 more for the second semester of the year.

HSBC Mexico supported CONDUSEF by printing 70,000 financial education guides that are going to be distributed in USA and Canada and we have started working with ABM to plan the National Week of Financial Education 2014, which will take place in October.

MUJERes fuerza (Women Empowerment in rural communities)

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. The Bank has worked in 3 states (Estado 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, HSBC Mexico is hiring people with disabilities through Manpower Foundation A.C., FHADI I.A.P., Colabore A.C. and Teletón Foundation. At the moment, 50 candidates have been hired.

Through the 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. The launch of the new center will take place the 8th of August.

As part of business engagement Jorge Font will be giving motivational conferences for employees in the 8 Divisions. The first took place on Wednesday 18th and the rest will follow through August.

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 is a 5 year and USD100m dollars initiative launched in 2012 in alliance with Earthwatch, Water Aid and WWF.

The program is supporting, through the Global Fund and 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. Up to date the program had benefited 636 people.

Additionally, the Bank involved our staff by training them to become Citizen Science Leaders, with the objective of contributing with a Global fresh water research. During the first half, we have trained 85 people.

From 5th to 11th May, 15 volunteers of the program "HSBC México Cuida Tu Ambiente" carried an environmental activity in Quintana Roo with the NGO Amigos de Sian Ka'an, in order to enhance the place where the investigations are carried on thanks to support given through HSBC Water Programme.

Through this, the Bank was able to install in Esmeralda, a low income community, 3 rainwater harvesting systems, a cistern for water storage and a tank for waste management in Pez Maya. Thanks to this they donated a total of 1,050 volunteering hours.

"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", where about 30% of Mexico City water supply is distributed. At the moment we have relocated 4,000 plants (50% of advance vs objective).

The program has also been working together with the NGO Isla Urbana, which is supported by the HSBC Water Programme. Through this we have installed 12 rainwater harvesting systems, 3 biodigestors and 8 hydroponic systems.

At the moment, the Bank has had 840 participants in 21 activities, including the environmental leaders volunteers + family members.

Environmental Month

On June and July, HSBC Mexico will carry on several activities in benefit of the environment:

- 4 Reforestations in the State of Mexico, Jalisco, Queretaro and Nuevo Leon.
- Sustainability Fair in 5 different HSBC buildings located at Mexico City and the States of Mexico and Jalisco.
- Environmental Courses for HSBC volunteers and their family members.

All of this activities are leaded and carried by members of "HSBC Cuida tu Ambiente" Programme – Citizens Scientist Leaders in alliance with NGO partners supported by HSBC with an expected participation of more than 4,700 colleagues and family members.

7. Client Contribution

During the first half of 2014 the Bank's total client contribution was over MXN5m obtained through a campaign in ATM's in favor of "Just raise your hand" the flagship education program and Becalos.

8. Conclusions

The great challenges HSBC Mexico is facing this year are also an opportunity to focus its Community Investment on strengthening its flagship programs and on those projects helping the Bank to develop further its stakeholder engagement. Furthermore, with these campaigns the Bank continues to involve not only its staff through volunteering, but also its clients. HSBC Mexico had managed to add value to its users, providing them opportunities to participate in social responsible and environmentally friendly programs.

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Annex A

Table I

Reference	Common equity Tier 1 capital	30 Jun 2014
1	Ordinary shares graded for Common equity TIER 1 capital and related surplus	32,768.5
2	Retained earnings	2,829.0
3	Accumulated other comprehensive income (and other reserves)	14,127.5
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	49,725.0
	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)	1,036.1
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)	2.9
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)	2,440.0
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	1,560.6
A	which: Accumulated other comprehensive income (and other reserves)	-
B	which: investments in subordinated debt	91.1
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	9.0
H	which: own stock acquisition financing	-
I	which: Operations that infringe provisions	-
J	which: Deferred charges and prepaid expenses	1,460.4
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	5,039.5
29		Common Equity Tier 1 capital (CET1)	44,685.5

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)	44,685.5

Tier 2 Capital: instruments and reserves

46	Tier 2 capital instruments issued by parent company of group (and any related surplus)	1,426.8
47	Tier 2 capital instruments issued by parent company of group to be deducted	6,384.0
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	1,225.9
51	Tier 2 capital prior to regulatory adjustments	9,036.7

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)	9,036.7
59	Total Capital (TC=T1+T2)	53,722.2
60	Total Risk-weighted assets	377,880.0

Capital ratios and supplements

61	Common equity Tier 1 Capital (as % of total RWAs)	11.83%
62	Tier 1 Capital (as % of total RWAs)	11.83%
63	Total Capital (as % of total RWAs)	14.22%
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)	4.83%

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)	4,712.5

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	1,287.3
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	7,810.8
85	Excluded amount on T2 due to limit (excess over the limit after amortization and maturities)	1,597.6

Table II

Capital concept	Prior to capital recognition adjustment	% total RWAs	Capital recognition adjustment	Including capital recognition adjustment	% total RWAs
Tier 1 capital 1	44,685.47	11.83	0.00	44,685.47	11.83
Tier 1 capital 2	0.00	0.00	0.00	0.00	0.00
Tier 1 capital	44,685.47	11.83	0.00	44,685.47	11.83
Tier 2 capital	9,036.72	2.39	0.00	9,036.72	2.39
Total capital	53,722.19	14.22	0.00	53,722.19	14.22
Total RWAs	377,880.02	NA	NA	377,880.02	NA
Capitalization index	14.22	NA	NA	14.22	NA

Table III.1

Reference	Balance Sheet concept	Amount
	Assets	**593,487**
BG1	Cash and deposits in banks	48,365
BG2	Margin accounts	5
BG3	Investment in securities	205,920
BG4	Repurchase agreements	-
BG5	Stock borrowing	
BG6	Derivative transactions	55,607
BG7	Financial assets hedging valuation adjustments	
BG8	Net loan portfolio	192,445
BG9	Benefits to be received from trading operations	168
BG10	Other accounts receivable (net)	71,324
BG11	Foreclosed assets	130
BG12	Property, furniture and equipment, net	4,692
BG13	Long term investments in equity securities	4,600
BG14	Long term assets available for sale	-
BG15	Deferred taxes, net	7,153
BG16	Other assets	3,078
	Liabilities	**543,762**
BG17	Deposits	267,218
BG18	Bank deposits and other liabilities	36,379
BG19	Repurchase agreements	83,300
BG20	Stock borrowing	-
BG21	Collateral sold	12,969
BG22	Derivative transactions	55,222
BG23	Financial liabilities hedging valuation adjustments	-
BG24	Debentures in trading operations	-
BG25	Other accounts payable	78,614
BG26	Subordinated debentures outstanding	9,414
BG27	Deferred taxes, net	-
BG28	Deferred credits	646
	Stockholder's equity	**49,725**
BG29	Paid in capital	32,769
BG30	Capital gains	16,956
	Memorandum accounts	**4,629,243**
BG31	Guarantees granted	-
BG32	Contingent assets and liabilities	-
BG33	Irrevocable lines of credit granted	28,049
BG34	Goods in trust or mandate	453,989
BG35	Federal government financial agent	
BG36	Goods in custody or under administration	423,902
BG37	Collateral received by the institution	13,531

BG38	Collateral received and sold or delivered as guarantee	12,969
BG39	Third party investment banking operations, net	50,754
BG40	Suspended interest on impaired loans	295
BG41	Other control accounts	3,645,754

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	1,036.1	BG16 3078
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	2.9	BG13 4600
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	2,440.0	BG15 7153
13	Recognized reserves as supplementary capital	50	1,225.9	BG8 192445
14	Subordinated debt investment	26 - B	91.1	BG8 192445
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	9.0	BG13 4600
19	Own shares acquisition financing	26 - H	0.0	
20	Deferred charges and prepaid expenses	26 - J	1,460.4	BG16 3078
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	2,440.0	BG15 7153
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	1,426.8	BG26 9414
31	Subordinated debentures that coincide with 1-S annex	46	6,384.0	BG26 9414
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	2,829.0	BG30 16956
36	Result from cash flow hedging transactions registered at fair value	3	118.8	BG30 16956
37	Other elements of other capital reserves different to previous ones'	3	14,008.7	BG30 16956
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	0.0	
		3, 26 - A	0.0	
	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	92,169	7,373.5
Surcharge and revisable rate debt operations in local currency	803	64.2
Real rate or UDIs operations in local currency	1,571	125.6
Minimum wages growth rate operations in local currency	-	-
UDIs o INPC profit referred positions	16	1.3
Minimum wages growth rate operations in local currency	-	-
Nominal rate operations in foreign currency	6,584	526.7
Foreign currency or indexed to exchange rate positions	4,203	336.2
Stock or price index stock positions	1	0.0

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%)	6.02	0.48
Group II (weighted at 50%)	4,994.86	399.59
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%)	31.67	2.53
Group III (weighted at 11.5%)	367.01	29.36
Group III (weighted at 20%)	6,428.00	514.24
Group III (weighted at 23%)	97.09	7.77
Group III (weighted at 50%)	0.00	0.00
Group III (weighted at 57.5%)	0.00	0.00
Group III (weighted at 100%)	0.00	0.00
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%)	2,937.49	235.00
Group V (weighted at 10%)	0.00	0.00
Group V (weighted at 20%)	642.10	51.37
Group V (weighted at 50%)	1,557.03	124.56
Group V (weighted at 115%)	0.00	0.00
Group V (weighted at 150%)	6,097.82	487.83
Group VI (weighted at 20%)	0.00	0.00
Group VI (weighted at 50%)	5,488.52	439.08
Group VI (weighted at 75%)	3,458.34	276.67
Group VI (weighted at 100%)	42,195.81	3,375.66
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%)	618.08	49.45
Group VII_A (weighted at 11.5%)	0.00	0.00

Group VII_A (weighted at 20%)	5,714.57	457.16
Group VII_A (weighted at 23%)	6,277.51	502.20
Group VII_A (weighted at 50%)	931.29	74.50
Group VII_A (weighted at 57.5%)	0.00	0.00
Group VII_A (weighted at 100%)	104,658.98	8,372.72
Group VII_A (weighted at 115%)	11.98	0.96
Group VII_A (weighted at 120%)	0.00	0.00
Group VII_A (weighted at 138%)	590.38	47.23
Group VII_A (weighted at 150%)	626.55	50.12
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%)	2,743.82	219.51
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%)	9,193.80	735.51
Group IX (weighted at 100%)	20,755.50	1,660.44
Group IX (weighted at 115%)	0.00	0.00
Group X (weighted at 1250%)	1,001.25	80.10
Securitizations with Risk rating 1 (weighted at 20%)	77.51	6.20
Securitizations with Risk rating 2 (weighted at 50%)	2.78	0.22
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%)	369.36	29.55
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%)	0.00	0.00
Resecuritizations with Risk rating 5, 6 or not classified (weighted at 1250%)	2,095.00	167.60

Table IV.3

Operational RWAs	Capital Requirements
42,565.4	3,405.2

Average Market and credit RWAs of last 36 months	Average of positive net annual revenues for the last 36 months
22,701.5	26,234.5

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	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC
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	Básico 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 excedente de prima en venta de acciones y su actualización por 28,888,503,834	1,454	1,818	1,427	3,112
9	Valor nominal del instrumento	$32,768.00	$1,817.60	$2,272.65	$1,426.83	$3,891.36
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; 31/12/2011; 29/01/2013	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
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.	03/07/2014; 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.	28/07/2014; 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.	25/07/2014 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 2014 que fue de 0.296906 por acción	Tiie 28 + 0.60 pp	Tiie 28 + 2.0 pp	Variable	Libor 1 mes + 3.50 pp
19	Cláusula de cancelación de dividendos	No	No	No	Libor 1 mes + 3.65 pp	No
20	Discrecionalidad en el pago	Obligatorio	Obligatorio	Obligatorio	No	Obligatorio
21	Cláusula de aumento de intereses	No	No	No	Parcialmente Discrecional	No
22	Rendimiento/dividendos	No Acumulables	No Acumulables	No Acumulables	No	No Acumulables
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 las condiciones 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 referida en este inciso será definitiva, por lo que no podrán incluirse cláusulas que prevean la restitución u otorguen alguna compensación a los tenedores del o los Títulos.	N.A

25	Grado de convertibilidad	N.A	N.A	N.A	La conversión se realizará al menos por el monto que resulte menor de: (i) la totalidad de los Títulos, y (ii) el importe necesario para que el resultado de dividir el capital básico 1 del Emisor entre los activos ponderados sujetos a riesgo totales del Emisor sea de 7.0% (siete por ciento). Cada vez que se actualicen los supuestos antes descritos, operará nuevamente la conversión en acciones ordinarias, en los mismos términos. La conversión deberá realizarse observando en todo momento los límites de tenencia accionaria por persona o grupo de personas, previstos en las leyes aplicables. Para efectos de lo anterior, el Emisor desde el momento de la Emisión se asegurará y verificará que se dé cumplimiento a dichos límites o bien, que se presenten los avisos y/o se obtengan las autorizaciones correspondientes.	N.A
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 Subordinada.	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 HSBC	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	

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.