Grupo Financiero HSBC

Financial information at 31 December 2014

4Q14

► **Press Release**

► **Quarterly Report**

► **Fourth Quarter 2014**

Release date:
27 February 2015

HSBC

27 February 2015

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

- Net income before taxes for the year ended 31 December 2014 was MXN2,365m, a decrease of MXN2,341m or 49.7% compared with MXN4,706m for 2013. The results for the year ended 31 December 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes decreased 40.3% compared with 2013, mainly due to lower revenue and higher administrative and personnel expenses.

- Net income for the year ended 31 December 2014 was MXN1,981m, a decrease of MXN1,733m or 46.7% compared with MXN3,714m for 2013, mainly due to lower profit before taxes partially offset by lower tax expenses largely due to higher inflationary effects. Excluding the effect of the AXA distribution agreement and discontinued operations, net income decreased 30.4% compared with 2013.

- Total operating income, net of loan impairment charges, for the year ended 31 December 2014 was MXN24,530m, a decrease of MXN1,835m or 7.0% compared with MXN26,365m for 2013.

- Loan impairment charges for the year ended 31 December 2014 were MXN8,002m, a decrease of MXN84m or 1.0% compared with MXN8,086m for 2013.

- Administrative and personnel expenses for the year ended 31 December 2014 were MXN22,214m, an increase of MXN511m or 2.4% compared with MXN21,702m for 2013.

- The cost efficiency ratio increased to 68.3% for the year ended 31 December 2014, compared with 63.0% for 2013, mainly due to reduced total operating income and higher administrative and personnel expenses.

- Net loans and advances to customers were MXN218.8bn at 31 December 2014, an increase of MXN26.0bn or 13.5% compared with MXN192.8bn at 31 December 2013. Total impaired loans as a percentage of gross loans and advances as at 31 December 2014 decreased to 5.3% compared with 5.9% at 31 December 2013.

- At 31 December 2014, deposits were MXN298.6bn, an increase of MXN11.1bn or 3.9% compared with MXN287.5bn at 31 December 2013.

- Return on equity was 3.6% for the year ended 31 December 2014 compared with 7.0% for 2013.

- At 31 December 2014, the bank's total capital adequacy ratio was 13.2% and the tier 1 capital ratio was 10.8% compared with 14.8% and 12.0% respectively at 31 December 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 the general insurance manufacturing businesses and HSBC Fianzas, the bonding company, which have been sold, as discontinued operations.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the quarter ended 31 December 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

Mexico's economy improved at a moderate pace in 2014 after low real GDP growth of only 1.1% in 2013. Consumer spending, the main area of weakness in 2013, accelerated during the second half of the year and the improvement in US demand served to boost exports. In addition, construction sector has started to show firmer signs of recovery, which may support industrial production. Inflationary pressures remained muted and Banxico cut its key policy rate to 3.0% from 3.5% at the start of the year. The MXN-USD exchange rate weakened in the fourth quarter and reached an end of year level of 14.7 on the back of better-than-expected results in the US and the sharp drop in oil prices. Oil prices have declined significantly since the middle of 2014 and uncertainty on the future price levels during 2015 and beyond is considerable. Mexico's fiscal revenues, capital expenditure and production costs may be affected if oil prices remain depressed.

For the year ended 31 December 2014, Grupo Financiero HSBC's net income before taxes was MXN2,365m a decrease of MXN2,341m or 49.7% compared with 2013. There was strong progress on repositioning our business to achieve sustainable growth, although revenue was subdued. Cost also reflects the continued focus on streamlining, managing our cost base and strengthening our risk management and controls. The decrease in net income before taxes was driven mainly by lower trading income, lower net interest income, in particular from the insurance business, lower net fee income and higher administrative and personnel expenses. The results for the year ended 31 December 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, net income before taxes decreased 40.3% compared with 2013.

Net income was MXN1,981m, a decrease of MXN1,733m or 46.7% compared with 2013 due to lower net income before tax partially offset by lower tax expenses, largely due to higher inflationary effects which benefited the effective tax rate for the year ended 31 December 2014. Excluding the effect of the AXA distribution agreement income in 2013 and discontinued operations, net income decreased 30.4% compared with 2013.

Net interest income was MXN21,956m, a decrease of MXN636m or 2.8% compared with 2013. The decrease is mainly due to the insurance related business which accounted for MXN529m of the decrease and lower spreads in non-interest bearing deposits due to a decrease in market rates, partially offset by higher average loan portfolio balances.

Loan impairment charges were MXN8,002m, a decrease of MXN84m or 1.0% compared with 2013. The decrease is mainly due to higher loan impairment charges in 2013 related to consumer loans except from credit cards, partially offset with higher loan impairment charges on commercial loans recognised during the last quarter of 2014.

Net fee income was MXN6,581m, a decrease of MXN328m or 4.7% compared with 2013. This decrease is mainly due to lower account services, partially offset by MXN106m commissions related to the AXA distribution agreement for general insurance sales in branches signed in April 2013.

Trading income was MXN1,590m, a decrease of MXN830m or 34.3% compared with 2013. This decrease is explained by lower gains in foreign exchange transactions and the negative mark to market of derivatives partially offset by higher gains in bond transactions.

Other operating income was MXN2,405m, a decrease of MXN125m or 4.9% compared with 2013. The results for the year ended 31 December 2013 include MXN744m income related to the recognition of a distribution agreement signed with AXA Group. Excluding this effect, other operating income increased 34.5% compared with 2013, mainly due to an impairment provision on a defaulted derivative that was recognised as an account receivable in 2013, partially offset by a loss on sale of a commercial loan during 2014.

Administrative and personnel expenses were MXN22,214m, an increase of MXN512m or 2.4% compared with 2013. This increase is mainly due to investment in the compliance and risk functions partially funded by sustainable cost savings that had been achieved in previous years. The increase was partially offset by the recognition of a deferred profit sharing asset which is derived from temporary differences between the accounting result and income for profit sharing.

The cost efficiency ratio increased to 68.3% for the year ended 31 December 2014, compared with 63.0% for 2013, mainly due to reduced total operating income and higher administrative and personnel expenses.

The effective tax rate was 11.4% for the year ended 31 December 2014, compared with 25.0% for 2013. This variance is largely due to higher inflationary effects which benefited the effective tax rate for the year ended 31 December 2014. The net deferred tax asset was MXN7.7bn at 31 December 2014; Management believes that future taxable profits combined with the sale of non-performing loan portfolios will allow Grupo Financiero HSBC to recover the deferred tax assets over the next five years. There were no material carried forward tax losses or tax credits recognised within the deferred tax assets.

Discontinued operations include the general insurance manufacturing businesses sold in April 2013 and HSBC Fianzas sold in December 2013. The results for the year ended 31 December 2014 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 MXN1,538m for the year ended 31 December 2014. Excluding discontinued operations and one-offs, net income before tax decreased 19.4% compared with 2013. The decrease is driven by lower sales, partially offset by an important improvement in persistency (mainly in life products); finally the net income reduction in gross written premiums was 9.0% compared with 2013. Additionally increased benefits to customers and maturities of the endowment policies have impacted claims.

Net loans and advances to customers were MXN218.8bn at 31 December 2014, an increase of MXN26.0bn or 13.5% compared with MXN192.8bn at 31 December 2013. The performing loans to government entities increased by 79.5%, performing commercial loan portfolio increased by 5.9% primarily in the corporate segment, and the mortgage loan portfolio increased by 5.6%, compared with 2013. The performing consumer loan portfolio decreased by 3.5% mainly in payroll and personal loans, partially offset by credit cards that increased 2.0%, compared to the position at 31 December 2013.

At 31 December 2014, total impaired loans increased by 0.7% to MXN12.2bn compared with MXN12.1bn at 31 December 2013. The higher impaired loan portfolio is associated with some impaired commercial loans partially offset by reduced consumer and mortgage impaired loans. Total impaired loans as a percentage of total loans and advances to customers decreased to 5.3% compared with 5.9% at 31 December 2013. The non-performing loan ratio of mortgage and consumer impaired loan portfolios decreased to 3.3% compared with 3.9% at 31 December 2013.

Total loan loss allowances at 31 December 2014 were MXN12.7bn, an increase of MXN0.5bn or 3.8% compared with 31 December 2013. The total coverage ratio (allowance for loan losses divided by impaired loans) was 103.7% at 31 December 2014 compared with 100.6% at 31 December 2013.

Total deposits were MXN298.6bn at 31 December 2014, an increase of MXN11.1bn or 3.9% compared with 31 December 2013. Demand deposits remain practically unchanged while time deposits increased 11.4%.

At 31 December 2014, the bank's total capital adequacy ratio was 13.2% and the tier 1 capital ratio was 10.8% compared with 14.8% and 12.0% respectively at 31 December 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 showed a 6.7% increase compared with the same period of 2013, mainly driven by:

- A 16.9% increase in average mortgage loans compared with the same period in 2013. A campaign was launched based on an 8.45% interest rate which offers one of the most competitive prices in the market.
- A 6.3% increase in credit card average balances compared with the same period in 2013. Mainly due to a higher revolving accounts as a consequence of several strategies based on Balance Transfer, Statement Financing, Cash advance and increase in credit lines.
- A 5.9% decrease in average Personal and Payroll loans as we continue repositioning our portfolios.

RBWM's net interest income related to deposits was negatively impacted as a consequence of the reduction of 50bps on market rates.

Since last quarter HSBC re-launched the Advance proposition with the objective of attracting new customers and strengthening the relationship with our current customer base. The proposition is focused to 25 to 40 year old customers, providing them with credit solution to their everyday needs. This relaunch was done on a nationwide basis.

The insurance business has a competitive offer, mainly in individual life products, driven by a commercial strategy focused on the affordability philosophy to offer to the customer a balance between the insurance benefits and it its purchasing power.

Commercial Banking (CMB)

CMB results for the year ended 31 December 2014, compared with 2013, were affected by the exposure to home builders' portfolios and a strategic reduction in the business banking loan balances, coupled with lower spreads in deposits as market rates decreased. These were partially offset by higher average loan portfolios in Corporate Real Estate (21%), MME (15%) and States & Municipalities (16%).

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 99% of the Fund has been authorized to customers one year after launch and 36% has been deployed.
- In the second quarter of 2014 HSBC launched a financing programme (MXN26bn) together with NAFIN, 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, modernisation, environmental improvement and technological development. As of December 2014, approximately 39% (MXN10.1bn) of the program has been deployed.
- Continued progress in collaboration with Global Banking and Markets (GBM), which demonstrates a closer coordination with GBM expertise, in order to deliver growth in more complex products with sophisticated clients. For example, FX revenues generated through NetFX and phone transactions increased 35% compared to 2013; continuing growth of the total client base (+27%), managing to have more than 3,200 clients onboarded into NetFX platform (61% of them are actively trading).
- In collaboration with Global Private Banking (GPB), communication is continuing to strengthen, as there has been a wider collaboration between these two segments, trying to leverage our CMB client base, particularly in the Business Banking segment, as this part of the business is starting to be included as part of a local strategy.

Global Banking and Markets

Trading income was MXN1,590m, a decrease of MXN830m or 34.3% compared with the same period in 2013. This decrease is explained by lower gains in foreign exchange transactions and the negative mark to market of derivatives, partially offset by higher gains in bonds transactions.

Global Banking continued to grow balances in its performing credit and lending business mainly in Government and Corporate sectors, which increased MXN24.7 bn or 47.5% compared with 31 December 2013.

During the last quarter of 2014, Equity Capital Markets business maintained its status as one of the top three in the local equity market league tables, mainly for the four significant deals closed during the year, which strengthened our equity capital markets and real estate sector credentials in Mexico and Latin America.

During the last quarter of 2014, Debt Capital Markets business maintained its position as a leading underwriter in Mexico with second place in the local debt capital market league tables.

As a result of the increased business in the bond and interest rate markets, at the end of the fourth quarter of 2014, HSBC was placed third in the ranking of Market Makers for the Mexican Ministry of Finance (SHCP).

Regarding our participation in the Foreign Exchange markets, during 2014 HSBC improved its position from the fourth to third place compared with the prior year.

Grupo Financiero HSBC's 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 year ended 31 December 2014, on an IFRS basis, Grupo Financiero HSBC reported a net income before taxes of MXN720m, a decrease of MXN917m or 56.0% compared with MXN1,637m for 2013.

The higher net income before tax reported under Mexican GAAP is largely due to differences in accounting for deferred profit sharing, fair value adjustments of derivatives, loan impairment charges, as well as, present value of in-force long-term insurance business. 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, 5,780 ATMs and approximately 17,000 employees. For more information, visit www.hsbc.com.mx.

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 6,100 offices in 73 countries and territories in Asia, Europe, North and Latin America, the Middle East and North Africa and with assets of US$2,634bn at 31 December 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 31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	31 Dec 2014
a) Liquidity	106.93%	108.51%	123.69%	121.37%	**105.13%**
Profitability					
b) ROE (Return over equity)	5.11%	10.68%	5.00%	2.50%	**-3.69%**
c) ROA (Return over assets)	0.56%	1.10%	0.47%	0.23%	**-0.33%**
Asset quality					
d) Impaired loans/total loans	5.93%	6.18%	6.31%	6.25%	**5.29%**
e) Coverage ratio	100.55%	92.53%	90.21%	90.53%	**103.68%**
Capitalization					
f) Credit risk	22.26%	22.74%	23.36%	22.54%	**20.6%**
g) Credit, operational and market risk	14.81%	14.38%	14.22%	13.87%	**13.2%**
Operating efficiency					
h) Expenses/Total Assets	4.43%	4.04%	3.94%	3.64%	**3.76%**
i) NIM	4.95%	4.62%	4.59%	4.29%	**4.01%**
Coverage					
j) Coverage of technical reserves	107.64%	108.61%	109.53%	109.44%	**109.40%**
k) Coverage of minimum guarantee capital	215.97%	265.41%	309.02%	316.58%	**321.43%**
l) Coverage of minimum paid capital					
HSBC Seguros, S.A. de C.V.	150.17%	150.17%	144.70%	144.70%	**144.70%**
HSBC Vida, S.A. de C.V. *	486.46%	486.46%			
HSBC Pensiones, S.A.	195.19%	195.19%	102.38%	102.38%	**102.38%**
Infrastructure					
Branches	987	987	984	983	**984**
ATM	6,120	6,045	5,940	5,825	**5,780**
Head Count	17,527	17,752	17,603	17,548	**16,980**

***HSBC Seguros, S.A. de C.V. y HSBC Vida, S.A. de C.V. merged in 2014.**

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.
j) Coverage of technical reserves = Investments that back up technical reserves/ Technical reserves
k) Coverage of minimum guarantee capital = Investments that support or back up the minimum guarantee capital more the surplus investments that back up the technical reserves/ requirement of minimum guarantee capital.
l) Coverage of minimum paid capital = Capital resources of the countable institution in accordance to regulation/minimum capital requirement.

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

Relevant Events

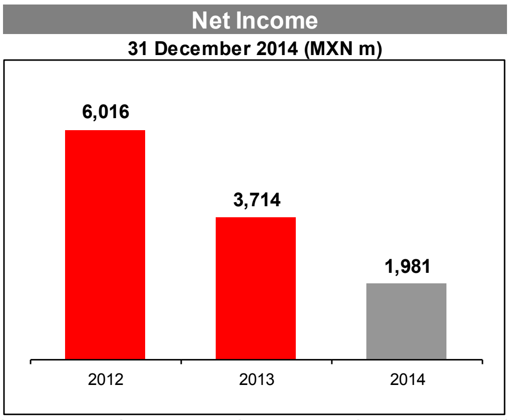
There are no relevant events to disclose during the fourth quarter of 2014.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC for the year ended 31 December 2014 was MXN1,981m, a decrease of 46.7% compared with 2013.

The decrease was driven by lower trading income, lower net interest income in particular form the insurance business, lower net fee income and higher administrative and personnel expenses, partially offset by lower tax expenses. The results for the year ended 31 December 2013 include MXN744m income related to the recognition of the AXA distribution agreement. Excluding the effect of AXA distribution agreement and discontinued operations, net income before taxes decreased 30.4% compared with 2013.



Total Operating Income

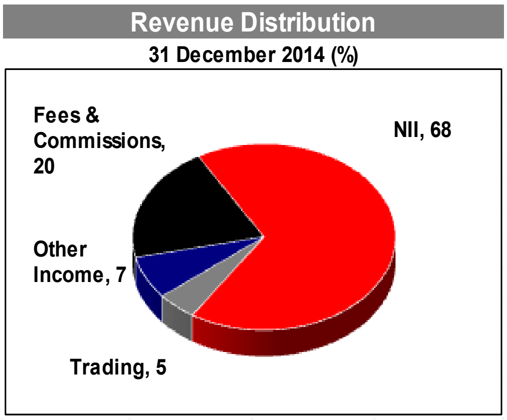
The Group's total operating income, net of loan impairment charges, for the year ended 31 December 2014 was MXN24,528m, a decrease of MXN1,837m or 7.0% compared with 2013.

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

Net Interest Income

Net interest income for the year ended 31 December 2014 decreased to MXN21,956m, a reduction of MXN636m or 2.8% compared with 2013.

The reduction is mainly due to the insurance related business by the amount of MXN529m and lower spreads in non-interest bearing deposits due to a decrease in market rates, partially offset by higher average loan portfolio balances.



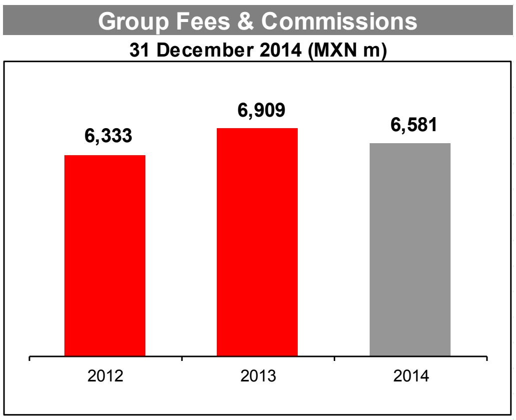
Non-interest Income

Non-interest income for the year ended 31 December 2014 was MXN10,574m; a decrease of MXN1,285m or 10.8% compared with 2013.

The Group's non-interest income to total revenue ratio decreased from 34.4% for the year ended 31 December 2013 to 32.5% for the year ended 31 December 2014, mainly driven by lower trading income and lower net fee income.

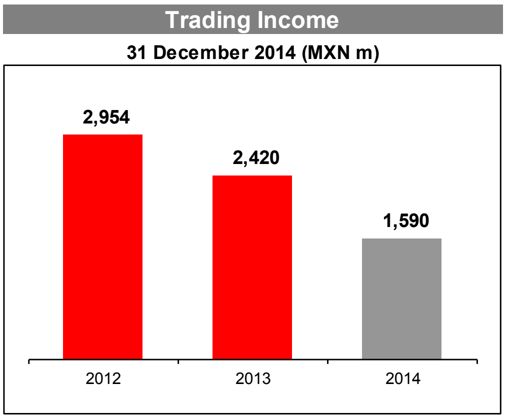
► **Fee income**

The Group's net fee income for the year ended 31 December 2014 was MXN6,581m, a decrease of MXN328m or 4.7% compared with 2013. This reduction is mainly due to lower account services, partially offset by



MXN106m fees related to the AXA distribution agreement for general insurance sales distribution in branches signed in April 2013.

► Trading income

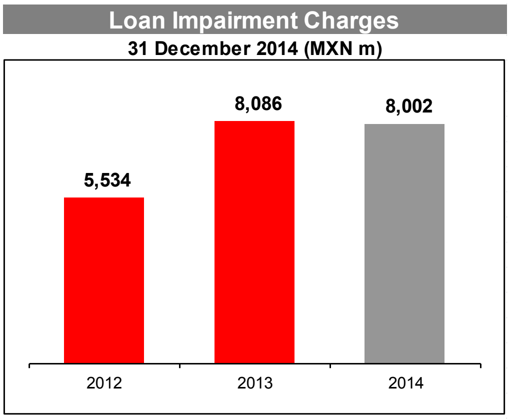


Trading income was MXN1,590m, a decrease of MXN830m or 34.3% compared with 2013. This decrease is explained by lower gains in Foreign Exchange transactions and the negative mark to market of derivatives, partially offset by higher gains in bond transactions.

► Other operating income

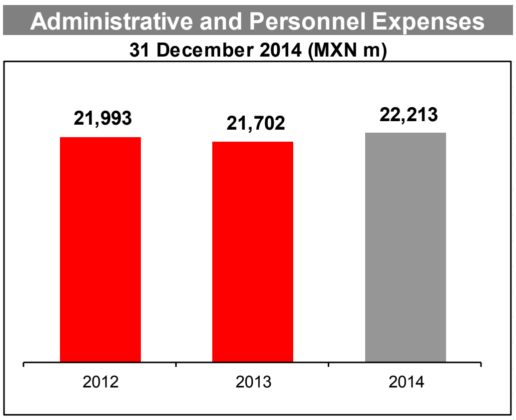
Other operating income was MXN2,403m, a decrease of MXN127m or 5.0% compared 2013. The results for the year ended 31 December 2013 include MXN744m income related to the recognition of the AXA distribution agreement. Excluding this effect, other operating income increased 34.5% compared with 2013, mainly due to an impairment provision on a defaulted derivative that was recognised as an account receivable in 2013, partially offset by a loss of sale of a commercial loan during 2014.

Loan Impairment Charges



For the year ended 31 December 2014, the Group's loan impairment charges were MXN8,002m, a decrease of MXN84m or 1.0% compared with 2013. The decrease is mainly due higher loan impairment charges in 2013 related to consumer loans, except from credit cards partially offset with higher loan impairment charges on commercial loans recognised during the last quarter of 2014.

Administrative and Personnel Expenses



The Group's administrative and personnel expenses for the year ended 31 December 2014 were MXN22,213m, an increase of MXN511m or 2.4% compared with 2013. This increase is mainly due to investment in the compliance and risk functions partially funded by sustainable cost savings that had been achieved in previous years. The increase was partially offset by the recognition of a deferred profit sharing asset which is derived from temporary differences between the accounting results and income for profit sharing.

Balance sheet Variance Analysis

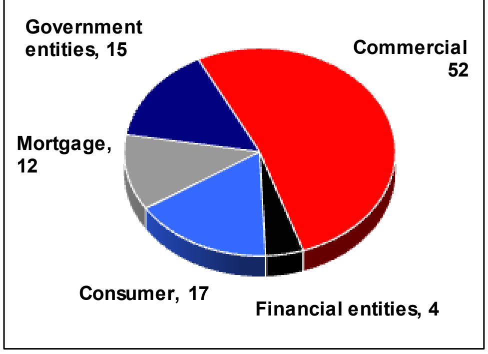
At 31 December 2014, the Group's total assets amounted MXN613,697m, which represents an increase of MXN83,157m or 15.7%, compared with 31 December 2013. This increase was mainly driven by an increase in investment in securities, derivative transactions and total loan portfolio.

Loan portfolio

The Group's performing loan portfolio balance was MXN219,217m at 31 December 2014, an increase of 13.7% compared with 31 December 2013. This increase was mainly driven by higher loans to government entities, commercial loans and mortgage loan balances, which increased 79.5%, 5.9% and 5.6%, respectively, partially offset by a lower consumer loan portfolio.

Credit Portfolio Distribution

31 December 2014 (%)



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

At 31 December 2014, the performing commercial portfolio (including financial and government entities) increased 20.1% in comparison with 31 December 2013; mainly driven by an increase of MXN14,408m and MXN6,367m in government entities and commercial loan portfolios, respectively.

► **Consumer loans**

At 31 December 2014, performing consumer loans decreased 3.5% compared with 31 December 2013, due to a reduction in personal and payroll loans, partially offset by an increase in credit card balances.

► **Mortgage loans**

The mortgage performing loan portfolio increased MXN1,373m or 5.6% compared with 31 December 2013, as a result of on-going campaigns. For 2014, the campaign was based on an 8.45% rate.

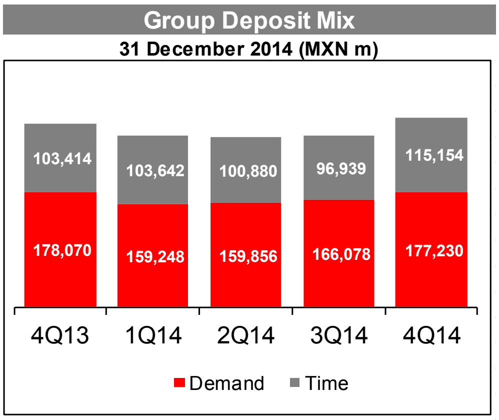
Asset quality

As of 31 December 2014, the Group's impaired loan portfolio was MXN12,243m, an increase of MXN87m or 0.7% compared with 31 December 2013. The higher impaired loan portfolio is associated with some impaired commercial loans, partially offset by reduced consumer and mortgage impaired loans.

Total impaired loans as a percentage of total loans and advances to customers decreased to 5.3% compared with 5.9% at 31 December 2013. The total coverage ratio (allowance for loan losses divided by impaired loans) was 103.7% at 31 December 2014 compared with 100.6% at 31 December 2013.

Deposits

The Group's total deposits at 31 December 2014 were MXN298,617m, an increase of 3.9% compared with 31 December 2013, mainly as a result of increased time deposits.

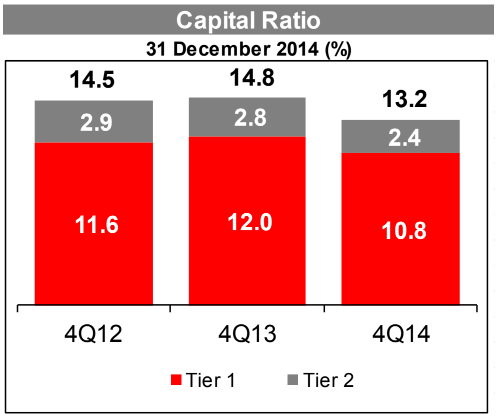


► Demand deposits

At 31 December 2014, demand deposits were MXN177,230m, a decrease of 0.5% compared with 31 December 2013.

► Time deposits

Total time deposits were MXN115,154m at 31 December 2014, an increase of 11.4% compared to 31 December 2013.



Shareholder's equity

At 31 December 2014, the Group's equity amounted to MXN54,131m, a decrease of 2.9% compared to 31 December 2013.

The Bank's equity was MXN48,046m, at 31 December 2014, an increase of 0.9% compared to 31 December 2013.

Capital Adequacy Ratio

The Bank's capital adequacy ratio at 31 December 2014 was 13.2%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 10.8%.

Financial Situation, Liquidity and Capital Resources

Group's balance structure has maintained its liquidity. Cash and investments in securities represent 42.4% of total assets, 0.4 percentage points lower than 31 December 2013. Total assets were MXN613,697m, an increase of MXN83,157m in comparison with 31 December 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.

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	*31 Dec 2014*
Assets					
Cash and deposits in banks	55,407	39,657	48,365	32,372	**40,690**
Margin Accounts	-	-	5	5	**7**
Investments in Securities	171,422	177,021	223,957	237,781	**219,533**
Trading securities	58,568	54,731	54,364	64,994	**55,004**
Available-for-sale securities	96,081	105,138	138,007	141,064	**132,527**
Held to maturity securities	16,773	17,152	31,586	31,723	**32,002**
Reverse repurchase agreements	500	-	-	-	**-**
Derivative transactions	49,769	48,873	55,607	52,497	**80,041**
Performing loans					
Commercial loans	130,679	132,366	130,565	134,805	**156,993**
Commercial entities	108,207	106,105	105,385	103,722	**114,574**
Loans to financial intermediaries	4,339	7,358	5,642	6,677	**9,878**
Loans to government entities	18,133	18,903	19,538	24,406	**32,541**
Consumer loans	37,675	36,497	36,132	36,544	**36,371**
Mortgages loans	24,480	24,538	24,739	25,176	**25,853**
Total performing loans	192,834	193,401	191,436	196,525	**219,217**
Impaired loans					
Commercial loans	9,665	10,417	10,517	10,863	**10,102**
Commercial entities	9,617	10,347	10,432	10,778	**10,017**
Financial entities	3	-	-	-	**-**
Loans to government entities	45	70	85	85	**85**
Consumer loans	1,788	1,634	1,699	1,644	**1,568**
Mortgages loans	703	699	668	604	**573**
Total non-performing loans	12,156	12,750	12,884	13,111	**12,243**
Loan portfolio	204,990	206,151	204,320	209,636	**231,460**
Allowance for loan losses	(12,223)	(11,798)	(11,623)	(11,869)	**(12,693)**
Net loan portfolio	192,767	194,353	192,697	197,767	**218,767**
Accounts receivable from insurance and bonding companies	18	28	38	41	**58**
Premium receivables	53	38	38	48	**36**
Accounts receivables from reinsurers and rebonding companies	73	69	59	56	**59**
Benefits to be received from trading operations	182	176	168	163	**147**
Other accounts receivable, net	40,404	54,654	72,047	57,284	**34,834**
Foreclosed assets	159	152	139	81	**73**
Property, furniture and equipment, net	6,927	6,822	6,574	6,362	**6,146**
Long term investments in equity securities	234	239	218	228	**239**
Long-term assets available for sale	35	24	-	1	**-**
Deferred taxes, net	7,710	7,603	7,338	8,399	**8,710**
Goodwill	1,048	1,048	1,048	1,048	**1,048**
Other assets, deferred charges and intangibles	3,832	3,256	3,183	3,088	**3,309**
Total Assets	530,540	534,013	611,481	597,221	**613,697**

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

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
Liabilities					
Deposits	287,520	269,047	266,767	269,329	**298,617**
Demand deposits	178,070	159,248	159,856	166,078	**177,230**
Time deposits	103,414	103,642	100,880	96,939	**115,154**
Retail	103,414	103,642	100,880	96,939	**92,680**
Money Market	-	-	-	-	**22,474**
Bank bonds outstanding	6,036	6,157	6,031	6,312	**6,233**
Bank deposits and other liabilities	20,510	26,710	36,379	31,882	**42,021**
On demand	2,900	2,767	8,301	9,641	**13,765**
Short term	15,466	21,864	26,471	20,731	**26,088**
Long term	2,144	2,079	1,607	1,510	**2,168**
Repurchase agreements	34,765	53,875	83,300	89,503	**60,247**
Stock Borrowing	-	-	-	-	**-**
Financial assets pending to be settled	-	220	16	494	**-**
Collateral Sold	9,076	8,490	12,969	17,506	**21,897**
Repurchase	-	-	300	70	**11**
Securities to be received in repo transactions	9,076	8,490	12,669	17,436	**21,886**
Derivative transactions	47,643	47,009	55,222	51,750	**81,279**
Technical reserves	11,432	11,759	11,854	12,056	**12,253**
Reinsurers	13	16	15	15	**10**
Other accounts payable	53,750	53,264	79,720	60,010	**32,388**
Income tax and employee profit sharing payable	954	237	358	441	**165**
Creditors for settlement of transactions	37,659	37,611	64,264	42,279	**16,868**
Sundry creditors and others accounts payable	15,137	15,416	15,098	17,290	**15,355**
Subordinated debentures outstanding	9,463	9,456	9,414	9,602	**10,144**
Deferred credits	599	604	649	708	**710**
Total Liabilities	474,771	480,450	556,305	542,855	**559,566**
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	17,942	15,735	17,348	16,538	**16,303**
Capital reserves	2,458	2,458	2,644	2,644	**2,644**
Retained earnings	11,489	11,401	11,215	11,215	**11,215**
Result from the mark-to-market of Available-for-sale securities	290	386	1,230	200	**489**
Result from cash flow hedging transactions	(9)	30	119	(3)	**(26)**
Net Income	3,714	1,460	2,140	2,482	**1,981**
Non-controlling interest	4	5	5	5	**5**
Total Stockholder's Equity	55,769	53,563	55,176	54,366	**54,131**
Total Liabilities and Capital	530,540	534,013	611,481	597,221	**613,697**

Figures in MXN millions

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
Memorandum Accounts	4,262,890	4,415,235	4,640,886	4,730,217	**5,052,629**
Proprietary position	4,168,813	4,321,862	4,530,830	4,613,240	**4,947,423**
Irrevocable lines of credit granted	25,561	26,906	28,049	32,801	**33,874**
Goods in trust or mandate	439,469	444,093	453,989	471,811	**458,166**
Trust	438,533	443,442	453,328	471,156	**457,525**
Mandate	936	651	661	655	**641**
Goods in custody or under administration	341,218	334,311	370,899	352,342	**436,545**
Collateral received by the institution	17,291	8,719	13,531	17,861	**21,979**
Collateral received and sold or delivered as guarantee	16,583	8,490	12,969	17,506	**21,897**
Values in deposit	-	-	-	-	**-**
Suspended interest on impaired loans	221	264	295	309	**276**
Recovery guarantees for issued bonds	-	-	-	-	**-**
Paid claims	-	-	-	-	**-**
Cancelled claims	-	-	-	-	**-**
Recovery claims	-	-	-	-	**-**
Responsibilities from bonds in force	-	-	-	-	**-**
Other control accounts	3,328,470	3,499,079	3,651,098	3,720,610	**3,974,686**

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
Third party accounts	94,077	93,373	110,056	116,977	**105,206**
Clients current accounts	-	-	-	-	**-**
Custody operations	43,724	42,616	59,302	69,309	**58,973**
Transactions on behalf of clients	-	-	-	-	**-**
Third party investment banking operations, net	50,353	50,757	50,754	47,668	**46,233**

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	
	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**	31 Dec 2013	**31 Dec 2014**
Interest Income	7,526	7,385	7,680	7,747	**7,590**	30,991	**30,402**
Earned premiums	749	702	696	784	**711**	3,030	**2,893**
Interest expense	(2,075)	(2,050)	(2,293)	(2,316)	**(2,217)**	(9,370)	**(8,876)**
Increase in technical reserves	(298)	(261)	(95)	(138)	**(208)**	(890)	**(702)**
Claims	(331)	(409)	(372)	(512)	**(468)**	(1,169)	**(1,761)**
Net interest income	5,571	5,367	5,616	5,565	**5,408**	22,592	**21,956**
Loan impairment charges	(2,265)	(1,525)	(1,643)	(2,065)	**(2,769)**	(8,086)	**(8,002)**
Risk adjusted net interest income	3,306	3,842	3,973	3,500	**2,639**	14,506	**13,954**
Fees and commissions receivable	2,233	1,986	2,059	2,122	**2,129**	8,711	**8,296**
Fees payable	(508)	(434)	(415)	(432)	**(434)**	(1,802)	**(1,715)**
Trading Income	491	726	321	248	**295**	2,420	**1,590**
Other operating income	658	805	504	604	**492**	2,530	**2,405**
Administrative and personnel expenses	(5,606)	(5,382)	(5,643)	(5,503)	**(5,686)**	(21,702)	**(22,214)**
Net operating income	574	1,543	799	539	**(565)**	4,663	**2,316**
Share of profits in equity interest	12	10	13	15	**11**	43	**49**
Net income before taxes	586	1,553	812	554	**(554)**	4,706	**2,365**
Income tax	(741)	(293)	(427)	(486)	**201**	(2,244)	**(1,005)**
Deferred income tax	1,007	176	441	274	**(156)**	1,067	**735**
Net income before discontinued operations	852	1,436	826	342	**(509)**	3,529	**2,095**
Discontinued operations	(142)	25	(146)	-	**8**	186	**(113)**
Non-controlling interest	-	(1)	-	-	**-**	(1)	**(1)**
Net income (loss)	710	1,460	680	342	**(501)**	3,714	**1,981**

"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	JUAN JOSÉ CADENA OROZCO
Chief Executive Officer	Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

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

From 1 January to 31 December 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	-	-	-	-	-	-	-	-	-	1,981	-	1,981
Result from valuation of available-for-sale securities	-	-	-	-	-	-	199	-	-	-	-	199
Result from cash flow hedging transactions	-	-	-	-	-	-	(17)	-	-	-	-	(17)
Results from holding non-monetary assets												
Others	-	-	-	-	-	(21)	-	-	-	-	1	(20)
Total Movements Inherent for the Recognition of the Comprehensive Income	**-**	**-**	**-**	**-**	**-**	**(21)**	**(182)**	**-**	**-**	1,981	**1**	**2,143**
Balances at 31 december 2014	**37,823**	**-**	**-**	**-**	**2,644**	**11,215**	**489**	**-**	**-**	**1,981**	**5**	**54,131**

"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 31 December 2014

Net income	**1,981**
Adjustments for items not involving cash flow:	**4,119**
Depreciation	1,344
Amortization	407
Provisions	1,557
Income Tax and deferred taxes	270
Technical reserves	702
Discontinued operations	(113)
Share of profits in equity interest	(49)
Others	1
Changes in items related to operating activities:	
Memorandum accounts	(7)
Investment securities	(47,747)
Repurchase agreements	500
Derivative (assets)	(30,276)
Loan portfolio	(26,031)
Accounts receivables from premiums	17
Accounts receivables from reinsurers and coinsurers	(40)
Foreclosed assets	86
Operating assets	6,146
Deposits	11,098
Bank deposits and other liabilities	21,511
Creditors repo transactions	25,482
Collateral sold or delivered as guarantee	12,820
Derivative (liabilities)	33,635
Subordinated debentures outstanding	681
Reinsurers and bonding	10
Other operating liabilities	(21,863)
Income tax payable	(2,157)
Funds provided by operating activities	**(16,135)**
Investing activities:	
Acquisition of property, furniture and equipment	(648)
Intangible assets acquisitions	(266)
Cash dividends	37
Other investment activities	(24)
Funds used in investing activities	**(901)**
Financing activities:	
Cash dividends	(3,781)
Funds used in financing activities	**(3,781)**
Increase/decrease in cash and equivalents	**(14,717)**
Cash and equivalents at beginning of period	**55,407**
Cash and equivalents at end of period	**40,690**

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)**

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Assets					
Cash and deposits in banks	55,407	39,657	48,365	32,370	**40,689**
Margin Accounts	-	-	5	5	**7**
Investment in Securities	153,455	161,642	208,115	221,558	**203,153**
Trading securities	51,121	50,216	49,535	59,879	**49,996**
Available-for-sale securities	96,081	105,138	138,007	141,064	**132,527**
Held to maturity securities	6,253	6,288	20,573	20,615	**20,630**
Reverse repurchase agreements	500	-	-	-	**-**
Derivative transactions	49,769	48,873	55,607	52,497	**80,041**
Performing loans					
Commercial loans	130,679	132,366	130,565	134,805	**156,993**
Commercial entities	108,207	106,105	105,385	103,722	**114,574**
Loans to financial intermediaries	4,339	7,358	5,642	6,677	**9,878**
Loans to government entities	18,133	18,903	19,538	24,406	**32,541**
Consumer loans	37,675	36,497	36,132	36,544	**36,371**
Mortgages loans	24,480	24,538	24,739	25,176	**25,853**
Total performing loans	192,834	193,401	191,436	196,525	**219,217**
Impaired loans					
Commercial loans	9,665	10,417	10,517	10,863	**10,102**
Commercial entities	9,617	10,347	10,432	10,778	**10,017**
Loans to financial intermediaries	3	-	-	-	**-**
Loans to government entities	45	70	85	85	**85**
Consumer loans	1,788	1,634	1,699	1,644	**1,568**
Mortgage Loans	703	699	668	604	**573**
Total non-performing loans	12,156	12,750	12,884	13,111	**12,243**
Total loan portfolio	204,990	206,151	204,320	209,636	**231,460**
Allowance for loan losses	(12,223)	(11,798)	(11,623)	(11,869)	**(12,693)**
Net loan portfolio	192,767	194,353	192,697	197,767	**218,767**
Benefits to be received from trading operations	182	176	168	163	**147**
Other accounts receivable	40,293	53,582	71,380	56,148	**34,412**
Foreclosed assets	159	152	139	81	**73**
Property, furniture and equipment, net	6,927	6,822	6,574	6,362	**6,146**
Long term investments in equity securities	148	156	133	141	**153**
Long term assets available for sale	5	2	-	-	**-**
Deferred taxes	7,624	7,489	7,222	8,241	**8,620**
Other assets, deferred charges and intangibles	3,637	3,157	3,091	2,950	**3,042**
Total Assets	510,873	516,061	593,496	578,283	**595,250**

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

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Liabilities					
Deposits	287,808	269,428	267,218	269,863	**299,257**
Demand deposits	178,358	159,629	160,307	166,612	**177,870**
Time deposits	103,414	103,642	100,880	96,939	**115,154**
Retail	103,414	103,642	100,880	96,939	**92,680**
Money market	-	-	-	-	**22,474**
Bank bonds outstanding	6,036	6,157	6,031	6,312	**6,233**
Bank deposits and other liabilities	20,510	26,710	36,379	31,882	**42,021**
On demand	2,900	2,767	8,301	9,641	**13,765**
Short term	15,466	21,864	26,471	20,731	**26,088**
Long term	2,144	2,079	1,607	1,510	**2,168**
Repurchase agreements	34,765	53,875	83,300	89,503	**60,247**
Stock Borrowing	-	-	-	-	**-**
Financial assets pending to be settled	-	220	16	494	**-**
Collateral Sold	9,076	8,490	12,969	17,506	**21,897**
Repurchase	-	-	300	70	**11**
Securities to be received in repo transactions	9,076	8,490	12,669	17,436	**21,886**
Derivative transactions	47,643	47,009	55,222	51,750	**81,279**
Other accounts payable	53,401	51,975	78,605	58,417	**31,647**
Income tax and employee profit sharing payable	916	215	293	366	**100**
Contributions for future capital increases	-	-	-	-	**-**
Creditors for settlement of transactions	37,519	36,525	63,576	41,099	**8,953**
Sundry creditors and others accounts payable	14,966	15,235	14,736	16,952	**22,594**
Subordinated debentures outstanding	9,463	9,456	9,414	9,602	**10,144**
Deferred credits	601	606	650	709	**712**
Total Liabilities	463,267	467,769	543,773	529,726	**547,204**
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	14,836	15,521	16,952	15,786	**15,275**
Capital reserves	10,973	10,973	11,201	11,188	**11,188**
Retained earnings	1,436	2,985	2,757	2,770	**2,770**
Result from the mark-to-market of Available-for-sale securities	290	386	1,230	200	**489**
Result from cash flow hedging transactions	(9)	30	119	(3)	**(26)**
Net Income	2,146	1,147	1,645	1,631	**854**
Non-controlling interest	2	3	3	3	**3**
Total Stockholder's Equity	47,606	48,292	49,723	48,557	**48,046**
Total Liabilities and Capital	510,873	516,061	593,496	578,283	**595,250**

Figures in MXN millions

Memorandum Accounts

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Guarantees granted	-	-	-	-	**-**
Contingent assets and liabilities	-	-	-	-	**-**
Irrevocable lines of credit granted	25,561	26,906	28,049	32,801	**33,874**
Goods in trust or mandate	439,469	444,093	453,989	471,811	**458,166**
Goods	438,533	443,442	453,328	471,156	**457,525**
Trusts	936	651	661	655	**641**
Goods in custody or under administration	378,679	370,679	423,902	413,799	**488,786**
Collateral received by the institution	17,291	8,719	13,531	17,861	**21,979**
Collateral received and sold or delivered as guarantee	16,583	8,490	12,969	17,506	**21,897**
Third party investment banking operations, net	50,353	50,757	50,754	47,668	**46,233**
Suspended interest on impaired loans	221	264	295	309	**276**
Other control accounts	3,318,620	3,493,224	3,646,090	3,715,601	**3,969,619**
	4,246,777	4,403,132	4,629,579	4,717,356	**5,040,830**

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.
www.hsbc.com.mx, Home Investor Relations Financial Information.
www.cnbv.gob.mx

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 Income Statement

Figures in MXN millions

	HSBC Mexico, S.A. (Bank)						
	For the quarter ending					Year to date	
	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**	31 Dec 2013	**31 Dec 2014**
Interest income	7,297	7,027	7,240	7,189	**8,085**	30,123	**29,541**
Interest expense	(2,079)	(1,913)	(2,060)	(1,976)	**(2,938)**	(9,385)	**(8,887)**
Net interest income	5,218	5,114	5,180	5,213	**5,147**	20,738	**20,654**
Loan impairment charges	(2,265)	(1,525)	(1,643)	(2,065)	**(2,769)**	(8,086)	**(8,002)**
Risk adjusted net interest income	2,953	3,589	3,537	3,148	**2,378**	12,652	**12,652**
Fees and commissions receivable	2,158	1,897	1,909	1,949	**2,014**	8,358	**7,769**
Account management	85	65	67	67	**65**	356	**264**
Services	2,073	1,832	1,842	1,882	**1,949**	8,002	**7,505**
Fees payable	(513)	(435)	(414)	(431)	**(446)**	(1,810)	**(1,726)**
Trading Income	390	602	331	206	**176**	2,273	**1,315**
Foreign exchange	527	53	(106)	(264)	**996**	979	**679**
Securities trading, net	220	140	81	222	**238**	444	**681**
Swaps	(22)	603	840	389	**564**	2,102	**2,396**
Valuation off-shore agencies	(431)	(23)	(503)	27	**(947)**	(846)	**(1,446)**
Valuation for trading swaps	234	(21)	62	(15)	**(93)**	588	**(67)**
Valuation for FX options	(138)	(150)	(43)	(153)	**(582)**	(994)	**(928)**
Other operating income	749	861	551	654	**559**	2,808	**2,625**
Administrative and personnel expenses	5,605	5,368	5,597	5,458	**5,658**	21,573	**22,081**
Personnel expense	2,343	2,460	2,405	2,400	**2,267**	9,401	**9,532**
Administrative expense	2,939	2,511	2,785	2,602	**2,900**	10,509	**10,798**
Depreciation and amortization	323	397	407	456	**491**	1,663	**1,751**
Net operating income	132	1,146	317	68	**(977)**	2,708	**554**
Share of profits in equity interest	13	12	10	13	**12**	43	**47**
Net income before taxes	145	1,158	327	81	**(965)**	2,751	**601**
Income tax	(667)	(159)	(268)	(328)	**276**	(1,677)	**(479)**
Deferred income tax	1,033	149	439	233	**(88)**	1,073	**733**
Net income before discontinued operations	511	1,148	498	(14)	**(777)**	2,147	**855**
Non-controlling interest	(1)	(1)				(1)	**(1)**
Net income (loss)	510	1,147	498	(14)	**(777)**	2,146	**854**

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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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 31December 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					215	(215)						-
Transfer of result of prior years						2,146				(2,146)		-
Cash dividends						(576)						**(576)**
Others												
Total Movements Inherent to the Shareholders Decision					215	1,355				(2,146)		**(576)**
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result										854	**1**	**855**
Result from valuation of available-for-sale securities							199					**199**
Result from cash flow hedging transactions								(17)				**(17)**
Results from holding non-monetary assets												
Others						(21)						**(21)**
Total Movements Inherent for the Recognition of the Comprehensive Income						(21)	199	(17)		854	**1**	**1,016**
Balances as at 31 December 2014	**5,680**		**27,088**		**11,188**	**2,770**	**489**	**(26)**		854	**3**	**48,046**

The present statement of changes in stockholder's equity was prepared in accordance to the accounting principles for banking institutions which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 y 102 of the Law for Credit Institutions of General Observance and Mandatory, applied in a consistent manner. This statement reflects all movements in capital accounts derived from the operations performed by the Institution up to the date mentioned above.
These operations were performed following healthy banking practices and following applicable legal and administrative requirements.
The present statement has been approved by the Board of Directors under the responsibility of the signing officers.
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LUIS PEÑA KEGEL	GUSTAVO I. MÉNDEZ NARVÁEZ	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
From 1 January to 31 December 2014 **HSBC Mexico, S.A. (Bank)**

	31 Dec 2014
Net income	**854**
Depreciation	1,344
Amortization	407
Provisions	1,451
Income Tax and deferred taxes	(254)
Share of profits in equity interest	(47)
Other	1
Adjustments for items not involving cash flow:	**3,756**
Changes in items related to operating activities:	
Memorandum accounts	(7)
Investment securities	(49,333)
Repurchase agreements	500
Derivative (assets)	(30,276)
Loan portfolio	(26,031)
Foreclosed assets	86
Operating assets	6,498
Deposits	11,450
Bank deposits and other liabilities	21,511
Creditors repo transactions	25,482
Collateral sold or delivered as guarantee	12,820
Derivative (liabilities)	33,635
Subordinated debentures outstanding	681
Other operating liabilities	(22,480)
Income tax receivable	(1,532)
Funds provided by operating activities	**(13,240)**
Investing activities:	
Acquisition of property, furniture and equipment	(648)
Intangible assets acquisitions	(266)
Cash dividends	37
Others	**(25)**
Funds used in investing activities	**(902)**
Financing activities:	
Cash dividends	(576)
Funds used or provided by financing activities	**(576)**
Increase/decrease in cash and equivalents	**(14,718)**
Cash and equivalents at beginning of period	**55,407**
Cash and equivalents at end of period	**40,689**

The present Statement of Cash Flows was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission, as specified in Articles 99, 101 and 102 of the Law for Credit Institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all movements in funds derived from the operations performed by the Institution up to the date mentioned above.
These operations were performed following healthy banking practice and following applicable legal and administrative requirements.
The present Statement of Cash Flows has been approved by the Board of Directors under the responsibility of signing the officers.
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LUIS PEÑA KEGEL	GUSTAVO I. MÉNDEZ NARVÁEZ	DAVID CRICHTON MEECHIE	JOSÉ CADENA OROZCO
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Investment in securities

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

Figures in MXN millions

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Government securities	49,153	48,347	47,551	55,634	**47,874**
Bank securities	2,240	2,170	2,753	4,203	**1,105**
Shares	5,552	2,624	2,553	3,144	**4,186**
Corporate securities	1,623	1,590	1,507	2,013	**1,839**
Trading securities	58,568	54,731	54,364	64,994	**55,004**
Government securities	92,117	101,179	134,002	137,052	**128,323**
Bank securities	508	538	1,882	1,880	**1,874**
Shares	-	-	-	-	**-**
Corporate securities	3,456	3,421	2,123	2,132	**2,330**
Available for sale securities	96,081	105,138	138,007	141,064	**132,527**
Government securities	10,215	10,553	24,986	26,041	**25,302**
Bank securities	95	96	96	97	**149**
Special Cetes*	4,950	4,990	5,030	5,066	**5,103**
Corporate securities	1,513	1,513	1,474	519	**1,448**
Held to maturity securities	16,773	17,152	31,586	31,723	**32,002**
Total Investment in Securities	171,422	177,021	223,957	237,781	**219,533**

*As of December, 31st, 2014, the valuation of Special Cetes associated with “Programa de Apoyo para Deudores de Créditos de Vivienda, Programa de Apoyo para la Edificación de Vivienda en Proceso de Construcción en su etapa de Créditos Individualizados & Programa de Apoyo Crediticio a los Estados y Municipios” amounting to MXN5,103. The Special Cetes are booked as Held to Maturity securities within Government Securities classification.

In the fourth quarter of 2014, investment in securities decreased by MXN18,248 million compared to the third quarter of 2014; mainly by decreasing Government Securities MXN17,191 million.

Repurchase and Reverse repurchase agreements

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

Figures in MXN millions

	Purchaser				
	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Repo operations	8,001	-	-	-	**-**
Collaterals sold or pledged	(7,501)	-	(300)	(70)	**-**
Total repurchase agreements	500	-	(300)	(70)	**-**

	Seller				
	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Repo operations	34,765	53,875	83,300	89,503	**60,247**
Collaterals sold or pledged	-	-	-	-	**-**
Total repurchase agreements	34,765	53,875	83,300	89,503	**60,247**

Derivative transactions

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

Figures in MXN millions at December 31, 2014

Fair value of derivatives for trading purposes

	Swaps		Forwards		Options		Futures		Net
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	
Currency	31,993	31,218	18,505	18,108	298	298	-	-	1,172
Interest Rate	28,472	29,790	379	377	148	89	-	-	(1,257)
Equities	-	-	170	170	-	-	-	-	-
Total	**60,464**	**61,008**	**19,054**	**18,654**	**446**	**387**	**-**	**-**	**(85)**

Fair value of derivatives for hedging purposes

	Swaps		Forwards		Options		Futures		Net
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	
Currency	-	605	-	-	-	-	-	-	(605)
Interest Rate	77	625	-	-	-	-	-	-	(548)
Total	**77**	**1,230**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,153)**

Collateral received and sold or delivered as guarantee

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

Figures in MXN millions

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	**31 Dec 2014**
Pledged (Restricted securities):					
Trading securities	28,292	30,253	28,562	37,766	**33,319**
Securities available for sale	16,922	32,654	56,079	56,060	**35,420**
Securities held to maturity	-	-	13,326	14,292	**14,302**
	45,214	62,907	97,967	108,118	**83,041**
Received (in memorandum accounts):					
In respect of repo transactions	8,008	-	-	-	**-**
In respect of securities loan:					
Fixed income	9,283	8,719	13,531	17,861	**21,979**
	17,291	8,719	13,531	17,861	**21,979**
Collateral sold or pledged as guarantee:					
In respect of repo transaction	7,507	-	-	-	**-**
In respect of securities loan	-	-	300	70	**11**
Fixed income	9,076	8,490	12,669	17,436	**21,886**
	16,583	8,490	12,969	17,506	**21,897**

Loan Portfolio

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

By type of currency

Figures in MXN millions at December 31, 2014

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Non Impaired Loan Portfolio						
Pesos	85,963	9,649	32,541	36,371	25,044	189,568
US Dollars	28,611	229	-	-	-	28,840
Udis Banxico	-	-	-	-	809	809
Total	**114,574**	**9,878**	**32,541**	**36,371**	**25,853**	**219,217**
Impaired Loan Portfolio						
Pesos	9,764	-	85	1,567	510	11,926
US Dollars	253	-	-	1	-	254
Udis Banxico	-	-	-	-	63	63
Total	**10,017**	**-**	**85**	**1,568**	**573**	**12,243**

Loan Portfolio Grading

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

Figures in constant MXN millions at December 31, 2014

		Allowance for Loan Losses by type of loan			
	Total loan portfolio	*Commercial loans*	*Consumer loans*	*Mortgages loans*	*Total reserves*
Excepted from rating	192				
Rated	265,142				
Risk A	**177,246**	**904**	**28**	**65**	**997**
Risk A-1	144,827	511	28	65	604
Risk A-2	32,419	393	-	-	393
Risk B	**66,858**	**746**	**2,140**	**140**	**3,026**
Risk B-1	36,768	262	1,263	140	1,665
Risk B-2	22,656	234	877	-	1,111
Risk B-3	7,434	250	-	-	250
Risk C	**8,362**	**434**	**770**	**159**	**1,363**
Risk C-1	7,860	367	770	159	1,296
Risk C-2	502	67	-	-	67
Risk D	**9,084**	**3,153**	**1,307**	**7**	**4,467**
Risk E	**3,592**	**2,752**	**76**	**12**	**2,840**
Total	**265,334**	**7,989**	**4,321**	**383**	**12,693**
Less:					
Constituted loan loss allowances					12,693
Surplus					**-**

The figures related to the rating and constitution of loan loss allowances correspond to those as at December 31, 2014 and includes 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 MXN31 million (MXN21 million 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 issued by the CNBV, specifically using the standard methodology.

As at December 2014, the increase in loan loss allowances charged to Income Statement was MXN7,530 million. In the other hand, MXN6,855 million was related to write offs and MXN675 million was related to debt forgiveness.

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

Portafolio	Probability of default (Weighted)	Loss given default (Weighted)	Exposure at default (MXN m)
Consumer	11.25%	71.32%	47,131
Mortgages	3.67%	26.41%	26,425
Commercial	9.61%	42.11%	156,240

The aforementioned information was calculated with the local methodology of CNBV.

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 as at December 31, 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				
	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
Initial Balance of Impaired Loans	10,483	12,156	12,750	12,884	**13,111**
Increases	6,607	8,516	6,476	5,435	**3,383**
Transfer of non-impaired loans to impaired loans	6,607	8,516	6,476	5,435	**3,383**
Decreases	4,934	7,922	6,342	5,208	**4,251**
Restructurings and renewals with cure period	59	38	38	37	**125**
Liquidated credits	3,139	4,699	4,805	3,446	**3,147**
Paid in cash	1,579	2,815	2,953	1,728	**1,127**
Foreclosed assets	11	1	-	-	**-**
Write offs	11,549	1,883	1,852	1,718	**2,020**
Transfer to performing loan status	1,732	3,185	1,496	1,751	**1,062**
FX revaluations	(4)	-	(3)	26	**83**
Final Balance of Impaired Loan	12,156	12,750	12,884	13,111	**12,243**

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 December 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:

	Diciembre 2014		**Dciembre 2013**	
	Portfolio	**Cost**	**Portfolio**	**Cost**
ETA/BADCV	192	3	386	3

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 MXN944 million divided in five installments of MXN189 million each. As of December 31, 2014 four installments were received and the remaining installment will be payable on the first banking day of June 2015.

Accordingly, the balance receivable as of December 31, 2014 by ETS amounts MXN189 million of principal plus MXN3.38 million 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 MXN167 million 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 September 30, 2014 and December 31, 2014, amount to MXN14 million and MXN 7 million, 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

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
Deferred tax assets:					
Allowances:					
Allowances for loan losses	6,705	6,826	6,871	7,158	**7,711**
Allowances for foreclosed assets	277	292	262	263	**262**
Other provisions	979	627	855	761	**674**
Property, furniture and equipment	639	735	667	667	**751**
ESPS provisions	121	141	72	79	**91**
Valuation of financial instruments	258	176	352	511	**515**
Commissions received in advance	215	213	220	236	**236**
Other	31	39	30	32	**32**
	9,225	9,049	9,329	9,707	**10,272**
Deferred tax liabilities:					
Interest from Special Central Bank*	(990)	(1,006)	(1,022)	(1,037)	**(1,051)**
Valuation of financial instruments	(233)	(112)	(778)	(165)	**(336)**
Deductions in advance	(292)	(328)	(191)	(106)	**(60)**
Income tax deferred by ESPS Deferred	-	-	-	-	**(115)**
	(1,515)	(1,446)	(1,991)	(1,308)	**(1,562)**
Total Deferred Taxes	7,710	7,603	7,338	8,399	**8,710**

*The concept "Tax result UDIS-Banxico" was associated to the deferred tax from UDIS trusts and Interest from Special Central Bank, currently the deferred tax is solely to performing "Interest from Special Central Bank" interest accrual related to states and municipalities and mortgage projects, therefore, "Interest from Special Central Bank" concept will be used from 4Q14.

Deposits and Bank Deposits and other liabilities

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

Average Interest rates

	At the quarter ending				
	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
MXN pesos					
Deposits					
Demand deposits	0.88%	0.94%	0.69%	0.56%	**0.58%**
Time deposits	3.24%	3.08%	2.94%	2.63%	**2.52%**
Issued credit securities	7.55%	6.73%	6.55%	6.27%	**6.30%**
Bank deposits and other liabilities					
Call Money	3.44%	3.24%	3.39%	2.92%	**2.86%**
Banxico Loans	3.83%	3.47%	3.60%	2.95%	**2.98%**
Development Banking	5.08%	4.86%	4.83%	4.51%	**4.34%**
Development Funds	3.47%	3.90%	3.90%	3.46%	**3.42%**
Foreign currency					
Deposits					
Demand deposits	0.05%	0.05%	0.05%	0.05%	**0.04%**
Time deposits	0.13%	0.13%	0.10%	0.10%	**0.13%**
Bank deposits and other liabilities					
Call Money	0.68%	0.64%	0.64%	0.59%	**0.65%**
Development Banking	2.33%	3.14%	4.29%	2.83%	**3.91%**
Development Funds	1.33%	1.29%	1.25%	1.18%	**1.24%**
UDIS					
Deposits					
Time deposits	0.17%	0.17%	0.17%	0.11%	**0.01%**

Bank deposits and other liabilities

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

Figures in MXN millions

Bank deposits and other liabilities are integrated as follows:

	31 Dec 13		**31 Mar 13**		**30 Jun 14**		**30 Sep 14**		**31 Dec 14**	
	Term		Term		Term		Term		Term	
	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long
MXN Pesos:										
Banxico Loans	-	-	-	-	-	-		-	1,232	-
Development Banking	3,309	-	3,535	-	4,234	-	4,449	-	4,892	-
Commercial Banking (Call Money)	2,900	-	2,767	-	8,301	-	9,641	-	13,765	-
Development Funds	4,187	1,703	3,638	1,644	3,531	1,553	3,344	1,465	3,906	1,579
Subtotal	10,396	1,703	9,940	1,644	16,066	1,553	17,434	1,465	23,795	1,579
Foreign currency:										
Banxico Loans	-	-	-	-	-	-	-	-	-	-
Commercial Banking	7,548	-	14,073	-	17,896	-	11,817	-	12,975	-
Development Banking	15	7	3	6	9	5	23		1,567	-
Development Funds	407	434	615	429	801	49	1,098	45	1,516	589
Subtotal	7,970	441	14,691	435	18,706	54	12,938	45	16,058	589
Total Term	18,366	2,144	24,631	2,079	34,772	1,607	30,372	1,510	39,853	2,168
Total Bank and other liabilities	$	20,510	$	26,710	$	36,379	$	31,882	$	42,021

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	3	20-SEP-2018
HSBC 08-2	(2)	22-DEC-2008	2,300	MXN	2,272	6	10-DEC-2018
HSBC 09D	(3)	30-JUN-2009	4,421	USD	4,421	1	28-JUN-2019
HSBC 13-1D	(4)	31-JAN-2013	1,621	USD	1,621	2	10-DEC-2022
			10,160		**10,132**	**12**	

(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*
		Millones de MXN		*Millones de MXN*		
HSBCMX 1-05 (4)	17-dic-2014	4,600	MXN	4,600	6	03-jun-2015
HSBCMX 2-05 (5)	17-dic-2014	7,000	MXN	7,000	10	11-mar-2015
HSBCMX 3-05 (6)	18-dic-2014	5,200	MXN	5,200	7	12-mar-2015
HSBCMX 4-05 (4)	22-dic-2014	950	MXN	950	1	08-jun-2015
HSBCMX 5-05 (4)	30-dic-2014	700	MXN	700	-	16-jun-2015
HSBCMX 6-05 (6)	31-dic-2014	4,000	MXN	4,000	-	22-abr-2015
		22,450		**22,450**	**24**	

Figures in MXN millions

Instrument	*Issue Date*	*Amount*	*Currency*	*Amount in circulation*	*Interest payable*	*Maturity Date*
		Millones de MXN		*Millones de MXN*		
HSB0001 06 (1)	10-may-2006	1,000	MXN	1,000	16	27-abr-2016
HSBC13 (2)	09-dic-2013	2,300	MXN	2,300	6	03-dic-2018
HSBC13-2 (3)	09-dic-2013	2,700	MXN	2,700	15	27-nov-2023
HSBC 17-14 (7)	26-nov-2014	50	MXN	50	-	02-ene-2015
HSBC 18-14 (7)	10-dic-2014	73	MXN	73	-	16-ene-2015
HSBC 19-14 (7)	17-dic-2014	74	MXN	74	-	23-ene-2015
		6,197		**6,197**	**37**	

(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%
(4) Stock Exchange Certificate floating rate 1m TIIE rate + 0.05 p.p. fixed margin over Index
(5) Stock Exchange Certificate floating rate 1m TIIE rate + 0.03 p.p. fixed margin over Index
(6) Stock Exchange Certificate floating rate 1m TIIE rate
(7) Structured note with an embedded FX derivative that adjust the security´s return profile.

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 MXN3,714 million.

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 MXN3,781 million.

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 MXN5,637 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 MXN2,146 million.

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 27 of 2014, was MXN576 million.

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

- Ten per cent, or MXN215 million, to increase legal reserves.
- The remaining MXN1,931 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 3,880 million represented by 1,940'009,665 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***
% of assets subject to credit risk					
Tier 1	18.00%	18.79%	19.43%	18.54%	**16.89%**
Tier 2	4.26%	3.95%	3.93%	4.00%	**3.75%**
Total regulatory capital	22.26%	22.74%	23.36%	22.54%	**20.64%**
% of assets subject to credit, market risk and operational risk					
Tier 1	11.98%	11.88%	11.83%	11.41%	**10.81%**
Tier 2	2.83%	2.50%	2.39%	2.46%	**2.40%**
Total regulatory capital	14.81%	14.38%	14.22%	13.87%	**13.21%**
Tier 1	41,871	42,869	44,685	42,263	**41,593**
Tier 2	9,908	9,014	9,037	9,114	**9,239**
Total regulatory capital	51,779	51,883	53,722	51,377	**50,832**
RWA credit risk	232,602	228,156	229,970	227,966	**246,246**
RWA market risk	75,882	90,820	105,345	98,975	**94,159**
RWA operational risk	41,097	41,813	42,565	43,362	**44,250**
RWA credit and market risk	349,581	360,789	377,880	370,302	**384,655**

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	
	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***	*31 Dec 2013*	***31 Dec 2014***
Investments in Securities	(45)	144	394	(183)	**229**	(277)	**584**
Trading derivatives	(71)	(107)	(809)	321	**(1,047)**	483	**(1,642)**
Currencies and metals	20	7	69	63	**158**	178	**297**
Valuation	(96)	44	(346)	201	**(660)**	384	**(761)**
Investments in Securities	14	474	257	241	**31**	196	**1,003**
Trading derivatives	65	161	586	136	**93**	1,038	**976**
Currencies and metals	508	47	(176)	(330)	**831**	802	**372**
Purchase / sale of securities	587	682	667	47	**955**	2,036	**2,351**
Total Trading Income	491	726	321	248	**295**	2,420	**1,590**

Other Operating Income (Expenses)

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

Figures in MXN millions

	For the quarter ending					Year to date	
	31 Dec 2013	*31 Mar 2014*	*30 Jun 2014*	*30 Sep 2014*	***31 Dec 2014***	*31 Dec 2013*	***31 Dec 2014***
Recoveries and reimbursements	177	312	116	203	468	714	**1,099**
Reimbursent of expenses incurred on behalf of related companies	403	221	197	402	395	1,146	**1,215**
Gain on sale of properties	1	13	4	-	3	1	**20**
Gain on sale of foreclosed assets	43	37	55	56	45	122	**193**
Accrued interest on loans granted to employees	34	34	34	32	32	137	**132**
Cancellation of excess of allowance for loan losses on a portfolio basis	2	86	(52)	84	(86)	6	**32**
Others	(2)	102	150	(173)	(365)	404	**(286)**
Total other operating income (expenses)	658	805	504	604	492	2,530	**2,405**

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 31 December 2014 is shown below:

Figures in MXN millions	**Year to date at 31 December 2014**			
	RBWM	**CMB**	**GBM**	**Total**
Net Interest Income	14,026	5,428	2,502	21,956
Loan impairment charges	5,621	2,116	265	8,002
Risk adjusted net interest income	**8,405**	**3,312**	**2,237**	**13,954**
Fees and Commissions, net	4,719	1,258	604	6,581
Trading Income	327	203	1,060	1,590
Other operating income	1,721	421	263	2,405
Total Revenue	**15,172**	**5,194**	**4,164**	**24,528**
Administrative and personnel expenses	14,008	5,504	2,702	22,214
Net operating income	**1,164**	**-310**	**1,462**	**2,316**
Share of profits in equity interest	30	15	4	49
Net income before taxes	**1,194**	**-295**	**1,466**	**2,365**
Tax expense	392	-184	62	270
Income from ongoing operations	**802**	**-111**	**1,404**	**2,095**
Discontinued operations	36	-73	-76	-113
Non-controlling interest	-1	-	-	-1
Net income (loss)	**837**	**-184**	**1,328**	**1,981**

The balance sheet information condensed by segments as of 31 December 2014 is shown below:

Figures in MXN millions

	RBWM	**CMB**	**GBM**	**Total**
Net loan portfolio	63,970	81,955	72,842	218,767
Deposits	157,187	87,000	54,430	298,617

Related Party Transactions

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

During the normal course of business, Grupo Financiero carries out transactions with related parties. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2014 and 2013, Grupo Financiero had granted loans to related parties totalling MXN1,737 million and (MXN318 million in 2013).

During the years in 2014 and 2013, Grupo Financiero maintained derivative liability positions with related parties, which amounted to MXN9,134 million and MXN2,875 million, respectively.

The main transactions carried out with related parties during the years ended December 31, 2014 and 2013 are shown as follows:

Figures in MXN millions

		2014		2013	
Transactions:		Receivable	Payable	Receivable	Payable
HSBC Latin America Holdings (UK) Limited	$	-	7	266	5
HSBC Global Asset Management (USA) Inc.		-	3	-	3
HSBC Bank Brasil, S. A. Banco multiplo		174	200	239	162
HSBC Holding Plc		100	474	54	123
HSBC Colombia, S. A.*		-	-	15	-
HSBC Bank USA National Association		-	19	-	8
HSBC Software Development (Guangdong)		-	4	-	3
HSBC New York Life Seguros de Vida (Argentina), S. A.		16	-	8	-
HSBC Bank Argentina, S. A.		43	11	44	20
HSBC Argentina Holding, S. A.		9	-	6	2
HSBC Private Bank (SUISSE), S. A.		1	-	1	10
HSBC Bank Uruguay, S. A.		9	-	3	-
HSBC Bank Canada, S. A.		-	12	-	3
HSBC Bank Chile, S. A.		4	-	5	-
HSBC Bank Plc UK		12	142	11	67
The Hong Kong and Shangai Banking Corporation Limited		-	96	-	30
HSBC Software Development (India) Private Limited		-	53	-	26
HSBC Software Development (Brazil)		-	16	-	1
HSBC Technologies and Services (USA) Inc.		-	88	-	13
HSBC France		-	7	-	3
HSBC Global Operations Company Limited (antes HSBC Global Resourcing (UK) Limited)		-	-	-	42
HSBC Insurance Holdings Limited		-	12	-	7

HSBC Securities (USA) Inc		11	367	39	19
HSBC Bank Middle East Limited		-	-	-	1
HSBC Global Operations Company Limited		-	30	-	-
HSBC PB Service (SUISSE), S. A.		-	-	-	5
Total partes relacionadas	$	379	1,541	691	553

Figures in millions		2014	2013
Transactions:			
Income:			
Administrative services	$	1,191	1,105
Expenses:			
Interest and commissions, paid	$	83	-
Administrative expenses		1,058	989

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

Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the year ended 31 December 2014 and an explanation of the key reconciling items.

Figures in MXN millions	31 Dec 2014
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**1,981**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits*	146
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments*	(50)
Loan impairment charges and other differences in presentation under IFRS*	(251)
Recognition of the present value in-force of long-term insurance contracts *	(220)
Fair value adjustments on derivatives*	(275)
Deferred profit sharing*	(303)
Other differences in accounting principles*	(168)
Net income under IFRS	**860**
US dollar equivalent (millions)	**59**
Add back tax expense	(140)
Net income before taxes under IFRS	**720**
US dollar equivalent (millions)	**50**
Exchange rate used for conversion	***14.51***

* Net of tax at 30%.

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

1. 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.

2.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.

3.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 2014 is partly due to refinements to the collective impairment model.

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.

4.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.

Reduction of Present value of in-force long-term life insurance contracts for the nine months to 30 September 2014 is related to the reduction of sales.

5.Fair value adjustments on derivatives
Mexican GAAP
Internal valuation models used to valuate over the counter derivatives, are required by regulator to use only “price vendor” inputs from markets observations, such as interest rates, exchange rates and volatilities.
IFRS
Fair Value Adjustments (“FVAs”) are applied to reflect factors not captured within the core valuation model that would nevertheless be considered by market participants in determining a trade price.
In 2014, in line with evolving market practice, HSBC revised its estimation methodology for valuing the uncollateralised derivative portfolios by introducing a funding fair value adjustment.

6.Deferred profit sharing
Mexican GAAP
Mexican GAAP requires that a deferred profit sharing is determined by applying a similar model to deferred income taxes; it is derived from temporary differences between the accounting result and income for profit sharing. An asset is recognized only when it can be reasonably assumed that it will generate a benefit, and there is no indication that circumstances will change in such a way that the benefits will not be realized.
IFRS
Deferred profit sharing asset is not permitted under IFRS.

Investment in subsidiaries

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

Group Subsidiaries at December 31, 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	24-Sep-14	13-Aug-14

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 “stokeholders’equity”

- Requires that in order to capitalize 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, provided 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 MXN 31 million (MXN 21 million 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, 203 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 2013, and “Odile” in September 2014 in several locations in Mexico, and as action to support customers affected by these natural phenomena, the CNBV issued wavers “P065/2013” dated October 18, 2013, and “P110/2014” dated September 19, 2014 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, and September 2014. The authorized accounting criteria refer not to consider as past due in accordance with paragraphs 58 to 63 of the standard B-6 of Appendix 33 of the Provisions, or as restructured in accordance with the provisions of paragraph 28 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, 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, amounted $2 (immaterial in 2013)
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 credit institutions and international accounting standards.

Among the most important changes are the following:

Adds or modifies concepts to make them consistent with local and international accounting standards, without involving changes to current accounting policies.

Presentation of overdrafts on checking accounts of customers who do not have a line of credit for such purposes are classified as Other receivables from the entry in force of the new provisions. Currently are recognised as part of the loan portfolio. In addition it states that such overdraft are considered past due debts and must necessarily create an estimate for bad debts or doubtful accounts for the full amount of the overdraft at the time of recognition.

More detail is required in the disclosure of the loan portfolio in the financial statements and related regulatory reports.
The original date to be in force these accounting changes was in July, 2014, however CNBV has been extended this date in many occasions. The last extension published establishes that changes will be in force in June, 2015.

As a result of the amendments to the Law of Concursos Mercantiles, published in the DOF on January 10, 2014, the CNBV published in the DOF of September 24, 2014 amendments to criterion B-6 “Loan portfolio” of the Annex 33 of provisions. These amendments relate to allow classification as current loans to those loans that continue to receive payment in terms of the provision of Section VIII of Article 43 of the Law of Concursos Mercantiles, as well as loans granted under Article 75 in relation to Sections II and III of Article 224 of the same Law. Derived from these modifications, some disclosure of these transactions in the Financial Statements and related regulatory reports are required.

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 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 records 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 Management 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 Management Board in each of its meetings receives briefs about financial information and the development of business. The Management 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 on 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 Management Board for the following risk areas: credit risk, market risk, liquidity risk, operational risk, information technology risk, insurance risk, accounting risk, tax risk, legal risk, compliance risk, human resources risk, reputational risk, acquisition risk, and business risk.

- Internal audit monitors 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 the effectiveness of Internal Control and periodically informs to the Administrative Board about the latter. Among the main processes used by the Committee in its revisions are: periodical reports of the Heads of functions with key risks, annual revision of the performance of internal control against key HSBC indicators, including financial and non-financial controls, periodical confirmations from Management 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 Audit Committee receives periodically information about measures taken by the Management Board to correct or resolve any weakness or error detected through the operation of HSBC's internal control.

Risk Management

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

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

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

Assets and Liabilities Committee (ALCO)

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

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

- To provide strategic direction and assure the tactical monitoring of a structure balance that fulfils the objectives within the pre-established risk parameters.
- To identify, monitor, and control all relevant risks, including information generated by RMC.
- To disseminate the information that is 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.

Objetives and responsibilities:

- Monitor current risks with the potential to have an impact on the Company's operation, evaluate its likelihood and effect on our financial results or reputation. Also, develop a focused and integrated methodology for the identification of such risks within HBMX.
- 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 valuated with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.
- **Credit Spread risk. -** This is the risk that mark-to-market value of a corporate bond, inter-bank bond or sovereign debt in foreign currency, decreases due to changes in the credit quality perception of the issuer.

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

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

Value at Risk (VaR)

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

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

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

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

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CSO1)

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

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

Vega or implied volatility risk

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

Extreme Conditions Tests (Stress Test)

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

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

Validation and Calibration Methods for Market Risk models:

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

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

Applicable portfolios:

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

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

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

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

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

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "Trading Desk" and "Accrual" portfolios for the fourth quarter of 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.

Value at Risk of Global Market (VaR) (Considering all Risk Factors)						
	Bank		Trading Intent		Accrual	
	Average 4Q14	Limits*	Average 4Q14	Limits*	Average 4Q14	Limits*
Combined	13.04	38.00	3.69	13.00	11.39	38.00
Interest Rate	11.77	40.00	3.57	9.50	10.84	38.00
Credit Spread	3.32	22.00	0.81	3.00	2.42	22.00
FX	1.04	5.00	1.04	5.00	N/A	N/A
Volatility IR	0.09	4.00	0.09	1.80	-	2.50
Volatility FX	0.07	2.00	0.07	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

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	30-Sep-14	31-Dec-14	Limits*	Average 3Q14	Average 4Q14
HBMI	**14.24**	**12.28**	38.00	13.75	13.04
Accrual	**12.60**	**10.32**	38.00	12.32	11.39
Trading Intent	**4.87**	**2.73**	13.00	3.38	3.69

The Bank's VaR at the end of 4Q14 change -13.76% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 4Q14 change -5.16% versus prior quarter. During the quarter the average VaR was within the limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for September 30th, 2014 and December 31st, 2014 (in millions of dollars).

Market VaR vs. Net Capital Comparison *Net Capital in million Dollars*		
	30-sep-14	**31-dic-14**
Total VaR*	13.75	13.04
Net Capital **	3,824.70	3,449.02
VaR / Net Capital	0.36%	0.38%

** The Bank's quarterly VaR average in absolute value*

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

The average market VaR represents 0.38% of the net capital in the fourth quarter 2014.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	30-Sep-14	31-Dec-14	Limits*	Average 3Q14	Average 4Q14
Bank	**(1.076)**	**(1.171)**	2.050	(1.194)	(1.160)
Accrual	**(0.902)**	**(1.144)**	1.550	(1.058)	(1.073)
Trading Intent	**(0.174)**	**(0.027)**	0.500	(0.136)	(0.086)

* Absolute Value

The bank's MXN Rate PVBP for 4Q14 change 8.83% versus previous quarter. Bank's average PVBP for 4Q14 change -2.85% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate					
	30-Sep-14	31-Dec-14	Limits*	Average 3Q14	Average 4Q14
Bank	**0.091**	**0.040**	0.430	0.045	0.028
Accrual	**(0.014)**	**0.003**	0.300	0.020	0.003
Trading Intent	**0.105**	**0.037**	0.180	0.024	0.026

* Absolute Value

The bank's USD Rate PVBP for 4Q14 change -56.04% versus previous quarter. Bank's average PVBP for 4Q14 change -37.78% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	30-Sep-14	31-Dec-14	Limits*	Average 3Q14	Average 4Q14
Bank	**(0.020)**	**(0.038)**	0.150	(0.049)	(0.026)
Accrual	**(0.019)**	**(0.015)**	0.050	(0.022)	(0.018)
Trading Intent	**(0.001)**	**(0.023)**	0.100	(0.027)	(0.008)

* Absolute Value

Bank's UDI Rate PVBP for 4Q14 change 90.00% versus prior quarter. Bank's average PVBP for 4Q14 change -46.94% 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.

The Contingency & Funding Plan is subject to approval every year by the ALCO and the Board. It contains all the elements required by the CUB (Annex 12C) and Group's requirements based on the international experience it counts with, for example: Trigger events, crisis management team, and specific members' responsibilities, action plans, funding sources by availability, capacity and costs, internal and external communication plans and CNBV notification templates in case of activation.

In order for every member to have a clear understanding of their functions within the plan, personal meetings are held on a semi-annual basis before the plan is subject to Board approval.

On December 31, 2014 the new regulation about liquidity risk requirements for banks were published. Those rules include the implementation of local LCR (Coeficiente de Cobertura de Liquidez (CCL)) in line with the proposal set by the BCBS. The rules are mandatory since January 1, 2015 and HSBC México is ready to comply with such on time.

Quantitative Information

The institution presented at the end of the quarter expected cash flows under the major stressed scenario of US$1,563m in the 7 days term; US$2,327 million in the 1 month term and US$590 million in 3 months; obtaining a net positive cumulative result in all cases.

Along the quarter, average level was US$788 million in the 7 days term, US$1,613 million in 1 month term and US$511 million in 3 months term. With respect to the last quarter, liquidity position was affected by an increase in deposits, an increase in advances and the issuance of short term certificates of deposit.

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.

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)

During 2014 Mexico has developed one new model for assessing the Credit Risk of the customers of Commercial Portfolio that are local Corporate or Corporate with annual sales greater than MXN40 million and less than MXN12,500 million, this new model was implemented on January 8, 2015. This model was developed based on a statistical analysis of different variables: economic factors, financial and qualitative variables, these last differentiating the customers by size.

In addition to the aforementioned model, 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 US$ 1,000 million (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.

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 (20.21%) between the observed and estimated LGD. Currently HSBC Mexico has planned a model development during 2015.

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.

Based on the last monitoring performance of this model shows a low correlation (22.9%) between the values of the observed and estimated EaD. Currently HSBC Mexico has planned a model development during 2015.

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 is 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

Regarding to the average balance of the Commercial Portfolio as of December 31st 2014, it is MXN192,752 million, showing an increase of MXN13,848 million (or 7.74%) compared to the previous quarter.

The Expected Loss of the Commercial Portfolio as of December 31st 2014 is MXN12,747 million, showing an increase of MXN330 million (or 3%) compared to the figure reported in the previous quarter.

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

MXN million

Business Line	Quarterly Average Balance		VAR		Balance		VAR		Expected Loss		VAR	
	3T2014	4T2014	($)	(%)	Sep-14	Dec-14	($)	(%)	Sep-14	Dec-14	($)	(%)
CMB	$96,030	$99,309	$3,279	3%	$95,666	$100,314	$4,648	5%	$10,366	$10,579	$213	2%
GBM	$82,089	$92,760	$10,672	13%	$82,929	$100,770	$17,841	22%	$2,051	$2,168	$117	6%
GBP	$786	$683	-$103	-13%	$783	$623	-$160	-20%	$0.067	$0.046	-$0.02	-31%
Total	**$178,904**	**$192,752**	**$13,848**	**7.74%**	**$179,378**	**$201,706**	**$22,329**	**12%**	**$12,417**	**$12,747**	**$330**	**3%**

** The Balance and Average Balance include the contingent exposures. The Expected Loss has been calculated by the Bank´s Internal Risk Methodology.*

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 31 Dec 2014 is MXN4,517 million, Credit Cards is MXN2,692 million Other Retail is MXN1,536 million and Mortgage MXN289 million (*The Expected Loss has been calculated by the Bank´s Internal Risk Methodology.)*

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 Risk Management Committee (RMC), 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, to assess the strategies and mitigation plans and to monitor the evolution of operational risks’ behaviour and their mitigating actions.

The Group adopts a **'Three Lines of Defence'** model to ensure that risks and controls are properly managed within the risk appetite stated 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. This model should be applied with common sense, considering the structures of the Group´s business and support areas.

First Line of Defence:

The First Line of Defence comprises predominantly the management of Global Businesses and HTS who are accountable for their day to day activities, processes and controls. It also includes the supporting areas regarding their specific responsibility but excluding the advisory activities to the businesses.

Within this first line, all the employees must be alert regarding the operational risks and operational risk incidents during the execution of their daily responsibilities. Additionally, the Heads of the Global Businesses / Global Functions are responsible for the operational risk management of the processes under their management. The operational risk management includes mainly:

- The identification and assessment of the risks and operational controls in line with the Risk and Control Assessment Policy.
- The identification and escalation of incidents according the corresponding internal policy, and the implementation of mitigating actions in order to avoid their possible repetition in the future.
- The identification of control problems corresponding to their activities and the establishment of action plans to fix them, or formalise risk acceptances when those plans are not feasible.

The line managers must also identify and asses the operational risks and controls as part of their decision – making process. The operational risks and controls must be continuously monitored, including:

- Risks and controls of critical processes.
- Risks and controls of main projects.
- Purchasing of businesses and due diligences.
- Business initiatives, including new products or significant changes to the existing ones.
- Planning and budgeting processes.
- Outsourcing agreements, supplier´s selection and usage of internal products.

To carry out these monitoring activities, BRCMs (Business Risk and Control Managers) could be nominated in key businesses and processes within this first line in order to oversee the implementation of the operational risk management framework.

This monitoring of key controls can be performed using different approaches, as for example thematic reviews of a particular process, specific control testing or the analysis of KRIs (key risks indicators).

The BRCMs must yearly develop a detailed monitoring plan which has to include the monitoring activities to be carried out the following year. This plan must be subject to be reviewed and updated according to the circumstances, with the aim of ensuring that the monitoring activities performed are in line whit the entity´s risk profile.

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. These supporting areas become in the subject matter experts (SMEs) on the specific risks. They are responsible for:

- Providing assurance, oversight, and challenge over the effectiveness of the risk and control activities conducted by the First Line, about the risk that they manage.
- 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 within their first line of defence activities, as mentioned in the previous item.

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.

Use Test:

The "use test" is an activity that is in charge of Operational Risk and aims to collect evidence that the operational risk framework is being used as part of decision – making process.

While carrying out the test use is an internal requirement, it is also a formal practice of risk management in relation to the collection of evidence that the following facts are being performed continuously:

- The Senior Management is aware and is involved in the operational risk management.
- The operational risk processes and the management information is used in the decision – making process.
- The quality of operational risk management information is useful for making proper business decisions.

The Operational Risk Management is responsible for identifying, through continuous oversight and specific reviews, if the above mentioned statements are fulfilled and if the operational risk management is being properly used to identify and manage the risk of the company.

Quantitative Information (including Legal and Technological Risk)

According to the Operational Risk assessment exercise carried out at the end of 2013, and considering further updates performed during 2014; 1,549 risks have been identified and assessed by the different areas of the Bank. From this inventory 7.36% (114 risks) are considered very high, 15.43% (239 risks) are considered high, 29.50% (457 risks) are considered medium, and 47.71% (739 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 for 2014 amounts to US$60.8 million for Operational Losses and it is monthly monitored through the BSC (Balance Score Card) presented at the Risk Management Committee.

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 Group manual and procedures, 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 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: (a) misrepresentation, (b) inadequate documentation, (c) unintended consequences, (d) unintended breach and/or (e)enforceability

- Dispute Risk, is the risk of the Institution suffering financial loss or reputational damage due to (a) adverse dispute environment and/or (b)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 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: (a) infringement the rights of third parties, (b) ownership rights or (c) 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:

- Control of Contractual Risk

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, which contain restrictions that may affect the business, must have the authorization of the Legal department, 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.

- Control of Dispute Risk

Robust procedures have been established in order to assure a proper response to the disputes filled 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 General Counsel.

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

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

- Control of Legislative Risk

There are implemented procedures and documented practices for monitoring of any changes or amendments to the current legislation or regulation, as well as any court case whose outcome requires changing the procedures or documentation in force.
In this line of work and together with Compliance area, there are implemented the required regulatory changes in order to continue with the operation of the business according with current legislation.

- Control of Non Contractual Rights:

There are established procedures in order to assure that the Legal department validates the use of the Group trademarks, local trademarks and Copyrights.

The use of Group and local trademarks by a third party must be previously approved by the Legal department.

A procedure is established for Legal department to be able to verify that the holder of a trademark duly authorized the use of it by the Institution.

The Legal department takes care of all the artistic and literary work that has been generated, either by request of the Institution by an employee or external supplier, or through a posterior acquisition of the patrimonial rights, by means of proper documentation.

Furthermore, institutional policies have been complied, procedures regarding Operational Risk and Internal Control requirements have been established, legal audits have been made, estimations of potential losses derived from adverse judicial resolutions have been carried out and a historical database of judicial rulings containing root-causes and costs has been set up.

- 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 has within its essence the responsibility of being sustainable, which means to get involved in the communities where it operates and having environmental friendly operations and investments. Bank's efforts aim to developing programs in three areas: education, environment and community, all with the goal of achieving a significant social transformation.

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.

2014 was a year of great challenges for the business and continue developing the impact of the Bank's Social and Environmental Investment, this was achieved by keeping the focus toward the flagship projects of the Bank:

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.

Community:
- "Sumando Valor" inclusion program to hire people with disabilities.
- "Mujeres Fuerza": Woman empowerment program, 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 US$100 million in alliance with Earthwatch, Water Aid and WWF

The Bank's Community 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.

During 2014, the Bank invested MXN54.3 million, 79% of such investment is made by HSBC and 21% by its customers.

EDUCATION

Through the education support programs it is aimed to provide life skills, as well as provide knowledge that will enable children to become society changing agents.

To develop successful and major impact programs, the Bank has made strategic alliances with expert educational organizations to increase generated impact. This decision allows to unite knowledge, practices and proposals in a manner that the process is enhanced by the contributions of all stakeholders: customers, employees, organizations, schools, teachers and students.

With the educational support programs supported by the Bank, 5,593 students have been sponsored with "Just raise your hand", "Zippy's friends" had benefited 16,667 children, 2,857 children from 29 public schools in 16 cities, received several courses as part of "More than Money" and 52,947 students have been benefited with new glasses, thanks to the program "See Better to Learn Better".

COMMUNITY

Employees, customers and the entities on which the Bank operates, form a community on which its integral effort allows everybody to grow together.

Community support programs driven by the Bank aim to improve the conditions and life quality of the beneficiaries, this is achieved by promoting culture as an expression of human development; implementing actions to promote women empowerment; strengthening communities to prevent migration; and building a culture where all opinions are valued and respected.

These actions have allowed to benefit 5,408 women through the program “Mujer es Fuerza”, boost the development of 8,652 children to become valuable individual for themselves and the society thanks to the global initiative “Future First”, attract the talent of 80 people with disabilities to become part of HSBC as part of the program “Adding Value” and donate 52 wheelchairs during 2014.

ENVIRONMENT

The Bank reiterates its commitment to manage the environmental impacts of our business contributing to a stable economy and promoting environmental stewardship in the communities where we operate.

The “Green Project of HSBC Insurance” is an initiative that involves the Bank's clients, helping the environment with sanitation and conservation of urban forests, including the most important one within Mexico City, Bosque de Chapultepec.

With the “HSBC Water Program” the Bank achieves a powerful combination of supply, protection and water education, to tackle the global challenge of conserving this valuable resource.

HSBC Mexico has an important reaction capacity for emergencies and disasters. In the devastation caused by Hurricane Odile, the Bank launched, in alliance with Save the Children, the “Por México… ¡Unámonos!” fund-raising campaign to support affected people The Bank made available all its branches so customers and general public may donate. For every peso donated, HSBC gave an additional one to support affected families.

With the Bank’s strategy to mitigate the environmental direct impacts of it operation, 511 tons of wate were recycled and reducing the energy consumption by 2, 112,316 kWh equivalent to 1,216,335 kg CO2.

VOLUNTEERING

The pillar of the Bank’s volunteering program is the willingness and commitment of our employees to support different causes. HSBC gratefully acknowledges everyone for their conviction to share time, knowledge and experience with society groups in need of support to move ahead.

During 2014, a total of 2,892 volunteers all over the country contributed with 43,118 hours in favor of one of our causes.

CUSTOMER CONTRIBUTION

The Bank´s customers play a fundamental role to develop the Sustainability projects; their generosity is the principle and origin of the better future we are trying to build.

Through our more of 5,500 ATM's within the country, the Bank makes our customers wish to help come true and during 2014, as in previous years, we received donations that allow us to proceed with our actions through the 4 annual campaigns divided in the following programs:

- Just raise your hand - Asociación Programa Lazos IAP (january-april)
- Bécalos – Mexican Banks Association initiative (may-august)
- Casa de la Amistad para niños con Cáncer IAP (september - october)
- HSBC Divisional Campaings (november - december)

During the 4th campaign, our ATM's were divided regionally to support the following institutions:

Metro North y Metro South-	Fundación CMR AC
Northwest-	Asociación Mexicana de Ayuda a Niños con Cáncer Chihuahua AC
Northwest-	Fundación Castro Limón AC
Northwest-	D'Corazon AC
Northwest-	Grupo Amigos de Niños Afectados de Cáncer IAP
West-	Nosotros por los niños con Cáncer AC
North-	Cáritas de Monterrey ABP
Peninsular-	Patronato Peninsular Pro Niños con Deficiencia Mental AC
Center-	La Alegría de los Niños IAP
South -	Fundación Michou y Mau IAP

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Annex A

Table I

Reference		Common equity Tier 1 capital	31 Dec 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)	12,450.4
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	48,047.9
		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)	1,067.2
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)	36.1
19		Significant investments in the common stock of financial entities (amount above 10% threshold)	-
20		Mortgage servicing rights (amount above 10% threshold)	
21		Deferred tax assets arising from temporary differences (amount above 10% threshold)	3,982.5
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	1,368
	A	which: Accumulated other comprehensive income (and other reserves)	-
	B	which: investments in subordinated debt	103.6
	C	which: Profit or increase on the value of assets acquired on securitization positions (Institutions originators)	-
	D	which: Investments in multilateral organisms	-
	E	which: Investments in related companies	79.0
	F	which: Investments in risk capital	-
	G	which: Investments in Mutual funds	9.1
	H	which: own stock acquisition financing	-

I		which: Operations that infringe provisions	-
J		which: Deferred charges and prepaid expenses	1,177.1
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	6,454.7
29		Common Equity Tier 1 capital (CET1)	41,593.2
		Additional Tier 1 capital: Instruments	
30		Additional Tier 1 instruments issued by parent company of group (and any related surplus)	-
31		of which: Classified as capital under applicable accounting criteria	-
32		of which: Classified as liability under applicable accounting criteria	NA
33		Regulatory adjustments to be deducted from Additional Tier 1 capital	-
34		Instruments that meet the Additional Tier 1 criteria issued by subsidiaries to third parties that are given recognition in group Additional Tier 1 capital	NA
35		of which: Instruments issued by subsidiaries to be deducted	NA
36		Total Tier 1 capital prior to regulatory adjustments	-
		Additional Tier 1 capital: regulatory adjustments	
37		Investment in own additional Tier 1 capital equity shares	NA
38		Reciprocal cross holdings in additional Tier 1 capital equity	NA
39		Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold)	NA
40		Significant investments in the capital of financial entities where the bank own more than 10% of the issued common share capital	NA
41		Local regulatory adjustments	-
42		Tier 2 regulatory adjustments which have to be deducted from Additional Tier 1 capital	NA
43		Total Tier 1 capital regulatory adjustments	-
44		Additional Tier 1 capital (AT1)	-
45		Tier 1 capital (T1=CET1+AT1)	41,593.2
		Tier 2 Capital: instruments and reserves	
46		Tier 2 capital instruments issued by parent company of group (and any related surplus)	1,621.6
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	1,233.1
51		Tier 2 capital prior to regulatory adjustments	9,238.6
		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	NA

	the 10% threshold)	
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)	9,238.6
59	Total Capital (TC=T1+T2)	50,831.9
60	Total Risk-weighted assets	384,655.2
	Capital ratios and supplements	
61	Common equity Tier 1 Capital (as % of total RWAs)	10.81%
62	Tier 1 Capital (as % of total RWAs)	10.81%
63	Total Capital (as % of total RWAs)	13.21%
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)	3.81%
	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)	4,557.6
	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	1,385.9
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	8,005.5
85	Excluded amount on T2 due to limit (excess over the limit after amortization and maturities)	1,310.6

Table II

Capital concept	Prior to capital recognition adjustment	% total RWAs	Capital recognition adjustment	Including capital recognition adjustment	% total RWAs
Tier 1 capital 1	41,593.23	10.81	0.00	41,593.23	10.81
Tier 1 capital 2	0.00	0.00	0.00	0.00	0.00
Tier 1 capital	41,593.23	10.81	0.00	41,593.23	10.81
Tier 2 capital	9,238.64	2.40	0.00	9,238.64	2.40
Total capital	50,831.87	13.21	0.00	50,831.87	13.21
Total RWAs	384,655.22	NA	NA	384,655.22	NA
Capitalization index	13.21	NA	NA	13.21	NA

Table III.1

Reference	Balance Sheet concept	Amount
	Assets	595,243
BG1	Cash and deposits in banks	40,689
BG2	Margin accounts	7
BG3	Investment in securities	200,848
BG4	Repurchase agreements	-
BG5	Stock borrowing	
BG6	Derivative transactions	80,041
BG7	Financial assets hedging valuation adjustments	
BG8	Net loan portfolio	218,552
BG9	Benefits to be received from trading operations	147
BG10	Other accounts receivable (net)	34,353
BG11	Foreclosed assets	64
BG12	Property, furniture and equipment, net	4,282
BG13	Long term investments in equity securities	4,695
BG14	Long term assets available for sale	-
BG15	Deferred taxes, net	8,540
BG16	Other assets	3,025
	Liabilities	529,713
BG17	Deposits	299,258
BG18	Bank deposits and other liabilities	

		42,021
BG19	Repurchase agreements	
		60,247
BG20	Stock borrowing	-
BG21	Collateral sold	
		21,896
BG22	Derivative transactions	
		81,279
BG23	Financial liabilities hedging valuation adjustments	-
BG24	Debentures in trading operations	-
BG25	Other accounts payable	
		31,642
BG26	Subordinated debentures outstanding	
		10,144
BG27	Deferred taxes, net	-
BG28	Deferred credits	708
	Stockholder's equity	48,048
BG29	Paid in capital	32,769
BG30	Capital gains	15,279
		5,040,493
	Memorandum accounts	-
BG31	Guarantees granted	-
BG32	Contingent assets and liabilities	-
BG33	Irrevocable lines of credit granted	
		33,874
BG34	Goods in trust or mandate	
		458,167
BG35	Federal government financial agent	
BG36	Goods in custody or under administration	
		488,786
BG37	Collateral received by the institution	
		21,979
BG38	Collateral received and sold or delivered as guarantee	
		21,896
BG39	Third party investment banking operations, net	
		46,233
BG40	Suspended interest on impaired loans	
		276
BG41	Other control accounts	
		3,969,282

Table III.2

Identifier	Regulatory concepts to be considered for the Net capital components calculation	Equity report reference	Amount according to the notes of the regulatory concepts considered for Net capital calculation	Balance Sheet report reference
	Assets			
1	Goodwill	8	0.0	
2	Other intangible assets	9	1,067.2	BG16 3025
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	36.1	BG13 4695
10	Direct investment in the capital of financial entities where the institution own more than 10% of issued share capital	19	0.0	
11	Indirect investment in the capital of financial entities where the institution own more than 10% of issued share capital	19	0.0	
12	Deferred income tax from temporary differences	21	3,982.5	BG15 8540
13	Recognized reserves as supplementary capital	50	1,233.1	BG8 218552
14	Subordinated debt investment	26 - B	103.6	BG8 218552
15	Multilateral organisms investment	26 - D	0.0	
16	Related parties investments	26 - E	79.0	BG13 4695
17	Risk capital investment	26 - F	0.0	
18	Mutual funds investment	26 - G	9.1	BG13 4695
19	Own shares acquisition financing	26 - H	0.0	
20	Deferred charges and prepaid expenses	26 - J	1,177.1	BG16 3025
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		
28	Deferred income tax associated to other different to previous concepts	21	3,982.5	BG15 8540
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	0.0	
31	Subordinated debentures that coincide with 1-S annex	46	1,621.6	BG26 10144
32	Subordinated debentures subject to transience that counts as supplementary capital	47	6,384.0	BG26 10144
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 15279
36	Result from cash flow hedging transactions registered at fair value	3	-25.6	BG30 15279
37	Other elements of other capital reserves different to previous ones'	3	12,476.0	BG30 15279

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
	Regulatory concepts do not considered in the Balance Sheet		
44	Reserves pending to constitute	12	0.0
45	Profit or increased asset value of acquired securitization positions	26 - C	0.0
46	Operations that contravene	26 - I	0.0
47	Relevant related parties operations	26 - M	0.0
48	Adjustment for capital recognition	26 - O, 41, 56	0.0

Table IV.1

Concept	Equivalent position in Balance	Capital Requirements
Nominal rate operations in local currency	83,436	6,675
Surcharge and revisable rate debt operations in local currency	274	22
Real rate or UDIs operations in local currency	1,382	111
Minimum wages growth rate operations in local currency		
UDIs o INPC profit referred positions	21	2
Minimum wages growth rate operations in local currency		
Nominal rate operations in foreign currency	8,420	673
Foreign currency or indexed to exchange rate positions	625	50
Stock or price index stock positions	1	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%)	277.00	22.00
Group II (weighted at 50%)	5,382.00	431.00

Group II (weighted at 100%)	0.00	0.00
Group II (weighted at 120%)	0.00	0.00
Group II (weighted at 150%)	0.00	0.00
Group III (weighted at 2.5%)	0.00	0.00
Group III (weighted at 10%)	10.00	1.00
Group III (weighted at 11.5%)	489.00	39.00
Group III (weighted at 20%)	4,813.00	385.00
Group III (weighted at 23%)	74.00	6.00
Group III (weighted at 50%)	0.00	0.00
Group III (weighted at 57.5%)	0.00	0.00
Group III (weighted at 100%)	268.00	21.00
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%)	5,665.00	453.00
Group V (weighted at 10%)	0.00	0.00
Group V (weighted at 20%)	604.00	48.00
Group V (weighted at 50%)	1,716.00	137.00
Group V (weighted at 115%)	0.00	0.00
Group V (weighted at 150%)	7,578.00	606.00
Group VI (weighted at 20%)	0.00	0.00
Group VI (weighted at 50%)	6,270.00	502.00
Group VI (weighted at 75%)	3,361.00	269.00
Group VI (weighted at 100%)	42,015.00	3,361.00
Group VI (weighted at 120%)	0.00	0.00
Group VI (weighted at 150%)	0.00	0.00
Group VI (weighted at 172.5%)	0.00	0.00
Group VII_A (weighted at 10%)	581.00	47.00
Group VII_A (weighted at 11.5%)	0.00	0.00
Group VII_A (weighted at 20%)	8,316.00	665.00
Group VII_A (weighted at 23%)	9,655.00	772.00
Group VII_A (weighted at 50%)	987.00	79.00
Group VII_A (weighted at 57.5%)	0.00	0.00
Group VII_A (weighted at 100%)	115,506.00	9,240.00
Group VII_A (weighted at 115%)	500.00	40.00
Group VII_A (weighted at 120%)	0.00	0.00
Group VII_A (weighted at 138%)	0.00	0.00
Group VII_A (weighted at 150%)	0.00	0.00
Group VII_A (weighted at 172.5%)	0.00	0.00

Group VII_B (weighted at 0%)	0.00	0.00
Group VII_B (weighted at 20%)	0.00	0.00
Group VII_B (weighted at 23%)	0.00	0.00
Group VII_B (weighted at 50%)	0.00	0.00
Group VII_B (weighted at 57.5%)	0.00	0.00
Group VII_B (weighted at 100%)	**1,728.00**	**139.00**
Group VII_B (weighted at 115%)	0.00	0.00
Group VII_B (weighted at 120%)	0.00	0.00
Group VII_B (weighted at 138%)	0.00	0.00
Group VII_B (weighted at 150%)	0.00	0.00
Group VII_B (weighted at 172.5%)	0.00	0.00
Group VIII (weighted at 125%)	8,064.00	645.00
Group IX (weighted at 100%)	19,995.00	1,600.00
Group IX (weighted at 115%)	0.00	0.00
Group X (weighted at 1250%)	158.00	13.00
Securitizations with Risk rating 1 (weighted at 20%)	49.00	4.00
Securitizations with Risk rating 2 (weighted at 50%)	2.00	0.00
Securitizations with Risk rating 3 (weighted at 100%)	0.00	0.00
Securitizations with Risk rating 4 (weighted at 350%)	0.00	0.00
Securitizations with Risk rating 4, 5, 6 or not classified (weighted at 1250%)	351.00	28.00
Resecuritizations with Risk rating 1 (weighted at 40%)	0.00	0.00
Resecuritizations with Risk rating 2 (weighted at 100%)	0.00	0.00
Resecuritizations with Risk rating 3 (weighted at 225%)	0.00	0.00
Resecuritizations with Risk rating 4 (weighted at 650%)	0.00	0.00
Resecuritizations with Risk rating 5, 6 or not classified (weighted at 1250%)	1,832.00	147.00

Table IV.3

Operational RWAs	Capital Requirements
44,250.2	3,540.09

Average Market and credit RWAs of last 36 months	Average of positive net annual revenues for the last 36 months
23,600.1	26,159.1

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	1,478	3,112
9	Valor nominal del instrumento	$32,768.00	$1,817.60	$2,272.65	$1,477.63	$4,029.90
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 travésde 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.	23/10/2014; Deberá 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.	20/10/2014; Deberá 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.	23/10/2014 se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada.	28/10/2014 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
23	Convertibilidad del instrumento	No Convertibles	No Convertibles	No Convertibles	No Acumulables	No Convertibles
24	Condiciones de convertibilidad	N.A	N.A	N.A	Las Obligaciones Subordinadas serán de conversión obligatoria en acciones ordinarias representativas del capital social del Emisor, sin que este hecho se considere como un evento de incumplimiento, y la cual se llevará a cabo cuando se presente alguna de 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	Sí	No	Sí
37	Descripción de características de incumplimiento	N.A	N.A	N.A	No	N.A

Table VI

Capital management

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

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

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

1. Rate sensitivity: sensitivity is evaluated by monitoring the impact on core capital ratio and the capitalization ratio, where a 10% to 20% increase/decrease shock is applied in the exchange rate of each major currencies.
2. Sensitivity to interest rates: the impact of a movement in the interest rate in the core capital ratio and the capitalization ratio is measured. In this exercise, the impact on those classified as available for sale and cash flow hedges directly affecting capital reserves instruments is calculated. The shock is considered for this calculation is an increase / decrease in market interest rates of 200 basis points.
3. Sensitivity to credit spread: sensitivity in the core capital and the capitalization ratio to 300 basis point movement in the country risk is calculated, as well as on available for sale instruments. The shock considered is an increase / decrease of 300 basis points.

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

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