Grupo Financiero HSBC

Financial information at 31 December 2015

4Q15

► **Press Release**

► **Quarterly Report**

► **Fourth Quarter 2015**

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GRUPO FINANCIERO HSBC, S.A. DE C.V.
2015 FINANCIAL RESULTS – HIGHLIGHTS

- Net income before taxes for the year ended 31 December 2015 was MXN391m, a decrease of MXN1,974m compared with MXN2,365m for 2014, mainly due to higher loan impairment charges and administrative expenses and lower trading income.

- Net income for the year ended 31 December 2015 was MXN510m, a decrease of MXN1,471m compared with MXN1,981m for 2014, mainly due to lower net income before taxes, partially offset by lower tax expenses.

- Total operating income, excluding loan impairment charges, for the year ended 31 December 2015 was MXN36,478m, a decrease of MXN145m compared with MXN36,623m for 2014 mainly due to lower trading income and net fee income, partially offset by higher net interest income and other operating income.

- Loan impairment charges for the year ended 31 December 2015 were MXN13,667m, an increase of MXN1,502m or 12.3% compared with MXN12,165m for 2014.

- Administrative and personnel expenses for the year ended 31 December 2015 were MXN22,472m, an increase of MXN330m or 1.5% compared with MXN22,142m for 2014.

- The cost efficiency ratio was 61.6% for the year ended 31 December 2015, compared with 60.5% for 2014.

- Net loans and advances to customers were MXN232.1bn at 31 December 2015, an increase of MXN13.4bn or 6.1% compared with MXN218.8bn at 31 December 2014. Total impaired loans as a percentage of gross loans and advances as at 31 December 2015 decreased to 5.2% compared with 5.3% at 31 December 2014.

- At 31 December 2015, deposits were MXN280.0bn, a decrease of MXN18.6bn or 6.2% compared with MXN298.6bn at 31 December 2014.

- Return on equity was 1.0% for the year ended 31 December 2015 compared with 3.6% for 2014.

- At 31 December 2015, the bank's total capital adequacy ratio was 12.3% and the tier 1 capital ratio was 10.0% compared with 13.2% and 10.8% respectively at 31 December 2014.

- In the first quarter of 2015, Grupo Financiero HSBC paid a dividend of MXN1,550m, representing MXN0.55 per share.

- For the year ended 31 December 2015, on an IFRS basis, Grupo Financiero HSBC reported a net income of MXN768m, a decrease of MXN92m or 10.7% compared with MXN860m for the year ended 31 December 2014. The main differences between the Mexican GAAP and IFRS results relate to differences in accounting for loan impairment charges, present value of in-force long-term insurance business and fair value adjustments on financial instruments.

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 2015) 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).

Since the second quarter of 2015, the positive excess of loan impairment charges, determined monthly, to be classified in Other Operating Income, is measured on an individual basis rather than a portfolio basis 2014 figures have been restated to reflect this change, which implies some reclassifications between Loan Impairment Charges and Other Operating Income for a total of MXN4,163m.

Since the second quarter of 2015, the valuation of the inflation-indexed investment in securities of the insurance business which was previously classified in Trading Income has been classified in Net Interest Income. 2014 figures have been restated to reflect this change for a total of MXN355m.

Finally, certain impairments of fixed assets/intangibles which were previously classified in Administrative and Personnel Expenses have been classified in Other Operating Income. 2014 figures have been restated to reflect this change for a total of MXN72m.

Overview

The Mexican economy maintained a moderate pace of growth during the fourth quarter of 2015, mainly supported by an accelerated services sector, which has been favoured by stronger private consumption. However, the industrial sector continued to weaken on the back of softer manufacturing activity and the continuing decline of mining. Oil and commodity prices have remained low since the middle of 2014 with significant price declines in late 2015 and early 2016. Continued lower oil prices caused increased credit risks within oil-related industries together with fiscal and financing challenges.

Headline inflation closed the year at a new all-time low of 2.13% mainly as a result of the monthly reductions of electricity and telecom prices. Core inflation remained relatively stable, though the pass-through from Mexican peso depreciation to inflation prevailed during this period. The Mexican central bank raised the monetary policy rate by 25bps in response to the US rates lift-off. Banxico's decision was mainly driven by the importance of maintaining the relative monetary conditions between Mexico and the US largely unchanged to avoid undesirable pressures on the exchange rate. The Mexican peso continued to depreciate and closed the year at 17.36MXN/US$ which is partially related to the sharp drop in oil prices.

For the year ended 31 December 2015, Grupo Financiero HSBC's net income before taxes was MXN391m, a decrease of MXN1,974m or 83.5% compared with 2014, mainly due higher loan impairment charges and administrative expenses and lower trading income.

Net income was MXN510m, a decrease of MXN1,471m or 74.3% compared with 2014 mainly due to lower net income before taxes, partially offset by lower tax expenses.

Net interest income was MXN22,758m, an increase of MXN448m or 2.0% compared with 2014. The increase is mainly due to higher personal and payroll loan volumes and higher average demand deposit volumes, partially offset by the maturity and reduction of available-for-sale, long-term positions renewed at lower interest rates. In addition, the higher net interest income is due to the insurance-related business which accounted for an increase of MXN119m compared with 2014.

Loan impairment charges were MXN13,667m, an increase of MXN1,502m or 12.3% compared with 2014. In line with the progress of the Commercial Insolvency and Bankruptcy Law (known as 'concurso mercantil') processes for certain existing customers of the homebuilders' portfolio, their loan losses allowances levels have been increased in the third quarter of 2015 and a complement on the fourth quarter of 2015 by MXN1,784m and MXN198m respectively. In addition, certain corporate loan loss allowances have been increased in the fourth quarter by MXN469m, also increasing the coverage ratio to 121.7% as of 31 December 2015. These loan loss allowances were partially offset by a net release of loan loss allowances of MXN413m registered in the other operating income line.

The oil and gas sector has been highlighted as a key risk in the region as oil and gas prices have remained low since the middle of 2014 as a result of existing global demand-supply imbalances. Economic forecasts through 2015 have been steadily revised downwards and, since mid-December, prices have dipped further validating these forecasts. Given this is an emerging risk with potentially significant implications, stress tests were followed by name-by-name reviews of portfolios, and opportunities to reduce and secure exposures were identified; key triggers to assess further exposure reductions were also determined.

Net fee income was MXN6,362m, a decrease of MXN219m or 3.3% compared with 2014. This decrease is mainly due to lower account services fees to pursue improvements in quality portfolio performance by increasing the number of customers that exempt the membership fee based on relationship.

Trading income was MXN800m, a decrease of MXN435m or 35.2% compared with 2014. This decrease is explained mainly by losses in FX transactions due to the Mexican peso weakening during 2015 which affected US$ positions and FX derivatives, partially offset by gains in fixed income transactions, mainly related to mark-to-market valuation.

Other operating income was MXN6,558m, an increase of MXN61m or 0.9% compared with 2014, mainly due to a release of loan loss allowances in the first quarter 2015 of MXN640m for one customer of the homebuilders' portfolio, partially offset by a loss on an account receivable of a previously defaulted derivative and a software write-off related to transformation.

Administrative and personnel expenses were MXN22,472m, an increase of MXN330m or 1.5% compared with 2014. This increase is mainly due to higher deposit insurance fees associated with demand deposits' volume growth, higher marketing expenses as part of several campaigns launched during the year and continued investment in global standards implementation.

The cost efficiency ratio was 61.6% for the year ended 31 December 2015, compared with 60.5% for 2014.

The effective tax rate was -34.8% for the year ended 31 December 2015, compared with 11.7% for 2014. The variance in the effective tax rate is explained by non-taxable income and inflationary effects that increased their relevance due to a lower PBT base.

Grupo Financiero HSBC's insurance subsidiary, HSBC Seguros, reported net income before tax of MXN1,585m for the year ended 31 December 2015. Excluding discontinued operations, net income before taxes increased 3.8% compared with the same period of 2014. Net income of premiums, technical reserves and claims increased MXN210m compared with 2014, partially offset by a decrease in interest income by MXN91m, as portfolio maturities were renewed at a lower interest rate.

Net loans and advances to customers were MXN232.1bn at 31 December 2015, an increase of MXN13.4bn or 6.1% compared with MXN218.8bn at 31 December 2014. The performing consumer and mortgage loan portfolios increased by 28.5% and 13.1% respectively, while the performing commercial loan portfolio and loans to government entities remained practically unchanged, compared with 31 December 2014.

At 31 December 2015, total impaired loans increased by 5.1% to MXN12.9bn compared with 31 December 2014, mainly due to a higher impaired commercial loan portfolio. Total impaired loans as a percentage of total loans and advances to customers decreased to 5.2% compared with 5.3% at 31 December 2014. The non-performing loan ratio of mortgage and consumer impaired loan portfolios decreased to 2.6% compared with 3.3% at 31 December 2014.

Total loan loss allowances at 31 December 2015 were MXN15.6bn, an increase of MXN2.9bn or 22.7% compared with 31 December 2014. The total coverage ratio (allowance for loan losses divided by impaired loans) was 121.1% at 31 December 2015 compared with 103.7% at 31 December 2014. The higher coverage ratio reflects the update of loans loss allowances on certain existing customers of the homebuilders' portfolio in line with the progress of the Commercial Insolvency and Bankruptcy Law ('concurso mercantil') processes and other corporate customers.

Total deposits were MXN280.0bn at 31 December 2015, a decrease of MXN18.6bn or 6.2% compared with 31 December 2014. Demand deposits increased 5.4% due to higher volumes in retail and corporate segments, while time deposits decreased 24.2% mainly due to the maturity of money market deposits issued in December 2014 to improve liquidity. These are no longer needed as core deposits are funding the balance sheet.

At 31 December 2015, the bank's total capital adequacy ratio was 12.3% and the tier 1 capital ratio was 10.0% compared with 13.2% and 10.8% respectively at 31 December 2014. Since October 2015, regulatory changes aligned to Basel III, which were issued on 31 December 2014, have been considered. In addition, since November 2015, operational risk weighted assets calculation was considered following the alternative standard method, as per an approval received from the CNBV to use the method.

In the first quarter of 2015, Grupo Financiero HSBC paid a dividend of MXN1,550m, representing MXN0.55 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

Customers are offered a range of products according to their needs, with four customer profiles: Premier, Advance, Personal Banking and Business Banking. Starting in 2015, the Business Banking portfolio was migrated from CMB to RBWM to offer a proper channel mix, an appropriate service and products for this customer profile.

The RBWM consumer loan portfolio at 31 December 2015 increased by 28.5% compared with 31 December 2014, mainly in personal and payroll loans where market share increased by 270bps and 140bps respectively[1].

The average number of credit cards issued per month was 44,081 in 2015, an increase of 102% compared with 21,876 in 2014. Portfolio balances increased 7.0% compared with 31 December 2014.

Monthly average drawdowns of mortgages were MXN835m per month for the last quarter, and MXN636m for full year 2015, 49.5% higher than prior year, increasing balances 13.1% compared with 31 December 2014.

[1] Source: CNBV figures as of December 2015.

Several campaigns ran throughout 2015 offering a set of products with appropriate pricing to allow for sales growth while generating positive risk-adjusted results for the Bank. The main campaigns were: ‘Ahora es Cuando’, ‘Summer Campaign’ and ‘Back to School’.

The insurance business is focused on the affordability strategy to offer a premium payment according to customer income. HSBC Mexico has experienced a positive impact from this strategy, benefiting the persistency for temporary life insurance. Additionally, annualised premiums of life product sales for 2015 have increased 45.6% compared with the same period of 2014, leading to a portfolio growth of 15.7% compared with 31 December of 2014.

Commercial Banking (CMB)

CMB results for 2015 were impacted by higher loan impairment charges, mainly related to certain existing customers of the homebuilders’ portfolio by a net impact of MXN1,342m. A positive trend in revenues is related to an increase in credit loan volumes, particularly for Large Corporates, Corporate Real Estate and Business Banking segments, partially offset by lower volumes in Mid-Market Enterprises and Public Sector loans. Deposits registered a slight negative trend due to lower volumes in States and Municipalities segment, partially offset by higher volumes in Government and the rest of CMB segments.

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:

- Delivering growth in the NAFTA corridor has been identified as one of the top 10 global strategic actions for HSBC Group.

- In order to better support international customers, Commercial Banking has strengthened the International Subsidiary Banking team (ISB), with presence in key locations across Mexico. This will be focused in the NAFTA strategic opportunity.

- Continued progress in collaboration with Global Banking and Markets (GBM) that achieved higher revenue collaboration in FX transactions through our different platforms (NetFX platform and call transactions).

- Support for international SMEs continues through our International Growth Fund (Fondo México Global) and the NAFIN financing programme (Impulso Energético), currently both product offerings were fully approved.

Global Banking and Markets (GBM)

In the fourth quarter of 2015, GBM results were impacted by loan impairment charges of certain corporate loans and derivatives impaired receivables.

Trading income was MXN800m, a decrease of MXN435m or 35.2% compared with 2014. This decrease is explained mainly by losses in FX transactions due to the Mexican peso weakening during 2015 which affected US$ positions and FX derivatives, partially offset by gains in fixed income transactions, mainly related to mark-to-market valuation.

Global Banking average loan balances continued to grow in its commercial portfolio, which increased 12.6% compared with the same period of 2014. As result of the growth in loan balances, the fees related to financial structuring services increased by MXN57m in the last quarter of the year.

The deposits for Global Banking increased 39.2% compared with the same period of 2014. In addition, trade services business increased fees by 23.4% compared with the same period of 2014, mainly in domestic and imports operations.

Improved services and relationship with local and multinational corporates have increased revenues in the Payments & Cash Management business by 13.8% compared with 2014 and the Payroll business shows an upward trend with increased payroll-holders by 10.6% compared with 2014.

During the last quarter of 2015, the Debt Capital Markets business has improved its status as second place in the debt capital markets Mexico All Bonds league table which includes cross border operations.

HSBC Mexico's efforts to implement eCommerce tools in Mexico is helping enterprises to have access to products that fulfil all their foreign exchange needs through a straight through processing model that minimises manual costly intervention. This initiative has generated a growth in FX business revenues of 14.0% in 2015.

Collaboration with CMB in the FX Sales business continued its steady growth during 2015 diversifying the client base and clients' product portfolio through the use of FX Forwards and FX Options.

Grupo Financiero HSBC's 2015 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 2015, on an IFRS basis, Grupo Financiero HSBC reported a net income before taxes of MXN449m, a decrease of MXN271m or 37.6% compared with MXN720m for 2014.

The lower net income before tax reported under Mexican GAAP is mainly due to differences in accounting for loan impairment charges, present value of in-force, long-term insurance business, and fair value adjustments on financial instruments. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

Awards

In July 2015, HSBC Mexico was awarded Best Investment Bank by *Euromoney* because of its good performance in equity and debt markets as well as its strong position on M&A deals.

In October 2015, Payments and Cash Management Mexico was awarded Best Domestic Cash Management by *Euromoney* for the fourth consecutive year.

In November 2015, *Expansion Magazine* recognised HSBC Mexico for its campaign "La Primera Madre del Día de las Madres" because of its social and media impact.

In December 2015, *Forbes Magazine* ranked HSBC Mexico in the 14th place among the most philanthropic companies in Mexico due to the sponsorship of more than 60 NGOs dedicated to vulnerable children.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 974 branches, 5,625 ATMs and more than16,000 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 6,000 offices in 71 countries and territories in Asia, Europe, North and Latin America, the Middle East and North Africa and with assets of US$2,410bn at 31 December 2015, the HSBC Group is one of the world's largest banking and financial services organisations.

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HSBC

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Key Financial Indicators

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

	For the quarter ended at 31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
a) Liquidity	105.13%	100.52%	91.23%	75.67%	**71.10%**
Profitability					
b) ROE (Return over equity)	(3.69)%	10.86%	4.33%	(3.93)%	**(7.68)%**
c) ROA (Return over assets)	(0.33)%	0.94%	0.37%	(0.34)%	**(0.67)%**
Asset quality					
d) Impaired loans/total loans	5.29%	5.56%	5.72%	5.46%	**5.19%**
e) Coverage ratio	103.68%	98.73%	98.07%	115.32%	**121.06%**
Capitalization					
f) Credit risk	20.64 %	21.46 %	21.46 %	18.87 %	**17.34%**
g) Credit, operational and market risk	13.21 %	13.40 %	13.73 %	12.96 %	**12.33%**
Operating efficiency					
h) Expenses/Total Assets	3.76%	3.42%	3.48%	3.52%	**4.20%**
i) NIM	1.74%	1.63%	1.87%	1.15%	**2.30%**
Coverage					
j) Coverage of technical reserves	109.40%	106.22%	106.40%	108.11%	**107.39%**
k) Coverage of minimum guarantee capital	321.43%	197.15%	186.58%	305.40%	**247.28%**
l) Coverage of minimum paid capital					
HSBC Seguros, S. A. de C. V.	978.53 %	978.52 %	978.52 %	978.52 %	**978.52%**
HSBC Pensiones, S. A.	320.42 %	372.73 %	372.73 %	372.73 %	**372.73%**
Infrastructure					
Branches	984	984	991	988	**974**
ATM	5,780	5,712	5,700	5,678	**5,625**
Head Count	16,980	16,645	16,470	16,317	**16,057**

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 financial margin net of allowance for loan losses / Average performing assets.
Performing assets = Cash and deposits in banks + Investments in securities +Debtors under agreements to resell + Securities lending + 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

On 18 December 2015, HSBC Mexico announced that Nuno Matos was appointed Chief Executive Officer (CEO) as of January 1, 2016. Matos reports to Paulo Maia, CEO of HSBC Latin America and Chairman of Grupo Financiero HSBC Mexico.

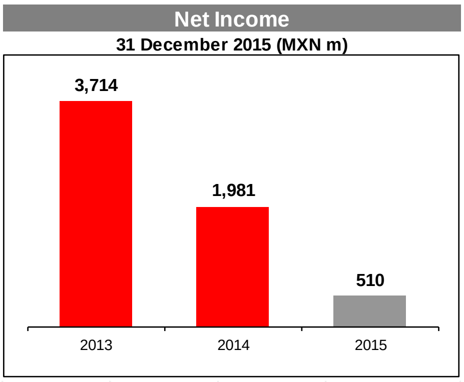
Luis Peña, Group General Manager, became HSBC's vice chairman of Global Banking and Markets for Latin America, based in Mexico. This role will contribute to strengthen the HSBC relationship with key corporate and government customers in Latin America. He will report to Samir Assaf, Chief Executive, Global Banking and Markets and Paulo Maia, CEO of HSBC Latin America.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC for the year ended 31 December 2015 was MXN510m, a decrease of MXN1,471m compared with 2014.

The decrease was mainly driven by higher loan impartment charges and administrative expenses and lower trading income, partially offset by lower tax expenses.



Total Operating Income

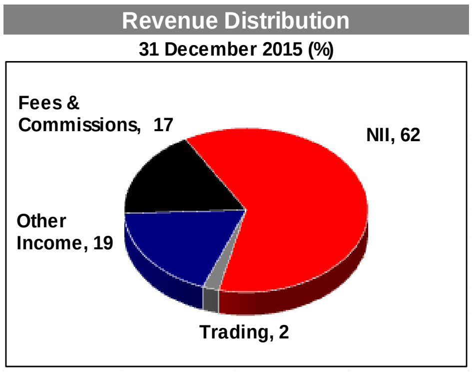
The Group's total operating income, excluding loan impairment charges, for the year ended 31 December 2015 was MXN36,478m, a decrease of MXN145m compared with 2014.

The decrease in total operating income is due to lower trading income and net fee income, partially offset by higher net interest income and other operating income.

Net Interest Income

Net interest income for the year ended 31 December 2015 was MXN22,758m, an increase of MXN448m or 2.0% compared with 2014.

The increase is mainly due to higher personal and payroll loan volumes and higher average demand deposits volumes, partially offset by the maturity and reduction of available-for-sale long term positions renewed at lower interest rates. In addition, the higher net interest income is due to insurance-related business which accounted for an increase of MXN119m compared with 2014.



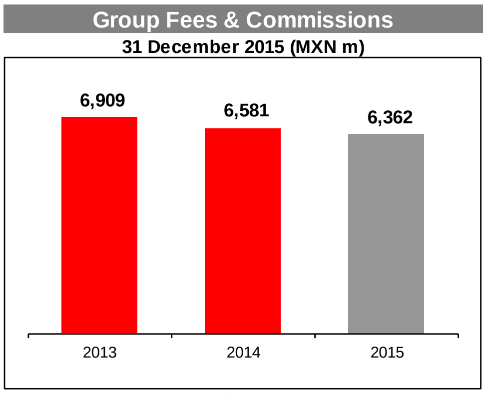
Non-interest Income

Non-interest income for the year ended 31 December 2015 was MXN13,720m; a decrease of MXN593m or 4.1% compared with 2014.

The Group's non-interest income to total revenue ratio was 37.6% for the year ended 31 December 2015 compared with 39.1% in 2014.

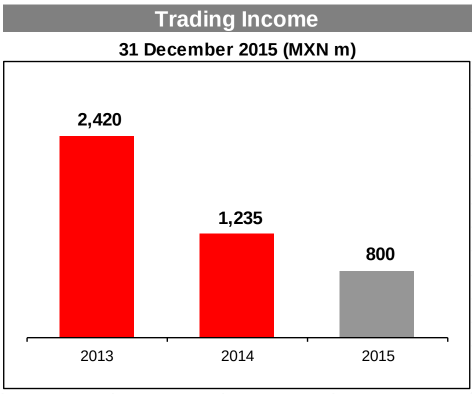
► Fee income

The Group's net fee income for the year ended 31 December 2015 was MXN6,362m, a decrease of MXN219m or 3.3% compared with 2014. This reduction is mainly due to lower account services fees to pursue improvements in quality portfolio performance by increasing the number of customers that exempt the membership fee based on relationship.



► **Trading income**

Trading income for the year ended 31 December 2015 was MXN800m, a decrease of MXN435m or 35.2% compared with 2014. This decrease is mainly explained by losses in FX transactions due to Mexican peso weakening during 2015 which affected US$ positions and FX derivatives, partially offset by gains in fixed income transactions, mainly related to mark-to-market valuation.

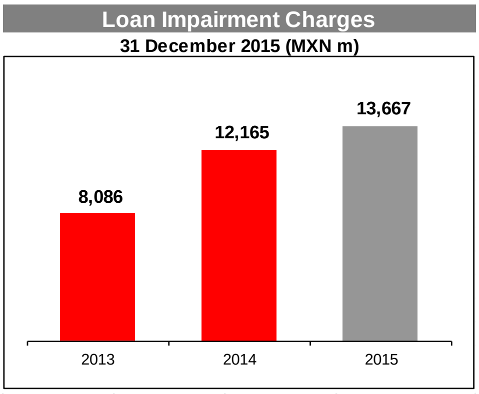


► **Other operating income**

Other operating income was MXN6,558m, an increase of MXN61m or 0.9% compared with 2014, mainly due to a release of loan loss allowances in the first quarter of 2015 of MXN640m for one customer of the homebuilders' portfolio, partially offset by a loss on an account receivable of a previously defaulted derivative and a software write-off related to transformation.

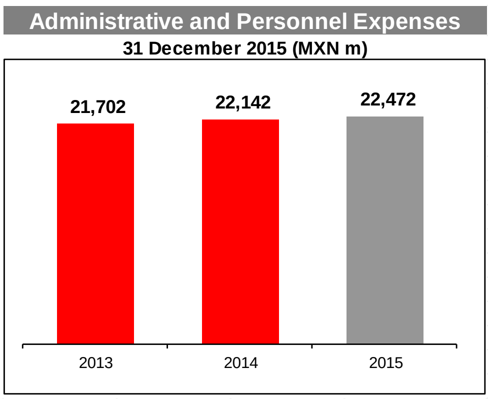
Loan Impairment Charges

For the year ended 31 December 2015, the Group's loan impairment charges were MXN13,667m, an increase of MXN1,502m or 12.3% compared with 2014. In line with the progress of the Commercial Insolvency and Bankruptcy Law (known as 'concurso mercantil') processes for certain existing customers of the homebuilders' portfolio, their loan losses allowances levels have been increased in the third quarter of 2015 and a complement on the fourth quarter of 2015 by MXN1,784m and MXN198m respectively. In addition, certain corporate loan losses allowances have been increased in the fourth quarter by MXN469m.



Administrative and Personnel Expenses

The Group's administrative and personnel expenses for the year ended 31 December 2015 were MXN22,472m, an increase of MXN330m or 1.5% compared with 2014. This increase is mainly due to higher deposit insurance fees associated with demand deposits' volume growth, higher marketing expenses as part of several campaigns launched during the year and continued investment in global standards implementation.



Balance sheet Variance Analysis

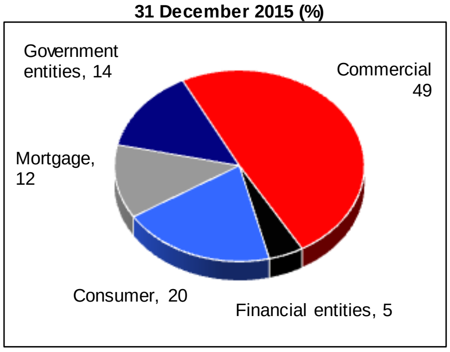
At 31 December 2015, the Group's total assets amounted MXN578,158m, which represents a decrease of MXN35,539m or 5.8%, compared with 31 December 2015. This decrease was mainly driven by lower investment in securities, partially offset by higher net loans and advances to customers and higher repurchase agreements.

Loan portfolio

The Group's performing loan portfolio balance was MXN234,856m at 31 December 2015, an increase of 7.1% compared with 31 December 2014. This increase was mainly driven by higher loans in consumer and mortgage portfolios.

Credit Portfolio Distribution

31 December 2015 (%)



► Commercial loans (including financial and government entities)

At 31 December 2015, the performing commercial portfolio (including financial and government entities) increased 1.2% in comparison with 31 December 2014; mainly driven by an increase of MXN831m and MXN701m in commercial loans and loans to financial intermediaries, respectively.

► Consumer loans

At 31 December 2015, performing consumer loans increased 28.5% compared with 31 December 2014, mainly due to an increase in volumes in personal and payroll loans, and higher credit card balances.

► Mortgage loans

The mortgage performing loan portfolio increased 13.1% compared with 31 December 2014, mainly due to higher average drawdowns in 2015 compared with previous year.

Asset quality

As of 31 December 2015, the Group's impaired loan portfolio was MXN12,869m, an increase of MXN626m or 5.1% compared with 31 December 2014. The higher impaired loan portfolio is mainly due to higher impaired commercial loan portfolio.

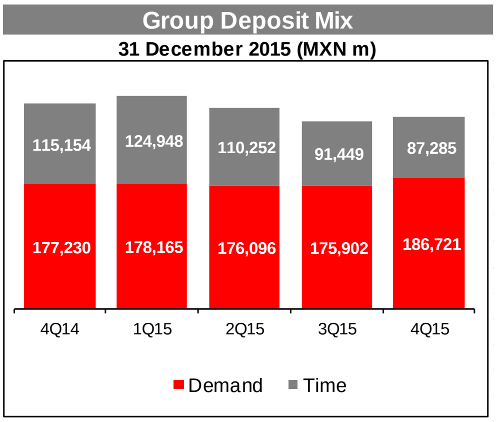
Total impaired loans as a percentage of total loans and advances to customers decreased to 5.2% compared with 5.3% at 31 December 2014. The total coverage ratio (allowance for loan losses divided by impaired loans) was 121.1% at 31 December 2015, compared with 103.7% at 31 December 2014. The higher coverage ratio reflects the update of loans loss allowances on certain existing customers of the homebuilders' portfolio in line with the progress of the Commercial Insolvency and Bankruptcy Law ('concurso mercantil') processes and other corporate customers.

Deposits

The Group's total deposits at 31 December 2015 were MXN280,043m, a decrease of 6.2% compared with 31 December 2014.

► Demand deposits

At 31 December 2015, demand deposits were MXN186,721m, an increase of 5.4% compared with 31 December 2014, mainly due to higher volumes in retail and corporate segments.



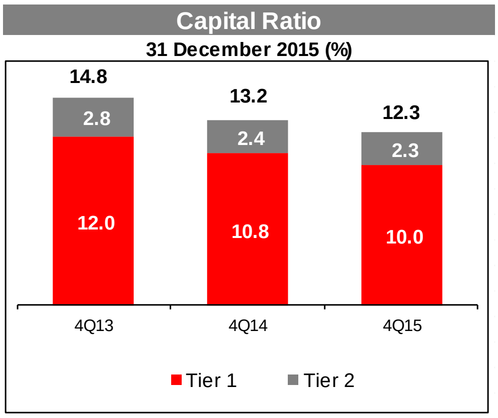
► Time deposits

Total time deposits were MXN87,285m at 31 December 2015, a decrease of 24.2% compared to 31 December 2014 mainly due to the maturity of money market deposits.

Shareholder's equity

At 31 December 2015, the Group's equity amounted to MXN51,935m, a decrease of 4.1% compared to 31 December 2014.

The Bank's equity was MXN46,196m, at 31 December 2015, a decrease of 3.9% compared to 31 December 2014.



Capital Adequacy Ratio

The Bank's capital adequacy ratio at 31 December 2015 was 12.3%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 10.0%

Financial Situation, Liquidity and Capital Resources

Group's balance structure has maintained its liquidity. Cash and investments in securities represent 32.2% of total assets. Total assets were MXN578,158m, a decrease of MXN35,539m in comparison with 31 December 2014. 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 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Assets					
Cash and deposits in banks	40,690	41,556	32,734	51,812	**46,266**
Margin Accounts	7	18	62	38	**23**
Investments in Securities	219,533	196,530	180,592	138,458	**139,719**
Trading securities	55,004	47,805	59,495	37,346	**28,810**
Available-for-sale securities	132,527	116,627	89,874	69,778	**80,689**
Held to maturity securities	32,002	32,098	31,223	31,334	**30,220**
Reverse repurchase agreements	-	8,791	9,411	23,623	**21,606**
Derivative transactions	80,041	77,240	72,820	87,047	**79,833**
Performing loans					
Commercial loans	156,993	145,011	146,255	146,742	**158,859**
Commercial entities	114,574	107,022	107,633	109,512	**115,405**
Loans to financial intermediaries	9,878	6,629	6,322	5,968	**10,579**
Loans to government entities	32,541	31,360	32,300	31,262	**32,875**
Consumer loans	36,371	36,974	38,902	43,096	**46,749**
Mortgages loans	25,853	26,086	26,742	27,772	**29,248**
Total performing loans	219,217	208,071	211,899	217,610	**234,856**
Impaired loans					
Commercial loans	10,102	10,400	10,970	10,696	**10,804**
Commercial entities	10,017	10,315	10,920	10,646	**10,754**
Financial entities	-	-	-	-	**-**
Loans to government entities	85	85	50	50	**50**
Consumer loans	1,568	1,301	1,345	1,331	**1,483**
Mortgages loans	573	548	552	539	**582**
Total non-performing loans	12,243	12,249	12,867	12,566	**12,869**
Loan portfolio	231,460	220,320	224,766	230,176	**247,725**
Allowance for loan losses	(12,693)	(12,094)	(12,619)	(14,491)	**(15,579)**
Net loan portfolio	218,767	208,226	212,147	215,685	**232,146**
Accounts receivable from insurance and bonding companies	58	71	80	85	**94**
Premium receivables	36	39	46	41	**30**
Accounts receivables from reinsurers and rebonding companies	59	58	63	63	**56**
Benefits to be received from trading operations	147	140	133	131	**121**
Other accounts receivable, net	34,834	79,228	86,958	85,948	**37,808**
Foreclosed assets	73	95	80	122	**124**
Property, furniture and equipment, net	6,146	5,994	5,769	5,486	**5,409**
Long term investments in equity securities	239	253	241	250	**268**
Long-term assets available for sale	-	-	-	17	**-**
Deferred taxes, net	8,710	8,604	8,945	10,156	**10,362**
Goodwill	1,048	1,048	1,048	1,048	**1,048**
Other assets, deferred charges and intangibles	3,309	4,107	3,030	3,114	**3,245**
Total Assets	613,697	631,998	614,159	623,124	**578,158**

Figures in MXN millions

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

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Liabilities					
Deposits	298,617	309,538	292,380	273,464	**280,043**
Demand deposits	177,230	178,165	176,096	175,902	**186,721**
Time deposits	115,154	124,948	110,252	91,449	**87,285**
Retail	92,680	91,991	91,569	89,447	**87,285**
Money market	22,474	32,957	18,683	2,002	**-**
Bank bonds outstanding	6,233	6,425	6,032	6,113	**6,037**
Bank deposits and other liabilities	42,021	30,435	27,122	37,880	**37,483**
On demand	13,765	2,100	-	10,121	**6,031**
Short term	26,088	24,661	23,504	24,007	**26,314**
Long term	2,168	3,674	3,618	3,752	**5,138**
Repurchase agreements	60,247	38,187	37,379	25,226	**32,453**
Stock Borrowing	-	-	-	-	**-**
Financial assets pending to be settled	-	2,009	4,276	384	**76**
Collateral Sold	21,897	17,313	16,366	18,375	**20,649**
Repurchase	11	-	-	-	**-**
Securities to be received in repo transactions	21,886	17,313	16,366	18,375	**20,649**
Derivative transactions	81,279	75,151	73,024	92,196	**85,349**
Technical reserves	12,253	12,316	12,315	12,332	**12,361**
Reinsurers	10	7	13	5	**5**
Other accounts payable	32,388	82,355	85,727	98,319	**45,771**
Income tax and employee profit sharing payable	165	24	98	85	**36**
Creditors for settlement of transactions	9,346	61,913	64,042	72,661	**18,740**
Sundry creditors and others accounts payable	22,877	20,418	21,587	25,573	**26,995**
Subordinated debentures outstanding	10,144	10,361	10,529	11,029	**11,175**
Deferred credits	710	684	712	743	**858**
Total Liabilities	559,566	578,356	559,843	569,953	**526,223**
Stockholder's Equity					
Paid in capital	37,823	37,823	37,823	37,823	**37,823**
Capital stock	5,637	5,637	5,637	5,637	**5,637**
Additional paid in capital	32,186	32,186	32,186	32,186	**32,186**
Capital Gains	16,303	15,815	16,489	15,344	**14,108**
Capital reserves	2,644	2,644	2,644	2,644	**2,644**
Retained earnings	11,215	11,646	11,646	11,646	**11,646**
Result from the mark-to-market of Available-for-sale securities	489	285	224	(336)	**(599)**
Result from cash flow hedging transactions	(26)	(223)	(72)	(129)	**(93)**
Net Income	1,981	1,463	2,047	1,519	**510**
Non-controlling interest	5	4	4	4	**4**
Total Stockholder's Equity	54,131	53,642	54,316	53,171	**51,935**
Total Liabilities and Capital	613,697	631,998	614,159	623,124	**578,158**

Figures in MXN millions

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Memorandum Accounts	5,052,629	4,826,392	5,128,335	5,813,921	**5,800,630**
Proprietary position	5,005,300	4,781,384	5,085,976	5,771,670	**5,757,989**
Irrevocable lines of credit granted	262,004	269,554	245,360	264,067	**264,067**
Goods in trust or mandate	458,166	454,445	434,780	447,791	**458,161**
Trust	457,525	453,589	433,925	446,938	**457,283**
Mandate	641	856	855	853	**878**
Goods in custody or under administration	494,422	480,684	586,685	969,229	**991,699**
Collateral received by the institution	21,979	37,595	27,099	43,916	**43,538**
Collateral received and sold or delivered as guarantee	21,897	32,064	17,423	30,778	**36,872**
Values in deposit	-	-	-	-	**-**
Suspended interest on impaired loans	276	219	227	213	**234**
Recovery guarantees for issued bonds	-	-	-	-	**-**
Paid claims	-	-	-	-	**-**
Cancelled claims	-	-	-	-	**-**
Recovery claims	-	-	-	-	**-**
Responsibilities from bonds in force	-	-	-	-	**-**
Other control accounts	4,008,560	3,776,377	4,019,762	4,279,743	**4,227,485**

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Third party accounts	47,329	45,008	42,359	42,251	**42,641**
Clients current accounts	-	1	-	-	**-**
Custody operations	1,096	1,116	1,082	1,794	**1,533**
Transactions on behalf of clients	-	-	-	-	**-**
Third party investment banking operations, net	46,233	43,891	41,277	40,457	**41,108**

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 5,637m
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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	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 2014	***31 Mar 2015***	***30 Jun 2015***	***30 Sep 2015***	***31 Dec 2015***	***31 Dec 2014***	***31 Dec 2015***
Interest Income	7,743	7,565	7,177	7,178	**7,718**	30,788	**29,638**
Earned premiums	711	705	705	713	**705**	2,893	**2,828**
Interest expense	(2,217)	(2,131)	(1,982)	(1,717)	**(1,690)**	(8,908)	**(7,520)**
Net Increase in technical reserves	(208)	5	63	13	**(99)**	(702)	**(18)**
Claims	(468)	(537)	(584)	(535)	**(514)**	(1,761)	**(2,170)**
Net interest income	5,561	5,607	5,379	5,652	**6,120**	22,310	**22,758**
Loan impairment charges	(3,219)	(3,377)	(2,948)	(4,182)	**(3,160)**	(12,165)	**(13,667)**
Risk adjusted net interest income	2,342	2,230	2,431	1,470	**2,960**	10,145	**9,091**
Fees and commissions receivable	2,129	1,974	2,020	2,014	**2,232**	8,296	**8,240**
Fees payable	(434)	(444)	(446)	(487)	**(501)**	(1,715)	**(1,878)**
Trading Income	142	223	443	109	**25**	1,235	**800**
Other operating income	870	3,106	1,644	1,273	**535**	6,497	**6,558**
Administrative and personnel expenses	(5,614)	(5,309)	(5,414)	(5,446)	**(6,303)**	(22,142)	**(22,427)**
Net operating income	(565)	1,780	678	(1,067)	**(1,052)**	2,316	**339**
Share of profits in equity interest	11	13	12	9	**18**	49	**52**
Net income (loss) before taxes	(554)	1,793	690	(1,058)	**(1,034)**	2,365	**391**
Income tax and employee profit sharing tax	201	(161)	(324)	(74)	**(11)**	(1,005)	**(570)**
Deferred income tax	(156)	(170)	218	604	**36**	735	**688**
Income from ongoing operations	(509)	1,462	584	(528)	**(1,009)**	2,095	**509**
Discontinued operations	8	-	-	-	**-**	(113)	**-**
Non-controlling interest	-	1	-	-	**-**	(1)	**1**
Net income (loss)	(501)	1,463	584	(528)	**(1,009)**	1,981	**510**

"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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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	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 2015

	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 2015	**37,823**	**-**	**-**	**-**	**2,644**	**11,215**	**489**	**(26)**	**-**	**1,981**	**5**	**54,131**
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	1,981	-	-	-	(1,981)	-	-
Cash dividends	-	-	-	-	-	(1,550)	-	-	-	-	-	(1,550)
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	**-**	**-**	**-**	**-**	**-**	**431**	**-**	**-**	**-**	**(1,981)**	**-**	**(1,550)**
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	510	-	510
Result from valuation of available-for-sale securities	-	-	-	-	-	-	(1,088)	-	-	-	-	(1,088)
Result from cash flow hedging transactions	-	-	-	-	-	-	-	(67)	-	-	-	(67)
Results from holding non-monetary assets											-	-
Others	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Total Movements Inherent for the Recognition of the Comprehensive Income	**-**	**-**	**-**	**-**	**-**	-	(1,088)	(67)	-	510	(1)	(646)
Balances at 31 December 2015	**37,823**	**-**	**-**	**-**	**2,644**	**11,646**	**(599)**	**(93)**	**-**	**510**	**4**	**51,935**

"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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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	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 2015

Net income	**510**
Depreciation	1,058
Amortization	617
Provisions	3,198
Income Tax and deferred taxes	(118)
Technical reserves	18
Discontinued operations	-
Share of profits in equity interest	(53)
Adjustments for items not involving cash flow:	**4,720**
Changes in items related to operating activities:	
Margin accounts	(16)
Investment securities	78,118
Repurchase agreements	(21,606)
Derivative (assets)	114
Loan portfolio	(13,379)
Benefits to be received from trading operations	26
Accounts receivables from premiums	6
Accounts receivables from reinsurers and coinsurers	(33)
Foreclosed assets	(51)
Operating assets	(3,446)
Deposits	(18,574)
Bank deposits and other liabilities	(4,539)
Creditors repo transactions	(27,794)
Collateral sold or delivered as guarantee	(1,248)
Derivative (liabilities)	4,070
Reinsurers and bonding	(5)
Subordinated debentures outstanding	1,031
Other operating liabilities	9,603
Income tax payable	-
Funds provided by operating activities	**2,277**
Investing activities:	
Acquisition of property, furniture and equipment	(445)
Intangible assets acquisitions	(336)
Cash dividends	24
Other investment activities	376
Funds used in investing activities	**(381)**
Financing activities:	
Cash dividends	(1,550)
Funds used in financing activities	**(1,550)**
Increase/decrease in cash and equivalents	**5,576**
Adjustments to cash flow variations in the exchange rate and inflation levels	**-**
Cash and equivalents at beginning of period	**40,690**
Cash and equivalents at end of period	**46,266**

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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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	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 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Assets					
Cash and deposits in banks	40,689	41,556	32,734	51,812	**46,266**
Margin Accounts	7	18	62	38	**23**
Investment in Securities	203,153	181,439	165,133	122,325	**123,352**
Trading securities	49,996	44,348	55,784	34,466	**25,158**
Available-for-sale securities	132,527	116,471	88,735	67,199	**78,669**
Held to maturity securities	20,630	20,620	20,614	20,660	**19,525**
Reverse repurchase agreements	-	8,791	9,411	23,623	**21,606**
Derivative transactions	80,041	77,240	72,820	87,047	**79,833**
Performing loans					
Commercial loans	156,993	145,011	146,255	146,742	**158,859**
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Impaired loans					
Commercial loans	10,102	10,400	10,970	10,696	**10,804**
Commercial entities	10,017	10,315	10,920	10,646	**10,754**
Loans to financial intermediaries	-	-	-	-	**-**
Loans to government entities	85	85	50	50	**50**
Consumer loans	1,568	1,301	1,345	1,331	**1,483**
Mortgage Loans	573	548	552	539	**582**
Total non-performing loans	12,243	12,249	12,867	12,566	**12,869**
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Net loan portfolio	218,767	208,226	212,147	215,685	**232,146**
Benefits to be received from trading operations	147	140	133	131	**121**
Other accounts receivable	34,412	78,168	86,413	85,077	**37,735**
Foreclosed assets	73	95	80	122	**124**
Property, furniture and equipment, net	6,146	5,994	5,769	5,486	**5,409**
Long term investments in equity securities	153	166	153	164	**181**
Long term assets available for sale	-	-	-	17	**-**
Deferred taxes	8,620	8,479	8,801	9,990	**10,247**
Other assets, deferred charges and intangibles	3,042	3,785	2,824	3,036	**3,142**
Total Assets	595,250	614,097	596,480	604,553	**560,185**

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

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Liabilities					
Deposits	299,257	310,207	293,095	273,967	**280,581**
Demand deposits	177,870	178,834	176,811	176,405	**187,259**
Time deposits	115,154	124,948	110,252	91,449	**87,285**
Retail	92,680	91,991	91,569	89,447	**87,285**
Money market	22,474	32,957	18,683	2,002	**-**
Bank bonds outstanding	6,233	6,425	6,032	6,113	**6,037**
Bank deposits and other liabilities	42,021	30,435	27,122	37,880	**37,483**
On demand	13,765	2,100	-	10,121	**6,031**
Short term	26,088	24,661	23,504	24,007	**26,314**
Long term	2,168	3,674	3,618	3,752	**5,138**
Repurchase agreements	60,247	38,187	37,379	25,226	**32,453**
Stock Borrowing	-	-	-	-	**-**
Financial assets pending to be settled	-	2,009	4,276	384	**76**
Collateral Sold	21,897	17,313	16,366	18,375	**20,649**
Repurchase	11	-	-	-	**-**
Securities to be received in repo transactions	21,886	17,313	16,366	18,375	**20,649**
Derivative transactions	81,279	75,152	73,024	92,196	**85,349**
Other accounts payable	31,647	80,959	84,792	97,084	**45,373**
Income tax and employee profit sharing payable	100	-	74	67	**2**
Contributions for future capital increases	-	-	-	-	**-**
Creditors for settlement of transactions	8,953	60,860	63,476	71,767	**18,690**
Sundry creditors and others accounts payable	22,594	20,099	21,242	25,250	**26,681**
Subordinated debentures outstanding	10,144	10,361	10,529	11,029	**11,175**
Deferred credits	712	686	713	743	**850**
Total Liabilities	547,204	565,309	547,296	556,884	**513,989**
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	15,275	16,018	16,414	14,899	**13,426**
Capital reserves	11,188	11,188	11,273	11,273	**11,273**
Retained earnings	2,770	3,624	3,539	3,539	**3,539**
Result from the mark-to-market of Available-for-sale securities	489	286	225	(337)	**(595)**
Result from cash flow hedging transactions	(26)	(223)	(72)	(129)	**(93)**
Net Income	854	1,143	1,449	553	**(698)**
Non-controlling interest	3	2	2	2	**2**
Total Stockholder's Equity	48,046	48,788	49,184	47,669	**46,196**
Total Liabilities and Capital	595,250	614,097	596,480	604,553	**560,185**

Figures in MXN millions

Memorandum Accounts

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Guarantees granted	-	-	-	-	**-**
Contingent assets and liabilities	-	-	-	-	**-**
Irrevocable lines of credit granted	262,004	269,554	245,360	264,067	**264,127**
Goods in trust or mandate	458,166	454,445	434,780	447,791	**458,161**
Goods	457,525	453,589	433,925	446,938	**457,283**
Trusts	641	856	855	853	**878**
Goods in custody or under administration	488,786	475,047	581,049	963,592	**986,062**
Collateral received by the institution	21,979	37,595	27,099	43,916	**43,538**
Collateral received and sold or delivered as guarantee	21,897	32,063	17,423	30,778	**36,872**
Third party investment banking operations, net	46,233	43,891	41,277	40,456	**41,108**
Suspended interest on impaired loans	276	219	227	213	**234**
Other control accounts	3,741,489	3,502,679	3,770,256	4,011,780	**3,959,260**
	5,040,830	4,815,493	5,117,471	5,802,593	**5,789,362**

The present income statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 and 102 of the Law for Credit Institutions, of general observance and mandatory, applied in a consistent manner, this statement reflects all operations performed by the institution up to the date mentioned above, these operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of the signing officers.
Historical paid in capital of the Institution amounts to MXN 3,880 million.
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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	JOSÉ CADENA OROZCO
Chief Executive Officer	Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Income Statement

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

	For the quarter ending					Year to date	
	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Dec 2014	31 Dec 2015
Interest income	7,367	7,320	6,951	6,907	**7,439**	29,541	**28,617**
Interest expense	(2,220)	(2,135)	(1,923)	(1,720)	**(1,758)**	(8,887)	**(7,536)**
Net interest income	5,147	5,185	5,028	5,187	**5,681**	20,654	**21,081**
Loan impairment charges	(3,218)	(3,377)	(2,948)	(4,182)	**(3,160)**	(12,165)	**(13,667)**
Risk adjusted net interest income	1,929	1,808	2,080	1,005	**2,521**	8,489	**7,414**
Fees and commissions receivable	2,014	1,866	1,869	1,883	**2,136**	7,769	**7,754**
Fees payable	(446)	(448)	(441)	(498)	**(505)**	(1,726)	**(1,892)**
Trading Income	176	262	461	143	**71**	1,315	**937**
Other operating income	937	3,149	1,707	1,298	**554**	6,716	**6,708**
Administrative and personnel expenses	(5,586)	(5,301)	(5,381)	(5,403)	**(6,214)**	(22,009)	**(22,299)**
Net operating income	(976)	1,336	295	(1,572)	**(1,437)**	554	**(1,378)**
Share of profits in equity interest	12	12	11	10	**17**	47	**50**
Net income (loss) before taxes	(964)	1,348	306	(1,562)	**(1,420)**	601	**(1,328)**
Income tax	276	(1)	(200)	83	**82**	(479)	**(36)**
Deferred income tax	(89)	(205)	200	583	**87**	733	**665**
Net income before discontinued operations	(777)	1,142	306	(896)	**(1,251)**	855	**(699)**
Discontinued operations	-	-	-	-	**-**		
Non-controlling interest	-	1	-	-	**-**	(1)	**1**
Net income (loss)	(777)	1,143	306	(896)	**(1,251)**	854	**(698)**

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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NUNO A. MATOS
Chief Executive Officer

GUSTAVO I. MÉNDEZ NARVÁEZ
Chief Financial Officer

GUILLERMO COLQUHOUN
Director of Internal Audit

JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

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

From 1 January to 31 December 2015

	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 2015	**32,768**	**-**	**-**	**-**	**11,188**	**2,770**	**489**	**(26)**	**-**	**854**	**3**	**48,046**
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	
Constitution of reserves	-	-	-	-	85	(85)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	854	-	-	-	(854)	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	-	-	-	-	85	769	-	-	-	(854)	-	-
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-	-	(698)	**(1)**	**(699)**
Result from valuation of available-for-sale securities	-	-	-	-	-	-	(1,084)	-	-	-	-	**(1,084)**
Result from cash flow hedging transactions	-	-	-	-	-	-	-	(67)	-	-	-	**(67)**
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	(1,084)	(67)	-	(698)	**(1)**	**(1,850)**
Balances as at 31 December 2015	**32,768**	**-**	**-**	**-**	**11,273**	**3,539**	**(595)**	**(93)**	**-**	**(698)**	**2**	**46,196**

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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NUNO A. MATOS	GUSTAVO I. MÉNDEZ NARVÁEZ	GUILLERMO COLQUHOUN	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 **HSBC Mexico, S.A. (Bank)**
From 1 January to 31 December 2015

Net income (loss)	**(698)**
Depreciation	1,058
Amortization	617
Provisions	2,242
Income Tax and deferred taxes	(629)
Share of profits in equity interest	(51)
Other	-
Adjustments for items not involving cash flow:	**3,237**
Changes in items related to operating activities:	
Memorandum accounts	(16)
Investment securities	78,106
Repurchase agreements	(21,606)
Derivative (assets)	(114)
Loan portfolio	(13,379)
Benefits to be received from trading operations	26
Foreclosed assets	(51)
Operating assets	(3,871)
Deposits	(18,676)
Bank deposits and other liabilities	(4,539)
Creditors repo transactions	(27,794)
Stock borrowing	-
Collateral sold or delivered as guarantee	(1,248)
Derivative (liabilities)	4,070
Subordinated debentures outstanding	1,031
Other operating liabilities	11,336
Other	-
Funds provided by operating activities	**3,503**
Investing activities:	
Acquisition of property, furniture and equipment	(445)
Intangible assets acquisitions	(336)
Proceeds on disposal of long-lived assets available for sale	2
Cash dividends	24
Others	209
Funds used in investing activities	**(465)**
Financing activities:	
Cash dividends	-
Funds used or provided by financing activities	**-**
Increase/decrease in cash and equivalents	**5,577**
Adjustments to cash flow variations in the exchange rate and inflation levels	**-**
Cash and equivalents at beginning of period	**40,689**
Cash and equivalents at end of period	**46,266**

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

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

Figures in MXN millions

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Government securities	47,874	42,536	54,260	31,337	**21,608**
Bank securities	1,105	1,233	852	897	**1,298**
Shares	4,186	2,666	2,867	3,422	**4,036**
Corporate securities	1,839	1,370	1,516	1,690	**1,868**
Trading securities	55,004	47,805	59,495	37,346	**28,810**
Government securities	128,323	112,563	85,735	65,500	**76,246**
Bank securities	1,874	1,884	1,860	1,880	**1,944**
Shares	-	-	-	-	-
Corporate securities	2,330	2,180	2,279	2,398	**2,499**
Available for sale securities	132,527	116,627	89,874	69,778	**80,689**
Government securities*	25,302	25,377	24,517	24,586	**24,581**
Bank securities	149	150	149	150	**150**
Special Cetes	5,103	5,138	5,176	5,216	**5,255**
Corporate securities	1,448	1,433	1,381	1,382	**234**
Held to maturity securities	32,002	32,098	31,223	31,334	**30,220**
Total Investment in Securities	219,533	196,530	180,592	138,458	**139,719**

*At 31 December 2015, 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" was MXN5,255m. The Special Cetes are booked as Held to Maturity securities within Government Securities classification.

*At December 2015, the Monetary Regulation Bonds (BREMS R) was MXN14,270m. The Bonds are booked as Held to Maturity securities within Government Securities classification.

In the fourth quarter of 2015, investment in securities increased by MXN1,261m compared to the third quarter of 2015; mainly due to Government Securities by MXN1,012m.

Repurchase and Reverse repurchase agreements

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

Figures in MXN millions

	Purchaser				
	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Repo operations	-	17,006	10,368	26,142	22,149
Collaterals sold or pledged	(11)	(8,215)	(957)	(2,519)	(543)
Total repurchase agreements	(11)	8,791	9,411	23,623	21,606

	Seller				
	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Repo operations	60,247	38,187	37,379	25,226	32,453
Collaterals sold or pledged	-	-	-	-	-
	60,247	38,187	37,379	25,226	32,453

Derivative transactions

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

Figures in MXN millions at December 31, 2015

Fair value of derivatives for trading purposes

	Swaps		*Forwards*		*Options*		*Futures*		*Net*
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	
Currency	43,994	47,480	12,732	11,251	111	111	-	-	(2,005)
Interest Rate	22,641	24,599	210	210	108	89	-	-	(1,939)
Equities	-	-	-	-	-	-	-	-	-
Total	**66,635**	**72,079**	**12,942**	**11,461**	**219**	**200**	**-**	**-**	**(3,944)**

Fair value of derivatives for hedging purposes

	Swaps		*Forwards*		*Options*		*Futures*		*Net*
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	
Currency	-	1,223	-	-	-	-	-	-	(1,223)
Interest Rate	37	386	-	-	-	-	-	-	(349)
Total	**37**	**1,609**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,572)**

Collateral received and sold or delivered as guarantee

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

Figures in MXN millions

	31 Dec 2014	***31 Mar 2015***	***30 Jun 2015***	***30 Sep 2015***	***31 Dec 2015***
Pledged (Restricted securities):					
Trading securities	33,319	22,381	27,955	15,955	**12,117**
Securities available for sale	35,420	16,310	35,420	17,540	**26,482**
Securities held to maturity	14,302	14,024	14,302	-	**-**
	83,041	52,715	77,677	33,495	**38,599**
Received (in memorandum accounts):					
In respect of repo transactions	-	17,031	10,385	26,156	**21,341**
In respect of securities loan:	-	-	-	-	**-**
Fixed income	21,979	20,564	16,714	17,760	**22,197**
	21,979	37,595	27,099	43,916	**43,538**
Collateral sold or pledged as guarantee:					
In respect of repo transaction	-	14,036	1,056	12,266	**141**
In respect of reverse repo transactions	-	-	-	-	**15,572**
In respect of securities loan	11	715	-	137	**509**
Fixed income	21,886	17,313	16,367	18,375	**20,650**
	21,897	32,064	17,423	30,778	**36,872**

Loan Portfolio

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

Figures in MXN millions at December 31, 2015

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Non Impaired Loan Portfolio						
Pesos	81,675	7,055	32,875	46,749	28,605	196,959
US Dollars	33,730	3,524	-	-	-	37,254
Udis	-	-	-	-	643	643
Total	**115,405**	**10,579**	**32,875**	**46,749**	**29,248**	**234,856**
Impaired Loan Portfolio						
Pesos	10,353	-	50	1,483	543	12,429
US Dollars	401	-	-	-	-	401
Udis	-	-	-	-	39	39
Total	**10,754**	**-**	**50**	**1,483**	**582**	**12,869**

Loan Portfolio Grading

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

Figures in constant MXN millions at December 31, 2015

		Allowance for Loan Losses by type of loan			
	Total loan portfolio	*Commercial loans*	*Consumer loans*	*Mortgages loans*	*Total reserves*
Excepted from rating	-				
Rated	511,851				
Risk A	**418,671**	**1,143**	**36**	**89**	**1,268**
Risk A-1	379,790	671	36	89	796
Risk A-2	38,881	472	-	-	472
Risk B	**70,702**	**797**	**2,649**	**131**	**3,577**
Risk B-1	42,710	255	1,712	131	2,098
Risk B-2	20,570	181	937	-	1,118
Risk B-3	7,422	361	-	-	361
Risk C	**8,061**	**435**	**756**	**165**	**1,356**
Risk C-1	7,369	335	756	165	1,256
Risk C-2	692	100	-	-	100
Risk D	**8,283**	**2,887**	**1,113**	**4**	**4,004**
Risk E	**6,134**	**5,258**	**89**	**27**	**5,374**
Total	**511,851**	**10,520**	**4,643**	**416**	**15,579**
Less:					
Constituted loan loss allowances					15,579
Surplus					**-**

The figures related to the rating and constitution of loan loss allowances correspond to those as at December 31, 2015 and include figures related to credit lines of revolving credit.

The loan portfolio is graded according to the rules issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) based on loan loss provisions methodology applicable to credit institutions in Mexico (the Dispositions) issued by the Banking Commission (CNBV for its acronym in Spanish) based on concepts such as expected loss and concepts like probability of default, exposure at default and the loss given default.

For the consumer and mortgage portfolio, grading is based on the General Regulations issued by the CNBV, specifically using the standard methodology.

As at 31 December, 2015, the increase in loan loss allowances charged to Income Statement was MXN13,667m. In the other hand, MXN5,552m was related to write offs and MXN344m 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 (MXNm)
Consumer*	9.72%	70.25%	48,232
Mortgages	3.30%	26.29%	29,830
Commercial*	10.29%	43.03%	169,663

*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 31 December 2015, 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

	For the quarter ended				
	31 Dec 2014	***31 Mar 2015***	***30 Jun 2015***	***30 Sep 2015***	***31 Dec 2015***
Initial Balance of Impaired Loans	13,111	12,243	12,249	12,867	**12,566**
Increases	3,384	3,952	6,145	6,857	**9,672**
Transfer of non-impaired loans to impaired loans	3,384	3,952	6,145	6,857	**9,672**
Decreases	4,252	3,946	5,527	7,158	**9,369**
Restructurings and renewals with cure period	125	74	512	349	**70**
Liquidated credits	3,148	2,851	2,663	4,212	**5,968**
Paid in cash	1,128	1,263	1,309	2,752	**4,453**
Foreclosed assets	-	8	0	41	**7**
Write offs	2,020	1,580	1,354	1,419	**1,508**
Transfer to performing loan status	1,062	1,024	2,369	2,630	**3,345**
FX revaluations	83	3	17	33	**14**
Final Balance of Impaired Loan	12,243	12,249	12,867	12,566	**12,869**

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. On June 30, 2015, all five installments were paid by the Federal Government. As of 31 December 2015 and 30 September 2015, 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:

MXNm	December 2015		September 2015	
	Portfolio	Cost	Portfolio	Cost
ETA/BADCV	-	-	-	-

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

MXNm		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:

MXNm		
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 MXN944m divided in five installments of MXN189m each. As of 30 June 2015, five installments were received. Accordingly, the balance receivable as of 30 June 2015 has been settled.

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 MXN167m 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 31 December 2015 and 2014, amounts to MXN11m and MXN14m, respectively.

The number of securities related to BADCV that are held by the Bank at 31 December 2015 are shown as follows:

Program	Trust number	Term	Due date	Number of securities: Special CETES	Number of securities: 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

At 31 December 2015 no specific accounting rules derived from programs supporting victims were issued.

Deferred Taxes, net

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

Figures in MXN millions

	31 Dec 2014	*31 Mar 2015*	*30 Jun 2015*	*30 Sep 2015*	*31 Dec 2015*
Deferred tax assets:					
Allowances:					
Allowances for loan losses	7,711	7,474	7,737	8,590	**8,570**
Allowances for foreclosed assets	262	269	266	295	**292**
Other provisions	674	559	709	753	**552**
Property, furniture and equipment	751	754	720	732	**839**
ESPS provisions	91	92	39	35	**4**
Valuation of financial instruments	515	598	731	955	**1,287**
Commissions received in advance	236	223	236	256	**307**
Other	32	157	26	29	**56**
	10,272	10,126	10,464	11,645	**11,907**
Deferred tax liabilities:					
Interest from Special Central Bank*	(1,051)	(1,065)	(1,081)	(1,096)	**(1,112)**
Valuation of financial instruments	(336)	(247)	(255)	(128)	**(163)**
Deductions in advance	(60)	(103)	(53)	(38)	**(23)**
Income tax deferred by ESPS Deferred	(115)	(107)	(130)	(227)	**(247)**
	(1,562)	(1,522)	(1,519)	(1,489)	**(1,545)**
Total Deferred Taxes	8,710	8,604	8,945	10,156	**10,362**

*The concept "Cetes Especiales" previously identified as "Tax result UDIS-Banxico" until the second half of 2014 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.

Deposits and Bank Deposits and other liabilities

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

Average Interest rates

	For the quarter ended				
	31 Dec 2014	***31 Mar 2015***	***30 Jun 2015***	***30 Sep 2015***	***31 Dec 2015***
MXN pesos					
Deposits					
Demand deposits	0.58%	0.67%	0.64%	0.54%	**0.60%**
Time deposits	2.52%	2.47%	2.51%	2.58%	**2.53%**
Issued credit securities	6.42%	6.30%	6.44%	6.53%	**6.54%**
Bank deposits and other liabilities					
Call Money	3.42%	3.84%	4.70%	4.26%	**4.77%**
Banxico Loans	3.02%	3.26%	3.47%	3.52%	**3.56%**
Development Banking	4.35%	4.37%	4.38%	4.47%	**4.50%**
Development Funds	3.41%	3.43%	3.51%	3.42%	**3.43%**
Foreign currency					
Deposits					
Demand deposits	0.04%	0.04%	0.04%	0.04%	**0.02%**
Time deposits	0.13%	0.13%	0.10%	0.09%	**0.12%**
Bank deposits and other liabilities					
Call Money	0.65%	0.64%	0.73%	0.86%	**1.04%**
Development Banking	1.29%	1.47%	1.57%	1.68%	**1.67%**
Development Funds	1.24%	1.36%	1.32%	1.24%	**1.31%**
UDIS					
Deposits					
Time deposits	0.01%	0.01%	0.01%	0.01%	**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 2014 Term		31 Mar 2015 Term		30 Jun 2015 Term		30 Sep 2015 Term		31 Dec 2015 Term	
	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long
MXN Pesos:										
Banxico Loans	1,232	-	201	-	202	-	402	-	405	-
Development Banking	4,892	-	4,601	1,500	4,201	1,500	3,445	1,500	3,823	1,500
Commercial Banking (Call Money)	13,765	-	2,100	-	-	-	10,121	-	6,031	-
Development Funds	3,906	1,579	3,336	1,567	4,272	1,504	3,999	1,570	5,136	1,883
Subtotal	23,795	1,579	10,238	3,067	8,675	3,004	17,967	3,070	15,395	3,383
Foreign currency:										
Banxico Loans	-	-	-	-	-	-	-	-	-	-
Commercial Banking	12,975	-	13,456	-	11,634	-	12,951	-	13,086	-
Development Banking	1,567	-	1,635	-	1,657	-	1,774	-	2,271	-
Development Funds	1,516	589	1,432	607	1,538	614	1,436	682	1,593	1,755
Subtotal	16,058	589	16,523	607	14,829	614	16,161	682	16,950	1,755
Total Term	39,853	2,168	26,761	3,674	23,504	3,618	34,128	3,752	32,345	5,138
Total Bank and other liabilities	$	42,021	$	30,435	$	27,122	$	37,880		37,483

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	5	10-DEC-2018
HSBC 09D	(3)	30-JUN-2009	5,175	USD	5,175	2	28-JUN-2019
HSBC 13-1D	(4)	31-JAN-2013	1,897	USD	1,897	3	10-DEC-2022
			11,190		**11,162**	**13**	

(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. 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

Negotiable Certificates of Deposits and Structured Notes

(MXNm)

Instrument	*Issue Date*	*Issue Amount (MXN Millions)*	*Currency*	*Total price to public (MXN Millions)*	*Interest Payable (MXN millions)*	*Maturity Date*
HSB0001 06 (1)	10/MAY/2006	1,000	MXN	1,000	16	27/APR/2016
HSBC13 (2)	09/DEC/2013	2,300	MXN	2,300	6	03/DEC/2018
HSBC13-2 (3)	09/DEC/2013	2,700	MXN	2,700	15	27/NOV/2023
		6,000		**6,000**	**37**	

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

As of 31 Decmber 2015, the Bank had no outstanding Certificates of Deposits:

Capital

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

Grupo Financiero HSBC

The net income for 2014 of Grupo Financiero HSBC S.A. de C.V., figure that was audited by the Firm KPMG Cárdenas Dosal, S.C., was MXN1,981m.

On February 23, 2015 one notice was published in accordance to the agreement of the shareholders meeting, a dividend of $0.5499606232096730 shall be paid per share for each one of the 2’818,383,598 shares. Such dividend was paid on one disbursement on March 5th of 2015, was MXN1,550m.

The general ordinary shareholders meeting, held on April 29, 2015 authorized the use of the net income for 2014 as follow:

The profit of MXN1,981m, at the Board’s determination to be applied under the concept of retained earnings.

The capital stock is included in the amount of MXN5,637m, represented by 2’818,383,598 shares.

HSBC Mexico, S.A.

The net income for 2014 of HSBC Mexico, S.A., figure that was audited by the firm KPMG Cárdenas Dosal, S.C., was MXN854m.

The general ordinary shareholders meeting, held on April 29, 2015 authorized the use of the net income for 2014 as follows:

- Ten per cent, or MXN85, to increase legal reserves.
- The remaining MXN769m, at the Board’s determination to be applied under the concept of other of retained earnings

The capital stock is included in the amount of MXN5,680m represented by 1,940’009,665 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
% of assets subject to credit risk					
Tier 1	16.89%	17.90%	17.91%	15.51%	**14.02**%
Tier 2	3.75%	3.56%	3.55%	3.36%	**3.32**%
Total regulatory capital	20.64%	21.46%	21.46%	18.87%	**17.34**%
% of assets subject to credit, market and operational risk					
Tier 1	10.81%	11.18%	11.46%	10.43%	**9.97**%
Tier 2	2.40%	2.22%	2.27%	2.26%	**2.36**%
Total regulatory capital	13.21%	13.40%	13.73%	12.69%	**12.33**%
Tier 1	41,593	42,559	42,744	39,832	**38,098**
Tier 2	9,239	8,461	8,466	8,627	**9,027**
Total regulatory capital	50,832	51,020	51,211	48,460	**47,125**
RWA credit risk	246,246	237,714	238,638	256,864	**271,818**
RWA market risk	94,159	97,606	88,051	78,239	**81,373**
RWA operational risk	44,250	45,342	46,229	46,766	**29,145**
RWA credit, market and operational risk	384,655	380,661	372,917	381,869	**382,336**

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 ended					*Year to date*	
	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Dec 2014	31 Dec 2015
Investments in Securities	229	(160)	496	7	**(218)**	229	**125**
Trading derivatives	(1,200)	1,890	(1,003)	(201)	**(234)**	(1,642)	**452**
Currencies and metals	158	45	(19)	132	**74**	297	**232**
Valuation	(813)	1,775	(526)	(62)	**(378)**	(1,116)	**809**
Investments in Securities	31	231	39	419	**142**	1,003	**831**
Trading derivatives	93	3	299	16	**179**	976	**497**
Currencies and metals	831	(1,786)	631	(264)	**82**	372	**(1,337)**
Purchase / sale of securities	955	(1,552)	969	171	**403**	2,351	**(9)**
Total Trading Income	142	223	443	109	**25**	1,235	**800**

Other Operating Income (Expenses)

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

Figures in MXN millions

	For the quarter ended					*Year to date*	
	31 Dec 2014	***31 Mar 2015***	***30 Jun 2015***	***30 Sep 2015***	***31 Dec 2015***	***31 Dec 2014***	***31 Dec 2015***
Recoveries and reimbursements	156	406	199	199	**170**	1,099	**974**
Reimbursent of expenses incurred on behalf of related companies	408	195	423	217	**236**	1,215	**1,071**
Gain on sale of properties	3	5	-	-	**8**	20	**13**
Gain on sale of foreclosed assets	45	39	28	29	**40**	193	**136**
Accrued interest on loans granted to employees	32	31	31	31	**31**	132	**124**
Cancellation of excess of allowance for loan losses on a portfolio basis	364	2,386	1,062	789	**649**	4,195	**4,886**
Estimates unrecoverable	-	-	-	-	**(293)**	-	**(293)**
Impairments of Assets and Intangibles	(149)	(48)	(2)	(37)	**(275)**	(149)	**(362)**
Others	11	92	(97)	45	**(31)**	(208)	**9**
Total other operating income (expenses)	870	3,106	1,644	1,273	**535**	6,497	**6,558**

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. Since 2015 Personal Banking started to attend a group of PFAE´s, which the main products are lines of credit for working capital; also attend a specific group of start-ups with products such as loans and financial services related to cheque accounts and effective management.

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 by segments as of 31 December 2015 is shown below:

Figures in MXN millions	Year to date at 31 December 2015			
	RBWM*	**CMB**	**GBM**	**Total**
Net Interest Income	15,883	4,268	2,607	22,758
Loan impairment charges	(8,605)	(4,455)	(607)	(13,667)
Risk adjusted net interest income	7,278	(187)	2,000	9,091
Fees and Commissions, net	4,711	966	685	6,362
Trading Income	88	249	463	800
Other operating income	3,983	2,432	143	6,558
Total Revenue	16,060	3,460	3,291	22,811
Administrative and personnel expenses	(15,451)	(4,321)	(2,700)	(22,472)
Net operating income	609	(861)	591	339
Share of profits in equity interest	15	13	24	52
Net income (loss) before taxes	624	(848)	615	391
Tax expense	(204)	311	11	118
Income from ongoing operations	420	(537)	626	509
Discontinued operations	-	-	-	-
Non-controlling interest	1	0	0	1
Net income (loss)	421	(537)	626	510

*Includes private banking

The balance sheet information by segments as of 31 December 2015 is shown below:

Figures in MXN millions

	RBWM	**CMB**	**GBM**	**Total**
Net loan portfolio	77,774	85,523	68,849	232,146
Deposits	168,155	75,708	36,180	280,043

Related Party Transactions

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

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

As part of regulation NIIF C-3 Related Parties, the amounts higher than 1% of Equity of HSBC Group at December 31, 2015 the operations are shown below:

	2015
Guarantees granted:	
Other related parties	7,598
Cash and deposits in banks:	
Other related parties	4,052
Received services:	
Other related parties	2

Additional information according with operations celebrated to related parties:

As of 31 December 2015 HSBC Group has loans granted to related parties by MXN49m.

During the 2015 exercise, HSBC Group maintained passives positions of derivatives with related parties which ascend to MXN13,861m.

The balance of the transactions at December 31, 2015 is shown below:

Figures in MXN millions

	Receivable	**Payable**
HSBC Latin America Holdings (UK) Limited	27	0
HSBC Global Asset Management (UK) Limited	4	4
HSBC Bank Brasil, S. A. Banco Multiplo	107	545
HSBC Holdings Plc.	196	881
HSBC Bank USA National Association	0	3
HSBC Bank Argentina S. A.	1	126
The Hong Kong and Shangai Banking Corporation Limited	0	143
HSBC Software Development (India) Private Limited	0	77
HSBC Software development (Brazil)	0	22
HSBC Technologies and Services (USA) Inc.	0	75
HSBC Bank (Uruguay), S. A.	2	0
HSBC Bank Canada	0	9
HSBC Bank (Chile), S. A.	11	0
HSBC France	0	6
HSBC Insurance Holdings Limited	0	4
HSBC Securities (USA) Inc	18	29
HSBC Finance Transformation (UK) Limited	0	16
HSBC New York Life Seguros de Vida (Argentina), S. A.	20	0
HSBC Argentina Holding, S. A.	2	1
HSBC Bank plc.	15	304
HSBC Global Operations Company LTD	0	15
HSBC Software Development (Guangdong)	0	8
HSBC Global Services Limited	0	3
HSBC Global Asset Management (USA) Inc	0	3
	403	**2,274**

	Dec-15
Transactions:	
Revenues:	
Adminsitrative services	1,071
Receivable interest and fees	57
Other	-
Expenses:	
Payable interest and fees	74
Administrative expenses	70

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 2015 and an explanation of the key reconciling items.

Figures in MXN millions	**31 Dec 2015**
Grupo Financiero HSBC – Net Income Under Mexican GAAP	**510**
Differences arising from:	
Valuation of defined benefit pensions and post-retirement healthcare benefits*	138
Deferral of fees received and paid on the origination of loans and other effective interest rate adjustments*	(156)
Loan impairment charges and other differences in presentation under IFRS*	437
Recognition of the present value in-force of long-term insurance contracts *	212
Fair value adjustments on financial instruments*	(364)
Deferred profit sharing*	(175)
Other differences in accounting principles*	166
Net income under IFRS	**768**
US dollar equivalent (millions)	**48**
Add back tax expense	(319)
Net income before taxes under IFRS	**449**
US dollar equivalent (millions)	**28**
Exchange rate used for conversion	*15.88*

* Net of tax at 30%.

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

Valuation of defined benefit pensions and post-retirement healthcare benefits
Mexican GAAP
Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method and real interest rates.

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

Deferral of fees paid and received on the origination of loans and other effective interest rate adjustments
Mexican GAAP
From 1 January 2007, loan origination fees are required to be deferred and amortised over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were recognised up-front.

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

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

Cash recoveries of written off loans and the positive excess of loan impairment charges determined monthly, 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.

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.

Cash recoveries of written off loans and the positive excess of loan impairment charges recognized during the year are presented in Loan Impairment Charges.

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

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

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

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.

Fair value adjustments on financial instruments
Mexican GAAP
Mexican GAAP requires that for those Derivatives and Investment in Securities required to be fair valued, valuations shall be obtained from prices or application of internal valuation models, applied uniformly and consistently among the operations with same nature.

Inputs for Internal valuation models such as interest rates, exchange rates and volatilities as well as prices used to valuate positions shall be obtained from authorized price vendors.

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.

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, 2015

	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 Mexico, S.A. (Bank)

	Moody's	Standard & Poor's	Fitch
Global scale ratings			
Foreign currency			
Long term	A-3	BBB+	A
Short term	P-2	A-2	F1
Local Currency			
Long term	A2	BBB+	A+
Short term	P-1	A-2	F1
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	11-Sep-15	25-Sep-15	15-Sep-15

HSBC Seguros & Pensiones

National rating	AAA(mex)
Outlook	Stable
Last update	8-Dec-15

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 “Supplementary”, 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 applying 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.

Transitory rule for adopting the NIF D-3 Employee Benefits

On 31 December 2015, the CNBV issued in the Official Gacet a transitory rule that Credit Institutions may follow to recognize changes arising from reformulation issued by the CINIF, which are in force starting 1 January 2016 as follows:

- In the case of the balance of non-recognized changes to the plan, it shall be affected to retained earnings from previous years against “Provisions for employee benefits” under the caption “Sundry Creditors and Other accounts payable” of the balance sheet.

- Cumulative balance of gains and losses of the plan pending to be recognized shall be affected to “Provisions for employee benefits” under the caption “Sundry Creditors and Other accounts payable” of the balance sheet, against the caption “Re-measurements of defined employee benefits” in Other comprehensive Income(OCI)..

The Bank opted for the progressive application of the initial impact of these two concepts, and informed it to the CNBV on a written communication dated 29 January2016, therefore, recognition will start this year on an annual and progressive basis during a period of 5 years.

As at the Financial Statements date, the Management of the Bank is still defining some assumptions that will be used to determine employee benefits liabilities starting 1 January 2016, including the determination of the discount rate. Due to this fact, main information is of the Employee benefits calculation as at enforce date of NIF D-3 is shown, considering the discount rates which are currently being evaluated to be used:

	Government Bonds 7%	Corporative Bonds 8.25%
OBD Pension Plan	169.2	117.9
Asset for post-employement benefits	(391.9)	(495.8)
Liability for seniority premiums	86.5	84.1
Liability for termination benefits	430.7	427.8
Net Cost of the period	524.9	406.5
Amount recognizedin OCI	537.4	377.0
Amount recognized in retained earnings.	29.5	29.5

**These results are presented as at 1 January 2016, and after recognizing 20% of the actuarial losses and modifications in the plan in OCI andretained earnings.*

The initial impact of NIF D-3 application in the Bank, considering government bonds as discount rate (7%) is shown as follows:

	2016	**2017**	**2018**	**2019**	**2020**	**Total**
	20%	**20%**	**20%**	**20%**	**20%**	
a) Modifications to the plan	29.5	29.5	29.5	29.5	29.5	147.5
b) Accumulated balance of the pending to recognized gains and losses	537.4	537.4	537.4	537.4	537.4	2,687
Total	**566.90**	**566.90**	**566.90**	**566.90**	**566.90**	**2,834.5**

The progressive recognition of the initial impact as shown in the table above will also include the remediations of the actuarial gains or losses in the Defined Employee Benefits and the Assets of the Plan of the corresponding period. In addition the recycling to gains and losses for the period of actuarial gains/losses recognized in OCI will be calculated based on the average remaining working life projected in the actuarial calculation of every concept included in the plan for every corresponding year.

Modifications in to the policies, standards and accounting practices

I. The CINIF has issued the NIF and the improvements to the NIF as follow:

Main improvements are as follows:

NIF B-7 “Business acquisition” – Establish that the acquisitions of entities under common control should not be part of the scope of this standard, regardless of how the amount of price has been determined. This improvement was in force from 1 January 2016 and its effects must be recorded in a retrospective manner.

NIF C-7 “Investment in associates, joint ventures and other investments” – Defines the addition of the investments in kind made in an associate or a joint venture recognized at fair value. This improvement was in force from 1 January 2015 and its effects must be recorded in a retrospective manner.

II. 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, currently these are recognised as part of the loan portfolio. In addition it states that such overdrafts are considered past due and a reserve for bad debt must be created for the full amount of the overdraft at the inicial recognition.

More detail is required in the disclosure of the loan portfolio in the financial statements and related regulatory reports.

The original date for these accounting changes was in July, 2014, however the CNBV has extended this date in many occasions. The last extension published establishes that changes will be in force in January, 2016.

Furthermore, on 9 Novemeber, 2015, the CNBV published in the Official Gacet (DOF for its acronym in Spanish) a new version of Annex 33.-These changes will be in force in the same date mentioned in paragraph above.

This version includes in addition to changes published on 19 May 2014, accounting clarifications related to classification, recognition and measurement of financial factoring and discount and sale of receivables loans operations, as well as clarifications on definitions applicable to restructured and renewed loans and the characteristics required to recognize these credits as impaired or not.

III. New Rules for Insurance and Bonding institutions (CUSF).

On December 19, 2014, the new rules for Insurance and Bond institutions (CUSF) were published in the Official Gacet. This new rule consolidates the rules for Insurance and Bonding entities in one single law and brings certainty on the regulatory framework applicable to these entities which are under the oversight of the National Insurance and Bonding Commission. The new rule is in force starting January 2016.

The new regulation is based on international standards and it is focused on stability, security and solvency of Insurance and bonding entities by means of:

a) Strengthen corporate governance.
b) Promote transparency through disclosure of information.
c) Incorporate a new risk management framework that allows managing the risk profile of the entity.

The most important changes generated by this new regulation are summarized as follows:

Technical Reserves

Based on the new risk management framework the institution developed actuarial methodologies related to reserves in course and for other obligations.

Technical reserves are measured using actuarial methodologies that allow estimation of the future value of obligations using the best estimation (Best-Estimate Liability (BEL)). The risk margin is measured considering the value of the future cash flows pondered by the probability of receiving them and discounted using free of risk interest rates.

Re measurement movements arising from the changes in the technical reserves model , will be recognized in profit and loss in a maximum of 2 year period.in accordance with the new rules issued by the Commission on January 2016.
Re measurement difference arising from using free of risk interest rates and the technical rate established in the methodology used until 31 December 2015, is recognized in other comprehensive income.

Capital requirement under the new rules

Capital requirement under the new rule is represented by the un expected loss derived from changes on the Institution risks.

Hold to maturity investments

This category is now restricted to be used only by insurance companies with pension business, as result, on January 2016; the Institution transferred its securities from Hold to maturity category to the Available for sale category recognizing the changes in its fair value in other comprehensive income.

IV. Modifications to impairment calculation methodology for credit cards and other revolving credits

On December 16 2015, the National banking Commission published on the official gazette adjustments to the methodology of impairment calculation for credit cards and other revolving credits, in order to calculate in a more precise manner the loan impairment charges that the bank needs to create for these products considering potential risks arising from payment behavior and level of debt of each customer, which is in line with the expected loss model.

Changes will be in force starting 1 April 2016, and the cumulative initial impact arising from applying this new methodology shall be recognized in "Undivided profits". If such initial impact is greater than the loan loss reserves balance calculated under the previous methodology, the difference shall be recognized in profit and loss of 2016, otherwise any release on reserves shall be treated in accordance with Annex 33 of current rules.

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 Group in the last three periods and the dividend decreed per share has been the following:

- Based on the authorization granted by the shareholder assembly, on 21st March 2013 a dividend payment was made for MXN 0.887033263241408 per share for the 2'818,383,598 outstanding shares.
- Based on the authorization granted by the shareholder assembly, on 21st March 2014 a dividend payment was made for MXN 1.34154910732631 per share for the 2'818,383,598 outstanding shares.
- Based on the authorization granted by the shareholder assembly, on 23th February 2015 a dividend payment was made for MXN 0.5499606232096730 per share for the 2'818,383,598 outstanding shares.

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

- 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.
- During 2015 HSBC Mexico didn't pay dividends.

Internal Control

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. To meet this requirement and to discharge its obligations according Regulatory Authorities, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication. These procedures can only provide reasonable but not absolute assurance against material mis-statement, errors, losses or fraud.

In 2014 the GAC and GRC endorsed the adoption of the COSO 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the UK Corporate Governance Code and the Hong Kong Corporate Governance Code. Full implementation of the COSO 2013 framework was completed in 2015.

HSBC's key risk management and internal control procedures include the following:

- Group Standards. Functional, operating, financial reporting and certain management reporting standards are established by global function management committees, for application throughout HSBC. These are supplemented by operating standards set by functional and local management as required for the type of business and geographical location of each subsidiary.

- Delegation of authority within limits set by the Board. Authority is delegated within limits set by the Board to each relevant Managing Director to manage the day to day affairs of the business or function for which he or she is accountable. Delegation of authority from the Board requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Appointments to the most senior positions within HSBC require the approval of the Board.

- Risk identification and monitoring. Systems and procedures are in place to identify, control and report on the major risks facing HSBC including credit, market, liquidity and funding, capital, financial management, model, reputational, pension, strategic, sustainability, operational (including accounting, tax, legal, regulatory compliance, financial crime compliance, fiduciary, security and fraud, systems operations, project and people risk) and insurance risk. Exposure to these risks is monitored by risk management committees, asset, liability and capital management committees and executive committees. Asset, liability and capital management issues are monitored by the ALCO. Model risks are monitored by the Model Oversight Committee.

- Changes in market conditions/practices. Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose HSBC to heightened risk of loss or reputational damage.
  - economic outlook and government intervention;
  - increased geopolitical risk;
  - regulatory developments affecting the business model and profitability;
  - regulatory investigations, fines, sanctions commitments and consent orders and requirements relating to conduct of business and financial crime negatively affecting the results and brand;
  - dispute risk;
  - heightened execution risk;
  - people risk;
  - third party risk management;
  - internet crime and fraud;
  - information security risk;
  - data management; and
  - model risk.

- Strategic plans. Periodic strategic plans are prepared for global businesses, global functions within the framework of HSBC's strategy. Annual Operating Plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that HSBC is prepared to take in executing the strategy, are prepared and adopted by HSBC and set out the key business initiatives and the likely financial effects of those initiatives.

- Financial reporting. The financial reporting process for preparing the consolidated Annual Report and Accounts 2014 is controlled using documented accounting policies and reporting formats, supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Group Finance in advance of each reporting period end. The submission of financial information is subject to certification by the responsible financial officer, and analytical review procedures.

- Responsibility for risk management. Management of global businesses and global functions are primarily accountable for measuring, monitoring, mitigating and managing their risks and controls. Processes are in place to ensure weaknesses are escalated to senior management and addressed, supported by the three lines of defence model.

- IT operations. Centralised functional control is exercised over all IT developments and operations. Common systems are employed for similar business processes wherever practicable.

- Functional management. Global functional management is responsible for setting policies, procedures and standards for the risks.

- Internal Audit. The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Global Internal Audit function, which is centrally controlled, provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the HSBC's framework of risk management, control and governance processes across the Entity, focusing on the areas of greatest risk to HSBC using a risk-based approach. The Head of Internal Audit reports to the Chairman of the Audit Committee and administratively to the Chief Executive.

- Internal Audit recommendations. Executive management is responsible for ensuring that recommendations made by the Global Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit

- Reputational risk. Policies to guide management at all levels in the conduct of business to safeguard the Entity's reputation are established by the Board and its committees, subsidiary company boards and their committees and senior management. Reputational risks can arise from a variety of causes including environmental, social and governance issues, as a consequence of operational risk events and as a result of employees acting in a manner inconsistent with HSBC Values. HSBC's reputation depends upon the way in which it conducts its business and may be affected by the way in which clients, to which it provides financial services, conduct their business or use financial products and services.

The Audit Committee and the Risk Committee review the effectiveness of Internal Control and periodically informs to the Management 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 Risk Committee monitors the status of top and emerging risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to HSBC policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

The Directors, through the Risk Committee and the Audit Committee, have conducted an annual review of the effectiveness of the system of risk management and internal control covering all material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and the risk function, and their training programmes and budget. The annual review of the effectiveness of the system of risk management and internal control was conducted with reference to COSO principles functioning as evidenced by specified entity level controls. A report on the effectiveness of each entity level control and regular risk and control reporting was escalated to the Risk Committee and the Audit Committee from certain key management committees.

The Risk Committee and the Audit Committee have received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the framework of controls.

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, liquidity and concentration), 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 fulfills 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 shall meet monthly and usually on the fourth week of the month.

The Committee is composed by one Board Member, the HBMX CEO, the responsible of the UAIR ("Unidad para la Administración Integral de Riesgos") and the Head of Audit (has the right to voice but not vote). High-level HBMX officials will be participating; they have the right to voice but not to vote. Including LAM CRO, Head of RBWM HBMX, Head of CMB HBMX, Head of GB HBMX, HBMX CFO, Head of Global Markets HBMX, Head of Private Banking HBMX, Director of Legal HBMX, and Subdirector MX CRAO (Secretary). The Committee is chaired by a Board Member.

Objectives and responsibilities:

- Monitor current risks with the potential to have an impact on the Company's operation, evaluate its likelihood and effect on our financial results or reputation. Also, develop a focused and integrated methodology for the identification of such risks within HBMX.
- 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 and propose to the Board the 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.
- 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.
- 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.

Unit for Risk Management (UAIR)

The Risk Committee to conduct the Risk Management will have a specialized unit whose purpose is to identify, measure, monitor and report quantifiable risks faced by the institution in its operations.

The Unit for Risk Management will be independent of the business units in order to avoid conflicts of interest and ensure adequate separation of responsibilities. The functions of this unit are not centralized in one area alone; there is a specialist for each risk area, which periodically reports the results of his administration to the Risk Committee and the Board of Directors.

The official designated by the Board of Directors responsible for risk management, is the Deputy Chief Risk Officer or CRO (Chief Risk Officer), who will be responsible for coordinating the various areas responsible for each one of the various risks for compliance.

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, thereby 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 other 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 zero PVBP (z-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.

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

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CS01)

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

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

Vega or implied volatility risk

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

Extreme Conditions Tests (Stress Test)

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

Besides this calculus, a linear extrapolation is done using the z-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 that 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 have 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 detailed and accurate portfolio management, HSBC Mexico Market Risk Management Department, uses the international standards (IAS) and local standards (local GAAP) to obtain an effective market risk management. The division between accounting schemes has strict control and every portfolio is perfectly well suited and identified in each accounting standard. This division allows calculating any market risk measure (sensitivity measures, potential loss measures and stress test) in sub portfolios in line with the accounting.

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

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

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

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

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "Trading Desk" and "Accrual" portfolios for the fourth quarter of 2015 (millions of dollars).

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

	Bank		Trading Intent		Accrual	
	Average 4Q15	Limits*	Average 4Q15	Limits*	Average 4Q15	Limits*
Combined	17.84	35.00	1.72	12.00	16.60	38.00
Interest Rate	15.87	38.00	1.41	9.00	14.70	35.00
Credit Spread	3.67	12.00	0.74	2.00	3.00	12.00
FX	0.53	5.00	0.45	5.00	N/A	N/A
Volatility IR	0.05	4.00	0.03	1.80	0.02	2.50
Volatility FX	0.02	2.00	0.02	2.00	N/A	N/A
Equities	0.03	2.50	0.03	2.50	N/A	N/A

N/A = Not applicable
** Absolute Value*

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	30-Sep-15	31-Dec-15	Limits*	Average 3Q15	Average 4Q15
HBMI	**11.97**	**15.59**	35.00	6.42	17.84
Accrual	**11.59**	**14.89**	38.00	5.56	16.60
Trading Intent	**1.50**	**1.06**	12.00	1.75	1.72

N/A = Not applicable
* Absolute Value

The Bank's VaR at the end of the fourth quarter of 2015 changed 30.24% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the fourth quarter of 2015 changed 177.8% 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 30, 2015 and December 31, 2015 (in millions of dollars).

Market VaR vs. Net Capital Comparison
Net capital in million dollars

	30-sep-15	31-dic-15
Total VaR*	6.42	17.84
Net Capital**	2,866.53	2,713.79
VaR / Net Capital	0.22%	0.66%

** 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 0.66% of the net capital in the fourth quarter of 2015.

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

	30-Sep-15	31-Dec-15	Limits*	Average 3Q15	Average 4Q15
Bank	**(0.234)**	**(0.720)**	2.050	0.053	(0.880)
Accrual	**(0.318)**	**(0.794)**	1.550	(0.009)	(0.862)
Trading Intent	**0.084**	**0.074**	0.500	0.063	(0.018)

** Absolute Value*

The bank's MXN Rate PVBP for the fourth quarter of 2015 changed 207.69% versus previous quarter. Bank's average PVBP for the fourth quarter of 2015 changed -1,760.38% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate

	30-Sep-15	31-Dec-15	Limits*	Average 3Q15	Average 4Q15
Bank	**0.042**	**(0.002)**	0.430	0.023	0.031
Accrual	**0.042**	**0.046**	0.250	0.017	0.036
Trading Intent	**0.001**	**(0.048)**	0.180	0.007	(0.006)

** Absolute Value*

The bank's USD Rate PVBP for the fourth quarter of 2015 without changed -104.76% versus previous quarter. Bank's average PVBP for the fourth quarter of 2015 changed 34.78% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates

	30-Sep-15	31-Dec-15	Limits*	Average 3Q15	Average 4Q15
Bank	**(0.068)**	**(0.053)**	0.150	(0.076)	(0.038)
Accrual	**(0.008)**	**(0.006)**	0.050	(0.009)	(0.007)
Trading Intent	**(0.060)**	**(0.047)**	0.100	(0.067)	(0.031)

** Absolute Value*

Bank's UDI Rate PVBP for the fourth quarter of 2015 changed -22.06% versus prior quarter. Bank's average PVBP for the fourth quarter of 2015 changed -50.00%versus previous quarter.

Liquidity Risk

Qualitative Information

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

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

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

The institution has developed and implemented since 2003 a Liquidity Contingency Plan that defines the possible contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the alternate sources of funding the institution would have available. This plan was substituted by the Contingency Funding Plan as required by local regulation and Group guidance.

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 new regulations 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 have been mandatory since January 1, 2015.

HSBC provides the calculations of the LCR required by the EBA and Delegated Act Regulation.

Changes in local liquidity rules (LCR)

The main changes relate to the following:
- Methodology to calculate cashflows from derivatives enforcing Look Back Approach.
- Reduction in weighting of uncommitted facilities in which major change is in Corporates, Sovereigns, Central Banks and Public Sector Entities from 10% to 5%
- Operational Deposits Methodology according to Group definition (MXN 32,000 millions).

Estimated impact to the LCR:
- From Derivatives To Be Defined.
- From Uncommitted Facilities +26 percentage points.
- From Operational Deposits +18 percentage points (Covered for IPAB +13 percentage points, Non Covered +5 percentage points)

Note:
Estimated figures are according to December exercise.
It has been agreed with CNBV and Banxico to present the methodology thru January once it has been received from Group.

Quantitative Information

The institution presented at the end of 2015expected cash flows under the major stressed scenario of US$914m in the 7 days term; US$1,848m in the 1 month term and US$1,385m in 3 months; obtaining a net positive cumulative result in all cases.

Along the quarter, average level was US$1,299m in the 7 days term, US$1,830m in 1 month term and US$1,422m in 3 months term.

Local LCR (CCL) as of 31 December 2015 was 165.9%, which is above regulatory minimum of 60%. EBA LCR as of 31 December 2015 was 209.5% which is above Group's internal minimum of 140% (regulatory minimum of 80% applicable for 2015).

During the year, average levels were USD2,011m in the 7 days bucket, USD2,456m in the 1 month bucket and USD1,549m in the 3 months bucket. Compared with previous year information, liquidity position was affected mainly by loan portfolio growth.

Interest Rate Risk

Qualitative Information

Interest rate risk is generated mainly by rates' repricing gaps and asset and liabilities maturities from Financial Group HSBC, referred from now on as "Group". This can produce volatility in the upcoming NII (Net Interest Income) and in the P&L Statement, as a result of the movements in interest rate risk.

Derived from that and due to interest rate risk in the banking book management from Group, on a quarterly basis the following two internal metrics are calculated:

- NIIS (Net Interest Income Sensitivity)

NIIS is the income sensitivity measure with respect to movements in interest rates, it includes on-balance portfolios (patrimony items) and off-balance; including available for sale securities (AFS) forecasted with respect to main value/notional.

In the metric's calculation, simulations of the net interest income are generated for the following 12 months and in different scenarios specified by Group, a +/-25Bp ramp Quarterly up to +/-100Bp and a second scenario in which a parallel movement +/-100Bp to the reference curve is assumed at the moment of the analysis.

Given the metric and the methodology applied, it must be considered:

- A 0% floor, for really low rates and whose negative movement may result in a negative rate.
- Loan and Deposits portfolio growth according to the established ratios in the AOP (Annual Operating Plan).
- Businesses' related assumptions, reinvestment perspectives and existing and new portfolios pricings' must be captured.
- Internal transfer pricings rate transactions and derivatives deals (CFH/FVH), the latest must be treated within the contractual profile.

EVE (Economic Value of Equity)

- EVE is the sensitivity measure that shows the impact related to different scenarios defined by Group over the Total Capital (TIER1). Metric's scope includes: on and off-balance portfolios, except for those available for trading and equity related (e.g. Capital Stock, retained profits, preferred shares equity, etc.)
- However, in line with Group's guidance, equity securities treated as debt for accounting purposes must be taken into account.
- Metric's calculation must consider portfolio maturity scenario, therefore equity and interest flows must be generated for the different rate scenarios (+/-200Bp). These flows will later be calculated at present value in order to generate a differential with the base scenario and the Bank's asset and liabilities portfolios.

Given the metric and the methodology applied, it must be considered:

- A 0% floor, for really low rates and whose negative movement may result in a negative rate
- AFS securities must be forecasted with respect to main value/notional.
- Derivatives deals (CFH/FVH/NQH must be treated within the contractual profile.

- Considerations

Both metrics contemplate:

- Items without specific maturity (e.g. demand deposits) which will be used in the rate repricing and maturity, the stable amount and the behavioural term defined with an internal model approved and reviewed annually by the Asset and Liability Committee (ALCO).
- Items with prepayment options, whose methodology must be reviewed and approved annually by the ALCO.
- Forward Interest Rates which will be used as market benchmarks.
- Specific assumptions related to each stress scenario that allow to fix the interest rate to new or existing volumes.

- Limits

Limits are applied to control Group's interest rate risk, from each of its portfolios and books. Those limits have been approved by ALCO and allow to have a valid reference in order to monitor the Bank's actual risk appetite situation.

Qualitative information

- NIIS (Net Interest Income Sensitivity)

LoB	-100 prll	-100 rmp	+100 rmp	+100 prll
RBWM	-17.8			19.6
CMB	-22.3			24.4
GB	-20.7			22.8
GM	1.8			(1.9)
GPB	-0.6			0.6
Retail	-59.6	-41.7	41.1	65.4
BSM	-4.6	8.5	-8.7	0.2
Commercial	-64.3	-33.2	32.4	65.6
Trading	3.9	2.4	-2.4	-3.9
Total	-60.4	-30.8	29.9	61.7

* USDm

The difference between the last period (December, 2014) in a +100bp scenario was of 70.6 USDm*, due to movements in the following portfolios:

- Demand Deposits (NB) US$+11.25m, explained by a funding sensitivity increase due to an increase in the O/N reference curves of 25 bp (CETE/LIBOR) and due a balance increase of US$836.6m
- Demand Deposits (HB) US$+2.8m, as a result of both, a balance decrease of US$761.6m and a decrease of customer rate from 2.58% to 1.7%
- AFS (Non Repoed) US$+36.4m, of which US$+9m are explained by a higher customer sensitivity, due to a floating balance increase of US$747m and +US$27m are due to funding sensitivity, as a result of a total balance decrease of US$2,730m
- AFS (Repoed) US$+19.89m, due to a balance decrease of US$882m (From US$2,408m to US$1,525.7m)
- Net Derivatives margin sensitivity US$+6.94m, explained by a MXN Net Receivable Floating Balance increase and net (receivable vs. delivery) increase of US$712m.

*US$+1.35m as a result of movement in the exchange rate

➢ EVE (Economic Value of Equity)

December 2015

EVE+200bps				
	MXN	USD	Total	% SHE
Assets	(406.1)	(1.4)	(407.5)	
Liabilities	225.2	10.4	235.6	
	(180.9)	**9.0**	**(171.9)**	**-7.6%**

Discretionary	150.7	6.6%
Non Discretionary	21.2	0.9%
Overall	**171.9**	**7.6%**

Shareholders Equity	2,266.6

USDm

The difference between the last period (December, 2014) in a +200bp scenario was of US$77.7m, of which US$-80.5m corresponds to Discretionary EVE explained by AFS portfolio, due to a PVBP increase of US$+278.5m between 5Y to 10Y tenor.

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 performance and their proper application, so as to carry out necessary adjustments.

With respect to the Probability of default Model (PD), the monitoring intents to make sure that this model is 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, this new model was implemented in January, 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$1,000m (GLCS).
- Another one to assess Bank Financial Institutions (RAfBanks).
- And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFI Models).

The implementation of the abovementioned models was done along with the customers risk grading framework, known as Customer Risk Rating (CRR), which contemplates 23 levels, of which 2 are for customers in default.

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

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

The global models, GLCS, RAfBanks y NBFI Models, are associated to low default portfolios, so it is not 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 (18.1%) between the observed and estimated LGD.

2.3. Exposure at default Model (EAD)

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

Based on the last monitoring performance of this model shows a relatively low correlation (51.7%) between the values of the observed and estimated EaD.

3. Credit Evaluation Systems

In order to establish a better infrastructure management and risk measurement for the Commercial Portfolio, HSBC Mexico uses 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 monitor the commercial credit approval process known as *Credit Application and Risk Management (CARM)* through which the majority 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 mention 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 the first quarter of 2015.

Quantitative information

Regarding to the average balance of the Commercial Portfolio as of 31 December 2015, it is MXN198,531m, showing a decrease of MXN9,028m (or 4.76%) compared to the previous quarter.

The Expected Loss of the Commercial Portfolio as of 31 December 2015, is MXN13,997m, showing an increase of MXN656m (or 5%) 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:

MXNm

Business Line	Quarterly Average Balance		VAR		Balance		VAR		Expected Loss		VAR	
	4T2015	($)	(%)	Sep-15	Dic-15	($)	(%)	Sep-15	Dic-15	($)	(%)	3T2015
$95,861	$98,065	$2,204	2%	$96,740	$100,009	$3,269	3%	$10,859	$11,116	$257	2%	$95,861
$92,817	$99,720	$6,904	7%	$92,625	$102,214	$9,590	10%	$2,483	$2,881	$399	16%	$92,817
$825	$746	-$80	-10%	$696	$784	$88	13%	$0.042	$0.059	$0.02	41%	$825
$189,503	**$198,531**	**$9,028**	**4.76%**	**$190,061**	**$203,007**	**$12,947**	**7%**	**$13,341**	**$13,997**	**$656**	5%	**$189,503**

** The Balance and Average Balance includes the contingent exposures,*

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 behaviour 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, 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 II 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 December 2015 is MXN4,871m, Credit Cards is MXN2,804m Other Retail is MXN1,754m and Mortgage MXN313m

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 HOST (HSBC Operation 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 HOST 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 to 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 to 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 develop yearly 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 the Risk Stewards (SMEs – Subject Matter Experts) 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.

Operational Risk provides independent operational risk oversight and owns the Operational Risk Management Framework. They provide holistic operational risk reporting on exposure and appetite to support senior decision making. Operational Risk is also a Risk Steward for certain risk events.

Third Line of Defence:

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

Quantitative Information

According to the evaluation of operational risks in 2015, HSBC México, S.A. Institución de Banca Múltiple, Grupo Financiero HSBC has a total of 1,337 risks that have been identified and assessed by the different areas of the Bank. From this inventory 0.3% (4 risks) are considered very high, 1.8% (24 risks) are considered high, 18.8% (251 risks) are considered medium, and 79.1% (1,058 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 2015 amounts to US$56.1m for Operational Losses and it is monthly monitored through the BSC (Balance Score Card) presented at the Risk Management Committee.

Starting in November 2015 HSBC is calculating the Operational Risk, Risk Weighted Assets (RWAs) using the Alternate Standardised Approach (ASA).

Technological Risk

HSBC Operations, Services & Technology (HOST) area in Mexico keeps a continuous assessment of technological risk in adherence to local regulations and the HSBC group internal policies. It has in focus addressing local authorities guidelines such as, the ones defined by the Group. Between them are the methodologies related to development and implementation of standard infrastructure that have relation to security guidelines. This is stated on the Functional Instruction Manuals (FIM) of Technology and Security.

HOST is the entity that supplies services and technology solutions for the different channels and the bank business lines. Within the corporate governance schema, HSBC as one of the main functions has the monitoring and assessment of the technological risk to ensure the compliance of local regulation.

The main measures used to control technological risk are:

I. Definition of a Governance structure composed by Senior Committees with the orientation of maintaining reasonable control of the technological risk being agile, secure and reliable for all banking services in the different distribution channels.

II. Keeping different scenarios updated and tested based in the Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for those events that require the reinstatement of their operation in alternate sites.

III. Performing Risk Control Assessment (RCA).

IV. Handling Information Technology projects through the standard Group methodology: Risk Based Project Management (RBPM), specifically in the domain of software development using the Software Development Life Cycle (SDLC) methodology.

V. Management and administration of technological risks and controls through the Business Risk Control Management (BRCM) area specialized into this matters, including operational risk handling, compliance controls for Sarbanes Oxley (SOx) and internal, external and regulatory audit reviews.

VI. Establishing the risk and performance indicators used to monitor and alert the process owners based in the control trend behavior to ensure the effectiveness of them to mitigating risks.

Legal Risk

To manage and mitigate legal risk, in terms of financial loss, penalties and / or reputational damage it 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.

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

- Dispute Adjudication Risk, is the risk of the Institution suffering financial loss or reputational damage due to (a) adverse dispute environment and/or (b) mis-management of disputes.

- Legislative Risk, which is the risk that the Institution fails to or is unable to identify, analyse, track, impact assess or correctly interpret applicable legislation, case law or regulation, or new regulatory, legislative or doctrinal interpretation of existing laws or regulations, or decisions in the Courts or Regulatory Bodies.

- 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 by the Institution of another party's rights, and includes: (a) infringement, (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 Adjudication 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 risk management related to US Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. Steps continue to be taken to address the requirements of the Orders.

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'). 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. In addition, HSBC Bank USA entered into a monetary penalty consent order with FinCEN and a separate monetary penalty order with the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1,921m to US authorities. In July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and the FRB, an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) was appointed to produce annual assessments of the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the FRB. In January 2016, the Monitor delivered his second annual follow-up review report as required by the US DPA.

Under the terms of the US DPA, upon notice and an opportunity to be heard, the DoJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences.

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.

In February 2016, a complaint was filed in the US District Court for the Southern District of Texas by representatives of US persons alleged to have been killed or injured in Mexico by Mexican drug cartels. The complaint is filed against HSBC Holdings, HSBC Bank USA, HSBC México SA, Institución de Banca Múltiple, Grupo Financiero HSBC and Grupo Financiero HSBC, SA de CV.
The plaintiffs allege the HSBC violated the US ATA by providing financial services to individuals and entities associated with the drug cartels. The HSBC entities have not yet been served with process.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these lawsuits, including the timing or any possible impact on HSBC, which could be significant.

Corporate Sustainability (CSR)

HSBC is committed to being a sustainable bank, for HSBC sustainability means consolidating our business for the long term with the goal of achieving a significant social transformation.

The Bank's efforts to communicate and implement HSBC´s sustainability strategy recognizes that the continued financial success of the Group depends on the ability to consider non-financial information in our business. This requires understanding that non-financial issues are not isolated from our core functions and operations but are an integral part of the operation.

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.

HSBC's actions:

- Contributions to community projects where HSBC operates and thousands of employees get involved by volunteering donating their time and sharing their skills.
- Collaborative work together with suppliers to find new ways to reduce the impact of our operations on the environment. Through the consumption of renewable energy, designing and operating our buildings and data centers more efficiently and reducing waste generation.
- Commitment to reduce our carbon emissions one ton per employee per year by 2020.
- Anticipation and management the risks and opportunities associated with Climate Change, in line with our environment and economy pillars.

In HSBC, the Community Investment focuses its efforts on three main areas: Education, Environment and Community.

1. *Education*: Focus on helping children and young people in vulnerable situation to grant access to education; develop life-skills and entrepreneurship, and international and cultural understanding.
2. *Environment*: Taking care of the environmental direct impacts and promoting a sustainable culture within the organization.
3. *Community*: Supporting projects which promote the positive development of the communities where HSBC operates and actively involve HSBC employees in volunteering activities.

During 2015, HSBC contributed with the growth and development of communities through flagship programs in alliance with Non-Governmental Organizations, achieving great results. These flagship programs are grouped in each of our Sustainability pillars:

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 Water Programme, 5 year Global programme with an investment of USD100m alliance with Earthwatch, Water Aid and WWF
- "HSBC Seguros Green Project" and "Cuida tu Ambiente", a projects aiming to create an employee environmental task force.

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 2015, the Bank invested MXN26.4m, 54% of such investment is made by HSBC and 46% by its customers.

150th ANNIVERSARY

As part of the 150th HSBC anniversary during 2015, 6 programs were supported through different allies, benefiting more than 96,000 children and young people. With this donation, 3 themes were supported: Education, Community & Health and Environment.

EDUCATION

The HSBC education support program is focused on helping children and young people in vulnerable situation to achieve access to education; develop life-skills and entrepreneurship.

To develop successful and major impact programs, the Bank has made strategic alliances with expert educational organizations, allowing 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 programs supported by the Bank, 68,934 children and young people were benefited in 2015. "Just raise your hand" is one of the main programs benefitting 9,250 students. "Zippy's friends" benefited 7,783 children and 9,181 children in 20 different cities received financial education classes, supported by 191 bank's volunteers through the program "More than Money". Additionally, the Bank continues with the program "See Better to Learn Better" which benefited 44,123 students from public elementary schools with new glasses.

Additionally HSBC worked in alliance with Global initiatives such as Future First, the Global Education Support Program, where HSBC Mexico supported 4 projects which benefited 3,383 children.

COMMUNITY

Inspired by the Bank's philosophy to consolidate a Bank supporting the communities where it operates, promoting inclusion and equal opportunities, 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.

With the "Adding Value" program, HSBC included 39 people with some kind of disability support, 19 students successfully concluded the professional competences development course for people with disabilities and 56 wheel chairs were donated.

Additionally, through the program "Learn with HSBC", 50 wives of Business Heads started this year volunteering activities for different groups in need such as: children, the elderly and people with disabilities, and HSBC continue working with our women empowerment program "Mujer es fuerza".

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 as wall as the Nevado de Toluca in Estate of Mexico and Bosque de la Primavera in Jalisco.

As part of the actions of The HSBC Green Project to involve community, employees and clients in the care of our forests, the 5th race was organized on behalf of the Bosque de Chapultepec, in this race participated 2,945 runners.

In commemoration of the environment month, the Bank launched in June 2015 different activities in 4 cities to enhance environmental awareness within staff and their families and 113,000 trees were reforested, which is equivalent to 94 football fields.

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. To the date, there are 369 Citizen Science Leaders who participated actively in this program, which represent the 42% of participants in Latin America.

HSBC Mexico has an important reaction capacity for emergencies and disasters. During 2015 we prepared the campaign to support natural disasters “¡Por México, Unámonos!” to react to the hurricane “Patricia”. Fortunately the disaster was not presented so we didn’t need to activate this campaign in our different collection channels for our volunteer clients.

With the Bank’s strategy to mitigate the environmental direct impacts of it operation, the Bank has accomplished zero waste to landfill in four of its main corporate buildings.

VOLUNTEERING

Each year, more employees add to the volunteering program, donating thousands of volunteer hours in their work time and their own time to accompany our community investment where we operate. The program is based on the willingness, commitment, skills and experience of employees.

All projects or programs supported by the Bank and executed by the Corporate Sustainability together with various NGOs, have the volunteer component, supported by the Volunteering Policy which allows and encourages the participation of our employees.

In 2015, HSBC Mexico got involved 2,954 employees, which represents 16% of HSBC’s employees, participating 4,950 times as volunteers in educational, environmental or community activities, donating more than 37,000 volunteering hours, allowing to secure our goal of contributing to social and economic development as well as to the environmental protection.

CUSTOMER CONTRIBUTION

HSBC’s customers are key pieces in the implementation of the Community Investment project; they are examples of effective partnerships. It is through their generosity that our programs benefit more people. HSBC makes reality the wish of its customers to of helping, though different programs. HSBC has been a pioneer in facilitating a culture of solidarity and opening volunteering opportunities.

Through more than 5,600 ATM’s within the country, the Bank makes its customers’ wish to help come true, receiving donations through “Just raise your hand” campaign, active from January until April 2015, and with “Bécalos” campaign active from May to August 2015 and with Casa de la Amistad which was active during September and October 2015. On November and December 2015 HSBC launched different campaigns with several organizations in each of the eight regions which conform in HSBC Mexico.

Annex A

Table I

Reference		Common equity Tier 1 capital	31 Dec 2015
1		Ordinary shares graded for Common equity TIER 1 capital and related surplus	32,768.52
2		Retained earnings	3,492.76
3		Accumulated other comprehensive income (and other reserves)	9,938.38
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	46,199.67
		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)	956.27
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)	103.36
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)	5,781.31
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	1,261.23
	A	which: Accumulated other comprehensive income (and other reserves)	-
	B	which: investments in subordinated debt	-
	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	80.33
	F	which: Investments in risk capital	-
	G	which: Investments in Mutual funds	9.07
	H	which: own stock acquisition financing	-

	I	which: Operations that infringe provisions	-
	J	which: Deferred charges and prepaid expenses	1,171.83
	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	8,102.17
29		Common Equity Tier 1 capital (CET1)	38,097.50
		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)	38,097.50
		Tier 2 Capital: instruments and reserves	
46		Tier 2 capital instruments issued by parent company of group (and any related surplus)	1,897.36
47		Tier 2 capital instruments issued by parent company of group to be deducted	5,585.99
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	1,543.93
51		Tier 2 capital prior to regulatory adjustments	9,027.28
		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)	9,027.28
59	Total Capital (TC=T1+T2)	47,124.78
60	Total Risk-weighted assets	382,068.99
	Capital ratios and supplements	
61	Common equity Tier 1 Capital (as % of total RWAs)	9.97%
62	Tier 1 Capital (as % of total RWAs)	9.97%
63	Total Capital (as % of total RWAs)	12.33%
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	2.50%
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)	2.97%
	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)	4,387.88
	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	1,543.54
78	Eligible reserves inclusion on Tier 2 capital with respect to the exposures subject to internal ratings methodology (prior to limits application)	-
79	Limit of inclusion reserves on Tier 2 capital under internal ratings methodology	-
	Capital instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)	
80	Actual instrument limits on CET1 subject to gradual elimination	NA
81	Excluded amount on CET1 due to limit (excess over the limit after amortization and maturities)	NA
82	Actual instrument limits on AT1 subject to gradual elimination	-

83	Excluded amount on AT1 due to limit (excess over the limit after amortization and maturities)	-
84	Actual instrument limits on T2 subject to gradual elimination	7,483.35
85	Excluded amount on T2 due to limit (excess over the limit after amortization and maturities)	3,678.87

Table III.1

Reference	Balance Sheet concept	Amount
	Assets	**560,164**
BG1	Cash and deposits in banks	46,266
BG2	Margin accounts	23
BG3	Investment in securities	120,908
BG4	Repurchase agreements	21,606
BG5	Stock borrowing	-
BG6	Derivative transactions	79,833
BG7	Financial assets hedging valuation adjustments	-
BG8	Net loan portfolio	231,969
BG9	Benefits to be received from trading operations	121
BG10	Other accounts receivable (net)	37,661
BG11	Foreclosed assets	112
BG12	Property, furniture and equipment, net	3,593
BG13	Long term investments in equity securities	4,773
BG14	Long term assets available for sale	-
BG15	Deferred taxes, net	10,169
BG16	Other assets	3,130
	Liabilities	**513,964**
BG17	Deposits	280,581
BG18	Bank deposits and other liabilities	37,482
BG19	Repurchase agreements	32,453
BG20	Stock borrowing	-
BG21	Collateral sold	20,649
BG22	Derivative transactions	85,349
BG23	Financial liabilities hedging valuation adjustments	-
BG24	Debentures in trading operations	-
BG25	Other accounts payable	45,429
BG26	Subordinated debentures outstanding	11,175
BG27	Deferred taxes, net	-
BG28	Deferred credits	845
	Stockholder's equity	**46,200**
BG29	Paid in capital	32,769
BG30	Capital gains	13,431
	Memorandum accounts	**5,789,081**
BG31	Guarantees granted	-
BG32	Contingent assets and liabilities	-
BG33	Irrevocable lines of credit granted	264,127
BG34	Goods in trust or mandate	458,161
BG35	Federal government financial agent	
BG36	Goods in custody or under administration	986,062
BG37	Collateral received by the institution	43,538
BG38	Collateral received and sold or delivered as guarantee	36,872
BG39	Third party investment banking operations, net	41,108
BG40	Suspended interest on impaired loans	234
BG41	Other control accounts	3,958,979

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	956.3	BG16 3130
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	103.4	BG13 4773
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	5,781.3	BG15 10169
13	Recognized reserves as supplementary capital	50	1,543.9	BG8 231969
14	Subordinated debt investment	26 - B	0.0	
15	Multilateral organisms investment	26 - D	0.0	
16	Related parties investments	26 - E	80.3	BG13 4773
17	Risk capital investment	26 - F	0.0	
18	Mutual funds investment	26 - G	9.1	BG13 4773
19	Own shares acquisition financing	26 - H	0.0	
20	Deferred charges and prepaid expenses	26 - J	1,171.8	BG16 3130
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	0.0	
28	Deferred income tax associated to other different to previous concepts	21	5,781.31	BG15 10169
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	46	1,897.36	BG26 11175

	annex			
32	Subordinated debentures subject to transience that counts as supplementary capital	47	5,585.99	BG26 11175
33	Deferred income tax associated to deferred charges and pre-paid expenses	26 - J	0.0	
	Stockholders' equity			
34	Paid in capital amount that coincide with Annex 1-Q	1	32,768.52	BG29 32769
35	Retained earnings	2	3,492.76	BG30 13431
36	Result from cash flow hedging transactions registered at fair value	3	-92.63	BG30 13431
37	Other elements of other capital reserves different to previous ones'	3	10,031.01	BG30 13431
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	Abrogated	26 - O, 41, 56	0.0	

Table IV.1

Concept	**Equivalent position in Balance**	**Capital Requirements**
Nominal rate operations in local currency	66,896	5,352
Surcharge and revisable rate debt operations in local currency	90	7
Real rate or UDIs operations in local currency	2,065	165
Minimum wages growth rate operations in local currency	7,924	634
UDIs o INPC profit referred positions	-	-
Minimum wages growth rate operations in local currency	8	1
Nominal rate operations in foreign currency	4,211	337
Foreign currency or indexed to exchange rate positions	-	-
Stock or price index stock positions	-	-
Possession in goods	177	14

Table IV.2

Concept	RWAs	Capital Requirements
Group I –A (weighted at 0%)	0.0	0.0
Group I –A (weighted at 10%)	0.0	0.0
Group I –A (weighted at 20%)	0.0	0.0
Group I –B (weighted at 2%)		
Group I –B (weighted at 4%)		
Group II (weighted at 20%)	0.0	0.0
Group II (weighted at 50%)	5,660	453
Group III (weighted at 10%)	7	1
Group III (weighted at 11.5%)	894	71
Group III (weighted at 20%)	6,782	543
Group III (weighted at 23%)	-	-
Group III (weighted at 57.5%)	-	-
Group III (weighted at 100%)	3,396	272
Group III (weighted at 115%)	-	-
Group III (weighted at 120%)	-	-
Group III (weighted at 138%)	-	-
Group III (weighted at 150%)	-	-
Group III (weighted at 172.5%)	-	-
Group IV (weighted at 0%)	1,530	122
Group IV (weighted at 20%)	8,393	671
Group V (weighted at 10%)	-	-
Group V (weighted at 20%)	732	59
Group V (weighted at 50%)	1,674	134
Group V (weighted at 115%)	-	-
Group V (weighted at 150%)	6,550	524
Group VI (weighted at 20%)	-	-
Group VI (weighted at 50%)	8,044	643
Group VI (weighted at 75%)	3,786	303
Group VI (weighted at 100%)	51,405	4,112
Group VI (weighted at 120%)	-	-
Group VI (weighted at 150%)	-	-
Group VI (weighted at 172.5%)	-	-
Group VII_A (weighted at 10%)	779	62
Group VII_A (weighted at 11.5%)	-	-
Group VII_A (weighted at 20%)	5,507	441
Group VII_A (weighted at 23%)	3,131	250
Group VII_A (weighted at 50%)	7,615	609
Group VII_A (weighted at 57.5%)	1	-
Group VII_A (weighted at 100%)	119,769	9,578

Group VII_A (weighted at 115%)	-	-
Group VII_A (weighted at 120%)	-	-
Group VII_A (weighted at 138%)	-	-
Group VII_A (weighted at 150%)	3,907	313
Group VII_A (weighted at 172.5%)	-	-
Group VII_B (weighted at 0%)	-	-
Group VII_B (weighted at 20%)	-	-
Group VII_B (weighted at 23%)	1,736	139
Group VII_B (weighted at 50%)	-	-
Group VII_B (weighted at 57.5%)	-	-
Group VII_B (weighted at 100%)	1,610	129
Group VII_B (weighted at 115%)	-	-
Group VII_B (weighted at 120%)	-	-
Group VII_B (weighted at 138%)	-	-
Group VII_B (weighted at 150%)	-	-
Group VII_B (weighted at 172.5%)	-	-
Group VIII (weighted at 115%)	2,708	217
Group VIII (weighted at 125%)	-	-
Group VIII (weighted at 150%)	4,778	382
Group IX (weighted at 100%)	19,455	1,556
Group IX (weighted at 115%)	-	-
Group X (weighted at 1250%)	407	33
Securitizations with Risk rating 1 (weighted at 20%)	7	1
Securitizations with Risk rating 2 (weighted at 50%)	31	3
Securitizations with Risk rating 3 (weighted at 100%)	13	1
Securitizations with Risk rating 4 (weighted at 350%)	0.0	0.0
Securitizations with Risk rating 4 or 5 not classified (weighted at 1250%)	0.0	0.0
Resecuritizations with Risk rating 1 (weighted at 40%)	0.0	0.0
Resecuritizations with Risk rating 2 (weighted at 100%)	0.0	0.0
Resecuritizations with Risk rating 3 (weighted at 225%)	0.0	0.0
Resecuritizations with Risk rating 4 (weighted at 650%)	0.0	0.0
Resecuritizations with Risk rating 4,5 or not classified (weighted at 1250%)	1,511	121

Table IV.3

Operational RWAs	Capital Requirements
29,145	2,332

Average Market and credit RWAs of last 36 months	Average of positive net annual revenues for the last 36 months
-	2,332

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"	Obligación 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	1,272	1,591	1,897	2,723
9	Valor nominal del instrumento	$32,768.00	$1,817.60	$2,272.65	$1,897.36	$5,174.61
9A	Moneda del instrumento	Pesos mexicanos	Pesos mexicanos	Pesos mexicanos	USD	USD
10	Clasificación contable	Capital	Pasivo	Pasivo	Pasivo	Pasivo
11	Fecha de emisión	31/12/2007; 31/08/2009; 31/10/2009; 31/12/2009; 31/12/2011; 29/01/2013	02/10/2008	22/12/2008	31/01/2013	30/06/2009
12	Plazo del instrumento	Perpetuidad	Vencimiento	Vencimiento	Vencimiento	Vencimiento
13	Fecha de vencimiento	Sin vencimiento	20/09/2018	10/12/2018	10/12/2022	28/06/2019

14	Cláusula de pago anticipado	No	SI	SI	SI	SI
15	Primera fecha de pago anticipado	N.A.	26/09/2013	16/12/2013	05/01/2018	28/06/2014
15A	Eventos regulatorios o fiscales	No	No	No	Si	No
15B	Precio de liquidación de la cláusula de pago anticipado	N.A.	Igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión.	Igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión.	Precio igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, previa autorización del Banco de México en términos del párrafo quinto del artículo 64 de la citada LIC, en cualquier Fecha de Pago de Intereses: (i) a partir del quinto año contado a partir de la Fecha de Emisión, o (ii) en caso que las Obligaciones Subordinadas dejen de computar como capital complementario del Emisor como resultado de modificaciones o reformas a las leyes, reglamentos y demás disposiciones aplicables, siempre y cuando (a) el Emisor informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente al Obligacionista, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (b) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere el numeral 11 del presente Título.	A un precio igual a su Valor Nominal más los intereses devengados a la fecha de la amortización anticipada, siempre y cuando (i) el Emisor, a través del Representante Común, informe por escrito su decisión de ejercer dicho derecho de amortizar anticipadamente a los Obligacionistas, a la CNBV, al Indeval y a la BMV, a través de los medios que ésta última determine, cuando menos con 10 (diez) Días Hábiles de anticipación a la fecha en que el Emisor tenga la intención de amortizar anticipadamente la totalidad de las Obligaciones Subordinadas, y (ii) la amortización anticipada se lleve a cabo en la forma y lugar de pago a que se refiere la Cláusula Décima Primera del Acta de Emisión
16	Fechas subsecuentes de pago anticipado	N.A.	14/01/2016; 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.	11/01/2016; 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.	16/01/2016 Se dará a conocer con 10 días hábiles de anticipación a la fecha de amortización autorizada.	28/01/2016; 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	Libor 1 mes + 3.65 pp	Libor 1 mes + 3.50 pp
19	Cláusula de cancelación de dividendos	No	No	No	No	No
20	Discrecionalidad en el pago	Obligatorio	Obligatorio	Obligatorio	Parcialmente Discrecional	Obligatorio
21	Cláusula de aumento de intereses	No	No	No	No	No
22	Rendimiento/dividendos	No Acumulables	No Acumulables	No Acumulables	No Acumulables	No Acumulables
23	Convertibilidad del instrumento	No Convertibles	No Convertibles	No Convertibles	Convertibles	No Convertibles
24	Condiciones de convertibilidad	N.A	N.A	N.A	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. 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 Bank 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. Currency 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).

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. For further detail refer to the Notes to financial statements, number 30.

As it is mentioned in the note 4, starting on June 2013, the Bank opted for performing the calculation on the loan loss allowances considering the methodology of expected loss issued by the authority according to the Dispositions, except for the credits granted to financial institutions which was applied starting on March 2014, this had an effect on Credit Risk and Complementary Capital. For the Complementary Capital the differential between the loan loss allowances for investment projects, financial entities and total other additional reserves for expected loss and non-computing additional allowances as Complementary Capital.

The Bank informs the Administration Committee of Assets and Liabilities on a monthly basis the trend of the capital index, detailing the levels of total and core capital. Furthermore the explanation of the important variations in the credit and market risk weighted assets, as well as the movements of the stockholders' equity.

Additionally, prior to the performance of important commercial and treasury operations, their potential impact on the capital requirement is measured, with the purpose of being authorized by the Committees mentioned in the previous paragraph. In the aforementioned operations, the Bank considers as a base a minimum capital index, which is higher than the one established by the Early Alerts issued by the CNBV.

Annex B

In accordance to the *"Disposiciones de carácter general sobre los requerimientos de liquidez para las instituciones de banca múltiple"* published on December 31st, 2014, the following information is presented in order to comply with Appendix 5 of the mentioned rules.

Disclosure of "Coeficiente de Cobertura de Liquidez" (CCL) for the Fourth Quarter 2015

Table I.1

Formato de revelación del Coeficiente de Cobertura de Liquidez

(Cifras en pesos Mexicanos)		Importe sin ponderar (promedio)	Importe ponderado (promedio)
ACTIVOS LÍQUIDOSCOMPUTABLES			
1	Total de Activos Líquidos Computables	No aplica	109,361,172,350
Outflows			
2	Financiamiento minorista no garantizado	133,607,584,667	7,979,347,067
3	Financiamiento estable	107,628,228,000	5,381,411,400
4	Financiamiento menos estable	25,979,356,667	2,597,935,667
5	Financiamiento mayorista no garantizado	113,409,973,000	50,924,334,800
6	Depósitos operacionales	0	0
7	Depósitos no operacionales	112,742,384,000	50,256,745,800
8	Deuda no garantizada	667,589,000	667,589,000
9	Financiamiento mayorista garantizado	No aplica	65,192,900
10	Requerimientos adicionales:	257,386,385,333	33,908,678,133
11	Salidas relacionadas a instrumentos financieros derivados y otros requerimientos de garantías	30,662,656,000	10,832,290,333
12	Salidas relacionadas a pérdidas del financiamiento de instrumentos de deuda	0	0
13	Líneas de crédito y liquidez	226,723,729,333	23,076,387,800
14	Otras obligaciones de financiamiento contractuales	12,806,333	12,806,333
15	Otras obligaciones de financiamiento contingentes	36,744,439,000	0
16	**TOTAL DE SALIDAS DE EFECTIVO**	No aplica	92,890,359,233
Inflows			
17	Entradas de efectivo por operaciones garantizadas	0	0
18	Entradas de efectivo por operaciones no garantizadas	27,265,166,333	17,089,618,333
19	Otras entradas de efectivo	31,542,866,333	10,722,720,083
20	**TOTAL DE ENTRADAS DE EFECTIVO**	58,808,032,667	27,812,338,417
			Importe ajustado
21	**TOTAL DE ACTIVOS LIQUIDOS COMPUTABLES**	No aplica	109,361,172,350
22	**TOTAL NETO DE SALIDAS DE EFECTIVO**	No aplica	65,078,020,817
23	**COEFICIENTE DE COBERTURA DE LIQUIDEZ**	No aplica	168.13

(a) Natural days considered in the quarter.

Natural Days 4Q15	
October	31
November	30
December	31
	92

(b) Main variances of the CCL and evolution of the main components

CCL decreased from 174.05% in September 2015 to 163.45% as of December 2015 mainly due to decrease liquid assets 3%, outflows 7% and inflows 29%.

(c) Changes in the main components in the reported quarter

Decrease in Liquid Assets is due to the restructuring of the portfolio acquiring less government securities Level 1 and Level 2 and a less amount in cash.

(d) Evolution of the composition of liquid assets

Liquid Assets

	Oct	Nov	Dic	Var % Oct-Dec
Cash	10,959,805,000	10,310,899,000	13,606,529,000	24.15%
Deposit in Central Bank	21,278,580,000	21,282,629,000	22,437,776,000	5.45%
Level 1 Securities	67,736,089,000	63,938,125,000	64,992,927,000	-4.05%
Level 2 Securities	5,055,454,000	9,519,181,000	4,648,123,000	-8.06%
Level 2B Securities	10,219,039,000	9,843,549,000	10,196,621,000	-0.22%
Equities	21,257,000	14,251,000	29,246,000	37.58%
Total	115,270,224,000	114,908,634,000	115,911,222,000	

Liquid Assets Distribution

	Oct	Nov	Dec
Cash	9.51%	8.97%	11.74%
Deposit in Central Bank	18.46%	18.52%	19.36%
Level 1 Securities	58.76%	55.64%	56.07%
Level 2 Securities	4.39%	8.28%	4.01%
Level 2B Securities	8.87%	8.57%	8.80%
Equities	0.02%	0.01%	0.03%
Total %	100.00%	100.00%	100.00%

(e) Concentration of Funding sources

Description	%
Demand Deposits	54.12%
Time Deposits	51.77%
Negotiable Certificates Deposits Issued	24.13%
Call Money and from other Institutions	1.67%
Repurchase Agreements	10.36%
Subordinated Debentures Outstanding	8.97%
TOTAL	100.00%

(f) Exposures with financial derivatives

Within HSBC Mexico there is a specialized area responsible for the valuation and derivatives so that the internal processes and internal measures allows us to make margin calls in a timely manner.

(g) Currency mismatch

Below the breakdown of the CCL by currency as of 31 December 2015:

Figures in Mexican Pesos

CONCEPT	Local [1] Currency	Foreign Currency	Total
Liquid Assets	95,595,298,650	14,518,296,400	110,113,595,050
Outflows [2]	70,718,318,700	19,648,068,400	90,366,387,100
Inflows [2]	17,532,600,500	5,467,363,000	22,999,963,500
CCL	180%	102%	163%

[1] MXP and DIS trades included

[2] Net cash inflows and outflows for derivative trades are included in Local Currency Concept

(h) Description of the level of centralization of liquidity management and interaction with group units

Within Finance function, Asset, Liability and Capital Management (ALCM) area is in charge of centralizing the information related to liquidity risk management.

From an operational standpoint, specialized areas are in charge of monitoring liquidity, taking the necessary measures in order to keep liquidity levels within HSBC's risk appetite and in line with local and global regulations. On this regard, Treasury Back Office area monitors the Bank's liquidity position, dealing with liquidity requirements, settlements, custody and any other operation related to Treasury. The Treasury is in charge of the management of liquidity of the commercial bank and of the funding of daily transactions.

I. Quantitative information

(a) Concentration limits for the different groups of guarantees and main funding sources

Internal concentration limit established for repo and stock borrowing transactions is US$5,000m, expressed in local currency.

The main funding sources of the Bank as of 31 December 2015 were the following:

Figures in Mexican Pesos

Description	Amount	%
Demand Deposits	187,259,312,675	51.77%
Time Deposits	87,284,875,482	24.13%
Negotiable Certificates Deposits Issued	6,037,358,333	1.67%
Call Money and from other Institutions	37,482,250,572	10.36%
Repurchase Agreements	32,453,478,352	8.97%
Subordinated Debentures Outstanding	11,175,197,673	3.09%
	361,692,473,088	100.00%

(b) Liquidity risk exposures and funding needs

The Bank's liquidity risk exposure is measured through different metrics and reports. Currently, the reports Operational Cashflow Projection (OCP) and Advances to Core Funding ratio (ACF) are metrics established by HSBC Group at a global level in order to monitor and manage liquidity under stressed scenarios (OCP) y and the funding of loans with stable funding (ACF). In addition for the management of liquidity, regulatory reports are considered (ACLME – Régimen de Inversión - , CCL –Coeficiente de Cobertura de Liquidez- and LCR EBA – Liquidity Coverage Ratio reported to Group considering the regulations issued by the EBA (European Banking Authority) and PRA (Prudential Regulatory Authority). During the quarter, the mentioned metrics were within the Bank's risk appetite.

(c) Transactions by maturity and resulting liquidity mismatches

Below is included a breakdown of the assets and liabilities as of December 2015 considering the maturity for each concept. It should be noted that in the case of demand deposits it has been considered the behavior in recent years to assign each in it respective term.

Figures in Mexican Pesos

Structural Maturity Report - Summary

		Remaining Maturity				
	Total	**<=3M**	**>3M <=12M**	**>12M >= 5A**	**>5A <= 10A**	**>10A**
Assets	1,372,141,505	545,540,083	187,418,466	519,606,723	24,625,184	94,951,049
Liabilities + Capital	1,372,141,505	535,749,967	182,346,697	573,131,432	7,070,128	73,843,281
Funding Mismatch	-	**9,790,116**	**5,071,769**	**(53,524,709)**	**17,555,056**	**21,107,768**

II. Qualitative information

(a) Liquidity risk management

In accordance with the "Disposiciones de carácter general aplicables a las instituciones de crédito en materia de riesgo de liquidez", Asset, Liability and Capital Management (ALCM) are within the Finance function is in charge of informing on a daily basis to the senior management the status of the main indicators and liquidity metrics that are monitored in order to proactively manage liquidity risk. The Treasury is in charge of managing liquidity on a centralized basis with the support of Back Office and Finance.

In addition, a meeting is held on a frequent basis in order to monitor the evolution of deposits and also projections of the main liquidity and funding metrics are presented in order to manage liquidity. Finance, Treasury and representatives of the business lines participate in those meetings.

Finally, through the Assets and Liabilities Committee (ALCO), senior management is informed about the main liquidity and funding metrics that are being monitored. In that committee, funding and liquidity strategies are defined in accordance to the Bank's risk appetite considering the projected business included in the plan.

(b) Funding Strategy

Every year, an annual operating plan (AOP) is defined establishing the expected growth in loans and deposits for the different line of businesses. Those projections are then considered in order to establish the funding strategy needed in order to project liquidity and funding metrics in accordance to the Bank's risk appetite.

The Treasury is in charge of managing liquidity and funding centrally with the support of Back Office and Finance.Liquidity risk mitigating techniques

The Bank maintains a stock of high liquid assets in order to support cash outflows related to different concepts (i.e: deposits, committed facilities, etc) for different stressed scenarios.

On a frequent basis, projections of the main liquidity metrics are reviewed in order to establish the need for additional funding with the objective to maintain the metrics within the Bank's risk appetite.

In addition, in order to incentivize profitable business growth, an internal methodology is in place in order to charge and credit to the different products the cost of liquidity. On that regard, the maturity of the assets is considered in order to establish the charge and the stability of funding sources is considered for the credits.

(c) Utilization of stress tests

The Bank monitors different liquidity stress scenarios according to Group's risk appetite through the report OCP. These reports are generated on a monthly basis and in the case of the scenario specific to HSBC México (HS2) the estimation and monitoring is on a daily basis.

During the quarter, the results coming from the report for the different scenarios were within the Bank's risk appetite.

(d) Description of the funding contingency plan

Since 2003, the institution has developed and implemented 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.