HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish language original)

The Board of Directors and Stockholders
HSBC México, S. A., Institución de Banca Múltiple,
Grupo Financiero HSBC and Subsidiaries:

(thousands of pesos)

We have audited the accompanying consolidated balance sheets of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries ("the Bank") as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for credit institutions in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the consolidated financial statements, the Bank is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for credit institutions in Mexico, which in general conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Financial Reporting Standards. These accounting criteria include particular rules, which in certain respects, depart from such standards, including the charge to the accumulated profits mentioned in the following paragraph.

As mentioned in note 3 to the consolidated financial statements, during 2011 the Banking Commission issued some changes to the accounting criteria applicable to credit institutions in Mexico, related to the methods used to determine the allowance for loan losses for the consumer credit portfolios, mortgage portfolio and the commercial loans granted to states and municipalities; consequently, the Bank recorded a charge in stockholders' equity of $289,214 ($202,450, net of deferred taxes) related to non revolving consumer loans and recognized credits in the income statement of $207,414 and $108,797, relating to the mortgage loan portfolio and commercial loans granted to states and municipalities, respectively. In addition they issued changes to the accounting criteria that affected the presentation of the consolidated financial statements at December 31, 2011 and for the year ended. Consequently the 2010 financial statements, presented for comparative purposes, have been reclassified to show the figures with the same classification required from the application of these accounting changes.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of its operations, the changes in its stockholders' equity and cash flows for the years then ended, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

RUBRICA

Ricardo Delfín Quinzaños

February 13, 2012.

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

(Thousands of pesos)

Assets	2011	2010
Cash and cash equivalents (note 5)	$ 51,223,697	48,800,804
Margin accounts (note 6)	26,667	41,804
Investment securities (note 7):		
Trading	43,313,201	36,547,998
Available-for-sale	111,163,702	95,315,261
Held-to-maturity	7,270,088	7,677,338
	161,746,991	139,540,597
Debtors under agreements to resell (note 8)	5,749,340	1,855,977
Derivatives (note 10):		
Trading	42,549,971	28,094,316
Hedging	356,135	110,558
	42,906,106	28,204,874
Current loan portfolio (note 11):		
Commercial loans:		
Commercial activity	101,012,506	85,846,518
Financial institutions	8,267,524	7,921,131
Government entities	25,916,318	28,087,159
Consumer loans	29,302,131	26,664,511
Residential mortgages	18,058,206	17,557,502
Total current loan portfolio	182,556,685	166,076,821
Past due loan portfolio (note 11):		
Commercial loans:		
Commercial activity	2,027,100	1,664,203
Financial institutions	-	108
Government entities	-	5,207
Consumer loans	1,234,341	1,573,528
Residential mortgages	1,820,723	2,101,032
Total past due loan portfolio	5,082,164	5,344,078
Total loan portfolio	187,638,849	171,420,899
Less:		
Allowance for loan losses (note 11c)	10,900,046	9,296,367
Loan portfolio, net	176,738,803	162,124,532
Other accounts receivable, net (note 12)	29,334,108	25,393,573
Foreclosed assets (note 13)	203,359	162,408
Property, furniture and equipment, net (note 14)	8,079,671	9,068,907
Permanent investments in shares (note 15)	138,141	122,631
Deferred taxes (note 23)	6,409,586	5,318,243
Other assets, deferred charges and intangible assets (notes 16 and 20)	3,505,985	4,752,832
Total assets	$ 486,062,454	425,387,182

Liabilities and Stockholders' Equity	2011	2010
Deposit funding (note 17):		
Demand deposits	$ 172,797,316	150,355,330
Time deposits:		
General public	119,297,480	98,785,045
Money market	1,782,650	229,913
Bank bonds (note 18)	4,243,003	4,242,519
	298,120,449	253,612,807
Due to banks and other institutions (notes 11b and 19):		
On demand	5,866,125	3,775,570
Short-term	24,923,413	16,630,130
Long-term	1,747,171	1,525,151
	32,536,709	21,930,851
Securities to be paid	-	2,358,895
Creditors under agreements to repurchase (note 8)	15,372,595	34,868,101
Securities lending (note 9)	4,136	276
Collateral sold or pledged as guarantee:		
Securities lending (note 9)	11,657,720	6,827,342
Derivatives (note 10):		
Trading	41,208,448	28,742,976
Hedging	2,087,475	1,801,548
	43,295,923	30,544,524
Other accounts payable:		
Income tax and employee statutory profit sharing (note 23)	794,761	653,174
Contributions for future capital increases not yet formalized by its corporate government (note 24a)	-	2,013,082
Settlement transactions (note 12)	18,353,484	12,773,051
Sundry creditors and other accounts payable	15,422,481	10,863,097
	34,570,726	26,302,404
Subordinated debt issued (note 22)	10,487,540	10,007,441
Deferred credits	519,950	730,474
	11,007,490	10,737,915
Total liabilities	446,565,748	387,183,115
Stockholders' equity (note 24):		
Paid-in capital:		
Capital stock	5,261,139	5,087,226
Additional paid-in capital	22,357,384	20,518,122
	27,618,523	25,605,348
Earned capital:		
Statutory reserves	11,056,936	12,436,599
Accumulated losses	(202,450)	-
Unrealized gain (loss) from valuation of available-for-sale securities	547,422	(47,905)
Mark to market from cashflow hedges	(242,744)	(213,009)
Net income	716,444	420,337
	11,875,608	12,596,022
Non-controlling interest	2,575	2,697
Total stockholders' equity	39,496,706	38,204,067
Commitments and contingent liabilities (note 28)		
Total liabilities and stockholders' equity	$ 486,062,454	425,387,182

(Continued)

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Balance Sheets, continued

December 31, 2011 and 2010

(Thousands of pesos)

Memorandum accounts

		2011	2010
Guarantees issued (notes 11 and 26a)	$	13,948	20,583
Other contingent liabilities		-	115,581
Irrevocable lines of credit (notes 11 and 26a)		22,425,302	16,201,600
Assets in trust or under mandate (note 26b)		328,375,388	293,813,951
Assets in custody or under management (note 26d)		251,771,875	246,283,741
Collaterals received by the entity (note 7)		54,795,738	13,369,616
Collaterals received by the entity and sold or pledged in guarantee (note 7)		47,829,102	10,181,844
Investment banking transactions on behalf of customers, net (note 26c)		47,018,120	43,351,480
Uncollected interest accrued in respect of overdue credit portfolio (note 11b)		235,958	253,615
Amounts under derivative instruments (note 10)		1,254,500,588	1,162,253,192
Loan portfolio rated		210,078,099	187,643,082
Other memorandum accounts		454,921,945	496,549,448

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect the transactions carried out by HSBC through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the undersigned officers."

"At December 31, 2011 and 2010, the historical capital stock of HSBC México, S.A. amounts to $3,460,639 and $3,286,726, respectively."

RÚBRICA
Luis Peña Kegel
Chief Executive Officer

RÚBRICA
Gustavo Caballero Gómez
Chief Financial Officer

RÚBRICA
Andrew Paul McCann
Director of Internal Audit

RÚBRICA
Juan José Cadena Orozco
Chief Accountant

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HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2011 and 2010

(Thousands of pesos)

	2011	2010
Interest income (note 27a)	$ 29,741,381	28,018,393
Interest expense (note 27a)	(10,190,053)	(8,092,078)
Financial margin	19,551,328	19,926,315
Allowance for loan losses (note 11c)	(6,736,597)	(9,283,843)
Financial margin net of allowance for loan losses	12,814,731	10,642,472
Commission and fee income (note 11b)	7,649,538	8,359,986
Commission and fee expense	(1,449,177)	(1,429,104)
Financial intermediation income (note 27b)	2,620,382	2,219,660
Other operating income (note 27c)	5,115,191	4,405,212
Administrative and promotional expenses	(25,892,029)	(23,685,221)
Net operating income	858,636	513,005
Equity in the results of associated and affiliated companies, net (note 15)	(40,710)	12,666
Income before income taxes	817,926	525,671
Current income taxes (note 23)	(1,413,230)	(1,091,711)
Deferred income tax (note 23)	1,310,607	981,471
Income before non-controlling interest	715,303	415,431
Non-controlling interest	1,141	4,906
Net income	$ 716,444	420,337

See accompanying notes to the consolidated financial statements.

"These consolidated statements of operations have been prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect all revenues and expenses derived from HSBC's operations through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the undersigned officers".

RÚBRICA
Luis Peña Kegel
Chief Excecutive Officer

RÚBRICA
Gustavo Caballero Gómez
Chief Financial Officer

RÚBRICA
Andrew Paul McCann
Director of Internal Audit

RÚBRICA
Juan José Cadena Orozco
Chief Accountant

HSBC MEXICO, S. A.,
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2011 and 2010

(Thousands of pesos)

	Paid-in capital		Earned capital						
	Capital stock	Additional paid-in capital	Capital reserves	Accumulated losses	Unrealized gain (loss) from valuation of available-for-sale securities	Mark to market from cashflow hedges	Net income	Non-controlling interest	Total stockholders' equity
Balances at December 31, 2009	$ 5,087,226	20,518,122	14,313,391	-	(159,648)	(399,904)	136,291	2,653	39,498,131
Changes resulting from stockholder resolutions (note 24a):									
Transfer	-	-	-	136,291	-	-	(136,291)	-	-
Resolution at the Ordinary General Stockholders' Meeting on April 16, 2010 - Reserve constitution	-	-	136,291	(136,291)	-	-	-	-	-
Resolution at the Board of Director's Meeting on October 21, 2010 - Dividends paid	-	-	(2,013,083)	-	-	-	-	-	(2,013,083)
Total items related to stockholders' resolutions	-	-	(1,876,792)	-	-	-	(136,291)	-	(2,013,083)
Changes related to the recognition of comprehensive income (note 24b):									
Net income	-	-	-	-	-	-	420,337	-	420,337
Valuation effect of available-for-sale securities and hedging of cashflow	-	-	-	-	111,743	186,895	-	-	298,638
Non-controlling interest	-	-	-	-	-	-	-	44	44
Total comprehensive income	-	-	-	-	111,743	186,895	420,337	44	719,019
Balances at December 31, 2010	5,087,226	20,518,122	12,436,599	-	(47,905)	(213,009)	420,337	2,697	38,204,067
Changes resulting from stockholder resolutions (note 24a):									
Transfer	-	-	-	420,337	-	-	(420,337)	-	-
Resolution at the Board of Director's Meeting on February 4, 2011 - Dividends paid	-	-	(1,800,000)	-	-	-	-	-	(1,800,000)
Resolution at the Ordinary General Stockholders' Meeting on April 28, 2011 - Reserve constitution	-	-	420,337	(420,337)	-	-	-	-	-
Resolution at the Ordinary General Stockholders' Meeting on November 22, 2011 - shares subscription	173,913	1,839,262	-	-	-	-	-	-	2,013,175
Total items related to stockholders' resolutions	173,913	1,839,262	(1,379,663)	-	-	-	(420,337)	-	213,175
Changes related to the recognition of comprehensive income (note 24b):									
Net income	-	-	-	-	-	-	716,444	-	716,444
Valuation effect of available-for-sale securities and hedging of cashflow	-	-	-	-	595,327	(29,735)	-	-	565,592
Effect of change in consumer loans methodology net of income taxes (note 4)	-	-	-	(202,450)	-	-	-	-	(202,450)
Non-controlling interest	-	-	-	-	-	-	-	(122)	(122)
Total comprehensive income	-	-	-	(202,450)	595,327	(29,735)	716,444	(122)	1,079,464
Balances at December 31, 2011	$ 5,261,139	22,357,384	11,056,936	(202,450)	547,422	(242,744)	716,444	2,575	39,496,706

See accompanying notes to the consolidated financial statements.

"These consolidated statements of stockholders' equity were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect all the stockholders' equity account entries relating to the transactions carried out by HSBC through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of stockholders' equity were approved by the Board of Directors under the responsibility of the undersigned officers".

RÚBRICA	**RÚBRICA**	**RÚBRICA**	**RÚBRICA**
Luis Peña Kegel	Gustavo Caballero Gómez	Andrew Paul McCann	Juan José Cadena Orozco
Chief Excecutive Officer	Chief Financial Officer	Director of Internal Audit	Chief Accountant

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HSBC MEXICO, S. A.
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AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

(Thousand of pesos)

	2011	2010
Net income	$ 716,444	420,337
Adjustments for non cash items:		
Impairment loss associated to investment activities	173,543	-
Cancelation of intangible assets under development	1,153,956	-
Depreciation of property, furniture and equipment	1,232,972	1,450,460
Amortization of intangible assets	606,305	161,054
Provisions	2,032,257	2,404,389
Current and deferred income taxes	102,623	110,240
Equity in the results of associated and affiliated companies	40,710	(12,666)
Non-controlling interest	(1,141)	(4,906)
	6,057,669	4,528,908
Operating activities:		
Change in margin accounts	15,137	(38,358)
Change in investment securities	(23,651,190)	(18,244,951)
Change in debtors under agreements to resell	(3,893,364)	(263,154)
Change in derivatives (assets)	(14,743,710)	(2,506,525)
Change in loan portfolio	(14,903,485)	(12,618,381)
Change in foreclosed assets	(40,951)	387
Change in other operating assets	(2,500,450)	(18,540,276)
Change in deposit funding	44,507,642	14,887,832
Change in loans from banks and other institutions	10,605,858	(2,924,669)
Change in creditors under agreements to repurchase	(19,495,506)	10,324,167
Change in securities lending (liability)	3,860	245
Change in collateral sold or pledged as guarantee	4,830,378	522,692
Change in derivatives (liability)	12,751,399	3,412,968
Change in subordinated debt issued	480,099	(213,537)
Change in other operating liabilities	8,058,675	7,493,787
Income taxes paid	(1,433,189)	(1,943,261)
Net cash provided by (used in) operating activities	6,648,872	(16,122,126)
Investing activities:		
Proceeds from sale of property, furniture and equipment	656,946	366,981
Purchase of property, furniture and equipment	(1,074,225)	(3,360,974)
Purchase of intangible assets	(1,953,499)	(424,332)
Others	(55,201)	27,574
Net cash used in investing activities	(2,425,979)	(3,390,751)
Financing activities:		
Dividends paid in cash	(1,800,000)	(2,013,083)
Contributions for future capital stock increases	-	2,013,082
Net cash used in financing activities	(1,800,000)	(1)
Net increase (decrease) in cash and equivalents	2,422,893	(19,512,878)
Effects from cash value changes	-	(8,208)
Cash and cash equivalents at the beginning of year	48,800,804	68,321,890
Cash and cash equivalents at end of year	$ 51,223,697	48,800,804

See accompanying notes to the consolidated financial statements.

"These consolidated statements of cash flows, were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly this reflects all cash provided and used derived from HSBC's operations through the date noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated stataments of cash flows were approved by the Board of Directors under the responsibility of the undersigned officers".

RÚBRICA
Luis Peña Kegel
Chief Executive Officer

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(Thousands of pesos)

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions -

Business description -

HSBC México, S. A. (the Bank or HSBC) is a subsidiary of Grupo Financiero HSBC, S. A. de C. V. (the Group), who owns 99.99% of its capital stock. HSBC Latin America Holdings (UK) Limited (HSBC LAH) currently owns 99.99% of the Group's capital stock. In accordance with the Law of Credit Institutions (LCA), the Bank is authorized to provide multiple service banking operations, consisting of receiving deposits, accepting loans, granting loans, trading securities and derivative transactions and entering into trust agreements, among others.

Significant transactions and other issues -

2011

During the year ended December 31, 2011 the Bank carried out a restructuring process, involving the redefinition of structures, resources and projects with the aim of more efficient processes. As a result, the consolidated statement of income for this period was affected by non-recurring charges, primarily related to severance payments, cancellations of certain long-lived assets under development and expenses of closing branches, for a total of $1,698,804, which were accounted in administrative and promotional expenses.

In resolution at the Board of Director's Meeting on February 4, 2011, the sale and lease back of 94 properties of the Bank and some subsidiaries was approved. The effect on the consolidated financial statements for the year ended on December 31, 2011, is analyzed as follows:

Legal entity		Sale price	Book value	Profit
HSBC México, S. A.	$	370,086	199,251	170,835
Inmobiliaria Bisa, S. A. de C. V.		383,749	118,471	265,278
Inmobiliaria Bamo, S. A. de C. V.		11,316	5,409	5,907
Inmobiliaria Banga, S. A. de C. V.		7,564	4,754	2,810
Inmobiliaria Guatusi, S. A. de C. V.		18,516	6,368	12,148
Inmobiliaria GBM, S. A. de C. V.		56,436	27,516	28,920
Inmobiliaria GRUFIN, S. A. de C. V.		197,652	63,827	133,825
Total	$	1,045,319	425,596	619,723

The profit on the sale of these branches has been recorded under "Other operating income (expense)" during the year ended on December 31, 2011.

(Continued)

2010

On July 15, 2010 the Federal Government and several credit institutions including the Bank signed an agreement, for the early termination of the support programs for mortgage borrowers. Support programs consisted of the possibility for the borrowers to restructure the loans and of discounts that were granted and which were proportionately absorbed by the Federal Government and the Bank, which were applied in each payment made on the loans subject programs. In this regard, the early termination scheme may incorporate any performing loan as at December 31, 2010 or any unperforming loan which was restructured under certain conditions on or before December 31, 2010. The early termination scheme consisted in providing those credits incorporated on December 31, 2010 or the date of restructuring, whichever comes first, the benefit of the discount for the portion borne by the Federal Government and by the Bank on the unpaid balance of the credit. The discount amount by the Federal Government shall be paid in five equal instalments being the first in December 2011 and the remainder in June of the years 2012 to 2015, to which they will add a financial cost equivalent to the arithmetic average of the calculated annual return rates over the discounts of the treasury trusts (CETES for its acronym in Spanish) at 91 days, taken into 28 days divided the resulting rate between 360 days and multiplying the result for the number of effective days, and subject to the delivery of a series of reports to the National Banking and Securities Commission (the Banking Commission). Note 11 to the financial statements shows a breakdown of the amounts of discounts granted and its effects on the consolidated financial statements. The Bank issued on June 30, 2011 the report for the correct application of the determination of the amount base for the recognition and payment of the federal government obligations of the early termination scheme.

(2) Summary of significant accounting policies -

a) *Authorization and basis of presentation and disclosure -*

On February 13, 2012, Luis Peña Kegel (Chief Executive Officer), Gustavo Caballero Gómez (Chief Financial Officer), Adrew Paul McCann (Internal Audit Director) and Juan José Cadena Orozco (Chief Accountant) authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law and the Bank's bylaws, the stockholders are empowered to modify the consolidated financial statements after issuance. The unconsolidated financial statements issued on the same date, will be submitted for approval at the next Stockholders' Meeting.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of pesos)

The consolidated financial statements have been prepared based on banking legislation and in conformity with the accounting criteria for credit institutions in Mexico, issued by the Banking Commission, which were in effect at the consolidated balance sheet date. The Banking Commission is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

The accompanying consolidated financial statements include those of the Bank and those of its subsidiaries, including the special purpose entities (SPE) that qualify to be consolidated in accordance with the accounting criteria issued by the Banking Commission. Significant intercompany transactions and balances have been eliminated in consolidation. The consolidation was performed using the individual financial statements of the subsidiaries at December 31, 2011 and 2010. The consolidated subsidiaries and the percentage of stock participation of the Bank at December 31, 2011 and 2010 are as shown in below:

Activity and subsidiary	**Shareholding**
Real estate	
Inmobiliaria Bisa, S. A. de C. V.	99.99%
Inmobiliaria Grufin, S. A de C. V.	100.00%
Inmobiliaria Guatusi, S. A. de C. V.	100.00%
Inmobiliaria el Nuevo París, S. A. de C. V.	100.00%
Edificaciones Prime, S. A. de C. V.	100.00%
Promoción en Bienes Raíces, S. A. de C. V.	100.00%
HSBC Inmobiliaria México, S. A. de C. V.	99.96%
Inmobiliaria GBM Atlántico, S. A. de C. V.	100.00%
Inmobiliaria Banga, S. A. de C. V.	100.00%
Inmobiliaria Bamo, S. A. de C. V.	100.00%
Financial services	
HSBC Servicios Financieros, S. A. de C. V.	97.31%
Non-operating entities, where the liquidation process has not commenced as of the date of these financial statements:	
Mexicana de Fomento, S. A. de C. V.	100.00%
Almacenadora Banpacífico, S. A. de C. V.	99.99%
Inmobiliaria Banci, S. A. de C. V.	100.00%
Desarrollo Turístico, S. A. de C. V.	100.00%
Operadora de Hoteles de Mazatlán, S.A. de C.V.	100.00%

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

(Continued)

Special Purpose Entities (SPE)

As of December 31, 2011, the Bank has incorporated the following SPE, which have been consolidated given that the Bank has the control and they were created to achieve a concrete purpose.

- Joint venture created between Credit Suisse Capital Partners (Luxembourg) S.à.r.l., the Bank, Grupo Financiero HSBC, and Credit Suisse Alzette Holdings S.à.r.l., (Tula), incorporated in June 2011, where the Bank has an interest of 99.3% of the risks and rewards of the assets and liabilities, the purpose of which is the investment in high credit ranking debt denominated in pesos. As of December 31, 2011, the amount of the investment in debt through this SPE amounts to $5,518,699, which are included as part of investments in securities, classified as available-for-sale.

- Joint venture created between Credit Suisse Tower Investment (Luxembourg) S.à.r.l., the Bank, Grupo Financiero HSBC, and Credit Suisse K-H-R Investments S.à.r.l., (ETYMA), incorporated in 2010, where the Bank has an interest of 99.4% of the risks and rewards of the assets and liabilities, the purpose of which is the acquisition of bonds issued by a foreign entity, which are secured by M-Bonds. As of December 31, 2011 and 2010, these Bonds amounts to $4,696,706 and $4,834,554, respectively, which are included as part of the securities available-for-sale.

- Irrevocable administrative trust 1052 (Su Casita or Trust 1052) created in April 2011 upon the execution of the acknowledgment of debt and accord and satisfaction agreement entered into by and between the Bank and Hipotecaria Su Casita, S.A. de C.V., SOFOM ENR, arising from a loan granted by the Bank. As a result of the aforementioned, the Bank is the owner of "capital A" which consists of: a) individual loans with mortgage guarantee ("capital loans"); b) cash furniture and real estate properties reserved as part of the trust management and credit collection; and, c) collection rights arising from the capital loans. As of December 31, 2011, "capital A" amounts to $391,204 which is included under the Residential Mortgages loans in the consolidated balance sheet.

In general, the accounting criteria issued by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board of Financial Reporting Standards (CINIF for its acronym in Spanish). The accounting criteria include certain rules that in some instances differ from FRS, as stated in paragraphs “d”, “g”, “h”, “i”, “j”, “l” and “z” of this note, as well as the charge to accumulated profits due to changes in the methodology of non revolving consumer loans mentioned in note 3 numeral II.

(Continued)

The accounting criteria for credit institutions indicate that the Banking Commission will issue specific standards for specialized transactions. In cases where there is no specific accounting criteria for credit institutions expressed by the Banking Commission or in the wider context of the FRS, then the supplementary process stated in FRS A-8 should be followed. Only in cases where International Financial Reporting Standards (IFRS) do not contain a solution to the accounting recognition, there is the option to adopt supplementary rules or guidance from a different regulatory body, as long as it complies with all the requirements as stated in the aforementioned FRS. The supplementary rules should be applied in the following order; the United States general accepted accounting standards (US GAAP) and then any other accounting rule, which is included within a set of formal and recognized standards.

The accompanying consolidated financial statements include the recognition of the effects of inflation on the financial information until December 31, 2007, the date on which according to the FRS B-10 "Effects of Inflation" the economy changed from an inflationary to a non inflationary environment (Cumulative inflation in the last three years less than 26%), using for this purpose the Investment Unit Value (UDI for its acronym in Spanish). The UDI is a unit of measurement whose value is determined by the "Banco de México" (Central Bank) based on inflation. Annual inflation percentages of the three preceding years and the UDI values at the end of indicated years are as follows:

December 31	**UDI**	**Annual inflation**
2011	$ 4.6913	3.45%
2010	4.5263	4.29%
2009	4.3401	3.72%
	=====	=====

For the years ended December 31, 2011 and 2010, the cumulative inflation of the past three years was 12.11% and 15.09%, respectively, so these exercises are considered as a non inflationary environment under FRS B-10.

For purposes of disclosure in the notes to the consolidated financial statements, when reference is made to pesos or "$", it refers to thousands of Mexican pesos, and when reference is made to "US$" or dollars, it means dollars of the United States of America.

Assets and liabilities related to the purchase and sale of foreign currencies, investments in securities, securities repurchase and resell agreements and derivative financial instruments are recognized in the consolidated financial statements on the trade date, regardless of the settlement date.

(Continued)

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of investment securities and securities and derivative transactions, repurchase transactions, settlement accounts and security loans, allowances for loan losses, foreclosed assets, pensions, seniority premiums and post-retirement benefits and deferred income taxes. Recent volatility in capital and money markets and the current economic environment in Mexico and globally could cause the values of assets and liabilities to differ from the actual amounts received or paid when settled. Therefore actual results could differ from those estimates.

b) Cash and cash equivalents -

Cash and cash equivalents consist of cash, precious metals (coins), bank account balances, 24 and 48-hour foreign currency purchase and sale transactions, bank loans with original maturities of up to three days ("Call Money") and deposits with the Central Bank.

Offsetting entries for 24 and 48-hour foreign currency purchase and sale transactions represent rights or obligations, which are recorded in "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively.

This category includes deposits related to monetary regulation, as required by the Law of the Central Bank, whose purpose is regulating the liquidity of the money market.

At the date of the consolidated financial statements, interest income and profit or losses on valuation are included in the income statement as incurred as part of the interest income or interest expense.

c) Margin accounts -

This account is comprised of the total collateral held in cash, bonds, shares or other highly liquid instruments in respect of derivative transactions on recognized stock market exchanges.

d) Investment securities-

Investment securities consist of equities and government securities and bank notes, listed and unlisted, classified into the categories shown in the following page, depending on management's investment intentions.

(Continued)

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt securities are initially and subsequently marked to market at a price provided by an independent price vendor. Shares are also valued at fair value using prices provided by an independent price vendor. Valuation effects are recognized in results of operations within "Financial intermediation income". If the amount of trading securities is short for settling the amount of securities deliverable in value date transactions in relation to purchase-and-sale of securities, the credit balance is shown as a liability under "Sundry creditors and other accounts payable".

Available-for-sale securities-

Securities not classified as trading or held-to-maturity are classified as "Available-for-sale". "Available-for-sale" are recorded in the same way as trading securities; however, the mark-to-market adjustment is reported in stockholders' equity under the caption "Unrealized gain (loss) from valuation of Available-for-sale securities". Unrealized gains and losses are cancelled when the respective securities are sold, reporting the difference between net realizable value and acquisition cost within the results of operations.

It is necessary to evaluate whether at the consolidated balance sheet date there exists objective evidence of impairment, considering the difference between the initial carrying value of the security net of any principal payment or amortization and the fair value of the security. Any difference identified as impairment should be recognised in the income statement for the period.

Held-to-maturity securities-

Held-to-maturity securities are those securities that the Bank has the ability and intent to hold until maturity, and that have defined payments. Held-to-maturity securities are initially recorded at fair value and subsequently at amortized cost. Interest is recognized in income as earned. When securities mature, the difference between the actual amount received and the net book value is recognized in the consolidated statement of operations within "Financial intermediation income".

If objective evidence of impairment exists in respect of held to maturity securities, the value of the security should be reduced and the impairment amount should be recognised in the current year income statement.

(Continued)

Transfers between categories-

The sale of securities to be held to maturity must be reported to the Banking Commission. Likewise, securities may be reclassified from the categories "securities to be negotiated" and "securities available for sale" to the category "securities to be held to maturity" or from "securities to be negotiated “to "securities available for sale", as long as the Banking Commission grants its express authorization. Also, they can be reclassified from the category "securities to be held to maturity" to "securities available for sale", provided that there is no intention or the capacity to keep them to maturity.

During 2011 and 2010, there were no transfers between categories.

For operations where no settlement is agreed upon immediate or same day value date, on the date of the agreement the right and / or the obligation should be recorded in the clearing accounts until the liquidation is settled. In cases where the receivable is not settled within 90 calendar days from the date on which it was registered in clearing accounts, it will be reclassified as past due debt and estimation should be registered for the total amount.

Under FRS a price vendor is not necessary to determine the fair value and the transference between categories does not need the Banking Commission approval.

e) Securities under repurchase/resell agreements-

Repurchase agreements that do not comply with the terms set out in criterion C-1 “Recognition and derecognition of financial assets”, have been treated as collateralized financing transactions, reflecting the economic substance of such transactions and regardless of whether they are cash based or securities based.

The Bank when recording these transactions as financing transactions recognizes the receipt of cash or an account receivable, as well as an account payable for the agreed price, which represents the obligation to repay that money, and reclassifies the financial asset as restricted collateral. When the Bank is acting as the provider of finance, it recognizes the payment of cash or an account payable and also registers an account receivable in respect of the agreed price, which represents the right to recover the cash provided and recognizes the collateral received in a memorandum account. Over the life of the repo, the account payable or receivable are presented in the consolidated balance sheet as debtors or creditors as appropriate, and are valued at amortized cost, recognizing interest in the results for the year as it accrues, according to the effective interest method. The accrual of interest arising from the repo operation will be presented under the heading of “Interest income or interest expense”, as appropriate.

(Continued)

In relation to the financial assets that have been sold or pledged as buyer of securities, there is recognition of an account payable for the obligation to restore the collateral to the seller, which is valued at fair value in the event of a sale and at the amortized cost if the assets were pledged in a repurchase transaction.

The differential, if any, that is generated by the sale of or using the security as collateral will be presented under the heading of "Financial intermediation income".

In accordance with the Circular 1/2003 of the Central Bank, any repurchase transactions, with a maturity period over three days must include an obligation to guarantee such transaction, when the fluctuations in the value of the securities under the repurchase agreement represents a net exposure which exceeds the maximum amount agreed by the parts.

The collaterals granted (without transfer of ownership) are recorded in the securities portfolio as securities for trading or in collateral, and if it corresponds to cash deposits, are registered under the cash and cash equivalents account.

Securities under repurchase/resell agreements that cannot be renegotiated with a third party are reported as secured borrowing or lending transactions. Premiums are recognized in income as they accrued, on a straight-line basis, throughout the term of the transaction.

f) Securities lending -

In operations where the Bank transfers securities to a borrower and receives other financial assets as collateral, it recognizes the fair value of the securities lent as restricted, while financial assets received as collateral (including cash managed in trusts), are recognized in memorandum accounts. When the Bank receives securities in a securities lending transaction, it records the value of the securities in memorandum accounts while the financial assets provided as collateral are recognized as restricted (including cash managed in trusts). In both cases the financial assets received or delivered as collateral are recorded following the rules of valuation, presentation and disclosure in accordance with applicable accounting standard, while the values recorded in memorandum accounts are valued according to custody operation rules. The premium earned is recognized in the income statement, through the effective interest method over the life of the operation, against a receivable or payable as appropriate. The account payable which represents the obligation to repay the transaction value is reported in the consolidated balance sheet under the heading of "Collateral sold or pledged as guarantee".

(Continued)

g) Derivative transactions -

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes. These instruments are recognized at fair value, regardless of their classification. The accounting treatment is described below:

Futures and forward contracts – The consolidated balance sheet shows the net fluctuation in the market value of the contracts' price. These effects are recognized in income, except in the case of hedging transactions where the related gains or losses are recorded as deferred credits or debits and amortized using the straight-line method during the term of the underlying instruments and shown together with the primary position they cover.

Swaps – Rights or obligations established in the contract arising from the exchange of cash flows or asset yields (swaps) are recorded as assets or liabilities. The assets and liabilities derived from swaps are marked to market, reporting the net value of the swap on the consolidated balance sheet while the related gains or losses are recognized in income, except in the case of transactions designated as hedges where gains or losses are recorded as deferred credits or debits and amortized using the straight-line method during the term of the underlying instruments and shown together with the primary position they cover.

Options – Put and call option obligations (premiums collected) or rights (premiums paid) are recorded at contract value and subsequently valuated at fair value, recording all gains or losses in the statement of operations. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

In conformity with FRS C-10, derivative financial instruments are recognized at fair value, regardless of management's intention. Fair value is initially represented by the agreed-upon consideration. Transaction costs and cash flows received or given to adjust the instrument at the beginning of the transaction to fair value. Changes in the fair value of derivative financial instruments for trading purposes are reported in operations as part of the comprehensive financial results. Derivative financial instruments designated as hedges are presented on the balance sheet in the derivative financial instruments caption. Changes in fair value of these instruments are recorded in the same income statement or comprehensive income line where the gain or loss on valuation of the primary position is recognized, in accordance with the classification of the hedge (fair value hedge, cash flow hedge or foreign currency hedge), and the results of effectiveness tests.

(Continued)

h) Clearing accounts -

Amounts receivable or payable arising from investment securities, securities under repurchase/resell agreements, securities lending and/or derivative financial instruments which have expired but have not been settled at the consolidated balance sheet date as well as amounts receivable or payable resulting from the purchase or sale of foreign currencies which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts included within “Other accounts receivable” and “Sundry creditors and other accounts payable”.

Debit and credit balances of clearing accounts resulting from foreign currency purchase/sell transactions are offset provided the contractual right exists for offsetting the amounts recorded and there is the intention of settling them on a net basis, or else realizing the asset and liability simultaneously. Assets and liabilities are also offset in transactions of the same nature or that arise from the same contract, provided they have the same maturities and are settled concurrently.

In accordance with FRS unpaid balances are not reclassified to “Other receivables” and “Sundry creditors and other accounts payable.”

i) Past due loans and interest -

Outstanding loan and interest balances are classified as past due according to the following criteria:

Commercial loans with principal and interest payable upon maturity – 30 days after due date.

Commercial loans with principal payable upon maturity and periodic interest payments – When interest or principal have not been collected 90 or 30 days after their due date, respectively.

Commercial loans with principal and interest instalments – 90 days after the first unpaid amortization of principal and interest.

Revolving credits, credit cards and others – When unpaid for two past due billing cycles or when the billing period is not monthly, at the equivalent of 60 days past due.

(Continued)

Mortgage loans – 90 days after the due date of the first unpaid instalment.

Overdrafts from checking accounts without lines of credit – When the overdraft arises.

In addition, a loan is classified as past due when the debtor files for bankruptcy protection.

Non-current loans for which fully settled outstanding balances is made (including interest) and restructured or renewed loans showing sustained payment of credit, are reclassified as current. When those loans are reclassified to current portfolio, interest recorded in memorandum accounts, are recognized in statement of operations at the moment of reclassification.

FRS do not consider the classification of the credit portfolio between performing (current) and non-performing (non-current).

j) Allowance for loan losses -

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as follows:

Rated loans – The loan portfolio is rated according to the rating rules for loan portfolio issued by the Ministry of Finance and Public Credit (SHCP for its acronym in Spanish) and the methodology established by the Banking Commission. It could also be rated, with an internal developed methodology authorized by the Banking Commission. The methodology distinguishes the status of the borrower and based on this determines the allowance. For commercial loans, excluding government and investment projects, it is authorized by the Banking Commission to use an internal methodology in accordance with the resolution No. 141-1/5814/2012 dated Jauary 9, 2012, in which the Banking Commission expressed the permission to the Bank to continue using its internal methodology for a period of one year from December 1, 2011, because the new internal models for measuring the credit risk applicable to these assets are in the process of certification by the authority. The rating of commercial loans with balances of less than 4,000,000 of UDI, consumer and mortgage loans are rated based on "general dispositions applicable to credit institutions (The "Dispositions") issued by the Banking Commission, specifically using the standard methodology.

(Continued)

(Thousands of pesos)

The allowance is established considering the risk levels in accordance with the following table:

Risk level	**Range of allowance percentages**
A - Minimum	0.50 – 0.99
B - Low	1.00 – 19.99
C - Medium	20.00 – 59.99
D - High	60.00 – 89.99
E - Irrecoverable	90.00 – 100.0

The "Dispositions" establish rules for the creation of allowances that recognize potential losses in the loan portfolio and of foreclosed assets or received in lieu of payment over time.

General reserves – In accordance with the Dispositions risk grade A and B-1 risk grade from the revolving consumer portfolio are considered general reserves.

Specific reserves – Those reserves resulting from loans with risk grade B, C, D and E, but not including those which result from risk grade B-1 from the revolving portfolio.

Exempt portfolio – consists mainly of loans to the Bank Savings Protection Institute (IPAB for its acronym in Spanish), which are not rated.

Impaired loans – Commercial loans which are not likely to be fully recovered. Both, current and past due portfolios may be identified as impaired loans. For consolidated financial statement disclosure purposes, "impaired loans" are those commercial loans classified by HSBC as having the risk levels "D" and "E".

Additional reserves – Are established for those loans, which in management's opinion, may give rise to concern in the future given the particular situation of the customer, the industry or the economy. They also include items such as uncollected ordinary interest and others, as well as other reserves as required by the Banking Commission.

Loans considered irrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries derived from loans written off are recognized in income of the year.

On October 25, 2010 a change in the methodology for the creation of preventive reserves for consumer revolving credit, other than credit cards, non-revolving credits and mortgages, was published in the Official Gazette of the Federation (DOF for its acronym in Spanish). The initial accrued effect from these changes was recorded in accordance to the "Dispositions", which in some cases allowed recording the initial effect directly in the stockholders' equity.

(Continued)

On October 5, 2011, a change in the methodology for the determination of reserves of the portfolio related to commercial credits granted to states and municipalities was published in the DOF. This new methodology is based on concepts such as expected loss, probability of default, exposure to default, as well as loss severity for each credit and borrower. The previous methodology was mainly based on the ratings provided by credit-rating agencies. The initial accrued effect from to this change was recorded in September 2011, pursuant to the "Dispositions".

The FRS do not consider specific methodologies for the establishment of the allowance for credit risks and therefore entities must develop methodologies using cash flows estimated to be recoverable by the borrowers. Furthermore, the FRS does not consider the gradual recognition of additional reserves required nor the cumulative effects to be recorded directly into the stockholders' equity.

k) Other accounts receivable -

Loans to officers and employees, collection rights, and other receivables from identified debtors, whose agreed-upon maturity does not exceed 90 calendar days, are assessed by management to determine their estimated recovery value and, where applicable, a loan loss reserve is created. Amounts receivable from other accounts receivable, that are not recovered within 90 days subsequent to their initial recording (60 days if balances are unidentified) are totally reserved, except for those related to recoverable tax balances, value added tax, and clearing accounts. This caption also includes debtors on settlement of 24 and 48-hour foreign currency sales transactions.

l) Forclosed assets-

Foreclosed assets are recorded at the lesser of: (a) cost, (b) its fair value deducted from the strictly necessary costs and expenses that are incurred in the adjudication and (c) the value of the asset or amortizations due or overdue that led to the adjudication, net of its estimates.

When the book value exceeds the value of the foreclosed asset, the difference will be recognized in the statement of operations of the year as part of “Other operating income (expenses)”. In the case of a promise of sale-and-repurchase agreements including ownership reserves, these transactions do not comply with the requirements of accounting criteria C-1 “Recognition and derecognition of financial assets”. In this case the asset should be recognized and classified as restricted, depending on the relevant type of asset, at the book value on the date of the agreement, even if the agreed sale price is higher than the book value.

(Continued)

(Thousands of pesos)

Payments received in advance in relation to the aforementioned assets are recorded as a liability. The gains or losses arising from these transactions are recorded in "Other operating income (expense)" on the date that the conditions to consider that the ownership has been transferred in accordance with accounting criteria C-1 are met.

The Bank creates additional reserves on a quarterly basis to recognize potential losses for the deterioration in asset value due to the passing of time. These reserves are created in accordance with the Dispositions which are determined as follows:

		Percentage of the allowance	
Elapsed months since the date of foreclosure or lieu of payment		**Real Estate**	**Other assets**
More than:	6	0	10
	12	10	20
	18	10	45
	24	15	60
	30	25	100
	36	30	100
	42	35	100
	48	40	100
	54	50	100
	60	100	100

In accordance with FRS, provisions are established based on the loss in fair value of the property and not on a predetermined percentage.

m) Property, furniture and equipment -

Property, furniture and equipment are initially recorded at acquisition cost and through to December 31, 2007, for being the last year considered as inflationary economic environment under FRS "B-10" were adjusted for inflation by using factors derived from the UDI.

The depreciation and amortization are calculated on the straight – line – method over the estimated useful life of the assets of determined by the Bank' Management. The useful life of the principal assets classes are show on note 14.

n) Permanent investments in shares -

Investments in affiliated and associated companies are valued using the equity method, which recognizes changes in income (loss) of the year. It is also included under this caption other permanent investments in which there is no significant influence, which are recorded at their acquisition cost.

(Continued)

o) Other assets, deferred charges and intangibles -

Other assets include recoverable balances of taxes pending to be offset or recovered. Deferred charges include the prepayment of labour obligations and other expenses pending amortization arising from services and commissions paid in advance, whose amortization is made straight line over the term of the related transaction.

“Intangible Assets” includes costs directly related to the installation and commissioning of computer equipment software and the cost of the necessary licenses to operate such equipment. According to the internal policies of HSBC, only projects that comply with the following characteristics are subject to be capitalized: (i) the assets are identifiable, (ii) the Bank has control over the assets and (iii) that there will be anticipated future economic benefits from them. The average life of these assets which are amortized on a straight line basis is 3 to 5 years, based on its characteristics.

p) Income tax (IT) and flat rate business tax (IETU)-

IT and IETU payable for the year are determined in conformity with tax regulations in force.

Deferred IT or IETU is accounted for under the asset and liability method which compares accounting and tax values. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for unamortized tax loss carry forwards and unused tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations for the period the change is enacted.

To determine whether deferred IT or IETU should be recognized, the Bank identifies the base on which the differences causing deferred tax will be amortized and the likelihood of payment or recovery of each tax.

(Continued)

q) Deposit funding -

Deposit funding comprises demand and time deposits of the general public, as well as money market funding and bank bonds. Interest expense is recognised on the accrual basis. For instruments sold at a price other than face value, a deferred charge or credit is recognized and the difference is amortized on the straight-line basis over the term of the respective instrument.

r) Due to banks and other institutions -

Bank and other loans comprises short and long-term bank loans, loans obtained through credit auctions with Central Bank and development fund financing. In addition, this category includes loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis. In the case of interbank loans received within less or equal to 3 days are presented as part of the category of immediate enforceability.

s) Pensions, seniority premiums and post-retirement benefits-

Termination benefits other than restructuring and retirement to which employees are entitled are recorded in the statement of operations, based on actuarial computations using the projected unit credit method, considering the projected salaries. At December 31, 2011 and for purposes of recognizing benefits upon retirements, the remaining average service life of employees entitled to pension and seniority premium plan, are approximately 18 years and 15 years approximately for post-retirement benefits.

Actuarial gains or losses are recognized in the statement of operations as accrued considering the remaining service life of the employees expected to receive plan benefits and are amortized based on life expectations of the group of retirees.

In the case of pension plan of defined contribution and other defined contribution benefits are recognized in the statement of operations as accrued.

t) Share-based payment-

The Bank has established a payment program based on shares of its holding Company’s equity for certain employees, recognizing an operating expense in the consolidated statement of income and a liability, during the vesting period, at the estimated fair value of the equity securities when settling the liability.

u) Revenue recognition -

Interest on loans granted is recorded in income as earned. Interest on past due loans is not recognized in income until collected.

(Continued)

Fees and interest collected in advance are recorded as deferred income under “Deferred credits”, and recognized in results of operations as earned.

The annuity and renewal fees for credit cards are deferred over a period of twelve months.

Fees charged for initially granting loans (personal, residential mortgages, and commercial loans) are recorded as a deferred credit, which is amortized against income of the year as interest income, pursuant to the straight-line method during the life of the loan. All other fees are recognized at the time they are generated in the line item of fees, and rates charged in the consolidated statement of operations. Costs and expenses associated with credit loans are recognized as deferred charge and amortized over the same period in which revenue is recognized by fees charged for granting of such credits.

The interest from repurchase transactions are recognized as generated.

v) Foreign currency transactions -

The accounting records are maintained in both pesos and foreign currencies, which for consolidated financial statement presentation purposes, in the case of currencies other than the dollar are translated from the respective currency into dollars as established by the Banking Commission and the dollar equivalence with Mexican currency is translated at the exchange rate established by the Central Bank. Foreign exchange gains and losses are recognized in the statement of operations during the year.

w) Contributions to the Institute for the Protection of Bank Savings (IPAB for its acronym in Spanish)-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective. Beginning January 1, 2005, the IPAB will guarantee a maximum of 400,000 UDIS ($1,877 as of December 31, 2011) per depositor and per institution, in conformity with the decree published in the Official Gazette on December 14, 2000. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

x) Contingencies -

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings and assets are not recognized until their realization is virtually assured.

(Continued)

y) Impairment of recovery from long term assets -

The Bank evaluates periodically the long term assets to determine whether there is an indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or realizable value.

z) Income statement -

The Bank presents the income statement as required by the accounting standards for credit institutions in Mexico that differs from the presentation required by the FRS, as the FRS consider the presentation of the statement of operations classifying the revenues, costs and expenses in ordinary and non ordinary.

(3) Changes in accounting policies and reclassifications-

a) On October 25, 2010, the Ministry of Finance and Public Credit published in the DOF the rules that amends the "Dispositions" regarding credit reserve estimations, modifying the reserve creation model, from a model based on the incurred losses to a model based on the expected loss, which became effective as of March 1, 2011, in relation to the consumer credit and residential mortgages portfolios, as shown below:

I. Rating of the Consumer Credit Portfolio - This requires the division of the consumer portfolios in two groups: a) non-revolving consumer credit portfolio and; b) credit card transaction and other revolving credit portfolio.

- In relation to the non-revolving consumer credit portfolio, the allowance for loan losses is based on the probability of default, the loss severity and the exposure to default. To calculate the estimation, the balance corresponding to the last day of each month must be used, without considering the credit payment schedule. This new methodology considers the following factors for its determination: i) amount due; ii) payment made; iii) balance of the credit; iv) total term; v) remaining term; vi) original amount of the credit; vii), original value of the asset; viii) balance of the loan; and ix) type of loan.

- In relation to the other revolving credit portfolio, the methodology to be applied for the determination of the allowance for loan losses is the same methodology used for credit cards, which went into effect in 2009.

(Continued)

II. **Rating of the Residential Mortgage Portfolio -** It is established that the allowance for loan losses is based on the probability of default, the loss severity and the exposure to default. For this calculation, the balances corresponding to the last day of the month must be used. This new methodology considers the following factors for its determination: i) amount due; ii) payment made; iii) value of the property; iv) balance of the credit; v) days past due; vi) denomination of the credit; and vii) file integration.

In order to determine the loss severity, a component of the credit recovery rate is used, which is affected if the credit has a guaranty trust or a judicial settlement in which there is a classification by regions of the federal entities to which such courts belong.

The accounting change produced by the initial application of these methodologies was the recognition of a charge in the stockholders equity according to the "Dispositions" of $289,214 ($202,450 net of deferred taxes) in the accumulated profits of previous years corresponding to the additional requirement of consumer credit portfolio reserves. If this amount was recorded as part of the net income of the year, there would have been a decrease in the Bank's net income by such amount. Likewise, the Bank released the surplus of the mortgage reserves, given that the recorded reserves were greater than the reserves to be created under the new methodology in an amount of $207,414, which was recorded as a credit in the consolidated income statement under the "allowance for loan losses" item, according to the "Dispositions ".

The Bank has not determined the retrospective financial effect from the application of this new methodology related to the of years 2009 and 2010, given that, although management has made all reasonable efforts, it has not been possible to obtain the historical information required by the new methodologies, as well as the development of specific systems. Thus, these consolidated financial statements do not include the information required by paragraph 11 of the FRS B-1 "Accounting changes and correction of errors" required in this ruling by the Banking Commission.

b) On October 5, 2011, the Ministry of Finance and Public Credit published in the DOF the ruling that amends the "Dispositions" regarding credit reserve estimations for the portfolio of commercial credits granted to states and municipalities , modifying reserve creation model, from a model based on the incurred losses to a model based on the expected loss, which became effective as of September 30, 2011, pursuant to the aspects discussed on the following page.

(Continued)

The allowance for loan losses is based on the probability of default, the loss severity and the exposure to default. To calculate the estimation, the balance corresponding to the last day of each month must be used, without considering the credit payment schedule. This new methodology considers the following factors for its determination: i) quantitative credit score; ii) qualitative credit score; iii) coverage of the collaterals, the personal and real guaranties or the guaranties arising from the credit.

On October 5, 2011, the Banking Commission issued an official communication in which it informed the Bank about the variables that must be used for the calculation during the period from September 2011 to March 2012; these variables must remained fixed during such period.

The Bank decided to apply this new methodology with figures as of September 30, 2011, in accordance with this ruling. Upon creation of the reserve of the portfolio of commercial credits granted to states and municipalities, as of this date, the Bank recognized a credit for the release of reserves amounting to $108,797, recorded in the income statements under the "allowance for loan losses " item. The credit reserve estimation recorded in the consolidated balance sheet as of September 30, 2011, using the new methodology, amounted to $907,081. Should the old methodology had been applied, the amount of the credit reserve estimation as of this same date would have been of $2,003,263.

The Bank has not determined the retrospective financial effect for the application of this new methodology related to the years 2009 and 2010, given that, although management has made all reasonable efforts, it has not been possible to obtain the historical information required by the new methodologies, as well as the development of specific systems. Thus, these consolidated financial statements do not include the information required by paragraph 11 of the FRS B-1 "Accounting changes and corrections of errors" required in this ruling by the Banking Commission.

c) On January 27, 2011, the DOF published the ruling that amends the "Dispositions", which substitutes the accounting criteria for the credit institutions and that became effective the business day following its publication. Among other changes, below are the main ones established:

I. Criterion A-3 "Application of general standards"

- Assets from operations that are not settled on the same day are added as restricted assets. For granted margin accounts, there is a clarification regarding the adherence to criterion B-5.

- The treatment for past due transactions payable (liability position) in transaction liquidation accounts until its corresponding settlement is included.

(Continued)

- It is specified that it must be assessed whether the ownership of trust certificates involves control or significant influence for its consolidation or recognition through the equity method.

- The concept of materiality is clarified, with focus on concepts established in the FRS for a greater precision in its application (professional judgment).

II. **Criterion A-4 "Hierarchy of accounting criteria" -** The scope and the elements that make up the US GAAP regarding hierarchy are modified and clarified.

III. **Criterion B-5 "Derivatives and hedge transactions" -** The following is established:

- The definition of collateral (Over-the-Counter (OTC)) is added.
- The recognition in other items of comprehensive income of the component excluded from the valuation of effectiveness corresponding to the hedged item according to its nature in cash flow hedges is eliminated, in line with the IFRS.
- The accounting standard related to the margin accounts granted in cash, margin accounts other than in cash, collaterals in cash and collaterals in kind, is expanded and clarified in more detail.
- For hybrid instruments that can be isolated, the host agreement and the embedded derivative must be presented on an isolated basis. Previously, both had to be presented jointly.
- Presentation standards for collaterals received/delivered in OTC transactions are included.
- The disclosure of terms and conditions for both collaterals and margin accounts is specified.
- There is a homologation of the IFRS regarding paragraph AG23 section d) ii and iii to consider an embedded derivative in non-financial agreements as closely related and no able to be isolated.

IV. **Criterion B-6 "Credit portfolio" -** The following changes are added:

- Payroll credits are added as consumer credits.
- Credit restructuring fees are included as credit origination fees, being subject to their deferral over the life of the restructured credit.
- Credit origination fees and credit card annuity pending to be recognized must be shown net of costs and expenses, either as "other assets" or "deferred credits and advanced collection".

The accounting changes of points I to IV generated by the initial application of these standards did not resulted in significant effects in the Bank’s financial statements.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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V. Criterion D-1 "Balance Sheet" -

- Debtors for collaterals granted in cash are shown under the "Other accounts receivable, net" item.
- Creditors for collaterals received in cash are shown under the "Other accounts payable" item.

As a result of the application of this change, the consolidated balance sheet issued in 2010 was reclassified to present its figures with the same classification required as from 2011, as shown below:

	2010 Figures		
	Previously Informed	Reclassification	Reclassified
Cash and cash equivalents	$ 51,323,651	(2,522,847)	48,800,804
Other accounts receivable, net	22,870,726	2,522,847	25,393,573
	========	=======	========

VI. Criterion D-2 "Income statement"- The income statement is restructured in a comprehensive way.

- The items related to the total operating income (expenses) and other income and other expenses are eliminated.
- The concept of "administrative and promotion expenses" is shown after the financial margin net of allowance for loan losses and grouped with all the other concepts (commission and fees income (expense), the financial intermediation income and other operating income (expenses)).
- The concepts that used to make up "other income and other expenses" were regrouped under other operating income (expenses), given that the first item was eliminated.
- Equity in the results of affiliates and associates is shown after the "net operating income" and before the "income before income taxes".

As a result of the application of this change, the consolidated income statement issued in 2010 was reclassified to present its figures with the same classification required as from 2011, as follows:

	2010 Figures		
	Previously Informed	Reclassification	Reclassified
Other operations income (expenses)	$ 899,905	3,505,307	4,405,212
Other income	4,515,010	(4,515,010)	-
Other expenses	(1,009,703)	1,009,703	-
	========	=======	========

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of pesos)

VII. Criterion D-4 " Statements of Cash flow"-

- The "cash" concept is changed to "cash and cash equivalents" in line with the FRS.
- The name "cash flow adjustment from variances in foreign exchange rate" was changed to "effects from cash value changes".
- The concept of "income tax paid" is included.
- The changes in the operating items need to be shown net of their estimation, according to the indirect methods (loan portfolio, collection rights and foreclosed assets).
- The cash flows among all the entities that make up the consolidating economic entity need to be eliminated when preparing the consolidated cash flow statement.
- Disclosures are the same as the ones established by the FRS B-2.

As a result of the application of this change, the consolidated Statements of cash flow issued in 2010 was reclassified to present its figures with the same classification required as from 2011, as shown below:

	2010 Figures		
	Previously Reported	Reclassification	Reclassified
Profit from valuation changes in respect of operating activities	$ (1,870,526)	1,870,526	-
Allowance for loan losses	9,283,843	(9,283,843)	-
Reserve for uncollectible or difficult to collect items	123,134	(123,134)	-
Depreciations or amortizations	1,611,514	(1,611,514)	-
Depreciation of furniture, plant and equipment	-	1,450,460	1,450,460
Amortizations of intangible assets	-	161,054	161,054
Current and deferred employees' statutory profit sharing	352,011	(352,011)	-
Change in investment in securities	(18,733,320)	488,369	(18,244,951)
Change in loan portfolio	(21,902,224)	9,283,843	(12,618,381)
Change in other operating assets	(15,099,995)	3,440,281	(18,540,276)
Change in securities to be paid	2,358,895	(2,358,895)	-
Increase in other assets and deferred charges	(1,464,900)	1,464,900	-
Change in other operating liabilities	5,198,515	2,295,272	7,493,787
Income tax paid	-	(1,943,261)	(1,943,261)
Payments for acquisition of intangible assets	-	(424,332)	(424,332)
Cash and cash equivalents at end of year	51,323,651	(2,522,847)	48,800,804
	========	=======	========

(Continued)

(Thousands of pesos)

d) The FRS, mentioned below, issued by the CINIF, became effective on January 1, 2011, and it specifies its prospective application.

I. **FRS C-6 "Property, plant and equipment"-** The accounting changes resulting from the initial application of this FRS must be recognized on a prospective basis. Among the main changes related to the Bulletin C-6 that is replaced, the following are included:

- The bases to determine the residual value of a component are added.
- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.
- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.
- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

The effects resulting from the application of this new FRS where not significant.

(4) Foreign currency exposure -

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital. In accordance to the basic capital of HSBC, as published by the Central Bank as of September 30, 2011 and 2010, the maximum exposure permitted as of December 31, 2011 and 2010, amounts to USD$376 millions and USD$434 millions, respectively.

The foreign currency position as of December 31, 2011 and 2010, is analyzed as follows:

	(Millons of dollars)	
	2011	**2010**
Assets	24,146	20,223
Liabilities	(24,191)	(20,327)
Net liabilities	(45)	(104)

The exchange rate of the peso to the dollar as of December 31, 2011 and 2010 was $13.9476 and $12.3496, respectively. The exchange rate on February 13, 2012, the date of issuance of the consolidated financial statements was $12.7392 pesos per dollar.

(Continued)

(Thousands of pesos)

(5) Cash and cash equivalents -

At December 31, 2011 and 2010, cash and cash equivalents are analyzed as follows:

	2011	2010
Cash	$ 11,082,427	11,044,098
Deposits with domestic and foreign banks	7,042,870	6,759,615
Guaranteed deposits	5,072	9,579
Other cash equivalents	15,793	9,115
Restricted cash and cash equivalents:		
Central Bank deposits	32,503,720	32,571,918
Bank loans with maturity up to three days	171,327	4,128
24 and 48-hour foreign currency purchases	21,259,111	10,581,743
24 and 48-hour foreign currency sales	(20,856,623)	(12,179,392)
	$ 51,223,697	48,800,804

At December 31, 2011 and 2010, cash balances valued in Mexican pesos by currency included in the cash and equivalents caption is as follows:

Currency	Exchange rate 2011	Exchange rate 2010	2011	2010
Mexican peso	$ -	-	$ 10,778,104	10,799,188
Dollar	13.9476	12.3496	299,598	239,559
Euro	18.1039	16.5633	4,263	4,845
Japanese yen	0.1807	0.1525	186	212
Sterling	21.6759	19.3345	142	128
Other currencies	-	-	134	166
			$ 11,082,427	11,044,098

At December 31, 2011 and 2010, the Bank did not have deposits in dollars with the Central Bank.

At December 31, 2011 and 2010, the deposits with the Central Bank in local currency relates to monetary regulation deposits with no specific term and bear interest at the average rate of deposit fundings.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Thousands of pesos)

At December 31, 2011 and 2010, HSBC had call money loans with 3-day maturities, as follows:

2011

	Term	Rate	Amount
Banco Nacional de México, S.A.	3 days	4.40%	$ 171,327

2010

	Term	Rate	Amount
Nacional Financiera, SNC.	3 days	4.50%	$ 4,128

At December 31, 2011 and 2010 there are precious metals amounting to $164 and $157, respectively, which are included in other funds available.

At December 31, 2011 and 2010 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

	2011		2010	
Currency	Purchased	Sold	Purchased	Sold
Dollar	$ 17,840,036	(17,611,155)	10,280,591	(11,878,125)
Sterling	28,829	(16,474)	38,669	(38,481)
Euro	3,112,135	(3,220,759)	-	-
Brazilian real	271,363	-	262,178	(262,178)
Other currencies	6,748	(8,235)	305	(608)
	$ 21,259,111	(20,856,623)	10,581,743	(12,179,392)

(6) Margin accounts -

As of December 31, 2011 and 2010, the margin accounts relates to deposits at the MexDer, Mercado Mexicano de Derivados, S. A. de C. V. amounting to $26,667 and $41,804, respectively.

(Continued)

(Thousands of pesos)

(7) Investment securities -

At December 31, 2011 and 2010 the Bank's investments in securities are analysed as follows:

	2011		2010	
Trading *:				
Government securities	$ 37,578,036		30,151,812	
Banking promissory notes	2,087,874		3,388,471	
Bonds	1,653,543		1,714,187	
Equities	1,993,748	43,313,201	1,293,528	36,547,998
Available-for-sale *:				
Government securities	108,236,561		93,020,495	
Corporate securities	2,916,416		2,283,215	
Equities	10,725	111,163,702	11,551	95,315,261
Held-to-maturity *:				
Special CETES of the UDIS Trusts:				
Mortgages	3,987,867		3,824,665	
States and municipalities	578,042		553,776	
	4,565,909		4,378,441	
Transferred securities:				
Bonds	2,704,179	7,270,088	3,298,897	7,677,338
Total investment securities		$ 161,746,991		139,540,597

* The total of trading securities, available-for-sale and securities held to maturity include restricted securities which have been pledged as collateral, as explained later in the collateral section.

During 2011 and 2010, the Bank did not record any transfers between categories of investment securities.

(Continued)

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(Thousands of pesos)

Collateral

At December 31, 2011 and 2010 securities pledged and received as collateral, including collateral sold or pledged as a guarantee were as follows:

		2011	2010
Pledged (Restricted securities) (note 8):			
Trading securities	$	9,813,849	20,540,602
Securities available for sale		7,531,271	14,167,780
Securities held to maturity		1,941	190,576
	$	17,347,061	34,898,958
Received (in memorandum accounts) (notes 8 and 9):			
In respect of repo transactions	$	40,229,417	5,005,323
In respect of securities loan:			
Fixed income		14,566,321	8,355,713
Variable income		-	8,580
	$	54,795,738	13,369,616
Collateral sold or pledged as guarantee (in memorandum accounts):			
In respect of repo transactions	$	34,489,040	3,354,502
In respect of securities loan:			
Fixed income		13,340,062	6,818,762
Variable income		-	8,580
	$	47,829,102	10,181,844

Collateral pledged, received or sold and given as a guarantee, originates primarily from repo transactions and stock borrowing and lending transactions. Collaterals received are recorded in memorandum accounts whilst the collaterals sold or pledged as guarantees are recorded in the account "Collateral sold or given as guarantee" whose balance in the case of repo transactions is presented net of the collaterals received in the consolidated financial statements.

At December 31, 2011 and 2010, the Bank had the right to pledge as a guarantee, the collateral received in sale and repurchase transactions or the right to sell or pledge the collateral received in stock borrowing transactions.

(Continued)

(Thousands of pesos)

At December 31, 2011 and 2010 the Bank maintains, investments (other than government securities), from the same issuer exceeding 5% of the Bank's net capital of $2,258 and $2,217 million, respectively, for a total value of $6,575 and $6,372 million, respectively, as follows:

Issuer	Symbol	Series	Amount	Rate
2011				
Brazilian government	BNTN071	140101	$ 5,613	9.76%
Brazilian government	BRAZX87	130617	712	10.25%
Brazilian government	BRAZT75	120111	250	11.00%
			$ 6,575	
2010				
Brazilian government	BNTN071	140101	$ 5,452	9.76%
Brazilian government	BRAZX87	130617	676	10.25%
Brazilian government	BRAZT75	120111	244	11.00%
			$ 6,372	

Classification of investment securities -

At December 31, 2011 and 2010 the classification of investment securities in accordance to their nominal term of the securities portfolio in short and long term, is as follows:

		2011		2010	
Securities		**Short term**	**Long term**	**Short term**	**Long term**
Trading	$	22,651,848	20,661,353	31,288,812	5,259,186
Available-for-sale		4,327,886	106,835,816	14,718,076	80,597,186
Held-to-maturity		872,013	6,398,075	315,841	7,361,496
	$	27,851,747	133,895,244	46,322,729	93,217,868
		$ 161,746,991		139,540,597	

The weighted averages of maturity terms in years (unaudited), of investments in securities classified by categories at December 31, 2011 and 2010 are shown in the following page.

(Continued)

(Thousands of pesos)

Securities	2011	2010
Trading	1.22	0.45
Available-for-sale	2.54	2.66
Held-to-maturity	8.02	8.30

The weighted average rates and interest income from securities at December 31, 2011 and 2010, is shown below:

		2011		2010	
Securities		Interest	Rate	Interest	Rate
Trading	$	1,152,508	3.01%	1,579,072	3.89%
Available-for-sale		6,355,593	6.65%	4,734,655	5.78%
Held-to-maturity		370,776	4.96%	445,165	5.88%
	$	7,878,877		6,758,892	
		=======		========	

During the years ended December 31, 2011 and 2010, the net losses and gains in respect of available for sale securities were $10,710 and $49,469, respectively.

During the years ended December 31, 2011 and 2010, the Bank did not record any losses caused by impairment in available for sale securities or held to maturity.

The gain (loss) derived from the valuation of available for sale securities recognised in the stockholders' equity at December 31, 2011 and 2010 were $421,543 and ($560,146), respectively, including the effect of cashflow hedges. In addition during 2011 and 2010, the Bank reclassified to the statement of operations $911,481 and $930,752, respectively, on the sale of various available for sale securities.

(8) Securities under repurchase/resell agreements -

The debtor and creditor balances in respect of sale and purchase of repo transactions at December 31, 2011 and 2010, are analyzed as follows:

	Purchaser		Seller	
	2011	2010	2011	2010
Repo operations	$ 40,239,116	5,007,150	15,372,595	34,868,101
Collaterals sold or pledged	(34,489,776)	(3,151,173)	-	-
	$ 5,749,340	1,855,977	15,372,595	34,868,101
	========	=======	========	========

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Thousands of pesos)

Below is shown the type and total amount of both collateral delivered as part of repo transactions and recorded as restricted securities as well as the securities received in repo transactions and the average terms of those open operations at December 31, 2011 and 2010:

		2011				2010			
		Reporting (restricted)	Reported (memorandum account)	Average term Sell	Average term Purchase	Reporting (restricted)	Reported (memorandum account)	Average term Sell	Average term Purchase
Government securities									
BONDES D	$	8,378,813	6,971,994	40	19	8,410,053	-	32	-
CETES		747,490	6,997,901	4	5	18,857,080	-	6	-
UMS		4,478,944	-	1,750	-	-	-	-	-
BPAT		-	24,040,688	-	8	-	2,334,283	-	30
BPAS		231,721	-	7	-	981,115	-	69	-
BONDES M		3,052,328	-	1,758	-	5,004,504	-	3	-
BONDES182		-	2,218,834	-	31	-	2,671,040	-	30
Bank notes									
FBANOBRAS		-	-	-	-	-	-	-	-
IBANOBRA		455,824	-	13	-	-	-	-	-
INBURSA		-	-	-	-	301,906	-	18	-
BANAMEX		-	-	-	-	929,727	-	3	-
Corporate notes									
Corporate notes		1,941	-	27	-	414,573	-	24	-
	$	17,347,061	40,229,417			34,898,958	5,005,323		

During 2011 and 2010, interest income and expense from repo agreements, recognised in the consolidated income statement amounted to $997,288 and $426,784 and $2,607,814 and $1,933,788, respectively (note 27).

(9) Collateral sold or pledged as a guarantee -

At December 31, 2011 and 2010, the collateral received in stock borrowing transactions and sold or pledged as a guarantee is shown as follows:

	2011			2010		
	Securities	**Amount**	**Average term**	**Securities**	**Amount**	**Average term**
Cetes	64,673,580	$ 642,895	3	56,174,005	$ 547,502	3
Bonds	98,062,187	10,944,919	3	53,776,615	5,849,861	3
Udibonos	135,506	69,906	13	806,957	421,399	28
Shares	-	-	-	8,580	8,580	4
		$11,657,720			$ 6,827,342	

Securities lending transactions outstanding at December 31, 2011 and 2010, have earned premium income payable of $4,136 and $276, which is recognised in the securities lending account in the consolidated balance sheet.

(Continued)

During 2011 and 2010, interest expense arising from securities lending transactions recognised in the consolidated statement of income, amounted to $24,673 and $30,443, respectively.

(10) Derivative transactions -

The Bank's main objectives in executing derivative transactions are neutralizing market, credit and liquidity risks that may affect the entity's future results. These instruments are also offered to certain of our customers with the same intention. The execution of these transactions is in agreement with the policies established by HSBC Holding plc and with the authorization of the Central Bank. Valuation models are duly authorized and are proper for recognition of the risks involved.

Interest rate and foreign currency swaps represents that the Bank and its customers interchange currencies and/or rates in the future. Options grant the right to receive or pay an interest rate or foreign currency at a determined price. Futures are a standard and mandatory agreement to buy or sell a predetermined amount of a specific tangible good (commodity) on a future day or date, pursuant to a standardized contract. The terms and conditions of derivative transactions of the Bank are in accordance with market standards.

The Bank uses derivatives for hedging purposes (cash flows) to convert variable flows to fixed flows. This allows two risk types of hedged:

Interest rate risk - If the underlying instrument is an asset with variable interest rate, such interest is converted into fixed interest rate through an interest rate swap, by receiving a fixed flow and paying a variable flow. If the underlying instrument is a liability, it is converted into fixed interest rate through an interest rate swap, by receiving a variable flow and paying a fixed flow. The hedged risk is the risk attributable to changes in interest rates of the underlying instrument.

Foreign currency risk - Whether the underlying instrument is an asset or a liability, fixed interest denominated in another currency is translated into pesos by entering into a foreign currency swap. The hedged risk is the risk of changes in the functional currency equivalent to cash flows for a recognized foreign currency and measured by the spot exchange rate.

There is always a one-to-one ratio between the hedged underlying instrument and the hedging instrument.

The prospective effectiveness of the inception will be evaluated by comparing the critical terms of the hedged asset/liability, in connection with the hedging instruments. With this reconciliation and on this basis, the hedge is expected to be highly effective upon inception and over the life of the hedge.

Present effectiveness and prospective effectiveness of the life of the hedge will be evaluated at each month-end, by calculating the changes in cash flows of the derivative in all applicable periods in which the instrument has been designated as a hedge. These will be compared with changes in cash flows of the hedged item in the same period to which it applies.

(Continued)

(Thousands of pesos)

The value of exposure to market risk of transactions with derivative financial instruments is included in the Value at Risk of HSBC's Global Market, which is explained in note 29.

Should the primary position not have been covered with the derivative financial transactions mentioned earlier, there would have been an adverse impact of $83,094 and $47,954 in the results of operations for 2011 and 2010, respectively.

Fair value hedges

In respect of fair value hedges, at December 31, 2011, hedging instrument losses and gains in respect of the hedged position were $746,297 and $753,033, respectively and $521,747 and $502,344, respectively in 2010.

Cash flow hedges

At 31 December 2011, the periods in which cashflows in respect of cashflow hedges are expected to occur are as follows:

	2012	**2013**	**2014**	**2015**
Swaps in US dollars	349,881	209,453	119,034	21,470

The total amount recognised in comprehensive income during 2011 in respect to fair value changes in effective cash flow hedges was a profit of $31,850 (profit of $102,021 in 2010).

The amount reclassified from comprehensive income to the income statement for the years ended on December 31, 2011 and 2010 in respect of the unamortized fair value of re-designated hedges and in respect of the sale of the hedged positions (bonds) was a loss of $16,155 and $62,415 respectively which was registered in “Financial intermediation income”.

During 2011 and 2010 the amount reclassified from comprehensive income to the income statement for the respective years in respect of the amortization of the fair value of swaps re- designated from cash flow swaps to net interest income was a loss of $15,126 and $15,980, respectively.

Notional amounts

Notional amounts of contracts represent the derivatives volume outstanding and not the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied for determining the amount of cash flows to be exchanged.

At December 31, 2011 and 2010, the memorandum account “Amounts under derivative instruments” is analyzed as shown in the following page.

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(Thousands of pesos)

December 31, 2011

		Notionals						Fair Value						
		FX		Interest rate		Total		FX		Interest rate		Total		
		Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading														
Futures	$	-	-	438,900	-	438,900	-	-	-	-	-	-	-	-
Forwards		157,901,926	157,001,960	-	-	157,901,926	157,001,960	3,877,073	2,977,108	-	-	3,877,073	2,977,108	899,965
Options		13,783,249	13,755,354	9,741,073	8,483,460	23,524,322	22,238,814	439,428	432,019	77,720	58,682	517,148	490,701	26,448
Swaps		144,505,243	136,679,448	435,925,857	435,076,108	580,431,100	571,755,556	21,853,806	21,294,980	16,301,944	16,445,659	38,155,750	37,740,639	415,111
		316,190,418	307,436,762	446,105,830	443,559,568	762,296,248	750,996,330	26,170,307	24,704,107	16,379,664	16,504,341	42,549,971	41,208,448	1,341,524
Hedge														
Swaps		-	5,742,070	43,500,000	6,869,826	43,500,000	12,611,896	-	957,802	356,135	1,129,673	356,135	2,087,475	(1,731,341)
		-	5,742,070	43,500,000	6,869,826	43,500,000	12,611,896	-	957,802	356,135	1,129,673	356,135	2,087,475	(1,731,341)
	$	316,190,418	313,178,832	489,605,830	450,429,394	805,796,248	763,608,226	26,170,307	25,661,909	16,735,799	17,634,014	42,906,106	43,295,923	(389,817)

$1,569,404,474

December 31, 2010

		Notionals						Fair Value						
		FX		Interest rate		Total		FX		Interest rate		Total		
		Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading														
Futures	$	-	-	305,000	134,800	305,000	134,800	-	-	-	-	-	-	-
Forwards		-	-	53,057,000	55,061,000	53,057,000	55,061,000	2,054,435	1,149,245	262,712	340,970	2,317,147	1,490,215	826,932
Options		1,571,045	1,504,357	3,333,043	5,700,633	4,904,088	7,204,990	13,836	13,836	32,480	28,412	46,316	42,248	4,068
Swaps		124,764,953	98,283,269	392,256,964	400,335,185	517,021,917	498,618,454	12,645,254	14,420,367	13,085,599	12,790,146	25,730,853	27,210,513	(1,479,660)
		126,335,998	99,787,626	448,952,007	461,231,618	575,288,005	561,019,244	14,713,525	15,583,448	13,380,791	13,159,528	28,094,316	28,742,976	(648,660)
Hedge														
Swaps		5,423,869	15,767,516	-	4,754,558	5,423,869	20,522,074	110,558	1,097,770	-	703,778	110,558	1,801,548	(1,690,990)
		5,423,869	15,767,516	-	4,754,558	5,423,869	20,522,074	110,558	1,097,770	-	703,778	110,558	1,801,548	(1,690,990)
	$	131,759,867	115,555,142	448,952,007	465,986,176	580,711,874	581,541,318	14,824,083	16,681,218	13,380,791	13,863,306	28,204,874	30,544,524	(2,339,650)

$1,162,253,192

(Continued)

(Thousands of pesos)

At December 31, 2011 and 2010, the Bank did not provide non cash collateral in respect of derivative liabilities. Equally the Bank did not receive any non cash collateral from derivative counterparties.

At December 31, 2011 and 2010, the credit risk in respect of derivative financial instruments, amounted to $5,608,019 and $2,812,995, respectively.

During the years ended December 31, 2011 and 2010, the Bank had entered into derivative contracts with counterparties who did not default on the amounts owing to the Bank under these contracts. The amounts owing in respect of these contracts in previous years amounted $994,810 and $914,974, which were fully reserved.

Compensation and net exposure to credit risk in derivatives

The Bank has the right to make derivative transactions at the time of settlement under the ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) which have jointly agreed with its customers. The effect that this right of reimbursement had over the credit risk exposure at December 31, 2011 and 2010 was $20,840,964 and $11,792,571, respectively.

(11) Loan portfolio -

At December 31, 2011 and 2010 the loan portfolio and the credit commitments are analyzed as follows:

		2011	2010
Total loan portfolio, shown in the consolidated balance sheet	$	187,638,849	171,420,899
Recorded in memorandum accounts (note 26a):			
Guarantees		13,948	20,583
Lending commitments		22,425,302	16,201,600
		22,439,250	16,222,183
	$	210,078,099	187,643,082

(a) Classification of current and past due loan portfolio by currency, rated portfolio, economic sector and by aging of past due loans -

At December 31, 2011 and 2010, the classification of current and past due loan portfolios by currency, which includes economic sector, rated portfolio and ageing of past due loans is shown in the following page.

(Continued)

(Thousands of Mexican pesos)

	Trade or business activity		Financial institutions		Government entities		Consumer		Residential mortgages		Total	
Portfolio	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Current:												
Pesos	$ 73,622,626	59,976,588	8,137,294	7,809,959	24,491,284	26,828,621	29,302,131	26,664,511	16,569,044	15,817,643	152,122,379	137,097,322
Foreign currency	27,389,880	25,869,930	130,230	111,172	1,425,034	1,254,271	-	-	-	-	28,945,144	27,235,373
UDIS	-	-	-	-	-	4,267	-	-	1,489,162	1,739,859	1,489,162	1,744,126
Total	101,012,506	85,846,518	8,267,524	7,921,131	25,916,318	28,087,159	29,302,131	26,664,511	18,058,206	17,557,502	**182,556,685**	**166,076,821**
Past due:												
Pesos	1,233,987	1,613,753	-	108	-	5,207	1,234,341	1,573,528	1,586,020	1,714,210	4,054,348	4,906,806
Foreign currency	793,113	50,450	-	-	-	-	-	-	-	-	793,113	50,450
UDIS	-	-	-	-	-	-	-	-	234,703	386,822	234,703	386,822
Total	2,027,100	1,664,203	-	108	-	5,207	1,234,341	1,573,528	1,820,723	2,101,032	**5,082,164**	**5,344,078**
Total:												
Pesos	74,856,613	61,590,341	8,137,294	7,810,067	24,491,284	26,833,828	30,536,472	28,238,039	18,155,064	17,531,853	156,176,727	142,004,128
Foreign currency	28,182,993	25,920,380	130,230	111,172	1,425,034	1,254,271	-	-	-	-	29,738,257	27,285,823
UDIS	-	-	-	-	-	4,267	-	-	1,723,865	2,126,681	1,723,865	2,130,948
Total	**$ 103,039,606**	**87,510,721**	**8,267,524**	**7,921,239**	**25,916,318**	**28,092,366**	**30,536,472**	**28,238,039**	**19,878,929**	**19,658,534**	**187,638,849**	**171,420,899**
Classification by activity												
Manufacturing	$ 56,258,822	52,700,943	-	-	-	-	-	-	-	-	56,258,822	52,700,943
Agriculture, forestry and fishing	8,038,701	7,340,587	-	-	-	-	-	-	-	-	8,038,701	7,340,587
Trade and tourism	24,004,216	18,375,491	-	-	-	-	-	-	-	-	24,004,216	18,375,491
Services	14,737,867	9,093,700	-	-	-	-	-	-	-	-	14,737,867	9,093,700
Financial services	-	-	1,561,354	2,548,222	-	-	-	-	-	-	1,561,354	2,548,222
Credit Unions	-	-	1,162,608	1,303,137	-	-	-	-	-	-	1,162,608	1,303,137
Lessors	-	-	-	5,098	-	-	-	-	-	-	-	5,098
Municipalities	-	-	-	-	1,653,184	1,730,772	-	-	-	-	1,653,184	1,730,772
States	-	-	-	-	7,730,616	5,629,937	-	-	-	-	7,730,616	5,629,937
Credit to the Federal Govermment (support programs)	-	-	-	-	758,203	1,204,245	-	-	-	-	758,203	1,204,245
Other govenment entities (see note 11a)	-	-	-	-	15,774,315	19,527,412	-	-	-	-	15,774,315	19,527,412
Others to financial organizations	-	-	5,543,562	4,064,782	-	-	-	-	-	-	5,543,562	4,064,782
Automobile credit	-	-	-	-	-	-	2,895,763	4,165,808	-	-	2,895,763	4,165,808
Credit Card	-	-	-	-	-	-	16,189,067	17,586,595	-	-	16,189,067	17,586,595
Multicredit	-	-	-	-	-	-	9,975,634	5,154,937	-	-	9,975,634	5,154,937
Fixed payment	-	-	-	-	-	-	1,476,008	1,330,699	-	-	1,476,008	1,330,699
Construction and housing	-	-	-	-	-	-	-	-	19,878,929	19,658,534	19,878,929	19,658,534
	$ 103,039,606	**87,510,721**	**8,267,524**	**7,921,239**	**25,916,318**	**28,092,366**	**30,536,472**	**28,238,039**	**19,878,929**	**19,658,534**	**187,638,849**	**171,420,899**
Past due loans by aging												
From 1 to 180 days	$ 418,809	809,259	-	108	-	5,207	1,177,999	1,507,664	644,124	677,567	2,240,932	2,999,805
From 181 to 365 days	990,100	375,692	-	-	-	-	56,176	65,864	501,560	585,765	1,547,836	1,027,321
From 1 to 2 years	271,939	196,114	-	-	-	-	166	-	669,049	832,518	941,154	1,028,632
More than 2 years	346,252	283,138	-	-	-	-	-	-	5,990	5,182	352,242	288,320
	$ 2,027,100	**1,664,203**	**-**	**108**	**-**	**5,207**	**1,234,341**	**1,573,528**	**1,820,723**	**2,101,032**	**5,082,164**	**5,344,078**

NOTE: The amounts above are for cumulative amounts of principal (for 2011 $186,612,600 and 2010 $170,555,245) and interest (for 2011 $1,026,249 and 2010 $865,654) which are classified in the consolidated balance sheets of HSBC México, S. A. as assets under the caption of current and past due loans.

Loan portfolio rated	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Portfolio rating risk												
A	$ 51,270,150	45,224,649	4,955,028	3,777,001	6,824,659	14,185,818	7,074,056	9,891,458	16,706,545	15,511,713	86,830,438	88,590,639
B	69,037,552	56,330,229	3,312,302	3,747,505	10,263,628	4,507,070	20,556,917	14,973,223	1,773,106	2,164,753	104,943,505	81,722,780
C	4,289,673	1,383,566	194	218,222	48,142	181,962	1,574,154	1,506,901	1,392,257	538,244	7,304,420	3,828,895
D	183,082	316,667	-	-	-	-	1,281,189	1,715,575	7,020	1,350,392	1,471,291	3,382,634
E	698,399	477,793	-	178,511	7,019	-	50,156	150,881	1	93,431	755,575	900,616
	$ 125,478,856	103,732,904	8,267,524	7,921,239	17,143,448	18,874,850	30,536,472	28,238,038	19,878,929	19,658,533	201,305,229	178,425,564
Allowance and percentage												
A	$ 330,750	299,112	43,544	28,856	62,900	100,889	38,623	56,399	41,905	54,291	517,722	539,547
B	3,258,500	2,449,798	157,227	201,842	395,150	174,779	1,982,731	1,234,662	109,583	78,861	5,903,191	4,139,942
C	1,305,184	382,114	78	87,289	19,252	36,392	580,755	503,321	524,979	166,981	2,430,248	1,176,097
D	129,832	230,140	-	-	-	-	876,925	1,041,472	4,644	945,275	1,011,401	2,216,887
E	697,585	476,580	-	178,511	7,019	-	47,560	123,827	1	93,431	752,165	872,349
	5,721,851	3,837,744	200,849	496,498	484,321	312,060	3,526,594	2,959,681	681,112	1,338,839	10,614,727	8,944,822
Additional reserves	24,495	27,474	-	3	-	-	183,636	230,598	77,188	93,470	285,319	351,545
	$ 5,746,346	3,865,218	200,849	496,501	484,321	312,060	3,710,230	3,190,279	758,300	1,432,309	10,900,046	9,296,367
General and specific allowances												
General	$ 337,502	308,382	43,544	28,855	62,900	100,889	39,112	76,145	43,010	110,434	526,068	624,707
Specific	5,408,844	3,556,836	157,305	467,646	421,421	211,171	3,671,118	3,114,134	715,290	1,321,875	10,373,978	8,671,660
	$ 5,746,346	3,865,218	200,849	496,501	484,321	312,060	3,710,230	3,190,279	758,300	1,432,309	10,900,046	9,296,367

(Continued)

(Thousands of pesos)

Loan to IPAB:

On September 27, 2002, the Bank granted a $47,356,995 (nominal) loan to IPAB. The loan was documented by a promissory note that may only be endorsed to the Central Bank as a guarantee for the note amount. In addition, on May 12, 2005, the Bank granted to IPAB an unsecured loan for a total nominal amount of $5,000,000. Finally on May 31, 2007, the Bank and IPAB signed a new agreement to document the consolidated principal outstanding balance as of that date amounting to of $29,058,308. In accordance to the aforementioned agreement, the total balance was split into four tranches of $7,264,577 each, which mature between May and December 2013, payments in advance are permitted. Each tranche bears interest at an annual rate equal to the annual yield rates of 28-day CETES plus 56 basis points. During 2011 and 2010 no prepayments were received. As of December 31, 2011 and 2010, the outstanding balance of this loan amounted to $8,014,667 and $8,013,271 respectively, and was included in the loan portfolio within "Loans to government entities".

Federal Government support programs:

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

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

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of December 31, 2011 and 2010, 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) (see chart in note 11a), are analyzed as follows:

		2011		2010	
		Portfolio	**Cost**	**Portfolio**	**Cost**
ETA/BADCV	$	758,203	50,087	1,204,201	753,170
FINAPE		-	-	44	23
	$	758,203	50,087	1,204,245	753,193

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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Early termination scheme:

As mentioned in note 1 to the financial statements on July 15, 2010 an agreement to finalize the support programmes related to mortgage loans or BADCV was signed. The discounts related to the early termination agreement are shown as follows:

		In charge to	
		Bank	**Federal Government**
Discounts granted	$	457,151	972,707
Additional discount granted by the Bank		92,522	-
Discount granted at December 31, 2010		549,673	972,707
Discounts to unallowed credits[a]		(1,583)	(3,445)
Discounts of credits that did not demonstrated compliance with payment [b]		(11,918)	(25,469)
Reapplications of payments and exchange rate differential		230	417
Adjustments to additional discounts granted by the Bank		268	-
Restructured loans under the agreement formalized up to the cut-off date		(1,499)	-
Total discounts granted at December 31, 2011		535,171	944,210
Total additional discounts granted by the Bank that did not belong to ETS		(92,790)	-
Total additional discounts granted by the Bank that belong to ETS	$	442,381	944,210

[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.

(Continued)

(Thousands of Mexican pesos)

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

A reconciliation of movements in the allowance for loan losses related to the conditioned discount covered by the Bank is shown below:

Opening balance as of 2010	$	69,726
Debt forgiveness, discounts and/or rebates		(2,181)
Conditioned discount assigned to the Bank		(549,673)
Allowance charged to the statement of operations		496,122
Final Balance at December 31, 2010		13,994
Adjustments to additional discounts granted by the Bank (loans not subject to or that did not demonstrate payment compliance)		(268)
	$	13,726

Determination of obligations of the Federal Government:

The final base amount determined through the ETS Report is $944,217, divided in five installments of $188,843 each. The first installment was received on December 1, 2011 and the remaining installments will be payable on the first banking day of June, from 2012 to 2015. Accordingly, the balance receivable as of December 31, 2011 by ETS amounts to $755,374 of principal, plus $2,829 corresponding to the accrued not collected financial cost.

The Government discount in Mexican pesos or UDIS related to those credits that should have shown sustained payment by March 31, 2011, according to the agreement, amounts to $167,076 at December 31, 2010.

There were no discount in charge to the Government related to credits in UDIS for which they received prior discounts over the outstanding balance before they were incorporated in to the "Discount program", as referred at the numeral 3.1.2 of the Circular 1430 issued by the Banking Commission.

(Continued)

(Thousands of Mexican pesos)

At December 31, 2010 there were some clients that did not meet the requirements to be incorporated into to ETS. However, in accordance to the actual rules it is still possible that they will subsequently be incorporated in to the program; in such case the Bank must have to absorb 100% of the discount granted. The maximum amount of discount that the Bank would absorb for these credits at December 31, 2011 and 2010, amount to $81,507 and $171,293, respectively.

The number of securities related to BADCV that are held by the Bank at December 31, 2011 are shown as follows:

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

Program to support victims of hurricanes “Alex” and “Karl” and storm “Frank”

As a consequence from natural disasters caused by hurricanes “Alex” and “Karl” and tropical storm “Frank”, the Banking Commission issued through the offices 100/042/210 dated July 14, 2010 and 100/047/2010 dated September 24, 2010 special temporary accounting criteria for the implementation of the program to support victims with loans contracted at the affected areas, such loans relates to: mortgages, consumer, credit card and automobile, loans. These clients were given the deferral of principal and interest up to 2 months, the term of such deferral could not be later than September 30, 2010 in the cases of those affected by hurricane “Alex”, and not after November 20, 2010 for those clients affected by hurricane “Karl” and tropical storm “Frank”.

(Continued)

(Thousands of Mexican pesos)

Current outstanding loans which were granted the deferral of principal and interest, were not considered restructured as provided in paragraph 24 of standard B-6 and were held as part of the current portfolio for a period up to 2 months, depending on the date the client join the program and no later than September 30, 2010 or November 20, 2010, depending on the program to which were added.

In the case that the aforementioned program was not been applied, the amounts that would have been accounted in the consolidated Balance Sheet and the consolidated statement of income for the year ended December 31, 2010 are analyzed as follows:

		Interest amount
Consumer loans	$	77,450
Mortgage loans		84,514
	$	161,964

Since the Bank solely applied a principal deferral up to 2 months, there were no other or additional accounting records for the application program to support victims of the natural disasters.

(b) Additional loan portfolio information -

Commission by type of loan:

For the years ended at December 31, 2011 and 2010, commissions by type of loan included in commissions and fees collected within the consolidated statements of income, are presented below.

		Amount 2011	Amount 2010
Commercial	$	409,840	513,131
Consumer		2,227,979	2,767,336
Mortgage		55,824	48,414
Total	$	2,693,643	3,328,881

Opening credit commissions charged to the credits for the years ended December 31, 2011 and 2010 amounted to $290,077 and $295,498, respectively.

(Continued)

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(Thousands of pesos)

The weighted average of amortization period (in months) for such commissions and fees are as follows:

Commercial	36
Consumer	73
Mortgage	202

The initial costs and expenses for the issuance of credits related to the years ended December 31, 2011 and 2010 amounts to $147,102 and $115,268, respectively. These amounts relate to payment of commissions and underwriting credits.

Annual weighted lending rates:

During 2011 and 2010, the annual weighted lending rates (unaudited information) were as follows:

	2011	**2010**
Commercial loans	10.63%	11.44%
Financial entities	4.48%	5.16%
Personal loans	26.08%	25.93%
Mortgages loans	9.77%	10.07%
Government entities	6.47%	6.16%

Loans discounted with recourse:

Mexican Government has established certain funds to promote the development of specific areas of agriculture, cattle ranching, industrial and tourism sectors, which are managed mainly by the Central Bank, Nacional Financiera SNC (a national development bank, NAFIN), the National Foreign Trade Bank, and the Guarantee Fund for Agricultural Development by discounting loans with recourse. At December 31, 2011 and 2010, the amount of loans granted under these programmes amounted to $11,409,696 and $9,884,482, respectively, and the related liability is included in “Due to banks and other institutions”.

Restructured loans:

At December 31, 2011 and 2010, restructured loans are analyzed as follows:

		2011			**2010**		
		Loan portfolio			**Loan portfolio**		
		Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Commercial loans	$	15,121,844	504,772	15,626,616	14,980,001	704,829	15,684,830
Consumer loans		18,827	3,156	21,983	13,387	3,916	17,303
Credit card		377,481	109,429	486,910	609,220	208,706	817,926
Mortgage loans		342,363	189,883	532,246	93,378	69,658	163,036
	$	15,860,515	807,240	16,667,755	15,695,986	987,109	16,683,095

(Continued)

(Thousands of Mexican pesos)

As of December 31, 2011 and 2010, the total amount of credits restructured under the Systems Programme for Restructuring Agricultural Portfolios (SIRECA) amounted $1,348 and $2,417, respectively.

For the years ended December 31, 2011 and 2010, the amount of interest income recognised due to the restructuring of overdue loans was $972,155 and $914,421, respectively. In respect of loans to small and medium enterprises in the commercial portfolio, with the aim of reducing the level of the Bank's credit risk, there is an agreement with NAFIN to promote this type of credits, where NAFIN supports up to 50%, 90% or 100% of the loan granted. For the years ended December 31, 2011 and 2010, NAFIN supported $3,691,563 and $4,580,055, respectively.

During 2011 and 2010 the Bank undertook the restructuring of consumer, mortgages, commercial loans and credit cards without taking additional guarantees. In addition, a programme was undertaken to invite credit card holders to modify the terms of their facilities principally by including the suspension of their revolving credit and the conversion of their outstanding balance into a loan with a fixed rate and fixed term and payments. The total of credits restructured during 2011 and 2010 was $3,621 million and $1,825 million, respectively. Generally the restructuring process includes the waiver of some part of the capital, interest or commissions payable, and as of December 31, 2011 and 2010 the amount waived was $148,537 and $246,244, respectively.

Non performing loans

Nominal interest that would have accrued in 2011 from the past due loan portfolio amounted to $235,958 ($253,615 in 2010).

An analysis of the annual movement of past due loans for the years ended December 31, 2011 and 2010, is shown as follows:

		2011	**2010**
Balance at beginning of year	$	5,344,078	7,938,673
Transfers from current to past due loan portfolio		17,601,423	9,878,205
Transfers to current loan portfolio		(2,473,468)	(1,443,031)
Collections		(9,858,901)	(2,241,365)
Write-offs		(5,635,325)	(8,806,595)
Foreign exchange		104,357	18,191
Balance at end of year	$	5,082,164	5,344,078

During 2011 and 2010, there were no write-offs of loans granted to related parties.

(Continued)

(Thousands of Mexican pesos)

At December 31, 2011, the amount of recoveries for those loans that were previously written-off amounted $418,077 ($431,294 in 2010).

Impaired loans:

At December 31, 2011 and 2010, the balance of impaired commercial loans is $888,500 and $972,971, respectively, of which $47,783 and $286,711 are recorded as current loans and $840,717 and $686,260 as past due loans, respectively.

Risk concentration:

As of December 31, 2011, the Bank maintains three loans (four in 2010) that exceeded the 10% limit of its basic capital of $3,481 million ($3,424 million in 2010). These loans represent the three main debtors of the Bank amounting to $18,670,307 ($23,606,334 which exceed 10% of the basic capital and $18,843,775 of the three principal debtors in 2010) that represents the 53.63% (68.93% in 2010) of the basic capital.

Securitisation of mortgage portfolio:

Outstanding securitisation transactions as of December 31, 2011 and 2010, relate to transactions undertaken in 2008 and 2007, by means of transferring of all of the Bank's risks and rewards of such mortgage portfolio without reserves or limitations in favour of three Trusts (used as a securitization vehicle). The Trusts issued certificates that were acquired by the public and a subordinated trust acknowledgment, which gives the Bank the right to receive any remaining funds of the Trust. The Trust note is recorded on the available-for-sale investment portfolio on the consolidated balance sheet.

The amounts of the portfolio that was sold in the market, as well as the conditions of the certificates issued by the stockmarket certificate issued by the Invex Trusts are as follows:

						Stockmarket certificates interest rate			
Invex	**Date of issuance**	**Nominal portfolio sold**	**Cash received**	**Acknowledgment**	**Maturity date**	**Series "A"**	**Series "B"**	**Series "A1"**	**Series "B1"**
I	22-mar-07	$ 2,525,021	2,474,407	25,250	1 to 30 years	8.24%	9.58%	-	-
II	2-oct-07	3,538,135	3,456,617	35,381	2025	8.80%	10.11%	-	-
III	4-sep-08	1,662,872	1,483,244	162,973	2028	-	-	9.99%	10.16%
		=======	=======	======		=====	=====	=====	=====

The Bank acquired the subordinated trust acknowledgments, which grant the right to any remainder of the mortgage portfolio upon payment of the amounts due under the certificates.

As of December 31, 2011 and 2010, the book value of the subordinated trust acknowledgments is accounted under the caption "Available-for-sale portfolio" within the "Investment securities", and is analyzed in the following page.

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		2011	**2010**
Assets of the Trusts	$	4,287,457	4,966,869
Trust certificates		(4,107,255)	(4,875,840)
Other liabilities of the Trusts		(5,519)	(15,263)
Original amount of the Trust acknowledgments		(223,604)	(223,604)
Valuation of "Available-for-sale securities" recorded on stockholders' equity	$	(48,921)	(147,838)

In the event that the total amount due of the certificates is less than 10% of the par value of the total amount of the certificates on the date of the offering, the Bank shall have the option to repurchase the remaining portfolio of the trust and with such proceeds the outstanding certificates would be repaid.

The Bank executed a service provision agreement, through which the Bank provides the administration and collection of the mortgage portfolio sold in the market, in exchange for a commercial commission.

(c) Allowance for loan losses -

As explained in notes 2j and 29, an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2011 and 2010 the allowance for loan losses, analyzed in section (a) of this note is shown below:

		2011	**2010**
Rated loan estimate	$	10,614,727	8,944,822
Additional reserves, including past due interest		285,319	351,545
Total allowance for loan losses	$	10,900,046	9,296,367

(Continued)

(Thousands of Mexican pesos)

The classification by risk grade of the commercial portfolio, financial entities and government entities credit reserves at December 31, 2011 and 2010, is as follows:

		2011	2010
A-1	$	151,792	187,218
A-2		292,154	250,911
B-1		1,243,123	1,010,665
B-2		1,885,216	1,147,909
B-3		684,655	670,952
C-1		980,074	334,013
C-2		357,397	181,856
D		132,474	235,097
E		704,631	655,158
	$	6,431,516	4,673,779

As of December 31, 2010, the amount recorded in respect of loan loss reserves for credit cards under the methodology approved by the Banking Commission in August 13, 2009, amounts to $2,660,269. In order to establish additional reserves resulting from this methodology, the Bank chose to affect the consolidated income statements within 24 months from September 30, 2009 as permitted by te Banking Commission. According to the calculation as of December 31, 2010, the amount that was not registered due to the application of the option elected by the Bank amounts to $493,626. In august 2011 it was concluded the gradual 24 month period.

The movement of the allowance for loan losses for the years ended December 31, 2011 and 2010 is summarized below.

		2011	2010
Balance at beginning of year	$	9,296,367	10,446,975
Increase charged to income		6,736,597	9,283,843
Exchange rate valuation effects		213,195	(42,073)
Effect on stockholders' equity by the change in the methodology of consumer loans		289,214	-
Applications:			
Write-offs		(4,929,593)	(9,062,312)
Debt forgiveness		(705,734)	(1,330,066)
Balance at end of year	$	10,900,046	9,296,367

(d) ***Sale of written-off portfolio -***

During 2010 the Bank sold a previously written-off loan portfolio (commercial from small and medium-size, consumer and mortgage corporations), generating a net profit of $22,015, which is included under "Other operating income" in the consolidated statement of income.

(Continued)

(Thousands of Mexican pesos)

During 2011 the Bank did not sale previously written off portfolio.

The Bank's credit policies are disclosed in note 30.

(12) Other accounts receivable -

At December 31, 2011 and 2010, other accounts receivable are analyzed as follows:

		2011	2010
Debtors on settlement transactions	$	17,862,007	17,287,406
Due from employees		3,039,677	3,220,219
Granted collaterals in cash		5,678,621	2,522,847
Other debtors		4,064,735	3,609,847
Preventive estimations		(1,310,932)	(1,246,746)
	$	29,334,108	25,393,573

The balance of settlement accounts recorded under other accounts payable at December 31, 2011 and 2010 was $18,353,484 and $12,773,051, respectively, and recognized in the accounting item of "settlement transactions".

(13) Foreclosed assets -

As of December 31, 2011 and 2010, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2011		2010	
		Amount	Reserve	Amount	Reserve
Securities and sundry assets					
Sundry assets	$	458	(132)	305	(210)
Securities		30,689	(30,689)	31,096	(31,096)
		31,147	(30,821)	31,401	(31,306)
Property					
Land		38,288	(5,375)	7,443	(5,178)
Buildings		223,805	(53,685)	190,088	(30,040)
		262,093	(59,060)	197,531	(35,218)
	$	293,240	(89,881)	228,932	(66,524)
		$ 203,359		162,408	

The charge to the statement of operations related to the valuation reserve of foreclosed assets in 2011 amounted to $25,522 ($10,959 in 2010).

(Continued)

(Thousands of Mexican pesos)

(14) Property, furniture and equipment -

Property, furniture and equipment at December 31, 2011 and 2010 are analyzed as follows:

	2011	2010	Annual depreciation and amortization rate	Useful life in years
Property	$ 2,695,910	3,188,672	5%	20
Office furniture and equipment	1,825,042	1,646,532	10%	10
Computer equipment	5,078,163	4,885,534	Various	3 to 7
Transportation equipment	7,317	10,911	25%	4
Installation expenses	4,678,006	4,388,433	5% and 10%	10 to 20
Other equipment	2,136,498	1,944,700	Various	
	16,420,936	16,064,782		
Accumulated depreciation and amortization	(8,911,950)	(8,077,853)		
Impairment	(173,980)	(437)		
	7,335,006	7,986,492		
Land	744,665	1,082,415		
	$ 8,079,671	9,068,907		

Depreciation and amortization charged to the statement of income in 2011 and 2010 amounted to $1,232,972 and $1,450,460, respectively.

During the year ended December 31, 2011 several properties were sold with a book value of $430,601 generating a profit of $625,979 which were recorded as other operating income.

(Continued)

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On March 30, 2010, a subsidiary of the Bank acquired certain idle assets of its affiliate company Banco HSBC (Costa Rica), S. A. These assets are entirely in Costa Rica and the amount paid was for $349,806. Some of those assets have encumbrances, however such encumbrances does not put in risk the ownership of the property.

The impairment recognized in 2011 corresponds to the properties bought by the Bank's subsidiary for $173,543 and $65,527 of Hardware owned by the Bank.

(15) Permanent investments in shares -

Investments in associates and other permanent investments

At December 31, 2011 and 2010, permanent investments in shares classified by activity, are analyzed as follows:

		2011	2010
Associated and affiliated companies:			
Supplementary banking services	$	121,087	100,374
Mutual funds		8,298	18,539
Security and protection		3,568	2,592
		132,953	121,505
Others		5,188	1,126
	$	138,141	122,631

The recognition of the equity in the results of associated and affiliated companies represented a loss of $40,710 in 2011 (gain of $12,666 in 2010).

(16) Other assets, deferred charges and intangibles assets -

At December 31, 2011 and 2010 other assets deferred charges and intangibles assets include:

		2011	2010
Recoverable taxes	$	327,354	905,456
Prepaid labour obligations (note 20)		791,541	891,341
Pre-paid services and commissions intangibles		1,554,997	2,296,894
Software, net		832,093	659,141
	$	3,505,985	4,752,832

(Continued)

(Thousands of Mexican pesos)

The movement for the years ended at December 31, 2011 and 2010 of other assets, deferred charges and intangible assets are analyzed as follows:

		2011	2010
Initial balance	$	4,752,832	2,607,640
Movements for the year from:			
Taxes		(578,102)	841,346
Software purchases		1,953,499	424,332
Cancelations		(1,153,956)	-
Prepaid expenses		(835,589)	1,086,903
Others		(26,394)	(46,335)
Amortization for the year		(606,305)	(161,054)
Year-end balance	$	3,505,985	4,752,832

Intangible assets consist mainly of in-house developed software, which were amortized over a 5-year period. As mentioned in note 1, as a result of a corporate restructuring carried out during the year ended on December 31, 2011, the use of the systems has been evaluated, as well as the probable impairment in the useful life of them, resulting in the cancellation of a number of projects and, as a consequence, of the related software as shown below:

		Acquisition Cost	Accrued amortization	Cancellation	Book Value	Annual amortization rate
2011						
Software	$	2,555,706	(569,657)	(1,153,956)	832,093	20%
2010						
Software	$	899,113	(269,621)	-	629,492	20%

Impairment losses were reflected in the income for the year under the "Administrative and promotion expenses" item.

Intangible assets that are shown in the balance sheet do not include any restriction, are not considered as debt guaranty; there are no contractual commitments, related to the acquisition thereof.

(17) Deposits funding -

The weighted average deposit rates (unaudited) for the years ended December 31, 2011 and 2010 are analyzed as follows:

	2011			2010		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	1.20	0.06	-	0.78	0.04	-
Time deposits	3.89	0.13	0.30	3.92	0.14	0.21

(Continued)

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(18) Bank bonds -

On February 13, 2006, the Banking Commission authorized the Bank's bond issuance program for up to $10,000,000. At December 31, 2011 and 2010, the Bank has made the following issuances under the bank bonds program:

Issuance day	Reference rate	Maturity day		2011	2010
May 10, 2006 (1)	TIIE – 0.01%	May 1, 2013	$	2,000,000	2,000,000
June 29, 2006 (1)	TIIE – 0.01%	May 1, 2013		1,220,000	1,220,000
May 10, 2006 (2)	9.08%	April 27, 2016		1,000,000	1,000,000
				4,220,000	4,220,000
Accrued interest				23,003	22,519
Total of Bank bonds			$	4,243,003	4,242,519

(1) Interest payments on a monthly basis
(2) Interest payments on a semi-annual basis

(19) Due to banks and other institutions -

At December 31, 2011 and 2010, due to banks and other institutions are analyzed as follows:

		2011		2010	
		Term		Term	
		Short	Long	Short	Long
Pesos:					
Multiple bank (on demand)	$	5,866,125	-	3,775,570	-
Development bank *		5,586,140	733	5,771,771	4,265
Promotion funds *		2,547,663	1,254,788	2,022,073	1,081,555
		13,999,928	1,255,521	11,569,414	1,085,820
Foreign currencies translated into pesos:					
Commercial bank		15,487,420	65,797	8,558,312	28,846
Development bank (*)		87,810	15,357	31,608	17,222
Promotion funds (*)		1,214,380	410,496	246,366	393,263
		16,789,610	491,650	8,836,286	439,331
Total by term	$	30,789,538	1,747,171	20,405,700	1,525,151
Total due to banks and other institutions		$ 32,536,709		21,930,851	

(*) Funds granted under the development fund program (see note 11b).

(Continued)

(Thousands of Mexican pesos)

At December 31, 2011 and 2010, the annual average rates (unaudited) are analyzed as follows:

	Pesos		Foreing currency	
	2011	**2010**	**2011**	**2010**
Development bank	6.19%	6.16%	3.42%	5.70%
Promotion funds	4.29%	4.75%	0.98%	0.89%

(20) Employee benefits -

HSBC maintains a defined pension plan that covers all employees who reach 60 years old with 5 years of service or 55 years old with 35 years of service. The benefits are based on years of service and the employee's compensation. The Bank paid annual contributions to the plan equal to the maximum amount that can be deducted for income tax purposes based on the projected unit credit method.

In addition to the defined benefit pension plan, the Bank sponsors other postretirement benefits through pantry vouchers, life insurance and major medical plan that provide postretirement medical benefits to employees who have rendered their services to the Bank until their retirement date and for their wife, parents and child under 21 years.

Effective April 2004, the defined contribution component was included in the pension plan and starting 2007, in the postretirement medical benefits plan. At present, only unionized workers and those workers who expressed their intention to continue under the defined contribution component participate in the defined pension plan and in the postretirement benefits. The remaining employees elected to move to the defined contribution pension plan and the defined contribution postretirement medical benefits plan.

In addition to the defined benefit pension plan, the post-retirement benefit pension plan and the defined contribution pension plan, the Bank pays the benefits provided by the Federal Labor Law in relation to the legal severance payment for reasons other than restructuring, as well as seniority premium. The latter is paid in the event of death, invalidity, resignation after fifteen years of service and severance payment for reasons other than restructuring and retirement.

Cash flows -

Contributions and benefits paid were as follows:

	Funds contributions		Paid benefits	
	2011	**2010**	**2011**	**2010**
Termination	$ 15,408	14,477	1,571	22,895
Retirement	164,245	121,957	190,317	133,053
Other post retirement benefits	151,221	116,407	206,016	148,868
Year-end balances	$ 330,874	252,841	397,904	304,816

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The cost, obligations and other pension plans, seniority premiums and fees at the end of the employment relationship other than restructuring, referred to in note 2 (s) were determined based on estimates prepared by independent actuaries at December 31, 2011 and 2010. The components of net cost of the years ended December 31, 2011 and 2010 are shown as follows:

	Benefits							
	2011				2010			
	Termination	Retire	Pension Plan	Total	Termination	Retire	Pension Plan	Total
Net periodic cost:								
Service cost	$ 68,452	37,435	3,066	108,953	38,222	17,840	2,385	58,447
Interest cost	32,559	157,776	2,744	193,079	33,963	142,811	2,451	179,225
Return on plan assets	(4,314)	(91,680)	(2,336)	(98,330)	(4,303)	(80,871)	(1,796)	(86,970)
Net actuarial gain or loss	(69,123)	31,690	976	(36,457)	(14,314)	29,485	562	15,733
Labour cost of past services:								
Amortization of prior services and plan amendments	-	17,619	-	17,619	-	22,883	-	22,883
Amortization of liability in transition	38,320	8,196	268	46,784	38,280	8,305	268	46,853
Effect from early settlement prior to early extinction	4,307	(78,234)	(2,817)	(76,744)	-	13,018	-	13,018
Net period cost	$ 70,201	82,802	1,901	154,904	91,848	153,471	3,870	249,189

	Other Post-retirement benefits	
	2011	2010
Net periodic cost:		
Service cost	$ 60,749	43,244
Interest cost	178,337	160,989
Return of plan assets	(184,894)	(161,203)
Net actuarial gain or loss	65,708	52,648
Plan amendments	234,000	-
Amortization of liability in transition	33,947	34,306
Effect from early settlement prior to early extinction	(136,826)	15,018
Net periodic cost	$ 251,021	145,002

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Below is the determination of liabilities for benefit plans at December 31, 2011 and 2010, with the applicable requirements of paragraph 130 and 131 of the FRS D-3:

2011

		Retirement benefits		Other	
		Seniority premium	Pension plan	Post-retirement benefits	Total
Defined benefit obligation:					
Defined benefit obligation at beggining of the year	$	37,184	2,208,927	2,433,006	4,679,117
Service cost		3,066	37,435	60,749	101,250
Interest cost		2,744	157,776	178,337	338,857
Actuarial gain or loss		2,354	40,314	311,436	354,104
Paid benefits		-	(190,317)	(206,016)	(396,333)
Past service cost		-	-	234,000	234,000
Reduction/liquidation effect		(6,677)	(202,517)	(357,170)	(566,364)
Defined benefit obligations	$	38,671	2,051,618	2,654,342	4,744,631

2010

		Retirement benefit		Other	
		Seniority premium	Pension Plan	Post-retirement benefits	Total
Defined benefit obligation:					
Defined benefit obligation at beggining of the year	$	29,290	1,745,903	1,935,192	3,710,385
Service cost		2,386	17,839	43,244	63,469
Interest cost		2,450	142,812	160,989	306,251
Actuarial gain or loss		4,522	218,264	469,019	691,805
Paid benefits		(1,464)	(131,589)	(148,868)	(281,921)
Past service cost		-	244,514	-	244,514
Reduction/liquidation effect		-	(28,816)	(26,570)	(55,386)
Defined benefit obligations	$	37,184	2,208,927	2,433,006	4,679,117

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Below is the determination of plan benefits liabilities at December 31, 2011 and 2010:

2011		**Retirement benefit**		**Other Post-retirement benefits**	
		Seniority premium	**Pension Plan**		**Total**
Plan assets:					
Plan assets at the beginning of the year	$	(24,324)	(1,043,954)	(2,036,435)	(3,104,713)
Expected performance		(2,336)	(91,680)	(184,894)	(278,910)
Actuarial gain or loss		(2,575)	39,703	36,627	73,755
Company contributions		(4,781)	(159,464)	(151,221)	(315,466)
Paid benefits		-	190,317	206,016	396,333
Anticipated liquidations		1,909	24,335	25,157	51,401
Plan assets	$	(32,107)	(1,040,743)	(2,104,750)	(3,177,600)

2010		**Retirement benefit**		**Other Post-retirement benefits**	
		Seniority premium	**Pension plan**		**Total**
Plan assets:					
Plan assets at the beginning of the year	$	(19,486)	(947,006)	(1,857,454)	(2,823,946)
Expected performance		(1,796)	(80,871)	(161,203)	(243,870)
Actuarial gain or loss		(801)	(58,231)	(76,809)	(135,841)
Company contributions		(3,705)	(118,251)	(116,407)	(238,363)
Paid benefits		1,464	131,589	148,868	281,921
Anticipated liquidations		-	28,816	26,570	55,386
Plan assets	$	(24,324)	(1,043,954)	(2,036,435)	(3,104,713)

The Bank estimates that during 2012 they will make contributions to defined benefit plans amounting to $317,615 (includes termination seniority premium).

Below are the categories of plan assets at December 31, 2011 and 2010:

2011	**Retirement benefits**		**Other Post-Retirement Benefits**
	Seniority premium	**Pension plan**	
Fair value for the plan assets:			
Local equity instruments	20%	20%	20%
Global equity instruments	10%	10%	10%
Debt instruments (nominal rate)	24.5%	24.5%	24.5%
Debt instruments (real rate)	24.5%	24.5%	24.5%
Short term debt instruments	21%	21%	21%
Total	100%	100%	100%

(Continued)

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2010	**Retirement benefits**		**Other Post-Retirement benefits**
	Seniority premium	**Pension plan**	
Fair value for the plan assets:			
Local equity instruments	20%	20%	20%
Global equity instruments	10%	10%	10%
Debt instruments	49%	49%	49%
Short term debt instruments	21%	21%	21%
Total	100%	100%	100%

The expected long-term return rate of the assets depends on the mix of the investment fund, while the information on the investment policy and the expected and current return depend on the portfolio assets.

According to the current Bank investment policy, the expected return of the assets in the long-term is obtained as follows:

	Asset distribution (1)	**Expected return (2)**	**Total (1) x (2)**
Local equity instruments	20%	11.60%	2.32%
Global equity instruments	10%	10.60%	1.06%
Debt instruments (nominal rate)	24.5%	8.40%	2.06%
Debt instruments (real rate)	24.5%	7.69%	1.88%
Short term debt instruments	21%	7.60%	1.60%
Total	100%		8.92%

Below are the amounts of the last four preceding annual periods of the defined benefit obligation, fair value of plan assets, the status of the plan and the experience adjustments arising from the liabilities and assets of the plan.

			Seniority premium		
	2007*	**2008**	**2009**	**2010**	**2011**
Defined benefit liabilities	$ 116,335	27,409	29,290	37,184	38,671
Plan assets	(124,292)	(19,521)	(19,486)	(24,324)	(32,107)
Plan situation	(7,957)	7,888	9,804	12,860	6,564
Actuarial gain (loss):					
Plan liabilities	(9,500)	(1,177)	7,438	4,522	2,354
Plan assets	1,810	10,150	(2,139)	(801)	(2,575)

* Includes termination and retirement as under the FRS D-3 there was no separation.

			Retirement plan		
	2007	**2008**	**2009**	**2010**	**2011**
Defined benefit liabilities	$ 1,689,579	1,536,980	1,745,903	2,208,927	2,051,618
Plan assets	(1,177,060)	(980,321)	(947,006)	(1,043,954)	(1,040,743)
Plan situation	512,519	556,659	798,897	1,164,973	1,010,875
Actuarial gain:					
Plan liabilities	208,503	(15,404)	351,502	218,264	40,314
Plan assets	(47,999)	168,635	(47,793)	(58,231)	39,703

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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	Other post-retirement benefits				
	2007	2008	2009	2010	2011
Defined benefit liabilities	$ 2,085,064	1,886,304	1,935,192	2,433,006	2,654,342
Plan assets	(1,598,640)	(1,583,022)	(1,857,454)	(2,036,435)	(2,104,750)
Plan situation	486,424	303,282	77,738	396,571	549,592
Experience adjustments:					
Plan liabilities	72,513	125,761	47,235	469,019	311,436
Plan assets	64,774	132,989	(104,807)	(76,809)	36,627

At December 31, 2011 and 2010 the present value of the liabilities for the benefits of the plans are as follows:

	Benefits					
	Termination		Retirement		Other post-retirement benefits	
	2011	2010	2011	2010	2011	2010
Acquired rights and obligations Amount (OBA)	$ NA	NA	1,553,464	1,432,647	1,888,262	1,551,457

NA - Not applicable

	Benefits					
	Termination		Retirement		Other post-retirement benefits	
	2011	2010	2011	2010	2011	2010
Defined benefit liabilities amount (OBD)	$ 495,748	489,872	2,090,288	2,246,111	2,654,342	2,433,006
Fair value plan assets	(37,244)	(47,690)	(1,072,850)	(1,068,278)	(2,104,750)	(2,036,435)
Funds financial situation	458,504	442,182	1,017,438	1,177,833	549,592	396,571
Unrecognized past services:						
(liabilities) / assets in transition	(38,542)	(77,014)	(7,742)	(17,020)	(19,082)	(55,959)
Plan modifications	-	-	(235,831)	(276,427)	-	-
Actuarial gain (loss)	-	-	(769,127)	(800,107)	(1,322,051)	(1,231,953)
Projected Liabilities / (Assets)	$ 419,962	365,168	4,738	84,279	(791,541)	(891,341)

	Termination and retirement benefits		Other post-retirement benefits	
	2011	2010	2011	2010
Nominal discount rate used to show the present value of obligations	7.90%	7.50%	7.90%	7.50%
Nominal rate of increase in the levels of future salaries	4.75%	4.50%	4.75%	4.50%
Nominal rate of return expected in the plan assets	8.92%	9.00%	8.92%	9.00%
Medical inflation rate	-	-	6.75%	6.75%
Average remaining work life of employees (applicable to retirement benefits)	18.06	18.89	14.62	15.66

(Continued)

(Thousands of Mexican pesos)

At December 31, 2011 and 2010, the amortization periods in years of the remaining items are shown as follows:

2011	Retirement benefits		Other post-
	Seniority Premium	**Pension plan**	**retirement benefits**
Liabilities of transition	1 year	1 year	0.64 years
Plan modifications	-	15 years	-
Actuarial (loss) / gain	18 years	18 years	15 years

2010	Retirement benefits		Other post-
	Seniority Premium	**Pension plan**	**Retirement Benefits**
Liabilities of transition	2 years	2 years	1.64 years
Plan modifications	-	16 years	-
Actuarial (loss) / gain	14 years	19 years	16 years

The effect of the increase or decrease of one percentage point in the increase rate of medical expenses used in the actuarial projections is shown below:

	Increase in 1%	**Decrease in 1%**
Labour cost plus financial cost	$ 35,629	(35,469)
Defined benefit obligations (OBD)	303,012	(266,933)
	======	=======

For the years ended at December 31, 2011 and 2010, the Bank recognized expenses for defined contribution plans, which amount to $82,718 and $151,020, respectively.

(21) Share based payments -

The Bank offers different share based payment programmes to management level personnel with the aim of aligning the interests of these personnel with those of the Group´s shareholders, and at the same time, as a way to encourage high performing staff. The award period for these programmes ranges from one to three years on average.

At December 31, 2011 and 2010, the amount of outstanding share based payment awards amounted to $256,637 and $123,149, respectively, and were registered in the caption “Sundry creditors and other accounts payable”. The cost of these programmes for the years ended December 31, 2011 and 2010 of $286,585 and $56,837 respectively, was included within administrative and promotional expenses in the consolidated income statement.

(Thousands of Mexican pesos)

(22) Subordinated debt issued -

At December 31, 2011 and 2010, the Bank had issued subordinated debentures, which are not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed as follows:

		2011	2010
Debentures issued:			
In 2003, maturing in 2013 (1)	$	2,200,000	2,200,000
In 2008, maturing in 2018 (2)		4,090,249	4,090,249
In 2009, maturing in 2019 (3)		4,184,280	3,702,218
Accrued interest		13,011	14,974
Total subordinated debentures	$	10,487,540	10,007,441

(1) The subordinated obligations issued in 2003 through a private offering, bear interest at a rate equivalent to the 28-day Inter-bank Interest Rate (TIIE). HSBC has the right to prepay the subordinated obligations issued during 2003 and 2008 any time after 5 years from the date of issue.

(2) During October and December 2008, the Bank made two public offerings of subordinated debt obligations, non convertible to HSBC shares for a total amount of $1,817,603 and $2,300,000, respectively. Of the second issuance, as of December 31, 2011 and 2010, $27,354, had not been placed. The subordinated obligations have a maturity of 10 years and bear interest at a rate equivalent to the 28-day TIIE plus 60 and 200 basis points, respectively.

(3) As part of a programme of subordinated non convertible debt issuance (both preference and non preference securities), authorised by the Banking Commission, HSBC undertook a foreign currency issuance on 26 June 2009. This issuance was for a total of US$300 million, of which US$196.7 million was placed on the date of issue and the remaining US$103.3 million was placed at a later date. The term of this issuance is 10 years and it pays a variable rate of interest at Libor plus 3.5%.

At December 31, 2011 and 2010, the balance of subordinated obligations count as supplementary capital for the determination of the capitalization ratio, which is calculated based on the applicable rules as of those dates, issued by the Central Bank.

(Continued)

(Thousands of Mexican pesos)

(23) Tax on earning (Income Tax (IT) and Flat Rate Business Tax (IETU)) and employee statutory profit sharing (ESPS) -

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is 17.5% for 2010 and thereafter.

The Bank considered for the ESPS calculation a month's salary limit in accordance with Article 127 Section III of the Federal Labour Law. For the year ended December 31, 2011, ESPS expense amounted to $360,000 ($352,011, in 2010) and is included within "Administrative and promotional expenses" in the consolidated statement of operations.

According to the financial projections prepared by the Bank's administration, it is expected that IETU will not be payable in subsequent years, and therefore the deferred tax as of December 31, 2011 and 2010 was determined in accordance with the provisions of IT.

At December 31, 2011 and 2010, the IT and IETU expense shown in the consolidated statement of income is analyzed as follows:

		Tax on earning	
		2011	**2010**
IT expense at the rate 30%	$	1,005,614	938,394
IT of subsidiaries		53,216	4,793
IETU of subsidiaries		102,375	30,595
IT from SPE		252,025	117,929
Tax on earning in the consolidated statement of income	$	1,413,230	1,091,711

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Deferred IT:

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred IT changes for the years ended December 31, 2011 and 2010, in pesos, are analyzed as follows:

		2011	2010
At beginning of year	$	5,318,243	4,304,829
Charged to results:			
IT Benefit		1,310,607	981,471
Reported in capital:			
Valuation effects of available-for-sale and derivatives		(205,633)	26,121
Effect in capital for the change in the consumer loan methodology		86,764	-
Others		(100,395)	5,822
	$	6,409,586	5,318,243

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2011 and 2010, are as shown in the next page.

(Continued)

(Thousands of Mexican pesos)

		2011	2010
Deferred tax assets:			
Allowances:			
Allowance for loan losses	$	5,617,643	4,779,802
Allowance for foreclosed assets		189,767	88,972
Other provisions		1,144,343	790,886
Allowance for unrecoverable accounts		27,796	229,632
Property, furniture and equipment		454,413	678,449
ESPS provision		110,848	105,603
Valuation of financial instruments		336,094	96,111
Commissions received in advance		177,909	219,142
Other		39,382	53,656
		8,098,195	7,042,253
Deferred tax liabilities:			
Interest from Special CETES UDIS Banxico		(873,081)	(816,293)
Valuation of financial instruments		(369,220)	(241,205)
Deductions in advance		(389,575)	(646,149)
Others		(56,733)	(20,363)
		(1,688,609)	(1,724,010)
Net deferred tax asset	$	6,409,586	5,318,243

Reconciliation of the statutory income tax rate and the effective income tax rate is as follows:

		2011	
		Amount	**%**
Income before income taxes	$	817,926	100%
Expected tax expense		245,378	30%
Increase (reduction) resulting from:			
Inflation effect		(391,082)	(48%)
Non-deductible expenses		337,355	41%
Tax income on derivatives		139,412	17%
Non-taxable interests		(155,243)	(19%)
Subsidiaries' IETU		(102,375)	(12%)
Others		29,178	4%
IT expense		102,623	13%

Other considerations:

In accordance with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm's-length transactions.

At December 31, 2011, the balances of the Capital Contributions and after-taxes earnings accounts for $30,460,908 and $16,647,927, respectively ($27,329,767 and $14,144,695 respectively in 2010).

(24) Stockholders' equity -

The main features of the accounts comprising stockholders' equity are the following:

(a) Structure of capital stock -

Movements in 2011

On April 28, 2011, the General Ordinary Shareholders' Meeting agreed to transfer the net income for year 2010 of $420,337, affecting $42,034 to the legal reserve and $378,303 recorded in the other reserves account; such amount shall be make available for the stockholders until the Board of Directors agrees to do so.

At the Board of Directors meeting on February 4, 2011, the Board of Director authorized the payment of a dividend of $1,800,000, which was equivalent to a price per share of $1.095 over each one of the 1,643,363,189 outstanding no coupon shares, charged to the after-taxes earnings account. This dividend was paid on March 18, 2011.

On November 22, 2011, the General Extraordinary Shareholders' Meeting agreed an increase the capital stock of series "F" for $347,826 nominal, through the issue of 173,913,134 shares. On December 14, 2011, 86,956,567 shares were subscribed and paid, at a price per share of two pesos, corresponding to the nominal capital stock, which amounts to $173,913; a share subscription premium was recognized for $1,839,262, at a price per share of $21.151. The total increase of $2,013,175 arises from the contributions for future capital stock increases that took place in 2010. Likewise, it was agreed that the remaining 86,956,567 shares were deposited at the Bank Treasury, which were made available to the Board of Directors for later placement.

The capital stock as of December 31, 2011 consists of 1,817,276,323 shares (1,730,319,756 subscribed and paid-up), with a nominal value of two pesos per each one, of which 1,703,550,265 shares (1,616,593,698 subscribed and paid-up), are represented by Series "F" shares and by 113,726,058 Series "B" subscribed and paid shares.

Movements in 2010

On March 24, 2010, the Extraordinary General Meeting of Shareholders agreed to cancel 25,491,086 shares that were not subscribed and paid.

(Continued)

On April 16, 2010, the General Ordinary Meeting of Shareholders agree to transfer the net 2009 profit by $136,291 affecting $13,629 to the legal reserve and $122,662 was recorded in the other reserves account, and will be made available to the shareholders by the approval of the Board of Directors.

At the Board of Directors meeting celebrated on October 21, 2010, the Board of Directors authorized the payment of a dividend by the amount of $1.224 pesos per share on each of the 1,643,363,189 zero coupon shares with a total charge to the after-taxes earning account totalling $2,013,083.

On December 17, 2010, the Board of Directors authorized the Group to make a contribution in the amount of $2,013,082 on December 29, 2010. The contribution was recorded as a contribution of future capital increases as a liability in the Bank in accordance with FRS C-11 "Equity" until it is formalized in the next General Meeting of Shareholders.

(b) Comprehensive income -

The comprehensive income reported in the consolidated statement of stockholders' equity represents the results of the Bank's activities during the year and includes the net income, the gain or loss from mark to market of investments in "Available-for-sale" securities and for cash flow hedges, in 2011 for the constitution of allowance for loan losses derived of a change in the calculation methodology, which in accordance to the relevant FRS and accounting Banking Commission's criteria, are recorded stockholders' equity.

(c) Restrictions on stockholders' equity -

The Credit Institutions Law requires that the Bank segregate 10% of its net income for the year to the statutory reserves up to the amount of its paid-in capital stock.

Stockholder contributions may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equal or exceed stockholders' equity. Retained earnings on which no income taxes have been paid, are subject to income taxes in the event of distribution to stockholders.

The un-appropriated retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends. Also, gains from marking to market investment securities and derivative transactions may not be distributed until realized.

(d) Capitalization -

In accordance with the Law of Credit Institutions, credit institutions are required to maintain a net capital in relation to their exposure to market risk, credit risk and other risks which are incurred during the course of their operations. Net capital cannot be lower than the total of adding up the capital requirement for each type of risk. In accordance with the Capitalization Rules, credit institutions must comply with the capital requirement for operational risk.

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Information in relation to the Bank's net capital, risk based assets and capital requirements as of December 31, 2011 and 2010, is shown below (unaudited). The amounts for 2011 and 2010 correspond to those Published by the Central Bank at the date of issuance of the financial statements.

		2011	2010
Basic, supplementary and net capital			
Stockholders' equity	$	40,059,950	40,192,936
Reduced by:			
Intangible assets		(4,916,964)	(5,702,817)
Investments in shares of financial entities		(17,056)	(30,587)
Investments in shares of other companies		(80,185)	(91,561)
Investment in subordinated debt		(98,017)	(86,759)
Investment in financial instruments related to securitizations		(140,024)	(37,883)
Basic capital (Tier 1)		34,807,704	34,243,329
Add:			
Not convertible subordinated debt		9,154,550	9,115,153
General allowance for loan losses		1,328,997	1,019,015
Investment in financial instruments related to securitizations		(140,024)	(37,883)
Supplementary capital (Tier 2)		10,343,523	10,096,285
Net capital (Tier 1+ Tier 2)	$	45,151,227	44,339,614

Stockholders' equity. - At December 31,2010, considers the contributions for future capital of $2,013,082.

Intangible assets .- Consider the excess of the deferred taxes on the 10% capacity of the basic Capital as required deduction for $1,863,735 and $1,232,245, at December 31, 2011 and 2010, respectively.

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Subordinated debentures not convertible .- The issuance of subordinated debentures not convertible issued in 2003, computed for the supplementary Capital balance at December 31, 2011 and 2010 at a rate of 40% and 60%, respectively, equivalent to $880,000 and $1,320,000, respectively.

Risk-based assets and capital requirements

		Equivalent risk-weighted assets		Capital requirement	
		2011	**2010**	**2011**	**2010**
Market risk:					
Transactions or positions:					
In pesos at nominal rates	$	36,714,814	76,213,438	2,937,185	6,097,075
In pesos at interest rate over nominal rate		1,758,100	478,050	140,648	38,244
In pesos at interest rates discounted from inflation or denominated in UDIS		1,755,513	2,480,575	140,441	198,446
In foreign currency at nominal rates		5,870,464	4,128,838	469,637	330,307
In UDIS or with yields linked to the Consumer Price Index		18,600	21,075	1,488	1,686
Foreign currency positions or with exchange rate indexed yields		5,428,414	3,551,688	434,274	284,135
Share transactions or transaction based on shares		1,413	224,763	113	17,981
Total market risk	$	51,547,318	87,098,427	4,123,786	6,967,874
Credit risk:					
Group II (weighted at 50%)	$	3,419,376	3,182,856	273,550	254,628
Group III (weighted at 10%)		659,288	397,681	52,743	31,815
Group III (weighted at 11.5%)		260,107	229,818	20,809	18,385
Group III (weighted at 20%)		4,829,117	6,457,082	386,329	516,567
Group III (weighted at 23%)		177,470	3,280,622	14,198	262,450
Group III (weighted at 50%)		4,447	536,427	356	42,914
Group IV (weighted at 20%)		1,986,043	2,208,641	158,883	176,691
Group V (weighted at 20%)		785,520	390,702	62,842	31,256
Group V (weighted at 50%)		711,461	42,730	56,917	3,418
Group V (weighted at 150%)		7,486,308	12,908,369	598,904	1,032,670
Credit risk to the following page	$	20,319,137	29,634,928	1,625,531	2,370,794

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		Equivalent risk-weighted assets		Capital requirement	
		2011	**2010**	**2011**	**2010**
Credit risk from previous page	$	20,319,137	29,634,928	1,625,531	2,370,794
Group VI (weighted at 50%)		3,598,053	3,296,227	287,844	263,698
Group VI (weighted at 75%)		1,786,794	1,772,667	142,944	141,813
Group VI (weighted at 100%)		35,444,713	33,643,926	2,835,577	2,691,514
Group VII (weighted at 20%)		4,610,328	1,695,533	368,825	135,643
Group VII (weighted at 20%)		5,887,114	250	470,970	20
Group VII (weighted at 50%)		850,382	761,553	68,031	60,924
Group VII (weighted at 57.5%)		32,158	486,537	2,573	38,923
Group VII (weighted at 100%)		97,387,273	83,308,720	7,790,982	6,664,698
Group VII (weighted at 115%)		5,129,042	3,469,611	410,323	277,569
Group VII (weighted at 150%)		250,650	254,835	20,052	20,387
Group VIII (weighted at 172.5%)		474,523	-	37,962	-
Group VIII (weighted at 125%)		2,875,354	2,738,204	230,028	219,056
Other assets (weighted at 100%)		25,312,042	21,567,764	2,024,964	1,725,421
Total credit risk		203,957,563	182,630,755	16,316,606	14,610,460
Operational risk		38,453,605	35,043,208	3,076,288	2,803,457
Total market risk, credit risk and operational risk	$	293,958,486	304,772,390	23,516,680	24,381,791

Capitalization ratios:

	2011	**2010**
Capital to credit risk assets:		
Basic capital (Tier 1)	17.07%	18.75%
Supplementary capital (Tier 2)	5.07%	5.53%
Net capital (Tier 1 + Tier 2)	22.14%	24.28%

(Continued)

(Thousands of Mexican pesos)

	2011	2010
Capital to market, credit and operational risk assets:		
Basic capital (Tier 1)	11.84%	11.24%
Supplementary capital (Tier 2)	3.52%	3.31%
Net capital (Tier1 + Tier 2)	15.36%	14.55%

The Bank reports on a monthly basis the trend of the capitalization indices, detailing basic capital and net capital to the Risk Committee and the Assets and Liabilities Committee. In addition, significant variances in the risk-weighted assets by credit and market risk, and variances in stockholders' equity, are explained and reported.

In addition, prior to undertaking any material commercial banking or treasury transactions, an assessment is made to determine their effect on the capital requirement. Based on this, the above mentioned Committees may authorize the proposed transactions. For these operations the Bank considers as a basis the minimum capitalization index, which is higher than the required by the Banking Commission in the Early Warnings.

(25) Related party transactions and balances -

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2011 and 2010, the Bank had granted loans to related parties totalling $5,498,873 and $4,352,215, respectively.

At December 31, 2010 open derivative positions with related parties amounted to $1,860,637.

During the years ended 31 December 2011 and 2010 the Bank did not write off any intercompany balances.

The main transactions carried out with related parties during the years ended December 31, 2011 and 2010, are shown in the following page.

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		2011	2010
Transactions:			
Income:			
Administrative services	$	2,974,678	3,152,094
Interest and commissions, received		406,339	420,438
Others		-	1,006
		=======	======
Expenses:			
Insurance premiums	$	199,067	229,894
Premiums on securities repurchase/resell agreements		230,202	211,130
Interest and commissions, paid		34,988	15,235
Administrative expenses		1,342,970	213,509
		=======	======

Balances receivable from and payable to related parties as of December 31, 2011 and 2010, were as follows:

		2011		2010	
		Receivable	Payable	Receivable	Payable
Holding					
Grupo Financiero HSBC, S. A. de C. V.	$	355	15,969	198	2,030,385*
Other related parties					
HSBC Seguros, S. A. de C. V.		188,869	3,548	195,241	80,435
HSBC Vida, S. A. de C. V.		21,345	301	17,183	379
HSBC Afore, S. A. de C. V.		-	19	23,274	8,987
HSBC Casa de Bolsa, S. A. de C. V.		7,661	657,759	14,359	252,066
HSBC Fianzas, S. A.		4,030	5,116	5,020	4,423
HSBC Pensiones, S. A.		3,536	3,166	2,053	3,169
HSBC Global Asset Management, S. A. de C. V.		135,565	16	73,285	16
HSBC Servicios, S. A. de C. V.		315	5,679	4,549	7,869
HSBC Bank Brasil, S. A. Banco Multiplo		13,937	56,395	250,975	1,220
INMX Servicios, S. A. de C. V.		-	30	-	100
INMX Comercialización, S. A. de C. V.		-	179	7	110
HSBC Holdings Plc.		56,126	515	40,876	-
HSBC Banco Salvadoreño, S. A.		7,804	-	87,483	-
HSBC Seguros Salvadoreño, S. A.		499	-	6,454	-
HSBC Bank Panamá, S. A.		1,279	3,687	110,971	-
Subtotal, to the following page	$	441,321	752,379	831,928	2,389,159

* It includes contributions for future capital stock increases for $2,013,082.

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	2011		2010	
	Receivables	**Payable**	**Recevables**	**Payable**
Subtotal, from previous page	$ 441,321	752,379	831,928	2,389,159
Representation office of HSBC Bank Panamá, S. A. (Guatemala)	-	-	530	-
HSBC Colombia, S. A.	8,798	24	125	41,808
HSBC Bank USA National Association	-	2,794	-	-
Banco HSBC Costa Rica, S. A.	1,512	-	33,016	-
Banco HSBC Honduras, S. A.	1,909	-	41,026	-
Seguros HSBC Honduras, S. A.	202	-	2,310	-
HSBC Software Development (China)	-	3,091	-	11,915
HSBC Bank Argentina S. A.	1,313	12,654	91,686	4,940
HSBC Argentina Holding, S. A.	1	-	25	-
HSBC New York Life Seguros de Vida (Argentina), S. A.	171	-	2,635	-
HSBC La Buenos Aires Seguros, . A.	260	-	5,040	-
HSBC Finance Corporation (HBIO)	490	-	5,118	-
HSBC Bank plc.	538	28,932	10,623	48,742
The Hong Kong and Shangai Banking Corporation Limited	-	1,335	-	16,255
HSBC Latin America Holdings (UK) Limited	8,440	-	47,636	-
HSBC Software Development (India) Private Limited	162	42,448	2,003	20,507
HSBC Software development (Brazil)	-	23,528	-	9,071
Representation office of HSBC Bank Panamá, S. A. (Nicaragua)	-	-	659	-
HSBC Technologies and Services (USA) Inc.	-	35,639	-	15,396
HSBC Technologies Inc.	-	36,169	-	11,034
HSBC Bank Peru, S. A.	11,600	-	90,115	-
HSBC Bank (Paraguay), S. A.	12,347	-	47,937	-
HSBC Bank (Uruguay), S. A.	1,493	-	29,010	-
HSBC Bank Canada	-	6,774	-	23,177
HSBC Bank (Chile), S. A.	5,435		34,661	-
HSBC France	-	2,467	-	-
HSBC Global Resourcing (UK) Limited	-	2,649	-	-
HSBC Insurance Holdings Limited	-	8,427	-	-
HSBC Securities (USA) Inc	-	4,558	-	-
	$ 495,992	963,868	1,276,083	2,592,004
	=======	=======	=======	========

(Continued)

(Thousands of Mexican pesos)

Accounts receivable and payable from / to related parties do not bear interests and do not have defined maturities, except for the transaction mentioned as follows:

As mentioned in note 14, on March 30, 2010 a subsidiary of the Bank acquired the foreclosed assets of the related party Banco HSBC (Costa Rica), S. A. amounting to $349,806.

(26) Memorandum accounts -

(a) Irrevocable lines of credit and guarantees -.

At December 31, 2011, HSBC had irrevocable commitments to grant loans of $22,425,302 and had issued guarantees of $13,948 ($16,201,600 and $20,583, respectively, in 2010).

At December 31, 2011 the allowance for letters of credits and guarantees issued amounts to $515,495, and is included in the allowance for loan losses ($378,975 in 2010).

(b) Assets in trust or under mandate -

At December 31, 2011 and 2010, the Bank's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2011	**2010**
Type of trust:			
Administrative	$	207,278,977	181,450,953
Guarantee		39,629,593	36,319,353
Investment		57,415,029	53,517,653
Other		23,524,635	21,762,812
		327,848,234	293,050,771
Mandates		527,154	763,180
	$	328,375,388	293,813,951

(Continued)

(Thousands of Mexican pesos)

Trust activities revenue for the years ended December 31, 2011 and 2010 amounted to $206,521 and $194,490, respectively.

(c) Investments on behalf of customers -

At December 31, 2011 and 2010 the Bank received funds from the public and invested them in various instruments of the Mexican financial system on behalf of its customers, which are recorded in memorandum accounts as follows:

		2011	2010
Funds of investment companies:			
Managed by the Bank	$	2,576,979	969,753
Other		5,883,477	5,734,330
Government securities		15,764,003	14,325,146
Equities and other		22,793,661	22,322,251
	$	47,018,120	43,351,480

The amount of funds invested in the Bank's own instruments forms part of the liabilities and are included in the consolidated balance sheet.

(d) Assets in custody -

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2011 and 2010, this account comprises:

		2011	2010
Assets in custody	$	204,423,304	205,802,076
Pledged assets		609,661	509,572
Assets under management		46,738,910	39,972,093
	$	251,771,875	246,283,741

(Continued)

(27) Additional information on results of operation and segments -

(a) Condensed statement of operations by segment-

The condensed consolidated statement of operations by segment includes Personal Financial Services (PFS), Commercial Banking (CMB)**,** Global Banking and Markets (GBM) and other Corporate Activities. A brief description of the Bank's business segments follows.

Personal Financial Services –Focused primarily on individuals that comprise mainly consumer products, which include credit cards, personal and car loans as well as mortgage loans and traditional deposits.

Commercial Banking – Focused primarily on corporations, offering financing in Mexican pesos and other currencies, lines of credit for working capital, term loans, and the financing of exports, in addition to financial services relating to checking and investment accounts and cash management.

Global Banking & Markets – Focused primarily on corporations, which comprise: trust, treasury and custody services, corporate finance advisory, as well as risk management and cash flow services. This segment comprises products such as letters of credit, factoring, discounted documents and investments in the money and capital markets.

The allocation of income to each segment is determined in accordance with the profile of the client. For the allocation of expenses to each segment a cost management system is used which utilizes an Activity Based Costing (ABC) approach, although directly identifiable segment costs are not subject to this methodology. Within HSBC a catalogue of transactions and their relevant costs exists, and in this way each time that a transaction is completed for a client, the cost of this transaction is registered in the segment to which that client belongs.

In the following page is presented the condensed statement of operations by segment for the years ended December 31, 2011 and 2010.

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Condensed statements of operations by segment

Years ended December 31, 2011 and 2010

(Million of pesos)

	Personal and private Financial services		Corporate Banking		Global and Market Banking		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Financial margin	11,904	13,053	5,944	4,766	1,703	2,107	19,551	19,926
Allowance for loan losses	(4,281)	(8,321)	(2,371)	(471)	(85)	(492)	(6,737)	(9,284)
Adjusted financial margin	7,623	4,732	3,573	4,295	1,618	1,615	12,814	10,642
Commissions and fees, net	3,829	4,214	1,801	2,025	571	692	6,201	6,931
Financial intermediation income	479	132	158	150	1,983	1,938	2,620	2,220
Other operating income	3,245	2,970	819	686	1,051	749	5,115	4,405
Administrative and promotion expenses	(15,628)	(14,329)	(7,151)	(6,413)	(3,113)	(2,943)	(25,892)	(23,685)
Total operating income	(452)	(2,281)	(800)	743	2,110	2,051	858	513
Equity in the results of non consolidated subsidiaries, asiciated and affiliated companies	(25)	8	(13)	4	(3)	1	(41)	13
Income before tax	(477)	(2,273)	(813)	747	2,107	2,052	817	526
Income tax	211	713	359	(235)	(672)	(589)	(102)	(111)
Income before non controlling interest	(266)	(1,560)	(454)	512	1,435	1,463	715	415
Non controlling interest	1	3	-	2	-	-	1	5
Net income	$ (265)	(1,557)	(454)	514	1,435	1,463	716	420

(Continued

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

The assets and liabilities in million by the different segments at December 31, 2011 and 2010, are analyzed as follows:

	2011			2010		
	RBWM	**CMB**	**GBM**	**RBWM**	**CMB**	**GBM**
Assets	$ 52,511	85,032	53,463	56,147	76,913	41,949
Liabilities	165,177	103,581	19,576	146,455	86,340	12,071

Financial Margin

The financial margin for the years ended December 31, 2011 and 2010 is analyzed as follows.

	2011	**2010**
Interest income:		
Cash and cash equivalents	$ 1,612,985	1,788,622
Investment securities	7,878,877	6,758,892
Interest and premiums on securities purchased under agreements to resell	997,288	426,784
Loan portfolio:		
Commercial loans	7,569,834	7,205,818
Financial institutions	294,460	537,403
Consumer loans	7,700,830	7,871,304
Residential mortgages	1,938,185	1,847,282
Government entities	1,632,604	1,392,680
Initial fees for loan granting	290,077	295,498
Others	(173,759)	(105,890)
Total interest income to the following page	$ 29,741,381	28,018,393

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

		2011	2010
Total interest income from previous page	$	29,741,381	28,018,393
Interest expense:			
Deposit funding		(1,974,786)	(1,102,788)
Time deposit		(4,204,981)	(3,831,826)
Due to banks and other institutions		(546,558)	(444,949)
Bank bonds		(249,221)	(251,905)
Interest and premiums on securities purchased under agreements to resell		(2,607,814)	(1,933,788)
Interest by subordinated debt issued		(508,998)	(519,416)
Others		(97,695)	(7,406)
		(10,190,053)	(8,092,078)
	$	19,551,328	19,926,315

(b) Financial intermediation gain (loss) -

For the years ended December 31, 2011 and 2010, the financial intermediation gain (loss) is analyzed as follows:

		2011	2010
Valuation gain (loss):			
Investment securities	$	(160,019)	430,201
Trading derivatives		711,928	1,448,532
Foreign currency exchange and precious metals		63,081	(8,207)
		614,990	1,870,526
Purchase/sale gain (loss):			
Investment securities		847,207	883,261
Securities repurchase/resell agreements and trading derivatives		398,819	(513,807)
Foreign currency exchange and precious metals		759,366	(20,320)
		2,005,392	349,134
	$	2,620,382	2,219,660

(Continued)

(Thousands of Mexican pesos)

(c) Other income (expense) of the operation-

For the years ended December 31, 2011 and 2010, “Other income (expense) of the operation” is analyzed as follows:

Income		**2011**	**2010**
Recoveries and reimbursements	$	2,136,665	1,739,537
Reimbursement of expenses made on behalf of subsidiaries		2,733,269	2,689,105
Payments received in relation to the use of infrastructure from subsidiaries		316,473	470,298
Gain on sale of properties		625,979	-
Loans to employees		139,001	144,158
Credit card claims		-	40,704
Other		254,933	351,892
		6,206,320	5,435,694
Expenses			
Writte-offs and losses primarily [(*)]		(1,091,129)	(1,030,482)
Other operating income (expenses), net	$	5,115,191	4,405,212

[(*)] Within the write offs and losses there are fraud losses of $359,707 ($524,937 in 2010) taxes from previous years of $80,386 ($39,685 in 2010).

(Continued)

(Thousands of Mexican pesos)

(d) Financial Ratios -

The principal ratios as of and for the years ended December 31, 2011 and 2010 are analyzed below:

	2011	**2010**
Non-performing loans to total loans	2.71%	3.12%
Allowance for loan losses to past-due loan portfolio	214.48%	173.96%
Operating efficiency *(administrative and promotional expenses to average total assets)*	5.65%	6.18%
ROE *(net income to average stockholders' equity)*	1.81%	1.20%
ROA *(net income to average total assets)*	0.15%	0.11%
Liquidity *(liquid assets/liquid liabilities)**	101.05%	107.30%
Financial margin after provision for loan losses /average interest earning assets	4.62%	4.99%
Capital index to credit risk assets	22.14%	24.28%
Capital index to market and credit risk	15.36%	14.55%

* *Liquid assets* – Cash and cash equivalents, trading and available-for-sale securities.
* *Liquid liabilities* – Demand deposits, demand and short-term bank and other loans.

(28) Commitments and contingent liabilities -

(a) Leases -

Certain premises and equipment are leased. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense amounted $1,360,820 in 2011 and $1,296,290 in 2010.

(b) The Bank has executed a distribution agreement with Principal in which there is a commitment to distribute on an exclusive basis Principal Afore through the Bank branches over a five-year period, ending in 2016.

(Continued)

(c) Lawsuits and litigation -

The Bank is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Bank's financial position and results of operations.

In accordance with FRS C-9 liabilities, provisions, contingent assets and liabilities and commitments, the Bank classifies its legal obligations in:

Probable: When the possibility of future event occurs is high (probability of loss greater than 50%);

Possible: The possibility that the future events occurring is more than remote but less than likely (probability of loss greater than 5% and less than 50%);

Remote: The possibility that the future events occurring is low (probability of loss greater than 5%).

At December 31, 2011 and 2010, the Bank presented in the consolidated financial statements the recognition of liabilities for this purpose for an amount of $277,199 and $315,489 respectively, which correspond to cases in which it was considered that the possibility of loss would likely be probable. The Bank at December 31, 2011 and 2010 had outstanding cases with a possible loss contingency in the amount of $59,264,037 and $60,201,676, respectively.

The Bank has contingent liabilities in disputes with third parties, which have not been disclosed pursuant to FRS C-9 "Liabilities, provisions, contingent assets and liabilities and commitments) given that the administrative procedure is at an initial stage and no resolution has been issued yet.

(29) Risk management (unaudited)-

Within the Financial Group of HSBC in Mexico the comprehensive risk management involves both compliance with Prudential Provisions on the Subject of Comprehensive Risk Management included in the Sole Circular issued by the Banking Commission and the worldwide Group regulations, whose ultimate purpose is generating shareholder value, whist maintaining a conservative profile in respect of exposing the organization to risk.

The recognition of fundamental concepts is essential for efficient and effective comprehensive management of risks, both quantifiable and discretional (credit, market and liquidity) and non-discretional: operational (technology and legal) and under the premise that basic identification, measurement, monitoring, limitation, control and divulging processes are fulfilled.

As in its principal affiliates, the Bank's risk management function begins with the Board of Directors, who has primary responsibility for approving the related objectives, guidelines and policies and for determining the risk exposure limits, which is supported by the Assets and Liabilities Committee (ALC) and the Risk Management Committee (RMC).

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Assets and Liabilities Committee (ALC)

This Committee meets on a monthly basis and is chaired by the Bank's Executive President and General Director. Committee members include senior bank executives from areas such as: Corporate, Business and Commercial and support areas such as: Treasury, Finance, Risks, Treasury Operations, Balance Sheet Management, Planning and Economic Capital. Similar structures are maintained at other affiliates.

The ALC is the prime vehicle for attaining the objectives of an adequate management of assets and liabilities. Its principal purposes concerning risks are as follows:

- Providing strategic management and ensuring tactical follow-up by creating a balance sheet structure that integrates objective compliance within the pre-established risk parameters.
- Identifying, monitoring and controlling all relevant risks, including the information generated by the RMC.
- Distributing the necessary information for proper decision making.
- Conducting overall reviews of sources and destination of funds.
- Determining the most likely environment for the Bank's assets and liabilities in planning and considering contingency scenarios.
- Evaluating alternatives for: rates, prices and portfolio mixes.
- Reviewing and becoming accountable for: distribution and maturity of assets and liabilities, position and size of interest margins, liquidity levels and economic utility.

For reinforcing decision making, the local ALCs as is the case of Mexico's report directly to the Group's Central Finance Direction in London.

Risk Management Committee (RMC)

The Risk Management Committee meets once a month and reports both to the Board of Directors and to the ALC.

In accordance with the regulatory provisions and so as to have opinions independent from the Bank's management, the Committee includes three external members, one of which chairs the Committee.

(Continued)

Internally, the areas that participate in this Committee are: General Direction, Risks, Corporate Banking, Business Banking, Commercial Banking, Finance, Auditing, Treasury, Global Markets, Planning, Economic Capital, Liquidity Risks, Market Risks, Affiliate Risk and Legal Risk.

The major Committee objectives, which are shared with Bank affiliates, are as follows:

- Developing focused and integrated mechanisms for identifying current and potential risks.
- Assessing the materialization of risks and their potential impact.
- Advanced solutions for improving the risk profile or mitigate specific or relevant risks.
- Developing a clear map of the risk profile and trends as to credit, market and other risks and potential changes in the business strategy.
- Risk process aimed at handling relevant risks, contingencies and mitigating measures as well as consolidated risk reports to be submitted to the ALC.
- Monitoring of market, credit, liquidity and other relevant risks and reviewing and approving goals, operations and control procedures as well as risk tolerance levels based on market conditions.

Market Risk

<u>Qualitative information</u>

a) Description of qualitative issues related to the Comprehensive Risk Management process.

The objective of the Bank’s market risk management function is to identify, measure, monitor, limit, control, inform and disclose the various risks to which the institution is exposed.

The Board of Directors establishes the RMC, whose objective is to manage the risks to which the institution is exposed, and to oversee that transactions adhere to the risk management purposes, policies and procedures and the global and specific risk exposure limits previously approved by the Board of Directors.

Market risk, as defined by the institution, is the "risk that market prices and rates on which the Bank has taken positions – interest rates, foreign exchange rates, stock prices, etc. – move adversely relative to positions taken, thus causing losses to the Bank; that is, the potential loss arising from changes in risk factors relating to the valuation or expected results of assets, liabilities or contingent liability transactions, such as interest rates, foreign exchange rates, price indexes, among others.

The main market risks to which the Bank is exposed, can be generally classified in accordance with the exposure of its portfolios to variances of the different risk factors, as follows:

- Currency or exchange risk.- This risk arises in open positions of currencies other than the local currency, which lead to exposure to potential losses due to variances in the exchange rates involved.

- Interest rate risk.- This risk results from having to maintain assets and liabilities (real, nominal or notional) with various maturity or depreciation dates. Thus, exposure to changes in the interest rate levels is created.

- Stock risk.- This risk emerges from maintaining open positions (purchase or sale) with stock or stock-based instruments. Thus, exposure to changes in the market price of stock or stock-based instruments is created.

- Volatility risk.– The volatility risk is related to financial instruments with options so that their price depends, among other factors, on volatility perceived in the option's underlying asset (interest rate, stock, exchange rate, etc.)

- Base or margin risk. This risk arises when an instrument is used as hedge of another one and each is valued using different rate curves (for instance, a government bond hedged by an interbank rate derivative) so that the market value may differ leading to hedge imperfections.

(Continued)

- Credit Risk Margin. - It is the risk of incurring losses in the price of corporate bonds, bank or sovereign in foreign currency for credit changes in the credit perception of the issuer.

b) Principal elements of market risk management methodologies.

The Bank measures elected to identify and quantify the Market Risk exposure are Value at Risk (VaR) and "Present Value of a Basis Point" (PVBP) calculations, which measure the sensitivity to interest rates. Both risk measures are monitored on a daily basis compared to market risk exposure limits duly approved by Management. Additionally, stress testing is performed. Furthermore, it is important to mention that to calculate VaR and PVBP, all of the Bank's positions are marked to market.

Value at Risk (VaR)

The VaR is the statistical measure of a portfolio's maximum potential loss arising from changes in market risk factors of the financial instruments for a given holding period. Therefore, the VaR calculation is based on specific levels of confidence and holding periods. Since January 2006, the VaR is obtained by Historical Simulation with total valuation, considering 500 historic changes in the market risk factors. The Board of Directors, at the Risk Committee's proposal, has set a confidence level of 99% with a 1-day holding period; accordingly, the VaR level represents the maximum loss that that the Bank could possible experience in one day with a 99% probability.

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

The PVBP is a technique to measure the market risk exposure resulting from changes in interest rates. This measure shows the potential loss that results from a one basis point change in interest rates used to determine the price of financial assets and liabilities, marking to market all of the positions in financial instruments sensitive to interest rates.

The purpose of the Forward PVBP (F-PVBP) is to measure the effect of interest rate changes on financial instruments subject to interest rates. In this sense, the F-PVBP is based on the assumption of a scenario in which the forward rates implied in the curve increase by one basis point.

Surcharge risk

By surcharge risk we understand the potential adverse fluctuation in the value of positions of financial instruments with surcharge (floating government bonds) due to market fluctuations in such risk factor.

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Base risk

Base risk is the term used for describing the risk that exists for the movement of a market (due to internal factors) with respect to others. The base risk increases when an instrument is used for hedging another one and the instrument prices are set by two different interest rate curves.

These differences are caused by the various existing characteristics between markets, which are:

- Regulation
- Individual market restrictions
- Calendars
- Conventions (basis in rates)

Credit Spread (CS01)

The Credit Spread Risk or CS01 is used to control the risk of keeping the bonds issued by the private sector, the value of which may vary due to changes in the credit rating of the issuers.

Such credit rating is reflected in the profit differential with respect to sovereign bonds. HSBC employs market risk limits to control the sensitivity that value may experience in these positions due to changes in the credit rating of issuers.

Vega or Volatility Risk

The Bank takes positions in instruments that are sensitive to changes in implicit market volatility, such as interest rate options and foreign exchange. Vega limits are used to control the risks associated with such market volatilities.

Stress testing

This is a technique that takes into consideration extreme values occurring isolatedly but which are unlikely based on the distribution of probabilities assumed for the market risk factors, but in case it happens this could generate from moderate to severe impacts. The generation of stress testing scenarios for analyzing the sensitivity of the Bank's positions and the interest rate risk exposure is performed on the basis of hypothetical scenarios. Both positive and negative changes are considered to measure the impact on the portfolios of the Bank.

(Continued)

At the same time, the base PVBP forward is linearly extrapolated to the hypothetical scenarios (assuming that the portfolio is perfectly linear) so as to compare both calculations and obtain the implied convexity. In addition stress tests are performed in relation to exchange rates and share prices.

Methods for Validation and Calibration of Market Risk models

In order to detect in a timely manner any decrease in the prediction quality of the model, automatic data loading systems are in place, thus preventing manual data inputting. Furthermore, for the purpose of measuring the efficiency of the VaR estimation model, back-testing is performed. This type of test allows verification that the maximum estimated losses, on average, do not exceed the reliability level established, comparing the profits/losses that would have been generated had the portfolio been held during the VaR holding period. Back-testing is reinforced by performing hypothesis testing procedures.

As for the PVBP, it has been compared with the sensitivity of the portfolios to market quotations. The results of these tests confirm the accuracy of the models. In order to reinforce the validation and verification of the various risk factors, a set of matrices has been designed that show the behaviour of different risk factors selected in order to check their reasonableness in relation to the values prevailing in the financial markets and verify the current value and the value on the preceding business day for consistency.

Portfolios subject to VaR and PVBP calculation

For a detailed and precise portfolio management, and adhering to the international (IAS) and local (Local GAAP) standards or effective market risk management, the Market Risk management of HSBC Mexico has perfect control of the portfolio structure. Such specific classification should at all times be comprehensible from an accounting viewpoint. This allows for calculating the risk measures (sensibility, potential loss and stress measures) for any sub-portfolio aligned with the accounting.

The market risk area calculates the VaR and PVBP for the Bank’s total portfolio and specific Accrual and Total Trading portfolios so as to monitor the Bank’s own and trading positions.

Global VaR is estimated for each portfolio. Additionally, VaR is broken down by risk factors (Interest Rates and Foreign Exchange Rates and Interest rate, FX and Shares volatilities).

(Continued)

PVBP is presented by segment of the forward curve (Buckets), for both peso and dollar interest rates.

In accordance with the International Accounting Standard (IAS) 39, the Money Market Trading (MMT) and BST (Balance Sheet Trading) portfolio should be part of the Total Trading portfolio for purposes of calculating the market VaR and of the Accrual portfolio for calculating the PVBP.

Stress testing is performed for the Bank's portfolio and the Total Trading and Accrual portfolios. Furthermore, a special stress test is performed for Available for Sale and Hedging Securities.

Quantitative information

As follows it is going to be presented, the Bank's VaR and PVBP and the Total Trading and Accrual portfolio sub-division for the 4Q of 2010 (in million of dollars).

The VaR & PVBP limits shown correspond to the latest updating of Market Risk Limits approved by the Group's Board of Directors and the Risk Committee.

Value at Risk (VaR) (All risk factors being considered)

	The Bank		**Total Trading ****		**Accrual**	
	Average Q4 2011	**Limits**	**Average Q4 2011**	**Limits**	**Average Q4 2011**	**Limits**
Total	13.77	40.00	2.89	27.50	11.99	40.00
Rates	9.39	45.00	1.78	N/A	8.59	40.00
Credit margin	9.44	24.00	1.75	4.00	7.71	24.00
Exchange rates	0.33	7.00	0.33	7.00	N/A	N/A
Interest rates volatility	0.10	8.00	0.09	N/A	0.00	2.00
FX rates volatility	0.07	2.00	0.07	2.00	N/A	N/A
Equities	0.02	2.50	0.02	2.50	N/A	N/A

** Total Trading Include: Trading Desk, BST, MMT, Strategic FX and Equity

(Continued)

Global Market Value at Risk (VaR) (Compared to last quarter)

	September 30, 2011	December 31, 2011	Limits *	Q3 2011 average	Q4 2011 average
Bank	24.03	13.15	40.00	15.12	13.77
Accrual	11.57	11.43	40.00	11.93	11.99
Total trading	12.07	2.30	27.50	3.90	2.89

* *Absolute value*, N/A = Not Apply

The Bank's VaR at the end of the 4Q of 2011 was 45.28% higher than compared to the 3Q 2011. During the period, VaR levels remained below the limits set by management.

The Bank's average VaR for the 4Q of 2011 decrease 8.93% in respect of the average VaR for the 3Q 2011.

Comparison of Market risk VaR to Net Capital

Below a comparative VaR average against Net Capital table as of September 30 and December 31, 2011; in millions of dollars:

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

	September 30, 2011	December 31, 2011
Total VaR *	15.12	13.77
Net Capital **	3,282.62	3,237.20
VaR / Net Capital	0.46%	0.42%

* Quarterly Average VaR of the Bank (absolute value)
** Net Capital of the Bank at the end of quarter

(Continued)

(Thousands of Mexican pesos)

Average market VaR represented 0.43% of net capital in 4Q in 2011.

Present Value of a Basis Point (PVBP) for Peso Interest Rate

	Sep 30, 2011	Dec 31, 2011	Limits *	Average Q3 2011	Average Q4 2011
Bank	(0.031)	0.017	1.650	(0.800)	(0.005)
Accrual	(0.013)	0.069	1.250	(0.591)	0.019
Trading desk	0.063	(0.015)	0.450	(0.122)	0.023
Balance sheet trading	(0.081)	(0.036)	0.210	(0.087)	(0.048)

* Absolute value N/A - Not Apply

The Bank's PVBP in local interest rate at the end of Q4 2011 changed by 154.84% as compared to Q3 2011, The Bank's average PVBP for Q4 2011 varied by 99.38% as compared to Q3 2011.

Present Value of a Basis Point (PVBP) for Dollar Interest Rates

	Sep 30, 11	Dec 31, 11	Limits*	Q3 average 2011	Q4 average 2011
Bank	(0.110)	(0.123)	0.300	(0.096)	(0.114)
Accrual	(0.101)	(0.118)	0.300	(0.106)	(0.105)
Trading desk	(0.021)	(0.017)	0.100	(0.006)	(0.017)
Balance sheet trading	0.012	0.012	0.070	0.016	0.008

* Absolute value N/A - Not applicable

The Bank's PVBP in US dollars interest rate at the end of Q4 2011 changed by 11.82% as compared to the PVBP at the end of Q3 2011. The Bank's average PVBP for Q4 2011 changed by 18.75% as compared to the average PVBP for Q3 2011.

(Continued)

(Thousands of Mexican pesos)

Present Value of a Basis Point (PVBP) for UDIS interest rates

	Sep 30, 2011	Dec 31, 2011	Limits *	Average Q3 2011	Average Q4 2011
Bank	(0.266)	(0.099)	0.350	(0.089)	(0.087)
Accrual	(0.062)	(0.063)	0.300	(0.069)	(0.063)
Trading desk	(0.193)	(0.025)	0.100	(0.007)	(0.012)
Balance sheet trading	(0.012)	(0.012)	0.050	(0.013)	(0.012)

* Absolute value N/A - Not applicable

The Bank's PVBP in UDIS interest rate at the end of Q4 2011 changed by 62.78% as compared to the PVBP at the end of Q3 2011. The Bank's average PVBP for Q4 2011 changed by 2.25% as compared to the average PVBP for Q3 2011.

Liquidity risk

Qualitative information

Liquidity risk arises primarily from gaps between the maturities of the Institution's assets and liabilities. Customer demand and time deposits mature on dates which differ from those of loans placed and investment securities.

HSBC has implemented liquidity ratio limits both in pesos and dollars. These liquidity ratios are calculated daily and compared to the limits authorized by the Assets and Liabilities Committee and confirmed by the HSBC Group. In addition, the Institution performs a daily review of cash commitments and evaluates the requirements of the principal customers for diversifying the sources of funding.

In addition, HSBC has implemented a methodology for measuring liquidity risk based on different period cash flow projections and the formulation of liquidity scenarios.

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Since 2003, HSBC implemented a liquidity contingency plan, which defines the potential liquidity-related contingencies and establishes plan responsible individuals, action plan and alternative sources of funding available to the Institution should a contingency arise. During the year, the Assets and Liabilities Committee ratified the plan.

Quantitative information

At the end of Q4 2011, HSBC liquidity ratios were USD$ 4.181 million in term up to 7 days, USD$ 2.531 million in a term of a month, USD$ 2.151 million in a term of 3 months; every scenario resulted in a positive cumulated cash flow. This is a reflection of the Entity's adequate cash flow position for the subsequent twelve months.

During the quarter, average levels were USD$ 4.770 million in 7 days, USD$ 2.916 million for 1 month, of USD$ 2.639 million for 3 months. With respect to last quarter's liquidity position was affected by transactions changes made, money market operations and long-term investment.

Credit risk

Qualitative information

For managing the credit risk at HSBC, in addition to following up on the behaviour of the loan portfolio on a regular basis, risk assessment tools are developed, implemented and monitored. The primary objective of managing the credit risk is knowing the quality of the portfolio and taking timely action for reducing potential losses associated with credit risks, complying at the same time with the Group's and Basel II policies and standards as well as Banking Commission's regulations.

Credit risk is defined as the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract with a Group member or members, that is, the potential loss on lack of payment by a borrower or counterparty. For the proper measurement of the credit risk HSBC has credit risk quantification methodologies as well as advanced information systems.

In general, the methodologies separate client risk (probability that a client defaults its payment obligations: Probability of Default) from credit or transaction risks (risk inherent to the structuring of the loan, which mainly includes the value and type of security).

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In addition, HSBC has developed policies and procedures that comprise the various loan process stages: assessment, granting, control, follow-up and recovery.

During the last quarter of 2007, the MRC (Credit Reserve Module) system was implemented in order to enhance the functionality of the Rating System (SICAL). The commercial portfolio internal rating model is currently applied (Rating Matrix). This model is the key element in connection with the performance of the rating risk process. In principle, the Rating Matrix determines client rating based upon an analysis of three fundamental areas: payment capacity, payment history, and performance status. Afterward, the credit rating is obtained from the client rating adjusted in terms of the period in which the client has issued financial statements, shareholders' support and security, among others. Both ratings, client and credit, range from 1 to 10, with 1 representing the minimum risk and 10 representing the maximum risk.

Based on the endorsement granted by the Banking Commission the SICAL is used for calculating the regulatory credit reserves using the customer risk rating provided by the Rating Matrix. This rating has a direct correspondence with the debtor's regulatory ratings. The commercial portfolio ratings, as to allowance for loan losses, go from risk level A to E.

The loan loss reserves for the consumer and mortgage portfolios are determined in accordance with the General Dispositions Applicable to the Credit Institution issued by the Banking Commission, using specifically the standard methodology.

With the purpose of establishing a better credit risk management and measurement infrastructure for commercial loans, a new risk assessment tool has been implemented: Moody's Risk Advisor (MRA), which allows for a more profound assessment of the creditworthiness of customers based on the relevant financial and qualitative information. Since October 2006, management have implemented three new models for rating customer risk for the commercial portfolio (for small, medium and large sized entities).

The Bank developed eight models to obtain a rating of the risk to which the business portfolio clients with annual sales of up to USD$700 million dollars are exposed. These models were implemented in October 2010 (These models where obtained as a result of the statistical analysis of the different economic activities, which resulted in four major segments that, in turn, are subdivided by the sales level, greater than or lower than $100,000.)

It is important to point out that these models were reviewed and approved by experts in model development from the Group main office.

In addition to the above mentioned models, the Bank has implemented the following global models that were developed by the Group Main Office.

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► A model to evaluate the global clients (GLCS), applicable to mayor corporate offices with sales equal to or greater than USD $700 million.
► A model for banking financial entities (RAfBanks).
► Eleven models for non-banking financial entities (NBFI DST).

The implementation of the models mentioned in earlier paragraphs was accompanied by a new customer risk rating scale known as Customer Risk Rating (CRR), which has 23 levels of which 21 are clients without failure of payment and two for clients in failure of payment, 1.1 being the minimum risk level and 10.0 the maximum. Such scale has direct relationship with the Probability of Default and allows for a more granular measurement of the credit rating of customers.

In relation to the estimation of the loss severity, which represents the economic loss expressed as a percentage of the default exposure that the Bank would face once the client is in default, the Bank developed a local model for business and corporate clients, which was implemented in February 2011. On the other hand, for banking financial institutions, the Bank implemented a model developed by the Group Main Office in June 2010.

In relation to the default exposure, the Bank also developed locally a model for business and corporate clients, which was implemented in October 2010. Likewise, the default exposure for the banking financial entities is estimated based on the guidelines set forth by the Group Main Office.

The models developed locally in order to estimate the loss severity and the default exposure described in the above paragraphs were reviewed and approved by experts in model development from the Group Main Office.

In mid 2006, HSBC introduced the profitability model adjusted for risk of the commercial loan portfolio, which measures profitability in relation to each client. During the Q1 2011, new versions have been implemented.

Also as part of the risk management and measurement infrastructure there is an automated system that allows for managing, controlling and properly following up on the commercial loan approval process of the Commercial Banking, known as Workflow Authorisation (SIPAC). This system allows for finding out the status of the loan application during any process stage. For Corporate Banking, HSBC uses HSBC's Group global "Credit approval and Risk Management" system (CARM).

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Additionally and for the purpose of improving the management of collateral in commercial loans, since 2006 a new system called “Garantías II“ was implemented. Last, it is important to mention that a system is in place “Líneas III“ for controlling limits and the use of lines of credit since their approval.

An efficiency assessment of consumer and mortgage loan originating models is performed on a quarterly basis, for verifying that the population being assessed by the model is similar to the population used for constructing the model, that the model continues to have the ability to distinguish delinquent customers from those who are not and that the model continues to award high ratings to customers with lesser risk. The model is recalibrated or replaced when an efficiency deviation is detected.

As part of the management of the consumer and mortgage loan portfolios monthly reports are issued for measuring creditworthiness. Reports are segmented by product and include general portfolio statistics, measures of distribution by level of default, default measures by date of opening, transition reports by level of default, etc. Also, the portfolio expected loss is determined monthly. The expected loss model currently being used considers a two-dimensional approach where each loan is assigned a Likelihood of Default and a percentage of Severity of Loss. The model is calibrated for estimating losses expected over an annual horizon and was prepared using the previous portfolio experience.

Quantitative information

At December 31, 2011, the expected loss for the consumer and mortgage portfolios is $5,228,576, which represents 10.5% of the balance of these portfolios and which represents a change of $98,072 (1.8%) compared with the expected loss at Q3 2011. The expected loss for the commercial portfolio at December 31, 2011 is $5,366,763, representing a change of $336,677 (6.7%) compared to Q3 2011.

Operational risk

Qualitative information

Operational risk is the risk of loss arising from internal processes, people and systems failure or external events including technological and legal risks.

To handle these risks, a specialized central unit has been created, which is assisted by medium-level officers who, as part of their own business units or support areas, report to the specialized central unit and are responsible to communicate the Group’s operational risk management framework. Both the central unit and the team of officers operate in accordance with the policies, procedures and methodologies approved by the Risk Management Committee and documented in manuals and other instruction documents in respect of the Group’s management of operational risks and internal control.

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The corporate governance structure which underpins the function is complemented by the Operational Risk and Internal Control Committee and by the Operational Risk Management Group which operate as sub-committees of the Risk Management Committee and which are responsible for compliance with the relevant applicable standards and regulations as well as knowing and understanding the risk profile of the company, establishing the risk management priorities, evaluating the strategies and plans for risk mitigation and to monitor risk exposure and mitigation measures on an ongoing basis.

Annually and for the eight consecutive year the whole operational risks were identified and reassessed throughout the Group structure, during 2011. During the year, all recognizable risks were designated, described and classified into thirteen general categories: Compliance, Trust, Legal, Information, Accounting, Tax, Internal Fraud, External Fraud, People, Physical/Stability, Business Continuity, Technological/Systems and Operations.

Technology risk

The area of information technology (IT) maintains an adequate control technology risk through the guidelines of the Group related to methodologies and standards: FIMs (Functional Instruction Manual), RBPM (risk-based project management), and BIM (procedures general and local work instructions HTS).

In conjunction with the operation structure, the HTS is also in line with the guidelines of other manuals and procedures, among others, the Operations FIM; the foregoing is due to the fact that it is the service and technology solution provider entity for the different channels and business lines of the Bank.

As part of its governance structure, the Bank follows up the topics and requirements of the local authority through its compliance area, where one of its main functions is the constant assessment of the risk and the monitoring of the compliance with local law.

As part of its strategic planning, the HTS keeps as one of its pillars the one related to regulation topics.

The principal methologies used in the technological risk valuation are:

I. Through a streamlined governance structure, safe and reliable: designed to maintain proper control of technological risks and response capabilities for all banking services provided at the various distribution channels. The risk is managed in the high-level committees: HTS Steering Committee, Risk Management Committee (RMC), Operational Risk & Internal Control Committee (ORICC) and Group Operational Risk Management (GGRO).

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II. The above is carried out with the updating and testing of different scenarios for the Business Continuity Plans (BCP) and its corresponding disaster recovery plan (DRP) for events that required the positioning of its operation in alternative sites.

III. Risk and Control Assessment (RCA).

IV. Information technology project management through the standard tool of the group (Risk-Based Project Management - RBPM).

V. Risk management with the active involvement of an area specialized in internal control, including the management of the operation, handling and administrative risks of the internal, external and statutory audits.

VI. This is carried out with a measurement tool and control scorecard that enables the measurements of the main objectives defined in its strategic planning, which in general refers to the system availability, the project and budget compliance in terms of time and quality and that are presented in different forums and committees for decision-making purposes.

Legal risk

Legal risks which could give rise to financial loss, sanctions or reputational damage, have been defined as follows:

- Contractual: This is the risk that the rights or obligations in a contractual relationship are inadequate, including: misrepresentations, documentation, unintended consequences, unintended breaches, enforceability and external factors;
- Litigation: It consists of the risks to which one is subject to when an actual or potential litigation situation occurs, and includes both the exposure and the litigation handling;
- Legislative: It is the risk of noncompliance with the laws of the different jurisdictions and includes: the compliance with such regulation and its amendments;
- Non contractual rights: It is the risk that assets are not duly appropriated, that other parties breach the rights related to such assets or that the rights of the other party are breached, including infringement, ownership interest and legal liability.

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On the other hand, policies, controls and procedures are designed to enable the identification, measurement and control of the legal risk in order to avoid potential financial losses and operation errors. The specific risks that are intended to be mitigated are as follows:

- Contractual; That the agreements are executed based on misleading, false or incomplete statements; that documentation is collected in an inappropriate manner, that it is incomplete or it is not duly recorded; that contractual provisions vary based on the parties' intention, that clauses are uncertain or inadequate; that binding relationships arise from documentation not intended to be binding; that the business understanding is insufficient or the compliance with the agreement is insufficient; that the recourse right is restricted or limited; that there is not a fair procedure for dispute resolution; that the agreement is unenforceable according to its terms, that the agreement is subject to objection due to external factors of parties that have remedies beyond the terms of the agreement.
- Litigation: That there is exposure to the highest litigation risks and that the appropriate steps are not taken in order to solve actual or potential litigations.
- Legislative: The noncompliance with the applicable regulation and the fact that restrictive or burdensome regulations become effective or that new laws are passed without previous preparation or identification or without a timely reaction in consequence.
- Lack of non-contractual rights: The infringement of third party rights, the lack of appropriation or of an adequate ownership protection or that the ownership of certain assets is potentially subject to objection, and/or that they can be legally awarded due to a common-law matter.

Likewise, some institutional policies have been complied with, the required procedures in relation to the operation risk and internal control have been established, statutory audits have been carried out, the estimation of potential losses arising from adverse legal resolutions has taken place and the historical database on the legal resolutions, its causes and costs have been established.

<u>Quantitative Information (Operational Risk including Legal and Technological Risks)</u>

The measure of operational risks resulting from the 8° evaluation exercise carried out during the autumn of 2011, and taking into account the update performed at the end of December, the composition of risks shows a total of 358 identified and evaluated risks, distributed in: 3% (10) type A, 15% (61) type B, 44% (160) type C and 38% (127) type D, classified in turn in accordance to their primary category in the following page.

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(Thousands of Mexican pesos)

Risk Category	Quantity	Percentage
Compliance	55	15.36%
Legal	26	7.26%
Information	39	10.89%
Accounting	12	3.35%
Tax	5	1.40%
Physical/Stability	6	1.68%
External Fraud	23	6.42%
Internal Fraud	18	5.03%
People	18	5.03%
Bussiness Continuity	13	3.63%
Systems/Technological	38	10.61%
Operations	105	29.34%
Total	358	100.00%

Also, the Bank keeps a historical database since 2007, in which the operation loss incidents are recorded. The materiality threshold for the individualized report for these types of incidents is equivalent to USD10,000 in local currency and minor events are recorded in a single entry.

The cumulative operation loss in 2011 was of USD$60 million.

Both the risks and the loss incidents are recorded on the corporate platform designed expressly for the operation risk and internal control management.

(30) Credit policies -

Management constantly reviews the consistency between the objectives, guidelines and policies, supporting infrastructure (processes, appropriate personnel and computer systems) and functions of credit origination and management within the Bank, ensuring at all times, irrespective in carrying out their activities to avoid conflicts of interest, in addition those activities performed by the Comprehensive Risk Management process.

Credit promoting -

Promotion of retail credit (individuals) and commercial (individuals with small business and companies) is performed through a branch, internet and / or other means, according to business areas.

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Credit evaluation -

Qualitative and quantitative evaluations to approve and grant the different types of financing is done through individual or parametric methods, using models or opinion of highly qualified personnel that meet the standards of the Basel II and the Banking Commission established independently by the area of credit risk.

Credit approval -

Only the highest level by the Board of Directors are empowered to approve individual commercial loans, who in such case, may be delegated to other local officials experienced, considering the level of risk of potential borrowers and their operations.

Credit approval by parametric methods, is performed using automated systems to analyze customer information, based on minimum reuired information which is standardized data and information, which shed weight for a favourable outcome has been previously defined by the risk area.

Instrumentation -

The legal department is responsible for the implementation of all credit transactions, including processing of all credit contracts, promissory notes and the issuance of the opinion of the legal capacity of their applicants.

Monitoring, control and recovery -

The rating of the loan portfolio is made according to the methodology and procedures to comply with the Group standards, Basel II and the Banking Commission, determined by the area of credit risk.

Credit records are concentrated in specialized facilities and are administered by accredited, while parametric loans are integrated by credit.

Monitoring, administrative or judicial recovery, including the assignment of loan portfolio, involves fair treatment of customers and considering best practices, according to criteria established by the business areas, collections, legal and/or credit risk, as appropriate, as well as the areas and people who perform the role of comprehensive risk management.

To ensure a risk-based approach, that is consistent with the problematic exposure and minimizes potential losses, management requirements and criteria that must be met are established, which responsibility is of the area of analysis and credit approval.

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Officials of the segments are responsible for detecting early warnings of broken profiles of their credit portfolios, as well as gather the necessary information for analysis and monitoring, within the management process.

The control and monitoring of credit activity is complemented by the internal audit function, independent of the business and administrative areas.

(31) Recently issued accounting standards -

a) On October 5, 2011 it was published in the DOF a resolution amending the "Dispositions", which changed the criteria B-6 "credit portfolio" which will enter into force on March 1, 2012.

Among other changes are the following:

- Fees charged by the granting of credits: It was established the deferral of those fees for renewal of loans, under the straight method during the new term of the loan.
- Restructuration and renovations: new conditions are established to consider as current existing loans that are restructured or renewed and will require additional disclosures.

As consequence of the adoption of these changes, the administration is reviewing, implementing and evaluating the impact that it will have in the company figures.

b) The CINIF has issued the FRS and Improvements listed below:

FRS B-3 *"Statement of comprehensive income"-* FRS B-3 supersedes FRS B-3 "Statement of Income", Bulletin B-4 "Comprehensive Income" and the FRS Guideline 1 "Presentation or disclosure of the operating income or loss", and is effective beginning January 1, 2013. The principal changes with respect to the superseded FRS B-3 include the following:

- The comprehensive income can be displayed in one or two statements as follows:

  I. In one statement: all the line items that comprise the net income or loss, as well as other comprehensive income (OCI) and the equity in the OCI of other entities shall be presented in one single document and shall be named "Statement of Comprehensive Income".

II. In two statements: the first statement shall include solely the line items that comprise the net income or loss and shall be named "Statement of Income" and, the second statement shall bring forward the net income or loss reported at the end of the statement of income and present right away the OCI and the equity in the OCI of other entities. This statement shall be named "Statement of Other Comprehensive Income".

- The OCI shall be presented right after the net income or loss.
- Items shall not be presented in a segregated manner as non-ordinary, neither in the financial statement nor in the notes to the financial statements.
- Certain points are clarified regarding the items that shall be presented as part of the comprehensive financial results.
- "Other income and expenses" shall regularly include amounts that are not relevant and shall not include operating items (such as gain or loss on sale of property, plant and equipment and the ESPS); thus, it is not required that it be presented in a segregated manner.

FRS B-4 *"Statement of changes in stockholders' equity"*- FRS B-4 is effective for fiscal years beginning January 1, 2013 and is applicable retrospectively. It mainly requires that the following be presented in a segregated manner under the statement of changes in stockholders' equity:

- Reconciliation between the initial and final balances of the line items that comprise the stockholders' equity.
- If applicable, retrospective adjustments arising from accounting changes and error corrections, which have an effect on the initial balances of each of the line items that comprise the stockholders' equity.
- Give a breakdown of ownership transactions relating to owners' equity in the entity.
- Reserve transactions.
- Comprehensive income in one line item, but broken down into all the items that comprise it: net income or loss, other comprehensive income, and the equity in the other comprehensive income of other entities.

2012 FRS Improvements

In December 2011 the VINIF issued the document entitled "Improvements to FRS 2012" which contains some specific modifications to FRS. The improvements that generate accounting changes are the following:

- **FRS A-7 "Presentation and disclosure"-** FRS A-7 revises and adds certain paragraphs in order to clarify disclosure requirements with respect to key assumptions used at the end of the accounting period, to determine accounting estimates that imply uncertainty with a relevant risk of generating significant adjustments in the carrying amount of assets or liabilities in the following accounting period. These Improvements are effective beginning January 1, 2012 and are retrospectively applicable.

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- **FRS C-1 "Cash and cash equivalents"-** FRS C-1 requires the presentation of restricted cash in the line item of "cash and cash equivalents", if the restriction expires within the twelve months following the date of the statement of financial position or in the regular course of the entity's operations. If the restriction expires at a subsequent date, it shall be classified as a long-term asset and named "restricted cash and cash equivalents". This revision is effective for fiscal years beginning January 1, 2012 and is retrospectively applicable.

- **Bulletin C-11 "Stockholders' equity"-** Elimination of recognition of donations received by for-profit entities in the contributed stockholders' equity. This revision is effective for fiscal years beginning January 1, 2012 and is prospectively applicable as to changes in valuation and retrospectively applicable as to changes in presentation.

- **Bulletin C-15 "Impairment of long-lived assets and their disposal"-** Elimination of the "not in service" requirement to classify a long-term asset as available-for-sale. Previously recognized goodwill impairment losses shall not be reversed and impairment losses shall be presented and reversed in the statement of income under the line items of costs and expenses in which the depreciation or amortization associated with the respective assets is recognized, unless it relates to a permanent investment in associated companies. These improvements are effective for fiscal years beginning January 1, 2012 and are prospectively applicable as to changes in valuation and retrospectively applicable as to changes in presentation.

Management estimates that the effects of the 2012 FRS Improvements will be immaterial or will not apply because of existing criteria of the Banking Commission.