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

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Boulevard Manuel Ávila Camacho 176
Col. Reforma Social
11650 México, D.F.

Teléfono: + 01 (55) 52 46 83 00
Fax: + 01 (55) 55 96 80 60
www.kpmg.com.mx

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:

(Millions of pesos)

We have audited the accompanying consolidated financial statements of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries (the Bank), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with the accounting criteria for credit institutions in México, established by the National Banking and Securities Commission (the Banking Commission), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and subsidiaries for the years ended December 31, 2012 and 2011 have been prepared, in all material respects, in accordance with the accounting criteria for credit institutions in Mexico issued by the Banking Commission.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

As described in note 4 to the accompanying consolidated financial statements, on October 1, 2012, the Bank stopped using the internal methology for commercial portfolio rating authorized by the Banking Commission to use now to the general rules established by such Commission. As a consequence, the Bank released reserves for $1,240, which was recorded in the "Allowance for loan losses" caption of the consolidated statement of income.

As mentioned in note 12 to the accompanying consolidated financial statements, during 2011 the Banking Commission issued several changes to the general dispositions applicable to credit institutions in México, related to the methologies for the rating of consumer credit, mortgage and commercial portfolios granted to federative entities and their municipalities. As a consequence, the Bank recognized a charge in the sotckholders' equity for $289 ($202, net of deferred tax) related to non revolving consumer portfolio and recognized credits in the results of 2011 for $207 and $109 for the mortgage and commercial credits granted to federative entities and their municipalities, respectively.

Other matters

Previously, and on February 13, 2012, we issued our audit report on the consolidated financial statements as of December 31, 2011 and for the year then ended in accordance with auditing standards generally accepted in Mexico. As required by the Mexican Institute of Public Accountants, International Standards on Auditing (ISAs) are mandatory in Mexico for audits of financial statements commencing after January 1, 2012; consequently, our audit report on the figures of the consolidated financial statements for 2012 and 2011 is issued on the basis of ISAs.

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

C.P.C. Ricardo Delfín Quinzaños

February 21, 2013

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

Consolidated Balance Sheets

December 31, 2012 and 2011

(Millions of pesos)

Assets	**2012**	**2011**
Cash and cash equivalents (note 6)	$ 55,846	51,224
Margin accounts (note 7)	53	27
Investment securities (note 8):		
Trading	36,338	43,313
Available-for-sale	97,339	111,164
Held-to-maturity	6,481	7,270
	140,158	161,747
Debtors under agreements to resell (note 9)	7,706	5,749
Derivatives (note 11):		
Trading	43,312	42,550
Hedging	37	356
	43,349	42,906
Current loan portfolio (note 12):		
Commercial loans:		
Commercial activity	109,164	101,012
Financial institutions	4,823	8,268
Government entities	28,107	25,916
Consumer loans	33,585	29,302
Residential mortgages	19,287	18,058
Total current loan portfolio	194,966	182,556
Past due loan portfolio (note 12):		
Commercial loans:		
Commercial activity	2,072	2,027
Financial institutions	3	-
Consumer loans	1,302	1,234
Residential mortgages	636	1,821
Total past due loan portfolio	4,013	5,082
Total loan portfolio	198,979	187,638
Less:		
Allowance for loan losses (note 12c)	9,381	10,900
Loan portfolio, net	189,598	176,738
Other accounts receivable, net (note 13)	31,972	29,335
Foreclosed assets (note 14)	218	203
Property, furniture and equipment, net (note 15)	7,207	8,080
Permanent investments in shares (note 16)	139	138
Deferred taxes and employee statutory profit sharing (note 24)	6,138	6,409
Other assets, deferred charges and intangible assets (notes 17 and 21)	3,076	3,506
Total assets	$ 485,460	486,062

Liabilities and Stockholders' Equity	**2012**	**2011**
Deposit funding (note 18):		
Demand deposits	$ 187,271	172,797
Time deposits:		
General public	104,358	119,297
Money market	-	1,782
Bank bonds (note 19)	4,244	4,243
	295,873	298,119
Due to banks and other institutions (notes 12b and 20):		
On demand	1,980	5,866
Short-term	19,140	24,923
Long-term	1,607	1,747
	22,727	32,536
Creditors under agreements to repurchase (note 9)	20,729	15,373
Securities lending (note 10)	-	4
Collateral sold or pledged as guarantee:		
Securities lending (note 10)	3,888	11,658
Derivatives (note 11):		
Trading	39,818	41,209
Hedging	1,103	2,087
	40,921	43,296
Other accounts payable:		
Income tax and employee statutory profit sharing (note 24)	746	795
Settlement transactions (note 13)	29,556	18,355
Sundry creditors and other accounts payable	17,511	15,422
	47,813	34,572
Subordinated debt issued (note 23)	10,196	10,488
Deferred credits	526	520
	10,722	11,008
Total liabilities	442,673	446,566
Stockholders' equity (note 25):		
Paid-in capital:		
Capital stock	5,261	5,261
Additional paid-in capital	22,357	22,357
	27,618	27,618
Earned capital:		
Statutory reserves	10,373	11,057
Accumulated losses	(202)	(202)
Unrealized gain from valuation of available-for-sale securities	902	547
Mark to market from cashflow hedges	(103)	(243)
Subsidiary dilution effect	200	-
Net income	3,997	716
	15,167	11,875
Non-controlling interest	2	3
Total stockholders' equity	42,787	39,496
Commitments and contingent liabilities (note 29)		
Subsequent events (note 32)		
Total liabilities and stockholders' equity	$ 485,460	486,062

(Continued)

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

Consolidated Balance Sheets, continued

December 31, 2012 and 2011

(Millions of pesos)

Memorandum accounts

		2012	2011
Guarantees issued (notes 12 and 27a)	$	4	14
Irrevocable lines of credit (notes 12 and 27a)		25,222	22,425
Assets in trust or under mandate (note 27b)		402,770	328,375
Assets in custody or under management (note 27d)		365,995	251,772
Collaterals received by the entity (note 8)		48,967	54,796
Collaterals received by the entity and sold or pledged in guarantee (note 8)		43,200	47,829
Investment banking transactions on behalf of customers, net (note 27c)		49,446	47,018
Uncollected interest accrued in respect of overdue credit portfolio (note 12b)		113	236
Amounts under derivative instruments (note 11)		3,060,163	1,254,501
Loan portfolio rated (note 12)		224,205	210,078
Other memorandum accounts		322,039	454,922

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, 2012 and 2011, the historical capital stock of HSBC México, S.A. amounts to $3,461."

SIGNATURE
Luis Peña Kegel
Chief Executive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
Ngar Yee Louie
Director of Internal Audit

SIGNATURE
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, 2012 and 2011

(Millions of pesos)

		2012	2011
Interest income (note 28a)	$	31,347	29,741
Interest expense (note 28a)		(11,117)	(10,190)
Financial margin		20,230	19,551
Allowance for loan losses (notes 4a and 12c)		(4,677)	(6,737)
Financial margin net of allowance for loan losses		15,553	12,814
Commission and fee income (note 12b)		8,014	7,650
Commission and fee expense		(1,794)	(1,449)
Financial intermediation income (note 28b)		2,686	2,620
Other operating income (note 28c)		3,259	5,115
Administrative and promotional expenses		(22,343)	(25,892)
Net operating income		5,375	858
Equity in the results of associated and affiliated companies, net (note 16)		35	(41)
Income before income taxes		5,410	817
Current income taxes (note 24)		(1,324)	(1,413)
Deferred income tax (note 24)		(89)	1,311
Income before non-controlling interest		3,997	715
Non-controlling interest		-	1
Net income	$	3,997	716

See accompanying notes to the consolidated financial statements.

"These consolidated statements of income 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 during the periods 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".

SIGNATURE
Luis Peña Kegel
Chief Excecutive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
Ngar Yee Louie
Director of Internal Audit

SIGNATURE
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 changes in Stockholders' Equity

Years ended December 31, 2012 and 2011

(Millions 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	subsidiary dilution effect	Net income	Non-controlling interest	Total stockholders' equity
Balances at December 31, 2010	$	5,087	20,518	12,437	-	(48)	(213)	-	420	3	38,204
Changes resulting from stockholder resolutions (note 25a):											
Transfer		-	-	-	420	-	-	-	(420)	-	-
Resolution at the Board of Director's Meeting on February 4, 2011 - Dividends paid		-	-	(1,800)	-	-	-	-			(1,800)
Resolution at the Ordinary General Stockholders' Meeting on April 28, 2011 - Reserve constitution		-	-	420	(420)	-	-	-	-	-	-
Resolution at the Ordinary General Stockholders' Meeting on November 22, 2011 - shares subscription		174	1,839	-	-	-	-	-	-	-	2,013
Total items related to stockholders' resolutions		174	1,839	(1,380)	-	-	-	-	(420)	-	213
Changes related to the recognition of comprehensive income (note 25b):											
Net income		-	-	-	-	-	-	-	716	-	716
Valuation effect of available-for-sale securities and hedging of cashflow		-	-	-	-	595	(30)	-	-	-	565
Effect of change in consumer loans methodology net of income taxes		-	-	-	(202)	-	-	-	-	-	(202)
Total comprehensive income		-	-	-	(202)	595	(30)	-	716		1,079
Balances at December 31, 2011		5,261	22,357	11,057	(202)	547	(243)	-	716	3	39,496
Changes resulting from stockholder resolutions (note 25a):											
Transfer		-	-	-	716	-	-	-	(716)	-	-
Resolution at the Ordinary General Stockholders' Meeting on April 27, 2012 - Reserve constitution		-	-	716	(716)	-	-	-	-	-	-
Resolution at the Board of Director's Meeting on October 20, 2011 - Dividends paid from the resolution taken on March 15, 2012		-	-	(1,400)	-	-	-	-	-	-	(1,400)
Total items related to stockholders' resolutions		-	-	(684)	-	-	-	-	(716)	-	(1,400)
Changes related to the recognition of comprehensive income (note 25b):											
Net income		-	-	-	-	-	-	-	3,997	-	3,997
Valuation effect of available-for-sale securities and hedging of cashflow		-	-	-	-	355	140	-	-	-	495
Subsidiary dilution effect		-	-	-	-	-	-	200	-	-	200
Non-controlling interest		-	-	-	-	-	-	-	-	(1)	(1)
Total comprehensive income		-	-	-	-	355	140	200	3,997	(1)	4,691
Balances at December 31, 2012	$	5,261	22,357	10,373	(202)	902	(103)	200	3,997	2	42,787

See accompanying notes to the consolidated financial statements.

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

SIGNATURE
Luis Peña Kegel
Chief Executive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
Ngar Yee Louie
Director of Internal Audit

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HSBC MEXICO, S. A.
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AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Millions of pesos)

	2012	2011
Net income	$ 3,997	716
Adjustments for non cash items:		
Impairment loss associated to investment activities	-	174
Cancelation of intangible assets under development	110	1,154
Depreciation of property, furniture and equipment	1,286	1,233
Amortization of intangible assets	340	606
Provisions	1,903	2,032
Current and deferred income taxes	1,413	102
Equity in the results of associated and affiliated companies	(35)	41
Non-controlling interest	(1)	(1)
	9,013	6,057
Operating activities:		
Change in margin accounts	(26)	15
Change in investment securities	22,100	(23,651)
Change in debtors under agreements to resell	(1,957)	(3,893)
Change in derivatives (assets)	(254)	(14,744)
Change in loan portfolio	(12,860)	(14,903)
Change in foreclosed assets	(15)	(41)
Change in other operating assets	(1,840)	(2,500)
Change in deposit funding	(2,246)	44,508
Change in loans from banks and other institutions	(9,809)	10,606
Change in creditors under agreements to repurchase	5,356	(19,496)
Change in securities lending (liability)	(4)	4
Change in collateral sold or pledged as guarantee	(7,770)	4,830
Change in derivatives (liability)	(2,375)	12,751
Change in subordinated debt issued	(292)	480
Change in other operating liabilities	11,393	8,059
Income taxes paid	(1,405)	(1,433)
Net cashflows of operating activities	7,009	6,649
Investing activities:		
Proceeds from sale of property, furniture and equipment	110	657
Purchase of property, furniture and equipment	(689)	(1,074)
Purchase of intangible assets	(408)	(1,953)
Others	-	(55)
Net cashflows of investing activities	(987)	(2,425)
Cashflows of financing activities from the payment of dividends	(1,400)	(1,800)
Net increase in cash and cash equivalents	4,622	2,424
Cash and cash equivalents at the beginning of year	51,224	48,800
Cash and cash equivalents at end of year	$ 55,846	51,224

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 during the periods 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 sataments of cash flows were approved by the Board of Directors under the responsibility of the undersigned officers".

SIGNATURE
Luis Peña Kegel
Chief Executive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
Ngar Yee Louie
Director of Internal Audit

SIGNATURE
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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. Institución de Banca Múltiple, Grupo Financiero HSBC (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 (LCI), 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 -

2012

The National Banking and Securities Commission (the Banking Commission) fined the bank for $379 on November 4, 2011, due to a breach of various prudential dispositions identified by that authority for the years 2007 and 2008. On July 25, 2012 the Bank settled the fine, recognizing a debit in the consolidated statement of income under "Other operating income, net".

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 $1,699, 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 in the following page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Legal entity		Sale price	Book value	Profit
HSBC México, S. A.	$	370	199	171
Inmobiliaria Bisa, S. A. de C. V.		384	119	265
Inmobiliaria Bamo, S. A. de C. V.		11	5	6
Inmobiliaria Banga, S. A. de C. V.		8	5	3
Inmobiliaria Guatusi, S. A. de C. V.		18	6	12
Inmobiliaria GBM, S. A. de C. V.		56	27	29
Inmobiliaria GRUFIN, S. A. de C. V.		198	64	134
Total	$	1,045	425	620

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

(2) Authorization and basis of presentation

On February 21, 2013, Luis Peña Kegel (Chief Executive Officer), Gustavo Ignacio Méndez Narváez (Chief Financial Officer), Ngar Yee Louie (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)

The consolidated financial statements have been prepared 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 Accounting Criteria say that a lack of specific accounting of the Banking Commission for credit institutions, or in a broader context of Mexican Financial Reporting Standards (FRS), apply the supplementary bases under FRS A-8 and only if the international financial reporting standars (IFRS for its acronym in English) referred to the FRS A-8, not provide solutions to the accounting recognition, its may choose to apply a default that belong to any regulatory scheme, provided it complies with all requirements mentioned in the FRS it being necessary to apply the supplementary in the following order: the accounting principles generally accepted in the United States of America (US GAAP) and any accounting standard that forms part of a formal and recognized standards.

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

The consolidated financial statements of the Bank recognize assets and liabilities related to purchase and sale of foreign currencies, investment securities, repurchase agreements and derivative financial instruments at the date the transactions are entered, regardless of the settlement.

(3) Summary of Significant Accounting Policies-

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts if assets and liabilities and disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during exercise. Significant items subject to such estimates and assumptions include the carrying value of investment securities and derivatives, repos, securities lending, allowance for loan losses, foreclosed assets, employee retirement benefits and deferred income taxes. Actual results may differ from these estimates and assumptions.

(Continued)

(Millions of pesos)

The significant accounting policies applied in the preparation of the consolidated financial statements are as follows:

a) ***Recognition of the effects of inflation -***

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:

			Inflation	
December 31		**UDI**	**Annual**	**Accumulated**
2012	$	4.8746	3.90%	12.31%
2011		4.6913	3.64%	12.11%
2010		4.5263	4.29%	15.09%
		=====	=====	======

b) ***Basis of consolidation -***

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 and SPE at December 31, 2012 and 2011. In the following two pages are detailed the subsidiaries, SPE, and the percentage of the shareholding of the Bank as at December 31, 2012 and 2011.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Activity and subsidiary	Shareholding in 2012	Shareholding in 2011
Real estate		
Inmobiliaria Bisa, S. A. de C. V.	99.99%	99.99%
Inmobiliaria Grufin, S. A de C. V.	100.00%	100.00%
Inmobiliaria Guatusi, S. A. de C. V.	100.00%	100.00%
Inmobiliaria el Nuevo París, S. A. de C. V.	100.00%	100.00%
Edificaciones Prime, S. A. de C. V.	100.00%	100.00%
Promoción en Bienes y Raíces, S. A. de C. V[1].	5.04%	100.00%
HSBC Inmobiliaria México, S. A. de C. V.	99.96%	99.96%
Inmobiliaria GBM Atlántico, S. A. de C. V.	99.99%	100.00%
Inmobiliaria Banga, S. A. de C. V.	99.99%	100.00%
Inmobiliaria Bamo, S. A. de C. V.	99.90%	100.00%
Financial services		
HSBC Servicios Financieros, S. A. de C. V.	100.00%	97.31%
No operation, but still does not start the process legal of dissolution or liquidation:		
Mexicana de Fomento, S. A. de C. V.[5]	71.33%	100.00%
Almacenadora Banpacífico, S. A. de C. V.	99.99%	99.99%
Inmobiliaria Banci, S. A. de C. V.[2]	5.84%	100.00%
Desarrollo Turístico, S. A. de C. V.[3]	38.98%	100.00%
Operadora de Hoteles de Mazatlán, S. A. de C. V.[4]	-	100.00%

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

(Continued)

[1] On August 31, 2012 HSBC LAH joined as new shareholder of the company, making a capital increase. As a result of this increase the Bank's share was diluted to only 5.0427%, and consequently, lost control and stopped consolidating from that date.

[2, 3 y 5] The Bank ceased to consolidate its subsidiaries Inmobiliaria Banci, S. A. de C. V. and Desarrollo Turístico, S. A. de C. V., due to the dilution of its shareholding in Promoción en Bienes Raíces, S. A. de C. V. (PBR) mentioned in the previous point, who participated of 99.92% stake of Inmobiliaria Banci, S. A. de C. V., 64.26% of Desarrollo Turístico, S. A. de C. V. Also, PBR held a 30.19% stake of the capital of Mexicana de Fomento, S. A. de C. V. which was diluted.

[4] On December 19, 2012 this entity was liquidated, so from that date is not consolidated with the Bank.

Special Purpose Entities (SPE)

As of December 31, 2012 and 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, 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 benefits of the assets and liabilities, which purpose is the investment in high credit ranking debt denominated in pesos. As of December 31, 2012 and 2011, the amount of the investment in debt through this SPE amounts to $5,371 and $5,519, respectively, 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, 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 benefits of the assets and liabilities, which purpose is the acquisition of bonds issued by a foreign entity, which are secured by M-Bonds. As of December 31, 2011, the amount of Bonds amounts to $4,697, which are included as part of the securities available-for-sale. At December 31, 2012 this SPE has no operations.

- Irrevocable administrative trust 1052 (Su Casita or Trust 1052) created in April 2011 upon the execution of the acknowledgment of debt and payment 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 "patrimonio 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 capital loans. As of December 31, 2012 and 2011, "patrimonio A" amounts to $364 and $391, respectively, which is included under the Residential Mortgages loans item in the consolidated balance sheet.

(Continued)

c) 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. Moreover, results from valuation and sale of precious metal coins and currency are grouped in the consolidated statement of income under the caption "Financial intermediation".

d) Margin accounts -

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

e) Investment securities-

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

<u>Trading securities-</u>

Trading securities are bought and held principally to be sold in the near term. Debt securities and equities are initially and subsequently marked to market at a price 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".

(Continued)

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 income 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 consolidated statement.

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 2012 and 2011, there were no transfers between categories.

(Continued)

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.

f) Securities under 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.

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 dispositions of the Central Bank, any repurchase transaction, 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.

(Continued)

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.

g) 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".

h) 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 consolidated statement of income. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

i) 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".

The debit and credit balances of clearing accounts are cleared as long as they have the contractual right to offset the amounts recorded at the same time, there is an intention to the settle on a net basis or to realize the asset and settle the liability simultaneously.

j) 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 repayments –When interest have a period of 90 days past due or the principal 30 or more days overdue.

(Continued)

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 or more of past due.

Mortgage loans, when the outstanding balance of a loan has unpaid instalments for 90 or more days overdue.

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 consolidated statement of income at the moment of reclassification.

k) Restructured loans –

The Bank has eligibility for credit restructuring, wich generally consider that the terms of such restructuring is based on the repayment capacity of borrowers depending on each of the different types of credit.

Non-performing loans that are restructured or renewed remain within nonperforming loans, while there is no evidence of sustained payment.

Loans with a single payment of principal to maturity and periodic interest payments and credits with a single payment of principal and interest at maturity that are restructured during the term of the loan or renewed at any moment shall be considered as non-performing loans until there is evidence of sustained payment.

Those categorized as revolving credit, which are restructured or renewed at any time shall be deemed performing only when the borrower any liquidated all of the accrued interest, the credit is not in arrears, and counts with elements indicating the ability to pay of the debtor.

(Continued)

Performing, loans other than those mentioned in the two preceding paragraphs, which are restructured or renewed shall be deemed to remain performing only if they meet the following:

- The life of the loan is bellow 80% of the original term of the loan, when the borrower has:

i) Covered all of the accrued interest, and
ii) Covered the principal of original loan amount, which at the time of the renewal or restructuring should have been covered.

- If the loan is restructured or renewed during the course of the final 20% of the original term of the loan, when the borrower has:

i) Paid all accrued interest
ii) Covered the entire original loan amount that at the date of the renewal or restructuring should have been covered and also covered 60% of the original loan amount.

Should not all the conditions described above meet, then they are considered to be past due from the moment they are restructured or renewed, and until there is evidence of sustained payment.

l) Allowance for loan losses –

The allowance for loan losses, according to the administration, is sufficient to cover any losses that may arise from loans in its portfolio of loans and credit risk guarantees and irrevocable loan commitments. The allowance for loan losses is established as follows:

Rated loans - The loan portfolio is classified according to the rules issued by the Ministry of Finance and Public Credit (SHCP for its acronym in spanish) based on the "General provisions applicable to credit institutions" (the "Regulations") issued by the Banking Commission, using the standard methodology for commercial loans with balances of less than 4,000,000 UDIS, consumer and mortgage. The methodology distinguishes credit risk ratings and based on this determines the reserve. Until September 30, 2012, the Bank used an internal methodology authorized by the Banking Commission for the calculation of reserves for commercial loans with balances greater than 4,000,000 UDIS, except for states and municipalities and investment projects, and from October 1, 2012 the Bank applies the general methodology established by the Banking Commission

(Millions 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 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 consumer 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.

(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 Official Gazette of the Federation (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".

m) 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.

n) 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 consolidated statement of income 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.

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.

(Continued)

(Millions of pesos)

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

Elapsed months since the date of foreclosure or lieu of payment		Percentage of the allowance 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

o) 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 15.

p) 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.

q) 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.

(Continued)

"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.

r) 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.

s) 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.

(Continued)

t) 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.

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

Termination benefits other than restructuring and retirement to which employees are entitled are recorded in the consolidated statement of income, based on actuarial computations using the projected unit credit method, considering the projected salaries. At December 31, 2012 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 14 years approximately for post-retirement benefits.

Actuarial gains or losses are recognized in the consolidated statement of income 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.

v) Share-based payment-

The Bank offers different 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. The vesting period of the grant of such programs varies between one and three years in average.

w) Revenue recognition -

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

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

(Continued)

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 income. 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 earned.

x) 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 consolidated statement of income during the year.

y) 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 ($1,950 as of December 31, 2012) per depositor and per institution, in conformity with the decree published in the DOF on December 14, 2000. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

z) 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)

aa) 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.

(4) Changes in accounting policies -

a) On October 1, 2012, the Bank discontinued using the internal methodology for grading the commercial portfolio authorized by the Banking Commission to start using the general rules established by the Commission. Due to the above, the Bank released reserves by $1,240, which were recorded under "Allowance for loan losses" in the consolidated statement of income.

b) The Bank maintained its policy for creating reserves for its mortgage portfolio when the accounts showed a 24 months delay in payment. This is based on its best estimate of the time that the chances of recovering the portfolio were minimum. During the year 2012, the Bank conducted a study to update this estimate and thereof in April 2012, amended its write off policy for past due mortgage loans and delayed payments was reduced to seven. Due to the above, the Bank increased the allowance for loan losses related to loans in the mortgage portfolio, recording a charge to income for the year by $659 in the "Allowance for loan losses”.

c) On October 5, 2011, the DOF issued the resolution amending the accounting criteria B-6 "Loan Portfolio" of the "Dispositions", which entered into force on March 1, 2012. Among the changes are the following:

- Fees charged by the granting of credit: The deferral of these renovations credit fees under the straight line method during the new term of the loan.

- Restructures and renewals: New conditions to consider as current loans the loans that were restructured or renewed and requires additional disclosures.

(Continued)

d) On July 5, 2012, the SHCP published in the DOF a resolution amending the accounting criteria B-10 "Trusts" of the "Dispositions" set changes are listed below:

- It incorporates the term "trust asset".

- It specifies how the trust asset shall be valued by those trusts that apply for and, if, obtain and maintain the registration of its securities on the National Register of Securities, said asset shall be valued based on the accounting rules for such effects that the Banking Commission established by the "Dispositions" applicable to securities issuers and other market participants.

- It specifies that the special accountings of operations performed by each trust agreement must match the account balances of the memorandum accounts in which the entity recognizes the trust asset.

e) On July 5, 2012, the SHCP published in the DOF, a resolution amending the accounting criteria C-5 of the "Dispositions" "Consolidation of special purpose entities", in which it is stated that, for purposes of consolidation, the financial statements of special purpose entities (SPEs) should be adjusted based on the criteria or policies applicable to the consolidated entity, even if by express provision of the Banking Commission, the SPE uses different criteria or policies to those applied to the consolidated entity.

f) On October 23, 2012, the SHCP published in the DOF amendments to Articles 57 and 238 of the "Dispositions", stating that:

- To determine the net positions in favor of an institution from derivatives transactions, the institutions must offset receivables and payables arising from transactions that are entered into with any counterparty. Such compensation shall be done for balances that are held with the same counterparty, without differentiating the type of instrument, the underlying asset, currency and term.

- To determine the net positions in favor of an institution from derivatives transactions, institutions may consider cash deposits pledged as collateral only to reduce credit balances that guarantee such deposits. In any case, the remaining balance of the deposits considered to reduce credit balances should be considered within the concept of financing and related parties should be considered within the amount of operations mentioned in the second paragraph of Article 73 of Law.

(Continued)

g) In December 2011 the Mexican Committee of Mexican Financial Reporting Standards (CINIF) issued improvements in the FRS A-7 "Presentation and Disclosure" and Bulletin C-15 "Impairment of long-lived assets and their disposal", which entered into force on January 1, 2012. The improvements are listed below:

- In the FRS A-7 some paragraphs were modified and added to clarify certain disclosure requirements regarding the key assumptions used at the end of the reporting period, in determining accounting estimates that involve uncertainty with a significant risk of causing significant adjustments to the carrying value of assets and liabilities within the next financial year.

- The Bulletin C-15 eliminates the requirement of "not in use" to classify a long-lived asset as available for sale. Establishing the non-reversal of impairment losses of goodwill already recognized and establishes presentation and impairment losses reversed in the income statement in the line of costs and expenses which recognizes the depreciation or amortization associated with related assets, except in the case of permanent investment in associates.

These improvements became effective for annual periods beginning on, or after January 1, 2012 and its application is prospective in terms of changes in valuation, and retrospective in terms of changes in presentation.

The effects of the application of changes in accounting criteria, FRS and Dispositions, were not significant.

(5) 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 December 31, 2012 and 2011, the maximum exposure permitted as of December 31, 2012 and 2011, amounts to USD$444 and USD$376, respectively.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

The foreign currency position as of December 31, 2012 and 2011 is analyzed as follows:

	(Millons of dollars) 2012	2011
Assets	29,056	24,146
Liabilities	(29,349)	(24,191)
Net liabilities	(293)	(45)

The exchange rate of the peso to the dollar as of December 31, 2012 and 2011 was $12.9658 and $13.9476, respectively. The exchange rate on February 21, 2013, the date of issuance of the consolidated financial statements was $12.7699 pesos per dollar.

(6) Cash and cash equivalents -

At December 31, 2012 and 2011, cash and cash equivalents are analyzed as follows:

		2012	2011
Cash	$	12,630	11,083
Deposits with domestic and foreign banks		5,310	7,043
Guaranteed deposits		-	5
Other cash equivalents		11	16
Restricted cash and cash equivalents:			
Central Bank deposits		32,542	32,504
Bank loans with maturity up to three days		-	171
24 and 48-hour foreign currency purchases		22,487	21,259
24 and 48-hour foreign currency sales		(17,134)	(20,857)
	$	55,846	51,224

At December 31, 2012 and 2011, cash balances valued in Mexican pesos by currency included in the cash and equivalents caption is as follows:

Currency		Exchange rate 2012	2011		2012	2011
Mexican peso	$	-	-	$	12,430	10,778
Dollar		12.9658	13.9476		198	300
Euro		17.1382	18.1039		2	5
				$	12,630	11,083

(Continued)

(Millions of pesos)

At December 31, 2012 and 2011, the Bank did not have deposits in dollars with the Central Bank.

At December 31, 2012 and 2011, 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.

At December 31, 2012, HSBC has no call money loans with 3-day maturities.

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

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

At December 31, 2012 and 2011 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

		2012		2011	
Currency		**Purchased**	**Sold**	**Purchased**	**Sold**
Dollar	$	21,105	(16,684)	17,840	(17,611)
Sterling		15	(15)	29	(16)
Euro		664	(423)	3,112	(3,221)
Brazilian real		703	-	271	-
Other currencies		-	(12)	7	(9)
	$	22,487	(17,134)	21,259	(20,857)
		========	========	======	=======

(7) Margin accounts -

As of December 31, 2012 and 2011, the margin accounts relates to deposits at the MexDer, Mercado Mexicano de Derivados, S. A. de C. V. amounting to $53 and $27, respectively.

(Continued)

(Millions of pesos)

(8) Investment securities -

At December 31, 2012 and 2011 the Bank's investments in securities are analysed as follows:

		2012		2011	
Trading *:					
Government securities	$	27,669		37,578	
Banking promissory notes		1,847		2,088	
Bonds		1,298		1,653	
Equities		5,524	36,338	1,994	43,313
Available-for-sale *:					
Government securities		93,140		108,237	
Bank securities		1,840		-	
Corporate securities		2,359		2,916	
Equities		-	97,339	11	111,164
Held-to-maturity *:					
Special CETES of the UDIS Trusts:					
Mortgages		4,161		3,988	
States and municipalities		603		578	
		4,764		4,566	
Transferred securities:					
Bonds		1,717	6,481	2,704	7,270
Total investment securities		$	140,158		161,747
			======		=======

* 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 2012 and 2011, the Bank did not record any transfers between categories of investment securities.

(Continued)

(Millions of pesos)

Collateral

At December 31, 2012 and 2011 securities pledged and received as collateral, including collateral sold or pledged as a guarantee were as follows:

		2012	2011
Pledged (Restricted securities) (note 9):			
Trading securities	$	16,033	9,814
Securities available for sale		5,804	7,531
Securities held to maturity		-	2
	$	21,837	17,347
Received (in memorandum accounts) (notes 9 and 10):			
In respect of repo transactions	$	45,064	40,230
In respect of securities loan:			
Fixed income		3,903	14,566
	$	48,967	54,796
Collateral sold or pledged as guarantee:			
In respect of repo transactions *(note 9)*	$	35,306	34,490
In respect of securities loan:			
Fixed income		7,894	13,339
	$	43,200	47,829

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, 2012 and 2011, 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)

(Millions of pesos)

At December 31, 2012 and 2011 the Bank maintains, investments (other than government securities), from the same issuer exceeding 5% of the Bank's net capital of $2,365 and $2,258, respectively, for a total value of $5,535 and $6,575, respectively, as follows:

Issuer	Symbol	Series	Amount	Rate
2012				
Brazilian government	BNTN071	140101	$ 4,918	9.76%
Brazilian government	BRAZX87	130617	617	10.25%
			$ 5,535	
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	

Classification of investment securities -

At December 31, 2012 and 2011, the classification of investment securities in accordance to their nominal term of the securities portfolio in short and long term, is as follows:

		2012		2011	
Securities		**Short term**	**Long term**	**Short term**	**Long term**
Trading	$	29,210	7,128	22,652	20,661
Available-for-sale		22,673	74,666	4,328	106,836
Held-to-maturity		340	6,141	872	6,398
	$	52,223	87,935	27,852	133,895
		$ 140,158		$ 161,747	

The weighted averages of maturity terms in years (unaudited), of investments in securities classified by categories at December 31, 2012 and 2011 is shown below:

Securities	2012	2011
Trading	1.38	1.22
Available-for-sale	4.12	2.54
Held-to-maturity	8.48	8.02

(Continued)

(Millions of pesos)

The weighted average rates and interest income from securities at December 31, 2012 and 2011(see note 28), is shown below:

		2012		2011	
Securities		**Interest**	**Rate**	**Interest**	**Rate**
Trading	$	1,275	3.38%	1,152	3.01%
Available-for-sale		5,130	5.01%	6,356	6.65%
Held-to-maturity		332	4.83%	371	4.96%
	$	6,737		7,879	
		=====		=====	

During the years ended December 31, 2012 and 2011, the net losses and gains in respect of available for sale securities were $16 and $11, respectively.

During the years ended December 31, 2012 and 2011, the Bank did not record any losses caused by impairment in available for sale or held to maturity securities.

The gain derived from the valuation of available for sale securities recognised in the stockholders' equity at December 31, 2012 and 2011 were $1,737 and $1,761, respectively. In addition during 2012 and 2011, the Bank reclassified to the statement of operations $1,230 and $911, respectively, on the sale of various available for sale securities. Due to the above the net effect on the consolidated statements of changes was for $507 ($355, net of deferred tax) and $850 ($595, net of deferred tax), respectively.

(9) Securities under repurchase/resell agreements -

The debtor and creditor balances in respect of sale and purchase of repo transactions at December 31, 2012 and 2011, are analyzed as follows:

		Purchaser		Seller	
		2012	**2011**	**2012**	**2011**
Repo operations	$	43,012	40,239	20,729	15,373
Collaterals sold or pledged		(35,306)	(34,490)	-	-
	$	7,706	5,749	20,729	15,373
		======	======	======	======

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Below is shown the type and total amount by type of asset of the 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, 2012 and 2011:

		2012				2011			
		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	$	12,019	10,602	38	9	8,379	6,972	40	19
CETES		3,541	30,727	4	2	747	6,998	4	5
UMS		3,233	-	1,134	-	4,479	-	1,750	-
BPAT		-	707	-	2	-	24,041	-	8
BPAS		-	-	-	-	232	-	7	-
BONDES M		2,618	3,028	1,055	2	3,052	-	1,758	-
BONDES182		-	-	-	-	-	2,219	-	31
Bank notes									
IBANOBRA		426	-	15	-	456	-	13	-
Corporate notes									
Corporate notes		-	-	-	-	2	-	27	-
	$	21,837	45,064			17,347	40,230		
		=====	======			======	======		

During the year ended December 31, 2012, interest income and expense from repo agreements, recognised in the consolidated income statement amounted to $2,063 and $2,914 respectively ($997 and $2,608, respectively in 2011) (note 28).

(10) Collateral sold or pledged as a guarantee -

At December 31, 2012 and 2011, the collateral received in stock borrowing transactions and sold or pledged as a guarantee is shown as follows:

	2012				2011			
	Securities		Amount	Average term	Securities		Amount	Average term
Cetes	101,953,570	$	1,012	2	64,673,580	$	643	3
Bonds	25,892,639		2,705	2	98,062,187		10,945	3
Udibonos	315,302		171	2	135,506		70	13
		$	3,888			$	11,658	

Securities lending transactions outstanding at December 31, 2012 and 2011, have earned premium payable of $22 and $4, respectively, which are recognised in the securities lending account in the consolidated balance sheet.

(Continued)

During the years ended December 31, 2012 and 2011, interest expense arising from securities lending transactions recognised in the consolidated statement of income, amounted to $16 and $25, respectively.

(11) 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.

(Millions 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 30.

If the primary position had not been covered with the derivative financial transactions mentioned earlier, there would have been an adverse impact of $54 and $83 in the results of operations for 2012 and 2011, respectively.

Fair value hedges

In respect of fair value hedges, at December 31, 2012, hedging instrument losses and gains in respect of the hedged position were $241 and $259, respectively and ($746 and $753, respectively in 2011)

Cash flow hedges

At December 31, 2012, the periods in which cashflows in respect of cashflow hedges are expected to occur are as follows:

	2013	**2014**	**2015**
Swaps in US dollars	62	59	11

The total amount recognised in comprehensive income during 2012 in respect to fair value changes in effective cash flow hedges was a profit of $263 (profit of $42 in 2011).

The amount reclassified from comprehensive income to the income statement for the years ended on December 31, 2012 and 2011 in respect of the unamortized fair value of re-designated hedges and in respect of the sale of the hedged positions (bonds) was an income of $90 and $16 respectively which was registered in “Financial intermediation income”.

During 2012 and 2011 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 $27 and $15, 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, 2012 and 2011, the memorandum account “Amounts under derivative instruments”, and fair value valuation are analyzed as shown in the following page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Millions of pesos)

December 31, 2012

		Notionals								Fair Value								
		FX		Interest rate		Shares		Total		FX		Interest rate		Shares		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	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading																		
Futures	$	868	-	65	-	-	-	933	-	-	-	-	-	-	-	-	-	-
Forwards		190,278	188,193	300,950	330,000	1,299	6,816	492,527	525,009	3,057	1,344	64	175	3	1	3,124	1,520	1,604
Options		19,212	19,157	31,913	-	-	-	51,125	19,157	-	-	106	54	-	-	106	54	52
Swaps		182,809	159,266	1,039,775	955,723	-	-	1,222,584	1,114,989	19,098	17,456	20,984	20,788	-	-	40,082	38,244	1,838
		393,167	366,616	1,372,703	1,285,723	1,299	6,816	1,767,169	1,659,155	22,155	18,800	21,154	21,017	3	1	43,312	39,818	3,494
Hedge																		
Swaps		-	1,533	12,325	9,402	-	-	12,325	10,935	-	121	37	982	-	-	37	1,103	(1,066)
		-	1,533	12,325	9,402	-	-	12,325	10,935	-	121	37	982	-	-	37	1,103	(1,066)
	$	393,167	368,149	1,385,028	1,295,125	1,299	6,816	1,779,494	1,670,090	22,155	18,921	21,191	21,999	3	1	43,349	40,921	2,428

December 31, 2011

		Notionals								Fair Value								
		FX		Interest rate		Shares		Total		FX		Interest rate		Shares		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	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading																		
Futures	$	-	-	439	-	-	-	439	-	-	-	-	-	-	-	-	-	-
Forwards		157,902	157,002	-	-	-	-	157,902	157,002	3,878	2,978	-	-	-	-	3,878	2,978	900
Options		13,783	13,755	9,741	8,484	-	-	23,524	22,239	440	433	77	58	-	-	517	491	26
Swaps		144,505	136,680	435,926	435,076	-	-	580,431	571,756	21,854	21,295	16,301	16,445	-	-	38,155	37,740	415
		316,190	307,437	446,106	443,560	-	-	762,296	750,997	26,172	24,706	16,378	16,503	-	-	42,550	41,209	1,341
Hedge																		
Swaps		-	5,742	43,500	6,870	-	-	43,500	12,612	-	958	356	1,130	-	-	356	2,087	(1,731)
		-	5,742	43,500	6,870	-	-	43,500	12,612	-	958	356	1,130	-	-	356	2,087	(1,731)
	$	316,190	313,179	489,606	450,430	-	-	805,796	763,609	26,172	25,664	16,734	17,633	-	-	42,906	43,296	(390)

(Continued)

(Millions of pesos)

At December 31, 2012 and 2011, 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, 2012 and 2011, the credit risk in respect of derivative financial instruments, amounted to $6,428 and $5,608, respectively.

During the years ended December 31, 2012 and 2011, 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 $945 and $995, which were fully reserved.

Compensation and net exposure to credit risk in derivatives

The Bank has the right to compensate 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, 2012 and 2011 was $27,828 and $20,841, respectively.

(12) Loan portfolio -

At December 31, 2012 and 2011 the loan portfolio and the credit commitments are analyzed as follows:

		2012	2011
Total loan portfolio, shown in the consolidated balance sheet	$	198,979	187,638
Recorded in memorandum accounts (note 27a):			
Guarantees		4	14
Lending commitments		25,222	22,425
	$	224,205	210,077

(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, 2012 and 2011, 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)

(Millions of pesos)

	Trade or business activity		Financial institutions		Government entities		Consumer		Residential mortgages		Total	
Portfolio	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Current:												
Pesos	$ 84,157	73,622	4,593	8,138	27,458	24,491	33,585	29,302	18,063	16,569	167,856	152,122
Foreign currency	25,007	27,390	230	130	649	1,425	-	-	-	-	25,886	28,945
UDIS	-	-	-	-	-	-	-	-	1,224	1,489	1,224	1,489
Total	109,164	101,012	4,823	8,268	28,107	25,916	33,585	29,302	19,287	18,058	**194,966**	**182,556**
Past due:												
Pesos	1,236	1,234	3	-	-	-	1,302	1,234	554	1,586	3,095	4,054
Foreign currency	836	793	-	-	-	-	-	-	-	-	836	793
UDIS	-	-	-	-	-	-	-	-	82	235	82	235
Total	2,072	2,027	3	-	-	-	1,302	1,234	636	1,821	**4,013**	**5,082**
Total:												
Pesos	85,393	74,856	4,596	8,138	27,458	24,491	34,887	30,536	18,617	18,155	170,951	156,176
Foreign currency	25,843	28,183	230	130	649	1,425	-	-	-	-	26,722	29,738
UDIS	-	-	-	-			-	-	1,306	1,724	1,306	1,724
Total	**$ 111,236**	**103,039**	**4,826**	**8,268**	**28,107**	**25,916**	**34,887**	**30,536**	**19,923**	**19,879**	**198,979**	**187,638**

Classification by activity

	Trade 2012	Trade 2011	FI 2012	FI 2011	Gov 2012	Gov 2011	Consumer 2012	Consumer 2011	Mortgages 2012	Mortgages 2011	Total 2012	Total 2011
Manufacturing	$ 61,349	56,259	-	-	-	-	-	-	-	-	61,349	56,259
Agriculture, forestry and fishing	9,469	8,038	-	-	-	-	-	-	-	-	9,469	8,038
Trade and tourism	21,893	24,004	-	-	-	-	-	-	-	-	21,893	24,004
Services	18,525	14,738	-	-	-	-	-	-	-	-	18,525	14,738
Financial services	-	-	1,546	1,562	-	-	-	-	-	-	1,546	1,562
Credit Unions	-	-	932	1,162	-	-	-	-	-	-	932	1,162
Lessors	-	-	-	-	-	-	-	-	-	-	-	-
Municipalities	-	-	-	-	1,280	1,653	-	-	-	-	1,280	1,653
States	-	-	-	-	8,716	7,731	-	-	-	-	8,716	7,731
Credit to the Federal Govermment (support programs)	-	-	-	-	582	758	-	-	-	-	582	758
Other govenment entities (see note 12a)	-	-	-	-	17,529	15,774	-	-	-	-	17,529	15,774
Others to financial organizations	-	-	2,348	5,544	-	-	-	-	-	-	2,348	5,544
Automobile credit	-	-	-	-	-	-	2,669	2,896	-	-	2,669	2,896
Credit Card	-	-	-	-	-	-	17,374	16,189	-	-	17,374	16,189
Multicredit	-	-	-	-	-	-	13,504	9,975	-	-	13,504	9,975
Fixed payment	-	-	-	-	-	-	1,340	1,476	-	-	1,340	1,476
Construction and housing	-	-	-	-	-	-	-	-	19,923	19,879	19,923	19,879
	$ 111,236	**103,039**	**4,826**	**8,268**	**28,107**	**25,916**	**34,887**	**30,536**	**19,923**	**19,879**	**198,979**	**187,638**

Past due loans by aging

	Trade 2012	Trade 2011	FI 2012	FI 2011	Gov 2012	Gov 2011	Consumer 2012	Consumer 2011	Mortgages 2012	Mortgages 2011	Total 2012	Total 2011
From 1 to 180 days	$ 689	419	3	-	-	-	1,286	1,178	540	644	2,518	2,241
From 181 to 365 days	133	990	-	-	-	-	15	56	96	502	244	1,548
From 1 to 2 years	495	272	-	-	-	-	1	-	-	669	496	941
More than 2 years	755	346	-	-	-	-	-	-	-	6	755	352
	$ 2,072	**2,027**	**3**	**-**	**-**	**-**	**1,302**	**1,234**	**636**	**1,821**	**4,013**	**5,082**

NOTE: The amounts above are for cumulative amounts of principal (for 2012 $198,065 and 2011 $168,612) and interest (for 2012 $914 and 2011 $1,026) 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	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Portfolio rating risk												
A-Minimum	$ 102,942	51,270	3,543	4,955	11,362	6,825	7,563	7,074	17,337	16,707	142,747	86,831
B-Low	28,932	69,038	1,283	3,312	8,124	10,264	24,077	20,557	2,135	1,773	64,551	104,944
C-Medium	3,428	4,290	-		15	48	1,907	1,574	448	1,392	5,798	7,304
D-High	297	183	-	-	-	-	1,302	1,281	3	7	1,602	1,471
E-Irrecoverable	863	698	-	-	8	7	38	50	-	-	909	755
	$ 136,462	**125,479**	**4,826**	**8,267**	**19,509**	**17,144**	**34,887**	**30,536**	**19,923**	**19,879**	**215,607**	**201,305**
Allowance and percentage												
A-Minimum	$ 571	331	21	44	58	63	44	39	45	42	739	519
B-Low	1,287	3,259	65	157	385	395	2,362	1,983	115	109	4,214	5,903
C-Medium	1,238	1,305	-		3	19	725	581	150	525	2,116	2,430
D-High	211	130	-	-	-	-	893	875	2	5	1,106	1,010
E-Irrecoverable	863	698	-	-	8	7	38	48	-	-	909	753
	4,170	5,723	86	201	454	484	4,062	3,526	312	681	9,084	10,615
Additional reserves	35	24	-	-	-	-	200	184	62	77	297	285
	$ 4,205	**5,747**	**86**	**201**	**454**	**484**	**4,262**	**3,710**	**374**	**758**	**9,381**	**10,900**
General and specific allowances												
General	$ 571	331	21	44	58	63	45	39	58	43	753	520
Specific	3,634	5,416	65	157	396	421	4,217	3,671	316	715	8,628	10,380
	$ 4,205	**5,747**	**86**	**201**	**454**	**484**	**4,262**	**3,710**	**374**	**758**	**9,381**	**10,900**

(Continued)

(Millions of pesos)

Unsecured loans to IPAB:

On September 27, 2002, the Bank granted a $47,357 (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. 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. In accordance to the aforementioned agreement, the total balance was split into four tranches of $7,265 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 2012 and 2011 no prepayments were received. As of December 31, 2012 and 2011, the outstanding balance of this loan amounted to $8,016 and $8,015, 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. These discounts were applied in each payment of the loans subject to the program. On July 15, 2010, the Bank signed an agreement with the Federal Government for an early termination of the support programs for housing loans. This early termination scheme (ETA, for its acronym in Spanish) consisted that the qualified loans received on or before December 31, 2010 the benefit of the discount on the unpaid balance of the loan. The discount absorbed by the Federal Government will be paid to the Bank in five equal installments, the first in December 2011 and the rest in the months of June of the years 2012-2015, to which they will add a financial cost, based on the 91 days treasury certificates rate. The payment of each installment is subject to the delivery of a series of reports to the Banking Commission. As of December 31, 2012 and 2011, the amount receivable from the Federal Government in connection with discounts granted and the costs related to the Bank and the ETA are analyzed as follows:

		2012		2011	
		Portfolio	**Cost**	**Portfolio**	**Cost**
ETA/BADCV	$	582	10	758	50
		===	==	===	==

(Continued)

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

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

[a] Through communications issued in April 2011, the Banking Commission requested the replacement of the exhibits for the year ended on December 31, 2010, and subsequently, during the issuance of the report on the correct application (ETA report) on September 29, 2011, where the portfolio balances and the related discounts decreased for, with 28 credits defined as not subject to the ETA, 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 the Federal Government, in the event of complying with such condition.

(Continued)

(Millions of pesos)

As of December 31, 2010, the discount related to the Federal Government was reclassified to be presented as part of the accounts receivable from the Federal Government which are 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 December 31, 2010	$	70
Debt forgiveness, discounts and/or rebates		(2)
Conditioned discount assigned to the Bank		(550)
Allowance charged to the consolidated statement of operations		496
Final balance		14

Determination of obligations of the Federal Government:

The final base amount determined through the ETA Report is $944, divided in five installments of $189 each. The first installment was received on December 31, 2012 and the remaining installments will be payable on the first banking day of June, from 2013 to 2015. Accordingly, the balance receivable as of December 31, 2012 and 2011 by ETA amounts to $566 and $755, respectively, of principal, plus $15 and $3 corresponding to the accrued not collected financial cost.

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

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

(Continued)

(Millions of pesos)

At December 31, 2010 there were some clients that did not meet the requirements to be incorporated into to ETA. However, in accordance with 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, 2012 and 2011, amount to $20 and $82, respectively.

The numbers of securities related to BADCV that are held by the Bank at December 31, 2012 are shown as follows:

				Number of securities	
Program	**Trust number**	**Term**	**Due date**	**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

(a) Additional loan portfolio information -

<u>Commission by type of loan</u>:

For the years ended at December 31, 2012 and 2011, commissions by type of loan included in commissions and fees collected within the consolidated statements of income, are presented in the following page.

(Continued)

(Millions of pesos)

		Amount	
		2012	2011
Commercial	$	383	410
Consumer		2,009	2,228
Mortgage		40	56
Total	$	2,432	2,694

Below shows the increases in deferred credits account for the initial granting of credits for the years ended at December 31, 2012 and 2011.

		Amount Commissions	
		2012	2011
Commercial	$	16	10
Consumer		269	126
Mortgage		23	22
Total	$	308	158

During the years ended at December 31, 2012 and 2011, $212 and $290, respectively, were recorded corresponding to the accrued commissions by the initial granting of credits of the period, using the straight line method, which were registered in the line "Interest Income" in the consolidated statement of income. The average weighted period (in months) for such commissions and fees are as follows:

Commercial	33
Consumer	46
Credit cards	12
Mortgage	198

The initial costs and expenses for the issuance of credits related to the years ended December 31, 2012 and 2011 amounts to $141 and $147, respectively. These amounts relate to payment of commissions and underwriting credits.

Annual weighted lending rates:

During 2012 and 2011, the annual weighted lending rates (unaudited information) were as shown in the following page.

(Continued)

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	2012	**2011**
Commercial loans	10.04%	10.63%
Financial entities	2.38%	4.48%
Personal loans	26.41%	26.08%
Mortgages loans	10.16%	9.77%
Government entities	6.07%	6.47%

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, 2012 and 2011, the amount of loans granted under these programmes amounted to $10,662 and $11,410, respectively, and the related liability is included in "Due to banks and other institutions".

Restructured and renewed loans:

At December 31, 2012 and 2011, restructured and renewed loans are analyzed as follows:

		2012			
		Renewed and restructured portfolio			**Modified**
		Past due Restructured(1)	**Transferred to past due(2)**	**Stayed current (3)**	**Not Considered as restructured (4)**
Commercial loans	$	673	694	10,136	7,764
Government entities		-	-	9,369	-
Consumer loans		16	-	32	-
Credit card		103	-	255	-
Mortgage loans		92	-	652	-
	$	884	694	20,444	7,764

		2011		
		Loan portfolio		
		Past due	**Current**	**Total**
Commercial loans	$	505	15,122	15,627
Consumer loans		3	19	22
Credit card		109	378	487
Mortgage loans		190	342	532
	$	807	15,861	16,668

(1) Nonperforming loans that was restructured or renewed.
(2) Restructuring or renewals of loans with a single payment of principal at maturity and periodic interest payments and credits with a single payment of principal and interest at maturity, which were transferred to past due loans for been restructured or renewed.
(3) Restructured or renewed loans that remained in current portfolio under paragraphs 57 to 61 of Criteria B-6 "loan portfolio" of Annex 33 of the Provisions.
(4) Modified loans that were not considered as restructured according to paragraph 62 of Criteria B-6 "loan portfolio" of Annex 33 of the Provisions.

(Continued)

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For the years ended December 31, 2012 and 2011, the amount of interest income recognised due to the restructuring of overdue loans was $1 each year. 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 depending on the applicable program. For the years ended December 31, 2012 and 2011, NAFIN supported $3,685 and $3,692, respectively.

Restructuring processes carry some portion forgiveness of principal, interest and late payment fees, which at December 31, 2012 and 2011, amounted to $28 and $13, respectively.

Past due loan portfolio

Nominal interest that would have accrued in 2012 from the past due loan portfolio amounted to $113 ($236 in 2011).

An analysis of the annual movement of past due loans for the years ended December 31, 2012 and 2011, is shown as follows:

		2012	2011
Balance at beginning of year	$	5,082	5,344
Transfers from current to past due loan portfolio		12,297	13,432
Transfers to current loan portfolio by restructures and renewals		(492)	(392)
Credits collected:			
Cash collections		(2,738)	(1,549)
Collection in kind		(193)	(82)
Write offs		(5,817)	(5,490)
Transfer to current loan portfolio		(4,063)	(6,286)
Foreign exchange		(63)	105
Balance at end of year	$	4,013	5,082
		=====	=====

During 2012 and 2011, there were no write-offs of loans granted to related parties.

(Continued)

(Millions of pesos)

For the year ended at December 31, 2012, the amount of recoveries for those loans that were previously written-off amounted $705 ($701 in 2011).

Impaired loans:

At December 31, 2012 and 2011, the balance of impaired commercial loans is $1,168 and $889 respectively, of which $189 and $48 are recorded as current loans and $979 and $841 as past due loans, respectively.

Risk concentration:

As of December 31, 2012 and 2011, the Bank maintains three loans that exceeded the 10% limit of its basic capital of $3,695 ($3,481 in 2011). These loans represent the three main debtors of the Bank amounting to $16,722 ($18,670 in 2011) that represents the 43.58% (54.21% in 2011) of the basic capital.

Securitisation of mortgage portfolio:

Outstanding securitisation transactions as of December 31, 2012 and 2011, 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	2,474	25	1 to 30 years	8.24%	9.58%	-	-
II	2-oct-07	3,538	3,457	36	2025	8.80%	10.11%	-	-
III	4-sep-08	1,663	1,483	163	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, 2012 and 2011, 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.

(Continued)

(Millions of pesos)

		2012	2011
Original amount of the certificates		224	224
Valuation of "Available-for-sale securities" recorded on stockholders' equity	$	(69)	(49)
Trust certificates	$	155	175

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.

(b) Allowance for loan losses -

As explained in notes 3(1) and 30, an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2012 and 2011 the allowance for loan losses, analyzed in section (a) of this note is shown below:

		2012	2011
Rated loan estimate	$	9,083	10,615
Additional reserves, including past due interest		298	285
Total allowance for loan losses	$	9,381	10,900

(Millions of pesos)

The classification by risk grade of the commercial portfolio, financial entities and government entities credit reserves at December 31, 2012 and 2011, is as follows:

		2012	**2011**
A-1	$	393	152
A-2		269	292
B-1		706	1,243
B-2		558	1,885
B-3		475	685
C-1		932	980
C-2		313	357
D		214	133
E		885	705
	$	4,745	6,432

The following is an analysis of the movements of the allowance for the years ended December, 31, 2012 and 2011.

		2011	**2010**
Balance at beginning of year	$	10,900	9,297
Increase charged to income (*)		4,677	6,737
Exchange rate valuation effects		(145)	213
Effect on stockholders' equity by the change in the methodology of consumer loans		-	289
Applications:			
Write-offs		(5,506)	(4,930)
Debt forgiveness		(545)	(706)
Balance at end of year	$	9,381	10,900

(*) During the year ended December 31, 2011 the Banking Commission issued changes to the provisions relating to the methodologies for qualifying consumer loan portfolios, mortgage and commercial loans granted to states and municipalities; derived from the above the Bank recognized a charge in stockholders' equity of $289 ($202 net of deferred taxes) due to the additional allowance required under the non-revolving consumer portfolio, and recognized credits in profits in 2011 for $207 and $109 relating to surplus reserves mortgage loan portfolio and commercial loans granted to states and municipalities, respectively.

(d) Sale of written-off portfolio -

During 2012 and 2011 the Bank did not sale previously written off portfolio.

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

(Continued)

(Millions of pesos)

(13) Other accounts receivable -

At December 31, 2012 and 2011, other accounts receivable are analyzed as follows:

		2012	2011
Debtors on settlement transactions	$	19,752	17,862
Due from employees		3,075	3,040
Granted collaterals in cash		6,598	5,679
Other debtors		3,716	4,066
Preventive estimations		(1,169)	(1,312)
	$	31,972	29,335

The balance of settlement accounts recorded under other accounts payable at December 31, 2012 and 2011 was $29,556 and $18,355, respectively, and recognized in the accounting item of “settlement transactions”.

(14) Foreclosed assets -

As of December 31, 2012 and 2011, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2012		2011	
		Amount	Reserve	Amount	Reserve
Securities	$	31	(31)	31	(31)
Property					
Land		9	(6)	38	(5)
Buildings		269	(54)	224	(54)
		278	(60)	262	(59)
	$	309	(91)	293	(90)
		$ 218		203	

The charge to the income is related to the valuation reserve of foreclosed assets in 2012 amounted to $34 ($25 in 2011).

Forclosed assets includes some properties which are considered restricted because they were pledged under purchase agreement. As of December 31, 2012 these amounts to $40 for which a $14 reserve has been set up.

(Millions of pesos)

(15) Property, furniture and equipment -

Property, furniture and equipment at December 31, 2012 and 2011 are analyzed as follows:

		2012	2011	Annual depreciation and amortization rate	Useful life in years
Property	$	2,378	2,696	2% to 5%	20-50
Office furniture and equipment		1,586	1,825	10%	10
Computer equipment		4,951	5,078	Various	3 to 7
Transportation equipment		6	7	25%	4
Installation expenses		4,582	4,678	5% and 10%	10 to 20
Other equipment		2,274	2,137	Various	
		15,777	16,421		
Accumulated depreciation and amortization		(9,060)	(8,912)		
Impairment		-	(174)		
		6,717	7,335		
Land		490	745		
	$	7,207	8,080		

Depreciation and amortization charged to the consolidated statement of income in 2012 and 2011 amounted to $1,286 and $1,233, respectively.

During the years ended at December 31, 2012 and 2011 several properties were sold with a book value of $42 and $431, respectively, generating a profit of $50 and $626, respectively, which were recorded as other operating income (see note 28c).

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As a result of the evaluation to the useful life of certain property owned by subsidiaries of the Bank it was decided to extend the depreciation of these from 20 to 50 years, derived of this change the annual depreciation expense decreased in $65.

The impairment recognized in 2011 relates to property owned by Promoción en Bienes Raíces, S.A. de C.V., and as mentioned in footnote 3(b) this subsidiary stopped being consolidated in 2012.

(16) Permanent investments in shares -

Investments in associates and other permanent investments

At December 31, 2012 and 2011, permanent investments in shares classified by activity, are analyzed as follows:

		2012	2011
Associated and affiliated companies:			
Supplementary banking services	$	113	121
Mutual funds		8	8
Security and protection		4	4
		125	133
Others		14	5
	$	139	138

The recognition of the equity in the results of associated and affiliated companies represented an income of $35 in 2012 (loss of $41 in 2011).

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

At December 31, 2012 and 2011 other assets deferred charges and intangibles assets include:

		2012	2011
Recoverable taxes	$	42	327
Pre-paid labour obligations (note 21)		902	792
Pre-paid services and commissions		1,342	1,555
Software, net		790	832
	$	3,076	3,506

(Continued)

(Millions of pesos)

The movement for the years ended at December 31, 2012 and 2011 of other assets, deferred charges and intangible assets are analyzed as follows:

		2012	2011
Balance at beginning of year	$	3,506	4,753
Movements for the year from:			
Taxes		(242)	(578)
Software purchases(*)		408	1,953
Cancelations(*)		(110)	(1,154)
Prepaid expenses		(37)	(836)
Others		(109)	(26)
Amortization for the year		(340)	(606)
Balance at end of year	$	3,076	3,506
		=====	=====

(*)Intangible assets consist mainly of in-house developed software, which will be amortized over a five year period. As mentioned in note 1, as a result of a corporate restructuring carried out during the years ended on December 31, 2012 and 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
2012						
Software	$	2,964	(910)	(1,264)	790	20%
2011						
Software	$	2,556	(570)	(1,154)	832	20%
		======	====	=====	===	===

At December 31, 2012 and 2011 impairment losses of $110 and $1,154, respectively were recorded in the consolidated statement of income.

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

(18) Deposits funding -

The weighted average deposit rates (unaudited) for the years ended December 31, 2012 and 2011 are analyzed as follows:

	2012			2011		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	1.30	0.05	-	1.20	0.06	-
Time deposits	3.91	0.11	0.22	3.89	0.13	0.30
	====	===	====	===	====	===

(Continued)

(Millions of pesos)

(19) Bank bonds -

On February 13, 2006, the Banking Commission authorized the Bank's bond issuance program for up to $10,000. At December 31, 2012 and 2011, the Bank has made the following issuances under the bank bonds program:

Issuance day	Reference rate	Maturity day		2012	2011
May 10, 2006 [1]	TIIE – 0.01%	May 1, 2013	$	2,000	2,000
June 29, 2006 [1]	TIIE – 0.01%	May 1, 2013		1,220	1,220
May 10, 2006 [2]	9.08%	April 27, 2016		1,000	1,000
				4,220	4,220
Accrued interest				24	23
Total of Bank bonds			$	4,244	4,243

[1] Interest payments on a monthly basis
[2] Interest payments on a semi-annual basis

(20) Due to banks and other institutions -

At December 31, 2012 and 2011, due to banks and other institutions are analyzed as follows:

		2012		2011	
		Term		Term	
		Short	Long	Short	Long
Pesos:					
Development bank [1]	$	4,675	-	5,586	1
Multiple bank (on demand)		1,980	37	5,866	-
Promotion funds [1]		3,176	1,553	2,548	1,255
		9,831	1,590	14,000	1,256
Foreign currencies translated into pesos:					
Commercial bank [2]		10,416	-	15,487	66
Development bank [1]		36	10	88	15
Promotion funds [1]		837	7	1,214	410
		11,289	17	16,789	491
Total by term	$	21,120	1,607	30,789	1,747
Total due to banks and other institutions	$	22,727		32,536	

[1] Funds granted under the development fund program (see note 12b).
[2] Resourses from related parties.

(Continued)

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At December 31, 2012 and 2011, the annual average rates (unaudited) are analyzed as follows:

	Pesos		Foreing currency	
	2012	2011	2012	2011
Development bank	6.00%	6.16%	3.35%	3.42%
Promotion funds	4.06%	4.29%	1.05%	0.98%

(21) 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.

The amounts for short-term benefits payable at December 31, 2012 amounted to $1,421 ($1,595 in 2011), and are recorded under the caption "Accrued liabilities" in the consolidated balance sheet.

Cash flows -

Contributions and benefits paid were as follows:

		Funds contributions		Paid benefits	
		2012	2011	2012	2011
Termination	$	22	15	31	2
Retirement		204	164	160	190
Other post retirement benefits		260	151	189	206
	$	486	330	380	398

(Continued)

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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 3 (u) were determined based on estimates prepared by independent actuaries at December 31, 2012 and 2011. The components of net cost of the years ended December 31, 2012 and 2011 are shown as follows:

	Benefits					
	2012			2011		
	Termination	Retire	Total	Termination	Retire	Total
Net periodic cost:						
Service cost	$ 66	30	96	68	40	108
Interest cost	35	158	193	33	161	194
Return on plan assets	(3)	(94)	(97)	(4)	(94)	(98)
Net actuarial gain or loss	(25)	31	6	(69)	33	(36)
Labour cost of past services:						
Amortization of prior services and plan amendments	-	16	16	-	18	18
Amortization of liability in transition	38	8	46	38	8	46
Effect from early settlement prior to early extinction	(8)	(35)	(43)	4	(81)	(77)
Net period cost	$ 103	114	217	70	85	155

	Other Post-retirement benefits	
	2012	2011
Net periodic cost:		
Service cost	$ 185	61
Interest cost	202	178
Return of plan assets	(186)	(185)
Net actuarial gain or loss	72	66
Plan amendments	-	234
Amortization of liability in transition	19	34
Effect from early settlement prior to early extinction	(57)	(137)
Net periodic cost	$ 235	251

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(Millions of pesos)

Below is the determination of liabilities for benefit plans at December 31, 2012 and 2011, with the applicable requirements of paragraph 130 and 131 of the FRS D-3:

2012

		Retirement benefits		Other	
		Seniority premium	Pension plan	Post-retirement Benefits	Total
Defined benefit obligation:					
Defined benefit obligation at beggining of the year	$	38	2,052	2,654	4,744
Service cost		3	27	45	75
Interest cost		3	154	202	359
Actuarial gain or loss		16	661	844	1,521
Paid benefits		(3)	(158)	(188)	(349)
Past service cost		-	-	141	141
Reduction/liquidation effect		(5)	(119)	(165)	(289)
Defined benefit obligations at end of year	$	52	2,617	3,533	6,202

2011

		Seniority premium	Pension plan	Post-retirement Benefits	Total
Defined benefit obligation:					
Defined benefit obligation at beggining of the year	$	37	2,209	2,433	4,679
Service cost		3	37	61	101
Interest cost		3	158	178	339
Actuarial gain or loss		2	40	311	353
Paid benefits		-	(190)	(206)	(396)
Past service cost		-	-	234	234
Reduction/liquidation effect		(7)	(202)	(357)	(566)
Defined benefit obligations at end of year	$	38	2,052	2,654	4,744

(Continued)

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Below is the determination of plan benefits assets at December 31, 2012 and 2011:

2012		Retirement benefit		Other Post-retirement benefits	
		Seniority premium	**Pension Plan**		**Total**
Plan assets:					
Plan assets at the beginning of the year	$	(32)	(1,041)	(2,105)	(3,178)
Expected performance		(3)	(91)	(186)	(280)
Actuarial gain or loss		(1)	(57)	(123)	(181)
Company contributions		(5)	(200)	(260)	(465)
Paid benefits		3	158	188	349
Anticipated liquidations		-	22	21	43
Plan assets at end of year	$	(38)	(1,209)	(2,465)	(3,712)

2011		Seniority premium	Pension Plan	Other Post-retirement benefits	Total
Plan assets:					
Plan assets at the beginning of the year	$	(24)	(1,044)	(2,037)	(3,105)
Expected performance		(2)	(92)	(185)	(279)
Actuarial gain or loss		(3)	40	37	74
Company contributions		(5)	(159)	(151)	(315)
Paid benefits		-	190	206	396
Anticipated liquidations		2	24	25	51
Plan assets at end of year	$	(32)	(1,041)	(2,105)	(3,178)

The Bank estimates that during 2013 they will make contributions to defined benefit plans amounting to $381 (includes termination seniority premium).

Below are the categories of plan assets at December 31, 2012 and 2011:

2012	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)	28%	28%	28%
Debt instruments (real rate)	28%	28%	28%
Short term debt instruments	14%	14%	14%
Total	100%	100%	100%

(Continued)

(Millions of pesos)

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%

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 is obtained as follows:

	Asset distribution (1)	Expected return (2)	Total (1) x (2)
Local equity instruments	20.0%	11.65%	2.33%
Global equity instruments	10.0%	10.15%	1.02%
Debt instruments (nominal rate)	24.5%	5.78%	1.42%
Debt instruments (real rate)	24.5%	5.94%	1.46%
Short term debt instruments	21.0%	4.82%	1.01%
Total	100%		7.24%

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					
		2008	2009	2010	2011	2012
Defined benefit liabilities	$	27	29	37	39	52
Plan assets		(20)	(19)	(24)	(32)	(38)
Plan situation		7	10	13	7	14
Actuarial gain (loss):						
Plan liabilities		(1)	7	5	2	16
Plan assets		10	(2)	(1)	(3)	(2)

	Pension plan					
		2008	2009	2010	2011	2012
Defined benefit liabilities	$	1,537	1,746	2,209	2,052	2,617
Plan assets		(980)	(947)	(1,044)	(1,041)	(1,209)
Plan situation		557	799	1,165	1,011	1,408
Actuarial gain:						
Plan liabilities		(15)	352	218	40	662
Plan assets		169	(48)	(58)	40	(58)

(Continued)

(Millions of pesos)

		Other post-retirement benefits				
		2008	2009	2010	2011	2012
Defined benefit liabilities	$	1,886	1,935	2,433	2,654	3,533
Plan assets		(1,583)	(1,857)	(2,036)	(2,105)	(2,465)
Plan situation		303	78	397	549	1,068
Experience adjustments:						
Plan liabilities		126	47	469	311	844
Plan assets		133	(105)	(77)	37	(123)

At December 31, 2012 and 2011 the present value of the liabilities for the benefits of the plans are as follows:

		Benefits					
		Termination		Retirement		Other post-retirement benefits	
		2012	2011	2012	2011	2012	2011
Acquired rights and obligations Amount (OBA)	$	514	474	1,811	1,553	2,753	1,888
		===	===	====	===	====	====

NA - Not applicable

		Benefits					
		Termination		Retirement		Other post-retirement benefits	
		2012	2011	2012	2011	2012	2011
Defined benefit liabilities amount (OBD)	$	534	496	2,669	2,090	3,533	2,654
Fair value plan assets		(32)	(37)	(1,247)	(1,073)	(2,465)	(2,105)
Funds financial situation		502	459	1,422	1,017	1,068	549
Unrecognized past services:							
(liabilities) / assets in transition			(39)	-	(8)	-	(19)
Plan modifications		-	-	(210)	(236)	-	-
Actuarial gain (loss)		-	-	(1,298)	(769)	(1,884)	(1,322)
Projected Liabilities / (Assets)	$	502	420	(86)	4	(816)	(792)
		======	======	=====	=====	=====	=====

	Termination and retirement benefits		Other post-retirement benefits	
	2012	2011	2012	2011
Nominal discount rate used to show the present value of obligations	5.90%	7.90%	5.90%	7.90%
Nominal rate of increase in the levels of future salaries	4.75%	4.75%	4.75%	4.75%
Nominal rate of return expected in the plan assets	7.25%	8.92%	7.25%	8.92%
Medical inflation rate	-	-	6.75%	6.75%
Average remaining work life of employees (applicable to retirement benefits)	17.56	18.06	14.12	14.62

(Continued)

(Millions of pesos)

At December 31, 2012 and 2011, the amortization periods in years of the remaining items are shown as follows:

2012	**Retirement benefits**		**Other post-retirement benefits**
	Seniority Premium	**Pension plan**	
Plan modifications	-	14 years	-
Actuarial (loss) / gain	18 years	18 years	14 years
2011			
Liabilities of transition	1 year	1 year	0.64 year
Plan modifications	-	15 years	-
Actuarial (loss) / gain	18 years	18 years	15 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	$ 37	(30)
Defined benefit obligations (OBD)	303	(266)
	====	=====

For the years ended at December 31, 2012 and 2011, the Bank recognized expenses for defined contribution plans, which amount to $112 and $83, respectively.

(22) Share based payments -

At December 31, 2012 and 2011, the amount of outstanding share based payment awards amounted to $309 and $257, respectively, and were registered in the caption “Sundry creditors and other accounts payable”. The cost of these programmes for the years ended December 31, 2012 and 2011 of $429 and $287 respectively, was included within administrative and promotional expenses in the consolidated income statement. Payments made during the years 2012 and 2011 were $231 and $167, respectively.

(Millions of pesos)

(23) Subordinated debt issued -

At December 31, 2012 and 2011, 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	2,200
In 2008, maturing in 2018 [(2)]		4,090	4,090
In 2009, maturing in 2019 [(3)]		3,890	4,185
Accrued interest		16	13
Total subordinated debentures	$	10,196	10,488
		=====	======

(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 $1,818 and $2,300, respectively. Of the second issuance, as of December 31, 2012, $28, 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, 2012 and 2011, 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)

(Millions of pesos)

(24) 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. The IT rate for fiscal years 2011 to 2013 the rate shall be 30%, in 2014 is 29% and for 2015 and thereafter, the rate is 28%. The IETU rate is 17.5% for 2011 and 2012.

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, 2012, ESPS expense amounted to $343 ($360, in 2011) 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, 2012 and 2011 was determined in accordance with the provisions of IT.

At December 31, 2012 and 2011, the IT and IETU expense shown in the consolidated statement of income is analyzed as follows:

		Tax on earning	
		2012	2011
IT expense from the Bank at the rate 30%	$	1,295	1,258
IT of subsidiaries		8	53
IETU of subsidiaries		21	102
Tax on earning in the consolidated statement of income	$	1,324	1,413
		=====	=====

(Continued)

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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, 2012 and 2011, are analyzed as follows:

		2012	2011
Balance at beginning of year	$	6,409	5,318
Charged to results:			
IT (expense) benefit		(89)	1,311
Reported in capital:			
Valuation effects of available-for-sale and derivatives		(205)	(206)
Effect in capital for the change in the consumer loan methodology		-	87
Others		23	(101)
	$	6,138	6,409
		====	====

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2012 and 2011, are as shown in the following page.

(Continued)

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(Millions of pesos)

		2012	2011
Deferred tax assets:			
Allowances:			
Allowance for loan losses	$	5,342	5,618
Allowance for foreclosed assets		237	190
Other provisions		1,108	1,144
Allowance for unrecoverable accounts		33	28
Property, furniture and equipment		595	454
ESPS provision		103	111
Valuation of financial instruments		244	336
Commissions received in advance		189	178
Other		35	39
		7,886	8,098
Deferred tax liabilities:			
Interest from Special CETES UDIS Central Bank		(872)	(873)
Valuation of financial instruments		(614)	(369)
Deductions in advance		(262)	(390)
Others		-	(57)
		(1,748)	(1,689)
Net deferred tax asset	$	6,138	6,409
		=====	======

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

		2012		2011	
		Amount	%	Amount	%
Income before income taxes	$	5,410	100%	817	100%
Expected tax expense		1,623	30%	245	30%
Increase (reduction) resulting from:					
Inflation effect		(490)	(9%)	(391)	(48%)
Non-deductible expenses		908	17%	337	41%
Tax income on derivatives		(52)	(1%)	140	17%
Non-taxable interests		(880)	(16%)	(155)	(19%)
Subsidiaries' IETU		21	-	(102)	(12%)
Tax SPE		380	7%	-	-
Change in rates		(62)	(1%)	-	-
Others		(35)	-	28	4%
IT expense	$	1,413	27%	102	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.

(Continued)

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, 2012, the balances of the Capital Contributions and after-taxes earnings accounts amount to $31,545 and $17,617, respectively ($30,461 and $16,648 respectively in 2011).

(25) Stockholders' equity -

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

(a) Structure of capital stock -

Movements in 2012

On April 27, 2012, the General Ordinary Shareholders' Meeting agreed to transfer the net income for year 2011 of $716, affecting $72 to the legal reserve and $644 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 October 20, 2011, the Board of Director authorized a maximum dividend of $500 million, therefore on March 15, 2012 were declared dividends of $1,400, equivalent to a price per share of $0.8091 pesos for each one of the 1,730,319,756 shares outstanding without coupon, with charge to the net tax profit account. This dividend was paid on March 29, 2012.

On December 17, 2012, the General Extraordinary Shareholders' Meeting agreed to issue and place subordinated preferred, convertible necessarily in ordinary shares representative of the share capital of the Company up to an amount of USD$500, which at December 31, 2012 had not been issued.

The share capital at December 31, 2012 and 2011 is integrated by 1,817,276,323 shares (1,730,319,756 subscribed and paid, of which 1,616,593,698 shares represented by shares of Series "F" and 113,726,058 shares of Series "B") with nominal value of two pesos each.

Movements in 2011

On April 28, 2011, the General Ordinary Shareholders' Meeting agreed to transfer the net income for year 2010 of $420, affecting $42 to the legal reserve and $378 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 which was equivalent to a price per share of $1.095 pesos for 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.

(Continued)

On November 22, 2011, the General Extraordinary Shareholders' Meeting agreed an increase the capital stock of series "F" for $348 nominal, through the issue of 174 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 $174; a share subscription premium was recognized for $1,839 at a price per share of $21.15 pesos. The total increase of $2,013 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.

(b) Comprehensive income -

The comprehensive income reported in the consolidated statement of changes in 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, and additionally 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 in 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, 2012 and 2011, is shown below (unaudited). The amounts for 2012 and 2011 correspond to those Published by the Central Bank at the date of issuance of the consolidated financial statements.

		2012	2011
Basic, supplementary and net capital			
Stockholders' equity	$	42,781	39,464
Reduced by:			
Intangible assets		(4,117)	(4,701)
Investments in shares of financial entities		(32)	(17)
Investments in shares of other companies		(91)	(67)
Investment in subordinated debt		(91)	(98)
Investment in financial instruments related to securitizations		(77)	(140)
Basic capital (Tier 1)		38,373	34,441
Add:			
Not convertible subordinated debt		7,980	9,155
General allowance for loan losses		1,753	1,329
Investment in financial instruments related to securitizations		(78)	(140)
Supplementary capital (Tier 2)		9,655	10,344
Net capital (Tier 1+ Tier 2)	$	48,028	44,785
		=====	=====

On November 28, 2012 was a published in the DOF "resolution amending the general Dispositions applicable to credit institutions" (Resolution). This resolution is intended to strengthen the composition of the net capital of credit institutions consistent with the most recent international consensus in this field in accordance with the guidelines established by the Capital Agreement issued by the Committee of Banking Supervision (Basel III). The resolution entries into force on January 1, 2013, except as provided in articles transient thereof, which stipulate the entry into force of certain provisions at a later date.

The Bank´s management believes that the implementation of this resolution will have a negative effect of 0.24 basis points in its capitalizations ratio.

Intangibles assets.- Consider excess deferred taxes on the 10% capacity as the Basic Capital deduction required by $1,657 and $1,864 to December 31, 2012 and 2011, respectively.

(Continued)

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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, 2012 and 2011 at a rate of 40%, equivalent to $880.

Risk-based assets and capital requirements

		Equivalent risk-weighted assets		Capital requirement	
		2012	**2011**	**2012**	**2011**
Market risk:					
Transactions or positions:					
In pesos at nominal rates	$	64,512	37,091	5,161	2,968
In pesos at interest rate over nominal rate		1,291	1,758	103	141
In pesos at interest rates discounted from inflation or denominated in UDIS		1,760	1,756	141	140
In foreign currency at nominal rates		8,502	5,870	680	470
In UDIS or with yields linked to the Consumer Price Index		14	19	1	1
Foreign currency positions or with exchange rate indexed yields		789	5,428	63	434
Share transactions or transaction based on shares		-	1	-	-
Total market risk	$	76,868	51,923	6,149	4,154
Credit risk:					
Group II (weighted at 20%)	$	6	-	-	-
Group II (weighted at 50%)		3,340	3,420	267	274
Group III (weighted at 10%)		529	659	42	53
Group III (weighted at 11.5%)		509	260	41	21
Group III (weighted at 20%)		5,833	4,829	467	386
Group III (weighted at 23%)		-	177	-	14
Group III (weighted at 50%)		-	4	-	-
Group IV (weighted at 20%)		2,437	1,986	195	159
Group V (weighted at 20%)		809	902	65	72
Group V (weighted at 50%)		804	684	64	55
Group V (weighted at 115%)		404	-	32	-
Group V (weighted at 150%)		7,058	6,696	565	535
Credit risk to the following page	$	21,729	19,617	1,738	1,569

(Continued)

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		Equivalent risk-weighted assets		Capital requirement	
		2012	**2011**	**2012**	**2011**
Credit risk from previous page	$	21,729	19,617	1,738	1,569
Group VI (weighted at 50%)		4,032	3,598	323	288
Group VI (weighted at 75%)		2,174	1,787	174	143
Group VI (weighted at 100%)		39,381	35,445	3,150	2,836
Group VII (weighted at 20%)		4,047	4,610	324	369
Group VII (weighted at 23%)		4,834	5,887	387	471
Group VII (weighted at 50%)		268	850	21	68
Group VII (weighted at 57.5%)		-	32	-	3
Group VII (weighted at 100%)		107,286	97,387	8,583	7,790
Group VII (weighted at 115%)		4,870	5,129	390	410
Group VII (weighted at 150%)		565	251	45	20
Group VII (weighted at 172.50%)		-	475	-	38
Group VIII (weighted at 125%)		1,846	2,875	147	230
Other Assets (Weighted at 100)		23,724	25,149	1,898	2,012
Total credit risk		214,756	203,092	17,180	16,247
Operational risk		39,478	38,454	3,159	3,076
Total market, credit and operational risk	$	331,102	293,469	26,488	23,477

Capitalization ratios:

	2012	**2011**
Capital to credit risk assets:		
Basic capital (Tier 1)	17.87%	16.96%
Supplementary capital (Tier 2)	4.49%	5.09%
Net capital (Tier 1 + Tier 2)	22.36%	22.05%
	======	======
Capital to market, credit and Operational risks assets:		
Basic capital (Tier 1)	11.59%	11.74%
Supplementary capital (Tier 2)	2.92%	3.52%
Net capital (Tier 1 + Tier 2)	14.51%	15.26%
	======	======

(Continued)

(Millions of pesos)

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.

(26) 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, 2012 and 2011, the Bank had granted loans to related parties totalling $4,489 and $5,499, respectively.

During the years in 2012 and 2011, the Bank maintained derivative liability positions with related parties, which amounted to $3,016 and $3,007, respectively.

During the years ended 31 December 2012 and 2011 the Bank did not write off any intercompany balances.

The main transactions carried out with related parties during the years ended December 31, 2012 and 2011, are shown as follows:

		2012	2011
Transactions:			
Income:			
Administrative services	$	2,098	2,975
Interest and commissions, received		440	406
		====	=====
Expenses:			
Insurance premiums	$	205	199
Premiums on securities repurchase/resell agreements		176	230
Interest and commissions, paid		43	35
Administrative expenses		1,145	1,343
		====	=====

Balances receivable from and payable to related parties as of December 31, 2012 and 2011, were as shown in the following page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	2012		2011	
	Receivable	**Payable**	**Receivable**	**Payable**
Holding				
Grupo Financiero HSBC, S. A. de C. V.	$ -	15	-	16
Other related parties				
HSBC Seguros, S. A. de C. V.	91	1	189	4
HSBC Vida, S. A. de C. V.	18	-	21	-
HSBC Casa de Bolsa, S. A. de C. V.	1	503	8	658
HSBC Fianzas, S. A.	1	25	4	5
HSBC Pensiones, S. A.	3	3	4	3
HSBC Global Asset Management, S. A. de C. V.	67	-	136	-
HSBC Servicios, S. A. de C. V.	1	15	-	6
HSBC Bank Brasil, S. A. Banco Multiplo	9	105	14	56
HSBC Holdings Plc.	2	250	56	1
HSBC Banco Salvadoreño, S. A.	1	-	8	-
HSBC Seguros Salvadoreño, S. A.	-	-	1	-
HSBC Bank Panamá, S. A.	7	-	1	4
HSBC Colombia, S. A.	3	-	9	-
HSBC Bank USA National Association	-	1	-	3
Banco HSBC Costa Rica, S. A.	-	-	2	-
Banco HSBC Honduras, S. A.	-	-	2	-
HSBC Software Development (China)	-	-	-	3
HSBC Bank Argentina S. A.	1	9	1	13
HSBC Private Bank (SUISSE) S. A.	-	1	-	-
HSBC Bank plc.	1	78	1	29
The Hong Kong and Shangai Banking Corporation Ltd.	-	75	-	1
HSBC Latin America Holdings (UK) Limited	4	-	8	-
HSBC Software Development (India) Private Ltd.	-	36	-	42
HSBC Software Development (Brazil)	-	31	-	24
HSBC Technologies and Services (USA) Inc.	-	31	-	36
HSBC Technologies, Inc.	-	18	-	36
HSBC Bank Perú, S. A.	5	-	12	-
HSBC Bank (Paraguay), S. A.	4	-	12	-
HSBC Bank (Uruguay), S. A.	2	-	2	-
HSBC Bank Canada	-	18	-	7
HSBC Bank (Chile), S. A.	-	-	5	-
HSBC France	-	8	-	2
HSBC Global Resourcing (UK) Limited	-	2	-	3
HSBC Insurance Holdings Limited	-	5	-	8
HSBC Securities (USA) Inc	-	2	-	4
HSBC Finance Transformation (UK) Limited	-	47	-	-
HSBC Global Asset Management (USA) Inc	-	4	-	-
	$ 221	1,283	496	964
	===	====	===	===

(Continued)

(Millions of pesos)

Accounts receivable and payable from with to related parties do not generate interest and do not have defined maturity.

(27) Memorandum accounts -

(a) Irrevocable lines of credit and guarantees -.

At December 31, 2012, the Bank had irrevocable commitments arising from issuance of letters of credit, where, through loans, the Bank ensured paying customers to third parties irrevocable commitments amounted to $25,222 ($22,425 in 2011).

Similarly, to December 31, 2012, the Bank acted as an intermediary between a subsidiary of HSBC in Tokyo, and a Mexican government enterprise, thus providing a guarantee which was $4 ($14 in 2011)

The amount of the provisions recorded at December 21, 2012, for letters of credit and guarantee receivables, amounts to $157 and is included in the allowance for loan losses ($515 in 2011)

At December 31, 2012 and 2011, the Bank had no losses caused by the guarantee and letters of credit.

(b) Assets in trust or under mandate -

At December 31, 2012 and 2011, the Bank's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2012	2011
Type of trust:			
Administrative	$	273,996	207,279
Guarantee		43,403	39,630
Investment		53,155	57,415
Other		31,561	23,525
		402,115	327,849
Mandates to:			
Administrative	$	611	474
Guarantee		42	40
Investment		2	12
		655	526
	$	402,770	328,375

Trust activities revenue for the years ended December 31, 2012 and 2011 amounted to $180 and $207, respectively.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Millions of pesos)

(c) Investments on behalf of customers -

At December 31, 2012 and 2011 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:

		2012	2011
Funds of investment companies:			
Managed by HSBC	$	3,397	2,577
Other		22,314	15,764
Government securities		18,540	22,794
Equities and other		5,195	5,883
	$	49,446	47,018

In case that the funds are invested in the Bank's own instruments, the amounts of such funds 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, 2012 and 2011, this account comprises:

		2012	2011
Custody	$	310,367	204,423
Administration		53,183	45,048
Guarantee		1,237	610
Collection		1,208	1,691
	$	365,995	251,772

For custody operations, types of goods handled are: stocks and shares in custody, government paper, bankers' acceptances, corporate bonds and shares. Amounts related to securities issued by the institution itself amount to $1,506 ($1,564 in 2011) and are classified as follows:

		2012	2011
Bank paper	$	1,382	1,440
In private debt		124	124
	$	1,506	1,564

For management operations, types of goods, including goods and foreign values that are received for administration are: bank stocks, private or government.

(Continued)

At December 31, 2012 and 2011, income from activity of assets under custody and administration operations amount to $36 and $30, respectively.

(28) 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 (OAC). 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, 2012 and 2011.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Condensed statements of operations by segment

Years ended December 31, 2012 and 2011

(Millions of pesos)

	Personal and private Financial services		Corporate Banking		Global and Market Banking		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Financial margin	$ 12,311	11,904	6,182	5,944	1,737	1,703	20,230	19,551
Allowance for loan losses	(5,668)	(4,281)	666	(2,371)	325	(85)	(4,677)	(6,737)
Adjusted financial margin	6,643	7,623	6,848	3,573	2,062	1,618	15,553	12,814
Commissions and fees, net	3,902	3,829	1,621	1,801	697	571	6,220	6,201
Financial intermediation income	86	479	179	158	2,421	1,983	2,686	2,620
Other operating income	2,484	3,245	477	819	298	1,051	3,259	5,115
Administrative and promotion expenses	(13,618)	(15,628)	(6,069)	(7,151)	(2,656)	(3,113)	(22,343)	(25,892)
Total operating income	(503)	(452)	3,056	(800)	2,822	2,110	5,375	858
Equity in the results of non consolidated subsidiaries, assiciated and affiliated companies	22	(25)	11	(13)	2	(3)	35	(41)
Income before income tax	(481)	(477)	3,067	(813)	2,824	2,107	5,410	817
Income tax	145	211	(926)	359	(632)	(672)	(1,413)	(102)
Income before non controlling interest	(336)	(266)	2,141	(454)	2,192	1,435	3,997	715
Non controlling interest	-	1	-	-	-	-	-	1
Net income	$ (336)	(265)	2,141	(454)	2,192	1,435	3,997	716

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

The assets and liabilities identifiable by the different segments at December 31, 2012 and 2011 are analyzed as follows:

		2012			2011	
	RBWM	**CMB**	**GBM**	**RBWM**	**CMB**	**GBM**
Assets	$ 56,686	91,093	53,019	52,511	85,032	53,463
Liabilities	160,975	99,372	32,831	165,177	103,581	19,576
	======	=====	=====	======	=====	=====

Financial Margin

The financial margin for the years ended December 31, 2012 and 2011 is analyzed as follows.

		2012	**2011**
Interest income:			
Cash and cash equivalents	$	1,567	1,613
Investment securities		6,737	7,879
Interest and premiums on securities purchased under agreements to resell		2,063	997
Loan portfolio:			
Commercial loans		8,173	7,570
Financial institutions		359	294
Consumer loans		8,705	7,701
Residential mortgages		1,946	1,938
Government entities		1,601	1,633
Initial fees for loan granting		212	290
Others		(16)	(174)
Total interest income to the following page	$	31,347	29,741

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

		2012	2011
Total interest income from previous page	$	31,347	29,741
Interest expense:			
Deposit funding		(2,310)	(1,975)
Time deposit		(4,398)	(4,205)
Due to banks and other institutions		(588)	(547)
Bank bonds		(249)	(249)
Interest and premiums on securities purchased under agreements to resell		(2,914)	(2,608)
Interest by subordinated debt issued		(516)	(509)
Others		(142)	(97)
		(11,117)	(10,190)
	$	20,230	19,551

(b) Financial intermediation gain (loss) -

For the years ended December 31, 2012 and 2011, the financial intermediation gain (loss) is analyzed as follows:

		2012	2011
Valuation gain (loss):			
Investment securities	$	396	(160)
Trading derivatives		1,267	712
Foreign currency exchange and precious metals		232	63
		1,895	615
Purchase/sale gain (loss):			
Investment securities		1,057	847
Securities repurchase/resell agreements and trading derivatives		(385)	399
Foreign currency exchange and precious metals		119	759
		791	2,005
	$	2,686	2,620

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

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

For the years ended December 31, 2012 and 2011, "Other income (expense) of the operation" is analyzed as follows:

Income		**2012**	**2011**
Recoveries and reimbursements	$	1,345	2,137
Reimbursement of expenses made on behalf of subsidiaries		1,879	2,733
Payments received in relation to the use of infrastructure from subsidiaries		279	316
Gain on sale of properties (note 15)		50	626
Loans to employees		137	139
Other		147	255
		3,837	6,206
Expenses			
Writte-offs and losses primarily (*) (note 32b)		(578)	(1,091)
Other operating income (expenses), net	$	3,259	5,115

(*) Within the write offs and losses there are fraud losses of $451 ($360 in 2011) and taxes from previous years of $80 registered in 2011.

(Continued)

(Millions of pesos)

(d) Financial Ratios -

The principal ratios as of and for the years ended December 31, 2012 and 2011 are analyzed below:

	2012	**2011**
Non-performing loans to total loans	2.02%	2.71%
Allowance for loan losses to past-due loan portfolio	233.75%	214.48%
Operating efficiency *(administrative and promotional expenses to average total assets)*	4.73%	5.65%
ROE *(net income to average stockholders' equity)*	9.71%	1.81%
ROA *(net income to average total assets)*	0.82%	0.15%
Liquidity *(liquid assets/liquid liabilities)**	90.97%	101.05%
Financial margin after provision for loan losses /average interest earning assets	4.98%	4.62%
Capital index to credit risk assets	22.36%	22.14%
Capital index to market and credit risk	14.51%	15.36%
	======	======

* *Liquid assets* – Cash and cash equivalents, trading and available-for-sale securities.

* *Liquid liabilities* – Demand deposits, demand and short-term bank and other loans.

(29) 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 $1,416 in 2012 and $1,361 in 2011.

(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, 2012 and 2011, the Bank presented in the consolidated financial statements the recognition of liabilities for this purpose for an amount of $264 and $277 respectively, which correspond to cases in which it was considered that the possibility of loss would likely be probable. The Bank at December 31, 2012 and 2011 had outstanding cases with a possible loss contingency in the amount of $59,428 and $59,264, 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.

(30) 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).

(Continued)

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 Committee is responsible to the Board of Directors. The Committee may meet with the frequency with which it is deemed necessary. It is expected that the Committee sessions on a monthly basis, and is usually held the third week of the month.

In response to the regulatory Dispositions and in order to have independent opinions to the Bank's management, the Risk Committee is composed of three external counsellors, and senior managers of the Bank, including the CEO, Deputy CEO of Risk, Deputy CEO of Audit, Deputy CEO of Consumer Banking, Deputy CEO of Commercial Banking, Deputy CEO for Global Banking, Deputy Corporate CEO and CTSO, Deputy CEO of Finance, Head of Legal, Head of Global Markets , Chief Risk in Latin America and Secretary. The Committee is chaired by an external Counsellor.

(Continued)

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

- Monitoring of current and potential risks that could impact the operation of the Bank, its realization and evaluate the potential impact they might have, either reputational, financial or operationally. You must also develop a focused and integrated approach to identifying them.
- Propose solutions to improve early risk profile and review strategies for risk mitigation.
- Develop a clear profile and trends in credit, market, liquidity, insurance, operational, reputational and internal controls that could impact or cause changes in business strategy.
- Establish a process focused on risk management of relevant risks, contingencies and mitigating and consolidate reporting risks ALCO review.
- Approve and propose to the Board changes in rules and policies on Risk Management, in accordance with the regulation that sets the Banking Commission.
- Authorize the maximum tolerance to market risk, credit risk and other risks considered acceptable in terms of treasury operations (derivatives).
- Review and approve the goals, operations and control procedures, and the level of risk tolerance, based on market conditions.
- Authorize the terms of reference of committees depend on it, including the authorization of its members and provide them with guidance and supervision in their activities.
- Approve the methodologies for measurement and identification of all risks.
- Oversee the approval of new products as well as subsequent revisions and amendments.
- Approve changes to the methodology for calculating reserves and the economic factor and emergency periods.
- Develop and modify the objectives, guidelines and policies origination and credit administration.
- Review important topics that are open, which will be included in the certification of the Director General (depending on time of certification), likewise, should monitor the resolution of these issues

Market Risk

<u>Qualitative information</u>

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

(Continued)

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)
- Others

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 (AFS) and Hedging Securities (CSH and FVH).

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 2012 (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 2012	Limits	Average Q4 2012	Limits	Average Q4 2012	Limits
Total	21.39	38	3.42	18	18.65	35
Rates	16.99	40	2.94	N/A	14.46	35
Credit margin	5.46	22	0.38	4	5.09	22
Exchange rates	0.64	7	0.64	7	N/A	N/A
Interest rates volatility	0.19	4.5	0.19	N/A	-	1
FX rates volatility	0.01	2	0.01	2	N/A	N/A
Equities	0.19	2.5	0.19	2.5	N/A	N/A
	====	====	====	====	====	====

N/A- Not Applicable

- **Absolute value**

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

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

	September 30, 2012	December 31, 2012	Limits *	Q3 2012 average	Q4 2012 average
Bank	23.51	23.38	38	24.20	21.39
Accrual	21.61	18.84	35	22.47	18.65
Total trading	2.4	4.57	18	2.87	3.42
	====	====	=====	=====	=====

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

The Bank's VaR at the end of the fourth quarter of 2012 decrease -0.55% in respect of the 3Q 2012. During the period, VaR levels remained below the limits set by management.

The Bank's average VaR for the fourth quarter of 2012 decrease-11.61% in respect of the average VaR for the 3Q 2012.

Comparison of Market risk VaR to Net Capital

Below a comparative VaR average against Net Capital table as of September 30 and December 31, 2012; in millions of dollars:

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

	September 30, 2012	December 31, 2012
Total VaR *	24.2	21.39
Net Capital **	3,674.92	3,704.21
VaR / Net Capital	0.66%	0.58%
	======	======

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

(Millions of pesos)

Average market VaR represented 0.58% of net capital in fourth quarter of 2012.

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

	Sep 30, 2012	Dec 31, 2012	Limits *	Average Q3 2012	Average Q4 2012
Bank	(1.26)	(1.22)	1.65	(1.112)	(1.134)
Accrual	(1.091)	(1.013)	1.25	(0.937)	(0.949)
Trading desk	(0.053)	(0.039)	0.45	(0.076)	(0.058)
Balance sheet trading	(0.115)	(0.168)	0.21	(0.099)	(0.127)
	=====	=====	====	=====	======

* Absolute value N/A - Not Apply

The Bank's PVBP in local interest rate at the end of Q4 2012 changed by (3.17%) as compared to Q3 2012, The Bank's average PVBP for Q4 2012 varied by 1.98% as compared to Q3 2012.

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

	Sep 30, 2012	Dec 31, 2012	Limits*	Q3 average 2012	Q4 average 2012
Bank	(0.224)	(0.167)	0.3	(0.213)	(0.181)
Accrual	(0.208)	(0.16)	0.3	(0.24)	(0.167)
Trading desk	(0.025)	(0.009)	0.1	0.009	(0.017)
Balance sheet trading	0.009	0.002	0.07	0.19	0.003

* Absolute value N/A - Not applicable

The Bank's PVBP in US dollars interest rate at the end of Q4 2012 changed by (25.45%) as compared to the PVBP at the end of Q3 2012. The Bank's average PVBP for Q4 2012 changed by (15.02%) as compared to the average PVBP for Q3 2012.

(Continued)

(Millions of pesos)

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

	Sep 30, 2012	Dec 31, 2012	Limits *	Average Q3 2012	Average Q4 2012
Bank	(0.097)	(0.075)	0.300	(0.074)	(0.076)
Accrual	(0.059)	(0.052)	0.225	(0.058)	(0.056)
Trading desk	(0.026)	(0.010)	0.100	(0.003)	(0.007)
Balance sheet trading	(0.013)	(0.013)	0.050	(0.012)	(0.013)

* Absolute value N/A - Not applicable

The Bank's PVBP in UDIS interest rate at the end of Q4 2012 changed by (22.68%) as compared to the PVBP at the end of Q3 2012. The Bank's average PVBP for Q4 2012 changed by 2.70% as compared to the average PVBP for Q3 2012.

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.

(Continued)

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 2012, HSBC liquidity ratios were USD$ 4,424 million in term up to 7 days, USD$ 2,754 million in a term of a month, USD$ 2,578 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$ 4,763 million in 7 days, USD$ 3,074 million for 1 month, of USD$ 2,246 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

<u>Qualitative information</u>

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).

(Continued)

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

a) Model and systems used for the quantification and management of credits risk:

Commercial portfolio

1. In October 2012 the Bank changed the internal methodology for calculation of provisions that had been approved by the Banking Commission since 2006 to adopt the standard approach set out in the "Dispositions" for this purpose.

   Therefore, for the estimation of preventive provisions, the Bank performs a comprehensive assessment of risk associated with each customer in the commercial portfolio, based on information about the financial condition of the borrower, including cash flow, liquidity, profitability and debt profile , market indicators, operational history and industry, management skills and other indicators that help assess the client's ability to pay.

   The above information is supplemented by the experience that the account manager has about the client: strengths and weaknesses, economic environment and other parameters relating to your profile, thus concluding an analysis by the areas involved in the lending process to finally assign a direct correspondence with the debtor regulatory qualifications. The ratings of the commercial portfolio in terms of loss reserves goes from the level of risk "A" to level "E" according to the prevailing methodology of the Banking Commission.

   The resulting impact of this change in the methodology used to determine the credit risk provisions was a reduction of $1,240.

<u>Administrative models</u>

The Bank has various models for internal risk management, developed to encompass the three key parameters of credit risk:

1. Probability of default
2. Severity of loss
3. Exposure at default

These models are evaluated and monitored on a monthly and quarterly basis to assess their performance and their proper application, so that the follow-ups are carried out in a timely manner.

Regarding the models of Probability of Default (PD), monitoring is aimed at testing the differentiation between customers that comply with their obligations to the Bank and those which do not, and will order them by the appropriate risk levels. Moreover, it validates the quantification model and compared with observed default rates to meet its accuracy.

On the other hand, for models of Exposure at Default and Loss Severity, it is validated the estimates on the loss that may be incurred by the institution in case that the client fail, are accurate with sufficient conservatism.

It is important to note that each version of the models is reviewed and approved according to standards set by the Group.

a) Probability of default model (PD)

The Bank developed eight models for risk rating customers of the business portfolio with annual sales of up to $7,000, which was implemented in October 2010 (These models are derived from statistical analysis of the various economic activities that resulted in four large segments which are subdivided by the level of sales, higher and less than $100.

It is important to note that these models were reviewed and approved by experts in model developing of HGHQ.

In addition to the above models, the Bank has implemented the following global models that were developed by HGHQ.

- A model to evaluate the global clients (GLCS), applicable to mayor corporate offices with sales equal to or greater than USD $7,000.
- A model for banking financial entities (RAfBanks).
- Eleven models for non-banking financial entities (NBFI DST).

The implementation of the models mentioned in the previous paragraphs was accompanied by a new level of customer risk rating known as Customer Risk Rating (CRR), which consists of 23 levels, of which two are for customers in default.

(Continued)

This scale has a direct correspondence to Probabilities of Default and allows sufficient granular measurement of the creditworthiness of customers.

The default probability models included in the internal rating system are monitored quarterly with the aim of checking its proper performance, and if the results of this monitoring are not the expected according to Bank standards action plans are established to meet the established guidelines.

In the latest monitoring results for models of commercial loans, excluding global models, there is generally a good statistical performance with an AR (Accuracy Ratio) of 0.56, which is above the threshold set by the Group. The rest of the global models, GLCS, RAF Banks and NBFI DST are defaulted models so it is not currently possible to measure their performance, but monitoring of Rate Adjustments (Overrides) is performed. It should be noted that overrides are very low rates for these models.

b) Model of estimation of Severity of Loss (LGD)

Regarding the estimation of Severity of Loss (LGD), which represents the economic loss as a percentage of exposure to default that will face the Bank at the time that a customer defaults, the Bank developed a local model for business and corporate clients. Similarly, for banking financial institutions, the Bank has implemented a model developed by HGHQ.

During 2012, we worked on improvements to the model of Severity of Loss to provide greater granularity and accuracy, which were submitted to the standards that the Group has determined for these models.

The latest quarterly monitoring shows an exposure-weighted LGD estimate of 47%, while the observed LGD is 38% for the same period. It is expected that, after the implementation of improvements in this model, the overestimation will be reduced during 2013.

c) Model of exposure at default (EAD)

For estimating the Exposure at Default (EAD), the Bank also developed a model for local business and corporate customers. It is also estimated the exposure at default of banking financial institutions based on the guidelines established by HGHQ.

In order to have a more accurate measurement of risk, the Exposure at Default model was modified in 2012, and is currently being evaluated under the standards that HGHQ has determined to subsequently be upgraded in computing systems.

(Continued)

(Millions of pesos)

The latest quarterly monitoring of the performance of this model yields an acceptable overestimation of 8.6% compared to the observed exposure to default.

2. Risk assessment system

In order to establish a better infrastructure, management and measurement of credit risk for commercial loans, the Bank uses the assessment tool Moody's Risk Analyst (RA), which allows an assessment of the credit quality of the customers based on their financial and qualitative information.

The Bank also has a system that allows to manage, control and to give a better monitoring of the credit approval process of the Corporate Banking business, which is known as Workflow Authorization (SIPAC). This system allows knowing the status of the loan application at any stage of the process.

For the evaluation of borrowers belonging to the Corporate Banking segment the Bank has a system used in the global bank, Credit Approval and Risk Management (CARM).

Additionally, and in order to improve the administration of the guarantees of commercial loans, since 2006 the Bank has been using the system called Fair II. Finally, it is important to note that it also has a system that controls and limits the use of credit lines from approval Lines III.

Quantitative information

The expected loss of the portfolio of commercial loans at December 31, 2012 is $7,006, showing a decrease of $270 (4%) over the previous quarter. The average balance of commercial loans at December 31, 2012 is $174,223 with an increase of $247 (0.1%) compared to that reported in the previous quarter.

Below are average balances and the expected loss of the commercial portfolio by business line:

Business line	Averange balance*		VAR		Balance		VAR		Expected loss		VAR	
	3Q2012	4Q2012	($)	(%)	Sep-12	Dec-12	($)	(%)	Sep-12	Dec-12	($)	(%)
CMB	$91,565	$92,507	$942	1.00%	$90,593	$96,927	$6,334	7.00%	$5,832	$5,555	-$277	-5%
GBM	$82,371	$81,664	-$706	-1.00%	$81,464	$77,473	-$3,991	-5.00%	$1,443	$1,451	$8	1%
GBP	$40	$51	$11	28%	$83	$93	$10	12%	$0.06	$0.05	-$0.02	-3%
Total	$173,976	$174,223	$247	0.10%	$172,140	$174,492	$2,353	1.00%	$7,275	$7,006	$269	-4%

*Average balances of the last three quartes .

Portfolio of consumer credit and mortgage

Qualitative information

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

The expected loss for the commercial portfolio of consumer credit and mortgage at December 31, 2012 is $4,302, which represents 7.9% of the total balance, a decrease of $50 (1.16%) with respect to previous balance in Q3 2012.

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.

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.

(Continued)

The scheme HGHQ operational controls is based on "three lines of defence", in order to ensure that risks and controls are properly managed global business areas, support areas and the area of global technology services (HTS) continuously. The model establishes administrative responsibilities based on risk management and control environment. The model of the three lines of defence should be applied with common sense, considering the business structures and HGHQ support.

First line of defence

The first line of defence comprises predominantly managing global business areas and HTS, which are responsible for their activities, processes and controls should be checked daily and to identify, mitigate and monitor key risks in all its activities and operations by a control environment commensurate with risk appetite. Management is responsible for creating its own control equipment, as necessary, to delegate these responsibilities.

Second line of defence

The second line of defence comprises mainly global support areas whose function is to verify compliance with the statement of risk appetite HGHQ. Your responsibilities are:

- Ensure, monitor and exceed the effectiveness of risk and control activities carried out by the first line;
- Develop frameworks to identify and measure the risks assumed by the parties respective business area;
- Monitor the performance of key risks through key indicators and monitoring programs / safety in relation to risk appetite and tolerance levels defined.

Furthermore, global support areas must maintain and monitor controls which are directly responsible.

Third the line defence

The third line of defence is to provide independent assurance by Internal Audit regarding the effectiveness of the design, implementation and integration of risk management frameworks and management of risks and controls by the first line and monitoring control by the second line.

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(Millions of pesos)

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

- The Department is aware and is involved in the management of operational risk.
- Operational risk processes and management information used to inform decision-making.
- The quality of operational risk management information is inadequate to make business decisions.

By identifying and assessing risk and operational controls as part of its decision-making process, senior management must inform thereof ORIC and these should be reflected in the reports of the entity.

The heads of the areas (senior management), to monitor the operational risk mabnagemnet and internal control environment, should-for-control section:

- Establish an appropriate organizational structure with BRCMs Equipment (Business Risk and Control Managers for its acronym in English) in order to ensure effective coverage of all business and operations under their span of control, ensuring that staff complies BRCMs Team are individuals with experience and skills suitable for the performance of its functions:
    - Identify and assess operational risk and controls as part of the decision making process (Test Use).
    - Identify and report incidents.

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

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

ORIC team is responsible for ensuring that they comply with the minimum standards set.

Each year, for the ninth consecutive year has been conducted identifying and evaluating all operational risks throughout all Bank entities worldwide reassessment period is from March 2012 to March 2013. The methodology used for this exercise was reinforced by new guidance based Framework Operational Risk Management Group specifies that all areas of the Group should conduct a Risk Assessment and Control (RCA) or guest reviews Operational Risk at least once a year. The Risk Assessment Methodology and Approach Control has replaced ABCD identification and operational risk self-assessment (RSA) and is applicable to all entities of the Bank worldwide.

Quantitative information (including Technology Risk and Legal Risk)

The assessment of operational risks resulting from the 8th evaluation exercise carried out during the period 2011-2012, with the changes and updates made during the 4th quarter of 2012 shows a total of 654 relevant risks identified and evaluated, distributed as follows: 3.7 % (24) of type A, 14% (92) of the type B, 60.7% (397) of the type C and 21.6% (141) of type D.

The organization also maintains a historical operational risk data from 2007, in which are recorded the effects of operating loss. The materiality threshold for inclusion in the report of these incidents individually is the local currency equivalent of USD $10,000 with the possibility to report individually or adding minor events in a single game.

The tolerance level set for the amount of losses reported for operational risk during the year must not exceed 1.3% of TOI (Total Operating Income) of the Institution.

The cumulative operating loss at December 31, 2012 amounts to a total of USD$43 million.

Both the risks and loss incidents are reported in the corporate platform designed specifically for the management of operational risk and operational record of occurrences.

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.

(Continued)

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).

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;

(Continued)

- 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.

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 Risk Control; They have procedures to ensure that any document that creates a contractual relationship can be signed on behalf of the institution, unless it is received legal advice internal and / or external, either in relation to the form of the documentation or specifically on the transaction and in most cases, are standardized contracts

  All contracts entered into by any member of the institution that contains restrictions that affect the business must have the authorization of the legal representative with appropriate authority levels. Additionally, there are procedures for the regular review of standard contracts to ensure that they remain properly in the light of any legal change.

- Litigation: Litigation Risk Control: Procedures are established to ensure appropriate action in response to the claims against, defend efficiently and effectively, be able to take action with the ability to protect and preserve the rights of the institution and inform the responsible Legal issues on trial.

  Practices or procedures are properly documented and in place to ensure that liability is not admitted involuntarily in situations of dispute, and it can not be inferred from any internal correspondence or third parties.

  They have procedures and regulations for the Legal area is immediately reported if there is threat of litigation or whether to proceed against the institution, managing demand subsequent actions.

- Legislative Risk Control: There are documented procedures and practices implemented to monitor any new law or regulation proposal and any court case resulting in the need to change existing procedures or documentation in their respective jurisdiction and any other jurisdiction which they are responsible. From this, and with the area of Compliance (Compliance), implemented the necessary changes so that operations continue to be made in accordance with current legislation.

- Risk Management for Failure no contractual rights: There are procedures in place to ensure that thelegal care at all times the correct use of the Group's brands, local brands, advertisements and copyright.

(Continued)

For a third party to make use of the Group's brands or local brands must be previously validated and approved by the Legal Department.

There is a procedure to verify the legal area when required use of trademarks or proprietary third party advertisements, is duly authorized by the holder.

The legal department cares at all times that all the artistic or literary works that are generated either by his charge to employees or outside vendors or by subsequent acquisition of proprietary rights, are properly documented.

Also been met institutional policies, procedures have been established about Operational Risk and Internal Control, there have been statutory audit has been carried out the estimation of potential losses arising from adverse judgments and established a base historical data on judicial decisions, its causes and costs.

(31) 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.

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.

(Continued)

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.

Restructuring -

Restructuring may only be made viable projects, avoiding incurred in renewing the operation not to affect the Bank Guarantees, working to improve the position. Policy not current Securities shall be released and in case of the possibility of replacing them, they should be the same or better

As an exception to this policy can restructure clients not showing viability of payment, when by this means improve the Bank's position (with partial payments, higher guarantees, correcting problems documentaries.)

A restructuring operation is one which is derived from any of the following situations:

a) Extension of Credit Guarantees of the concerned, or;

b) Changes to the original terms of the loan or payment schedule, among which are:

- Changing the stated interest rate for the remaining term of the loan;
- Currency exchange or unit of account, or
- Provision of a waiting period for compliance with the obligations to pay under the original terms of the loan, unless the award is granted after the deadline originally agreed, in which case it will be a renewal.

Restructuring is not permitted to hide losses

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.

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.

(32) Subsequent events -

(a) At an extraordinary meeting held on January 24, 2013, the Bank agreed to increase its capital stock by $551 through the issuance of 275,477,377 shares. Additionally, pursuant to resolution agreed by the shareholders as mentioned in note 25(a) the Bank issued subordinated debentures in preferred shares convertible necessarily in an amount of USD$110.

(b) During the month of January 2013, the Bank identified some losses in the amount of $394, which were recorded at December 31, 2012.

(33) Recently issued accounting standards -

The Consejo Mexicano de Normas de Información Financiera, A. C. (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 what is mentioned in the following page.

(Continued)

- 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.

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- 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.

FRS B-6 "*Statement of Financial Position*"- FRS B-6 is effective for years beginning on or after January 1, 2013. The main distinguishing feature of this FRS is that a single standard specifies the structure of the statement of financial position, as well as the related presentation and disclosure principles.

FRS B-8 "*Consolidated or combined financial statements*"- FRS B-8 is effective for years beginning on or after January 1, 2013, with retrospective effects. FRS B-8 supersedes former FRS B-8 "Consolidated or combined financial statements". The main changes with respect to the superseded FRS include the following:

- The definition of control is amended to stipulate that an entity controls an investee when it controls the relevant activities of the investee; it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

- The term "protective rights" is introduced, which is defined as those designed to protect the interest of the non-controlling investor without giving that party power over the entity to which those rights relate. It is important to identify protective rights in assessing whether the investor has power or not over the investee.

- The concepts of principal and agent are incorporated, the principal being an investor with decision-making rights over the investee; moreover, an agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee.

- The term "Special Purpose Entity" or SPE is eliminated since it is deemed that to identify an entity as a subsidiary, its operating objective and purpose are irrelevant.

- The term "structured entity" is included, which refers to an entity designed so that voting or similar rights are not a determining factor in deciding who controls such entity.

FRS B-12 "*Offsetting financial assets and financial liabilities*"- FRS B-12 is effective for years beginning on or after January 1, 2014; however, earlier application is permitted as of January 1, 2013. Among its main features, we may cite what is mentioned in the following page.

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- Principles are established in relation to the rights of set-off that should be considered for presenting, on a net basis, a financial asset and a financial liability in the statement of financial position.

- FRS B-12 establishes the requirements to be met by an offsetting intention, based on the principle that a financial asset and a financial liability should be presented by the offset amount, provided the future cash flow from its collection or settlement is net.

- FRS B-12 establishes other subjects relating to the offsetting of financial assets and liabilities such as the intention of realizing the asset and settling the liability simultaneously for its net presentation in the statement of financial position, the bilateral and multilateral offsetting agreements and the treatment of collateral.

FRS C-7 *"Associates, joint ventures and other permanent investments"*- FRS C-7 is effective for years beginning on or after January 1, 2013, with retrospective effects. FRS C-7 supersedes former FRS C-7 "Investments in associates and other permanent investments". The major changes from the original FRS C-7 are as follows:

- It is provided that investments in joint ventures should be accounted for by the equity method.

- The term "Special Purpose Entity" or SPE is eliminated since it is deemed that to identify an entity as a subsidiary, its operating objective and purpose are irrelevant.

- It is stipulated that all the effects that have an impact on the net profit or loss of a holding company, arising from its permanent investments in associates, joint ventures and others, should be recognized under the heading of "equity in the results of other entities".

- Additional disclosures are required for providing more details of the financial information of associates and/or joint ventures.

FRS C-14 *"Transfer and retirement of financial assets"*- FRS C-14 is effective for years beginning on or after January 1, 2014, with retrospective effects and is issued for amending the absence of accounting standards with regard to the transfer and retirement of financial assets. The main aspects covered by this FRS include the following:

- Based on the principle of assigning the risks and benefits of ownership of a financial asset as primary condition for its retirement.

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- For a transfer to signify that the transferor may retire a financial asset from its statement of financial position, it is required that it may no longer have a future benefit or loss with regard to such financial asset.

FRS C-21 "*Joint arrangements*"- FRS C-21 is effective for years beginning on or after January 1, 2013, with retrospective effects and is issued for amending the absence of accounting standards with regard to joint arrangements. The main aspects covered by this FRS include the following:

- A joint arrangement is defined as an arrangement that regulates an activity over which two or more parties have joint control. Moreover, joint arrangements are divided into two types:

  a) *Joint operations:* whereby the parties with joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement; and

  b) *Joint ventures:* whereby the parties with joint control have rights to the net assets of the arrangement.

- It is made clear that joint operations may or may not be structured through a separate vehicle, while joint ventures always have a separate vehicle.

- A joint venturer accounts for its interest in the joint venture as a permanent investment using the equity method.

2013 Improvements to FRS

In December 2012 the CINIF published a document called "Improvements to 2013 FRS, which contains specific amendments to certain existing FRS. The improvements that produce accounting changes are as follows:

- **FRS C-5 "Prepayments", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" and Bulletin C-12 "Financial instruments with characteristics of liabilities, equity or both"-** Provides that expenses on the issue of debentures such as legal fees, issuance, printing and placement costs, etc. should be presented as a reduction of the corresponding liability and charged to income based on the effective interest method. This improvement is effective for years beginning on or after January 1, 2013 and presentation changes should be recognized retrospectively.

- **FRS D-4 "Income taxes"-** Establishes that current and deferred income tax shall be recognized and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognized in a different period, outside profit or loss, either in other comprehensive income or directly in equity. This improvement is effective for years beginning on or after January 1, 2013 and presentation changes should be recognized retrospectively.

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- **Bulletin D-5 "Leases"-** It was defined that costs incurred and directly attributable to negotiating and arranging a lease (fees, legal fees, tenancy rights (extra pay) etc.), both for the less or and lessee shall be deferred in the lease term and charged or credited to income in proportion to the related income or expense. This improvement is effective for years beginning on or after January 1, 2013 and its recognition is retrospective.

Management estimates that the new FRS and the improvements to FRS will be immaterial.