GRUPO FINANCIERO HSBC MEXICO, S. A. DE C.V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish language original)

The Board of Directors and Stockholders
Grupo Financiero HSBC, S. A. de C. V.
Sociedad Controladora Filial and Subsidiaries

(Millions of pesos)

We have audited the accompanying consolidated financial statements of Grupo Financiero HSBC, S. A. de C. V., Sociedad Controladora Filial and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2013 and 2012 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 financial group holding companies 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 Group'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 Group'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 Grupo Financiero HSBC, S. A. de C. V., Sociedad Controladora Filial and Subsidiaries for the years ended December 31, 2013 and 2012 have been prepared, in all material respects, in accordance with the accounting criteria for financial group holding companies in Mexico issued by the Banking Commission.

Emphasis of Matter

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

As discussed in note 4 to the accompanying consolidated financial statements, during the year ended December 31, 2013, the Banking Commission issued modifications to the general provisions applicable to credit institutions in Mexico (the Provisions), which amend the methodology for the determination of the preventive commercial loan loss reserves. The Group applied these changes from June 2013 and in accordance with the Provisions, recognized a debit to "Retained earnings" of $799 ($559 net of deferred taxes).

KPMG CARDENAS DOSAL, S. C.

Hermes Castañón Guzmán

February 12, 2014.

GRUPO FINANCIERO HSBC MEXICO, S. A. de C. V.,
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

(Millions of pesos)

Assets	2013	2012
Cash and cash equivalents (note 6)	$ 55,407	55,846
Margin accounts (note 7)	-	53
Investment securities (note 8):		
Trading	58,568	43,694
Available-for-sale	96,081	97,184
Held-to-maturity	16,773	15,313
	171,422	156,191
Debtors under agreements to resell (note 9)	500	7,706
Derivatives (note 11):		
Trading	49,601	43,312
Hedging	168	37
	49,769	43,349
Current loan portfolio (note 12):		
Commercial loans:		
Commercial activity	108,207	109,164
Financial institutions	4,339	4,823
Government institutions	18,133	28,107
Consumer loans	37,675	33,585
Residential mortgages	24,480	19,287
Total current loan portfolio	192,834	194,966
Past due loan portfolio (note 12):		
Commercial loans:		
Commercial activity	9,617	2,072
Financial institutions	3	3
Government institutions	45	-
Consumer loans	1,788	1,302
Residential mortgages	703	636
Total past due loan portfolio	12,156	4,013
Total loan portfolio	204,990	198,979
Less:		
Allowance for loan losses (note 12d)	12,223	9,381
Loan portfolio, net	192,767	189,598
Premium debtors, net	53	69
Accounts receivable from reinsurers, net (see note 13)	91	119
Benefits receivable on securitization transactions (note 12c)	182	155
Other accounts receivable, net (note 14)	40,404	32,074
Foreclosed assets, net (note 15)	159	218
Property, furniture and equipment, net (note 16)	6,927	7,208
Permanent investments in shares (note 17)	234	227
Long-term assets available for sale (note 18)	35	517
Deferred taxes, net (note 27)	7,710	6,226
Other assets, deferred charges and intangible assets (notes 19 and 24)	4,880	4,243
Total assets	$ 530,540	503,799

Liabilities and Stockholders' Equity	2013	2012
Deposit funding:		
Demand deposits (note 20)	$ 178,070	186,723
Time deposits:		
General public (note 20)	103,414	104,358
Bank bonds (note 21)	6,036	4,244
	287,520	295,325
Due to banks and other institutions (notes 12c and 22):		
On demand	2,900	1,980
Short-term	15,466	19,140
Long-term	2,144	1,607
	20,510	22,727
Technical reserves (note 23)	11,432	10,703
Creditors under agreements to repurchase (note 9)	34,765	20,729
Collateral sold or pledged as guarantee:		
Securities lending (note 10)	9,076	3,888
Derivatives (note 11):		
Trading	46,853	39,818
Hedging	790	1,103
	47,643	40,921
Accounts payable to reinsurers and bonding	13	14
Other accounts payable:		
Income tax and employee statutory profit sharing (note 27)	954	930
Settlement transactions (note 14)	37,659	29,829
Sundry creditors and other accounts payable (note 24)	15,137	17,522
	53,750	48,281
Subordinated debt issued (note 26)	9,463	10,196
Deferred credits	599	526
	10,062	10,722
Total liabilities	474,771	453,310
Stockholders' equity (note 28):		
Paid-in capital:		
Capital stock	5,637	5,111
Additional paid-in capital	32,186	27,562
	37,823	32,673
Earned capital:		
Statutory reserves	2,259	1,958
Retained earnings	11,489	8,833
Unrealized gain from valuation of available-for-sale securities	290	902
Mark to market from cashflow hedges	(9)	(103)
Subsidiary dilution effect	199	199
Net income	3,714	6,016
	17,942	17,805
Non-controlling interest	4	11
Total stockholders' equity	55,769	50,489
Commitments and contingent liabilities (note 32)		
Total liabilities and stockholders' equity	$ 530,540	503,799

(Continued)

GRUPO FINANCIERO HSBC MEXICO, S. A. de C. V.,
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Balance Sheets, continued

December 31, 2013 and 2012

(Millions of pesos)

Memorandum accounts

		2013	2012
Guarantees issued (notes 12 and 30a)	$	-	4
Transactions in custody		43,724	38,267
Transactions on behalf customers		-	944
Irrevocable lines of credit (notes 12 and 30a)		25,561	25,222
Assets in trust or under mandate (note 30b)		439,469	402,770
Assets in custody or under management (note 30d)		341,218	332,846
Collaterals received by the entity (note 8)		17,291	48,967
Collaterals received by the entity and sold or pledged in guarantee (note 8)		16,583	43,200
Investment banking transactions on behalf of customers, net (note 30c)		50,353	49,446
Deposit of goods (notes 1 and 18)		-	53
Guarantees issued recovery bonds (notes 1 and 18)		-	45,274
Claims paid (notes 1 and 18)		-	17
Claims canceled (notes 1 and 18)		-	22
Liability bonds in force (net) (notes 1 and 18)		-	3,725
Uncollected interest accrued in respect of overdue credit portfolio (note 12c)		221	113
Amounts under derivative instruments		2,771,506	3,060,163
Loan portfolio rated (note 12)		230,551	224,205
Other memorandum accounts		326,413	322,966

See accompanying notes to the consolidated financial statements.

"These balance sheets consolidated with those of financial entities and other companies that are part of the Financial Group that are susceptible to consolidation, were formulated in accordance with the accounting criteria for financial group holding companies, issued by the National Banking and Securities Commission, based on the provisions of Article 30 of the Financial Group Regulating Law, of general and mandatory observance, and all the operations conducted by the Controlling Company and all financial entities and other companies that are part of the Financial Group susceptible to consolidation are reflected through the dates mentioned above, which were conducted and valued based on sound banking practices and on the applicable legal and administrative provisions ."

"These consolidated balance sheets 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

Juan José Cadena Orozco
Chief Accountant

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GRUPO FINANCIERO HSBC MEXICO, S. A. de C. V.,
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2013 and 2012

(Millions of pesos)

		2013	2012
Interest income (note 31a)	$	29,861	32,112
Premiums income, net		3,030	2,940
Interest expense (note 31a)		(8,240)	(11,097)
Net increase in technical reserves (note 23)		(890)	(843)
Claims and contractual obligations		(1,169)	(997)
Financial margin (note 31a)		22,592	22,115
Allowance for loan losses (notes 4a and 12c)		(8,086)	(5,534)
Financial margin net of allowance for loan losses		14,506	16,581
Commission and fee income (note 12c)		8,711	8,482
Commission and fee expense		(1,802)	(2,149)
Financial intermediation income (note 31b)		2,420	2,954
Other operating income (note 31c)		2,530	3,816
Administrative and promotional expenses		(21,702)	(21,993)
Net operating income		4,663	7,691
Equity in the results of associated and affiliated companies, net (note 17)		43	42
Income before income taxes		4,706	7,733
Current income taxes (note 27)		(2,244)	(1,985)
Deferred income tax (note 27)		1,067	(95)
Income before from continuing operations		3,529	5,653
Discontinued operations (note 18)		186	364
Income before non-controlling interest		3,715	6,017
Non-controlling interest		(1)	(1)
Net income	$	3,714	6,016

See accompanying notes to the consolidated financial statements.

“These statements of income consolidated with those of the other financial entities and other companies that are part of the Financial Group, were formulated in accordance with the accounting criteria for financial group holding companies, issued by the National Banking and Securities Commission, based on the provisions of Article 30 of the Financial Group Regulating Law, of general and mandatory observance, and all the revenues and expenses from the operations conducted by the Controlling Company and all financial entities and other companies that are part of the Financial Group susceptible to consolidation are reflected through the years mentioned above, which were conducted and valued based on sound banking practices and on 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

GRUPO FINANCIERO HSBC MEXICO, S. A. de C. V.,
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Statements of changes in Stockholders' Equity

Years ended December 31, 2013 and 2012

(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, 2011	$ 5,111	27,562	1,832	8,849	547	(243)	-	2,510	11	46,179
Changes resulting from stockholder resolutions (note 28a):										
Resolution at the Ordinary General Stockholders' Meeting on April 27, 2012 - Reserve constitution	-	-	126	2,384	-	-	-	(2,510)	-	-
Resolution at the Board of Director's Meeting on October 20, 2011 - Dividends paid from the resolution made on March 15, 2012	-	-	-	(2,400)	-	-	-	-	-	(2,400)
Total items related to stockholders' resolutions	-	-	126	(16)	-	-	-	(2,510)	-	(2,400)
Changes related to the recognition of comprehensive income (note 28b):										
Net income	-	-	-	-	-	-	-	6,016	-	6,016
Valuation effect of available-for-sale securities and cashflow hedges (notes 8 and 11)	-	-	-	-	355	140	-	-	-	495
Subsidiary dilution effect	-	-	-	-	-	-	199	-	-	199
Total comprehensive income	-	-	-	-	355	140	199	6,016	-	6,710
Balances at December 31, 2012	5,111	27,562	1,958	8,833	902	(103)	199	6,016	11	50,489
Changes resulting from stockholder resolutions (note 28a):										
Resolution at the Ordinary General Stockholders' Meeting on January 24, 2013 - Increase in Capital stock and additional paid-in capital	526	4,624	-	-	-	-	-	-	-	5,150
Resolution at the Ordinary General Stockholders' Meeting on April 26, 2013 - Reserve constitution	-	-	301	5,715	-	-	-	(6,016)	-	-
Resolution at the Board of Director's Meeting on March 21, 2013 - Dividends paid from the resolution made on March 26, 2013	-	-	-	(2,500)	-	-	-	-	-	(2,500)
Total items related to stockholders' resolutions	526	4,624	301	3,215	-	-	-	(6,016)	-	2,650
Changes related to the recognition of comprehensive income (note 28b):										
Net income	-	-	-	-	-	-	-	3,714	-	3,714
Valuation effect of available-for-sale securities and cashflow hedges (notes 8 and 11)	-	-	-	-	(612)	94	-	-	-	(518)
Recognition of the effect derived from the application of the new methodology for determining the preventive commercial loan loss reserves, recognized in retained earnings (note 4a)	-	-	-	(559)	-	-	-	-	-	(559)
Non-controlling interest	-	-	-	-	-	-	-	-	(7)	(7)
Total comprehensive income	-	-	-	(559)	(612)	94	-	3,714	(7)	2,630
Balances at December 31, 2013	$ 5,111	27,562	1,958	8,274	290	(9)	199	3,714	4	55,769

See accompanying notes to the consolidated financial statements.

" These consolidated statements of changes in stockholders' equity were formulated in accordance with the accounting criteria for financial group holding companies, issued by the National Banking and Securities Commission, based on the provisions of Article 30 of the Financial Group Regulating Law, of general and mandatory observance, applied consistently, and all changes in the stockholders' equity account from the operations conducted by the Financial Group through the years ended on the dates mentioned above, which were conducted and valued based on sound banking practices and on 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 Excecutive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
Ngar Yee Louie
Director of Internal Audit

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GRUPO FINANCIERO HSBC MEXICO, S. A. de C. V.,
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AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

(Millions of pesos)

		2013	2012
Net income	$	3,714	6,016
Adjustments for non cash items:			
Cancelation of intangible assets under development		-	110
Depreciation of property, furniture and equipment		1,274	1,286
Amortization of intangible assets		389	340
Technical reserves		890	843
Provisions		2,655	2,058
Current and deferred income taxes		1,671	2,080
Equity in the results of associated and affiliated companies		(43)	(42)
Non-controlling interest		1	1
Discontinued operations		(186)	(364)
		10,365	12,328
Operating activities:			
Change in margin accounts		53	(26)
Change in investment securities		(16,138)	21,242
Change in debtors under agreements to resell		7,206	(1,957)
Change in derivatives (assets)		(6,287)	(254)
Change in loan portfolio		(3,968)	(12,860)
Changes in premium debtors (net)		16	(25)
Change in reinsurers and re-guarantee (net)		28	42
Change in foreclosed assets		59	(11)
Change in other operating assets		(7,823)	(1,587)
Change in deposit funding		(7,805)	(2,103)
Change in loans from banks and other institutions		(2,217)	(9,810)
Change in creditors under agreements to repurchase		14,036	11,402
Change in securities lending (liability)		-	(4)
Change in collateral sold or pledged as guarantee		5,188	(13,816)
Change in derivatives (liability)		6,722	(2,375)
Change in reinsurers and re-guarantee (net) (liability)		(1)	1
Change in subordinated debt issued		(733)	(292)
Change in other operating liabilities		2,580	10,987
Income taxes paid		(2,514)	(2,873)
Net cashflows from operating activities		(1,233)	8,009
Investing activities:			
Proceeds from sale of property, furniture and equipment		3	110
Purchase of property, furniture and equipment		(997)	(689)
Purchase of associated and affiliated companies		130	-
Purchase of intangible assets		(1,026)	(408)
Proceds from dividends in cash		34	-
Net cashflows from investing activities		(1,856)	(987)
Financing activities:			
Increase in Capital stock and additional paid-in capital		5,150	-
Payment of dividends		(2,500)	(2,400)
Net cash flows from financing activities		2,650	(2,400)
Net (decrease) increase in cash and cash equivalents		(439)	4,622
Cash and cash equivalents at the beginning of year		55,846	51,224
Cash and cash equivalents at end of year	$	55,407	55,846

See accompanying notes to the consolidated financial statements.

"These consolidated statements of cash flows, were formulated in accordance with the accounting criteria for financial group holding companies, issued by the National Banking and Securities Commission, based on the provisions of Article 30 of the Financial Group Regulating Law, of general and mandatory observance, and all incoming and outgoing cash flows from the operations conducted by the institution through the years mentioned above are reflected, which were conducted and valued based on sound banking practices and on the applicable legal and administrative provisions."

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

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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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-

Description of business-

Grupo Financiero HSBC, S. A. De C. V. Sociedad Controladora Filial (Group) is a subsidiary of HSBC Latin America Holdings (UK) Limited, who owns 99.99% of its capital stock and is authorized to purchase and manage voting stock issued by financial entities, stock market firms, special purpose financial intermediaries, as well as those companies that provide complementary or ancillary services predominantly to one or more of these financial entities.

As of December 31, 2013 and 2012, the Financial Group and its consolidated subsidiaries include: (i) HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and subsidiaries (the Bank) which is a commercial banking institution whose operations include, among others, accepting deposits, granting loans, securities and derivatives transactions and entering into trust contracts; (ii) HSBC Casa de Bolsa, S. A. de C. V. (the Brokerage Firm) that acts as a financial intermediary in authorized securities transactions, (iii) HSBC Global Asset Management (México), S. A. de C. V. (the Asset Manager), which provides administrative and operating services to investment companies managed by the Financial Group; (iv) HSBC Servicios, S. A. de C. V. (HSBC Servicios), which provides advisory services related to financial systems, including consulting and technical assistance in administrative processes; (v) HSBC Seguros, S. A. de C. V. and subsidiaries (the Insurance Company, entity regulated by the National Insurance and Bonding Commission (Insurance and Boding Commission), which main objective is to engage, in terms of the General Law of Mutual Insurance Institutions and Companies (the LGISMS), in insurance, coinsurance and reinsurance activities, and (vi) through December 13, 2013, HSBC Fianzas, S. A. (the Bonding Company, entity regulated by the Insurance and Bonding Commission), which objective was to issue bonds in terms of the Federal Bonding Institution Law (LFIF) (note 18). The above entities, except for the Insurance Company and the Bonding Company are regulated by the National Banking and Securities Commission (the Banking Commission) and other applicable laws.

Significant transactions and other issues-

<u>2013</u>

On August 21, 2013, the Financial Group entered into a contract to sell the Bonding Company to Afianzadora Aserta, S. A. de C. V. Grupo Financiero Aserta subject to the authorization from the corresponding authorities. As explained in note 18, this transaction was authorized on December 13, 2013.

(Continued)

On December 9, 2013, the Group throughout the Bank placed two issuances of Bonds (CEBURES); the first issuance aggregating to $2,300 with a 5-year term, bearing monthly interest at the TIIE rate plus 30 basis points and the second issuance to $2,700, with a 10-year term, bearing half-yearly interest at the rate of 8.08% (note 21).

On January 31, 2013, the Group throughout the Bank issued preferred subordinated debentures, subject to mandatory conversion into common shares representing capital stock, provided that any of the following conditions is met: (i) where the result from dividing the Tier 1 Basic Capital by the Bank’s total weighted assets subject to risk is 4.5% or less; or (ii) where the Banking Commission notifies the Bank that it has not complied with the minimum remedial action in case of not having the minimum capitalization level required or when non complying with the minimum capitalization index required by the Law of Credit Institutions (LIC) and the Bank does not rectify such situation. Such issuance totaled US$110 million and bears interest at the 30-day LIBOR rate plus 365 basis points (note 26).

2012

The Banking Commission fined the Group 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”.

(2) Authorization and basis of presentation-

On February 12, 2014, Luis Peña Kegel (Chief Executive Officer), Gustavo Ignacio Méndez Narváez (Chief Financial Officer), Ngar Yee Louie (Director of Internal Audit) 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 Group´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.

Basis of preparation-

a) Statement of compliance

The consolidated financial statements have been prepared in conformity with the accounting criteria for financial group holding companies in Mexico issued by the Banking Commission (the Accounting Criteria), 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.

(Continued)

The financial statements of subsidiaries have been prepared in conformity with the accounting criteria established by the Banking Commission, except for the financial statements of the Insurance Company, which have been prepared in conformity with the accounting criteria for insurance institutions in Mexico, issued by the Insurance and Bonding Commission.

The Accounting Criteria states that if there is a lack of specific accounting criterion from the Banking Commission for credit institutions, or in a broader context of Mexican Financial Reporting Standards (FRS), the supplementary basis under FRS A-8 should be applied, and only if the International Financial Reporting Standards (IFRS for its acronym in English) as referred to in the FRS A-8, do not provide solutions to the accounting recognition, a suppletory norm could be applied, only if it complies with all requirements mentioned in the aforementioned FRS, and under the following order: the accounting principles generally accepted in the United States of America (US GAAP) and any accounting criterion that forms part of a formal and recognized accounting criteria.

b) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. 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, technical reserves, employee retirement benefits and deferred income taxes. Actual results may differ from these estimates and assumptions.

c) Functional and reporting currency

The aforementioned consolidated financial statements are presented in Mexican pesos (reporting currency), which is the same as the local and the functional currency.

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 Group recognize assets and liabilities related to purchase and sale of foreign currencies, investment securities, repurchase agreements and derivative financial instruments at the date when transactions are made, regardless of the settlement date.

(Continued)

(Millions of pesos)

(3) Summary of significant accounting policies-

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
2013	$	5.0587	3.77%	11.76%
2012		4.8746	3.90%	12.31%
2011		4.6913	3.64%	12.11%
		=====	=====	======

b) Basis of consolidation-

The accompanying consolidated financial statements include those of the Group and those of its subsidiaries, including the special purpose entities (SPE) that qualify to be consolidated in accordance with the accounting criteria. Significant intercompany transactions and balances have been eliminated in consolidation. The consolidation was made based on the financial statements of the subsidiaries and SPE as of and for the years ended December 31, 2013 and 2012, except for the financial statements of the Irrevocable Management Trust 1052 (Su Casita or Trust 1052), which have been prepared as of and for the twelve-month periods ended November 30, 2013 and 2012, without any relevant transactions in the non-coinciding period. In the following two pages are detailed the subsidiaries, SPE, and the percentage of the shareholding of the Group as at December 31, 2013 and 2012.

(Continued)

(Millions of pesos)

Subsidiary	**Shareholding as of December 31, 2013**	**Shareholding as of December 31, 2012**
Bank and subsidiaries	99.99%	99.99%
Brokerage Firm	100.00%	100.00%
Operating company	100.00%	100.00%
HSBC Servicios	100.00%	100.00%
The Insurance Company and subsidiaries	100.00%	100.00%
The Bonding Company (refer to note 18)	-	97.22%

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

Special Purpose Entities (SPE)

As of December 31, 2013 and 2012, the Bank has incorporated the following SPE, which have been consolidated in the Bank´s financial statements and consequently in the Group´s, given that the Bank has the control and they were created to achieve a specific purpose.

- Irrevocable administrative 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, 2013 and 2012, "patrimonio A" amounts to $336 and $364, respectively, which is included under the “Residential Mortgages loans” item in the consolidated balance sheet.

- 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 had an interest of 99.3% of the risks and benefits of the assets and liabilities, which purpose was the investment in high credit rating debt denominated in pesos. On March 22, 2013, the operations of this SPE were early terminated; consequently, the effects and transactions in force at that date were incorporated in the Bank’s own operations. On December 31, 2012, the amount of the investment in debt through this SPE amounted to $5,371, which were included as part of investments in securities, classified as available-for-sale.

(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, net" and "Settlement transactions", 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 and are recognized as a restricted asset.

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 income".

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

Trading securities-

Trading securities are bought and held mainly 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 "Delayed delivery securities".

(Continued)

Available-for-sale securities-

Securities not classified as trading or held-to-maturity are classified as "available-for-sale securities". Available-for-sale securities 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 from valuation of available-for-sale securities". Unrealized gains 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-

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

Only securities transfer from/to securities "held to maturity" and "available-for-sale" categories are permitted, provided that Investment Committee approval has been granted and that these transactions do not create gaps in the technical reserves coverage and minimum capital guarantee.

During 2013 and 2012, 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 repurchase/resell agreements-

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

The Group 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 Group 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.

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 as a restricted asset.

(Continued)

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 Group 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 Group 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 hedged position.

(Continued)

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” when the option expires.

i) Offsetting of settlement transactions-

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, net” and “Settlement transactions”.

The debit and credit balances of clearing accounts are offset as long as they have the contractual right to offset the amounts recorded at the same time, there is an intention to 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 –*w*hen principal and interest have a period of 90 days past due.

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.

(Continued)

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 Group has eligibility for credit restructuring, which generally consider that the terms of such restructuring are 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 liquidated all of the accrued interest, the credit is not in arrears, and counts with elements indicating the ability to pay of the debtor.

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
iii) 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.

(Continued)

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 determined 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, consumer and mortgage. The methodology distinguishes credit risk ratings and based on this determines the reserve.

On June 24, 2013, the Banking Commission published in the Federal Official Gazette a resolution whereby the Provisions are amended for the creation of preventive reserves for other commercial loans other of States, Municipalities and Investment Projects with own source of payment to adopt an expected loss, considering the probability of default, the loss given default and the exposure at default. In addition, the commercial loan portfolio is classified in two groups: the first group includes those with annual sales fewer than 14 million UDIS, where quantitative factors are assessed and the second group includes borrowers with annual sales equal to or greater than 14 million UDIS, which are also assessed for qualitative factors.

The resolution came into force on the following day of its publication and it was resolved that the application of the new criteria concerning the commercial loan portfolio would occur by December 31, 2013, allowing early application and the recognition of the financial effects from the application of the new methodology in stockholders' equity of the institutions in cases where, being impractical, it is not possible to apply the effect retrospectively. On June 30, 2013, and in accordance with the provisions of transitory article two, the Bank early adopted the new methodology (refer note 4). In the case of the creation of preventive reserves for loans granted to financial entities, the new methodology will be applied from January 2014 while the financial impact for the creation of additional reserves should be recognized by June 30, 2014.

The current methodology published in the Federal Official Gazette on October 5, 2011 that is based on concepts such as: expected loss, probability of default, exposure at default and loss given default by loan and borrower applies for States, Municipalities and Investment Projects; considering mainly the ratings provided by rating agencies.

(Continued)

(Millions of pesos)

The allowance for loan losses is determined depending on the risk level as follows:

	Range of percentage of allowance for loan losses			
Risk	Consumer loans		Residential	
level	Non revolving	Revolving	Mortgage	Commercial
A – 1	0.00 – 2.00	0.00 – 3.00	0.00 – 0.50	0.00 – 0.90
A – 2	2.01 – 3.00	3.01 – 5.00	0.501 – 0.75	0.901 – 1.50
B – 1	3.01 – 4.00	5.01 – 6.50	0.751 – 1.00	1.501 – 2.00
B – 2	4.01 – 5.00	6.51 – 8.00	1.001 – 1.50	2.001 – 2.50
B – 3	5.01 – 6.00	8.01 – 10.00	1.501 – 2.00	2.501 – 5.00
C – 1	6.01 – 8.00	10.01 – 15.00	2.001 – 5.00	5.001 – 10.00
C – 2	8.01 – 15.00	15.01 – 35.00	5.001 – 10.00	10.001 – 15.50
D	15.01 – 35.00	35.01 – 75.00	10.001 – 40.00	15.501 – 45.00
E	35.01 – 100.00	75.01 – 100.00	40.001 – 100.00	45.001 – 100.00

As of December 31, 2012, 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.

(Continued)

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 the Group as having the risk levels “D” and “E”.

Additional reserves – Are those that are created for hedging risks that are not provided by the various methodologies for rating the loan portfolio. Also included are estimates for items such as uncollected ordinary interest accrued and other ancillary charges, as well as reserves 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.

As a result of the rating process, increases or decreases in the preventive loan loss reserve are recorded in the year’s income (loss), adjusting the financial margin.

When the balance of the preventive loan loss reserve exceeds the amount required in accordance with the rating methodologies, the difference is cancelled on the date on which the next rating for type of loan (commercial, consumer or housing) versus the year’s income (loss) occurs, affecting the preventive loan loss reserve. In cases where the amount to be cancelled exceeds the recorded balance of such allowance in the year’s income (loss), the excess is recognized in “Other operating income”.

Claim reductions, debt cancellations, rebates and discounts are recorded as charges to the preventive loan loss reserve. If the amount of the latter exceeds the balance of the reserve associated with the loan, reserves for up to the amount of the difference are created in advance.

(m) Premium debtors-

Uncollected premiums represent under 45-days aging balances in accordance with the Insurance and Bonding Commission’s provisions; which when older must be written off against the results of operations for the year.

Management conducts an assessment to estimate the recoverable amount of accounts receivable from identified debtors whose maturity is agreed at inception over a period greater than 90 calendar days if necessary an allowance for doubtful accounts is created.

(Continued)

In the case of accounts receivable not included in the last paragraph of previous page, the estimate for allowance for doubtful accounts is made for the full amount of the debt in accordance with the following periods: within 60 calendar days of initial registration, debtors when they relate to unidentified debtors and 90 calendar days of initial registration if they relate to debtors identified.

n) 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.

o) Foreclosed 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”. 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” on the date that the conditions to consider that the ownership has been transferred in accordance with accounting criteria C-1 are met.

(Millions of pesos)

The Group 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:

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

p) 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.

Depreciation and amortization are calculated using the straight – line – method over the estimated useful life of the assets. The useful life of the principal assets classes are show on note 16.

q) 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 are no significant influence, which are recorded at their acquisition cost.

r) Goodwill-

Goodwill represents the future economic benefits that arise from other assets acquired that are not individually identifiable or separately recognized. Goodwill is subject to impairment tests at least annually.

s) 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 on 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 the Group, 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.

t) 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 at December 31, 2013 and 2012.

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 losses carry forward 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.

u) Deposit funding-

This caption includes demand and term deposits made by the general public including negotiable instruments issued. Interest is recognized in operations on the accrual basis. Regarding those instruments placed at a price other than par value, difference between the instrument par value and the cash amount received for it, is recognized as a deferred charge for issue expenses, under the caption "Other assets, deferred or intangible charges", or a deferred credit in the liability that gave rise to it and is amortized under the straight-line method against income during the term of the instrument that generated it.

v) 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 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.

(Continued)

(w) Technical reserves-

The creation and increases of technical reserves are made in accordance with the terms and in the percentages established in the LGISMS. The valuation of these reserves is reported, as required by the Insurance and Bonding Commission, by an independent actuarial auditor registered with the Insurance and Bonding Commission itself.

The Group used methods for the valuation of technical reserves in compliance with the provisions established by the Insurance and Bonding Commission, such methods are registered with the Insurance and Bonding Commission. Following are the most significant aspects for the determination and accounting for aforementioned reserves:

Current risk reserve-

Pursuant to the provisions of Chapter 7 of the Insurance Regulation Letter (Circular Única de Seguros) insurance institutions register on the Insurance and Bonding Commission the technical notes and the actuarial methods used for creating and valuing the current risk reserve.

The current risk reserve for life insurance with terms of up to one year (refer to note 1c), and insurance covering accidents, health and property and casualty includes the excess of the projection of future claims obligations over the amount of unearned premiums and administrative expenses. For life insurance, the amount is determined in accordance with the actuarial methods registered in the technical notes, based on the risk premium and the characteristics of the policies in force.

The valuation of this reserve is conducted on a monthly basis, whereas the adequacy of this reserve is evaluated on a quarterly basis and allows for assigning resources in advance to likely obligations from claims that exceed the amount of unearned premiums.

For purposes of calculating the adequacy index of the current risk reserve, the casualty or accident rate information for casualty insurance was based on the last 5 years.

Life insurance with terms in excess of one year - This reserve may not be less than the reserve obtained by applying the actuarial method for determining the minimum current risk reserve amount that the Insurance and Bonding Commission establishes to such end through rules of a general nature.

The balance of this reserve is evaluated on a quarterly basis and allows for assigning resources in advance to the likely obligations from claims that exceed the amount of unearned premiums. Formerly, resources were only assigned at the time the claim was filed.

Mathematical pension reserve – the current risk reserve or mathematical pension reserve corresponds to the amount which, capitalized at the technical interest rate, guarantees the payment of future rents according to the demographic tables adopted.

(Continued)

Through December 31, 2012, the special mathematical reserve was included in line item "Special estimated technical reserves" and reclassified during 2013 to "technical reserves for current risks within the mathematical pension reserve". The consolidated balance sheet as of December 31, 2012 includes a reclassification for $128 to conform to the presentation used in 2013. In this same year, the manner for setting up the reserve was modified according to amending circular letter 59/13 of the Insurance Regulation Letter, issued by the Insurance and Bonding Commission on January 8, 2013, increasing proportionally (by current policy at December 31, 2012) to the increase in the current risk reserve for the direct insurance, which effect was immaterial.

Earthquake insurance and other catastrophic risk **-** The Group determines the balance of the current risk reserve for earthquake, hurricane and other hydrometeorologic risks coverage based on 100% of the retained risk premium in force according to local regulation.

Catastrophic risk reserve-

Earthquake and/or volcanic eruption risk-

The purpose of this reserve is to cover the liability of the Group in connection with underwriting earthquake events and other hydrometeorologic risk insurance. The reserve is cumulative and may only be affected in the event of a catastrophe, with the Insurance and Bonding Commission's prior approval. Increases to the reserve require the release of the current risk reserve for the earthquake insurance line and the others catastrophic risks and the capitalization of financial income. The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Insurance and Bonding Commission.

Hurricane and other hydrometeorologic risks-

The purpose of this reserve is to cover the liability of the Group in connection with underwriting hurricane and other hydrometeorologic risk insurance. The reserve is cumulative and may only be affected in the event of a catastrophe, with the Insurance and Bonding Commission's approval. Increases to the reserve require the release of the current risk reserve for the hurricane and other catastrophic risks insurance line and the capitalization of financial income. The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Insurance and Bonding Commission.

(Continued)

Reserve for claims and maturities-

This reserve has the following components:

- The obligation under specific known claims that were recorded by the Group but not yet paid at the year end. Its increase occurs in accordance with the claim of insured events occurred, in life products for the face amount and based on the estimations done by the Group of the amount of the obligation by the covered risks in accident and health and property and casualty operations. In case of reinsurance ceded, simultaneously a corresponding recovery is recorded.

  Auto insurance claims are shared with coinsurers equally (50%-50%) on the basis of casualty or accident rate information provided the latter.

- Reserve of claims pending of valuation. This calculation is done applying the actuarial methodology developed by the Group and authorized by the Insurance and Bonding Commission. This reserve corresponds to the expected value of future claim payments that being reported during the current year or in prior years, may be paid in the future and the exact value is not known. This methodology considers the average claim amount paid in prior years for each one of the insurance lines, based on actual payment experience and the average estimated amount for future payments of the same kind of claims.

Reinsurance claims made are recorded on the date they are reported by ceding companies.

Reserve for claims incurred, but not reported-

Pursuant to the rules established by the Insurance and Bonding Commission, the Group is required to set up this reserve for recognizing the estimated amount of events that have occurred but that the insured has not reported to the Group, which includes an estimate of the relevant adjustment in expenses. This estimate is made based on the own experience concerning events, in accordance with the methodology proposed by the Group's specialists and approved by the Insurance and Bonding Commission.

That methodology establishes that the calculation of the reserve for incurred but not reported events takes into consideration two effects: the first one relates to the time the insured takes for reporting the event to the Group, and the second one relates to the time it takes for the Group to estimate and adjust the amount of the loss, in accordance with its estimation and recoding practices. To segregate these effects, the registered method recognizes two components: reserve for incurred but not reported events (SONOR for its initials in Spanish) and reserve for reported but not yet paid events (SORNOF for its initials in Spanish).

(Continued)

The SORNOF is computed based on the gross incidence of events, affected by a factor that considers pending unrecorded adjustments through payment of the events already reported. The retained amount is computed based on the information on retained events of each policy.

Furthermore, the reserve for incurred but not reported events is determined as the global reserve computed based on the technical notes registered for each operation, less the SORNOF amount obtained.

Reserve for policy dividends-

This reserve is determined based on an actuarial estimation, considering gains from individual life, group life, personal accidents and automobile.

Contractual obligations reserve-

This reserve includes annuities paid to pensioners or beneficiaries, which period has expired without such annuities being claimed and there is no evidence that the beneficiaries are no longer eligible or have died.

Contingency reserve-

The resources of this reserve are intended to confront an adverse deviation in obligations derived from the demographic hypotheses used for the determination of the amounts required for taking out annuity insurance with an insurance company (annuity amount), which would translate into excessive obligations as a result of a variation in the mortality rate used in the demographic table adopted.

Special reserves (reserve for investment fluctuations)-

The purpose of these reserves is to support insurance companies against potential variations in the returns on their investments. The reserve will be created by using a portion of the financial return, which is the difference between actual returns on the institutions' investments and the minimum returns associated with their technical reserves.

x) Employee 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, 2013 and for purposes of recognizing benefits upon retirements, the remaining average service life of employees entitled to pension and seniority premium plan, are approximately 16 years and 13 years for post-retirement benefits (for 2012, 18 years and 14 years respectively).

(Continued)

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.

y) Share-based payment-

The Group offers different payment program based on shares of its ultimate 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.

z) 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.

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. Fees earned in connection with fiduciary operations and those arising from asset custody and management services are recognized in income as earned.

(aa) Revenue recognition from insurance and reinsurance premium revenues-

Life – Revenue in this operation are recorded according to the issuing of receipts for payment, added premiums for reinsurance taken and reduced by reinsurance premiums ceded.

Accident and health and property and casualty – Income from these transactions is recorded based on the written premiums, added the reinsurance premiums taken, which are reduced by reinsurance premiums ceded.

The insurance premiums that the policy holder insured have not paid within the term provided by the LGISMS are automatically cancelled, thus releasing the current risk reserve and, in the case of reinstatement, the reserve is restored from the month in which the policy is renewed.

Pensions – the annuity amount calculated on the date the Mexican Social Security Institute issues the document for granting the pension is considered the insurance premium, which is recorded at the time the policy is issued.

Salvage revenues - For accounting purposes, salvage revenues are recognized as an asset and a decrease in the cost of claims when determined, and are recorded at estimated realizable value.

Policy rights and premium surcharges - Revenues related to policy rights correspond to the recovery of costs of issuing the policy and are recognized on income statement at the time the policy is issued.

Revenue from surcharges on premiums corresponds to related financing policies with payments and are recognized in income as earned.

Net acquisition cost – the acquisition cost is recognized in the consolidated statement of income when the policies are issued, decreasing of reinsurance ceded fees.

bb) Foreign currency transactions-

The accounting records are maintained in both pesos and foreign currencies, which for presentation of the consolidated financial statement 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.

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

Among other provisions, the Bank Savings Protection Law provides for the creation of the IPAB, which intends to act as a system for protecting the bank savings of depositors and regulates the financial support granted to the commercial banking institutions to achieve this objective. The IPAB guarantees a maximum of 400,000 UDIS ($2 at December 31, 2013) by saver and by institution. The Group recognizes in results of operations the mandatory contributions to the IPAB.

(Continued)

dd) 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.

ee) Impairment of recovery from long term assets-

The Group 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) Accounting changes and reclassifications-

Accounting changes-

a) On June 24, 2013, certain amendments to the Provisions, relating to the methodology for rating the commercial loan portfolio granted to financial entities, were published in the Federal Official Gazette (DOF); individuals with business activities and legal entities other than: projects with own source of financing, as well as credit schemes commonly known as “structured”. The Group applied the new methodology for rating the commercial loan portfolio from June 2013, recognizing a charge to stockholders’ equity of $799 ($559 net of deferred taxes), in accordance with the transitory articles of such Provisions.

The Group has not determined the retrospective financial effect from the application of this new methodology as of the end of December 2012. While management has made all the reasonable efforts, it has not been able to obtain the historical data required by the new methodology. Consequently, these consolidated financial statements do not include information set out by paragraph 11 of FRS B-1, “Accounting changes and error corrections”, as required by the Banking Commission under transitory article four about the amendments to the provisions published on June 24, 2013.

(Continued)

b) The Mexican Board of Financial Reporting Standards (*Consejo Mexicano de Normas de Información Financiera, A. C.* or CINIF) issued the following FRS and improvements to FRS that had no significant effects on the Bank's consolidated financial statement:

- **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. This change supersedes FRS B-8 "Consolidated or combined financial statements"- Main changes include the definition of control; the inclusion of the concepts of "protective rights" and "structured entity" as well as the figures of "principal" and "agent".

- **FRS C-5 "Prepayments", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities, and commitments" and Bulletin C-12 "Financial instruments with characteristics of liability, equity, or both"-** This FRS provides that expenses on the issue of debentures be presented as a reduction of the respective liability and charged to income based on the effective interest method.

- **FRS D-4 "Income Taxes"-** FRS D-4 provides that current and deferred income tax be recognized and included in profit or loss for the period, except to the extent that 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.

The improvements discussed above became effective for years beginning on or after January 1, 2013 and their recognition is prospective in respect of changes in valuation and retrospective when it comes to presentation changes.

c) Reclassifications-

Discontinued operations – as mentioned in note 18 to the consolidated financial statements, the sale of the Bonding Company was authorized on December 13, 2013; consequently the net assets and results of operations as of and for the year ended December 31, 2012 are presented as discontinued operations.

The consolidated financial statements as of and for the year ended December 31, 2012 were reclassified to make them comparable to the presentation used as of December 31, 2013 and for the year then ended as shown on the following page.

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	2012		
	Previously reported figures	**Reclassifications**	**Reclassified figures**
Consolidated Balance Sheet			
Assets			
Investment securities:			
Trading	$ 44,135	(441)	43,694
Available for sale	97,339	(155)	97,184
Premium debtors, net	71	(2)	69
Accounts receivable from reinsurers and re-guarantee, net	150	(31)	119
Benefits receivable on securitization transactions	-	155	155
Foreclosed assets, net	221	(3)	218
Long-term assets available for sale	456	61	517
Others assets, deferred charges and intangible assets	4,077	166	4,243
Liabilities			
Technical reserves	(10,935)	232	(10,703)
Accounts payable to reinsurers and re-guarantee	(16)	2	(14)
Sundry creditors and other accounts payable	(17,539)	17	(17,522)
	======	===	======
Consolidated Statement of Income			
Interest income	$ 32,130	(18)	32,112
Premiums income, net	2,960	(20)	2,940
Increase of technical reserves, net	(846)	3	(843)
Claims and other contractual obligations	(1,014)	17	(997)
Allowance for loan losses	(4,677)	(857)	(5,534)
Commission and fee income	8,493	(11)	8,482
Other operating income	2,977	839	3,816
Administrative and promotional expenses	(22,004)	11	(21,993)
Current income taxes	(1,998)	13	(1,985)
Deferred income tax	(94)	(1)	(95)
Discontinued operations	340	24	364
	=====	====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	2012			
		Previously reported figures	Reclassifications	Reclassified figures
Consolidated Statement of Cash Flows				
Technical reserves	$	846	(3)	843
Current and deferred income taxes		2,092	(12)	2,080
Continuing operations		(340)	(24)	(364)
Change in investment securities		20,646	596	21,242
Changes in premium debtors net,		(27)	2	(25)
Change in reinsurers and re-guarantee, net		11	31	42
Change in foreclosed assets		(14)	3	(11)
Change in other operating assets		(1,182)	(405)	(1,587)
Change in reinsurers and re-guarantee, net (liability)		3	(2)	1
Change in other operating liabilities		11,171	(184)	10,987
		=====	====	=====

(5) Foreign currency exposure-

Central Bank regulations require that banks and brokerage firms 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 Bank´s basic capital and 15% of the Brokerage firm´s net capital. In accordance to the basic capital of the Bank, as published by the Central Bank as of September 30, 2013 and 2012, the maximum exposure permitted as of December 31, 2013 and 2012, amounts to USD$491 and USD$431, respectively.

The foreign currency position as of December 31, 2013 and 2012 is analyzed as follows:

	(Millons of dollars)	
	2013	2012
Assets	38,064	29,081
Liabilities	(37,935)	(29,376)
Net assets (liabilities)	129	(295)
	======	=====

The exchange rate of the peso to the dollar as of December 31, 2013 and 2012 was $13.0843 and $12.9658, respectively. The exchange rate on February 12, 2014, the date of issuance of the consolidated financial statements was $13.3056 pesos per dollar.

(Continued)

(Millions of pesos)

(6) Cash and cash equivalents-

At December 31, 2013 and 2012, cash and cash equivalents are analyzed as follows:

		2013	2012
Cash	$	12,251	12,630
Deposits with domestic and foreign banks		6,965	5,310
Other cash equivalents		1	11
Restricted cash and cash equivalents:			
Central Bank deposits		32,599	32,542
Bank loans with maturity up to three days		2,988	-
24 and 48-hour foreign currency purchases		40,729	22,487
24 and 48-hour foreign currency sales		(40,126)	(17,134)
	$	55,407	55,846
		=====	======

At December 31, 2013 and 2012, cash balances valued in Mexican pesos by currency included in the cash and equivalents caption is as follows:

		Exchange rate				
Currency		2013	2012		2013	2012
Mexican peso	$	-	-	$	12,104	12,430
Dollar		13.0843	12.9658		146	198
Euro		18.0302	17.1382		1	2
				$	12,251	12,630
					=====	=====

At December 31, 2013 and 2012, the Group did have deposits in dollars with the Central Bank for $6 and $32, respectively.

At December 31, 2013 and 2012, 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, 2013, the Group has call money loans with 3-day maturities (did not have call money at December 31, 2012), as shown on the following page.

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	Term	Rate	Amount
Nacional Financiera, S. N. C.	2 days	3.50%	$ 1,600
Banco Mercantil del Norte, S. A.	2 days	3.45%	650
Banco Nacional de México, S. A.	2 days	3.40%	738
			$ 2,988

At December 31, 2013 and 2012 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

		2013		2012	
Currency		Purchased	Sold	Purchased	Sold
Dollar	$	30,061	(29,544)	21,105	(16,684)
Sterling		-	(49)	15	(15)
Euro		117	(3)	664	(423)
Brazilian real		10,368	(10,452)	703	-
Other currencies		183	(78)	-	(12)
	$	40,729	(40,126)	22,487	(17,134)

(7) Margin accounts-

On December 31, 2012, the margin accounts relates to deposits at the MexDer, Mercado Mexicano de Derivados, S. A. de C. V. amounting to $53.

(Continued)

(Millions of pesos)

(8) Investment securities-

At December 31, 2013 and 2012 the investments in securities are analysed as follows:

		2013		2012	
Trading *:					
Government securities	$	49,353		32,266	
Banking promissory notes		2,240		2,315	
Bonds		1,656		1,753	
Equities		5,319	58,568	7,360	43,694
Available-for-sale *:					
Government securities		92,117		93,140	
Bank securities		508		1,840	
Corporate securities		3,456	96,081	2,204	97,184
Held-to-maturity *:					
Special CETES of the UDIS Trusts:					
Mortgages		4,323		4,161	
States and municipalities		627		603	
Corporate securities		1,303		1,717	
Government securities		10,215		8,627	
Bonds		210		142	
Bank securities		95	16,773	63	15,313
Total investment securities		$	171,422		156,191
			======		======

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

During 2013 and 2012, the Group did not record any transfers between categories of investment securities.

(Continued)

(Millions of pesos)

Collaterals

At December 31, 2013 and 2012 securities pledged and received as collateral, including collateral sold or pledged as a guarantee were as follows:

		2013	**2012**
Pledged (Restricted securities) (note 9):			
Trading securities	$	28,292	16,033
Securities available for sale		16,922	5,804
	$	45,214	21,837
Received (in memorandum accounts) (notes 9 and 10):			
In respect of repo transactions	$	8,008	45,064
In respect of securities loan:			
Fixed income		9,283	3,903
	$	17,291	48,967
Collateral sold or pledged as guarantee:			
In respect of repo transactions *(note 9)*	$	7,507	35,306
In respect of securities loan:			
Fixed income		9,076	7,894
	$	16,583	43,200

Collateral pledged, received or sold and given as a guarantee, originated 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, 2013 and 2012, the Group 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, 2013 and 2012 the Group maintains, investments (other than government securities), from the same issuer exceeding 5% of the Bank's net capital (As of September 30, 2013 and 2012 of $2,649 and $2,365, respectively), for a total value of $15,153 and $5,535, respectively, as follows:

Issuer	Symbol	Series	Amount	Rate
2013				
Brazilian government	BNTN071	140101	$ 4,200	4.83%
Brazilian government	BLTN6M6	140101	6,254	9.49%
Brazilian government	BLTN6Z8	140101	4,699	10.36%
			$ 15,153	
2012				
Brazilian government	BNTN071	140101	$ 4,918	9.76%
Brazilian government	BRAZX87	130617	617	10.25%
			$ 5,535	

Classification of investment securities -

At December 31, 2013 and 2012, the classification of investment securities in accordance to their nominal term of the securities portfolio in short and long term, is as follows:

	2013		2012	
Securities	**Short term**	**Long term**	**Short term**	**Long term**
Trading	$ 38,239	20,329	33,854	9,840
Available-for-sale	11,248	84,833	22,673	74,511
Held-to-maturity	640	16,133	978	14,335
	50,127	121,295	57,505	98,686
	$ 171,422		156,191	

The weighted averages of maturity terms in years (unaudited), of investments in securities classified by categories at December 31, 2013 and 2012 is shown below:

Securities	2013	2012
Trading	1.68	2.06
Available-for-sale	2.79	4.12
Held-to-maturity	10.50	11.71

(Continued)

(Millions of pesos)

The weighted average rates (unaudited) and interest income from securities at December 31, 2013 and 2012 (refer to note 31), is shown below:

		2013			2012	
Securities		**Interest**	**Rate**		**Interest**	**Rate**
Trading	$	1,467	3.26%	$	1,556	3.58%
Available-for-sale		4,467	4.97%		5,130	5.01%
Held-to-maturity		826	5.27%		803	5.26%
	$	6,760		$	7,489	

During the years ended December 31, 2013 and 2012, the net losses and gains in respect of available for sale securities were $43 and $16, respectively.

During the years ended December 31, 2013 and 2012, the Group 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, 2013 and 2012 were $23 and $1,737, respectively, and the Group reclassified to the statement of income $883 and $1,230, 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 $874 ($612, net of deferred tax) and $507 ($355, 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, 2013 and 2012, are analyzed as follows:

		Purchaser		Seller	
		2013	**2012**	**2013**	**2012**
Repo operations	$	8,001	43,012	34,765	20,729
Collaterals sold or pledged		(7,501)	(35,306)	-	-
	$	500	7,706	34,765	20,729

(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, 2013 and 2012:

	2013				2012			
	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	$ 12,682	6,570	66	2	$ 12,019	10,602	38	9
CETES	4	-	7	-	3,541	30,727	4	2
UMS	2,717	-	2,221	-	3,233	-	1,134	-
BPAT	-	-	-	-	-	707	-	2
BPAG91	-	1,436	-	2	-	-	-	-
BONDES M	18,308	-	277	-	2,618	3,028	1,055	2
BONDES182	-	2	-	66	-	-	-	-
Bank notes								
IBANOBRA	2,011	-	2		426	-	15	-
	$ 35,722	8,008			$ 21,837	45,064		
	=====	====			=====	=====		

During the year ended December 31, 2013, interest income and expense from repo agreements, recognised in the consolidated income statement amounted to $565 and $1,889 respectively ($2,063 and $2,898, respectively in 2012) (refer to note 31).

(10) Collaterals sold or pledged as a guarantee-

At December 31, 2013 and 2012, the collateral received in stock borrowing transactions and sold or pledged as a guarantee is shown as follows:

	2013			2012		
	Securities	Amount	Average term	Securities	Amount	Average term
Cetes	401,961,572	3,928	2	101,953,570	$ 1,012	2
Bonds	47,185,452	4,957	2	25,892,639	2,705	2
Udibonos	343,464	191	14	315,302	171	2
		9,076			$ 3,888	
		====			====	

Securities lending transactions outstanding at December 31, 2012, earned premium payable of $22, which are recognised in the "Securities lending" account in the consolidated balance sheet.

During the years ended December 31, 2013 and 2012, interest expense arising from securities lending transactions recognised in the consolidated statement of income, amounted to $22 and $16, respectively (refer to note 31).

(11) Derivative transactions -

The Group'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 Group 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 Group 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.

At December 31, 2013 and 2012, the Group had derivative-related financial assets, which amounted to $49,769 and $43,349, respectively. Such assets had the credit quality shown on the following page.

(Millions of pesos)

Risk level	2013	2012
Low	$ 42,145	34,935
Satisfactory	7,487	7,954
Significant	137	65
High	-	395
Total	$ 49,769	43,349

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.

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 33.

If the primary position had not been hedged with the derivative financial transactions mentioned earlier, there would have been an adverse impact in the results of operations for 2013 of $27 and an adverse impact for $54 in 2012.

Fair value hedges

In respect of fair value hedges, at December 31, 2013, hedging instrument losses and gains in respect of the hedged position were $456 and $416, respectively and ($241 and $259, respectively in 2012).

Cash flow hedges

At December 31, 2013, the periods in which cashflows in respect of cashflow hedges are expected to occur are as follows:

		2014	2015	2016	2017	2018	2019
Interest rate swaps	$	(890)	(856)	(437)	-	-	-
Currency swaps		11	13	16	18	158	147
	$	(879)	(843)	(421)	18	158	147

(Continued)

The total amount recognised in comprehensive income during 2013 in respect to fair value changes in effective cash flow hedges was a profit of $134 (profit of $263 in 2012).

The amount reclassified from comprehensive income to the income statement for the years ended on December 31, 2013 and 2012 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 $44 and $90, respectively, which was registered in “Financial intermediation income”.

During 2013 and 2012 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 $50 and $27, respectively.

Compensation and net exposure to credit risk in derivatives

The Group 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, 2013 and 2012 was $21,502 and $27,828, 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, 2013 and 2012, the Group did not provide non cash collateral in respect of derivative liabilities. Equally the Group did not receive any non cash collateral from derivative counterparties.

At December 31, 2013 and 2012, the credit risk (including collaterals) in respect of derivative financial instruments, amounted to $11,030 and $6,428, respectively.

During the year ended December 31, 2013, the Group’s counterparties had defaults originating from derivative transactions that amounted to $473. During the year ended December 31, 2012 there were no defaults resulting from derivative transaction contracts. At December 31, 2013 and 2012, the balance in sundry debtors resulting from defaults in this type of amounted to $1,513 and $945 respectively of which $1,425 as of December 31, 2013 were reserved ($945 in 2012).

At December 31, 2013 and 2012, the fair value valuation of the derivative instruments is analyzed as shown in the following page.

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December 31, 2013

	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																	
Forwards	$ 328,123	326,720	20,000	16,500	301	301	348,424	343,521	3,505	2,407	36	32	45	45	3,586	2,484	1,102
Options	11,473	10,247	14,255	17,724	-	-	25,728	27,971	83	83	128	92	-	-	211	175	36
Swaps	185,873	169,287	1,145,009	1,178,378	-	-	1,330,882	1,347,665	18,896	16,965	26,908	27,229			45,804	44,194	1,610
	525,469	506,254	1,179,264	1,212,602	301	301	1,705,034	1,719,157	22,484	19,455	27,072	27,353	45	45	49,601	46,853	2,748
Hedge																	
Swaps	-	282	17,120	16,352	-	-	17,120	16,634	-	27	168	763	-	-	168	790	(622)
	$ 525,469	506,536	1,196,384	1,228,954	301	301	1,722,154	1,735,791	22,484	19,482	27,240	28,116	45	45	49,769	47,643	2,126

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)
	$ 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

(Continued)

(Millions of pesos)

(12) Loan portfolio-

At December 31, 2013 and 2012 the loan portfolio and the credit commitments are analyzed as follows:

		2013	2012
Total loan portfolio, shown in the consolidated balance sheet	$	204,990	198,979
Recorded in memorandum accounts (note 30a):			
Guarantees		-	4
Lending commitments		25,561	25,222
	$	230,551	224,205
		======	======

(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, 2013 and 2012, 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.

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		Commercial activity		Financial institutions		Government entities		Consumer		Residential mortgages		Total	
Portfolio		**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Current:													
Pesos	$	83,048	84,157	4,219	4,593	18,068	27,458	37,675	33,585	23,468	18,063	166,478	167,856
Foreign currency		25,159	25,007	120	230	65	649	-	-	-	-	25,344	25,886
UDIS		-	-	-	-	-	-	-	-	1,012	1,224	1,012	1,224
Total		108,207	109,164	4,339	4,823	18,133	28,107	37,675	33,585	24,480	19,287	**192,834**	**194,966**
Past due:													
Pesos		8,919	1,236	3	3	45	-	1,788	1,302	631	554	11,386	3,095
Foreign currency		698	836	-	-	-	-	-	-	-	-	698	836
UDIS		-	-	-	-	-	-	-	-	72	82	72	82
Total		9,617	2,072	3	3	45	-	1,788	1,302	703	636	**12,156**	**4,013**
Total:													
Pesos		91,937	85,393	4,222	4,596	18,113	27,458	39,463	34,887	24,099	18,617	177,834	170,951
Foreign currency		25,887	25,843	120	230	65	649	-	-	-	-	26,072	26,722
UDIS		-	-	-	-	-		-	-	1,084	1,306	1,084	1,306
Total	**$**	**117,824**	**111,236**	**4,342**	**4,826**	**18,178**	**28,107**	**39,463**	**34,887**	**25,183**	**19,923**	**204,990**	**198,979**
Classification by activity													
Manufacturing	$	63,109	61,349	-	-	-	-	-	-	-	-	63,109	61,349
Agriculture, forestry and fishing		10,596	9,469	-	-	-	-	-	-	-	-	10,596	9,469
Trade and tourism		21,249	21,893	-	-	-	-	-	-	-	-	21,249	21,893
Services		22,870	18,525	-	-	-	-	-	-	-	-	22,870	18,525
Financial services		-	-	2,074	1,546	-	-	-	-	-	-	2,074	1,546
Credit Unions		-	-	1,046	932	-	-	-	-	-	-	1,046	932
Municipalities		-	-	-	-	1,085	1,280	-	-	-	-	1,085	1,280
States		-	-	-	-	7,636	8,716	-	-	-	-	7,636	8,716
Credit to the Federal Govermment (support programs		-	-	-	-	386	582	-	-	-	-	386	582
Other govenment entities (see note 12a)		-	-	-	-	9,071	17,529	-	-	-	-	9,071	17,529
Others to financial organizations		-	-	1,222	2,348	-	-	-	-	-	-	1,222	2,348
Automobile credit		-	-	-	-	-	-	2,479	2,669	-	-	2,479	2,669
Credit Card		-	-	-	-	-	-	19,115	17,374	-	-	19,115	17,374
Multicredit		-	-	-	-	-	-	15,808	13,504	-	-	15,808	13,504
Fixed payment		-	-	-	-	-	-	2,061	1,340	-	-	2,061	1,340
Construction and housing		-	-	-	-	-	-	-	-	25,183	19,923	25,183	19,923
	$	**117,824**	**111,236**	**4,342**	**4,826**	**18,178**	**28,107**	**39,463**	**34,887**	**25,183**	**19,923**	**204,990**	**198,979**
Past due loans by aging													
From 1 to 180 days	$	2,448	689	-	3	45	-	1,778	1,286	518	540	4,789	2,518
From 181 to 365 days		5,927	133	3	-	-	-	10	15	106	96	6,046	244
From 1 to 2 years		74	495	-	-	-	-	-	1	51	-	125	496
More than 2 years		1,168	755	-	-	-	-	-	-	28	-	1,196	755
	$	**9,617**	**2,072**	**3**	**3**	**45**	**-**	**1,788**	**1,302**	**703**	**636**	**12,156**	**4,013**

NOTE: The amounts above are for cumulative amounts of principal (for 2013 $203,890 and 2012 $198,065) and interest (for 2013 $1,100 and 2012 $914) which are classified in the consolidated balance sheets of the Group as assets under the caption of current and past due loans.

Loan portfolio rated		**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Portfolio rating risk													
A-1 and A-2 (A-Minimum in 2012)		110,258	102,942	2,677	3,543	10,542	11,362	2,721	7,563	22,244	17,337	148,442	142,747
B-1, B-2 and B-3 (B-Low in 2012)		18,801	28,932	1,665	1,283	4,191	8,124	32,226	24,077	2,526	2,135	59,409	64,551
C-1 and C-2 (C-Medium in 2012)		3,888	3,428	-	-	2,833	15	2,644	1,907	401	448	9,766	5,798
D-High		8,942	297	-	-	228	-	1,816	1,302	12	3	10,998	1,602
E-Irrecoverable		1,496	863	-	-	-	8	56	38	-	-	1,552	909
Total portfolio rated		143,385	136,462	4,342	4,826	17,794	19,509	39,463	34,887	25,183	19,923	230,167	215,607
Exempt portfolio		-	-	-	-	384	8,598	-	-	-	-	384	8,598
Total portfolio	$	**143,385**	**136,462**	**4,342**	**4,826**	**18,178**	**28,107**	**39,463**	**34,887**	**25,183**	**19,923**	**230,551**	**224,205**
Allowance and percentage													
A-1 and A-2 (A-Minimum in 2012)	$	600	571	15	21	59	58	25	44	65	45	764	739
B-1, B-2 and B-3 (B-Low in 2012)		423	1,287	79	65	125	385	2,327	2,362	154	115	3,108	4,214
C-1 and C-2 (C-Medium in 2012)		316	1,238	-	-	207	3	984	725	172	150	1,679	2,116
D-High		4,108	227	-	-	67	-	1,365	893	8	2	5,548	1,122
E-Irrecoverable		803	863	-	-	-	8	56	38	-	-	859	909
		6,250	4,186	94	86	458	454	4,757	4,062	399	312	11,958	9,100
Additional reserves		121	19	-	-	-	-	129	200	15	62	265	281
	$	**6,371**	**4,205**	**94**	**86**	**458**	**454**	**4,886**	**4,262**	**414**	**374**	**12,223**	**9,381**
General and specific allowances													
General	$	600	571	15	21	59	58	25	45	71	58	770	753
Specific		5,771	3,634	79	65	399	396	4,861	4,217	343	316	11,453	8,628
	$	6,371	4,205	94	86	458	454	4,886	4,262	414	374	12,223	9,381

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(Millions of pesos)

Unsecured loans to IPAB:

On September 27, 2002, the Group 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 Group granted to IPAB an unsecured loan for a total nominal amount of $5,000. Finally on May 31, 2007, the Group 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. At December 31, 2013 the four loan tranches have been settled in accordance with the maturity dates set forth in the debt recognition agreement. At December 31, 2012 the outstanding balance of this loan amounted to $8,016 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 named Additional Benefits to Housing Loan Debtors (BADCV, for its acronym in Spanish).

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Group, 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, 2013 and 2012, 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:

		2013		2012	
		Portfolio	**Cost**	**Portfolio**	**Cost**
ETA/BADCV	$	386	3	582	10
		===	=	===	==

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

		In charge to	
		Financial Group	**Federal Government**
Discounts granted	$	457	973
Additional discount granted by the Group		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 Group 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 Group 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, 2013 and the remaining installments will be payable on the first banking day of June, from 2014 to 2015. Accordingly, the balance receivable as of December 31, 2013 and 2012 by ETA amounts to $378 and $566, respectively, of principal, plus $8 and $15 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.

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 Group must have to absorb 100% of the discount granted. The maximum amount of discount that the Group would absorb for these credits at December 31, 2013 and 2012, amount to $7 and $20, respectively.

(Continued)

(Millions of pesos)

The numbers of securities related to BADCV that are held by the Group at December 31, 2013 and 2012 are shown as follows:

	Trust Program	number	Term	Special Due date	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	-
Program 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

(b) Program for the support of people affected by tropical storm Manuel and hurricane Ingrid:

Due to the natural disasters caused by the hydro-meteorological events "Ingrid" and "Manuel" that affected several Mexico locations and with a view to supporting borrowers who were affected by such natural phenomena while trying to promote the stability of credit institutions, through official document P065/2013 dated October 18, 2013, the Banking Commission authorized the country's credit institutions certain special accounting criteria applicable to loans of customers with domiciles or source of payment of their loans in locations in the Mexican Republic that were declared in emergency or natural disaster by the Ministry of the Interior through publication in the DOF during the months of September and October 2013. The authorized accounting criteria refer to not considering as past due or restructured portfolio in accordance with criterion B-6 of the Provisions, the loans to which the benefit referred to in the following paragraph is applied, provided the following is complied: 1) the loan was recognized as performing at the date such events hit; 2) the restructuring or renovation procedures end by 120 natural days after the date such events hit; and 3) the new maturity of is not greater than three months after the date on which the loans became due and payable.

The benefit offered by the Group to its customers who so request consists of the total deferral of their payments for up to three months. The program applies for mortgage-backed housing loans, automobile loans, personal loans, payroll loans, credit cards and PYME loans.

Since the benefit applied by the Group consisted only of the deferral of the payment of principal and interest thereon for up to 3 months, it was not necessary to make any entries in the accounting associated with the application of this disaster relief program.

(Millions of pesos)

At December 31, 2013, the amount that would have been recorded and presented on the consolidated balance sheet and in the consolidated statement of income, had the special accounting criteria authorized by the Banking Commission not been applied, which relates to interest, was immaterial.

(c) Additional loan portfolio information-

Commission by type of loan:

For the years ended at December 31, 2013 and 2012, commissions by type of loan included in commissions and fees collected within the consolidated statements of income, are presented in as follows:

	Amount	
	2013	**2012**
Commercial	$ 293	383
Consumer	2,380	2,009
Mortgage	31	40
Total	$ 2,704	2,432

Below shows the increases in deferred credits account for the initial granting of credits for the years ended at December 31, 2013 and 2012.

	Amount Commissions	
	2013	**2012**
Consumer	$ 15	16
Commercial	162	269
Mortgage	69	23
Total	$ 246	308

(Millions of pesos)

During the years ended at December 31, 2013 and 2012, $210 and $212, 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	31
Consumer	35
Credit cards	12
Mortgage	201
	===

The initial costs and expenses for the issuance of credits related to the years ended December 31, 2013 and 2012 amounts to $157 and $141, respectively. These amounts relate to payment of commissions and underwriting credits.

Annual weighted lending rates:

During 2013 and 2012, the annual weighted lending rates (unaudited information) were as shown in the following page.

	2013	**2012**
Commercial loans	7.80%	10.04%
Financial entities	5.12%	5.87%
Personal loans	26.85%	26.41%
Mortgages loans	9.91%	10.16%
Government entities	5.96%	6.07%

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, 2013 and 2012, the amount of loans granted under these programmes amounted to $10,062 and $10,662, respectively, and the related liability is included in "Due to banks and other institutions" (refer to note 22).

(Millions of pesos)

Restructured and renewed loans:

At December 31, 2013 and 2012, restructured and renewed loans are analyzed as follows:

	2013				
	Renewed and restructured portfolio				Modified
		Past due restructured (1)	Transfer to past due (2)	Stayed current (3)	not considered as restructured (4)
Commercial loans	$	1,143	624	3,338	6,181
Government entities		-	-	1,325	-
Consumer loans		19	-	55	-
Credit card		106	-	314	-
Mortgage loans		143	-	669	-
	$	1,411	624	5,701	6,181
		====	===	====	====

	2012				
	Renewed and restructured portfolio				Modified
		Past due restructured (1)	Transfer to past due (2)	Stayed current (3)	not considered as restructured (4)
Commercial loans	$	673	694	3,776	6,540
Government entities		-	-	9,369	-
Consumer loans		16	-	32	-
C redit card		103	-	255	-
Mortgage loans		92	-	652	-
	$	884	694	14,084	6,540
		===	===	=====	====

(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.

For the years ended December 31, 2013 and 2012, 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, 2013 and 2012, NAFIN supported $3,874 and $3,685, respectively.

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(Millions of pesos)

Restructuring processes entail the granting of a reduction in interest rates, a waiting period for complying with the payment obligations, the cancellation of any portion of capital, default interest and commissions. At December 31, 2013 and 2012, debts cancelled totaled $27 and $28, respectively. Sometimes, in the restructuring process additional guarantees such as mortgage guarantees are obtained. At December 31, 2013, the value of such additional guarantees aggregates $137 ($125 in 2012).

Past due loan portfolio

Nominal interest that would have accrued in 2013 from the past due loan portfolio amounted to $221 ($113 in 2012).

An analysis of the annual movement of past due loans for the years ended December 31, 2013 and 2012, is shown as follows:

		2013	2012
Balance at beginning of year	$	4,013	5,082
Transfers from current to past due loan portfolio		23,922	12,297
Transfers to current loan portfolio by restructures and renewals		(335)	(492)
Credits collected:			
Cash collections		(4,287)	(2,738)
Collection in kind		(15)	(193)
Write offs		(5,356)	(5,817)
Transfer to current loan portfolio		(5,800)	(4,063)
Foreign exchange		14	(63)
Balance at end of year	$	12,156	4,013

During 2013 and 2012, there were no write-offs of loans granted to related parties.

For the year ended at December 31, 2013, the amount of recoveries for those loans that were previously written-off amounted $760 ($705 in 2012).

Impaired loans:

At December 31, 2013 and 2012, the balance of impaired commercial loans is $10,665 and $1,168 respectively, of which $1,096 and $189 are recorded as current loans and $9,569 and $979 as past due loans, respectively.

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(Millions of pesos)

Risk concentration:

As of December 31, 2013 and 2012, the Group maintains three loans that exceeded the 10% limit of its basic capital at September 30, 2013 of $4,313 ($3,695 at September 30, 2012). These loans represent the three main debtors of the Bank amounting to $12,067 ($16,722 in 2012) that represents the 27.98% (43.58% in 2012) of the basic capital.

Securitisation of mortgage portfolio:

Outstanding securitisation transactions as of December 31, 2013 and 2012, 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 Group the right to receive any remaining funds of the Trust. The Trust note is recorded on the "Benefits receivable on securitization transactions" caption 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:

Invex	Date of issuance	Nominal portfolio sold	Cash received	Acknowledgment	Maturity date	Stockmarket certificates interest rate 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 Group 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, 2013 and 2012, the book value of the subordinated trust acknowledgments are recognized in "Benefits receivable on securitization transactions" and is analyzed as follows:

		2013	2012
Original amount of the certificates	$	224	224
Recoveries of the values of acknowledgments		(2)	-
Valuation		(40)	(69)
Trust certificates net value	$	182	155
		===	===

(Continued)

(Millions of pesos)

The result of acknowledgment valuations is determined considering the fair value of the notes issued by the trustee, which is obtained through a price vendor.

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 Group 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.

(d) Allowance for loan losses -

As explained in notes 3(l) and 33, an allowance is established to provide for credit risks associated with the collection of the Group's loan portfolio.

At December 31, 2013 and 2012 the allowance for loan losses, analyzed in section (a) of this note is shown below:

		2013	**2012**
Rated loan estimate	$	11,958	9,100
Additional reserves, including past due interest		265	281
Total allowance for loan losses	$	12,223	9,381
		=====	====

The classification by risk grade of the commercial portfolio, financial entities and government entities credit reserves at December 31, 2013 and 2012, is as follows:

		2013	**2012**
A-1	$	447	393
A-2		227	269
B-1		211	706
B-2		132	558
B-3		284	475
C-1		423	932
C-2		100	313
D		4,283	214
E		816	885
	$	6,923	4,745
		====	====

(Continued)

(Millions of pesos)

The following is an analysis of the movements of the allowance for the years ended December, 31, 2013 and 2012:

		2013	2012
Balance at beginning of year	$	9,381	10,900
Increase charged to income		8,083	5,534
Exchange rate valuation effects		3	(145)
Effect on stockholders equity by the change in the methodology of commercial loans (note 4)		799	-
Reverse of excess in allowance for loan losses		(6)	(857)
Applications:			
Write-offs		(5,765)	(5,506)
Debt forgiveness		(272)	(545)
Balance at end of year	$	12,223	9,381
		=====	====

At December 31, 2013 and 2012, reverse of excess in allowance for loan losses of commercial loans in the amount of $6 and $857, respectively, were recorded in the caption “Other operating income” (refer to note 31c).

(e) Sale of written-off portfolio-

During 2013 and 2012 the Bank did not sale previously written off portfolio.

The Group’s credit policies are disclosed in note 34.

(13) Accounts receivable from reinsurance companies-

As of December 31, 2013 and 2012, accounts receivable from reinsurance companies include the following:

		2013	2012
Insurance companies	$	18	2
Reinsurance companies’ share of outstanding claims		73	117
	$	91	119
		==	===

(Millions of pesos)

(14) Other accounts receivable-

At December 31, 2013 and 2012, other accounts receivable are analyzed as follows:

		2013	2012
Debtors on settlement transactions	$	29,157	20,025
Due from employees		3,103	3,075
Granted collaterals in cash		6,167	6,598
Other debtors		3,233	3,545
Preventive estimations		(1,256)	(1,169)
	$	40,404	32,074
		=====	=====

The balance of settlement accounts recorded under other accounts payable at December 31, 2013 and 2012 was $37,659 and $29,829, respectively, and recognized in the accounting item of "Settlement transactions".

(15) Foreclosed assets-

As of December 31, 2013 and 2012, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2013		2012	
		Amount	Reserve	Amount	Reserve
Securities	$	-	-	31	(31)
Property:					
Land		10	(6)	9	(6)
Buildings		216	(61)	269	(54)
		226	(67)	278	(60)
		226	(67)	309	(91)
Foreclosed assets, net	$	159		218	
		===		===	

The charge to the income is related to the valuation reserve of foreclosed assets in 2013 amounted to $27 ($34 in 2012).

(Millions of pesos)

The total foreclosed property includes constructions recorded as restricted assets due to the sale executed via reservation of title agreement, which amounts to $9, with a reserve for $5 generated at December 31, 2013 ($40 and $14, respectively in 2012).

(16) Property, furniture and equipment-

Property, furniture and equipment at December 31, 2013 and 2012 are analyzed as follows:

		2013	2012	Annual depreciation and amortization rate	Useful life in years
Property	$	2,214	2,378	2% to 5%	20-50
Office furniture and equipment		1,474	1,586	10%	10
Computer equipment		4,006	4,951	Various	3 to 7
Transportation equipment		6	6	25%	4
Installation expenses		5,031	4,582	5% and 10%	10 to 20
Other equipment		2,475	2,275	Various	
		15,206	15,778		
Accumulated depreciation and amortization		(8,768)	(9,060)		
		6,438	6,718		
Land		489	490		
	$	6,927	7,208		

Depreciation and amortization charged to the consolidated statement of income in 2013 and 2012 amounted to $1,274 and $1,286, respectively.

In 2012, 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.

As a result of the conduction of a physical inventory of Bank owned assets, a negative adjustment was recorded in their net book value of $86, which was recognized in the year's income under "Other operating income, net".

During the years ended at December 31, 2013 and 2012 several properties were sold with a book value of $5 and $42, respectively, generating a profit of $1 and $50, respectively, which were recorded as "Other operating income" (refer to note 31c).

(Continued)

(Millions of pesos)

(17) Permanent investments in shares-

Investments in associates and other permanent investments

At December 31, 2013 and 2012, permanent investments in shares classified by activity, are analyzed as follows:

		2013	2012
Associated and affiliated companies:			
Supplementary banking services	$	122	113
Mutual funds		94	93
Security and protection		5	4
		221	210
Others		13	17
	$	234	227

The recognition of the equity in the results of associated and affiliated companies represented a profit of $43 in 2013 ($42 in 2012).

(18) Long-term assets available for sale-

On August 21, 2013, the Financial Group entered into a contract to sell the Bonding Company to Afianzadora Aserta, S. A. de C. V. Grupo Financiero Aserta subject to the authorization from the corresponding authorities. This transaction was authorized on December 13, 2013, and as of that date, the sales price was $130, resulting in a loss before taxes of $136 for the Financial Group, which was recorded in the consolidated statement of income for the year ended December 31, 2013 within “Discontinued operations”.

Therefore, through the sale authorization date and as of December 31, 2012 and in accordance with the accounting criteria, the Bonding Company’s assets and liabilities were reclassified to “long-term assets, available for sale” in the consolidated balance sheet. Furthermore, the results of this transaction for the period from January 1 through December 13, 2013 and for the year ended December 31, 2012 were reclassified to be presented as discontinued operations within the consolidated statement of income.

(Continued)

(Millions of pesos)

On March 7, 2012, the Insurance Company and AXA Seguros, S.A. de C.V. (AXA) entered into a purchase and sale contract of certain assets whereby the Insurance Company agreed to transfer to AXA assets consisting of auto and damage insurance contracts. On October 25, 2012, the tax authorities authorized the transaction, except for the insurance policies for the coverage of risks inherent to the Financial Group and those policies of the same branch issued under the coinsurance contract with Mapfre Tepeyac, S. A. The Financial Group decided to discontinue the coinsurance policies mentioned above. Net income from the sale of damage and auto portfolios amounted to $386 and was recorded in "Discontinued operations" in the consolidated statement of income. Therefore, the Insurance Company's damage insurance assets and liabilities as of December 31, 2013 and 2012 were reclassified to "Long-term assets, available for sale" in the consolidated balance sheet in accordance with the accounting criteria. Moreover, the statements of income of this transaction for the years ended December 31, 2013 and 2012 were reclassified to be presented as discontinued operations.

As of December 31, 2013 and 2012, net assets from discontinued operations for the sale of the Bonding Company and for the discontinuation of the Insurance Company's damage and auto insurance branches, as mentioned in the above paragraph, are analyzed below:

		2013			**2012**		
		Discontinuation			**Discontinuation**		
		Bonding Company	**Insurance Company**	**Total**	**Bonding Company**	**Insurance Company**	**Total**
Assets							
Investment securities	$	-	72	72	1,058	138	1,196
Premium debtors (net)		-	6	6	62	151	213
Accounts receivable from reinsurers and re-guarantee (net)		-	4	4	85	19	104
Other assets, deferred charges and intangible assets		-	3	3	19	5	24
Goodwill		-	2	2	36	134	170
Total assets		-	87	87	1,260	447	1,707
Liabilities							
Technical reserves		-	(44)	(44)	(855)	(194)	(1,049)
Accounts payable to reinsurers and re-guarantee (net) (liability)		-	-	-	(2)	(32)	(34)
Sundry creditors and other accounts payable		-	(13)	(13)	(51)	(6)	(57)
Deferred credits		-	-	-	(15)	(35)	(50)
Total liabilities		-	(57)	(57)	(923)	(267)	(1,190)
Total assets net	$	-	30	30	337	180	517

In addition to the discontinued operations mentioned above, as of December 31, 2013, $5 corresponding to a property owned by the Bank, whose sale is in the process of being completed are included in "Long-term assets available for sale".

(Continued)

(Millions of pesos)

The effects of discontinued operations in the consolidated statements of income for the years ended December 31, 2013 and 2012 were as follows:

		2013				2012		
		Group	Bonding Company	Insurance Company	Total	Bonding Company	Insurance Company	Total
Interest income	$	-	21	13	34	19	41	60
Premiums income, net		-	17	114	131	25	515	540
Technical reserves		-	5	90	95	(3)	(26)	(29)
Claims and other contractual obligations		-	(15)	(98)	(113)	(17)	(227)	(244)
Commission and fee income			9	3	12	10	2	12
Financial intermediation		-	-	5	5	-	(5)	(5)
Other operating income		-	8	(28)	(20)	19	260	279
Cancelation of goodwill from sale of insurance		(168)	-	-	(168)	-	-	-
Loss on sale of Bonding Company		(136)	-	-	(136)	-	-	-
Gain on sale of insurance		-	-	386	386	-	-	-
Administrative and promotional expenses		-	(13)	125	112	(16)	(103)	(119)
Current income taxes		-	(11)	(143)	(154)	(13)	(119)	(132)
Deferred income tax		-	-	2	2	-	2	2
Discontinued operations	$	(304)	21	469	186	24	340	364

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

At December 31, 2013 and 2012 other assets deferred charges and intangibles assets include:

		2013	2012
Recoverable taxes	$	734	73
Pre-paid labour obligations (note 24)		1,084	916
Pre-paid services and commissions		804	1,343
Software, net		1,026	790
Other, net		185	74
		3,833	3,196
Goodwill from the Insurance Company		1,047	1,047
	$	4,880	4,243

The movement for the years ended at December 31, 2013 and 2012 of other assets, deferred charges and intangible assets are analyzed as shown in the following page.

(Continued)

(Millions of pesos)

		2013	**2012**
Balance at beginning of year	$	4,243	5,100
Movements for the year from:			
Taxes		685	(242)
Software (*)		438	408
Cancellation(*)		(47)	(110)
Prepaid expenses		(463)	(37)
Others		152	(536)
Amortization for the year		(128)	(340)
Balance at end of year	$	4,880	4,243
		====	====

(*) Software developed internally, which is amortized over a five-year period.

As a result of a corporate restructuring carried out during 2012, 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**	**Impairment**	**Book Value**	**Annual amortization rate**
2012						
Software	$	2,964	(910)	(1,264)	790	20%
		====	====	=====	===	===

At December 31, 2013 and 2012 impairment losses of $47 and $110, respectively were recorded in the consolidated statement of income within the “Other operating income” caption.

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.

(20) Deposits funding-

The weighted average deposit rates (unaudited) for the years ended December 31, 2013 and 2012 are analyzed as follows:

	2013			**2012**		
	Pesos	**Dollars**	**UDIS**	**Pesos**	**Dollars**	**UDIS**
Demand deposits	0.92	0.05	-	1.30	0.05	-
Time deposits	3.41	0.19	0.16	3.91	0.11	0.22
	====	===	====	===	====	===

(Millions of pesos)

(21) Bank bonds-

At December 31, 2013 and 2012, the Group has made the following issuances under the bank bonds program:

Issuance Day	Reference Rate	Maturity Day		2013	2012
May 10, 2006[1]	TIIE – 0.01%	May 1, 2013	$	-	2,000
June 29, 2006[1]	TIIE – 0.01%	May 1, 2013		-	1,220
May 10, 2006[2]	9.08%	April 27, 2016		1,000	1,000
December 9, 2013[1]	TIIE – 30 bp	December 3, 2018		2,300	-
December 9, 2013[2]	8.08%	November 27, 2023		2,700	-
				6,000	4,220
Accrued Interest				36	24
Total of Bank nonds			$	6,036	4,244
				====	====

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

(22) Due to banks and other institutions-

At December 31, 2013 and 2012, due to banks and other institutions are analyzed as follows:

		2013 Term		2012 Term	
		Short	Long	Short	Long
Pesos:					
Multiple bank (on demand)	$	2,900	-	1,980	37
Development bank[1]		3,309	-	4,675	-
Promotion funds[1]		4,187	1,703	3,176	1,553
		10,396	1,703	9,831	1,590
Foreign currencies translated into pesos:					
Commercial bank[2]		7,548	-	10,416	-
Development bank[1]		15	7	36	10
Promotion funds[1]		407	434	837	7
		7,970	441	11,289	17
Total by term		18,366	2,144	21,120	1,607
Total due to Banks and other institutions	$	20,510		22,727	
		=====		=====	

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

(Millions pesos)

At December 31, 2013 and 2012, the annual average rates (unaudited) are analyzed as follows:

	Pesos		Foreing currency	
	2013	**2012**	**2013**	**2012**
Development bank	5.46%	6.00%	3.11%	3.35%
Promotion funds	3.83%	4.06%	1.21%	1.05%
	=====	=====	====	=====

(23) Technical reserves-

At December 31, 2013 and 2012, the technical reserves include the following:

		2013	**2012**
Current risk:			
Life	$	10,506	9,494
Accidents and sickness		11	9
		10,517	9,503
Contractual obligations:			
Claims and maturities		259	284
Claims occurred and not reported		321	459
Dividends on policies		1	2
Deposited premiums		14	10
		595	755
Estimated:			
Contingencies		160	158
Special		160	287
		320	445
Total technical reserves	$	11,432	10,703
		=====	=====

For the years ended December 31, 2013 and 2012, the charge to income for the net increase in technical reserves was $890 and $843, respectively.

(24) Employee benefits-

The Group 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 Group 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.

(Millions of pesos)

In addition to the defined benefit pension plan, the Group 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 Group until their retirement date and for their wife, parents and child under 21 years.

Moreover, the Group grants short-term benefits such as paid vacations, vacation premiums, savings fund, year-end bonus, etc.

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 Group 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, 2013 amounted to $1,282 ($1,421 in 2012), and are recorded under the caption "Sundry creditors and other accounts payable" in the consolidated balance sheet.

Cash flows-

Contributions and benefits paid were as follows:

		Funds contributions		**Paid benefits**	
		2013	**2012**	**2013**	**2012**
Termination	$	26	22	26	31
Retirement		315	204	167	160
Other post retirement benefits		236	260	217	189
	$	577	486	410	380
		===	===	===	===

(Continued)

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Notes to the Consolidated Financial Statements

(Millions of pesos)

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(x) were determined based on estimates prepared by independent actuaries at December 31, 2013 and 2012. The components of net cost of the years ended December 31, 2013 and 2012 are shown as follows:

		Benefits					
		2013			2012		
		Termination	Retirement	Total	Termination	Retirement	Total
Net periodic cost:							
Service cost	$	69	63	132	66	30	96
Interest cost		28	152	180	35	158	193
Return on plan assets		(2)	(90)	(92)	(3)	(94)	(97)
Net actuarial gain or loss		(83)	59	(24)	(25)	31	6
Labour cost of past services:							
Amortization of prior services and plan amendments		-	15	15	-	16	16
Amortization of liability in transition		-	-	-	38	8	46
Effect from early settlement prior to early extinction		-	(16)	(16)	(8)	(35)	(43)
Net period cost	$	12	183	195	103	114	217
		===	===	===	===	===	===

		Other Post-retirement benefits	
		2013	2012
Net periodic cost:			
Service cost	$	51	185
Interest cost		202	202
Return of plan assets		(177)	(186)
Net actuarial gain or loss		108	72
Amortization of liability in transition		-	19
Effect from early settlement prior to early extinction		(3)	(57)
Net periodic cost	$	181	235
		===	===

(Continued)

(Millions of pesos)

Below is the determination of liabilities for benefit plans at December 31, 2013 and 2012.

2013

	Retirement benefits		Other Post-retirement	
	Seniority Premium	Pension Plan	Benefits	Total
Defined benefit obligation:				
Defined benefit obligation at beginning of the year	$ 52	2,617	3,533	6,202
Service cost	4	59	51	114
Interest cost	3	149	201	353
Actuarial gain or loss	(9)	(55)	(417)	(481)
Paid benefits	(3)	(164)	(217)	(384)
Reduction/liquidation effect	-	(105)	(69)	(174)
Defined benefit obligation at end of the year	$ 47	2,501	3,082	5,630

2012

	Retirement benefits		Other Post-retirement	
	Seniority Premium	Pension Plan	Benefits	Total
Defined benefit obligation:				
Defined benefit obligation at beginning 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 obligation at end of the year	$ 52	2,617	3,533	6,202

(Continued)

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Below is the determination of plan benefits assets at December 31, 2013 and 2012:

		Retirement benefit		Other Post-retirement benefits	Total
		Seniority premium	Pension Plan		
2013					
Plan assets:					
Plan assets at the beginning of the year	$	(38)	(1,209)	(2,465)	(3,712)
Expected performance		(3)	(87)	(177)	(267)
Actuarial gain or loss		2	67	146	215
Company contributions		(8)	(307)	(236)	(551)
Paid benefits		3	164	217	384
Anticipated liquidations		-	27	29	56
Plan assets at the end of year	$	(44)	(1,345)	(2,486)	(3,875)
2012					
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 the end of year	$	(38)	(1,209)	(2,465)	(3,712)

The Group estimates that during 2014 they will make contributions to defined benefit plans amounting to $221 (includes termination seniority premium).

Below are the categories of plan assets at December 31, 2013 and 2012:

	Retirement benefit		Other Post-Retirement benefits
2013	Seniority premium	Pension plan	
Fair value of the plan assets:			
Local equity instruments	20%	20%	21%
Global equity instruments	9%	10%	10%
Debt instruments (nominal rate)	31%	32%	33%
Debt instruments (real rate)	33%	31%	35%
Short term debt instruments	7%	7%	1%
Total	100%	100%	100%

(Continued)

(Millions of pesos)

2012	**Retirement benefit** Seniority premium	Pension plan	**Other Post-Retimerent benefits**
Fair value of 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%

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 Group 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%	11.50%	2.30%
Global equity instruments	10.0%	8.30%	0.83%
Debt instruments (nominal rate)	70.0%	5.90%	4.13%
Total	100.0%		7.26%

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				
	2013	**2012**	**2011**	**2010**	**2009**
Defined benefit liabilities	$ 47	52	39	37	29
Plan assets	(44)	(38)	(32)	(24)	(19)
Plan situation	3	14	7	13	10
Actuarial gain (loss):					
Plan liabilities	(9)	16	2	5	7
Plan assets	2	(2)	(3)	(1)	(2)

	Pension plan				
	2013	**2012**	**2011**	**2010**	**2009**
Defined benefit liabilities	$ 2,501	2,617	2,052	2,209	1,746
Plan assets	(1,345)	(1,209)	(1,041)	(1,044)	(947)
Plan situation	1,156	1,408	1,011	1,165	799
Actuarial gain (loss):					
Plan liabilities	(55)	662	40	218	352
Plan assets	67	(58)	40	(58)	(48)

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

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(Millions of pesos)

	Other post-retirement benefits				
	2013	**2012**	**2011**	**2010**	**2009**
Defined benefit liabilities	$ 3,082	3,533	2,654	2,433	1,935
Plan assets	(2,486)	(2,465)	(2,105)	(2,036)	(1,857)
Plan situation	596	1,068	549	397	78
Experience adjustments:					
Plan liabilities	(417)	844	311	469	47
Plan assets	(146)	(123)	37	(77)	(105)
	====	====	====	====	====

At December 31, 2013 and 2012 the present value of the liabilities for the benefits of the plans are as follows:

		Benefits				Other post-retirement benefits	
		Termination		Retirement			
		2013	**2012**	**2013**	**2012**	**2013**	**2012**
Acquired rights and obligations amount	$	501	514	1,744	1,811	2,997	2,753
		===	===	====	====	====	====

		Benefits				Other post-retirement benefits	
		Termination		Retirement			
		2013	**2012**	**2013**	**2012**	**2013**	**2012**
Defined benefit liabilities amount	$	520	534	2,548	2,669	3,082	3,533
Fair value plan assets		(33)	(32)	(1,389)	(1,247)	(2,486)	(2,465)
Funds financial situation		487	502	1,159	1,422	596	1,068
Unrecognized past services:							
(Liabilities) / assets in transition		-	-	-	-	-	-
Plan modifications			-	(187)	(210)	-	-
Actuarial gain (loss)		-	-	(1,191)	(1,298)	(1,468)	(1,884)
Projected Liabilities / (Assets)	$	487	502	(219)	(86)	(872)	(816)
		===	===	====	===	====	=====

	Termination and retirement benefits		Other post-retirement benefits	
	2013	**2012**	**2013**	**2012**
Nominal discount rate used to show the present value of obligations	7.25%	5.90%	7.25%	5.90%
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%	7.25%	7.25%	7.25%
Medical inflation rate	-	-	6.75%	6.75%
Average remaining work life of employees (applicable to retirement benefits)	16.06	17.56	12.62	14.12

(Continued)

(Millions of pesos)

At December 31, 2013 and 2012, the amortization periods in years of the remaining items are shown as follows:

	Retirement benefits		Other post-retirement benefits
	Seniority Premium	Pension plan	
2013			
Plan modifications	-	13 years	-
Actuarial (loss) / gain	17 years	16 years	13 years
2012			
Plan modifications	-	14 years	-
Actuarial (loss) / gain	18 years	18 years	14 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	$ 33	(29)
Defined benefit obligations	441	(395)
	===	====

For the years ended at December 31, 2013 and 2012, the Group recognized expenses for defined contribution plans, which amount to $187 and $112, respectively.

(25) Share based payments-

At December 31, 2013 and 2012, the amount of outstanding share based payment awards amounted to $241 and $309, respectively, and were registered in the caption “Sundry creditors and other accounts payable”. The cost of these programmes for the years ended December 31, 2013 and 2012 of $132 and $429 respectively, was included within “Administrative and promotional expenses” in the consolidated income statement. Payments made during the years 2013 and 2012 were $200 and $231, respectively.

(26) Subordinated debt issued-

At December 31, 2013 and 2012, the Group had issued subordinated debentures, which are not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed shown on the following page.

(Continued)

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		2013	2012
Debentures issued:			
In 2003, maturing in 2013 [1]	$	-	2,200
In 2008, maturing in 2018 [2]		4,090	4,090
In 2009, maturing in 2019 [3]		3,924	3,890
In 2013, maturing in 2022 [4]		1,439	-
Accrued interest		10	16
Total subordinated debentures	$	9,463	10,196
		====	=====

(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). These debentures were paid off in December 2013.

(2) During October and December 2008, the Group 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, 2013, $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, the Group 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 350 basis points.

(4) On January 31, 2013, the Bank issued foreign currency preferred subordinated debentures subject to mandatory conversion into common shares representing capital stock, provided that any of the following conditions is met: (i) where the result from dividing the Tier 1 Basic Capital (note 25d) by the Bank's total weighted assets subject to risk is 4.5% or less; or (ii) where the Banking Commission notifies the Bank that it has not complied with the minimum remedial action in case of not having the minimum capitalization level required or when non complying with the minimum capitalization index required by the LIC and the Bank does not rectify such situation. Such issuance totaled US$110 million, was totally subscribed, has a 10 year maturity and bears interest at the 30-day LIBOR rate plus 365 basis points. Such issuance was recorded as a liability, considering the aforementioned conversion conditions, the Bank's capitalization index and financial condition at the date of issuance of the financial statements.

(Continued)

(Millions of pesos)

At December 31, 2013 and 2012, 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.

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

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented, and repealed. This decree became effective as of January 1, 2014. Such decree repeals the IETU Law, the Cash Deposits (IDE) Law and the IT Law in effect through December 31, 2013 and a new IT Law is issued.

a) Tax on earning

Under the current tax legislation in effect in 2013, 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.

According to the IT Law in effect as of December 31, 2013, the IT rate for fiscal years 2013 and 2012 was 30%; for 2014, the rate would be 29%, and for 2015 and thereafter, 28%. The new IT law imposes an IT rate of 30% for 2014 and thereafter. The IETU rate for 2013 and 2012 was 17.5%.

At December 31, 2013 and 2012, the IT and IETU expense shown in the consolidated statement of income is analyzed as follows:

		Tax on earning	
		2013	**2012**
ISR expenses from the Group as individual entity	$	-	661
ISR expenses from Bank and subsidiaries at the rate 30%		2,230	1,303
IETU of subsidiaries		14	21
Tax on earning in the consolidated statement of income	$	2,244	1,985
		====	====

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.

(Continued)

(Millions of pesos)

Deferred IT changes for the years ended December 31, 2013 and 2012, are analyzed as follows:

		2013	2012
Balance at beginning of year	$	6,226	6,504
Charged to results:			
IT (expenses) benefit		1,067	(95)
Reported in capital:			
Valuation effects of available for sale and derivatives		255	(205)
Effect in capital for the change in the consumer loan methodology		240	-
Others		(78)	22
	$	7,710	6,226
		====	====

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2013 and 2012, are shown as follows:

		2013	2012
Deferred tax assets:			
Allowances:			
Allowance for loan losses	$	6,705	5,342
Allowance for foreclosed assets		277	237
Other provisions		1,129	1,186
Non recoverable		38	33
Property, furniture and equipment		641	597
ESPS provision		122	103
Valuation of financial instruments		272	258
Commissions received in advance		354	189
Other		30	33
		9,568	7,978
Deferred tax liabilities:			
Interest from Special CETES UDIS Central Bank		(990)	(872)
Valuation of financial instruments		(233)	(614)
Deductions in advance		(632)	(262)
Others		(3)	(4)
		(1,858)	(1,752)
Net deferred tax asset	$	7,710	6,226
		====	=====

(Continued)

(Millions of pesos)

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

		2013		2012	
		Amount	**%**	**Amount**	**%**
Income before income taxes	$	4,663	100%	7,691	100%
Expected tax expense		1,399	30%	2,307	30%
(Reduction) increase resulting from:					
Inflation effect		(460)	(10%)	(560)	(8%)
Non-deductible expenses		356	8%	1,061	14%
Tax income on derivatives		-	-	(52)	(1%)
Non-taxable interests		(295)	(7%)	(893)	(12%)
Subsidiaries´IETU		14	1%	21	-
Tax SPE		221	5%	380	5%
Changed in rates		(307)	(7%)	(62)	1%
Others		249	5%	(122)	-
IT expense	$	1,177	25%	2,080	27%
		====	====	====	===

Other considerations:

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

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

At December 31, 2013, the balances of the Capital Contributions and after-taxes earnings accounts amount to $61,413 and $4,242, respectively ($53,942 and $2,914 respectively in 2012).

During the year ended December 31, 2013, the ESPS payable amounts to $400 ($346 in 2012) and is recorded in the consolidated statement of income caption termed "Administrative and promotion expenses".

(28) Stockholders' equity-

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

(a) Structure of capital stock -

Movements in 2013

On April 26, 2013, the General Ordinary Stockholders' Meeting agreed to apply the net income for the year 2012 of $6,016 as follows: $301 to capital reserves and $5,715 to retained earnings.

At the Board of Directors meeting on March 21, 2013, the Board of Director authorized a maximum dividend of $2,500, equivalent to a price per share of $0.8870 pesos for each one of the outstanding without coupon, with charge to retained earnings account. This dividend was paid on March 26, 2013.

On January 24, 2013, the General Extraordinary Stockholders' Meeting agreed to increase the contributed capital in $5,150 by issuing 263'032,564 shares with a par value of two pesos each, corresponding 262,581,237 to Series "F" and 451,237 to Series "B", which were paid at a price of $19.5793 pesos per share; therefore, the difference with respect to the par value was recorded as additional paid-in capital.

The share capital at December 31, 2013 is integrated by $5,637 (nominal) integrated by 2,813,547,652 shares of series "F" and 4,835,946 shares of series "B" with nominal value of two pesos each, which are fully subscribed and paid.

Movements in 2012

On April 27, 2012, the General Ordinary Stockholders' Meeting agreed to apply the net income for the year 2011 of $2,510 as follows: $126 to capital reserves and $2,384 to retained earnings, which shall be made available to the stockholders when the Board of Directors shall so decide.

At the Board of Directors meeting on October 20, 2011, the Board of Director authorized a maximum dividend of 500 million dollars, therefore on March 15, 2012 were declared dividends of $2,400, equivalent to a price per share of $0.9392 pesos for each one of the outstanding without coupon, with charge to retained earnings account. This dividend was paid on March 30, 2012.

The share capital at December 31, 2012 is integrated by $5,111 (nominal) integrated by 2,550,966,415 shares of series "F" and 4,384,619 shares of series "B" with nominal value of two pesos each, which are fully subscribed and paid.

(Continued)

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the Group'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 2013 for the constitution of allowance for loan losses derived of a change in the calculation methodology (note 4).

(c) Restrictions on stockholders' equity-

The Credit Institutions Law requires that the Group 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.

The un-appropriated retained earnings of subsidiaries may not be distributed to the Group'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 from Bank (**unaudited*****)-***

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.

Information in relation to the Bank's net capital, risk based assets and capital requirements as of December 31, 2013 and 2012, is shown below. The amounts for 2013 and 2012 correspond to those Published by the Central Bank at the date of issuance of the Bank´s consolidated financial statements.

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		2013	2012
Basic, supplementary and net capital			
Stockholders' equity	$	47,555	42,781
Reduced by:			
Intangible assets		(5,575)	(4,117)
Investments in shares of financial entities		(17)	(32)
Investments in shares of other companies		-	(91)
Investment in subordinated debt		(92)	(91)
Investment in financial instruments related to securitizations		-	(77)
Basic capital (Tier 1)		41,871	38,373
Add:			
Not convertible subordinated debt		7,182	7,980
Subordinated debt elegible for conversion		1,439	-
General allowance for loan losses		1,287	1,753
Investment in financial instruments related to securitizations		-	(78)
Supplementary capital (Tier 2)		9,908	9,655
Net capital (Tier 1+ Tier 2)	$	51,779	48,028
		=====	=====

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.

Intangibles assets.- Consider excess deferred taxes on the 10% capacity as the Basic Capital deduction required by $3,048 and $1,657 to December 31, 2013 and 2012, respectively.

Subordinated debentures not convertible into shares – For computing supplementary capital at December 31, 2013 in accordance with the Provisions, the amount to be considered shall be determined as 90% of the subordinated debentures not convertible into shares at December 31, 2012 as well as the January 31, 2013 issues that meets with the requirements for the 100% computation in accordance with the aforementioned Provisions. Since the maturity of the 2003 issue is less than one year, it shall no longer be considered for computing the supplementary capital.

(Continued)

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Risk-based assets and capital requirements

	Equivalent risk weighted assets		Capital requirement	
	2013	**2012**	**2013**	**2012**
Market risk:				
Transactions or positions:				
In pesos at nominal rates	$ 66,526	64,512	5,322	5,161
In pesos at interest rate over nominal rate	910	1,291	73	103
In pesos at interest rates discounted from inflation or denominated in UDIS	1,222	1,760	98	141
In foreign currency at nominal rates	6,503	8,502	520	680
In UDIS or with yields linked to the Consumer Price Index	9	14	1	1
Foreign currency positions or with Exchange rate indexed yields	679	789	54	63
Share transactions or transaction based on shares	33	-	3	-
Total market risk	75,882	76,868	6,071	6,149
Credit risk:				
Group II (weighted at 20%)	6	6	-	-
Group II (weighted at 50%)	7,713	3,340	617	267
Group III (weighted at 10%)	36	529	3	42
Group III (weighted at 11.5%)	401	509	32	41
Group III (weighted at 20%)	3,960	5,833	317	467
Group III (weighted at 23%)	129	-	10	-
Group III (weighted at 100%)	464	-	37	-
Group IV (weighted at 20%)	3,239	2,437	259	195
Group V (weighted at 20%)	499	809	40	65
Group V (weighted at 50%)	1,680	804	134	64
Group V (weighted at 115%)	-	404	-	32
Group V (weighted at 150%)	5,694	7,058	456	565
Group VI (weighted at 50%)	5,203	4,032	416	323
Group VI (weighted at 75%)	3,446	2,174	276	174
Credit risk to the following page	32,470	27,935	2,597	2,235

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		Equivalent risk weighted assets		Capital requirement	
		2013	**2012**	**2013**	**2012**
Credit risk from previous Page	$	32,470	27,935	2,597	2,235
Group VI (weighted at 100%)		43,798	39,381	3,503	3,150
Group VII (weighted at 10%)		432	-	35	-
Group VII (weighted at 20%)		5,180	4,047	414	324
Group VII (weighted at 23%)		6,481	4,834	519	387
Group VII (weighted at 50%)		673	268	54	21
Group VII (weighted at 100%)		106,939	107,286	8,556	8,583
Group VII (weighted at 115%)		267	4,870	21	390
Group VII (weighted at 150%)		646	565	52	45
Group VIII (weighted at 125%)		8,488	1,846	679	147
Group X (weighted at 1250%)		998	-	80	-
Others assets (weighted at 100%)		23,429	23,724	1,874	1,898
Securitizations (weighted at 20%)		151	-	12	-
Securitizations (weighted at 50%)		10	-	1	-
Securitizations (weighted at 1250%)		370	-	30	-
Resecuritizations (weighted at 1250%)		2,270	-	182	-
Total credit risk		232,602	214,756	18,609	17,180
Total operational risk		41,097	39,478	3,287	3,159
Total market credit and operational risk	$	349,581	331,102	27,967	26,488
		======	======	=====	=====

Capitalization ratios:

	2013	**2012**
Capital to credit risk assets:		
Basic capital (Tier 1)	18.00%	17.87%
Supplementary capital (Tier 2)	4.26%	4.49%
Net capital (Tier 1 + Tier 2)	22.26%	22.36%
	======	======
Capital to market, credit and operational risks assets:		
Basic capital (Tier 1)	11.98%	11.59%
Supplementary capital (Tier 2)	2.83%	2.92%
Net capital (Tier 1 + Tier 2)	14.81%	14.51%
	======	======

(Continued)

(Millions of pesos)

As discussed in note 4, since June 2013 the Bank opted for calculating preventive reserves by considering the expected loss methodology issued by the authority pursuant to the Provisions, which had an effect on the Credit Risk and the Supplementary Capital. For Supplementary Capital computed at December 31, 2013, the difference is considered between the total Reserves created for Investment Projects, Financial Entities and Other additional reserves and the reserves for expected losses and additional reserves not considered Supplementary Capital. Only the General Reserves were considered through December 31, 2012.

The Group 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.

(29) Related party transactions and balances-

During the normal course of business, the Group 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, 2013 and 2012, the Group had granted loans to related parties totalling $318 and ($4,489 in 2012).

During the years in 2013 and 2012, the Group maintained derivative liability positions with related parties, which amounted to $2,875 and $3,016, respectively.

The main transactions carried out with related parties during the years ended December 31, 2013 and 2012, are shown as follows:

		2013	2012
Transactions:			
Income:			
Administrative services	$	1,105	1,419
Interest and commissions, received		-	2
		====	=====
Expenses:			
Administrative expenses		989	901
	$	====	=====

(Continued)

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Balances receivable from and payable to related parties as of December 31, 2013 and 2012, were as shown as follows:

	2013		2012	
	Receivable	**Payable**	**Receivable**	**Payable**
Other related parties				
HSBC Latin America Holdings (UK) Limited	$ 266	5	56	-
HSBC Global Asset Management Limited	-	3	-	6
HSBC Bank Brasil, S. A. Banco Multiplo	239	162	116	128
HSBC Holdings Plc.	54	123	28	250
HSBC Banco Salvadoreño, S. A.(*)	-	-	17	-
HSBC Bank Panamá, S. A.(*)	-	-	86	-
HSBC Colombia, S. A.	15	-	39	1
HSBC Bank USA National Association	-	8	-	1
Banco HSBC Honduras, S. A.(*)	-	-	3	-
HSBC Software Development (China)	-	3	-	-
HSBC Bank Argentina S. A.	44	20	15	14
HSBC Private Bank (SUISSE) S. A.	1	10	2	1
The Hong Kong and Shangai Banking Corporation Limited	-	30	-	75
HSBC Software Development (India) Private Limited	-	26	2	36
HSBC Software Development (Brazil)	-	1	-	31
HSBC Technologies and Services (USA) Inc.	-	13	-	31
HSBC Technologies, Inc.	-	-	-	18
HSBC Bank Perú, S. A. (*)	-	-	68	-
HSBC Bank (Paraguay), S. A.(*)	-	-	48	-
HSBC Bank (Uruguay), S. A.	3	-	20	-
HSBC Bank Canada	-	3	-	18
HSBC Bank (Chile), S. A.	5	-	5	-
HSBC France	-	3	-	8
HSBC Global Resourcing (UK) Limited	-	42	-	2
HSBC Insurance Holdings Limited	-	7	-	8
Subtotal other related parties to the following page	$ 627	459	505	628

(*) As of December 31, 2013, these entities are no longer considered as related parties.

(Continued)

(Millions of pesos)

	2013		2012	
	Receivable	Payable	Receivable	Payable
Subtotal other related parties from previous page	$ 627	459	505	628
HSBC Securities (USA) Inc	39	19	75	95
HSBC Finance Transformation (UK) Limited	-	-	-	51
HSBC New York Life seguros de vida (Argentina), S.A.	8	-	5	-
HSBC Argentina Holding, S.A.	6	2	1	-
HSBC Bank plc UK	11	67	11	78
HSBC Bank Middle East Limited	-	1	-	-
HSBC PB Service (SUISSE), S.A	-	5	-	-
HSBC La Buenos Aires Seguros, S.A	-	-	3	-
	$ 691	553	600	852

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

(30) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-.

At December 31, 2013, the Bank had irrevocable commitments arising from issuance of letters of credit, where, through loans, the Group ensured paying customers to third parties irrevocable commitments amounted to $25,561 ($25,222 in 2012).

On December 31, 2012, the Group acted as an intermediary between a subsidiary of HSBC in Tokyo, and a Mexican government enterprise, thus providing a guarantee which was $4.

The amount of the provisions recorded at December 21, 2013, for letters of credit and guarantee receivables, amounts to $29 and is included in the allowance for loan losses ($157 in 2012).

At December 31, 2013 and 2012, the Group had no losses caused by the guarantee and letters of credit.

(Continued)

(Millions of pesos)

(b) Assets in trust or under mandate-

At December 31, 2013 and 2012, the Group's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2013	2012
Type of trust:			
Administrative	$	298,141	273,996
Guarantee		56,296	43,403
Investment		52,811	53,155
Other		31,285	31,561
		438,533	402,115
Mandates to:			
Administrative		840	611
Guarantee		93	42
Investment		3	2
		936	655
	$	439,469	402,770

Trust activities revenue for the years ended December 31, 2013 and 2012 amounted to $180, each year.

(c) Investments on behalf of customers-

At December 31, 2013 and 2012 the Group 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:

		2013	2012
Funds of investment companies:			
Managed by the Bank	$	3,091	3,397
Government securities		19,980	22,314
Equities and other		22,924	18,540
Other		4,358	5,195
	$	50,353	49,446

In case that the funds are invested in the Group's own instruments, the amounts of such funds are included in the consolidated balance sheet.

(Continued)

(Millions of pesos)

(d) Assets in custody-

The Group records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2013 and 2012, this account comprises:

		2013	2012
Custody	$	289,011	277,218
Administration		49,894	53,183
Guarantee		1,294	1,237
Collection		1,019	1,208
	$	341,218	332,846

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 $2,885 ($1,506 in 2012) and are classified as follows:

		2013	2012
Bank paper	$	2,773	1,382
In private debt		112	124
	$	2,885	1,506

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

At December 31, 2013 and 2012, income from activity of assets under custody and administration operations amount to $35 and $36, respectively.

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

(a) Condensed statement of operations by segment-

The condensed consolidated statement of operations by segment includes Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB)**,** Global Banking and Markets (GBM) and other Corporate Activities (OAC). A brief description of the Bank’s business segments follows:

Retail Banking and Wealth Management –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.

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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, 2013 and 2012.

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Condensed statements of operations by segment

Years ended December 31, 2013 and 2012

(Millions of pesos)

	RBWM		CMB		GBM		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Financial margin	$ 14,968	14,089	5,973	6,283	1,651	1,743	22,592	22,115
Allowance for loan losses	(5,962)	(5,668)	(1,526)	(60)	(598)	194	(8,086)	(5,534)
Adjusted financial margin	9,006	8,421	4,447	6,223	1,053	1,937	14,506	16,581
Commissions and fees, net	4,752	3,780	1,499	1,594	658	959	6,909	6,333
Financial intermediation income	247	341	184	198	1,989	2,415	2,420	2,954
Other operating income	2,330	2,312	480	1,134	(280)	370	2,530	3,816
Administrative and promotion expenses	(13,571)	(13,410)	(5,524)	(5,972)	(2,607)	(2,611)	(21,702)	(21,993)
Total operating income	2,764	1,444	1,086	3,177	813	3,070	4,663	7,691
Equity in the results of non consolidated subsidiaries, assiciated and affiliated companies	26	26	13	13	4	3	43	42
Income before income tax	2,790	1,470	1,099	3,190	817	3,073	4,706	7,733

(Continued)

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The condensed statement of cash flow by segment for the years ended December 31, 2013 is presented as follows:

		2013		
		RBWM	**CMB**	**GBM**
Net income	$	2,451	752	511
Adjustments for non cash items		4,179	1,608	864
Operating activities		(6,946)	(4,213)	439
Investment activities		(949)	(480)	(427)
Financing activities		968	714	968
Net (decrease) increase of cash and cash equivalent		(297)	(1,619)	1,477
Cash and cash equivalent:				
At the beginning of the year		31,811	21,731	2,304
At end of year	$	31,514	20,112	3,781
		=====	=====	====

The assets (loans) and liabilities (deposit funding) identifiable by the different segments at December 31, 2013 and 2012 are analyzed as follows:

		2013			2012		
		RBWM	**CMB**	**GBM**	**RBWM**	**CMB**	**GBM**
Assets	$	62,821	81,329	48,618	56,686	91,093	53,019
Liabilities		162,347	94,754	30,419	160,975	99,372	32,831
		======	======	=====	======	=====	=====

Financial Margin

The financial margin for the years ended December 31, 2013 and 2012 is analyzed as follows.

		2013	**2012**
Interest income:			
Cash	$	1,401	1,570
Investment securities		6,760	7,489
Interest and premium on securities purchased under agreements to resell		565	2,063
Subtotal interest income to the following page	$	8,726	11,122

(Continued)

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		2013	2012
Subtotal interest income from previous page	$	8,726	11,122
Loan portfolio:			
Commercial loans		7,142	8,173
Financial institutions		266	359
Consumer loans		10,154	8,705
Residential mortgages		2,157	1,946
Government entities		1,347	1,601
Initial fees for loan granting		210	212
Others		(141)	(16)
Subtotal interest income		29,861	32,112
Premiums income, net		3,030	2,940
		32,891	35,052
Interest expense:			
Deposit funding		(1,654)	(2,286)
Time deposit		(3,416)	(4,398)
Due to banks and other institutions		(420)	(588)
Bank bonds		(162)	(249)
Interest and premiums on securities purchased under agreements to resell		(1,911)	(2,909)
Interest by subordinated debt issued		(521)	(516)
Others		(156)	(151)
Subtotal interest expense		(8,240)	(11,097)
Technical reserve increase, net		(890)	(843)
Claims and others contractual obligations, net		(1,169)	(997)
		(10,299)	(12,937)
Financial margin	$	22,592	22,115
		=====	=====

The composition of the financial margin for premium revenues for the years ended December 31, 2013 and 2013 includes the following policies and premiums issued before the consolidation eliminations (unaudited information):

	2013				2012			
	Number of polices	Number of insured persons		Premiums issued	Number of polices	Number of insured persons		Premiums issued
Accidents	301,717	2,390,461	$	307	337,310	2,528,561	$	383
Life	462,803	2,331,834		2,959	496,118	1,845,547		2,799
Pensions	13,586	39,858		16	13,584	40,308		18
	778,106	4,762,153	$	3,282	847,012	4,414,416	$	3,200

(Continúa)

(Millones de pesos)

(b) Financial intermediation incme-

For the years ended December 31, 2013 and 2012, the financial intermediation income is analyzed as follows:

		2013	2012
Valuation gain (loss):			
Investment securities	$	(277)	616
Trading derivatives		483	1,267
Foreign currency exchange and precious metals		178	231
		384	2,114
Purchase/sale gain (loss):			
Investment securities		196	1,106
Securities repurchase/resell agreements and trading derivatives		1,038	(385)
Foreign currency exchange and precious metals		802	119
		2,036	840
Total financial intermediation income	$	2,420	2,954
		====	====

(c) Other operating income-

For the years ended December 31, 2013 and 2012, other operating income is analyzed as follows:

Income		2013	2012
Recoveries and reimbursements	$	905	1,352
Reimbursent of expenses incurred on behalf of related companies		1,136	1,397
Gain (loss) on monetary position not associated with the financial margin		-	29
Payments received in relation to the use of infrastructure from subsidiaries of subsidiaries		1	-
Gain on sale of properties		1	50
To the next page	$	2,043	2,828

(Continued)

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		2013	2012
From previous page	$	2,043	2,828
Gain on sale of foreclosed assets		122	-
Loan to employees		137	137
Cancellation of excess of allowance for loan losses (note 12d)		6	857
Others		1,245	580
		3,553	4,402
Expenses			
Write off*		(1,023)	(579)
Others		-	7
		(1,023)	(586)
Other operating income	$	2,530	3,816
		====	====

(*) Within the expenses there are fraud losses of $134 in 2013 ($451 in 2012).

(d) Financial Ratios-

The principal ratios of the Banks as of and for the years ended December 31, 2013 and 2012 are analyzed below:

	2013	2012
Non-performing loans to total loans	5.93%	2.02%
Allowance for loan losses to past-due loan portfolio	100.55%	233.75%
Operating efficiency *(administrative and promotional expenses to average total assets)*	4.33%	4.73%
ROE *(net income to average stockholders' equity)*	4.75%	9.71%
ROA *(net income to average total assets)*	0.43%	0.82%
Liquidity *(liquid assets/liquid liabilities)**	102.99%	90.97%
Financial margin after provision for loan losses /average interest earning assets	2.86%	3.56%
Capital index to credit risk assets	22.26%	22.36%
Capital index to market and credit risk	14.81%	14.51%
	======	======

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

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

(Continued)

(32) 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 $1,482 in 2013 and $1,601 in 2012.

(b) The Group has executed a distribution agreement with Principal Afore, S. A de C. V:, Principal Grupo Financiero, in which there is a commitment to distribute on an exclusive basis its products through the Group branches over a five-year period, ending in 2016.

(c) On March 7, 2012, the Bank signed a distribution agreement with AXA Seguros, S. A. de C. V., whereby the Bank agrees to the exclusive distribution of general insurance products in exchange for an agreed-upon commission. The term of the agreement is 10 years from April 2013.

(d) Lawsuits and litigation -

The Group 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, 2013 and 2012, the Group presented in the consolidated financial statements the recognition of liabilities for this purpose for an amount of $266 and $264 respectively, which correspond to cases in which it was considered that the possibility of loss would likely be probable. The Group at December 31, 2013 and 2012 had outstanding cases with a possible loss contingency in the amount of $59,348 and $59,428, respectively.

(Continued)

The Group has contingent liabilities in disputes with third parties, which have not been disclosed pursuant the related financial reporting standars, given that the administrative procedure is at an initial stage and no resolution has been issued yet.

(d) Single responsibilities agreement-

The Financial Group entered into an agreement whereby it will be joint and severally liable for compliance with the obligations of the financial subsidiaries. The obligations shall be for activities that under the applicable provisions are specific to each of these subsidiaries, including those carried out by the subsidiaries prior to becoming part of the Financial Group.

(33) Bank risk management (unaudited)-

Within the 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 “Circular Unica” issued by the Banking Commission and the worldwide Group regulations established by HSBC Holding PLC (HGHQ), 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 Group'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).

Assets and Liabilities Committee (ALC)

This Committee meets on a monthly basis and is chaired by the Group'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.

(Continued)

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 of HGHQ.

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.

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The major Committee objectives, which are shared with Group 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 in the methodologies for provisions, economical factors 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.
- Monitor the current risks that might have an impact on the legal entities comprising the Group, at the frequency defined for each entity.

(Continued)

Market Risk

Qualitative information

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

The objective of the Group’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 Group; 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 Group 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.)

(Continued)

- 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.

- 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 Group 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.

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 Group 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.

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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).

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

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).

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Quantitative information

As follows it is going to be presented, the Group's VaR and PVBP and the Total Trading and Accrual portfolio sub-division of "Trading Intent" and "Accrual" 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)

	Bank		Total Trading		Accrual	
	Average Q4 2013	Limits*	Average Q4 2013	Limits*	Average Q4 2013	Limits*
Total	17.51	38	3.29	11.5	15.55	35
Rates	14.08	40	2.82	6.5	13.00	38
Credit margin	4.24	22	0.51	4	3.76	22
Exchange rates	0.77	5	0.78	5	N/A	N/A
Interest rates volatility	0.04	4.5	0.04	2	-	2.5
FX rates volatility	-	2	-	2	N/A	N/A
Equities	0.00	2.5	0.00	2.5	N/A	N/A
	===	===	====	===	====	===

* Absolute value, N/A = Not applicable

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

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

	September 30, 2013	December 31, 2013	Limits *	Q3 2013 average	Q4 2013 average
Bank	19.81	16.78	38	19.72	17.51
Accrual	20.07	13.30	35	18.47	15.55
Total trading	1.83	4.11	11.5	2.35	3.29
	====	====	=====	=====	=====

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

The Group's VaR at the end of the fourth quarter of 2013 decrease -15.30% in respect of the 3Q 2013. During the period, VaR levels remained below the limits set by management.

The Group's average VaR for the fourth quarter of 2013 decrease -11.21% in respect of the average VaR for the 3Q 2013.

Comparison of Market risk VaR to Net Capital

Below a comparative VaR average against Net Capital table as of September 30 and December 31, 2013; in millions of dollars:

	September 30, 2013	December 31, 2013
Total VaR *	19.72	17.51
Net Capital **	4,020.91	3,957.35
VaR / Net Capital	0.49%	0.44%
	======	======

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

Average market VaR represented 0.44% of net capital in fourth quarter of 2013.

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

	Sep 30, 2013	Dec 31, 2013	Limits *	Average Q3 2013	Average Q4 2013
Bank	(1.195)	(1.279)	1.90	(0.963)	(1.196)
Accrual	(1.167)	(1.101)	1.45	(0.895)	(1.074)
Trading desk	(0.028)	(0.178)	0.30	(0.068)	(0.122)
	=====	=====	====	=====	======

* Absolute value N/A - Not Apply

The Bank's PVBP in peso rates for the close of the fourth quarter of 2013 varied 7.03% with respect to the PVBP for the close of the previous quarter. The Bank's average PVBP corresponding to the fourth quarter of 2013 varied 24.20% with respect to the PVBP for the close of the previous quarter.

(Continued)

(Millions of pesos)

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

	Sep 30, 2013	Dec 31, 2013	Limits*	Q3 average 2013	Q4 average 2013
Bank	0.080	0.034	0.430	0.026	0.043
Accrual	0.043	(0.008)	0.300	(0.010)	0.006
Trading desk	0.036	0.042	0.130	0.036	0.037
	=====	=====	====	=====	======

* Absolute value N/A - Not applicable

The Group’s PVBP in US dollars interest rate at the end of Q4 2013 changed by (57.50%) as compared to the PVBP at the end of Q3 2013. The Group’s average PVBP for Q4 2013 changed by (65.38%) as compared to the average PVBP for Q3 2013.

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

	Sep 30, 2013	Dec 31, 2013	Limits *	Average Q3 2013	Average Q4 2013
Bank	(0.047)	(0.057)	0.150	(0.049)	(0.047)
Accrual	(0.035)	(0.031)	0.050	(0.038)	(0.033)
Trading desk	(0.012)	(0.026)	0.100	(0.011)	(0.013)
	=====	=====	====	=====	======

* Absolute value N/A - Not applicable

The Group’s PVBP in UDIS interest rate at the end of Q4 2013 changed by 21.28% as compared to the PVBP at the end of Q3 2013. The Bank’s average PVBP for Q4 2013 changed by (4.08%) as compared to the average PVBP for Q3 2013.

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.

(Continued)

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

Since 2003, Group 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 2013, the Group liquidity ratios were USD$4,210 million in term up to 7 days, USD$2,363 million in a term of a month, USD$1,169 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$3,085 million in 7 days, USD$1,589 million for 1 month, of USD$1,180 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 Group, 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).

In addition, the Group 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. Allowance for loan losses

   Since June 2013, the Group adopted the new rules for estimating preventive reserves established by the CNBV in the Provisions, which set forth an expected loss methodology.

Administrative models

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

1. Probability of default
2. Loss given default
3. Exposure at default

These models are evaluated and monitored on a 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 Group 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.

(Continued)

a) Probability of default model (PD)

The Group 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 Group 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.

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 results of the last monitoring for commercial portfolio models developed locally (for corporate head offices with annual sales of up to $7,000), we noticed a good overall statistical performance with an Accuracy Ratio of 0.57, which is over the Group-established threshold; however, the overrides rates have been increasing during 2013 above the level desired for these models. It is worth noting that these 8 models are currently in the process of being improved.

The rest of the global models, GLCS, RAf Banks and NBFI DST are low default models so it is currently not possible to measure their performance; however, override rates are being monitored, which are within the tolerances set out by the Group.

(Continued)

b) Model of estimation of Loss Given Default (LGD)

Regarding the estimation of Loss Given Default (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.

The most recent monitoring of the LGD model shows a relatively low correlation (17.89%) between the observed and the estimated Severity; therefore, the model is currently in the process of being redeveloped.

c) Model of exposure at default (EAD)

For estimating the Exposure at Default (EAD), the Group 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.

The most recent quarterly performance monitoring for this model showed a satisfactory (over 50%) correlation between the values of the observed and the estimated EAD.

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.

Furthermore, HSBC has a system worldwide for managing, controlling and better following up on the commercial loan approval process in Commercial Banking known as *Credit Application and Risk Management* (CARM), used for approving most loan applications. This system allows for finding out the status of the loan application during and process stage. Additionally, only in a few cases, applications are approved via *Workflow Authorization* (SIPAC). This system will be replaced by CARM at the end of 2014.

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.

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Quantitative information

The expected loss of the portfolio of commercial loans at December 31, 2013 is $12,228, showing a decrease of $1,870 (18%) over the previous quarter. The average balance of commercial loans at December 31, 2013 is $162,922 with an increase of $5,155 (3%) compared to that reported in the previous quarter.

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

Line of business	Average quarterly balances		VAR		Balances		VAR		Expected loss		VAR	
	3T2013	4T2013	($)	(%)	Sep-13	Dic-13	($)	(%)	Sep-13	Dic-13	($)	(%)
CMB	$93,777	$95,086	$1,309	1%	$93,144	$97,038	$3,894	4%	$8,647	$10,586	$1,939	22%
GBM	$63,865	$67,610	$3,745	6%	$66,815	$68,819	$2,005	3%	$1,711	$1,642	-$69	-4%
GBP	$125	$226	$100.99	81%	$130	$275	$145.39	112%	$0.11	$0.01	-$0.10	-88%
Total	**$157,767**	**$162,922**	**$5,155**	**3%**	**$156,322**	**$160,088**	**$3,766**	**2%**	**$10,358**	**$12,228**	**$1,870**	**18%**

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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.

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<u>Quantitative information</u>

The expected loss for the commercial portfolio of consumer credit and mortgage at December 31, 2013 is $5,094, which represents 8% of the total balance, a decrease of $90 (1.8%) with respect to previous balance in Q3 2013.

Operational risk

<u>Qualitative information</u>

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.

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;

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- 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.

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 management 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).

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- o 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 tenth consecutive year has been conducted identifying and evaluating all operational risks throughout all Bank entities worldwide reassessment period is in December 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.

The Operational Risk and Internal Control Management are responsible for coordinating and guiding the RCA practices at the Bank. During the execution of the RCA annual year 2012-2013 relevant risks were denominated, described and classified into fourteen categories: Compliance, Fiduciary, Legal, Accounting Information, Tax, Internal Fraud, External Fraud, Persons, Political, Physical, Business Continuity, Systems, Operations and Project.

Quantitative information (including Technology Risk and Legal Risk)

The assessment of operational risks resulting from the 10th evaluation exercise carried out during the period 2012-2013, with the changes and updates made during the 4th quarter of 2013 shows a total of 1,511 relevant risks identified and evaluated, distributed as follows: 7.47% (113) of type A, 14.09% (213) of the type B, 27.92% (422) of the type C and 50.49% (763) of type D.

Furthermore, the Financial Group maintains a historical base with Operational Risk data since 2007, where operational loss incidences are recorded. The materiality threshold for inclusion into the individualized report of these incidences is equivalent, in local currency, to USD$10,000, and it is possible that minor events be reported individually or recorded in a single entry.

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In response to a new regulatory requirement, since the third quarter of 2013 the Loss Events due to Operational Risks are being reported on a quarterly basis to the local regulator using reports R28l1 and R2813, which purpose is to collect information on losses over $1 sustained by the entities, arising from: i) internal control failure or deficiencies; ii) errors in the transaction processing and storage or in the transmission of information; iii) adverse administrative and judicial resolutions; and iv) fraud or theft, all grouped by lines of business, processes and products.

The appetite for operational risk statement for the Bank is US$34.42 million for operational losses, considering US$9.12 million for Credit Related Operational Losses (CROLs), is monitored monthly through the BSC, which is presented to the Risk Management Committee.

The cumulative operating loss at December 31, 2013 amounts to a total of USD$32.13 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.

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 active participation of the specialized Business Risk and Control Management area (BRCM´s), including operation risk management, Sarbanes Oxley (SOX), internal, external and regulatory audits coordination.

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

Legal risk

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

- Contractual: This is the risk that the rights or obligations in a contractual relationship are inadequate, including: misrepresentations, documentation, unintended consequences, unintended breaches, enforceability and external factors;

- Litigation: It consists of the risks to which one is subject to when an actual or potential litigation situation occurs, and includes both the exposure and the litigation handling;

- Legislative: It is the risk of noncompliance with the laws of the different jurisdictions and includes: the compliance with such regulation and its amendments;

- Non contractual rights: It is the risk that assets are not duly appropriated, that other parties breach the rights related to such assets or that the rights of the other party are breached, including infringement, ownership interest and legal liability.

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

- Contractual 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.

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.

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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.

The Legal department is involved in any social media activity and campaign that is initiated by its business area within its jurisdiction. The approval of the Central Legal Offices is required for all social media activities.

The Legal Operational Controls is based on the three defense lines scheme mentioned in the Operational Risk section of this document, to guarantee that the risks and controls are duly managed throughout the year the exercise of the function of the first and second defense lines.

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.

<u>U.S. regulatory and law enforcement investigations:</u>

In October 2010, HSBC Bank USA subscribed a cease and desist order with the Office of the Comptroller of Currency ("OCC"); and the indirect holding of such company, HSBC North America Holdings ("HNAH") subscribed a cease and desist order issued by the U.S. Federal Reserve Board (the "Orders"). Such orders provide for improvements to establish an effective compliance program in handling risk in the activities of HSBC in the U.S.A., including several topics relating to the U.S. Banking Secrecy Act ("BSA") and compliance of money laundering prevention ("MLP"). Action continues to comply with the Order requirements to ensure their compliance and to maintain effective policies and procedures.

In addition to the foregoing, in December 2012, HSBC Holdings, HNAH and HSBC Bank USA subscribed agreements with government agencies of the U.S. and U.K. as to deficiencies in the past in complying with LSB, PLD and sanctions acts. Among these agreements, HSBC Holdings and HSBC Bank USA subscribed a 5-year deferred prosecution agreement with the US Department of Justice ("DJ"), with the U.S. Attorney's Office for the Eastern District of New York and with the U.S. Attorney's Office for the Northern District of West Virginia ("DPA of USA"), HSBC Holdings subscribed a two-year deferred prosecution agreement with the New York County District Attorney ("FDCNY") ("DPA of FDCN") and HSBC Holdings subscribed a cease and desist order; HSBC Holdings and HNAH subscribed the consent of a monetary sanction of the Federal Reserve Board ("FRB"). In addition to the foregoing, HSBC Bank USA subscribed the consent of a monetary sanction of the Department of Treasury's Financial Crimes Enforcement Network) ("FinCEN") and a diverse monetary sanction of OCC. HSBC Holdings also subscribed an agreement with the Office of Foreign Assets Control ("OFAC") in regard the historical transactions that involve parties subject to OFAC sanctions and an Undertaking with the UK Financial Services Authority (currently the Financial Conduct Authority Direction ("FCA")for complying with certain obligations in relation to the PLD in the future and with obligations relating to sanctions.

In accordance with these agreements, HSBC Holdings and HSBC Bank USA made payments for a total of US$1,921m to the US authorities and continue complying with the outstanding obligations. On July 1, 2013, the United States District Court for the Eastern District of New York approved the DPA of USA and retained jurisdiction for supervising its implementation. In conformity with these agreements with the DJ, the FCA and the FRB, a independent corporate compliance monitor has been appointed (which, for FCA purposes is an "expert" according to section 166 of the US Financial Services and Markets Act), who shall continually assess and examine the effectiveness of PLD compliance and HSBC sanctions as well as progress in implementing obligations in accordance with the relevant agreements. The monitor's activities, which started on July 22, 2013, are being conducted as planned and are consistent with the terms and requirements set out in the relevant agreements.

Where HSBC Holdings and HSBC Bank USA meet the requirements imposed by the DPA of USA, the charges imposed by the DJ against these entities shall be dismissed after the five-year term relating to the agreement has expired. In like manner, if HSBC Holdings meets the requirements imposed by the DPA of the FDCN, the charges imposed by FDCNY against it shall be dismissed after the two-year term relating to this agreement has expired. Both DJ and FDCNY may initiate actions against HSBC Holdings or HSBC Bank USA in cases where any of these entities violates the terms and conditions of their respective agreements

HSBC Bank USA also subscribed a separate consent order with the OCC, whereby the former is required to correct the circumstances and conditions observed by the OCC in its last supervision report; furthermore, certain restrictions are imposed on HSBC Bank USA with regard to any acquisition of direct or indirect control of, or investment in any new financial subsidiary or for initiating a new activity in its existing financial subsidiaries, unless it receives prior authorization from the OCC. HSBC Bank USA also subscribed a separate consent order with the OCC that compels it to adopt a global institutional compliance program.

The agreements with US and UK authorities do not exclude the possibility of litigation with regard, among other things, to HSBC's compliance with PLD and LSB lays and sactions or other regulatory or law enforcement actions relating to PLD, LSB or sanctions not foreseen by the agreements.

(34) 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.

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.

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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.

(35) 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-12 "*Offsetting financial assets and financial liabilities*"- FRS B-12 is effective for years beginning on or after January 1, 2014; however, earlier adoption is permitted as of January 1, 2013. Among its principal features, we cite the following:

- Principles are established in relation to the rights of offset 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.

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FRS C-3 *"Accounts Receivable"*- FRS C-3 is effective for years beginning January 1, 2016, and is applicable retrospectively; however, early adoption is permitted. Some of the primary changes resulting from the adoption of this FRS are as follows:

- FRS C-3 provides that accounts receivable based on a contract are deemed financial instruments. On the other hand, some other accounts receivable, resulting from legal or tax provisions, may include certain characteristics of a financial instrument, such as bearing interest, though these are not deemed financial instruments.

- FRS C-3 sets out that the allowance for doubtful trade receivables shall be recognized as revenue is earned. Thus, the allowance shall be recorded as expenses in the statement of comprehensive income.
- FRS C-3 provides that, from the initial recognition, the money value in time shall be considered. Therefore, should the effect of the present value of the account receivable be significant in view of its term, an adjustment must be made taking into consideration such present value.

- A reconciliation between the initial and final balances of the allowance for doubtful accounts is required for each period presented.

FRS C-11 *"Stockholders' equity"*- FRS C-11 is effective for years beginning January 1, 2014, and is applicable retrospectively. FRS C-11 supersedes Bulletin C-11 "Stockholders' equity" and Circular 38 "Temporary acquisition of treasury stock" and Circular 40 "Accounting treatment of stock issuance and placement costs". Some of the main aspects resulting from the adoption of this FRS are as follows:

- FRS C-11 requires that in order to capitalize the advances for future capital stock increases, at the stockholders' or partners' meeting it shall be agreed that such advances be applied for future capital stock increases and also, the price per share to be issued pursuant to such contributions shall be fixed. Furthermore, it shall be agreed that these contributions shall not be refunded before being capitalized.

- FRS C-11 broadly identifies financial instruments with characteristics of equity which would otherwise, be regarded as liabilities. However, the specific standard that classifies financial instruments as either equity or liabilities, within the same compound financial instrument, is FRS C-12 "Financial instruments with characteristics of liabilities and equity".

FRS C-12 *"Financial instruments with characteristics of liabilities and equity"*- FRS C-12 is effective for years beginning January 1, 2014, and is applicable retrospectively. FRS C-12 supersedes Bulletin C-12 "Financial instruments with characteristics of liabilities, equity or both", and the provisions regarding these instruments under Bulletin C-2 "Financial instruments". Some of the main aspects resulting from the adoption of this FRS are as follows:

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

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

- The subordination concept is included.

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

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.

- 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-20 *"Receivable financing instruments"*- FRS C-20 shall be effective for years beginning January 1, 2016, and is applicable retrospectively. Early application is not permitted and FRS C-20 supersedes the provisions set forth in Bulletin C-3 in this regard. Some of the main aspects resulting from the adoption of this FRS are as follows:

- Classification of financial instruments under assets. To determine such classification, the concept that defines the intention to acquire and hold financial instruments has been ruled out. Instead, the concept of management business model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

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- The valuation effect of investments in financial instruments is also focused on the business model.

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

- The embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

2014 FRS Improvements

In December 2013, CINIF issued the document referred to as “2014 FRS Improvements”, which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

FRS C-5 “Prepayments”- provides that amounts paid in foreign currency be recognized at the exchange rate in force as of the transaction date, and shall not be modified as a result of foreign exchange fluctuations between the functional currency and the foreign currency in which the prices of goods and services regarding such prepayments are denominated. Additionally, it provides that impairment losses arising from prepayments, as well as the reversal of such losses, shall be reported as part of the net income or loss for the period. These improvements are effective for years beginning January 1, 2014, and the resulting accounting changes shall be recognized retrospectively.

Bulletin C-15 “Impairment or disposal of long-lived assets”- provides that the impairment loss for a long-lived asset in use, as well as the reversal thereof, and the impairment loss of long-lived, available-for-sale assets, including increases or decreases, shall be reported in the results of operations for the period, under the line items of costs and expenses, where depreciation and amortization is recognized. The impairment loss and reversal thereof, for indefinite-lived intangible assets, including goodwill, shall be presented in the results of operations for the period, under the line item for depreciation and amortization expenses on assets of the cash generating unit to which such tangible assets relate. Under no circumstances shall impairment losses be presented as part of the expenses that have been capitalized in the value of a certain asset.

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

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

These improvements are effective for years beginning January 1, 2014, and any resulting presentation changes shall be recognized retrospectively.

FRS B-3 "Statement of comprehensive income", FRS B-16 "Financial statements of non-profitable entities", FRS C-6 "Property, plant and equipment", FRS C-8 "Intangible assets", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" and FRS D-3 "Employee benefits"- The improvements of these standards are aimed at performing the modifications related to the presentation of certain transactions that were previously recognized under the line item of other income and expenses, as the presentation of such line item ceased to be required after the new FRS B-3 became effective. These improvements are effective for years beginning January 1, 2014 and the resulting presentation changes shall be recognized retrospectively.

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

Financial Reform-

On January 10, 2014 amendments to various financial laws and decrees, known as the "Financial Reforms" were published in the Federal Official Gazette. These amendments purport, among other things, to: i) boost development banks; ii) increase the legal certainty of the activities of private financial institutions and promote the increase of the credit supply at more competitive costs; iii) encourage competition between financial institutions; and iv) strengthen the regulatory framework. Such Financial Reform considers greater surveillance attributes to the National Commission for the Protection and Defense of Financial Services Users ("CONDUSEF") for overseeing and regulating financial products. The Bank is currently in the process of assessing the impacts that this Financial Reform may have on its operations and financial performance taking into account that amendments to subsidiary laws and specific rules to be issued by the Banking Commission, the Central Bank and other related bodies are still in the process of being developed.