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

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal
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Independent Auditors' Report

(Translation from Spanish language original)

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

(Millions of pesos)

We have audited the accompanying consolidated financial statements of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries (the Bank), which comprise the consolidated balance sheets as at December 31, 2014 and 2013 and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and subsidiaries for the years ended December 31, 2014 and 2013 have been prepared, in all material respects, in accordance with the accounting criteria for credit institutions in Mexico issued by the Banking Commission.

KPMG CARDENAS DOSAL, S. C.

Hermes Castañón Guzmán

February 11, 2014.

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

Consolidated Balance Sheets

December 31, 2014 and 2013

(Millions of pesos)

Assets	**2014**	**2013**
Cash and cash equivalents (note 6)	$ 40,689	55,407
Margin accounts (note 7)	7	-
Investment securities (note 8):		
Trading	49,996	51,121
Available-for-sale	132,527	96,081
Held-to-maturity	20,630	6,253
	203,153	153,455
Debtors under agreements to resell (note 9)	-	500
Derivatives (note 11):		
Trading	79,964	49,601
Hedging	77	168
	80,041	49,769
Current loan portfolio (note 12):		
Commercial loans:		
Commercial activity	114,574	108,207
Financial institutions	9,878	4,339
Government entities	32,541	18,133
Consumer loans	36,371	37,675
Residential mortgages	25,853	24,480
Total current loan portfolio	219,217	192,834
Past due loan portfolio (note 12):		
Commercial loans:		
Commercial activity	10,017	9,617
Financial institutions	-	3
Government institutions	85	45
Consumer loans	1,568	1,788
Residential mortgages	573	703
Total past due loan portfolio	12,243	12,156
Total loan portfolio	231,460	204,990
Less:		
Allowance for loan losses (note 12d)	12,693	12,223
Loan portfolio, net	218,767	192,767
Benefits receivable on securitization transactions (note 12c)	147	182
Other accounts receivable, net (note 13)	34,412	40,293
Foreclosed assets, net (note 14)	73	159
Property, furniture and equipment, net (note 15)	6,146	6,927
Equity investments (note 16)	153	148
Deferred income taxes and employee statutory profit sharing (note 24)	8,620	7,624
Long-term assets available for sale	-	5
Other assets, deferred charges and intangible assets (notes 17 and 21)	3,042	3,637
Total assets	$ 595,250	510,873

Liabilities and Stockholders' Equity	**2014**	**2013**
Deposit funding:		
Demand deposits (note 18)	$ 177,870	178,358
Time deposits (note 18):		
General public	92,680	103,414
Money market	22,474	-
Bank bonds (note 19)	6,233	6,036
	299,257	287,808
Due to banks and other institutions (notes 12c and 20):		
On demand	13,765	2,900
Short-term	26,088	15,466
Long-term	2,168	2,144
	42,021	20,510
Creditors under agreements to repurchase (note 9)	60,247	34,765
Collateral sold or pledged as guarantee (note 10):		
Repos	11	-
Securities lending	21,886	9,076
	21,897	9,076
Derivatives (note 11):		
Trading	80,049	46,853
Hedging	1,230	790
	81,279	47,643
Other accounts payable:		
Income tax and employee statutory profit sharing (note 24)	100	916
Settlement transactions creditors (note 13)	8,953	37,519
Sundry creditors and other accounts payable (note 21)	22,594	14,966
	31,647	53,401
Subordinated debt issued (note 23)	10,144	9,463
Deferred credits	712	601
	10,856	10,064
Total liabilities	547,204	463,267
Stockholders' equity (note 25):		
Paid-in capital:		
Capital stock	5,680	5,680
Additional paid-in capital	27,088	27,088
	32,768	32,768
Earned capital:		
Statutory reserves	10,988	10,773
Retained earnings	2,770	1,436
Unrealized gain from available-for-sale securities	489	290
Mark to market from cashflow hedges	(26)	(9)
Subsidiary dilution effect	200	200
Net income	854	2,146
	15,275	14,836
Non-controlling interest	3	2
Total stockholders' equity	48,046	47,606
Commitments and contingent liabilities (note 29)		
Total liabilities and stockholders' equity	$ 595,250	510,873

(Continued)

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

Consolidated Balance Sheets, continued

December 31, 2014 and 2013

(Millions of pesos)

Memorandum accounts

		2014	2013
Loan commitments (notes 12 and 27a)	$	33,874	25,561
Assets in trust or under mandate (note 27b)		458,166	439,469
Assets in custody or under management (note 27d)		488,786	378,679
Collaterals received by the entity (note 8)		21,279	17,291
Collaterals received by the entity and sold or pledged in guarantee (note 8)		21,897	16,583
Investment banking transactions on behalf of customers, net (note 27c)		46,233	50,353
Uncollected interest accrued in respect of overdue credit portfolio (note 12c)		276	221
Amounts under derivative instruments		3,367,817	2,771,506
Loan portfolio rated (note 12)		265,334	230,551
Other memorandum accounts		336,468	316,563

See accompanying notes to the consolidated financial statements.

At December 31, 2014, capitalization index for credit and total risks (unaudited) amount to 20.65% and 13.22%, respectively (22.26% and 14.81%, respectively, at December 31, 2013).

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

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

"At December 31, 2014 and 2013, the nominal capital stock amounts to $3,880"

SIGNATURE
Luis Peña Kegel
Chief Executive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
David Crichton Meechie
Director of Internal Audit

SIGNATURE
Juan José Cadena Orozco
Chief Accountant

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

Consolidated Statements of Income

Years ended December 31, 2014 and 2013

(Millions of pesos)

		2014	2013
Interest income (note 28a)	$	29,541	30,123
Interest expense (note 28a)		(8,887)	(9,385)
Financial margin		20,654	20,738
Allowance for loan losses (note 12d)		(8,002)	(8,086)
Financial margin net of allowance for loan losses		12,652	12,652
Commission and fee income (note 12c)		7,769	8,358
Commission and fee expense		(1,726)	(1,810)
Financial intermediation income (note 28b)		1,315	2,273
Other operating income, net (note 28c)		2,625	2,808
Administrative and promotional expenses		(22,081)	(21,573)
Net operating income		554	2,708
Equity in the results of associated and affiliated companies, net (note 16)		47	43
Income before income taxes		601	2,751
Current income taxes (note 24)		(479)	(1,677)
Deferred income tax (note 24)		733	1,073
Income before non-controlling interest		855	2,147
Non-controlling interest		(1)	(1)
Net income	$	854	2,146

See accompanying notes to the consolidated financial statements.

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

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

SIGNATURE
Luis Peña Kegel
Chief Excecutive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
Chief Financial Officer

SIGNATURE
David Crichton Meechie
Director of Internal Audit

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

Consolidated Statements of changes in Stockholders' Equity

Years ended December 31, 2014 and 2013

(Millions of pesos)

	Paid-in capital		Earned capital							
	Capital stock	Additional paid-in capital	Capital reserves	Retained earning	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, 2012	5,261	22,357	10,373	(202)	902	(103)	200	3,997	2	42,787
Changes resulting from stockholder resolutions (note 25a):										
Appropiation of prior year's net income	-	-	-	3,997	-	-	-	(3,997)	-	-
Resolution at the Ordinary General Stockholders' Meeting on January 24, 2013 - Increase in Capital stock and additional paid-in capital	419	4,731	-	-	-	-	-	-	-	5,150
Resolution at the Ordinary General Stockholders' Meeting on April 26, 2013 - Reserve constitution	-	-	400	(400)	-	-	-	-	-	-
Resolution at the Board of Director's Meeting on March 21, 2013 - Dividends paid from the resolution made on March 26, 2013	-	-	-	(1,400)	-	-	-	-	-	(1,400)
Total items related to stockholders' resolutions	419	4,731	400	2,197	-	-	-	(3,997)	-	3,750
Changes related to the recognition of comprehensive income (note 25b):										
Net income	-	-	-	-	-	-	-	2,146	-	2,146
Valuation effect of available-for-sale securities and hedging of cashflow (notes 8 and 11)	-	-	-	-	(612)	94	-	-	-	(518)
Recognition of the effect derived from the application of the new methodology for determining the allowance for commercial loan losses, recognized in retained earnings (note 3)	-	-	-	(559)	-	-	-	-	-	(559)
Total comprehensive income	-	-	-	(559)	(612)	94	-	2,146	-	1,069
Balances at December 31, 2013	5,680	27,088	10,773	1,436	290	(9)	200	2,146	2	47,606
Changes resulting from stockholder resolutions (note 25a):										
Appropiation of prior year's net income	-	-	-	2,146	-	-	-	(2,146)	-	-
Resolution at the Ordinary General Stockholders' Meeting on April 28, 2014 - Reserve constitution	-	-	215	(215)	-	-	-	-	-	-
Resolution at the Board of Director's Meeting on March 21, 2014 - Dividends paid from the resolution made on March 27, 2014	-	-	-	(576)	-	-	-	-	-	(576)
Total items related to stockholders' resolutions	-	-	215	1,355	-	-	-	(2,146)		(576)
Changes related to the recognition of comprehensive income (note 25b):										
Net income	-	-	-	-	-	-	-	854	-	854
Valuation effect of available-for-sale securities and hedging of cashflow (notes 8 and 11)	-	-	-	-	199	(17)	-	-	-	182
Recognition of the effect derived from the application of the new methodology for determining the allowance for commercial loan losses, recognized in retained earnings (note 4a)	-	-	-	(21)	-	-	-	-	-	(21)
Non-controlling interest	-	-	-	-	-	-	-	-	1	1
Total comprehensive income	-	-	-	(21)	199	(17)	-	854	1	1,016
Balances at December 31, 2014	$ 5,680	27,088	10,988	2,770	489	(26)	200	854	3	48,046

See accompanying notes to the consolidated financial statements.

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

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

SIGNATURE
Luis Peña Kegel
Chief Excecutive Officer

SIGNATURE
Gustavo Ignacio Méndez Narváez
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HSBC MEXICO, S. A.
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AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Millions of pesos)

	2014	2013
Net income	$ 854	2,146
Adjustments for non cash items:		
Depreciation of property, furniture and equipment	1,344	1,274
Amortization of intangible assets	407	389
Provisions	1,451	2,589
Current and deferred income taxes	(254)	1,099
Equity in the results of associated and affiliated companies	(47)	(43)
Non-controlling interest	1	1
	3,756	7,455
Operating activities:		
Change in margin accounts	(7)	53
Change in investment securities	(49,333)	(14,360)
Change in debtors under agreements to resell	500	7,206
Change in derivatives (assets)	(30,276)	(6,287)
Change in loan portfolio	(26,031)	(3,968)
Change in foreclosed assets	86	59
Change in other operating assets	6,498	(8,352)
Change in deposit funding	11,450	(8,065)
Change in loans from banks and other institutions	21,511	(2,217)
Change in creditors under agreements to repurchase	25,482	14,036
Change in collateral sold or pledged as guarantee	12,820	5,188
Change in derivatives (liability)	33,635	6,722
Change in subordinated debt issued with liability characteristics	681	(733)
Change in other operating liabilities	(22,480)	2,678
Income taxes paid	(1,532)	(1,694)
Net cashflows from operating activities	(13,240)	(2,279)
Investing activities:		
Proceeds from sale of property, furniture and equipment	-	3
Purchase of property, furniture and equipment	(648)	(997)
Purchase of intangible assets	(266)	(950)
Proceeds from sale of others permanent investment	1	-
Proceeds from sale of long-term assets available for sale	1	-
Proceeds from dividends in cash	37	34
Others	(27)	-
Net cashflows from investing activities	(902)	(1,910)
Financing activities:		
Increase in capital stock and additional paid-in capital	-	5,150
Payment of dividends	(576)	(1,400)
Net cash flows from financing activities	(576)	3,750
Net decrease in cash and cash equivalents	(14,718)	(439)
Cash and cash equivalents at the beginning of year	55,407	55,846
Cash and cash equivalents at end of year	$ 40,689	55,407

See accompanying notes to the consolidated financial statements.

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

"These consolidated 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
David Crichton Meechie
Director of Internal Audit

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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-

HSBC México, S. A. Institución de Banca Múltiple, Grupo Financiero HSBC (the Bank) is a subsidiary of Grupo Financiero HSBC, S. A. de C. V. (the Group), domiciled in Paseo de la Reforma 347, Colonia Cuauhtémoc, Z.C. 06500, Delegacion Cuauhtémoc, Mexico City, who owns 99.99% of its capital stock. HSBC Latin America Holdings (UK) Limited (HSBC LAH) currently owns 99.99% of the Group's capital stock. In accordance with the Law of Credit Institutions (LCI), the Bank is authorized to provide multiple service banking operations, consisting of receiving deposits, accepting loans, granting loans, trading securities and derivative transactions and entering into trust agreements, among others.

Significant transactions and other issues-

2014

During December 2014, the Bank placed six issuances of Bonds (CEDES for its acronym in Spanish) amounting to $22,450, bearing monthly interest at the Interbank Equilibrium Interest Rate (TIIE for its acronym in Spanish language) with an expiring date between March and June of 2015 (note 18).

2013

On December 9, 2013, the Bank placed two issuances of Bonds (CEBURES); the first issuance aggregating $2,300 with a 5-year term, bearing monthly interest at the TIIE rate plus 0.3 basis points and the second issuance for $2,700, with a 10-year term, bearing half-yearly interest at the rate of 8.08% (note 19).

On January 31, 2013, 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 National Banking and Securities Commission (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 LCI and the Bank does not rectify such situation. Such issuance totaled US$110 million and bears interest at the 30-day LIBOR rate plus 3.65 basis points (note 23).

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(2) Authorization and basis of presentation-

Authorization

On February 11, 2015, Luis Peña Kegel (Chief Executive Officer), Gustavo Ignacio Méndez Narváez (Chief Financial Officer), David Chrichton Meechie (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 Bank's bylaws, the stockholders are empowered to modify the consolidated financial statements after issuance. The unconsolidated financial statements issued on the same date, will be submitted for approval at the next Stockholders' Meeting.

Basis of preparation-

a) Statement of compliance

The consolidated financial statements have been prepared in conformity with the accounting criteria for credit institutions 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.

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 the accompanying 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, 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.

(Continued)

(Millions of pesos)

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.

d) Recognition of assets and liabilities related to purchase and sale of foreign currencies and financial instruments

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

(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. The accumulated 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**
2014	$	5.2704	4.18%	12.34%
2013		5.0587	3.77%	11.76%
2012		4.8746	3.90%	12.31%
		=====	=====	======

b) Basis of consolidation

The accompanying consolidated financial statements include those of the Bank and those of its subsidiaries, including the special purpose entity (SPE) that qualifies to be consolidated in accordance with the accounting criteria issued by the Banking Commission. Significant intercompany transactions and balances have been eliminated in consolidation. The consolidation was made based on the financial statements of the subsidiaries as of and for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, without any relevant transactions in the non-coinciding period.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

In the following two pages are detailed the subsidiaries, SPE, and the percentage of the shareholding of the Bank as at December 31, 2014 and 2013.

Activity and subsidiary

Real estate

Inmobiliaria Bisa, S. A. de C. V.	99.99%
Inmobiliaria Grufin, S. A de C. V.	99.99%
Inmobiliaria Guatusi, S. A. de C. V.	100.00%
HSBC Inmobiliaria México, S. A. de C. V.	99.96%

Financial services

HSBC Servicios Financieros, S. A. de C. V.	100.00%

Not in operation, but the legal process of dissolution or liquidation has not started:

Mexicana de Fomento, S. A. de C. V.	71.41%
Almacenadora Banpacífico, S. A. de C. V.	99.99%

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

On December 16, 2013 were merged Inmobiliaria el Nuevo París, S.A. de C.V., Edificaciones Prime, S.A. de C.V., Inmobiliaria GBM Atlántico, S.A. de C.V. e Inmobiliaria Bamo, S.A. de C.V. (bank subsidiary entities), whereby Inmobiliaria Grufin,S. A. de C. V. is the merging concern.

Special Purpose Entity (SPE)

As of December 31, 2014, the Bank has the following SPE, which has been consolidated given that the Bank has the control and it was 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, 2014 and 2013, "patrimonio A" amounts to $260 and $336, respectively, which is included under the “Residential Mortgages loans” item in the consolidated balance sheet.

(Continued)

On March 22, 2013, the operations of the following SPE were early terminated:

- 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. The liability that this SPE owed to the Bank was settled in kind, with the bonds that constituted the securities investments as of the termination date, which were included as part of the security investments that are classified as available for sale as of December 31, 2013 and up to January 23, 2014, date when these were sold.

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, bank and corporate securities, 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 to obtain gains due to price differences in the short term purchase and sale transactions. 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".

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", which 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.

(Continued)

Transfers between categories-

The sale of securities to be held to maturity must be reported to the Banking Commission. Likewise, securities may be reclassified from the categories "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.

During 2014 and 2013, there were no transfers between categories.

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

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

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

(Continued)

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.

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

g) Securities lending-

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

h) Derivative transactions-

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes. Regardless of their purpose, such instruments are recognized at fair value as assets or liabilities, depending on the rights and/or obligations arising from them.

(Continued)

i) Offsetting of clearing accounts-

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

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

Commercial loans with principal and interest instalments – when principal and interest have a period of 90 calendar days or more 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 calendar days or more of past due.

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

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

(Continued)

Additionally, a loan is classified as due when there is evidence that a debtor is declared in bankruptcy protection "Concurso Mercantil" except for loans that continue being paid, which were granted for maintaining the entity's ordinary operation and the liquidity required during the commercial insolvency proceedings as provided by section VIII of article 43 of the Commercial Insolvency and Bankruptcy Law "Ley de Concursos Mercantiles", as well as the loans granted for maintaining the entity's ordinary operation and the liquidity required during the commercial insolvency proceedings, provided that the trader continues managing its company and the bankruptcy reorganization referee has defined the guidelines whereby they were authorized, which payment priority shall follow the payment of loans owed to employees for salaries or wages accrued during the last year and severance payments, in accordance with the provisions of article 75, with regard to sections II and III of article 224 of said Law.

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

k) ***Restructured loans–***

The Bank has eligibility for credit restructuring, wich generally consider that the terms of such restructuring 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
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.

When, as of the reorganization date, the loan payment is fulfilled for the total amount of the principal and interest payable, and only one or various of the following original loan conditions are modified: a) Collateral guaranties that imply the extension or replacement of collateral guaranties for better ones, b) Interest rate, when the interest rate agreed is improved, c) Currency, provided that interest rate corresponding to the new currency is applied, and d) Payment date, provided that such change does not imply to exceed or modify the payment periodicity or to allow any payment omission: for accounting purposes, the loan shall be maintained as current.

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.

(Continued)

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 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.

On June 30, 2013, in accordance with the provisions of transitory article two, the Bank adopted the new methodology, recognizing a charge in stockholders' equity of $799 ($559 net of deferred taxes) for the year ended December 31, 2013. With regard to the creation of allowance for loan losses for the loans granted to financial entities, the new methodology was applied from March 2014, in accordance with the transitory article three of the Provisions, which set forth the mandatory recognition of the financial impact for the creation of allowances not later than June 30, 2014. As a result, the Bank recognized a charge in stockholders' equity of $30 in March 2014 ($21 net of deferred taxes) (see note 4(a)).

On October 30, 2014, the Banking Commission published in the Official Gazette a resolution whereby the Provisions relating to the methodology for rating allowance for loan losses for expected credit risk loss, were amended. This amendment is aimed to make the methodology consistent with the amendment to the Commercial Insolvency and Bankruptcy Law published on January 10, 2014 in the Official Gazette, whereby section II of article 339 of the Commercial Insolvency and Bankruptcy Law was amended in order to set forth that the request for acceptance of commercial insolvency with a preliminary reorganization plan shall be undersigned by the client with the holders of at least the simple majority of the total debtors: the amended methodology provides that the reserves may be calculated by applying the rating provided by article 114 of the Provisions, based on the following:

I. For the portion hedged with collateral guaranties, the estimate is not modified and is applicable in the same way than to the rest of the clients subject to rating.

II. For the unhedged portion of the loan, "best estimate of expected loss" shall be made, considering the client's default and the expected payments and/or loss mitigating factors that may be proved by the client.

(Millions of pesos)

In compliance with the foregoing paragraphs, the Bank estimated as "best estimate of expected loss" 45% (Loss Severity) for those clients declared in bankruptcy protection. This amended methodology was applied from the effective date, pursuant to the Provisions.

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.

For Investment Projects with own source of payment, an individual evaluation is conducted, considering the Construction and Operation stages.

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

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

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

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

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

(Continued)

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 Bank 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 occurs depending on the type of loan (commercial, consumer or housing) versus the year’s income (loss) and 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, net”.

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) Other accounts receivable-

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

n) 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.

(Continued)

(Millions of pesos)

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.

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

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

In any cases, the reserve percentage is applied to the foreclosure value obtained from the applicable accounting standards. Regarding valuations after the foreclosure, which result in the reduction of the foreclosed assets, the percentages of preventive reserves are applied on such adjusted value.

(Continued)

o) Property, furniture and equipment-

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

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 15.

p) Permanent investments in shares-

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

q) Other assets, deferred charges and intangibles-

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

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

r) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS)-

Income Tax (IT) and Employee Statutory Profit Sharing (ESPS) payable for the year are determined in conformity with tax regulations in force at December 31, 2014 and 2013.

Deferred IT or ESPS are accounted for under the asset and liability method which compares accounting and tax values. Deferred income tax and ESPS (asset 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, in the case of the income tax for unamortized tax losses carry forward and unused tax credits.

(Continued)

Deferred assets and liabilities for income tax and ESPS 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 for income tax and ESPS of a change in tax rates is recognized in results of operations for the period the change is enacted.

s) Deposit funding-

This caption includes money market demand and term deposits made by the general public including debt securities 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 in the case of a premium or discount for placement and is amortized under the straight-line method against income during the term of the instrument that generated it.

t) Due to banks and other institutions-

Bank and other loans comprises short and long-term bank loans as well as 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.

u) 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, 2014 and for purposes of recognizing benefits upon retirements, the remaining average service life of employees entitled to pension are approximately 13 years, for the seniority premium are 18 years and for other post-retirement benefits are approximately 13 years, (for 2013, 16 years, 17 years and 13 years respectively).

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.

(Continued)

v) Share-based payment-

The Bank 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 fair value of the equity securities at the valuation date. The vesting period of the grant of such programs varies between one and three years in average.

Additionally, from October 2014, a voluntary savings scheme was implemented for purchasing shares of HSBC Holdings PLC (HGHQ) whereby for every three shares purchased by the employee, the Bank shall pay an additional share; for this purpose, the employee is required to comply with a three-year foreclosure period.

w) Revenue recognition-

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

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

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 and securities lending 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.

x) 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.

(Continued)

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

Among other provisions, the Bank Savings Protection Law provides for the creation of the IPAB, is 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, 2014 and 2013) by saver and by institution. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

z) Contingencies-

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

aa) Impairment of recovery from long term assets-

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

(4) 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 Bank applied the new methodology for rating the commercial loan portfolio from June 2013, recognizing a charge to stockholders’ equity of $30 ($21 net of deferred taxes), in accordance with the transitory articles of such Provisions.

(Continued)

The preventive commercial loan loss reserve granted to financial entities, determined according to the new methodology applied from of March 2014 amounted to $174, compared with that determined according to the methodology in effect prior to such date, which amounted to $144.

The Bank did not determine the retrospective financial effect of the application of the methodology for loans granted to financial entities corresponding to the end of December 2013, in accordance with the provisions of official letter No. 113-1/17501/2015 submitted by the Banking Commission on January 8, 2015, whereby it provides that credit institutions may refrain from making comparative adjustments for the preparation of annual financial statements for periods preceding 2013, when it is impractical to determine the amounts corresponding to such periods due to the retrospective recognition of the application of new methodologies for rating the commercial loan portfolio, based on the expected loss and as set forth by the Provisions, and declaring although Management made all the reasonable efforts, it was not possible to obtain the historical information required by the new methodology. As a consequence, these consolidated financial statements do not include the information required in paragraph 11 of the FRS B-1 "Accounting changes and error corrections" by the Banking Commission in transitory article four of the amendments to the Provisions published on June 24, 2013.

b) As mentioned in note 3(l), on September 24, 2014, the Ministry of Finance and Public Credit published in the Official Gazette a resolution whereby accounting standard B-6 "Loan Portfolio" of the Provisions is modified, providing that loans granted by credit institutions in accordance with article 75, with respect to sections II and III of article 224 of the Commercial Insolvency and Bankruptcy Law, and with regard to those loans that continue being paid in accordance with section VIII of article 43 of such Law, shall be considered as current portfolio, provided that these do not comply with the criteria set forth in the same standard for such loans to be considered past due. The foregoing is aimed at making loans consistent with the current methodology of loan reserves.

c) 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 statements, whether as it is not applicable to them or as there is a specific criterion issued by the Banking Commission are shown below:

- **FRS C-12 "Financial instruments with characteristics of liabilities and equity" -** FRS C-12 is effective for years beginning January 1, 2014.

- **FRS C-14 *"Transfer and retirement of financial assets"*-** FRS C-14 is effective for years beginning on or after January 1, 2014.

(Continued)

2014 FRS Improvements-

In December 2013, the CINIF issued the document referred to as “2014 FRS Improvements”, which contains precise modifications to some FRS. The modifications that bring about accounting changes effective starting on January 1, 2014, that didn´t have material effect on the Bank´s consolidated financial statements are listed below:

- **FRS C-5 “Prepayments”-** FRS C-5 provides that amounts paid in foreign currency must 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.

- **Bulletin C-15 “Impairment or disposal of long-lived assets”-** Bulletin C-15 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 same financial statement captions to costs and expenses, where depreciation and amortization are recognized. Impairment losses and reversal thereof, for indefinite-lived intangible assets, including goodwill, shall be presented in the results of operations for the period, under the financial statement caption associated with depreciation and amortization expense on assets of the cash generating unit to which these intangible assets relate. Under no circumstances shall impairment losses be included as part of the costs that have been capitalized in the carrying value of an asset.

  Likewise, it sets out that for purposes of reporting the impairment losses of associates, joint ventures and other 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 financial statement caption associated with equity in earnings or loss of investees.

  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 financial statement caption within assets and a single financial statement caption within liabilities, classified as short-term, and shall not be presented on a net basis. However, these 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.

(Continued)

(Millions of pesos, except otherwise indicated)

Reclassifications-

As mentioned in note (28(a)), some accounts of the financial margin, for the year ended December 31, 2013, have been reclassified to conform to 2014 presentation, aimed at identifying income and expense primarily arising from hedge transactions. Such reclassification did not modify the financial margin.

(5) Foreign currency exposure-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital. In accordance to the basic capital of the Bank, as published by the Central Bank as of December 31, 2014 and September 30, 2013, the maximum exposure permitted as of December 31, 2014 and September 30, 2013, amounts to USD$423 million and USD$491 million, respectively.

The foreign currency position as of December 31, 2014 and 2013 is analyzed as follows:

	(Millons of dollars)	
	2014	**2013**
Assets	40,502	38,029
Liabilities	(40,227)	(37,904)
Net assets	275	125
	======	=====

The exchange rate of the peso to the dollar as of December 31, 2014 and 2013 was $14.7414 and $13.0843, respectively. The exchange rate on February 11, 2015, the date of issuance of the consolidated financial statements was $15.1099 pesos per dollar.

(6) Cash and cash equivalents-

At December 31, 2014 and 2013, cash and cash equivalents are analyzed as follows:

		2014	**2013**
Cash	$	13,901	12,251
Deposits with domestic and foreign banks		6,941	6,965
Other cash equivalents		1	1
Restricted cash and cash equivalents:			
Central Bank deposits		21,233	32,599
Bank loans with maturity up to three days		160	2,988
24 and 48-hour foreign currency purchases		9,555	40,729
24 and 48-hour foreign currency sales		(11,102)	(40,126)
	$	40,689	55,407
		=====	======

(Continued)

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At December 31, 2014 and 2013, cash balances valued in Mexican pesos by currency included in the cash and equivalents caption is as follows:

Currency		Exchange rate 2014	Exchange rate 2013		2014	2013
Mexican peso	$	-	-	$	13,671	12,104
Dollar		14.7414	13.0843		229	146
Euro		17.8386	18.0302		1	1
				$	13,901	12,251
					=====	======

At December 31, 2014 and 2013, the Bank did have deposits in dollars with the Central Bank for $10 and $6, respectively.

On June 9, 2014, circulars 9/2014 and 10/2014 issued by the Central Bank, were published in the Official Gazette. These set forth that the monetary regulation deposit may comprise cash or securities, or both, in the proportions determined by the Central Bank, and securities in which such deposit may be invested shall be limited to the Monetary Regulation Bonds of Limited Negotiability (BREMS-L, see note 8). Based on this regulation, the Bank modified the composition of its monetary regulation deposit and now is composed by a cash portion and a securities portion. In addition, based on circular 11/2014 issued by the Central Bank, the amount required as monetary regulation deposit shall be $3,085.

At December 31, 2013, 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, 2014 and 2013 cash portions of the monetary regulation deposit are analyzed as follows:

	2014 Rate	2014 Mount	2013 Rate	2013 Mount
Cash	3.00%	$ 21,221	3.60%	$ 32,405

At December 31, 2013, the Bank has call money loans with 3-day maturities, in the following page.

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	2014			2013		
Counterparty	**Term (days)**	**Rate**	**Mount**	**Term (days)**	**Rate**	**Mount**
Nacional Financiera, S. N. C.	2	3%	$ 160	2	3.50%	$ 1,600
Banco Mercantil del Norte, S. A.	-	-	-	2	3.45%	650
Banco Nacional de México, S. A.	-	-	-	2	3.40%	738
			$ 160			$ 2,988

At December 31, 2014 and 2013 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

		2014		2013	
Currency		**Purchased**	**Sold**	**Purchased**	**Sold**
Dollar	$	7,247	(8,849)	30,061	(29,544)
Sterling		-	-	-	(49)
Euro		79	(39)	117	(3)
Brazilian real		2,203	(2,203)	10,368	(10,452)
Other currencies		26	(11)	183	(78)
	$	9,555	(11,102)	40,729	(40,126)

(7) Margin accounts -

On December 31, 2014, the margin accounts relate to deposits at the MexDer, Mercado Mexicano de Derivados, S. A. de C. V. amounting to $7.

(Millions of pesos)

(8) Investment securities-

At December 31, 2014 and 2013 the Bank's investments in securities are analysed as follows:

		2014		2013	
Trading *:					
Government securities	$	45,181		45,730	
Banking promissory notes		868		2,019	
Bonds		1,642		1,301	
Equities		2,305	49,996	2,071	51,121
Available-for-sale *:					
Government securities		128,323		92,117	
Bank securities		518		508	
Corporate securities		3,686	132,527	3,456	96,081
Held-to-maturity *:					
Special CETES of the UDIS Trusts:					
Mortgages		-		4,323	
BREMS L**		14,302		-	
States and municipalities		5,103		627	
Corporate securities		1,225	20,630	1,303	6,253
Total investment securities		$	203,153		153,455
			======		======

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

** Based on the regulation issued by the Central Bank (see note 6), the Bank modified the composition of the monetary regulation deposit and included a securities portion represented by Monetary Regulation Bonds (BREMS L).

During 2014 and 2013, the bank did not make any transfer of securities between categories.

(Continued)

(Millions of pesos)

Collaterals

At December 31, 2014 and 2013 securities pledged and received as collateral, including collateral sold or pledged as a guarantee were as follows:

		2014	2013
Pledged (Restricted securities) (note 9):			
Trading securities	$	33,319	28,292
Securities available for sale		35,420	16,922
Securities held-to-maturity		14,302	-
	$	83,041	45,214
		=====	======
Received (in memorandum accounts) (notes 9 and 10):			
In respect of repo transactions	$	-	8,008
In respect of securities loan:			
Fixed income		21,979	9,283
	$	21,979	17,291
		=====	======
Collateral sold or pledged as guarantee:			
In respect of repo transactions *(note 9)*	$	-	7,507
In respect of securities loan:		11	-
Fixed income		21,886	9,076
	$	21,897	16,583
		=====	======

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

At December 31, 2014 and 2013, the Bank had the right to pledge as a guarantee, the collateral received in sale and repurchase transactions or the right to sell or pledge the collateral received in stock borrowing transactions.

(Continued)

(Millions of pesos)

At December 31, 2014 and 2013 the Bank maintains, investments (other than government securities), from the same issuer exceeding 5% of the Bank's net capital (as of December 31, 2014 and September 30, 2014 of $2,542 and $2,649, respectively), for a total value of $6,724 and $15,153, respectively, as follows:

Issuer	Symbol	Series	Amount	Rate
2014				
Brazilian government	LTN6Y1	150701	$ 2,652	12.38%
Brazilian government	LTN731	151001	4,072	12.40%
			$ 6,724	
			====	
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	
			=====	

Classification of investment securities-

At December 31, 2014 and 2013, the classification of investment securities in accordance to their nominal term of the securities portfolio in short and long term, is as follows:

		2014		2013	
Securities		**Short term**	**Long term**	**Short term**	**Long term**
Trading	$	22,955	27,041	32,731	18,390
Available-for-sale		227	132,300	11,248	84,833
Held-to-maturity		137	20,493	-	6,253
		23,319	179,834	43,979	109,476
		$ 203,153		153,455	
		======		======	

The weighted averages of maturity terms in years (unaudited), of investments in securities classified by categories at December 31, 2014 and 2013 is shown below:

Securities	**2014**	**2013**
Trading	3.05	1.57
Available-for-sale	2.54	2.79
Held-to-maturity	6.65	7.58

(Continued)

(Millions of pesos)

The weighted average rates (unaudited) and interest income from securities at December 31, 2014 and 2013 (refer to note 28), is shown below:

Securities		2014 Interest	2014 Rate		2013 Interest	2013 Rate
Trading	$	1,879	2.29%	$	1,162	3.03%
Available-for-sale		5,415	4.15%		4,467	4.97%
Held-to-maturity		473	3.49%		295	4.75%
	$	7,767		$	5,924	

During the years ended December 31, 2014 and 2013, the net losses and gains in respect of available for sale securities were $164 and $43, respectively, which are recognized in the "Financial intermediation income" caption in the consolidated statement of income.

During the years ended December 31, 2014 and 2013, the Bank did not record any losses caused by impairment in available for sale or held to maturity securities.

The gain derived from the valuation of available for sale securities recognised in the stockholders' equity at December 31, 2014 and 2013 were $877 and $23, respectively, and the Bank reclassified to the statement of income $513 and $883, 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 $364 ($199, net of deferred tax) and $874 ($612, net of deferred income tax and ESPS), respectively.

(9) Securities under repurchase/resell agreements -

The debtor and creditor balances in respect of sale and purchase of repo transactions at December 31, 2014 and 2013, are analyzed as follows:

		Purchaser 2014	Purchaser 2013	Seller 2014	Seller 2013
Repo operations	$	-	8,001	60,247	34,765
Collaterals sold or pledged		-	(7,501)	-	-
	$	-	500	60,247	34,765

(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, 2014 and 2013:

	2014				2013			
	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	$ 4,834	-	110	-	$ 12,682	6,570	66	2
CETES	3,881	-	78	-	4	-	7	-
UMS	-	-	-	-	2,717	-	2,221	-
BPAG91	-	-	-	-	-	1,436	-	2
BONOS M	37,540	-	5	-	18,308	-	277	-
BPA 182	-	-	-	-	-	2	-	66
BREMS	14,302	-	38	-	-	-	-	-
Bank notes								
IBANOBRA	-	-	-	-	2,011	-	2	-
	$ 60,557	-			$ 35,722	8,008		
	=====	=====			=====	====		

During the year ended December 31, 2014, interest income and expense from repo agreements, recognised in the consolidated income statement amounted to $41 and $2,152 respectively ($565 and $1,889, respectively in 2013) (note 28).

(10) Collaterals sold or pledged as a guarantee-

At December 31, 2014 and 2013, the collateral received in stock borrowing transactions and sold or pledged as a guarantee is shown as follows:

	2014			2013		
	Securities	Amount	Average term	Securities	Amount	Average term
Cetes	399,858,134	$ 3,947	58	401,961,572	$ 3,928	2
Bonds	160,374,887	17,421	38	47,185,452	4,957	2
Udibonos	876,921	529	7	343,464	191	14
		$ 21,897			$ 9,076	
		=====			====	

During the years ended December 31, 2014 and 2013, interest expense arising from securities lending transactions recognised in the consolidated statement of income, amounted to $37 and $22, respectively (note 28).

(11) Derivative transactions -

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

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

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

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

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

At December 31, 2014 and 2013, the Bank had derivative-related financial assets, which amounted to $80,041 and $49,769, respectively. Such assets had the credit quality shown on the following page.

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Risk level	**2014**	**2013**
Low	$ 67,471	42,145
Satisfactory	12,251	7,487
Significant	91	137
High	228	-
Total	$ 80,041	49,769

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 30.

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 2014 of $130 and an adverse impact for $27 in 2013.

Fair value hedges

In respect of fair value hedges, at December 31, 2014, hedging instrument losses and gains in respect of the hedged position were $156 and $177, respectively and ($456 and $416, respectively in 2013).

Cash flow hedges

At December 31, 2014, the periods in which cashflows in respect of cashflow positives and (negatives) hedges are expected to occur are as follows:

		2015	**2016**	**2017**	**2018**	**2019**	**2020**
Interest rate swaps	$	(533)	(634)	(419)	-	-	-
Currency swaps		27	47	65	1,190	706	(818)
	$	(506)	(587)	(354)	1,190	706	(818)

(Continued)

The total amount recognised in comprehensive income during 2014 in respect to fair value changes in effective cash flow hedges was a profit of $24 (profit of $134 in 2013).

The amount reclassified from comprehensive income to the income statement for the years ended on December 31, 2014 and 2013 in respect of the unamortized fair value of re-designated hedges and in respect of the sale of the hedged positions (bonds) was a loss of $5 and an income of $44, respectively, which was registered in “Financial intermediation income”.

During 2014 and 2013 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 an income of $33 and a loss of $50, respectively.

Compensation and net exposure to credit risk in derivatives

The Bank has the right to compensate derivative transactions at the time of settlement under the ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) which have jointly agreed with its customers. The effect that this right of reimbursement had over the credit risk exposure at December 31, 2014 and 2013 was $34,679 and $21,502, 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, 2014 and 2013, the Bank did not provide non cash collateral in respect of derivative liabilities. Equally the Bank did not receive any non cash collateral from derivative counterparties.

At December 31, 2014 and 2013, the credit risk (including collaterals) in respect of derivative financial instruments, amounted to $18,859 and $11,030, respectively.

During the year ended December 31, 2014 and 2013, the Bank’s counterparties had defaults originating from derivative transactions that amounted to $162 and $473, respecively. During the year ended At December 31, 2014 and 2013, the balance in sundry debtors resulting from defaults in this type of amounted to $1,675 and $1,513 respectively, of which $1,507 as of December 31 2014 were reserved ($1,425 in 2013).

At December 31, 2014 and 2013, the memorandum account “Amounts under derivative instruments”, and fair value valuation are analyzed as shown in the following page.

(Continued)

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December 31, 2014

		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	$	524,595	524,465	45,730	42,730	5,153	5,153	575,478	572,348	18,504	18,107	379	377	170	170	19,053	18,654	399
Options		10,390	10,389	23,742	24,369	-	-	34,132	34,758	298	298	148	89	-	-	446	387	59
Swaps		176,874	173,340	1,381,493	1,462,862	-	-	1,558,367	1,636,202	31,993	31,218	28,472	29,790	-	-	60,465	61,008	(543)
		711,859	708,194	1,450,965	1,529,961	5,153	5,153	2,167,977	2,243,308	50,795	49,623	28,999	30,256	170	170	79,964	80,049	(85)
Hedge																		
Swaps		-	2,630	15,000	18,845	-	-	15,000	21,475	-	605	77	625	-	-	77	1,230	(1,153)
	$	711,859	710,824	1,465,965	1,548,806	5,153	5,153	2,182,977	2,264,783	50,795	50,228	29,076	30,881	170	170	80,041	81,279	(1,238)

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

(Continued)

(Millions of pesos)

(12) Loan portfolio-

At December 31, 2014 and 2013 the loan portfolio and the credit commitments are analyzed as follows:

		2014	2013
Total loan portfolio, shown in the consolidated balance sheet	$	231,460	204,990
Recorded in memorandum accounts (note 27a):			
Lending commitments		33,874	25,561
	$	265,334	230,551
		======	======

(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, 2014 and 2013, 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.

Unsecured loans to IPAB:

On September 27, 2002, the Bank granted a $47,357 (nominal) loan to IPAB. The loan was documented by a promissory note that may only be endorsed to the Central Bank as a guarantee for the note amount. In addition, on May 12, 2005, the Bank granted to IPAB an unsecured loan for a total nominal amount of $5,000. Finally on May 31, 2007, the Bank and IPAB signed a new agreement to document the consolidated principal outstanding balance as of that date amounting to of $29,058. In accordance to the aforementioned agreement, the total balance was split into four tranches of $7,265 each, which mature between May and December 2013, payments in advance are permitted. Each tranche bears interest at an annual rate equal to the annual yield rates of 28-day CETES plus 56 basis points At December 31, 2013 the four loan tranches had been settled in accordance with the maturity dates set forth in the debt recognition agreement.

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).

(Millions of pesos)

		Commercial activity		Financial institutions		Government entities	
Portfolio		**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Current:							
Pesos	$	86,370	83,048	9,648	4,219	32,133	18,068
Foreign currency		28,204	25,159	230	120	408	65
UDIS		-	-	-	-	-	-
Total		114,574	108,207	9,878	4,339	32,541	18,133
Past due:							
Pesos		9,764	8,919	-	3	85	45
Foreign currency		253	698	-	-	-	-
UDIS		-	-	-	-	-	-
Total		10,017	9,617	-	3	85	45
Total:							
Pesos		96,134	91,967	9,648	4,222	32,218	18,113
Foreign currency		28,457	25,857	230	120	408	65
UDIS		-	-	-	-	-	-
Total	**$**	**124,591**	**117,824**	**9,878**	**4,342**	**32,626**	**18,178**
Classification by activity							
Manufacturing	$	67,909	63,109	-	-	-	-
Agriculture, forestry and fishing		9,955	10,596	-	-	-	-
Trade and tourism		18,906	21,249	-	-	-	-
Services		27,821	22,870	-	-	-	-
Financial services		-	-	4,638	2,074	-	-
Credit Unions		-	-	994	1,046	-	-
Municipalities		-	-	-	-	890	1,085
States		-	-	-	-	9,234	7,636
Credit to the Federal Govermment (support programs)		-	-	-	-	256	386
Other govenment entities (see note 12a)		-	-	-	-	22,246	9,071
Others to financial organizations		-	-	4,246	1,222	-	-
Automobile credit		-	-	-	-	-	-
Credit Card		-	-	-	-	-	-
Multicredit		-	-	-	-	-	-
Fixed payment		-	-	-	-	-	-
Construction and housing		-	-	-	-	-	-
	$	**124,591**	**117,824**	**9,878**	**4,342**	**32,626**	**18,178**
Past due loans by aging							
From 1 to 180 days	$	1,263	2,448	-	-	35	45
From 181 to 365 days		1,087	5,927	-	3	31	-
From 1 to 2 years		7,177	74	-	-	19	-
More than 2 years		490	1,168	-	-	-	-
	$	**10,017**	**9,617**	**-**	**3**	**85**	**45**

	Consumer		Residential mortgages		Total	
Portfolio	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Current:						
Pesos	36,371	37,675	25,003	23,415	189,525	166,425
Foreign currency	-	-	-	-	28,842	25,344
UDIS	-	-	850	1,065	850	1,065
Total	36,371	37,675	25,853	24,480	**219,217**	**192,834**
Past due:						
Pesos	1,568	1,788	444	574	11,861	11,329
Foreign currency	-	-	-	-	253	698
UDIS	-	-	129	129	129	129
Total	1,568	1,788	573	703	**12,243**	**12,156**
Total:						
Pesos	37,939	39,463	25,447	23,989	201,386	177,754
Foreign currency	-	-	-	-	29,095	26,042
UDIS	-	-	979	1,194	979	1,194
Total	**37,939**	**39,463**	**26,426**	**25,183**	**231,460**	**204,990**
Classification by activity						
Manufacturing	-	-	-	-	67,909	63,109
Agriculture, forestry and fishing	-	-	-	-	9,955	10,596
Trade and tourism	-	-	-	-	18,906	21,249
Services	-	-	-	-	27,821	22,870
Financial services	-	-	-	-	4,638	2,074
Credit Unions	-	-	-	-	994	1,046
Municipalities	-	-	-	-	890	1,085
States	-	-	-	-	9,234	7,636
Credit to the Federal Govermment (support programs)	-	-	-	-	256	386
Other govenment entities (see note 12a)	-	-	-	-	22,246	9,071
Others to financial organizations	-	-	-	-	4,246	1,222
Automobile credit	2,230	2,479	-	-	2,230	2,479
Credit Card	19,445	19,115	-	-	19,445	19,115
Multicredit	15,382	15,808	-	-	15,382	15,808
Fixed payment	882	2,061	-	-	882	2,061
Construction and housing	-	-	26,426	25,183	26,426	25,183
	37,939	**39,463**	**26,426**	**25,183**	**231,460**	**204,990**
Past due loans by aging						
From 1 to 180 days	1,555	1,778	398	518	3,252	4,789
From 181 to 365 days	13	10	71	106	1,201	6,046
From 1 to 2 years	-	-	28	51	7,224	125
More than 2 years	-	-	76	28	566	1,196
	1,568	**1,788**	**573**	**703**	**12,243**	**12,156**

NOTE: The amounts above are for cumulative amounts of principal (for 2014 $230,418 and 2013 $203,890) and interest (for 2014 $1,042 and 2013 $1,100) which are classified in the consolidated balance sheets of the Bank as assets under the caption of current and past due loans.

Loan portfolio rated		**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Portfolio rating risk													
A-1 and A-2		121,140	110,258	6,036	2,677	23,134	10,542	3,019	2,721	23,915	22,244	177,244	148,442
B-1, B-2 and B-3		23,758	18,801	3,456	1,665	6,333	4,191	31,138	32,226	2,175	2,526	66,860	59,409
C-1 and C-2		2,700	3,888	356	-	2,882	2,833	2,104	2,644	320	401	8,362	9,766
D-High		7,346	8,942	30	-	85	228	1,611	1,816	11	12	9,083	10,998
E-Irrecoverable		3,522	1,496	-	-	-	-	67	56	4	-	3,593	1,552
Total portfolio rated		158,466	143,385	9,878	4,342	32,434	17,794	37,939	39,463	26,425	25,183	265,142	230,167
Exempt portfolio		-	-	-	-	192	384	-	-	-	-	192	384
Total portfolio	$	**158,466**	**143,385**	**9,878**	**4,342**	**32,626**	**18,178**	**37,939**	**39,463**	**26,425**	**25,183**	**265,334**	**230,551**
Allowance and percentage													
A-1 and A-2	$	681	600	58	15	121	59	28	25	66	65	954	764
B-1, B-2 and B-3		510	423	87	79	149	125	2,140	2,327	135	154	3,021	3,108
C-1 and C-2		229	316	23	-	182	207	760	984	156	172	1,350	1,679
D-High		3,071	4,108	6	-	39	67	1,205	1,365	7	8	4,328	5,548
E-Irrecoverable		2,731	803	-	-	-	-	68	56	4	-	2,803	859
		7,222	6,250	174	94	491	458	4,201	4,757	368	399	12,456	11,958
Additional reserves		102	121	-	-	-	-	119	129	16	15	237	265
	$	**7,324**	**6,371**	**174**	**94**	**491**	**458**	**4,320**	**4,886**	**384**	**414**	**12,693**	**12,223**
General and specific allowances													
General	$	681	600	58	15	121	59	29	25	73	71	962	770
Specific		6,643	5,771	116	79	370	399	4,291	4,861	311	343	11,731	11,453
	$	7,324	6,371	174	94	491	458	4,320	4,886	384	414	12,693	12,223

(Continued)

(Millions of pesos)

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. These discounts were applied in each payment of the loans subject to the program. On July 15, 2010, the Bank signed an agreement with the Federal Government for an early termination of the support programs for housing loans. This early termination scheme (ETA, for its acronym in Spanish) consisted that the qualified loans received on or before December 31, 2010 the benefit of the discount on the unpaid balance of the loan. The discount absorbed by the Federal Government will be paid to the Bank in five equal installments, the first in December 2011 and the rest in the months of June of the years 2012-2015, to which they will add a financial cost, based on the 91 days treasury certificates rate. The payment of each installment is subject to the delivery of a series of reports to the Banking Commission. As of December 31, 2014 and 2013, 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:

		2014		2013	
		Portfolio	Cost	Portfolio	Cost
ETA/BADCV	$	192	3	386	3
		===	=	===	=

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

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

(Continued)

(Millions of pesos)

[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.

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

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

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, 2014 and the remaining installments will be payable on the first banking day of June, 2015. Accordingly, the balance receivable as of December 31, 2014 and 2013 by ETA amounts to $189 and $378, respectively, of principal, plus $3 and $8 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.

(Continued)

(Millions of pesos)

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 Bank must have to absorb 100% of the discount granted. The maximum amount of discount that the Bank would absorb for these credits at December 31, 2014 and 2013, amount to $14 and $7, respectively.

The numbers of securities related to BADCV that are held by the Bank at December 31, 2014 and 2013 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, Odile and hurricane Ingrid*:**

Due to the natural disasters caused by the hydro-meteorological events "Ingrid" and "Manuel" in year 2013 and "Odile" in September 2014 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 and P110/2014 dated September 19, 2014, 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 and September 2014. The authorized accounting criteria refer to not considering as past due or restructured portfolio in accordance paragraphs 58 to 63 of criteria 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.

(Continued)

(Millions of pesos)

The benefit offered by the Bank 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.

At December 31, 2014, 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 of $2 (not material in 2013).

Since the benefit applied by the Bank 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.

(c) Additional loan portfolio information -

Commission by type of loan:

For the years ended at December 31, 2014 and 2013, commissions by type of loan included in commissions and fees collected within the consolidated statements of income, are presented in as follows:

	Amount	
	2014	**2013**
Commercial	$ 308	293
Consumer	2,647	2,679
Mortgage	51	48
Total	$ 3,006	3,020

Below shows the increases in deferred credits account for the initial granting of credits for the years ended at December 31, 2014 and 2013.

	Amount Commissions	
	2014	**2013**
Commercial	$ 208	162
Consumer	82	93
Mortgage	23	69
Total	$ 313	324

During the years ended at December 31, 2014 and 2013, $246 and $210, 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 on the following page.

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	2014	2013
Commercial	39	31
Consumer	49	35
Credit cards	12	12
Mortgages	212	201
	===	===

The initial costs and expenses for the issuance of credits related to the years ended December 31, 2014 and 2013 amounts to $69 and $157, respectively. These amounts relate to payment of commissions and underwriting credits.

Annual weighted lending rates:

During 2014 and 2013, the annual weighted lending rates (unaudited information) were as shown in as follows:

	2014	2013
Commercial loans	7.93%	7.80%
Financial entities	5.47%	5.12%
Personal loans	20.20%	26.85%
Mortgages loans	9.59%	9.91%
Government entities	5.21%	5.96%

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, 2014 and 2013, the amount of loans granted under these programmes amounted to $12,886 and $10,062, respectively, and the related liability is included in “Due to banks and other institutions” (note 20).

(Continued)

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Restructured and renewed loans:

At December 31, 2014 and 2013, restructured and renewed loans are analyzed as follows:

	2014			
	Renewed and restructured portfolio			Modified
	Past due restructured (1)	Transfer to past due (2)	Stayed current (3)	Not considered as restructured (4)
Commercial loans	$ 1,706	341	8,298	906
Government entities	-	1,343	-	-
Consumer loans	34	-	87	-
Credit card	129	-	235	-
Mortgage loans	62	-	665	-
	$ 1,931	1,684	9,285	906

	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	1,949	4,376	6,181

(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 59 to 63 of Criteria B-6 "loan portfolio" of Annex 33 of the Provisions.
(4) Modified loans that were not considered as restructured according to paragraph 64 of Criteria B-6 "loan portfolio" of Annex 33 of the Provisions.

For the years ended December 31, 2014 and 2013, 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, 2014 and 2013, NAFIN supported $3,689 and $3,874, respectively.

(Continued)

(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, 2014 and 2013, debts cancelled totaled $5 and $27, respectively. Sometimes, in the restructuring process additional guarantees such as mortgage guarantees are obtained. At December 31, 2014, the value of such additional guarantees aggregates $397 ($137 in 2013).

Past due loan portfolio

Nominal interest that would have accrued in 2014 from the past due loan portfolio amounted to $276 ($221 in 2013).

An analysis of the annual movement of past due loans for the years ended December 31, 2014 and 2013, is shown as follows:

		2014	**2013**
Balance at beginning of year	$	12,156	4,013
Transfers from current to past due loan portfolio		23,812	23,922
Transfers to current loan portfolio by restructures and renewals		(238)	(335)
Credits collected:			
Cash collections		(8,622)	(4,287)
Collection in kind		(2)	(15)
Write offs		(7,474)	(5,356)
Transfer to current loan portfolio		(7,495)	(5,800)
Foreign exchange		106	14
Balance at end of year	$	12,243	12,156

During 2014 and 2013, there were no write-offs of loans granted to related parties.

As of December 31, 2014, there were no loans in the current portfolio to continue receiving any payments in accordance with section VIII of article 43 of the Commercial Insolvency and Bankruptcy Law ("CIBL"), or loans that were granted in accordance with article 75, relating to sections II and III of article 224 of the Commercial Insolvency and Bankruptcy Law.

For the year ended December 31, 2014, the amount of recoveries of loans that were previously written-off amounted $780 ($760 in 2013).

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Impaired loans:

At December 31, 2014 and 2013, the balance of impaired commercial loans is $10,983 and $10,665 respectively, from which $1,544 and $1,096 are recorded as current loans and $9,439 and $9,569 as past due loans, respectively.

Risk concentration:

As of December 31, 2014 and 2013, the Bank maintains three loans that exceeded the 10% limit of its basic capital at December 31, 2014 and September 30, 2013 of $4,159 and $4.313, respectively. These loans represent the three main debtors of the Bank amounting to $23,692 ($12,067 in 2013) that represents the 56.96% (27.98% in 2013) of the basic capital.

Securitisation of mortgage portfolio:

Outstanding securitisation transactions as of December 31, 2014 and 2013, relate to transactions undertaken in 2008 and 2007, by means of transferring of all of the Bank's risks and rewards of such mortgage portfolio without reserves or limitations in favour of three Trusts (used as a securitization vehicle). The Trusts issued certificates that were acquired by the public and a subordinated trust acknowledgment, which gives the Bank the right to receive any remaining funds of the Trust. The Trust note is recorded on the available-for-sale investment portfolio on the consolidated balance sheet.

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

						Stockmarket certificates interest rate			
Invex	**Date of issuance**	**Nominal portfolio sold**	**Cash received**	**Acknowledgment**	**Maturity date**	**Series "A"**	**Series "B"**	**Series "A1"**	**Series "B1"**
I	22-mar-07	$ 2,525	2,474	25	1 to 30 years	8.24%	9.58%	-	-
II	2-oct-07	3,538	3,457	36	2025	8.80%	10.11%	-	-
III	4-sep-08	1,663	1,483	163	2028	-	-	9.99%	10.16%
		====	====	===		=====	=====	=====	=====

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

As of December 31, 2014 and 2013, the book value of the subordinated trust acknowledgments is recognized in "Benefits receivable on securitization transactions" and is analyzed on the following page.

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		2014	2013
Original amount of the certificates	$	224	224
Recoveries of the values of trust acknowledgments		(41)	(2)
Valuation		(36)	(40)
Trust certificates	$	147	182
		===	===

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

(d) Allowance for loan losses -

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

At December 31, 2014 and 2013 the allowance for loan losses, analyzed in section (a) of this note is shown below:

		2014	2013
Rated loan estimate	$	12,456	11,958
Additional reserves, including past due interest		237	265
Total allowance for loan losses	$	12,693	12,223
		=====	=====

(Millions of pesos)

The classification by risk grade of the commercial portfolio, financial entities and government entities credit reserves at December 31, 2014 and 2013, is as follows:

		2014	2013
A-1	$	511	447
A-2		393	227
B-1		262	211
B-2		234	132
B-3		250	284
C-1		367	423
C-2		67	100
D		3,155	4,283
E		2,750	816
	$	7,989	6,923
		====	====

The following is an analysis of the movements of the allowance for the years ended December, 31, 2014 and 2013:

		2014	2013
Balance at beginning of year	$	12,223	9,381
Increase charged to income		7,903	8,083
Exchange rate valuation effects		99	3
Effect on stockholders equity by the change in the methodology for financial entities in 2014 (note 4) and for commercial portfolio in 2013 (note 3 (l))		30	799
Reverse of excess in allowance for loan losses (note 28c)		(32)	(6)
Applications:*			
Write-offs		(6,854)	(5,765)
Debt forgiveness		(676)	(272)
Balance at end of year	$	12,693	12,223
		=====	=====

*Include $56 of claim reductions from current portfolio.

(e) Sale of written-off portfolio -

During 2014 and 2013 the Bank did not sale previously written off portfolio.

The Bank's credit policies are disclosed in note 31.

(f) Credit portfolio transfer-

During 2014, the Bank transferred past due loan portfolio aggregating $245 and recognized a related loss of $215 within the caption of "Other net operating income" (see note 28c).

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Millions of pesos)

(13) Other accounts receivable -

At December 31, 2014 and 2013, other accounts receivable are analyzed as follows:

		2014	2013
Debtors on settlement transactions	$	14,275	28,808
Due from employees		2,897	3,103
Granted collaterals in cash		15,342	6,167
Other debtors		3,457	3,685
Preventive estimations		(1,559)	(1,470)
	$	34,412	40,293
		=====	=====

The balance of settlement accounts recorded under other accounts payable at December 31, 2014 and 2013 was $8,953 and $37,519, respectively, and recognized in the accounting item of “Settlement transactions”.

(14) Foreclosed assets -

As of December 31, 2014 and 2013, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2014		2013	
		Amount	Reserve	Amount	Reserve
Property:					
Land	$	11	(8)	10	(6)
Buildings		128	(58)	216	(61)
		139	(66)	226	(67)
		$ 73		$ 159	
		==		===	

The charge to the income is related to the valuation reserve of foreclosed assets in 2014 which amounted to $25 ($27 in 2013).

The total foreclosed property includes constructions recorded as restricted assets due to the sale executed via reservation of title agreement, which amounts to $7, with a reserve for $3 generated at December 31, 2014 ($9 and $5, respectively in 2013).

During the years ended December 31, 2014 and 2013, the Bank sold foreclosed assets with a book value of $86 and $69, respectively.

(Continued)

(Millions of pesos)

(15) Property, furniture and equipment-

Property, furniture and equipment at December 31, 2014 and 2013 are shown as follows:

	2014	2013	Annual depreciation and amortization rate	Useful life in years
Property	$ 2,215	2,214	2% a 5%	20-50
Office furniture and equipment	1,458	1,474	10%	10
Computer equipment	4,055	4,006	Various	3 a 7
Transportation equipment	57	6	25%	4
Installation expenses	5,003	5,031	5% y 10%	10 a 20
Other equipment	2,706	2,475	Various	
	15,494	15,206		
Accumulated depreciation and amortization	(9,773)	(8,768)		
Accumulated impartment	(64)	-		
	5,657	6,438		
Land	489	489		
	$ 6,146	6,927		
	=====	====		

For the year ended December 31, 2014, an impairment loss of $64 was recognized. This amount was recorded in the consolidated statements of income under the caption of “Administrative and promotion expenses”.

Depreciation and amortization charged to the consolidated statement of income in 2014 and 2013 amounted to $1,280 and $1,274, respectively.

As a result of the conduction of a physical inventory of Bank owned assets during 2014 and 2013, a negative adjustment was recorded in the year ended on December 31, 2014 in their net book value of $42 ($86 in 2013), which was recognized in the year’s income under “Other operating income, net”.

During the years ended at December 31, 2014 and 2013 several properties were sold with a book value of $7 and $5, respectively, generating a profit of $20 and $1, respectively, which were recorded as “Other operating income, net” (refer to note 28c).

(Millions of pesos)

(16) Equity investments-

Investments in associates and other permanent investments

At December 31, 2014 and 2013, permanent investments in shares classified by activity, are analyzed as follows:

		2014	2013
Associated and affiliated companies:			
Supplementary banking services	$	126	122
Mutual funds		9	9
Security and protection		6	5
		141	136
Other equity investments		12	12
	$	153	148

The recognition of the equity in the results of associated and affiliated companies represented a profit of $47 in 2014 ($43 in 2013).

During the years ended December 31, 2014 and 2013, the Bank received dividends from its associated companies for of $37 and $34, respectively.

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

At December 31, 2014 and 2013 other assets deferred charges and intangibles assets include:

		2014	2013
Recoverable taxes	$	396	727
Pre-paid labour obligations (note 21)		909	1,078
Pre-paid services and commissions		601	801
Software, net		1,135	1,025
Other intangibles assets, net		1	6
	$	3,042	3,637

(Millions of pesos)

The movement for the years ended at December 31, 2014 and 2013 of other assets, deferred charges and intangible assets are analyzed as follows:

		2014	2013
Balance at beginning of year	$	3,637	3,076
Movements for the year from:			
Taxes		(332)	685
Software (*)		376	438
Software impairment		-	(47)
Software amortization for the year		(266)	(128)
Prepaid expenses		(177)	(466)
Others		(196)	79
	$	3,042	3,637
		====	====

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

At December 31, 2013 impairment losses of $47 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.

(18) Deposits funding-

The weighted average deposit rates (unaudited) for the years ended December 31, 2014 and 2013 are analyzed as follows:

	2014			2013		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	0.70	0.05	-	0.92	0.05	-
Time deposits	2.82	0.11	0.12	3.41	0.19	0.16
	====	===	====	===	====	===

During the month of December 2014, the Bank issued six Certificates of Deposit (CEDES) in the total nominal amount of $22,450, which will bear monthly interest in accordance with the TIIE rate. The main characteristics of CEDES are in the following page.

(Millions of pesos)

Series		Issuance	Coupon Rate (1)	Maturity date
14001	$	4,600	TIIE + 5 bps	June 2015
14002		7,000	TIIE – 3 bps	March 2015
14003		5,200	TIIE	March 2015
14004		950	TIIE + 5 bps	June 2015
14005		700	TIIE + 5 bps	June 2015
14006		4,000	TIIE	March 2015
		22,450		
Accrued interest		24		
	$	22,474		
		=====		

*(1) bps: basis points

(19) Bank bonds-

At December 31, 2014 and 2013, the Bank has made the following issuances under the bank bonds program:

Issuance day	Reference Rate	Maturity day		2014	2013
May 10, 2006 [(2)]	9.08%	April27, 2016	$	1,000	1,000
December 9, 2013 [(1)]	TIIE + 0.3 pp	December 3, 2018		2,300	2,300
December 9, 2013 [(2)]	8.08%	November 27, 2023		2,700	2,700
November 26, 2014 [(3)]	N/A	January 2, 2015		50	-
December 10, 2014 [(3)]	N/A	January 16, 2015		73	-
December 17, 2014 [(3)]	N/A	January 23, 2015		74	-
				6,197	6,000
Accrued interest				36	36
Total of Bank bonds			$	6,233	6,036
				====	====

(1) Interest payments on a monthly basis
(2) Interest payments on a semi-annual basis
(3) Bank bonds structured with yields referred to the exchange rate
pp – percentage points

(Continued)

(Millions pesos)

(20) Due to banks and other institutions-

At December 31, 2014 and 2013, due to banks and other institutions are analyzed as follows:

		2014		2013	
		Term		Term	
		Short	Long	Short	Long
Pesos:					
Central bank	$	1,232	-	-	-
Multiple bank (on demand)		13,765	-	2,900	-
Development bank[1]		4,892	-	3,309	-
Promotion funds[1]		3,906	1,579	4,187	1,703
		23,795	1,579	10,396	1,703
Foreign currencies translated into pesos:					
Commercial bank[2]		12,975	-	7,548	-
Development bank[1]		1,567	-	15	7
Promotion funds[1]		1,516	589	407	434
		16,058	589	7,970	441
Total by term		39,853	2,168	18,366	2,144
Total due to Banks and other institutions	$	42,021		20,510	
		=====		=====	

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

At December 31, 2014 and 2013, the annual average rates (unaudited) are analyzed as follows:

	Pesos		Foreing currency	
	2014	2013	2014	2013
Development bank	4.62%	5.46%	3.52%	3.11%
Promotion funds	3.67%	3.83%	1.24%	1.21%
	=====	=====	====	=====

(21) Employee benefits-

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

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

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

Moreover, the Bank 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 who were hired before the implementation of the defined contribution component and those workers who expressed their intention to continue under the defined contribution component participate in the defined pension plan and in the postretirement benefits. The remaining employees elected to move to the defined contribution pension plan and the defined contribution postretirement medical benefits plan.

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

The amounts for short-term benefits payable at December 31, 2014 amounted to $1,367 ($1,362 in 2013), 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**	
		2014	**2013**	**2014**	**2013**
Termination	$	19	26	32	26
Retirement		120	315	181	167
Other post retirement benefits		83	236	230	217
	$	222	577	443	410

(Continued)

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The cost, obligations and other pension plans, seniority premiums and fees at the end of the employment relationship other than restructuring, referred to in note 3(u) were determined based on estimates prepared by independent actuaries at December 31, 2014 and 2013. The components of net cost of the years ended December 31, 2014 and 2013 are shown as follows:

		Benefits					
		2014			2013		
		Termination	Retirement	Total	Termination	Retirement	Total
Net periodic (income) cost:							
Service cost	$	70	17	87	69	63	132
Financial cost		33	176	209	28	152	180
Return on plan assets		(2)	(92)	(94)	(2)	(90)	(92)
Net actuarial gain or loss		(49)	58	9	(83)	59	(24)
Labour cost of past services:							
Amortization of prior services and plan amendments		-	15	15	-	15	15
Effect from early settlement prior to early extinction		3	24	27	-	(16)	(16)
Net period cost	$	55	198	253	12	183	195

		Other Post-retirement benefits	
		2014	2013
Net periodic cost:			
Service cost	$	39	51
Financial cost		216	202
Return of plan assets		(172)	(177)
Net actuarial gain or loss		92	108
Effect from early settlement prior to early extinction		-	(3)
Net period cost	$	175	181

(Continued)

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(Millions of pesos)

Below is the determination of liabilities for benefit plans at December 31, 2014 and 2013.

2014

	Retirement benefits		Other	
	Seniority Premium	Pension Plan	Post-retirement Benefits	Total
Defined benefit obligation:				
Defined benefit obligation at beginning of the year	$ 47	2,501	3,082	5,630
Service cost	4	14	39	57
Interest cost	3	173	216	392
Actuarial gain or loss	3	114	279	396
Paid benefits	(4)	(177)	(230)	(411)
Reduction/liquidation effect	(1)	(70)	(34)	(105)
Defined benefit obligation at end of the year	$ 52	2,555	3,352	5,959
	==	====	====	====

2013

	Retirement benefits		Other	
	Seniority Premium	Pension Plan	Post-retirement 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
	==	====	====	====

(Continued)

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(Millions of pesos)

Below is the determination of plan benefits assets at December 31, 2014 and 2013:

	Retirement benefit		Other Post-retirement benefits	
	Seniority premium	Pension Plan		Total
2014				
Plan assets:				
Plan assets at the beginning of the year	$ (44)	(1,345)	(2,486)	(3,875)
Expected performance	(3)	(89)	(172)	(264)
Actuarial gain or loss	(1)	(27)	(53)	(81)
Bank contributions	(3)	(117)	(83)	(203)
Paid benefits	4	177	230	411
Anticipated liquidations	-	58	18	76
Plan assets	$ (47)	(1,343)	(2,546)	(3,936)
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	$ (44)	(1,345)	(2,486)	(3,875)

The Bank estimates that during 2015 they will make contributions to defined benefit plans amounting to $230 (includes termination seniority premium).

Below are the categories of plan assets at December 31, 2014 and 2013:

	Retirement benefit		Other Post-retimerent benefits
2014	Seniority premium	Pension plan	
Fair value of the plan assets:			
Local equity instruments	25%	22%	22%
Global equity instruments	13%	11%	11%
Debt instruments (nominal rate)	28%	38%	36%
Debt intrument (real rate)	30%	26%	27%
Short term debt instruments	4%	3%	4%
Total	100%	100%	100%

(Continued)

(Millions of pesos)

2013	**Retirement benefit** Seniority premium	Pension plan	**Other Post-retimerent benefits**
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 intrument (real rate)	33%	31%	35%
Short term debt instruments	7%	7%	1%
Total	100%	100%	100%

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

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

	Asset distribution(1)	**Expected return (2)**	**Total (1) x (2)**
Local equity instruments	20.0%	10.70%	2.14%
Global equity instruments	10.0%	8.70%	0.87%
Debt instruments (nominal rate)	70.0%	5.66%	3.96%
Total	100.0%		6.97%

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				
	2014	**2012**	**2011**	**2010**	**2010**
Defined benefit liabilities	$ 52	47	52	39	37
Plan assets	(47)	(44)	(38)	(32)	(24)
Plan situation	5	3	14	7	13
Actuarial gain (loss):					
Plan liabilities	3	(9)	16	2	5
Plan assets	(1)	2	(2)	(3)	(1)

	Pension plan				
	2014	**2013**	**2012**	**2011**	**2010**
Defined benefit liabilities	$ 2,555	2,501	2,617	2,052	2,209
Plan assets	(1,343)	(1,345)	(1,209)	(1,041)	(1,044)
Plan situation	1,212	1,156	1,408	1,011	1,165
Actuarial gain (loss):					
Plan liabilities	114	(55)	662	40	218
Plan assets	(27)	67	(58)	40	(58)

(Continued)

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(Millions of pesos)

	Other post-retirement benefits				
	2014	**2013**	**2012**	**2011**	**2010**
Defined benefit liabilities	$ 3,352	3,082	3,533	2,654	2,433
Plan assets	(2,546)	(2,486)	(2,465)	(2,105)	(2,036)
Plan situation	806	596	1,068	549	397
Experience adjustments:					
Plan liabilities	279	(417)	844	311	469
Plan assets	(53)	(146)	(123)	37	(77)
	====	====	====	====	====

At December 31, 2014 and 2013 the present value of the liabilities for the benefits of the plans are as follows:

	Benefits				Other post-retirement benefits	
	Termination		Retirement			
	2014	**2013**	**2014**	**2013**	**2014**	**2012**
Obligations for bested benefits	$ 525	501	1,803	1,744	2,632	2,997
	===	===	====	====	====	====

	Benefits				Other post-retirement benefits	
	Termination		Retirement			
	2014	**2013**	**2014**	**2013**	**2014**	**2012**
Defined benefit liabilities amount	$ 546	520	2,607	2,548	3,352	3,082
Fair value plan assets	(22)	(33)	(1,390)	(1,389)	(2,546)	(2,486)
Funds financial situation	524	487	1,217	1,159	806	596
Unrecognized past services:						
Plan modifications	-	-	(167)	(187)	-	-
Actuarial (loss) gain	-	-	(1,190)	(1,191)	(1,586)	(1,468)
Projected Liabilities / (Assets)	$ 524	487	(140)	(219)	(780)	(872)
	===	===	====	===	====	=====

	Termination and retirement benefits		Other post-retirement benefits	
	2014	**2013**	**2014**	**2013**
Nominal discount rate used to show the present value of obligations	6.75%	7.25%	6.75%	7.25%
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	7.00%	7.25%	7.00%	7.25%
Medical inflation rate	-	-	6.75%	6.75%
Average remaining work life of employees (applicable to retirement benefits)	13.31	16.06	13.14	12.62

(Continued)

(Millions of pesos)

At December 31, 2014 and 2013, the amortization periods in years of the remaining items are shown as follows:

	Retirement benefits		Other
	Seniority Premium	Pension plan	post-retirement benefits
2014			
Plan modifications	-	12 years	-
Actuarial (loss) / gain	18 years	13 years	13 years
2013			
Plan modifications	-	13 years	-
Actuarial (loss) / gain	17 years	16 years	13 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	$ 31	(25)
Defined benefit obligations	372	(294)
	====	=====

For the years ended at December 31, 2014 and 2013, the Bank recognized expenses for defined contribution plans, which amount to $134 and $187, respectively.

(22) Share based payments-

At December 31, 2014 and 2013, the amount of outstanding share based payment awards amounted to $194 and $241, respectively, and were registered in the caption “Sundry creditors and other accounts payable”. The cost of these programmes for the years ended December 31, 2014 and 2013 of $55 and $132 respectively, was included within “Administrative and promotional expenses” in the consolidated income statement. Payments made during the years 2014 and 2013 were $102 and $200, respectively.

(23) Subordinated debt issued -

At December 31, 2014 and 2013, the Bank had issued subordinated debentures in pesos and foreign currency convertibles and non-convertibles, which are not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed on the following page.

(Continued)

(Millions of pesos, except otherwise indicated)

		2014	2013
Debentures issued:			
In 2008, maturing in 2018 (1)	$	4,090	4,090
In 2009, maturing in 2019 (2)		4,421	3,924
In 2013, maturing in 2022 (3)		1,621	1,439
Accrued interest		12	10
Total subordinated debentures	$	10,144	9,463

(1) During October and December 2008, the Bank made two public offerings of subordinated debt obligations, non convertible to HSBC shares for a total amount of $1,818 and $2,300, respectively. Of the second issuance, as of December 31, 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.

(2) As part of a programme of subordinated non convertible debt issuance (both preference and non preference securities), authorised by the Banking Commission, the Bank 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.

(3) 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 LCI and the Bank does not rectify such situation. Such issue 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.

At December 31, 2014 and 2013, 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.

(Millions of pesos)

(24) Income Tax (IT) 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 Single Rate Business tax (IETU for its acronym in Spanish language) Law, the Cash Deposits (IDE) Law and the IT Law in effect through December 31, 2013 and a new IT Law is issued.

a) Income tax

At December 31, 2014 and 2013, the IT expense shown in the consolidated statement of income is analyzed as follows:

		2014	2013
IT expense	$	852	1,862
Write-off of income tax in previous years		(377)	(196)
IT of subsidiaries		4	-
IETU of subsidiaries		-	11
Income tax in the consolidated statement of income	$	479	1,677
		===	====

Under the tax legislation in effect in 2013, companies paid the greater of their IT or IETU. If IETU was payable, the payment was considered final; i.e. not subject to recovery in subsequent years.

According to the IT Law in effect as of December 31, 2013, the IT rate for fiscal year 2013 was 30% and the IETU rate was 17.5%. The current IT law with effect on February 1, 2014 imposes an IT rate of 30% for 2014 and thereafter.

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.

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(Millions of pesos)

Deferred IT changes for the years ended December 31, 2014 and 2013, are analyzed as follows:

		2014	2013
Balance at beginning of year	$	7,624	6,138
Charged to results:			
IT benefit		733	1,073
Reported in capital:			
Valuation effects of available for sale and derivatives		(129)	255
Effect in capital for the change in the consumer loan methodology		9	240
Others		-	(82)
	$	8,237	7,624
		====	====

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2014 and 2013, are shown as follows:

		2014	2013
Deferred tax assets:			
Allowances:			
Allowance for loan losses	$	7,460	6,705
Allowance for foreclosed assets		266	277
Other provisions		556	1,093
Property, furniture and equipment		728	641
ESPS provision		90	121
Valuation of financial instruments		451	258
Commissions received in advance		231	354
Other		30	30
		9,812	9,479
Deferred tax liabilities:			
Interest from Special CETES UDIS Central Bank		(1,039)	(990)
Deferred Income Tax due to deferred (ESPS)		(115)	-
Valuation of financial instruments		(310)	(233)
Deductions in advance		(111)	(632)
		(1,575)	(1,855)
Net deferred tax asset	$	8,237	7,624
		====	====

(Continued)

(Millions of pesos)

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

	2014		2013	
	Amount	**%**	**Amount**	**%**
Income before income taxes	$ 601	100%	$ 2,751	100%
Expected tax expense	180	30%	825	30%
(Reduction) increase resulting from:				
Inflation effect	(392)	(65%)	(380)	(14%)
Non-deductible expenses	451	75%	331	12%
Tax income on derivatives	(171)	(28%)	-	-
Non-taxable interests	(292)	(49%)	(295)	(11%)
Subsidiaries´ IETU	-	-	11	-
Tax SPE	-	-	221	8%
Changed in rates	-	-	(307)	(11%)
Others	(30)	(5%)	198	8%
IT expense	$ (254)	(42%)	$ 604	22%

Deferred ESPS

From 2014, the base for computing Employee Statutory Profit Sharing (ESPS) shall be the taxable income for IT purposes in accordance with article 9 of the IT Law, which amounts to $287 for the year ended December 31, 2014. The current ESPS rate is 10%.

ESPS income and expense deferred in the statement of income and in the stockholders' equity amounted to $430 and $47, respectively.

The effects of ESPS for temporary differences resulting in significant portions of deferred ESPS assets and liabilities as of December 31, 2014, are in the following page.

(Continued)

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(Millions of pesos)

		2014
Deferred Asset:		
Allowance:		
For loan losses	$	251
For various provisions		28
Property, furniture and equipment		23
Valuation of financial instruments		64
Commissions received in advance		5
Deduction in advance		54
Others		3
Total deferred asset		428
Deferred liabilities:		
For write-offs of foreclosed assets		(4)
Interest from Special CETES UDIS Central Bank		(15)
Valuation of financial instruments		(26)
Total deferred liabilities		(45)
Net, Deferred Asset,	$	383

Until December 31, 2013, the Bank computed the ESPS considering a limit of one month of salary provided by section III of article 127 of the Federal Labor Law. This amounted to $398, and was recognized under the caption of “Administrative and promotion expenses” in the consolidated statement of income.

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, 2014 and 2013, the balances of the Capital Contributions and after-taxes earnings accounts amount to $39,778 and $38,149, respectively, on the other hand, with regards to the Previously Tax Retained Earnings (CUFIN) and since some changes were made to the tax legislation in effect during 2014, the Income Tax Law provides an additional withholding for the payment of dividends for income arising from 2014, applicable to Individuals and Nonresidents. It also provides that taxpayers will have CUFIN on income generated as of December 31, 2013 (updated balance of $20,258) and CUFIN on income generated from January 1, 2014 (balance of $927).

(Continued)

(25) Stockholders' equity-

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

(a) Structure of capital stock -

Movements in 2014

At Extraordinary General Stockholders' Meeting held on April 28, 2014, a resolution was passed to apply the net income for the year 2013 of $2,146 as follows: $215 to capital reserves and $1,931 to prior years' income (loss), which will be made available to the stockholders when the Board of Directors will so decide it.

At Extraordinary General Stockholders' Meeting held on March 21, 2014, a resolution was passed for the distribution of a dividend, which was paid on March 27, 2014 at the rate of $0.2969 pesos per share for each of the 1,940,009,665 outstanding shares, for a total payment of $576, which was charged to prior years' income (loss) and paid out from the previously taxed retained earnings.

At December 31, 2014 and 2013, capital stock is represented by 1,940,009,665 subscribed and paid up shares, of which 1,805,754,708 shares are represented by Series "F" shares and 134,254,957 Series "B" shares, with a par value of two pesos each.

Movements in 2013

On April 26, 2013, the General Ordinary Stockholders' Meeting agreed to apply the net income for the year 2012 of $3,997 as follows: $400 to capital reserves and $3,597 to retained earnings, which shall be made available to the stockholders when the Board of Directors shall so decide.

On March 21, 2013, the General Ordinary Stockholders' Meeting authorized the distribution of a dividend, which was paid on March 26, 2013 at the rate of $0.7216 pesos per share for each of the 1,940,009,665 outstanding shares, for a total payment of $1,400, which was charged to retained earnings and paid out of the previously taxed earnings account.

On January 24, 2013, the General Extraordinary Stockholders' Meeting agreed to increase the contributed capital in $5,150 by issuing 209'689,909 shares with a par value of two pesos each, corresponding 195,178,687 to Series "F" and 14,511,222 to Series "B", which were paid at a price of $24.5601 pesos per share; therefore, the difference with respect to the par value was recorded as additional paid-in capital. At this same Meeting it was approved to cancel 86,956,567 shares that had been deposited in the Bank's Treasury, which were neither subscribed nor paid up.

(Continued)

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the Bank's activities during the year and includes the net income, the gain or loss from mark to market of investments in "Available-for-sale" securities and for cash flow hedges, for the constitution of allowance for loan losses derived of a change in the calculation methodology (notes 4 and 3 (l)).

(c) Restrictions on stockholders' equity-

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

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

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

(d) Capitalization (*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, 2014 and 2013, is shown on the following page. The amounts for 2014 are in the process of validation by the Central Bank. The amounts for 2014 correspond to those Published by the Central Bank at the date of issuance of the consolidated financial statements.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

		2014	2013
Basic, supplementary and net capital			
Stockholders' equity	$	48,048	47,555
Reduced by:			
Intangible assets		(6,227)	(5,575)
Investments in shares of financial entities		(45)	(17)
Investments in shares of other companies		(79)	-
Investment in subordinated debt		(104)	(92)
Basic capital (Tier 1)		41,593	41,871
Add:			
Not convertible subordinated debt		6,384	7,182
Subordinated debt elegible for conversion		1,622	1,439
General allowance for loan losses		1,233	1,287
Supplementary capital (Tier 2)		9,239	9,908
Net capital (Tier 1+ Tier 2)	$	50,832	51,779
		=====	=====

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 $3,983 and $3,048 to December 31, 2014 and 2013, respectively.

Non-convertible subordinated debentures - According to the Provisions, the supplementary capital shall be computed based on the amount at December 31, 2012, which was $7,980, 80% ($6,384) and 90% ($7,182) for December 31, 2014 and 2013, respectively, plus 100% corresponding to the issuance of January 31, 2013, which meets with the requirements of exhibit 1-S.

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Exhibit 1-O - Disclosure of capitalization related information

Below we provide details of each of the captions comprising exhibit 1-O considering information corresponding to the Bank but not the consolidation effects with its subsidiaries, based on the calculation and presentation bases issued by the Banking Commission for filling the respective template:

Table I.1 Composition of net capital

Reference	Tier 1 capital (CET1): instruments and reserves	Amount
1	Common stock that qualifies as tier 1 capital plus the corresponding premium	$ 32,769
2	Retained eranings	2,829
3	Other comprehensive income items (and other reserves)	12,450
4	Capital subject to gradual elimination from tier 1 capital (applies only to companies not linked to stock)	Not applicable
5	Common stock issued by subsidiaries held by third parties (amount allowed in tier 1 capital)	Not applicable
6	**Tier 1 capital before regulatory adjustments**	**48,048**

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	Not applicable
8	Goodwill, net of deferred tax asset	
9	Other intangibles other than mortgage servicing rights (net of the corresponding deferred income tax liabilities)	1,067
10 (conservative)	Deferred income tax assets that are dependent on future income, excluding those arising from temporary differences (net of deferred income tax liabilities)	
11	Mark to market from cash flow hedges	
12	Pending reserves	
13	Benefits on remnant in securitization transactions	
14	Losses and gains due to changes in own credit rating on liabilities carried at fair value	Not applicable
15	Defined benefit pension plan	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

16 (conservative)	Permanent investment in shares	
17 (conservative)	Reciprocal investments in common equity	
18 (conservador)	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank does not own more than 10% of the issued share capital of the entity (amount in excess of the 10% threshold)	36
19 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank owns more than 10% of the issued share capital of the entity (amount in excess of the 10% threshold)	
20 (conservative)	Mortgage servicing rights (amount in excess of the 10% threshold)	
21	Deferred income tax assets arising from temporary differences amount in excess of the 10% threshold, net of deferred tax liabilities)	3,983
22	Amount in excess of the 15% threshold	Not applicable
23	of which: Significant investments where the Institution owns more than 10% of the common stock of financial institutions	Not applicable
24	of which: Mortgage servicing rights	Not applicable
25	of which: Deferred income tax assets arising from temporary differences	Not applicable

(Continued)

26	Local regulatory adjustments	1,369
A	of which: Other comprehensive income (other reserves)	
B	of which: Investment in subordinated debt	104
C	of which: Gain or increase in the value of assets due to acquisition of securitization positions (Originating Institutions)	
D	of which: Investments in multilateral organizations	
E	of which: Investment in related parties	79
F	of which: Investments in venture capital	
G	of which: Investment in investment funds	9
H	of which: Financing for the acquisition of own shares	
I	of which: Transactions that contravene the provisions	
J	of which: Deferred charges and prepayments	1,177
K	of which: Positions in First Loss Schemes	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

L	of which: Deferred employee statutory profit sharing	
M	of which: Relevant related persons	
N	of which: Defined benefits pension plan	
O	of which: Adjustments for recognition of capital	
27	Regulatory adjustments that apply to tier 1 capital due to the inadequacy of additional tier 1 capital and tier 2 capital to cover deductions	
28	**Total regulatory adjustments to tier 1 capital**	6,454
29	**Tier 1 capital (CET1)**	41,593
	Additional tier 1 capital: instruments	
30	Directly issued instruments that qualify as additional tier 1 capital, plus their premium	
31	of which: Classified as capital under the applicable accounting criteria	
32	of which: Classified as liabilities under the applicable accounting criteria	Not applicable
33	Capital instruments issued directly and subject to gradual elimination of additional tier 1 capital	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

34	Additional tier 1 capital instruments issued and Tier 1 capital instruments not included in line item 5 that were issued by subsidiaries, held by third parties (amount allowed in additional tier 1)	Not applicable
35	of which: Instruments issued by subsidiaries subject to gradual elimination	Not applicable
36	**Additional tier 1 capital before regulatory adjustments**	
	Additional tier 1 capital: regulatory adjustments	
37 (conservative)	Investments in own additional tier 1 capital	Not applicable
38 (conservative)	Reciprocal investments in additional tier 1 capital instruments	Not applicable
39 (conservative)	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank does not own more than 10% of the issued share capital of the entity (amount in excess of the 10% threshold)	Not applicable
40 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank owns more than 10% of the issued share capital of the entity	Not applicable
41	Local regulatory adjustments	

(Continued)

(Millions of pesos)

42	Regulatory adjustments that apply to tier 1 capital due to the inadequacy of additional tier 1 capital and tier 2 capital to cover deductions	Not applicable
43	**Total regulatory adjustments to tier 1 capital**	**-**
44	**Additional tier 1 Capital (AT1)**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**41,593**
	Tier 2 capital: instruments and reserves	
46	Instruments issued directly that qualify as tier 2 capital, plus their premium	1,622
47	Capital instruments issued directly and subject to gradual elimination from tier 2 capital	6,384
48	Tier 2 capital instruments, tier 1 capital instruments and additional tier 1 capital that have not been included in line items 5 or 34, which were issued by subsidiaries, held by third parties (amount allowed in supplementary tier 2 capital)	Not applicable
49	of which: Instruments issued by subsidiaries and subject to gradual elimination	Not applicable
50	Reserves	1,233

(Continued)

(Millions of pesos)

51	**Tier 2 capital: before regulatory adjustments**	9,239
	Tier 2 capital regulatory adjustments	
52 (conservative)	Investments in own additional tier 2 capital	Not applicable
53 (conservative)	Reciprocal investments in additional tier 2 capital instruments	Not applicable
54 (conservative)	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank does not own more than 10% of the issued share capital of the entity (amount in excess of the 10% threshold)	Not applicable
55 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, and where the Bank owns more than 10% of the issued share capital of the entity.	Not applicable
56	Local regulatory adjustments	
57	**Total regulatory adjustments to tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	9,239
59	**Total capital (TC = T1 + T2)**	50,832
60	**Total risk-weighted assets**	384,655

(Continued)

(Millions of pesos)

	Capital ratios and supplements	
61	Common equity tier 1 (as a percentage of total risk-weighted assets)	10.81%
62	Tier 1 capital (as a percentage of total risk-weighted assets)	10.81%
63	Total capital (as a percentage of total risk-weighted assets)	13.22%
64	Specific institutional supplement (should at least consist of the Common equity tier 1 requirement plus the capital conservation buffer, the counter-cyclical buffer and the G-SIB buffer; expressed as a percentage of total risk-weighted assets)	7%
65	of which: Capital conservation supplement	2.5%
66	of which: Specific banking counter-cyclical buffer	Not applicable
67	of which: Supplement of global systemically important banks (G-SIB)	Not applicable
68	Common equity tier 1 available for covering supplements (as a percentage of total risk-weighted assets)	3.81%

(Continued)

(Millions of pesos)

	Local minimums (if different from Basel III)	
69	Minimum national CET1 ratio (if different from minimum required by Basel 3)	Not applicable
70	Minimum national T1 ratio (if different from minimum required by Basel 3)	Not applicable
71	Minimum national TC ratio (if different from minimum required by Basel 3)	Not applicable
	Amounts under thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial institutions	Not applicable
73	Significant investments in the common capital of financial institutions	Not applicable
74	Mortgage servicing rights (net of deferred income tax liabilities)	Not applicable
75	Deferred income tax assets arising from temporary differences (net of deferred income tax liabilities)	4,558
	Limits applicable to the inclusion of reserves in tier 2 capital	
76	Reserves that are eligible for inclusion in tier 2 capital with respect to exposures subject to the standardized methodology (prior to applying the limit)	-
77	Limit for the inclusion of provisions in tier 2 capital under the standardized methodology	1,386

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Millions of pesos)

78	Reserves that are eligible for inclusion in tier 2 capital with respect to exposures subject to the internal ratings methodology (prior to applying the limit)	
79	Limit for the inclusion of provisions in tier 2 capital under the internal ratings methodology	
	Capital instruments subject to gradual elimination (applies only between January 1, 2018 and January 1, 2022)	
80	Current limit of CET1 instruments subject to gradual elimination	Not applicable
81	Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)	Not applicable
82	Current limit of AT1 instruments subject to gradual elimination	
83	Amount excluded from the AT1 due to the limit (excess over the limit after amortizations and maturities)	
84	Current limit of T2 instruments subject to gradual elimination	8,006
85	Amount excluded from the T2 due to the limit (excess over the limit after amortizations and maturities)	1,311

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Table II.1 Capital recognition adjustment

Description	Without capital recognition adjustment	% APSRT	Capital recognition adjustment	With capital recognition adjustment	% APSRT
Basic Capital 1	41,593	10.81	-	41,593	10.81
Basic Capital 2	-	-	-	-	-
Basic Capital	41,593	10.81	-	41,593	10.81
Supplementary Capital	9,239	2.40	-	9,239	2.40
Net Capital	50,832	13.22	-	50,832	13.22
Total risk-weighted assets (APSRT)	384,665	Not applicable	Not applicable	384,665	Not applicable
Capitalization index	**13.22%**	**Not applicable**	**Not applicable**	**13.22%**	**Not applicable**

Table III.1 Net capital ratio in balance sheet

Reference to the balance sheet caption	Balance sheet captions	Amount
	Assets	**594,923**

(Continued)

BG1	Cash and cash equivalents	40,689
BG2	Margin accounts	7
BG3	Investment securities	200,848
BG4	Debtors under agreements to resell	-
BG5	Securities lending	-
BG6	Derivatives	80,041
BG7	Valuation adjustments from hedging of financial assets	-
BG8	Loan portfolio, net	218,552
BG9	Benefits receivable on securitization transactions	147
BG10	Other accounts receivable, net	34,353

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

BG11	Foreclosed assets, net	64
BG12	Property, furniture and equipment, net	4,282
BG13	Permanent investments in shares	4,695
BG14	Long-term assets available for sale	-
BG15	Deferred taxes, net	8,540
BG16	Others assets	3,025
	Liabilities	**547,195**
BG17	Deposit funding	299,258
BG18	Due to banks and other institutions	42,021
BG19	Creditors under agreements to repurchase	60,247

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

BG20	Securities lending	-
BG21	Collateral sold or pledged as guarantee	21,896
BG22	Derivatives	81,279
BG23	Valuation adjustments from hedging of financial liabilities	-
BG24	Obligations in securitization transactions	-
BG25	Other accounts payable	31,642
BG26	Subordinated debt issued	10,144
BG27	Deferred taxes, net	-
BG28	Deferred credits	708

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	Stockholders' equity	**48,048**
BG29	Paid-in capital	32,769
BG30	Earned capital	15,279
	Memorandum accounts	**5,040,493**
BG31	Guarantees issued	-
BG32	Contingent assets and liabilities	-
BG33	Irrevocable lines of credit	33,874
BG34	Assets in trust or under mandate	458,167
BG35	Financial agent of federal government	-
BG36	Assets in custody or under management	488,786

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

BG37	Collaterals received by the entity	21,979
BG38	Collaterals received by the entity and sold or pledged in guarantee	21,896
BG39	Investment banking transactions on behalf of customers, net	46,233
BG40	Uncollected interest accrued in respect of overdue credit portfolio	276
BG41	Other memorandum accounts	3,969,282

Table III.2 Regulatory concepts considered in calculating the components of Net Capital

ID	Regulatory concepts considered in calculating the components of Net Capital	Disclosure form reference of the composition of capital of section I hereof	Amount in accordance with notes to the table "Regulatory concepts considered in calculating the components of Net Capital	Reference(s) of the balance sheet caption and amount related to the regulatory concepts considered in calculating Net Capital taken from the aforesaid reference
	Assets			
1	Goodwill	8	0.0	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

2	Other intangibles	9	1,067	BG16 3025
3	Deferred income tax (assets) arising from losses and tax credits	10	-	
4	Benefits on remnant in securitization transactions	13	-	
5	Investments of the defined benefits pension plan without unrestricted and unlimited access	15	-	
6	Investments in the institution’s own shares	16	-	
7	Reciprocal investments in ordinary capital	17	-	
8	Direct investments in the capital of financial entities where the institutions owns no more than 10% of the issued share capital	18	-	
9	Indirect investments in the capital of financial entities where the Institutions owns no more than 10% of the issued share capital	18	36	BG13 4695
10	Direct investments in the capital of financial entities where the institutions owns more than 10% of the issued share capital	19	-	
11	Indirect investments in the capital of financial entities where the Institutions owns more than 10% of the issued share capital	19	-	
12	Deferred income taxes (assets) arising from temporary differences	21	3,983	BG15 8655
13	Reserves recognized as supplementary capital	50	1,233	BG8 218552

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

14	Investments in subordinated debt	26 - B	104	BG8 218552
15	Investments in multilateral organizations	26 - D	-	
16	Investments in related parties	26 - E	79	BG13 4695
17	Investments in venture capital	26 - F	-	
18	Investments in investment funds	26 - G	9	BG13 4695
19	Financing for the acquisition of own shares	26 - H	-	
20	Deferred charges and prepayments	26 - J	1,177	BG16 3025
21	Employee statutory profit sharing, net	26 - L	-	
22	Investments in defined benefits pension plan	26 - N	-	
23	Investments in clearing houses	26 - P	-	
	Liabilities			
24	Deferred tax assets related to goodwill	8	-	
25	Deferred tax asset related to other intangibles	9	-	
26	Defined benefits pension plan liabilities without unrestricted and unlimited access	15	-	
27	Deferred tax asset related to defined benefits pension plan	15	-	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

28	Deferred tax asset related to others	21	3,983	BG15 8655
29	Subordinated debentures, amount that complies with Exhibit 1-R	31	-	
30	Subordinated debentures subject to transience that are computed as basic capital 2	33	-	
31	Subordinated debentures, amount that complies with Exhibit 1-S	46	1,621	BG26 10144
32	Subordinated debentures subject to transience that are computed as supplementary capital	47	6,384	BG26 10144
33	Deferred tax assets related to deferred charges and prepayments	26 - J	-	
	Stockholders' equity			
34	Contributed capital that complies with Exhibit 1-Q	1	32,769	BG29 32769
35	Retained earnings	2	2,829	BG30 15394
36	Mark-to-market from cash flow hedges	21	(25.6)	BG30 15394
37	Other elements of earned capital that are different from the foregoing	31	12,476	BG30 15394
38	Contributed capital that complies with Exhibit 1-R	31	-	
39	Contributed capital that complies with Exhibit 1-S	46	-	

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

40	Gain (loss) from valuation of cash flow hedge instruments for items not recorded at fair value	3, 11	-	
41	Cumulative translation effect	3, 26 - A	-	
42	Equity adjustment for non-monetary assets	3, 26 - A	-	
	Memorandum Accounts			
43	Positions in First Loss Schemes	26 - K	-	
	Regulatory concepts not considered in the balance sheet			
44	Reserves pending to be created	12	-	
45	Gain or increase in the value of assets due to acquisition of securitization positions (Originating Institutions)	26 - C	-	
46	Transactions that contravene the provisions	26 - I	-	
47	Transactions with relevant related persons	26 - M	-	
48	Capital recognition adjustment	26 - O, 41, 56	-	

(Continued)

(Millions of pesos)

Risk-based assets and capital requirements

	Equivalent Risk weighted assetss		Capital Requirement	
	2014	**2013**	**2014**	**2013**
Market risk:				
Transactions or positions:				
In pesos at nominal rates	$ 83,436	66,526	6,675	5,322
In pesos at interest rate over nominal rate	274	910	22	73
In pesos at interest rates or denominated in UDIS	1,382	1,222	111	98
In foreign currency at nominal rates	8,420	6,503	673	520
In UDIS or with yields linked to the Consumer Price Index	21	9	2	1
Foreign currency positions or with Exchange rate indexed yields	625	679	50	54
Share transactions or transaction based on shares	1	33	-	3
Total market risk to the following page	$ 94,159	75,882	7,533	6,071
Credit risk:				
Group II (weighted at 20%)	$ 277	6	22	-
Group II (weighted at 50%)	5,382	7,713	431	617
Group III (weighted at 10%)	10	36	1	3
Group III (weighted at 11.5%)	489	401	39	32
Group III (weighted at 20%)	4,813	3,960	385	317
Group III (weighted at 23%)	74	129	6	10
Group III (weighted at 100%)	268	464	21	37
Group IV (weighted at 20%)	5,665	3,239	453	259
Group V (weighted at 20%)	604	499	48	40
Group V (weighted at 50%)	1,716	1,680	137	134
Group V (weighted at 150%)	7,578	5,694	606	456
Group VI (weighted at 50%)	6,270	5,203	502	416
Group VI (weighted at 75%)	3,361	3,446	269	276
Group VI (weighted at 100%)	42,015	43,798	3,361	3,503
Group VII (weighted at 10%)	581	432	47	35
Group VII (weighted at 20%)	8,316	5,180	665	414
Group VII (weighted at 23%)	9,655	6,481	772	519
Group VII (weighted at 50%)	987	673	79	54
Credit risk to the following page	$ 98,061	89,034	7,844	7,122

(Continued)

(Millions of pesos)

	Equivalent risk weighted assets		Capital requirement	
	2014	**2013**	**2014**	**2013**
Credit risk from previous page	$ 98,061	89,034	7,844	7,122
Group VII (weighted at 100%)	117,234	106,939	9,379	8,556
Group VII (weighted at 115%)	500	267	40	21
Group VII (weighted at 150%)	-	646	-	52
Group VIII (weighted at 125%)	8,064	8,488	645	679
Group X (weighted at 1,250%)	158	998	13	80
Others assets (weighted at 100)	19,995	23,429	1,600	1,874
Securitizations (weighted at 20%)	49	151	4	12
Securitizations (weighted at 50%)	2	10	-	1
Securitizations (weighted at 1,250%)	351	370	28	30
Resecuritizations (weighted at 1,250%)	1,832	2,270	147	182
Total credit risk	246,246	232,602	19,700	18,609
Total Operational risk	44,250	41,097	3,540	3,287
Total market risk from previous page	94,159	75,882	7,533	6,071
Total market credit and operational risk	$ 384,655	349,581	30,773	27,967
	======	======	=====	=====

Capitalization ratios:

	2014	**2013**
Capital to credit risk assets:		
Basic capital (Tier 1)	16.89%	18.00%
Supplementary capital (Tier 2)	3.75%	4.26%
Net capital (Tier 1 + Tier 2)	20.65%	22.26%
	======	======
Capital to market, credit and Operational risks assets:		
Basic capital (Tier 1)	10.81%	11.98%
Supplementary capital (Tier 2)	2.40%	2.83%
Net capital (Tier 1 + Tier 2)	13.22%	14.81%
	======	======

(Continued)

Table V.1 Principal characteristics of securities making up the Net Capital

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
1	Issuer	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC
2	ISIN, CUSIP or Bloomberg identifier	INTENAL	HSBC 08	HSBC 08-2	HSBC 13-1D	HSBC 09-D
3	Legal Framework	L.I.C.; C.U.B., L.G.S.M.;	L.I.C.; LGTOC., L.M.V, CUB	L.I.C.; LGTOC; L.M.V: CUB	L.I.C.; LGTOC; L.M.V: CUB	L.I.C.; LGTOC; L.M.V: CUB
	Regulatory treatment					
4	Level of capital considering transitional arrangements	N.A.	Supplementary	Supplementary	Supplementary	Supplementary
5	Level of capital without considering transitional arrangements	Basic 1	Not Applicable	Not Applicable	Supplementary	Not Applicable
6	Level of instrument	Credit institution that does not consolidate subsidiaries	Credit institution that does not consolidate subsidiaries	Credit institution that does not consolidate subsidiaries	Credit institution that does not consolidate subsidiaries	Credit institution that does not consolidate subsidiaries
7	Type of instrument	Series "F" and "B" shares	Subordinated debenture	Subordinated debenture	Subordinated debenture	Subordinated debenture

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos, except otherwise indicated)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
8	Amount recognized in regulatory capital	Series "F" shares 1,805,754,708; Series "B" shares 134,254,957, which represents $3,880 of nominal capital at $2.00, plus share Premium and restatement for 28,888,503,834	1,454	1,818	1,622	3,112
9	Par value of instrument	32,768	1,818	2,273	1,622	4,422
9A	Currency of instrument	Mexican pesos	Mexican pesos	Mexican pesos	USD	USD
10	Accounting classification	Equity	Liability	Liability	Liability	Liability
11	Date of issue	31/12/2007; 31/08/2009; 31/10/2009; 31/12/2009; 31/12/2011; 29/01/2013	02/10/2008	22/12/2008	31/01/2013	30/06/2009
12	Term of instrument	Perpetuity	Maturity	Maturity	Maturity	Maturity
13	Maturity date	None	09/20/2018	12/10/2018	12/10/2022	06/28/2019
14	Prepayment clause	No	Yes	Yes	Yes	Yes
15	First prepayment date	N.A.	09/26/2013	12/16/2013	01/05/2018	06/28/2014
15A	Regulatory or fiscal events	No	No	No	Yes	No

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
15B	Settlement price in prepayment clause	Not applicable	Equal to Par Value plus interest accrued up to the early repayment date, provided that (i) the Issuer, through the Common Representative, notifies in writing his/her decision to exercise its right to early repay to the Debenture-holders, the Banking Commission, the Indeval and the BMV, through the means as shall the latter determine, with at least 10 (ten) Business Days in advance of the date on which the Issuer intends to early redeem the totality of the Subordinated Debentures; and (ii) the early repayment takes place in the payment form and place referred to in Clause Eleven of the Debenture Indenture.	Equal to Par Value plus interest accrued up to the early repayment date, provided that (i) the Issuer, through the Common Representative, notifies in writing his/her decision to exercise its right to early repay to the Debenture-holders, the Banking Commission, the Indeval and the BMV, through the means as shall the latter determine, with at least 10 (ten) Business Days in advance of the date on which the Issuer intends to early redeem the totality of the Subordinated Debentures; and (ii) the early repayment takes place in the payment form and place referred to in Clause Eleven of the Debenture Indenture.	Equal to Par Value plus interest accrued up to the early repayment date, subject to authorization by the Central Bank in terms of paragraph five, article 64 of the LIC, in any Interest Payment Date: (i) since the fifth year after the Date of Issue; or (ii) in cases where Subordinated Debentures are no longer computed as supplementary capital of the Issuer as a result of amendments to or reforms of laws, regulations and other applicable provisions, provided the Issuer, notifies in writing his/her decision to exercise its right to early repay to the Debenture-holders, with at least 10 (ten) Business Days in advance of the date on which the Issuer intends to early redeem the totality of the Subordinated Debentures; and (ii) the early repayment takes place in the payment form and place referred to in section 11 hereof.	Equal to Par Value plus interest accrued up to the early repayment date, provided that (i) the Issuer, through the Common Representative, notifies in writing his/her decision to exercise its right to early repay to the Debenture-holders, the Banking Commission, the Indeval and the BMV, through the means as shall the latter determine, with at least 10 (ten) Business Days in advance of the date on which the Issuer intends to early redeem the totality of the Subordinated Debentures; and (ii) the early repayment takes place in the payment form and place referred to in Clause Eleven of the Debenture Indenture.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
16	Subsequent prepayment dates	Not applicable	15/01/2015; Payment should be made on any of the dates noted for the payment of interest, to be informed 10 business days in advance of the authorized payment date.	12/01/2015; Payment should be made on any of the dates noted for the payment of interest, to be informed 10 business days in advance of the authorized payment date.	21/01/2015 payment date to be informed 10 business days in advance of the authorized payment date.	28/01/2015 payment date to be informed 10 business days in advance of the authorized payment date.
	Yield / dividends					
17	Type of yield/dividend	Variable	Variable	Variable	Variable	Variable
18	Interest/dividend rate	The last rate known was from March 2013: 0.7216 per share	TIIE 28 + 0.60 pp	TIIE 28 + 2.0 pp	1-month Libor + 3.65 pp	1-month Libor + 3.50 pp
19	Dividend cancellation clause	No	No	No	No	No
20	Discretion in payment	Mandatory	Mandatory	Mandatory	Partially discretionary	Mandatory
21	Interest increase clause	No	No	No	No	No
22	Yield/dividends	Non-accruable	Non-accruable	Non-accruable	Non-accruable	Non-accruable
23	Instrument convertibility	Not convertible	Not convertible	Not convertible	Convertibles	Not convertible

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
24	Convertibility conditions	Not applicable	Not applicable	Not applicable	Subordinated Debentures shall be of compulsory conversion into common stock representing the Issuer's capital stock, without this event being considered an event of default, and which shall take place when any of the following conditions is met: 1.When the result of dividing Common Equity Tier 1 by the Issuer's total risk-weighted assets is 4.5% or less. For purposes of the provisions of this section, the Issuer should proceed with the conversion on the Business Day following the publication of the capitalization index referred to by Article 221 of the Capitalization Provisions. 2. When the Banking Commission notifies the Issuer, in accordance with the provisions of Article 29 Bis of the LIC, that it has incurred in any of the grounds referred to by sections IV or V of Article 28 of the LIC and in the period of time provided for by said Article 29 Bis, the Issuer does not rectify the events or in dealing with the grounds for revocation referred to in section V the Issuer does not request to opt for the conditioned operations regime or does not refund the capital. For purposes of that provided for in this section, the Issuer should proceed with the conversion on the Business Day following that on which the deadline referred to in the aforementioned Article 29 Bis of the LIC has expired. In any event, the conversion into shares referred to in this section shall be final; therefore, no clauses may be included that foresee the restitution or grant any compensation to the debenture holders.	Not applicable

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
25	Degree of convertibility	Not applicable	Not applicable	Not applicable	The conversion shall be made at least for the lesser of: (i) the totality of the Securities; and (ii) the necessary amount in order that the result from dividing the Issuer's Common equity tier 1 the Issuer's total risk-weighted assets is 7.0% (seven percent). The conversion into common stock shall once again proceed in the same terms every time the aforementioned assumptions change. The conversion should be made observing at all times the shareholding limits by person or group of persons provided for by the applicable laws. For purposes of the foregoing, from the time of the Issue, the Issuer shall ensure and verify that such limits are complied, that the notices are filed and/or that the corresponding authorizations are obtained.	Not applicable

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
26	Conversion rate	Not applicable	Not applicable	Not applicable	The conversion as well as the remission or cancellation foreseen herein shall be prorated with regard to all the securities of the same nature that are computed in the Issuer's supplementary capital. The conversion of the Subordinated Debentures shall be made by surrendering 59.80678909 (fifty nine point eight cero six seven eight nine zero nine) common shares representing the Issuer's capital stock for each Subordinated Debenture.	Not applicable
27	Type of instrument convertibility	Not applicable	Not applicable	Not applicable	Mandatory	Not applicable
28	Type of financial instrument of convertibility	Not applicable	Not applicable	Not applicable	Common shares	Not applicable

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Ref.	Characteristic	EQUITY	LIABILITY	LIABILITY	LIABILITY	LIABILITY
29	Instrument issuer	Not applicable	Not applicable	Not applicable	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	Not applicable
30	Write-down clause	No	No	No	No	No
31	Write-down conditions	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
32	Write-down degree	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
33	Write-down temporality	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34	Temporary write-down mechanism	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Subordination level in the event of liquidation	Not applicable	Non-preferred	Non-preferred	Non-preferred	Non-preferred
36	Default characteristics	No	Yes	Yes	No	Yes
37	Description of default characteristics	Not applicable	Not applicable	Not applicable	No	Not applicable

(Continued)

Table VI Capital Management

As for capital management, the Bank conducts half-yearly internal assessments of the adequacy of its capital, where it identifies and measures exposure to the various types of risks facing the entity. The resulting document is called Internal Capital Adequacy Assessment Process (ICAAP). Such document has as purpose to ensure that under a prospective analysis, the Bank's capital is adequate and supported by a strong risk management framework. This report is generated for complying with the requirements of HGHQ (London based group) in compliance with Pillar II of the Basel Accord.

Moreover, the Bank has an internal framework of minimum levels of total and basic capital index beyond the early warnings defined by the Banking Commission. Such levels are approved annually at the Asset and Liability Management Committee (ALCO).

On the other hand, the expected impacts on the capital index are computed on a quarterly basis, considering the sensitivity to the exchange rate, interest rate and credit spread variables, where the following is assessed:

1 - Exchange rate sensitivity: sensitivity is assessed by monitoring the impact on the basic capital index and the capitalization index, where a 10% shock is applied to a 20% increase/decrease in the exchange rate of each of the significant currencies.

2 - Interest rate sensitivity: the impact is measured of a change in the interest rate on the basic capital index and in the capitalization index. This year, the impact is calculated on instruments classified as available-for-sale and cash flow hedges that directly affect capital reserves. The shock considered for this calculation is an increase/decrease in the market interest rate of 200 basis points.

3 - Credit spread sensitivity: sensitivity is assessed in the basic capital index and in the capitalization index to a change of 300 basis points in the country risk, calculated also on instruments classified as available-for-sale. The shock considered is an increase/decrease of 300 basis points.

The findings are set out in the ALCO.

Last, the Bank generates monthly liquidity stress reports that allow for conducting an analysis of the adequacy of financial Resources under certain stress scenarios. For further details, we refer to note 30 to the financial statements.

(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, except for the credits granted to financial entities for which the beginning application was on March 2014, which had an effect on the Credit Risk and the Supplementary Capital. For Supplementary Capital computed at December 31, 2014 and 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.

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

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

(26) Related party transactions and balances-

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2014, the Bank had granted loans to related parties totalling $1,737 and ($318 in 2013).

During the years in 2014 and 2013, the Bank maintained derivative liability positions with related parties, which amounted to $9,134 and $2,875, respectively.

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

		2014	2013
Transactions:			
Income:			
Administrative services	$	2,008	1,793
Interest and commissions, received		330	519
Others		5	5
		====	=====
Expenses:			
Insurance premiums	$	191	208
Interest and commissions, paid		134	52
Administrative expenses		1,282	1,203
		====	=====

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HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

Balances receivable from and payable to related parties as of December 31, 2014 and 2013, were as shown as follows:

		2014		2013	
		Receivable	Payable	Receivable	Payable
Holding					
Grupo Financiero HSBC, S. A. de C. V.	$	2	-	7	15
Other related parties					
HSBC Seguros, S. A. de C. V.		62	2	114	3
HSBC Casa de Bolsa, S. A. de C. V.		95	513	140	337
HSBC Pensiones, S. A.		3	3	4	2
HSBC Global Asset Management, S. A. de C. V.		31	200	46	-
HSBC Servicios, S. A. de C. V.		88	25	83	12
HSBC Bank Brasil, S. A. Banco Multiplo		174	200	239	162
HSBC Holdings Plc.		100	468	54	123
HSBC Colombia, S. A(*)		-	-	15	-
HSBC Bank USA National Association		-	16	-	8
HSBC Software Development (Guandong)		-	4	-	3
HSBC Bank Argentina S. A.		43	11	44	20
HSBC Argentina Holding, S. A.		9	-	6	2
HSBC New York Life Seguros de Vida (Argentina), S. A.		16	-	8	-
HSBC Private Bank (SUISSE) S. A.		1	-	1	10
HSBC Bank plc		12	142	11	67
The Hong Kong and Shangai Banking Corporation Limited		-	96	-	30
HSBC Latin America Holdings (UK) Limited		-	7	266	-
HSBC Software Development (India) Private Limited		-	53	-	26
HSBC Software Development (Brazil)		-	16	-	1
HSBC Technologies and Services (USA) Inc.		-	88	-	13
HSBC Bank (Uruguay), S. A.		9	-	3	-
HSBC Bank Canada		-	12	-	3
HSBC Bank (Chile), S. A.		4	-	5	-
HSBC France		-	7	-	3
Subtotal other related parties to the following page	$	647	1,863	1,039	825

(*) As of December 31, 2014, these entities are not larger considered as related parties.

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HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

		2014		2013	
		Receivable	**Payable**	**Receivable**	**Payable**
Subtotal other related parties from previous page	$	647	1,863	1,039	825
HSBC Securities (USA) Inc		1	3	-	3
HSBC Bank Middle East Limited		-	-	-	1
HSBC Global Operations Company Limited (antes HSBC Global Resourcing (UK) Limited)		-	-	-	42
HSBC PB Service (SUSSIE) S. A.		-	-	-	5
HSBC Global Operations Company LTD		-	30	-	-
Total other related parties		648	1,896	1,039	876
Total holding and other related parties	$	650	1,896	1,046	891

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

(27) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-

At December 31, 2014, the Bank had irrevocable commitments arising from issuance of letters of credit, where, through loans, the Bank ensured paying customers to third parties irrevocable commitments amounted to $33,874 ($25,561 in 2013).

At December 31, 2014, the Bank has not created provisions for letters of credit payments and guaranties included in the allowance for loan losses ($29 in 2013).

At December 31, 2014 and 2013, the Bank had no losses caused by the guarantee and letters of credit.

(b) Assets in trust or under mandate -

At December 31, 2014 and 2013, the Bank's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2014	**2013**
Type of trust:			
Administrative	$	321,151	298,141
Guarantee		51,494	56,296
Investment		52,901	52,811
Other		31,979	31,285
Subtotal of trust to the following page	$	457,525	438,533

(Continued)

(Millions of pesos)

		2014	2013
Subtotal of trust from previous page	$	457,525	438,533
Mandates de:			
Administrative		568	840
Guarantee		70	93
Investment		3	3
		641	936
	$	458,166	439,469

Trust activities revenue for the years ended December 31, 2014 and 2013 amounted to $171 and $180, respectively.

(c) Investments on behalf of customers-

At December 31, 2014 and 2013 the Bank received funds from the public and invested them in various instruments of the Mexican financial system on behalf of its customers, which are recorded in memorandum accounts as follows:

		2014	2013
Funds of investment companies:			
Managed by HSBC	$	3,595	3,091
Government securities		15,672	19,980
Equities and other		20,359	22,924
Other		6,607	4,358
	$	46,233	50,353

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

(d) Assets in custody -

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2014 and 2013, this account comprises:

		2014	2013
Custody	$	431,739	326,472
Administration		49,247	49,894
Guarantee		6,920	1,294
Coleection		880	1,019
	$	488,786	378,679

(Continued)

(Millions of pesos)

For custody operations, the types of goods mainly 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 $3,549 ($2,885 in 2013) and are classified as follows:

		2014	2013
Bank paper	$	3,436	2,773
In private debt		113	112
	$	3,549	2,885

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

At December 31, 2014 and 2013, income from activity of assets under custody and administration operations amount to $126 and $94, respectively.

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

(a) Condensed statements of operations and cash flows by segment-

The condensed consolidated statements of operations and cash flows by segment includes Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB) and Global Banking and Markets (GBM). 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.

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/ABM) 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, 2014 and 2013.

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HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Condensed statements of operations by segment

Years ended December 31, 2014 and 2013

(Millions of pesos)

	RBWM		CMB		GBM		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Financial margin	$ 12,855	13,304	5,342	5,850	2,457	1,584	20,654	20,738
Allowance for loan losses	(5,621)	(5,963)	(2,116)	(1,525)	(265)	(598)	(8,002)	(8,086)
Adjusted financial margin	7,234	7,341	3,226	4,325	2,192	986	12,652	12,652
Commissions and fees, net	4,385	4,568	1,241	1,475	417	505	6,043	6,548
Financial intermediation income	77	101	185	173	1,053	1,999	1,315	2,273
Other operating income	1,832	2,156	485	428	308	224	2,625	2,808
Administrative and promotion expenses	(13,924)	(13,490)	(5,470)	(5,491)	(2,687)	(2,592)	(22,081)	(21,573)
Total operating income	(396)	676	(333)	910	1,283	1,122	554	2,708
Equity in the results of non consolidated subsidiaries, asiciated and affiliated companies	28	26	15	13	4	4	47	43
Income before income tax	$ (368)	702	(318)	923	1,287	1,126	601	2,751

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HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

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

	2014			2013		
	RBWM	**CMB**	**GBM**	**RBWM**	**CMB**	**GBM**
Net income	$ (154)	(141)	1,149	548	720	878
Adjustments for non cash items	1,808	610	484	2,975	1,419	915
Operating activities	(4,023)	(6,177)	(6,796)	(6,998)	(4,199)	1,463
Investments activities	(505)	(231)	(166)	(968)	(495)	(447)
Financing activities	(210)	(155)	(211)	1,370	1,010	1,370
Net decrease of cash and cash equivalents	(3,084)	(6,094)	(5,540)	(3,073)	(1,545)	4,179
At the beginning of the year	31,515	20,112	3,780	34,588	21,657	(399)
At end of year	$ 28,431	14,018	(1,760)	31,515	20,112	3,780

The assets and liabilities identifiable by the different segments at December 31, 2014 and 2013 are analyzed as follows:

	2014			2013		
	RBWM	**CMB**	**GBM**	**RBWM**	**CMB**	**GBM**
Assets	$ 63,970	81,955	72,842	62,821	81,329	48,618
Liabilities	157,672	87,261	54,324	162,347	94,754	30,707

Financial Margin

The financial margin for the years ended December 31, 2014 and 2013 is analyzed as follows:

		2013		
	2014	**Reclassified**	**Reclassification**	***Reported**
Interest income:				
Cash	$ 910	1,290	(105)	1,395
Investment securities	7,767	5,733	(191)	5,924
Interest and premium on securities purchased under agreements to resell	41	565	-	565
Interest from hedging transactions	600	1,130	1,130	-
Subtotal interest income to the following page	$ 9,318	8,718	834	7,884

(*) See explanations in the next page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

	2014	2013 Reclassified	2013 Reclassification	2013 *Reported
Subtotal interest income from previous page	$ 9,318	8,718	834	7,884
Loan portfolio:				
Commercial loans	6,456	7,142	-	7,142
Financial institutions	345	266	-	266
Consumer loans	9,627	10,154	-	10,154
Residential mortgages	2,416	2,157	-	2,157
Government entities	1,133	1,347	-	1,347
Initial fees for loan granting	246	210	-	210
Others	-	129	296	(167)
	$ 29,541	30,123	1,130	28,993
Interest expense:				
Deposit funding	$ (1,517)	(1,380)	288	(1,668)
Time deposit	(2,814)	(3,524)	(108)	(3,416)
Due to Banks and other institutions	(542)	(600)	(180)	(420)
Bank bonds interest	(407)	(162)	-	(162)
Interest and premiums on securities purchased under agreements to resell	(2,189)	(1,911)	-	(1,911)
Interest from hedging transactions	(919)	(1,130)	(1,130)	-
Interest by subordinated debt issued	(411)	(521)	-	(521)
Others	(88)	(157)	-	(157)
	$ (8,887)	(9,385)	(1,130)	(8,255)
Financial margin	$ 20,654	20,738	-	20,738
	=====	=====	====	=====

*Some accounts of the financial margin for the year ended December 31, 2013 have been reclassified to conform to the 2014 presentation, aimed to identify income and expense primarily arising from hedge transactions; without modifying the financial margin.

(b) Financial intermediation income-

For the years ended December 31, 2014 and 2013, the financial intermediation income is analyzed as follows:

	2014	2013
Valuation gain (loss):		
Investment securities	$ 293	(514)
Trading derivatives	(1,642)	483
Foreign currency exchange and precious metals	307	178
	(1,042)	147
Purchase/sale gain (loss:		
Investment securities	1,009	286
Securities repurchase/resell agreements and trading derivatives	976	1,038
Foreign currency exchange and precious metals	372	802
	2,357	2,126
	$ 1,315	2,273
	====	=====

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of pesos)

(c) Other operating income, net-

For the years ended December 31, 2014 and 2013, "Other operating income, net" is analyzed as follows:

Income		**2014**	**2013**
Recoveries and reimbursements	$	787	714
Payments received in relation to the use of infrastructure from subsidiaries		2,039	1,866
Gain on sale of properties		20	1
Gain on sale of foreclosed assets		193	122
Loan to employees		132	137
Cancellation of excess of allowance for loan losses (note 12(d))		32	6
Effect Securitization		4	-
Others		114	1,023
		3,321	3,869
Expenses			
Write offs		(376)	(315)
Foreclose assets reserve		(25)	(28)
Loss on sale of properties		(77)	(214)
Transfer of loan portfolio		(215)	-
Effect Securitization		-	(40)
Others		(3)	(464)
Others operating income, net		(696)	(1,061)
	$	2,625	2,808
		====	=====

(*) Within the expenses there are fraud losses of $223 ($134 in 2013).

(d) Financial Ratios-

The principal ratios as of and for the years ended December 31, 2014 and 2013 are analyzed below:

	2014	**2013**
Non-performing loans to total loans	5.29%	5.93%
Allowance for loan losses to past-due loan portfolio	103.67%	100.55%
Operating efficiency (administrative and promotional expenses to average total assets)	3.99%	4.33%
ROE *(net income to average stockholders´-equity)*	2.05%	4.75%

(Continued)

(Millions of pesos)

	2014	**2013**
ROA *(net income to average total assets)*	0.18%	0.43%
Liquidity *(liquid assets/liquid liabilities)**	102.32%	102.99%
Financial margin after provision for loan losses /average interest earning assets	2.54%	2.86%
Capital index to credit risk assets	20.65%	22.26%
Capital index to market and credit risk assets	13.22%	14.81%

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

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

(29) Commitments and contingent liabilities-

(a) Leases-

Certain premises and equipment are leased. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense amounted $1,027 in 2013 and $1,482 in 2013.

(b) The Bank 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 Bank 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.

(c) Lawsuits and litigation -

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

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

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

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

(Continued)

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

At December 31, 2014 and 2013, the Bank presented in the consolidated financial statements the recognition of liabilities for this purpose for an amount of $433 and $274 respectively, which correspond to cases in which it was considered that the possibility of loss would likely be probable. The Bank at December 31, 2014 and 2013 had outstanding cases with a possible loss contingency in the amount of $59,250 and $59,348, respectively.

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

(30) Risk management (unaudited)-

Within the Financial Group of HSBC in Mexico the comprehensive risk management involves both compliance with Prudential Provisions on the Subject of Comprehensive Risk Management included in the “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 Bank's risk management function begins with the Board of Directors, who has primary responsibility for approving the related objectives, guidelines and policies and for determining the risk exposure limits, which is supported by the Assets and Liabilities Committee (ALC) and the Risk Management Committee (RMC).

Assets and Liabilities Committee (ALCO)

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

The ALCO is the prime vehicle for attaining the objectives of an adequate management of assets and liabilities. Its principal purposes concerning risks are on the following page.

- 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 ALCO´s 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.

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

- Monitoring of current and potential risks that could impact the operation of the Bank, its realization and evaluate the potential impact they might have, either reputational, financial or operationally. You must also develop a focused and integrated approach to identifying them.
- Propose solutions to improve early risk profile and review strategies for risk mitigation.

(Continued)

- Develop a clear profile and trends in credit, market, liquidity, insurance, operational, reputational and internal controls that could impact or cause changes in business strategy.
- Establish a process focused on risk management of relevant risks, contingencies and mitigating and consolidate reporting risks ALCO review.
- Approve and propose to the Board changes in rules and policies on Risk Management, in accordance with the regulation that sets the Banking Commission.
- Authorize the maximum tolerance to market risk, credit risk and other risks considered acceptable in terms of treasury operations (derivatives).
- Review and approve the goals, operations and control procedures, and the level of risk tolerance, based on market conditions.
- Authorize the terms of reference of committees depend on it, including the authorization of its members and provide them with guidance and supervision in their activities.
- Approve the methodologies for measurement and identification of all risks.
- Oversee the approval of new products as well as subsequent revisions and amendments.
- Approve changes to the methodology for calculating reserves and the economic factor and emergency periods.
- Develop and modify the objectives, guidelines and policies origination and credit administration.
- Review important topics that are open, which will be included in the certification of the Director General (depending on time of certification), likewise, should monitor the resolution of these issues.
- Designate and remove the Chief Officer of the Comprehensive Risk Management Unit. Both designation and removal shall be ratified by the Board of Directors.
- At least on a quarterly basis, communicate to the Board of Directors the risk exposure assumed by the Bank, as well as the failure of the risk exposure limits and risk appetite.
- Ensure all those involved in assuming risks are aware of the exposure limits and the risk tolerance levels.

(Continued)

- Management of Credit Risk, Market Risk, Liquidity, Insurances, Asset Management, Private Banking, Reputation, Sustainability, Strategy, Operational Risk, and Internal Control, including Financial Crime Compliance, Regulatory Compliance and Security & Fraud, as well as Audit matters, which have local, regional or global impact on the Bank.

- Monitor the current risks that might have an impact on the legal entities comprising the Group, at the frequency defined for each entity.

Market Risk

<u>Qualitative information</u>

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

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

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

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

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

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

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

(Continued)

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

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

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

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

b) Principal elements of market risk management methodologies.

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

Value at Risk (VaR)

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

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

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

(Continued)

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

(Continued)

Stress testing

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

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.

(Continued)

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).

Quantitative information

As follows it is going to be presented, the Bank's VaR and PVBP and the Total Trading and Accrual portfolio sub-division of "Trading Intent" and "Accrual" for the 4Q of 2014 (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 2014	**Limits***	**Average Q4 2014**	**Limits***	**Average Q4 2014**	**Limits**
Total	13.04	38.00	3.69	13.00	11.39	38.00
Rates	11.77	40.00	3.57	9.50	10.84	38.00
Credit margin	3.32	22.00	0.81	3.00	2.42	22.00
Exchange rates	1.04	5.00	1.04	5.00	N/A	N/A
Interest rate volatility	0.09	4.00	0.09	1.80	-	2.5
FX rates volatility	0.07	2.00	0.07	2.00	N/A	N/A
Equities	0.01	2.50	0.01	2.50	N/A	N/A

***** 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 30,2014	**December 31, 2014**	**Limits ***	**Q3 2014 average**	**Q4 2014 average**
Bank	14.24	12.28	38.00	13.75	13.04
Accrual	12.60	10.32	38.00	12.32	11.39
Total trading	4.87	2.73	13.00	3.38	3.69

* *Absolute value*

(Continued)

The Bank's VaR at the end of the fourth quarter of 2014 decrease – 13.76% in respect of the 3Q 2013. During the period, VaR levels remained below the limits set by management.

The Bank's average VaR for the fourth quarter of 2014 decrease – 5.16% 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, 2014; in millions of dollars:

	September 30, 2014	**December 31, 2014**
Total VaR *	13.75	13.04
Net Capital **	3,824.70	3,448.24
VaR/Net Capital	0.36%	0.38%

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

Average market VaR represented 0.38% of net capital in fourth quarter of 2014.

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

	Sep 30, 14	**Dec 31, 14**	**Limits ***	**Average Q3 2014**	**Average Q4 2014**
Bank	(1.076)	(1.171)	2.050	(1.194)	(1.160)
Accrual	(0.902)	(1.144)	1.550	(1.058)	(1.073)
Trading intent	(0.174)	(0.027)	0.500	(0.136)	(0.086)

* Absolute value N/A - Not Applicable

The Bank's PVBP in peso rates for the close of the fourth quarter of 2014 varied (8.83%) with respect to the PVBP for the close of the previous quarter. The Bank's average PVBP corresponding to the fourth quarter of 2014 varied (2.85%) 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, 2014	Dec 31, 2014	Limits *	Q3 average 2014	Q4 average 2014
Bank	0.091	0.040	0.430	0.045	0.028
Accrual	(0.014)	0.003	0.300	0.020	0.003
Trading intent	0.105	0.037	0.180	0.024	0.026

* Absolute value N/A - Not applicable

The Bank's PVBP in US dollars interest rate at the end of Q4 2014 changed by (56.04%) as compared to the PVBP at the end of Q3 2014. The Bank's average PVBP for Q4 2014 changed by (37.78%) as compared to the average PVBP for Q3 2014.

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

	Sep 30, 2014	Dec 31, 2014	Limits *	Q3 average 2014	Q4 average 2014
Bank	(0.020)	(0.038)	0.150	(0.049)	(0.026)
Accrual	(0.019)	(0.015)	0.050	(0.022)	(0.018)
Trading intent	(0.001)	(0.023)	0.100	(0.027)	(0.008)

* Absolute value N/A - Not applicable

The Bank's PVBP in UDIS interest rate at the end of Q4 2014 changed by 90% as compared to the PVBP at the end of Q3 2014. The Bank's average PVBP for Q4 2014 changed by (46.94%) as compared to the average PVBP for Q3 2014.

Liquidity risk

Qualitative information

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

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

(Continued)

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

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

Every year, the Financing Contingency Plan is submitted to the Assets and Liabilities Committee and the Board of Directors for approval. This plan contains all the elements required by the Provisions in Appendix 12C and as required by the Group as a result of international experience; for instance: key factors, crisis management team, specific responsibilities of each team member, potential action plans, alternative sources of payment taking into account availability, capability and costs thereof, internal and external communication plan and forms for notification to the Banking Commission, if activated.

For all the members to be aware of their roles in the Plan, reviews are personally conducted with each one of them on a semi-annual basis, and prior to submission to the Board of Directors for approval.

According to the last amendments published on December 31, 2014 in the Official Gazette, with regard to the Provisions about liquidity requirements for commercial banking institutions, the implementation of a Liquidity Hedge Coefficient is provided in accordance with the proposal made by the Basel Committee. These regulations will become effective from January 1, 2015. In this respect, the Bank considers it is prepared for implementing the calculation methodology of such coefficient from the effective date.

Quantitative information

At the end of Q4 2013, HSBC liquidity ratios were USD$1,563 million in term up to 7 days, USD$2,327 million in a term of a month, USD$590 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$788 million in 7 days, USD$1,613 million for 1 month, of USD$511 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.

(Continued)

Credit risk-

Qualitative information

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

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

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

In addition, HSBC has developed policies and procedures that comprise the various loan process stages: assessment, authorization, 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 Bank adopted the new rules for estimating preventive reserves established by the CNBV in the Provisions, except for the preventive creation for credit risks corresponding to credits granted to financial entities, which were adopted in March 2014, which set forth an expected loss methodology.

Administrative models

The Bank 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

(Continued)

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 Bank and those which do not, and will order them by the appropriate risk levels. Moreover, it validates the quantification model and compared with observed default rates to meet its accuracy.

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

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

a) Probability of default model (PD)

During 2014, HSBC México developed a new model for risk rating of business and corporate clients with annual sales for more than $40 and less than $12,500, which was implemented on January 8, 2015. This model derived from the statistical analysis of different explanatory factors of default probability: economic, financial and qualitative, differing from those confirmed by size.

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

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

- A model to evaluate the global clients (GLCS), applicable to mayor corporate offices with sales equal to or greater than USD $12,500.
- A model for banking financial entities (RAfBanks).
- Eleven models for non-banking financial entities (NBFI Models 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.

(Continued)

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 Group 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 $12,500), an inappropriate performance of the model is noticed. As mitigating actions, a new model of Default Probability has been developed under the HGHQ Global Standards, which is expected to be implemented beginning 2015.

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 HGHQ.

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 local model shows a relatively low correlation (20.21%) between the observed and the estimated Severity; therefore, the model is currently in the process of being redeveloped and it is expected to conclude it during 2015.

c) Model of exposure at default (EAD)

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 relatively low correlation (22.90%) between the values of the observed and the estimated EAD. Thus, the model is currently in process of redevelopment and it is estimated to be completed by 2015.

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.

(Millions of pesos)

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, 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.

In order to ensure consistency in the local provisioning process of the Commercial Portfolio, including Financial Entities, the Credit Reserves application was implemented in the Bank during the first quarter of 2014.

Quantitative information

The expected loss of the portfolio of commercial loans at December 31, 2014 is $12,747, showing a decrease of $330 (3%) over the previous quarter. The average balance of commercial loans at December 31, 2014 is $192,752 with an increase of $13,848 (7.74%) 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 balances for the 3 month period		VAR		Balances		VAR		Expected loss		VAR	
	3T2014	4T2014	($)	(%)	Sep-14	Dic-14	($)	(%)	Sep-14	Dic-14	($)	(%)
CMB	$96,030	$99,309	$3,279	3%	$95,666	$100,314	$4,648	5%	$10,366	$10,579	$213	2%
GBM	$82,089	$92,760	$10,672	13%	$82,929	$100,770	$17,841	22%	$2,051	$2,168	$117	6%
GBP	$786	$683	($103)	(13%)	$783	$623	($160)	(20%)	$0.067	$0.046	($0.02)	(31%)
Total	**$178,905**	**$192,752**	**$13,848**	**7.74%**	**$179,378**	**$201,707**	**$22,329**	**12%**	**$12,417**	**$12,747**	**$330**	**3%**

Balance and average balance include contingent exposures.

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.

(Continued)

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

Quantitative information

The expected loss for the commercial portfolio of consumer credit and mortgage at December 31, 2014 is $4,517.

Operational risk

Qualitative information

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

The corporate governance structure which underpins the function is complemented by the Risk Management Committee (“RMC”) is responsible for compliance with the relevant applicable standards and regulations as well as knowing and understanding the risk profile of the Bank, 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 with risk appetite for 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. It also includes the supporting areas though not in business advisory activities but in specific responsibilities.

(Continued)

This first line includes all the employees' responsibility for being aware of the operational risks and operational risk incidents during the execution of daily activities. Likewise, the Business Unit Directors/supporting areas are responsible for managing operational risk by the processes surrounding them. Management of operational risk primarily includes:

- Identify and evaluate operational risks and controls in accordance with the Risk and Control Assessment policy.
- Identify and present incident reports in accordance with the respective internal policy, and establish mitigating actions to avoid future reiteration.
- Identify control issues inherent to activities and set up action plans to resolve them, or formalize risk acceptance processes when it is not viable to implement such plans.

Line managers shall also identify and evaluate operational risks and controls as part of the decision-making process. Key operational risks and controls shall be continuously monitored, including the following:

- Critical process risks and controls
- Main project risks and controls
- Business acquisition and due diligence implementation
- Business initiatives, including new products or significant changes to existing products
- Planning and budget processes
- Subcontract agreements, supplier selection and internal product utilization.

In order to monitor the foregoing, officers may be designated to monitor control compliance, "Business Risk Control Management (BRCM)", for key businesses and processes within the first line to supervise the implementation of the operational risk management framework.

The monitoring of key controls may be attained through different methods, which include a thematic review of specific processes, the testing of specific controls in several processes or following up of Key Risk Indicators (KRI).

The BRCMs must develop a monitoring plan of suitable depth each year, which must establish the monitoring activities to be carried out the following year. The plan should be subject to continuous review and updating as circumstances change, in order to ensure that monitoring is in agreement with the Financial Group's risk profile

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;

(Continued)

- 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.

Quantitative information (including Technology Risk and Legal Risk)

The assessment of operational risks resulting from the 10th evaluation exercise carried out during the period 2013, with the changes and updates made during the 4th quarter of 2014 shows a total of 1,549 relevant risks identified and evaluated, distributed as follows: 7.36% (114) of type "Very high risk", 15.43% (239) of the type "High risk", 29.50% (457) of the type "Medium risk" and 47.71% (739) of type "Low risk".

Furthermore, the Bank maintains a historical database with Operational Risk data since 2007, where operational loss incidences are recorded.

The declaration of operational risk appetite for the Bank in 2014 was USD$60.81 million for operational loss and is monitored on a monthly basis through the BSC, which is submitted to the Risk Committee.

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 HGHQ 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 and Risk Management Committee (RMC) Operational Risk Management Group (ORGM) and HTS Risk Management (HTSRMM).

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), specifically for the software development (Software Development Life Cycle).

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 and enforceability;

- 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;

(Continued)

- 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 third party, including infringement of third party rights, ownership interest and legal liability.

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

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

  All contracts entered into by any member of the Bank 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 Bank 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, 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.

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

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

U.S. regulatory and law enforcement investigations:

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.

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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.

(31) Credit policies (unaudited)-

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 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, the foregoing in accordance with procedures established by the Bank.

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

Instrumentation-

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

Restructuring-

Restructuring may only be made viable projects, avoiding incurred in renewing the operation not to affect the Bank Guarantees. 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 credit problems or deferred losses.

No restructures are permitted in order to hide problematic credits or deferred losses.

Renewal

Transactions may be renewed only when the loan term is extended during or at the maturity date, or are settled at any moment with the product coming from another loan contracted with the same entity, in which the same debtor or another person are a party as its patrimonial connection constitute common risks. A loan is not considered renewed when the dispositions are made over the term of a pre-established credit line.

According to the internal policy, the original amount of the loan can be increased when renewed.

Monitoring, control and recovery-

The rating of the loan portfolio is made according to the methodology and procedures to comply with the Group standards and the Banking Commission.

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.

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

(32) Recently issued accounting standards -

On May 19, 2014, the Banking Commission published in the Official Gazette amendments to appendix 33 of the Provisions. Amendments to the accounting standards were intended to achieve consistency between the accounting standards applicable to credit institutions and the international accounting standards.

The most important amendments include:

- Addition or modification of concepts to make them consistent with the local and international standards, which does not imply any changes to the current accounting standards.

- Modification in the presentation of overdrafts in check accounts of clients who do not have a credit line for such purposes, classifying them as “Other accounts receivable” starting from the effectiveness of the new provisions. They are currently recognized as part of the loan portfolio. Additionally, such overdrafts are considered overdue debts and an allowance for doubtful trade receivables shall be mandatorily created in the total amount of the overdraft at the time of recognition.

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

The original effective date established by the Banking Commission was July 2014; however, such date has extended many times. As of this date, June 2015 is the new effective date

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the FRS and Improvements listed below:

FRS C-3 *“Accounts Receivable”*- FRS C-3 is effective for years beginning January 1, 2018, and is applicable retrospectively; however, early adoption is allowed on January 1, 2016 provided that it takes place concurrently with the adoption of FRS C-20 “Financing Instruments Receivable”. Some of the primary changes resulting from the adoption of this FRS are on the following page.

- 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.

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- 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.

- Provides that, from initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of its term, an adjustment must be made to take 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-9 *"Provisions, Contingencies and Commitments"*- FRS C-9 is effective for years beginning on or after January 1, 2018; early adoption is allowed on January 1, 2016 provided that it takes place concurrently with the initial adoption of FRS C-19 "Financial instruments payable". FRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this FRS does not produce accounting changes in the financial statements. Some of the main points covered by this FRS include the following:

- Its scope is reduced by moving the subject concerning the accounting treatment of financial liabilities to FRS C-19 "Financial instruments payable".

- The definition of "liability" is changed by eliminating the qualifier "virtually unavoidable" and including the word "probable".

- The terminology employed throughout the standard is updated to standardize its presentation to the rest of the FRS.

FRS C-19 "Financial instruments payable"- FRS C-19 is effective for years beginning on or after January 1, 2018 with retrospective effects and early adoption is allowed on January 1, 2016 provided that it takes place concurrently with the adoption of FRS C-9 "Provisions, contingencies and commitments", FRS C-3 "Accounts receivable" and FRS C-20 "Financing instruments receivable"- Some of the main points covered by this FRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting the net income or loss.

- It includes the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, which was not provided for by the existing standard.

FRS C-20 *“Financing instruments receivable”*- FRS C-20 shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed on January 1, 2016 provided that it takes place concurrently with the initial adoption of FRS C-3 “Accounts receivable” and 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 within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management 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.

- 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.

- An 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.

FRS D-3 *“Employee benefits”*- FRS D-3 is effective for years beginning on or after January 1, 2016 with retrospective effects and early adoption is allowed on January 1, 2015. FRS D-3 supersedes the provisions in FRS D-3. Main changes include the following:

- Direct benefits – The classification of direct short-term benefits was modified and the recognition of deferred Employee Statutory Profit Sharing (ESPS) was ratified.

- Termination benefits – The bases were modified for identifying when payments for the termination of a work relationship actually meet post-employment benefits or when they are termination benefits.

- Post-employment benefits – Among others, the following were modified: the accounting recognition of multi-employer plans; government plans and plans of entities under common control; the recognition of the net defined benefit liability (asset); the bases for determining the actuarial hypothesis in the discount rate; the recognition of the Service Cost of Past Periods (SCPP) and of the Early Settlement of Obligations (ESO).

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- Remeasurements – In recognizing post-employment benefits, the corridor approach is eliminated in the treatment of the plan's profits and losses (PPL); therefore, they are recognized as accrued and recognized directly in Other Comprehensive Income ("ORI"), requiring their recycling to the period's net profit or loss under certain conditions.

- Plan Asset Ceiling (PA) – Identifies a plan asset ceiling and specifies which entity contributed funds do not qualify as such.

- Recognition in profit or loss of PM, SR and gains or losses from Early Settlement of Obligations (ESO) – In post-employment benefits, the totality of the Service Cost of Past Periods (SCPP) of Plan Modifications (PM), Staff Reductions (SR) and the gains or losses from Early Settlement of Obligations (ESO) are immediately recognized in profit or loss.

- Discount rate – Establishes that the discount rate of Defined Benefit Obligations (DBO) is based on investment grade corporate bond rates (deep market) and, in their absence, on government bond rates.

- Termination benefits – Requires an analysis as to whether separation payments qualify as termination benefits or are actually post-employment benefits and notes that if the benefit is non-cumulative with no preexisting granting conditions, it is a termination benefit and, therefore, it should be recognized when the event occurs. However, if preexisting conditions are present, either contractually, by law or payment practices, it is deemed a cumulative benefit and should be recognized as a post-employment benefit.

2015 FRS Improvements

In December 2014, CINIF issued the document referred to as "2015 FRS Improvements", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

FRS B-8 "Consolidated or combined financial statements"- FRS B-8 defines investment entities and stipulates that, in view of the characteristics of such entities' primary activities, they generally do not exert control over an investee. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.

Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments"- Bulletin C-9 provides that foreign currency advances should be recognized at the exchange rate prevailing on the date of the transaction; that is, at the historical exchange rate. Such amounts should not be modified by subsequent exchange fluctuations between the functional currency and the foreign currency in which the price of goods and services related to such advance payments are denominated. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.

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Management estimates that the new FRS and the improvements to FRS will be immaterial. FRS D-3 requires to record in “Other comprehensive income” the amounts for previous services related to transitional assets, plan amendments and actuarial losses accrued for pension benefits, seniority premiums and other post-retirement benefits. The Bank’s management is in process of analyzing the required records and defining an action plan with respect to the adoption of this FRS.