

Grupo Financiero HSBC

Financial information at 30 September 2012

3Q12

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Third Quarter 2012**

*Release date:
31 October 2012*



31 October 2012

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2012 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before tax for the nine months to 30 September 2012 was MXN5,721m, an increase of MXN2,116m or 58.7% compared with MXN3,605m for the same period in 2011, mainly driven by reduced administrative and personnel expenses related to a strict cost control and cost savings initiatives, lower loan impairment charges, and higher net interest income, partially offset by lower other operating income.
- Net income for the nine months to 30 September 2012 was MXN4,413m, an increase of MXN1,693m or 62.2% compared with MXN2,720m for the same period in 2011.
- Total operating income, net of loan impairment charges, for the nine months to 30 September 2012 was MXN21,999m, a decrease of MXN362m or 1.6% compared with MXN22,361m for the same period in 2011, mainly due to one-off gains recognised in 2011 resulting from the sale and leaseback of certain branches in the network and the sale of HSBC Afore, partially offset by increased net interest income.
- Loan impairment charges for the nine months to 30 September 2012 were MXN4,259m, a decrease of MXN491m or 10.3% compared with MXN4,750m for the same period in 2011 due to enhanced pre-screening of new customers and an overall improvement in asset quality.
- Administrative and personnel expenses were MXN16,313m, a decrease of MXN2,478m or 13.2% compared with the same period in 2011. Excluding the effect of restructuring charges, which were MXN856m lower than those incurred in the same period in 2011, the decrease would have been MXN1,622m or 9.2% compared with the same period in 2011 as a result of strict cost control and cost reduction strategies implemented since 2011.
- The cost efficiency ratio was 62.1% for the nine months to 30 September 2012, compared with 69.3% for the same period in 2011.
- Net loans and advances to customers were MXN180.8bn at 30 September 2012, an increase of MXN9.3bn or 5.4% compared with MXN171.5bn at 30 September 2011. Total impaired loans as a percentage of gross loans and advances improved to 2.0% compared with 3.6% at 30 September 2011. The coverage ratio (allowance for loan losses divided by impaired loans) was 270.2% compared with 158.4% at 30 September 2011.
- At 30 September 2012, deposits were MXN286.6bn, an increase of MXN5.8bn or 2.1% compared with MXN280.7bn at 30 September 2011.
- Return on equity was 12.3% for the nine months to 30 September 2012 compared with 7.4% for the same period in 2011.

- At 30 September 2012, the bank's capital adequacy ratio was 14.4% and the tier 1 capital ratio was 11.3% compared with 15.2% and 11.6% respectively at 30 September 2011, and 15.3% and 11.7% respectively at 31 December 2011.
- In the first quarter of 2012, HSBC Mexico S.A. paid a dividend of MXN1,400m, representing MXN0.81 per share, and Grupo Financiero HSBC paid a dividend of MXN2,400m, representing MXN0.94 per share.

Nine months to 30 September 2011 results have been restated to reflect the Afore and the general insurance manufacturing businesses as discontinued operations.

HSBC Mexico S.A. (the bank) is a subsidiary of Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the quarter ended 30 September 2012) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance group.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

Overview

The Mexican economy continued its strong performance, growing by 4.1% in the second quarter of 2012, despite difficult global conditions. This growth was a result of both a robust services and export sector together with improved credit and employment conditions. Inflation was above expectations largely due to agricultural price pressures and the knock-on effect of the currency depreciation against the US dollar. Banco de Mexico left the monetary policy rate unchanged at 4.5% during this period.

For the nine months to 30 September 2012, Grupo Financiero HSBC's net income was MXN4,413m, an increase of MXN1,693m or 62.2% compared with the same period of 2011. Improved net income was mainly driven by a decrease in administrative and personnel expenses, lower loan impairment charges, and higher net interest income, partially offset by lower other operating income.

Net interest income was MXN16,429m, an increase of MXN468m or 2.9% compared with the same period of 2011. Higher net interest income was due to loan portfolio growth, mainly in commercial and payroll loans, coupled with increased deposit volumes, partially offset by lower spreads in credit cards, payroll and business banking loans.

Loan impairment charges were MXN4,259m, a decrease of MXN491m or 10.3% compared with the same period of 2011. In April 2012, a change in the write-off policy for mortgage loans was implemented and generated a one-off increase in loan impairment charges of MXN659m. Excluding the change in write-off policy, loan impairment charges decreased MXN1,150m or 24.2% compared with the same period of 2011, reflecting enhanced pre-screening of new customers and an overall improvement in asset quality as a consequence of repositioning the loan portfolios to lower risk products.

Net fee income was MXN4,649m, an increase of MXN135m or 3.0% compared with the same period of 2011. The increase was mainly due to higher fees reported for structuring activities related to project finance, equity and debt capital markets, trade services and payroll loans.

Trading income was MXN2,429m, a decrease of MXN67m or 2.7% compared with the same period of 2011. The decrease was impacted by certain large derivatives deals and a gain of MXN279m arising from the sale of one of the Grupo Financiero HSBC's equity investments in the first quarter of 2011, partially offset by an increase in foreign exchange revenues and gains on available-for-sale transactions in 2012.

Other operating income was MXN2,751m a decrease of MXN1,389m or 33.6% compared with the same period of 2011. This decrease was mainly due to one-off gains recognised in 2011 resulting from the sale and leaseback of certain branches in the network, the gain from the sale of HSBC Afore and tax recoveries from previous years.

Administrative and personnel expenses were MXN16,313m, a decrease of MXN2,478m or 13.2% compared with the same period of 2011. Excluding the effect of restructuring charges, which were MXN856m lower than those incurred in the same period of 2011, the decrease would have been MXN1,622m or 9.2% compared with the same period of 2011. This decrease reflects cost reduction initiatives implemented in 2011 in both regional and local operations,

such as rightsizing the regional structures and other rationalisation programmes, in addition to the write-off of intangible assets. As of 30 September 2012, full time employees reduced by 1,497, or 7.8%, compared to 30 September 2011.

The cost efficiency ratio was 62.1% for the nine months to 30 September 2012, compared with 69.3% for the same period of 2011.

The performance of non-banking subsidiaries continued to contribute positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported net income before taxes of MXN1,710m for the nine months to 30 September 2012, up 10.4% compared with the same period of 2011. The main driver for this growth was a reduction in the claims ratio for the Term Life Insurance product to 19.4% from 26.7% reported at 30 September 2011. In addition, the endorsement insurance product reported a 32.7% rise in sales compared to the same period of 2011.

Net loans and advances to customers increased MXN9.3bn or 5.4% to MXN180.8bn at 30 September 2012 compared with 30 September 2011. This increase was mainly driven by growth in government entities, consumer and commercial portfolios. Government entities portfolio growth was mainly due to higher lending to federal governmental institutions and the consumer portfolio growth was primarily driven by increased payroll and personal loans.

At 30 September 2012, total impaired loans decreased by 41.7% to MXN3.8bn compared with MXN6.5bn at 30 September 2011 due to the reclassification of a large government loan from impaired to performing in December 2011. The reduction in impaired mortgage loans included a MXN0.8bn decrease relating to the change in write-off policy in April 2012. Impaired consumer loans decreased 14.3%, as the portfolio repositioned to lower risk products. Total impaired loans as a percentage of total loans and advances to customers improved to 2.0% compared with 3.6% at 30 September 2011.

Total loan loss allowances at 30 September 2012 were MXN10.2bn, largely unchanged compared with 30 September 2011. The total coverage ratio (allowance for loan losses divided by impaired loans) was 270.2% at 30 September 2012 compared with 158.4% at 30 September 2011.

Total deposits were MXN286.6bn at 30 September 2012, an increase of MXN5.8bn or 2.1% compared with 30 September 2011. This increase was a result of continued sales efforts and targeted promotions.

Funds under management increased 31.4% compared 30 September 2011, as a result of marketing campaigns targeting Premier customers.

At 30 September 2012, the bank's capital adequacy ratio was 14.4% and the tier 1 capital ratio was 11.3% compared with 15.2% and 11.6% respectively at 30 September 2011, and 15.3% and 11.7% respectively at 31 December 2011.

In the first quarter of 2012, the bank paid a dividend of MXN1,400m representing MXN0.81 per share and Grupo Financiero HSBC paid a dividend of MXN2,400m representing MXN0.94 per share.

Business highlights

Retail Banking and Wealth Management (RBWM)

RBWM reported strong balance sheet growth compared to 30 September 2011, increasing the loan portfolio by 11.6% and deposits by 4.9%.

Personal and payroll loans balances present a significant growth compared to 30 September 2011, increasing 54.0% and 35.7% respectively, on the back of sales strategies and promotions and supported by the synergies with commercial and global banking businesses.

Mortgage originations increased 65.2% compared to 30 September 2011. The strategy for the mortgage loan portfolio has been focused towards low risk customers with competitive pricing.

Funds under management increased 31.4% compared to 30 September 2011, as a result of marketing campaigns targeting Premier customers.

Commercial Banking

Commercial Banking loans and deposits grew by 1.1% and 8.4% respectively compared to 30 September 2011. The credit quality of our book continued to improve, reflecting the strong economic environment in Mexico, as well as sound underwriting policies.

Aligned to the bank's strategy on international connectivity, total operating income, net of loan impairment charges, for trade transactions were MXN213m for the nine months to 30 September 2012, an increase of MXN52m or 32.0% compared to the same period of 2011.

For the nine months to 30 September 2012, foreign exchange operations revenues were MXN133m, an increase of MXN39m or 41.5% compared to the same period of 2011.

Global Banking and Markets

Global Markets trading income decreased MXN67m compared with the same period of 2011. The decrease was impacted by certain large derivatives deals and a gain of MXN279m arising from the sale of one of the Grupo Financiero HSBC's equity investments in the first quarter of 2011, partially offset by an increase in foreign exchange revenues and gains on available for sale transactions by the Balance Sheet Management desk in 2012.

During the third quarter of 2012, Debt Capital Markets maintained its status as one of the top five leading Mexican underwriters¹, placing and participating in bond issuances for a total transaction amount of MXN41,398m.

As of 30 September 2012, Equity Capital Markets acted as Joint Bookrunner on the Initial Public Offering of Santander Mexico. This was the second such transaction where the bank played a key role in large initial public offerings following the Alpek transaction earlier in the year. Both deals were allocated between Mexican and international tranches. The deals

¹ Source: Bloomberg Finance

represented landmark transactions for Grupo Financiero HSBC as they are its first lead roles in the region.

Global Banking continues to grow average balances in its credit and lending business and customer deposits, which increased 15.7% and 37.6% respectively compared with the first nine months of 2011. In addition, for the nine months to 30 September 2012, Global Banking trade services revenues were MXN150m, up MXN56m or 59.6% compared to MXN94m for the same period of 2011.

Sale of HSBC general insurance manufacturing to AXA Group

On 6 March 2012, Grupo Financiero HSBC announced that it has entered into agreements to sell its general insurance manufacturing portfolio to AXA Group.

HSBC and AXA Group are working together to ensure a seamless transition, subject to normal regulatory approvals.

Grupo Financiero HSBC nine months to 30 September 2012 financial results as reported to HSBC Holdings plc, our ultimate parent company, are under International Financial Reporting Standards (IFRS)

For the nine months to 30 September 2012, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN7,555m, an increase of MXN324m or 4.5% compared with MXN7,231m in the same period of 2011.

The lower profit reported under Mexican GAAP is largely due to lower loan impairment charges under IFRS as a result of the different provisioning methodologies. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 1,055 branches, 6,364 ATMs, approximately 5.6m active customers and approximately 17,700 employees. For more information, visit www.hsbc.com.mx.

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 6,900 offices in over 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and Africa and with assets of US\$2,652bn at 30 June 2012, the HSBC Group is one of the world's largest banking and financial services organisations.

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Key Indicators

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

For the quarter ended at

	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012
a) Liquidity	111.86%	105.04 %	98.26%	100.00%	95.43%
Profitability					
b) ROE (Return over equity)	9.47 %	(1.76) %	10.49%	9.79 %	17.37%
c) ROA (Return over assets)	0.91 %	(0.17) %	0.95 %	0.89 %	1.67 %
Asset quality					
d) Impaired loans/total loans	3.56%	2.71%	2.61%	2.16%	1.97%
e) Coverage ratio	158.35%	214.48%	222.20%	252.65%	270.18%
Capitalization					
f) Credit risk	22.34%	22.05%	21.72%	21.55%	23.00%
g) Credit and market risk operational	15.16%	15.26%	14.71%	13.62%	14.40%
Operating efficiency					
h) Expenses/Total Assets	4.68%	5.33%	4.36%	4.46%	4.14%
i) NIM	4.83%	4.70%	4.82%	5.02%	5.08%
Infrastructure					
Branches	1,079	1,067	1,066	1,067	1,055
ATM	6,062	6,195	6,201	6,240	6,364
Head Count	19,232	18,921	18,564	18,110	17,735

a) $Liquidity = \text{Liquid Assets} / \text{Liquid Liabilities}$.

$Liquid Assets = \text{Cash and deposits in banks} + \text{Trading securities} + \text{Available for sale securities}$

$Liquid Liabilities = \text{Demand deposits} + \text{Bank deposits and other on demand} + \text{Bank deposits and other short term liabilities}$

b) $ROE = \text{Annualized quarter net income} / \text{Average shareholders equity}$.

c) $ROA = \text{Annualized quarter net income} / \text{Average total assets}$.

d) $\text{Impaired loans balance at quarter end} / \text{Total loans balance at quarter}$.

e) $\text{Coverage ratio} = \text{Balance of provisions for loan losses at quarter end} / \text{Balance of impaired loans}$

f) $\text{Capitalization ratio by credit risk} = \text{Net capital} / \text{Credit risk weighted assets}$.

g) $\text{Capitalization ratio by credit and market risk operational} = \text{Net capital} / \text{Credit and market risk weighted assets}$.

h) $\text{Operating efficiency} = \text{Expenses} / \text{Total assets}$

i) $NIM = \text{Annualized net interest income} / \text{Average performing assets}$.

$\text{Performing assets} = \text{Cash and deposits in banks} + \text{Investments in securities} + \text{Repurchase agreements} + \text{Derivatives operations} + \text{Performing loans}$.

The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Relevant Events

During the third quarter of 2012, there were no relevant events to report on neither Grupo Financiero nor HSBC Mexico.

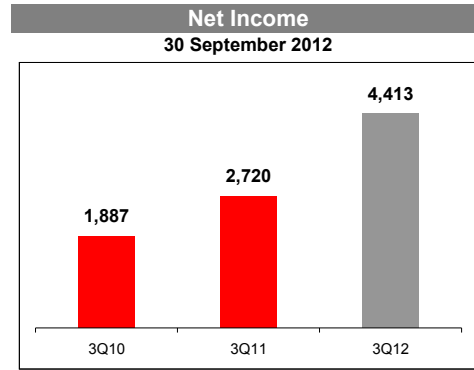
Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC at 30 September 2012 was MXN4,413m, an increase of 62.2% compared with the same period of 2011.

The Group's subsidiaries had solid results during the year, particularly HSBC Mexico and the Insurance Company. This strong performance was mainly due to lower bank administrative expenses, reduced loan impairment charges and higher net interest income; partially offset by lower other operating income.

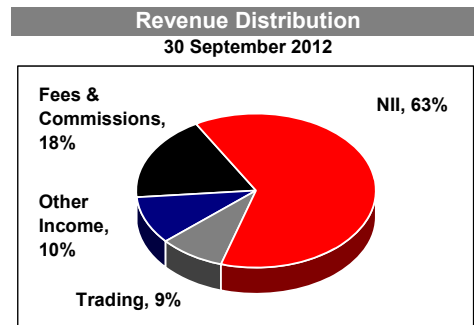
The Insurance Company results are mainly explained by lower claims ratio on Term Life Insurance product.



Total Operating Income

For the nine months to 30 September 2012, the Group's total operating income, net of loan impairment charges, was MXN21,999m, a decrease of MXN362m (1.6%) compared with the same period of 2011.

Decreased total operating income, net of loan impairment charges, is mainly due to a reduction in other operating income relating to one-off gains recognized in 2011.



Net Interest Income

Net interest income for the nine months to 30 September 2012 increased to MXN16,429m, up MXN468m compared to the same period of 2011.

The increase in net interest income was mainly due to higher volumes in the loan portfolio, particularly on the payroll and commercial loan portfolios, coupled with increased deposit volumes; this was partially offset by lower spread in credit card, payroll and business banking loans.

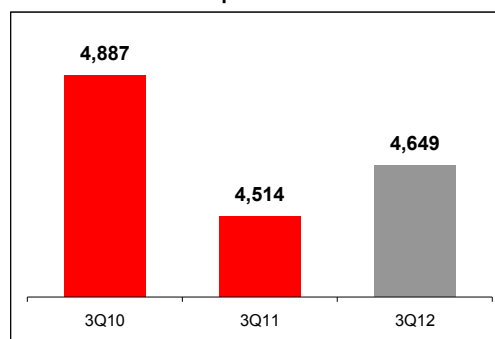
Non-interest Income

Non-interest income for the first nine months of 2012 was MXN9,829m; a decrease of MXN1,321m or 11.8% compared with results from the same period in 2011.

► **Fee income**

The Group's net fee income for the first nine months of 2012 was MXN4,649m, an increase of MXN135m or 3.0% compared with the same period in 2011. This increase was mainly due to higher structuring fees on project finance, equity & debt capital markets, trade services and payroll fees.

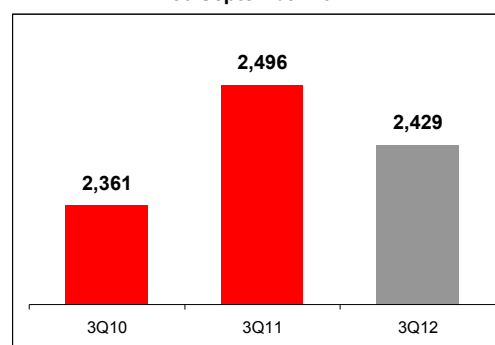
Group Fees & Commissions
30 September 2012



► **Trading income**

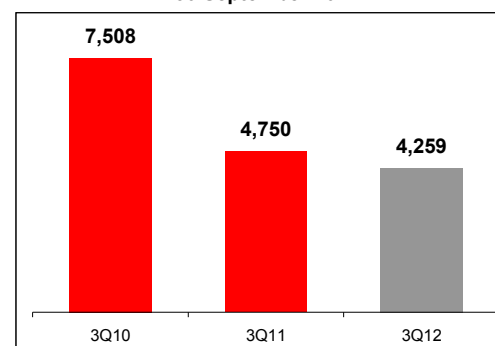
Trading income was MXN2,429m, which represents a decrease of MXN67m (2.7%) compared with the same period of 2011. Lower trading income was mainly due to large derivatives deals and the gain from the sale of one of our equity investments in the first quarter of 2011, partially offset by an increase in foreign exchange revenues and a gain on available for sale transactions in 2012.

Trading Income
30 September 2012



The Group's non-interest income to total revenue ratio decreased from 41.1% at 30 September 2011 to 37.4% at 30 September 2012, driven by lower other operating income.

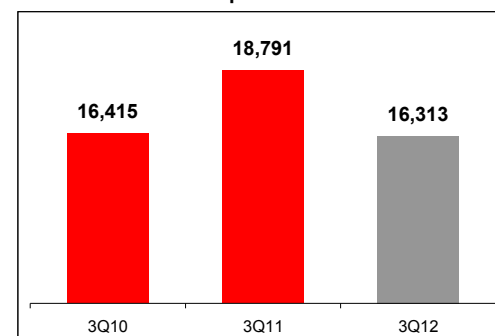
Loan Impairment Charges
30 September 2012



Loan Impairment Charges

For the nine months to 30 September 2012, the Group's loan impairment charges were MXN4,259m, a decrease of MXN491m or 10.3% compared with the same period of 2011. This decrease was mainly due to enhanced pre-screening of new customers and an overall improvement in asset quality. A change in the write-off policy for mortgage loans implemented in April 2012 generated a one-off increase in loan impairment charges.

Administrative Expenses
30 September 2012



Administrative and Personnel Expenses

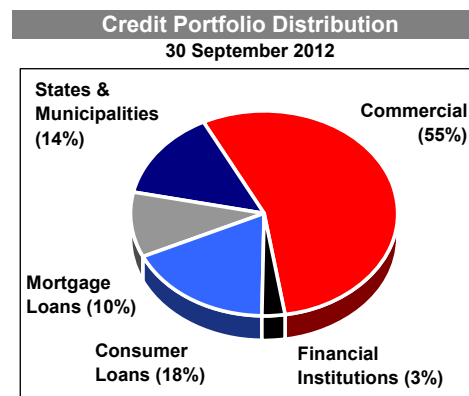
The Group's administrative and personnel expenses for the nine months to 30 September 2012 were MXN16,313m, a MXN2,478m or 13.2% decrease compared to the same period in 2011. Excluding the effect of the restructuring charges, which were MXN856m lower than those incurred in the same period of 2011, the decrease would have been MXN1,622m or 9.2% compared with the same period of 2011.

Balance sheet Variance Analysis

At 30 September 2012, the Group's total assets amounted MXN494,486m, which represents a decrease of MXN11,306m or 2.2%, compared with the same period of 2011. This decrease was driven by lower cash & deposits in bank and investment in securities, partially offset by higher volumes in the net loan portfolio, mainly in consumer and commercial loans.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN187,216m at 30 September 2012, an increase of 6.8% compared with the same period of 2011. This growth has been driven by higher government, consumer and commercial loan portfolios, which grew 22.3%, 14.7% and 2.9% respectively when compared to 30 September 2011.



► Commercial loans (including financial and government entities)

At 30 September 2012, the total commercial portfolio (including financial and government entities) increased 5.1% in comparison with the same period of 2011; mainly driven by government loan portfolio.

The commercial loan portfolio continues to report growth, up 2.9% compared to the same period of 2011, mainly driven by increased corporate lending.

Loan to government entities portfolio reported a 22.3% growth compared to the same period of 2011, driven by increased lending to federal government institutions.

► Consumer loans

At September 2012, consumer loans increased 14.7% compared to the same period in 2011. This result is mainly due to sound personal and payroll loan portfolios performance which show an increase of 54.0% and 35.7% respectively over the same period in 2011.

Credit card balances were MXN16,256m, up 4.7% compared to the same period of the prior year. Auto loan portfolio was MXN2,779m, showing a decrease of 13.7% compared to the same period of 2011.

► Mortgage loans

The mortgage loan portfolio increased MXN1,061m or 6.0% compared with the same period of the prior year. The increase reported as of 30 September 2012 can be explained by an improvement in mortgage loan origination, mainly due to targeted promotions and sales strategies focused towards low risk customers with competitive pricing.

Asset quality

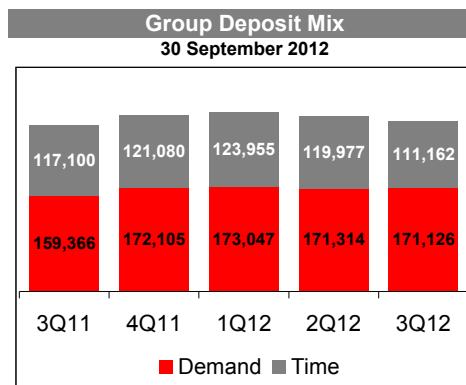
As of 30 September 2012, the Group's impaired loan portfolio amounted to MXN3,769m, which represents a decrease of MXN2,692m or 41.7% compared to the same period of 2011. This decrease was mostly due to a reduction in impaired mortgage loans related to write-off policy change and the reclassification of a large government loan from impaired to performing in December 2011.

Total impaired loans as a percentage of gross loans and advances to customers decreased to 2.0% compared with 3.6% reported at 30 September 2011. The coverage ratio (allowance for loan losses divided by impaired loans) at 30 September 2012 was 270.2%, compared to 158.4% reported at 30 September 2011. This increase in the coverage ratio is mainly the result of lower total impaired loans.

Deposits

The Group's total deposits at 30 September 2012 amounted to MXN286,552m, an increase of 2.1% compared to the one reported at 30 September 2011, as a result of our sales efforts and targeted promotions.

HSBC's presence in the commercial sector continues presenting a positive trend, particularly in demand deposits.



► Demand deposits

At 30 September 2012, demand deposits were MXN171,126m, up 7.4% compared with the same period of 2011, mainly as result of higher payroll, premiere and advance customer accounts, supported by improved sale strategies and promotions in order to increase demand deposits volumes.

► Time deposits

Total time deposits decreased 5.1% compared to 30 September 2011, as a result of funding cost optimization strategies implemented by the bank.

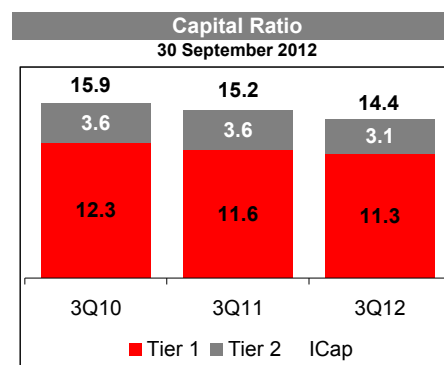
Shareholder's equity

At 30 September 2012, the Group's equity amounted to MXN49,179m, representing an increase of 0.8% compared to the same period in 2011.

The banks equity was MXN42,014m, at 30 September 2012, up 10.6% compared to 30 September 2011.

Capital Adequacy Ratio

The Bank's capital adequacy ratio at 30 September 2012 was 14.4%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 11.3%.



Financial Situation, Liquidity and Capital Resources

HSBC's balance structure has maintained its liquidity. Cash and investments in securities represent 40.4% of total assets, 3.90 percentage points below than in the same period of 2011. Total assets were MXN494.5bn, down by MXN11.3bn in comparison with the same period of 2011. The loan portfolio is adequately diversified across segments, the bank's main credit exposures are with Mexican institutions with top counterparty credit quality and governmental institutions.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at September 30, 2012

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

	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012
Assets					
Cash and deposits in banks	55,376	51,224	45,345	51,365	43,430
Margin Accounts	-	27	43	31	77
Investments in Securities	168,469	177,325	162,511	158,463	156,125
Trading securities	37,304	50,714	34,890	40,923	41,729
Available-for-sale securities	116,067	111,164	111,857	102,451	99,171
Held to maturity securities	15,098	15,447	15,764	15,089	15,225
Repurchase agreements	7,668	5,749	9,787	5,402	5,836
Derivative transactions	50,979	42,906	36,151	45,847	47,048
Performing loans					
Commercial loans	128,354	135,196	136,700	140,315	134,937
Commercial entities	100,133	101,012	103,356	106,589	103,060
Loans to financial intermediaries	6,341	8,268	6,873	5,191	5,119
Loans to government entities	21,880	25,916	26,471	28,535	26,758
Consumer loans	29,101	29,302	30,603	31,916	33,390
Mortgages loans	17,828	18,058	18,355	18,629	18,889
Total performing loans	175,283	182,556	185,658	190,860	187,216
Impaired loans					
Commercial loans	3,366	2,027	2,292	2,461	2,019
Commercial entities	2,014	2,027	2,292	2,461	1,949
Financial entities	-	-	-	-	-
Loans to government entities	1,352	-	-	-	70
Consumer loans	1,256	1,234	1,059	1,095	1,076
Mortgages loans	1,839	1,821	1,626	655	674
Total non-performing loans	6,461	5,082	4,977	4,211	3,769
Loan portfolio	181,744	187,638	190,635	195,071	190,985
Allowance for loan losses	(10,231)	(10,900)	(11,059)	(10,639)	(10,183)
Net loan portfolio	171,513	176,738	179,576	184,432	180,802
Accounts receivable from insurance and bonding companies	-	-	-	-	1
Premium receivables	186	160	212	238	228
Accounts receivables from reinsurers and rebonding companies	237	280	242	214	191
Benefits to be received from trading operations	-	-	-	-	-
Other accounts receivable, net	30,916	29,287	48,136	42,999	42,915
Foreclosed assets	195	207	204	201	234
Property, furniture and equipment, net	8,074	8,080	7,834	7,714	7,371
Long term investments in equity securities	250	221	155	197	216
Long-term assets available for sale	99	103	96	95	89
Deferred taxes, net	5,508	6,504	6,335	6,042	5,923
Goodwill	1,188	1,181	1,186	1,197	1,199
Other assets, deferred charges and intangibles	5,134	4,075	4,329	3,549	2,801
Total Assets	505,792	504,067	502,142	507,986	494,486

Figures in MXN millions at September 30, 2012

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

	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>	<u>31 Mar 2012</u>	<u>30 Jun 2012</u>	<u>30 Sep 2012</u>
Liabilities					
Deposits	280,730	297,428	301,271	295,528	286,552
Demand deposits	159,367	172,105	173,047	171,314	171,126
Time deposits	117,101	121,080	123,955	119,977	111,162
Retail	115,036	119,297	122,536	118,994	110,226
Money market	2,065	1,783	1,419	983	936
Bank bonds outstanding	4,262	4,243	4,269	4,237	4,264
Bank deposits and other liabilities	28,927	32,536	23,888	25,034	23,754
On demand	-	5,866	-	2,001	1,560
Short term	27,243	24,923	22,487	21,446	20,560
Long term	1,684	1,747	1,401	1,587	1,634
Repurchase agreements	17,176	9,327	12,637	14,786	21,113
Stock Borrowing	4	4	3	-	-
Financial assets pending to be settled	-	-	-	1,017	34
Collateral Sold	12,095	17,704	7,849	8,748	1,557
Repurchase	5,422	6,046	5,583	6,025	-
Securities to be received in repo transactions	6,673	11,658	2,266	2,723	1,557
Derivative transactions	50,669	43,296	34,969	45,760	45,267
Technical reserves	10,389	10,700	10,932	10,778	10,935
Reinsurers	58	30	29	62	71
Other accounts payable	45,916	35,836	54,657	48,497	45,344
Income tax and employee profit sharing payable	1,996	1,780	1,462	1,334	835
Creditors for settlement of transactions	35,971	18,353	37,409	29,400	26,926
Sundry creditors and others accounts payable	7,949	15,703	15,786	17,763	17,583
Subordinated debentures outstanding	10,435	10,488	10,153	10,331	10,158
Deferred credits	606	539	527	516	522
Total Liabilities	<u>457,005</u>	<u>457,888</u>	<u>456,915</u>	<u>461,057</u>	<u>445,307</u>
Stockholder's Equity					
Paid in capital	32,673	32,673	32,673	32,673	32,673
Capital stock	5,111	5,111	5,111	5,111	5,111
Additional paid in capital	27,562	27,562	27,562	27,562	27,562
Capital Gains	16,104	13,495	12,545	14,246	16,496
Capital reserves	1,832	1,832	1,832	1,958	2,186
Retained earnings	11,262	8,849	8,959	8,833	8,833
Result from the mark-to-market of Available-for-sale securities	758	547	683	1,216	1,157
Result from cash flow hedging transactions	(468)	(243)	(127)	(87)	(93)
Net Income	2,720	2,510	1,198	2,326	4,413
Non-controlling interest	10	11	9	10	10
Total Stockholder's Equity	<u>48,787</u>	<u>46,179</u>	<u>45,227</u>	<u>46,929</u>	<u>49,179</u>
Total Liabilities and Capital	<u>505,792</u>	<u>504,067</u>	<u>502,142</u>	<u>507,986</u>	<u>494,486</u>

Figures in MXN millions at September 30, 2012

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

	<i>30 Sep</i> <i>2011</i>	<i>31 Dec</i> <i>2011</i>	<i>31 Mar</i> <i>2012</i>	<i>30 Jun</i> <i>2012</i>	<i>30 Sep</i> <i>2012</i>
Memorandum Accounts					
Proprietary position	2,967,174	2,783,257	2,794,342	3,968,847	4,317,285
	<u>2,870,275</u>	<u>2,687,313</u>	<u>2,697,506</u>	<u>3,864,416</u>	<u>4,263,156</u>
Guarantees granted	14	14	9	9	9
Contingent assets and liabilities	95	-	-	-	-
Irrevocable lines of credit granted	19,193	22,425	24,668	25,203	25,312
Goods in trust or mandate	313,369	328,375	348,119	368,631	379,835
Trust	309,526	327,848	347,489	367,917	379,200
Mandate	3,843	527	630	714	635
Goods in custody or under administration	253,350	256,883	288,199	295,763	375,685
Collateral received by the institution	35,774	54,796	55,443	51,373	41,959
Collateral received and sold or delivered as guarantee	36,971	53,869	53,144	50,255	34,243
Values in deposit	53	53	53	53	53
Suspended interest on impaired loans	230	236	239	123	107
Recovery guarantees for issued bonds	34,191	35,383	35,535	82,821	41,787
Paid claims	56	61	9	12	15
Cancelled claims	24	24	-	7	9
Recovery claims	-	1	-	-	-
Responsibilities from bonds in force	3,416	3,552	3,723	3,718	3,613
Other control accounts	2,173,539	1,931,641	1,888,365	2,986,448	3,360,529
	<i>30 Sep</i> <i>2011</i>	<i>31 Dec</i> <i>2011</i>	<i>31 Mar</i> <i>2012</i>	<i>30 Jun</i> <i>2012</i>	<i>30 Sep</i> <i>2012</i>
Third party accounts	96,899	95,944	96,836	104,431	54,129
	<u>96,899</u>	<u>95,944</u>	<u>96,836</u>	<u>104,431</u>	<u>54,129</u>
Clients current accounts	(169)	13	100	(78)	1
Custody operations	33,640	35,328	36,268	41,655	146
Transactions on behalf of clients	11,607	13,585	12,406	13,153	980
Third party investment banking operations, net	51,821	47,018	48,062	49,701	53,002

The present balance statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Article 30 of the Law for Credit Institutions, of general observance and mandatory, applied in a consistent manner, this statement reflects all operations performed by the institution up to the date mentioned above, these operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of the signing officers.
 Historical paid in capital of the Institution amounts to MXN 5,111 millions.
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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO I. MÉNDEZ NARVÁEZ
Chief Financial Officer

NGAR YEE LOUIE
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at September 30, 2012

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

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<i>30 Sep 2011</i>	<i>31 Dec 2011</i>	<i>31 Mar 2012</i>	<i>30 Jun 2012</i>	<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>30 Sep 2012</i>
Interest Income	7,857	7,858	7,937	7,895	8,029	22,657	23,861
Earned premiums	701	649	767	791	809	2,040	2,367
Interest expense	(2,734)	(2,638)	(2,813)	(2,796)	(2,704)	(7,534)	(8,313)
Increase in technical reserves	(104)	(299)	(246)	(103)	(263)	(220)	(612)
Claims	(354)	(253)	(320)	(293)	(261)	(982)	(874)
Net interest income	5,366	5,317	5,325	5,494	5,610	15,961	16,429
Loan impairment charges	(1,548)	(1,987)	(1,654)	(1,681)	(924)	(4,750)	(4,259)
Risk adjusted net interest income	3,818	3,330	3,671	3,813	4,686	11,211	12,170
Fees and commissions receivable	2,076	2,087	2,058	2,094	2,171	5,953	6,323
Fees payable	(519)	(521)	(573)	(578)	(523)	(1,439)	(1,674)
Trading Income	601	773	716	746	967	2,496	2,429
Other operating income	1,611	530	908	1,162	681	4,140	2,751
Administrative and personnel expenses	(5,854)	(6,725)	(5,484)	(5,636)	(5,193)	(18,791)	(16,313)
Net operating income	1,733	(526)	1,296	1,601	2,789	3,570	5,686
Undistributed income from subsidiaries	18	(73)	8	20	7	35	35
Net income before taxes	1,751	(599)	1,304	1,621	2,796	3,605	5,721
Income tax and employee profit sharing tax	(733)	(862)	(311)	(448)	(589)	(1,469)	(1,348)
Deferred income tax	47	1,056	166	(96)	(164)	269	(94)
Income from ongoing operations	1,065	(405)	1,159	1,077	2,043	2,405	4,279
Discontinued operations	46	214	39	51	45	295	135
Non-controlling interest	26	(19)	-	-	(1)	20	(1)
Net income (loss)	1,137	(210)	1,198	1,128	2,087	2,720	4,413

"The consolidated income statement, with those of the other financial entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the other financial entities comprising of that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers."

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Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions
From 1 January to 30th September 2012

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

	Paid in capital				Earned capital						Non-controlling interest	Total Stock-holders Equity
	Capital Stock	Advances for future capital increases	Shares Premiums	Subordinated debentures outstanding	Capital Reserves	Retained earnings	Surplus/Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income		
Balances at 01 January 2012	5,111	-	27,562		1,832	8,849	304	-	-	2,510	11	46,179
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	126	2,384	-	-	-	(2,510)	-	-
Cash dividends	-	-	-	-	-	(2,400)	-	-	-	-	-	(2,400)
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	-	-	-	-	126	(16)	-	-	-	(2,510)	-	(2,400)
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	4,413	-	4,413
Result from valuation of available-for-sale securities	-	-	-	-	-	-	610	-	-	-	-	610
Result from cash flow hedging transactions	-	-	-	-	-	-	150	-	-	-	-	150
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	228	-	-	-	-	-	(1)	227
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	228	-	760	-	-	4,413	(1)	5,400
Balances at 30 September 2012	5,111	-	27,562		2,186	8,833	1,064	-	-	4,413	10	49,179

"The present statement of changes in stockholder's equity, with those of other financial entities comprising the Group that are subject to consolidation, was prepared in accordance with the accounting criteria for financial group holding companies issued by the national Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the financial entities comprising the group that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The present statement of changes in stockholder's equity was approved by the Board of Directors under the responsibility of the following officers.
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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO I. MÉNDEZ NARVÁEZ
Chief Financial Officer

NGAR YEE LOUIE
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January to 30 September 2012

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

Net income	4,413
Adjustments for items not involving cash flow:	5,767
Gain or loss on appraisal of activities associated with investment & financing	-
Allowances for loan losses	-
Depreciation and amortization	1,258
Provisions	2,625
Income Tax and deferred taxes	1,441
Technical reserves	612
Discontinued operations	(135)
Undistributed income from subsidiaries	(34)
Changes in items related to operating activities:	
Memorandum accounts	(50)
Investment securities	21,960
Repurchase agreements	(87)
Stock borrowing	(4)
Derivative (assets)	(4,142)
Loan portfolio	(4,064)
Receivables	-
Foreclosed assets	(27)
Operating assets	(13,628)
Deposits	(10,876)
Bank deposits and other liabilities	(8,782)
Settlement accounts	34
Creditors repo transactions	11,786
Collateral sold or delivered as guarantee	(16,147)
Derivative (liabilities)	1,971
Subordinated debentures outstanding	(330)
Accounts receivables from reinsurers and coinsurers	88
Accounts receivables from premiums	(68)
Reinsurers and bonding	41
Other operating liabilities	5,628
Funds provided by operating activities	(16,697)
Investing activities:	
Acquisition of property, furniture and equipment	(362)
Intangible assets acquisitions	1,257
Others	-
Funds used in investing activities	895
Financing activities:	
Cash dividends	(2,400)
Decrease of Shares	-
Others	228
Funds used in financing activities	(2,172)
Increase/decrease in cash and equivalents	(7,794)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,224
Cash and equivalents at end of period	43,430

The present Consolidated Statement of Cash Flows, with those of other financial entities comprising the Group that are subject to consolidation, was prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the financial entities comprising the group that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions. This Consolidated Statement of Cash Flows, was approved by the Board of Directors under the responsibility of the following officers.

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Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at September 30, 2012

HSBC Mexico, S.A. (Bank)

	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012
Assets					
Cash and deposits in banks	55,376	51,224	45,345	51,374	43,430
Margin Accounts	-	27	43	31	77
Investment in Securities	151,070	161,747	147,606	143,224	140,291
Trading securities	27,757	43,313	28,435	34,366	34,661
Available-for-sale securities	116,067	111,164	111,857	102,451	99,171
Held to maturity securities	7,246	7,270	7,314	6,407	6,459
Repurchase agreements	7,668	5,749	9,787	5,402	5,836
Derivative transactions	50,979	42,906	36,151	45,847	47,048
Performing loans					
Commercial loans	128,354	135,196	136,700	140,315	134,937
Commercial entities	100,133	101,012	103,356	106,589	103,060
Loans to financial intermediaries	6,341	8,268	6,873	5,191	5,119
Loans to government entities	21,880	25,916	26,471	28,535	26,758
Consumer loans	29,101	29,302	30,603	31,916	33,390
Mortgages loans	17,828	18,058	18,355	18,629	18,889
Total performing loans	175,283	182,556	185,658	190,860	187,216
Impaired loans					
Commercial loans	3,366	2,027	2,292	2,461	2,019
Commercial entities	2,014	2,027	2,292	2,461	1,949
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	1,352	-	-	-	70
Consumer loans	1,256	1,234	1,059	1,095	1,076
Mortgage Loans	1,839	1,821	1,626	655	674
Total non-performing loans	6,461	5,082	4,977	4,211	3,769
Total loan portfolio	181,744	187,638	190,635	195,071	190,985
Allowance for loan losses	(10,231)	(10,900)	(11,059)	(10,639)	(10,183)
Net loan portfolio	171,513	176,738	179,576	184,432	180,802
Other accounts receivable	30,948	29,335	47,523	42,784	41,189
Foreclosed assets	191	203	201	198	231
Property, furniture and equipment, net	8,073	8,080	7,834	7,714	7,371
Long term investments in equity securities	170	138	143	111	130
Long term assets available for sale	3	-	-	7	-
Deferred taxes	5,386	6,409	6,224	5,946	5,824
Other assets, deferred charges and intangibles	4,642	3,506	4,083	3,160	2,693
Total Assets	486,019	486,062	484,516	490,230	474,922

Figures in MXN millions at September 30, 2012

HSBC Mexico, S.A. (Bank)

	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>	<u>31 Mar</u> <u>2012</u>	<u>30 Jun</u> <u>2012</u>	<u>30 Sep</u> <u>2012</u>
Liabilities					
Deposits	281,464	298,119	302,116	296,209	287,279
Demand deposits	160,102	172,797	173,892	171,995	171,853
Time deposits	117,100	121,079	123,955	119,977	111,162
Retail	115,035	119,296	122,536	118,994	110,226
Money market	2,065	1,783	1,419	983	936
Bank bonds outstanding	4,262	4,243	4,269	4,237	4,264
Bank deposits and other liabilities	28,927	32,536	23,888	25,034	23,754
On demand	-	5,866	-	2,001	1,560
Short term	27,243	24,923	22,487	21,446	20,560
Long term	1,684	1,747	1,401	1,587	1,634
Repurchase agreements	22,598	15,373	18,219	20,811	21,113
Stock Borrowing	4	4	3	-	-
Financial assets pending to be settled	-	-	-	1,017	34
Collateral Sold	6,673	11,658	2,227	2,723	1,557
Repurchase	-	-	-	-	-
Securities to be received in repo transactions	6,673	11,658	2,227	2,723	1557
Derivative transactions	50,669	43,296	34,969	45,760	45,267
Other accounts payable	46,680	34,572	53,305	47,559	43,238
Income tax and employee profit sharing payable	1,113	795	1,079	909	658
Contributions for future capital increases	2,013	-	-	-	-
Creditors for settlement of transactions	25,897	18,353	36,703	29,064	24,336
Sundry creditors and others accounts payable	17,657	15,424	15,523	17,586	18,244
Subordinated debentures outstanding	10,435	10,488	10,153	10,331	10,158
Deferred credits	587	520	505	498	508
Total Liabilities	<u>448,037</u>	<u>446,566</u>	<u>445,385</u>	<u>449,942</u>	<u>432,908</u>
Stockholder's Equity					
Paid in capital	25,605	27,618	27,618	27,618	27,618
Capital stock	5,087	5,261	5,261	5,261	5,261
Additional paid in capital	20,518	22,357	22,357	22,357	22,357
Capital Gains	12,374	11,875	11,513	12,669	14,394
Capital reserves	11,069	11,057	9,657	10,373	10,603
Retained earnings	(301)	(202)	514	(202)	(204)
Result from the mark-to-market of					
Available-for-sale securities	758	547	683	1,216	1,157
Result from cash flow hedging transactions	(467)	(243)	(127)	(87)	(93)
Net Income	1,315	716	786	1,369	2,931
Non-controlling interest	3	3	-	1	2
Total Stockholder's Equity	<u>37,982</u>	<u>39,496</u>	<u>39,131</u>	<u>40,288</u>	<u>42,014</u>
Total Liabilities and Capital	<u>486,019</u>	<u>486,062</u>	<u>484,516</u>	<u>490,230</u>	<u>474,922</u>

	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>	<u>31 Mar</u> <u>2012</u>	<u>30 Jun</u> <u>2012</u>	<u>30 Sep</u> <u>2012</u>
Memorandum Accounts					
Guarantees granted	14	14	9	9	9
Contingent assets and liabilities	95	-	-	-	-
Irrevocable lines of credit granted	19,193	22,425	24,668	25,203	25,312
Goods in trust or mandate	313,370	328,375	348,119	368,630	379,835
Goods	309,527	327,848	347,489	367,916	379,200
Trusts	3,843	527	630	714	635
Goods in custody or under administration	248,240	251,772	283,088	290,653	370,574
Collateral received by the institution	35,774	54,796	55,443	51,373	41,959
Collateral received and sold or delivered as guarantee	31,561	47,829	47,566	44,235	34,243
Third party investment banking operations, net	51,821	47,018	48,063	49,701	53,002
Suspended interest on impaired loans	230	236	239	123	107
Other control accounts	2,171,910	1,919,501	1,876,232	2,974,311	3,349,200
	<u>2,872,208</u>	<u>2,671,966</u>	<u>2,683,426</u>	<u>3,804,238</u>	<u>4,254,241</u>

The present income statement was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 and 102 of the Law for Credit Institutions, of general observance and mandatory, applied in a consistent manner, this statement reflects all operations performed by the institution up to the date mentioned above, these operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of the signing officers. Historical paid in capital of the Institution amounts to MNX 3,461 millions.

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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO I. MÉNDEZ NARVÁEZ
Chief Financial Officer

NGAR YEE LOUIE
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at September 30, 2012

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date		
	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012	30 Sep 2012	
Interest income	7,651	7,643	7,742	7,702	7,828	22,098	23,272
Interest expense	(2,738)	(2,642)	(2,818)	(2,797)	(2,713)	(7,548)	(8,328)
Net interest income	<u>4,913</u>	<u>5,001</u>	<u>4,924</u>	<u>4,905</u>	5,115	14,550	14,944
Loan impairment charges	(1,548)	(1,987)	(1,654)	(1,681)	(924)	(4,750)	(4,259)
Risk adjusted net interest income	<u>3,365</u>	<u>3,014</u>	<u>3,270</u>	<u>3,224</u>	4,191	9,800	10,685
Fees and commissions receivable	1,926	2,001	1,959	1,966	2,032	5,649	5,957
Account management	121	120	103	106	102	367	311
Services	1,805	1,881	1,856	1,860	1,930	5,282	5,646
Fees payable	(386)	(386)	(448)	(456)	(430)	(1,063)	(1,334)
Trading Income	490	609	607	740	881	2,011	2,228
Foreign exchange	189	787	(924)	1,290	109	(9)	475
Securities trading, net	210	217	31	(49)	145	321	127
Repos	-	-	(1)	(46)	1	(8)	(46)
Swaps	31	373	177	72	591	967	840
Valuation off-shore agencies	170	(650)	1,255	(601)	98	351	752
Valuation for trading swaps	84	72	108	124	151	710	383
Valuation for FX options	(194)	(190)	(39)	(50)	(214)	(321)	(303)
Other operating income	1,582	802	971	1,202	740	4,313	2,913
Administrative and personnel expenses	5,935	6,861	5,588	5,788	5,293	19,031	16,669
Personnel expense	2,621	2,726	2,413	2,430	2,317	7,940	7,160
Administrative expense	2,924	3,297	2,650	2,980	2,621	9,140	8,251
Depreciation and amortization	390	838	525	378	355	1,951	1,258
Net operating income	<u>1,042</u>	<u>(821)</u>	<u>771</u>	<u>888</u>	2,121	1,679	3,780
Undistributed income from subsidiaries	17	(76)	6	19	7	35	32
Net income before taxes	<u>1,059</u>	<u>(897)</u>	<u>777</u>	<u>907</u>	2,128	1,714	3,812
Income tax	(334)	(761)	(137)	(240)	(404)	(652)	(781)
Deferred income tax	51	1,077	146	(84)	(162)	234	(100)
Net income before discontinued operations	<u>776</u>	<u>(581)</u>	<u>786</u>	<u>583</u>	1,562	1,296	2,931
Non-controlling interest	25	(18)	-	-	-	19	-
Net income (loss)	<u>801</u>	<u>(599)</u>	<u>786</u>	<u>583</u>	1,562	1,315	2,931

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

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Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January to 30 September 2012

	Paid in capital				Earned Capital					Non-controlling interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets			Net Income
Balances at January 31, 2012	5,261	-	22,357		11,057	(202)	304	-	-	716	3	39,496
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	716	(716)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	716	-	-	-	(716)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,400)	-	-	-	-	-	-	(1,400)
Total Movements Inherent to the Shareholders Decision	-	-	-	-	(684)	-	-	-	-	(716)	-	(1,400)
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-	-	2,931	-	2,931
Result from valuation of available-for-sale securities	-	-	-	-	-	-	610	-	-	-	-	610
Result from cash flow hedging transactions	-	-	-	-	-	-	150	-	-	-	-	150
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	230	(2)	-	-	-	-	(1)	227
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	230	(2)	760	-	-	2,931	(1)	3,918
Balances as at September 30, 2012	5,261	-	22,357		10,603	(204)	1,064	-	-	2,931	2	42,014

The present statement of changes in stockholder's equity was prepared in accordance to the accounting principles for banking institutions which are issued by the Mexican National Banking Commission as specified in Articles 99, 101 y 102 of the Law for Credit Institutions of General Observance and Mandatory, applied in a consistent manner. This statement reflects all movements in capital accounts derived from the operations performed by the Institution up to the date mentioned above.

These operations were performed following healthy banking practices and following applicable legal and administrative requirements.

The present statement has been approved by the Board of Directors under the responsibility of the signing officers.

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JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions
From 1 January to 30 September 2012

HSBC Mexico, S.A. (Bank)

	30 Sep 2012
Net income	2,931
Adjustments for items not involving cash flow:	4,732
Depreciation and amortization	1,258
Provisions	2,625
Income Tax and deferred taxes	881
Undistributed income from subsidiaries	(32)
Changes in items related to operating activities:	
Memorandum accounts	(50)
Investment securities	22,251
Repurchase agreements	(87)
Derivative (assets)	(4,142)
Loan portfolio	(4,063)
Foreclosed assets	(27)
Operating assets	(11,855)
Deposits	(10,842)
Bank deposits and other liabilities	(8,782)
Creditors repo transactions	5,740
Stock borrowing	(4)
Collateral sold or delivered as guarantee	(10,100)
Derivative (liabilities)	1,971
Subordinated debentures outstanding	(329)
Other operating liabilities	7,456
Income tax payable	(1,724)
Funds provided by operating activities	(14,587)
Investing activities:	
Acquisition of property, furniture and equipment	(511)
Intangible assets acquisitions	813
Funds used in investing activities	302
Financing activities:	
Cash dividend	(1,400)
Others	228
Funds used or provided by financing activities	(1,172)
Increase/decrease in cash and equivalents	(7,794)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,224
Cash and equivalents at end of period	43,430

The present Statement of Cash Flows was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission, as specified in Articles 99, 101 and 102 of the Law for Credit Institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all movements in funds derived from the operations performed by the Institution up to the date mentioned above.

These operations were performed following healthy banking practice and following applicable legal and administrative requirements.

The present Statement of Cash Flows has been approved by the Board of Directors under the responsibility of signing the officers.

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Financial Instruments

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

Figures in MXN millions at September 30, 2012

Investments in securities

	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>	<u>31 Mar 2012</u>	<u>30 Jun 2012</u>	<u>30 Sep 2012</u>
Government securities	27,028	42,513	28,737	34,752	36,120
Bank securities	2,345	2,402	1,679	2,255	1,283
Shares	2,945	1,538	2,464	2,537	2,653
Others	4,986	4,261	2,010	1,379	1,673
Trading securities	<u>37,304</u>	<u>50,714</u>	<u>34,890</u>	<u>40,923</u>	<u>41,729</u>
Government securities	108,364	108,236	98,372	89,491	85,408
Bank securities	-	-	300	301	1,633
Obligations and other securities	7,686	2,917	13,176	12,649	12,120
Shares	17	11	9	10	10
Available for sale securities	<u>116,067</u>	<u>111,164</u>	<u>111,857</u>	<u>102,451</u>	<u>99,171</u>
Special Cetes (net)	12,119	12,484	12,794	13,066	13,195
Bank securities	145	150	153	155	158
Corporate securities	2,834	2,813	2,817	1,868	1,872
Securities held to maturity	<u>15,098</u>	<u>15,447</u>	<u>15,764</u>	<u>15,089</u>	<u>15,225</u>
Total Financial Instruments	<u>168,469</u>	<u>177,325</u>	<u>162,511</u>	<u>158,463</u>	<u>156,125</u>

In the third quarter of 2012, investment in securities decreased by MXN (2,338) million compared to the second quarter of 2012; mainly by decreasing government securities in MXN (2,715) million.

Repos

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

Figures in MXN millions at September 30, 2012

	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>	<u>31 Mar 2012</u>	<u>30 Jun 2012</u>	<u>30 Sep 2012</u>
Repo's Government securities (credit)	17,031	9,044	12,501	14,533	20,984
Repo's Bank securities (credit)	-	-	-	-	-
Repo's Others securities (credit)	-	2	-	-	-
Valuation increase (decrease)	-	-	-	-	-
Accrued interest payable	145	281	136	253	129
Credit balance in repo agreements	<u>17,176</u>	<u>9,327</u>	<u>12,637</u>	<u>14,786</u>	<u>21,113</u>
Repurchase agreements in government securities	27,300	40,200	51,000	46,500	37,800
Accrued interest receivable	32	39	49	26	43
Debit balance repo securities agreements	<u>27,332</u>	<u>40,239</u>	<u>51,049</u>	<u>46,526</u>	<u>37,843</u>
Government securities	19,661	34,470	41,242	41,113	31,994
Interest in collateral delivered as guarantee	3	20	20	11	13
Total in collateral delivered as guarantee	<u>19,664</u>	<u>34,490</u>	<u>41,262</u>	<u>41,124</u>	<u>32,007</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2012

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	14,274	12,840	24,782	24,712	149,136	144,478	6,162
Foreign currency	-	-	197	231	25,835	25,832	213,774	217,206	(3,463)
Interest Rate	1,030	1,030	88	188	-	-	253,678	253,484	94
Total	1,030	1,030	14,559	13,259	50,617	50,544	616,588	615,168	2,793
For hedging									
Pesos	-	-	-	-	-	-	1,707	-	1,707
Foreign currency	-	-	-	-	-	-	-	1,819	(1,819)
Interest Rate	-	-	-	-	-	-	1,106	2,006	(900)
Total	-	-	-	-	-	-	2,813	3,825	(1,012)

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2012

	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012
Stock borrowing					
Cetes	237	643	672	595	377
Valuation increase (decrease)	-	-	-	-	-
Bonds	6,462	11,021	1,551	2,108	1,139
Valuation increase (decrease)	(26)	(6)	4	20	41
Shares	-	-	-	-	-
Valuation increase (decrease)	-	-	-	-	-
Total	6,673	11,658	2,227	2,723	1,557

Loan Portfolio

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

By type of currency

Figures in MXN millions at 30 September 2012

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	78,728	4,687	26,113	33,390	17,590	160,508
US Dollars	24,331	432	645	-	-	25,408
Udis Banxico	-	-	-	-	1,300	1,300
Total	103,059	5,119	26,758	33,390	18,890	187,216

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
Non Performing Loans Portfolio						
Pesos	1,249	-	70	1,076	585	2,980
US Dollars	699	-	-	-	1	700
Udis Banxico	1	-	-	-	88	89
Total	1,949	-	70	1,076	674	3,769

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2012

	<i>Total loan portfolio</i>	<i>Allowance for Loan Losses by type of loan</i>			<i>Total reserves</i>
		<i>Commercial loans</i>	<i>Consumer loans</i>	<i>Mortgages loans</i>	
Exempted from rating	8,590				
Graded	207,714				
Risk A	101,100	519	43	45	607
Risk A-1	69,891	215	43	45	303
Risk A-2	31,209	304	0	0	304
Risk B	100,183	3,804	2,294	121	6,219
Risk B-1	59,946	1,059	1,511	121	2,691
Risk B-2	34,401	1,890	783	0	2,673
Risk B-3	5,836	855	0	0	855
Risk C	3,975	558	686	190	1,434
Risk C-1	3,888	521	686	190	1,397
Risk C-2	87	37	0	0	37
Risk D	1,853	342	952	2	1,296
Risk E	603	573	41	13	627
Total	216,304	5,796	4,016	371	10,183
Less:					
Constituted Reserves					10,183
Surplus					0

The figures related to the rating and constitution of reserves corresponds to those at the last day of the balance sheet date, as at September 30, 2012.

The loan portfolio is graded according to the rules for lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. The methodology distinguishes the qualification of the borrower and based on this determines the one related to operation, for the commercial portfolio and excluding States and Municipalities in which the Institution applied the new Methodology since October 2011 based on CNBV provisions. For the consumer portfolio and mortgage is made based on the "General Regulations Applicable to Credit Institutions" issued by the CNBV, specifically using the standard methodology.

During the second quarter of 2012, HSBC Mexico modified the written of policy for mortgage loans. This change consisted in writing of loans after seven past due payments (PDP) instead of writing of after twenty four PDP.

As a result of the change in the written of policy for mortgage loans and before effectively writing of the loans, HSBC Mexico constituted 100% of loan loss reserves on those loans affected. In this sense, on April 2012 HSBC Mexico increased the mortgages loan loss reserve by MXN 659 million according to B-6 criteria, paragraph 71 of General Rules for financial institutions.

As at September 2012, the increase in loan loss reserves charged to Income Statement was 4,259 MXN millions. In the other hand, MXN 4,345 million was related to writte offs and MXN 474 millions was related to debt forgiveness.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	<i>At the quarter ending</i>				
	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>	<u>31 Mar 2012</u>	<u>30 Jun 2012</u>	<u>30 Sep 2012</u>
Initial Balance of Impaired Loans	4,504	6,461	5,082	4,978	4,211
Increases	4,382	2,739	2,446	3,126	3,365
Transfer of current loans to past due status	<u>4,382</u>	<u>2,739</u>	<u>2,446</u>	<u>3,126</u>	<u>3,365</u>
Decreases	2,425	4,118	2,550	3,893	3,807
Restructurings	106	117	88	89	133
Liquidated credits	1,649	1,748	1,564	2,813	2,451
Charged in cash	357	398	353	544	1,100
Foreclosed assets	35	28	6	117	61
Write-offs	-	-	-	-	-
Sale of portfolio	1,257	1,322	1,205	2,152	1,290
Transfer to performing loan status	<u>759</u>	<u>2,268</u>	<u>836</u>	<u>1,023</u>	<u>1,185</u>
FX revaluations	<u>89</u>	<u>15</u>	<u>(62)</u>	<u>32</u>	<u>(38)</u>
Final Balance of Impaired Loan	<u>6,461</u>	<u>5,082</u>	<u>4,978</u>	<u>4,211</u>	<u>3,769</u>

Deferred Taxes

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

Figures in MXN millions at September 30, 2012

	<u>30 Sep 2011</u>	<u>31 Dec 2011</u>	<u>31 Mar 2012</u>	<u>30 Jun 2012</u>	<u>30 Sep 2012</u>
Loan loss reserves	5,181	5,618	5,800	5,954	5,517
Valuation of securities	(200)	(58)	(162)	(563)	(426)
Fiscal loss	6	8	6	17	6
Other reserves	796	1,309	884	872	951
PTU Payable	80	111	137	53	73
Foreclosed assets	165	190	202	219	238
Other	194	193	188	174	175
Differences in rates of fixed assets	144	6	168	219	276
Fiscal result UDIS-Banxico	<u>(858)</u>	<u>(873)</u>	<u>(888)</u>	<u>(903)</u>	<u>(887)</u>
Total Deferred Taxes	<u>5,508</u>	<u>6,504</u>	<u>6,335</u>	<u>6,042</u>	<u>5,923</u>

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>30 Sep 2011</i>	<i>31 Dec 2011</i>	<i>31 Mar 2012</i>	<i>30 Jun 2012</i>	<i>30 Sep 2012</i>
MXN pesos					
Funding	2.44%	2.40%	2.50%	2.42%	2.33%
Bank and other loans	5.10%	5.10%	5.09%	4.88%	4.90%
Foreign currency					
Funding	0.06%	0.08%	0.06%	0.06%	0.05%
Bank and other loans	0.68%	0.66%	0.75%	0.93%	1.00%
UDIS					
Funding	0.34%	0.29%	0.29%	0.21%	0.21%

Long Term Debt

HSBC Mexico, S.A. (Bank)

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments pay monthly interest at a rate equivalent to the average 28-day THIE (interbank rate) of the previous month.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Rate</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	4	2,204	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	1	1,819	20-SEP-2018
HSBC 08-2	18-DIC-2008	2,272	MXN	3	2,275	10-DIC-2018
HSBC 09D(USD300) ¹	26-JUN-2009	3,859	USD	1	3,860	28-JUN-2019
		10,149		9	10,158	

¹ Expressed in local currency at issuance date FX rate.

HSBC México, S.A., has also issued long term certified marketable securities listed in the Mexican Stock Exchange.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certificados Bursátiles	10-MAY-2006	4,220	MXN	44	4,264	27-ABR-2016
		4,220		44	4,264	

Capital

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

Grupo Financiero HSBC

Grupo Financiero HSBC S.A. de C.V., net income in 2011, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN2,510 million.

On March 30, 2012, the Board Directors authorized a dividend payment of \$0.939206 per share for each of the 2,555,351,034 shares outstanding. The total amount paid by the Group was MXN 2,400.

The Ordinary Shareholders Meeting, held on April 27, 2012, approved the following distribution of the year 2011 financial results, amounting to MXN2,510 million:

- Five per cent, MXN126 million, to increase legal reserves, and the remaining MXN2,384 million, at the Board's determination to be applied under the concept of previous year's financial results.

On August 2012 was applied against other reserves account the amount of MXN228, the effect of transfer of subsidiary

The capital stock is included in the amount of MXN 5,111 million, represented by 2,555,351,034 shares.

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

HSBC Mexico, S.A., net income in 2011, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN716 million.

Ten per cent, MXN72 million, to increase legal reserves, and the remaining MXN644 million, at the Board's determination to be applied under the concept of other reserves

On October, 2011 one notice was published in accordance to the agreement of the Board meeting, a dividend of \$0.809099009096675 shall be paid per share for each one of the 1,730,319,756 shares. Such dividend was paid on one disbursement on March 29 of 2012.

On August 2012 was applied against other reserves account the amount of MXN230, the effect of transfer of subsidiary.

The capital stock increased to MXN 3,461 million representing 1,730'319,756 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2012

	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>	<u>31 Mar</u> <u>2012</u>	<u>30 Jun</u> <u>2012</u>	<u>30 Sep</u> <u>2012</u>
% of assets subject to credit risk					
Tier 1	17.07%	16.96%	16.75%	16.58%	18.0%
Tier 2	5.27%	5.09%	4.97%	4.97%	5.0%
Total regulatory capital	<u>22.34%</u>	<u>22.05%</u>	<u>21.72%</u>	<u>21.55%</u>	<u>23.0%</u>

	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>	<u>31 Mar</u> <u>2012</u>	<u>30 Jun</u> <u>2012</u>	<u>30 Sep</u> <u>2012</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	11.58%	11.74%	11.34%	10.48%	11.3%
Tier 2	3.58%	3.52%	3.37%	3.14%	3.1%
Total regulatory capital	<u>15.16%</u>	<u>15.26%</u>	<u>14.71%</u>	<u>13.62%</u>	<u>14.4%</u>
Tier 1	34,610	34,441	33,785	34,837	36,946
Tier 2	10,688	10,343	10,035	10,445	10,347
Total regulatory capital	<u>45,298</u>	<u>44,784</u>	<u>43,820</u>	<u>45,282</u>	<u>47,293</u>
RWA credit risk	202,792	203,092	201,719	210,167	204,931
RWA market risk	57,667	51,923	57,610	83,799	84,459
RWA operational risk	38,298	38,454	38,552	38,596	39,004
RWA credit and market risk	<u>298,757</u>	<u>293,469</u>	<u>297,881</u>	<u>332,562</u>	<u>328,394</u>

With a capital ratio above 10%, HSBC Mexico, S.A. is classified in category I, according to the General Standards referred in article 134 Bis from the Financial Institutions Law and according to the General Standards principles for financial institutions issued by the Mexican Banking and Securities Commission referred in article 220.

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2012

	<u>For the quarter ending...</u>					<u>Year to date</u>	
	<u>30 Sep</u> <u>2011</u>	<u>31 Dec</u> <u>2011</u>	<u>31 Mar</u> <u>2012</u>	<u>30 Jun</u> <u>2012</u>	<u>30 Sep</u> <u>2012</u>	<u>30 Sep</u> <u>2011</u>	<u>30 Sep</u> <u>2012</u>
Valuation	158	(373)	1,445	(409)	302	988	1,339
Derivatives	344	(499)	1,271	(664)	263	1,121	870
Repos	-	-	-	-	-	-	-
Debt Securities	31	(154)	128	174	(40)	84	263
Foreign Exchange	(217)	280	46	81	79	(217)	206
Buying and Selling Instruments	332	982	(838)	1,149	578	1,023	889
Foreign Currency	293	685	(1,002)	1,226	46	74	270
Derivatives	(298)	191	(15)	(404)	47	149	(373)
Repos	-	-	(1)	-	1	-	-
Shares	(21)	20	(1)	-	1	(33)	1
Debt Securities	358	86	181	327	484	833	992
Total	<u>490</u>	<u>609</u>	<u>607</u>	<u>740</u>	<u>881</u>	<u>2,011</u>	<u>2,228</u>

Other Operating Income (Expenses)

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

Figures in MXN millions at September 30, 2012

	For the quarter ending				Year to date		
	30 Sep 2011	31 Dec 2011	31 Mar 2012	30 Jun 2012	30 Sep 2012	30 Sep 2012	
Loans to employees	34	39	34	34	34	105	102
Recoveries	668	245	144	454	10	1,201	608
Credit portfolio recoveries	160	139	173	179	183	552	535
Result of Foreclosed assets	11	58	6	12	(6)	20	12
Property sales	9	-	7	(7)	-	613	-
Other items of income(expenses)	764	162	555	490	386	2,042	1,431
Other income (expenses) arising from op. Insurance and Bonding	99	106	103	107	109	286	319
Monetary position result	11	16	6	-	14	14	20
Other losses	(145)	(234)	(120)	(107)	(49)	(693)	(276)
Total Other Operating Income (expenses)	<u>1,611</u>	<u>531</u>	<u>908</u>	<u>1,162</u>	<u>681</u>	<u>4,140</u>	<u>2,751</u>

► Other items of income (expenses) are integrated by expense reimbursements, profits from property sales, furniture and equipment, management services, updates and other.

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

The consolidated income statement by customer segment includes Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB) and Global Banking and Markets (GBM). The following is a brief description of the customer segments:

Retail Banking and Wealth Management (RBWM) – retail banking operations focusing on the individual by offering a the complete spectrum of financial needs from checking/deposits accounts to credit cards, personal and auto loans, and mortgages, among others.

Commercial Banking (CMB) – CMB covers all small and medium sized companies by offering lending in Mexican Pesos and other currencies, lines of credit for working capital, export financing, in addition to trade services, fiduciary and other financial services, among others.

Global Banking and Markets (GBM) – This segment includes product lines directed towards large, multinational corporations and consists of treasury and custody services, corporate finance advising, risk administration, trade services, and money market and capital investments.

The consolidated incomes statement information condensed by segments as of 30 June 2012 is shown below:

Figures in MXN millions at September 30, 2012

(MXN millions)	Year to date at 30 September 2012			
	RBWM	CMB	GBM	Total
Net Interest Income	10,473	4,611	1,344	16,428
Provision for Loan Loss	4,246	-430	444	4,260
Net Interest Income adjusted	6,227	5,041	900	12,168
Fees and Commissions, net	2,703	1,206	740	4,649
Trading Income	257	149	2,024	2,430
Other operation income	2,193	360	200	2,753
Total Revenue	11,380	6,756	3,864	22,000
Administrative Expenses	9,967	4,394	1,953	16,314
Operating Income	1,413	2,362	1,911	5,686
Undistributed income from subsidiaries	21	11	3	35
Profit Before Taxes	1,434	2,373	1,914	5,721
Taxes	403	666	373	1,442
Net Income before discontinued operations	1,031	1,707	1,541	4,279
Discontinued operations	125	9	0	134
Minority Shareholders	0	0	0	0
Participated Net Income	1,156	1,716	1,541	4,413

Related Party Transactions

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

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

The balance of the transactions carried out as of September 30, 2012 is shown below:

Figures in MXN millions

	Bank	Brokerage house	Mutual funds management	Services	Group	Insurance	Bonding	Total
Balance Sheet								
Cash and deposits in banks	-	678	-	2	15	7	25	727
Demand deposits	(727)	-	-	-	-	-	-	(727)
Repurchase agreements (assets)	-	-	-	-	-	-	-	-
Repurchase agreements (liabilities)	-	-	-	-	-	-	-	-
Sundry debtors (assets)	903	162	13	18	-	59	-	1,155
Sundry creditors (liabilities)	(238)	(684)	(67)	(21)	-	(141)	(4)	(1,155)
Long Term investments in equity securities	-	-	-	-	(74)	-	-	(74)
Long-term assets available for sale	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Retained earnings					74			74
Total	(62)	156	(54)	(1)	15	(75)	21	-

P&L								
Payable commissions	(11)	-	(338)	-	-	(10)	-	(359)
Receivable commissions	312	47	12	-	-	-	-	371
Discontinued operations	-	-	-	-	-	-	-	-
Interest income	-	18	-	-	-	-	-	18
Interest expense	(18)	-	-	-	-	-	-	(18)
Repos	(176)	-	-	-	-	-	-	(176)
Reverse repos	-	176	-	-	-	-	-	176
Earned premiums	-	-	-	-	-	156	4	160
Administrative and personnel expenses	(228)	-	-	(5)	-	-	-	(233)
Administrative services	(212)	(49)	(59)	(1)	(1)	(468)	(7)	(797)
Undistributed income from subsidiaries	-	-	-	-	-	-	-	-
Other income	560	-	-	222	74	2	-	858
Total	227	192	(385)	216	73	(320)	(3)	-

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)

Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the nine months ended 30 September 2012 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Sep 2012
Grupo Financiero HSBC – Net Income Under Mexican GAAP	4,413
Differences arising from:	
Valuation of defined benefit pensions and post retirement healthcare benefits †	72
Deferral of fees received and paid on the origination of loans	58
Recognition and provisioning for loan impairments †	1,251
Purchase accounting adjustments †	(9)
Recognition of the present value in-force of long-term insurance contracts †	46
Other †	(4)
Net income under IFRS	5,827
US dollar equivalent (millions)	441
Add back tax expense	1,728
Profit before tax under IFRS	7,555
US dollar equivalent (millions)	571
<i>Exchange rate used for conversion</i>	13.22

† Net of tax at 29%.

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

Valuation of defined benefit pensions and post retirement healthcare benefits

Mexican GAAP

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method and real interest rates.

IFRS

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

Fees paid and received on the origination of loans

Mexican GAAP

From 1 January 2007, loan origination fees are required to be deferred and amortised over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were recognised up-front.

IFRS

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for using the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

Loan impairment charges

Mexican GAAP

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

IFRS

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying value.

Purchase accounting adjustments

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

Recognition of present value of in-force long-term life insurance contracts

Mexican GAAP

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

IFRS

A value is placed on insurance contracts that are classified as long-term insurance business and are in-force at the balance sheet date. The present value of in-force long-term insurance business is determined by discounting future earnings expected to emerge from business currently in force using appropriate assumptions in assessing factors such as recent experience and general economic conditions.

Participation by Subsidiary

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

Group Subsidiaries at September 30, 2012

	Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,730,319,756	99.99%	1,730,243,530
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Fianzas, S.A.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	264,068,221	99.99%	264,068,217
HSBC Global Asset Management (México), S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	480,100	99.99%	480,099
Total	2,755,246,731		2,734,062,759

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	Moody's	Standard & Poor's	Fitch
Global scale ratings			
Foreign currency			
Long term	-	BBB	A-
Long term deposits	Baa1	-	-
Short term	P-2	A-2	F1
Local Currency			
Long term obligations	A2	BBB	A
Long term deposits	A2	BBB	-
Short term	P-1	A-2	F1
BFSR (Moody's)	C-	-	-
Individual / Support rating (Fitch)	-	-	bbb / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mex)
Short term	MX-1	mxA -1+	F1+ (mex)
Outlook	Stable	Stable	Stable
Last update	26-Apr-12	11-Jul-12	15-Ago-12

Accounting Policies

These financial statements are prepared under the banking law, in accordance with the accounting criteria for the credit institutions in Mexico, at the balance sheet date, established by the Banking Committee (CNBV for its acronym in Spanish).

The accounting criteria established by the CNBV, follow the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards (CINIF for its acronym in Spanish). The accounting criteria include specific rules for accounting, valuation, presentation and disclosure, which in some cases are different from the NIF.

The accounting criteria indicate that the commission diffuses specific rules for specialized operations, and when the CNBV or the NIF (as applicable) do not indicate a specific accounting criterion for credit institutions, it must be analyzed a supplementary process established in the NIF A-8, and just in case that the International Financial Reporting Standards (IFRS) referred in the NIF A-8 do not provide solution to the accounting recognition, can opt to apply another supplementary rule that belongs to any other regulatory scheme (it has to comply with all the requirements mentioned in the NIF). For apply the mentioned supplementary rules, it must be in the following order: Generally Accepted Accounting Principles of the United States (USGAAP) and any accounting standard that is part of a set of formal and recognized standards.

Modifications in to the policies, standards and accounting practices

1. Modifications to the criterion B-6 “Loan Portfolio”

The main modification to this criterion refers to the inclusion of specific rules for assigned a classification as current or past due to the restructured and renewed loans.

2. Modifications to the criterion B-10 “Trusts”

Indicates that in the case of assets under the trust, of those trusts that requests, obtains and maintains the registration of its securities in the National Securities Registry, the assets must be valuated based on the accounting rules for such purposes for securities issuers and to other market participants.

3. Modifications to the criterion C-5 “Consolidation for special purpose entities”

The most important modification concerns in to the elimination of the paragraphs referring to the identification of an unconsolidated SPE, looking for standardise the approach with the currently International Standard.

Treasury Policies

HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (HSBC Mexico) has three specific objectives in Treasury activities:

1. To fulfil the needs of our client base, mainly being Corporate, Institutional and Commercial clients.
2. Provide hedges for HSBC Mexico from interest rate, foreign exchange and liquidity risks. The latter as a part of its normal commercial activity.
3. Positioning and Market Maker activities.

All of the aforementioned is implemented in compliance with limits established by local regulating entities and with the high control standards from HSBC Group.

Dividends Policy

Grupo HSBC (including HSBC Mexico) does not have a fixed dividend policy. The decision to decret or no to make payment of dividends is determined by the shareholder assembly and the Board of Directors, such decision is based on the reinvestment and capitalization needs.

Paid Dividends

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

- During 2007, no dividend was paid.
- On 2 April 2008, the Board of Directors authorized a dividend payment for MXN2.8328 per share for the 1,235,526,706 outstanding shares.

- Based on the authorization granted by the Board of Directors on 30 March 2009, on 31 March 2009 a dividend payment was made for MXN0.81133657 per share for the 1,235,526,706 outstanding.
- Based on the authorization granted by the Board of Directors on 29 October 2010 a dividend payment was made for MXN1.22497679421977 per share for the 1,643,363,189 outstanding shares.
- Based on the authorization granted by the Board of Directors, on 18 March 2011 a dividend payment was made for MXN1.09531478619484 per share for the 1,643,363,189 outstanding shares.
- Based on the authorization granted by the Board of Directors, on 29 March 2012 a dividend payment was made for MXN0.809099009096675 per share for the 1,730,319,756 outstanding shares.

Internal Control

The Management is responsible of the internal control in HSBC and for reviewing its effectiveness. Procedures have been developed to prevent the disposal or non authorized use of assets in order to maintain adequate accounting registers and to generate trustful financial information for internal use or for its publication. Such processes have been designed to manage risk and not to eliminate it; therefore they can only provide a reasonable safeguard against material deviations, errors, losses or frauds.

The key procedures that the Management has established have been designed to facilitate the effectivity of HSBC's internal controls and include the following:

- A clear due diligence has been established, supported by a detailed definition of authority limits enhancing effective operational controls. Responsibility is delegated through writings with instructions clearly defined, including transactional ranges. Appropriate information is considered to determine the level of authority as well as the approach of such responsibility granted in individual basis; this is accomplished through the implementation of monitoring and reporting procedures, adequate segregation of functions and a management structure designed to control responsibility limits. In summary, the administrative board authorises the CEO (Chief Executive Officer) to delegate faculties to the rest of the Managers who receive the appropriate authority to develop their activities.
- The administrative board in each of its meetings receives briefs about financial information, the development of business, management of key personnel and drafts copies of each committee reunion held. The administrative board also receives presentations of key business areas and of any other relevant affairs that have been requested.
- The systems and procedures that exist in HSBC to identify, manage and inform about relevant risks include: credit, changes in market prices of financial instruments, liquidity, operation errors, law or normativity infringements, non authorized activities and fraud. The exposure to such risks is supervised by the Assets and Liabilities Committee (ALCO) and by the Executive Committee. The Risk Management Committee (RMC), chaired by an external member of the Administrative Board, is celebrated in a monthly basis. In the RMC, assets and liabilities affairs are discussed. Each subsidiary holds individual RMCs that are discussed in HSBC's RMC.
- New procedures have been established in order to identify new risks arising from changes in market place practices as well as from client behaviour, which can increase risk exposure to losses or to reputation damage in HSBC's.
- Strategic plans are prepared for each client segment, product group and main support areas. In such manner, operational plans are prepared. These plans are approved annually and revised periodically, establishing key initiatives for our businesses and their possible financial effects.
- Responsibility on the financial performance, capital expenditure, budget exercise, credit risk and market risk are delegated with certain limits to the Management. Additionally, risk management policies are established by the Administrative Board for the following risk areas: credit risk, market risk, liquidity risk, operation risk,

information technology risk, insurance risk, accounting risk, fiscal risk, legal risk, human resources risk, reputational risk, acquisition risk, and business risk.

- Internal audit supervises the effectivity of the internal control structure. Internal audit tasks are focused in supervising the areas that represent the higher risks for HSBC, to determine such areas, risk assessments take place. The head of this functions reports to the Audit Committee.
- The Management is responsible to assure that recommendations given by the internal audit area are implemented in the stipulated time; confirmation of implementations is handed to internal audit. The Management must also confirm in annual basis to internal audit that measures have been taken to implement recommendations given by an external author or the regulator.
- The Audit Committee revises periodically the effectiveness of Internal Control and also informs the Administrative Board about the latter. Among the main processes used by the committee in its revisions are: periodical reports of the heads of key risks, annual revision of the performance of internal control against key HSBC indicators, quarterly confirmations that no significant losses have taken place, contingency or uncertainty caused by deficiencies of the internal controls, internal audit reports, external audit reports and regulatory reports.
- The Management, through the Audit Committee, realizes an annual review of the effectivity of the internal control, which covers key financial, operational and compliance indicators as well as the affectivity of the risk management system. The Audit Committee receives periodically information about measures taken by the Administrative Board to correct or resolve any weakness or error detected through the operation of HSBC's internal control.

Risk Management

Risk management in Financial Group HSBC involves compliance with the norms and regulations on risk management included within the CNBV requirements, as well as with norms established by the Group on a worldwide level whose ultimate objective is to generate value for its shareholders while maintaining a conservative risk profile.

Fundamental to carry out this work is the recognition of the essential precepts for an efficient and integral risks management, including quantifiable risks (credit, market and liquidity), as well as non-quantifiable, operational risk (technological and legal), under the sights that the basic processes of identifying, measuring, monitoring, limiting, controlling and disclosure will be satisfied.

Bank's Risk management framework in their main subsidiaries, begins with the Council Administration, whose main responsibility is the approval of objectives, alignment and policies relative to the topic, such as the determination of risk exposure limits which are supported by the ALCO and RMC committees.

Assets and Liabilities Committee (ALCO)

This committee meets monthly, chaired by the CEO and Group General Manager and having the Group Executive Directors as members. These Directors are the heads of the bank's main business lines (RBWM, CMB, and GBM), and support areas like Treasury, Finance, Balance Management, Planning and Economic Capital.

ALCO is the main vehicle to achieve the objectives of an adequate assets and liabilities management. It has the following objectives:

- ▶ To provide strategic direction and assure the tactical monitoring of a structure balance that fulfils the objectives within the pre-established risk parameters.
- ▶ To identify, monitor, and control all relevant risks, including information generated by RMC.
- ▶ To disseminate the information that required to make decisions.
- ▶ General review of funds sources and destinations.

- ▶ To determine the most likely environment for the bank's assets and liabilities along with contingency scenarios to be used in planning activities.
- ▶ To evaluate rates, price alternatives and portfolio mixes.
- ▶ To review and take on the responsibility for: assets and liabilities distribution and maturity dates; interest margin size and position; liquidity levels and economic profit.

Local Assets and Liabilities Committees, as Mexico, report directly to the Group Finance Department in London as a way to strengthen the decision making process.

Risk Management Committee (RMC)

This committee also meets monthly, reporting to the Management Board and Asset and Liabilities Committee (ALCO).

The Risk Management Committee has three external members – one of them serving as President, so independent opinions and regulatory compliance is achieved. Internally, the member areas are: Executive Direction, Risks Management, CMB, GBM, RBWM, Finance, Audit, Treasury, Global Markets, Planning, Economic Capital, Legal and the Liquidity, Market and Subsidiaries Risks Management areas.

The main objectives of this committee are to:

- ▶ Develop mechanisms to identify actual and potential risks.
- ▶ Value material risk and its potential impact to the bank.
- ▶ Provide advanced solutions to improve risk exposure or mitigate specific and relevant risks.
- ▶ Develop a clear mapping of risk exposure and tendencies in the credit, market, and other risk areas, including potential change of the business strategy.
- ▶ Manage relevant, contingency, and mitigation risks along with consolidated report risk to be presented in the ALCO.
- ▶ Track market, credit, and other relevant risks. Additionally, review and approve objectives, operation, and control procedures along with risk tolerance based on market conditions.

Market Risk Management

Qualitative Information

Description of the qualitative aspects related to the Integral Management of Risks processes:

Market risk management at HSBC consists of identifying, measuring, monitoring, limiting, controlling, reporting and revealing the different risks the institution is facing.

The Board of Directors includes a Risk Committee that manages risk and ensures the operations to be executed in accordance with the objectives, policies and procedures for prudent risk management, as well as within the specific global limits set out by the Board.

Market risk is defined as “the risk that the rates and market prices on which the Group has taken positions – interest rates, exchange rates, stock prices, etc.- will oscillate in an adverse way to the positions taken, there by causing losses for the Group”, that is to say, the potential loss derived from changes in the risk factors will impact the valuation or the expected results of assets and liabilities operations or will cause contingent liabilities, such as interest rates, exchange rates, and price indices, among others.

The main market risks the Group is facing can be classified as follows:

- ▶ **Foreign exchange or currency risk.** - This risk arises in the open positions on different currencies to the local currency, which generates an exposure to potential losses due to the variation of the corresponding exchange rates.
- ▶ **Interest rate risk.** - Arises from asset and liability operations (real nominal or notional), with different expiration dates or re-capitalization dates.

- ▶ **Risk related to shares.** - This risk arises from maintaining open positions (purchase or sale) with shares or share-based instruments, causing an exposure to changes in share prices and the instruments based on these prices.
- ▶ **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the underlying price of the option (interest rates, actions, exchange rate, etc.).
- ▶ **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.
- ▶ **Credit Spread risk.** - This is the risk that mark-to-market value of a corporate bond, inter-bank bond or sovereign debt in foreign currency, decreases due to changes in the credit quality perception of the issuer.

Main elements of the methodologies employed in the management of market risks:

HSBC has decided to use Value at Risk (VaR) and the “Present Value of a Basis Point “(PVBP) in order to identify and quantify Market Risk. Both measures are monitored daily, based on market risk exposure limits set by the Board of Directors and marking-to-market all trading positions.

Value at Risk (VaR)

VaR is a statistical measure of the worst probable loss in a portfolio because of changes in the market risk factors of the instruments for a given period of time; therefore the calculation of VaR implies the use of a confidence level and a time horizon. VaR is obtained by Historical Simulation through full valuation, considering 500 historical daily changes on market risk factors. The Board of Directors has determined a confidence level of 99% with a holding period of one working day, therefore the VaR level becomes the maximum likely loss in a day with a 99% confidence level.

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

PVBP is a measure of market risk exposure arising from movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates involved with the pricing of financial assets and liabilities, by re-valuating the whole position exposed to interest rates.

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

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CSO1)

Credit spread risk or CSO1 is used to describe the risk of holding private sector issued securities in the trading books that can change in value as a function of changes in the perceived creditworthiness of the respective issuer.

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

Vega or implied volatility risk

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

Extreme Conditions Tests (Stress Test)

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

Besides this calculus, a linear extrapolation is done using the Forward PVBP based on hypothetical extreme scenarios (assuming that the portfolio is completely linear) to compare both results and obtain portfolio's implied convexity. Also stress test is done in foreign exchange and equity positions.

Validation and Calibration Methods for Market Risk models:

Aiming to timely detect any decrease in the forecasting quality of the model, automatic data loading systems are used, in such a way that no manual feeding is required. Besides, in order to prove the reliability of the VaR calculation model, a back testing is carried out, which consists of evaluating that the maximum forecasted losses do not exceed, in average, the established confidence level, contrasting the P&L should had been generated if the portfolio had remained constant during the VaR's forecast horizon.

In the PVBP case, this is compared with the portfolios' sensitivity to market quotes. The obtained results had shown that the models are reliable. Also, with the purpose to reinforce the validation and verification of the risk factors, we design a selected set of matrices showing that risk factors' behavior are in line with the predominant financial market prices and consistent with the previous day values.

Applicable portfolios:

For a detail and accurate portfolio management, HSBC Mexico Market Risk Management Department, use the international standards (IAS) and local standards (local GAAP) to obtain an effective market risk management. The division between accounting schemes has strict control and every portfolio is perfectly well suited and identified in each accounting standard. This division allows calculating any market risk measure (sensitivity measures, potential loss measures and stress test) in sub portfolios in line with the accounting.

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

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

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

According to the International Accounting Standards 39 (IAS), the "MMT" portfolio (Money Market Trading) and BST (Balance Sheet Trading) should be part of the "All Trading" portfolio for market VaR calculation, but it has to be part of the "Accrual" portfolio for PVBP calculation.

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

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "All Trading" and "Accrual" portfolios for the third quarter of 2012 (millions of dollars).

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

	Bank		All Trading **		Accrual	
	Average 3Q12	Limits*	Average 3Q12	Limits*	Average 3Q12	Limits*
Combined	24.20	38.00	2.87	18.00	22.47	35.00
Interest Rate	17.95	40.00	2.76	N/A	15.92	35.00
Credit Spread	7.41	22.00	0.37	4.00	7.04	22.00
FX	0.40	7.00	0.40	7.00	N/A	N/A
Volatility IR	0.19	4.50	0.19	N/A	0.00	1.00
Volatility FX	0.05	2.00	0.05	2.00	N/A	N/A
Equities	0.06	2.50	0.06	2.50	N/A	N/A

** Includes Trading Desk, BST, MMT, Strategic FX & Equity

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	29-Jun-12	28-Sep-12	Limits*	Average 2Q12	Average 3Q12
HBMI	31.68	23.51	38.00	27.61	24.20
Accrual	28.57	21.61	35.00	24.90	22.47
All Trading	3.02	2.40	18.00	3.13	2.87

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of 3Q12 change -25.79% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 3Q12 change -12.35% versus prior quarter. During the quarter the average VaR was within the limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for June 29th, 2012 and September 28th, 2012 (in millions of dollars).

Market VaR vs. Net Capital Comparison		
Net Capital in million Dollars		
	29-Jun-12	28-Sep-12
Total VaR*	27.61	24.20
Net Capital **	3,377.13	3,674.92
VaR / Net Capital	0.82%	0.66%

The average market VaR represents 0.66% of the net capital in 3Q2012.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	29-Jun-12	28-Sep-12	Limits*	Average 2Q12	Average 3Q12
Bank	(1.252)	(1.260)	1.650	(0.910)	(1.112)
Accrual	(1.117)	(1.091)	1.250	(0.813)	(0.937)
Trading Desk	(0.039)	(0.053)	0.450	(0.019)	(0.076)
Balance Sheet Trading	(0.096)	(0.115)	0.210	(0.078)	(0.099)

* Absolute Value

NA = Non Aplicable

The bank's MXN Rate PVBP for 3Q12 change 0.64% versus previous quarter. Bank's average PVBP for 3Q12 change 22.20% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate					
	29-Jun-12	28-Sep-12	Limits*	Average 2Q12	Average 3Q12
Bank	(0.208)	(0.224)	0.300	(0.137)	(0.213)
Accrual	(0.214)	(0.208)	0.300	(0.143)	(0.240)
Trading Desk	(0.010)	(0.025)	0.100	(0.014)	0.009
Balance Sheet Trading	0.015	0.009	0.070	0.020	0.019

* Absolute Value

NA = Non Aplicable

The bank's USD Rate PVBP for 3Q12 change 7.69% versus previous quarter. Bank's average PVBP for 3Q12 change 55.47% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	29-Jun-12	28-Sep-12	Limits*	Average 2Q12	Average 3Q12
Bank	(0.078)	(0.097)	0.300	(0.074)	(0.074)
Accrual	(0.059)	(0.059)	0.225	(0.057)	(0.058)
Trading Desk	(0.006)	(0.026)	0.100	(0.005)	(0.003)
Balance Sheet Trading	(0.012)	(0.013)	0.050	(0.012)	(0.012)

* Absolute Value

NA = Non Aplicable

Bank's UDI Rate PVBP for 3Q12 change 24.36% versus prior quarter. Bank's average PVBP for 2Q12 no varied versus previous quarter

Liquidity Risk

Qualitative Information

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

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

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

The institution has developed and implemented since 2003 a Liquidity Contingency Plan that defines the potential contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the alternate sources of funding the institution would have available. The plan is reviewed and approved by the local ALCO at the beginning of each year.

Quantitative Information

The institution presented at end of the quarter expected cash flows under the most stressed scenario of USD 4,015m in the 7 day bucket; USD 2,672m in the 1 month bucket and USD 1,642m up to 3 months; obtaining a net positive cumulative cash flow in every case.

Along the quarter, average level was USD 3,980m in the 7 days bucket USD 2,378m in 1 month bucket and USD\$1,387m in 3 months bucket. Compared against previous quarter, liquidity position changed from the increase in Non-Core Deposits, Spot transactions and in government securities.

Credit Risk

Qualitative Information

Besides periodically monitoring the credit portfolio, HSBC Mexico (HBMX) develops implements and monitors credit risk models and tools for credit risk management. The main objective of this type of management is to have good information on the quality of the portfolio to take opportunistic measures to reduce the potential losses due to credit risk, complying at the same time with the policies and standards of the Group, Basel II and the CNBV.

Credit risk is defined as the risk that a client or counterpart can not or does not want to comply with a commitment celebrated with a member or members of the Group, i.e. the potential loss due to the lack of payment from a client or counterpart.

For the correct measurement of credit risk, HSBC has credit risk measurement methodologies, as well as advanced information systems.

In general, the methodologies separate the client risk (probability that a client will default to his/her payment commitments: Probability of Default) from the transaction risk (risk related with the structure of the credit, including principally the value and type of guarantees).

In addition, HSBC Mexico has developed policies and procedures that include the different stages of the credit process: evaluation, authorization, origination, control, monitoring and recovery.

Models and Systems used for the quantification and Credit Risk management

Commercial Portfolio

1. Credit Risk Preventive Provisions

The internal rating model for Commercial loans (*Matriz de Calificación*) is the central element of the regulatory risk grading process.

In principle, the “*Matriz de Calificación*” determines the customer grade with the analysis of three fundamental areas:

- a. Payment capacity
- b. Payment experience and
- c. Operational situation

Subsequently, the credit grade is obtained by adjusting the client grade based on the date of the financial statement, the level of support from shareholders and the type and value of guarantees, among others.

Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

Based on the approval given by the CNBV, the “*Matriz de Calificación*” is used to calculate regulatory credit provisions based on the client risk rating. MRC (Provision module) is used for the calculations.

The grade obtained from MRC has a direct correspondence with the debtor regulatory ratings. The Commercial portfolio ratings in terms of preventive provisions can go from A to E level.

2. Internal Management Models

Through an extensive methodological review process by HSBC Group experts, HSBC Mexico has different models for internal risk management, developed to encompass the three key parameters of Credit Risk:

1. Probability of default (PD)
2. Loss Given default (LGD)
3. Exposure at default (EAD)

These models are evaluated and monitored on a monthly and quarterly basis to assess their performing and their proper application, so as to carry out necessary developments in a timely manner.

With respect to the Probability of default Model (PD), the monitoring intent to make sure that this model are still differentiating customers that comply with the acquired HSBC obligations of those who will not, ordering the customers by appropriate risk levels. In addition, the model quantification is validated by comparing with the observed default rates to know its accuracy.

On the other hand, for the Exposure at default and Loss Given default Models, validates that the loss estimations in which the institution may be incurred in the event that the customer fails be more precise with a sufficient degree of conservatism.

It is important to note that each models version is subject to the HSBC Group expert review and the approval process of this are attached to the standards established by the Group.

2.1 Probability of default Model (PD)

HSBC Mexico has developed eight models for assessing the credit risk rating of the customers of commercial portfolio that are local Corporate or Corporate with annual sales up to MXN 7,000 M. These models were developed based on a statistical analysis of different economic activities that resulted in four major segments, which in turn were subdivided by annual turnover level, greater and less than MXN 100 M.

In addition to the aforementioned models, HSBC Mexico has implemented the following global models that were developed by HSBC Group Head Office.

- ▶ A model for global customers to assess the corporate counterparties with annual sales equal or above to USD 700 M (GLCS).
- ▶ Another one to assess Bank Financial Institutions (RAfBanks)
- ▶ And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFI DST).

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

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

2.2 Loss Given default Model (LGD)

Regarding to the Loss Given Default (LGD) estimation, which represents the economic loss as a percentage of the Exposure at Default that HSBC Mexico will face at the time a customer defaults, HSBC Mexico developed a local model

for assessing the Middle Market Enterprises and Corporate customers. In addition, for Bank Financial Institutions HSBC Mexico implemented a model developed by Group HSBC Head Office.

During this year, it have worked on include improvements to the Loss Given default model to provide greater granularity and precision, which are subject to the Standards that HSBC Group has determined for these models. The expectation is that the progress of the current model is implemented during the last quarter of this year.

2.3 Exposure at default Model (EAD)

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

With the purpose to get a more accurate measurement of risk, the Exposure at default model was modified in 2012, and is currently being evaluated under the Standards that HSBC Group has determined to be subsequently updated in computing systems.

3. Credit Evaluation Systems

In order to establish a better infrastructure management and risk measurement for the Commercial portfolio, HSBC Mexico used a risk evaluation tool called *Moody's Risk Analyst (RA)*, which allows an assessment of the credit quality of customers based on its financial and qualitative information.

Furthermore, HSBC Mexico has a system to manage, control and monitoring the commercial credit approval process known as *Workflow Authorization (SIPAC)*. With this system the status of a credit application can be consulted in any stage of the credit process.

For corporate banking the *Credit Approval and Risk Management (CARM)* system is used. This system is being used in HSBC globally.

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, it's used a system called "*Garantías IP*". Finally, it is important to comment that HSBC Mexico also has a system that controls the limits and utilization of credit facilities since their origination, "*Líneas IP*".

Quantitative information

The Expected Loss of the commercial portfolio as of September 30th, 2012 is MXN 7,275 M, showing a decrease of MXN 497 M (or 6%) compared to the figure reported in the previous quarter.

Regarding to the average balance of the commercial portfolio as of September 30th, 2012 is MXN 173,976 M, showing an increase of MXN 525 M (or 0.3%) compared to the previous quarter.

Below is detailed the average balance and Expected Loss for the commercial portfolio by line of business:

Business Line	MXN M											
	Average Balance*		VAR		Balance		VAR		Expected Loss		VAR	
	2Q2012	3Q2012	(\$)	(%)	Jun-12	Sep-12	(\$)	(%)	Jun-12	Sep-12	(\$)	(%)
CMB	\$91,445	\$91,565	\$121	0.1%	\$95,855	\$90,593	-\$5,262	-5.5%	\$6,294	\$5,832	-\$462	-7%
GBM	\$81,980	\$82,371	\$391	0.5%	\$82,180	\$81,464	-\$716	-0.9%	\$1,478	\$1,443	-\$35	-2%
GBP	\$26	\$40	\$14	52%	\$36	\$83	\$46	127%	\$0.118	\$0.056	-\$0.062	-53%
Total	\$173,451	\$173,976	\$525	0.3%	\$178,071	\$172,140	-\$5,931	-3.3%	\$7,772	\$7,275	-\$497	-6%

*Average balance of the last three quarters

Retail Portfolio

Qualitative Information

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done periodically: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behavior from those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

Within the retail credit risk management activities, a several metrics about portfolio profiles and performance are reported on a monthly basis. These reports are divided by product and include general statistics of the portfolio as delinquent status, vintages analysis, and origination strategies, expected loss, among others. The expected loss approach adopted of the Credit Cards and Mortgages portfolios was developed under the Basel 2 Internal Rating Based approach. The rest of the portfolios adopted a bi dimensional framework that associates a Probability of Default and a Loss Given Default to every loan

Quantitative information

The Expected Loss of the cards, mortgage and other retail portfolio as at September 30th, 2012 is MXN \$ 4,352,365 thousands which represents the 8.1% of Total Balance performing an increase of MXN 249,884 thousands in comparison with previous quarter wherein the EL represented the 7.9% of Total Balance.

Operational Risk

Qualitative Information (including Legal and Technological Risk)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee (ORICC), sub-committee of the Risk Management Committee, which is responsible for the fulfilment of applicable norms and regulations in force as well as to understand the institution's risk profile, to establish risk management priorities, assess the strategies and mitigation plans and monitor the evolution of operational risks' behaviour and their mitigants.

A well-established and maintained internal control structure is vital to the success of all operations. Group methodology stipulates that all management within the Group is accountable for identifying, assessing and managing the broad spectrum of risks to which the Group is subject.

The Group adopts a '**Three Lines of Defence**' model to ensure that the risks and controls are properly managed by Global Businesses, Global Functions and HTS on an on-going basis. The model delineates management accountabilities and responsibilities over risk management and the control environment. The 'Three Lines of Defence' model should be applied with common sense and takes account of the Group's business and functional structures.

First Line of Defence:

The First Line of Defence comprises predominantly management of Global Businesses and HTS who are accountable and responsible for their day to day activities, processes and controls. The First Line of Defence must ensure all key risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment that is commensurate with risk appetite. It is the responsibility of management to establish their own control teams where required to discharge these accountabilities.

Second Line of Defence:

The Second Line comprises predominantly the Global Functions whose role is to ensure that the Group's Risk Appetite Statement is observed. They are responsible for:

- Providing assurance, oversight, and challenge over the effectiveness of the risk and control activities conducted by the First Line
- Establishing frameworks to identify and measure the risks being taken by their respective parts of the business
- Monitoring the performance of the key risks, through the key indicators and oversight/assurance programmes against defined risk appetite and tolerance levels

Global Functions must also maintain and monitor controls for which they are directly responsible.

Third Line of Defence:

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

Use Test

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

- The Top Management is aware and is involved in the management of operational risk.
- Operational risk management information is used for decision-making.
- The Operational risk management information quality is adequate to support the business decisions making.

Senior management must inform to Local ORIC the results of their risks and controls assessment as part of its decision-making process, and these should be reflected in the reports of the entity.

The heads of the areas (senior management), should for their Operational Risk and Internal Control Process oversight:

- Establish an adequate organizational structure with BRCMs Team (Business Risk and Control Managers) in order to ensure effective coverage of all business and operations under their responsibility, ensuring that BRCMs Staff members are individuals with experience and skills suitable for the performance of their functions:
 - Identify and assess operational risks and controls as part of the decision making process (Use Test).
 - Identify and report operational loss incidents.

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

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

ORIC team is responsible for ensuring compliance with the minimum standards.

An 8th annual assessment exercise took place during 2011 in order to identify and re-assess relevant operational risks throughout HSBC Mexico. The methodology applied in accordance to the Group's Operational Risk Management Framework, specifies that all areas of the Group should conduct a Risk Assessment and Control (RCA) at least once a year. The methodology and Control Risk Assessment (RCA) replaced the ABCD approach identification and self-assessment of operational risk (RSA) and is applicable to all entities of HSBC.

As part of this exercise, relevant identifiable risks were denominated, described and classified into fifteen categories: Compliance, Fiduciary, Legal, Information, Accounting, Tax, External Fraud, Internal Fraud, People, Political, Physical, Business Continuity, Systems, Operations and Project.

Technological Risk

HSBC México Technology Services (HTS) area keeps a continuous technological risk assessment in adherence to the local laws and regulations and their internal policies, attending the baselines of the local authorities and group's guidelines, between them, those related to the development of methodologies and installation of standard infrastructure, the above as stated on their Technology Functional Instruction Manual (IT FIM).

Interlaced to their operation schemes, HTS also is aligned to the statements within another manual and procedures, between them, the Operations Functional Instruction Manual (OPS FIM), the above due HTS acts as the entity that supplies technology and services for all bank channels and their business lines.

Inside their corporate governance framework, HSBC follow up the matters and requirements made for the local authority throughout their compliance area, where one of their main accountabilities is to keep a continuous review of the assessed risk as well as, the monitoring to comply with the local regulations.

Major methods/methodologies used on the assessment of technological risk are:

- I. Throughout agile, secure and reliable Governance structure, focused on maintain an adequate technological risk control and response capabilities for all bank services that are offered throughout the different distribution channels. Risk is managed at the higher level committees: HTS Steering Committee, Risk Management Committee (RMC), Operational Risk & Internal Control Committee (ORICC) and Operational Risk Management Group (ORMG).
- II. Keeping updated and testing the different case scenarios analysed on their Businesses Continuity Plan (BCP) and related Disaster Recovery Plan (DRP), for those events that require reinstate their operation on alternate sites.
- III. Performing Risk Based Control Assessments (RCA).
- IV. The management of Information Technology Projects using a group standard methodology called Risk Based Project Management (RBPM), specifically in the domain for software development is the SDLC (Software Development Life Cycle).
- V. Performing Risk Management activities with the active involvement of a specialized Business Risk and Control Managers (BRCM's), including but not limited to operational risk, internal, external and regulatory audit management.
- VI. Throughout metrics and dashboards as tools that allow the measurement of the main goals defined within the strategic plans, which in overall refer to systems availability, the compliance on time and quality of major projects and budget, those measurements are reviewed on different forums and committees for decisions making.

Legal Risk

To manage and mitigate legal risk, in terms of financial loss, penalties and / or reputational damage that has been given detailed attention to the following risks identified as typical of the legal function:

- ▶ Contractual Risk, which is the risk that the rights and/or obligations within a contractual relationship are defective, and includes: misrepresentation, documentation, unintended consequences, unintended breach, enforceability and external factors.
- ▶ Dispute Risk, which is made up of the risks that HSBC is subject to when it is involved in or managing a potential or actual dispute, and includes: exposure and management of disputes.
- ▶ Legislative Risk, which is the risk that HSBC fails to adhere to the laws of the jurisdictions in which it operates, and includes: compliance with laws and change of law.
- ▶ Non-Contractual Rights Risk, which is the risk that HSBC's assets are not properly owned or are infringed by others or the infringement by a Group member of another party's rights, and includes: infringement, ownership rights and legal responsibility.

Policies are designed, controls and procedures to identify, measure and manage legal risk in order to avoid financial losses and operational errors. The specific risk mitigation is sought are:

- Contractual Risk, the contract being entered into on the basis of representations which are misleading, false or incomplete, the relationship not being properly documented; documentation being incomplete; or documentation not being properly maintained or recorded; contractual provisions being at variance with the intention of the parties, being uncertain or otherwise inadequate or binding relationships arising from documentation intended to be non-binding; insufficient business understanding of or adherence to a contract; rights of recourse are restricted or limited or there is no effective or fair dispute resolution procedure; or the contract being unenforceable in accordance with its terms; and the contract being subject to challenge due to external factors or parties to the contract having remedies outside the terms of the contract.
- Dispute Risk, to be exposed to greater disputes and appropriate steps not being taken to resolve a potential or actual dispute.
- Legislative Risk, to fail complying with applicable laws; and the potential or actual introduction of restrictive or onerous legislation; or new legislation being introduced which is not anticipated, identified or reacted to on a timely basis.
- Non-Contractual Rights Risk, The infringement the rights of third parties or its rights being infringed by others; HSBC's assets not being properly owned or protected, or the ownership of such assets otherwise being potentially open to challenge; and be held to be legally responsible as a matter of general law.

Furthermore, institutional policies have been fulfilled, procedures necessary to Operational Risk and Internal Control have been established, legal audits have been conducted, estimating potential losses from adverse judgments has been carried out and an historical database on judicial decisions including causes and costs has been set up.

Quantitative Information (including Legal and Technological Risk)

From the 8th Operational Risk assessment exercise carried out in 2011 and with all changes and updates performed during 3Q12; there are 654 risks identified and assessed as relevant distributed as follows: 3.7% (24) A type, 14 % (92) B type, 60.7% (397) C type, and 21.6% (141) D type.

The institution holds an Operational Risk historical database since 2007, in which operational losses incidents are registered. Furthermore, the loss reporting threshold for individualized losses is of USD 10,000, where minor events are aggregated in a single record.

The operational risk tolerance level is defined as $\leq 1.3\%$ of the TOI (Total Operating Income) of the bank, and is monitored monthly through the BSC presented at the Risk Management Committee.

Year to date (30SEP12) total amount of Operational Losses in 2012, are USD 30.2M, 17% below risk appetite.

Both event types are recorded in the ad-hoc corporate system platform specifically designed for the management of operational risk and record of operational losses.

Corporate Sustainability (CSR)

1. Sustainable Finance

Climate Business

During the second quarter, Corporate Sustainability continued to work with CMB in the development of a Climate Business (CB) strategy.

2. Community Investment - Education

Through our social programs, we are achieving a positive impact in the life of kids and teenagers, by getting involved and providing financial support to institutions that can give them the access to a better education and because of this they can reach success, a better future for themselves and then a better way of life for their families.

For HSBC, one of the subjects that matters the most for sustainability is education, and today we have three main axes inside this sector: Integral education, Scholarships in urban and rural areas and Financial Education.

Our Programs:

“Just raise your hand”

During 2011 - 2012 HSBC the second phase of the program concluded successfully, we benefited 8 new schools and 4,132 underserved students with 41 volunteering activities, values education and teachers training (124% vs. objective). During this year we had the goal of finding 1,226 scholarship sponsors among clients and colleagues and we found 1,290 representing 105% of our goal. Additionally, we are continuing our support in the other 9 schools we started sponsoring during the 2010-2011 school term including infrastructure improvements.

Also, all the infrastructure improvements within our 8 new schools have been finished and their inaugurations were carried out during September, except the inauguration in Saltillo, Coahuila which will be held on October 15th. To note, thanks to this events and our alliance with Lazos the press media covered the inaugurations, having as result 24 free press releases.

In addition, LAM Risk started raising money in benefit of “Escudo Nacional”, school located in Mexico City and 15 volunteers, including Bruce Cannon, Head of LAM Risk, visited the community. The fund raising will conclude on December.

On October 24th the annual event of the program will be held on the Tower HSBC, were we will annunciate the new goals for the third phase of the program. To note, in this event we will launch a new project in alliance with AMCO in order to capacitate teachers with the final objective to enhance the learning abilities of the students affiliated to our schools.

SROI Result on “Just raise your hand” (See end of report for the note on SROI)

The SROI showed that the program is having a positive impact on quality of education, since our study proved that the impact on “ENLACE” within our schools is +1.4% vs. schools of same type and municipality that are not supported by our program.

This improvement means that HSBC has achieved gains of 1.4 M USD for the students that it supports through the Lazos program, since studies showed that lifetime income increases by \$365 per percentage point on ENLACE score.

Zippy's Friends

Zippy's Friends is a program that helps young children from 1st and 2nd grades develop their emotional health. The second phase of the program concluded successfully and the third phase started in September, benefiting 1,600 children and 100 teachers and will finish in July 2013.

To note, until the 2011-2012 school term the program was carried out only in alliance with Lazos, but thanks to the Future First fund we proposed to also start Zippy's Friends with NEMI foundation. In case our proposal is approved, at the end of 2015 we will benefit a total of 27,400 children and 760 teachers.

Attention and Prevention of Lonely Children and Teenage Migrants

We continue to work with the communities of San Mateo Ozolco, Suchiate, Huixtla, Tijuana, and header Atzalan Calpan, which have high migration rates, benefiting over 7,400 persons with educational, recreational and sport activities and by empowering them so they can have better opportunities.

Transportation

We established an agreement with Volaris and Aeromexico about ticket donations and we have transported 134 children safely back home.

Mentoring/Volunteering

In cooperation with Save the Children, we will start a volunteering programme with HSBC employees in Puebla. The volunteers will carry out different activities throughout the year, starting this summer, with the aim of getting to know the kids of San Mateo Ozolco primary school, and spending time with them. They will also serve as "mentors" for the children, as they will be giving them advice and financial orientation.

Scholarship Programme

The main objective of the scholarship programme is to provide financial support for unaccompanied migrant children and adolescents, to continue with their studies and prevent dropout. In this regard, 395 children have opened their accounts and they have received their first deposit. Scholarships were given to primary, secondary and highschool kids. The beneficiaries will receive \$ 800 pesos per month over a period of 12 months.

Ozolco Community

We continue our work in Ozolco's community, which has a high rate of migrant children.

In May, our First Lady, Margarita Zavala, and our CEO, Luis Peña inaugurated the infrastructure projects done by HBMX in Ozolco, Puebla: two classrooms, a dining room and a sports facility. To note, Ozolco is one of the most important communities we work with along with Save the Children.

SROI Result on Migrants in Ozolco (See end of report for the note on SROI)

The SROI showed that the program is having a positive impact on quality of education and it is reducing dropout rates in Ozolco. This improvement translates in a reduction in the probability of migration by 6.5% and an increase in the expected income of the youth.

Future First

All the four bids we proposed to the Future First Committee were approved; thanks to this we will benefit 1,212 children in 4 states.

In addition, a Special Fund was launched, so we proposed JUCONI, NEMI and Lazos, three non-profit organizations that will help 29,884 children in the State of Mexico, Puebla, Yucatan, Baja California, Chihuahua, Guanajuato, Queretaro, Coahuila, Sinaloa, Jalisco, Morelos and Mexico City with a budget of 1,100,000 USD. Nevertheless, the Future First Committee will have to send their approval in October.

English Programme

The aim is to offer high quality English courses to students and teachers and improve their work and development opportunities through the alliance with two different organizations:

The British Council: The pilot group of 363 master teachers has been trained and will start cascading the course, reaching 11,000 teachers who will reach 550,000 students.

Global English: (On-line software): 5,164 users have begun using the software and in total, they have completed 8,765 hours training.

Financial Education (UVM)

Comic: The Comic on financial education was launched in alliance with VISA, Marvel and Condusef on the 4th of September. 11,000 copies will be distributed and there will be 60 "Comic-telling" activities at MIDE (Museo de Economía).

Partnership with UVM (Universidad del Valle de México): we have had 2 conferences on financial education at UVM, reaching 380 students.

3. Community Investment - Environment

With the "Green Project" of HBMX Insurance, we are supporting 4 different urban forests projects: Bosque de Chapultepec in Mexico City, Nevado de Toluca in Estado de México, Bosque la Primavera in Guadalajara and Chipinque in Nuevo León.

5 workshops of different environmental issues with a total of 260 participants
Sustainable Fair of products with a total of 2,506 attendees
Summer School for children of employees with a total of 60 participating children

HSBC Reforestation with a total of 1,647 participants

HSBC Mexico Cuida Tu Ambiente Program:

Course Introduction to Sustainability course with 41 employees approved
Sustainability cities course with 37 employees approved
Sustainability Intermediate course with 23 employees approved
Forests and their contribution to the environment course with 28 employees approved
Water Course with 20 employees approved
Consumer waste course with 17 employees approved

Tezozomoc park Activities with a total of 120 participants
10 participants in community activities.

4. Clients Contribution

Under the community investment principle, HSBC has developed different projects in health, culture and natural disasters.

ATM's

The second campaign of the year, ran from May to August, and raised \$3,683,241 pesos in benefit of the program "Becalos". From September to October we will have the third campaign in benefit of "Michou y Mau", a non-profit organization dedicated to caring for children who have suffered severe burns and at the moment we have collected \$1,400,000 pesos.

5. Stakeholder Engagement

As of September 2012, we have involved more than 2,318 colleagues in community, education and environment programs as following:

Ecotechnics

On June 38 volunteers went to the community "Piedra Grande" in Huixquilucan Edo. Mex in order to participate in the construction of a bio-bed intensive nopal, a wood-saving stoves, organoponics in tires and making waterproofing tanks that can capture rain water, eco-techniques models that have been replicated by community to improve their standard of living in harmony with the environment

More than money

On August 141 volunteers were trained so they could be able to teach about Financial Education and thanks to this underserved students were benefited in 10 elementary schools.

In addition, volunteers received a talk about volunteering, commitment and also had a presentation about Corporate Sustainability and its activities.

Reforestation

On September we held the 1st HSBC Reforestation in Guadalajara, Jalisco were 100 volunteers, their families and 14 environmental leaders of "HSBC Cuida tu Ambiente" program participated.

Climate Entrepreneurs

On September 131 volunteers were trained so they could be able to teach about Environmental Education and Climate Change, thanks to this 1,380 underserved students of different elementary schools were benefited in 7 states.

6. People and Diversity

Social Inclusion (Sumando Valor)

In alliance between Corporate Sustainability and Human Resources, HBMX is hiring people with disabilities through Manpower Foundation A.C., FHADI I.A.P., Colabore A.C. and Fundación Teletón. At the moment, 49 candidates that have been hired, and we have had various "sensibilization" sessions throughout the year. Moreover, the sensibilization course is now part of the introduction session for all new employees at HBMX.

The second Intensive Course for people with disabilities took place successfully. The first 3 weeks covered self-esteem, motivation and values to achieve an "Independent life". The last 6 days covered sales, customer care and tips for work. The main aim is to give the necessary tools to people with disabilities, in order to offer better work opportunities. 13 people graduated in total: 1 from Guadalajara, 1 from Cancún and the rest from Estado de México and DF.

Ivonne Marquez

One of the employees hired under Sumando Valor, the inclusion programme for people with disabilities represented Mexico at the London Paralympics basketball games. Her story (before and after) was featuring on HSBCNow and was up locally on the TV screens, intranet and social media.

7. Awards and Recognition (if any)

In 2012 HSBC Mexico was awarded for 7th consecutive year for being a Socially Responsible Company, by the CEMEFI (Mexican Center for Philanthropy).

HSBC Mexico was also awarded the distinction of Inclusive Company: "Gilberto Rincón Gallardo". Margarita Zavala, First Lady of Mexico and President of DIF, gave the distinction to 38 institutions. To note, HSBC was the only bank to receive this award.

8. Communication

Sustainability Report 2011

We launched the Corporate Sustainability Report 2011. We distributed 1,500 hard copies and shared it on the intranet, internet and with specialized media. It was also distributed during the quarter Directors meeting, EXCO and MANCO.

Communication

During this quarter, the Corporate Sustainability Department gained 48 free press releases with an estimated value of \$ 850,156 pesos.

Social Return on Investment (SROI – Study with McKinsey)

We had an assessment period with McKinsey, and an evaluation tool was developed to understand and estimate the social impact of HSBC's corporate sustainability initiatives on society and on HSBC's business. The tool aims to review the progress of each programme, provide relevant information to articulate internal and external communication in a consistent manner, and more importantly, improve the effectiveness of the programs, learn how to better allocate resources and therefore, maximize the impact of HSBC's corporate sustainability initiatives. (Find results above).

9. Conclusions

We are off to a great start in 2012. We continue to focus our Community Investment by strengthening our flagship programs; this has helped us develop further our stakeholder engagement. Thanks to these campaigns that involve not only our staff, but also our clients, we are being able to provide an added value to our customers, giving them the option of participating in socially responsible and environmentally friendly projects.

HSBC Mexico seeks to maintain a balance between environment, society and profits by establishing long term relationships with our customers. We are certain this will ensure our success in the long term.

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