

# Grupo Financiero HSBC

*Financial information at 30 June 2012*

## 2Q12

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

*Release date:*  
*31 July 2012*



31 July 2012

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

- Net income before taxes for the first half of 2012 was MXN2,959m, an increase of MXN1,065m or 56.2% compared with MXN1,894m in the first half of 2011.<sup>1</sup>
- Net income for the first half of 2012 was MXN2,326m, an increase of MXN743m or 46.9% compared with MXN1,583m for the first half of 2011.
- Total operating income, net of loan impairment charges, for the first half of 2012 was MXN14,048m, a decrease of MXN768m or 5.2% compared with MXN14,816m in the first half of 2011, mainly due to a change in the write-off policy for mortgage loans in 2012 and reduced trading income.
- Loan impairment charges for the first half of 2012 were MXN3,335m, an increase of MXN133m or 4.2% compared with MXN3,202m in the first half of 2011.
- Administrative and personnel expenses were MXN11,117m, a decrease of MXN1,822m or 14.1% compared with the first half of 2011. Excluding the effect of the restructuring charges, which were MXN778m lower than those incurred in the first half of 2011, the decrease would have been MXN1,044m or 8.7% compared with the first half of 2011.
- In June 2012, HSBC Mexico fully provisioned a fine imposed by the National Banking and Securities Commission (CNBV), amounting to MXN379m, as a result of non-compliance with a number of prudential regulations identified by the CNBV in 2007 and 2008. HSBC Mexico has already put in place measures which address the past failures for which it has been fined.
- The cost efficiency ratio was 64.0% in the first half of 2012, compared with 71.8% in the first half of 2011.
- Net loans and advances to customers were MXN184.4bn at 30 June 2012, an increase of MXN11.7bn or 6.8% compared with MXN172.8bn at 30 June 2011. Total impaired loans as a percentage of gross loans and advances improved to 2.2% compared with 2.5% at 30 June 2011. The coverage ratio (allowance for loan losses divided by impaired loans) was 252.6% compared with 215.8% at 30 June 2011.
- At 30 June 2012, deposits were MXN295.5bn, an increase of MXN22.3bn or 8.2% compared with MXN273.3bn at 30 June 2011.

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<sup>1</sup> First half of 2011 results have been restated to reflect the Afore and the general insurance manufacturing businesses as discontinued operations.

- Return on equity was 10.0% for the first half of 2012 compared with 6.5% for the same period in 2011.
- At 30 June 2012, the bank's capital adequacy ratio was 13.6% and the tier 1 capital ratio was 10.5% compared with 14.0% and 10.8% respectively at 30 June 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.

*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 June 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 annual pace of GDP growth in the Mexican economy accelerated to 4.6% in the first quarter of 2012. Despite the weakness of global growth, exports remained a key driver of Mexican activity. Domestic demand was also robust. Inflation remained moderate despite strong fluctuations in the currency and, accordingly, Banco de Mexico left the monetary policy rate unchanged at 4.5% during the period.

For the first half of 2012, Grupo Financiero HSBC's net income was MXN2,326m, an increase of MXN743m or 46.9% compared with the first half of 2011. Improved net income was mainly driven by lower administrative expenses, partially offset by increased loan impairment charges, lower trading income and foregone business from the sale of the Afore pension funds management business which completed in August 2011.<sup>2</sup>

Net interest income was MXN10,848m, an increase of MXN206m or 1.9% compared with the first half of 2011. Higher net interest income was due to loan portfolio growth, mainly in payroll, consumer and commercial loans, coupled with increased deposit volumes, partially offset by lower spreads in credit cards, payroll and business banking loans.

Loan impairment charges were MXN3,335m, an increase of MXN133m or 4.2% compared with the first half of 2011. This increase was mainly due to a change in the write-off policy for mortgage loans. The change was implemented in April 2012 and generated a one off increase in loan impairment charges of MXN659m. Excluding the change in write-off policy, loan impairment charges decreased MXN526m or 16.4% compared with the first half of 2011.

Net fee income was MXN3,003m, an increase of MXN55m or 1.9% compared with the first half of 2011. The increase was due to higher structuring fees earned from project finance, and increased equity and debt capital markets and trade services fees, mostly offset by lower account services fees, as customers migrated to electronic channels, coupled with an increase in brokerage, credit and debit card fees payable.

Trading income was MXN1,462m, a decrease of MXN434m or 22.9% compared with the first half of 2011. The decrease is mostly due 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.

Administrative and personnel expenses were MXN11,117m, a decrease of MXN1,822m or 14.1% compared with the first half of 2011. Excluding the effect of the restructuring charges, which were MXN778m lower than those incurred in the first half of 2011, the decrease would have been MXN1,044m or 8.7% compared with the first half of 2011. This decrease is mainly driven by the effect of 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.

In June 2012, HSBC Mexico fully provisioned a fine imposed by the National Banking and Securities Commission (CNBV), amounting to MXN379m, as a result of non-compliance with a

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<sup>2</sup> First half of 2011 results have been restated to reflect the Afore and the general insurance manufacturing businesses as discontinued operations.

number of prudential regulations identified by the CNBV in 2007 and 2008. HSBC Mexico has already put in place measures which address the past failures for which it has been fined.

The cost efficiency ratio was 64.0% for the first half of 2012, compared with 71.8% for the first half of 2011. Excluding the effect of the restructuring expenses and the one-off gain on sale of an equity investment, the cost efficiency ratio was 62.8% for the period ended 30 June 2012, compared with 67.4% for the period ended 30 June 2011.

The performance of non-banking subsidiaries contributed positively to Grupo Financiero HSBC's results, particularly HSBC Seguros, which reported net income before taxes of MXN1,122m for the first half of 2012, up 14.9% compared with the first half of 2011. The main driver for this growth was a decrease in the claims ratio for the Term Life Insurance product to 20.6% from 25.1% reported at 30 June 2011, coupled with an improvement in persistency rates.<sup>3</sup> In addition, insurance products such as Endowment and Motor reported a rise in sales.

Net loans and advances to customers increased MXN11.7bn or 6.8% to MXN184.4bn at 30 June 2012 compared with 30 June 2011, driven by growth in both the commercial and consumer portfolios. Commercial portfolio growth is mainly due to higher lending to mid-market enterprises, while consumer portfolio growth was mainly driven by increased payroll and personal loans.

At 30 June 2012, total impaired loans decreased by 6.5% to MXN4.2bn compared with MXN4.5bn at 30 June 2011. The reduction in impaired mortgage loans included a MXN0.8bn decrease relating to the change in write-off policy. Impaired consumer loans decreased 17.3%, as the portfolio shifted to lower risk products. These were partially offset by an increase in impaired commercial loans. Total impaired loans as a percentage of total loans and advances to customers improved to 2.2% compared with 2.5% reported at 30 June 2011.

Total loan loss allowances at 30 June 2012 were MXN10.6bn, an increase of MXN0.9bn or 9.5% compared with 30 June 2011. The total coverage ratio (allowance for loan losses divided by impaired loans) was 252.6% at 30 June 2012 compared with 215.8% at 30 June 2011.

Total deposits were MXN295.5bn at 30 June 2012, an increase of MXN22.3bn or 8.2% compared with 30 June 2011. This increase is a result of our sales efforts and targeted promotions across all lines of business.

At 30 June 2012, the bank's capital adequacy ratio was 13.6% and the tier 1 capital ratio was 10.5% compared with 14.0% and 10.8% respectively at 30 June 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.

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<sup>3</sup> Persistency rates refer to the percentage of insurance policies remaining in force.

## **Business highlights**

### **Retail Banking and Wealth Management (RBWM)**

RBWM reported growth in net income before taxes compared to the first half of 2011, mainly due to an improvement in the credit quality of the loan portfolios and growth in balances. Balance growth was supported by improved sales strategies and promotions.

The increase in customer lending was mainly in payroll and personal loans which continue to drive growth with a combined balance increase of 66.8% compared to 30 June 2011.

New credit cards issued have increased 35.0% compared to the same period of the previous year mainly driven by business intelligence strategies, which is beginning to lead to an improvement in balances.

### **Commercial Banking**

At 30 June 2012, loans and deposits grew by 6.0% and 13.7% respectively compared to 30 June 2011.

Aligned to the bank's strategy of increased sales coordination across business lines, during the second quarter we have strengthened the Global Markets products proposition, simplifying processes and restructuring the specialized sales structure. Additionally, international products have been developed for trade customers, such as Export Factoring and Cross Border Reverse Factoring.

In Business Banking, several campaigns are being implemented in order to increase loan balances. These include special promotions for Tarjeta HSBC Empresas and installment loans to incentivise activation and usage, credit line increases for loyal customers and customer relationship management campaigns to activate credit lines.

In addition, we supported special government programs aimed at providing financing to business banking clients.

### **Global Banking and Markets**

During the first half of 2012 Global Markets' Trading Income decreased MXN434m compared with the same period in the previous year. The decrease reflects certain large derivatives deals that closed in the first quarter of 2011 and the sale of one of the Grupo Financiero HSBC's equity investments. The decrease was partially offset by an increase on bond disposals by the Balance Sheet Management desk.

For the first half of 2012, Debt Capital Markets maintained its status as the leading Mexican underwriter, placing and participating in bond issuances for a total transaction amount of MXN29,273m, including INFONAVIT, Grupo Bimbo, Mexichem, Ford Credit, Bladex, NR Finance and Bancomext.

In addition, the Equity Capital Markets business acted as Joint Bookrunner on the Initial Public Offering of Alpek SA de CV. This deal was comfortably oversubscribed and allocation was split

evenly between Mexican and International tranches. The deal represents a landmark transaction for Grupo Financiero HSBC as it is its first lead ECM role in the region as well as Mexico's first IPO since July 2011. Grupo Financiero HSBC acted as Sole Bookrunner on Petróleos Mexicanos' "PEMEX" (BBB / Baa1 / BBB) inaugural offshore Reg S Australian Dollar (AUD) issuance, the first ever from a Latin American issuer.

During this first half of 2012, Grupo Financiero HSBC recaptured a top 3 ranking in the Euromoney foreign exchange tables, for the first time since 2008 while achieving a 10.6% market share and a volume increase of 28.6%.

Global Banking continues to grow average balances in client bank deposits, which reported an increase of 43.5% compared to the first half of 2011. In the first half of 2012, Global Banking's credit and lending business originated MXN8,644m of new lending to corporate clients, an increase of 19.2% compared to the first half of 2011.

During the first half of 2012, Trade Services originated revenues of MXN94m, up MXN41m compared to MXN53m reported in the first half 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 with a target completion date in the second half of 2012, subject to normal regulatory approvals.

### **Grupo Financiero HSBC first half 2012 financial results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)**

For the first half of 2012, on an IFRS basis, Grupo Financiero HSBC reported pre-tax profits of MXN4,704m, an increase of MXN1,271m or 37.0% compared with MXN3,433m in the first half 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 1,067 branches, 6,240 ATMs, approximately 8.5m customer accounts and approximately 18,100 employees. For more information, visit [www.hsbc.com.mx](http://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 Jun<br>2011 | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| a) Liquidity                          | 112.82%        | 108.86%        | 105.04%        | 98.26%         | <b>100.00%</b> |
| <b>Profitability</b>                  |                |                |                |                |                |
| b) ROE (Return over equity)           | 6.28%          | 9.47%          | (1.76)%        | 10.48%         | <b>9.79%</b>   |
| c) ROA (Return over assets)           | 0.60%          | 0.91%          | (0.17)%        | 0.95%          | <b>0.89%</b>   |
| <b>Asset quality</b>                  |                |                |                |                |                |
| d) Impaired loans/total loans         | 2.47%          | 3.56%          | 2.71%          | 2.61%          | <b>2.16%</b>   |
| e) Coverage ratio                     | 215.81%        | 158.35%        | 214.48%        | 222.20%        | <b>252.67%</b> |
| <b>Capitalization</b>                 |                |                |                |                |                |
| f) Credit risk                        | 22.81%         | 22.34%         | 22.05%         | 21.72%         | <b>21.55%</b>  |
| g) Credit and market risk operational | 13.98%         | 15.16%         | 15.26%         | 14.71%         | <b>13.62%</b>  |
| <b>Operating efficiency</b>           |                |                |                |                |                |
| h) Expenses/Total Assets              | 5.37%          | 4.68%          | 5.32%          | 4.36%          | <b>4.46%</b>   |
| i) NIM                                | 5.05%          | 4.91%          | 4.74%          | 4.84%          | <b>4.94%</b>   |
| <b>Infrastructure</b>                 |                |                |                |                |                |
| Branches                              | 1,078          | 1,079          | 1,067          | 1,066          | <b>1,067</b>   |
| ATM                                   | 6,134          | 6,062          | 6,195          | 6,201          | <b>6,240</b>   |
| Head Count                            | 19,400         | 19,232         | 18,921         | 18,564         | <b>18,110</b>  |

a)  $Liquidity = Liquid\ Assets / Liquid\ Liabilities.$  $Liquid\ Assets = Cash\ and\ deposits\ in\ banks + Trading\ securities + Available\ for\ sale\ securities$  $Liquid\ Liabilities = Demand\ deposits + Bank\ deposits\ and\ other\ on\ demand + Bank\ deposits\ and\ other\ short\ term\ liabilities$ b)  $ROE = Annualized\ quarter\ net\ income / Average\ shareholders\ equity.$ c)  $ROA = Annualized\ quarter\ net\ income / Average\ total\ assets.$ d)  $Impaired\ loans\ balance\ at\ quarter\ end / Total\ loans\ balance\ at\ quarter.$ e)  $Coverage\ ratio = Balance\ of\ provisions\ for\ loan\ losses\ at\ quarter\ end / Balance\ of\ impaired\ loans$ f)  $Capitalization\ ratio\ by\ credit\ risk = Net\ capital / Credit\ risk\ weighted\ assets.$ g)  $Capitalization\ ratio\ by\ credit\ and\ market\ risk\ operational = Net\ capital / Credit\ and\ market\ risk\ weighted\ assets.$ h)  $Operating\ efficiency = Expenses / Total\ assets$ i)  $NIM = Annualized\ net\ interest\ income / Average\ performing\ assets.$  $Performing\ assets = Cash\ and\ deposits\ in\ banks + Investments\ in\ securities + Repurchase\ agreements + Derivatives\ operations + Performing\ loans.$ 

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

## Relevant Events

### **HSBC Mexico pays fine to CNBV**

In June 2012, HSBC Mexico fully provisioned a fine imposed by the National Banking and Securities Commission (CNBV), amounting to MXN379m, as a result of non-compliance with a number of prudential regulations identified by the CNBV in 2007 and 2008. HSBC Mexico has already put in place measures which address the past failures for which it has been fined.

### **Change in the write-off policy for mortgage loans**

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

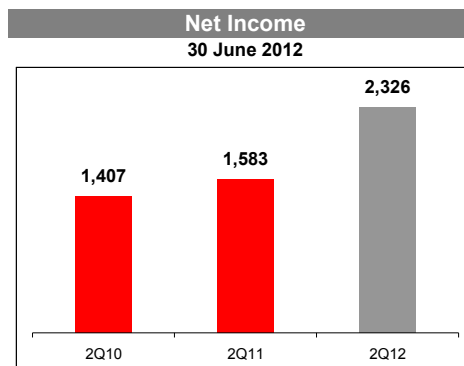
As a result of the change in the write-off policy for mortgage loans and before effectively writing-off the loans, HSBC Mexico constituted 100% of loan loss reserves on those loans affected. In this sense, on April 2012 HSBC Mexico increased the mortgages loan loss reserve by MXN659 million according to B-6 criteria, paragraph 71 of General Rules for financial institutions.

## Income Statement Variance Analysis

### Net Income

Net income for Grupo Financiero HSBC at 30 June 2012 was MXN2,326m, an increase of 46.9% compared with the same period of 2011.

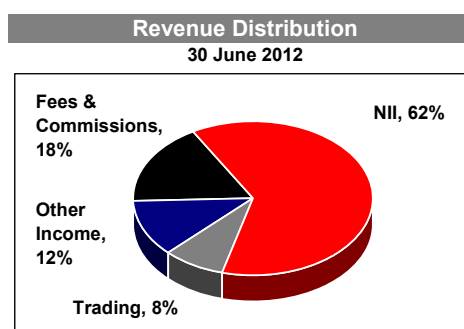
The Group's subsidiaries had solid results during the year, particularly HSBC Mexico and the Insurance Company. This strong performance was mainly due to lower bank administrative expenses, coupled with lower claims ratio on Term Life Insurance product and an improvement in persistency rates.



### Total Operating Income

At 30 June 2012, the Group's total operating income, was MXN14,048m, a decrease of MXN768m (5.2%) compared with the first half of 2011.

Decreased total operating income is mainly due to an increase in loan impairment charges related to a change in the write-off policy for mortgage loans and reduced trading income.



### Net Interest Income

Net interest income for the first half of 2012 increased to MXN10,848m, up MXN206m compared to the same period of 2011.

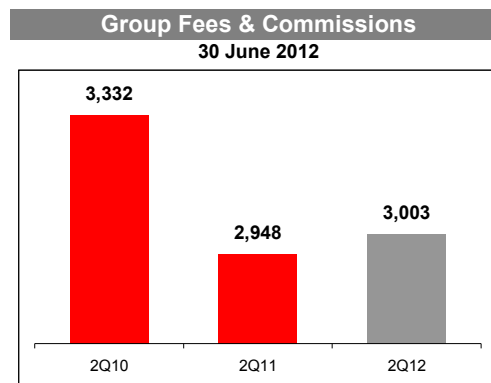
The increase in net interest income was mainly due to higher volumes in the loan portfolio, particularly on the payroll, personal and commercial loan portfolios, coupled with increased deposit volumes; this was partially offset by lower spread in credit card, payroll and business banking loans.

### Non-interest Income

Non-interest income for the first six months of 2012 was MXN6,535m; a decrease of MXN841m or 11.4% compared with results from the same period in 2011.

► **Fee income**

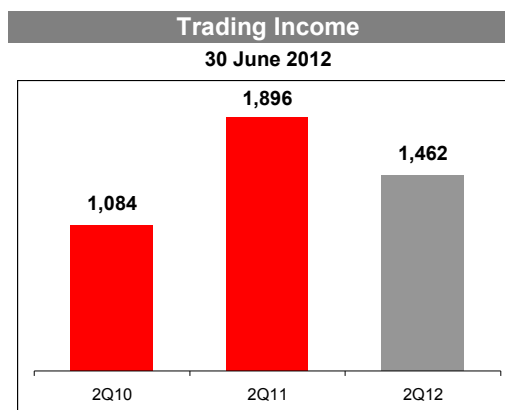
The Group's net fee income for the first half of 2012 was MXN3,003m, an increase of MXN55m or 1.9% compared with the same period in 2011. This increase was mainly due to higher structuring fees on project finance, equity & debt capital markets and trade services fees, mostly offset by lower account services fees, as customers migrated to electronic channels, coupled with an increase in brokerage, credit and debit card fees.



► **Trading income**

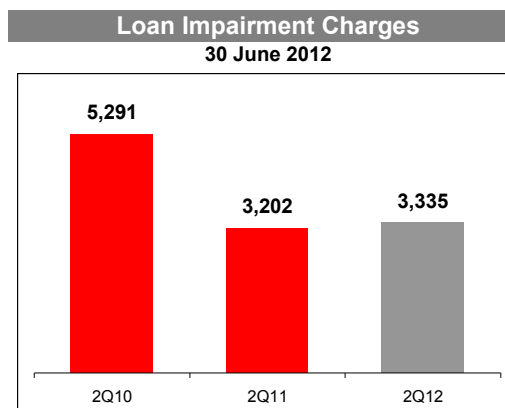
Trading income was MXN1,462m, which represents a decrease of MXN434m (22.9%) compared with the same period of 2011. Lower trading income was mainly due to large derivatives deals and the gain from the sale of one of our equity investments in the first quarter of 2011.

The Group's non-interest income to total revenue ratio decreased from 40.9% at 30 June 2011 to 37.6% at 30 June 2012, driven by lower trading income.



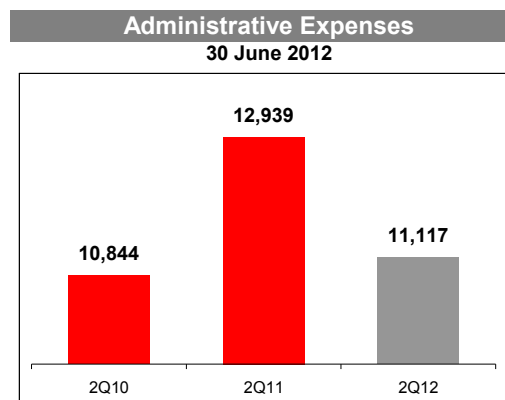
**Loan Impairment Charges**

At 30 June 2012, the Group's loan impairment charges were MXN3,335m, an increase of MXN133m or 4.2% compared with the first half of 2011. This increase was mainly due to a change in the write-off policy for mortgage loans implemented in April 2012.



**Administrative and Personnel Expenses**

The Group's administrative and personnel expenses for the first half of 2012 were MXN11,117m, a MXN1,822m or 14.1% decrease compared to the same period in 2011. Excluding the effect of the restructuring charges, which were MXN778m lower than those incurred in the first quarter of 2011, the decrease would have been MXN1,044m or 8.7% compared with the first half of 2011.

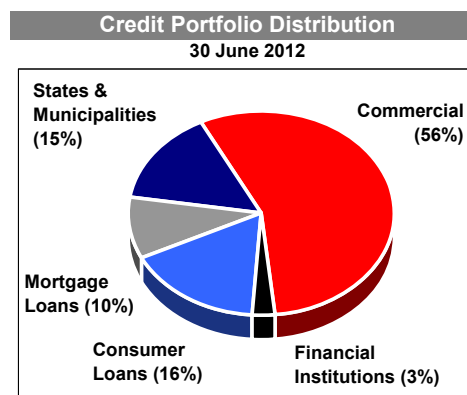


## Balance sheet Variance Analysis

At 30 June 2012, the Group's total assets amounted MXN507,986m, which represents an increase of MXN12,434m or 2.5%, compared with the same period of 2011. This increase was driven by higher volumes in the net loan portfolio, mainly in commercial and consumer loans, as well as increased derivative transactions.

### Loan portfolio

The Group's performing loan portfolio balance amounted to MXN190,860m at 30 June 2012, an increase of 7.2% compared with the same period of 2011. This growth has been driven by higher commercial and consumer loan portfolios, which grew 10.3% and 11.5% respectively when compared to 30 June 2011.



#### ► Commercial loans (including financial and government entities)

At 30 June 2012, the total commercial portfolio (including financial and government entities) increased 6.7% in comparison with the same period of 2011; mainly driven by commercial loan portfolio.

The commercial loan portfolio continues to report an important growth, up 10.3% compared to the same period of 2011, mainly driven by increased lending to MMEs.

#### ► Consumer loans

At June 2012, consumer loans increased 11.5% compared to the same period in 2011. This result is mainly due to sound personal loans and payroll portfolio performance which shows an increase of 66.8% over the same period in 2011.

Credit card balances were MXN15,633m, down 2.3% compared to the same period of the prior year. Auto loan portfolio was MXN2,826m, showing a decrease of 20.9% compared to the first half of 2011.

#### ► Mortgage loans

The mortgage loan portfolio increased MXN795m or 4.5% compared with the same period of the prior year. The increase reported during the first half of 2012 can be mostly explained by an improvement in mortgage loan origination, mainly due to targeted promotions and sales strategies.

### Asset quality

As of June 30 2012, the Group's impaired loan portfolio amounted to MXN4,211m, which represents a decrease of MXN293m or 6.5% compared to the same period of 2011. This decrease is mostly due to a reduction in impaired mortgage loans related to write-off policy change and reduced impaired consumer loans as the portfolio shifted to lower risk products. These were partially offset by an increase in impaired commercial loans.

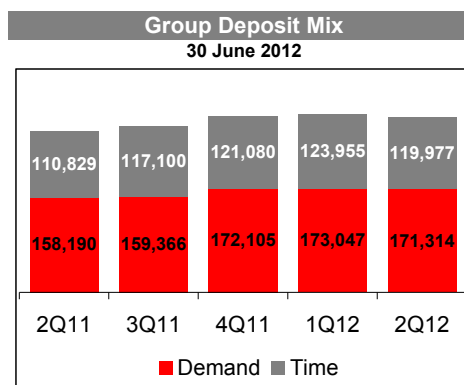
Total impaired loans as a percentage of gross loans and advances to customers decreased to 2.2% compared with 2.5% reported at 30 June 2011. The coverage ratio (allowance for loan losses divided by impaired loans) at 30 June 2012 was 252.6%, compared to 215.8% reported at 30 June 2011. This

increase in the coverage ratio is mainly the result of higher allowances for loan losses coupled with lower total impaired loans.

## Deposits

The Group's total deposits at 30 June 2012 amounted to MXN295,528m, an increase of 8.2% compared to the one reported at 30 June 2011, as a result of our sales efforts and targeted promotions across all lines of business.

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



### ► Demand deposits

At 30 June 2012, demand deposits were MXN171,314m, up 8.3% compared with the same period of 2011, mainly as result of higher payroll, premiere and advance accounts, supported improved sale strategies and promotions in order to increase demand deposits volumes.

### ► Time deposits

Total time deposits increased 8.3% compared to 30 June 2011, primarily as a result of actions focused on increasing balances of our time deposit products.

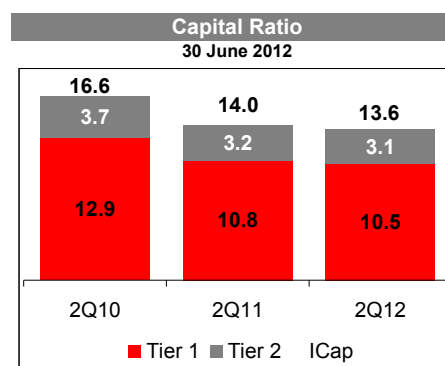
## Shareholder's equity

At 30 June 2012, the Group's equity amounted to MXN46,929m, representing a decrease of 0.8% compared to the same period in 2011.

The banks equity was MXN40,288m, at 30 June 2012, up 9.4% compared to 30 June 2011.

## Capital Adequacy Ratio

The Bank's capital adequacy ratio at 30 June 2012 was 13.6%, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 10.5%.



## Financial Situation, Liquidity and Capital Resources

Grupo Financiero HSBC's balance structure has maintained its liquidity. Cash and investments in securities represent 41.3% of total assets, 4.24 percentage points below than in the first half of 2011. Total assets were MXN508.0bn, up by MXN12.4bn 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 June 30, 2012

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

|  | 30 Jun<br>2011 | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012 |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>  |                |                |                |                |                |
| Cash and deposits in banks                                   | 53,637         | 55,376         | 51,224         | 45,345         | 51,365         |
| Margin Accounts  | 8              | -              | 27             | 43             | 31             |
| Investments in Securities                                    | 177,551        | 168,469        | 177,325        | 162,511        | 158,463        |
| Trading securities   | 37,280         | 37,304         | 50,714         | 34,890         | 40,923         |
| Available-for-sale securities                                | 125,401        | 116,067        | 111,164        | 111,857        | 102,451        |
| Held to maturity securities                                  | 14,870         | 15,098         | 15,447         | 15,764         | 15,089         |
| Repurchase agreements  | 7,774          | 7,668          | 5,749          | 9,787          | 5,402          |
| Derivative transactions                                      | 28,633         | 50,979         | 42,906         | 36,151         | 45,847         |
| Performing loans   |                |                |                |                |                |
| Commercial loans   | 131,523        | 128,354        | 135,196        | 136,700        | 140,315        |
| Commercial entities  | 96,623         | 100,133        | 101,012        | 103,356        | 106,589        |
| Loans to financial intermediaries                            | 6,908          | 6,341          | 8,268          | 6,873          | 5,191          |
| Loans to government entities                                 | 27,992         | 21,880         | 25,916         | 26,471         | 28,535         |
| Consumer loans   | 28,613         | 29,101         | 29,302         | 30,603         | 31,916         |
| Mortgages loans  | 17,834         | 17,828         | 18,058         | 18,355         | 18,629         |
| Total performing loans                                       | 177,970        | 175,283        | 182,556        | 185,658        | 190,860        |
| Impaired loans   |                |                |                |                |                |
| Commercial loans   | 1,330          | 3,366          | 2,027          | 2,292          | 2,461          |
| Commercial entities  | 1,330          | 2,014          | 2,027          | 2,292          | 2,461          |
| Financial entities   | -              | -              | -              | -              | -              |
| Loans to government entities                                 | -              | 1,352          | -              | -              | -              |
| Consumer loans   | 1,324          | 1,256          | 1,234          | 1,059          | 1,095          |
| Mortgages loans  | 1,850          | 1,839          | 1,821          | 1,626          | 655            |
| Total non-performing loans                                   | 4,504          | 6,461          | 5,082          | 4,977          | 4,211          |
| Loan portfolio   | 182,474        | 181,744        | 187,638        | 190,635        | 195,071        |
| Allowance for loan losses                                    | (9,720)        | (10,231)       | (10,900)       | (11,059)       | (10,639)       |
| Net loan portfolio   | 172,754        | 171,513        | 176,738        | 179,576        | 184,432        |
| Premium receivables  | 194            | 186            | 160            | 212            | 238            |
| Accounts receivables from reinsurers and rebonding companies | 279            | 237            | 280            | 242            | 214            |
| Benefits to be received from trading operations              | -              | -              | -              | -              | -              |
| Other accounts receivable, net                               | 32,804         | 30,916         | 29,287         | 48,136         | 42,999         |
| Foreclosed assets  | 165            | 195            | 207            | 204            | 201            |
| Property, furniture and equipment, net                       | 8,205          | 8,074          | 8,080          | 7,834          | 7,714          |
| Long term investments in equity securities                   | 192            | 250            | 221            | 155            | 197            |
| Long-term assets available for sale                          | 2,428          | 99             | 103            | 96             | 95             |
| Deferred taxes, net  | 5,454          | 5,508          | 6,504          | 6,335          | 6,042          |
| Goodwill   | 1,197          | 1,188          | 1,181          | 1,186          | 1,197          |
| Other assets, deferred charges and intangibles               | 4,277          | 5,134          | 4,075          | 4,329          | 3,549          |
| <b>Total Assets</b>  | <b>495,552</b> | <b>505,792</b> | <b>504,067</b> | <b>502,142</b> | <b>507,986</b> |



Figures in MXN millions at June 30, 2012

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

|  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Liabilities</b>   |                              |                              |                              |                              |                              |
| Deposits   | 273,255                      | 280,730                      | 297,428                      | 301,271                      | <b>295,528</b>               |
| Demand deposits  | 158,190                      | 159,367                      | 172,105                      | 173,047                      | <b>171,314</b>               |
| Time deposits  | 110,829                      | 117,101                      | 121,080                      | 123,955                      | <b>119,977</b>               |
| Retail   | 109,114                      | 115,036                      | 119,297                      | 122,536                      | <b>118,994</b>               |
| Money market   | 1,715                        | 2,065                        | 1,783                        | 1,419                        | <b>983</b>                   |
| Bank bonds outstanding   | 4,236                        | 4,262                        | 4,243                        | 4,269                        | <b>4,237</b>                 |
| Bank deposits and other liabilities                                | 30,161                       | 28,927                       | 32,536                       | 23,888                       | <b>25,034</b>                |
| On demand  | 3,950                        | -                            | 5,866                        | -                            | <b>2,001</b>                 |
| Short term   | 24,744                       | 27,243                       | 24,923                       | 22,487                       | <b>21,446</b>                |
| Long term  | 1,467                        | 1,684                        | 1,747                        | 1,401                        | <b>1,587</b>                 |
| Repurchase agreements  | 48,985                       | 17,176                       | 9,327                        | 12,637                       | <b>14,786</b>                |
| Stock Borrowing  | 1                            | 4                            | 4                            | 3                            | -                            |
| Financial assets pending to be settled                             | -                            | -                            | -                            | -                            | <b>1,017</b>                 |
| Collateral Sold  | 10,292                       | 12,095                       | 17,704                       | 7,849                        | <b>8,748</b>                 |
| Repurchase   | 5,524                        | 5,422                        | 6,046                        | 5,583                        | <b>6,025</b>                 |
| Securities to be received in repo transactions                     | 4,768                        | 6,673                        | 11,658                       | 2,266                        | <b>2,723</b>                 |
| Derivative transactions  | 27,274                       | 50,669                       | 43,296                       | 34,969                       | <b>45,760</b>                |
| Technical reserves   | 10,272                       | 10,389                       | 10,700                       | 10,932                       | <b>10,778</b>                |
| Reinsurers   | 54                           | 58                           | 30                           | 29                           | <b>62</b>                    |
| Other accounts payable   | 37,495                       | 45,916                       | 35,836                       | 54,657                       | <b>48,497</b>                |
| Income tax and employee profit sharing payable                     | 1,162                        | 1,996                        | 1,780                        | 1,462                        | <b>1,334</b>                 |
| Creditors for settlement of transactions                           | 23,110                       | 35,971                       | 18,353                       | 37,409                       | <b>29,400</b>                |
| Sundry creditors and others accounts payable                       | 13,223                       | 7,949                        | 15,703                       | 15,786                       | <b>17,763</b>                |
| Subordinated debentures outstanding                                | 9,824                        | 10,435                       | 10,488                       | 10,153                       | <b>10,331</b>                |
| Deferred credits   | 628                          | 606                          | 539                          | 527                          | <b>516</b>                   |
| <b>Total Liabilities</b>   | <b>448,241</b>               | <b>457,005</b>               | <b>457,888</b>               | <b>456,915</b>               | <b>461,057</b>               |
| <b>Stockholder's Equity</b>  |                              |                              |                              |                              |                              |
| Paid in capital  | 32,673                       | 32,673                       | 32,673                       | 32,673                       | <b>32,673</b>                |
| Capital stock  | 5,111                        | 5,111                        | 5,111                        | 5,111                        | <b>5,111</b>                 |
| Additional paid in capital   | 27,562                       | 27,562                       | 27,562                       | 27,562                       | <b>27,562</b>                |
| Capital Gains  | 14,627                       | 16,104                       | 13,495                       | 12,545                       | <b>14,246</b>                |
| Capital reserves   | 1,832                        | 1,832                        | 1,832                        | 1,832                        | <b>1,958</b>                 |
| Retained earnings  | 11,262                       | 11,262                       | 8,849                        | 8,959                        | <b>8,833</b>                 |
| Result from the mark-to-market of<br>Available-for-sale securities | 220                          | 758                          | 547                          | 683                          | <b>1,216</b>                 |
| Result from cash flow hedging transactions                         | (270)                        | (468)                        | (243)                        | (127)                        | <b>(87)</b>                  |
| Net Income   | 1,583                        | 2,720                        | 2,510                        | 1,198                        | <b>2,326</b>                 |
| Non-controlling interest   | 11                           | 10                           | 11                           | 9                            | <b>10</b>                    |
| Total Stockholder's Equity   | <b>47,311</b>                | <b>48,787</b>                | <b>46,179</b>                | <b>45,227</b>                | <b>46,929</b>                |
| <b>Total Liabilities and Capital</b>                               | <b>495,552</b>               | <b>505,792</b>               | <b>504,067</b>               | <b>502,142</b>               | <b>507,986</b>               |

Figures in MXN millions at June 30, 2012

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

|  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Memorandum Accounts</b>                             | <b>2,729,366</b>             | <b>2,967,174</b>             | <b>2,783,257</b>             | <b>2,794,342</b>             | <b>3,968,847</b>             |
| <b>Proprietary position</b>                            | <b>2,633,899</b>             | <b>2,870,275</b>             | <b>2,687,313</b>             | <b>2,697,506</b>             | <b>3,864,416</b>             |
| Guarantees granted                                     | 16                           | 14                           | 14                           | 9                            | 9                            |
| Contingent assets and liabilities                      | 95                           | 95                           | -                            | -                            | -                            |
| Irrevocable lines of credit granted                    | 16,909                       | 19,193                       | 22,425                       | 24,668                       | 25,203                       |
| Goods in trust or mandate                              | 311,753                      | 313,369                      | 328,375                      | 348,119                      | 368,631                      |
| Trust  | 307,939                      | 309,526                      | 327,848                      | 347,489                      | 367,917                      |
| Mandate  | 3,814                        | 3,843                        | 527                          | 630                          | 714                          |
| Goods in custody or under administration               | 265,996                      | 253,350                      | 256,883                      | 288,199                      | 295,763                      |
| Collateral received by the institution                 | 40,791                       | 35,774                       | 54,796                       | 55,443                       | 51,373                       |
| Collateral received and sold or delivered as guarantee | 40,524                       | 36,971                       | 53,869                       | 53,144                       | 50,255                       |
| Values in deposit                                      | 53                           | 53                           | 53                           | 53                           | 53                           |
| Suspended interest on impaired loans                   | 224                          | 230                          | 236                          | 239                          | 123                          |
| Recovery guarantees for issued bonds                   | 36,649                       | 34,191                       | 35,383                       | 35,535                       | 82,821                       |
| Paid claims  | 14                           | 56                           | 61                           | 9                            | 12                           |
| Cancelled claims                                       | 2                            | 24                           | 24                           | -                            | 7                            |
| Recovery claims  | -                            | -                            | 1                            | -                            | -                            |
| Responsibilities from bonds in force                   | 3,614                        | 3,416                        | 3,552                        | 3,723                        | 3,718                        |
| Other control accounts                                 | 1,917,259                    | 2,173,539                    | 1,931,641                    | 1,888,365                    | 2,986,448                    |

|  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Third party accounts</b>                    | <b>95,467</b>                | <b>96,899</b>                | <b>95,944</b>                | <b>96,836</b>                | <b>104,431</b>               |
| Clients current accounts                       | 149                          | (169)                        | 13                           | 100                          | (78)                         |
| Custody operations                             | 31,969                       | 33,640                       | 35,328                       | 36,268                       | 41,655                       |
| Transactions on behalf of clients              | 11,896                       | 11,607                       | 13,585                       | 12,406                       | 13,153                       |
| Third party investment banking operations, net | 51,453                       | 51,821                       | 47,018                       | 48,062                       | 49,701                       |

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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[www.cnbv.gob.mx.](http://www.cnbv.gob.mx/)

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 June 30, 2012

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

|  | <i>For the quarter ending</i> |                        |                        |                        | <i>Year to date</i>    |                        |                 |
|--|-------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------|
|  | <i>30 Jun<br/>2011</i>        | <i>30 Sep<br/>2011</i> | <i>31 Dec<br/>2011</i> | <i>31 Mar<br/>2012</i> | <i>30 Jun<br/>2012</i> | <i>30 Jun<br/>2012</i> |                 |
| Interest Income                            | 7,608                         | 7,858                  | 7,856                  | 7,938                  | <b>7,893</b>           | 14,800                 | <b>15,831</b>   |
| Earned premiums                            | 683                           | 705                    | 654                    | 786                    | <b>771</b>             | 1,376                  | <b>1,557</b>    |
| Interest expense                           | (2,609)                       | (2,734)                | (2,638)                | (2,813)                | <b>(2,796)</b>         | (4,799)                | <b>(5,609)</b>  |
| Increase in technical reserves             | 18                            | (94)                   | (286)                  | (250)                  | <b>(89)</b>            | (115)                  | <b>(339)</b>    |
| Claims                                     | (307)                         | (350)                  | (257)                  | (313)                  | <b>(279)</b>           | (620)                  | <b>(592)</b>    |
| Net interest income                        | <u>5,393</u>                  | <u>5,385</u>           | <u>5,329</u>           | <u>5,348</u>           | <b>5,500</b>           | 10,642                 | <b>10,848</b>   |
| Loan impairment charges                    | (1,548)                       | (1,548)                | (1,987)                | (1,654)                | <b>(1,681)</b>         | (3,202)                | <b>(3,335)</b>  |
| Risk adjusted net interest income          | <u>3,845</u>                  | <u>3,837</u>           | <u>3,342</u>           | <u>3,694</u>           | <b>3,819</b>           | 7,440                  | <b>7,513</b>    |
| Fees and commissions receivable            | 1,826                         | 2,077                  | 2,086                  | 2,058                  | <b>2,094</b>           | 3,876                  | <b>4,152</b>    |
| Fees payable                               | (475)                         | (523)                  | (518)                  | (578)                  | <b>(571)</b>           | (928)                  | <b>(1,149)</b>  |
| Trading Income                             | 681                           | 601                    | 772                    | 716                    | <b>746</b>             | 1,896                  | <b>1,462</b>    |
| Other operating income                     | 1,451                         | 1,614                  | 519                    | 909                    | <b>1,161</b>           | 2,532                  | <b>2,070</b>    |
| Administrative and personnel expenses      | (6,487)                       | (5,855)                | (6,721)                | (5,485)                | <b>(5,632)</b>         | (12,939)               | <b>(11,117)</b> |
| Net operating income                       | <u>841</u>                    | <u>1,751</u>           | <u>(520)</u>           | <u>1,314</u>           | <b>1,617</b>           | 1,877                  | <b>2,931</b>    |
| Undistributed income from subsidiaries     | 17                            | 18                     | (73)                   | 8                      | <b>20</b>              | 17                     | <b>28</b>       |
| Net income before taxes                    | <u>858</u>                    | <u>1,769</u>           | <u>(593)</u>           | <u>1,322</u>           | <b>1,637</b>           | 1,894                  | <b>2,959</b>    |
| Income tax and employee profit sharing tax | (421)                         | (737)                  | (860)                  | (318)                  | <b>(447)</b>           | (751)                  | <b>(765)</b>    |
| Deferred income tax                        | 101                           | 46                     | 1,055                  | 167                    | <b>(97)</b>            | 225                    | <b>70</b>       |
| Income from ongoing operations             | <u>538</u>                    | <u>1,078</u>           | <u>(398)</u>           | <u>1,171</u>           | <b>1,093</b>           | 1,368                  | <b>2,264</b>    |
| Discontinued operations                    | 193                           | 33                     | 207                    | 27                     | <b>35</b>              | 221                    | <b>62</b>       |
| Non-controlling interest                   | (3)                           | 26                     | (19)                   | -                      | <b>-</b>               | (6)                    | <b>-</b>        |
| <b>Net income (loss)</b>                   | <u>728</u>                    | <u>1,137</u>           | <u>(210)</u>           | <u>1,198</u>           | <b>1,128</b>           | 1,583                  | <b>2,326</b>    |

"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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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 Changes in Shareholder's Equity

Figures in MXN millions  
From 1 January to 30th June 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     |
| <b>Balances at 01 January 2012</b>  | <b>5,111</b>    | <b>-</b>                              | <b>27,562</b>   |                                     | <b>1,832</b>     | <b>8,849</b>      | <b>304</b>                      | <b>-</b>                         | <b>-</b>  | <b>2,510</b>             | <b>11</b>                  | <b>46,179</b>  |
| <b>Movements Inherent to the Shareholders Decision</b>                          |                 |                                       |                 |                                     |                  |                   |                                 |                                  |   |                          |                            |                |
| 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  | -               | -                                     | -               | -                                   | -                | -                 | -                               | -                                | -   | -                        | -                          | -              |
| <b>Total Movements Inherent to the Shareholders Decision</b>                    | <b>-</b>        | <b>-</b>                              | <b>-</b>        | <b>-</b>                            | <b>126</b>       | <b>(16)</b>       | <b>-</b>                        | <b>-</b>                         | <b>-</b>  | <b>(2,510)</b>           | <b>-</b>                   | <b>(2,400)</b> |
| <b>Movements for the Recognition of the Comprehensive Income</b>                |                 |                                       |                 |                                     |                  |                   |                                 |                                  |   |                          |                            |                |
| <b>Comprehensive Income</b>   |                 |                                       |                 |                                     |                  |                   |                                 |                                  |   |                          |                            |                |
| Net result  | -               | -                                     | -               | -                                   | -                | -                 | -                               | -                                | -   | 2,326                    | -                          | 2,326          |
| Result from valuation of available-for-sale securities                          | -               | -                                     | -               | -                                   | -                | -                 | 669                             | -                                | -   | -                        | -                          | 669            |
| Result from cash flow hedging transactions                                      | -               | -                                     | -               | -                                   | -                | -                 | 156                             | -                                | -   | -                        | -                          | 156            |
| Results from holding non-monetary assets  | -               | -                                     | -               | -                                   | -                | -                 | -                               | -                                | -   | -                        | -                          | -              |
| Others  | -               | -                                     | -               | -                                   | -                | -                 | -                               | -                                | -   | -                        | (1)                        | (1)            |
| <b>Total Movements Inherent for the Recognition of the Comprehensive Income</b> | <b>-</b>        | <b>-</b>                              | <b>-</b>        | <b>-</b>                            | <b>-</b>         | <b>-</b>          | <b>825</b>                      | <b>-</b>                         | <b>-</b>  | <b>2,326</b>             | <b>(1)</b>                 | <b>3,150</b>   |
| <b>Balances at 30 June 2012</b>   | <b>5,111</b>    | <b>-</b>                              | <b>27,562</b>   |                                     | <b>1,958</b>     | <b>8,833</b>      | <b>1,129</b>                    | <b>-</b>                         | <b>-</b>  | <b>2,326</b>             | <b>10</b>                  | <b>46,929</b>  |

"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 June 2012

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

|  |                |
|--|----------------|
| <b>Net income</b>  | <b>2,326</b>   |
| <b>Adjustments for items not involving cash flow:</b>                                | <b>4,142</b>   |
| Gain or loss on appraisal of activities associated with investment & financing       | -              |
| Allowances for loan losses   | -              |
| Depreciation and amortization  | 903            |
| Provisions   | 2,097          |
| Income Tax and deferred taxes  | 695            |
| Technical reserves   | 339            |
| Discontinued operations  | 62             |
| Undistributed income from subsidiaries   | 46             |
| <b>Changes in items related to operating activities:</b>                             |                |
| Memorandum accounts  | (4)            |
| Investment securities  | 19,280         |
| Repurchase agreements  | 348            |
| Stock borrowing  | (4)            |
| Derivative (assets)  | (2,941)        |
| Loan portfolio   | (7,693)        |
| Receivables  | -              |
| Foreclosed assets  | 5              |
| Operating assets   | (13,711)       |
| Deposits   | (1,901)        |
| Bank deposits and other liabilities  | (7,504)        |
| Settlement accounts  | 1,017          |
| Creditors repo transactions  | 5,459          |
| Collateral sold or delivered as guarantee  | (8,955)        |
| Derivative (liabilities)   | 2,464          |
| Subordinated debentures outstanding  | (156)          |
| Accounts receivables from reinsurers and coinsurers                                  | 29             |
| Accounts receivables from premiums   | (194)          |
| Reinsurers and bonding   | 52             |
| Other operating liabilities  | 10,518         |
| <b>Funds provided by operating activities</b>  | <b>(3,891)</b> |
| <b>Investing activities:</b>   |                |
| Acquisition of property, furniture and equipment                                     | (528)          |
| Intangible assets acquisitions   | 492            |
| Others   | -              |
| <b>Funds used in investing activities</b>  | <b>(36)</b>    |
| <b>Financing activities:</b>   |                |
| Cash dividends   | (2,400)        |
| Decrease of Shares   | -              |
| Others   | -              |
| <b>Funds used in financing activities</b>  | <b>(2,400)</b> |
| Increase/decrease in cash and equivalents  | <b>141</b>     |
| <b>Adjustments to cash flow variations in the exchange rate and inflation levels</b> | <b>-</b>       |
| Cash and equivalents at beginning of period  | <b>51,224</b>  |
| <b>Cash and equivalents at end of period</b>   | <b>51,365</b>  |

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 June 30, 2012

HSBC Mexico, S.A. (Bank)

|  | 30 Jun<br>2011 | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012  |
|--|----------------|----------------|----------------|----------------|-----------------|
| <b>Assets</b>                                  |                |                |                |                |                 |
| Cash and deposits in banks                     | 53,634         | 55,376         | 51,224         | 45,345         | <b>51,374</b>   |
| Margin Accounts                                | 8              | -              | 27             | 43             | <b>31</b>       |
| Investment in Securities                       | 163,419        | 151,070        | 161,747        | 147,606        | <b>143,224</b>  |
| Trading securities                             | 30,808         | 27,757         | 43,313         | 28,435         | <b>34,366</b>   |
| Available-for-sale securities                  | 125,401        | 116,067        | 111,164        | 111,857        | <b>102,451</b>  |
| Held to maturity securities                    | 7,210          | 7,246          | 7,270          | 7,314          | <b>6,407</b>    |
| Repurchase agreements                          | 7,773          | 7,668          | 5,749          | 9,787          | <b>5,402</b>    |
| Derivative transactions                        | 28,633         | 50,979         | 42,906         | 36,151         | <b>45,847</b>   |
| Performing loans                               |                |                |                |                |                 |
| Commercial loans                               | 131,523        | 128,354        | 135,196        | 136,700        | <b>140,315</b>  |
| Commercial entities                            | 96,623         | 100,133        | 101,012        | 103,356        | <b>106,589</b>  |
| Loans to financial intermediaries              | 6,908          | 6,341          | 8,268          | 6,873          | <b>5,191</b>    |
| Loans to government entities                   | 27,992         | 21,880         | 25,916         | 26,471         | <b>28,535</b>   |
| Consumer loans                                 | 28,613         | 29,101         | 29,302         | 30,603         | <b>31,916</b>   |
| Mortgages loans                                | 17,834         | 17,828         | 18,058         | 18,355         | <b>18,629</b>   |
| Total performing loans                         | 177,970        | 175,283        | 182,556        | 185,658        | <b>190,860</b>  |
| Impaired loans                                 |                |                |                |                |                 |
| Commercial loans                               | 1,330          | 3,366          | 2,027          | 2,292          | <b>2,461</b>    |
| Commercial entities                            | 1,330          | 2,014          | 2,027          | 2,292          | <b>2,461</b>    |
| Loans to financial intermediaries              | -              | -              | -              | -              | <b>-</b>        |
| Loans to government entities                   | -              | 1,352          | -              | -              | <b>-</b>        |
| Consumer loans                                 | 1,324          | 1,256          | 1,234          | 1,059          | <b>1,095</b>    |
| Mortgage Loans                                 | 1,850          | 1,839          | 1,821          | 1,626          | <b>655</b>      |
| Total non-performing loans                     | 4,504          | 6,461          | 5,082          | 4,977          | <b>4,211</b>    |
| Total loan portfolio                           | 182,474        | 181,744        | 187,638        | 190,635        | <b>195,071</b>  |
| Allowance for loan losses                      | (9,720)        | (10,231)       | (10,900)       | (11,059)       | <b>(10,639)</b> |
| Net loan portfolio                             | 172,754        | 171,513        | 176,738        | 179,576        | <b>184,432</b>  |
| Other accounts receivable                      | 32,887         | 30,948         | 29,335         | 47,523         | <b>42,784</b>   |
| Foreclosed assets                              | 161            | 191            | 203            | 201            | <b>198</b>      |
| Property, furniture and equipment, net         | 8,205          | 8,073          | 8,080          | 7,834          | <b>7,714</b>    |
| Long term investments in equity securities     | 113            | 170            | 138            | 143            | <b>111</b>      |
| Long term assets available for sale            | 1              | 3              | -              | -              | <b>7</b>        |
| Deferred taxes                                 | 5,328          | 5,386          | 6,409          | 6,224          | <b>5,946</b>    |
| Other assets, deferred charges and intangibles | 3,917          | 4,642          | 3,506          | 4,083          | <b>3,160</b>    |
| <b>Total Assets</b>                            | <b>476,833</b> | <b>486,019</b> | <b>486,062</b> | <b>484,516</b> | <b>490,230</b>  |

Figures in MXN millions at June 30, 2012

HSBC Mexico, S.A. (Bank)

|  | <i>30 Jun</i><br><i>2011</i> | <i>30 Sep</i><br><i>2011</i> | <i>31 Dec</i><br><i>2011</i> | <i>31 Mar</i><br><i>2012</i> | <i>30 Jun</i><br><i>2012</i> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Liabilities</b>                             |                              |                              |                              |                              |                              |
| Deposits                                       | 274,106                      | 281,464                      | 298,119                      | 302,116                      | <b>296,209</b>               |
| Demand deposits                                | 159,041                      | 160,102                      | 172,797                      | 173,892                      | <b>171,995</b>               |
| Time deposits                                  | 110,829                      | 117,100                      | 121,079                      | 123,955                      | <b>119,977</b>               |
| Retail   | 109,114                      | 115,035                      | 119,296                      | 122,536                      | <b>118,994</b>               |
| Money market                                   | 1,715                        | 2,065                        | 1,783                        | 1,419                        | <b>983</b>                   |
| Bank bonds outstanding                         | 4,236                        | 4,262                        | 4,243                        | 4,269                        | <b>4,237</b>                 |
| Bank deposits and other liabilities            | 30,161                       | 28,927                       | 32,536                       | 23,888                       | <b>25,034</b>                |
| On demand                                      | 3,950                        | -                            | 5,866                        | -                            | <b>2,001</b>                 |
| Short term                                     | 24,744                       | 27,243                       | 24,923                       | 22,487                       | <b>21,446</b>                |
| Long term                                      | 1,467                        | 1,684                        | 1,747                        | 1,401                        | <b>1,587</b>                 |
| Repurchase agreements                          | 54,509                       | 22,598                       | 15,373                       | 18,219                       | <b>20,811</b>                |
| Stock Borrowing                                | 2                            | 4                            | 4                            | 3                            | -                            |
| Financial assets pending to be settled         | -                            | -                            | -                            | -                            | <b>1,017</b>                 |
| Collateral Sold                                | 4,769                        | 6,673                        | 11,658                       | 2,227                        | <b>2,723</b>                 |
| Repurchase                                     | -                            | -                            | -                            | -                            | -                            |
| Securities to be received in repo transactions | 4,769                        | 6,673                        | 11,658                       | 2,227                        | <b>2,723</b>                 |
| Derivative transactions                        | 27,274                       | 50,669                       | 43,296                       | 34,969                       | <b>45,760</b>                |
| Other accounts payable                         | 38,743                       | 46,680                       | 34,572                       | 53,305                       | <b>47,559</b>                |
| Income tax and employee profit sharing payable | 694                          | 1,113                        | 795                          | 1,079                        | <b>909</b>                   |
| Contributions for future capital increases     | 2,013                        | 2,013                        | -                            | -                            | -                            |
| Creditors for settlement of transactions       | 22,900                       | 25,897                       | 18,353                       | 36,703                       | <b>29,064</b>                |
| Sundry creditors and others accounts payable   | 13,136                       | 17,657                       | 15,424                       | 15,523                       | <b>17,586</b>                |
| Subordinated debentures outstanding            | 9,824                        | 10,435                       | 10,488                       | 10,153                       | <b>10,331</b>                |
| Deferred credits                               | 606                          | 587                          | 520                          | 505                          | <b>498</b>                   |
| <b>Total Liabilities</b>                       | <b>439,994</b>               | <b>448,037</b>               | <b>446,566</b>               | <b>445,385</b>               | <b>449,942</b>               |
| <b>Stockholder's Equity</b>                    |                              |                              |                              |                              |                              |
| Paid in capital                                | 25,605                       | 25,605                       | 27,618                       | 27,618                       | <b>27,618</b>                |
| Capital stock                                  | 5,087                        | 5,087                        | 5,261                        | 5,261                        | <b>5,261</b>                 |
| Additional paid in capital                     | 20,518                       | 20,518                       | 22,357                       | 22,357                       | <b>22,357</b>                |
| Capital Gains                                  | 11,231                       | 12,374                       | 11,875                       | 11,513                       | <b>12,669</b>                |
| Capital reserves                               | 11,069                       | 11,069                       | 11,057                       | 9,657                        | <b>10,373</b>                |
| Retained earnings                              | (302)                        | (301)                        | (202)                        | 514                          | <b>(202)</b>                 |
| Result from the mark-to-market of              |                              |                              |                              |                              |                              |
| Available-for-sale securities                  | 220                          | 758                          | 547                          | 683                          | <b>1,216</b>                 |
| Result from cash flow hedging transactions     | (270)                        | (467)                        | (243)                        | (127)                        | <b>(87)</b>                  |
| Net Income                                     | 514                          | 1,315                        | 716                          | 786                          | <b>1,369</b>                 |
| Non-controlling interest                       | 3                            | 3                            | 3                            | -                            | <b>1</b>                     |
| Total Stockholder's Equity                     | 36,839                       | 37,982                       | 39,496                       | 39,131                       | <b>40,288</b>                |
| <b>Total Liabilities and Capital</b>           | <b>476,833</b>               | <b>486,019</b>               | <b>486,062</b>               | <b>484,516</b>               | <b>490,230</b>               |

Figures in MXN millions at June 30, 2012

HSBC Mexico, S.A. (Bank)

|  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Memorandum Accounts</b>                             |                              |                              |                              |                              |                              |
| Guarantees granted                                     | 16                           | 14                           | 14                           | 9                            | 9                            |
| Contingent assets and liabilities                      | 95                           | 95                           | -                            | -                            | -                            |
| Irrevocable lines of credit granted                    | 16,909                       | 19,193                       | 22,425                       | 24,668                       | 25,203                       |
| Goods in trust or mandate                              | 311,753                      | 313,370                      | 328,375                      | 348,119                      | 368,630                      |
| Goods  | 307,939                      | 309,527                      | 327,848                      | 347,489                      | 367,916                      |
| Trusts   | 3,814                        | 3,843                        | 527                          | 630                          | 714                          |
| Goods in custody or under administration               | 260,885                      | 248,240                      | 251,772                      | 283,088                      | 290,653                      |
| Collateral received by the institution                 | 40,791                       | 35,774                       | 54,796                       | 55,443                       | 51,373                       |
| Collateral received and sold or delivered as guarantee | 34,990                       | 31,561                       | 47,829                       | 47,566                       | 44,235                       |
| Third party investment banking operations, net         | 51,453                       | 51,821                       | 47,018                       | 48,063                       | 49,701                       |
| Suspended interest on impaired loans                   | 224                          | 230                          | 236                          | 239                          | 123                          |
| Other control accounts                                 | 1,908,613                    | 2,171,910                    | 1,919,501                    | 1,876,232                    | 2,974,311                    |
|  | <u>2,625,729</u>             | <u>2,872,208</u>             | <u>2,671,966</u>             | <u>2,683,426</u>             | <u>3,804,238</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 June 30, 2012

**HSBC Mexico, S.A. (Bank)**

|   | <i>For the quarter ending</i> |                        |                        |                        | <i>Year to date</i>    |                        |                |
|---|-------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|----------------|
|   | <i>30 Jun<br/>2011</i>        | <i>30 Sep<br/>2011</i> | <i>31 Dec<br/>2011</i> | <i>31 Mar<br/>2012</i> | <i>30 Jun<br/>2012</i> | <i>30 Jun<br/>2012</i> |                |
| Interest income                           | 7,430                         | 7,651                  | 7,643                  | 7,742                  | <b>7,702</b>           | 14,447                 | <b>15,444</b>  |
| Interest expense                          | (2,614)                       | (2,738)                | (2,642)                | (2,818)                | <b>(2,797)</b>         | (4,810)                | <b>(5,615)</b> |
| Net interest income                       | <u>4,816</u>                  | <u>4,913</u>           | <u>5,001</u>           | <u>4,924</u>           | <b>4,905</b>           | <u>9,637</u>           | <b>9,829</b>   |
| Loan impairment charges                   | (1,548)                       | (1,548)                | (1,987)                | (1,654)                | <b>(1,681)</b>         | (3,202)                | <b>(3,335)</b> |
| Risk adjusted net interest income         | <u>3,268</u>                  | <u>3,365</u>           | <u>3,014</u>           | <u>3,270</u>           | <b>3,224</b>           | <u>6,435</u>           | <b>6,494</b>   |
| Fees and commissions receivable           | 1,882                         | 1,926                  | 2,001                  | 1,959                  | <b>1,966</b>           | 3,723                  | <b>3,925</b>   |
| Account management                        | 126                           | 121                    | 120                    | 103                    | <b>106</b>             | 246                    | <b>209</b>     |
| Services                                  | 1,756                         | 1,805                  | 1,881                  | 1,856                  | <b>1,860</b>           | 3,477                  | <b>3,716</b>   |
| Fees payable                              | (349)                         | (386)                  | (386)                  | (448)                  | <b>(456)</b>           | (677)                  | <b>(904)</b>   |
| Trading Income                            | 682                           | 490                    | 609                    | 607                    | <b>740</b>             | 1,521                  | <b>1,347</b>   |
| Foreign exchange                          | 358                           | 189                    | 787                    | (924)                  | <b>1,290</b>           | (198)                  | <b>366</b>     |
| Securities trading, net                   | 103                           | 210                    | 217                    | 31                     | <b>(49)</b>            | 111                    | <b>(18)</b>    |
| Repos                                     | -                             | -                      | -                      | (1)                    | <b>(46)</b>            | (8)                    | <b>(47)</b>    |
| Swaps                                     | 245                           | 31                     | 373                    | 177                    | <b>72</b>              | 936                    | <b>249</b>     |
| Valuation off-shore agencies              | 131                           | 170                    | (650)                  | 1,255                  | <b>(601)</b>           | 181                    | <b>654</b>     |
| Valuation for trading swaps               | (28)                          | 84                     | 72                     | 108                    | <b>124</b>             | 626                    | <b>232</b>     |
| Valuation for FX options                  | (127)                         | (194)                  | (190)                  | (39)                   | <b>(50)</b>            | (127)                  | <b>(89)</b>    |
| Other operating income                    | 1,607                         | 1,582                  | 802                    | 971                    | <b>1,202</b>           | 2,731                  | <b>2,173</b>   |
| Administrative and personnel expenses     | 6,619                         | 5,935                  | 6,861                  | 5,588                  | <b>5,788</b>           | 13,096                 | <b>11,376</b>  |
| Personnel expense                         | 2,536                         | 2,621                  | 2,726                  | 2,413                  | <b>2,430</b>           | 5,319                  | <b>4,843</b>   |
| Administrative expense                    | 3,296                         | 2,924                  | 3,297                  | 2,650                  | <b>2,980</b>           | 6,216                  | <b>5,630</b>   |
| Depreciation and amortization             | 787                           | 390                    | 838                    | 525                    | <b>378</b>             | 1,561                  | <b>903</b>     |
| Net operating income                      | <u>471</u>                    | <u>1,042</u>           | <u>(821)</u>           | <u>771</u>             | <b>888</b>             | <u>637</u>             | <b>1,659</b>   |
| Undistributed income from subsidiaries    | 9                             | 17                     | (76)                   | 6                      | <b>19</b>              | 18                     | <b>25</b>      |
| Net income before taxes                   | 480                           | 1,059                  | (897)                  | 777                    | <b>907</b>             | 655                    | <b>1,684</b>   |
| Income tax                                | (277)                         | (334)                  | (761)                  | (137)                  | <b>(240)</b>           | (318)                  | <b>(377)</b>   |
| Deferred income tax                       | 89                            | 51                     | 1,077                  | 146                    | <b>(84)</b>            | 183                    | <b>62</b>      |
| Net income before discontinued operations | <u>292</u>                    | <u>776</u>             | <u>(581)</u>           | <u>786</u>             | <b>583</b>             | <u>520</u>             | <b>1,369</b>   |
| Non-controlling interest                  | (3)                           | 25                     | (18)                   | -                      | -                      | (6)                    | -              |
| Net income (loss)                         | <u>289</u>                    | <u>801</u>             | <u>(599)</u>           | <u>786</u>             | <b>583</b>             | <u>514</u>             | <b>1,369</b>   |

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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Chief Financial Officer

NGAR YEE LOUIE  
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 June 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    |
| <b>Balances at January 31, 2012</b>   | 5,261           | -                                     | 22,357         | -                                   | 11,057           | (202)             | 304                              | -                                | -  | 716                      | 3                          | <b>39,496</b> |
| <b>Movements Inherent to the Shareholders Decision</b>                          |                 |                                       |                |                                     |                  |                   |                                  |                                  |  |                          |                            |               |
| 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)       |
| <b>Total Movements Inherent to the Shareholders Decision</b>                    | -               | -                                     | -              | -                                   | (684)            | -                 | -                                | -                                | -  | (716)                    | -                          | (1,400)       |
| <b>Movements for the Recognition of the Comprehensive Income</b>                |                 |                                       |                |                                     |                  |                   |                                  |                                  |  |                          |                            |               |
| Comprehensive Income  | -               | -                                     | -              | -                                   | -                | -                 | -                                | -                                | -  | -                        | -                          | -             |
| Net result  | -               | -                                     | -              | -                                   | -                | -                 | -                                | -                                | -  | 1,369                    | -                          | 1,369         |
| Result from valuation of available-for-sale securities                          | -               | -                                     | -              | -                                   | -                | -                 | 669                              | -                                | -  | -                        | -                          | 669           |
| Result from cash flow hedging transactions                                      | -               | -                                     | -              | -                                   | -                | -                 | 156                              | -                                | -  | -                        | -                          | 156           |
| Results from holding non-monetary assets  | -               | -                                     | -              | -                                   | -                | -                 | -                                | -                                | -  | -                        | -                          | -             |
| Others  | -               | -                                     | -              | -                                   | -                | -                 | -                                | -                                | -  | -                        | (2)                        | (2)           |
| <b>Total Movements Inherent for the Recognition of the Comprehensive Income</b> | -               | -                                     | -              | -                                   | -                | -                 | 825                              | -                                | -  | 1,369                    | (2)                        | 2,192         |
| <b>Balances as at June 30, 2012</b>   | <b>5,261</b>    | <b>-</b>                              | <b>22,357</b>  | <b>-</b>                            | <b>10,373</b>    | <b>(202)</b>      | <b>1,129</b>                     | <b>-</b>                         | <b>-</b>                                 | <b>1,369</b>             | <b>1</b>                   | <b>40,288</b> |

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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www.cnbv.gov.mx

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 June 2012

HSBC Mexico, S.A. (Bank)

|  | 30 Jun 2012    |
|--|----------------|
| <b>Net income</b>  | <b>1,369</b>   |
| <b>Adjustments for items not involving cash flow:</b>                                | <b>3,920</b>   |
| Depreciation and amortization  | 903            |
| Provisions   | 2,097          |
| Income Tax and deferred taxes  | 315            |
| Undistributed income from subsidiaries   | (25)           |
| <b>Changes in items related to operating activities:</b>                             |                |
| Memorandum accounts  | (4)            |
| Investment securities  | 20,366         |
| Repurchase agreements  | 348            |
| Derivative (assets)  | (2,941)        |
| Loan portfolio   | (7,693)        |
| Foreclosed assets  | 5              |
| Operating assets   | (13,450)       |
| Deposits   | (1,912)        |
| Bank deposits and other liabilities  | (7,504)        |
| Creditors repo transactions  | 5,439          |
| Stock borrowing  | (4)            |
| Collateral sold or delivered as guarantee  | (8,935)        |
| Derivative (liabilities)   | 2,464          |
| Subordinated debentures outstanding  | (156)          |
| Other operating liabilities  | 11,994         |
| Income tax payable   | (978)          |
| <b>Funds provided by operating activities</b>  | <b>(2,961)</b> |
| <b>Investing activities:</b>   |                |
| Acquisition of property, furniture and equipment                                     | (494)          |
| Intangible assets acquisitions   | 346            |
| <b>Funds used in investing activities</b>  | <b>(148)</b>   |
| <b>Financing activities:</b>   |                |
| Cash dividend  | (1,400)        |
| Others   | -              |
| <b>Funds used or provided by financing activities</b>                                | <b>(1,400)</b> |
| <b>Increase/decrease in cash and equivalents</b>                                     | <b>150</b>     |
| <b>Adjustments to cash flow variations in the exchange rate and inflation levels</b> | <b>-</b>       |
| <b>Cash and equivalents at beginning of period</b>                                   | <b>51,224</b>  |
| <b>Cash and equivalents at end of period</b>   | <b>51,374</b>  |

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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www.cnbv.gob.mx,

LUIS PEÑA KEGEL  
Chief Executive Officer

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Chief Financial Officer

NGAR YEE LOUIE  
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO  
Chief Accountant

## Financial Instruments

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

Figures in MXN millions at June 30, 2012

#### Investments in securities

|                                  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Government securities            | 29,037                       | 27,028                       | 42,513                       | 28,737                       | <b>34,752</b>                |
| Bank securities                  | 3,265                        | 2,345                        | 2,402                        | 1,679                        | <b>2,255</b>                 |
| Shares                           | 313                          | 2,945                        | 1,538                        | 2,464                        | <b>2,537</b>                 |
| Others                           | 4,665                        | 4,986                        | 4,261                        | 2,010                        | <b>1,379</b>                 |
| Trading securities               | <u>37,280</u>                | <u>37,304</u>                | <u>50,714</u>                | <u>34,890</u>                | <u><b>40,923</b></u>         |
| Government securities            | 118,256                      | 108,364                      | 108,236                      | 98,372                       | <b>89,491</b>                |
| Bank securities                  | -                            | -                            | -                            | 300                          | <b>301</b>                   |
| Obligations and other securities | 7,133                        | 7,686                        | 2,917                        | 13,176                       | <b>12,649</b>                |
| Shares                           | 12                           | 17                           | 11                           | 9                            | <b>10</b>                    |
| Available for sale securities    | <u>125,401</u>               | <u>116,067</u>               | <u>111,164</u>               | <u>111,857</u>               | <u><b>102,451</b></u>        |
| Special Cetes (net)              | 11,884                       | 12,119                       | 12,484                       | 12,794                       | <b>13,066</b>                |
| Bank securities                  | 143                          | 145                          | 150                          | 153                          | <b>155</b>                   |
| Corporate securities             | 2,843                        | 2,834                        | 2,813                        | 2,817                        | <b>1,868</b>                 |
| Securities held to maturity      | <u>14,870</u>                | <u>15,098</u>                | <u>15,447</u>                | <u>15,764</u>                | <u><b>15,089</b></u>         |
| Total Financial Instruments      | <u>177,551</u>               | <u>168,469</u>               | <u>177,325</u>               | <u>162,511</u>               | <u><b>158,463</b></u>        |

In the second quarter of 2012, investment in securities decreased by MXN (4,048) million compared to the first quarter of 2012; mainly by decreasing government securities in MXN (2,866) million.

## Repos

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

Figures in MXN millions at June 30, 2012

|  | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Repo's Government securities (credit)          | 47,523                       | 17,031                       | 9,044                        | 12,501                       | <b>14,533</b>                |
| Repo's Bank securities (credit)                | 968                          | -                            | -                            | -                            | -                            |
| Repo's Others securities (credit)              | 380                          | -                            | 2                            | -                            | -                            |
| Valuation increase (decrease)                  | -                            | -                            | -                            | -                            | -                            |
| Accrued interest payable                       | 114                          | 145                          | 281                          | 136                          | <b>253</b>                   |
| Credit balance in repo agreements              | <u>48,985</u>                | <u>17,176</u>                | <u>9,327</u>                 | <u>12,637</u>                | <u><b>14,786</b></u>         |
| Repurchase agreements in government securities | 29,951                       | 27,300                       | 40,200                       | 51,000                       | <b>46,500</b>                |
| Accrued interest receivable                    | 42                           | 32                           | 39                           | 49                           | <b>26</b>                    |
| Debit balance repo securities agreements       | <u>29,993</u>                | <u>27,332</u>                | <u>40,239</u>                | <u>51,049</u>                | <u><b>46,526</b></u>         |
| Government securities                          | 22,215                       | 19,661                       | 34,470                       | 41,242                       | <b>41,113</b>                |
| Interest in collateral delivered as guarantee  | 4                            | 3                            | 20                           | 20                           | <b>11</b>                    |
| Total in collateral delivered as guarantee     | <u>22,219</u>                | <u>19,664</u>                | <u>34,490</u>                | <u>41,262</u>                | <u><b>41,124</b></u>         |

## Derivative Financial Instruments

### HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2012

|                  | Futures           |                       | Forwards<br>Contracts |                       | Options           |                       | Swaps             |                       | Total<br>(net) |
|------------------|-------------------|-----------------------|-----------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|----------------|
|                  | Asset<br>position | Liability<br>position | Asset<br>position     | Liability<br>position | Asset<br>position | Liability<br>position | Asset<br>position | Liability<br>position |                |
| For trading      |                   |                       |                       |                       |                   |                       |                   |                       |                |
| Pesos            | -                 | -                     | 89,330                | 77,538                | 22,358            | 22,425                | 132,079           | 131,088               | 12,716         |
| Foreign currency | -                 | -                     | 79,399                | 90,047                | 39,770            | 39,735                | 202,952           | 203,920               | (11,581)       |
| Interest Rate    | 670               | 670                   | 116                   | 193                   | -                 | -                     | 206,860           | 206,533               | (250)          |
| <b>Total</b>     | <b>670</b>        | <b>670</b>            | <b>168,845</b>        | <b>167,778</b>        | <b>62,128</b>     | <b>62,160</b>         | <b>541,891</b>    | <b>541,541</b>        | <b>1,385</b>   |
| For hedging      |                   |                       |                       |                       |                   |                       |                   |                       |                |
| Pesos            | -                 | -                     | -                     | -                     | -                 | -                     | 6,144             | -                     | 6,144          |
| Foreign currency | -                 | -                     | -                     | -                     | -                 | -                     | -                 | 6,415                 | (6,415)        |
| Interest Rate    | -                 | -                     | -                     | -                     | -                 | -                     | 1,152             | 2,179                 | (1,027)        |
| <b>Total</b>     | <b>-</b>          | <b>-</b>              | <b>-</b>              | <b>-</b>              | <b>-</b>          | <b>-</b>              | <b>7,296</b>      | <b>8,594</b>          | <b>(1,298)</b> |

## Collateral Sold or delivered as guarantee

### HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2012

|                               | 30 Jun<br>2011 | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Stock borrowing</b>        |                |                |                |                |                |
| Cetes                         | 560            | 237            | 643            | 672            | <b>595</b>     |
| Valuation increase (decrease) | -              | -              | -              | -              | -              |
| Bonds                         | 4,188          | 6,462          | 11,021         | 1,551          | <b>2,108</b>   |
| Valuation increase (decrease) | (2)            | (26)           | (6)            | 4              | <b>20</b>      |
| Shares                        | 24             | -              | -              | -              | -              |
| Valuation increase (decrease) | (1)            | -              | -              | -              | -              |
| <b>Total</b>                  | <b>4,769</b>   | <b>6,673</b>   | <b>11,658</b>  | <b>2,227</b>   | <b>2,723</b>   |

## Participation by Subsidiary

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

Group Subsidiaries at June 30, 2012

|  | Shares owned by<br>subsidiaries | Participation<br>Percentage | Number of<br>Shares owned by<br>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.<br>de C.V. | 1,000                           | 99.90%                      | 999  |
| HSBC Servicios, S.A. de C.V.                           | 480,100                         | 99.99%                      | 480,099                                    |
| <b>Total</b>   | <b>2,755,246,731</b>            |                             | <b>2,734,062,759</b>                       |

## Trading income

### HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2012

|   | For the quarter ending... |                |                |                |                | Year to date   |                |
|---|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 30 Jun<br>2011            | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012 | 30 Jun<br>2011 | 30 Jun<br>2012 |
| <b>Valuation</b>                          | 190                       | 158            | (373)          | 1,445          | <b>(409)</b>   | 830            | 1,036          |
| Derivatives                               | (303)                     | 344            | (499)          | 1,271          | (664)          | 777            | 607            |
| Repos                                     | -                         | -              | -              | -              | -              | -              | -              |
| Debt Securities                           | 386                       | 31             | (154)          | 128            | 174            | 53             | 303            |
| Foreign Exchange                          | 107                       | (217)          | 280            | 46             | 81             | 0              | 127            |
| <b>Buying and Selling<br/>Instruments</b> | 492                       | 332            | 982            | (838)          | <b>1,149</b>   | 691            | 311            |
| Foreign Currency                          | 243                       | 293            | 685            | (1,002)        | 1,226          | (219)          | 224            |
| Derivatives                               | 8                         | (298)          | 191            | (15)           | (404)          | 447            | (419)          |
| Repos                                     | -                         | -              | -              | (1)            | (0)            | -              | (1)            |
| Shares                                    | (6)                       | (21)           | 20             | (1)            | 0              | (12)           | (1)            |
| Debt Securities                           | 247                       | 358            | 86             | 181            | 327            | 475            | 508            |
| <b>Total</b>                              | <b>682</b>                | <b>490</b>     | <b>609</b>     | <b>607</b>     | <b>740</b>     | <b>1,521</b>   | <b>1,347</b>   |

## Loan Portfolio

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

By type of currency

Figures in MXN millions at 30 June 2012

|   | Commercial<br>or Business<br>Activity | Financial<br>Intermediaries | Government<br>Entities | Consumer<br>Loans | Mortgage<br>Loans | Total          |
|---|---------------------------------------|-----------------------------|------------------------|-------------------|-------------------|----------------|
| <b>Performing Loan<br/>Portfolio</b>      |                                       |                             |                        |                   |                   |                |
| Pesos                                     | 78,841                                | 4,817                       | 27,778                 | 31,916            | 17,247            | 160,599        |
| US Dollars                                | 27,748                                | 374                         | 757                    | -                 | -                 | 28,879         |
| Udis Banxico                              | -                                     | -                           | -                      | -                 | 1,382             | 1,382          |
| <b>Total</b>                              | <b>106,589</b>                        | <b>5,191</b>                | <b>28,535</b>          | <b>31,916</b>     | <b>18,629</b>     | <b>190,860</b> |
| <b>Non Performing<br/>Loans Portfolio</b> |                                       |                             |                        |                   |                   |                |
| Pesos                                     | 1,496                                 | -                           | -                      | 1,095             | 587               | 3,178          |
| US Dollars                                | 964                                   | -                           | -                      | -                 | 1                 | 965            |
| Udis Banxico                              | 1                                     | -                           | -                      | -                 | 67                | 68             |
| <b>Total</b>                              | <b>2,461</b>                          | <b>-</b>                    | <b>-</b>               | <b>1,095</b>      | <b>655</b>        | <b>4,211</b>   |

## Ratings HSBC México, S.A.

### HSBC Mexico, S.A. (Bank)

|  | <u>Moody's</u> | <u>Standard &amp; Poor's</u> | <u>Fitch</u> |
|--|----------------|------------------------------|--------------|
| <b>Global scale ratings</b>                |                |                              |              |
| <b>Foreign currency</b>                    |                |                              |              |
| Long term                                  | -              | BBB                          | A-           |
| Long term deposits                         | Baa1           |                              |              |
| Short term                                 | P-2            | A-2                          | F1           |
| <b>Local Currency</b>                      |                |                              |              |
| Long term obligations                      | A2             | BBB                          | A            |
| Long term deposits                         | A2             | BBB                          | -            |
| Short term                                 | P-1            | A-2                          | F1           |
| <b>BFSR (Moody's)</b>                      | C-             | -                            | -            |
| <b>Individual / Support rating (Fitch)</b> | -              | -                            | C / 1        |
| <b>National scale / Local currency</b>     |                |                              |              |
| Long term                                  | Aaa.mx         | mxAAA                        | AAA (mex)    |
| Short term                                 | MX-1           | mxA -1+                      | F1+ (mex)    |
| <b>Outlook</b>                             | Stable         | Stable                       | Stable       |
| <b>Last update</b>                         | 26-Apr-12      | 11-Jul-12                    | 16-Ago-11    |

## Loan Portfolio Grading

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at June 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 | 8,583                       |  |                       |                        |                       |
| Graded               | 211,700                     |  |                       |                        |                       |
| <b>Risk A</b>        | <b>101,316</b>              | <b>521</b>                                       | <b>41</b>             | <b>46</b>              | <b>608</b>            |
| Risk A-1             | 61,861                      | 178  | 41                    | 46                     | 265                   |
| Risk A-2             | 39,455                      | 343  | 0                     | 0                      | 343                   |
| <b>Risk B</b>        | <b>103,327</b>              | <b>3,986</b>                                     | <b>2,209</b>          | <b>128</b>             | <b>6,323</b>          |
| Risk B-1             | 64,523                      | 1,189  | 1,433                 | 128                    | 2,750                 |
| Risk B-2             | 32,131                      | 1,721  | 776                   | 0                      | 2,497                 |
| Risk B-3             | 6,673                       | 1,076  | 0                     | 0                      | 1,076                 |
| <b>Risk C</b>        | <b>4,900</b>                | <b>915</b>                                       | <b>615</b>            | <b>217</b>             | <b>1,747</b>          |
| Risk C-1             | 4,129                       | 604  | 615                   | 217                    | 1,436                 |
| Risk C-2             | 771                         | 311  | 0                     | 0                      | 311                   |
| <b>Risk D</b>        | <b>1,350</b>                | <b>125</b>                                       | <b>953</b>            | <b>1</b>               | <b>1,079</b>          |
| <b>Risk E</b>        | <b>807</b>                  | <b>767</b>                                       | <b>63</b>             | <b>52</b>              | <b>882</b>            |
| <b>Total</b>         | <b>220,283</b>              | <b>6,314</b>                                     | <b>3,881</b>          | <b>444</b>             | <b>10,639</b>         |
| Less:                |                             |  |                       |                        |                       |
| Constituted Reserves |                             |  |                       |                        | <b>11,639</b>         |
| Surplus              |                             |  |                       |                        | <b>0</b>              |

The figures related to the rating and constitution of reserves corresponds to those at the last day of the balance sheet date, as at June 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 write-off policy for mortgage loans. This change consisted in writing-off loans after seven past due payments (PDP) instead of twenty four PDP.

As a result of the change in the write-off policy for mortgage loans and before effectively writing-off 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 MXN659 million according to B-6 criteria, paragraph 71 of General Rules for financial institutions.

As of June 2012, the increase in loan loss reserves charged to Income Statement was MXN 3,335 millions. In the other hand, MXN 3,170 million was related to write-offs and MXN337 millions was related to debt forgiveness.

## Non – Performing Loans

### HSBC Mexico, S.A. (Bank)

Figures in MXN millions

|  | <i>At the quarter ending</i> |                        |                        |                        |                            |
|--|------------------------------|------------------------|------------------------|------------------------|----------------------------|
|  | <i>30 Jun<br/>2011</i>       | <i>30 Sep<br/>2011</i> | <i>31 Dec<br/>2011</i> | <i>31 Mar<br/>2012</i> | <i>30 Jun<br/>2012</i>     |
| <b>Initial Balance of Impaired Loans</b>     | 4,835                        | 4,504                  | 6,461                  | 5,082                  | <b>4,978</b>               |
| Increases                                    | 2,094                        | 4,382                  | 2,739                  | 2,446                  | <b>3,126</b>               |
| Transfer of current loans to past due status | <u>2,094</u>                 | <u>4,382</u>           | <u>2,739</u>           | <u>2,446</u>           | <u><b>3,126</b></u>        |
| Decreases                                    | 2,426                        | 2,425                  | 4,118                  | 2,550                  | <b>3,893</b>               |
| Restructurings                               | 64                           | 106                    | 117                    | 88                     | <b>89</b>                  |
| Liquidated credits                           | 1,591                        | 1,649                  | 1,748                  | 1,564                  | <b>2,813</b>               |
| Charged in cash                              | 278                          | 357                    | 398                    | 353                    | <b>544</b>                 |
| Foreclosed assets                            | 8                            | 35                     | 28                     | 6                      | <b>117</b>                 |
| Write-offs                                   | -                            | -                      | -                      | -                      | -                          |
| Sale of portfolio                            | 1,305                        | 1,257                  | 1,322                  | 1,205                  | <b>2,152</b>               |
| Transfer to performing loan status           | <u>769</u>                   | <u>759</u>             | <u>2,268</u>           | <u>836</u>             | <u><b>1,023</b></u>        |
| FX revaluations                              | <u>(2)</u>                   | <u>89</u>              | <u>15</u>              | <u>(62)</u>            | <u><b>32</b></u>           |
| <b>Final Balance of Impaired Loan</b>        | <u><u>4,504</u></u>          | <u><u>6,461</u></u>    | <u><u>5,082</u></u>    | <u><u>4,978</u></u>    | <u><u><b>4,211</b></u></u> |



## Deferred Taxes

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

Figures in MXN millions at June 30, 2012

|                                      | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
|--------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Loan loss reserves                   | 5,077                        | 5,181                        | 5,618                        | 5,800                        | <b>5,954</b>                 |
| Valuation of securities              | (98)                         | (200)                        | (58)                         | (162)                        | <b>(563)</b>                 |
| Fiscal loss                          | 11                           | 6                            | 8                            | 6                            | <b>17</b>                    |
| Other reserves                       | 866                          | 796                          | 1,309                        | 884                          | <b>872</b>                   |
| PTU Payable                          | 54                           | 80                           | 111                          | 137                          | <b>53</b>                    |
| Foreclosed assets                    | 134                          | 165                          | 190                          | 202                          | <b>219</b>                   |
| Other                                | 185                          | 194                          | 193                          | 188                          | <b>174</b>                   |
| Differences in rates of fixed assets | 69                           | 144                          | 6                            | 168                          | <b>219</b>                   |
| Fiscal result UDIS-Banxico           | (844)                        | (858)                        | (873)                        | (888)                        | <b>(903)</b>                 |
| Total Deferred Taxes                 | <u>5,454</u>                 | <u>5,508</u>                 | <u>6,504</u>                 | <u>6,335</u>                 | <u><b>6,042</b></u>          |

## Funding, Loans and Investments in Securities

### HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

|                      | <u>At the quarter ending</u> |                              |                              |                              |                              |
|----------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                      | <u>30 Jun</u><br><u>2011</u> | <u>30 Sep</u><br><u>2011</u> | <u>31 Dec</u><br><u>2011</u> | <u>31 Mar</u><br><u>2012</u> | <u>30 Jun</u><br><u>2012</u> |
| MXN pesos            |                              |                              |                              |                              |                              |
| Funding              | 2.43%                        | 2.44%                        | 2.40%                        | 2.50%                        | <b>2.42%</b>                 |
| Bank and other loans | 5.27%                        | 5.10%                        | 5.10%                        | 5.09%                        | <b>4.88%</b>                 |
| Foreign currency     |                              |                              |                              |                              |                              |
| Funding              | 0.08%                        | 0.06%                        | 0.08%                        | 0.06%                        | <b>0.06%</b>                 |
| Bank and other loans | 0.62%                        | 0.68%                        | 0.66%                        | 0.75%                        | <b>0.93%</b>                 |
| UDIS                 |                              |                              |                              |                              |                              |
| Funding              | 0.30%                        | 0.34%                        | 0.29%                        | 0.29%                        | <b>0.21%</b>                 |

## 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 TIIE (interbank rate) of the previous month.

Figures in historic MXN millions

| <u>Instrument</u>             | <u>Issue Date</u> | <u>Amount</u>       | <u>Currency</u> | <u>Interest payable</u> | <u>Amount in circulation</u> | <u>Rate</u> |
|-------------------------------|-------------------|---------------------|-----------------|-------------------------|------------------------------|-------------|
|                               |                   | <u>MXN millions</u> |                 | <u>MXN millions</u>     |                              |             |
| INTENAL 03                    | 24-NOV-2003       | 2,200               | MXN             | 2                       | 2,202                        | 25-NOV-2013 |
| HSBC 08                       | 30-SEP-2008       | 1,818               | MXN             | 7                       | 1,825                        | 20-SEP-2018 |
| HSBC 08-2                     | 18-DIC-2008       | 2,272               | MXN             | 11                      | 2,283                        | 10-DIC-2018 |
| HSBC 09D(USD300) <sup>1</sup> | 26-JUN-2009       | 4,019               | USD             | 2                       | 4,021                        | 28-JUN-2019 |
|                               |                   | <u>10,309</u>       |                 | <u>22</u>               | <u>10,331</u>                |             |

<sup>1</sup> 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             | 17                      | 4,237                        | 27-ABR-2016          |
|                         |                   | <b>4,220</b>        |                 | <b>17</b>               | <b>4,237</b>                 |                      |

## 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.

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.

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 June 30, 2012

|   | 30 Jun<br>2011 | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2012        |
|---|----------------|----------------|----------------|----------------|-----------------------|
| % of assets subject to credit risk                              |                |                |                |                |                       |
| Tier 1  | 17.56%         | 17.07%         | 16.96%         | 16.75%         | <b>16.58%</b>         |
| Tier 2  | 5.25%          | 5.27%          | 5.09%          | 4.97%          | <b>4.97%</b>          |
| Total regulatory capital  | <u>22.81%</u>  | <u>22.34%</u>  | <u>22.05%</u>  | <u>21.72%</u>  | <u><b>21.55%</b></u>  |
| % of assets subject to credit, market risk and operational risk |                |                |                |                |                       |
| Tier 1  | 10.77%         | 11.58%         | 11.74%         | 11.34%         | <b>10.48%</b>         |
| Tier 2  | 3.22%          | 3.58%          | 3.52%          | 3.37%          | <b>3.14%</b>          |
| Total regulatory capital  | <u>13.98%</u>  | <u>15.16%</u>  | <u>15.26%</u>  | <u>14.71%</u>  | <u><b>13.62%</b></u>  |
| Tier 1  | 33,694         | 34,610         | 34,441         | 33,785         | <b>34,837</b>         |
| Tier 2  | 10,065         | 10,688         | 10,343         | 10,035         | <b>10,445</b>         |
| Total regulatory capital  | <u>43,759</u>  | <u>45,298</u>  | <u>44,784</u>  | <u>43,820</u>  | <u><b>45,282</b></u>  |
| RWA credit risk   | 191,870        | 202,792        | 203,092        | 201,719        | <b>210,167</b>        |
| RWA market risk   | 83,414         | 57,667         | 51,923         | 57,610         | <b>83,799</b>         |
| RWA operational risk  | 37,704         | 38,298         | 38,454         | 38,552         | <b>38,596</b>         |
| RWA credit and market risk                                      | <u>312,988</u> | <u>298,757</u> | <u>293,469</u> | <u>297,881</u> | <u><b>332,562</b></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.

## Other Operating Income (Expenses)

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

Figures in MXN millions at June 30, 2012

|  | For the quarter ending |                |                |                | Year to date   |                     |
|--|------------------------|----------------|----------------|----------------|----------------|---------------------|
|  | 30 Jun<br>2011         | 30 Sep<br>2011 | 31 Dec<br>2011 | 31 Mar<br>2012 | 30 Jun<br>2011 | 30 Jun<br>2012      |
| Loans to employees   | 35                     | 34             | 39             | 34             | 71             | <b>68</b>           |
| Recoveries   | 251                    | 668            | 245            | 144            | 533            | <b>598</b>          |
| Credit portfolio recoveries                                    | 166                    | 160            | 139            | 173            | 392            | <b>352</b>          |
| Result of Foreclosed assets                                    | 1                      | 11             | 58             | 6              | 9              | <b>18</b>           |
| Property sales   | 604                    | 9              | -              | 7              | 604            | -                   |
| Other items of income(expenses)                                | 574                    | 766            | 155            | 556            | 1,282          | <b>1,045</b>        |
| Other income (expenses) arising from op. Insurance and Bonding | 94                     | 100            | 101            | 103            | 186            | <b>210</b>          |
| Monetary position result                                       | (1)                    | 11             | 16             | 6              | 3              | <b>6</b>            |
| Other losses   | (273)                  | (145)          | (234)          | (120)          | (548)          | <b>(227)</b>        |
| Total Other Operating Income (expenses)                        | <u>1,451</u>           | <u>1,614</u>   | <u>519</u>     | <u>909</u>     | <u>2,532</u>   | <u><b>2,070</b></u> |

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

## 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 June 30, 2012 is shown below:

Figures in MXN millions

|  | Bank           | Brokerage house | Mutual funds management | Services   | Group     | Insurance    | Bonding    | Total    |
|--|----------------|-----------------|-------------------------|------------|-----------|--------------|------------|----------|
| <b>Balance Sheet</b>                       |                |                 |                         |            |           |              |            |          |
| Cash and deposits in banks                 | -              | 631             | -                       | 2          | 16        | 16           | 16         | 681      |
| Demand deposits                            | (681)          | -               | -                       | -          | -         | -            | -          | (681)    |
| Repurchase agreements (assets)             | -              | 6,025           | -                       | -          | -         | -            | -          | 6,025    |
| Repurchase agreements (liabilities)        | (6,025)        | -               | -                       | -          | -         | -            | -          | (6,025)  |
| Sundry debtors (assets)                    | 287            | 7               | 11                      | 23         | -         | 56           | -          | 384      |
| Sundry creditors (liabilities)             | (79)           | (2)             | (105)                   | (22)       | -         | (174)        | (2)        | (384)    |
| Long Term investments in equity securities | -              | -               | -                       | -          | (74)      | -            | -          | (74)     |
| Long-term assets available for sale        | -              | -               | -                       | -          | -         | -            | -          | -        |
| Other assets                               | -              | -               | -                       | -          | -         | -            | -          | -        |
| Retained earnings                          | -              | -               | -                       | -          | 74        | -            | -          | 74       |
| <b>Total</b>                               | <b>(6,498)</b> | <b>6,661</b>    | <b>(94)</b>             | <b>3</b>   | <b>16</b> | <b>(102)</b> | <b>14</b>  | <b>-</b> |
| <b>P&amp;L</b>                             |                |                 |                         |            |           |              |            |          |
| Payable commissions                        | (5)            | -               | (220)                   | -          | -         | (7)          | -          | (232)    |
| Receivable commissions                     | 200            | 32              | 8                       | -          | -         | -            | -          | 240      |
| Discontinued operations                    | -              | -               | -                       | -          | -         | -            | -          | -        |
| Interest income                            | -              | 12              | -                       | -          | -         | -            | -          | 12       |
| Interest expense                           | (12)           | -               | -                       | -          | -         | -            | -          | (12)     |
| Repos                                      | (130)          | -               | -                       | -          | -         | -            | -          | (130)    |
| Reverse repos                              | -              | 130             | -                       | -          | -         | -            | -          | 130      |
| Earned premiums                            | -              | -               | -                       | -          | -         | 105          | 2          | 107      |
| Administrative and personnel expenses      | (177)          | -               | -                       | (4)        | -         | -            | -          | (181)    |
| Administrative services                    | (142)          | (42)            | (43)                    | (1)        | (1)       | (320)        | (5)        | (554)    |
| Undistributed income from subsidiaries     | -              | -               | -                       | -          | -         | -            | -          | -        |
| Other income                               | 394            | -               | -                       | 150        | 74        | 2            | -          | 620      |
| <b>Total</b>                               | <b>128</b>     | <b>132</b>      | <b>(255)</b>            | <b>145</b> | <b>73</b> | <b>(220)</b> | <b>(3)</b> | <b>-</b> |

## 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 June 30, 2012*

| (MXN millions)                                   | Year to date at 30 June 2012 |              |              |               |
|--|------------------------------|--------------|--------------|---------------|
|  | RBWM                         | CMB          | GBM          | Total         |
| Net Interest Income                              | 6,944                        | 3,021        | 883          | 10,848        |
| Provision for Loan Loss                          | 2,971                        | -80          | 444          | 3,335         |
| <b>Net Interest Income adjusted</b>              | <b>3,973</b>                 | <b>3,101</b> | <b>439</b>   | <b>7,513</b>  |
| Fees and Commissions, net                        | 1,745                        | 804          | 454          | 3,003         |
| Trading Income                                   | 143                          | 88           | 1,231        | 1,462         |
| Other operation income                           | 1,710                        | 234          | 126          | 2,070         |
| <b>Total Revenue</b>                             | <b>7,571</b>                 | <b>4,227</b> | <b>2,250</b> | <b>14,048</b> |
| Administrative Expenses                          | 6,823                        | 2,942        | 1,352        | 11,117        |
| <b>Operating Income</b>                          | <b>748</b>                   | <b>1,285</b> | <b>898</b>   | <b>2,931</b>  |
| Undistributed income from subsidiaries           | 17                           | 9            | 2            | 28            |
| <b>Profit Before Taxes</b>                       | <b>765</b>                   | <b>1,294</b> | <b>900</b>   | <b>2,959</b>  |
| Taxes  | 208                          | 350          | 137          | 695           |
| <b>Net Income before discontinued operations</b> | <b>557</b>                   | <b>944</b>   | <b>763</b>   | <b>2,264</b>  |
| Discontinued operations                          | 58                           | 4            | 0            | 62            |
| Minority Shareholders                            | 0                            | 0            | 0            | 0             |
| <b>Participated Net Income</b>                   | <b>615</b>                   | <b>948</b>   | <b>763</b>   | <b>2,326</b>  |

## 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 six months ended 30 Jun 2012 and an explanation of the key reconciling items.

| <i>Figures in MXN millions</i>  | <b>30 Jun<br/>2012</b> |
|---|------------------------|
| <b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>                    | <b>2,326</b>           |
| Differences arising from:   |                        |
| Valuation of defined benefit pensions and post retirement healthcare benefits † | 48                     |
| Deferral of fees received and paid on the origination of loans                  | 23                     |
| Recognition and provisioning for loan impairments †                             | 1,244                  |
| Purchase accounting adjustments †   | (6)                    |
| Recognition of the present value in-force of long-term insurance contracts †    | (20)                   |
| Other †   | (251)                  |
| <b>Net income under IFRS</b>  | <b>3,364</b>           |
| <b>US dollar equivalent (millions)</b>  | <b>254</b>             |
| Add back tax expense  | 1,340                  |
| <b>Profit before tax under IFRS</b>   | <b>4,704</b>           |
| <b>US dollar equivalent (millions)</b>  | <b>354</b>             |
| <i>Exchange rate used for conversion</i>  | 13.24                  |

† Net of tax at 30%.

#### 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.

#### Summary of key differences between Grupo Financiero's results as reported under Mexican GAAP and IFRS (continued)

##### 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.

## Risk Management

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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)

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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)

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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

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### 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 second 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 2Q12 | Limits* | Average 2Q12   | Limits* | Average 2Q12 | Limits* |
| Combined      | 27.61        | 38.00   | 3.13           | 18.00   | 24.90        | 35.00   |
| Interest Rate | 18.81        | 40.00   | 2.79           | N/A     | 17.01        | 35.00   |
| Credit Spread | 10.21        | 22.00   | 0.50           | 4.00    | 9.79         | 22.00   |
| FX            | 0.85         | 7.00    | 0.85           | 7.00    | N/A          | N/A     |
| Volatility IR | 0.14         | 4.50    | 0.14           | N/A     | 0.00         | 1.00    |
| Volatility FX | 0.16         | 2.00    | 0.16           | 2.00    | N/A          | N/A     |
| Equities      | 0.05         | 2.50    | 0.05           | 2.50    | N/A          | N/A     |

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

| Value at Risk of Global Market (VaR) (Last quarter comparison) |           |           |         |              |              |
|--|-----------|-----------|---------|--------------|--------------|
|  | 30-Mar-12 | 29-Jun-12 | Limits* | Average 1Q12 | Average 2Q12 |
| HBMI   | 24.44     | 31.68     | 38.00   | 21.40        | 27.61        |
| Accrual  | 22.01     | 28.57     | 35.00   | 18.61        | 24.90        |
| All Trading  | 2.96      | 3.02      | 18.00   | 3.62         | 3.13         |

\* Absolute Value

N/A = Non Applicable

The Bank’s VaR at the end of 2Q12 change 29.62% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank’s average VaR for the end of 2Q12 change 29.02% 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 March 30th, 2012 and June 29th, 2012 (in millions of dollars).

## Market VaR vs. Net Capital Comparison

Net Capital in million Dollars

|                   | 30-Mar-12 | 29-Jun-12 |
|-------------------|-----------|-----------|
| Total VaR*        | 21.40     | 27.61     |
| Net Capital **    | 3,420.95  | 3,377.13  |
| VaR / Net Capital | 0.63%     | 0.82%     |

\* The Bank's quarterly VaR average in absolute value

\*\* The Bank's Net Capital at the close of the quarter

| Present Value for 1bp (PVBP) for Mexican Pesos Rates |           |           |         |              |              |
|--|-----------|-----------|---------|--------------|--------------|
|  | 30-Mar-12 | 29-Jun-12 | Limits* | Average 1Q12 | Average 2Q12 |
| Bank   | (0.769)   | (1.252)   | 1.650   | (0.482)      | (0.910)      |
| Accrual  | (0.672)   | (1.117)   | 1.250   | (0.303)      | (0.813)      |
| Trading Desk   | (0.011)   | (0.039)   | 0.450   | (0.054)      | (0.019)      |
| Balance Sheet Trading                                | (0.086)   | (0.096)   | 0.210   | (0.125)      | (0.078)      |

\* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 2Q12 change 62.81% versus previous quarter. Bank's average PVBP for 2Q12 change 88.80% versus previous quarter.

| Present Value for 1bp (PVBP) for USD Rate |           |           |         |              |              |
|---|-----------|-----------|---------|--------------|--------------|
|   | 30-Mar-12 | 29-Jun-12 | Limits* | Average 1Q12 | Average 2Q12 |
| Bank                                      | (0.235)   | (0.208)   | 0.300   | (0.189)      | (0.137)      |
| Accrual                                   | (0.230)   | (0.214)   | 0.300   | (0.199)      | (0.143)      |
| Trading Desk                              | (0.017)   | (0.010)   | 0.100   | (0.007)      | (0.014)      |
| Balance Sheet Trading                     | 0.013     | 0.015     | 0.070   | 0.017        | 0.020        |

\* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 2Q12 change -11.49% versus previous quarter. Bank's average PVBP for 2Q12 change -27.51% versus previous quarter.

| Present Value for 1bp (PVBP) for UDI Rates |           |           |         |              |              |
|--|-----------|-----------|---------|--------------|--------------|
|  | 30-Mar-12 | 29-Jun-12 | Limits* | Average 1Q12 | Average 2Q12 |
| Bank                                       | (0.085)   | (0.078)   | 0.300   | (0.098)      | (0.074)      |
| Accrual                                    | (0.060)   | (0.059)   | 0.225   | (0.063)      | (0.057)      |
| Trading Desk                               | (0.012)   | (0.006)   | 0.100   | (0.023)      | (0.005)      |
| Balance Sheet Trading                      | (0.013)   | (0.012)   | 0.050   | (0.013)      | (0.012)      |

\* Absolute Value

NA = Non Applicable

Bank's UDI Rate PVBP for 2Q12 change -8.24% versus prior quarter. Bank's average PVBP for 2Q12 varied -24.49% 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 major stressed scenario of USD\$4,650m in the 7 days term; USD\$3,293m in the 1 month term and USD\$1,373m in 3 months; obtaining a net positive cumulative cashflow in every case.

Along the quarter, average level was USD\$4,546m in the 7 days term USD\$3,105m in 1 month term and USD\$1,623m in 3 months term. Compared versus previous quarter, liquidity position changed due to increasing non-core deposits and the maturity of a USD denominated intercompany loan.

### **Credit Risk**

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#### **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.

The system MRC (Credit Provision Module) was implemented in 4Q07 in order to improve the functionality of the grading system (SICAL). The “Matriz de Calificación” is still being applied to the commercial portfolio. This model is the core element of the regulatory risk grading process. The “Matriz de Calificación” determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, 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, MRC (formerly SICAL) is used for the calculations. The internal client risk grade obtained from MRC is mapped to the regulatory one. The regulatory grades of the commercial portfolio can go from A to E.

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based to “Disposiciones de Carácter General Aplicables a las Instituciones de Crédito, published by CNBV”, which used the general methodology.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a risk evaluation tool is used: Moody’s Risk Analyst (RA), which permits a deeper evaluation of the credit quality of clients based on their qualitative and financial information.

HSBC Mexico has developed eight models for assessing the credit risk of customers of commercial portfolio with annual sales up to USD\$700m. 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 MXN100m. In October 2011 a first version was deployed and later on in February 2012 these were updated with enhancements in the calibration. As an outcome the predictive power was increased.

It is important to note that these models were reviewed and approved by experts in models development of HSBC Group Head Office.

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 millones (GLCS).
- ▶ Another one to assess Bank Financial Institutions (RAfBanks)
- ▶ And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFIs).

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, 21 of them are for performing customers and 2 for defaulted customers. The framework includes a direct correspondence to Probabilities of Default to each CRR and permits a more granular measurement of the customer’s credit quality.

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, which was implemented in February 2011. In addition, for Bank Financial Institutions HSBC Mexico implemented (June 2010) a model developed by Group HSBC Head Office.

For Exposure at Default (EaD) estimation, HSBC México also developed a model for Middle Market Enterprises and corporate customers, which was implemented in October 2010. Besides the Exposure at Default estimation for Banking Financial Institutions is based on the guidelines established by the Group HSBC.

Locally developed models to estimate the Loss Given Default and Exposure at Default described above, were reviewed and approved by experts in model development of the HSBC Group Head Office.

As part of the models management activities some statistics are performed to validate its accuracy and proper use. Related to PD models, the monitoring is aimed to test out (i) the ranking of the obligors, this means that better customers are rated with the best ratings and vice versa; (ii) that defaults are predicted accurately. On the other hand, for Exposure at Default and Loss Given Default models, the losses estimated with the models are compared with the observed ones in order to validate its accuracy. In case of a misaligned metric either the model is recalibrated or a new model is developed.

In the second half of 2006 a risk-adjusted return model, which measures the profitability of each customer relationship, was introduced. During 1Q11 a new version were implemented.

Also, as part of the credit risk management and measurement infrastructure, HSBC Mexico has a system to manage, control and monitor the commercial credit approval process known as Approval Workflow (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.

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a system was implemented in 2006, “Garantías II”. 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 III”.

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 June 30th, 2012 is MXN 4,102.5 millions of pesos, which represents the 7.9% of Total Balance performing, showing a decrease of MXN 817.1 millions of pesos in comparison with previous quarter wherein the Expected Loss represented the 9.6% of Total Balance

The Expected Loss of the commercial portfolio as of June 30th, 2012 is MXN 7,772 millions of pesos, showing an increase of MXN 145.5 millions of pesos (1.9%) compared to the figure reported in the previous quarter.

### **Operational Risk**

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#### **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.

In order to manage these risks, a central specialized unit has been established; and a group of middle managers within the business & support units has also been appointed to functionally report to this Unit and are responsible for spreading the Group's operational risk management framework. They both operate according to the policies, procedures, processes and methodologies approved by the Risk Management Committee which are documented in manuals and instruction books as a complement to the Group's operational risk management and internal control framework.

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee (ORICC) and the Operational Risk Management Group, both sub-committees of the Risk Management Committee, which together are responsible for the fulfillment 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' behavior and their mitigants.

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 during this exercise was reinforced based upon the Group's new Operational Risk Management Framework. 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**

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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.



HTS keeps within their strategic plan a pillar that is related to regulatory matters.

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 analyzed on their Business 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 tool called Risk Based Project Management (RBPM).
- 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

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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)**

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From the 8<sup>th</sup> Operational Risk assessment exercise carried out in 2011 and with all changes and updates performed during 2Q12; there are 448 risks identified and assessed as relevant distributed as follows: 4.3% (18) A type, 14.4% (60) B type, 57.9% (241) C type, and 23.3% (97) 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.

Year to date (30MAY12) total amount of Operational Losses in 2012, are USD 18.2m.

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.

### **Treasury Policies**

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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**

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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

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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.

## 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

“Just raise your hand”

|                            | Objectives<br>School Term<br>2010-2011 | Results<br>School Term<br>2010-2011 | Objectives<br>School Term<br>2011-2012 | Results up to July<br>2012<br>School Term<br>2011-2012 |
|----------------------------|--|-------------------------------------|--|--|
| Schools                    | 8                                      | 9                                   | 8                                      | 8  |
| Total Students             | NA                                     | 2,635                               | NA                                     | 1,497  |
| Students with Scholarships | 937                                    | 1,013                               | 1,226                                  | 1,111  |
| Volunteering Activities    | 16                                     | 19                                  | 33                                     | 35   |

During 2012 HSBC will be benefiting 8 new schools and 1,497 underserved students with volunteering activities, values education, teachers training and infrastructure improvements. On top of that, we have the goal of finding 1,226 scholarship sponsors among clients and colleagues and we have currently found 1,111 representing 91% of our goal to be covered by the end of August. To note, we will continue to support the other 9 schools we started sponsoring during the 2010-2011 school term except for the infrastructure improvements.

As of June 2012, we have had 35 volunteering activities in the 17 “HSBC Schools” (106% vs. objective). Call Center and LAM Risk will be doing special volunteering activities in those schools during the following months. Also, 4 out of the 8 infrastructure improvements have been finished and the rest will be concluded by September. To note, this has been

possible thanks to the alliance with Ara Foundation, who is financing 50% of the infrastructure improvements costs and Cementos Moctezuma which has donated the concrete for 6 out of the 8 projects.

From January to April, we used our ATM's to raise funds for "Just raise your hand", collecting a total of \$3,960,339 pesos. And during May and June, we launched our first national fund raising campaign in our branches which was a complete success, we collected through our client contribution \$2,552,270 pesos, 13% above our goal.

The campaign was supported with a strong internal and external communication including the development of a web page, a capsule for Conecta TV, Facebook posts, etc. Also, Corporate Sustainability HBMX gave an interview with Mariano Osorio, who is a leading radio personality in Mexico and has been a keen supporter of the program since it started. To note, this interview could have cost more than \$300,000 pesos.

Also, to support the campaign, we held 9 events during May and June where more than 1,000 clients and colleagues watched the movie "De Panzazo", which is a documentary film regarding the critical status of education in Mexico.

### **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 started in September, benefiting 822 children and 29 teachers and will finish in July 2012.

At the moment, the biggest success has been reported in the "Mariano Escobedo" school located in Tijuana, Baja California, where children are regularly exposed to extreme situations, due to the insecurity and violence lived in the city. For example, two 7 year old kids were left orphan because of domestic violence and drug trafficking issues, but this children have been able to cope with this situation and have learned to express what they feel and to find positive solutions.

### **Attention and Prevention of Lonely Children and Teenage Migrants**

We continue to work with the communities of San Mateo Ozolco, Suchiate, Huixtla, Tijuana, and Calpan, which have high migration rates, benefiting over 7,000 persons with educational, recreational and sport activities and by empowering them so they can have better opportunities.

#### *Transportation*

An agreement with the airline Aeroméxico has been established and they will be giving us both free tickets and discounts in order to fly back home more than 500 children during 2012. As of June, we have all ready flown more than 100 kids 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 late 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. 400 scholarships were authorized for primary, secondary and high school kids, plus 50 scholarships for university students.

As of June, 398 children have opened their accounts and have been receiving the scholarship since January. The beneficiaries will receive \$ 800 pesos per month over a period of 12 months.

#### *The Hunger Project*

During 2012, we will start working on a new pilot project, different from Save the Children and the DIF, which tackles the problem of lack of opportunities and as a result migration, from the root. This model will be developed by The Hunger Project foundation and consists on rebuilding the social network through the empowerment of the community.

### **Future First**

For the first bid cycle of 2012, HBMX got the approval to support two SOS and two NON SOS projects that will help 1,121 children in Mexico City, Jalisco, Puebla and Tijuana with a budget of \$147,500 USD.

## **English Program**

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): We are ready to give 12,000 licenses: 3,000 for UNAM, 3,000 for technological universities and 6,000 to teachers.

## **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.

## **4. Clients Contribution**

During the first half of the year, our clients have contributed with \$11,490,000 pesos. The first ATM’s campaign of the year, ran from January to April, and raised \$3,960,339 pesos for our flagship program “Just raise your hand”. The Béalos campaign started in May and has collected \$1,844,399 pesos.

Additionally, we have raised \$2,552,270 pesos from our branch fund raising campaign that was held in favor of “Just raise your hand” and as of July, the 1,111 scholarships granted represent an additional contribution of approximately \$3,133,020 pesos.

## **5. Stakeholder Engagement**

As of June 2012, we have involved more than 1,869 colleagues in community, education and environment programs as following:

### **Toy Drive**

939 volunteers participated in activities such as communication, collecting and packing toys equivalent to 13,720 volunteering work time hours.

### **“Take Care of our Environment”**

Giving continuity to the Climate Partnership Global Program, 50 climate champions attended the “Alternare” centre in Michoacán to realize community work and create a new “green working group”, who will then serve as mentor for all the new environmental leaders.

### **Junior Achievement: More than Money & Climate Entrepreneurs**

103 volunteers became trained for teaching financial education for children in 9 elementary schools of Mexico City and Toluca benefiting more than 1,300 students; 147 volunteers became trained for teaching environmental education and Climate Change for 1,775 elementary school children in 10 different cities.

Additionally, 26 new wives of HSBC’s directors will be teaching financial education to more than 390 children in 5 different schools in Mexico City.

### **"Learn with HSBC"**

The program "Learn with HSBC" was designed for HBMX directors' wives as part of the voluntary work that the bank promotes in order to benefit different areas of society with specific social programs. During the first half of 2012, 23 wives participated in three different activities. First, HSBC benefited 6 primary schools and 474 students with the financial education program, "More than Money" developed by Junior Achievement. After that, they went to read stories to young cancer patients at the Hospital Federico Gómez under the training and collaboration of CIE Foundation. Finally, they also provided new wheelchairs that HSBC donated to people with disabilities that the non profit organization Altia, supports.

### **Earth Hour**

As every year, HBMX participated in the Earth Hour initiative switching off the main tower and projecting the 60+ symbol from inside to outside. We also had the participation of the HSBC dance group, as well as other dances that performed "Aztec" dances, related to the environment and a choir who sang typical Mexican songs. The main event took place at the HSBC Tower in Mexico City and other buildings participated as well: Toluca, León, Guadalajara, Tijuana, and Monterrey. To note, more than a 100 employees participated in the event.

### **World Environmental Month**

More than 200 employees from HSBC Tower, Tecnoparque and Toluca collaborated in different workshops such as urban agriculture or medicinal plants. Also, more than 2,500 attended our "Sustainable Fair" and 1,264 persons participated in our annual first reforestation.

### **"Just raise your hand"**

On "Children's Day", volunteers from 13 cities, participated in organizing the celebrations to benefit more than 3,752 children.

### **Visit to the Hospital Federico Gómez**

37 volunteers shared moments of joy, entertainment and companion with 200 outpatient and hospitalized children with cancer. The group read different stories to the young patients, who also received a toy at the end from each the volunteers. Also, Roberto Gasca, who is one of our volunteers, dressed as a clown and performed in more than 50 children receiving outpatient care.

### **Chipinque National Park**

Monterrey started this year with an environmental activity – reforestation and soil improvement with organic material - at the Chipinque National Park, involving 30 HSBC employees and their families.

## **6. People and Diversity**

### ***Social Inclusion***

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, 42 candidates that have been hired, and we have had 3 "sensibilization" sessions throughout the year.

Moreover, the first 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. 14 people graduated in total: 2 from Guadalajara, 1 from Guanajuato and the rest from Estado de México and DF.

### **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**

During the second quarter, thanks to the different activities and programs held by the Corporate Sustainability department, HBMX gained 20 free press releases with an estimated value of \$2,823,380 pesos, adding a total of 59 press releases during the first semester with an estimated value of \$3,542,547 pesos.

Additionally, we took advantage of the different internal and external communication channels such as Conecta TV (TV's in branches), intranet and Facebook, to generate awareness of the different campaigns we have had such as the World's Environmental Month and "Just raise your hand", among others.

Finally, we designed and implemented a resources saving campaign (energy, water, waste and CO<sup>2</sup>) to raise awareness among employees about its importance in terms of environmental conservation and cost reduction for HSBC.

During the first quarter were distributed applications around meeting rooms and work-places to encourage turning off the light, turning off the computer as well as unplugging electronic devices. In HSBC Tower, Toluca and Tecnoparque, the campaign was also placed in the bathrooms (acrylics) and at national level we sent "comunicas", intranet communication and spots for Conecta TV, in order to have full coverage throughout the country.

The campaign also reached customers throughout Conecta TV in branches, the focus was to give "energy saving" tips as well as coverage through the social media.

We measured the consumption compared to 2011 and observed a 6.6% of energy saving in the Tower. This would compare to turning off the lights in the Tower for 13 months.

### **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.

## **Contacts**

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