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

Consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Free translation from Spanish language original)

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

We have examined the accompanying consolidated balance sheets of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries ("the Bank") as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for credit institutions in Mexico. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the consolidated financial statements, the Bank is required to prepare and present its financial statements in accordance with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission ("the Banking Commission"), which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants. These accounting criteria include particular rules, which in certain respects depart from these principles.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C

Carlos Rivera Nava

February 17, 2006.

60 años 1946 - 2006

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

Consolidated Balance Sheets

December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

Assets	**2005**	**2004**
Cash and equivalents (note 5)	$ 51,032,619	44,628,109
Investment securities (note 6):		
Trading	6,589,124	2,728,567
Available-for-sale	44,941,078	38,653,935
Held-to-maturity	3,993,255	4,147,504
	55,523,457	45,530,006
Securities and derivative transactions:		
Debit balances of repurchase/resell agreements (note 7)	190,591	59,479
Derivative financial instruments (note 8)	381,924	43,291
	572,515	102,770
Current loan portfolio (note 9):		
Commercial loans	40,733,420	28,165,502
Financial institutions	6,797,327	4,130,930
Consumer loans	23,954,480	15,141,775
Residential mortgages	15,318,588	12,355,000
Government entities	36,162,457	6,478,412
IPAB	1,096,145	43,019,777
Total current loan portfolio	124,062,417	109,291,396
Past due loan portfolio (note 9):		
Commercial loans	1,623,808	1,942,545
Financial institutions	302	311
Consumer loans	806,776	539,915
Residential mortgages	954,696	850,586
Other past due debts	27,775	42,180
Total past due loan portfolio	3,413,357	3,375,537
Total loan portfolio	127,475,774	112,666,933
Less:		
Allowance for loan losses (note 9d)	5,729,773	6,587,830
Loan portfolio, net	121,746,001	106,079,103
Other accounts receivable, net	14,678,322	4,053,201
Foreclosed assets (note 10)	353,995	510,357
Premises, furniture and equipment, net (note 11)	5,240,032	4,115,916
Permanent investments in shares (note 12)	195,676	401,413
Deferred income tax (note 19)	617,833	2,199,367
Other assets, deferred charges and intangibles (note 13)	1,463,763	785,525
Total assets	$ 251,424,213	208,405,767

Liabilities and Stockholders' Equity	**2005**	**2004**
Deposit funding (note 14):		
Demand deposits	$ 118,811,115	110,108,472
Time deposits:		
General public	77,708,177	63,446,505
Money market	47,145	838,259
	196,566,437	174,393,236
Due to banks and other institutions (notes 9c and 15):		
Short-term	4,736,884	6,618,651
Long-term	2,158,781	2,625,166
	6,895,665	9,243,817
Securities and derivative transactions:		
Credit balances of repurchase/resell agreements (note 7)	117,808	32,261
Securities lending (note 16)	4,388,765	-
	4,506,573	32,261
Other accounts payable:		
Income tax and employee statutory profit sharing	1,200,630	683,133
Sundry creditors and other accounts payable	20,708,150	8,422,851
	21,908,780	9,105,984
Subordinated debentures outstanding (note 18)	2,206,856	2,270,867
Deferred credits	14,954	14,118
Total liabilities	232,099,265	195,060,283
Stockholders' equity (note 20):		
Paid-in capital :		
Capital stock	3,772,515	3,497,515
Additional paid-in capital	8,744,089	6,819,089
	12,516,604	10,316,604
Earned capital:		
Statutory reserves	4,583,328	1,954,539
Unrealized gain from valuation of available-for-sale securities	268,886	16,008
Cumulative translation adjustment	11,383	11,383
Deficit in restatement of stockholder's equity	(3,361,973)	(3,238,242)
Results from holding nonmonetary assets:		
From valuation of premises, furniture and equipment	1,245,223	1,245,223
From valuation of permanent investments in shares	(138,583)	(151,842)
Net income	4,199,457	3,190,090
	6,807,721	3,027,159
Minority interest	623	1,721
Total stockholders' equity	19,324,948	13,345,484
Commitments and contingent liabilities (note 24)		
Total liabilities and stockholders' equity	$ 251,424,213	208,405,767

(Continued)

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

Consolidated Balance Sheets, Continued

December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

Memorandum accounts

		2005	2004
Guarantees issued (note 22a)	$	56,717	224,156
Other contingent liabilities		976,100	9,654,204
Irrevocable lines of credit (note 22a)		3,761,174	2,256,556
Assets in trust or under mandate (note 22b)		67,768,668	63,605,428
	$	72,562,659	75,740,344
Assets in custody or under management (note 22d)	$	56,937,245	50,566,495
Investments transactions on behalf of customers (note 22c)		16,865,536	25,624,177
Amounts committed under agreements with the IPAB or FOBAPROA		123,227	982,612
Amounts contracted in derivative instruments		205,915,174	94,647,461
Investments in SAR funds		3,291,645	2,957,549
Loan portfolio rated		131,293,665	115,147,645
Other memorandum accounts		346,895,767	322,346,860
	$	761,322,259	612,272,799
Securities receivable under repurchase agreements (note 7)	$	42,004,960	37,140,178
Less - Creditors under agreements to repurchase (note 7)		42,017,507	37,110,577
		(12,547)	29,601
Debtors under agreements to resell (note 7)		13,511,203	6,197,189
Less - Securities deliverable under resell agreements (note 7)		13,425,873	6,199,572
		85,330	(2,383)
Net repurchase/resell agreements	$	72,783	27,218

See accompanying notes to the consolidated financial statements.

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

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

At December 31, 2005, the historical capital stock of HSBC Mexico, S. A. amounts to $2,278,430,462 (nominal pesos)".

Signature
Alexander A. Flockhart
President and Chief Executive Officer

Signature
Germán Osuna Castelán
Chief Financial Officer

Signature
W. Graham Thomson
Director of Internal Audit

Signature
Sergio Armando Torres López
Chief Accountant

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

Consolidated Statements of Operations

Years ended December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

	2005	2004
Interest income (note 23)	$ 25,327,133	19,043,684
Interest expense (note 23)	(10,466,639)	(7,111,426)
Monetary position result, net	(241,348)	(272,256)
Financial margin	14,619,146	11,660,002
Allowance for loan losses (note 9d)	(1,489,083)	(1,362,597)
Financial margin net of allowance for loan losses	13,130,063	10,297,405
Commission and fee income	7,563,667	7,181,111
Commission and fee expense	(878,901)	(773,853)
Financial intermediation income (note 23)	1,355,697	906,180
Total operating income	21,170,526	17,610,843
Administrative and promotional expenses	(14,697,838)	(12,231,613)
Net operating income (loss)	6,472,688	5,379,230
Other income (note 23)	1,504,786	1,326,644
Other expense (note 23)	(993,331)	(1,061,540)
Income before income tax, employee statutory profit sharing (ESPS) and equity in the results of unconsolidated subsidiaries, associated and affiliated companies	6,984,143	5,644,334
Current income tax (IT) (note 19)	(1,383,314)	(1,196,197)
Deferred IT and ESPS (note 19)	(1,341,163)	(1,264,502)
Income before equity in the results of unconsolidated subsidiaries, associated and affiliated companies	4,259,666	3,183,635
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies, net	15,850	13,502
Income from continuing operations	4,275,516	3,197,137
Discontinued operations, extraordinary items and changes in accounting policies net (note 23)	(76,037)	(7,072)
Net income before minority interest	4,199,479	3,190,065
Minority interest	(22)	25
Net income	$ 4,199,457	3,190,090

See accompanying notes to the consolidated financial statements.

"These consolidated statements of operations were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent bassis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

Signature
Alexander A. Flockhart
President and Chief Executive Officer

Signature
Germán Osuna Castelán
Chief Financial Officer

Signature
W. Graham Thomson
Director of Internal Audit

Signature
Sergio Armando Torres López
Chief Accountant

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

	Paid-in capital				Earned capital						Results from holding nonmonetary assets				
	Capital stock	Increase from restatement of paid-in capital stock	Additional paid-in capital	Increase from restatement of additional paid-in capital	Statutory reserves	Increase from restatement of statutory reserves	Unrealized gain (loss) from valuation of available-for-sale securities	Cumulative translation adjustment	Deficit in restatement of stockholders' equity	Increase from restatement of deficit in restatement of stockholders' equity	From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Net income (loss)	Minority interest	Total stockholders' equity
Balances at December 31, 2003	$ 2,003,430	1,494,085	5,127,347	1,691,742	589,342	2,111,264	26,251	11,383	(2,180,384)	(1,028,980)	1,245,223	(143,827)	1,684,884	1,716	12,633,476
Changes resulting from stockholder resolution (note 20a):															
Resolution passed at the Ordinary and Extraordinary General Stockholders' Meeting on April 27, 2004 appropriation of the net income for 2003	-	-	-	-	1,552,630	132,254	-	-	-	-	-	-	(1,684,884)	-	-
Payment of dividends on June 22, 2004	-	-	-	-	(560,853)	(1,278,373)	-	-	-	-	-	-	-	-	(1,839,226)
Payment of dividends on December 13, 2004	-	-	-	-	(545,277)	(46,448)	-	-	-	-	-	-	-	-	(591,725)
Total items related to stockholders' decisions	-	-	-	-	446,500	(1,192,567)	-	-	-	-	-	-	(1,684,884)	-	(2,430,951)
Changes related to the recognition of comprehensive income (note 20b):															
Net income	-	-	-	-	-	-	-	-	-	-	-	-	3,190,090	-	3,190,090
Valuation effect of unconsolidated subsidiaries, associated and affiliated companies	-	-	-	-	-	-	-	-	-	-	-	(8,015)	-	-	(8,015)
Valuation effect of available-for-sale securities	-	-	-	-	-	-	(10,243)	-	-	-	-	-	-	-	(10,243)
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	5	5
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	(28,878)	-	-	-	-	(28,878)
Total comprehensive income	-	-	-	-	-	-	(10,243)	-	-	(28,878)	-	(8,015)	3,190,090	5	3,142,959
Balances at December 31, 2004	2,003,430	1,494,085	5,127,347	1,691,742	1,035,842	918,697	16,008	11,383	(2,180,384)	(1,057,858)	1,245,223	(151,842)	3,190,090	1,721	13,345,484
Changes resulting from stockholder resolutions: (note 20a):															
Resolution passed at the Ordinary and Extraordinary General Stockholders' Meeting on April 21, 2005 appropriation of the net income for 2004	-	-	-	-	3,099,921	90,169	-	-	-	-	-	-	(3,190,090)	-	-
Resolution passed at the Board of Director's Meeting on July 25, 2005 - Payment of dividens	-	-	-	-	(517,243)	(44,058)	-	-	-	-	-	-	-	-	(561,301)
Resolutions passed at the Ordinary and Extraordinar General Stockholders' Meeting on November 17, 2005 Capital stock increase	275,000	-	1,925,000	-	-	-	-	-	-	-	-	-	-	-	2,200,000
Total items related to stockholders' decisions	275,000	-	1,925,000	-	2,582,678	46,111	-	-	-	-	-	-	(3,190,090)	-	1,638,699
Changes related to the recognition of comprehensive income (note 20b):															
Net income													4,199,457		4,199,457
Valuation effect of unconsolidated subsidiaries, associated and affiliated companies	-	-	-	-	-	-	252,878	-	-	-	-	13,259	-	-	266,137
Valuation effect of available-for-sale securities	-	-	-	-	-	-		-	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-		-	-	-	-	-	-	(1,098)	(1,098)
Recognition of the year's effects of inflation	-	-	-	-	-	-		-	-	(123,731)	-	-	-	-	(123,731)
Total comprehensive income	-	-	-	-	-	-	252,878	-	-	(123,731)	-	13,259	4,199,457	(1,098)	4,340,765
Balances at December 31, 2005	$ 2,278,430	1,494,085	7,052,347	1,691,742	3,618,520	964,808	268,886	11,383	(2,180,384)	(1,181,589)	1,245,223	(138,583)	4,199,457	623	19,324,948

See accompanying notes to the consolidated financial statements.

"These consolidated statements of stockholders' equity were prepared in conformity with the accounting criteria for credit institutions established by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and were applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Bank through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

Signature
Alexander A. Flockhart
President and Chief Executive Officer

Signature
Germán Osuna Castelán
Chief Financial Officer

Signature
W. Graham Thomson
Director of Internal Audit

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Sergio Armando Torres López
Chief Accountant

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

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

		2005	2004
Operating activities:			
Net income	$	4,199,457	3,190,090
Items included in operations not requiring (providing) funds:			
Net unrealized loss from valuation of securities under repurchase/resell agreements, forwards and financial instruments		(269,449)	(59,409)
Allowance for loan losses		1,489,083	1,362,597
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies		(15,850)	(13,502)
Depreciation and amortization		821,063	633,765
Deferred income tax and employee statutory profit sharing		1,341,163	1,264,502
Allowance for foreclosed assets		52,286	214,056
Minority interest		22	(25)
		7,617,775	6,592,074
Changes in items related to operations:			
Increase in operating liabilities:			
Deposit funding		22,173,201	15,516,310
Accounts payable		12,802,796	298,160
(Increase) decrease in operating assets:			
Loan portfolio		(17,155,981)	8,837,678
Investment securities		(9,741,900)	(20,910,660)
Securities and derivative transactions, net		4,275,343	(111,139)
Other accounts receivable		(11,303,359)	(728,377)
Funds provided by operating activities		8,667,875	9,494,046
Financing activities:			
Redemption of outstanding subordinated debentures		(64,011)	(120,900)
Decrease in due to banks and other institutions		(2,348,152)	(217,598)
Dividends paid		(561,301)	(2,430,948)
Increase in capital stock and additional paid-in capital		2,200,000	-
Funds used in financing activities		(773,464)	(2,769,446)
Investing activities:			
Acquisition of premises, furniture and equipment, net		(1,945,179)	(1,306,094)
Permanent investments in shares, net		109,995	6,146
Increase in deferred charges, net		241,207	(12,964)
Decrease in foreclosed assets		104,076	180,074
Funds used in investing activities		(1,489,901)	(1,132,838)
Increase in cash and equivalents		6,404,510	5,591,762
Cash and equivalents:			
At beginning of year		44,628,109	39,036,347
At end of year	$	51,032,619	44,628,109

See accompanying notes to the consolidated financial statements.

"These consolidated statements of changes in financial position have been prepared in conformity with the accounting criteria for credit institutions established by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all sources and applications of funds derived from the Bank's operations through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the undersigned officers".

Signature
Alexander A. Flockhart
President and Chief Excecutive Officer

Signature
Germán Osuna Castelán
Chief Financial Officer

Signature
W. Graham Thomson
Director of Internal Audit

Signature
Sergio Armando Torres López
Chief Accountant

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Operations-

HSBC México, S. A. ("HSBC or the Bank") is a subsidiary of Grupo Financiero HSBC, S. A. de C. V. ("the Group") which currently holds 99.99% of its capital stock. HSBC Holding plc. currently holds 99.76% of its capital stock. Based on the Law for Credit Institutions (LCI), the Bank is authorized to carry out commercial banking activities, which include but are not limited to: accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services. The nine consolidated subsidiaries are engaged principally in property operating lease activities.

(2) Summary of significant accounting policies-

(a) Financial statement presentation-

The consolidated financial statements have been prepared based on the banking legislation and in conformity with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission (the Banking Commission). The Banking Commission is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

The accompanying consolidated financial statements include the financial statements of the Bank and of its subsidiaries in the property operating lease activities subject to consolidation as well as the restructured loan portfolio in UDI Trusts. These Trusts were created to manage the restructured loan portfolio based on various support programs established by the Federal Government (see note 9, section b), where the Bank acts as trustor and trustee and the Federal Government as beneficiary. The trusts have been valued and presented in accordance with the accounting rules established by the Banking Commission. Significant intercompany transactions and balances have been eliminated in consolidation.

In general, the accounting criteria established by the Banking Commission conform to accounting principles generally accepted in Mexico ("Mexican GAAP"), issued by the Mexican Institute of Public Accountants (IMCP) and include particular rules relating to accounting, valuation, presentation and disclosure, which in certain respects, differ from such principles in that they do not limit the consolidation to financial subsidiaries (also see paragraphs b, d and e of this note), and c for 2004, because as a result of changes to Bulletin C-2 of Mexican GAAP in 2005, it is consistent with the recording of the valuation in comprehensive income reported in results of operations.

(Continued)

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

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: Mexican GAAP; International Financial Reporting Standards issued by the International Accounting Standards Board; accounting principles generally accepted in the United States; or in cases not covered by these principles and standards, any other formal and recognized accounting standard that does not contravene the general criteria of the Banking Commission.

The accompanying consolidated financial statements are expressed in Mexican pesos of constant purchasing power, using the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation. UDI values at December 31 are as follows:

Year	UDI	Annual inflation
2005	$ 3.6375	2.91%
2004	3.5347	5.45%
2003	3.3520	3.91%
	=====	

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

Assets and liabilities related to purchase and sale of foreign currencies, investments in securities, securities repurchase and resell agreements, and derivative financial instruments are recognized in the consolidated financial statements on the day the transactions are entered into, regardless of the settlement date.

The consolidated financial statements for the year ended December 31, 2004 include certain reclassifications to conform to the classifications used in 2005.

(b) Cash and equivalents-

Cash and equivalents consist of cash, precious metals (coins), bank account balances, 24 and 48-hour foreign currency purchase and sale transactions, bank loans with original maturities of up to three days ("Call Money") and deposits with the Central Bank.

The receivables associated with 24 and 48-hour foreign currency sales are recorded in "Other accounts receivable" while the obligations arising from such foreign currency purchases are recorded in "Sundry creditors and other accounts payable".

(Continued)

This category includes the deposits relation to monetary regulation, in compliance with the Law of the Banco de México (Central Bank), whose purpose is regulating the liquidity of the money market. These deposits do not have maturity and bear interest at the average funding rate of the banks. In accordance with Bulletin C-10 of Mexican GAAP beginning January 1st, 2005 any margin accounts are recorded under "Securities and derivative transactions" including cash and securities contributions and interest payable at maturity.

(c) Investment securities-

Investment securities consist of equities and government securities and bank notes, listed and unlisted, classified into three categories depending on management's investment intentions. These categories are described as follows.

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt and equity securities are initially recorded at cost and subsequently marked to market at the price provided by an independent price vendor. When a fair and representative market value cannot be determined, they are recorded at the latest fair value or otherwise the security is reported at cost plus accrued interest. Equity securities are reported at the lower of market value provided by an independent price vendor, by applying the equity method, acquisition cost restated using UDI factors, or their estimated net realizable value. Valuation effects are recognized in results of operations.

Available-for-sale securities-

Securities not classified as trading or held-to-maturity portfolios are classified as "Available-for-sale". "Available-for-sale" securities are recorded at cost and valued in the same way as trading securities; however, the mark-to-market adjustment is reported in stockholders' equity under "Unrealized gain or loss from valuation of Available-for-sale securities" caption. Unrealized gains and losses are cancelled when the respective securities are sold, reporting the difference between net realizable value and acquisition cost in results of operations. Where there is persuasive evidence that a security represents a high credit risk and/or the estimated value has decreased, the book value is written down through a charge to results of operations.

Held-to-maturity securities-

Held-to-maturity securities are those securities that the Bank has the ability and intent to hold until maturity, and that have defined payments and maturities of more than 90 days. Held-to-maturity securities are recorded at acquisition cost and interest is recognized in income as earned.

(Continued)

Transfers between categories-

Transfers of securities between categories, except transfers to the trading securities category, require express authorization from the Banking Commission. The cumulative effect of the "Unrealized gain or loss from valuation of Available-for-sale securities" is cancelled and recognized in income upon transferring "Available-for-sale" securities to the trading securities category. For transfers of "Available-for-sale" securities to the "held-to-maturity" securities category, the "Unrealized gain or loss from valuation of "Available-for-sale" securities is amortized to income based on the remaining term of the securities.

(d) Securities under repurchase/resell agreements-

Securities under repurchase/resell agreements are stated at market value provided by an independent price vendor and the obligations or rights from the commitments to repurchase or resell the securities are stated at the net present value at maturity. The balance sheet presents the sum of debit or credit balances after individually offsetting the restated values of the securities receivable or deliverable and the repurchase or resale commitment of each repurchase/resell agreement. Transactions where the Bank is both repurchaser and repurchasee with the same entity are not offset. Contrary to Mexican GAAP requirements, the consolidated balance sheet reflects the net balance between these two restated values, instead of presenting them separately as assets and liabilities and only offsetting similar transactions with the same party. Interest, premiums, gains or losses and valuation adjustments from these transactions are reported in the results of operations under "Interest income", "Interest expense", and "Financial intermediation income, net", respectively.

In accordance with the Circular 1/2003 of the Central Bank, any repurchase transactions, with a maturity period over 3 days; must include an obligation to guarantee such transaction, when the fluctuations in the value of the securities under the repurchase agreement represents a net exposure which exceeds the maximum amount agreed by the parts. The guarantee granted is recorded under the category of investment in securities as guaranteed trading securities or in the category of cash and equivalents as restricted funds. The guarantees received, which does not represent a transfer of property, are recorded in memorandum accounts as assets in custody or under management. Such guarantees are valued in accordance with current guidelines for investment securities, cash equivalents and assets in custody or under management, respectively.

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

(e) Derivative transactions-

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes, the accounting treatment is described below:

Futures and forward contracts – The consolidated balance sheet shows the net fluctuation in the market value of the contracts' future price, these effects are recognized in income, except in the case of hedging transactions where the related gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover.

(Continued)

Swaps – Rights or obligations established in the contract arising from the exchange of cash flows or asset yields (swaps) are recorded as assets or liabilities. The assets and liabilities derived from swaps are marked to market, reporting the net value of the swap on the consolidated balance sheet while the related gains or losses are recognized in income, except in the case of transactions designated as hedges where gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover.

Options – Put and call option obligations (premiums collected) or rights (premiums paid) are recorded at contract value and marked to market, recording all gains or losses in income. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

In conformity with Bulletin C-10 of Mexican GAAP, as from January 1, 2005, derivative financial instruments are reported at fair value, regardless of management's intention. Fair value is initially represented by the agreed-upon consideration. Transaction costs and cash flows received or given to adjust the instrument at the beginning of the transaction to fair value, not related to option premiums, are amortized during the term of the transaction. Changes in the fair value of derivative financial instruments for trading purposes are reported in operations as part of the comprehensive financial results.

Derivate financial instruments held for hedging purposes are presented in "Derivative financial instruments" and the fair value changes are recorded, depending on the hedge category (fair value, cash flow or foreign exchange) and depending on the effectiveness measurement either in income or other comprehensive income, are presented in the same line of the consolidated statement of operations where primary positions are recognized.

(f) Clearing accounts-

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

Debit and credit balances of clearing accounts resulting from foreign currency purchase/sell transactions are offset provided the contractual right exists for offsetting the amounts recorded and there is the intention of settling them on a net basis, or else realizing the asset and liability simultaneously. Assets and liabilities are also offset in transactions of the same nature or that arise from the same contract, provided they have the same maturities and are settled concurrently.

(g) Past due loans and interest-

Outstanding loan and interest balances are classified as past due according to the following criteria:

Commercial loans with principal and interest payable upon maturity – 30 days after due date.

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

Revolving credits, credit cards and others – When unpaid for two normal billing cycles or when 60 or more days past due.

Commercial loans with principal and interest installments – 90 days after the first unpaid amortization of principal and interest.

Mortgage loans – 90 days after the due date of the first unpaid installment.

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

In addition, a loan is classified as past due when the debtor files for bankrupty protection.

(h) Allowance for loan losses-

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as follows.

Rated loans – Based on studies which classify the loan portfolio, using an internally developed methodology for commercial loans. The Banking Commission in the official letter 601-II-DGSIFC-7651 dated January 27, 2005, authorized HSBC to continue using its internally developed methodology, for a 2 year period beginning December 1, 2004, that have been used in accordance with the official letters 601-II-DGSIFC-71841 and 601-II-DGSIFC-9867 dated April 23, 2003 and March 16, 2004, respectively.

HSBC's internally developed methodology links the attributes used with the attributes established in the Banking Comission included in the "General Dispositions relating to the Rating Methodology for Loan Portfolios of Credit Institutions" ("the Dispositions") and published in the Official Gazette on August 20, 2004, which took effect starting December 1, 2004. Such dispositions excluded loans granted to Government states or municipalities, investment projects with own source of payment and trustees of the trusts or structured credit schemes with own net worth. These Dispositions also allow individual assessment of the associated risk, individually evaluated in accordance with the methodology prescribed by the Dispositions, including residential mortgages and other consumer loans (see note 26). The allowance percentages are established considering risk levels according to the following table:

Risk level	Range of allowance percentages		
A - Minimum	0.5	–	0.9
B - Low	1	–	19.9
C - Medium	20	–	59.9
D - High	60	–	89.9
E - Loss	90	–	100.0

The Dispositions supersede the circulars 1449, 1460, 1480, 1493 and 1514 of the Banking Commission. The Dispositions establish new rules to record credit provisions for potential losses of credit loans and to recognize potential losses, due to time, in the value of the foreclosed assets or received in lieu of payment (see note 2j). The adoption of the dispositions did not have an impact on the credit allowance, because they are very similar to the internal developed methodology of HSBC. In the case of foreclosed assets or assets received in lieu of payment, an increase of the allowance was recorded in 2004 for $113,906 charged against that year´s results (see note 10).

General reserves – In accordance with the Dispositions to be loans general reserves with risk grade A.

Specific reserves – Considered for loans with risk grade B, C, D and E.

Exempt portfolio – consists mainly of loans to government entities, including the IPAB, that are not rated.

Impaired loans – consist of commercial loans (principal and interest) which, based on information and current facts, as well as on the process to review loans, are not likely to be fully recovered as set forth in the agreement. Both, current and past due portfolios may be identified as impaired loans. For consolidated financial statement disclosure purposes, "impaired loans" are those commercial loans classified by HSBC as having the risk levels "D" and "E"

Additional reserves – are established for those loans, which in management's opinion, may give rise to concern in the future given the particular situation of the customer, the industry or the economy. They also include items such as uncollected ordinary interest and others, the ultimate collection of which may, in management's opinion, result in a loss for HSBC.

Loans considered irrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries on loans previously written off are credited to the allowance.

(i) Other accounts receivable-

Reserves are established, based on an evaluation of the levels of risk, for accounts receivable arising from unidentified and identified non-credit transactions that are not recovered within 60 and 90 days, respectively.

(j) Foreclosed assets and assets received in lieu of payment-

Assets acquired through foreclosure are stated as the lower value between of the adjudicated value or net realizable value. Assets received in lieu of payment are stated at the lower of the appraisal value or the price agreed upon by the parties. Any shortfall between the appraisal value and the balance due is written off against the allowance for loan losses. Assets are written down to reflect any subsequent impairment in their value through a charge against the results of the operations. The assets with commitment of sale are shown at the sale price, recognizing the gain or loss in deferred credit or in the income, respectively. The amount of the collected rents derived from foreclosed assets is deducted against the value of the assets.

(Continued)

Up to November 30, 2004, the write-downs and reserves are deducted from the carrying value of the assets and charged to results of operations. Effective December 1, 2004, the Bank creates additional reserves on a quarterly basis to recognize potential losses for the deterioration in asset value due to the passing of time. These reserves are created in accordance with the Dispositions described in note 2(h) and provisions are established as follows:

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

(k) Premises, furniture and equipment-

Premises, furniture and equipment are initially recorded at acquisition cost, and adjusted for inflation by applying UDI factors.

Depreciation and amortization are calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

(l) Permanent investments in shares-

The investments in subsidiary companies not subject to consolidation are accounted for under the equity method. The Bank's equity in the results of subsidiary companies is recognized in the year's income and its equity in the increase or decrease of other stockholders' equity accounts is recognized in the Bank's stockholders' equity under the caption "Results from holding non-monetary assets from valuation of permanent investments in shares".

This category also includes permanent investments in shares of issuing companies where the Bank exerts no significant influence, which are valued using the cost method and differs from Mexican GAAP, adjusted for inflation by applying the UDI value. Valuation adjustments are recognized in the Bank's stockholders' equity under "Results from holding non-monetary assets from valuation of permanent investments in shares". When the valuation of the investment is consistently below the adjusted cost, the investment is written down to realizable value through a charge to results of operations

(Continued)

(m) Other assets, deferred charges and intangibles-

This line item includes under other assets, recoverable balances of taxes pending to be offset or recovered; under deferred charges, the prepayment of labor obligations and other expenses pending amortization arising from services and commissions paid in advance, whose amortization is made straight line over the term of the related transaction; and under intangible assets, financial costs for debt issuance or placement, which are amortized straight line over the term of the issuance.

(n) Deferred income tax (IT) and employee statutory profit sharing (ESPS)-

IT and ESPS payable for the year are determined in conformity with tax regulations in force.

Deferred income tax is accounted for under the asset and liability method which compares accounting and tax values. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for unamortized tax loss carryforwards and unused tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations for the period the change is enacted.

Deferred ESPS is recognized for timing differences arising from the reconciliation between book and taxable for profit sharing purposes, on which it may reasonably be estimated that a future liability will arise and there is no indication that the liabilities will not materialize.

(o) Deposit funding-

Deposit funding comprises demand and time deposits of the general public, as well as money market funding. Interest is charged to expense on the accrual basis. For instruments sold at a price other than face value, a deferred charge or credit is recognized and the difference is amortized on the straight-line basis over the term of the respective instrument.

(p) Due to banks and other institutions-

Bank and other loans comprise short and long-term bank loans from domestic and foreign banks, loans obtained through credit auctions with Banco de México and development fund financing. In addition, this category includes loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis.

(q) Securities lending-

HSBC conducts securities lending as a borrower. The securities borrowed are guaranteed by HSBC and the term of each transaction is one working day. HSBC pays the lender a premium for each security lent, which is eliminated on maturity or on the roll over of the transaction. The securities loan values and the guaranteed are stated at market value provided by an independent price vendor.

(Continued)

(r) Pensions, seniority premiums and post-retirement benefits-

It consists of defined benefit (DBO) and defined contribution (DCO) obligations. As regards DBO, the net periodic cost, pension, seniority premium benefits, other post-retirement plans, and, beginning 2005 (see note 3), severance compensation for reasons other than restructuring, to which employees are entitled in accordance with the law are charged to operations for the year based on actuarial computations of the present value of these obligations using the projected unit credit method and real interest rates, according to Bulletin D-3 of Mexican GAAP. Pension DCO are expensed as incurred. Other compensation to which employees may be entitled is charged to operations as incurred.

Beginning January 1, 2005, Bulletin D-3 issued by the Mexican Institute of Public Accountants established a new provision that includes a reserve for compensation to employees upon termination of the labor relationship (statutory compensation benefits), for reasons other than restructuring. Through December 31, 2004, all other compensation to which employees were entitled in case of employment termination or disability, were charged to operations as incurred. The adoption of this change did not have a material effect on the Bank's results of operations.

In addition, based on the calculations performed by an independent actuary, a liability is recorded, recognizing the cost of the period in the income. HSBC funds the post retirement medical benefits as of 2002. Amortization of unrecognized past service costs is based on an estimated service life of employees of 25 years.

(s) Restatement of capital stock and statutory reserves-

This restatement is determined by multiplying stockholder contributions, statutory reserves and retained earnings (deficit) by UDI factors, which measure accumulated inflation from the dates contributed or generated through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(t) Results from holding non-monetary assets-

The result from holding non-monetary assets represents the difference between the specific valuations of these assets and their cost restated based on the value of the UDI.

(u) Monetary position gains and losses-

HSBC recognizes in income the effect (gain or loss) in the purchasing power of its monetary position, which it determines by multiplying the difference between monetary assets and liabilities at the beginning of each month by inflation through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

The gain or loss from interest-bearing monetary assets and liabilities is included in the consolidated statement of operations as part of the "Financial margin", while the gain or loss from all other monetary items and the acquisition cost of "Available-for-sale" securities is presented in "Other income" or "Other expense", respectively.

The monetary position gain or loss from the valuation of "Available-for-sale" securities is recognized in the Bank's stockholders' equity under "Unrealized gain or loss from valuation of Available-for-sale securities".

(v) Revenue recognition-

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

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

Fees related to the issuance of credit cards and services rendered, and those corresponding to commercial, personal and mortgage loans are recorded in income upon collection. In the case of loans subject to fees and conditioned to the occurrence of a particular event, fees are deferred and recognized in income over the term of the loan.

Premiums collected on securities repurchase transactions are recognized in income based on the present value of the price at maturity.

(w) Foreign currency transactions-

The accounting records are maintained in both pesos and foreign currencies, which for financial statement presentation purposes, in the case of currencies other than the dollar are translated from the respective currency to dollars as established by the Banking Commision, and the dollar equivalence with Mexican currency is translated at the exchange rate established by the Central Bank. Foreign exchange gains and losses are recognized in the results of operations.

(x) UDI Trusts-

Asset and liability accounts of the loan portfolios restructured in UDI Trusts are expressed in pesos by applying the UDI value determined by the Central Bank at the end of each month. Income and expense accounts are expressed in pesos by applying the average UDI value.

(y) Contributions to the Bank Savings Protection Institute (IPAB)-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective. During 2004, the IPAB guaranteed an amount equivalent to 5,000,000 UDIS. Beginning in January 1, 2005, the IPAB will guarantee a maximum of 400,000 UDIS per depositor per institution, in conformity with the decree published in the Official Gazette on December 14, 2000. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

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(z) Contingencies-

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

(aa) Impairment of premises, furniture and equipment-

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

(ab) Use of estimates-

The preparation of consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(3) Changes in accounting policies-

Embedded derivatives-

Bulletin C-10 of Mexican GAAP establishes additional and more precise rules for accounting of derivative financial instruments (including those embedded derivatives associated with other transactions such as the purchase and sale of goods or services, funding, etc. contracted with underlying securities) and changes the provisions for hedge accounting prescribed by Bulletin C-2. In addition, this Bulletin enhances disclosure requirements relating to the exposure to financial risks of an entity. The adoption of this Bulletin did not have a material effect.

Labor obligations-

Beginning January 1, 2005, HSBC adopted the new provision of Bulletin D-3 of Mexican GAAP, Labor Obligations, issued by the Mexican Institute of Public Accountants, relating to the recognition of compensation liabilities payable to workers upon termination of labor relationship before retirement age (statutory compensation benefits) for reasons other than restructuring. The foregoing is determined based on computations prepared by independent actuaries, using the projected unit credit method and real interest rates. At the time the Bank adopted this new provision in conformity with the option that was set forth, there is an unamortized asset and a liability in the amount of $267,606, which will be amortized over the average remaining service life of those employees expected to receive said compensation, and also an increase in expenses for the year of $29,687.

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(4) Foreign currency exposure-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital. At December 31, 2005 and 2004 the foreign currency position, in thousands of dollars is analyzed as follows:

	(Thousands of dollars)	
	2005	**2004**
Assets	19,327,161	10,363,842
Liabilities	19,399,588	10,164,988
Net (short) long position	(72,427)	198,854

The exchange rate of the peso to the dollar as of December 31, 2005 and 2004 was $10.6344 and $11.1495, respectively.

(5) Cash and equivalents-

At December 31, 2005 and 2004, cash and equivalents are analyzed as follows:

		2005	**2004**
Cash on hand	$	8,689,296	8,392,030
Deposits with domestic and foreign banks		4,386,561	10,715,178
Deposits with Central Bank		27,509,776	23,069,036
Bank loans with maturity up to three days		7,371,471	-
Other funds available		135,429	226,820
Restricted funds:			
24 and 48-hour foreign currency purchases		15,383,124	3,896,039
24 and 48-hour foreign currency sales		(12,443,038)	(1,670,994)
	$	51,032,619	44,628,109

At December 31, 2005 and 2004 there are precious metals for $26,351 and $24,187, respectively, which are included in other funds available.

According to the Central Bank's monetary policy, the Bank is required to maintain a monetary regulation deposit which at December 31, 2005 and 2004 amounted to $27,401,427 and $23,027,767, respectively, in compliance with the requirements of the Central Bank, designed to control money market liquidity. These deposits earn interest at the average rate of banking deposits.

At December 31, 2005, HSBC had bank loans (Call Money) maturing in 3 days, which bore interest at a rate of 8.25% per annum.

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(6) Investment securities-

At December 31, 2005 and 2004 the Bank's investments in securities were as follows:

		2005	2004
Trading:			
Bank promissory notes	$	1,136,584	2,040,217
Government securities (see note 7)		5,452,540	-
Bonds		-	688,350
		6,589,124	2,728,567
Available-for-sale:			
Equities		188,659	11,173
Debt securities (*)		44,752,419	38,642,762
		44,941,078	38,653,935
Held-to-maturity:			
Special CETES of the UDI Trusts:			
Productive plant		182,328	171,330
States and municipalities		399,787	374,802
Residential mortages		2,784,516	2,583,240
		3,366,631	3,129,372
Other		626,624	1,018,132
		3,993,255	4,147,504
Total investment securities	$	55,523,457	45,530,006
		========	========

At December 31, 2005, the surplus of special CETES of national productive plant and states and municipalities, are no longer to the collection of the portfolio of UDI trusts.

(*) Transactions of the Interbank Electronic Payments System (SPEI, formerly SPEUA)-

During 2005, the Central Bank implemented a new System of Interbank Electronic payments (SPEI, formerly system of electronic payments of extended use or SPEUA) superceding the Central Bank telefax circular 21/2003, that required that the participant institutions had to constitute guarantees with governamental values (Cetes, Bondes, Udibonos). To comply with the abovementioned, at December 31, 2004, the bank had accumulated guarantees of $901,858 with the Central Bank that covered the 85% required.

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Transfer between investment categories-

During 2005, the bank did not make any transfers between investment categories. In 2004, the Banking Commission authorized the transfer from "Trading securities" to "Available for sale" of UMS bonds and PEMEX bonds amounting $55,941 and $29,465, respectively.

As of December 31, 2005 and 2004, the investment in debt securities of the same issues other than government securities, greater than $1,076 and $765 millions (5% of the net capital of HSBC), classified as "Trading" and "Available-for-sale", are analized as follows:

Issue	Thousands of securities		Partial amount		Total
Available for sale					
2005					
IBANSAN 6011	1,585,433	$	1,584,707		
IINBURSA 6264	2,082,047		2,001,543	$	3,586,250
			=======		=======
2004					
Trading					
IBANOBRAS 05011	1,983,994	$	2,040,224	$	2,040,224
			=======		=======

Classification of investment securities-

At December 31, 2005 and 2004 the investment securities are classified depending on management's intentions considering their term as follows:

Securities		2005 Short	2005 Long	2004 Short	2004 Long
Trading	$	1,622,603	4,966,521	2,677,948	50,619
Available-for-sale		816,992	44,124,086	363,445	38,290,490
Held-to-maturity		62,188	3,931,067	67,513	4,079,991
	$	2,501,783	53,021,674	3,108,906	42,421,100
		=======	========	=======	========
	$	55,523,457		45,530,006	
		========		========	

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(7) Securities under repurchase/resell agreements-

At December 31, 2005 and 2004, the net debt and credit balances arising from the offsetting of each repurchase/resell agreements transaction, are analyzed as follows:

	2005			2004		
	Net balance			Net balance		
	Debit	Credit	Total	Debit	Credit	Total
Securities receivable	$ 31,115,682	10,889,278	42,004,960	32,828,313	4,311,865	37,140,178
Creditors under agreements to repurchase	(31,016,962)	(11,000,545)	(42,017,507)	(32,787,874)	(4,322,703)	(37,110,577)
Securities sold under agreements to repurchase	98,720	(111,267)	(12,547)	40,439	(10,838)	(29,601)
Securities deliverable	(8,984,034)	(4,441,839)	(13,425,873)	(2,057,787)	(4,141,785)	(6,199,572)
Debtors under agreements to resell	9,075,905	4,435,298	13,511,203	2,076,827	4,120,362	6,197,189
Securities purchased under agreements to resell	91,871	(6,541)	85,330	19,040	(21,423)	(2,383)
Debit (credit) balances under repurchase/resell agreements	$ 190,591	(117,808)		59,479	(32,261)	

At December 31, 2005 and 2004, the Bank had executed repurchase/resell agreements and had net positions by type of security and average term in days as follows:

	2005				2004			
	Sale	**Purchase**	**Average selling term**	**Average purchase term**	**Sale**	**Purchase**	**Average selling term**	**Average purchase term**
Securities receivable (deliverable)								
Government								
BONDE182	$ 11,331,874	(10,111,633)	25	27	7,318,499	(3,106,064)	28	32
BONDEST	-	-	-	-	656,960	(517,406)	20	28
BONOS	3,176,983	(2,896,689)	20	29	2,805,773	-	3	-
BPAT	4,518,169	(417,551)	22	28	6,420,777	(2,057,788)	21	3
BREMS	5,951,565	-	24	-	10,834,837	-	9	-
CETES	13,763,810	-	5	-	1,247,916	(223,075)	6	28
IPAB	1,601,002	-	35	-	4,939,544	(295,239)	32	28
Bank								
Promissory notes	1,661,557	-	7	-	2,432,617	-	7	-
Bonds	-	-	-	-	483,255	-	77	-
	42,004,960	(13,425,873)			37,140,178	(6,199,572)		
(Creditors) debtors under agreements to repurchase /resell	(42,017,507)	13,511,203			(37,110,577)	6,197,189		
	(12,547)	85,330			29,601	(2,383)		
Reclassifications	203,138	(203,138)			29,878	(29,878)		
Debit (credit) balances under repurchase/resell agreements	$ 190,591	(117,808)			59,479	(32,261)		
	========	========			========	=======		

(8) Derivative transactions-

Trading:

At December 31, 2005 and 2004, the fair value of derivative financial instruments for trading purposes are analyzed as follows:

	2005			2004		
	Purchase	**Sale**	**Net**	**Purchase**	**Sale**	**Net**
Contracts:						
Foreign exchange forwards (mainly pesos and dollars)	$ 142,229,279	(142,122,033)	107,246	48,606,997	(48,586,220)	20,777
Interest rate futures	-	-	-	346	-	346
Interest rate options	45,941	-	45,941	-	-	-
Cross currency swaps	1,721,848	(1,711,864)	9,984	-	-	-
Interest rate swaps	28,562,405	(28,343,652)	218,753	3,798,585	(3,776,417)	22,168
	$ 172,559,473	(172,177,549)	381,924	52,405,928	(52,362,637)	43,291
	=========	=========	======	========	========	=====

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As of December 31, 2004, as explained in note 6; the Banking Commission authorized a transfer from "Trading Securities" to "Available-for-sale". As result of this transfer, the cross currency swaps were reclassified from trading to hedging purposes.

Hedge transactions:

The fair value of derivative transactions for hedging purposes are presented in the consolidated balance sheet together with the primary position they cover. At December 31, 2005 and 2004, the fair value of derivative financial instruments for hedging purposes are analyzed as follows:

Underlying	Primary position		Valuation 2005	Valuation 2004
Cross currency swaps	Investment securities (note 6)	$	19,837	(92,839)
Interest rate swaps	Loans to the IPAB (note 9b)		-	(1,720)
			=====	====

Notional amounts:

Notional amounts of contracts represent the derivatives volume outstanding and not the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied for determining the amount of cash flows to be exchanged. Notional amounts of the derivative financial instruments at December 31, 2005 and 2004, are as follows:

		2005			2004		
		Purchase	Sale	Net	Purchase	Sale	Net
Hedging purposes							
Interest rate contracts:							
Swaps	$	156,000	-	156,000	4,376,000	(3,000,000)	1,376,000
Foreign currency:							
Swaps		319,032	(3,205,930)	(2,886,898)	826,175	-	826,175
Hedge transactions carried forward	$	475,032	(3,205,930)	(2,730,898)	5,202,175	(3,000,000)	(2,202,175)
		======	=======	=======	=======	=======	=======

(Continued)

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		2005			2004		
		Purchase	**Sale**	**Net**	**Purchase**	**Sale**	**Net**
Hedge transactions brought forward	$	475,032	(3,205,930)	(2,730,898)	5,202,175	(3,000,000)	(2,202,175)
Trading purposes							
Interest rate contracts:							
Futures		-	(22,638,100)	(22,638,100)	8,500,000	-	8,500,000
Options		1,329,300	-	1,329,300	-	-	-
Swaps		34,822,996	(143,443,816)	(108,620,820)	14,680,000	(13,435,000)	1,245,000
		36,152,296	(166,081,916)	(129,929,620)	23,180,000	(13,435,000)	9,745,000
Foreing currency:							
Forwards		-	-	-	21,798,566	(25,356,523)	(3,557,957)
Inflation effect		-	-	-	1,459,607	(1,215,590)	244,017
	$	36,627,328	(169,287,846)	132,660,518	51,640,348	(43,007,113)	8,633,235
		========	=========	=========	========	========	=======

(9) Loan portfolio-

At December 31, 2005 and 2004 the loan portfolio and the credit commitments are analyzed as follows:

		2005	**2004**
Total loan portfolio, shown in the consolidated balance sheet	$	127,475,774	112,666,933
Recorded in memorandum accounts (note 22a):			
Guarantees		56,717	224,156
Irrevocable lines of credit		3,761,174	2,256,556
		3,817,891	2,480,712
	$	131,293,665	115,147,645
		=========	=========

(a) Classification of current and past due loan portfolio by currency, rated portfolio, economic sector and by aging of past due loans-

At December 31, 2005 and 2004, the classification of current and past due loan portfolio by currency, which includes the restructured portfolio of UDI Trusts, and by economic sector, rated portfolio and aging of past due loans is shown on the following page.

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2005)

Portfolio

	Commercial		Financial institutions		Consumer		Residential mortgages		Goverment entities		IPAB		Past due indebtedness		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Current:																
Pesos	$ 29,289,332	19,629,355	6,573,478	3,623,328	23,954,423	15,141,211	9,721,159	5,863,851	34,493,155	5,319,594	1,096,145	43,019,777	-	-	105,127,692	92,597,116
Foreign currency	10,802,125	7,778,082	223,849	507,602	51	557	3,659	3,948	1,290,047	754,062	-	-	-	-	12,319,731	9,044,251
UDIS	641,963	758,065	-	-	6	7	5,593,770	6,487,201	379,255	404,756	-	-	-	-	6,614,994	7,650,029
Total	40,733,420	28,165,502	6,797,327	4,130,930	23,954,480	15,141,775	15,318,588	12,355,000	36,162,457	6,478,412	1,096,145	43,019,777	-	-	124,062,417	109,291,396
Past due:																
Pesos	1,036,262	992,674	302	311	806,490	539,570	286,198	258,208	-	-	-	-	27,323	40,818	2,156,575	1,831,581
Foreign currency	432,675	616,699	-	-	-	58	-	-	-	-	-	-	452	1,362	433,127	618,119
UDIS	154,871	333,172	-	-	286	287	668,498	592,378	-	-	-	-	-	-	823,655	925,837
Total	1,623,808	1,942,545	302	311	806,776	539,915	954,696	850,586	-	-	-	-	27,775	42,180	3,413,357	3,375,537
Total:																
Pesos	30,325,594	20,622,029	6,573,780	3,623,639	24,760,913	15,680,781	10,007,357	6,122,059	34,493,155	5,319,594	1,096,145	43,019,777	27,323	40,818	107,284,267	94,428,697
Foreign currency	11,234,800	8,394,781	223,849	507,602	51	615	3,659	3,948	1,290,047	754,062	-	-	452	1,362	12,752,858	9,662,370
UDIS	796,834	1,091,237	-	-	292	294	6,262,268	7,079,579	379,255	404,756	-	-	-	-	7,438,649	8,575,866
Total	**$ 42,357,228**	**30,108,047**	**6,797,629**	**4,131,241**	**24,761,256**	**15,681,690**	**16,273,284**	**13,205,586**	**36,162,457**	**6,478,412**	**1,096,145**	**43,019,777**	**27,775**	**42,180**	**127,475,774**	**112,666,933**

Classification by activity

	Commercial 2005	Commercial 2004	Financial institutions 2005	Financial institutions 2004	Consumer 2005	Consumer 2004	Residential mortgages 2005	Residential mortgages 2004	Goverment entities 2005	Goverment entities 2004	IPAB 2005	IPAB 2004	Past due indebtedness 2005	Past due indebtedness 2004	Total 2005	Total 2004
Manufacturing	$ 18,264,785	12,365,900	-	-	-	-	-	-	-	-	-	-	-	-	18,264,785	12,365,900
Agriculture, forestry and fishing	7,100,769	6,838,875	-	-	-	-	-	-	-	-	-	-	-	-	7,100,769	6,838,875
Trade and tourism	9,115,708	6,299,347	-	-	-	-	-	-	-	-	-	-	-	-	9,115,708	6,299,347
Services	7,875,966	4,603,925	-	-	-	-	-	-	-	-	-	-	-	-	7,875,966	4,603,925
Financial services	-	-	5,948,984	3,186,751	-	-	-	-	-	-	-	-	-	-	5,948,984	3,186,751
Credit Unions	-	-	420,537	518,988	-	-	-	-	-	-	-	-	-	-	420,537	518,988
Lessors	-	-	265,041	234,406	-	-	-	-	-	-	-	-	-	-	265,041	234,406
Others to financial organizations	-	-	163,067	191,096	-	-	-	-	-	-	-	-	-	-	163,067	191,096
Credit Car	-	-	-	-	14,061,394	8,252,984	-	-	-	-	-	-	-	-	14,061,394	8,252,984
Credit Card	-	-	-	-	6,976,414	3,879,968	-	-	-	-	-	-	-	-	6,976,414	3,879,968
Multicrédito	-	-	-	-	2,103,364	2,899,357	-	-	-	-	-	-	-	-	2,103,364	2,899,357
Fixed payment	-	-	-	-	1,620,084	649,381	-	-	-	-	-	-	-	-	1,620,084	649,381
Construction and housing	-	-	-	-	-	-	16,273,284	13,205,586	-	-	-	-	-	-	16,273,284	13,205,586
Municipalities	-	-	-	-	-	-	-	-	399,728	690,190	-	-	-	-	399,728	690,190
States	-	-	-	-	-	-	-	-	2,329,933	1,579,701	-	-	-	-	2,329,933	1,579,701
Credit to the Federal Government (support programs)	-	-	-	-	-	-	-	-	374,419	426,103	-	-	-	-	374,419	426,103
Other to governmental entities	-	-	-	-	-	-	-	-	33,058,377	3,782,418	-	-	-	-	33,058,377	3,782,418
Simple loans	-	-	-	-	-	-	-	-	-	-	-	24,763,119	-	-	-	24,763,119
Loan swap	-	-	-	-	-	-	-	-	-	-	1,096,145	18,256,658	-	-	1,096,145	18,256,658
Past due indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	27,775	42,180	27,775	42,180
	$ 42,357,228	**30,108,047**	**6,797,629**	**4,131,241**	**24,761,256**	**15,681,690**	**16,273,284**	**13,205,586**	**36,162,457**	**6,478,412**	**1,096,145**	**43,019,777**	**27,775**	**42,180**	**127,475,774**	**112,666,933**

Past due loans by aging

	Commercial 2005	Commercial 2004	Financial institutions 2005	Financial institutions 2004	Consumer 2005	Consumer 2004	Residential mortgages 2005	Residential mortgages 2004	Goverment entities 2005	Goverment entities 2004	IPAB 2005	IPAB 2004	Past due indebtedness 2005	Past due indebtedness 2004	Total 2005	Total 2004
From 1 to 180 days	$ 291,283	301,121	-	3	680,355	380,142	219,022	164,807	-	-	-	-	27,323	35,152	1,217,983	881,225
From 181 to 365 days	307,665	130,001	-	-	108,119	68,040	269,957	220,875	-	-	-	-	-	734	685,741	419,650
From 1 to 2 years	230,248	275,786	-	-	15,749	8,380	248,695	292,630	-	-	-	-	-	1,770	494,692	578,566
More than 2 years	794,612	1,235,637	302	308	2,553	83,353	217,022	172,274	-	-	-	-	452	4,524	1,014,941	1,496,096
	$ 1,623,808	**1,942,545**	**302**	**311**	**806,776**	**539,915**	**954,696**	**850,586**	**-**	**-**	**-**	**-**	**27,775**	**42,180**	**3,413,357**	**3,375,537**

Loan portfolio rated

	Commercial 2005	Commercial 2004	Financial institutions 2005	Financial institutions 2004	Consumer 2005	Consumer 2004	Residential mortgages 2005	Residential mortgages 2004	Goverment entities 2005	Goverment entities 2004	IPAB 2005	IPAB 2004	Past due indebtedness 2005	Past due indebtedness 2004	Total 2005	Total 2004
Portfolio rating risk %																
0.5 a .09 A-Minimum	$ 23,502,642	27,854,990	3,187,999	4,022,858	20,861,632	12,326,333	14,074,955	9,177,082	5,816,160	5,054,774	-	-	-	-	67,443,388	58,436,037
1 a 19.9 B-Low	20,953,532	1,878,426	3,605,814	108,072	2,484,970	2,153,141	1,341,903	3,194,137	747,272	885,665	-	-	-	-	29,133,491	8,219,441
20 a 59.9 C-Medium	549,175	913,618	3,514	-	572,819	483,520	163,897	153,849	14,822	111,870	-	-	-	-	1,304,227	1,662,857
60 a 89.9 D-High	376,390	750,210	-	-	747,603	640,936	627,756	551,015	56,803	-	-	-	-	-	1,808,552	1,942,161
90 a 100 E-Irrecoverable	793,380	1,191,515	302	311	94,232	77,760	64,773	129,503	-	-	-	-	27,775	42,180	980,462	1,441,269
	46,175,119	32,588,759	6,797,629	4,131,241	24,761,256	15,681,690	16,273,284	13,205,586	6,635,057	6,052,309	-	-	27,775	42,180	100,670,120	71,701,765
Allowance																
0.5 a .09 A-Mimimum	175,019	168,797	29,883	23,637	234,602	93,390	123,137	77,683	41,697	32,098	-	-	-	-	604,338	395,605
1 a 19.9 B-Low	1,228,393	304,080	178,512	21,603	237,955	189,714	55,005	157,694	44,814	27,078	-	-	-	-	1,744,679	700,169
20 a 59.9 C-Medium	200,771	293,938	1,405	-	257,819	213,326	59,103	56,244	2,965	22,374	-	-	-	-	522,063	585,882
60 a 89.9 D-High	243,504	468,755	-	-	564,968	472,501	439,467	391,428	35,447	-	-	-	-	-	1,283,386	1,332,684
90 a 100 E-Irrecoverable	792,217	1,179,800	302	311	94,386	77,759	62,078	121,394	-	-	-	-	27,775	42,180	976,758	1,421,444
Additional reserves	-	-	-	-	-	-	598,549	2,152,046	-	-	-	-	-	-	598,549	2,152,046
	$ 2,639,904	2,415,370	210,102	45,551	1,389,730	1,046,690	1,337,339	2,956,489	124,923	81,550	-	-	27,775	42,180	5,729,773	6,587,830

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The rated commercial loan includes the guarantees and irrevocable lines of credit granted by HSBC, which are recorded in memorandum accounts.

Unsecured loan:

On December 7, 2001 the IPAB, Atlántico and the Bank entered into an agreement (the Agreement) with the purpose of setting forth the terms and conditions for completing the financial reorganization of Atlántico in line with the provisions of transitory article nine of the Bank Savings Protection Law.

In the terms of the Agreement, Atlántico was obliged to invest in a instrument of payment issued by the IPAB, all resources received with the purpose to conclude the financial reorganization, as well as the prommisory notes and credit rights Altántico maintained and that were due by the IPAB.

On September 27, 2002, the Bank granted a $47,356,995 (nominal) loan to the IPAB. The loan is documented by a promissory note that may only be endorsed to Banco de Mexico as a guarantee for the note amount. The loan matures on December 30, 2009 with the right of prepayment, and bears interest at a rate equal to the arithmetic average of the annual yield rates of 91-day Cetes sold during the interest accrual period plus one percentage point. Interest accrued on the loan is payable by the IPAB on the last day of each calendar quarter.

In November and December 2004, the IPAB prepaid principal of $12,474,750 and $2,686,639, respectively.

Loan swap:

The Bank and the Mexican financial authorities executed agreements to Exchange portfolio flows for promissory notes due by the FOBAPROA (currently the IPAB). The exchange agreements consider the delivery of cash flows from commercial loans in exchange for the cash flows of a promissory note, less a percentage of loan losses to be borne by the Bank.

At December 31, 2005 and 2004, the loan swap is analyzed as follows:

		2005	2004
Promissory notes	$	4,173,021	25,942,012
Loan collections, pending delivery to the IPAB		(43,254)	(300,578)
Allowance for uncollectible amounts		(3,033,622)	(7,384,777)
	$	1,096,145	18,256,657
		=======	========

(Continued)

During the thrid quarter of the 2005, the amount of the promissory notes was reduced by normal collection and because IPAB made anticipated and partial payments of $6,691,547 (nominal) and $4,561,722 (nominal) to the promissory notes of series N of Trust IPAB 187429 and 187437, respectively, and $5,997,004 (nominal), to the Trust IPAB 187429 on its maturity.

Federal Government support programs:

As a result of the economic crisis in 1995, the Federal Government and the Mexican Bankers' Association established loan support programs and agreements so that debtors of credit institutions could comply with their obligations. The programs and agreements currently in effect are as follows:

- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benfits to Housing Loan Debtors (BADCV).
- Additional Benefits to FOVI Housing Loan Debtors (BADCVF).

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of December 31, 2005 and 2004, receivables from the Federal Government in connection with discounts granted are as follows:

		2005	2004
Amount to receive:			
BADCV and BADCVF	$	371,431	420,381
FOPYME		1,833	3,414
FINAPE		1,155	2,308
	$	374,419	426,103
		======	======

The Banks' cost associated with the various debtor support programs and agreements for the years ended December 31, 2005 and 2004 is analyzed as follows:

		2005	2004
FOPYME	$	1,811	3,041
FINAPE		752	1,968
BADCV and BADCVF		263,818	301,412
	$	266,381	306,421
		======	======

(Continued)

(b) UDI Trust restructured loans-

The Bank participated in several loan-restructuring programs established between the Federal Government and the Mexican banks. The Bank underwrote restructuring programs that consisted mainly of changing the peso-denominated loans to UDIs, through trusts created with funding provided by the Central Bank. At December 31, 2005 and 2004, the balances of restructured loans, accrued interest at annual average interest rates, that are analyzed as follows:

	2005			2004		
	Loan portfolio		Average annual interest	Loan portfolio		Average annual interest
	Current	Past due	rate	Current	Past due	rate
Domestic productive plant	$ -	-	-	1,279	-	7.11%
States and muni-cipalities	-	-	-	394,545	-	7.58%
Residential mortgages	3,877,645	520,403	8.55%	5,555,633	482,327	8.72%
	$ 3,877,645	520,403		5,951,457	(482,327)	
	=======	======		=======	=======	

Some UDIS Trusts have matured or fulfilled their objective to eliminate totally their fiduciary liabilities.

(c) Additional loan portfolio information-

Annual weighted lending rates:

During 2005 and 2004, the annual weighted lending rates (unaudited) were as follows:

	2005	2004
Commercial loans	11.33%	9.56%
Financial entities	12.13%	10.85%
Personal loans	34.22%	32.76%
Residential mortgages	12.04%	14.33%
Government entities	11.69%	11.60%

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed mainly by the Central Bank, Nacional Financiera, Banco Nacional de Comercio Exterior and Fondo de Garantía y Fomento para la Agricultura by rediscounting loans with recourse. At December 31, 2005 and 2004, the amount of loans granted under these programs aggregated $7,449,675 and $9,168,595, respectively, and the related liability is included in "Due to banks and other institutions".

Restructured loans:

At December 31, 2005 and 2004, restructured loans are analyzed as follows:

		2005			**2004**		
		Loan portfolio			**Loan portfolio**		
		Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Agriculture Portfolio Restructure Program System (SIRECA)	$	4,890	59,153	64,043	5,815	63,992	69,807
With Bank funds		2,737,349	303,252	3,040,601	1,698,574	443,510	2,142,084
	$	2,742,239	362,405	3,104,644	1,704,389	507,502	2,211,891
		=======	======	=======	=======	======	=======

The amount of interest income recognized from the restructuring of past due loans aggregated $416,352 and $464,295, for the years ended December 31, 2005 and 2004, respectively. The Bank obtained additional guarantees when carrying out loan restructures.

Below is an analysis of the annual movement of past due loans for the years ended December 31, 2005 and 2004:

		2005	**2004**
Balance at beginning of year	$	3,375,537	5,703,828
Collections		(3,100,321)	(2,676,404)
Write-offs		(1,331,719)	(1,998,804)
Transfers to current loan portfolio		(637,883)	(1,394,921)
Transfers from current to past due loan portfolio		5,159,603	4,492,014
Sale of loan portfolio		-	(435,864)
Other minor items		(51,860)	(314,312)
Balance at end of year	$	3,413,357	3,375,537
		=======	=======

(Continued)

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The estimate of nominal interest that would have accrued in 2005 from the past due loan portfolio is $330,304 ($387,731 in 2004).

Impaired loans:

At December 31, 2005 and 2004, the balance of impaired commercial loans is $1,254,649 and $1,984,215, respectively, of which $105,319 and $357,009 are recorded as current loans and $1,149,330 and $1,627,206 as past due loans, respectively.

Risk concentration:

At December 31, 2005, HSBC's accounting records includes one loan which individually exceed the 10% of basic capital. The sum of the three largest credits amounted to $5,457,210 (30.10% of basic capital).

At December 31, 2004, HSBC's accounting records includes three loans which individually exceeded 10% basic capital, in addition to being the three largest loans. The sum of these three credits amounted to $5,625,554 (46.21% of basic capital).

(d) Allowance for loan losses-

As explained in notes 2h and 26c, an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2005 and 2004 the allowance for loan losses, analyzed in section (a) above is comprised as follows:

		2005	2004
Rated loan estimate	$	5,114,579	4,310,407
Additional reserves, including past due interest		615,194	2,091,219
		5,729,773	6,401,626
Inflation effect		-	186,204
Total allowance for loan losses	$	5,729,773	6,587,830

At December 31, 2005, the balance of the general (A) and specific (B-1 to E) allowance for loan losses amounts to $1,202,887 and $4,526,886, respectively ($2,547,651 and $4,040,179, respectively in 2004).

(Continued)

The movement of the allowance for loan losses for the years ended December 31, 2005 and 2004 (in nominal pesos) is summarized below:

		2005	**2004**
Balance at beginning of year	$	6,401,626	8,028,088
Provisions charged to income*		1,089,260	1,122,610
Reinstatement of reserves		484,787	873,789
Exchange rate valuation effects		(11,974)	120,962
Applications:			
Write-offs		(1,414,104)	(3,023,621)
Debt forgiveness		(819,822)	(720,202)
		5,729,773	6,401,626
Restatement for inflation		-	186,204
Balance at end of year	$	5,729,773	6,587,830
		=======	========

* Additionally, the expense for loan losses in the 2005 and 2004 in the consolidated statements of operations includes $399,823 and $207,333, respectively, for the loss sharing under the IPAB loan swap (see note 9a).

(10) Foreclosed assets or received in lieu of payment-

As of December 31, 2005 and 2004, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2005		**2004**	
		Amount	**Reserve**	**Amount**	**Reserve**
Securities and sundry assets:					
Sundry assets	$	10,699	(6,978)	114,377	(84,379)
Securities		985,530	(946,826)	638,151	(612,037)
		996,229	(953,804)	752,528	(696,416)
Premises:					
Land		252,612	(227,224)	360,675	(333,300)
Buildings		970,647	(684,465)	1,342,628	(915,758)
		1,223,259	(911,689)	1,703,303	(1,249,058)
	$	2,219,488	(1,865,493)	2,455,831	(1,945,474)
		=======	=======	=======	=======
		$ 353,995		510,357	
		======		======	

(Continued)

The reserve in 2005 amounted to $52,286 ($214,056 in 2004, which includes $113,906 for the effect of adopting the new Dispositions).

(11) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2005 and 2004 are analyzed as follows:

		2005	2004	Annual depreciation rate
Premises	$	2,879,238	2,110,316	5%
Office furniture and equipment		2,559,700	2,410,350	10%
Computer equipment		2,267,833	1,778,481	Various
Transportation equipment		125,743	121,271	25%
Installation expenses		2,187,688	1,812,736	10% and 5%
Other equipment		805,046	685,293	Various
		10,825,248	8,918,447	
Accumulated depreciation and amortization		(6,559,307)	(5,747,348)	
		4,265,941	3,171,099	
Land		974,091	944,817	
	$	5,240,032	4,115,916	
		=======	=======	

Depreciation and amortization charged to income in 2005 and 2004 amounted to $821,063 and $633,765, respectively.

(12) Permanent investments in shares-

At December 31, 2005 and 2004, permanent investments in shares of unconsolidated subsidiaries, associated and affiliated companies, classified by activity, are analyzed as follows:

		2005	2004
Unconsolidated subsidiaries:			
Non-banking real estate companies	$	29,379	29,416
Other		56,483	20,759
Associated and affiliated companies:			
Supplementary banking services		91,509	325,486
Mutual funds		14,419	13,831
Security and protection		1,832	10,139
Other activities		2,054	1,782
	$	195,676	401,413
		======	======

(Continued)

The equity in results of unconsolidated subsidiaries, associated and affiliated companies amounted to $15,850 in 2005 ($13,502 in 2004).

(13) Other assets, deferred charges and intangibles net-

At December 31, 2005 and 2004 other assets deferred charges and intangibles include:

		2005	2004
Recovering taxes	$	907,731	15,752
Labor obligations prepaid		505,764	532,361
Services and fess paid		50,268	237,412
	$	1,463,763	785,525
		=======	======

(14) Deposits funding-

The weighted average deposit rates (unaudited) during the years ended December 31, 2005 and 2004 are analyzed as follows:

	2005 rates			2004 rates		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	0.67	0.49	-	1.05	0.41	-
Savings deposits	-	-	-	1.28	0.76	-
Time deposits	6.40	1.05	0.30	5.74	0.89	1.09
Money market	9.04	2.60	-	8.47	3.08	-
	===	===	====	====	===	===

The money market is comprised primarily of promissory notes denominated in pesos with interest payable at maturity and terms ranging from 1 to 365 days.

(15) Due to banks and other institutions-

At December 31, 2005 and 2004, bank and other loans are analyzed as follows:

		2005		2004	
		Term		Term	
		Short	Long	Short	Long
Pesos:					
Banco de México	$	-	-	270,169	-
Development banks*		1,037,124	170,994	1,873,008	264,106
Multiple bank		-	-	198,065	-
Promotion funds*		3,021,151	1,848,651	3,329,429	1,933,452
Carried, forward	$	4,058,275	2,019,645	5,670,671	2,197,558

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		2005 Term		2004 Term	
		Short	**Long**	**Short**	**Long**
Brought, forward	$	4,058,275	2,019,645	5,670,671	2,197,558
Foreign currencies:					
Development banks*		100,238	8,429	197,501	53,033
Promotion funds*		527,510	78,590	621,651	143,895
Foreign banks		50,861	52,117	128,828	230,680
		678,609	139,136	947,980	427,608
Total by term		4,736,884	2,158,781	6,618,651	2,625,166
Total due to banks and other institutions		$ 6,895,665		9,243,817	
		========		=======	

* Secured by the loans granted under the respective schemes (see note 9c).

At December 31, 2005 and 2004, the average annual rates (unaudited) are analyzed as follows:

	Pesos		Foreign currency	
	2005	**2004**	**2005**	**2004**
Banco de México	-	7.06%	-	-
Development banks	10.25%	7.46%	5.91%	2.40%
Promotion funds	7.86%	5.88%	3.96%	2.60%
Foreign banks	-	-	-	1.59%
	=====	=====	====	=====

(16) Securities lending-

At December 31, 2005, HSBC had entered into securities lending agreements, as borrower. These borrowings mature on January 2, 2006. The name, number and amount of the securities borrowed are described as follows:

Securities	**Number of securities**	**Total**
Bonos	40,840,000	$ 4,172,632
Cetes	23,200,000	216,133
		$ 4,388,765
		=======

(Continued)

(17) Pensions, seniority premiums, post-retirement benefits and compensation upon termination of labor relationship-

Beginning April 2004, the defined benefit pensions plan incorporates a defined contribution component, consequently the employees, in accordance with their age and service years, either remained in the existing scheme or transferred to the defined contribution scheme. The defined benefit pension plan (DBPP) includes all the union employees and employees whose retirement date is near; the rest of the employees elected the defined contribution pension plan (DCPP).

HSBC established a pension plan that all employees have the right to be included. As provided for by the collective bargaining agreement, all employees who reach 60 years old with 5 years of service or 55 years old with 35 years of service are eligible under the established non-contributory pension plan.

The plan also covers seniority premium benefits to employees that elected either the DBPP or DCPP, in accordance with the Federal Labor Law.

The cost, obligations and assets of the DBPP, seniority premiums and post-retirement medical benefits plans mentioned in note 2r were determined based on the calculations performed by an independent actuary.

The effect of reduction or extintion due to the employees who took the option of the DCPP, reduces the net periodic cost of the DBPP, in a similar amount to the annual contribution of the DCPP.

The components of the net periodic cost for the years ended December 31, 2005 and 2004 are as follows (nominal pesos):

	2005		2004	
	Pensions and seniority premiums	Medical benefits	Pensions and seniority premiums	Medical benefits
Service cost	$ 27,799	58,179	37,293	45,690
Interest cost	71,077	90,159	68,276	78,659
Return on plan assets	(84,594)	(61,887)	(87,081)	(48,234)
Actuarial (gain) loss	(538)	32,678	(1,066)	26,097
Amortization of plan modifications	5,549	56,843	5,504	54,039
Amortization of transition liability	4,631	15,913	4,570	15,128
Effect of reductions/ extinction	(4,908)	-	(56,159)	-
Inflationary effect	718	5,756	963	5,998
Net periodic (benefit) cost	$ 19,734	197,641	(27,700)	177,377

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		2005	2004
Net periodic (benefit) cost:			
Pension and seniority premium (DBPP)	$	19,894	(27,700)
Medical benefits		201,479	177,377
Severance or disability		97,940	-
Period contribution:			
Pensions (DCPP)		69,743	40,000
	$	389,056	189,677

At December 31, 2005 and 2004, labor obligations are analyzed as follows:

	2005		2004	
	Pensions and seniority premiums	Medical benefits	Pensions and seniority premiums	Medical benefits
Projected benefit obligation (PBO)	$ 1,539,013	1,902,971	1,378,036	1,692,109
Amortization pending items	(146,286)	(436,966)	(145,301)	(489,011)
Actuarial gain (loss)	(92,918)	(854,603)	166,912	(655,027)
Required assets	1,299,809	611,402	1,399,647	548,071
Loss: Plan assets	1,308,805	1,136,175	1,457,734	881,671
Net projected assets	$ 8,996	524,773	58,087	333,600

Interest rates used in the actuarial projections are:

	2005	2004
Rate of return on plan assets	6.50%	6.50%
Discount rate	5.30%	5.25%
Salary increase rate	0.75%	1.50%
Estimated inflation rate	3.33%	3.50%

(Continued)

At December 31, 2005 the labor obligation for indemnity payments, are analiyzed as follows:

PBO	$	319,399
Unamortized items:		
Transition assets		(241,549)
Unrecognized actuarial assets		(43,832)
Projected net liability	$	34,018
		======
Projected net liability reconciliation:		
Contributions	$	97,940
Payments		(62,056)
Total liabilities		35,884
Excess		(1,866)
	$	34,018
		======

(18) Outstanding subordinated debentures-

At December 31, 2005 and 2004, the Bank had issued subordinated debentures, not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed as follows:

	2005	2004
Debentures placed:		
In 2003, maturing in 2013	$ 2,200,000	2,263,992
Accrued interest	6,856	6,875
Total subordinated debentures	$ 2,206,856	2,270,867
	=======	=======

Debentures bear interest at a 28-day equivalent Equilibrium Interbank Interest Rate (TIIE). The Bank reserves the right to redeem the debentures beginning in May 2009.

(19) Income (IT) and asset (AT) taxes and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the greater of their IT and AT. For determining taxable income for IT purposes there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation. ESPS is computed practically on the same basis as IT. During the year ended December 31, 2005 ESPS expense was $415,557 ($255,594 in 2004).

The AT Law provides for a 1.8% tax on restated assets, less certain liabilities. AT payable in excess of IT for the year may be recovered in the ten succeeding years, restated for inflation, provided that IT exceeds AT in any of such years.

At December 31, 2005 the IT and ESPS expense in the consolidated statement of operations is $1,383,314 ($1,196,197 in 2004).

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During 2004, HSBC filed amendments to its income tax returns for the years 1999 to 2003. These amendments had the purpose of avoiding differences between the criteria used by HSBC in conformity with the Law and the comments received from the officers of the SHCP, related to the tax treatement of the IPAB swap operation (formerly Fobaproa). The amendment to the income tax returns was registered to consider the previous exclusion of all effects of the IPAB swap operations, which will be taxable or deductible at the liquidation date of the swap. This amendment reduced the tax losses by the amount of $2,642,638. The issue mentioned in this paragraph did not trigger any penalties for HSBC.

Following is a reconciliation between the Bank's accounting income and taxable income for IT and ESPS purposes:

	IT	
	2005	**2004**
Income before IT, ESPS and equity in earnings of unconsolidated subsidiaries, associated and affiliated companies	$ 6,984,143	5,644,334
(Loss) income before taxes of subsidaries consolidated	(5,378)	(18,832)
Accounting effects of inflation, net	336,633	326,781
Income in nominal pesos	7,315,398	5,952,283
Add (deduct) reconciling items (in nominal pesos):		
Difference between accounting and tax depreciation	38,310	(25,609)
Net tax effects of inflation	149,364	292,031
Allowance for loan losses	(2,897,342)	(2,824,810)
Reserve for FOBAPROA promissory note and loss sharing	(4,095,694)	197,486
Write-offs	480,836	656,988
Nondeductible expenses	112,824	176,801
Provisions	(253,894)	(284,496)
Trust UDIS Banxico	(434,904)	(480,514)
Prepaid expenses	(361,788)	(261,431)
Non taxable recoveries	(81,488)	(526,613)
Special Cetes	643,519	-
Other, net	(157,490)	(285,099)
Taxable income before tax loss carryforwards	457,651	2,587,017
Amortization of prior years' tax loss carryforwards	-	(448,032)
Taxable income	$ 457,651	2,138,985
	=======	=======
IT expense at the rate 30% (33% in 2004)	$ 137,295	705,865
ESPS expense at the 10%	415,577	248,370
IT prior years*	688,716	-
ESPS prior years	94,009	-
Excess of the provision	47,717	183,126
Inflation effect	-	58,836
IT and ESPS in the income statement	$ 1,383,314	1,196,197
	=======	=======

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* During 2005, HSBC determined the fiscal effects of the UDIS Trusts that finished during previous exercises, which will appear in the complementary fiscal returns during 2006. This materialized a deferred IT of $688,716. This also caused surcharges and updates of $100,234 that were recognized in results operations.

Deferred IT and ESPS:

The decrease in deferred taxes during 2005 comes from the recognition of the accumulated income of the UDIS Trust and the decrease during 2004, comprises the amortization of the tax loss carryforwards, the effect of special cetes Udis-Banxico, the loss sharing (see note 9a) and the valuation reserve. The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004, in nominal pesos are presented below:

		IT	
		2005	**2004**
Deferred tax assets:			
Allowance for loan losses	$	941,143	1,496,082
Allowance for foreclosed assets		340,546	567,146
Other provisions		115,635	76,168
Tax loss carryforwards		-	31,034
Loss-Sharing		833,136	2,086,424
Valuation reserve		-	(84,565)
ESPS provision (expense deductible beginning 2006)		120,350	-
Other		114,237	97,543
		2,465,047	4,269,832
Deferred tax liabilities:			
Interest from Cetes UDIS-Banxico		(1,232,172)	(1,201,058)
Valuation of financial instruments		(291,924)	(28,605)
UDI Trusts		-	(657,463)
Advanced deductions		-	(140,000)
Prepaid expenses		(323,118)	(79,444)
Other		-	(26,060)
		(1,847,214)	(2,132,630)
Restatement for inflation		-	62,165
Net deferred tax asset	$	617,833	2,199,367
		=======	=======

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In assessing the realizability of deferred tax assets, the Bank's management considers the probability that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, the performance of the loan portfolio and its allowance, and other factors. The Bank's management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred IT and ESPS changes for the years ended December 31, 2005 and 2004, in nominal pesos, are analyzed as follows:

	2005	2004
At beginning of year	$ 2,137,202	3,437,335
Charged to operations:		
Deferred IT and ESPS expense	(1,341,163)	(1,264,502)
Reported in capital:		
Valuation effects of available-for-sale financial instruments	(160,376)	(25,553)
Other	(17,830)	(10,078)
	617,833	2,137,202
Adjustment for inflation	-	62,165
	$ 617,833	2,199,367
	=======	=======

Other considerations:

In accordance with the IT Law, tax loss carryforwards, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. At December 31, 2004, HSBC amortized all tax losses. For the fiscal year 2005, the IT rate changes from 32% to 30%, and will further decrease by one percentage point every fiscal period, to 28% in 2007.

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

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

(Continued)

(20) Stockholders' equity-

The principal characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

Activity in 2005

On April 21, 2005, the Ordinary General Stockholders' Meeting agreed to apply the net income of 2004 amounting to $3,190,090 ($3,099,921 nominal), against "statutory reserves" in the amount of $319,009 ($309,992 nominal), and the remaining $2,871,081 ($2,789,929 nominal) to "Other reserves", that will be available to the stockholders until Board of Directors agreed.

The Board of Directors on July 25, 2005 paid dividends of $561,301 ($550,000 nominal).

On November 17, 2005, the Ordinary General Stockholders' Meeting agreed to increase capital stock by $275,000 through the issuance of 137,500,000 shares that were subscribed at a price of $16, this represented an increase in capital stock and additional paid in capital of $275,000 and $1,925,000, respectively. These shares were paid up in cash in December 2005.

Activity in 2004

On april 27, 2004, the Ordinary General Stockholders' Meeting agreed to apply the net income of 2003 amounting to $1,684,884 ($1,552,630 nominal), against "Statutory Reserves" in the amount of $168,448 ($155,263 nominal), and the remaining $1,516,396 ($1,397,367 nominal) to "Other reserves", that will be available to the stockholders until Board of Directors agreed.

The Board of Directors on June 22, 2004 and December 13, 2004 paid dividends of $1,839,226 ($1,725,004 nominal) and $591,725 ($574,999 nominal), respectively.

Capital stock at December 31, 2005 and 2004 is represented by 1,139,215,231 and 1,001,715,231 shares, respectively, with a par value of two pesos per share, of which 1,047,430,444 and 909,930,993 are Series "F" and 91,784,787 and 91,784,238 are Series "B" shares.

(b) Comprehensive income (loss)-

The comprehensive income (loss) reported in the consolidated statement of stockholders' equity represents the results of the Bank's activities during the year and includes the net income (loss), the gain or loss from valuing investments in "Available-for-sale" securities, permanent investment in shares and premises, furniture and equipment, and the translation effect of the foreign subsidiary and mandatory convertible subordinated debentures, which in accordance with the applicable accounting principles, are reported directly in stockholders' equity.

(c) Restrictions on stockholders' equity-

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

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

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

(d) Capitalization-

The SHCP requires that credit institutions maintain a minimum capitalization percentage of risk-based assets, which is calculated by applying certain specific percentages according to the level of risk assigned. At December 31, 2005 and 2004 information relating to the Bank's net capital, risk-based assets and capital requirements (in millions of pesos) is as shown below:

Basic, supplementary and net capital		**2005**	**2004**
Stockholders' equity	$	19,324.3	13,343.8
Reduced by:			
Intangible assets		(906.5)	(1,096.2)
Investments in shares of financial entities		(195.6)	(16.3)
Investments in shares of other companies		(73.8)	(33.5)
Investment in subordinated debt		(20.1)	(26.1)
Basic capital (Tier 1)		18,128.3	12,171.7
Add:			
Subordinated debentures		2,200.0	2,264.0
General allowance for loan losses		1,192.3	857.4
Supplementary capital (Tier 2)		3,392.3	3,121.4
Net capital (Tier 1+ Tier 2)	$	21,520.6	15,293.1
		=======	======

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Risk-based assets and capital requirements

		Equivalent risk-weighted assets		Capital requirements	
		2005	**2004**	**2005**	**2004**
Market risk:					
Transactions or positions:					
In pesos at nominal rates	$	40,544.6	30,175.0	3,243.6	2,414.0
In pesos at real rates or denominated in UDIS		1,582.0	1,277.6	126.6	102.2
In foreign currency at nominal rates		5,248.5	1,404.2	419.9	112.4
In UDIS or with returns linked to the Consumer Price Index		12.9	13.7	1.0	1.1
Foreign currency positions or with exchange rate indexed returns		1,039.4	3,247.9	83.1	259.8
Equities or with indexed returns		0.2	0.2	-	-
Total market risk		48,427.6	36,118.6	3,874.2	2,889.5
Credit risk:					
Group I (weighted at 0%)		-	-	-	-
Group II (weighted at 10%)		162.0	253.1	12.9	20.3
Group II (weighted at 11.5%)		-	-	-	-
Group II (weighted at 20%)		7,028.0	5,979.7	562.2	478.4
Group II (weighted at 23%)		599.9	1,094.8	48.0	87.6
Group III (weighted at 50%)		22.2	14.9	1.8	1.2
Group III (weighted at 100%)		90,767.1	64,117.2	7,261.4	5,129.4
Group III (weighted at 112%)		1,850.3	1,657.7	148.0	132.6
Group III (weighted at 115%)		451.8	-	36.1	-
Group III (weighted at 150%)		923.6	2,434.7	73.9	194.8
Total credit risk		101,804.9	75,552.1	8,144.3	6,044.3
Total market and credit risks	$	150,232.5	111,670.7	12,018.5	8,933.8

(Continued)

	2005	2004
Capitalization indices:		
Capital to credit risk assets:		
Basic capital (Tier 1)	17.81%	16.11%
Supplementary capital (Tier 2)	3.33%	4.13%
Net capital (Tier 1 + Tier 2)	21.14%	20.24%
	=====	=====
Capital to market and credit risk assets:		
Basic capital (Tier 1)	12.06%	10.90%
Supplementary capital (Tier 2)	2.26%	2.80%
Net capital (Tier1 + Tier 2)	14.32%	13.70%
	=====	=====

(21) Related party transactions and balances-

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2005 and 2004, the Bank had granted loans to related parties totaling $1,528,997 and $550,875, respectively.

In addition to interest and commissions on the above-mentioned loans, the principal transactions carried out with related parties during the years ended December 31, 2005 and 2004, were as follows:

		2005	2004
Revenues:			
Income:			
Administrative services	$	328,566	228,265
Premium on securities purchased under agreements to resell		250,617	-
Other		223,695	209,331
	$	802,878	437,596
		======	======
Expenses:			
Insurance premiums	$	-	290,719
Interest and commissions		-	1,143
Premiums on securities repurchase/resell agreements		254,838	156,589
Administrative expenses		110,299	2,701
Rents		-	4,607
Others		-	2,057
	$	365,137	457,816
		======	======

(Continued)

Balances receivable from and payable to related parties as of December 31, 2005 and 2004, were as follows:

		2005		2004	
		Receivable	**Payable**	**Receivable**	**Payable**
Mutual funds	$	18,306	-	11,885	-
HSBC Seguros, S. A. de C. V.		-	-	-	3,669
HSBC Vida, S. A. de C. V.		-	1,317	-	2,764
HSBC Casa de Bolsa, S. A. de C. V.		-	262	3,278	-
HSBC Fianzas, S. A.		-	7,495	8,215	11
HSBC Pensiones, S. A.		87	-	665	387
HSBC Operadora de Fondos, S. A. de C. V.		254	-	-	-
	$	18,647	9,074	24,043	6,831
		=====	====	=====	=====

(22) Memorandum accounts-

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(a) Irrevocable lines of credit and guarantees-

At December 31, 2005 and 2004, the Bank had irrevocable commitments to grant loans of $3,761,174 and had issued guarantees of $56,717 ($2,256,556 and $224,156, respectively, in 2004).

At December 31, 2005 the allowance for letters of credits and guarantees issued amounts to $84,066 and $28,610 in 2004, respectively, and is included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2005	**2004**
Type of trust:			
Administrative	$	34,383,728	29,329,267
Guarantee		10,169,460	12,259,738
Investment		12,224,919	12,463,276
Other		10,691,974	9,221,910
		67,470,081	63,274,191
Mandates		298,587	331,237
	$	67,768,668	63,605,428
		========	========

Trust department revenue for the years ended December 31, 2005 and 2004 amounted to $110,334 and $112,864, respectively.

(Continued)

(c) ***Investments on behalf of customers-***

The Bank receives funds from the public and invests them in various instruments of the Mexican financial system on behalf of its customers, which it records in memorandum accounts as follows:

		2005	2004
Mutual funds:			
Managed by HSBC	$	1,629,277	530,947
Other		868,976	946,939
Government securities		9,042,191	15,843,405
Equities and other		5,325,092	8,302,886
	$	16,865,536	25,624,177

The amount of funds invested in the Bank's own instruments forms part of the liabilities included in the consolidated balance sheet.

(d) ***Assets in custody-***

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2005 and 2004, this account comprises:

		2005	2004
Assets in custody	$	14,433,706	8,332,832
Pledged assets		735,429	642,059
Assets under management		41,768,110	41,591,604
	$	56,937,245	50,566,495

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

(a) Statement of operations by segment-

The statement of operations by segment includes Personal Financial Services **(PFS)**, Commercial Banking **(CMB),** Corporate, Investment Banking and Markets **(CIBM)** and other Corporate Activities **(OAC)**. A brief description of the Bank's business segments follows.

<u>*Personal Financial Services*</u> – Business segment focused primarily on individuals that comprises mainly consumer products, which include credit cards, personal and car loans as well as mortgage loans and traditional deposits.

<u>*Commercial Banking*</u> – Business segment focused primarily on corporations, offering financing in Mexican pesos and other currencies, lines of credit for working capital, term loans, and the financing of exports, in addition to financial services relating to checking and investment accounts and cash management.

<u>*Corporate, Investment Banking & Markets*</u> – This segment includes lines of products focused primarily on corporations, which comprise: trust, treasury and custody services, corporate finance advisory, as well as risk management and cash flow services. This segment comprises products such as letters of credit, factoring, discounted documents and investments in the money and capital markets.

<u>*Other Corporate Activities*</u> – This segment includes transactions not conducted directly or indirectly with the customers, it represents structural business operations.

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(Million of Mexican pesos of constant purchasing power as of December 31, 2005)

	Banca									
	PFS		CMB		CIBM		OAC		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Financial margin	$ 8,658.0	7,017.6	2,577.4	1,840.4	1,763.1	431.2	1,620.6	2,370.8	14,619.1	11,660.0
Allowance for loan losses	(35.6)	(317.6)	(5.9)	(82.3)	(0.3)	(9.6)	(1,447.2)	(953.1)	(1,489.0)	(1,362.6)
Adjusted financial margin	8,622.4	6,700.0	2,571.5	1,758.1	1,762.8	421.6	173.4	1,417.7	13,130.1	10,297.4
Commissions and fees, net	4,547.9	4,500.7	1,461.9	1,179.3	414.5	429.0	260.4	298.3	6,684.7	6,407.3
Financial intermediation income	328.0	339.9	74.8	89.1	980.6	336.0	(27.7)	141.1	1,355.7	906.1
Total operating income	13,498.3	11,540.6	4,108.2	3,026.5	3,157.9	1,186.6	406.1	1,857.1	21,170.5	17,610.8
Administrative and promotion expenses	(11,200.7)	(9,363.6)	(2,365.1)	(1,842.6)	(1,169.9)	(780.8)	37.9	(244.6)	(14,697.8)	(12,231.6)
Net operating income (loss)	2,297.6	2,177.0	1,743.1	1,183.9	1,988.0	405.8	444.0	1,612.5	6,472.7	5,379.2
Other income, net	-	50.6	-	32.2	-	10.9	511.4	171.4	511.4	265.1
Taxes	(884.8)	(935.2)	(671.2)	(510.8)	(765.5)	(175.0)	(402.9)	(839.7)	(2,724.4)	(2,460.7)
Income (loss) before equity in results of subsidiaries	1,412.8	1,292.4	1,071.9	705.3	1,222.5	241.7	552.5	944.2	4,259.7	3,183.6
Equity in results of subsidiaries	-	-	-	-	-	-	15.8	13.5	15.8	13.5
Income of continuing operations	1,412.8	1,292.4	1,071.9	705.3	1,222.5	241.7	568.3	957.7	4,275.5	3,197.1
Result of discontinued transactions	-	-	-	-	-	-	(76.0)	(7.1)	(76.0)	(7.1)
Net income (loss)	$ 1,412.8	1,292.4	1,071.9	705.3	1,222.5	241.7	492.3	950.6	4,199.5	3,190.0

(Continued)

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At December 31, 2005 and 2004, the following items comprise the financial margin:

		2005	2004
Interest income:			
Cash and equivalents	$	2,619,508	1,511,227
Investment securities		3,854,917	2,168,168
Interest and premiums on securities purchased under agreements to resell		4,030,745	3,157,617
Loan portfolio:			
Comercial loans		3,874,913	1,898,833
Financial Institutions		395,856	222,876
Consumer loans		3,780,546	3,185,099
Residential mortgages		1,502,067	1,226,399
Government entities		2,462,837	394,281
IPAB		2,467,379	4,597,868
Others, including inflation effect		338,365	681,316
		25,327,133	19,043,684
Interest expense:			
Deposit funding		(663,877)	(623,464)
Time deposit		(4,483,732)	(2,440,414)
Due to banks and other institutions		(945,464)	(496,539)
Interest and premiums on securities purchased under agreements to resell		(3,886,449)	(3,159,688)
Interest by subordinated debentures outstanding		(215,570)	(162,337)
Others, including inflation effect		(271,547)	(228,984)
		(10,466,639)	(7,111,426)
Monetary position result associated to financial margin		(241,348)	(272,256)
	$	14,619,146	11,660,002

(Continued)

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The average balance (in nominal pesos) of the principal monetary asset and liability captions used in determining the net monetary position from non-financial margin ítems is shown below:

		2005		2004	
		Financial margin	Others	Financial margin	Others
Assets:					
Cash and equivalents	$	44,030,089	-	39,637,462	-
Investment securities		48,298,407	75,682	29,871,901	107,094
Derivative financial instruments		553,463	-	71,095	-
Loan portfolio		118,677,565	-	121,893,427	-
Other accounts receivable		-	9,819,250	-	8,951,704
Foreclosed assets		-	281,921	-	574,776
Deferred income tax		-	2,593,315	-	3,492,967
Permanet investments in shares		-	14,937	-	18,360
Others		-	437,410	-	465,766
Monetary position asset average		211,559,524	13,222,515	191,473,885	13,610,667
Liabilities:					
Deposits		(186,595,869)	-	(172,579,513)	-
Due to banks and other institutions		(12,051,836)	-	(11,628,021)	-
Derivative financial instruments		(2,536,603)	-	19,721	-
Subordinated debentures outstanding		(2,342,916)	-	(2,511,512)	-
Others account payable		-	(11,499,967)	-	(9,449,061)
Deferred credits		-	(1,566,923)	-	(1,188,272)
Monetary position liability average		(203,527,224)	(13,066,890)	(186,699,325)	(10,637,333)
Monetary position average, net		8,032,300	155,625	4,774,560	2,973,334
Monetary position result	$	(241,348)	(4,526)	(272,256)	(162,058)
		=========	========	=========	========

(Continued)

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(b) Financial intermediation gain (loss)-

For the years ended December 31, 2005 and 2004, the financial intermediation gain (loss) is analyzed as follows:

	2005	**2004**
Valuation gain (loss):		
Investment securities	$ 1,117	4,359
Securities repurchase/resell agreements	37,527	(8,141)
Trading derivatives	239,768	65,229
Foreign currency exchange and precious metals	(5,012)	(3,717)
	273,400	57,730
Purchase/sale gain (loss):		
Investment securities	(84,940)	236,284
Securities repurchase/resell agreements	290,159	26,920
Foreign currency exchange and precious metals	865,891	559,633
	1,071,110	822,837
Restatement for inflation	11,187	25,613
	$ 1,355,697	906,180
	=======	======

(c) Other income-

For the years ended December 31, 2005 and 2004, other income is analyzed as follows:

	2005	**2004**
Recoveries	$ 856,687	773,506
Gain on sale of foreclosed assets or received in lieu of payment	211,408	292,005
Gain on sale of premises, furniture and equipment	2,289	33,511
Other, including restatement for inflation	434,402	227,622
	$ 1,504,786	1,326,644
	=======	=======

(Continued)

(d) Other expense-

At December 31, 2005 and 2004, other expense includes:

		2005	2004
Write-offs and losses	$	988,805	899,482
Monetary position loss from non-financial margin items		4,526	162,058
	$	993,331	1,061,540
		======	=======

(e) Financial indicators-

The principal financial indicators as of and for the years ended December 31, 2005 and 2004 are analyzed below:

	2005	2004
Non-performing loans to total loans	2.7%	3.0%
Allowance for loan losses to past-due loan portfolio	167.9%	195.2%
Operating efficiency *(administrative and promotional expenses to average total assets)*	6.6%	6.7%
ROE *(net income to average stockholders'equity)*	27.9%	23.9%
ROA *(net income to average total assets)*	2.0%	1.5%
Liquidity *(liquid assets/liquid liabilities)**	83.0%	73.6%
Financial margin after provision for loan losses /average earnie assets	5.9%	5.8%
Capital to credit risk assets	21.1%	20.2%
Capital to market and credit risk	14.3%	13.7%

* *Liquid assets* – Cash and equivalents, trading and available-for-sale securities.
* *Liquid liabilities* – Demand deposits, demand and short-term bank and other loans.

(f) Extraordinary item-

In May 2005, IPAB concluded the audit that fulfills the fifth article requirements of the Bank Saving Protection Law, during the period from January 2001 to march 2004, regarding the management, legality and legitimacy of HSBC's loan portfolio that was part of the Capitalization Program and Purchase Porfolio ("the Program"). As a result of the audit the IPAB regarded some loans as replicated and asked the accrued interest to be cancelled (loans with no stock reported in the Program). The Bank recognized a loss of $76,037 which it recorded under "Discontinued operations, extraordinary items and changes in accounting policies" in the consolidated statement of operations.

On July 13, 2004, the Bank exchanged the Fobaproa prommisory note for new payment instruments issued by the IPAB. The amount exchanged excluded $7,072 for the updated amount of loans that the IPAB regarded as related loans and formed part of the Capitalization and Portfolio Purchase Program. Consequently, the Bank as trustee recognized a loss for this amount, which it recorded under "Discontinued operations, extraordinary items and changes in accounting policies" in the consolidated statement of operations.

(24) Commitments and contingent liabilities-

(a) Leases-

Certain premises and equipment are leased from its related companies. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense aggregated $819,178 in 2005 and $845,135 in 2004.

(b) Lawsuits and litigation-

The Bank is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Bank's financial position and results of operations. Certain cases are covered by an indemnity clause of the agreement with the IPAB, the Bank and Atlántico dated December 7, 2001.

(c) Labor obligations-

Those arising from the obligations mentioned in the last paragraph of note 2r.

(25) Recently issued accounting standards-

Beginning January 1, 2006, financial statements prepared in accordance with Mexican GAAP must be prepared in conformity with Financial Reporting Standards, which update and comprise the accounting standards in Mexico. Through May 2004, the Accounting Principles Commission (Comisión de Principios de Contabilidad or CPC) of the Mexican Institute of Public Accountants was in charge of issuing said standards contained in the Bulletins of Mexican GAAP (Bulletins), which are deemed standards, and in the Circulars, which are regarded as opinions or interpretations.

Beginning June 1, 2004, the aforementioned function was transferred to the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF). CINIF is an entity whose objectives are to develop Financial Reporting Standards (FRS) in Mexico, that are useful to both issuers and users of financial information, as well as to achieve as much consistency as possible with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Through December 2005, CINIF has issued eight series A and one series B Financial Reporting Standards. Therefore, Mexican FRS currently include both the standards issued by CINIF and the Bulletins and Circulars issued by CPC, that have not been revised, substituted or superseded by the new FRS.

(Continued)

The principal changes included in the aforementioned FRS, which are effective for fiscal years beginning after December 31, 2005, are the following:

(a) Donations received are included in the results of operations, instead of in contributed capital.
(b) Elimination of special and extraordinary items, classifying income statement items as ordinary and non-ordinary.
(c) Retroactive recognition of the effects of changes in particular standards.
(d) Disclosure of the authorized date for issuance of financial statements, as well as the officer or body authorizing issuance.

The structure of the financial statements would not be modified had the foregoing changes been effective as of December 31, 2005 due to the supplementary process.

(26) Risk management-

In conformity with the Banking Commission's regulatory requirements on disclosure of policies and procedures established by credit institutions for comprehensive risk management, below are the measures implemented by management for that purpose, as well as the relevant quantitative information.

Compliance with Circular "Prudential Provisions on Comprehensive Risk Management" issued by the Banking Commission is effected by recognizing fundamental principles for efficient and effective risk management, evaluating the environment for both quantifiable (credit, market and liquidity) risks and non-quantifiable (operational and legal) risks, and under the view that the basic identification, measurement, monitoring, limitation, control and dissemination processes are performed.

Market Risk

Qualitative information

Description of qualitative issues related to the Comprehensive Risk Management process

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

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

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

The principal market risks to which the Bank is exposed, based on its portfolio exposure to changes in the various risk factors, are generally classified as follows:

- **Foreign exchange or foreign currency risk**
- **Interest rate risk**
- **Stock-related risk**
- **Volatility risk**
- **Base or margin risk**

Principal elements of market risk management methodologies

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

Value at Risk (VaR)

The VaR is the statistical measure of a portfolio's maximum potential loss arising from changes in market risk factors of the financial instruments for a given holding period. Therefore, the VaR calculation is based on specific levels of confidence and holding periods. The VaR is arrived at by using the Monte Carlo simulation method, which estimates the potential losses resulting from movements in all market risk factors. The Board of Directors, at the Risk Committee's proposal, has set a confidence level of 99% with a 1-day holding period; accordingly, the VaR level represents the maximum loss that that the Bank could possible experience in one day with a 99% probability.

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

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

The purpose of the Forward PVBP (F-PVBP) is to measure the effect of interest rate changes on financial instruments subject to interest rates. In this sense, the F-PVBP is based on the assumption of a scenario in which the forward rates implied in the curve increase by one basis point.

Stress testing

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

Methods for Validation and Calibration of Market Risk models

In order to detect in a timely manner any decrease in the prediction quality of the model, automatic data loading systems are in place, thus preventing manual data inputting. Furthermore, for the purpose of measuring the efficiency of the VaR estimation model, back-testing is performed. This type of test allows verification that the maximum estimated losses, on average, do not exceed the reliability level established, comparing the profits/losses that would have been generated had the portfolio been held during the VaR holding period. Back-testing is reinforced by performing hypothesis testing procedures.

As for the PVBP, it has been compared with the sensitivity of the portfolios to market quotations. The results of these tests confirm the accuracy of the models. In order to reinforce the validation and verification of the various risk factors, a set of matrices has been designed that show the behavior of different risk factors selected in order to check their reasonableness in relation to the values prevailing in the financial markets and verify the current value and the value on the preceding business day for consistency.

Portfolios subject to VaR and PVBP calculation

The market risk area calculates the VaR and PVBP for the Bank's total portfolio and specific Accrual and Trading portfolios so as to monitor the Bank's own and trading positions.

Global VaR is estimated for each portfolio. Additionally, VaR is broken down by risk factors (Interest Rates and Foreign Exchange Rates). PVBP is broken down by type of rate (pesos, dollars and UDIS – Real Rate), and Forward PVBP is presented by segment of the forward curve (Buckets), for both peso and dollar interest rates.

Stress testing is performed for the Bank's portfolio and the Trading and Accrual portfolios. Furthermore, a special stress test is performed for Available for Sale and Hedging Securities.

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Quantitative information

The Bank's VaR and PVBP and the Trading and Accrual portfolio sub-division for the 4Q of 2005 (in million of dollars) are as follows:

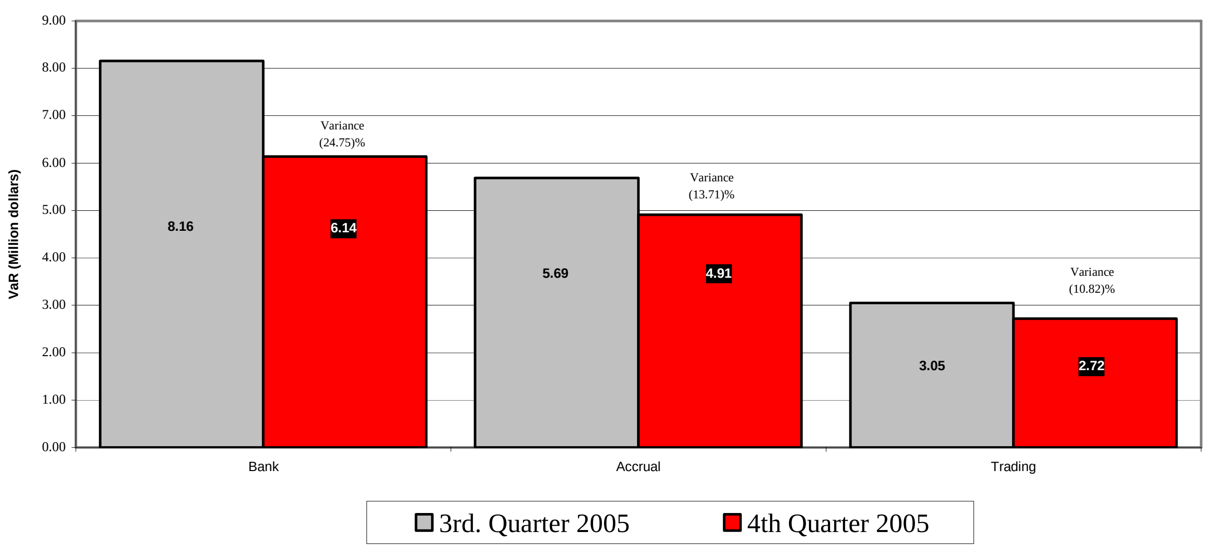
Value at Risk (VaR) (All risk factors being considered)

	2005				
	September 30	December 31	Limits *	3rd quarter average	4th quarter average
Bank	(8.07)	(6.17)	30.000	(8.16)	(6.14)
Accrual	(4.76)	(5.78)	27.500	(5.69)	(4.91)
Trading	(4.32)	(3.05)	13.500	(3.05)	(2.72)
Money market trading	(2.82)	(1.45)	7.500	(2.42)	(1.65)
Foreign exchange desk	(0.02)	(0.35)	13.500	(0.10)	(0.69)
Capital market desk	(1.64)	(2.30)	13.500	(0.95)	(1.49)

* Absolute value

The Bank's VaR at the end of 4Q of 2005 decreased by 23.54% as compared to the 3Q. During the period the VaR levels remained below the total limits set by Management.

AVERAGE VAR* COMPARISON



* Figures in millions of dollars (absolute value)

(Continued)

The Bank's average VaR for the 4Q of 2005 varied by 24.51% vs. 3Q. During the period the VaR levels remained below the total limits set by Management.

VaR vs. Net Capital Comparison

Below is a comparative VaR vs. Net Capital table for the last two quarters of 2005, in millions of dollars.

	Third quarter	Fourth quarter
Total VaR *	8.16	6.14
Net Capital **	1,658	2,024
VaR / Net Capital	0.49%	0.30%

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

Net capital for the 4Q of 2005 varied by 22.04% as compared to the end of 3Q. Average VaR represented 0.30% of net capital in 4Q and 0.49% in 3Q of 2005 (a variance of 19 basis points).

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

	2005				
	September 30	December 31	Limits *	3rd- Quarter average	4th Quarter average
Bank	(0.508)	(0.503)	0.550	(0.432)	(0.381)
Accrual	(0.368)	(0.360)	0.600	(0.350)	(0.294)
Trading	(0.140)	(0.144)	0.200	(0.082)	(0.087)
Money market desk	(0.140)	(0.144)	0.200	(0.082)	(0.087)

* Absolute value

The Bank's PVBP at the end of the 4Q of 2005 declined by 0.98% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

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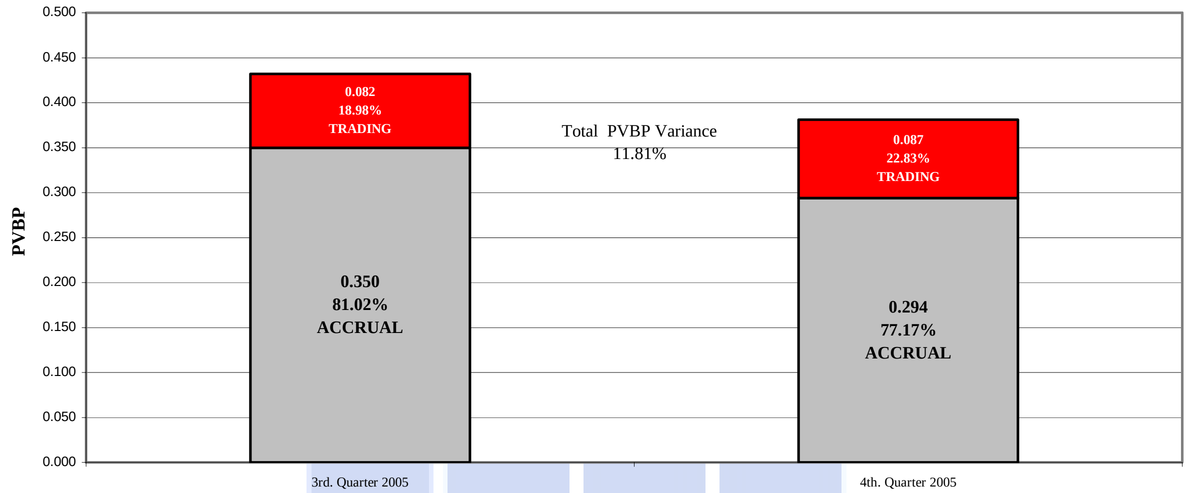
AVERAGE PVBP* COMPARISON



* Figures in millions of dollars (absolute value)

The Bank's average PVBP for the 4Q of 2005 varied by 11.81% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

<u>Liquidity risk</u>

Beginning September 2005, the Bank improved the liquidity risk analysis by complementing the calculation of liquidity ratios with cash flow projections. Cash flow projections improve the analysis by presenting a dynamic view of the balance sheet and include elements that are not factored into the analysis of liquidity ratios.

The cash flow analysis is performed by projecting operating cash flows (interest income, commissions and brokerage fees, and administrative costs net of depreciation). Cash flows generated by balance sheet changes arising from an increase in business volume and current maturities are added to the operating cash flows. Furthermore, for this analysis it is assumed that the Treasury investment portfolio may serve to mitigate those situations where the Bank's liquidity is at risk.

Cash flows are subjected to three scenarios where the Bank's liquidity might be at risk, considering different potential levels of deposit withdrawals and restrictions in terms of funding capability. It is important to mention that the Bank's liquidity level is appropriate under any such scenarios.

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Cash flow projection scenarios (thousands of dollars)

Scenario 1	Up to 7 days	7 days to 1 month	1 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months
Total cash inflows	10,170,446	4,787,704	4,191,922	3,672,282	888,394	5,423,489
Total (cash outflows)	(5,413,487)	(4,537,550)	(6,166,930)	(3,259,119)	(2,933,095)	(2,086,322)
Net cash flow	4,756,959	250,154	(1,975,008)	413,163	(2,044,701)	3,337,167
Cumulative cash flows	4,756,959	5,007,113	3,032,105	3,445,268	1,400,567	4,737,734

Scenario 2	Up to 7 days	7 days to 1 month	1 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months
Total cash inflows	10,170,044	4,787,704	4,191,922	3,672,282	888,394	5,423,489
Total (cash outflows)	(5,684,558)	(5,492,726)	(6,853,621)	(3,267,909)	(2,953,313)	(2,086,322)
Net cash flow	4,485,486	(705,022)	(2,661,699)	404,373	(2,064,919)	3,337,167
Cumulative cash flows	8,122,082	3,780,866	1,119,167	1,523,540	(541,379)	2,795,788

Scenario 3	Up to 7 days	7 days to 1 month	1 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months
Total cash inflows	11,771,044	4,672,138	4,170,733	3,672,282	888,394	5,423,489
Total (cash outflows)	(3,648,961)	(3,680,399)	(5,911,896)	(3,088,613)	(2,796,251)	(1,990,030)
Net cash flow	8,122,083	991,739	(1,741,163)	583,669	(1,907,857)	3,433,459
Cumulative cash flows	8,122,083	9,113,822	7,372,659	7,956,328	6,048,471	9,481,930

Base scenario	Up to 7 days	7 days to 1 month	1 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months
Total cash inflows	10,170,446	4,797,108	4,314,167	4,333,344	1,494,917	6,876,322
Total (cash outflows)	(5,006,880)	(3,854,081)	(6,433,975)	(3,644,732)	(3,346,728)	(2,881,101)
Net cash flow	5,163,566	943,027	(2,119,808)	688,612	(1,851,811)	3,995,221
Cumulative cash flows	5,163,566	6,106,593	3,986,785	4,675,397	2,823,586	6,818,807

(Continued)

Credit risk

Transactions with customers originate credit risk exposure. This exposure is recorded in the balance sheet as memorandum accounts. Exposure to credit risk recorded in the balance sheet includes items representing loans, while that recorded in memorandum accounts represents a contingent risk to the Bank.

The Bank has developed policies and procedures to manage its loan portfolio risk level and composition, with the purpose of quantifying and managing the loan portfolio-related credit risks and reducing the risk of loss resulting from a customer's failure to comply with the terms of the loan agreement. To this end, the Bank uses models typified as noncompliance models. Under this approach, the credit risk should be understood as the risk of non-payment and irrecoverability of loans granted or to be granted to a certain customer and in financial instrument transactions where counterparties may default. The risk of non-payment refers to the likelihood that a given customer may default on its commitments to pay both the principal and interest thereon, while the risk of irrecoverability refers to the likelihood that in the future the Bank will be unable to recover the funds loaned to a customer plus incidental charges.

Policies and procedures have been implemented for granting, controlling and collecting loans, as well as evaluating and monitoring credit risk and the methods used to identify current or past-due impaired commercial loans.

The aforementioned proposals are analyzed and authorized by the Executive Direction for Loan Analysis and Approval, or referred to the appropriate resolution level for ensuring adequate segregation of business origination and credit authorization activities.

The authorization of all loans is the responsibility of the Bank's Board of Directors. This power has been delegated to certain officers of the Institution. Each officer's authorization level is assigned depending on the officer's level, experience and skills at the Bank. Currently, this power has been granted to executives from the Credit and Risk area and to the General Direction.

In order to properly follow-up on the general portfolio, it is the Bank's policy to perform a loan study of all customers at least once a year and of impaired customers once every six months. Also, for proper monitoring those studies undergo normal evaluation and authorization processes applied to new and reassessed loans.

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The account executive in charge is responsible for the complete relationship with the customer throughout the credit process, from origination through to total recovery of the loan. For this purpose, the account executive has tools and support such as portfolio control systems, authorized line records and the systems to follow-up on legal actions, among other things. There are supporting areas for the recovery of special portfolio, which as in the case of impaired portfolio management, follow specific policies in this regard.

Among the loan procedures, there are actions for the early detection of impaired loans. These actions include, among other things, modification in risk levels between one quarter and another, negative signals resulting from inspection visits to customer's premises, negative reports in the Credit Bureau or adverse changes in the customer's economic environment. Once the increase in risk has been detected, monitoring procedures are established, which include the transfer of these accounts to special recovery areas.

Credit risk concentration- the Bank has policies and procedures in place to maintain a sound, diversified and risk-controlled and prudent portfolio, which include the establishment of credit risk exposure limits, considering business units, currency, etc.

The evaluation of credit customers during the origination process for consumer or mortgage loans is performed by utilizing parametrical models that assess both the customer's profile and the credit repayment history in the Credit Bureau. Acceptance of prospective credit customers is determined on the basis of the customer's grade points obtained in the evaluation. Customers rated below a given level are rejected. Customers who are less likely to default are rated higher by the models.

The efficiency of the origination models is evaluated on a quarterly basis, verifying that the population being evaluated by the model is similar to that on which the model was devised, the model continues being capable of distinguishing credit worthy customers from non-credit worthy customers, and customers representing a lower risk are still rated higher by the system. The model is recalibrated or replaced when any deviation in the model efficiency is detected.

Consumer and mortgage loan portfolio management includes preparing monthly reports to measure the credit quality of the loan portfolio. The reports are segmented by each product in the portfolio. This credit quality measures include, among other things, general statistics of the portfolio, distribution measures by delinquency level, delinquency measures by opening date and delinquency level transition reports, Furthermore, the estimated loan loss is determined on a monthly basis. The estimated loan loss model currently used by the Bank applies a bidimensional approach under which a default probability and a loss seriousness percentage are assigned to each loan. The model is calibrated to determine the estimated losses over a year and was developed based on previous experience.

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The consumer and mortgage loan portfolio is rated through the above-described model, with grades being assigned based on the default probability for each loan. The rating scale consists of 22 levels for increased portfolio functionality by rating. The trend in the distribution of the portfolio grouped by rating grades is part of the data used for managing and following-up on the credit quality of the loan portfolio.

Methodology used to determine the allowances for loan losses

Through official document number 601-II-DGSIFIC-7651/2005, dated February 4, 2005, the Banking Commission renewed the authorization to the Bank to continue using its internal rating models for a 2-year period beginning on December 1, 2004. Loans are rated and provided for in accordance with the provisions of the Banking Commission.

The models consider the following risk factors: country risk, financial performance, financial hedging, debtor management, overall strength (customer's relation to the environment, competitiveness, strengths and weaknesses), account management, industry conditions, and repayment history. These factors represent the valuation of the customer's credit risk profile and are derived from the Bank's experience in statistical analyses and adaptation to the Mexican market.

Credit culture

To create and foster a credit culture, the Bank has permanent training programs for personnel involved in the loan origination and authorization processes. Among such programs advanced training in commercial banking practices is required, which provides support tools for the analysis and evaluation of credit risk, as well as decision-making workshops.

Implementation of prudential credit criteria

In accordance with the "prudential credit provision" issued by the Banking Commission, the Bank has established control measures to timely identify, measure and limit the taking of risks derived from lending activity in its different phases. These measures are documented in the Credit Policies and Procedures Manual, and are reviewed and updated on a regular basis as well as submitted to the Board of Directors for approval every year.

Quantitative information

At the end of 2005, the consumer loan portfolio remains the principal borrowing segment, followed by the governmental and corporate segments.

During the last year the Bank's commercial loan portfolio increased by 7.7%. The past-due portfolio index was 2.1%.

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Current and past-due consumer and mortgage portfolios are analyzed in note 9a. Past-due portfolio indexes as of December 31, 2005 are as follows: commercial loans, 3.26%; mortgage loans, 5.86% and combined 4.29%.

Operational risk

Operational risk is the risk of loss arising from frauds, unauthorized activities, errors, omissions, inefficiencies, systems failures or external events. They are all subject to the Bank's risk management. This definition excludes the strategic or reputational risks, which are part of other risk management agenda of the Financial Group.

For operational risk management, a specialized central unit has been established. Additionally, about a hundred middle-management officers have been designated, who in addition to their own business or support areas, maintain a functional relationship with the operational risk management unit and deal with the relevant risk management activities.

During the second half of 2005, all of the operational risks throughout the Financial Group's structure were identified and reassessed for the second time. During the year, in addition to denominating and classifying all identifiable operational risks, three parameters were evaluated for each identified risk: feasibility, impact and exposure.

Based on the values obtained from the parameters, a risk rating was determined to which one of the first four letters of the alphabet (A, B, C or D) was assigned depending on their higher or lower significance.

Furthermore, for the third year in a row, in 2005 major events were recorded and inputted into a database specifically designed for that purpose. The database will become in the future, as statistical significance is attained, the supporting tool for computing capital allowances for operational risks.

Both risks evaluated and assessed and the events that occurred in the year have been marked with the appropriate label to classify them within the various risk categories, based on the following taxonomy:

Individuals: Employee fraud/ Malice (crime), Unauthorized activities/ Employee misconduct (intentional), Labor Law, Labor interruptions and Key personnel loss or understaffing.

Processes: Procedure risk, Valuation/Pricing, Internal and external information and legal compliance, Project risk management/changes and Sales risks.

Systems: Information technology investments risk, Systems development and implementation, Systems failures, Systems security failures, Information capacity.

External: Legal/civil liability, Criminal activities, Externalization risks/Vendors, Disaster and infrastructure service failures, Regulatory risk and Political/Government risks.

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The operational risk category includes additionally two specific risk classes: technological and legal risks.

Aware of the importance of exercising an appropriate control over technological risk, the Bank's information technology processes have been subjected to an ISO 9001 certification procedure and, therefore, a stringent methodology is in place for their operation, and plenty of relevant documentation is available. This documentation is contained in a computer information application designed for that purpose by the ISO certifier, and is available for review by the supervising authority.

Furthermore, for legal risk management actions have been taken which include: establishing policies and procedures for proper legal proceedings and execution of judicial acts; allowances for potential losses arising from adverse judicial or administrative resolutions; making employees and officers aware of the judicial and administrative provisions applicable to relevant operations; conducting statutory audits, the latest of which was made in July 2005; as well as implementing a historical database on judicial and administrative resolutions, relevant grounds and costs.