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

Consolidated Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Boulevard Manuel Ávila Camacho 176
Col. Reforma Social
11650 México, D.F.

Teléfono: + 01(55) 52 46 83 00
Fax: + 01(55) 55 96 80 60
www.kpmg.com.mx

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, 2006 and 2005, 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 basis 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 Mexican Financial Reporting Standards (FRS) issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or CINIF). These accounting criteria include particular rules, which in certain respects, depart from such rules.

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, 2006 and 2005, 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

SIGNATURE

Carlos Rivera Nava

February 23, 2007.

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

Consolidated Balance Sheets

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

Assets	**2006**	**2005**
Cash and equivalents (note 5)	$ 55,080,360	53,156,954
Investment securities (note 6):		
Trading	11,591,091	6,863,409
Available-for-sale	40,471,233	46,811,840
Held-to-maturity	3,998,849	4,159,482
	56,061,173	57,834,731
Securities and derivative transactions:		
Debit balances of repurchase/resell agreements (note 7)	63,619	198,525
Derivative financial instruments (note 8)	166,277	397,822
	229,896	596,347
Current loan portfolio (note 9):		
Commercial loans	58,111,848	42,429,030
Financial institutions	5,973,217	7,080,279
Consumer loans	35,477,367	24,951,633
Residential mortgages	20,564,798	15,956,255
Government entities	37,216,958	37,667,792
IPAB loan	-	1,141,774
Total current loan portfolio	157,344,188	129,226,763
Past due loan portfolio (note 9):		
Commercial loans	1,539,881	1,691,402
Financial institutions	302	315
Consumer loans	1,666,911	840,360
Residential mortgages	1,102,865	994,437
Government entities	1	-
Other past due debts	10,410	28,931
Total past due loan portfolio	4,320,370	3,555,445
Total loan portfolio	161,664,558	132,782,208
Less:		
Allowance for loan losses (note 9d)	6,776,023	5,968,286
Loan portfolio, net	154,888,535	126,813,922
Other accounts receivable, net (note 10)	10,802,852	15,289,337
Foreclosed assets (note 11)	53,476	368,731
Premises, furniture and equipment, net (note 12)	6,079,741	5,458,159
Permanent investments in shares (note 13)	184,647	203,821
Deferred income tax (note 21)	-	643,552
Other assets, deferred charges and intangible assets (notes 14 and 19)	585,955	1,524,695
Total assets	$ 283,966,635	261,890,249

Liabilities and Stockholders' Equity	**2006**	**2005**
Deposit funding (note 15):		
Demand deposits	$ 135,323,705	123,756,864
Time deposits:		
General public	81,073,753	80,942,934
Money market	-	49,107
Bank Bonds (note 16)	4,242,193	-
	220,639,651	204,748,905
Due to banks and other institutions (notes 9c and 17):		
Inmediate recoverableness	100,058	-
Short-term	10,620,718	4,934,065
Long-term	2,241,274	2,248,644
	12,962,050	7,182,709
Securities and derivative transactions:		
Credit balances of repurchase/resell agreements (note 7)	48,638	122,711
Securities lending (note 18)	6,266,234	4,571,455
	6,314,872	4,694,166
Other accounts payable:		
Income tax and employee statutory profit sharing	1,021,778	1,250,609
Sundry creditors and other accounts payable	15,637,929	21,570,167
	16,659,707	22,820,776
Subordinated debt issued (note 20)	2,206,271	2,298,721
Deferred taxes (note 21)	606,632	-
Deferred credits	19,118	15,577
Total liabilities	259,408,301	241,760,854
Stockholders' equity (note 22):		
Paid-in capital :		
Capital stock	3,929,556	3,929,556
Additional paid-in capital	9,108,084	9,108,084
	13,037,640	13,037,640
Earned capital:		
Statutory reserves	9,148,386	4,774,118
Unrealized gain from valuation of available-for-sale securities	302,673	280,079
Cumulative translation adjustment	-	11,857
Deficit in restatement of stockholder's equity	(3,489,711)	(3,501,922)
Results from holding nonmonetary assets:		
From valuation of premises, furniture and equipment	1,297,058	1,297,058
From valuation of permanent investments in shares	(151,802)	(144,352)
Net income	4,413,450	4,374,268
	11,520,054	7,091,106
Minority interest	640	649
Total stockholders' equity	24,558,334	20,129,395
Commitments and contingent liabilities (note 26)		
Total liabilities and stockholders' equity	$ 283,966,635	261,890,249

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

Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006, except capital stock)

Memorandum accounts

		2006	2005
Guarantees issued (note 24a)	$	50,455	59,078
Other contingent liabilities		124,395	1,016,732
Irrevocable lines of credit (note 24a)		6,333,680	3,917,740
Assets in trust or under mandate (note 24b)		93,127,766	70,589,674
	$	99,636,296	75,583,224
Assets in custody or under management (note 24d)	$	111,997,346	59,307,372
Investments transactions on behalf of customers (note 24c)		21,963,892	17,567,598
Amounts committed under agreements with the IPAB or FOBAPROA		156,314	128,357
Amounts under derivative instruments		657,956,503	214,486,805
Investments in SAR funds		3,539,721	3,428,666
Loan portfolio rated		168,048,693	136,759,026
Other memorandum accounts		172,621,804	361,335,997
	$	1,136,284,273	793,013,821
Securities receivable under repurchase agreements (note 7)	$	47,372,966	43,753,500
Less - Creditors under repurchase agreements (note 7)		47,358,014	43,766,570
		14,952	(13,070)
Debtors under resell agreements (note 7)		531,734	14,073,635
Less - Securities deliverable under resell agreements (note 7)		531,705	13,984,751
		29	88,884
Net repurchase/resell agreements	$	14,981	75,814

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, 2006 and 2005, the historical capital stock of HSBC Mexico, S.A. amounts to $2,278,430,462.00 pesos".

SIGANTURE
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

www.hsbc.com.mx/ConoceHSBC/Relación con Inversionistas/Información Financiera
www.cnbv.gob.mx,Sección:Información Estadística

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

Consolidated Statements of Operations

Years ended December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		2006	2005
Interest income (note 25)	$	27,019,355	26,381,426
Interest expense (note 25)		(9,346,218)	(10,902,234)
Monetary position result, net		(936,671)	(251,395)
Financial margin		16,736,466	15,227,697
Allowance for loan losses (note 9d)		(4,105,829)	(1,551,069)
Financial margin net of allowance for loan losses		12,630,637	13,676,628
Commission and fee income		9,253,211	7,878,520
Commission and fee expense		(1,065,285)	(915,487)
Financial intermediation income (note 25)		2,043,086	1,412,131
Total operating income		22,861,649	22,051,792
Administrative and promotional expenses		(16,832,296)	(15,309,665)
Net operating income		6,029,353	6,742,127
Other income (note 25)		2,067,874	1,567,426
Other expense (note 25)		(1,044,198)	(1,034,681)
Income before income tax (IT), employee statutory profit sharing (ESPS) and equity in the results of unconsolidated subsidiaries, associated and affiliated companies		7,053,029	7,274,872
Current IT and ESPS (note 21)		(1,434,461)	(1,440,897)
Deferred IT and ESPS (note 21)		(1,203,475)	(1,396,992)
Income before equity in the results of unconsolidated subsidiaries, associated and affiliated companies		4,415,093	4,436,983
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies, net		(1,644)	16,510
Income from continuing operations		4,413,449	4,453,493
Discontinued operations, extraordinary items and changes in accounting policies net (note 25)		-	(79,202)
Net income before minority interest		4,413,449	4,374,291
Minority interest		1	(23)
Net income	$	4,413,450	4,374,268

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 all 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."

SIGANTURE
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, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

	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	Income of Prior Years	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, 2004	$ 2,003,430	1,639,678	5,127,347	1,975,602	1,035,842	1,000,058	-	16,674	11,857	(2,180,384)	(1,192,656)	1,297,058	(158,163)	3,322,884	1,793	13,901,020
Transfer	-	-	-	-	-	-	3,322,884	-	-	-	-	-	-	(3,322,884)	-	-
Changes resulting from stockholder resolutions: (note 22a):																
Resolution at the Ordinary and Extraordinary General Stockholders' Meeting on April 21, 2005 appropriation of the net income for 2004	-	-	-	-	3,099,921	222,963	#########	-	-	-	-	-	-	-	-	-
Resolution at the Board of Director's Meeting on July 25, 2005 - Payment of dividens	-	-	-	-	(517,243)	(67,423)	-	-	-	-	-	-	-	-	-	(584,666)
Resolutions at the Ordinary and Extraordinar General Stockholders' Meeting on November 17, 2005 Capital stock increase	275,000	11,448	1,925,000	80,135	-	-	-	-	-	-	-	-	-	-	-	2,291,583
Total items related to stockholders' decisions	275,000	11,448	1,925,000	80,135	2,582,678	155,540	-	-	-	-	-	-	-	(3,322,884)	-	1,706,917
Changes related to the recognition of comprehensive income (note 22b):																
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	4,374,268	-	4,374,268
Valuation effect of unconsolidated subsidiaries, associated and affiliated companies	-	-	-	-	-	-	-	263,405	-	-	-	-	13,811	-	-	277,216
Valuation effect of available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,144)	(1,144)
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	-	(128,882)	-	-	-	-	(128,882)
Total comprehensive income	-	-	-	-	-	-	-	263,405	-	-	(128,882)	-	13,811	4,374,268	(1,144)	4,521,458
Balances at December 31, 2005	2,278,430	1,651,126	7,052,347	2,055,737	3,618,520	1,155,598	-	280,079	11,857	(2,180,384)	(1,321,538)	1,297,058	(144,352)	4,374,268	649	20,129,395
Transfer	-	-	-	-	-	-	4,374,268	-	-	-	-	-	-	(4,374,268)	-	-
Changes resulting from stockholder resolutions: (note 22a):																
Resolution at the Ordinary and Extraordinary General Stockholders' Meeting on April 26, 2006 appropriation of the net income for 2005	-	-	-	-	4,199,457	174,811	#########	-	-	-	-	-	-	-	-	-
Total items related to stockholders' decisions	-	-	-	-	4,199,457	174,811	-	-	-	-	-	-	-	(4,374,268)	-	-
Changes related to the recognition of comprehensive income (note 22b):																
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	4,413,450	-	4,413,450
Valuation effect of unconsolidated subsidiaries, associated and affiliated companies	-	-	-	-	-	-	-	-	(11,857)	-	-	-	(7,450)	-	-	(19,307)
Cumulative traslation adjustment	-	-	-	-	-	-	-	22,594	-	-	-	-	-	-	-	22,594
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9)	(9)
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	-	12,211	-	-	-	-	12,211
Total comprehensive income	-	-	-	-	-	-	-	22,594	(11,857)	-	12,211	-	(7,450)	4,413,450	(9)	4,428,939
Balances at December 31, 2006	$ 2,278,430	1,651,126	7,052,347	2,055,737	7,817,977	1,330,409	-	302,673	-	(2,180,384)	(1,309,327)	1,297,058	(151,802)	4,413,450	640	24,558,334

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
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President and Chief Executive Officer

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

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		2006	2005
Operating activities:			
Net income	$	4,413,450	4,374,268
Items included in operations not requiring (providing) cash:			
Net unrealized loss from valuation of securities under			
repurchase/resell agreements, forwards and financial instruments		(626,771)	(280,665)
Allowance for loan losses		4,105,829	1,551,069
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies		1,644	(16,510)
Depreciation and amortization		847,686	855,241
Deferred income tax and employee statutory profit sharing		1,203,475	1,396,992
Allowance for foreclosed assets		241,365	54,463
Minority interest		(1)	23
		10,186,677	7,934,881
Changes in items related to operations:			
Increase in operating liabilities:			
Deposit funding		15,890,746	23,096,205
Accounts payable		(6,161,069)	13,335,738
(Increase) decrease in operating assets:			
Loan portfolio		(32,180,442)	(17,870,133)
Investment securities		1,809,887	(10,147,426)
Securities and derivative transactions, net		2,600,193	4,453,313
Other accounts receivable		5,425,225	(11,773,884)
Funds (used in) provided by operating activities		(2,428,783)	9,028,694
Financing activities:			
Redemption of issued subordinated debt		(92,450)	(66,678)
Decrease in due to banks and other institutions		5,779,341	(2,445,901)
Dividends paid		-	(584,666)
Increase in capital stock and additional paid-in capital		-	2,291,583
Funds provide by (used in) financing activities		5,686,891	(805,662)
Investing activities:			
Acquisition of premises, furniture and equipment, net		(1,469,268)	(2,026,151)
Permanent investments in shares, net		10,426	114,574
Increase in deferred charges, net		50,250	251,248
Decrease in foreclosed assets		73,890	108,408
Funds used in investing activities		(1,334,702)	(1,551,921)
Increase in cash and equivalents		1,923,406	6,671,111
Cash and equivalents:			
At beginning of year		53,156,954	46,485,843
At end of year	$	55,080,360	53,156,954

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
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Chief Financial Officer

SIGNATURE
W. Graham Thomson
Director of Internal Audit

SIGNATURE
Sergio Armando Torres López
Chief Accountant

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006,
except when indicated otherwise)

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 Bank consolidates its financial statements with those of nine subsidiaries engaged in real estate lease activities and with the Trusts of UDI restructured loans (UDI Trusts).

(2) Summary of significant accounting policies-

(a) Financial statement presentation-

On January 23, 2007 the undersigned Bank officers authorized the accompanying consolidated financial statements for publication.

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 those of its subsidiaries in the real state 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 (see note 9, section b). Significant intercompany transactions and balances have been eliminated in consolidation. The consolidated subsidiaries and the percentage of stock participation of the Bank are as follows:

Subsidiaries	Percentage
Inmobiliaria Bisa, S. A. de C. V.	99.99%
Inmobiliaria Grufin, S. A de C. V.	99.99%
Inmobiliaria Guatusi, S. A. de C. V.	99.99%
Inmobiliaria el Nuevo París, S. A. de C. V.	99.99%
Edificaciones Prime, S. A. de C. V.	99.99%
HSBC Inmobiliaria México, S. A. de C. V.	99.87%
Inmobiliaria GBM Atlántico, S. A. de C. V.	99.96%
Inmobiliaria Banga, S. A. de C. V.	99.99%
Inmobiliaria Bamo, S. A. de C. V.	98.38%

(Continued)

In general, the accounting criteria established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), who renamed and integrated to the structure of the FRS while they are not modified, replaced or repeal, at them accounting principles generally accepted in Mexico (Mexican GAAP), issued by the Mexican Institute of Public Accountants (IMCP). The accounting criteria include rules that in certain instances differ from FRS, which do not limit the consolidation of financial subsidiaries and that indicated in sections b, d, e, i and l of this note.

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: the FRS (before 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:

December 31	UDI	Annual Inflation
2006	$ 3.7889	4.16%
2005	3.6375	2.91%
2004	3.5347	5.45%
	=====	

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 trade day, regardless of the settlement date.

(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"), deposits with the Central Bank, and margin accounts associated with futures and swaps transactions

(Continued)

Offsetting entries for 24 and 48-hour foreign currency purchase and sale transactions represent rights or obligations, which are recorded in "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively.

This category includes the deposits related 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. In accordance with Bulletin C-10 of FRS any margin accounts are recorded under “Securities and derivative transactions” including cash and securities contributions and interest payable at maturity.

The caption also includes cash deposits given as collateral for repurchase/resell agreements, classified as restricted funds.

(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 or formal technique of valuation, 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. If the amount of trading securities is inadequate for settling the amount of securities deliverable in value date transactions in the purchase and sale of securities, the credit balance is shown as a liability under "Assigned values pending settlement”.

(Continued)

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.

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 consolidated 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 FRS 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.

(Continued)

(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.

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 FRS, 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. 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 consolidated balance sheet date, as well as amounts receivable or payable resulting from the purchase or sale of foreign currencies which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

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.

(Continued)

(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.

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, on September 27, 2006, the Bank applied for an extension in order to continue using its internal methodology, which is in the process of being analyzed by the Banking Commission.

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, 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 28). The allowance percentages are established considering risk levels according to the following table:

(Continued)

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 - Irrecoverable	90 – 100.0

The “Dispositions” establish new rules for the creation of accruals that recognize potential losses in the loan portfolio and of assets foreclosed or received in lieu of payment over time (see note 2j)

General reserves – In accordance with the Dispositions risk grade A are general reserves.

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 – Commercial loans which are not likely to be fully recovered. Both, current and past due portfolios may be identified as impaired loans. For consolidated financial statement disclosure purposes, “impaired loans” are those commercial loans classified by 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.

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-

The sundry debtor amounts that are not collected within 90 days following the date of first entry (60 days if the balances are not identified) are reserved and charged to the year's income, irrespective of the likelihood of their recovery, except for balances relating to recoverable taxes, value added tax paid and settling accounts. This caption also includes debtors on settlement of transactions (24 and 48-hour foreign currency sales).

(Continued)

(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.

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 section (h) and provisions are established as follows:

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

(k) Premises, furniture and equipment-

Premises, furniture and equipment are initially recorded at acquisition cost, and restated 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".

(Continued)

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 the FRS, 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

(m) Other assets, deferred charges and intangibles-

This caption 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.

(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.

(Continued)

(q) Securities lending-

HSBC conducts securities lending as a borrower. The securities borrowed are guaranteed by HSBC like restricted securities and the term of each transaction is one working day. HSBC pays 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.

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

It consists of defined benefit obligations (DBO) and defined contribution obligations (DCO). As regards DBO, the net periodic includes pension cost, seniority premium benefits, other post-retirement plans, and, beginning 2005 (see note 3), severance compensation for reasons other than restructuring. Such obligations are recognized in the results of operations of each 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 FRS. Pension DCO are expensed as incurred.

Since 2002, HSBC funds the post retirement medical benefits. Amortization of unrecognized past service costs is based on an estimated service life of 25 years of employees.

(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.

(Continued)

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 consolidated 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. 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.

(Continued)

(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 consolidated 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-

2006:

None for the year of 2006, the applicable changes for the year 2007, are describe in note 27.

FRS

Beggining January 1, 2006, financial statements prepared in accordance with Mexican GAAP must be preprared in conformity with Financial Reportin 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.

Through December 2005, Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or 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 years beginning in January 1st, 2006, are the following:

(a) Donations received are included in the results of operatins, instead of in contributed capital.
(b) Elimintation 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.

2005

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.

Labor obligations-

Beginning January 1, 2006, HSBC recognizes 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. The issue mentioned in this paragraph increased expense of the year in $30,923.

(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, that is $3,488,949 and $2,832,442 at December 31, 2006 and 2005, respectively. The foreign currency position, in thousands of dollars is analyzed as follows:

	(Thousands of dollars)	
	2006	**2005**
Assets	11,674,803	19,327,161
Liabilities	11,491,434	19,399,588
Net (short) long position	183,369	(72,427)
	========	=======

The exchange rate of the peso to the dollar as of December 31, 2006 and 2005 was $10.8116 and $10.6344, respectively.

(5) Cash and equivalents-

At December 31, 2006 and 2005, cash and equivalents are analyzed as follows:

	2006	2005
Cash on hand	$ 11,446,422	9,051,005
Deposits with domestic and foreign banks	8,442,807	4,548,716
Deposits with Central Bank	27,498,431	28,654,925
Bank loans with maturity up to three days	5,511,897	7,678,325
Other funds available	99,233	141,067
Restricted funds:		
24 and 48-hour foreign currency purchases	6,945,358	16,023,477
Deposits in guarantee	243,785	20,444
24 and 48-hour foreign currency sales	(5,107,573)	(12,961,005)
	$ 55,080,360	53,156,954
	========	========

At December 31, 2006 the cash on hand by currency included in the Cash and equivalents caption is as follows:

Currency	Original currency amount	Exchange rate	Amount in pesos
Pesos			$ 10,458,798
Dollar	85,035,947	10.8116	919,375
Euro	3,274,780	14.2334	46,611
Canadian Dollar	1,729,392	9.2796	16,048
Libra Esterlina	156,231	21.1702	3,307
Other currencies			2,283
			$ 11,446,422
			========

At December 31, 2006 and 2005, deposits with Banco de México correspond to monetary regulation deposits without term and earn interest at the average bank deposit rate.

Continued)

At December 31, 2006 and 2005, HSBC had call money loans with 3-day maturities, as follows:

Institute	Term	Rate	2006	2005
Banco Nacional de México, S. A.	3 days	7.00%	$ 4,111,897	1,979,091
Banco Santander, S. A.	3 days	7.00%	1,400,000	-
BBVA Bancomer, S. A.	3 days	8.25%	-	3,229,044
Nacional Financiera, S. N. C.	3 days	8.25%	-	1,562,440
Banco Mercantil del Norte, S. A.	3 days	8.25%	-	907,750
			$ 5,511,897	7,678,325
			=======	=======

At December 31, 2006 and 2005 there are precious metals for $2,053 and $27,448, respectively, which are included in other funds available.

At December 31, 2006 and 2005 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

	2006		2005	
	Currencies to be:		Currencies to be:	
	Receivable	Deliverable	Receivable	Deliverable
Dollar	$ 6,763,439	(4,925,805)	15,974,490	(12,844,679)
Libra Esterlina	127,021	(63,511)	-	(4,379)
Euro	52,664	(102,481)	47,672	(90,121)
Other currencies	2,234	(15,776)	1,315	(21,826)
	$ 6,945,358	(5,107,573)	16,023,477	(12,961,005)
	=======	=======	========	========

(6) Investment securities-

At December 31, 2006 and 2005 the Bank's investments in securities were as follows:

	2006	2005
Trading:		
Bank promissory notes	$ 81,078	1,183,896
Government securities	11,351,173	5,679,513
Bonds	158,840	-
	11,591,091	6,863,409
Available-for-sale:		
Equities	264,812	196,512
Debt securities	40,206,421	46,615,328
	40,471,233	46,811,840

(Continued)

		2006	2005
Held-to-maturity:			
Special CETES of the UDI Trusts:			
Productive plant		196,267	189,918
States and municipalities		430,352	416,429
Residential		2,984,526	2,900,427
		3,611,145	3,506,774
Other		387,704	652,708
		3,998,849	4,159,482
Total investment securities	$	56,061,173	57,834,731
		========	========

Transfer between categories in investment securities -

During 2006 y 2005, the Bank did not make any transfers between categories in investment securities.

As of December 31, 2006 and 2005, the investment in debt securities of the same issuer other than government securities, greater than $1,305 and $1,121 millions, respectively (5% of the net capital of HSBC), classified as "Trading" and "Available-for-sale", are analized as follows:

	Amount	
	Partial	Total
Available-for-sale	2006	
Banco Nacional de Comercio Exterior, S.N.C.	$ 1,704,034	
Noruega Investment Bank	1,831,521	
Petróleos Mexicanos	1,684,550	$ 5,220,105
	=======	=======
Available-for-sale	2005	
Banco Santander, S. A.	$ 1,650,674	
Banco Inbursa, S. A.	2,084,861	$ 3,735,535
	=======	=======

Classification of investment securities-

At December 31, 2006 and 2005 the investment securities are classified depending on management's intentions considering their term as follows:

		2006		2005	
Securities		**Short term**	**Long term**	**Short term**	**Long term**
Trading	$	88,176	11,502,915	1,690,147	5,173,262
Available-for-sale		385,704	40,085,529	851,001	45,960,839
Held-to-maturity		29,112	3,969,737	64,776	4,094,706
	$	502,992	55,558,181	2,605,924	55,228,807
		=======	========	=======	========
	$	56,061,173		57,834,731	
		========		========	

(Continued)

(7) Securities under repurchase/resell agreements-

At December 31, 2006 and 2005, the net debt and credit balances arising from the offsetting of each repurchase/resell agreements transaction, are analyzed as follows:

	2006			2005		
	Net balance			Net balance		
	Debit	Credit	Total	Debit	Credit	Total
Securities receivable	$ 12,327,673	35,045,293	47,372,966	32,410,935	11,342,565	43,753,500
Creditors under agreements to repurchase	(12,264,203)	(35,093,811)	(47,358,014)	(32,308,106)	(11,458,464)	(43,766,570)
Securities sold under agreements to repurchase	63,470	(48,518)	14,952	102,829	(115,899)	(13,070)
Securities deliverable	(280,695)	(251,010)	(531,705)	(9,358,012)	(4,626,739)	(13,984,751)
Debtors under agreements to resell	280,844	250,890	531,734	9,453,708	4,619,927	14,073,635
Securities purchased under agreements to resell	149	(120)	29	95,696	(6,812)	88,884
Debit (credit) balances under repurchase/resell agreements	$ 63,619	(48,638)		198,525	(122,711)	

(Continued)

At December 31, 2006 and 2005, HSBC had executed repurchase/resell agreements and had net positions by type of security and average term in days as follows:

	2006				2005			
	Sale	**Purchase**	**Average selling term**	**Average purchase term**	**Sale**	**Purchase**	**Average selling term**	**Average purchase term**
Securities receivable (deliverable)								
Government								
BONDE182	$ 3,651	(251,010)	82	22	$ 11,803,586	(10,532,550)	25	27
BONDEST	8,176,268	-	34	-	-	-	-	-
BONOS	6,072,988	-	14	-	3,309,231	(3,017,269)	20	29
BPAT	4,497,702	-	56	-	4,706,247	(434,932)	22	28
BREMS	5,102,879	-	4	-	6,199,311	-	24	-
CETES	9,764,835	(280,695)	11	4	14,336,756	-	5	-
IPAB	2,662,830	-	38	-	1,667,647	-	35	-
BONDES A	8,932,470	-	38	-				
Bank								
Promissory notes	2,159,343	-	18	-	1,730,722	-	7	-
	47,372,966	(531,705)			43,753,500	(13,984,751)		
(Creditors) debtors under agreements to repurchase /resell	(47,358,014)	531,734			(43,766,570)	14,073,635		
	14,952	29			(13,070)	88,884		
Reclassifications	48,667	(48,667)			211,595	(211,595)		
Debit (credit) balances under repurchase/resell agreements	$ 63,619	(48,638)			$ 198,525	(122,711)		
	========	========			========	=======		

(8) Derivative transactions -

Notional amounts:

Notional amounts of contracts represent the derivatives volume outstanding and not the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied for determining the amount of cash flows to be exchanged.

At December 31, 2006 and 2005, the memorandum account termed "Amounts contracted in derivate instruments" is analyzed as follows:

	2006		2005	
	Purchase	**Sale**	**Purchase**	**Sale**
Trading	$ 592,680,252	50,407,900	36,152,296	166,081,916
Hedging	7,368,351	7,500,000	475,032	3,205,930
Inflation effect	-	-	1,524,686	7,046,945
	600,048,603	57,907,900	38,152,014	176,334,791
	=========	========	========	=========
	$ 657,956,503		214,486,805	
	=========		=========	

(Continued)

Trading

Notional amounts:

	2006			2005		
	Purchase	**Sale**	**Net**	**Purchase**	**Sale**	**Net**
Interest rate contracts:						
Mexder Futures	$ 5,149,600	(29,957,900)	(24,808,300)			
Options	52,500,000	(9,450,000)	43,050,000	1,329,300	-	1,329,300
Swaps	491,547,594	-	491,547,594	34,822,996	(143,443,816)	(108,620,820)
	549,197,194	(39,407,900)	509,789,294	36,152,296	(143,443,816)	(107,291,520)
Foreing currency:						
Forwards	24,000,000	(11,000,000)	13,000,000	-	(22,638,100)	(22,638,100)
Swaps MXN-UDI	3,100,000	-	3,100,000	-	-	-
Swaps MXN-USD	7,030,951	-	7,030,851	-	-	-
Swaps USD-UDI	324,348	-	324,348	-	-	-
Swaps UDI-USD	335,444	-	335,444	-	-	-
Swaps UDI-MXN	3,018,917	-	3,018,917	-	-	-
Swaps USD-MXN	5,673,398	-	5,673,398	-	-	-
	43,483,058	(11,000,000)	32,483,058	-	(22,638,100)	(22,638,100)
	$ 592,680,252	50,407,900		36,152,296	166,081,916	

Mark to market:

At December 31, 2006 and 2005, the fair value of derivative financial instruments for trading purposes is analyzed as follows:

	2006			2005		
	Purchase	**Sale**	**Net**	**Purchase**	**Sale**	**Net**
Currency Forwards (mainly dollar and pesos)	$ 1,401,990	(1,054,633)	347,357	148,149,857	(148,038,147)	111,710
Interest rate futures	40,523	(61,314)	(20,791)	-	-	-
Interest rate options	108,659	(16,585)	92,074	47,853	-	47,853
Cross currency swaps	19,970,378	(19,908,469)	61,909	1,793,524	(1,783,124)	10,400
Interest rate swaps	109,309,664	(109,623,936)	(314,272)	29,751,372	(29,523,513)	227,859
	$ 130,831,214	(130,664,937)	166,277	179,742,606	(179,344,784)	397,822

(Continued)

Hedging

The fair value of agreements with derivative financial transactions with hedging purposes are presented in the consolidated balance sheet along with the asset or liability (primary position) being hedged.

Underlying	Risk	Primary position	2006	2005
Currency – dollar	Exchange	Investment securities (note 6)	$ (223,823)	20,663
Interest rate	Rate change	Loans to IPAB (note 9b)	(54,070)	-
			=====	=====

Notional amounts:

		2006		2005	
		Purchase	Sale	Purchase	Sale
Hedging					
Interest rate:					
Swaps	$	7,500,000	3,220,000	156,000	-
Currency:					
Swaps		-	4,148,351	319,032	3,205,930
	$	7,500,000	7,368,351	475,032	3,205,930
		=======	=======	======	=======

In purchasing interest rate swaps a fixed rate is received and a variable rate is delivered while in sales, a variable rate is received and a fixed rate delivered. In purchasing and selling foreign currency swaps currency is received and delivered, respectively.

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

The value of exposure to market risk of transactions with derivative financial instruments is included in the Value at Risk of HSBC's Global Market, which is explained in note 28.

Had the primary position not been covered with the derivative financial transactions mentioned earlier, there would have been a favorable impact of $205,102 on the 2006 results of operations.

At December 31, 2006, the credit risk of transactions with derivative financial instruments amounts to $2,811,101. During this year were no losses associated with the credit risk.

(Continued)

(9) Loan portfolio-

At December 31, 2006 and 2005 the loan portfolio and the credit commitments are analyzed as follows:

		2006	2005
Total loan portfolio, shown in the consolidated balance sheet	$	161,664,558	132,782,208
Recorded in memorandum accounts (note 24a):			
Guarantees		50,455	59,078
Irrevocable lines of credit		6,333,680	3,917,740
		6,384,135	3,976,818
	$	168,048,693	136,759,026
		=========	=========

(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, 2006 and 2005, 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)

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

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

	Commercial		Financial institutions		Consumer		Residential mortgages		Goverment entities		IPAB		Past due indebtedness		Total	
Portfolio	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Current:																
Pesos	$ 42,335,229	30,508,559	5,749,669	6,847,112	35,477,367	24,951,574	15,364,011	10,125,822	34,810,738	35,929,002	-	1,141,774	-	-	133,737,014	109,503,843
Foreign currency	15,252,124	11,251,785	223,548	233,167	-	53	3,719	3,811	2,041,330	1,343,748	-	-	-	-	17,520,721	12,832,564
UDIS	524,495	668,686	-	-	-	6	5,197,068	5,826,622	364,890	395,042	-	-	-	-	6,086,453	6,890,356
Total	58,111,848	42,429,030	5,973,217	7,080,279	35,477,367	24,951,633	20,564,798	15,956,255	37,216,958	37,667,792	-	1,141,774	-	-	157,344,188	129,226,763
Past due:																
Pesos	1,203,887	1,079,398	302	315	1,666,911	840,062	481,792	298,112	1	-	-	-	9,911	28,460	3,362,804	2,246,347
Foreign currency	324,407	450,686	-	-	-	-	-	-	-	-	-	-	499	471	324,906	451,157
UDIS	11,587	161,318	-	-	-	298	621,073	696,325	-	-	-	-	-	-	632,660	857,941
Total	1,539,881	1,691,402	302	315	1,666,911	840,360	1,102,865	994,437	1	-	-	-	10,410	28,931	4,320,370	3,555,445
Total:																
Pesos	43,539,116	31,587,957	5,749,971	6,847,427	37,144,278	25,791,636	15,845,803	10,423,934	34,810,739	35,929,002	-	1,141,774	9,911	28,460	137,099,818	111,750,190
Foreign currency	15,576,531	11,702,471	223,548	233,167	-	53	3,719	3,811	2,041,330	1,343,748	-	-	499	471	17,845,627	13,283,721
UDIS	536,082	830,004	-	-	-	304	5,818,141	6,522,947	364,890	395,042	-	-	-	-	6,719,113	7,748,297
Total	**$ 59,651,729**	**44,120,432**	**5,973,519**	**7,080,594**	**37,144,278**	**25,791,993**	**21,667,663**	**16,950,692**	**37,216,959**	**37,667,792**	**-**	**1,141,774**	**10,410**	**28,931**	**161,664,558**	**132,782,208**
Classification by activity																
Manufacturing	$ 25,521,213	19,025,092	-	-	-	-	-	-	-	-	-	-	-	-	25,521,213	19,025,092
Agriculture, forestry and fishing	6,732,581	7,396,353	-	-	-	-	-	-	-	-	-	-	-	-	6,732,581	7,396,353
Trade and tourism	13,156,984	9,495,168	-	-	-	-	-	-	-	-	-	-	-	-	13,156,984	9,495,168
Services	14,240,951	8,203,819	-	-	-	-	-	-	-	-	-	-	-	-	14,240,951	8,203,819
Financial services	-	-	5,098,862	6,196,622	-	-	-	-	-	-	-	-	-	-	5,098,862	6,196,622
Credit Unions	-	-	519,173	438,043	-	-	-	-	-	-	-	-	-	-	519,173	438,043
Lessors	-	-	219,231	276,074	-	-	-	-	-	-	-	-	-	-	219,231	276,074
Others to financial organizations	-	-	136,253	169,855	-	-	-	-	-	-	-	-	-	-	136,253	169,855
Credit Car	-	-	-	-	16,452,522	14,646,728	-	-	-	-	-	-	-	-	16,452,522	14,646,728
Credit Card	-	-	-	-	15,089,978	7,266,821	-	-	-	-	-	-	-	-	15,089,978	7,266,821
Multicrédito	-	-	-	-	3,713,465	2,190,921	-	-	-	-	-	-	-	-	3,713,465	2,190,921
Fixed payment	-	-	-	-	1,888,313	1,687,523	-	-	-	-	-	-	-	-	1,888,313	1,687,523
Construction and housing	-	-	-	-	-	-	21,667,663	16,950,692	-	-	-	-	-	-	21,667,663	16,950,692
Municipalities	-	-	-	-	-	-	-	-	563,773	416,367	-	-	-	-	563,773	416,367
States	-	-	-	-	-	-	-	-	2,442,991	2,426,921	-	-	-	-	2,442,991	2,426,921
Credit to the Federal Govermment (support programs)	-	-	-	-	-	-	-	-	354,855	390,005	-	-	-	-	354,855	390,005
Other to governmental entities (see note 9a)	-	-	-	-	-	-	-	-	33,855,340	34,434,499	-	-	-	-	33,855,340	34,434,499
Loan swap	-	-	-	-	-	-	-	-	-	-	-	1,141,774	-	-	-	1,141,774
Past due indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	10,410	28,931	10,410	28,931
	$ 59,651,729	**44,120,432**	**5,973,519**	**7,080,594**	**37,144,278**	**25,791,993**	**21,667,663**	**16,950,692**	**37,216,959**	**37,667,792**	**-**	**1,141,774**	**10,410**	**28,931**	**161,664,558**	**132,782,208**
Past due loans by aging																
From 1 to 180 days	$ 524,403	303,408	-	-	1,216,270	708,676	241,828	228,139	1	-	-	-	8,303	28,460	1,990,805	1,268,683
From 181 to 365 days	366,402	320,472	-	-	126,008	112,620	255,604	281,195	-	-	-	-	229	-	748,243	714,287
From 1 to 2 years	324,751	239,833	-	-	3,127	16,405	307,592	259,047	-	-	-	-	225	-	635,695	515,285
More than 2 years	324,325	827,689	302	315	321,506	2,659	297,841	226,056	-	-	-	-	1,653	471	945,627	1,057,190
	$ 1,539,881	**1,691,402**	**302**	**315**	**1,666,911**	**840,360**	**1,102,865**	**994,437**	**1**	**-**	**-**	**-**	**10,410**	**28,931**	**4,320,370**	**3,555,445**
Loan portfolio rated																
Portfolio rating risk %																
A-Mínimum	$ 35,144,100	24,480,986	3,332,949	3,320,706	30,113,420	21,730,039	19,186,032	14,660,853	7,035,668	6,058,269	-	-	-	-	94,812,169	70,250,853
B-Low	28,876,957	21,825,765	2,640,268	3,755,913	4,214,358	2,588,412	1,326,258	1,397,762	613,299	778,379	-	-	-	-	37,671,140	30,346,231
C-Medium	979,082	572,036	-	3,660	1,099,534	596,664	355,823	170,720	52,822	15,439	-	-	-	-	2,487,261	1,358,519
D-High	472,905	392,058	-	-	1,518,048	778,723	722,142	653,888	13,833	59,168	-	-	-	-	2,726,928	1,883,837
E-Irrecoverable	562,820	826,406	302	315	198,919	98,155	77,408	67,469	-	-	-	-	10,410	28,931	849,859	1,021,276
	66,035,864	48,097,251	5,973,519	7,080,594	37,144,279	25,791,993	21,667,663	16,950,692	7,715,622	6,911,255	-	-	10,410	28,931	138,547,357	104,860,716
Allowance																
0.5 a .09 A-Mimimum	253,244	182,305	32,036	31,127	176,874	244,368	115,642	128,263	53,665	43,433	-	-	-	-	631,461	629,496
1 a 19.9 B-Low	1,738,011	1,279,527	134,248	185,943	404,565	247,860	63,448	57,295	35,472	46,679	-	-	-	-	2,375,744	1,817,304
20 a 59.9 C-Medium	319,114	209,128	-	1,463	494,615	268,551	117,333	61,563	10,564	3,088	-	-	-	-	941,626	543,793
60 a 89.9 D-High	320,927	253,640	-	-	1,137,631	588,486	507,155	457,761	10,375	36,923	-	-	-	-	1,976,088	1,336,810
90 a 100 E-Irrecoverable	560,223	825,195	302	315	199,312	98,315	74,282	64,662	-	-	-	-	10,410	28,931	844,529	1,017,418
	3,191,519	2,749,795	166,586	218,848	2,412,997	1,447,580	877,860	769,544	110,076	130,123			10,410	28,931	6,769,448	5,344,821
Additional reserves	6,575	-	-	-	-	-	-	623,465	-	-	-	-	-	-	6,575	623,465
	$ 3,198,094	2,749,795	166,586	218,848	2,412,997	1,447,580	877,860	1,393,009	110,076	130,123	-	-	10,410	28,931	6,776,023	5,968,286

(Continued)

Unsecured loan:

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. At December 31, 2006 and 2005, the balance of the simple loan aggregates $29,146,481 and $30,366,532, respectively and is included in the caption "Loans to government entities".

Loan swap: HSBC and the Mexican financial authorities executed agreements to exchange 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.

During years ended December 31, 2006 and 2005, the loan swap movements are analyzed as follows:

		2006	2005
Balance at beginning of year	$	1,096,145	17,740,636
Interest, net of normal collection		66,181	1,571,290
Avant received of an early way		(1,162,326)	(18,215,781)
	$	-	1,096,145
		=======	========

The remainder of the IPAB loan was collected on April 3, 2006; consequently the IPAB brings to a conclusion the commitments assumed in the aforesaid agreement.

Federal Government support programs:

As a result of the economic crisis in 1995, the Federal Government and the Mexican Bankers' Association established loan support programs and agreements with debtors of credit institutions

- 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, 2006 and 2005, receivables from the Federal Government in connection with discounts granted and the costs in charge of HSBC (see chart in note 9a), are analyzed as shown on the following page:

(Continued)

		2006		2005	
		Portfolio	Cost	Portfolio	Cost
BADCV and BADCVF	$	353,462	245,985	386,893	274,800
FOPYME		646	676	1,909	1,886
FINAPE		747	896	1,203	783
	$	354,855	247,557	390,005	277,469
		======	======	======	======

(b) UDI Trust restructured loans-

The Bank participated in several loan-restructuring programs established between the Federal Government and the Mexican banks, mainly of changing the peso-denominated loans to UDIs, through trusts created with funding provided by the Central Bank.

Certain UDI Trusts have matured or the trust-related liability has bee fully settled. Housing funds in force at December 31, 2006 y 2005, included in the loan portfolio and earning interest at the rates of 8.63 and 8.55%, respectively are analyzed as follows:.

	2006	2005
Current loan portfolio	$ 3,170,659	4,039,060
Past due loan portfolio	499,791	542,066
Total	$ 3,670,450	4,581,126
	=======	=======

(c) Additional loan portfolio information-

Commission by type of loan:

At December 31, 2006 and 2005, commissions by type of loan presented in commissions and fees collected in the consolidated statements of income, which also include primarily trust and deposit-related commissions are presented below.

Type of loan		Amount	
		2006	2005
Commercial	$	132,893	107,616
Consumer		2,670,129	1,873,459
Mortgage		206,071	141,592
Government entities		7,304	6,382
Others		55,198	64,074
Total	$	3,071,595	2,193,123
		=======	=======

(Continued)

Annual weighted lending rates:

During 2006 and 2005, the annual weighted lending rates (unaudited) were as follows:

	2006	**2005**
Commercial loans	11.04%	12.10%
Financial entities	9.03%	9.89%
Personal loans	19.35%	20.42%
Residential mortgages	11.52%	12.15%
Government entities	8.01%	8.93%

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, 2006 and 2005, the amount of loans granted under these programs aggregated $8,648,098 and $7,759,783, respectively, and the related liability is included in "Due to banks and other institutions".

Restructured loans:

At December 31, 2006 and 2005, restructured loans are analyzed as follows:

		2006			**2005**		
		Loan portfolio			**Loan portfolio**		
		Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Agriculture Portfolio Restructure Program System (SIRECA)	$	3,259	6,052	9,311	5,094	61,615	66,709
With Bank funds		2,915,795	132,869	3,048,664	2,851,297	315,875	3,167,172
	$	2,919,054	138,921	3,057,975	2,856,391	377,490	3,233,881
		=======	======	=======	=======	======	=======

The amount of interest income recognized from the restructuring of past due loans aggregated $393,630 and $433,683, for the years ended December 31, 2006 and 2005, respectively. Consumer loans are not being restructured. Mortgage loans are being restructured without considering additional guarantees. It is frequent that in the restructuring process of portfolios for small and medium-sized companies additional guarantees are obtained. By and large, restructuring processes result in the remission of part of default interest and commissions, which at December 31, 2006 amount to $170,660.

(Continued)

Below is an analysis of the annual movement of past due loans for the years ended December 31, 2006 and 2005:

		2006	2005
Balance at beginning of year	$	3,555,445	3,516,050
Collections		(3,191,283)	(3,229,378)
Write-offs		(2,346,732)	(1,387,154)
Transfers to current loan portfolio		(494,749)	(664,436)
Transfers from current to past due loan portfolio		6,395,011	5,374,382
Other minor items		402,678	(54,019)
Balance at end of year	$	4,320,370	3,555,445

The estimate of nominal interest that would have accrued in 2006 from the past due loan portfolio is $269,108 ($344,054 in 2005).

Impaired loans:

At December 31, 2006 and 2005, the balance of impaired commercial loans is $1,060,270 and $1,306,876, respectively, of which $121,399 and $109,703 are recorded as current loans and $938,871 and $1,197,173 as past due loans, respectively.

Risk concentration:

At December 31, 2006, HSBC's accounting records includes one loan which individually exceed the 10% of basic capital. The sum of the three largest credits amounted to $6,041,489 (25.97% of basic capital).

At December 31, 2005, 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 $5,457,210 (30.10% of basic capital).

(d) Allowance for loan losses-

As explained in notes 2h and 28, an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2006 and 2005 the allowance for loan losses, analyzed in section (a) above is comprised as follows:

		2006	2005
Rated loan estimate	$	6,769,448	5,344,821
Additional reserves, including past due interest		6,575	623,465
Total allowance for loan losses	$	6,776,023	5,968,286

(Continued)

At December 31, 2006, the balance of the general (A) and specific (B-1 to E) allowance for loan losses amounts to $638,036 and $6,137,987, respectively ($1,252,960 and $4,715,326, respectively in 2005).

The movement of the allowance for loan losses for the years ended December 31, 2006 and 2005 (in nominal pesos) is summarized below:

		2006	2005
Balance at beginning of year	$	5,729,773	6,401,626
Increase charged to income*		4,023,799	1,089,260
Reinstatement of reserves		333,571	484,787
Exchange rate valuation effects		16,945	(11,974)
Applications:			
Write-offs		(2,909,848)	(1,414,104)
Debt forgiveness		(418,217)	(819,822)
		6,776,023	5,729,773
Restatement for inflation		-	238,513
Balance at end of year	$	6,776,023	5,968,286
		=======	========

* Additionally, the expense for loan losses in the 2006 and 2005 in the consolidated statements of operations includes $82,030 and $416,466, respectively, for the loss sharing under the IPAB loan swap (see note 9a).

(10) Other accounts receivable-

At December 31, 2006 and 2005, other accounts receivable are analized as follows:

		2006	2005
Debtors on settlement transactions	$	7,238,680	13,025,837
Due to personal		1,957,652	1,619,161
Other, net		1,606,520	644,339
	$	10,802,852	15,289,337
		========	========

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

As of December 31, 2006 and 2005, foreclosed assets or assets received in lieu of payment are analyzed on the following page:

(Continued)

		2006		2005	
		Amount	Reserve	Amount	Reserve
Securities and sundry assets:					
Sundry assets	$	9,553	(6,632)	11,144	(7,268)
Securities		957,091	(946,250)	1,026,555	(986,239)
		966,644	(952,882)	1,037,699	(993,507)
Premises:					
Land		36,957	(36,122)	263,127	(236,683)
Buildings		112,931	(74,052)	1,011,052	(712,957)
		149,888	(110,174)	1,274,179	(949,640)
	$	1,116,532	(1,063,056)	2,311,878	(1,943,147)
		=======	=======	=======	=======
		$ 53,476		368,731	
		======		======	

The debit to the income statement related to the reserve in 2006 amounted to $241,365 ($54,463 in 2005).

(12) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2006 and 2005 are analyzed as follows:

		2006	2005	Annual depreciation and amortization rate
Premises	$	3,278,838	2,999,092	5%
Office furniture and equipment		821,525	2,666,253	10%
Computer equipment		1,928,882	2,362,236	Various
Transportation equipment		20,646	130,977	25%
Installation expenses		2,575,160	2,278,755	10% and 5%
Other equipment		615,695	838,558	Various
		9,240,746	11,275,871	
Accumulated depreciation and amortization		(4,263,668)	(6,832,351)	
		4,977,078	4,443,520	
Land		1,102,663	1,014,639	
	$	6,079,741	5,458,159	
		=======	=======	

(Continued)

Depreciation and amortization charged to income in 2006 and 2005 amounted to $847,686 and $855,241, respectively.

(13) Permanent investments in shares-

At December 31, 2006 and 2005, permanent investments in shares classified by activity, are analyzed as follows:

		2006	2005
Unconsolidated subsidiaries:			
Non-banking real estate companies	$	28,274	30,602
Other		37,357	58,834
		65,631	89,436
Associated and affiliated companies:			
Supplementary banking services		99,948	95,318
Mutual funds		15,068	15,019
Security and protection		1,909	1,908
		116,925	112,245
Others		2,091	2,140
	$	184,647	203,821

The recognition of the equity in the results of subsidiary companies, not subject to consolidation, associated and affiliated companies was a loss of $1,644 in 2006 (income of $16,510 in 2005)
.

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

At December 31, 2006 and 2005 other assets deferred charges and intangibles assets include:

		2006	2005
Recoverable taxes	$	52,778	945,517
Labor obligations prepaid (note 19)		505,765	526,817
Services and fees paid, net		27,412	52,361
	$	585,955	1,524,695

(15) Deposits funding-

The weighted average deposit rates (unaudited) during the years ended December 31, 2006 and 2005 are analyzed as follows:

	2006 rates			2005 rates		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	0.59	0.65	-	0.67	0.49	-
Time deposits	5.57	2.17	0.19	6.40	1.05	0.30
	===	===	====	====	===	===

(16) Bank bonds-

On February 13, 2006, the Banking Commission authorized the Bank a bank bonds program for up to $10,000,000. At December 31, 2006, the Bank has made the following issuances under the bank bonds program:

Issuance day	Reference rate	Maturity day		Amount
May 10, 2006	TIIE	May 1, 2013	$	2,000,000
May 10, 2006	9.08%	April 27, 2016		1,000,000
June 29, 2006	TIIE	May 1, 2013		1,220,000
				4,220,000
Accrued interest				22,193
Total de Bank bonds			$	4,242,193
				=======

(17) Due to banks and other institutions-

At December 31, 2006 and 2005, bank and other loans are analyzed as follows:

		2006		2005	
		Term		Term	
		Short	Long	Short	Long
Pesos:					
Banco de México	$	4,502,655	-	-	-
Development banks*		2,489,239	59,327	1,080,296	178,112
Multiple bank		100,058	-	-	-
Promotion funds*		3,087,453	1,807,030	3,146,912	1,925,605
Carried, forward	$	10,179,405	1,866,357	4,227,208	2,103,717

(Continued)

		2006 Term		2005 Term	
		Short	**Long**	**Short**	**Long**
Brought, forward	$	10,179,405	1,866,357	4,227,208	2,103,717
Foreign currencies translated into pesos:					
Development banks*		22,181	35,759	104,410	8,780
Promotion funds*		493,600	339,115	549,469	81,861
Foreign banks		25,590	43	52,978	54,286
		541,371	374,917	706,857	144,927
Total by term		10,720,776	2,241,274	4,934,065	2,248,644
Total due to banks and other institutions		$ 12,962,050		7,182,709	
		========		=======	

* Funds granted under the development fund program (see note 9c).

At December 31, 2006 and 2005, the average annual rates (unaudited) are analyzed as follows:

	Pesos		Foreign currency	
	2006	**2005**	**2006**	**2005**
Banco de México	7.28%	-	-	-
Development banks	7.49%	10.25%	9.61%	5.91%
Promotion funds	6.99%	7.86%	5.95%	3.96%
	=====	=====	====	=====

(18) Securities lending-

At December 31, 2006 and 2005, as borrower, HSBC had securities loans in effect maturing on January 2, 2007 and 2006, respectively. The type of security, the number and amount of securities loans are described below:

	Number of securities			Amount	
	2006	**2005**		**2006**	**2005**
Bonos	54,600,000	40,840,000	$	5,794,411	4,346,325
Cetes	48,000,000	23,200,000		471,823	225,130
			$	6,266,234	4,571,455
				=======	=======

Premiums earned for the year ended December 31, 2006 total $11,860 ($12,797 in 2005)

(Continued)

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

HSBC established a pension plan that all employees have the right to be included. The defined benefit pension plan (DBPP) 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, 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 resources or funds contributed for each obligations, they have been affected in trusts.

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. 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).

Since 2005, the Bank recognizes obligations for severance compensation upon the termination of the employment relationship.

The components of the net periodic cost for the years ended December 31, 2006 and 2005 are as follows (nominal pesos):

	2006		2005	
	Pensions and seniority premiums	**Medical benefits**	**Pensions and seniority premiums**	**Medical benefits**
Service cost	$ 33,604	61,950	27,799	58,179
Interest cost	76,464	97,554	71,077	90,159
Return on plan assets	(79,696)	(75,476)	(84,594)	(61,887)
Actuarial (gain) loss	(319)	32,522	(538)	32,678
Amortization of plan modifications	5,716	48,762	5,549	56,843
Amortization of transition liability	4,770	13,650	4,631	15,913
Effect of reductions/ extinction	3,126	102,888	(4,908)	-
Inflationary effect	1,620	7,158	718	5,756
Net periodic cost	$ 45,285	289,008	19,734	197,641
	=====	======	=====	======

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

	2006	2005
Net periodic cost:		
Pension and seniority premium (DBPP)	$ 45,285	19,734
Medical benefits	289,008	197,641
Excess in funding	1,999	3,998
	336,292	221,373
Period contribution:		
Pensions (DCPP)	86,535	69,743
Benefits to the personnel	422,827	291,113
Indemnity payments	114,174	97,940
	$ 537,001	389,056
	======	======

At December 31, 2006 and 2005, labor obligations are analyzed as follows:

	2006		2005	
	Pensions and seniority premiums	**Medical benefits**	**Pensions and seniority premiums**	**Medical benefits**
Projected benefit obligation (PBO)	$ 1,742,919	2,377,851	1,539,013	1,902,971
Amortization pending items	(141,235)	(292,597)	(146,286)	(436,966)
Actuarial loss	(271,484)	(1,191,180)	(92,918)	(854,603)
Required assets	1,330,200	894,074	1,299,809	611,402
Less: Plan assets	1,330,200	1,441,838	1,308,805	1,136,175
Net projected assets (see note 14)	$ -	547,764	8,996	524,773
	=======	=======	=======	=======

Interest rates used in the actuarial projections are:

	2006	2005
Rate of return on plan assets	6.50%	6.50%
Discount rate	5.30%	5.30%
Salary increase rate	0.75%	0.75%
Estimated inflation rate	3.75%	3.33%

(Continued)

At December 31, 2006 and 2005 the labor obligation for indemnity payments, are analiyzed as follows:

		Amount	
		2006	2005
PBO	$	356,855	319,399
Unamortized items:			
Transition assets		(221,373)	(241,549)
Unrecognized actuarial assets		(90,846)	(43,832)
Projected net liability	$	44,636	34,018
		======	======
Projected net liability reconciliation:			
Contributions	$	114,174	97,940
Payments		(103,900)	(62,056)
Subtotal		10,274	35,884
Total liabilities		35,884	-
Excess		(1,522)	(1,866)
	$	44,636	34,018
		======	======

(20) Outstanding subordinated debentures-

At December 31, 2006 and 2005, the Bank had issued subordinated debentures, not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed as follows:

		2006	2005
Debentures issued:			
In 2003, with maturing in 2013	$	2,200,000	2,291,580
Accrued interest		6,271	7,141
Total subordinated debentures	$	2,206,271	2,298,721
		=======	=======

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

(21) Income tax (IT), tax on asset (AT) and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the greater of their IT or 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, 2006 ESPS expense was $559,685 ($432,876 in 2005).

AT is calculated at the 1.8% rate on assets not subject to financial intermediation, net of certain liabilities. AT payable in excess of IT for the year may be recovered in the ten subsequent years, restated for inflation.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

At December 31, 2006, the IT, AT and ESPS expense shown in the consolidated statement of income is analyzed as follows:

	IT	
	2006	**2005**
IT expense at the rate 29% (30% in 2005)	$ 704,521	143,010
ESPS expense at the 10% *	559,685	432,876
IT prior years**	95,980	717,385
ESPS prior years	-	97,922
IT Subsidiaries	20,238	-
AT subsidiaries	17,847	-
Excess of the provision	36,190	49,703
IT and ESPS in the income statement	$ 1,434,461	1,440,897
	=======	=======

* The principal difference that increases the base for ESPS purposes relates to the treatment of the IPAB portfolio and the shared loss.

** During 2006 and 2005, HSBC recalculated the tax effects arising from the UDI trusts that ended in prior years, which amended IT returns were filed in 2006. This resulted in a current income tax paid in 2006 of $95,980 ($68,719 and $27,261 of surcharges and updating for inflation) and a deferred income of $717,385 (that affected the preventive estimate, loss sharing and tax loss carryforwards). The foregoing led to surcharges and updating for inflation of $27,261 and $104,406, which were recognized in results of operation for 2006 and 2005, respectively.

Below is a condensed reconciliation between accounting and taxable income of HSBC (not consolidated) that accounts for 95% y 96% of the consolidated expense for the years 2006 and 2005, respectively:

	IT	
	2006	**2005**
Income before IT, ESPS and equity in earnings of unconsolidated subsidiaries, associated and affiliated companies	$ 7,053,029	7,274,872
(Less) income before taxes of subsidaries consolidated	(27,881)	(5,602)
Accounting effects of inflation, net	624,316	65,178
Income in nominal pesos	7,649,464	7,334,449
Add (deduct) reconciling items (in nominal pesos):		
Difference between accounting and tax depreciation	(6,515)	38,310
Net tax effects of inflation	(277,828)	149,364
Allowance for loan losses	(634,081)	(2,897,342)
Reserve for FOBAPROA promissory note and loss sharing	(3,033,622)	(4,095,694)
Write-offs	453,114	480,836
Nondeductible expenses	79,193	112,824
Provisions	306,450	(253,894)
ESPS 2005 paid in 2006	(388,428)	-
Trust UDIS Banxico	(308,305)	(434,904)
Prepaid expenses	(496,686)	(361,788)
Non taxable recoveries	(209,335	(81,488)
Carried, forward	$ 3,130,421	(9,327)

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

	2006	2005
Brought, forward	$ 3,130,421	(9,327)
Special Cetes	-	643,519
Foreclosed assets	(299,175)	-
Other, net	(404,864)	(157,490)
Taxable income	$ 2,429,383	476,701

The AT paid by real-estate subsidiaries that may be recovered should their IT exceed their AT in future years amounts to $80,075 and $63,983 at December 31, 2006 and 2005, respectively. Such amounts are recognized as expense in view of their uncertain recoverability.

Deferred IT and ESPS:

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, 2006 and 2005, in nominal pesos, are analyzed as follows:

	2006	2005
At beginning of year	$ 617,833	2,137,202
Charged to operations:		
Deferred IT expense	(1,161,182)	(1,148,184)
Deferred ESPS expense	(42,293)	(192,979)
Reported in capital:		
Valuation effects of available-for-sale financial instruments	(20,726)	(160,376)
Other	(264)	(17,830)
	(606,632)	617,833
Adjustment for inflation	-	25,719
	$ (606,632)	643,552

(Continued)

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2006 and 2005, in nominal pesos, are presented below:

		IT	
		2006	**2005**
Deferred tax assets:			
Allowance for loan losses	$	751,656	941,143
Allowance for foreclosed assets		306,664	340,546
Other provisions		153,028	115,635
Loss-Sharing		-	833,136
ESPS provision (expense deductible beginning 2006)		212,680	120,350
Other		108,736	114,237
		1,532,764	2,465,047
Deferred tax liabilities:			
Interest from Cetes UDIS-Banxico		(1,292,178)	(1,232,172)
Valuation of financial instruments		(471,112)	(291,924)
Prepaid expenses		(372,771)	(323,118)
Other		(3,335)	-
		(2,139,396)	(1,847,214)
Restatement for inflation		-	25,719
Net deferred tax (liability) asset	$	(606,632)	643,552
		=======	=======

<ins>*Other considerations*</ins>:

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. 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. During fiscal 2006 the IT rate was 29% and the effect of change in rate was $29,498.

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

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

At December 31, 2006, the balances of the Capital Contributions (CUCA) and previously taxed earnings (CUFIN) accounts total $14,218,588 and $3,807,047, respectively.

(22) Stockholders' equity-

The outstanding characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

<u>*Activity in 2006*</u>

On April 26, 2006, the General Stockholders' Meeting agreed to transfer the income for the year 2005 of $4,374,268 ($4,199,457 nominal), affecting $437,427 ($419,946 nominal) to the statutory reserve, while the remainder $3,936,841 ($3,779,511 nominal) was recorded in the "Other reserves" account and will be made available to the stockholders if and when decided by the Board of Directors.

<u>*Activity in 2005*</u>

On April 21, 2005, the Ordinary General Stockholders' Meeting agreed to apply the net income of 2004 amounting to $3,322,884 ($3,099,921 nominal), against "statutory reserves" in the amount of $332,288 ($309,992 nominal), and the remaining $2,990,596 ($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 $584,666 ($550,000 nominal).

On November 17, 2005, the Ordinary General Stockholders' Meeting agreed to increase capital stock by $286,448 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 $286,448 and $2,005,135, respectively. These shares were paid up in cash in December 2005.

The capital stock at December 31, 2006 and 2005 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 -

The comprehensive income reported in the consolidated statement of stockholders' equity represents the results of the Bank's activities during the year and includes the net income, the gain or loss from mark to market of investments in "Available-for-sale" securities, permanent investment in shares and premises, furniture and equipment, and the translation effect of the foreign subsidiary, which in accordance with the applicable accounting basis, 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.

(Continued)

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, 2006 and 2005 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		**2006**	**2005**
Stockholders' equity	$	24,557.7	20,128.7
Reduced by:			
Intangible assets		(730.6)	(944.2)
Investments in shares of financial entities		(279.8)	(203.8)
Investments in shares of other companies		(55.3)	(76.9)
Investment in subordinated debt		(232.3)	(20.9)
Basic capital (Tier 1)		23,259.7	18,882.9
Add:			
Subordinated debt		2,200.0	2,291.6
General allowance for loan losses		640.3	1,241.9
Supplementary capital (Tier 2)		2,840.3	3,533.5
Net capital (Tier 1+ Tier 2)	$	26,100.0	22,416.4

(Continued)

Risk-based assets and capital requirements

	Equivalent risk-weighted assets		Capital requirements	
	2006	**2005**	**2006**	**2005**
Market risk:				
Transactions or positions:				
In pesos at nominal rates	$40,283.7	42,232.4	3,222.7	3,378.6
In pesos at interest rates discounted from inflation or denominated in UDIS	1,566.2	1,647.9	125.3	131.9
In foreign currency at nominal rates	4,597.5	5,466.9	367.8	437.4
In UDIS or with yields linked to the Consumer Price Index	18.7	13.4	1.5	1.0
Foreign currency positions or with exchange rate indexed yields	2,812.5	1,082.7	225.0	86.6
Equities or with indexed yields	-	0.2	-	-
Total market risk	49,278.6	50,443.5	3,942.3	4,035.5
Credit risk:				
Group I (weighted at 0%)	-	-	-	-
Group II (weighted at 10%)	195.1	168.7	15.6	13.4
Group II (weighted at 11.5%)	117.3	-	9.4	-
Group II (weighted at 20%)	7,621.4	7,320.6	609.7	585.6
Group II (weighted at 23%)	178.8	624.9	14.3	49.9
Group III (weighted at 50%)	23.1	23.1	1.9	1.9
Group III (weighted at 100%)	126,895.1	94,545.5	10,151.6	7,563.7
Group III (weighted at 112%)	3,037.5	1,927.3	243.0	154.2
Group III (weighted at 115%)	794.5	470.6	63.6	37.6
Group III (weighted at 150%)	1,099.0	962.0	87.9	77.0
Total credit risk	139,961.8	106,042.7	11,197	8,483.3
Total market and credit risks	$ 189,240.4	156,486.2	15,139.3	12,518.8
	=======	=======	======	======

(Continued)

	2006	2005
Capitalization indices:		
Capital to credit risk assets:		
Basic capital (Tier 1)	16.62%	17.81%
Supplementary capital (Tier 2)	2.03%	3.33%
Net capital (Tier 1 + Tier 2)	18.65%	21.14%
	=====	=====
Capital to market and credit risk assets:		
Basic capital (Tier 1)	12.29%	12.06%
Supplementary capital (Tier 2)	1.50%	2.26%
Net capital (Tier1 + Tier 2)	13.79%	14.32%
	=====	=====

Montly the Bank informs Asset and Liability Committee of Capital index and the ponderate grow assets to market and credit risk, as well as the tendency of capital index. In the important Commercial Banking´s transaccions and treasury transactions, the potencial impact in capital requirement is analized.

(23) 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, 2006 and 2005, the Bank had granted loans to related parties totaling $6,380,584 and $1,544,972, 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, 2006 and 2005, were as follows:

		2006	2005
Transactions:			
Income:			
Administrative services	$	894,453	342,243
Interest and commissions		328,055	-
Other		287,970	233,007
		======	======
Expenses:			
Insurance premiums	$	119,704	-
Premiums on securities repurchase/resell agreements		203,863	265,446
Interest and commissions		25,520	-
Administrative expenses		-	114,890
Rentals		134,136	-
Others		2,764	-
		======	======

(Continued)

Balances receivable from and payable to related parties as of December 31, 2006 and 2005, were as follows:

		2006		2005	
		Receivable	**Payable**	**Receivable**	**Payable**
Mutual funds	$	307	-	19,068	-
HSBC Seguros, S. A. de C. V.		2,955	-	-	-
HSBC Vida, S. A. de C. V.		524	-	-	1,372
HSBC Afore, S. A. de C. V.		2,828	-	-	-
HSBC Casa de Bolsa, S. A. de C. V.		11,374	12,184	-	273
HSBC Fianzas, S. A.		-	8,109	-	7,807
HSBC Pensiones, S. A.		376	-	91	-
HSBC Operadora de Fondos, S. A. de C. V.		-	44	265	-
	$	18,364	20,337	19,424	9,452
		=====	=====	=====	====

(24) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-

At December 31, 2006, the Bank had irrevocable commitments to grant loans of $6,333,680 and had issued guarantees of $50,455 ($3,917,740 and $59,078, respectively, in 2005).

At December 31, 2006 the allowance for letters of credits and guarantees issued amounts to $161,751, and is included in the allowance for loan losses ($87,565 in 2005).

(b) Assets in trust or under mandate-

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

		2006	**2005**
Type of trust:			
Administrative	$	50,896,064	35,815,019
Guarantee		16,425,809	10,592,785
Investment		13,859,421	12,733,805
Other		11,455,056	11,137,049
		92,636,350	70,278,658
Mandates		491,416	311,016
	$	93,127,766	70,589,674
		========	========

Trust activities revenue for the years ended December 31, 2006 and 2005 amounted to $129,347 and $114,927, 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:

		2006	**2005**
Mutual funds:			
Managed by HSBC	$	1,732,932	1,697,099
Other		3,553,682	905,201
Government securities		11,313,302	9,418,590
Equities and other		5,363,976	5,546,708
	$	21,963,892	17,567,598

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

(d) Assets in custody-

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2006 and 2005, this account comprises:

		2006	**2005**
Assets in custody	$	57,713,155	15,034,538
Pledged assets		566,468	766,043
Assets under management		53,717,723	43,506,791
	$	111,997,346	59,307,372

(Continued)

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

(a) Statement of operations by segment-

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

<u>*Personal Financial Services (PFS)*</u> –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 (CMB)*</u> – 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 (CIBM)*</u> – 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 (OCA)*</u> – They relate to business structural operations.

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

Statements of operations by segment

December 31, 2006 and 2005

(Million of Mexican pesos of constant purchasing power as of December 31, 2006)

	Banca									
	PFS		**CMB**		**CIBM**		**OCA**		**Total**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Financial margin	$ 11,339	9,018	4,254	2,685	1,144	1,837	-	1,688	16,737	15,228
Allowance for loan losses	(2,903)	(37)	(1,197)	(6)	(6)	-	-	(1,508)	(4,106)	(1,551)
Adjusted financial margin	8,436	8,981	3,057	2,679	1,138	1,836	-	181	12,631	13,677
Commissions and fees, net	5,587	4,737	1,942	1,523	505	432	154	271	8,188	6,963
Financial intermediation income	534	342	128	78	1,389	1,021	(8)	(29)	2,043	1,412
Total operating income	14,557	14,060	5,127	4,279	3,032	3,289	146	423	22,862	22,052
Administrative and promotion expenses	(11,945)	(11,667)	(3,098)	(2,464)	(1,366)	(1,219)	(423)	40	(16,832)	(15,310)
Net operating income (loss)	2,612	2,393	2,029	1,816	1,666	2,071	(277)	462	6,030	6,742
Other income, net	476	-	27	-	58	-	462	533	1,023	533
Taxes	(1,162)	(922)	(774)	(699)	(649)	(797)	(53)	(419)	(2,638)	(2,838)
Income before equity in results of subsidiaries	1,926	1,472	1,282	1,117	1,075	1,273	132	575	4,415	4,437
Equity in results of subsidiaries	(2)	-	-	-	-	-	-	16	(2)	17
Income from continuing operations	1,924	1,472	1,282	1,117	1,075	1,273	132	592	4,413	4,454
Result from discontinued transactions	-	-	-	-	-	-	-	(80)	-	(80)
Net income	$ 1,924	1,472	1,282	1,117	1,075	1,273	132	512	4,413	4,374

HSBC MEXICO, S. A. AND SUBSIDIARIES

Financial Margin:

The financial margin for the years ended December 31, 2006 and 2005 is analyzed as follows:

	2006	2005
Interest income:		
Cash and equivalents	$ 2,548,806	2,619,508
Investment securities	5,314,003	3,854,917
Interest and premiums on securities purchased under agreements to resell	1,891,434	4,030,745
Loan portfolio:		
Comercial loans	4,912,720	3,874,913
Financial Institutions	527,345	395,856
Consumer loans	6,026,811	3,780,546
Residential mortgages	1,996,035	1,502,067
Government entities	2,938,419	2,462,837
IPAB	66,053	2,467,379
Others, including inflation effect	797,729	1,392,658
	27,019,355	26,381,426
Interest expense:		
Deposit funding	(707,427)	(663,877)
Time deposit	(4,200,257)	(4,483,732)
Due to banks and other institutions	(573,143)	(945,464)
Bank bonds	(205,381)	-
Interest and premiums on securities purchased under agreements to resell	(3,278,709)	(3,886,449)
Interest by subordinated debt issued	(168,652)	(215,570)
Others, including inflation effect	(212,649)	(707,242)
	(9,346,218)	(10,902,334)
Monetary position result associated to financial margin	(936,671)	(251,395)
	$ 16,736,466	15,227,697
	========	========

(Continued)

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

		2006		2005	
		Financial margin	**Others**	**Financial margin**	**Others**
Assets:					
Cash and equivalents	$	50,303,993	-	45,862,930	-
Investment securities		58,848,842	142,338	50,308,924	78,832
Derivative financial instruments		230,698,745	-	576,502	-
Loan portfolio		136,521,338	-	123,617,756	-
Other accounts receivable		-	21,656,128	-	10,227,996
Foreclosed assets		-	142,801	-	293,657
Deferred income tax		-	3,802,684	-	2,701,270
Permanet investments in shares		-	15,719	-	15,559
Others		-	1,786,039	-	455,618
Monetary position asset average		476,372,918	27,545,709	220,366,112	13,772,932
Liabilities:					
Deposits		(198,998,971)	-	(194,363,295)	-
Due to banks and other institutions		(8,186,487)	-	(12,553,518)	-
Bank bonds		(2,536,907)	-	-	-
Derivative financial instruments		(237,917,235)	-	(2,642,194)	-
Subordinated debt issued		(2,417,165)	-	(2,440,445)	-
Others account payable		-	(33,166,873)	-	(11,978,676)
Deferred credits		-	(3,605,463)	-	(1,632,149)
Monetary position liability average		(450,056,765)	(36,772,336)	(211,999,452)	(13,610,825)
Monetary position average, net		26,316,153	(9,226,627)	8,366,660	162,107
Monetary position result	$	(936,671)	254,556	(251,395)	(4,174)
		========	========	========	========

(Continued)

(b) Financial intermediation gain-

For the years ended December 31, 2006 and 2005, the financial intermediation gain (loss) is analyzed as follows:

	2006	2005
Valuation gain (loss):		
Investment securities	$ 13,735	1,117
Securities repurchase/resell agreements	20,412	37,527
Trading derivatives	417,104	239,768
Foreign currency exchange and precious metals	175,520	(5,012)
	626,771	273,400
Purchase/sale gain (loss):		
Investment securities	428,984	(84,940)
Securities repurchase/resell agreements	542,102	290,159
Foreign currency exchange and precious metals	416,974	865,891
	1,388,060	1,071,110
Restatement for inflation	28,255	67,621
	$ 2,043,086	1,412,131
	=======	======

(c) Other income-

For the years ended December 31, 2006 and 2005, “Other income” is analyzed as follows:

	2006	2005
Recoveries	$ 1,312,581	856,687
Monetary position gain from non-financial margin items	254,556	-
Gain on sale of foreclosed assets or received in lieu of payment	120,053	211,408
Gain on sale of premises, furniture and equipment	3,460	2,289
Other, including restatement for inflation	377,224	497,042
	$ 2,067,874	1,567,426
	=======	=======

(Continued)

(d) Other expense-

At December 31, 2006 and 2005, other expense includes:

	2006	2005
Write-offs and losses	$ 1,044,198	1,029,967
Monetary position loss from non-financial margin items	-	4,714
	$ 1,044,198	1,034,681
	======	=======

(e) Ratios-

The ratios as of and for the years ended December 31, 2006 and 2005 are analyzed below:

	2006	2005
Non-performing loans to total loans	2.7%	2.7%
Allowance for loan losses to past-due loan portfolio	156.8%	167.9%
Operating efficiency *(administrative and promotional expenses to average total assets)*	5.9%	6.6%
ROE *(net income to average stockholders'equity)*	19.1%	27.9%
ROA *(net income to average total assets)*	1.5%	2.0%
Liquidity *(liquid assets/liquid liabilities)**	73.3%	83.0%
Financial margin after provision for loan losses /average earnie assets	4.7%	5.9%
Capital to credit risk assets	18.65%	21.14%
Capital to market and credit risk	13.79%	14.32%

* *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 $79,202 which it recorded under "Discontinued operations, extraordinary items and changes in accounting policies" in the consolidated statement of operations.

(Continued)

(26) 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 $920,608 in 2006 and $845,135 in 2005.

(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 on December 7, 2001.

(27) Applicable accounting standards from 2007-

On September 15, 2006 the Official Gazette of the Federation published the Amendments to the Accounting Criteria for Credit Institutions (the Amendments) issued by the Banking Commission that will come into effect as of 2007. These amendments homologate certain criteria with FRS and establish that particular rules will be issued for specialized transactions carried out by financial institutions but consider in the first instance in the conceptual framework of the FRS and the supplementary use process described in FRS A-8, which provides that a supplementary standard may only be used if the FRS do not offer a solution to the accounting recognition, provided such supplementary standard meets with al the requirements noted by the aforementioned FRS-. The process which provides for the supplementary use of other accounting principles and standards cites the following order: US GAAP and any other formal and recognized accounting standards. The most relevant particular rules of amendments are mentioned below and have no significant effects on the Bank's financial information.

Consolidation – Consolidation of all entities is required. Through 2006 only entities of the financial sector are consolidated.

Investment securities- Only the transfer of held-to-maturity securities to the available-for-sale securities category is allowed.

Securities under repurchase/resell agreement and securities on loan – Registration, valuation and presentation rules were included for the offsetting of guarantees in repurchase/resell and securities on loan transactions.

Loan portfolio- The treatment for the acquisition of loan portfolio and the concept for collection rights were incorporated. The year's gain from releasing provisions for recovered loans is permitted. Loan origination fees shall be recognized in income throughout the loan's life.

Sundry debtors- Amounts still due after 90 days (60 days if unidentified) are reserved based on a recoverability analysis.

Foreclosed assets- For purposes of recognizing inflation on the financial information foreclosed assets are deemed non-monetary assets.

(Continued)

FRS

The following FRS are deemed of mandatory application: A-1 Standards structure; A-8 Supplementary nature of standards; B-1 Accounting changes and correction of errors; B-7 Business acquisitions; C-10 Derivative financial instruments and hedging transactions; C-15 Impairment and disposition of long-lived assets; and D-5 Leasing.

(28) Risk management-

At the Financial Group of HSBC in Mexico the comprehensive risk management involves both compliance of Prudential Provisions in the Subject of Comprehensive Risk Management included in the Sole Circular issued by the National Banking and Securities Commission and the worldwide Group regulations, which ultimate purpose is generating shareholder value, maintaining a conservative profile as to exposing the organization to risk.

The recognition of fundamental precepts is essential for efficient and effective comprehensive management of risks, both quantifiable and discretional (credit, market and liquidity) and non-discretional: operational (technology and legal) and under the premise that basic identification, measurement, monitoring, limitation, control and divulging processes are fulfilled.

As in its principal affiliates, the Bank's risk management function begins with the Board of Directors, who has primary responsibility for approving the related objectives, guidelines and policies and for determining the risk exposure limits, which is supported by the Assets and Liabilities Committee (ALC) and the Risk Committee (RC).

Assets and Liabilities Committee (ALC)

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

The ALC is the prime vehicle for attaining the objectives of an adequate management of assets and liabilities. Its principal purposes concerning risks are as follows:

- Providing strategic management and ensuring tactical follow-up by creating a balance sheet structure that integrates objective compliance within the pre-established risk parameters.
- Identifying, monitoring and controlling all relevant risks, including the information generated by the RC.
- Distributing the necessary information for proper decision making.
- Conducting overall reviews of sources and destination of funds.
- Determining the most likely environment for the Bank's assets and liabilities in planning and considering contingency scenarios.
- Evaluating alternatives for: rates, prices and portfolio mixes.
- Reviewing and becoming accountable for: distribution and maturity of assets and liabilities, position and size of interest margins, liquidity levels and economic utility.

(Continued)

For reinforcing decision making, the local ALCs as is the case of Mexico's report directly to the Group's Central Finance Direction in London.

Risk Committee (RC).

The Risk Committee meets once a month and reports both to the Board of Directors and to the (ALC).

In following up on regulatory provisions and so as to have opinions independent from the Bank's management, the Committee includes three external members, one of which chairs the Committee. Internally, the areas that participate in this Committee are: General Direction, Risks, Corporate Banking, Business Banking, Commercial Banking, Finance, Auditing, Treasury, Global Markets, Planning, Economic Capital, Liquidity Risks, Market Risks, Affiliate Risk and Legal Risk.

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

- Developing focused and integrated mechanisms for identifying current and potential risks.
- Assessing the materialization of risks and their potential impact.
- Advanced solutions for improving the risk profile or mitigate specific or relevant risks.
- Developing a clear map of the risk profile and trends as to credit, market and other risks and potential changes in the business strategy.
- Risk process aimed at handling relevant risks, contingencies and mitigating measures as well as consolidated risk reports to be submitted to the ALC.
- Monitoring of market, credit, liquidity and other relevant risks and reviewing and approving goals, operations and control procedures as well as risk tolerance levels based on market conditions.

<u>Market Risk</u>

Qualitative information

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

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

The Board of Directors establishes the RC, 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.

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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:

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

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

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

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

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

b. Principal elements of market risk management methodologies

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

c. Value at Risk (VaR)

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

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

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

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

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Surcharge risk

By surcharge risk we understand the potential adverse fluctuation in the value of positions of financial instruments with surcharge (floating government bonds) due to market fluctuations in such risk factor.

Base risk

Base risk is the term used for describing the risk that exists for the movement of a market (due to internal factors) with respect to others. The base risk increases when an instrument is used for hedging another one and the instrument prices are set by two different interest rate curves.

These differences are caused by the various existing characteristics between markets, which are:

- Regulation
- Individual market restrictions
- Calendars
- Conventions (basis in rates)

Stress testing

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

At the same time, the base PVBP forward is linearly extrapolated to the hypothetical scenarios (assuming that the portfolio y perfectly linear) so as to compare both calculations and obtain the implied convexity.

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.

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c. Portfolios subject to VaR and PVBP calculation

For a detailed and precise portfolio management, and adhering to the international and local standards or effective market risk management, the Market Risk management of HSBC Mexico has perfect control of the portfolio structure. Such specific classification should at all times be comprehensible from an accounting viewpoint. This allows for calculating the risk measures (sensibility, potential loss and stress measures) for any sub-portfolio aligned with the accounting.

The market risk area calculates the VaR and PVBP for the Bank's total portfolio and specific Accrual and 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.

In accordance with the International Accounting Standard (IAS) 39, the Money Market Trading (MMT) portfolio should be part of the Trading portfolio for purposes of calculating the market VaR and of the Accrual portfolio for calculating the PVBP.

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.

Quantitative information

As follows it is going to be presented, the Bank's VaR and PVBP and the Trading and Accrual portfolio sub-division for the 4Q of 2006 (in million of dollars):

The VaR & PVBP limits shown correspond to the latest updating of Market Risk Limits approved by the Group's Board of Directors and the Risk Committee.

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

	2006				
	September 30	**December 29**	**Limits***	**3rd quarter average**	**4th quarter average**
Bank	**(17.83)**	**(22.69)**	30.000	(15.77)	(19.72)
Accrual	**(15.63)**	**(18.88)**	27.500	(14.89)	(17.88)
Trading	**(2.08)**	**(2.24)**	13.500	(1.87)	(3.01)
MMT	**(0.91)**	**(1.16)**	7.500	(0.98)	(1.17)
Foreign exchange desk	**(0.25)**	**(0.06)**	13.500	(0.25)	(0.23)
Money market desk	**(2.23)**	**(2.20)**	13.500	(1.89)	(2.93)
Capital market desk	**NA**	**NA**	NA	NA	NA

* Absolute value
NA Not Apply

As of December 2006, the Bank's VaR includes the position of the ALCO book.

The Bank's VaR at the end of 4Q of 2006, varied by 27.26% as compared to the 3Q. During the period the VaR levels remained below the total limits set by Management.

The Bank's average VaR for the 4Q of 2006 varied by 25.05% 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 against Net Capital table as of September 30 and December 29, 2006; in millions of dollars.

	September 30, 2006	**December 29, 2006**
Total VaR *	15.77	19.72
Net Capital **	2,240.34	2,414.07
VaR / Net Capital	0.70%	0.82%

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

Average VaR represented 0.82% of net capital in 4Q in 2006.

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

	2006				
	September 30	**December 29**	**Limits ***	**3rd. Quarter average**	**4th. Quarter average**
Bank	(0.745)	(1.021)	1.200	(0.629)	(0.951)
Accrual	(0.683)	(0.967)	1.050	(0.586)	(0.867)
Trading	(0.061)	(0.054)	0.350	(0.042)	(0.083)
Foreing exchange desk	NA	NA	NA	NA	NA
Money market desk	(0.061)	(0.054)	0.350	(0.042)	(0.083)
Capital markets desk	NA	NA	NA	NA	NA

* Absolute value

The Bank's PVBP at the end of the 4Q of 2005 changed by 37.05% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

The Bank's average PVBP for the 4Q of 2006 varied by 51.19% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

Liquidity risk

Qualitative information

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

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

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

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

Quantitative information

At the December close, the Institution has the following liquidity ratios: 16.4% in the 1st. line and 19.9% in the 2nd line and a limit of 10% in both cases. Furthermore, the cash flow projections under 4 different scenarios result in positive cash flows.

Credit risk

Qualitative information

For managing the credit risk at HSBC México (HBMX), in addition to following up on the behavior of the loan portfolio on a regular basis, risk assessment tools are developed, implemented and monitored. The primary objective of managing the credit risk is knowing the quality of the portfolio and taking timely action for reducing potential losses associated with credit risks, complying at all times with the Group's and Basilea II policies and standards as well as CNBV regulations.

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

Generally, methodologies segregate the customer risk (likelihood that the customer fails to comply with payment commitments: Probability of default) from the transaction or credit risk (risk inherent to the loan structuring, that includes chiefly the value and type of collateral).

In addition, HBMX has developed policies and procedures that comprise the various loan process stages: assessment, granting, control, follow-up and recovery.

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Through the rating system the internal commercial portfolio rating model (Rating Matrix) is applied. Such model is core element to the functioning of the risk rating process. In principle, the Rating Matrix determines the customer's rating based on the analysis of three fundamental areas: repayment capacity, payment experience and operating situation.

Subsequently, the loan rating is obtained from the customer rating and adjusted among other things, based on the age of financial statements, stockholder support and collateral. Both ratings, the customer's and the loan's go from 1 to 10, 1 being the minimum risk and 10 the maximum risk

Based on the endorsement granted by the CNBV the SICAL is used for calculating the regulatory credit reserves using the customer risk rating provided by the Rating Matrix. This rating has a direct correspondence with the debtor's regulatory ratings. The commercial portfolio ratings, as to allowance for loan losses, go from risk level A to E.

The calculation of the allowance for loan losses for consumer and mortgage loan portfolio is done separately and based on the Sole Circular issued by the CNBV, although using the same scale from A to E.

With the purpose of establishing a better credit risk management and measurement infrastructure for commercial loans, a new risk assessment tool has been implemented:

Moody’s Risk Advisor (MRA), which allows for a more profound assessment of the creditworthiness of customers. The HSBC Group has determined that MRA, implemented during the second half of 2005, be the principal tool for defining the credit rating of customers. However, it was not until the second half of 2006 when HBMX completed its development in MRA of three new models for rating customer risk (for small, medium and large sized entities).

In addition to the aforesaid customer risk assessment models, 11 models were implemented for financial but non-bank institutions (NBFI DST) and one more for the banking institutions (MRAfB).

The implementation of the models mentioned in earlier paragraphs was accompanied by a new customer risk rating scale known as Customer Risk Rating (CRR), which has 22 levels, 1.1 being the minimum risk level and 10.0 the maximum. Such scale has direct relationship with the Probability of Default and allows for a more granular measurement of the credit rating of customers.

As to the measurement of the Severity of the Loss, which is closely related to the credit or transaction risk, HBMX is using an expert model since March 2004 for commercial loans. With the implementation of such model, the Active Rates Model was introduced but ceased to be used in the second half of 2006 and replaced by the Profitability Model. For consumer and mortgage loans, the Severity of the Loss has for some time been measured empirically.

Also as part of the risk management and measurement infrastructure there is an automated system that allows for managing, controlling and properly following up on the commercial loan approval process, known as "workflow". This system allows for finding out the status of the loan application during any process stage. Additionally and for the purpose of improving the management of collateral in commercial loans a new system called "Garantías II" was developed. Last, it is important to mention that a system is in place "Líneas III" for controlling limits and the use of lines of credit since their approval.

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We are currently working on a database that provides empirical support both to the Loss Severity Model (LSM) and the Exposure upon Default Model (EDM), factors that are determinant in calculating the Expected Loss in commercial loans.

An efficiency assessment of consumer and mortgage loan originating models is performed on a quarterly basis, for verifying that the population being assessed by the model is similar to the population used for constructing the model, that the model continues to have the ability to distinguish delinquent customers from those who are not and that the model continues to award high ratings to customers with lesser risk. The model is recalibrated or replaced when an efficiency deviation is detected.

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

Quantitative information

At December 31, 2006 the expected consumer and mortgage loan portfolio loss is $2,981,600 while the loss associated with commercial loans is $2,980,000.

<u>Operational risk</u>

Qualitative information

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events and interests the Bank's risk management function. Strategy and reputational risks are excluded from operational risks but not from the Group's agenda to deal with other risks.

To handle these risks, a specialized central unit has been created, which is assisted by close to one hundred medium-level officers who, as part of their own business units or support areas, report to the specialized central unit.

During the second semester of 2006 and for the third consecutive year the whole operational risks were identified and reassessed throughout the Group structure. During the year, all recognizable risks were designated, described and classified into four general categories: persons, processes, systems and external events, which in turn are divided into 22 subcategories within which specific follow-up is provided to technology and legal risks. Furthermore, all risks were rated from different perspectives: feasibility, impact and exposure degree, deriving in an overall identifiable risk rating from greater to lesser degree of risk as "A", "B", "C" or "D".

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Technology risk

In view of the significance of exercising proper control over technology-related risks, information technology processes have been submitted to an ISO 9001 certification procedure; therefore, in addition to a rigorous operating methodology, these processes are thoroughly documented. This documentation resides in a computerized application designed specifically by the ISO certifier, which is available for review by the supervising authority.

Legal risk

The legal risk management has given detailed attention to the following types of risk:

- Contractual;
- Litigation;
- Legislative;
- Reputational; and
- Intellectual property.

On the other hand, measures have been taken such as: establishing policies and procedures for the proper legal management and execution of acts with legal consequences; the estimation of potential losses derived from adverse judicial or administrative resolutions; the communication to employees and officers of juridical and administrative provisions applicable to the operations; the conduction of legal audits, the last of which took place during October and November 2006; and the establishment of a historic database of judicial and administrative resolutions, their causes and costs.

Quantitative information

The outcome of this third year is 2,075 identified and assessed risks, distributed as follows: 1.2% type A, 8.6% type B, 52.2% type C and 38% type D, classified, in turn, in agreement with his category in: 22.7% relative to persons, 49% to processes, 17.6% to technology or systems and 10.7% to external factors.

Also, for the fourth year in a row, during 2006 major incidents (those entailing costs of certain relevance) are recorded and incorporated in the corporate platform designed for managing operational risks. Since January 2006, the reporting threshold was reduced to an amount in pesos equivalent to US$10,000.

During the 4th quarter there were 204 loss incidents from operational risks aggregating $75,400 (US$6.9 million). It is estimated that for the first quarter of 2007, the materialization of operational risks, reflected in the "Other Expenses" statement of income account will have an impact of roughly $88,000, distributed as follows:

Concept	Proporción
Frauds	73%
Robberies and assaults	6%
False bills	2%
Branches	10%
Lacking cashiers, companies of movement and others	5%
Others	4%

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The contents of such database shall contribute in the future the support for estimating unexpected losses and the economic capital from the operational risk.