



México City.
April 28, 2006.

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
FINANCIAL REPORT AS OF MARCH 31, 2006**

1Q06 Results - Highlights

- Net income for the quarter ended 31 March 2006 was MXN 1,430 million, an increase of 19.9 per cent over prior year.
- The cost:income ratio was 61.7 per cent for the three months ended 31 March 2006, improving from the prior year's 65.0 per cent.
- Total assets were MXN 287.9 billion at 31 March 2006, compared with MXN 239.4 billion at 31 March 2005.

Results are prepared in accordance with Mexican GAAP (generally accepted accounting principles), with figures denominated in Mexican pesos (MXN). Comparative figures are presented on a real basis, indexed to constant MXN as at 31 March 2006.

Commentary by Sandy Flockhart, CEO & Group General Manager

“HSBC is off to a good start in Mexico in 2006, with strong growth across our key business and product areas.

“Alongside growing our business we are also continuing to deepen our roots in Mexico and, recently, we inaugurated our new corporate headquarters, *Torre HSBC*, which is located on Paseo de la Reforma, one of Mexico City's most important avenues. The building is the first environmentally friendly construction of its type in Latin America and HSBC expects to receive a Leadership in Energy and Environmental Design certification from the U.S. Green Building Council. I am also pleased to announce that we remain committed to Corporate and Social Responsibility (CSR), and in 2006 we were recognised as a ‘Socially Responsible Company’ by the Mexican Center for Philanthropy.”

“In March, HSBC reached an agreement to acquire a 19.99 per cent stake in Financiera Independencia S.A. de C.V., a highly successful niche player in the Mexican consumer loans market.

“HSBC continues to work towards being the leading financial services institution in Mexico in the eyes of our customers. We are driving product innovation and service standards. Based on the combination of the knowledge, network and brand of the HSBC Group along with the experience and capabilities of our Mexican colleagues, we have established a strong foundation in Mexico and are poised for continued growth through the remainder of 2006.”

Overview

Grupo Financiero HSBC reported strong results in the first quarter of 2006, with net income amounting to 1,430 million pesos, representing an increase of 19.9 per cent over the same period in 2005. Indeed, we saw broad based revenue growth across all product categories. Net interest income, fees and trading all reached record levels during the first quarter. This was coupled with strong performances in our Insurance, pension funds management (Afore), and Panama Bank subsidiaries.

Net interest income growth of 14.8 per cent versus the prior year was a result of a more profitable balance sheet composition despite a lower interest rate environment. This improved mix reflects robust growth in loans, especially among higher yielding consumer and small and medium-sized business products, coupled with continued growth in low-cost customer deposits.

Fees and commissions performed well, increasing by 19.0 per cent versus the prior year due to growth in credit cards, membership programmes, mortgages, commercial lending, mutual funds, ATMs and Payments and Cash Management. Trading results were very strong, up 139 per cent over prior year, benefiting from successful strategic positioning, higher customer volumes and the launching of new products on the back of enhanced treasury systems.

Administrative expenses grew 16.4 per cent versus prior year, as HSBC continues to invest in training staff and upgrading technology in order to enhance our competitive position within the Mexican market. Personnel costs increased due to additional headcount and variable compensation to support revenue growth and to improve customer service. Operating costs were driven by significant investment in systems and higher marketing expenses. Three years of organic investment have created a robust platform for future growth, while enabling current revenue growth.

Loan impairment charges increased to MXN 617m for the first quarter of 2006, in line with robust consumer lending growth, particularly in credit cards and mortgages. The sale of a legacy portfolio of impaired loans helped to improve the ratio of impaired loans to total loans to 2.2 per cent versus 2.8 per cent in the prior year and the reserve coverage on non performing loans improved from the end of 2005 to 176 per cent. The bank's capital adequacy ratio remains solid and in line with the competition.

By customer segment

The personal financial services division reported a strong performance driven by growth in low cost deposits, credit card and mortgage lending and higher transaction-based fee income. Fixed rate mortgage balances increased by 80 per cent versus previous year, due to improved processing and product innovation. HSBC is the first bank in Mexico to offer pre-approved mortgage loans via the internet. In credit cards, targeted Customer Relationship Management campaigns drove record growth versus prior year, with balances increasing by 95 per cent and cards in circulation growing by 91 per cent to over 1.2 million cards.

Tu Cuenta, our integrated package of financial services for a flat monthly fee, continued its strong performance, with 129,000 packages sold to new customers in 1Q06. This has contributed to strong fee income and low cost funding. Mutual fund balances were up 59 per cent from the previous year, benefiting from an expanded product offering and increased cross sales to our extensive customer base. The *HSBC D-2* fund is the largest mutual fund for individual investors in Mexico, and the new *HSBC E-3* Capital Protection fund was launched in March.

In commercial banking, there was strong lending and deposit growth concentrated among small and medium-sized businesses and solid fee income from Payments and Cash Management and *Estímulo*, the combined loan and overdraft product for small businesses.

The corporate, investment banking and markets division continued to strengthen its market position benefiting in part from HSBC's extensive international network for multinational companies. Leveraging the new Group treasury systems installed in 2005, Global Markets revenues performed well, especially among derivatives and debt trading.

The HSBC Group

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,400 branches, 5,200 ATMs and more than 22,000 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a subsidiary of, and 99.74 per cent owned by, HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through 9,500 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$1,502 billion at 31 December 2005, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

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HSBC's Corporate Social Responsibility Programme in Mexico

For HSBC, Corporate Social Responsibility (CSR) means conducting our business in a responsible manner and maintain the highest ethical standards in our relations with customers, employees, investors and suppliers; to comply with the laws of the countries where we operate; to respect human rights; to contribute to the conservation of the environment by managing our direct impact, as well as applying environmental standards to our financing; and to support the communities in which we operate.

Our aim in Mexico is to be the “leading financial services company in Mexico in the eyes of our customers”. By ‘leading’, we mean ‘preferred’, ‘admired’, and ‘dynamic’, recognizing the strength of our brand, our corporate character, and our earnings growth. Our strategy, “Managing for Growth” is an aggressive road map for marshalling our resources in the best interests of customers, shareholders, staff, and other stakeholders.

HSBC's core values are integral to achieve this goal. These values comprise a preference for long-term, ethical client relationships, personal integrity, and striving to continuously improve customer service.

HSBC Mexico has also begun to implement the guidelines established by the Group that require environmental standards to be taken into account in project financing, as well as in corporate and business loans which could have an effect on the environment.

HSBC Mexico's community programmes focus on education, healthcare, the environment, the arts and relief work. We consider that these are the areas where we can have a higher impact.

ESR Certification

In February 2006, HSBC México was awarded the Certification as a “Socially Responsible Company 2006”, by the Mexican Philanthropy Centre (CEMEFI), and Aliarse, an association which groups different business organisations.

This recognition certifies HBMX as a company that is truly committed to a socially responsible management as part of its culture and business strategy, with investors, customers, authorities, colleagues and society in general.

The Certification was granted to HBMX after a lengthy due diligence process, where HBMX had to document its commitment to the highest standards of social responsibility in the areas of: quality of life within the company, business ethics, community involvement, and conservation of the environment.

Social Responsibility Community Programmes

These are some of HSBC Mexico's major programmes:

Education

Through the British Mexican Friendship Society (Amistad), HSBC Mexico is donating USD 1.5 million over a five-year period to support secondary, technical and preparatory schools throughout Mexico. This includes the annual adoption of four schools around the country in order to improve buildings, equipment, programmes and fostering exchange visits for gifted children with schools in the United Kingdom. Annually, this impacts the education of over 20,000 students.

HSBC Mexico also donated USD 1 million to be used over the next five years for the construction and operation of the AMISTAD ABC CLINIC operating in the new facility which the ABC Hospital built in Santa Fé. The clinic will provide health care services to more than 7,000 members of the surrounding communities who do not have access to public or private health care systems.

HSBC Mexico along with SIFE has developed a financial education program geared to helping adults and young people who are interested in starting their own business and increasing their standard of life.

HSBC Mexico is also financing the HSBC-American School Foundation English Language Academy. This program will offer professional development to 240 teachers from public schools and will give them access the latest teaching methods and techniques for English as a second language. This program will indirectly benefit approximately 80.000 students.

HSBC introduced the donations program of the Product Tu Cuenta, through which 1% of the monthly fee that the clients pay, is channelled to charities which focus in the education of underprivileged children. In 2006, six more foundations around the country have received support under this programme.

Through the Mexican Banking Association, HSBC participates with other financial institutions in supporting programmes led by Fundación Quiera, for street and homeless children, which provide counselling to address addictions, psychological and educational support, as well as preparing them to enter the work force, and helping integrate them back in to society.

The Environment

In terms of HSBC Mexico's participation in environmental programmes, in 2005, more than 30 members of our staff participated in the ongoing programme agreed by HSBC Group with Earthwatch, of which more than 87 colleagues have participated in since 2003. This project identifies more than 25,000 flora and fauna species in a five year period around the world.

Additionally, Mexico will benefit from the USD 17 million commitment made by HSBC Group to the World Wildlife Fund to study the problems and solutions of the pollution in three major rivers around the world, one of them being the Río Bravo on the Mexico-U.S. border.

HSBC Mexico is also working on its direct impact on the environment, through the construction of a new headquarter building in Mexico City, Torre HSBC, which was inaugurated in April 2006, and which will save energy, in order to reduce atmospheric emissions, recycle water, and manage waste. We expect to receive the LEED certification granted by the U.S. Green Building Council, making Torre HSBC the most environmental friendly building of its type in Mexico and Latin America,

In addition, HSBC Mexico has begun to replace company vehicles with hybrid cars, which began to be sold in Mexico as of December 2005, in order to help reduce our impact on the environment.

The Arts

HSBC Mexico has also been active in supporting cultural activities, as they are tied to education, as well to a country's identity, its past, present and future. In 2005, HSBC Mexico and the HSBC Group sponsored the exhibits of Frida Kahlo at the Tate Modern Museum in London, as well as that of Henry Moore in Mexico, which was on display at the Dolores Olmedo Patiño Museum in Mexico City. HSBC Mexico also co-sponsored four Mexican theatre works that were presented by the Anglo Mexican Foundation at the Riverside Studios of London, and the Fringe Fest, within the Edinburgh Theatre Festival during the summer of 2005, one of the most important international theatre festivals in the world.

Furthermore HSBC donated the construction of the replica of the court for the Prehispanic Ball Game, which was built on the grounds of Mexico's prestigious Museo Nacional de Antropología (National Museum of Anthropology), and will be seen by more than 1,600,000 people, which include thousands of students and tourists that visit the Museum annually.

In March 2006, HSBC co-sponsored, through CONACULTA, (the National Council on Culture and the Arts), the presentation in Mexico City of the Vienna Philharmonic Orchestra.

HSBC will also co-sponsor the Festival Cervantino, to be held in Mexico this year.

Customer Donations

Through our ATM donations programme, branded as **Niños con Futuro**, each time our customers use an ATM, they have the option to donate specific amounts of money, which is channelled to different charity organisations in six regions of the country. The programme is aimed at supporting institutions that focus on improving underprivileged children's quality of life in three areas: education, healthcare and nutrition. HSBC absorbs the operating costs of the programme. At March 31 2006, the programme has collected more than 51 million pesos that have benefited more than 65,000 children in the areas of education and healthcare.

The programme received a best community practice award in 2004 from the Mexican Centre for Philanthropy (CEMEFI) and Aliarse.

In Conclusion

As “the world’s local bank,” HSBC recognises fully the importance of our wider obligations to society and calls for the increasing involvement of our colleagues in corporate social responsibility, especially in our support of education, health, and the environment.

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Consolidated Balance Sheet

	<u>31 Mar</u> <u>2005</u>	<u>31 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>30 Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>
Assets					
Cash and deposits in banks	53,297	45,889	49,725	55,946	51,704
Investments in Securities.....	34,403	47,558	50,575	57,634	59,537
Trading securities	371	350	4,894	7,027	9,695
Available for sale securities	33,971	43,092	41,641	46,567	45,902
Held to maturity securities	4,062	4,116	4,040	4,040	3,940
Securities and derivative operations.....	385	138	270	575	601
Repurchase agreements	111	102	94	188	83
Stock borrowings	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	274	36	175	387	518
Performing loans					
Commercial loans	35,761	41,568	45,308	46,293	47,865
Loans to financial intermediaries	3,543	4,286	5,252	6,978	5,573
Consumer loans	17,262	18,204	20,210	25,964	29,881
Mortgage	17,404	17,985	19,146	20,337	21,743
Loans to government entities	7,423	36,968	37,330	36,591	36,360
Loans to Fobaproa or IPAB	43,609	18,812	958	1,109	1,117
Total performing loans	125,002	137,824	128,203	137,271	142,539
Non-performing loans					
Commercial loans	2,058	1,986	1,774	1,687	1,249
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	563	642	691	828	932
Mortgage	860	983	1,148	1,033	952
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	76	48	31	28	12
Total non-performing loans	3,556	3,659	3,644	3,576	3,145
Total loan portfolio	128,559	141,482	131,847	140,847	145,684
(-) Allowance for loan losses.....	(6,627)	(6,485)	(6,209)	(5,967)	(5,532)
Net loan portfolio	121,932	134,997	125,638	134,881	140,152
Other accounts receivable	11,558	21,349	9,828	15,398	21,659
Foreclosed assets.....	531	473	452	399	323
Property, furniture and equipment, net.....	4,639	4,873	5,171	5,540	5,661
Long term investments in equity securities.....	2,460	2,427	2,090	2,272	2,431
Deferred taxes	2,102	1,706	1,293	756	850
Goodwill.....	3,169	3,149	3,220	3,277	3,288
Other assets, deferred charges and intangibles.....	913	930	939	1,703	1,673
Total Assets	239,389	263,489	249,200	278,380	287,879

	<i>31 Mar</i> <u>2005</u>	<i>31 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>30 Dec</i> <u>2005</u>	<i>31 Mar</i> <u>2006</u>
Liabilities					
Deposits	184,251	194,494	196,121	214,830	211,402
Demand deposits	107,717	109,922	109,327	126,999	119,621
Time deposits	76,534	84,572	86,795	87,831	91,781
Bank bonds outstanding	-	-	-	-	-
Bank deposits and other liabilities	10,541	17,076	7,124	7,045	6,133
On demand	-	-	-	21	-
Short term	8,067	14,691	4,942	4,873	4,109
Long term	2,475	2,384	2,182	2,151	2,024
Settlement accounts to be recorded for sale	266	1,759	-	-	-
Securities and derivative transactions	97	3,980	3,014	4,555	8,070
Repurchase agreements	97	50	89	114	60
Stock borrowings	-	3,930	2,925	4,441	8,010
Derivative transactions	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Other accounts payable	19,673	20,310	15,535	23,231	32,292
Income tax and employee profit sharing payable	461	205	398	1,313	1,886
Sundry creditors and others accounts payable	19,213	20,104	15,137	21,917	30,406
Subordinated debentures outstanding	2,693	2,677	2,649	2,610	2,590
Deferred tax	-	-	-	-	-
Deferred credits	65	54	15	20	29
Total Liabilities	<u>217,587</u>	<u>240,348</u>	<u>224,459</u>	<u>252,292</u>	<u>260,516</u>
Stockholder's Equity					
Paid in capital	20,088	20,088	20,088	20,088	20,088
Capital stock	7,683	7,683	7,683	7,683	7,683
Additional paid in capital	12,405	12,405	12,405	12,405	12,405
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains	1,711	3,050	4,654	5,998	7,273
Capital reserves	471	641	641	642	642
Retained earnings	7,900	7,730	7,730	7,730	12,770
Surplus (Deficit) from securities	-	-	-	-	-
Results of foreign operations exchange	-	(4)	(4)	(7)	10
Cumulative effect of restatement	(3,734)	(3,734)	(3,726)	(3,733)	(3,732)
Gains on non monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,119)	(3,855)	(3,634)	(3,674)	(3,847)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	1,193	2,272	3,644	5,040	1,430
Minority interest in capital	3	3	3	2	2
Total Stockholder's Equity	<u>21,802</u>	<u>23,141</u>	<u>24,741</u>	<u>26,088</u>	<u>27,363</u>
Total Liabilities and Capital	<u>239,389</u>	<u>263,489</u>	<u>249,200</u>	<u>278,380</u>	<u>287,879</u>

	<i>31 Mar</i> <u>2005</u>	<i>31 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>30 Dec</i> <u>2005</u>	<i>31 Mar</i> <u>2006</u>
Memorandum Accounts					
Transactions on behalf of third parties	88,818	92,232	85,422	87,035	1
Customer current accounts	(7)	3	(3)	1	1
Customer banks	1	-	-	-	1
Settlement of customer securities and documents	(8)	3	(3)	1	-
Customer securities	53,173	60,668	65,944	67,528	72,514
Customer securities in custody	52,350	59,844	64,521	66,369	71,236
Pledged customers securities and documents	823	824	1,422	1,160	1,278
Transactions on behalf of customer	2,552	2,700	2,602	2,440	2,493
Customer repurchase transactions	2,552	2,700	2,602	2,440	2,493
Customer option repurchase transaction	-	-	-	-	-
Other transactions on behalf of customers	33,100	28,860	16,879	17,066	18,602
Investment on behalf of customers, net	33,100	28,860	16,879	17,066	18,602
Other memorandums accounts	462,083	496,181	454,194	487,185	488,435
Investment of the SAR funds	3,159	3,211	3,302	3,331	3,532
Integrated loan portfolio	121,217	133,502	123,163	132,849	138,578
Other memorandum accounts	337,707	359,468	327,729	351,005	346,325
Transactions for the group's own accounts	334,641	347,886	400,799	343,618	545,611
Memorandum Accounts	334,628	347,833	400,793	343,544	545,589
Guarantees granted	194	59	60	58	58
Irrevocable lines of credit granted	3,192	2,853	3,256	3,806	5,360
Goods in trust or mandate	65,232	66,609	67,678	68,571	69,148
Goods in custody or under administration	52,755	62,307	62,833	57,611	69,393
Amounts committed in transactions with Fobaproa	899	1,082	475	124	114
Amounts contracted in derivative operations	196,758	198,907	257,186	208,353	384,333
Securities in custody	4,114	4,118	4,121	4,033	3,932
Other contingent obligations	11,484	11,897	5,184	988	13,251
Repurchase/resale agreements	40,175	46,153	44,358	44,960	47,824
Securities receivable under repos	40,208	46,099	44,346	44,976	47,803
(less) Repurchase agreements	<u>(33)</u>	<u>54</u>	<u>12</u>	<u>(16)</u>	<u>21</u>
Reverse repurchase agreements	10,336	14,398	14,385	16,133	15,407
(less) Securities deliverable under repos	<u>10,290</u>	<u>14,399</u>	<u>14,391</u>	<u>16,043</u>	<u>15,406</u>
	<u>47</u>	<u>(1)</u>	<u>(6)</u>	<u>90</u>	<u>1</u>

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

Historical paid in capital of the Institution amounts to MXN 3,886 millions.

www.hsbc.com.mx, Section: English, HSBC Group, Investor Relations, Financial Information.

www.cnbv.gob.mx/Sector Bancario/Instituciones de Crédito/Información Financiera de la Banca Múltiple, Section: Información Estadística

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Consolidated Income Statement

	<i>For the quarter ending....</i>					<i>YTD</i>	
	<i>31 Mar 2005</i>	<i>31 Junr 2005</i>	<i>30 Sep 2005</i>	<i>30 Dec 2005</i>	<i>31 Mar 2006</i>	<i>31 Mar 2005</i>	<i>31 Mar 2006</i>
Interest Income	5,962	6,626	7,102	6,973	6,788	5,962	6,788
Interest expense (-)	2,226	2,949	3,042	2,748	2,369	2,226	2,369
Monetary position (margin), net	(52)	(23)	(74)	(175)	(189)	(52)	(189)
Net interest income	<u>3,684</u>	<u>3,654</u>	<u>3,985</u>	<u>4,050</u>	<u>4,230</u>	<u>3,684</u>	<u>4,230</u>
Loan-loss provisions (-)	(249)	(373)	(487)	(407)	(617)	(249)	(617)
Risk adjustment net interest income...	<u>3,434</u>	<u>3,281</u>	<u>3,498</u>	<u>3,643</u>	<u>3,613</u>	<u>3,434</u>	<u>3,613</u>
Fees and commissions.....	1,983	2,007	2,267	2,278	2,360	1,983	2,360
Fees Paid	(214)	(238)	(219)	(257)	(273)	(214)	(273)
Trading Income	220	292	423	444	526	220	526
Total operating income.....	<u>5,423</u>	<u>5,342</u>	<u>5,969</u>	<u>6,108</u>	<u>6,226</u>	<u>5,423</u>	<u>6,226</u>
Administrative and personnel expenses (-)	3,724	3,912	4,174	4,207	4,336	3,724	4,336
Net operating income	<u>1,699</u>	<u>1,430</u>	<u>1,795</u>	<u>1,901</u>	<u>1,890</u>	<u>1,699</u>	<u>1,890</u>
Other income	225	283	558	446	365	225	365
Other expenses	(175)	122	471	264	202	(175)	202
Net income before taxes.....	<u>1,749</u>	<u>1,591</u>	<u>1,882</u>	<u>2,083</u>	<u>2,053</u>	<u>1,749</u>	<u>2,053</u>
Income tax and employee profit sharing	(285)	(406)	(483)	(335)	(769)	(285)	(769)
Deferred income tax	(391)	(200)	(259)	(511)	(7)	(391)	(7)
Net income before subsidiaries	<u>1,073</u>	<u>985</u>	<u>1,140</u>	<u>1,237</u>	<u>1,277</u>	<u>1,073</u>	<u>1,277</u>
Undistributed income from subsidiaries	120	173	232	158	153	120	153
Income from ongoing operations	<u>1,193</u>	<u>1,158</u>	<u>1,372</u>	<u>1,395</u>	<u>1,430</u>	<u>1,193</u>	<u>1,430</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	(78)	-	1	-	-	-
Minority interest	-	-	-	-	-	-	-
Net income (loss)	<u>1,193</u>	<u>1,079</u>	<u>1,372</u>	<u>1,396</u>	<u>1,430</u>	<u>1,193</u>	<u>1,430</u>

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

Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions. This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers., Sección: Ligas de Interés, HSBC www.hsbc.com.mx English, Investor Relations – Financial Information.

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Consolidated Statement of Changes in Shareholder's Equity

From January 1, 2006 to March 31, 2006.

	Paid in Capital			Capital Gains							Net income	Minority Interest	Total Stockholders Equity	
	Capital stock	Shares Premium	Additional paid-in capital	Capital Reserves	Retained earnings	Surplus (Deficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of fixed assets)	Results from holding non-monetary assets (Valuation of permanent investments)				Adjustments to retirement fund obligations
Balances as of December 31, 2005	7,683	12,405	-	642	7,730	-	(7)	(3,733)	-	(3,674)	-	5,040	2	26,088
Movements Inherent to the Shareholders Decision														
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	5,040	-	-	-	-	-	-	(5,040)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	5,040	-	-	-	-	-	-	(5,040)	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Movements for the Recognition of the Comprehensive Income														
-Net result	-	-	-	-	-	-	-	-	-	-	-	1,430	-	1,430
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Result from translation of foreign operations	-	-	-	-	-	-	-	1	-	-	-	-	-	1
-Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	(173)	-	-	-	(173)
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Adjustments to retirement fund obligations	-	-	-	-	-	-	17	1	-	(173)	-	1,430	-	1,274
Balances as of March 31, 2006	7,683	12,405	-	642	12,770	-	10	(3,732)	-	(3,847)	-	1,430	2	27,363

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

The present statement of changes in stockholder's equity was approved by the Board of Directors under the responsibility of the following officers.

www.hsbc.com.mx, English, Investor Relations – Financial Information.

www.cnbv.gob.mx, Sector Bancario, Instituciones de Crédito, Información Financiera de la Banca Múltiple.

Consolidated Statement of Changes in Financial Position
From January 1, 2006 to March 31, 2006.
Operating activities

 Net income (loss) **1,430**
Items included in operations not requiring (providing) funds:

Gains / (losses) from mark to market valuations (527)

Allowances for loan losses 617

Depreciation and amortization 213

Deferred taxes (7)

Undistributed income from subsidiaries, net (153)

Increase (reduction) of the minority interest -

Net Result of items included in operations not requiring (providing) funds..... 1,573
Changes in items related to operations:

Increase (decrease) in deposits: (3,428)

Increase (decrease) of loan portfolio (5,888)

Increase (decrease) of securities and derivative transactions, net (1,376)

Increase (decrease) of financial instruments 3,489

 Other accounts receivable 2,801
Funds provided by operating activities (2,829)
Financing Activities:

Subordinated debentures outstanding (19)

 Increase (Decrease) in bank and other loans (913)
Funds used or provided in financing activities (932)
Investing Activities:

Increase (decrease) of property, furniture and equipment, net (489)

Increase (decrease) in deferred charges or credits, net 25

 Other investment activities (17)
Funds used in investing activities..... (481)

 Increase (decrease) in cash and equivalents: **(4,242)**

 Cash and equivalents at beginning of period: 55,946

 Cash and equivalents at end of period..... **51,704**

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

This consolidated Statement of changes in financial position, was approved by the Board of Directors under the responsibility of the following officers.
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Key Indicators

	<i>For the quarter ending...</i>				
	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>
Non performing loans / total loans ratio ...	2.77%	2.59%	2.76%	2.54%	2.16%
Coverage ratio	186.35%	177.25%	170.40%	166.86%	175.90%
Operating efficiency	6.34%	6.22%	6.51%	6.38%	6.13%
Net interest margin (NIM)	6.81%	6.52%	6.93%	6.75%	6.69%
Return on average equity (ROAE)	22.31%	19.20%	22.93%	21.97%	21.40%
Return on assets (ROA)	2.03%	1.72%	2.14%	2.12%	2.02%
Capitalization ratio					
Credit risk.....	19.56 %	19.76 %	19.19 %	21.14 %	20.28 %
Credit and market risk.....	14.96 %	14.58 %	13.35 %	14.32 %	15.79 %
Liquidity.....	75.69%	71.69%	84.24%	83.05%	86.72%

Non performing loans / total loans ratio = Balance of non performing loans at quarter end / Balance of total loans at quarter end.

Coverage ratio= Balance of provisions for loan losses at quarter end / Balance of non performing loans at quarter end.

Operating efficiency = Annualized administrative expenses at quarter end / Average total assets.

ROE = Annualized net income at quarter end / Average shareholder's equity.

ROA = Annualized net income at quarter end / Average total assets.

Capitalization ratio = Net Capital / Risk weighted assets.

Liquidity = Liquid assets / Liquid liabilities.

Liquid Assets = Cash and deposits in banks + Trading securities + Available for Sale securities.

Liquid Liabilities = Demand deposits + Bank deposits and other on demand + Bank deposits and other short term liabilities.

NIM = Annualized net interest income / Average total assets.

Performing Assets = Cash and deposits in banks + Investment in securities + Derivative Operations + Performing loans.

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

Banking Sector
HSBC México, S.A.
Figures in MXN millions
Consolidated Balance Statement

	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>
Assets					
Cash and deposits in banks	50,637	42,999	47,664	51,637	47,242
Investment in Securities	37,193	46,058	48,705	56,181	57,755
Trading securities	-	-	4,207	6,667	9,348
Available for sale securities	33,130	41,941	40,457	45,473	44,467
Held to maturity securities	4,063	4,117	4,041	4,041	3,940
Securities and derivative operations.....	385	133	255	579	600
Repurchase agreements	110	96	80	193	82
Stock borrowings	-	-	-	-	-
Settlement Accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	275	37	175	386	518
Performing loans					
Commercial loans	31,040	36,705	40,078	41,216	42,328
Loans to financial intermediaries	3,441	4,192	5,160	6,878	5,470
Consumer loans	15,957	16,975	18,462	24,238	28,129
Mortgage	12,922	13,403	14,338	15,500	16,744
Loans to government entities	7,423	36,969	37,329	36,591	36,361
Loans to Fobaproa or IPAB	43,609	18,810	957	1,109	1,118
Total performing loans	<u>114,392</u>	<u>127,054</u>	<u>116,324</u>	<u>125,532</u>	<u>130,150</u>
Non-performing loans					
Commercial loans	2,016	1,941	1,728	1,643	1,204
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	555	631	681	816	918
Mortgage	793	916	1,082	966	875
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	77	47	32	29	12
Total non-performing loans	<u>3,441</u>	<u>3,535</u>	<u>3,523</u>	<u>3,454</u>	<u>3,009</u>
Total loan portfolio	<u>117,833</u>	<u>130,589</u>	<u>119,847</u>	<u>128,986</u>	<u>133,159</u>
(-) Allowance for loan losses	<u>(6,452)</u>	<u>(6,328)</u>	<u>(6,055)</u>	<u>(5,798)</u>	<u>(5,352)</u>
Net loan portfolio	111,381	124,261	113,792	123,188	127,807
Other accounts receivable	10,685	20,019	8,818	14,852	20,995
Foreclosed assets	476	425	408	358	282
Property, furniture and equipment, net.....	4,405	4,653	4,946	5,302	5,414
Long term investments in equity securities	399	173	177	198	200
Deferred taxes	1,992	1,580	1,168	625	712
Other assets, deferred charges and intangibles	751	774	724	1,481	1,482
Total Assets	<u>218,304</u>	<u>241,075</u>	<u>226,657</u>	<u>254,401</u>	<u>262,489</u>

	<i>31 Mar</i> <u>2005</u>	<i>30 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>31 Dec</i> <u>2005</u>	<i>31 Mar</i> <u>2006</u>
Liabilities					
Deposits.....	172,514	181,925	184,125	198,894	194,386
Demand deposits	102,169	104,038	104,936	120,218	112,652
Time deposits	70,345	77,887	79,189	78,676	81,734
Bank bonds outstanding	-	-	-	-	-
Bank deposits and other liabilities	10,541	17,076	7,089	6,977	6,133
On demand	-	-	-	-	-
Short term	8,066	14,691	4,855	4,793	4,109
Long term	2,475	2,385	2,234	2,184	2,024
Settlement accounts to be recorded for sale	-	-	-	-	-
Securities and derivative transactions	363	5,732	2,999	4,560	8,070
Repurchase agreements	97	44	75	119	60
Settlement accounts to be recorded for purchase	266	1,758	-	-	-
Stock borrowings	-	3,930	2,924	4,441	8,010
Derivative transactions	-	-	-	-	-
Other accounts payable	18,428	19,241	14,084	22,168	31,106
Income tax and employee profit sharing payable	429	156	322	1,215	1,832
Sundry creditors and others accounts payable	17,999	19,085	13,762	20,953	29,274
Subordinated debentures outstanding.....	2,288	2,288	2,261	2,234	2,209
Deferred tax	-	-	-	-	-
Deferred credits.....	<u>10</u>	<u>8</u>	<u>3</u>	<u>15</u>	<u>23</u>
Total Liabilities	<u>204,144</u>	<u>226,270</u>	<u>210,561</u>	<u>234,848</u>	<u>241,927</u>
Stockholder's Equity					
Paid in capital.....	10,439	10,439	10,439	12,665	12,665
Capital stock	3,539	3,539	3,539	3,817	3,817
Additional paid in capital	6,900	6,900	6,900	8,848	8,848
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains.....	3,720	4,365	5,656	6,888	7,897
Capital reserves	1,978	4,638	4,638	4,638	4,638
Retained earnings	3,228	-	-	-	4,249
Surplus (Deficit) from securities	(308)	7	233	272	86
Results of foreign operations exchange	12	12	12	12	12
Cumulative effect of restatement	(3,340)	(3,357)	(3,349)	(3,403)	(3,402)
Gains on non monetary asset valuation					
Valuation of fixed assets	1,260	1,260	1,260	1,260	1,260
Valuation of permanent investments	(150)	(143)	(144)	(140)	(143)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	1,040	1,948	3,006	4,249	1,197
Minority interest in capital	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total Stockholder's Equity	<u>14,160</u>	<u>14,805</u>	<u>16,096</u>	<u>19,553</u>	<u>20,562</u>
Total Liabilities and Capital	<u>218,304</u>	<u>241,075</u>	<u>226,657</u>	<u>254,401</u>	<u>262,489</u>

	<i>31 Mar</i> <u>2005</u>	<i>30 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>31 Dec</i> <u>2005</u>	<i>31 Mar</i> <u>2006</u>
Memorandum Accounts					
Guarantees granted	194	58	59	56	58
Other contingent obligations	11,484	11,897	5,184	988	13,251
Irrevocable lines of credit granted	3,192	2,853	3,256	3,806	5,360
Goods in trust or mandate	65,231	66,609	67,678	68,571	69,148
Goods in custody or under administration	52,754	62,308	62,833	57,611	69,393
Third party investment banking operations, net	33,100	28,860	16,879	17,065	18,602
Amounts committed in transactions with Fobaproa	899	1,083	476	125	114
Amounts contracted in derivative operations	196,759	198,907	257,186	208,354	384,333
Investments of retirement savings system funds	3,159	3,211	3,302	3,331	3,532
Integrated loan portfolio	121,218	133,502	123,163	132,848	138,578
Other control accounts	337,706	359,467	327,728	351,004	350,325
	<u>825,696</u>	<u>868,755</u>	<u>867,744</u>	<u>843,759</u>	<u>1,052,694</u>
Securities receivable under repos	37,619	43,449	41,766	42,502	45,343
(less) Repurchase agreements	<u>(37,652)</u>	<u>(43,394)</u>	<u>(41,744)</u>	<u>(42,515)</u>	<u>(45,310)</u>
	<u>(33)</u>	<u>55</u>	<u>22</u>	<u>(13)</u>	<u>33</u>
Reverse repurchase agreements	7,780	11,693	11,783	13,671	12,914
(less) Securities deliverable under repos	<u>(7,780)</u>	<u>(11,693)</u>	<u>(11,783)</u>	<u>(13,671)</u>	<u>(12,914)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Historical paid in capital of the Institution amounts to MNX 2,278 millions.

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Consolidated Income Statement

	<i>For the quarter ending...</i>					<i>YTD</i>	
	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>31 Mar 2005</i>	<i>31 Mar 2006</i>
Interest income	5,747	6,399	6,821	6,660	6,515	5,747	6,515
Interest expense (-)	2,158	2,838	2,938	2,657	2,280	2,158	2,280
Monetary position (margin), net	(40)	(15)	(55)	(134)	(179)	(40)	(179)
Net interest income	<u>3,549</u>	<u>3,546</u>	<u>3,828</u>	<u>3,869</u>	<u>4,056</u>	<u>3,549</u>	<u>4,056</u>
Loan-loss provisions (-)	243	377	485	402	601	243	601
Loan loss provisions bank	103	305	349	345	521	103	521
Loss sharing Fobaproa	140	72	136	57	80	140	80
Risk adjustment net interest income ...	<u>3,306</u>	<u>3,169</u>	<u>3,343</u>	<u>3,467</u>	<u>3,454</u>	<u>3,306</u>	<u>3,454</u>
Fees and commissions	1,742	1,822	2,004	2,086	2,092	1,742	2,092
Account management	369	382	405	378	375	369	375
Services	1,373	1,440	1,599	1,708	1,717	1,373	1,717
Fees Paid.....	(203)	(229)	(209)	(249)	(262)	(203)	(262)
Trading Income.....	222	289	416	444	525	222	525
Foreign exchange	(54)	450	216	268	224	(54)	224
Securities trading, net	50	(23)	(24)	(89)	176	50	176
Repos	23	67	78	125	147	23	147
Swaps	-	-	-	11	76	-	76
Valuation off-shore agencies	203	(205)	146	129	(97)	203	(97)
Total operating income	<u>5,067</u>	<u>5,051</u>	<u>5,554</u>	<u>5,748</u>	<u>5,809</u>	<u>5,067</u>	<u>5,809</u>
Administrative and personnel expenses (-).....	3,438	3,636	3,852	3,946	4,036	3,438	4,036
Personnel expense	1,469	1,641	1,839	1,770	1,662	1,469	1,662
Administrative expense	1,782	1,799	1,794	1,946	2,170	1,782	2,170
Depreciation and amortization	187	196	219	230	204	187	204
Net operating income.....	<u>1,629</u>	<u>1,415</u>	<u>1,702</u>	<u>1,802</u>	<u>1,773</u>	<u>1,629</u>	<u>1,773</u>
Other income	223	273	532	496	373	223	373
Other expenses	(170)	(118)	(472)	(245)	(200)	(170)	(200)
Net income before taxes.	<u>1,682</u>	<u>1,570</u>	<u>1,762</u>	<u>2,053</u>	<u>1,946</u>	<u>1,682</u>	<u>1,946</u>
Income tax and employee profit sharing	(249)	(385)	(456)	(309)	(730)	(249)	(730)
Deferred income tax	(394)	(199)	(259)	(505)	(20)	(394)	(20)
Net income before subsidiaries	<u>1,039</u>	<u>986</u>	<u>1,047</u>	<u>1,239</u>	<u>1,196</u>	<u>1,039</u>	<u>1,196</u>
Undistributed income from subsidiaries	-	2	10	3	1	-	1
Income from ongoing operations	<u>1,039</u>	<u>988</u>	<u>1,057</u>	<u>1,242</u>	<u>1,197</u>	<u>1,039</u>	<u>1,197</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	(79)	-	1	-	-	-
Minority interest	-	-	-	-	-	-	-
Net income (loss).....	<u>1,039</u>	<u>909</u>	<u>1,057</u>	<u>1,243</u>	<u>1,197</u>	<u>1,039</u>	<u>1,197</u>

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

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Consolidated Statement of Changes in Shareholder's Equity

From January 1, 2006 to March 31, 2006

	Paid in Capital					Capital Gains											Minority Interest	Total Stockholders Equity	
	Capital stock	Unpaid Capital stock	Increase from re-statement of paid-in capital stock	Shares' premium	Re-statement of shares' premium	Capital Reserves	Re-statement of statutory reserves	Retained earnings	Re-statement of retained earnings	Surplus from securities	Results of foreign operations exchange	Cumulative effect of restatement	Deficit in restatement of stock-holders' equity	Results from holding non-monetary assets (Valuation of fixed assets)	Results from holding non-monetary assets investments	Adjustments to retirement fund obligations			Net income
Balances as of December 31, 2005	2,278	-	1,494	7,052	1,692	3,619	965	-	-	269	11	(3,362)	-	1,245	(139)	4,199	1	19,325	2,278
Movements Inherent to the Shareholders Decision																			
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	-	4,199	-	-	-	-	-	-	-	(4,199)	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	4,199	-	-	-	-	-	-	-	(4,199)	-	-	-
Movements for the Recognition of the Comprehensive Income																			
Integral Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,197	-	1,197	-
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	(186)	-	-	-	-	-	-	-	-	(186)	-
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	45	-	104	-	54	50	3	-	-	(40)	15	(2)	-	-	-	229	-
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	(3)	-	-	-	(3)	-
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	45	-	104	-	54	50	(182)	-	-	(40)	15	(5)	1,197	-	-	1,237	-
Balances as of March 31, 2006	2,278	-	1,539	7,052	1,795	3,619	1,019	4,249	-	86	12	(3,362)	(40)	1,260	(143)	1,197	1	20,562	2,278

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

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

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

www.hsbc.com.mx, English, Investor Relations – Financial Information.

www.cnbv.gob.mx/Sector Bancario/Instituciones de Crédito/Información Financiera de la Banca Múltiple, Section: Información Estadística.

Consolidated Statement of Changes in Financial Position

From January 1, 2006 to March 31, 2006

Operating activities

Net income (loss) **1,197**

Items included in operations not requiring (providing) funds:

Depreciation and amortization	204
Allowance for loan losses	601
Provisions for foreclosed assets	-
Gains / (losses) from mark to market valuations	97
Deferred taxes	20
Undistributed income from subsidiaries, net	(1)
Allowance for decrease in property value	52
Increase (reduction) of the minority interest	-

Net Result of items included in operations not requiring (providing) funds..... 2,170

Changes in Operating Accounts:

Increase (decrease) in retail deposit and money desk	(4,508)
Increase (decrease) of loan portfolio	(5,221)
Increase (decrease) of financial instruments	1,632
Increase (decrease) of other receivable and payable accounts, net	2,803

Funds provided by operations..... (3,124)

Financing Activities:

Subordinated debentures outstanding	(24)
Interbank and other loans	(845)
Dividends paid	-
Increase (decrease) in capital	-
Result from foreign currency transactions	-
Convertible subordinated debentures	-
Fiscal results of agencies	-

Funds used or provided by financing activities (869)

Investing Activities:

Increase (decrease) of property, furniture and equipment and long term investments	(319)
Increase (decrease) in deferred credits	(107)
Increase (decrease) in foreclosed assets	24

Funds used in investing activities..... (402)

Increase (decrease) in cash and equivalents (4,395)

Cash and equivalents at beginning of period..... 51,637

Cash and equivalents at end of period..... 47,242

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

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Variance Analysis of Balance Sheet and Income Statement

Income Statement

Net Income

Grupo Financiero HSBC continues to deliver strong results, reporting a net income of MXN 1,430 million in 1Q06, which represents a 20% increase versus prior year and MXN 34m (2.4%) above prior quarter. There was good performance among the subsidiaries; especially from the Bank which contributed a net income of MXN 1,197m, followed by the Insurance Company with MXN 156m and the Panama subsidiary with MXN 59m.

The Insurance Company registered a 34% increase in net income versus prior year, driven by strong sales among PFS packaged products (mortgages, credit cards and *Tu Cuenta*) which have imbedded insurance components. Branch sales of individual life and auto insurance have been strong, leading to a record high of individual life sales (Annualized Premiums) in 1Q06. Profitability also benefited from higher financial income and better claims experience on the auto insurance portfolio.

The pension funds management (Afore) subsidiary registered net income growth of MXN 23m versus prior year largely due to robust customer enrollment. The bank in Panama had a 25% net income increase versus prior year, benefiting from strong revenues in credit cards, non-funds income and NII from home mortgage loans. The bonding subsidiary also increased net income by MXN 11m versus prior year.

Total Revenue

In 1Q06 the Group's revenue totaled MXN 6,226m, an increase of MXN 803m (15%) over prior year. Broad-based growth was driven by larger volumes, higher spreads and positive results in fees and trading income.

The Group's revenue grew by MXN 118m (1.9%) over prior quarter, due to higher fees and solid trading income.

The bank's revenue in 1Q06 reached MXN 5,810m, an increase of MXN 743m (15%) versus prior year and MXN 62m (1.1%) over prior quarter.

Net Interest Income

Net interest income for the Group reached MXN 4,243m in 1Q06, a 14.8% increase versus prior year. Excluding the monetary position effect—which increased by MXN 137m versus prior year mainly due to growth in monetary assets—and higher inflation NII growth in 1Q06 was MXN 683m (18.3%) versus prior year.

There was strong net interest income as a result of a more profitable balance sheet composition despite a lower interest rate environment. This improved mix reflects robust growth in loans, especially among higher yielding consumer and SME products, coupled with the repayment of the Fobaproa notes which were reach at market rate. Asset growth was largely self-funded with continued growth in low-cost customer deposits.

Versus prior quarter, net interest income grew MXN 180m (4.4%). Excluding the monetary position effect, growth was MXN 194m (5%). Net interest income growth was adversely effected by a decrease in the average interbank interest rate (TIIIE) from 9.1% at 4Q05 to 8.0% at 1Q06, but this was partially offset by higher spreads and loan volumes, coupled with a robust performance in deposits.

Non-interest income

Fees and commissions income performed well in 1Q06, increasing by 18% versus prior year. The bank contributed to this growth with strong performance in credit cards, membership programs (*Tu Cuenta*, *Estímulo*), mortgages, commercial lending, mutual funds, ATMs and Payments and Cash Management.

Despite strong seasonal transactional levels in December, fees and commissions grew by MXN 66m versus prior quarter.

Trading results were very strong increasing 139% over prior year and 19% versus prior quarter in spite of maintaining conservative risk positions in the financial markets. Trading benefited from successful strategic positioning, higher customer volumes and the launching of new products on the back of enhanced treasury systems.

The non-interest income/total revenue ratio increased from 37% in 1Q05 and 40% in 4Q05, to 42% in 1Q06.

Loan impairment charges

Loan impairment charges increased to MXN 617m, representing an increase of MXN 368m versus prior year and MXN 210m versus prior quarter. Growth is in line with robust consumer lending growth, particularly in credit cards and mortgages.

Administrative and personnel expenses

Administrative expenses grew 16.4 per cent versus prior year, as HSBC continues to invest in training staff and upgrading technology in order to enhance our competitive position within the Mexican market. Versus prior quarter, expenses grew 3 per cent.

The cost: income ratio improved from 65.1% in the 1Q05, to 61.7% in 1Q06. The efficiency ratio was 6.1%, improving from 6.3% in 1Q05 as a result of revenue growth outpacing expense growth.

In the bank, personnel expenses increased by MXN 1,736m (17%) versus prior year due to additional headcount (increase of 951 employees versus prior year), and increased variable compensation to support revenue growth and to improve customer service.

Marketing expenses grew 23% versus prior year, in line with new publicity and campaigns directed to increase sales and improve the customer experience.

Balance Sheet

At 31 March 2006, the Group's assets totaled MXN 287.9bn, representing an increase of MXN 48.5bn (20%) versus prior year and MXN 9.5bn (3.4%) versus prior quarter.

There was significant growth in investments in securities and derivative operations, benefiting from investments in technology that have permitted greater sophistication and increased product offering. This is a reflection of the Group's established strategy to reduce interest rate sensitivity and to strengthen the financial instruments portfolio.

Liquidity increased versus prior year largely due to 76% growth in investment in securities. This growth was concentrated among available for sale and trading securities. Versus prior quarter, investment in securities increased by MXN 1.9bn or 3.3 per cent.

The performing loan portfolio is well balanced, mainly due to a better distribution of resources among higher yielding products, coupled with the decrease in Fobaproa notes. Commercial loans increased 34%, driven by a strong growth in the SME segment. The mortgage portfolio also performed well with 25% growth versus prior year. The bank's purchase of a MXN 4.2bn vehicle finance portfolio in February, coupled with higher balances in credit cards and payroll loans, contributed to 73% growth in the Group consumer loan portfolio. The combination of growth across customer segments and products generated a 14% increase in the Group's performing loan portfolio.

Impaired loans decreased 12% versus prior year, partially due to the sale of MXN 518m in impaired loans from the bank's legacy portfolio in 1Q06. Allowance for loan losses decreased 11.56% versus prior year. Strong reserve coverage on impairment loans of 176% was slightly below prior's year 186.3%, but above prior quarter's 167%. The ratio of impaired loans to total loans improved to 2.2% versus 2.8% in the prior year and 2.5% in the prior quarter.

In 1Q06, total deposits reached MXN 211.4bn, representing an annual increase of MXN 27.1bn (15%). This growth reflects HSBC's strategy to grow its customer base through its wide branch network with extended open hours, innovative products like *Tu Cuenta* and strong time deposit growth as a result of successful marketing and promotional campaigns.

Due to the seasonal effect of high year-end balances, deposits decreased slightly from prior quarter. Continued growth in time deposits of 4.5% was offset by a seasonal decrease in demand deposits.

Mutual funds performed well, increasing balances by MXN 12.5bn (59%) versus prior year. The *HSBC D-2* fund is the largest mutual fund for individual investors in Mexico, and the new *HSBC E-3* Capital Protection fund was launched in March.

The positive results mentioned above contributed to an increase in the Group's capital by MXN 27.4bn versus prior year and by MXN 1.3bn (5%) versus prior quarter.

The bank's capital adequacy ratio of 15.8% at 31 March 2006 remains solid and is in line with the competition.

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Financial Instruments
At March 31, 2006

	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>
Government securities	273	237	3,301	5,719	9,491
Fiduciary certificates	-	-	-	-	30
Bank securities	29	29	1,484	1,233	158
Shares	18	17	17	18	10
Sovereign government debt bonds	-	-	-	-	-
Others	51	65	93	58	6
Trading securities.....	<u>371</u>	<u>348</u>	<u>4,895</u>	<u>7,028</u>	<u>9,695</u>
Government securities					
Fiduciary certificates	26,213	32,342	29,878	32,074	28,589
Bank securities	2,053	2,042	2,046	3,170	3,322
Obligations and other securities	314	1,976	4,292	3,958	4,046
Shares	5,373	6,714	5,415	7,173	9,696
Available for sale securities	18	18	10	191	249
	<u>33,971</u>	<u>43,092</u>	<u>41,641</u>	<u>46,566</u>	<u>45,902</u>
Sovereign debt securities	734	717	592	584	473
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,226	3,316	3,383	3,405	3,429
Myras	99	83	62	49	36
Other debt securities	-	-	-	-	-
Securities held to maturity	<u>4,061</u>	<u>4,118</u>	<u>4,039</u>	<u>4,040</u>	<u>3,940</u>
Total Financial Instruments	<u>38,403</u>	<u>47,558</u>	<u>50,575</u>	<u>57,634</u>	<u>59,537</u>

In the first quarter of 2006 there was an increase in investment in securities of MXN 1,903 versus prior quarter. This is mainly due to MXN 287 million in government securities (mainly in bonds and cetes), in Pagarés with liquidable return of MXN (987) at maturity, an increase of MXN 2,523 in UMS Global and others of MXN 80.

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Repurchase Agreements
At March 31, 2006

	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>
Government securities (debit)	39,541	41,368	39,380	43,276	43,824
Bank securities (debit)	626	3,140	4,518	1,637	3,938
Bank securities (own)	-	1,520	395	-	-
Valuation Increase (decrease)	(5)	90	76	20	61
Interest in securities receivable under repurchase agreements	13	35	(11)	27	1
Total in repo agreements (debit)	<u>40,175</u>	<u>46,153</u>	<u>44,358</u>	<u>44,960</u>	<u>47,824</u>
Repo's Government securities (credit)	39,542	41,369	39,389	43,278	43,837
Repo's Bank securities (credit)	626	3,140	4,519	1,637	3,938
Repo's Bank securities (own)	-	1,520	395	-	-
Valuation increase (decrease)	(1)	2	3	3	3
Accrued interest payable	41	68	40	58	25
Credit balance in repo agreements	<u>40,208</u>	<u>46,099</u>	<u>44,346</u>	<u>44,976</u>	<u>47,803</u>
Repurchase agreements in government securities	10,318	14,395	13,860	16,088	15,383
Repurchase agreements in banking securities	-	-	513	-	-
Valuation increase (decrease)	-	2	3	3	1
Accrued interest receivable	18	1	9	42	23
Debit balance repo securities agreements	<u>10,336</u>	<u>14,398</u>	<u>14,385</u>	<u>16,133</u>	<u>15,407</u>
Government securities	10,319	14,393	13,848	16,083	15,371
Bank securities	-	-	513	-	-
Valuation increase (decrease)	(45)	4	21	(85)	10
Interest in securities deliverable under repurchase agreements	16	2	9	45	25
Credit balance repo securities agreements	<u>10,290</u>	<u>14,399</u>	<u>14,391</u>	<u>16,043</u>	<u>15,406</u>

Banking sector
HSBC México, S.A.
Figures in MXN millions
Derivative Financial Instruments
At March 31, 2006

	<i>Futures</i>		<i>Forwards Contracts</i>		<i>Options</i>		<i>Swaps</i>		
	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>
For trading.....									
Pesos	-	-	63,583	57,020	-	-	-	-	6,563
US Dollars	-	-	67,042	73,428	1,409	1,362	65,315	64,470	(5,493)
Interest Rate	98,569	98,569	-	-	-	-	273,783	274,335	(551)
Total	98,569	98,569	130,625	130,448	1,409	1,362	339,099	338,804	518
For hedging									
Pesos	-	-	-	-	-	-	2,482	-	-
US Dollars	-	-	-	-	-	-	-	2,493	-
Interest Rate	-	-	-	-	-	-	1,251	1,250	-
Total	-	-	-	-	-	-	3,732	3,743	-

Banking sector
HSBC México, S.A.
Figures in MXN millions
Stock Borrowings
At March 31, 2006

	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>
Received borrowings					
Cetes	-	-	947	219	-
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	4,101	1,980	4,218	7,989
Increase or decrease in bonds	-	(170)	(2)	3	21
Total	-	3,930	2,925	4,440	8,010

Grupo Financiero HSBC, S.A. de C.V.
Participation by Subsidiary

Group Subsidiaries at March 2006

	<i>Number of Shares owned by subsidiaries</i>	<i>Participation Percentage</i>	<i>Number of Shares owned by HSBC Group</i>
HSBC México, S.A. Institución de Banca Múltiple	1,139,215,231	99.99%	1,139,116,640
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	97.22%	738,883,014
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
HSBC Bank Panamá S.A.	1,000,000	100.00%	1,000,000
Total	1,973,551,956		1,952,345,622

Banking sector
HSBC México, S.A.
Figures in MXN millions
Trading Income

	<i>For the quarter ending . . .</i>					<i>YTD . . .</i>	
	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>	<i>31 Mar</i>	
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Valuation	202	(205)	146	121	(3)	202	(3)
Derivatives	229	(244)	168	70	72	229	72
Repos	(28)	57	(43)	53	(56)	(28)	(56)
Shares	0	0	0	0	0	0	0
Debt Securities	1	(19)	21	(3)	(18)	1	(18)
Buying and Selling Instruments	20	496	272	329	550	20	550
Foreign Currency	(54)	451	218	268	224	(54)	224
Derivatives	(4)	(5)	6	14	12	(4)	12
Repos	29	50	72	(47)	182	29	182
Shares	0	0	0	0	1	0	1
Debt Securities	49	0	(24)	94	131	49	131
Total	<u>221</u>	<u>290</u>	<u>148</u>	<u>449</u>	<u>548</u>	<u>221</u>	<u>548</u>

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Loan Portfolio
By type of currency
At March 31, 2006

	<i>Commercial</i>	<i>Financial</i>	<i>Consumer</i>	<i>Mortgage</i>	<i>Government</i>	<i>IPAB</i>
	<u>Loans</u>	<u>Intermediaries</u>	<u>Loans</u>	<u>Loans</u>	<u>Loans</u>	
Performing Loan Portfolio						
Pesos	31,288	5,390	28,130	12,855	34,550	1,117
US Dollars	11,040	80	-	4	1,810	-
Udis Banxico	-	-	-	3,885	-	-
Subtotal	<u>42,328</u>	<u>5,470</u>	<u>28,130</u>	<u>16,744</u>	<u>36,360</u>	<u>1,117</u>
Panama	5,537	103	1,751	4,999	-	-
Total	<u>47,865</u>	<u>5,573</u>	<u>28,130</u>	<u>21,743</u>	<u>36,360</u>	<u>1,117</u>
	<i>Commercial</i>	<i>Financial</i>	<i>Consumer</i>	<i>Mortgage</i>	<i>Government</i>	<i>IPAB</i>
	<u>Loans</u>	<u>Intermediaries</u>	<u>Loans</u>	<u>Loans</u>	<u>Loans</u>	
Non Performing Loans Portfolio						
Pesos	894	-	919	400	-	-
US Dollar	322	-	-	-	-	-
Udis Banxico	-	-	-	474	-	-
Total	<u>1,216</u>	<u>-</u>	<u>919</u>	<u>874</u>	<u>-</u>	<u>-</u>
Panama	45	-	13	78	-	-
Total	<u>1,261</u>	<u>-</u>	<u>932</u>	<u>952</u>	<u>-</u>	<u>-</u>

Banking sector
HSBC México, S.A.
Figures in MXN millions
Loan Portfolio Grading
At March 31, 2006

	<i>Loan Portfolio</i>	<i>Allowance for Loan Losses per category</i>			
		<i>Commercial Loans</i>	<i>Loan Portfolio</i>	<i>Commercial Loans</i>	<i>Loan Portfolio</i>
Exempted from rating	30,732,821				
Graded	107,844,912				
“A” Risk	74,746,784	288,114	245,913	125,957	659,984
A-1 Risk	29,006,132	1,238,567	420,155	134,572	1,793,294
A-2 Risk	1,602,699	216,814	358,450	73,580	648,844
“B” Risk	1,784,554	101,031	721,782	480,404	1,303,217
B-1 Risk	704,743	492,475	144,139	67,553	704,167
B-2 Risk	138,577,733	2,337,001	1,890,439	882,066	5,109,506
B-3 Risk					
Constituted Reserves.....					5,352,215
Surplus					242,709

1. The last day of the month figures, corresponding to the balance sheet at 31 March 2006, are the ones used to grade and establish the reserves.

2. The lending portfolio is graded according to the rules for grading lending portfolios issued by the *Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government’s Secretary of Public Lending)* and to the methodology established by the *CNBV (Mexican Banking and Securities National Committee)*, and if it is the case, according to the internal methodology authorized by the CNBV. For the second stage of the commercial lending portfolio, the institution will use the CNBV methodology, published on August 20, 2004. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the circular published on August 20, 2004.

3. The surplus in constituted reserves is explained by: MXN242,709 in other reserves for the mortgage portfolio.

Banking sector
HSBC México, S.A.
Figures in MXN millions
Non-performing Loans

	<i>For the quarter ending...</i>				
	<u>31 Mar 2005</u>	<u>30 Jun 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>
Initial balance of non performing loan portfolio	3,280	3,324	3,423	3,433	3,413
Increases	3,337	3,876	6,762	2,393	3,746
Transfer of current loans to past due status	3,337	3,876	6,762	2,393	3,746
Purchase of portfolio	-	-	-	-	-
Suspended interest	-	-	-	-	-
Decreases	(3,300)	(3,757)	(6,756)	(2,419)	(4,170)
Restructurings	(5)	(5)	(58)	(28)	(27)
Liquidated credits	(2,413)	(3,282)	(6,289)	(2,044)	(3,860)
Charged in cash	(2,094)	(2,902)	(5,556)	(1,449)	(2,872)
Foreclosed assets	(14)	(2)	(29)	(3)	(2)
Debt capitalized in the bank's favour	-	(1)	-	-	-
Writeoffs	(306)	(377)	(704)	(593)	(986)
Sale of portfolio	-	-	-	-	-
Transfer to performing loan status	(882)	(470)	(410)	(347)	(283)
Fx revaluations	7	(20)	4	5	20
Interest capitalization	-	-	-	-	-
Final Balance of Non Performing Loan Portfolio	3,324	3,423	3,433	3,413	3,009

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Deferred Taxes

	<u>31 Mar 2005</u>	<u>30 Jun 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>
Loan loss reserves	1,896	1,612	1,376	952	788
Valuation of securities	160	(23)	(216)	(297)	(97)
Fiscal loss	98	78	61	135	126
Loss sharing	2,198	2,215	2,242	843	856
Other	-	-	-	537	655
	79	170	117	125	146
Differences in rates of fixed assets	(371)	(361)	(233)	(292)	(358)
Fiscal result UDIS-Banxico	(1,958)	(1,985)	(2,054)	(1,247)	(1,266)
	2,329	2,346	2,287	1,539	1,624
Total Deferred Taxes					
Loan loss reserves	<u>2,102</u>	<u>1,706</u>	<u>1,293</u>	<u>756</u>	<u>850</u>

Banking sector
HSBC México, S.A.
Figures in MXN millions
Funding, Loans and Investment in Securities
Funding and bank loans – Average Interest rates

	<i>For the quarter ending...</i>				
	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>
Loans in MXN pesos					
Funding	2.71%	3.27%	3.46%	3.17%	2.82%
Bank and other loans	8.09%	9.16%	9.01%	8.04%	7.41%
Loans in foreign currency					
Funding	0.69%	0.62%	0.68%	0.80%	0.87%
Bank and other loans	3.19%	3.65%	4.51%	4.77%	6.05%
UDIS					
Funding	0.64 %	0.27%	0.22%	0.20%	0.19%

Banking sector
HSBC México, S.A.
Figures in MXN millions
Long Term Debt

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

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Amount in circulation</i>	<i>MaturityDate</i>
		<i>MXN millions</i>		<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	2,200	25-NOV-2013
		<u>2,200</u>		<u>2,200</u>	

Grupo Financiero HSBC, S.A. de C.V.
Figures in MXN millions
Capital
Grupo Financiero HSBC, S.A. de C.V. (Group)

The ordinary shareholders meeting, held on April 26, 2006, approved the application of the year's financial year results, amounting to MXN 4,981 m, as per the following:

- MXN 249m (5%) to increase legal reserves, and the remaining MXN 4,732 m, at the disposal of the Board under the concept of the previous year's financial years.

Subsidiaries:
HSBC México, S.A. (Bank)

The ordinary shareholders meeting, held on April 26, 2006, approved the application of the year's financial results, totalling MXN 4,200 m, as per the following:

- MXN 420 m (10%) to increase legal reserves, and the remaining MXN 3,779 m, at the disposal of the Board under the concept of other reserves.

The capital stock increased to MXN 2,278, representing 1,139,215,231 shares.

Banking sector
HSBC México, S.A.
Figures in MXN millions

Capital Ratio

	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>
% of assets subject to credit risk					
Tier 1	16.11 %	15.99 %	15.77 %	17.81 %	17.30 %
Tier 2	3.45 %	3.77 %	3.42 %	3.33 %	2.98 %
Total regulatory capital	<u>19.56 %</u>	<u>19.76 %</u>	<u>19.19 %</u>	<u>21.14 %</u>	<u>20.28 %</u>
% of assets subject to credit and market risk					
Tier 1	12.32 %	11.79 %	10.97 %	12.07 %	13.47 %
Tier 2	2.64 %	2.78 %	2.38 %	2.26 %	2.32 %
Total regulatory capital	<u>14.96 %</u>	<u>14.58 %</u>	<u>13.35 %</u>	<u>14.32 %</u>	<u>15.79 %</u>
Tier 1	13,171	13,818	15,167	18,343	19,254
Tier 2	2,821	3,261	3,287	3,432	3,312
Total regulatory capital	<u>15,993</u>	<u>17,079</u>	<u>18,454</u>	<u>21,775</u>	<u>22,566</u>
RWA credit risk	81,748	86,413	96,148	103,011	111,288
RWA market risk	25,162	30,744	42,081	49,001	31,640
RWA credit and market risk.....	<u>106,910</u>	<u>117,157</u>	<u>138,229</u>	<u>152,012</u>	<u>142,928</u>

In accordance with the general rules referred to in the Article 134 bis of the Lending Institution Law, HSBC México, S.A. is classified as category I for presenting a 15.79% capitalization rate in the first quarter of 2006.

Other Expenses, Other Income and Extraordinary Items

	<i>For the quarter ending...</i>					<i>YTD...</i>	
	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>	<i>31 Mar</i>	
	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
Other income							
Loans to employees	12	14	17	19	21	12	21
Recoveries	27	39	16	6	88	27	88
Other income	186	227	528	421	255	186	255
Result from monetary position (other income)	-	3	(3)	-	1	-	1
	<u>225</u>	<u>283</u>	<u>558</u>	<u>446</u>	<u>365</u>	<u>225</u>	<u>365</u>
Other expenses							
Other losses	(172)	(125)	(471)	(258)	(202)	(172)	(202)
Result from monetary position (other income)	(3)	2	-	(6)	-	(3)	-
	<u>(175)</u>	<u>(123)</u>	<u>(471)</u>	<u>(264)</u>	<u>(202)</u>	<u>(175)</u>	<u>(202)</u>
Total other income (expenses)	<u>50</u>	<u>160</u>	<u>87</u>	<u>182</u>	<u>163</u>	<u>50</u>	<u>163</u>
Discontinued operations, extraordinary items and changes in accounting standards	<u>-</u>	<u>(78)</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>

Related Party Transactions

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices. The balance of the transactions carried out as of March 31, 2006 is shown below:

	Bank	Afore	Brokerage House	Investment Funds Operator	Group	Total
Balance						
Cash and Balances at central/other banks and items in the course of collection	-	-	80	-	-	80
Deposits (liabilities)	(80)	-	-	-	-	(80)
Repos		-	12	-	-	12
Reverse repos	(12)	-	-	-	-	(12)
Sundry debtors (assets)	(18)	-	-	-	-	(18)
Sundry creditors (liabilities)	-	-	18	-	-	18

Total	(110)	-	110	-	-	-
Results						
Payable commissions	-	(1)	(12)	(1)	-	(14)
Receivable commissions	12		1	1	-	14
Administrative services	-	(8)	(7)	(2)	(1)	(18)
Other income	18	-	-	-	-	18
Total	30	(9)	80	(2)	(1)	-

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

Figures in MXN millions

Information on Customer Segment and Results

Consolidated Income Statement by Customer Segment

The consolidated income statement by customer segment includes Personal Financial Services (PFS), Commercial Banking (CMB), Corporate, Investment Banking and Markets (CIBM), and other corporate activities (OAC). The following is a brief description of the customer segments:

Personal Financial Services (PFS) – retail banking operations focusing on the individual by offering a the complete spectrum of financial needs from checking/deposits accounts to credit cards, personal and auto loans, and mortgages, among others.

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

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

Other Corporate Activities – This segment includes other business structural operations not covered in the above categories as profit obtain from the rent of corporate buildings, sale of fixed assets and non-performing loans, when they no longer belong to any other segment, centrally registering recovered interests and loan provisions from this segment.

The consolidated incomes statement information condensed by segments as of December 31, 2005, is shown below:

	First Quarter 2006				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	2,412	1,040	429	349	4,230
Provision for Loan Loss	(409)	(59)	-	(149)	(617)
Net Interest Income adjusted	2,003	981	429	200	3,613
Fees and Commissions, net	1,201	455	154	277	2,087
Trading Income	75	52	292	107	526
Total Revenue	3,279	1,488	875	584	6,226
Administrative Expenses	3,017	815	337	167	4,336

Operating Income	262	673	538	417	1,890
Other Income (Expenses), net	5	2	1	155	163
Taxes	(107)	(254)	(206)	(209)	(776)
Net Income before subsidiaries	160	421	333	363	1,277
Undistributed income from subsidiaries	4	-	-	149	153
Continued Operating Results	-	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
Net Income	164	421	333	512	1,430
Minority Shareholders	-	-	-	-	-
Participated Net Income	164	421	333	512	1,430

Banking sector
HSBC México, S.A.
Figures in MXN millions

Risk Management

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

Assets and Liabilities Committee (ALCO)

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

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

- Provide strategic direction and assure the tactical monitoring of a structure balance that fulfill the objectives within the pre-established risk parameters.
- Identify, monitor, and control all relevant risks, including information generated by RMC.
- Disseminate information required to make decisions.
- General review of funds sources and destinations.
- Determine the most likely environment for the bank's assets and liabilities along with contingency scenarios to be used in planning activities.
- Evaluate rates, price alternatives and portfolio mixes.
- Review and be responsible for: assets and liabilities distribution and maturity dates; interest margin size and position; liquidity levels and economic profit.

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

Risk Management Committee (CRM)

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

In accordance with regulatory dispositions, and in order to have opinions independent from the bank management, the committee has three external members – one of them serving as President. Internally, the member areas are: Executive Direction, Risks, CMB, CIBM, PFS, Finance, Audit, Treasury, Global Markets, Planning, Economic Capital, Legal and the Liquidity, Market and Subsidiaries Risks.

The main objectives of this committee are to:

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

Market Risk Management

Qualitative Information

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

Market risk administration at HSBC consists of identifying, measuring, watching, limiting, controlling, reporting and revealing the different risks that the institution faces.

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

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

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

- **Foreign exchange or currency risk.** - This risk arises in the open positions on different currencies to the local currency, which generates an exposure to potential losses due to the variation of the corresponding exchange rates.
- **Interest rate risk.** - Arises from asset and liability operations (real nominal or notional), with different expiration dates or re-capitalization dates.
- **Risk related to shares.** - This risk arises from maintaining open positions (purchase or sale) with shares or share-based instruments, causing an exposure to changes in share prices and the instruments based on these prices.
- **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the underlying price of the option (interest rates, actions, exchange rate, etc.).

- **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a governmental bond hedge with a by-product of inter-bank rates) so that its value to market can differ, generating imperfections in the cover.

Main elements of the methodologies employed in the administration of market risk:

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

Value at Risk (VaR)

The VaR is a statistical measure of the worst probable loss in a portfolio due to changes in the market risk factors of the instruments for the given time period. The calculation of VaR uses a confidence level and a time horizon. The VaR is obtained by Monte Carlo simulation, capturing the potential losses by movements in all the market risk factors. The Board of Directors, at the suggestion of the Risk Committee, has determined a confidence level of 99% with a time period of one working day.

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

The PVBP is a measure of market risk exposure to movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates on the pricing of assets and financial liabilities.

The Forward PVBP (F-PVBP) measures the effect of movements in interest rates on applicable financial instruments. In this sense, the F-PVBP assumes the setting under which the implied forward rate curve increases by one basis point.

Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur but are highly improbable. The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical settings. Both negative and positive changes in interest rates are considered in order to fully measure the impact on the different portfolios.

Validation and Calibration Methods for Market Risk models:

Any model is subject to possible erroneous or slanted results by diverse causes such as the poor quality of data, deficient specification of the model, miscalculations or simply because reality was different than the presumptions in the model. In order to detect a defect in the forecast quality of a model, systems automatically loads data, instead of doing so manually. Also, to test the confidentiality of the VaR calculation model, backtesting is carried out. This is a test that consists of forecasting the maximum possible loss amounts, contrasting the losses/gains that would have been generated versus the actual portfolio during the VaR’s time horizon. On average, the losses do not exceed the confidence levels established. The backtesting is reinforced by carrying out a hypothesis test.

For the case of the PVBP, this has been compared with the sensitivity of the portfolio with the market quotations. The results obtained in the tests have shown that the models are dependable. With the purpose of reinforcing the validation and verification of the different risk factors, a matrix has been designed that shows the behavior of various risk factors in order to ensure that these are reasonably related to the predominant values in the financial markets and to verify the consistency between their present value and their value on the previous working day.

Applicable portfolios:

The Market Risk area calculates the VaR and the PVBP for the total Bank portfolio and for the specific Accrual and Trading portfolios, with the purpose of watching their own positions and the negotiation positions.

The VaR is presented in global form for each portfolio mentioned and is also itemized for risk factors (Interest Rates and Exchange Rates). The PVBP is itemized by rate type (pesos, dollars and Real UDIS-RATE). Also the Forward PVBP is presented by segment of the forward curve (Buckets), so much for rates in pesos as for rates in dollars.

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

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "Trading" and "Accrual" portfolios for the first quarter of 2006 (in millions of dollars).

Value in Risk of Global Market (VaR) (Considering all the Risk Factors)

	31 Dec 05	31 Mar 06	Limits*	4Q 2005 Average	1Q 2006 Average
Bank	(6.17)	(12.29)	30.000	(6.14)	(12.24)
Accrual	(5.78)	(12.34)	27.500	(4.91)	(9.66)
Trading	(3.05)	(3.49)	13.500	(2.72)	(5.40)
MMT	(1.45)	(1.85)	7.500	(1.65)	(3.68)
Fx	(0.35)	(0.02)	13.500	(0.69)	(0.02)
Money Desk	(2.30)	(1.76)	13.500	(1.49)	(2.61)

* Absolute Value
NA = Non Applicable

NOTE: Starting January 2, 2006 HSBC adopted the use of Historic Simulation method for VaR calculation of the bank's market position. The market VaR of the bank at December 31, 2005 and for 4Q05 average, correspond to the VaR calculated by Monte Carlo Simulation, therefore figures presented before are only indicators. During the period, the levels of market VaR were maintained under the pre-established limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for the 4Q05 and 1Q06 (in millions of dollars).

	31 Dec 05	31 Mar 06
VaR Total *	6.14	12.24
Net Capital **	2,023.68	2,071.55
VaR / Capital Neto	0.30%	0.59%

* The Bank's quarterly VaR average in absolute value
** The Bank's Net Capital at the close of the quarter

NOTE: Starting January 2, 2006 HSBC adopted the use of Historic Simulation method for VaR calculation of Bank's market position. The market VaR of the bank at December 31, 2005 and for 4Q05 average, correspond to the VaR calculated by Monte Carlo Simulation, therefore figures presented before are only indicatives.

The average market VaR represents 0.59% of the net capital in 1Q06.

Present value of a Basis Point (PVBP) for Rates in Pesos

	31 Dec 05	31 Mar 06	Limits*	4Q 2005 Average	1Q 2006 Average
Banco	(0.503)	(0.397)	0.800	(0.381)	(0.420)

Accrual	(0.360)	(0.373)	0.750	(0.294)	(0.365)
Trading	(0.144)	(0.024)	0.250	(0.087)	(0.055)
Mesa de dinero	(0.144)	(0.024)	0.250	(0.087)	(0.055)

* Valor absoluto

The bank's PVBP for the 1Q06 varied 21.07% versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.

The bank's average PVBP for the 1Q06 varied versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.

Banking sector
HSBC México, S.A.
Figures in MXN millions
Accounting differences between PGCA Mexico and IFRS

Summary of the main differences between the profit attributable to shareholders' reported by Grupo Financiero HSBC S.A. de C.V. under Mexican GAAP and International Accounting Standards (IAS).

On January 1, 2005, HSBC adopted to convert their financial information to International Accounting Standards (IAS).

In Mexico, the consolidated financial statements have been prepared according to the accounting policies established by the National Banking Commission (CNBV), which has some differences with the accounting principles generally accepted in Mexico (PCGA).

Accounting Differences in IAS vs. Mexican GAAP

Millones de pesos corrientes	Anual 05	4T05	3T05	2T05	1T05
Grupo Financiero HSBC – Net Income Under CNBV criteria	1,193	1,079	1,372	1,396	1,430
- Inflationary effects	61	27	118	230	252
- Temporary differences in the classification and valuation of hedging derivatives *	72	-	-	89	(17)
- Differences in the accounting and valuation of Pensions and Post Retirement Healthcare benefits *	82	31	17	24	9
- Temporary differences in the recognition of deferred commissions paid, relative to the Afore Business *	121	54	25	29	13
- Temporary differences in the recognition of fees and commissions income *	(112)	(25)	(46)	(4)	(38)
- Temporary differences in the recognition and provisioning for credit losses *	47	47	-	-	-
- Purchase Accounting valuation adjustment related to Fobaproa notes earning below market rates *	(18)	(306)	(24)	258	55
- Purchase Accounting valuation adjustment related to Fobaproa notes earning below market rates *	1,338	475	313	315	236
- Other differences in accounting principals *	401	286	44	1	70

Net Income under IFRS	7,408	2,187	1,820	1,819	1,582
USD Equivalent (millions)	680	204	170	170	142
Plus taxes	2,949	713	755	786	695
PBT (IFRS)	10,356	2,900	2,575	2,604	2,277
USD Equivalent (millions)	951	271	240	244	204
<i>Exchange change rate</i>	<i>10.89</i>	<i>10.71</i>	<i>10.71</i>	<i>10.68</i>	<i>11.18</i>
<i>* Impact shown net of taxes at 30%</i>					

Relevant Concepts related to
a) Differences in the Results

GF HSBC, S.A de C.V. registered a net income of MXN 4,981 millions for 2005, different from the figures registered by HSBC Holding plc. of MXN 7,408 millions. The main differences between these figures are as follows:

1. Mexican Financial Institutions prepare and present their financial statements in accordance to accounting principles established by the CNBV (“in most cases are similar to PCGA in Mexico), which differ in certain aspects from the International Accounting Standards (IAS). The differences between both accounting principles, can be grouped as follows:
 - a) Temporary differences, registered only in the moment when some expenses or incomes are recognized. Nevertheless, revenues reported by the entity are the same along the life of the financial instrument or loan.
 - b) Items originated by accountant criteria and that are permanent. Specifically this includes re-statement and other derivative effects of inflationary effects, like repomo in the case of the CNBV criteria, and intangibles amortization, goodwill, and other items related to IFRS application.
2. Some concepts included in figures reported by HSBC Holding, plc., are not part of the results from entities and legal vehicles that consolidate with Grupo Financiero HSBC, S.A. de C.V.

b) Main Differences in the Account Record Criteria

1. The impact of inflationary effects under Mexican GAAP has to be adjusted so that historical numbers are shown in real terms. Under Mexican GAAP the financial statements disclose an account called “Monetary Positions Gain (losses)”, derived from the differences between the monetary assets and liabilities. This does not exist under IAS.
2. Differences between the disclosure and the valuation of hedge derivatives. Under Mexican GAAP the valuation of an instrument has to be recorded next to the primary position recorded; under IAS the valuation must be recorded against equity as hedge derivatives are classified as cash flow hedges.
3. Differences in the loan portfolio’s valuation and classification. The calculation methodology under IAS is different than under Mexican GAAP.
4. Differences in labour obligation classification and valuation. The assumptions used in the actuarial calculation under IAS are different from Mexican GAAP.

5. Amortization of the fair value determined under the purchase accounting method, derived from the acquisition of “Grupo Financiero Bital S.A. de C.V.”
6. Differences in the goodwill valuation and classification, and technical reserves of the Insurance business. The method used under IFRS differs from the ones established by local authorities.