

Grupo Financiero HSBC

Financial Report as of June 30, 2006

1H06 Results - Highlights

- Net income for the first half 2006 was MXN 2,783 million, an increase of 22.6 per cent compared to the first half of prior year.
- Return on average common equity was 20.4 per cent for the first half 2006, compared to 20.6 per cent in the first half of 2005.
- The cost/income ratio was 62.1 per cent for the six months ended 30 June 2006, improving from 66.6 per cent during the same period of prior year.
- Total assets were MXN 314.6 billion at 30 June 2006, compared with MXN 263.1 billion at 30 June 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 30 June 2006.

Commentary by Sandy Flockhart, CEO & Group General Manager

“HSBC Mexico’s results for the first half in 2006 reflect robust growth across all our customer segments. Strong performance registered by the Bank was coupled with good results in the Insurance, Pension Funds Management (Afore), and Panama Bank subsidiaries.”

“Torre HSBC, our new headquarters inaugurated in April 2006, has brought together staff across Mexico City into one location. As part of the opening of the building, HSBC launched an extensive range of innovative promotions and products. In addition to our new corporate headquarters, we continued to invest and improve our infrastructure with 236 additional ATMs and 17 new branches added in the first half of 2006.”

“HSBC continues to work towards being the leading financial services institution in Mexico in the eyes of our customers. We are constantly improving product innovation and service standards, based on the combination of product knowledge, global reach 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 throughout the remainder of 2006.”

Overview

Grupo Financiero HSBC reported strong results in the first half of 2006, with net income amounting to 2,783 million pesos, which represents an increase of 22.6 per cent over the same period in 2005. Net interest income, fees and trading all reached record levels during the first six months of the year.

Net interest income grew 17.1 per cent versus the prior year, a particularly sound result given the challenging interest rate environment. This performance reflects robust growth in loans, concentrated in higher yielding consumer, small and medium-sized business products, coupled with continued growth in low-cost customer deposits.

Fees and commissions performed well, increasing by 20.0 per cent versus the prior year. These results are mainly 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 87.5 per cent over prior year, benefiting from successful strategic positioning, higher customer volumes and the launch of new products as enhanced treasury systems were implemented.

Administrative expenses grew 13.5 per cent versus prior year, as we continue to invest in our business. HSBC has achieved a strong organic volume, whilst containing costs in line with expectations.

Loan impairment charges increased to MXN 1,652 million pesos for the first half of 2006, in line with robust consumer lending growth, particularly in credit cards and mortgages. The ratio of impaired loans to total loans improved to 2.5 per cent from 2.6 per cent in the prior year and the reserve coverage on non performing loans continues to be strong at 158 per cent. The bank's capital adequacy ratio remains solid and in line with the competition.

By customer segment

The personal financial services division (PFS) reported strong performance driven by growth in low cost deposits, credit cards, mortgage lending and higher transaction-based fee income. Mortgage balances increased MXN 4.3 billion due to robust marketing campaigns and enhanced customer service. HSBC is the first Mexican bank to grant pre-approved loans via the internet. Credit card balances grew MXN 4.7 billion, while cards in circulation grew 80 per cent to over 1.4 million cards. Additionally, a campaign was launched in JUN06 to publicise a 5% cash back programme for credit card purchases made by new and existing *Tu Cuenta* customers.

Tu Cuenta, our integrated package of financial services for a flat monthly fee, continued its strong performance, with 824,869 packages sold as of JUN06. This product has contributed to strong fee income and low cost of funding. HSBC Mexico continued to be one of the market leaders in customer deposit growth, with a 190 basis point increase in market share while maintaining the lowest cost of funds.

Mutual fund fee growth of 59 per cent versus previous year was led by an expanded product offering together with an increased cross sales ratio to our extensive customer base. HSBC continues to operate the largest mutual fund for individual investors, the *HSBC D-2* fund.

The commercial banking customer segment (CMB) has been restructured to enhance customer service and product innovation. In addition to traditional SMEs, there is a new SME-Upper segment. A new real estate lending sector was also added in the MME segment.

Overall CMB balances increased MXN 9.2 billion, with MME balances increasing by MXN 5.1 billion, SME by MXN 2.85 billion and SME-Upper by MXN 1.25 billion.

In 2006 for the second consecutive year HSBC Mexico received the SME Award from the Mexican Ministry of Economy and *Mundo Ejecutivo* (one of Mexico's leading business publications) in recognition of its outstanding support to small and medium business customers.

There was very strong growth in membership fees, driven by the success of *Estimulo*, the first integrated banking product for small businesses in Mexico. Trade Services increased its market share from 10.2 per cent to 12.7 per cent during the year, generating revenue growth of 36 per cent versus prior year.

The corporate, investment banking and markets division (CIBM) continued to strengthen its market position benefiting in part from HSBC's extensive international network for multinational companies. Global Markets generated higher revenues from increased trading volumes due to increased interest-rate volatility. Higher profits in the money market trading and derivatives portfolio were achieved due to successful yield curve positioning and an increase in both Interbank and customer driven activity, facilitated through the installation of HSBC treasury systems in 2005. HSBC established itself as a leader in the domestic debt market in Mexico, increasing its market share from 4.5 per cent at DEC05 to 18.8 per cent at JUN06, having particular expertise in both structured and innovative transactions. Our Investment Banking Finance team has participated in several issuances for the local market, including our own successful placement of domestic term funding to hedge against the long term interest rate risk from our growing mortgage portfolio.

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, 6.5 million customers, 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. Listings on the London, New York, Paris, Hong Kong and Bermuda stock exchanges, with shares in HSBC Holdings plc held by around 20,000 shareholders in some 100 countries and territories. 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 were 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 HSBC México as a company that is truly committed to a socially responsible management as part of its culture and business strategy.

The Certification was granted to HSBC México 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. This year 16 foundations in sixteen states will be receiving 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.

HSBC is also participating in Béalos, a fundraising campaign for an educational programme, being led by the Mexican Bank Association (ABM), Fundación Televisa, and six financial institutions, including HSBC. The programme seeks to raise the quality of education for underprivileged youth and aims to benefit 12,200 teachers, furthering their education, and scholarships for more than 10,000 children at the secondary and preparatory/technical levels, as well as homeless children.

During July and August 2006, funds will be raised through donations at the ATM's of the six participating financial institutions. Additionally, each participating bank will make an additional donation of MXN 3 million, the ABM and Fundación Televisa MXN 5 million each, totaling MXN 29 million. Prestigious educational institutions, such as the ITESM, and the IPN (National Poltitechnical Institute), have joined the programme to provide scholarships. These institutions, which will operate the programme, will double the amounts raised.

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 commitments 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.

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.

Culture

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 the presentation in Mexico City of the Vienna Philharmonic Orchestra.

HSBC will also co-sponsor the British Presence at the Festival Internacional Cervantino in 2006.

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. To date, the programme has benefited more than 65,000 children in these areas.

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 constant MXN millions

Consolidated Balance Sheet

	<u>30 June</u> 2005	<u>30 Sep</u> 2005	<u>31 Dec</u> 2005	<u>31 Mar</u> 2006	<u>30 June</u> 2006
Assets					
Cash and deposits in banks	45,826	49,656	55,869	51,632	62,532
Investments in Securities.....	47,492	50,505	57,555	59,455	68,777
Trading securities	349	4,887	7,018	9,681	23,198
Available for sale securities	43,032	41,583	46,502	45,839	41,571
Held to maturity securities	4,111	4,035	4,035	3,935	4,008
Securities and derivative operations.....	138	269	574	600	263
Repurchase agreements	102	94	188	83	58
Stock borrowings	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	36	175	386	517	205
Performing loans					
Commercial loans	41,510	45,246	46,229	47,799	54,598
Loans to financial intermediaries	4,280	5,245	6,968	5,565	6,131
Consumer loans	18,180	20,182	25,928	29,839	30,346
Mortgage	17,961	19,119	20,309	21,713	22,966
Loans to government entities	36,918	37,277	36,540	36,310	37,342
Loans to Fobaproa or IPAB	18,786	957	1,108	1,116	-
Total performing loans	<u>137,635</u>	<u>128,026</u>	<u>137,082</u>	<u>142,342</u>	<u>151,383</u>
Non-performing loans					
Commercial loans	1,983	1,771	1,685	1,248	1,456
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	641	690	826	930	1,354
Mortgage	982	1,147	1,032	950	1,065
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	47	31	28	12	28
Total non-performing loans	<u>3,653</u>	<u>3,639</u>	<u>3,571</u>	<u>3,140</u>	<u>3,903</u>
Total loan portfolio	<u>141,288</u>	<u>131,665</u>	<u>140,653</u>	<u>145,482</u>	<u>155,286</u>
(-) Allowance for loan losses.....	(6,476)	(6,200)	(5,959)	(5,525)	(6,158)
Net loan portfolio	<u>134,812</u>	<u>125,465</u>	<u>134,694</u>	<u>139,957</u>	<u>149,128</u>
Other accounts receivable	21,319	9,814	15,375	21,630	20,034
Foreclosed assets.....	473	451	398	323	82
Property, furniture and equipment, net.....	4,866	5,164	5,533	5,653	5,736
Long term investments in equity securities	2,423	2,087	2,268	2,427	2,588
Deferred taxes	1,703	1,291	755	849	490
Goodwill.....	3,144	3,216	3,273	3,284	3,312
Other assets, deferred charges and intangibles.....	930	938	1,701	1,671	1,692
Total Assets	<u><u>263,126</u></u>	<u><u>248,855</u></u>	<u><u>277,995</u></u>	<u><u>287,482</u></u>	<u><u>314,634</u></u>

	30 June 2005	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 June 2006
Liabilities					
Deposits	194,226	195,852	214,534	211,112	231,793
Demand deposits	109,771	109,176	126,824	119,457	134,596
Time deposits	84,455	86,676	87,710	91,655	92,947
Bank bonds outstanding	-	-	-	-	4,250
Bank deposits and other liabilities	17,053	7,114	7,036	6,124	7,340
On demand	-	-	21	-	-
Short term	14,671	4,935	4,866	4,103	5,273
Long term	2,382	2,179	2,149	2,021	2,067
Settlement accounts to be recorded for sale	1,756	-	-	-	-
Securities and derivative transactions	3,974	3,009	4,549	8,059	11,357
Repurchase agreements	49	89	114	60	42
Stock borrowings	3,925	2,920	4,435	7,999	11,315
Derivative transactions	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Other accounts payable	20,282	15,515	23,198	32,248	32,828
Income tax and employee profit sharing payable	205	398	1,311	1,884	1,589
Sundry creditors and others accounts payable	20,077	15,117	21,887	30,364	31,370
Subordinated debentures outstanding	2,673	2,645	2,606	2,587	2,606
Deferred tax	-	-	-	-	-
Deferred credits	53	15	20	29	22
Total Liabilities	240,017	224,150	251,943	260,159	286,077
Stockholder's Equity					
Paid in capital	20,060	20,060	20,060	20,060	20,060
Capital stock	7,672	7,672	7,672	7,672	7,672
Additional paid in capital	12,388	12,388	12,388	12,388	12,388
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains	3,049	4,642	5,990	7,263	8,495
Capital reserves	641	641	641	641	892
Retained earnings	7,719	7,719	7,719	12,752	12,501
Surplus (Deficit) from securities	-	-	-	-	-
Results of foreign operations exchange	(5)	(4)	(7)	10	11
Cumulative effect of restatement	(3,729)	(3,729)	(3,728)	(3,727)	(3,727)
Gains on non monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(3,850)	(3,624)	(3,668)	(3,841)	(3,965)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	2,270	3,639	5,033	1,426	2,783
Minority interest in capital	3	3	2	2	2
Total Stockholder's Equity	23,109	24,705	26,052	27,325	28,557
Total Liabilities and Capital	263,126	248,855	277,995	287,482	314,634

	30 June 2005	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 June 2006
Memorandum Accounts					
Transactions on behalf of third parties	92,105	85,304	86,914	93,482	94,939
Customer current accounts	3	(3)	1	1	28
Customer banks	-	-	-	1	18
Settlement of customer securities and documents	3	(3)	1	-	10
Customer securities	60,585	65,853	67,435	72,414	75,820
Customer securities in custody	59,762	64,433	66,277	71,138	74,597
Pledged customers securities and documents	823	1,420	1,158	1,276	1,223
Transactions on behalf of customer	2,697	2,598	2,436	2,490	2,499
Customer repurchase transactions	2,697	2,598	2,436	2,490	2,499
Customer option repurchase transaction	-	-	-	-	-
Other transactions on behalf of customers	28,820	16,856	17,042	18,577	16,592
Investment on behalf of customers, net	28,820	16,856	17,042	18,577	16,592
Other memorandums accounts	495,498	453,569	486,512	487,762	308,019
Investment of the SAR funds	3,207	3,298	3,326	3,527	3,540
Integrated loan portfolio	133,318	122,993	132,665	138,387	146,876
Other memorandum accounts	358,973	327,278	350,521	345,848	157,603
Transactions for the group's own accounts	347,406	400,248	343,146	544,860	598,235
Memorandum Accounts	347,354	400,243	343,072	544,838	598,219
Guarantees granted	59	59	57	58	60
Irrevocable lines of credit granted	2,849	3,252	3,800	5,353	5,029
Goods in trust or mandate	66,517	67,585	68,477	69,053	67,936
Goods in custody or under administration	62,222	62,747	57,532	69,298	62,141
Amounts committed in transactions with Fobaproa	1,081	475	125	114	148
Amounts contracted in derivative operations	198,633	256,832	208,067	383,803	458,810
Securities in custody	4,112	4,116	4,028	3,927	3,982
Other contingent obligations	11,881	5,177	986	13,232	113
Repurchase/resale agreements	46,089	44,297	44,899	47,758	35,624
Securities receivable under repos	46,036	44,285	44,914	47,737	35,611
(less) Repurchase agreements	<u>53</u>	<u>12</u>	<u>(15)</u>	<u>21</u>	<u>13</u>
Reverse repurchase agreements	14,378	14,365	16,110	15,386	5,466
(less) Securities deliverable under repos	<u>14,379</u>	<u>14,372</u>	<u>16,021</u>	<u>15,385</u>	<u>5,463</u>
	<u>(1)</u>	<u>(7)</u>	<u>89</u>	<u>1</u>	<u>3</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: Personas, English, HSBC Group, Investor Relations, Financial Information.

www.enbv.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 constant MXN millions

Consolidated Income Statement

	For the quarter ending....					YTD	
	30 June 2005	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 June 2006	30 June 2005	30 June 2006
Interest Income	6,616	7,092	6,963	6,778	6,802	12,570	13,580
Interest expense (-)	2,945	3,038	2,743	2,366	2,469	5,168	4,835
Monetary position (margin), net	(22)	(74)	(175)	(189)	28	(74)	(161)
Net interest income	<u>3,649</u>	<u>3,980</u>	<u>4,045</u>	<u>4,223</u>	<u>4,361</u>	<u>7,328</u>	<u>8,584</u>
Loan-loss provisions (-)	(373)	(486)	(407)	(616)	(1,036)	(622)	(1,652)
Risk adjustment net interest income...	<u>3,276</u>	<u>3,494</u>	<u>3,638</u>	<u>3,607</u>	<u>3,325</u>	<u>6,706</u>	<u>6,932</u>
Fees and commissions.....	2,003	2,264	2,275	2,357	2,426	3,984	4,782
Fees Paid	(238)	(218)	(257)	(273)	(272)	(452)	(544)
Trading Income	<u>292</u>	<u>422</u>	<u>444</u>	<u>526</u>	<u>434</u>	<u>512</u>	<u>960</u>
Total operating income	<u>5,333</u>	<u>5,962</u>	<u>6,100</u>	<u>6,217</u>	<u>5,913</u>	<u>10,750</u>	<u>12,130</u>
Administrative and personnel expenses (-)	<u>3,908</u>	<u>4,168</u>	<u>4,201</u>	<u>4,330</u>	<u>4,323</u>	<u>7,626</u>	<u>8,653</u>
Net operating income	<u>1,425</u>	<u>1,794</u>	<u>1,899</u>	<u>1,887</u>	<u>1,590</u>	<u>3,124</u>	<u>3,478</u>
Other income	283	557	446	364	678	508	1,042
Other expenses	122	470	264	202	460	297	662
Net income before taxes.....	<u>1,586</u>	<u>1,881</u>	<u>2,081</u>	<u>2,049</u>	<u>1,808</u>	<u>3,335</u>	<u>3,858</u>
Income tax and employee profit sharing	(406)	(483)	(334)	(768)	(189)	(690)	(957)
Deferred income tax	(200)	(259)	(511)	(7)	(453)	(591)	(460)
Net income before subsidiaries	<u>980</u>	<u>1,139</u>	<u>1,236</u>	<u>1,274</u>	<u>1,166</u>	<u>2,054</u>	<u>2,441</u>
Undistributed income from subsidiaries	174	232	157	152	190	294	342
Income from ongoing operations	<u>1,154</u>	<u>1,371</u>	<u>1,393</u>	<u>1,426</u>	<u>1,356</u>	<u>2,348</u>	<u>2,783</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	(78)	-	1	-	-	(78)	-
Minority interest	-	-	-	-	-	-	-
Net income (loss)	<u>1,076</u>	<u>1,371</u>	<u>1,394</u>	<u>1,426</u>	<u>1,356</u>	<u>2,270</u>	<u>2,783</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 of that are subject to consolidation, up to the dates mentioned above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers., Section: Ligas de Interés, HSBC www.hsbc.com.mx/ Section: Personas, 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

Consolidated Statement of Changes in Shareholder's Equity

From January 1, 2006 to June 30, 2006.

	Paid in Capital			Capital Gains								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			Net income
Balances as of December 31, 2005	7,672	12,388		641	7,719	-	(7)	(3,728)	-	(3,668)	-	5,033	2	26,052
Movements Inherent to the Shareholders Decision														
Subscription of shares	-	-		-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-		-	5,033	-	-	-	-	-	-	(5,033)	-	-
Constitution of reserves	-	-		251	(251)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-		-	-	-	-	-	-	-	-	-	-	-
Others	-	-		-	-	-	-	-	-	-	-	-	-	-
Total	-	-		251	4,782	-	-	-	-	-	-	(5,033)	-	-
Movements for the Recognition of the Comprehensive Income														
-Net result	-	-		-	-	-	-	-	-	-	-	2,783	-	2,783
-Surplus from mark to market of available for sale securities	-	-		-	-	-	-	-	-	-	-	-	-	-
-Result from translation of foreign operations	-	-		-	-	-	18	-	-	-	-	-	-	18
-Cumulative effect of restatement	-	-		-	-	-	-	1	-	-	-	-	-	1
-Gains on non-monetary asset valuation	-	-		-	-	-	-	-	-	(297)	-	-	-	(297)
-Adjustments to retirement fund obligations	-	-		-	-	-	-	-	-	-	-	-	-	-
Total	-	-		-	-	-	18	1	-	(297)	-	2,783	-	2,505
Balances as of June 30, 2006	7,672	12,388		892	12,501	-	11	(3,727)	-	(3,965)	-	2,783	2	28,557

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

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

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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 June 30, 2006.***Operating activities**Net income (loss) **2,783****Items included in operations not requiring (providing) funds:**

Gains / (losses) from mark to market valuations (960)

Allowances for loan losses 1,652

Depreciation and amortization 424

Deferred taxes (461)

Undistributed income from subsidiaries, net (342)

Increase (reduction) of the minority interest -

Net Result of items included in operations not requiring (providing) funds..... 3,096**Changes in items related to operations:**

Increase (decrease) in deposits: 17,259

Increase (decrease) of loan portfolio (16,086)

Increase (decrease) of securities and derivative transactions, net (10,262)

Increase (decrease) of financial instruments 7,119

Other accounts receivable 5,102

Funds provided by operating activities 6,228**Financing Activities:**

Subordinated debentures outstanding -

Increase (Decrease) in bank and other loans 305

Funds used or provided in financing activities 305**Investing Activities:**

Increase (decrease) of property, furniture and equipment, net (904)

Increase (decrease) in deferred charges or credits, net 1,052

Other investment activities (18)

Funds used in investing activities 130Increase (decrease) in cash and equivalents: **6,663**Cash and equivalents at beginning of period: **55,869**Cash and equivalents at end of period..... **62,532**

"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>30 June 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>30 June 2006</i>
Non performing loans / total loans ratio ...	2.59%	2.76%	2.54%	2.16%	2.51%
Coverage ratio	177.27%	170.37%	166.87%	175.92%	157.74%
Operating efficiency.....	6.23%	6.51%	6.38%	6.13%	5.74%
Net interest margin (NIM)	6.52%	6.93%	6.75%	6.69%	6.50%
Return on average equity (ROAE)	19.21%	22.92%	21.97%	21.40%	19.40%
Return on assets (ROA)	1.72%	2.14%	2.12%	2.02%	1.80%
Capitalization ratio					
Credit risk.....	19.73%	19.19%	21.14%	20.28%	19.29%
Credit and market risk	14.59%	13.35%	14.32%	15.79%	14.75%
Liquidity.....	71.69%	84.24%	83.05%	86.72%	91.01%

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 constant MXN millions***Consolidated Balance Statement**

	<u>30 June</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>	<u>30 June</u> <u>2006</u>
Assets					
Cash and deposits in banks	42,940	47,598	51,566	47,177	59,064
Investment in Securities	45,994	48,638	56,104	57,676	67,070
Trading securities	-	4,202	6,658	9,335	22,690
Available for sale securities	41,883	40,401	45,411	44,406	40,372
Held to maturity securities	4,111	4,035	4,035	3,935	4,008
Securities and derivative operations.....	133	255	578	600	263
Repurchase agreements	96	80	193	82	58
Stock borrowings	-	-	-	-	-
Settlement Accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	37	175	385	518	205
Performing loans					
Commercial loans	36,654	40,023	41,159	42,270	48,432
Loans to financial intermediaries	4,186	5,153	6,868	5,463	6,057
Consumer loans	16,951	18,436	24,205	28,091	28,515
Mortgage	13,385	14,318	15,479	16,721	17,721
Loans to government entities	36,918	37,277	36,540	36,310	37,342
Loans to Fobaproa or IPAB	18,785	957	1,108	1,116	-
Total performing loans	<u>126,879</u>	<u>116,164</u>	<u>125,359</u>	<u>129,971</u>	<u>138,067</u>
Non-performing loans					
Commercial loans	1,938	1,726	1,641	1,202	1,382
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	630	680	815	917	1,333
Mortgage	915	1,081	965	874	977
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	47	31	28	12	28
Total non-performing loans	<u>3,530</u>	<u>3,518</u>	<u>3,449</u>	<u>3,005</u>	<u>3,720</u>
Total loan portfolio	<u>130,409</u>	<u>119,682</u>	<u>128,808</u>	<u>132,976</u>	<u>141,787</u>
(-) Allowance for loan losses	<u>(6,319)</u>	<u>(6,046)</u>	<u>(5,790)</u>	<u>(5,345)</u>	<u>(5,942)</u>
Net loan portfolio	124,090	113,636	123,018	127,631	135,845
Other accounts receivable	19,990	8,806	14,831	20,966	19,647
Foreclosed assets.....	425	407	358	281	37
Property, furniture and equipment, net.....	4,647	4,939	5,295	5,406	5,485
Long term investments in equity securities.....	173	177	198	200	189
Deferred taxes	1,578	1,166	624	711	344
Other assets, deferred charges and intangibles.....	<u>773</u>	<u>723</u>	<u>1,479</u>	<u>1,480</u>	<u>1,486</u>
Total Assets	<u>240,743</u>	<u>226,345</u>	<u>254,051</u>	<u>262,128</u>	<u>289,430</u>

	<u>30 June</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>	<u>30 June</u> <u>2006</u>
Liabilities					
Deposits.....	181,674	183,871	198,620	194,118	214,960
Demand deposits	103,895	104,792	120,052	112,497	127,025
Time deposits	77,779	79,079	78,568	81,621	83,685
Bank bonds outstanding	-	-	-	-	4,250
Bank deposits and other liabilities	17,053	7,080	6,968	6,124	7,340
On demand	-	-	-	-	-
Short term	14,671	4,849	4,786	4,103	5,273
Long term	2,382	2,231	2,182	2,021	2,067
Settlement accounts to be recorded for sale	-	-	-	-	-
Securities and derivative transactions	5,724	2,994	4,554	8,059	11,357
Repurchase agreements	43	74	119	60	42
Settlement accounts to be recorded for purchase	1,756	-	-	-	-
Stock borrowings	3,925	2,920	4,435	7,999	11,315
Derivative transactions	-	-	-	-	-
Other accounts payable	19,215	14,065	22,138	31,064	32,171
Income tax and employee profit sharing payable	155	321	1,213	1,829	1,494
Sundry creditors and others accounts payable	19,060	13,744	20,925	29,235	30,677
Subordinated debentures outstanding.....	2,285	2,258	2,229	2,206	2,212
Deferred tax	-	-	-	-	-
Deferred credits.....	<u>8</u>	<u>3</u>	<u>15</u>	<u>23</u>	<u>16</u>
Total Liabilities	<u>225,959</u>	<u>210,271</u>	<u>234,524</u>	<u>241,594</u>	<u>268,056</u>
Stockholder's Equity					
Paid in capital.....	10,424	10,424	12,647	12,647	12,647
Capital stock	3,534	3,534	3,812	3,812	3,812
Additional paid in capital	6,890	6,890	8,835	8,835	8,835
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains.....	4,359	5,648	6,879	7,886	8,725
Capital reserves	4,631	4,631	4,631	4,631	8,875
Retained earnings	-	-	-	4,243	-
Surplus (Deficit) from securities	7	233	272	86	(62)
Results of foreign operations exchange	12	12	12	12	12
Cumulative effect of restatement	(3,352)	(3,344)	(3,397)	(3,397)	(3,405)
Gains on non monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	1,258	1,258	1,258	1,258	1,258
Valuation of permanent investments	(143)	(144)	(140)	(143)	(144)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	1,945	3,002	4,243	1,195	2,191
Minority interest in capital	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total Stockholder's Equity	<u>14,784</u>	<u>16,074</u>	<u>19,527</u>	<u>20,534</u>	<u>21,374</u>
Total Liabilities and Capital	<u>240,743</u>	<u>226,345</u>	<u>254,051</u>	<u>262,128</u>	<u>289,430</u>

	<i>30 June</i> <i>2005</i>	<i>30 Sep</i> <i>2005</i>	<i>31 Dec</i> <i>2005</i>	<i>31 Mar</i> <i>2006</i>	<i>30 June</i> <i>2006</i>
Memorandum Accounts					
Guarantees granted	59	58	58	59	59
Other contingent obligations	11,881	5,177	986	13,232	113
Irrevocable lines of credit granted	2,849	3,252	3,800	5,353	5,029
Goods in trust or mandate	66,517	67,585	68,477	69,053	67,936
Goods in custody or under administration	62,222	62,747	57,532	69,298	62,141
Third party investment banking operations, net	28,820	16,856	17,042	18,577	16,592
Amounts committed in transactions with Fobaproa	1,081	475	125	114	148
Amounts contracted in derivative operations	198,633	256,832	208,067	383,803	458,810
Investments of retirement savings system funds	3,207	3,298	3,326	3,527	3,540
Integrated loan portfolio	133,318	122,993	132,665	138,387	146,876
Other control accounts	<u>358,972</u>	<u>327,277</u>	<u>350,520</u>	<u>345,847</u>	<u>157,602</u>
	<u>867,559</u>	<u>866,550</u>	<u>842,598</u>	<u>1,047,250</u>	<u>918,846</u>
Securities receivable under repos	43,389	41,709	42,444	45,281	33,128
(less) Repurchase agreements	<u>(43,334)</u>	<u>(41,687)</u>	<u>(42,457)</u>	<u>(45,248)</u>	<u>(33,112)</u>
	<u>55</u>	<u>22</u>	<u>(13)</u>	<u>33</u>	<u>16</u>
Reverse repurchase agreements	11,677	11,767	13,652	12,896	2,967
(less) Securities deliverable under repos	<u>(11,677)</u>	<u>(11,767)</u>	<u>(13,652)</u>	<u>(12,896)</u>	<u>(2,967)</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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Banking Sector

HSBC México, S.A.

Figures in constant MXN millions

Consolidated Income Statement

	<i>For the quarter ending...</i>					<i>YTD</i>	
	<i>30 June</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
Interest income	6,390	6,811	6,651	6,506	6,427	12,129	12,932
Interest expense (-)	2,834	2,934	2,653	2,277	2,321	4,989	4,598
Monetary position (margin), net	(15)	(54)	(134)	(180)	29	(55)	(150)
Net interest income	<u>3,541</u>	<u>3,823</u>	<u>3,864</u>	<u>4,049</u>	<u>4,135</u>	<u>7,085</u>	<u>8,184</u>
Loan-loss provisions (-)	377	484	401	600	1,009	620	1,609
Loan loss provisions bank	305	349	344	520	1,009	408	1,530
Loss sharing Fobaproa	72	135	57	80	-	212	79
Risk adjustment net interest income...	<u>3,164</u>	<u>3,339</u>	<u>3,463</u>	<u>3,449</u>	<u>3,126</u>	<u>6,465</u>	<u>6,575</u>
Fees and commissions	1,819	2,001	2,083	2,089	2,183	3,559	4,272
Account management	381	404	377	374	379	750	753
Services	1,438	1,597	1,706	1,715	1,804	2,809	3,519
Fees Paid	(229)	(209)	(248)	(261)	(259)	(431)	(520)
Trading Income	289	416	443	524	431	511	956
Foreign exchange	450	216	267	223	109	396	332
Securities trading, net	(23)	(24)	(89)	175	45	27	221
Repos	67	78	125	147	114	90	261
Swaps	-	-	11	76	5	-	81
Valuation off-shore agencies	(205)	146	129	(97)	158	(2)	61
Total operating income	<u>5,043</u>	<u>5,547</u>	<u>5,741</u>	<u>5,801</u>	<u>5,481</u>	<u>10,104</u>	<u>11,283</u>
Administrative and personnel expenses (-)	3,631	3,847	3,940	4,031	4,010	7,064	8,040
Personnel expense	1,639	1,837	1,768	1,659	1,798	3,106	3,457
Administrative expense	1,796	1,792	1,942	2,168	2,010	3,576	4,178
Depreciation and amortization	196	218	230	204	202	382	405
Net operating income	<u>1,412</u>	<u>1,700</u>	<u>1,801</u>	<u>1,770</u>	<u>1,471</u>	<u>3,040</u>	<u>3,243</u>
Other income	274	530	495	373	592	495	963
Other expenses	(118)	(471)	(245)	(200)	(459)	(288)	(659)
Net income before taxes	<u>1,568</u>	<u>1,759</u>	<u>2,051</u>	<u>1,943</u>	<u>1,604</u>	<u>3,247</u>	<u>3,547</u>
Income tax and employee profit sharing	(385)	(456)	(309)	(729)	(149)	(634)	(877)
Deferred income tax	(199)	(258)	(504)	(20)	(461)	(593)	(481)
Net income before subsidiaries	<u>984</u>	<u>1,045</u>	<u>1,238</u>	<u>1,194</u>	<u>994</u>	<u>2,020</u>	<u>2,189</u>
Undistributed income from subsidiaries	2	10	3	1	2	3	3
Income from ongoing operations	<u>986</u>	<u>1,055</u>	<u>1,241</u>	<u>1,195</u>	<u>996</u>	<u>2,023</u>	<u>2,192</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	(78)	-	1	-	-	(78)	-
Minority interest	-	-	-	-	-	-	-
Net income (loss)	<u>908</u>	<u>1,055</u>	<u>1,242</u>	<u>1,195</u>	<u>996</u>	<u>1,945</u>	<u>2,191</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 June 30, 2006

	Paid in Capital					Capital Gains											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 (Deficit) 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 (Valuation of permanent investments)	Net income		Minority Interest	
Balances as of December 31, 2005	2,278	-	1,494	7,052	1,692	3,619	965	-	-	269	12	(3,362)	-	1,245	(139)	4,199	1	19,326	
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	-	-	-	-	-	4,199	-	(4,199)	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	4,199	-	-	-	-	-	-	-	-	-	(4,199)	-	-	-
Movements for the Recognition of the Comprehensive Income																			
Integral Income																			
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,191	-	-	2,191
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	(326)	-	-	-	-	-	-	-	-	(326)
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	39	-	91	-	92	-	-	(5)	-	-	(42)	13	(1)	-	-	-	187
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4)	-	-	-	(4)
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	39	-	91	-	92	-	-	(331)	-	-	(42)	13	(5)	2,191	-	-	2,048
Balances as of June 31, 2006	2,278	-	1,534	7,052	1,783	7,818	1,057	-	-	(62)	12	(3,362)	(42)	1,258	(144)	2,191	1	21,374	

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, Section: Personas, 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.

Consolidated Statement of Changes in Financial Position

From January 1, 2006 to June 30, 2006

Operating activities

Net income (loss).....	2,191
-------------------------------	--------------

Items included in operations not requiring (providing) funds:

Depreciation and amortization	405
Allowance for loan losses	1,609
Provisions for other obligations	-
Gains / (losses) from mark to market valuations	(61)
Deferred taxes	481
Undistributed income from subsidiaries, net	(3)
Provisions for foreclosed assets	227
Increase (reduction) of the minority interest	-
Net Result of items included in operations not requiring (providing) funds.....	4,849

Changes in Operating Accounts:

Increase (decrease) in retail deposit and money desk	16,339
Increase (decrease) of loan portfolio	(14,436)
Increase (decrease) of financial instruments	(4,119)
Increase (decrease) of other receivable and payable accounts, net	5,213
Funds provided by operations.....	7,846

Financing Activities:

Subordinated debentures outstanding	(18)
Interbank and other loans	372
Dividends paid	-
Increase (decrease) in capital	-
Result from foreign currency transactions	-
Convertible subordinated debentures	-
Funds used or provided by financing activities	354

Investing Activities:

Increase (decrease) of property, furniture and equipment and long term investments	(595)
Increase (decrease) in deferred credits	(201)
Increase (decrease) in foreclosed assets	94
Funds used in investing activities.....	(702)

Increase (decrease) in cash and equivalents	7,498
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Cash and equivalents at beginning of period.....	51,566
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Cash and equivalents at end of period.....	59,064
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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 2,783 million in 1H06, which represents a 22.6% increase versus prior year. There was good performance among the subsidiaries; especially from the Bank which contributed a net income of MXN 2,191m, followed by the Insurance Company with MXN 350m, the Panama subsidiary with MXN 121m, and the Pension and Fund Management (Afore) with MXN 14 million. These results reflect the strong progress being made across all our customer segments.

The Insurance Company registered a 33.5% 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 1H06.

The pension funds management (Afore) subsidiary registered net income growth of MXN 40 m versus prior year largely due to robust customer enrolment. The bank in Panama had a 13.1% net income increase versus prior year, benefiting from strong revenues in credit cards, non-funds income and NII from home mortgage loans.

Total Revenue

In 1H06 the Group's revenue totaled MXN 12,130 m, an increase of MXN 1,380m (12.8%) over prior year. Broad-based growth was driven by larger volumes and positive results in fees and trading income.

The bank's revenue in the first six months of the year reached MXN 11,283m, an increase of MXN 1,179m (11.7%) versus prior year.

The Group's revenue growth was accompanied by an increase in loan-impairment charges of MXN 420 m in the 2Q06. For the Bank, reserves grew MXN 409 m in the quarter and MXN 989 m for the first six months of the year. These increases are largely due to planned growth into new consumer segments.

Net Interest Income

Net interest income for the Group reached MXN 8,584 m in 1H06, a 17.1% increase versus prior year mainly driven by loan volume growth and a more profitable balance sheet composition.

Net interest income benefited from robust performance in loans, especially among higher yielding consumer and SME products, coupled with continued growth in low-cost customer deposits. The strong growth in volumes resulted in a solid increase in net interest income, despite a lower interest rate environment of 250 basis points in the last 12 months.

Versus prior quarter, net interest income grew MXN 138m (3.3%). Net interest income growth was adversely effected by a decrease in the average interbank interest rate (TIIE), but this was offset by higher loan volumes, coupled with a robust performance in deposits.

The Bank's net interest income increased MXN 1,099 m (15.5%) from prior year.

Non-interest income

Fees and commissions income performed well in 1H06 and 2Q06, registering MXN 4,238 m and MXN 2,154 respectively. This represents a MXN 707 m (20.0%) increase versus previous year, and MXN 70 m (3.4%) from prior quarter.

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.

Trading results were very strong, reaching MXN 960 m and increasing MXN 448 m (87.5%) over prior year. Maintaining a conservative risk positions in the financial markets, the Bank registered a MXN 956 m profit in 1H06. The non-interest income/total revenue ratio increased from 37.6% in 1H05 to 42.9% in 1H06.

Loan impairment charges

Loan impairment charges increased to MXN 1,652 m in 1H06, representing an increase of MXN 1,030 m versus prior year.

In the 2Q06, loan impairment charges grew MXN 420 m (68.2%) versus prior quarter, reaching MXN 1,036 millions.

Growth is principally due to robust consumer lending growth, particularly in credit cards and PyMes.

Administrative and personnel expenses

Administrative expenses were MXN 8,652 m, growing MXN 1,026 m (13.5%) versus prior year. For the quarter, expenses decreased MXN 7 m versus prior period, in line with sound cost control management.

The cost: income ratio improved from 66.6% in the 1H05, to 62.1% in 1H06, reflecting revenue growing faster than expenses.

In the bank, expenses increased by MXN 976 m (13.8%) versus prior year. Expenses in 2Q06 reached MXN 4,010 m, representing a MXN 21 m decrease from prior quarter.

Expenses are in line with the strong organic growth achieved in 1H06 and investments made in personnel training and improving our branch and ATMs network. The decrease registered during 2Q06 reflects progress being made, despite our investments in infrastructure, systems and personnel.

Balance Sheet

At 31 March 2006, the Group's assets totaled MXN 314.63 bn, representing an increase of MXN 51.51 bn (19.6%) versus prior year and MXN 27.15 bn (9.4%) versus prior quarter.

There was significant growth in investments in securities. This is a reflection of the Group's established strategy to reduce interest rate sensitivity and to strengthen the financial instruments portfolio. As part of this strategy, the bank emitted a term funding program for MXN 4.25 bn to minimize the risk of long-term interest rate variations associated with growth in the mortgage portfolio.

Liquidity increased versus prior year largely due to 44.8% 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 13.35 bn.

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 31.5%, driven by strong growth in the SME segment. The mortgage portfolio also performed well with 27.9% growth versus prior year. Higher balances in credit cards and payroll loans, contributed to 66.9% growth in the Group consumer loan portfolio. The combination of growth across customer segments and products generated a 27.4% increase in the Group's performing loan portfolio (excluding Fobaproa).

As of June 30, 2006, impaired loans increased to MXN 3,903 from previous year's MXN 3,653. The growth was driven by increases in the loan portfolio.

The bank's impaired loans portfolio increased MXN 190 m (5.4%) versus prior year and MXN 715 m (23.8%) from previous quarter. As a consequence, allowance for loan losses grew MXN 597 m during the 2Q06. Both increases are due to loan growth into new consumer segments.

Reserve coverage on impairment loans remains strong at 157.7%, and the ratio of impaired loans to total loans improved to 2.5% versus 2.6% in the prior year.

In 2Q06, total deposits reached MXN 227.54 bn, representing an annual increase of MXN 33.32 bn (17.2%). 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.

The positive results mentioned above contributed to an increase in the Group's capital of MXN 5.45 bn 23.6% versus prior year and of MXN 1.23 bn (4.5%) versus prior quarter.

The bank's capital adequacy ratio of 14.8% at 30 June 2006 remains solid and is in line with the competition.

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

Figures in constant MXN millions

Financial Instruments

At June 30, 2006

	<u>30 June</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>	<u>30 June</u> <u>2006</u>
Government securities	238	3,295	5,711	9,478	18,807
Fiduciary certificates	-	-	-	30	-
Bank securities	29	1,482	1,232	157	3,572
Shares	17	17	18	10	191
Sovereign government debt bonds	-	-	-	-	-
Others	65	93	57	6	628
Trading securities.....	<u>349</u>	<u>4,887</u>	<u>7,018</u>	<u>9,681</u>	<u>23,198</u>
Government securities	32,296	29,837	32,029	28,549	35,228
Fiduciary certificates	2,039	2,043	3,166	3,318	-
Bank securities	1,974	4,286	3,953	4,040	685
Obligations and other securities	6,705	5,407	7,163	9,683	5,387
Shares	18	10	191	249	271
Available for sale securities	<u>43,032</u>	<u>41,583</u>	<u>46,502</u>	<u>45,839</u>	<u>41,571</u>
Sovereign debt securities	715	593	582	472	492
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,312	3,379	3,402	3,425	3,498
MYRAS	82	61	49	36	16
Other debt securities	-	-	-	-	-
Securities held to maturity	<u>4,111</u>	<u>4,035</u>	<u>4,035</u>	<u>3,935</u>	<u>4,008</u>
Total Financial Instruments	<u>47,492</u>	<u>50,505</u>	<u>57,555</u>	<u>59,455</u>	<u>68,777</u>

In the second quarter of 2006 there was an increase in investment in securities of MXN 9,322 versus prior quarter. This is mainly due to MXN 16,008 in government securities, MXN 337 in Special Cetes and others, and a decrease of MXN (4,296) for Bond Sales and (2,725) in Fiduciary Certificates.

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

Figures in constant MXN millions

Repurchase Agreements

At June 30, 2006

	<u>30 June</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>	<u>30 June</u> <u>2006</u>
Government securities (debit)	41,310	39,325	43,217	43,763	30,442
Bank securities (debit)	3,136	4,512	1,635	3,933	5,138
Bank securities (own)	1,518	395	-	-	8
Valuation Increase (decrease)	90	76	20	61	14
Interest in securities receivable under repurchase agreements	35	(11)	27	1	22
Total in repo agreements (debit)	<u>46,089</u>	<u>44,297</u>	<u>44,899</u>	<u>47,758</u>	<u>35,624</u>
Repo's Government securities (credit)	41,312	39,335	43,218	43,776	30,445
Repo's Bank securities (credit)	3,136	4,512	1,635	3,933	5,138

Repo's Bank securities (own)	1,518	395	-	-	8
Valuation increase (decrease)	2	3	3	3	-
Accrued interest payable	68	40	58	25	20
Credit balance in repo agreements	<u>46,036</u>	<u>44,285</u>	<u>44,914</u>	<u>47,737</u>	<u>35,611</u>
Repurchase agreements in government securities	14,375	13,841	16,065	15,362	2,673
Repurchase agreements in banking securities	-	512	-	-	2,792
Valuation increase (decrease)	2	3	3	1	-
Accrued interest receivable	1	9	42	23	1
Debit balance repo securities agreements	<u>14,378</u>	<u>14,365</u>	<u>16,110</u>	<u>15,386</u>	<u>5,466</u>
Government securities	14,373	13,831	16,062	15,350	2,670
Bank securities	-	512	-	-	2,793
Valuation increase (decrease)	4	20	(85)	10	(1)
Interest in securities deliverable under repurchase agreements	2	9	44	25	1
Credit balance repo securities agreements	<u>14,379</u>	<u>14,372</u>	<u>16,021</u>	<u>15,385</u>	<u>5,463</u>

Banking sector

HSBC México, S.A.

Figures in constant MXN millions

Derivative Financial Instruments

At June 30, 2006

	<i>Futures</i>		<i>Forwards Contracts</i>		<i>Options</i>		<i>Swaps</i>		<i>Total (net)</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>	
For trading									
Pesos	-	-	68,247	61,055	-	-	-	-	7,192
US Dollars	-	-	70,428	77,588	1,454	1,409	83,148	81,470	(5,436)
Interest Rate	57,797	57,797	-	-	-	-	396,088	397,640	(1,552)
Total	57,797	57,797	138,676	138,643	1,454	1,409	479,236	479,110	205
For hedging									
Pesos	-	-	-	-	-	-	7,454	-	
US Dollars	-	-	-	-	-	-	-	7,854	
Interest Rate	-	-	-	-	-	-	8,546	8,521	
Total	-	-	-	-	-	-	16,000	16,375	

Banking sector

HSBC México, S.A.

Figures in constant MXN millions

Stock Borrowings

At June 30, 2006

	<i>30 June 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>30 June 2006</i>
Received borrowings					
Cetes	-	946	219	-	11,315
Increase or decrease in cetes	-	-	-	-	-
Bonds	4,095	1,976	4,213	7,978	-
Increase or decrease in bonds	(170)	(2)	3	21	-
Total	3,925	2,920	4,435	7,999	11,315

Participation by Subsidiary

Group Subsidiaries at June 30, 2006

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,139,215,231	99.99%	1,139,130,989
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		1,952,359,971

Banking sector

HSBC México, S.A.

Figures in constant MXN millions

Trading Income

	<i>For the quarter ending . . .</i>					<i>YTD . . .</i>	
	<i>30 June 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>30 June 2006</i>	<i>30 June 2005</i>	<i>30 June 2006</i>
Valuation	(206)	146	129	(97)	158	(2)	61
Derivatives	(244)	168	79	(22)	105	(13)	83
Repos	57	(43)	53	(56)	81	29	25
Shares	-	-	-	-	-	-	-
Debt Securities	(19)	20	(3)	(18)	(28)	(18)	(46)
Buying and Selling Instruments	495	271	313	621	273	513	894
Foreign Currency	451	216	252	295	118	395	413
Derivatives	(5)	6	14	12	(51)	(9)	(39)
Repos	49	72	(47)	182	78	78	260
Shares	-	-	-	1	-	-	1
Debt Securities	-	(24)	94	131	128	49	259
Total	289	416	443	524	431	511	956

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

Figures in constant MXN millions

Loan Portfolio

By type of currency

At June 30, 2006

	<i>Commercial Loans</i>	<i>Financial Intermediaries</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Government Loans</i>	<i>IPAB</i>
Performing Loan Portfolio						
Pesos	34,975	5,943	28,515	14,478	34,358	-
US Dollars	13,457	114	-	4	2,984	-
Udis Banxico	-	-	-	3,239	-	-
Subtotal	<u>48,432</u>	<u>6,057</u>	<u>28,515</u>	<u>17,721</u>	<u>37,342</u>	-
Panama	6,166	74	1,831	5,245	-	-
Total.....	<u>54,598</u>	<u>6,131</u>	<u>30,346</u>	<u>22,966</u>	<u>37,342</u>	-
	<i>Commercial Loans</i>	<i>Financial Intermediaries</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Government Loans</i>	<i>IPAB</i>
Non Performing Loans Portfolio						
Pesos	1,105	-	1,333	519	-	-
US Dollar	395	-	-	-	-	-
Udis Banxico	-	-	-	458	-	-
Total.....	<u>1,410</u>	-	<u>1,333</u>	<u>977</u>	-	-
Panama	74	-	21	88	-	-
Total.....	<u>1,484</u>	-	<u>1,354</u>	<u>1,065</u>	-	-

Banking sector

HSBC México, S.A.

Figures in historic MXN millions

Loan Portfolio Grading

At June 30, 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	29,320				
Graded	117,556				
Risk A	76,780	300	230	138	668
Risk B	35,833	1,498	382	154	2,035
Risk C	1,784	198	401	101	701
Risk D	2,291	223	959	490	1,672
Risk E	867	611	189	68	868
Total	<u>146,875</u>	<u>2,830</u>	<u>2,161</u>	<u>951</u>	<u>5,942</u>
Less:					
Constituted Reserves.....					<u>5,942</u>
Surplus					-

1. The last day of the month figures, corresponding to the balance sheet at 30 June 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 December 22, 2005. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the circular published on December 22, 2005.

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

	<i>For the quarter ending...</i>				
	<u>30 June 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 June 2006</u>
Initial balance of non performing loan portfolio	3,324	3,423	3,433	3,413	3,009
Increases	3,876	6,762	2,393	3,746	3,623
Transfer of current loans to past due status	3,876	6,762	2,393	3,746	3,623
Purchase of portfolio	-	-	-	-	-
Suspended interest	-	-	-	-	-
Decreases	(3,757)	(6,756)	(2,419)	(4,170)	(2,922)
Restructurings	(5)	(58)	(28)	(27)	(12)
Liquidated credits	(3,282)	(6,289)	(2,044)	(3,860)	(2,248)
Charged in cash	(2,902)	(5,556)	(1,449)	(2,872)	(1,948)
Foreclosed assets	(2)	(29)	(3)	(2)	(1)
Debt capitalized in the bank's favour	(1)	-	-	-	-
Writeoffs	(377)	(704)	(593)	(986)	(479)
Sale of portfolio	-	-	-	-	-
Transfer to performing loan status	(470)	(410)	(347)	(283)	(483)
Fx revaluations	(20)	4	5	20	10
Interest capitalization	-	-	-	-	-
Final Balance of Non Performing Loan Portfolio	3,423	3,433	3,413	3,009	3,720

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

	<u>30 June 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 June 2006</u>
Loan loss reserves	1,609	1,374	951	787	885
Valuation of securities	(22)	(215)	(297)	(96)	(63)
Fiscal loss	78	60	135	125	118
Loss sharing	2,211	2,239	841	855	856
Other Reserves	-	-	536	600	434
Other	169	116	125	199	(56)
Differences in rates of fixed assets	(360)	(232)	(292)	(357)	(372)
Fiscal result UDIS-Banxico	(1,982)	(2,051)	(1,244)	(1,264)	(1,312)
Total Deferred Taxes	1,703	1,291	755	849	490

Funding, Loans and Investment in Securities

Funding and bank loans – Average Interest rates

	<i>For the quarter ending...</i>				
	<i>30 June 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>30 June 2006</i>
Loans in MXN pesos					
Funding	3.27%	3.46%	3.17%	2.82%	2.73%
Bank and other loans	9.16%	9.01%	8.04%	7.41%	6.84%
Loans in foreign currency					
Funding	0.62%	0.68%	0.80%	0.87%	0.99%
Bank and other loans	3.65%	4.51%	4.77%	6.05%	6.01%
UDIS					
Funding	0.27%	0.22%	0.20%	0.19%	0.19%

Banking sector
HSBC México, S.A.
Figures in constant 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 THIE (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
		2,200		2,200	

Grupo Financiero HSBC, S.A. de C.V.
Figures in constant 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 5,033 m, as per the following:

- MXN 252 m (5%) to increase legal reserves, and the remaining MXN 4,781 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 4,199 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 constant MXN millions***Capital Ratio**

	<u>30 June</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>	<u>30 June</u> <u>2006</u>
% of assets subject to credit risk					
Tier 1	15.99 %	15.77 %	17.81 %	17.30 %	16.84%
Tier 2	3.77 %	3.42 %	3.33 %	2.98 %	2.45%
Total regulatory capital	<u>19.73 %</u>	<u>19.19 %</u>	<u>21.14 %</u>	<u>20.28 %</u>	<u>19.29%</u>
% of assets subject to credit and market risk					
Tier 1	11.79 %	10.97 %	12.07 %	13.47 %	12.88%
Tier 2	2.78 %	2.38 %	2.26 %	2.32 %	1.87%
Total regulatory capital	<u>14.58 %</u>	<u>13.35 %</u>	<u>14.32 %</u>	<u>15.79 %</u>	<u>14.75%</u>
Tier 1	13,799	15,146	18,317	19,227	20,242
Tier 2	3,257	3,282	3,427	3,307	2,939
Total regulatory capital	<u>17,055</u>	<u>18,428</u>	<u>21,745</u>	<u>22,535</u>	<u>23,181</u>
RWA credit risk	86,294	96,016	102,869	111,135	120,185
RWA market risk	30,701	42,023	48,934	31,596	36,956
RWA credit and market risk.....	<u>116,995</u>	<u>138,039</u>	<u>151,803</u>	<u>142,731</u>	<u>157,141</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.

Grupo Financiero HSBC, S.A. de C.V.*Figures in constant MXN millions***Other Expenses, Other Income and Extraordinary Items**

	<i>For the quarter ending...</i>				<u>30 June</u> <u>2006</u>	<i>YTD...</i>	
	<u>30 June</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>		<u>30 June</u> <u>2005</u>	<u>30 June</u> <u>2006</u>
Other income							
Loans to employees	14	17	19	21	17	26	38
Recoveries	39	16	6	88	111	65	199
Other income	227	527	421	254	551	414	805
Result from monetary position (other income)	<u>3</u>	<u>(3)</u>	<u>-</u>	<u>1</u>	<u>(1)</u>	<u>3</u>	<u>-</u>
	283	557	446	364	678	508	1,042
Other expenses							
Other losses	(125)	(470)	(258)	(202)	(454)	(296)	(656)
Result from monetary position (other income)	<u>3</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(6)</u>	<u>(1)</u>	<u>(6)</u>
	(122)	(470)	(264)	(202)	(460)	(297)	(662)
Total other income (expenses)	<u>161</u>	<u>87</u>	<u>182</u>	<u>162</u>	<u>218</u>	<u>211</u>	<u>380</u>
Discontinued operations, extraordinary items and changes in accounting standards	<u>(78)</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>(78)</u>	<u>-</u>

Subsequently some of the most prominent movements are mentioned that affected the area of Other Expenses and Other Products during the first semester of 2006.

- At the beginning of April 2006, HSBC Mexico, S.A. carried out the sale of foreclosed assets and received by means of payment, that in summary include the following:

Concept	Value
(+) accounting balance before reserves	1,125
(-) reserves	860
(=) book value	265
(-) sale price	216
(=) loss registered in results	49

- As a result of the Bank's participation in the FIMPE Trust, as constituted by the following: "Decree for those that have been offered fiscal benefits for the use of electronic payment forms in the indicated businesses" emitted by the Office of the Secretary of State and Public Credit on November 12, 2004, the Bank carried out a contribution of MXN \$114 millions on April 28, 2006, registering income of the same quantity, derived from the fiscal benefit obtained.

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

Figures in constant MXN millions

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 June 30, 2006 is shown below:

	Bank	Afore	Brokerage House	Investment Funds Operator	Group	Total
Balance						
Cash and deposits in banks	-	-	4	-	-	4
Demand deposits	(4)	-	-	-	-	(4)
Repos	-	-	4	-	-	4
Reverse repos	(4)	-	-	-	-	(4)
Sundry debtors (assets)	(7)	-	-	-	-	(7)
Sundry creditors (liabilities)	-	-	6	1	-	7
Total	(15)	-	14	1	-	-
Results						
Payable commissions	(1)	(2)	-	(1)	-	(4)
Receivable commissions	-	-	2	2	-	4
Administrative services	-	(8)	(66)	(3)	(1)	(78)
Other income	78	-	-	-	-	78
Total	77	(10)	(64)	(2)	(1)	-

Information on Customer Segment and ResultsConsolidated 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 June 30, 2006, is shown below:

	Second Quarter 2006				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	5,236	2,182	652	514	8,584
Provision for Loan Loss	(1,529)	(128)	11	(6)	(1,652)
Net Interest Income adjusted	3,707	2,054	663	508	6,932
Fees and Commissions, net	2,661	954	256	367	4,238
Trading Income	202	71	638	49	960
Total Revenue	6,570	3,079	1,557	924	12,130
Administrative Expenses	6,178	1,521	680	273	8,652
Operating Income	392	1,558	877	651	3,478
Other Income (Expenses), net	18	3	1	358	380
Taxes	(154)	(591)	(333)	(339)	(1,417)
Net Income before subsidiaries	256	970	545	670	2,441
Undistributed income from subsidiaries	9	-	-	333	342

Continued Operating Results	-	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
Net Income	265	970	545	1,003	2,783
Minority Shareholders	-	-	-	-	-
Participated Net Income	265	970	545	1,003	2,783

Banking sector

HSBC México, S.A.
Figures in USD 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.

Fundamental to carry out this work is the recognition of fundamental precepts for the efficient and integral administration of risks, including quantitative (credit, market and liquidity), as well as non-quantitative (operational and legal), and that under the vision that the basic processes of identification, measurement, monitoring, limitation, control and disclosure will be satisfied.

Risk administration management in the Bank as well as in the principal subsidiaries begins with the Management Board, whose responsibility is primarily the approval of objectives, alignment and policies relative to the topic, such as the determination of risk exposure limits which are supported by the ALCO and RMC committees.

Assets and Liabilities Committee (ALCO)

This committee meets monthly, chaired by the CEO and Group General Manager and having the Group Executive Directors as members. These Directors are the heads of the bank's main business lines (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 fulfills 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)

	<u>31 Mar 06</u>	<u>30 June 06</u>	<u>Limits*</u>	<u>1Q 2006 Average</u>	<u>2Q 2006 Average</u>
Bank	(12.29)	(14.64)	30.00	(12.24)	(12.83)
Accrual	(12.34)	(16.14)	27.50	(9.66)	(13.89)
Trading	(3.49)	(1.24)	13.50	(5.40)	(2.76)
MMT	(1.85)	(0.74)	7.50	(3.68)	(1.56)
Fx	(0.02)	(0.27)	13.50	(0.02)	(0.40)
Money Desk	(1.76)	(1.38)	13.50	(2.61)	(2.67)
Capital Desk	NA	NA	NA	NA	NA

* Absolute Value
NA = Non Applicable

The Bank's VaR at the end of the second quarter of 2006 varied 19.12% versus the previous quarter. During the quarter the VaR remained under the pre-established limits.

The Bank's average VaR for the second quarter of 2006 varied 4.82% versus prior quarter. During the quarter the average VaR remained 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).

	<u>31 Mar 06</u>	<u>30 June 06</u>
VaR Total *	12.24	12.91
Net Capital **	2,071.55	2,056.43
VaR / Capital Neto	0.59%	0.63%

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

The average market VaR represents 0.63% of the net capital in 2Q06.

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

	<u>31 Mar 06</u>	<u>30 June 06</u>	<u>Limits*</u>	<u>4Q 2005 Average</u>	<u>1Q 2006 Average</u>
Bank	(0.397)	(0.463)	0.800	(0.420)	(0.451)
Accrual	(0.373)	(0.434)	0.750	(0.365)	(0.404)
Trading	(0.024)	(0.030)	0.250	(0.055)	(0.048)
Fx	NA	NA	NA	NA	NA
Money Desk	(0.024)	(0.030)	0.250	(0.055)	(0.048)
Capital Desk	NA	NA	NA	NA	NA

* Absolute value

The bank's PVBP for the 2Q06 varied 16.62% 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 2Q06 varied 7.38% versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.

Liquidity Risk

Qualitative Information

Liquidity risk is generated primarily from duration gaps between assets and liabilities in an institution. Deposit operations, both demand and time deposits, have different maturities than the asset operations of loans and investment in securities.

HSBC has implemented liquidity ratio limits, both in local currency and US dollars. These limits are calculated on a daily basis and compared to limits authorized by the ALCO and by the HSBC Group. Additionally, the institution revises daily cash commitments and evaluates requirements for its principal clients in order to diversify its funding sources.

HSBC implemented a methodology for liquidity risk based on cash flow projections for different time periods and elaborated under various liquidity scenarios.

The institution has developed and implemented since 2003 a liquidity contingency plan, which defines possible contingencies, establishes those responsible for the plan and the steps to take in case of a contingency and determines the alternative sources of funding that the institution needs to access in the event of a contingency. This plan was ratified during the year in the ALCO committee.

Quantitative Information

The institution ended the month of June with liquidity ratios of 10.9% for first line and 14.8% for second line liquidity, above the 0% limit in both cases.

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

Credit Risk

Credit Risk Management in HSBC Mexico (HBMX) consists of creating, establishing and monitoring credit risk-measuring models for the commercial portfolio. The principal objective is to include and utilize systems appropriate to measure HBMX's credit risk and in compliance with Group standards, Basel II and local regulations.

Credit risk is defined as the risk that a client or counterparty cannot or does not want to comply with the terms of the loan agreement with a member or members of the Group, or the potential loss incurred if the client or counterparty does not pay. For the proper measurement of credit risk, HSBC has introduced a new methodology for the quantification of credit risk, with new advanced information systems.

The above mentioned methodology separates the risk of client credit risk (the probability that a client does not comply with the payment commitments: probability of default) from the transaction (the inherent risk of the credit structure, which includes type of loan, guarantees, expiration and maturity).

In addition, HBMX has developed policies and procedures with the following objectives:

- Reduce the risk of loss that could result from client default from the established terms of their contract;
- Support strategic decisions maximizing value for shareholders and guaranteeing client security.

These policies and procedures include the evaluation, granting, control and recovery of loans and monitoring, including methodologies to detect deteriorating loan problems and whether the loans are performing or non-performing.

A Credit Rating system was developed, in which an internal rating model for the commercial portfolio is applied (Ratings Matrix). This model is the central element of the risk rating process. In principal the Ratings Matrix determines a client's rating based on the analysis of three fundamental areas: capacity to pay, payment experience (history) and the operating situation.

It is important to mention that a client's final rating can improve or get worse based on the following aspects: financial statement history and shareholder support, among others. In order to obtain a credit rating, the Rating Matrix splits the rating and adjusts it in the guarantees function. Both client and loan ratings are between 1 and 10, with 1 being the least amount of risk and 10 being the maximum.

Likewise, the Matrix is the model that calculates provisions for loan losses and given the internal ratings methodology, makes a direct correspondence between the different regulatory ratings of the debtor (CNBV) and the client ratings of the Ratings Matrix, with financial risk and payment experience (history) being the principal factors.

Nevertheless, with the objective of establishing a better administration infrastructure and risk measurement, a new financial analysis tool has been implemented: Moody's Risk Advisor (MRA), which allows a much more profound evaluation of the client's financial situation. MRA is a model that the Group has established as the principal tool for the risk rating of clients and was implemented in the second half of 2005. HBMX has developed three models for rating client risk (small, medium and large companies).

The implementation of MRA was accompanied by a new scale for rating client risk, called Customer Risk Rating. This rating is related to the Probability of Default and is an indicator of risk based principally on the financial information of the client (operational, liquidity, capital structure, etc.) and other factors that help determine a client's ability to pay.

In addition to the client risk rating models mentioned above, 11 models for non-banking financial institutions (NBFIDST) were implemented and one more for Financial Institutions (MRAfB).

With respect to Loss Severity, the Bank is utilizing an expert model developed during 2003 and implemented in March 2004.

Lastly a system has been developed that permits the administration, control and monitoring of the commercial loan approval process. This system allows the status of the loan approval to be known at any moment. A Guarantee Model was also developed in order to concentrate guarantee information that supports commercial loans. In addition to this, a Model was developed that controls limits and the utilization of lines of credit until the line is approved.

Each of the above mentioned models determines a client's risk rating and focuses on the following segments: CMB (Commercial Banking) and CIB (Corporate Banking).

The ratings of the loan portfolio in terms of loan loss provisions are between Risk A and Risk E. The assignment of such ratings is the function of cash flows presented by the client, ability and capacity of the business administration and number of days in default, among others.

Operational Risk

Operational risks are those that incur losses as a consequence of: fraud, unauthorized activities, errors, omissions, inefficiencies, system failures or external events, and are part of the risk management of banks. Strategic and reputational risks are not included in the definition above, but still represent part of the bank's risk management agenda.

For the management of these risks a specialized central unit has been arranged, as well as the designation of almost a hundred medium-level officials who report to the central unit.

During the second semester of 2005 the second annual exercise of identifying and reevaluating all the of the Group's operational risks was carried out. In this exercise all recognizable risks were identified and classified, with three parameters used to evaluate each identified risk: its feasibility, its impact and its exposure and with the values obtained from these parameters, a risk rating in order of importance was determined from greatest to least, from 'A' to 'D'.

Likewise, for the fourth consecutive year, during 2006 the largest incidents (that have a certain cost importance) were registered and incorporated in a database. In the future this database will constitute the backup for the economic capital estimations calculated by Operational Risk.

The identified and evaluated risks like those incidents which occurred during the exercise, have been identified with a label that classifies them in four general categories: people, processes, systems and external events that at the same time are subdivided in 22 subcategories inside for which two specific classes of risk are contemplated: technological risks and legal risks.

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

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

Banking Sector

HSBC México, S.A.

Figures in historic 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 Financial Reporting Standards (IFRS).

On January 1, 2005, HSBC adopted to convert their financial information to International Financial Reporting Standards (IFRS).

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 IFRS vs. Mexican GAAP

MXN Millions	2T05	3T05	4T05	1T06	2T06
Grupo Financiero HSBC – Net Income Under CNBV criteria ^{1/}	1,052	1,346	1,430	1,430	1,353
- Inflationary effects	54	144	196	252	16
- Temporary differences in the classification and valuation of hedging derivatives *	89	-	-	-	-
- Differences in the accounting and valuation of Pensions and Post Retirement Healthcare benefits *	24	17	31	25	24
- Temporary differences in the recognition of deferred commissions paid, relative to the Afore Business *	29	25	54	20	(2)
- Temporary differences in the recognition of fees and commissions income *	(4)	(46)	(25)	(13)	(39)
- Temporary differences in the recognition of expenses associated with loan origination *	-	-	47	6	10
- Temporary differences in the recognition and provisioning for credit losses *	258	(24)	(306)	50	518
^{2/} - Purchase Accounting valuation adjustment related to Fobaproa notes earning below market rates *	315	313	475	160	119
- Other differences in accounting principals *	1	44	286	(6)	(84)
Net Income under IFRS	1,819	1,820	2,188	1,924	1,915
USD Equivalent (millions)	170	170	204	181	171

Add back Taxes	786	755	713	797	1,156
Profit Before Tax under IFRS	2,604	2,575	2,900	2,721	3,071
USD Equivalent (millions)	244	240	271	257	275

Exchange rate

10.68 10.71 10.71 10.60 11.18

^{1/} The results shown for Grupo Financiero HSBC are in historic pesos at the end of each period and not in constant pesos.

^{2/} It is important to mention that during September 2005, the Fobaproa portfolio was prepaid, finalizing the remainder of the deferred amortization.

* Impact shown net of taxes at 30%

Relevant Concepts related to

a) Differences in the Results

GF HSBC, S.A de C.V. registered a net income of MXN 2,783 millions for 1 half of 2006, different from the figures registered by HSBC Holding plc. of MXN 3,839 million. The main differences between these figures are as follows:

- 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 Financial Reporting Standards (IFRS). The differences between both accounting principles, can be grouped as follows:
 - 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.
 - 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.
- 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

- 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 IFRS.
- 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 IFRS the valuation must be recorded against equity as hedge derivatives are classified as cash flow hedges.
- Differences in the loan portfolio's valuation and classification. The calculation methodology under IFRS is different than under Mexican GAAP.
- Differences in labour obligation classification and valuation. The assumptions used in the actuarial calculation under IFRS 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.