

Grupo Financiero HSBC

Financial information at 30 September 2006

3Q06

- ▶ **Press Release**
- ▶ **Quarterly Report
Third Quarter 2006**

*Release date:
27 October 2006*



October 27, 2006

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
THIRD QUARTER 2006 FINANCIAL RESULTS - HIGHLIGHTS**

- ▶ **Net income up 17.5 per cent to MXN4,327 million for the nine months ended 30 September 2006 (MXN3,683 million in the nine months ended 30 September 2005).**
- ▶ **Cost efficiency ratio of 61.3 per cent for the nine months ended 30 September 2006 (65.6 per cent for the nine months ended 30 September 2005).**
- ▶ **Return on equity of 20.3 per cent for the nine months ended 30 September 2006 (21.3 per cent for the nine months ended 30 September 2005).**
- ▶ **Net loans and advances to customers up MXN17.8 billion, or 14.0 per cent, to MXN144.8 billion at 30 September 2006 (MXN127.0 billion at 30 September 2005).**
- ▶ **Total assets up MXN32.5 billion, or 12.9 per cent, to MXN284.3 billion at 30 September 2006 (MXN251.8 billion at 30 September 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 an actual basis, indexed to constant MXN as at 30 September 2006.

On 8 August, 2006, HSBC Panama was sold by Grupo Financiero HSBC S.A. de C.V. to HSBC Asia Holdings BV; therefore, Group results include HSBC Panama up until this date.

(Mexico City, October 27, 2006) Comment by Sandy Flockhart, President and Group Managing Director of Latin America and the Caribbean

“Grupo Financiero HSBC reported good results for the nine months ended 30 September 2006, with robust growth in revenues and net income driven by strong performance in the bank and in the insurance and pension funds management (Afore) subsidiaries. Total revenue was higher across all of our customer segments despite a decreasing interest rate environment and a highly competitive market. The growth in revenues for the first nine months of the year of 17.2 per cent surpassed the 9.5 per cent growth in expenses, which is in line with continued investment in our business.

Since 2003 and through 30 September 2006, our consumer lending has increased 230 per cent through acquisition and organic growth and our business lending has also increased by 182 per cent. During the same period, spreads have been reduced by 777 and 399 basis points respectively due to competitive pressures. This is a strong indication that there is greater competition in the Mexican market, which has been beneficial to our customers and the economy as a whole.

I am proud to announce that one of the main business magazines in Mexico, *Expansión*, named HSBC The Mexican Bank of the Year in 2006. This reflects HSBC's positive results, our solid position as a bank for Mexico's retail and business customers, and reaffirms our commitment to be the leading financial services institution in Mexico.

Furthermore, HSBC Mexico was awarded fourth place overall in the second annual ranking of the most ethical and sustainable banks of Latin America as published by *Latin Finance* magazine. This represented an improvement for HSBC Mexico from fourteenth place last year to fourth place this year. HSBC Mexico also had the highest overall score of all Mexican banks mentioned. In terms of individual categories, for Latin America, HSBC Mexico ranked first in ethics, third in transparency and fourth in social responsibility.

We look forward to a strong finish to the year as we continue to leverage our business and product opportunities and enhance our service standards for all our customers.”

Overview

For the nine months ended at 30 September 2006, Grupo Financiero HSBC's net income of MXN 4,327 million was MXN 644 million, 17.5 per cent, higher than the same period in 2005. These results were largely due to strong performances in the bank and insurance subsidiaries.

Despite the challenging interest rate environment, net interest income (excluding the monetary position) was up MXN 1,599 million to MXN 13,191 million, a 13.8 per cent increase compared to same period in 2005. This increase reflects a solid performance in loans, concentrated in higher-yielding consumer lending, small and medium-sized business products and robust growth in low-cost customer deposits.

Fees and commissions performed well, increasing by 16.5 per cent versus the same period in 2005, reaching MXN 6,576 million for the nine months ended 30 September 2006. These results were mainly driven by increased contributions from credit cards, membership programmes, mortgages, commercial lending, mutual funds, ATM fees as well as payments and cash management. Trading income was up 63.1 per cent to MXN 1,541 million, over the same period the previous year. These strong results reflected the benefits of the Bank's successful strategic positioning and higher customer volumes.

Administrative expenses grew 9.5 per cent compared to the same period in 2005, reaching MXN13,072 million for the nine months ended 30 September 2006. The increase reflects continued investment in growing the business, training and developing our employees and the build-out of our branch and ATM infrastructure.

Loan impairment charges increased to MXN2,419 million for the first nine months of 2006, in line with targeted increases in consumer lending, particularly in credit cards and mortgages. The ratio of impaired loans to total loans improved to 2.6 per cent from 2.8 per cent for the first nine months of 2005. The reserve coverage on impaired loans continues to be strong at 153 per cent. The bank's capital adequacy ratio remains solid at 13.9 per cent.

By customer segment

During the third quarter of 2006, Personal Financial Services (PFS) saw continued growth in credit cards, mortgage lending and transaction-based fee income. Strong performance was driven by the launch of an innovative marketing campaign, Tu Cuenta Episodio IV, featuring a five per cent credit card cashback promotion. The campaign provided additional momentum to the continued success of 'Tu Cuenta', the first integrated financial services product of its kind offered locally, as it helped increase the credit card business and drive growth in low cost deposits.

Commercial Banking (CMB) enjoyed strong performance across all lines of business, largely as a result of successful restructuring and improved segmentation to better serve its client base. CMB benefited from volume expansion in the higher-yielding small- and medium-sized businesses (SME) and increased fees and commissions driven by payments and cash management transactions and Estímulo, our combined loan and overdraft product. During the third quarter, Estímulo Empresarial was launched for upper-end SMEs involving 11 different services, including a potential credit of up to MXN10 million. More than 60 new clients have been approved for the product, generating some MXN230 million in new loans.

Corporate, Investment Banking and Markets (CIBM) continued to increase profitability while strengthening its market position in part from HSBC's extensive international network for multinational companies. Payments and cash management and the trust businesses generated strong results in the third quarter. The Global Markets business generated higher revenues in money market trading and derivatives portfolio due to successful yield curve positioning and an increase in both interbank and customer-driven activity.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,400 branches, 5,350 ATMs, 6.5 million customers and more than 23,000 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.74 per cent directly owned subsidiary of 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\$1,738 billion at 30 June 2006, HSBC is one of the world's largest banking and financial services organisations. Listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, with shares in HSBC Holdings plc held by around 200,000 shareholders in some 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

Contacts

Media enquiries:

London: James Pieper/Karen Ng
Tel: +44 (0) 20 7991 0633/0655
Mexico City: Roy Caple
Tel: +52 (55) 5721 6060

Investor Relations:

London: Danielle Neben
Tel: +44 (0) 20 7992 1938
Mexico City: Peter Sanborn
Tel: +52 (55) 5721 5347

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Key Indicators

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

	For the quarter ended at				
	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
a) Liquidity	84.24%	83.06%	86.72%	91.01%	80.69%
Profitability					
b) ROE (Return over equity)	22.92%	21.98%	21.40%	19.41%	20.36%
c) ROA (Return over assets)	2.14%	2.11%	2.02%	1.80%	2.00%
Asset quality					
d) Impaired loans/total loans	2.76%	2.54%	2.16%	2.51%	2.59%
e) Coverage ratio	170.35%	166.90%	175.93%	157.77%	153.36%
Capitalization					
f) Credit risk	19.19%	21.14%	20.28%	19.29%	19.25%
g) Credit and market risk	13.35%	14.32%	15.79%	14.75%	13.90%
Operating efficiency					
h) Expenses/Total Assets	6.51%	6.38%	6.12%	5.74%	5.73%
i) NIM	6.93%	6.75%	6.69%	6.50%	5.99%
Infrastructure (Bank)					
Branches	1,339	1,345	1,346	1,350	1,348
ATM	4,882	5,065	5,177	5,284	5,353
Head Count	19,679	19,808	19,515	19,890	20,535

a) $Liquidity = \text{Liquid Assets} / \text{Liquid Liabilities}$.

$Liquid Assets = \text{Cash and deposits in banks} + \text{Trading securities} + \text{Available for sale securities}$

$Liquid Liabilities = \text{Demand deposits} + \text{Bank deposits and other on demand} + \text{Bank deposits and other short term liabilities}$

b) $ROE = \text{Annualized quarter net income} / \text{Average shareholders equity}$.

c) $ROA = \text{Annualized quarter net income} / \text{Average total assets}$.

d) $\text{Impaired loans balance at quarter end} / \text{Total loans balance at quarter}$.

e) $\text{Coverage ratio} = \text{Balance of provisions for loan losses at quarter end} / \text{Balance of impaired loans}$

f) $\text{Capitalization ratio by credit risk} = \text{Net capital} / \text{Credit risk weighted assets}$.

g) $\text{Capitalization ratio by credit and market risk} = \text{Net capital} / \text{Credit and market risk weighted assets}$.

h) $\text{Operating efficiency} = \text{Expenses} / \text{Total assets}$

i) $NIM = \text{Annualized net interest income} / \text{Average performing assets}$.

$\text{Performing assets} = \text{Cash and deposits in banks} + \text{Investments in securities} + \text{Derivatives operations} + \text{Performing loans}$.

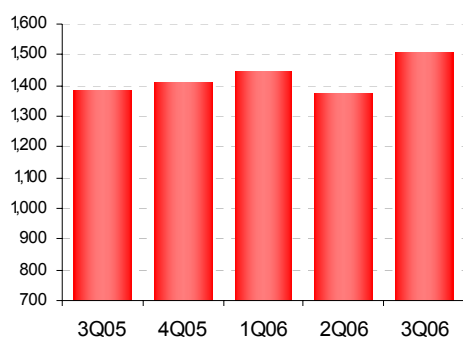
The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Income Statement Variance Analysis

Net Income

During the first nine months of 2006, Grupo Financiero HSBC reported a net income of MXN 4,327 million, an increase of MXN 646 million (17.6%) compared to the same period of 2005.

Grupo Financiero HSBC: Net Income by Quarter (Figures in MXN millions)



The Group benefited from strong results across in its subsidiaries, especially from the Bank which reported a net income of MXN 3,409 million for the year ended 30 September 2006 and net income of MXN 1,192 million for the third quarter. These figures represent a growth of MXN 372 and MXN 123 million compared to prior year and prior quarter, respectively.

Total Revenue

The Group's total revenue for the first three quarters was MXN 18,416 millions, a growth of MXN 1,505 million (8.9%) versus the same period of prior year. This growth was driven by net interest income of MXN 13,191 million, fees and commissions income of MXN 6,576 million and trading income of MXN 1,541. The growth represented annual increases of 13.8%, 16.5% and 63.1% respectively.

Total revenue growth was impacted by MXN 1,298 million in additional loan-loss provisions compared to prior year. However, during the third quarter, loan-loss provisions decreased from MXN 1,048 million in prior quarter to MXN 748 million. For the Bank, loan-loss provisions reached MXN 2,388 million by September 30 of 2006 and MXN 759 million for the third quarter. This represents an increase of MXN 1,271 million compared to prior year and a decrease of MXN 262 million compared to prior quarter.

Year to date total revenue for the Bank reached MXN 17,237 million, representing a growth of MXN 1,400 million (8.8%) versus the same period of prior year.

Regarding the Bank's pre-provisions profit (PPP), the variation of the year to date results was MXN 2,671 million, or an increase of 15.8%. The growth in total revenues is less than that of the PPP due to the impact of increased loan-loss provisions.

HSBC Mexico, S.A. (Bank) Revenue

MXN millions	For the quarter	3Q05 vs. 3Q06	% 3Q05 vs. 3Q06	Year to date (YTD)	3Q05 vs. 3Q06 YTD	% 3Q05 vs. 3Q06 YTD
Pre-provisions profit	6,579	474	7.8%	19,625	2,669	15.7%
Loan-loss provisions	759	270	55.1%	2,389	1,272	113.9%
Total revenue	5,820	205	3.6%	17,236	1,397	8.8%

Net Interest Income

The Group's net interest income for the year ended 30 September 2006 was MXN 13,191 million, representing an increase of 13.8% versus the same period of 2005. Growth was

driven by strong performance in the performing loans portfolio during the same period and a more profitable balance sheet composition.

Credit card, mortgage and small and medium enterprises (SME) loans have

increased at a strong pace over the past year. This increase in volumes compensated for the decreasing interest rate environment, in which market rates have decreased by more than 290 basis points during the last 12 months.

Net interest income for the Group decreased MXN 382 million (8.7%) from second to third quarter of 2006, largely due to the reduction of the average interbank rate.

The Bank's net interest income for the year ended 30 September 2006 was MXN 12,241 million, increasing MXN 1,207 million (10.9%) compared to the same period of 2005.

Non-interest income

The Group's net fees and commissions income showed positive performance, totaling MXN 6,576 million for year to date results and MXN 2,288 million for the third quarter. This represented growth of MXN 931 million (16.5%) and MXN 108 million (4.9%) compared to prior year and prior quarter, respectively.

Trading income for the Group was MXN 1,541 million during the first three quarters of 2006, MXN 596 million more than the same period of 2005 and an increase of 63.1%. During the third quarter of 2006, trading income was MXN 569 million, increasing MXN 130 million (29.6%) versus prior quarter.

The Bank contributed to this growth by increasing non-interest income by MXN 1,468 million (24.8%) during the first three quarters of 2006 versus the same period of 2005. Increases in non-interest income were driven by strong growth in credit cards, mortgages, payments and cash management, trade services and membership program fees (eg. *Tu Cuenta* and *Estímulo*).

The non-interest income to total revenue ratio increased from 36.2% for the nine months ended 30 September 2005 to 38.1% during the same period of 2006.

Loan-loss provisions

Loan-loss provisions during the nine months ended 30 September 2006 increased MXN 1,298 million compared to the same period of 2005 reaching a total of MXN 2,419 million.

This variation is associated with the strong growth in the performing loans portfolio, especially for credit cards and SME loans.

During the third quarter of 2006, loan-loss provisions decreased MXN 300 million (28.6%) versus prior quarter. For the quarter ended 30 September 2006 loan-loss provisions totaled MXN 748 million.

Administrative and personnel expenses

For the nine months ended 30 September 2006, the Group's expenses were MXN 13,072 million, representing an increase of MXN 1,137 million (9.5%) versus the same period of prior year. During the third quarter, expenses decreased MXN 57 million versus prior quarter.

The Group's cost:income ratio for the first three quarters ended 30 September 2006 was 61.3%, showing an improvement compared to 65.6% for the same period of 2005. This improvement in efficiency was driven by revenues increasing more than expenses as a result of investments in infrastructure, personnel and technology.

The Bank's expenses for the first nine months of 2006 were MXN 12,252 million, increasing MXN 1,195 million (10.8%) compared to the same period of 2005. For the third quarter, expenses reached MXN 4,116 million, or MXN 59 million (1.5%) more than prior quarter.

Expenses were consistent with the Bank's organic growth and the investments focused on the training of personnel and the improvement of the branch and ATM infrastructure.

Balance Sheet Variance Analysis

The Group's total assets were MXN 284,296 million at 30 September 2006, increasing by MXN 32,470 million (12.9%) versus prior year. Despite the annual increase, total assets decreased MXN 34,093 million versus previous quarter mainly due to the sale of HSBC Panama to HSBC Asia Holdings BV on August 8, 2006. At the same time, the Bank's investment in securities portfolio decreased from MXN 67,870 million at 30 June 2006 to MXN 49,219 million at 30 September 2006, representing a reduction of MXN 18,651 million. The change in the investment in securities portfolio diminished the Group's liquidity (liquid assets / liquid liabilities) from 91.0% to 80.7%, in line with the competition average liquidity.

Loan Portfolio

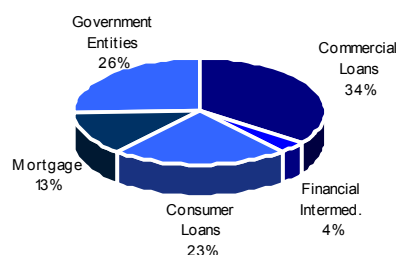
The Group achieved a more profitable balance sheet composition than versus prior year largely as a result of strong performance in higher yielding products. As a result, the Bank's performing loans portfolio increased 25.0% versus previous year and 5.1% versus previous quarter. The table below illustrates the change in the performing loan portfolio and the growth in higher yielding products like commercial (i.e SMEs) and consumer loans.

Performing Loans Portfolio

	3Q06	3Q05	% var. 3Q05 vs. 3Q06
Commercial Loans	51,437	40,448	27.2%
Financial Intermediaries	5,227	5,215	0.2%
Consumer Loans	33,486	18,656	79.5%
Mortgage	19,232	14,489	32.7%
Government Entities	37,477	37,722	-0.6%

Mortgage loans are a strategic product for the Bank, attracting new customers and having a high cross-sale ratio among other products.

Performing Loans Portfolio Distribution (30 September 2006)



An increase of 79.5% in the consumer loan portfolio versus the previous year, was driven by the balance growth in credit cards and payroll loans. At 30 September 2006, HSBC has 2.3 million payroll customers and the loans granted to them grew 66% versus previous year. Credit card balances increased 110% versus 2005, reflecting the strong performance of packaged products like *Tu Cuenta* and the innovative campaign promoting a 5% credit card cash back. Only in the third quarter of 2006 the number of *Tu Cuenta* accounts grew 10.0%. The commercial loan portfolio increased of 27.0% versus the previous year, mainly driven by loans offered to the small and medium enterprises (SMEs).

The growth in higher yielding assets coupled with an improved composition of the balance sheet resulted in a better return on assets (ROA) of 2.0% versus 1.8% from previous quarter.

Assets Quality

The Bank's impaired loans portfolio increased from MXN 3,560 million at 30 September 2005 to MXN 3,902 million at 30 September 2006. This 9.6% increase is the lowest growth registered in impaired loans, reflecting an improvement in the impaired loans to total loans ratio from 2.9% to 2.6% for the Bank and from 2.8% to 2.6% for the Group. The coverage ratio remains solid at 153.4%.

Deposits

The Bank's customer deposits reached MXN 198,647 million at 30 September 2006, increasing MXN 12,702 from prior year, but MXN 14,577 below previous quarter. Year-on-year growth was 6.8%. Demand deposits continue to register positive growth, increasing 11.3% versus prior year due to the successful buildout of an extensive base of low cost funds driven by innovative products like *Tu Cuenta*.

Shareholders equity

The positive results discuss above, contributed to increase the Group capital by 21.6% versus previous year, shareholder's equity was MXN 30,404 million at 30 September 2006. Versus previous quarter, capital increased by MXN 1,506 million (5.2%); therefore, the Bank's capital adequacy ratio of 13.9% remains solid at September 2006.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in constant MXN millions

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

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Assets					
Cash and deposits in banks	50,248	56,536	52,249	63,278	54,373
Investments in Securities	51,108	58,241	60,165	69,598	49,787
Trading securities	4,945	7,101	9,797	23,475	11,889
Available for sale securities	42,080	47,057	46,386	42,067	33,973
Held to maturity securities	4,083	4,083	3,982	4,056	3,925
Securities and derivative operations	272	581	608	266	779
Repurchase agreements	95	190	84	59	137
Stock borrowings	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	177	391	524	207	642
Performing loans					
Commercial loans	45,786	46,781	48,369	55,249	51,437
Loans to financial intermediaries	5,308	7,051	5,632	6,205	5,227
Consumer loans	20,423	26,238	30,196	30,708	33,486
Mortgage	19,347	20,552	21,972	23,240	19,232
Loans to government entities	37,722	36,976	36,744	37,788	37,477
Loans to Fobaproa or IPAB	968	1,121	1,129	-	-
Total performing loans	129,554	138,719	144,042	153,190	146,859
Non-performing loans					
Commercial loans	1,793	1,705	1,262	1,474	1,347
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	698	836	942	1,370	1,459
Mortgage	1,160	1,044	962	1,078	1,073
Loans to government entities	-	-	-	-	8
Immediate collection, remittances and other	32	28	12	28	15
Total non-performing loans	3,683	3,613	3,178	3,950	3,902
Total loan portfolio	133,237	142,332	147,220	157,140	150,761
(-) Allowance for loan losses	(6,274)	(6,030)	(5,591)	(6,232)	(5,984)
Net loan portfolio	126,963	136,302	141,629	150,908	144,777
Other accounts receivable, net	9,931	15,561	21,888	20,274	22,622
Foreclosed assets	456	402	326	83	55
Property, furniture and equipment, net	5,226	5,599	5,720	5,804	5,648
Long term investments in equity securities	2,112	2,295	2,456	2,619	2,854
Deferred taxes, net	1,307	764	860	495	176
Goodwill	3,254	3,312	3,323	3,352	2,599
Other assets, deferred charges and intangibles ..	949	1,721	1,691	1,712	626
Total Assets	251,826	281,314	290,915	318,389	284,296

Figures in constant MXN millions

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

	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>
Liabilities					
Deposits	198,189	217,095	213,631	234,559	201,300
Demand deposits	110,479	128,338	120,882	136,202	116,263
Time deposits	87,710	88,757	92,749	94,056	80,777
Bank bonds outstanding	-	-	-	4,301	4,260
Bank deposits and other liabilities	7,199	7,119	6,197	7,428	10,036
On demand	-	21	-	-	-
Short term	4,994	4,924	4,152	5,336	7,953
Long term	2,205	2,174	2,045	2,092	2,083
Settlement accounts to be recorded for sale	-	-	-	-	-
Securities and derivative transactions	3,045	4,604	8,155	11,493	7,081
Repurchase agreements	90	116	61	43	29
Stock borrowings	2,955	4,488	8,094	11,450	7,052
Derivative transactions	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Other accounts payable	15,699	23,475	32,632	33,352	33,263
Income tax and employee profit sharing payable	402	1,327	1,906	1,608	1,309
Sundry creditors and others accounts payable	15,297	22,148	30,726	31,744	31,954
Subordinated debentures outstanding	2,676	2,637	2,618	2,637	2,203
Deferred tax	-	-	-	-	-
Deferred credits	16	20	29	22	9
Total Liabilities	<u>226,824</u>	<u>254,950</u>	<u>263,262</u>	<u>289,491</u>	<u>253,892</u>
Stockholder's Equity					
Paid in capital	20,300	20,300	20,300	20,300	20,300
Capital stock	7,764	7,764	7,764	7,764	7,764
Additional paid in capital	12,536	12,536	12,536	12,536	12,536
Capital Gains	4,699	6,062	7,351	8,596	10,102
Capital reserves	648	648	648	903	828
Retained earnings	7,811	7,811	12,904	12,650	12,650
Surplus (Deficit) from securities	-	-	-	-	-
Results of foreign operations exchange	(4)	(7)	10	11	-
Cumulative effect of restatement	(3,771)	(3,771)	(3,771)	(3,771)	(3,771)
Gains on non monetary asset valuation	-	-	-	-	-
Valuation of permanent investments	(3,668)	(3,712)	(3,885)	(4,013)	(3,932)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	3,683	5,093	1,445	2,816	4,327
Minority interest in capital	3	2	2	2	2
Total Stockholder's Equity	<u>25,002</u>	<u>26,364</u>	<u>27,653</u>	<u>28,898</u>	<u>30,404</u>
Total Liabilities and Capital	<u>251,826</u>	<u>281,314</u>	<u>290,915</u>	<u>318,389</u>	<u>284,296</u>

Figures in constant MXN millions

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

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Memorandum Accounts					
Transactions on behalf of third parties	86,322	87,950	94,596	96,073	103,384
Customer current accounts	(3)	1	1	29	24
Customer banks	-	-	1	19	5
Settlement of customer securities and documents	(3)	1	-	10	19
Customer securities	66,639	68,239	73,278	76,725	82,407
Customer securities in custody	65,202	67,068	71,987	75,487	82,401
Pledged customers securities and documents	1,437	1,171	1,291	1,238	6
Transactions on behalf of customer	2,629	2,465	2,519	2,529	2,302
Customer repurchase transactions	2,629	2,465	2,519	2,529	2,302
Customer option repurchase transaction	-	-	-	-	-
Other transactions on behalf of customers	17,057	17,245	18,798	16,790	18,651
Investment on behalf of customers, net	17,057	17,245	18,798	16,790	18,651
Other memorandums accounts	458,981	492,319	493,582	311,694	322,310
Investment of the SAR funds	3,337	3,366	3,569	3,582	3,540
Integrated loan portfolio	124,461	134,249	140,038	148,629	156,436
Other memorandum accounts	331,183	354,704	349,975	159,483	162,334
Transactions for the group's own accounts	405,024	347,242	551,363	605,376	688,264
Accounts for the group's own registry	405,018	347,166	551,340	605,359	688,156
Guarantees granted	60	58	59	61	51
Irrevocable lines of credit granted	3,290	3,846	5,417	5,089	5,623
Goods in trust or mandate	68,391	69,294	69,877	68,747	78,211
Goods in custody or under administration	63,495	58,219	70,125	62,883	82,668
Amounts committed in transactions with IPAB or Fobaproa	481	126	115	150	155
Amounts contracted in derivative operations	259,897	210,549	388,383	464,284	517,396
Securities in custody	4,165	4,076	3,974	4,030	3,937
Other contingent obligations	5,239	998	13,390	115	115
Repurchase/resale agreements	44,825	45,435	48,328	36,049	42,010
Securities receivable under repos	44,813	45,450	48,306	36,036	41,899
(less) Repurchase agreements	12	(15)	22	13	111
Reverse repurchase agreements	14,537	16,303	15,570	5,532	2,302
(less) Securities deliverable under repos	14,543	16,212	15,569	5,528	2,305
	(6)	91	1	4	(3)

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.

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

	<i>For the quarter ending.....</i>					<i>Year to date</i>	
	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Mar 2006</i>	<i>30 Jun 2006</i>	<i>30 Sep 2006</i>	<i>30 Sep 2005</i>	<i>30 Sep 2006</i>
Interest Income	7,177	7,046	6,859	6,883	6,646	19,897	20,388
Interest expense (-)	3,075	2,776	2,394	2,498	2,305	8,305	7,197
Monetary position (margin), net	(75)	(177)	(191)	28	(310)	(150)	(473)
Net interest income	<u>4,027</u>	<u>4,093</u>	<u>4,274</u>	<u>4,413</u>	<u>4,031</u>	<u>11,442</u>	<u>12,718</u>
Loan-loss provisions (-)	(492)	(412)	(623)	(1,048)	(748)	(1,121)	(2,419)
Risk adjustment net interest income.....	<u>3,535</u>	<u>3,681</u>	<u>3,651</u>	<u>3,365</u>	<u>3,283</u>	<u>10,321</u>	<u>10,299</u>
Fees and commissions	2,291	2,303	2,385	2,455	2,526	6,323	7,365
Fees Paid	(220)	(260)	(276)	(275)	(238)	(678)	(789)
Trading Income	<u>427</u>	<u>449</u>	<u>532</u>	<u>439</u>	<u>569</u>	<u>945</u>	<u>1,541</u>
Total operating income.....	<u>6,033</u>	<u>6,173</u>	<u>6,292</u>	<u>5,984</u>	<u>6,140</u>	<u>16,911</u>	<u>18,416</u>
Administrative and personnel expenses (-)	<u>4,218</u>	<u>4,252</u>	<u>4,381</u>	<u>4,374</u>	<u>4,317</u>	<u>11,935</u>	<u>13,072</u>
Net operating income.....	<u>1,815</u>	<u>1,921</u>	<u>1,911</u>	<u>1,610</u>	<u>1,823</u>	<u>4,976</u>	<u>5,344</u>
Other income	563	451	368	686	486	1,078	1,540
Other expenses	<u>476</u>	<u>267</u>	<u>204</u>	<u>466</u>	<u>164</u>	<u>777</u>	<u>833</u>
Net income before taxes.....	<u>1,902</u>	<u>2,105</u>	<u>2,075</u>	<u>1,830</u>	<u>2,145</u>	<u>5,277</u>	<u>6,051</u>
Income tax and employee profit sharing	(489)	(338)	(777)	(191)	(627)	(1,186)	(1,595)
Deferred income tax	<u>(262)</u>	<u>(517)</u>	<u>(7)</u>	<u>(459)</u>	<u>(237)</u>	<u>(860)</u>	<u>(704)</u>
Net income before subsidiaries.....	<u>1,151</u>	<u>1,250</u>	<u>1,291</u>	<u>1,180</u>	<u>1,281</u>	<u>3,231</u>	<u>3,752</u>
Undistributed income from subsidiaries	234	159	154	192	228	531	575
Income from ongoing operations ..	<u>1,385</u>	<u>1,409</u>	<u>1,445</u>	<u>1,372</u>	<u>1,509</u>	<u>3,762</u>	<u>4,327</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	1	-	-	-	(79)	-
Minority interest	-	-	-	-	-	-	-
Net income (loss)	<u>1,385</u>	<u>1,410</u>	<u>1,445</u>	<u>1,372</u>	<u>1,509</u>	<u>3,683</u>	<u>4,327</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

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Consolidated Statement of Changes in Shareholder's Equity

Figures in constant MXN millions

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

From January 1, 2006 to September 30, 2006.

	Paid in capital			Earned Capital								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	7,764	12,536	-	648	7,812	-	(7)	(3,772)	-	(3,713)	-	5,093	2	26,363
Movements Inherent to the Shareholders Decision														
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	5,093	-	-	-	-	-	-	(5,093)	-	-
Constitution of reserves	-	-	-	255	(255)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	(75)	-	-	-	-	-	-	-	-	-	(75)
Total	-	-	-	180	4,838	-	-	-	-	-	-	(5,093)	-	(75)
Movements for the Recognition of the Comprehensive Income														
Net result	-	-	-	-	-	-	-	-	-	-	-	4,327	-	4,327
Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	7	-	-	-	-	-	-	7
Cumulative effect of restatement	-	-	-	-	-	-	-	1	-	-	-	-	-	1
Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	(219)	-	-	-	(219)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	7	1	-	(219)	-	4,327	-	4,116
Balances as of September 30, 2006	7,764	12,536	-	828	12,650	-	-	(3,771)	-	(3,932)	-	4,327	2	30,404

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

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

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

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Consolidated Statement of Changes in Financial Position*Figures in constant MXN millions***Grupo Financiero HSBC, S.A. de C.V.***From January 1, 2006 to September 30, 2006.*

Operating activities	
Net income (loss)	4,327
Items included in operations not requiring (providing) funds:	
Gains / (losses) from mark to market valuations	(1,541)
Allowances for loan losses	2,419
Depreciation and amortization	641
Deferred taxes	704
Undistributed income from subsidiaries, net	(575)
Increase (reduction) of the minority interest	-
Net Result of items included in operations not requiring (providing) funds	<u>5,975</u>
Changes in items related to operations:	
Increase (decrease) in deposits:	(15,795)
Increase (decrease) of loan portfolio	(10,894)
Increase (decrease) of securities and derivative transactions, net	9,996
Increase (decrease) of financial instruments	2,280
Other accounts receivable	2,726
Funds provided by operating activities	<u>(5,712)</u>
Financing Activities:	
Subordinated debentures outstanding	(434)
Increase (Decrease) in bank and other loans	2,916
Funds used or provided in financing activities	<u>2,482</u>
Investing Activities:	
Increase (decrease) of property, furniture and equipment, net	(239)
Increase (decrease) in deferred charges or credits, net	1,314
Other investment activities	(8)
Funds used in investing activities	<u>1,067</u>
Increase (decrease) in cash and equivalents:	(2,163)
Cash and equivalents at beginning of period:	56,536
Cash and equivalents at end of period	<u>54,373</u>

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.

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

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Financial Statements HSBC México, S.A.

Consolidated Balance Sheet

Figures in constant MXN millions

HSBC México, S.A. (Bank)

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Assets					
Cash and deposits in banks	48,045	52,181	47,740	59,769	54,372
Investment in Securities	49,218	56,773	58,364	67,870	49,219
Trading securities	4,252	6,737	9,446	22,961	11,322
Available for sale securities	40,884	45,953	44,936	40,854	33,973
Held to maturity securities	4,082	4,083	3,982	4,055	3,924
Securities and derivative operations	258	585	607	266	774
Repurchase agreements	81	195	83	59	133
Stock borrowings	-	-	-	-	-
Settlement Accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	177	390	524	207	641
Performing loans					
Commercial loans	40,448	41,650	42,774	49,010	51,437
Loans to financial intermediaries	5,215	6,950	5,528	6,129	5,227
Consumer loans	18,656	24,494	28,426	28,855	33,486
Mortgage	14,489	15,663	16,921	17,933	19,232
Loans to government entities	37,722	36,976	36,744	37,788	37,477
Loans to Fobaproa or IPAB	968	1,122	1,129	-	-
Total performing loans	117,498	126,855	131,522	139,715	146,859
Non-performing loans					
Commercial loans	1,746	1,660	1,217	1,398	1,347
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	688	825	928	1,349	1,459
Mortgage	1,094	976	884	989	1,073
Loans to government entities	-	-	-	-	8
Immediate collection, remittances and other	32	29	12	29	15
Total non-performing loans	3,560	3,490	3,041	3,765	3,902
Total loan portfolio	121,058	130,345	134,563	143,480	150,761
(-) Allowance for loan losses	(6,119)	(5,859)	(5,409)	(6,014)	(5,984)
Net loan portfolio	114,939	124,486	129,154	137,466	144,777
Other accounts receivable	8,965	15,009	21,216	19,881	22,487
Foreclosed assets	412	362	285	37	55
Property, furniture and equipment, net	4,998	5,358	5,471	5,551	5,641
Long term investments in equity securities	179	200	202	191	173
Deferred taxes	1,180	632	719	348	140
Other assets, deferred charges and intangibles	732	1,497	1,498	1,504	600
Total Assets	228,926	257,083	265,256	292,883	278,238

Figures in constant MXN millions

HSBC México, S.A. (Bank)

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Liabilities					
Deposits	185,945	200,990	196,435	217,525	202,907
Demand deposits	105,922	121,485	113,839	128,540	117,870
Time deposits	80,023	79,505	82,596	84,684	80,777
Bank bonds outstanding	-	-	-	4,301	4,260
Bank deposits and other liabilities	7,112	7,051	6,197	7,428	10,036
On demand	-	-	-	-	-
Short term	4,907	4,843	4,152	5,336	7,953
Long term	2,205	2,208	2,045	2,092	2,083
Settlement accounts to be recorded for sale	-	-	-	-	-
Securities and derivative transactions	3,030	4,608	8,155	11,493	7,077
Repurchase agreements	75	120	61	43	25
Settlement accounts to be recorded for purchase	-	-	-	-	-
Stock borrowings	2,955	4,488	8,094	11,450	7,052
Derivative transactions	-	-	-	-	-
Other accounts payable	14,285	22,402	31,435	32,555	33,061
Income tax and employee profit sharing payable	325	1,228	1,851	1,512	1,277
Sundry creditors and others accounts payable	13,960	21,174	29,584	31,043	31,784
Subordinated debentures outstanding	2,284	2,257	2,232	2,238	2,203
Deferred tax	-	-	-	-	-
Deferred credits	3	15	23	16	9
Total Liabilities	212,659	237,323	244,477	271,255	255,293
Stockholder's Equity					
Paid in capital	10,549	12,798	12,798	12,798	12,798
Capital stock	3,576	3,857	3,857	3,857	3,857
Additional paid in capital	6,973	8,941	8,941	8,941	8,941
Capital Gains	5,715	6,961	7,980	8,830	10,146
Capital reserves	4,686	4,686	4,686	8,980	8,980
Retained earnings	-	-	4,294	-	-
Surplus (Deficit) from securities	235	275	87	(63)	68
Results of foreign operations exchange	12	12	12	12	-
Cumulative effect of restatement	(3,383)	(3,437)	(3,437)	(3,444)	(3,438)
Gains on non monetary asset valuation					
Valuation of fixed assets	1,273	1,273	1,273	1,273	1,273
Valuation of permanent investments	(146)	(142)	(145)	(146)	(146)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	3,038	4,294	1,210	2,218	3,409
Minority interest in capital	3	1	1	-	1
Total Stockholder's Equity	16,267	19,760	20,779	21,628	22,945
Total Liabilities and Capital	228,926	257,083	265,256	292,883	278,238

Figures in constant MXN millions

HSBC México, S.A. (Bank)

	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>
Memorandum Accounts					
Guarantees granted	60	57	60	59	51
Other contingent obligations	5,239	998	13,390	115	115
Irrevocable lines of credit granted	3,290	3,846	5,417	5,089	5,623
Goods in trust or mandate	68,391	69,294	69,877	68,747	78,211
Goods in custody or under administration	63,495	58,219	70,125	62,883	82,668
Third party investment banking operations, net	17,057	17,245	18,798	16,790	18,651
Amounts committed in transactions with IPAB or Fobaproa	481	126	115	150	155
Amounts contracted in derivative operations	259,897	210,549	388,383	464,284	517,396
Investments of retirement savings system funds	3,337	3,366	3,569	3,582	3,540
Integrated loan portfolio	124,461	134,249	140,038	148,629	156,436
Other control accounts	331,182	354,703	349,974	159,482	162,333
	<u>876,890</u>	<u>852,652</u>	<u>1,059,746</u>	<u>929,810</u>	<u>1,025,179</u>
Securities receivable under repos	42,206	42,950	45,821	33,523	39,705
(less) Repurchase agreements	(42,184)	(42,963)	(45,787)	(33,507)	(39,597)
	<u>22</u>	<u>(13)</u>	<u>34</u>	<u>16</u>	<u>108</u>
Reverse repurchase agreements	11,907	13,815	13,050	3,003	-
(less) Securities deliverable under repos	(11,924)	(13,728)	(13,061)	(3,002)	-
	<u>(17)</u>	<u>87</u>	<u>(11)</u>	<u>1</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.

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 Income Statement*Figures in constant MXN millions***HSBC México, S.A. (Bank)**

	<i>For the quarter ending.....</i>				<i>Year to date</i>		
	<i>30 Sep 200€</i>	<i>31 Dec 200€</i>	<i>31 Mar 200€</i>	<i>30 Jun 200€</i>	<i>30 Sep 200€</i>	<i>30 Sep 200€</i>	
Interest income	6,896	6,727	6,583	6,504	6,515	19,171	19,602
Interest expense (-)	2,972	2,681	2,304	2,348	2,268	8,021	6,921
Monetary position (margin)	(55)	(136)	(182)	28	(288)	(112)	(440)
Net interest income	<u>3,869</u>	<u>3,910</u>	<u>4,097</u>	<u>4,184</u>	<u>3,959</u>	<u>11,038</u>	<u>12,241</u>
Loan-loss provisions (-).....	490	406	607	1,021	759	1,117	2,388
Loan loss provisions bank	353	348	527	1,021	759	765	2,308
Loss sharing Fobaproa	137	58	80	-	-	352	80
Risk adjustment net interest income....	<u>3,379</u>	<u>3,504</u>	<u>3,490</u>	<u>3,163</u>	<u>3,200</u>	<u>9,921</u>	<u>9,853</u>
Fees and commissions	2,025	2,108	2,114	2,209	2,286	5,626	6,609
Account management	409	382	378	384	372	1,168	1,134
Services	1,616	1,726	1,736	1,825	1,914	4,458	5,475
Fees Paid.....	(211)	(251)	(264)	(262)	(235)	(647)	(761)
Trading Income	422	449	531	436	569	937	1,536
Foreign exchange	219	271	226	110	12	619	348
Securities trading, net	(24)	(90)	177	46	100	3	323
Repos	79	127	149	115	(4)	170	260
Swaps	-	11	77	5	94	-	176
Valuation off-shore agencies	148	130	(98)	160	276	145	338
Valuation for trading swaps	-	-	-	-	91	-	91
Total operating income.....	<u>5,615</u>	<u>5,810</u>	<u>5,871</u>	<u>5,546</u>	<u>5,820</u>	<u>15,837</u>	<u>17,237</u>
Administrative and personnel expenses (-).....	3,909	3,972	4,079	4,057	4,116	11,057	12,252
Personnel expense	1,859	1,789	1,679	1,819	1,854	5,002	5,352
Administrative expense	1,829	1,951	2,194	2,034	2,054	5,448	6,282
Depreciation and amortization	221	232	206	204	208	607	618
Net operating income	<u>1,706</u>	<u>1,838</u>	<u>1,792</u>	<u>1,489</u>	<u>1,704</u>	<u>4,780</u>	<u>4,985</u>
Other income	551	485	377	598	459	1,054	1,434
Other expenses	(477)	(248)	(203)	(464)	(162)	(768)	(829)
Net income before taxes	<u>1,780</u>	<u>2,075</u>	<u>1,966</u>	<u>1,623</u>	<u>2,001</u>	<u>5,066</u>	<u>5,590</u>
Income tax and employee profit sharing	(461)	(312)	(737)	(151)	(614)	(1,102)	(1,502)
Deferred income tax	(261)	(510)	(20)	(467)	(190)	(860)	(677)
Net income before subsidiaries	<u>1,058</u>	<u>1,253</u>	<u>1,209</u>	<u>1,005</u>	<u>1,197</u>	<u>3,104</u>	<u>3,411</u>
Undistributed income from subsidiaries	11	3	1	2	(5)	13	(2)
Income from ongoing operations.....	<u>1,069</u>	<u>1,256</u>	<u>1,210</u>	<u>1,007</u>	<u>1,192</u>	<u>3,117</u>	<u>3,409</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	1	-	-	-	(79)	-
Minority interest	-	-	-	-	-	-	-
Net income (loss).....	<u>1,069</u>	<u>1,257</u>	<u>1,210</u>	<u>1,007</u>	<u>1,192</u>	<u>3,038</u>	<u>3,409</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

Figures in MXN millions

HSBC México, S.A. (Bank)

From January 1, 2006 to September 30, 2006

	Paid-in Capital					Earned Capital										Minority Interest	Total Stockholders Equity	
	Capital stock	Unpaid Capital stock	Increase from re-statement of paid-in capital stock	Shares' premium	Re-statement of shares' premium	Capital Reserves	Re-statement of statutory reserves	Retained earnings	Re-statement of retained earnings	Surplus (Deficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Deficit in restatement of stockholders' equity	Results from holding non-monetary assets (Valuation of fixed assets)	Results from holding non-monetary assets (Valuation of permanent investments)			Net income
Balances as of December 31, 2005	2,278	-	1,494	7,052	1,692	3,618	965	-	-	269	11	(3,362)	-	1,245	(138)	4,199	1	19,324
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,409	-	3,409
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	(207)	-	-	-	-	-	-	-	(207)
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(11)	-	-	-	-	-	-	(11)
-Cumulative effect of restatement	-	-	85	-	197	-	198	-	-	6	-	-	(76)	28	(3)	-	-	435
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5)	-	-	(5)
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	85	-	197	-	198	-	-	(201)	(11)	-	(76)	28	(8)	3,409	-	3,621
Balances as of September 30, 2006	2,278	-	1,579	7,052	1,889	7,817	1,163	-	-	68	-	(3,362)	(76)	1,273	(146)	3,409	1	22,945

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.

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Consolidated Statement of Changes in Financial Position*Figures in constant MXN millions***HSBC México, S.A. (Bank)***From January 1, 2006 to September 30, 2006***Operating activities****Net income (loss) 3,409****Items included in operations not requiring (providing) funds:**

Depreciation and amortization	618
Allowance for loan losses	2,389
Provisions for other obligations	-
Gains / (losses) from mark to market valuations	(338)
Deferred taxes	677
Undistributed income from subsidiaries, net	2
Provisions for foreclosed assets	229
Increase (reduction) of the minority interest	
Net Result of items included in operations not requiring (providing) funds	<u>6,986</u>

Changes in Operating Accounts:

Increase (decrease) in retail deposit and money desk	1,917
Increase (decrease) of loan portfolio	(22,679)
Increase (decrease) of financial instruments	9,965
Increase (decrease) of other receivable and payable accounts, net	<u>4,070</u>
Funds provided by operations	<u>259</u>

Financing Activities:

Subordinated debentures outstanding	(54)
Interbank and other loans	2,985
Dividends paid	-
Increase (decrease) in capital	-
Result from foreign currency transactions	(11)
Convertible subordinated debentures	-
Funds used or provided by financing activities	<u>2,920</u>

Investing Activities:

Increase (decrease) of property, furniture and equipment and long term investments	(880)
Increase (decrease) in deferred credits	(185)
Increase (decrease) in foreclosed assets	<u>78</u>
Funds used in investing activities.....	<u>(987)</u>
Increase (decrease) in cash and equivalents	2,192
Cash and equivalents at beginning of period	<u>52,180</u>
Cash and equivalents at end of period	<u>54,372</u>

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.

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 the officers.

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Financial Instruments

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

Figures in constant MXN millions

At September 30, 2006

Investments in securities

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Government securities	3,334	5,779	9,592	19,031	11,189
Fiduciary certificates	-	-	30	-	-
Bank securities	1,500	1,246	159	3,615	266
Shares	17	18	10	194	336
Sovereign government debt bonds	-	-	-	-	-
Others	94	58	6	635	98
Trading securities.....	<u>4,945</u>	<u>7,101</u>	<u>9,797</u>	<u>23,475</u>	<u>11,889</u>
Government securities					
Fiduciary certificates	30,193	32,412	28,890	35,649	28,009
Bank securities	2,068	3,204	3,356	-	-
Obligations and other securities	4,337	4,000	4,089	693	695
Shares	5,472	7,248	9,799	5,451	5,002
Available for sale securities.....	10	193	252	274	267
	<u>42,080</u>	<u>47,057</u>	<u>46,386</u>	<u>42,067</u>	<u>33,973</u>
Sovereign debt securities					
Commercial and industrial subordinated debentures	599	591	477	498	360
Special Cetes (net)	2	2	2	2	3
MYRAS	3,420	3,441	3,467	3,540	3,555
Other debt securities	62	49	36	16	7
Securities held to maturity.....	-	-	-	-	-
	<u>4,083</u>	<u>4,083</u>	<u>3,982</u>	<u>4,056</u>	<u>3,925</u>
Total Financial Instruments.....					
Government securities	<u>51,108</u>	<u>58,241</u>	<u>60,165</u>	<u>69,598</u>	<u>49,787</u>

In the third quarter of 2006 investment in securities decreased by MXN 19,811 versus prior quarter; a MXN 15,480 decrease in government securities, MXN 3,347 in bank securities, and MXN 986 in bonds, coupled with maturity of the strip aztec bond by MXN 138 and a decrease in other by MXN 140.

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

Figures in constant MXN millions

At September 30, 2006

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Government securities (debit)	39,794	43,733	44,285	30,806	39,925
Bank securities (debit)	4,566	1,654	3,980	5,199	1,599
Bank securities (own)	399	-	0	8	327
Valuation Increase (decrease)	77	20	62	14	59
Interest in securities receivable under repurchase agreements	(11)	28	1	22	100
Total in repo agreements (debit)	<u>44,825</u>	<u>45,435</u>	<u>48,328</u>	<u>36,049</u>	<u>42,010</u>
Repo's Government securities (credit)	39,805	43,735	44,298	30,809	39,922
Repo's Bank securities (credit)	4,566	1,654	3,980	5,199	1,599
Repo's Bank securities (own)	399	-	-	8	327
Valuation increase (decrease)	3	3	3	-	4
Accrued interest payable	40	58	25	20	47
Credit balance in repo agreements	<u>44,813</u>	<u>45,450</u>	<u>48,306</u>	<u>36,036</u>	<u>41,899</u>
Repurchase agreements in government securities	14,006	16,257	15,546	2,706	2,302
Repurchase agreements in banking securities	519	-	-	2,825	-
Valuation increase (decrease)	3	3	1	-	-
Accrued interest receivable	9	43	23	1	-
Debit balance repo securities agreements	<u>14,537</u>	<u>16,303</u>	<u>15,570</u>	<u>5,532</u>	<u>2,302</u>
Government securities	13,994	16,253	15,534	2,702	2,305
Bank securities	519	-	-	2,826	-
Valuation increase (decrease)	21	(86)	10	(1)	-
Interest in securities deliverable under repurchase agreements	9	45	25	1	-
Credit balance repo securities agreements	<u>14,543</u>	<u>16,212</u>	<u>15,569</u>	<u>5,528</u>	<u>2,305</u>

Derivative Financial Instruments**HSBC México, S.A. (Bank)**

At September 30, 2006

Figures in constant MXN millions

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	72,299	64,396	1,000	1,000	-	-	7,903
US Dollars	-	-	77,269	84,854	1,404	1,374	83,933	85,134	(8,756)
Interest Rate	31,110	31,110	-	-	-	-	501,468	499,973	1,495
Total	<u>31,110</u>	<u>31,110</u>	<u>149,568</u>	<u>149,249</u>	<u>2,404</u>	<u>2,375</u>	<u>585,400</u>	<u>585,107</u>	<u>642</u>
For hedging									
Pesos	-	-	-	-	-	-	5,051	-	-
US Dollars	-	-	-	-	-	-	-	5,403	-
Interest Rate	-	-	-	-	-	-	10,816	10,865	-
Total	-	-	-	-	-	-	<u>15,867</u>	<u>16,269</u>	-

Stock Borrowing

HSBC México, S.A. (Bank)

At September 30, 2006

Figures in constant MXN millions

	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Received borrowings					
Cetes	957	222	-	11,450	7,052
Increase or decrease in cetes	-	-	-	-	-
Bonds	2,000	4,262	8,073	-	-
Increase or decrease in bonds	-2	4	21	-	-
Total	2,955	4,488	8,094	11,450	7,052

Participation by Subsidiary

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

Group Subsidiaries at September 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
Total	1,972,551,956		1,951,359,971

Trading income

HSBC México, S.A. (Bank)

Figures in constant MXN millions

	For the quarter ending...					Year to date	
	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	30 Sep 2006	
Valuation	148	130	(25)	194	380	143	549
Derivatives	170	79	51	136	382	155	569
Repos	(43)	54	(57)	81	(4)	(14)	20
Shares	-	-	-	-	-	-	-
Debt Securities	21	(3)	(19)	(23)	2	2	(40)
Buying and Selling Instruments	274	319	556	242	189	794	987
Foreign Currency	218	261	226	110	12	620	349
Derivatives	7	14	13	(72)	183	(4)	123
Repos	73	(51)	184	79	(3)	153	260
Shares	-	-	1	-	-	-	1
Debt Securities	(24)	95	133	125	(3)	25	254
Total.....	422	449	531	436	569	937	1,536

Loan Portfolio

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

By type of currency

At September 30, 2006

Figures in constants MXN millions

	<u>Commercial Loans</u>	<u>Financial Intermediaries</u>	<u>Consumer Loans</u>	<u>Mortgage Loans</u>	<u>Government Entities</u>	<u>IPAB</u>
Performing Loan Portfolio						
Pesos	37,555	5,154	33,486	16,058	34,282	-
US Dollars	13,882	73	-	4	3,195	-
Udis Banxico	-	-	-	3,170	-	-
Total.....	51,437	5,227	33,486	19,232	37,477	-
	<u>Commercial Loans</u>	<u>Financial Intermediaries</u>	<u>Consumer Loans</u>	<u>Mortgage Loans</u>	<u>Government Entities</u>	<u>IPAB</u>
Non Performing Loans Portfolio						
Pesos	1,033	-	1,459	571	8	-
US Dollar	329	-	-	-	-	-
Udis Banxico	-	-	-	502	-	-
Total.....	1,362	-	1,459	1,073	8	-

On April 3, 2006, the IPAB obligation known as Tramo II Series F and Tramo II Series EI, in relation with the New Programme Contract referred in the Fifth Transitory Article of the Protección al Ahorro Bancario law, expired. The Bank received the remaining payment from IPAB notes of MXN 1,063.5 and 57.2 million.

Loan Portfolio Grading

HSBC México, S.A. (Bank)

At September 30, 2006

Figures in constant MXN millions

	<u>Loan Portfolio</u>	<u>Allowance for Loan Losses per Category</u>			
		<u>Commercial Loans</u>	<u>Loan Portfolio</u>	<u>Commercial Loans</u>	<u>Loan Portfolio</u>
Exempted from rating	29,408				
Graded.....	127,029				
Risk A	88,998	325	200	104	629
Risk B	32,818	1,504	387	84	1,975
Risk C	2,010	252	398	98	748
Risk D	2,270	211	966	478	1,655
Risk E	933	642	222	66	930
Total	156,437	2,934	2,173	830	5,937
Less:					
Constituted Reserves.....					5,984
Surplus.....					48

1. The rating and constitution of reserves correspond to last day of the balance sheet at 30 September 2006. The remaining is reserves made for the mortgage portfolio.

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.

3. The exceso in loan-loss reserves is explained by mortgage other reserves for MXN 48 million.

Non – Performing Loans

HSBC México, S.A. (Bank)

Figures in historic MXN millions

	At the quarter ending...				
	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006
Initial balance of non performing loan portfolio	3,423	3,433	3,413	3,009	3,720
Increases	6,762	2,393	3,746	3,623	3,346
Transfer of current loans to past due status	6,762	2,393	3,746	3,623	3,346
Purchase of portfolio	-	-	-	-	-
Suspended interest	-	-	-	-	-
Decreases	(6,756)	(2,419)	(4,170)	(2,922)	(3,162)
Restructurings	(58)	(28)	(27)	(12)	(47)
Liquidated credits	(6,289)	(2,044)	(3,860)	(2,248)	(2,637)
Charged in cash	(5,556)	(1,449)	(2,872)	(1,948)	(1,839)
Foreclosed assets	(29)	(3)	(2)	(1)	(23)
Debt capitalized in the bank's favour	-	-	-	-	-
Writeoffs	(704)	(593)	(986)	(479)	(774)
Sale of portfolio	-	-	-	-	-
Transfer to performing loan status	(410)	(347)	(283)	(483)	(478)
Fx revaluations	4	5	20	10	(3)
Interest capitalization	-	-	-	-	-
Final Balance of Non Performing Loan Portfolio	3,433	3,413	3,009	3,720	3,902

Deferred Taxes

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

Figures in constant MXN millions

	<u>30 Sep</u> <u>2005</u>	<u>31Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>
Loan loss reserves	1,390	962	797	896	793
Valuation of securities	(217)	(300)	(97)	(64)	(256)
Fiscal loss	61	136	128	119	77
Loss sharing	2,265	851	864	866	877
Other Reserves	-	543	608	438	561
Other	118	126	201	(57)	(135)
Differences in rates of fixed assets	(235)	(295)	(362)	(376)	(410)
Fiscal result UDIS-Banxico	<u>(2,075)</u>	<u>(1,259)</u>	<u>(1,279)</u>	<u>(1,327)</u>	<u>(1,331)</u>
Total Deferred Taxes	<u>1,307</u>	<u>764</u>	<u>860</u>	<u>495</u>	<u>176</u>

Funding, Loans and Investments in Securities

HSBC México, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<u>At the quarter ending...</u>				
	<u>30 Sep</u> <u>2005</u>	<u>31Dec</u> <u>2005</u>	<u>31 Mar</u> <u>2006</u>	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>
Loans in MXN pesos					
Funding	3.46%	3.17%	2.82%	2.73%	2.65%
Bank and other loans	9.01%	8.04%	7.41%	6.84%	6.87%
Loans in foreign currency					
Funding	0.68%	0.80%	0.87%	0.99%	1.35%
Bank and other loans	4.51%	4.77%	6.05%	6.01%	6.63%
UDIS					
Funding	0.22%	0.20%	0.19%	0.19%	0.19%

Long Term Debt

HSBC México, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Amount in circulation</i>	<i>Maturity Date</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	

Capital

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

Capital

Grupo Financiero HSBC

The ordinary shareholders meeting, held on April 26, 2006, approved the application of the year 2005 financial results, amounting to MXN 5,093m, as follows:

- ▶ MXN 254m (5%) to increase legal reserves, and the remaining MXN 4,838m, at the disposal of the Board under the concept of the previous year's financial years

On 8 August, 2006, HSBC Panama was sold intra-group to HSBC Asia Holdings BV. Derived from this sale Other Reserves for MXN 75 million were applied.

The capital stock is included in the MXN 3,886 figure, representing 1,943,032,139 shares.

Subsidiaries Grupo Financiero HSBC

HSBC México, S.A.

The ordinary shareholders meeting, held on April 26, 2006, approved the application of the year's financial results, totalling MXN 4,199m, as follows:

- ▶ 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.

During July 2006 BI Financial Holdings, LTD was terminated. The result of MXN 12 million for foreign exchange reserve was canceled.

HSBC Casa de Bolsa, S.A. de C.V.

The ordinary share holders meeting held on 26 April, 2006, net income of MXN 17 million from 2005 was applied to the retained earnings account for the Board disposition.

HSBC Casa de Bolsa, S.A. de C.V. paid a dividend in August 2006 for MXN 54 million, charged to the tax profit account.

Capital Ratio**HSBC México, S.A. (Bank)**

Figures in constants in MXN millions

	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>
% of assets subject to credit risk					
Tier 1	15.77 %	17.81 %	17.30 %	16.84%	16.96%
Tier 2	3.42 %	3.33 %	2.98 %	2.45%	2.30%
Total regulatory capital	<u>19.19 %</u>	<u>21.14 %</u>	<u>20.28 %</u>	<u>19.29%</u>	<u>19.25%</u>
% of assets subject to credit and market risk					
Tier 1	10.97 %	12.07 %	13.47 %	12.88%	12.24%
Tier 2	2.38 %	2.26 %	2.32 %	1.87%	1.66%
Total regulatory capital	<u>13.35 %</u>	<u>14.32 %</u>	<u>15.79 %</u>	<u>14.75%</u>	<u>13.90%</u>
Tier 1	15,327	18,356	19,457	20,484	21,689
Tier 2	3,322	3,468	3,347	2,974	2,940
Total regulatory capital	<u>18,648</u>	<u>22,004</u>	<u>22,804</u>	<u>23,458</u>	<u>24,629</u>
RWA credit risk	97,162	104,096	112,461	121,619	127,920
RWA market risk	<u>45,524</u>	<u>49,518</u>	<u>31,973</u>	<u>37,397</u>	<u>49,281</u>
RWA credit and market risk	<u>139,686</u>	<u>153,614</u>	<u>144,434</u>	<u>159,016</u>	<u>177,201</u>

With figures as of 31 August 2006, the Mexican Banking and Securities Commission has classified HSBC México S.A. in category I in accordance with the General Standards referred in article 134 Bis from the Financial Institutions Law.

Other Expenses, Other Income and Extraordinary Items

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

Figures in constants MXN millions

	For the quarter ending...					Year to date	
	30 Sep 2005	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	30 Sep 2005	30 Sep 2006
Other income							
Loans to employees	17	19	21	17	18	45	56
Recoveries	16	5	88	112	85	83	286
Other income	521	463	267	469	274	925	1,010
Monetary position (other income)	(3)	-	1	(1)	83	-	83
	<u>551</u>	<u>486</u>	<u>377</u>	<u>598</u>	<u>460</u>	<u>1,053</u>	<u>1,435</u>
Other expenses							
Other losses	(477)	(243)	(203)	(458)	(168)	(768)	(829)
Monetary position (other expenses)	-	(5)	-	(6)	6	-	-
	<u>(477)</u>	<u>(248)</u>	<u>(203)</u>	<u>(464)</u>	<u>(162)</u>	<u>(768)</u>	<u>(829)</u>
Total other income (expenses).....	<u>74</u>	<u>238</u>	<u>174</u>	<u>134</u>	<u>298</u>	<u>285</u>	<u>606</u>
Discontinued operations, extraordinary items and changes in accounting standards	-	1	-	-	-	(79)	-

Following are some of the most significant events 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 of MXN 85 million.
- ▶ 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.

Related Party Transactions

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

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices. The balance of the transactions carried out as of September 30, 2006 is shown below:

Figures in constants MXN millions

	Banco	Afore	Casa de Bolsa	Operadora de Fondos	Grupo	Total
Balance Sheet						
Cash and deposits in banks	-	-	20	-	1,588	1,608
Demand deposits	(1,608)	-	-	-	-	(1,608)
Repos	-	-	4	-	-	4
Reverse repos	(4)	-	-	-	-	(4)
Sundry debtors (assets)	(21)	-	-	-	-	(21)
Sundry creditors (liabilities)	-	-	17	4	-	21
Total	(1,633)	-	41	4	1,588	-
P&L						
Payable commissions	(1)	(3)	-	(1)	-	(5)
Receivable commissions	-	-	2	3	-	5
Interest income	4	-	6	-	9	19
Interest expense	(15)	-	(4)	-	-	(19)
Administrative services	-	(8)	(91)	(6)	(1)	(106)
Other income	106	-	-	-	-	106
Total	94	(11)	(87)	(4)	8	-

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

The consolidated income statement by customer segment includes 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 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:

Figures in constant MXN millions

	Year to date				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	7,988	3,195	834	701	12,718
Provision for Loan Loss	(1,922)	(362)	(6)	(129)	(2,419)
Net Interest Income adjusted	6,066	2,833	828	572	10,299
Fees and Commissions, net	4,654	1,446	387	59	6,576
Trading Income	243	80	1,168	50	1,541
Total Revenue	10,963	4,359	2,383	711	18,416
Administrative Expenses	9,511	2,439	1,002	120	13,072
Operating Income	1,452	1,920	1,381	591	5,344
Other Income (Expenses), net	528	(72)	1	250	707
Taxes	(744)	(707)	(535)	(313)	(2,299)
Net Income before subsidiaries	1,236	1,141	847	528	3,752
Undistributed income from subsidiaries	9	-	-	566	575
Continued Operating Results	-	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
Net Income	1,245	1,141	847	1,094	4,327
Minority Shareholders	-	-	-	-	-
Participated Net Income	1,245	1,141	847	1,094	4,327

Accounting differences between PGCA Mexico and IFRS

HSBC México, S.A. (Bank)

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

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

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

Figures in historic MXN millions

	3Q05	4Q05	1Q06	2Q06	3Q06
Accounting Differences in IAS vs. Mexican GAAP					
Grupo Financiero HSBC – Net Income Under CNBV criteria /	1,385	1,410	1,445	1,372	1,509
Inflationary effects	105	216	237	(3)	265
Temporary differences in the classification and valuation of hedging derivatives *	-	-	-	-	72
Differences in the accounting and valuation of Pensions and Post Retirement Healthcare benefits *	17	31	25	24	20
Temporary differences in the recognition of deferred commissions paid, relative to the Afore Business *	25	54	20	(2)	(40)
Temporary differences in the recognition of fees and commissions income *	(46)	(25)	(13)	(39)	(30)
Temporary differences in the recognition of cost arising on the generation of loans *	-	47	6	10	12
Temporary differences in the recognition and provisioning for credit losses *	(24)	(306)	50	518	368
Valuation adjustment related to Fobaproa notes earning below markets rates and credit losses *	313	475	160	119	102
Other differences in accounting principles *	44	286	(6)	(84)	(159)
Net Income under IFRS	1,820	2,188	1,924	1,915	2,119
USD Equivalent (millions)	170	204	181	171	194
Add back Taxes	755	713	797	1,156	893
Profit Before Tax under IFRS	2,575	2,900	2,721	3,071	3,012
USD Equivalent (millions)	240	271	257	275	275
<i>Exchange rate used for conversion</i>	10.71	10.71	10.60	11.18	10.94

* Impact shown net of taxes at 29% and 30% for 2006 & 2005 respectively

^{1/}

Loans to Fobaproa portfolio were settled on September 2005

Relevant Concepts related to

1. Differences in the Results

GF HSBC, S.A de C.V. registered a net income of MXN 4,327 millions for 3 quarter of 2006, different from the figures registered by HSBC Holding plc. of MXN 5,958 millions. The main differences between these figures are as follows:

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

2. Main Differences in the Account Record Criteria

1. The impact of inflationary effects under Mexican GAAP has to be adjusted so that historical numbers are shown in real terms. Under Mexican GAAP the financial statements disclose an account called "Monetary Positions Gain (losses)", derived from the differences between the monetary assets and liabilities. This does not exist under IAS.
2. Differences between the disclosure and the valuation of hedge derivatives. Under Mexican GAAP the valuation of an instrument has to be recorded next to the primary position recorded; under IAS the valuation must be recorded against equity as hedge derivatives are classified as cash flow hedges.
3. Differences in the loan portfolio's valuation and classification. The calculation methodology under IAS is different than under Mexican GAAP.
4. Differences in labour obligation classification and valuation. The assumptions used in the actuarial calculation under IAS are different from Mexican GAAP.
5. Amortization of the fair value determined under the purchase accounting method, derived from the acquisition of "Grupo Financiero Bital S.A. de C.V."
6. Differences in the goodwill valuation and classification, and technical reserves of the Insurance business. The method used under IFRS differs from the ones established by local authorities.

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 discretionary (credit, market and liquidity) and non-discretionary, operational risk (technological 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 primary responsibility is the approval of objectives, alignment and policies relative to the topic, such as the determination of risk exposure limits which are supported by the ALCO and RMC committees.

Assets and Liabilities (Committee) ALCO

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 (RMC).

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

Qualitative

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.

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 third quarter of 2006 (in millions of dollars).

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

	30 Jun 06	30 Sep 06	Limits*	Average 2nd. quarter 2006	Average 3rd. quarter 2006
Bank	(14.64)	(17.83)	30.000	(12.83)	(15.77)
Accrual	(16.14)	(15.63)	27.500	(13.89)	(14.89)
Trading	(1.24)	(2.08)	13.500	(2.76)	(1.87)
MMT	(0.74)	(0.91)	7.500	(1.56)	(0.98)
FX	(0.27)	(0.25)	13.500	(0.40)	(0.25)
Money Desk	(1.38)	(2.23)	13.500	(2.67)	(1.89)
Capital Desk	NA	NA	NA	NA	NA

Absolute Value NA = Non Applicable

The Bank's VaR at the end of the third quarter of 2006 varied 21.79% versus the previous quarter. During the quarter the VaR remained under the pre-established limits.

The Bank's average VaR for the third quarter of 2006 varied 22.92% 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 2Q06 and 3Q06 (in millions of dollars).

Comparison of Market VaR vs. Net capital

Net capital in million dollars

	30 Jun 06	30 Sep 06
VaR Total *	12.83	15.77
Net Capital **	2,056.43	2,240.34
VaR / Capital Neto	0.62%	0.70%

* 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 0.70% of the net capital in 3Q06.

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

	30 Jun 06	30 Sep 06	Limits*	Average 2nd. quarter 2006	Average 3rd. quarter 2006
Bank	(0.463)	(0.745)	0.800	(0.451)	(0.629)
Accrual	(0.434)	(0.683)	0.750	(0.404)	(0.586)
Trading	(0.030)	(0.061)	0.250	(0.048)	(0.042)
FX	NA	NA	NA	NA	NA
Money Desk	(0.030)	(0.061)	0.250	(0.048)	(0.042)
Capital Desk	NA	NA	NA	NA	NA

* Absolute value

The bank's PVBP for the 3Q06 varied 60.91% 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 3Q06 varied 39.47% 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 14.8% for first line and 18.9% for second line liquidity, above the 10% 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.

HSBC recently implemented an advanced customer risk rating system with 22 levels, and given that the information for Loss Given Defaults and Exposure at Defaults has been determined for only part of the portfolio, the expected loss calculations for the commercial loan portfolio have not yet been finalised. The expected loss for the consumer portfolio (including credit cards and mortgages) was 4.6% as of 30 September 2006 or MXN 2,490.6 million.

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 third quarter of 2006 the third annual exercise for identifying and reevaluating all the of the Group's operational risks was carried out. In this exercise all new recognizable risks were identified and classified, as well as older ones reevaluated, by means of measuring three parameters to evaluate each risk: its feasibility, its impact and its exposure. These parameters, taken together, give place to a global risk rating, qualified as A, B, C, or D, from greatest to least risk, in order of importance.

Likewise, for the fourth consecutive year, during 2006 the major incidents (that have a certain cost importance) were registered and incorporated in a database. The reporting threshold has been reduced from US\$75,000 to US\$10,000 since January, 2006. 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 is being performed at present and during October-November 2006; as

well as implementing a historical database on judicial and administrative resolutions, relevant grounds and costs.

HSBC's Corporate Social Responsibility Programme in Mexico (CSR)

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

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

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

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

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

ESR Certification and other recognitions

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.

Additionally, HSBC Mexico was awarded fourth place overall in the second annual ranking of the most ethical and sustainable banks of Latin America as published by Latin Finance magazine. This represented an improvement for HSBC Mexico from fourteenth place last year to fourth place this year. HSBC Mexico also had the highest overall score of all Mexican banks mentioned. In terms of individual categories, for Latin America, HSBC Mexico ranked first in ethics, third in transparency and fourth in social responsibility.

Social Responsibility Community Programmes

The following represents a few 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. At this year's competition in Paris, the Mexican team, sponsored by HBMX, reached the semifinals of the competition.

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 also participated in Bécalos, 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 were raised for Bécalos through the ATM's of the six participating financial institutions. HSBC customers donated a total of MXN 2,658,164.68.

Community

HSBC has been actively involved in advising the management of the new state of the art fire station Ave Fenix, which is being built on Insurgentes Avenue, and that will service the Delegación Cuauhtémoc, as well as other parts of Mexico City. The station will be inaugurated in November 2006, and an ongoing fundraising mechanism will be set up to gather funds for the station and its operation. HSBC will participate as

the bank of the Foundation, which operates with private sector and public sector funds, and is managed by a board of trustees, the Heroico Cuerpo de Donadores A.C.

HSBC donated MXN 1,666,442 for the purchase of 6 fire fighting motorcycles, which are specially designed and equipped to allow fire-fighters to reach any disaster and fight fires, and are especially useful in cities which have traffic problems.

The Environment

In terms of HSBC Mexico's participation in environmental programmes, in 2005, more than 30 members of our staff participated in the ongoing programme agreed by HSBC Group with Earthwatch, of which more than 87 colleagues have participated in since 2003. This project identifies more than 25,000 flora and fauna species in a five year period around the world. Additionally, Mexico will benefit from the USD 17 million commitment made by HSBC Group to the World Wildlife Fund to study the problems and solutions of the pollution in three major rivers around the world, one of them being the Río Bravo on the Mexico-U.S. border.

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

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

The Arts

HSBC Mexico has also been active in supporting cultural activities, as they are tied to education, as well to a country's identity, its past, present and future. In 2005, HSBC Mexico and the HSBC Group sponsored the exhibits of Frida Kahlo at the Tate Modern Museum in London, as well as that of Henry Moore in Mexico, which was on display at the Dolores Olmedo Patiño Museum in Mexico City. HSBC Mexico also co-sponsored four

Mexican theatre works that were presented by the Anglo Mexican Foundation at the Riverside Studios of London, and the Fringe Fest, within the Edinburgh Theatre Festival during the summer of 2005, one of the most important international theatre festivals in the world.

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

In March 2006, HSBC co-sponsored the presentation in Mexico City of the Vienna Philharmonic Orchestra.

HSBC also co-sponsored the British Presence at the 34 Festival Internacional Cervantino held in October 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 the areas of education, nutrition and healthcare.

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

In Conclusion

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

Contacts

Media enquiries:

London: James Pieper/Karen Ng
Tel: +44 (0) 20 7991 0633/0655

Mexico City: Roy Caple
Tel: +52 (55) 5721 6060

Investor Relations:

London: Danielle Neben
Tel: +44 (0) 20 7992 1938

Mexico City: Peter Sanborn
Tel: +52 (55) 5721 5347