

Grupo Financiero HSBC

Financial information at 31 December 2006

4Q06

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

*Release date:
27 February 2007*



February 27, 2007

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

On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V. to HSBC Asia Holdings BV; therefore, all comparative comments within this report are on a like for like basis for HSBC Mexico only as presented in Appendix A. The financial statements on pages 7 to 18 include HSBC Panama up until the date of disposal.

- ▶ **Net income up 8.4 per cent to MXN5,365 million for the year ended 31 December 2006 (MXN4,949 million for the year ended 31 December 2005).**
- ▶ **Cost efficiency ratio (excluding monetary position) of 60.6 per cent for the year ended 31 December 2006 (65.1 per cent for the year ended 31 December 2005).**
- ▶ **Return on equity of 18.6 per cent for the year ended 31 December 2006 (21.8 per cent for the year ended 31 December 2005).**
- ▶ **Net loans and advances to customers up MXN28.1 billion, or 22.1 per cent, to MXN154.9 billion at 31 December 2006 (MXN126.8 billion at 31 December 2005).**
- ▶ **Total assets up MXN22.6 billion, or 8.5 per cent, to MXN290.3 billion at 31 December 2006 (MXN267.6 billion at 31 December 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 31 December 2006.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc (HSBC).

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

“Our investment for growth strategy in Mexico continues to deliver solid results. For the year ended 31 December 2006, the group delivered robust growth in revenues. Net income was driven by a strong performance in the bank and in the insurance subsidiaries, despite higher loan impairment charges in line with the provisioning requirements under Mexican regulatory rules to cover significant loan growth. Revenue grew across the personal, commercial and corporate business segments even in a decreasing interest rate environment and a highly competitive market. Our cost efficiency has shown continued improvement with revenue growth of 17.0 per cent exceeding expense growth of 8.8 per cent in the period ended 31 December 2006. This has been due to a more profitable balance sheet composition, driven by growth of 42.2 per cent and 37.0 per cent in consumer and commercial banking lending products respectively, compared to 2005. Impaired loans grew 21.5 per cent versus the previous year, in line with 21.8 per cent growth in gross loans and advances to customers for the same period. As a result, the ratio of impaired loans to total loans remained at 2.7 per cent as at 31 December 2006, the same percentage as the previous year.

“In 2006 Grupo Financiero HSBC consolidated efforts to grow a strong platform in Mexico. Our commitment to Mexico is reflected by our continued investment since the acquisition of Grupo Financiero Bital in November 2002. HSBC has invested over US\$2.3 billion in Mexico since 2002. As part of HSBC Mexico’s plans to increase financial strength and to become the leading financial services company in Mexico in the eyes of our customers, all profits earned since January 2003 have been reinvested in the Mexican business, representing a total of MXN15,940 million in accordance with Mexican GAAP. We have invested in enhancing our information technology, improving staff training and broadening the human resources base to some 23,700 employees. This represents over 8,000 new jobs created since November 2002, and over 2,000 new jobs in 2006 alone. The training and career development of our employees, including offering overseas postings, has been integral to building local leadership talent and potential for continued growth in the future.

“In April 2006, HSBC Mexico inaugurated its new headquarters, Torre HSBC, which has brought together staff across Mexico City into one location, providing a stronger organisational culture and a renewed working environment. In addition to our new corporate headquarters, we have continued to invest in and improve our infrastructure with 372 ATMs added in 2006, bringing the total number to 5,437.

“I am pleased to mention that, during 2006, Grupo Financiero HSBC received several awards not only for its managerial efforts, but also for its corporate and social responsibility. *Expansión* and *Latin Finance* magazines each named HSBC Mexico as *Bank of the Year in 2006*. In May, for the second consecutive year, HSBC Mexico received the *SME Award* from the *Mexican Ministry of Economy* in recognition of its outstanding support to small and medium business customers.

“In the area of social responsibility, the *Mexican Philanthropy Centre* (CEMEFI) recognised HSBC Mexico with the *Socially Responsible Company 2006* certification. Likewise, HSBC ranked first among all Mexican banks and fourth in Latin America in the *Sustainable and Ethical Banks in Latin America* ranking from *Latin Finance* magazine.

“In HSBC we continue to strive towards being the leading financial services company in Mexico. The combination of our extensive international network, the HSBC brand and the

sharing of global practices, along with local product knowledge and expertise has been a powerful impulse to deliver solid results in Mexico.”

Overview

For the year ended 31 December 2006, Grupo Financiero HSBC's net income of MXN5,365 million was MXN416 million, or 8.4 per cent, higher than the same period in 2005. These results were largely due to strong performances in the bank and insurance subsidiaries, although they were partly offset by higher loan impairment charges in line with the provisioning requirements under Mexican regulatory rules to cover the significant loan growth.

Net interest income (excluding monetary position) was up by MXN2,235 million to MXN17,758 million for the year ended 31 December 2006, a 14.4 per cent increase compared to the same period in 2005. This was despite a significant reduction in interest rates of 210 basis points negatively impacting spreads on HSBC Mexico's large base of low-cost customer deposits. The increase in net interest income reflects a solid performance in loans, concentrated in higher-yielding credit card lending and small-and medium-sized business (SME) products, as well as robust growth in low-cost customer deposits. In particular, credit card balances more than doubled versus the previous year, leading to a 2.3 per cent increase in market share of balances outstanding to reach 7.2 per cent at December 2006.

Net fees and commissions grew strongly, increasing by MXN1,310 million, or 17.2 per cent, compared to the same period in 2005, reaching MXN8,933 million for the year ended 31 December 2006. These positive results were mainly driven by increased contributions from packaged products with a monthly membership fee (*Tu Cuenta* and *Estimulo*), credit card, mortgage, point of sale, mutual fund and trade services fees. Trading income was up 43.9 per cent to MXN2,049 million over the same period of the previous year, reflecting the bank's successful strategic positioning, increased volumes in the retail foreign exchange market and the addition of new and more sophisticated products to better serve our clients' needs.

Administrative expenses grew 8.8 per cent compared to the same period in 2005, reaching MXN17,418 million for the year ended 31 December 2006. This increase reflects continued investment in the training and development of our employees, the introduction of a new dedicated mobile sales force and the continued build-up of our ATM infrastructure.

Loan impairment charges increased by MXN2,555 million, or 164.7 per cent, reaching MXN4,106 million for the year ended 31 December 2006. The increase reflects the growth of the portfolios in recent years and the higher provisioning requirements under Mexican regulatory rules related to new consumer and commercial lending, particularly in credit cards and small and micro business loans. Credit card balances increased MXN7,390 million, or 108.4 per cent, for the year ended 31 December 2006 versus the same period the previous year, while small and micro business loan balances increased MXN2,494 million (83.4 per cent) and MXN3,272 million (385.4 per cent) respectively for the same period. Impaired loans grew 21.5 per cent versus the previous year, in line with 21.8 per cent growth in gross loans and advances to customers for the same period. As a result, the ratio of impaired loans to total loans remained at 2.7 per cent as at 31 December 2006, the same percentage as the previous year. Impairment allowances as a percentage of impaired loans was 156.9 per cent, compared to previous year's 167.9 per cent. The

bank's capital adequacy ratio remains solid at 13.8 per cent, well above National Banking and Securities Commission (CNBV) requirements.

Results by customer segment

During the fourth quarter of 2006, the bank's **Personal Financial Services (PFS)** business saw continued income growth due to higher balances in low-cost deposits, credit cards, mortgages, personal and payroll loans. At the end of December 2006, PFS total customer loans increased 39.7 per cent versus the previous year.

In addition, there was higher fee and commission income from credit cards, the *Tu Cuenta* packaged product with a monthly membership fee and ATMs. Strong performance continues to be driven by the integrated financial services product, *Tu Cuenta*, which has reached one million accounts sold as of 31 December 2006. This product which has driven growth in low-cost deposits, features a 5 per cent credit card cash-back promotion and integrates financial services for a fixed monthly fee. These services include credit and debit cards, checking account, access to investment funds, time and demand deposits and internet banking. In addition to the contribution of *Tu Cuenta* income, an increase in the number of ATMs, a larger customer base and important efforts made during the last year to relocate machines to more convenient areas have boosted the number of transactions.

The bank's **Commercial Banking (CMB)** customer loans were 34.6 per cent higher than in 2005, primarily driven by strong demand in the rapidly growing real estate and residential construction sectors and continued growth in the small and micro business sector. Full year 2006 fee income rose by 27 per cent largely resulting from increased cross sales activity with card acquiring, ATMs, internet banking and payments and cash management (PCM) services. Growth in customer numbers led to higher transactional volumes and this, combined with an expanded and improved product offering, increased marketing activity and re-pricing initiatives, led to a 41 per cent rise in income from payments and cash management services.

The *Estimulo* product offering, comprising of a packaged suite of seven different products including a loan facility, continued to perform well with fee income more than tripling versus the previous year. During the third quarter, a similar product, *Estimulo Empresarial*, was launched, targeting upper end SME customers. This product encompasses a suite of 11 different services and since its introduction more than 165 new clients have been acquired, generating MXN543 million in new loans. HSBC's share of the trade services market continued to grow as enhanced systems, new products and improvements made to existing ones, led to higher levels of cross-selling activity among the various trade services products. During the year, the international factoring and domestic invoicing payment services were successfully piloted and marketed to existing clients.

In **Corporate, Investment Banking and Markets (CIBM)**, the Corporate bank continued to increase profitability while strengthening its market position. In Global Markets, profits were below 2005 levels as balance sheet management revenues were constrained by a flattening of the interest rate curve and relatively stable market conditions. However, the Global Markets business increased its participation in the derivatives market as it has incorporated new and more sophisticated product offerings. This, combined with solid client relationships and HSBC's global reach, helped Global Markets increase its presence in the money and capital markets. Higher payments and cash management fees

were driven by a wider product offering, particularly through e-channels, intensive marketing campaigns and the leveraging of established credit-related products and services. Trading had a strong year with an increase of 43.9 per cent versus previous year, largely due to successful positioning, larger retail foreign exchange volumes, the addition of new products (currency swaps and interest rate options) and the resulting increased focus on the derivatives market.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,348 branches, 5,437 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 99.99 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 81 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. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by nearly 200,000 shareholders in some 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

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Key Indicators *

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

	For the quarter ended at				
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
a) Liquidity	83.05%	86.72%	91.01%	80.69%	74.89%
Profitability					
b) ROE (Return over equity)	21.98%	21.40%	19.38%	20.38%	14.15%
c) ROA (Return over assets)	2.12%	2.02%	1.80%	2.01%	1.55%
Asset quality					
d) Impaired loans/total loans	2.54%	2.16%	2.51%	2.59%	2.67%
e) Coverage ratio	166.89%	175.95%	157.74%	153.40%	156.85%
Capitalization					
f) Credit risk	21.14%	20.28%	19.29%	19.25%	18.65%
g) Credit and market risk	14.32%	15.79%	14.75%	13.90%	13.79%
Operating efficiency					
h) Expenses/Total Assets	6.38%	6.13%	5.74%	5.73%	6.11%
i) NIM	6.75%	6.69%	6.50%	5.99%	6.40%
Infrastructure					
Branches	1,345	1,346	1,350	1,347	1,347
ATM	5,065	5,177	5,284	5,353	5,437
Head Count	21,663	21,311	21,972	23,213	23,683

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 ¹

Net Income

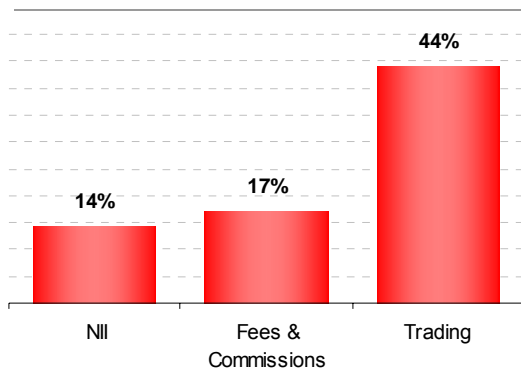
During 2006, Grupo Financiero HSBC (Grupo) reported a net income of MXN 5,365 million, an increase of MXN 416 million (8.4%) compared to 2005.

The Group benefited from solid results across its subsidiaries, especially from HSBC Mexico S.A. de C.V. (Bank) which reported a net income of MXN 4,413 million for the year ended 31 December 2006. For 4Q06 the Bank's net income was MXN 941 million.

Total Revenue

The Group's total operating income (after loan impairment charges) in 2006 was MXN 23,617 million, growing MXN 923 million (4.1%) versus the same period of the previous year. This growth was driven by net interest income of MXN 17,758 million, fees and commissions income of MXN 8,933 million and trading income of MXN 2,049. The growth represented annual increases of 14.4%, 17.2% and 43.9%, respectively.

**Grupo Financiero HSBC:
YTD growth 2006 vs. 2005**

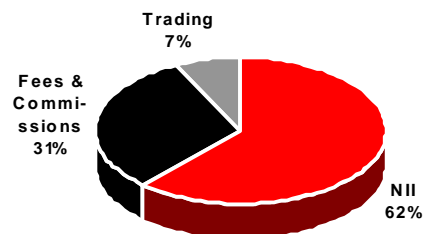


Total revenue growth was impacted by provisioning requirements under Mexican regulatory rules related to new consumer and commercial lending which resulted in loan

impairment charges growth of MXN 2,555 million compared to prior year.

Likewise, for 4Q06, the Bank's loan impairment charges increased from MXN 774 million in prior quarter to MXN 1,673 million, representing an increase of MXN 899 million.

**Grupo Financiero HSBC:
Revenue distribution FY 2006**



The Bank's pre-provision operating income year-on-year growth was MXN 3,363 million, representing an increase of 14.2% compared to 2005. Total operating income growth was MXN 808 million (3.7%) versus the same period of prior year. The growth in total operating income is lower than the pre-provision operating income due to the strong impact of increased loan impairment charges during the second half of 2006.

¹ On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V. to HSBC Asia Holdings BV; therefore, all **2** comparative comments for the Group within this report are on a like for like basis for HSBC Mexico only as presented in Appendix A. Comparative comments for the Bank still refer to the actual financial statements as presented on pages 13 to 18.

HSBC Mexico, S.A. (Bank) Revenue

<i>MXN millions</i>	4Q06	4Q06 vs. 4Q05	4Q06 vs. 4Q05 %	FY 2006	FY06 vs. FY05	FY06 vs. FY05 %
Pre-provision operating income	6,975	664	10.2%	26,967	3,363	14.2%
Loan impairment charges	1,673	1,259	304.6%	4,106	2,555	164.7%
Total operating income	5,302	(616)	(10.4%)	22,861	808	3.7%

Net Interest Income

The Group's net interest income for the year ended 31 December 2006 was MXN 17,758 million, representing an increase of 14.4% 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 due to growth in products like credit cards, small and micro business loans and low-cost deposits.

The Group's net interest income benefited from growth in higher-yielding performing loans, especially in credit cards and loans to small and medium businesses. This was partially offset by a lower interest rate environment, which negatively impacted spreads on HSBC Mexico's large base of low-cost customer deposits.

In 2006, net interest income for the Bank increased MXN 234 million (5.8%) from the third to the fourth quarter, largely due to growth in credit card and small and micro business loan volumes and a 30 basis point increase of in the average interbank exchange rate during the same period. This is reflected in the proportion of interest expense to interest income improvement from 34.7% in 3Q06 to 33.1% in 4Q06.

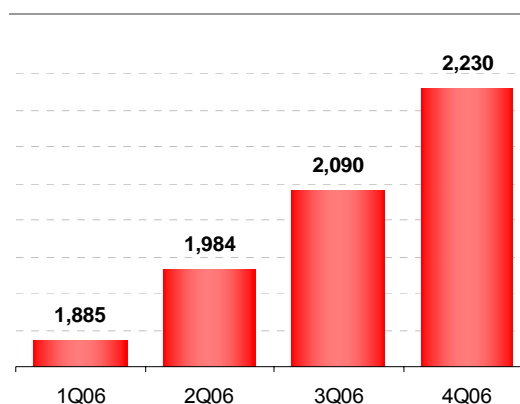
The Bank's net interest income for the year ended 31 December 2006 was MXN 16,736 million, increasing MXN 1,508 million (9.9%) compared to the same period of 2005.

Non-interest income

The Group's net fees and commissions income showed positive performance, totaling MXN 8,933 million in 2006. This represented growth of MXN 1,310 million (17.2%) compared to prior year. These positive results were mainly driven by contributions from packaged products with a monthly membership fee (*Tu Cuenta* and *Estimulo*) and credit card, mortgage, point of sale, mutual fund, trade services, ATM and PCM fees.

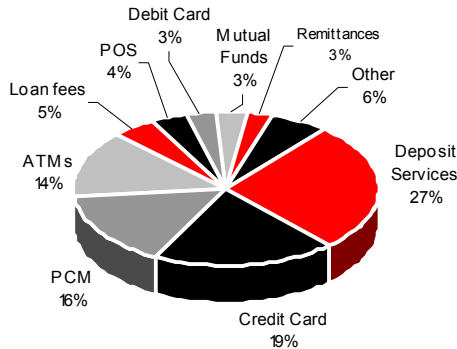
Bank's Quarterly Fees and Commissions

(Figures in MXN millions)



Credit card fee income growth was 69.1% compared to prior year, reflecting a significant increase in the number of cards in circulation, improvements made in reducing activation times and successful cross sales activity with *Tu Cuenta* customers. ATM fees were higher driven by greater levels of transactional activity from the implementation of 372 new machines, and a 22% rise in transactions from non-HSBC customers, reflecting HSBC's extensive and well positioned ATM network. Growth in customer numbers led to higher transactional volumes, and this combined with an expanded and improved product offering, increased marketing activity, and re-pricing initiatives led to a 18.3% cent rise in fee income from payments and cash management services.

Bank's fees & commissions distribution
(31 December 2006)



POS= Point of Sale
ATM= Automatic Teller Machine
PCM= Payments & Cash Management

Trading income for the Group was MXN 2,049 million for 2006, MXN 625 million more than in 2005, representing a 43.9% increase. These positive results reflect the bank's successful strategic positioning, higher volumes in the retail foreign exchange market and the addition of new and more sophisticated products with increased focus on the derivatives market (currency swaps and interest rate options) to better serve our clients' needs.

The Bank's non-interest income increased by MXN 1,854 million (22.1%) in 2006 versus the previous year. The Group's non-interest income to total revenue ratio increased from 36.8% for year ended 31 December 2005 to 38.2% during the same period of 2006.

Loan impairment charges

The Group's loan impairment charges for the year ended 31 December 2006, increased MXN 2,555 million (164.7%) reaching a total of MXN 4,106 million. This increase reflects the growth of the loan portfolio in recent years and the higher provisioning requirements under Mexican regulatory rules related to new consumer and commercial lending, particularly in credit cards and small and micro business loans. Credit card balances increased MXN 7,390, or 108.4%, for the year ended 31 December 2006 versus the same period of prior year, while small and micro business loan balances increased MXN 2,494 million (83.4%) and MXN 3,272 million (385.4%), respectively for the same period.

Impaired loans grew 21.5 per cent versus the previous year, in line with a 21.8 per cent growth in gross loans and advances to customers for the same period. As a result, the ratio of impaired loans to total loans remained at 2.7 per cent as at 31 December 2006, the same percentage as in the previous year.

Administrative and personnel expenses

For the year ended 31 December 2006, the Group's expenses were MXN 17,418 million, representing an increase of MXN 1,416 million (8.8%) versus the same period of prior year. This growth rate is lower than the total revenue growth of 17.0% resulting in a cost efficiency improvement. The Group's cost:income ratio (excluding monetary position) for 2006 was 60.6%, showing an improvement compared to 65.1% for 2005. Revenue growth outperformed expense growth as a result of successful investments in infrastructure, personnel and technology.

The Bank's expenses for 2006 were MXN 16,832 million, increasing MXN 1,522 million (9.9%) versus prior year. For the fourth quarter, expenses reached MXN 4,351 million, MXN 158 million (3.8%) more than prior quarter.

The increase in expenses is consistent with the Bank's organic growth, the training of personnel and the build-out of the branch and ATM infrastructure.

Balance Sheet Variance Analysis ¹

The Group's total assets were MXN 290,265 million at 31 December 2006, increasing by MXN 22,648 million (8.5%) versus prior year. Likewise, total assets increased MXN 652 million versus previous quarter.

Loan Portfolio

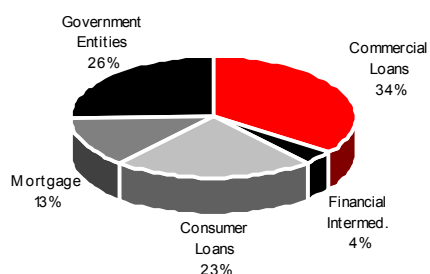
The Group achieved a more profitable balance sheet composition versus prior year largely due to strong performance in higher yielding products. As a result, the performing loans portfolio increased 21.8% versus previous year. The table below illustrates the change in the performing loan portfolio and the growth in higher yielding products like commercial (i.e. SMEs) and consumer loans.

Performing Loans Portfolio (Group)

	Year end 2006	Year end 2005	% var 2006 vs. 2005
Commercial	58,112	42,429	37.0%
Financial Int.	5,973	7,080	-15.6%
Consumer	35,477	24,952	42.2%
Mortgage	20,565	15,956	28.9%
Gov. Entities	37,217	38,810	-4.1%
Total	157,344	129,227	21.8%

HSBC was the first bank in Mexico to market pre-approved online mortgages, and improved on this offering with the subsequent introduction of *Mortgage Express Approval*. Through this, customers now have the ability to apply and obtain details concerning the loan amount, duration and monthly payments within minutes.

Bank's Performing Loans Portfolio Distribution



An increase of 42.2% in the consumer loan portfolio versus the previous year, was driven by the balance growth in credit cards, payroll loans and personal loans. Personal and payroll loans together grew 65.1% versus previous year. Credit card balances increased 108.4% versus 2005, reflecting the strong performance of packaged products like *Tu Cuenta* and the innovative campaign promoting a 5% credit card cash back. In the fourth quarter of 2006 alone, the number of *Tu Cuenta* accounts grew 10.5% ending the year with an annual increase of 64.4%.

The commercial loans balance rose 34.6% versus prior year. The Middle-market Enterprises (MME) segment benefited from strong demand in the rapidly growing real estate and residential construction sectors reaching an annual growth of 16.9%. In addition, SME increased balances by 83.4% versus prior year.

Asset Quality

The Group's impaired loans portfolio increased from MXN 3,555 million at 31 December 2005 to MXN 4,320 million at 31 December 2006. This 21.5% increase is similar to the increase in gross loans and advances to customers of 21.8%, therefore, the Bank's ratio of impaired loans to total loans remains stable at 2.7% as at 31 December 2006. The consumer loan portfolio registered the largest impairment growth as consumer loans have also achieved the largest growth rate. Impairment allowances as a percentage of impaired loans was 156.9%, compared to prior year's 167.9%.

Impaired Loans (Group)

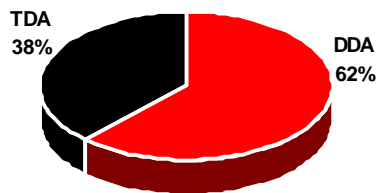
	Year end 2006	Year end 2005	% var 2006 vs. 2005
Commercial	1,540	1,691	-8.9%
Consumer	1,667	840	98.5%
Mortgage	1,103	995	10.9%
Other	10	29	-65.5%
Total	4,320	3,555	21.5%

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Deposits

The Bank's customer deposits reached MXN 216,398 million at 31 December 2006, increasing MXN 11,649 from the previous year and MXN 14,035 from previous quarter. Year-on-year growth was 5.7%, while the increase from previous quarter was 6.9%. The demand deposits continue to register positive growth, increasing 9.3% versus prior year due to the successful build-out of an extensive base of low cost funds driven by innovative products like *Tu Cuenta*, the first integrated financial services product of its kind offered locally, which had 394,000 new accounts opened this year, reaching a total of 1 million accounts.

Grupo Financiero HSBC: Deposits distribution (31 December 2006)



Shareholder's equity

The Group's shareholder's equity was MXN 32,336 million at 31 December 2006, representing a growth of 27.9% versus previous year. The Bank's equity by the end of 2006 was MXN 24,558 million increasing end of year balance 22.0% versus prior year and 5.1% versus prior quarter; therefore, the Bank's capital adequacy ratio of 13.8% remains solid at December 2006, above the CNBV requirements.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in constant MXN millions

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

	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Assets					
Cash and deposits in banks	57,593	53,226	64,462	55,390	55,081
Investments in Securities	59,330	61,289	70,900	50,718	57,097
Trading securities	7,234	9,980	23,914	12,112	12,627
Available for sale securities	47,937	47,253	42,854	34,608	40,471
Held to maturity securities	4,159	4,056	4,132	3,998	3,999
Securities and derivative operations	592	618	271	793	235
Repurchase agreements	194	85	60	140	69
Derivative transactions	398	533	211	653	166
Performing loans					
Commercial loans	47,655	49,274	56,283	52,399	58,112
Loans to financial intermediaries	7,183	5,737	6,321	5,325	5,973
Consumer loans	26,729	30,760	31,282	34,112	35,477
Mortgages loans	20,936	22,383	23,674	19,592	20,565
Loans to government entities	37,668	37,431	38,494	38,178	37,217
Loans to Fobaproa or IPAB	1,142	1,151	-	-	-
Total performing loans	141,313	146,736	156,054	149,606	157,344
Non-performing loans					
Commercial loans	1,737	1,286	1,501	1,372	1,540
Consumer loans	851	959	1,396	1,486	1,667
Mortgages loans	1,064	980	1,098	1,093	1,103
Loans to government entities	-	-	-	8	-
Immediate collection, remittances and other	29	12	29	15	10
Total non-performing loans	3,681	3,237	4,024	3,974	4,320
Total loan portfolio	144,994	149,973	160,078	153,580	161,664
Allowance for loan losses	(6,143)	(5,695)	(6,348)	(6,096)	(6,776)
Net loan portfolio	138,851	144,278	153,730	147,484	154,888
Other accounts receivable, net	15,852	22,297	20,653	23,045	10,924
Foreclosed assets	410	333	84	56	53
Property, furniture and equipment, net	5,703	5,827	5,912	5,754	6,094
Long term investments in equity securities	2,338	2,502	2,668	2,907	2,642
Deferred taxes, net	778	876	505	179	-
Goodwill	3,374	3,385	3,414	2,648	2,648
Other assets, deferred charges and intangibles	1,753	1,723	1,744	638	603
Total Assets	286,574	296,354	324,343	289,612	290,265

Figures in constant MXN millions

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

	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>
Liabilities					
Deposits	221,154	217,626	238,945	205,064	219,051
Demand deposits	130,738	123,143	138,749	118,437	133,735
Time deposits	90,416	94,483	95,815	82,288	81,074
Bank bonds outstanding	-	-	4,381	4,339	4,242
Bank deposits and other liabilities	7,253	6,313	7,566	10,224	12,962
On demand	-	-	-	-	100
Short term	5,038	4,230	5,435	8,102	10,621
Long term	2,215	2,083	2,131	2,122	2,241
Securities and derivative transactions	4,689	8,308	11,708	7,214	6,320
Repurchase agreements	118	62	43	30	54
Stock borrowings	4,571	8,246	11,665	7,184	6,266
Other accounts payable	23,914	33,243	33,975	33,884	16,815
Income tax and employee profit sharing payable	1,352	1,942	1,638	1,333	1,052
Sundry creditors and others accounts payable	22,562	31,301	32,337	32,551	15,763
Subordinated debentures outstanding	2,686	2,666	2,687	2,244	2,206
Deferred tax	-	-	-	-	556
Deferred credits	21	30	23	9	19
Total Liabilities	<u>259,717</u>	<u>268,186</u>	<u>294,904</u>	<u>258,639</u>	<u>257,929</u>
Stockholder's Equity					
Paid in capital	20,680	20,680	20,680	20,680	20,680
Capital stock	7,909	7,909	7,909	7,909	7,909
Additional paid in capital	12,771	12,771	12,771	12,771	12,771
Capital Gains	6,175	7,486	8,757	10,291	11,654
Capital reserves	661	661	920	843	843
Retained earnings	7,957	13,146	12,886	12,886	12,886
Results of foreign operations exchange	(7)	10	11	-	-
Cumulative effect of restatement	(3,843)	(3,843)	(3,843)	(3,843)	(3,843)
Valuation of permanent investments	(3,781)	(3,960)	(4,086)	(4,002)	(3,759)
Net Income	5,188	1,472	2,869	4,407	5,527
Minority interest in capital	2	2	2	2	2
Total Stockholder's Equity	<u>26,857</u>	<u>28,168</u>	<u>29,439</u>	<u>30,973</u>	<u>32,336</u>
Total Liabilities and Capital	<u>286,574</u>	<u>296,354</u>	<u>324,343</u>	<u>289,612</u>	<u>290,265</u>

Figures in constant MXN millions

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

	<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>	<u>31 Dec</u> <u>2006</u>
Memorandum Accounts					
Transactions on behalf of third parties	89,595	96,366	97,869	105,317	108,828
Customer current accounts	1	1	29	24	26
Customer banks	-	1	19	5	-
Settlement of customer securities and documents	1	-	10	19	26
Customer securities	69,515	74,649	78,160	83,948	84,353
Customer securities in custody	68,322	73,334	76,899	83,942	84,347
Pledged customers securities and documents	1,193	1,315	1,261	6	6
Transactions on behalf of customer	2,511	2,566	2,576	2,345	2,485
Customer repurchase transactions	2,511	2,566	2,576	2,345	2,485
Other transactions on behalf of customers	17,568	19,150	17,104	19,000	21,964
Investment on behalf of customers, net	17,568	19,150	17,104	19,000	21,964
Other memorandums accounts	501,525	502,813	317,523	328,337	344,211
Investment of the SAR funds	3,429	3,636	3,649	3,606	3,540
Integrated loan portfolio	136,759	142,657	151,408	159,361	168,049
Other memorandum accounts	361,337	356,520	162,466	165,370	172,622
Transactions for the group's own accounts	353,735	561,674	616,695	701,136	873,702
Accounts for the group's own registry	353,658	561,651	616,679	701,026	873,687
Guarantees granted	59	60	62	52	50
Irrevocable lines of credit granted	3,918	5,518	5,184	5,728	6,334
Goods in trust or mandate	70,590	71,184	70,032	79,674	93,128
Goods in custody or under administration	59,307	71,436	64,059	84,214	111,997
Amounts committed in transactions with IPAB or Fobaproa	128	118	153	158	156
Amounts contracted in derivative operations	214,487	395,646	472,967	527,072	657,957
Securities in custody	4,152	4,048	4,105	4,011	3,941
Other contingent obligations	1,017	13,641	117	117	124
Repurchase/resale agreements	46,284	49,232	36,723	42,796	49,854
Securities receivable under repos	(46,300)	(49,210)	(36,710)	(42,683)	(49,843)
(less) Repurchase agreements	(16)	22	13	113	11
Reverse repurchase agreements	16,607	15,861	5,635	2,345	3,016
(less) Securities deliverable under repos	(16,515)	(15,860)	(5,632)	(2,348)	(3,012)
	<u>92</u>	<u>1</u>	<u>3</u>	<u>(3)</u>	<u>4</u>

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

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

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

www.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

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

	For the quarter ending....				Year to date		
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Dec 2006	
Interest Income	7,178	6,987	7,012	6,771	7,102	27,447	27,872
Interest expense	(2,828)	(2,439)	(2,545)	(2,348)	(2,349)	(11,287)	(9,681)
Monetary position (margin), net	(181)	(194)	28	(316)	(540)	(334)	(1,022)
Net interest income	<u>4,169</u>	<u>4,354</u>	<u>4,495</u>	<u>4,107</u>	<u>4,213</u>	<u>15,826</u>	<u>17,169</u>
Loan impairment charges	(420)	(635)	(1,068)	(762)	(1,672)	(1,562)	(4,137)
Risk adjusted net interest income	<u>3,749</u>	<u>3,719</u>	<u>3,427</u>	<u>3,345</u>	<u>2,541</u>	<u>14,264</u>	<u>13,032</u>
Fees and commissions receivable	2,346	2,430	2,500	2,573	2,668	8,786	10,171
Fees payable	(265)	(281)	(281)	(242)	(288)	(955)	(1,092)
Trading Income	<u>458</u>	<u>542</u>	<u>448</u>	<u>580</u>	<u>479</u>	<u>1,420</u>	<u>2,049</u>
Total operating income	<u>6,288</u>	<u>6,410</u>	<u>6,094</u>	<u>6,256</u>	<u>5,400</u>	<u>23,515</u>	<u>24,160</u>
Administrative and personnel expenses	(4,331)	(4,464)	(4,455)	(4,398)	(4,429)	(16,489)	(17,746)
Net operating income	<u>1,957</u>	<u>1,946</u>	<u>1,639</u>	<u>1,858</u>	<u>971</u>	<u>7,026</u>	<u>6,414</u>
Other income	459	375	699	495	560	1,557	2,129
Other expenses	(272)	(207)	(475)	(167)	(219)	(1,063)	(1,068)
Net income before taxes	<u>2,144</u>	<u>2,114</u>	<u>1,863</u>	<u>2,186</u>	<u>1,312</u>	<u>7,520</u>	<u>7,475</u>
Income tax and employee profit sharing tax	(344)	(791)	(196)	(638)	104	(1,553)	(1,521)
Deferred income tax	(526)	(8)	(466)	(242)	(519)	(1,403)	(1,235)
Net income before subsidiaries	<u>1,274</u>	<u>1,315</u>	<u>1,201</u>	<u>1,306</u>	<u>897</u>	<u>4,564</u>	<u>4,719</u>
Undistributed income from subsidiaries	162	157	195	233	223	704	808
Income from ongoing operations	<u>1,436</u>	<u>1,472</u>	<u>1,396</u>	<u>1,539</u>	<u>1,120</u>	<u>5,268</u>	<u>5,527</u>
Discontinued and extraordinary operations, and changes in accounting policies, net	1	-	-	-	-	(80)	-
Net income (loss)	<u>1,437</u>	<u>1,472</u>	<u>1,396</u>	<u>1,539</u>	<u>1,120</u>	<u>5,188</u>	<u>5,527</u>

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

This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers., Section: Ligas de Interés, HSBC

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

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

Consolidated Statement of Changes in Shareholder's Equity

Figures in constant MXN millions

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

From 1 January 2006 to 31 December 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 at 31 December 2005	7,909	12,771	-	661	7,957	-	(7)	(3,843)	-	(3,781)	-	5,188	2	26,857
Movements Inherent to the Shareholders Decision														
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	5,188	-	-	-	-	-	-	(5,188)	-	-
Constitution of reserves	-	-	-	259	(259)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	(77)	-	-	-	-	-	-	-	-	-	(77)
Total	-	-	-	182	4,929	-	-	-	-	-	-	(5,188)	-	(77)
Movements for the Recognition of the Comprehensive Income														
Net result	-	-	-	-	-	-	-	-	-	-	-	5,527	-	5,527
Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	7	-	-	-	-	-	-	7
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	22	-	-	-	22
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	7	-	-	22	-	5,527	-	5,556
Balances as at 31 December 2006	7,909	12,771	-	843	12,886	-	-	(3,843)	-	(3,759)	-	5,527	2	32,336

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

Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions

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

From 1 January 2006 to 31 December 2006

Operating activities:

Net income	5,527
Items included in operations not requiring (providing) funds:	
Result from mark-to-market valuations	(617)
Allowances for loan losses	4,137
Depreciation and amortisation	870
Deferred taxes	1,235
Undistributed income from subsidiaries, net	(808)
Value loss estimation for foreclosed assets	242
Total operating items not requiring funds	10,586

Changes in items related to operations:

Increase / (decrease) in retail deposit and money desk	(2,103)
(Increase) in loan portfolio	(20,174)
Decrease in securities and derivative transactions, net	2,600
Decrease / (increase) in financial instruments	2,238
(Decrease) / (increase) in other receivable and payable accounts, net	(296)
Funds provided by operating activities	(7,149)

Financing activities:

Increase / (decrease) in bank deposits and other liabilities	5,709
Subordinated debentures outstanding	(480)
Funds used or provided in financing activities	5,229

Investing activities:

Decrease/(increase) in property, furniture and equipment, net	(804)
Decrease/(increase) in deferred charges or credits, net	97
Decrease in foreclosed assets	115
Funds used in investing activities	(592)
(Decrease)/increase in cash and equivalents	(2,512)
Cash and equivalents at beginning of period	57,593
Cash and equivalents at end of period	55,081

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 Mexico, S.A.

Consolidated Balance Sheet

Figures in constant MXN millions

	HSBC Mexico, S.A. (Bank)				
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Assets					
Cash and deposits in banks	53,157	48,633	60,886	55,389	55,080
Investment in Securities	57,834	59,455	69,140	50,139	56,061
Trading securities	6,863	9,623	23,390	11,533	11,591
Available for sale securities	46,812	45,776	41,618	34,608	40,471
Held to maturity securities	4,159	4,056	4,132	3,998	3,999
Securities and derivative operations	596	618	271	789	230
Repurchase agreements	198	85	60	135	64
Derivative transactions	398	533	211	654	166
Performing loans					
Commercial loans	42,429	43,574	49,926	52,399	58,112
Loans to financial intermediaries	7,080	5,631	6,244	5,325	5,973
Consumer loans	24,952	28,957	29,395	34,112	35,477
Mortgages loans	15,956	17,237	18,268	19,592	20,565
Loans to government entities	37,668	37,431	38,494	38,178	37,217
Loans to Fobaproa or IPAB	1,142	1,151	-	-	-
Total performing loans	129,227	133,981	142,327	149,606	157,344
Non-performing loans					
Commercial loans	1,691	1,239	1,424	1,372	1,540
Consumer loans	840	945	1,374	1,486	1,667
Mortgage	994	900	1,007	1,093	1,103
Loans to government entities	-	-	-	8	-
Immediate collection, remittances and other	29	14	30	16	10
Total non-performing loans	3,554	3,098	3,835	3,975	4,320
Total loan portfolio	132,781	137,079	146,162	153,581	161,664
(-) Allowance for loan losses	(5,968)	(5,509)	(6,126)	(6,097)	(6,776)
Net loan portfolio	126,813	131,570	140,036	147,484	154,888
Other accounts receivable	15,290	21,612	20,254	22,909	10,803
Foreclosed assets	369	290	38	56	53
Property, furniture and equipment, net	5,458	5,573	5,654	5,746	6,080
Long term investments in equity securities	204	206	195	176	185
Deferred taxes	644	733	354	142	-
Other assets, deferred charges and intangibles	1,525	1,526	1,532	612	587
Total Assets	261,890	270,216	298,360	283,442	283,967

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Liabilities					
Deposits	204,749	200,108	221,593	206,702	220,640
Demand deposits	123,757	115,968	130,944	120,075	135,324
Time deposits	80,992	84,140	86,267	82,288	81,074
Bank bonds outstanding	-	-	4,381	4,339	4,242
Bank deposits and other liabilities	7,183	6,313	7,567	10,224	12,962
On demand	-	-	-	-	100
Short term	4,934	4,230	5,435	8,102	10,621
Long term	2,249	2,083	2,132	2,122	2,241
Securities and derivative transactions	4,694	8,307	11,708	7,209	6,315
Repurchase agreements	123	61	44	25	49
Stock borrowings	4,571	8,246	11,664	7,184	6,266
Other accounts payable	22,819	32,022	33,164	33,680	16,660
Income tax and employee profit sharing payable	1,250	1,886	1,540	1,301	1,022
Sundry creditors and others accounts payable	21,569	30,136	31,624	32,379	15,638
Subordinated debentures outstanding	2,299	2,275	2,278	2,243	2,206
Deferred tax	-	-	-	-	607
Deferred credits	16	24	17	9	19
Total Liabilities	241,760	249,049	276,327	260,067	259,409
Stockholder's Equity					
Paid in capital	13,038	13,038	13,038	13,038	13,038
Capital stock	3,930	3,930	3,930	3,930	3,930
Additional paid in capital	9,108	9,108	9,108	9,108	9,108
Capital Gains	7,091	8,129	8,995	10,336	11,519
Capital reserves	4,774	4,774	9,148	9,148	9,148
Retained earnings	-	4,374	-	-	-
Surplus (Deficit) from securities	280	89	(64)	69	303
Results of foreign operations exchange	12	12	12	-	-
Cumulative effect of restatement	(3,502)	(3,502)	(3,508)	(3,502)	(3,490)
Gains on non monetary asset valuation					
Valuation of fixed assets	1,297	1,297	1,297	1,297	1,297
Valuation of permanent investments	(144)	(147)	(149)	(149)	(152)
Net Income	4,374	1,232	2,259	3,473	4,413
Minority interest in capital	1	-	-	1	1
Total Stockholder's Equity	20,130	21,167	22,033	23,375	24,558
Total Liabilities and Capital	261,890	270,216	298,360	283,442	283,967

Figures in constant MXN millions

	HSBC Mexico, S.A. (Bank)				
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Memorandum Accounts					
Guarantees granted	59	60	61	52	50
Other contingent obligations	1,017	13,641	117	117	124
Irrevocable lines of credit granted	3,918	5,518	5,184	5,728	6,334
Goods in trust or mandate	70,590	71,184	70,032	79,674	93,128
Goods in custody or under administration	59,307	71,436	64,059	84,214	111,997
Third party investment banking operations, net	17,568	19,150	17,104	19,000	21,964
Amounts committed in transactions with IPAB or Fobaproa	128	118	153	158	156
Amounts contracted in derivative operations	214,487	395,646	472,967	527,072	657,957
Investments of retirement savings system funds	3,429	3,636	3,649	3,606	3,540
Integrated loan portfolio	136,759	142,657	151,408	159,361	168,049
Other control accounts	361,336	356,519	162,465	165,369	172,622
	<u>868,598</u>	<u>1,079,565</u>	<u>947,199</u>	<u>1,044,351</u>	<u>1,235,921</u>
Securities receivable under repos (less) Repurchase agreements	43,753 <u>(43,767)</u>	46,678 <u>(46,644)</u>	34,150 <u>(34,134)</u>	40,448 <u>(40,338)</u>	47,373 <u>(47,358)</u>
	<u>(14)</u>	<u>34</u>	<u>16</u>	<u>110</u>	<u>15</u>
Reverse repurchase agreements (less) Securities deliverable under repos	14,074 <u>(13,985)</u>	13,294 <u>(13,305)</u>	3,059 <u>(3,058)</u>	- <u>-</u>	532 <u>(532)</u>
	<u>89</u>	<u>(11)</u>	<u>1</u>	<u>-</u>	<u>-</u>

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

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

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Consolidated Income Statement

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	For the quarter ending.....				Year to date		
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Dec 2006	
Interest income	6,852	6,706	6,625	6,637	7,051	26,381	27,019
Interest expense	(2,731)	(2,348)	(2,392)	(2,311)	(2,295)	(10,902)	(9,346)
Monetary position (margin)	(138)	(184)	29	(293)	(489)	(251)	(937)
Net interest income	3,983	4,174	4,262	4,033	4,267	15,228	16,736
Loan impairment charges	(414)	(619)	(1,040)	(774)	(1,673)	(1,551)	(4,106)
Loan loss provisions bank	(355)	(537)	(1,040)	(774)	(1,673)	(1,135)	(4,024)
Loss sharing Fobaproa	(59)	(82)	-	-	-	(416)	(82)
Risk adjusted net interest income	3,569	3,555	3,222	3,259	2,594	13,677	12,630
Fees and commissions receivable	2,147	2,154	2,251	2,329	2,520	7,879	9,253
Account management	389	386	391	378	367	1,579	1,522
Services	1,758	1,768	1,859	1,951	2,153	6,300	7,731
Fees payable	(256)	(269)	(267)	(239)	(290)	(915)	(1,065)
Trading Income	458	541	445	579	478	1,412	2,043
Foreign exchange	276	230	112	12	73	905	427
Securities trading, net	(92)	180	47	101	(189)	(88)	139
Repos	129	151	118	(4)	(5)	302	260
Swaps	12	79	5	96	598	12	778
Valuation off-shore agencies	133	(99)	163	281	(61)	281	284
Valuation for trading swaps	-	-	-	93	62	-	155
Total operating income	5,918	5,981	5,650	5,928	5,302	22,053	22,861
Administrative and personnel expenses	(4,046)	(4,155)	(4,133)	(4,193)	(4,351)	(15,310)	(16,832)
Personnel expense	(1,822)	(1,711)	(1,852)	(1,889)	(1,927)	(6,917)	(7,379)
Administrative expense	(1,987)	(2,234)	(2,073)	(2,092)	(2,206)	(7,538)	(8,605)
Depreciation and amortization	(237)	(210)	(208)	(212)	(218)	(856)	(848)
Net operating income	1,872	1,826	1,517	1,735	951	6,743	6,029
Other income	494	384	610	468	605	1,567	2,067
Other expenses	(252)	(207)	(473)	(165)	(199)	(1,035)	(1,044)
Net income before taxes	2,114	2,003	1,654	2,038	1,357	7,275	7,052
Income tax and employee profit sharing	(318)	(751)	(153)	(626)	96	(1,441)	(1,434)
Deferred income tax	(520)	(21)	(476)	(194)	(512)	(1,397)	(1,203)
Net income before subsidiaries	1,276	1,231	1,025	1,218	941	4,437	4,415
Undistributed income from subsidiaries	3	1	2	(5)	-	17	(2)
Income from ongoing operations	1,279	1,232	1,027	1,213	941	4,454	4,413
Discontinued and extraordinary operations, and changes in accounting policies, net	1	-	-	-	-	(80)	-
Net income (loss)	1,280	1,232	1,027	1,213	941	4,374	4,413

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 Mexico, S.A. (Bank)

From 1 January 2006 to 31 December 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 permanent investments)	Net income			
Balances at 31 December 2005	2,278	-	1,652	7,052	2,056	3,619	1,155	-	-	280	12	(3,502)	-	1,297	(144)	4,374	1	20,130
Movements Inherent to the Shareholders Decision																		
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	-	4,374	-	-	-	-	-	-	-	(4,374)	-	-
Constitution of reserves	-	-	-	-	-	4,199	175	(4,374)	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	4,199	175	-	-	-	-	-	-	-	-	(4,374)	-	-
Movements for the Recognition of the Comprehensive Income																		
Integral Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,413	4,413
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	23	-	-	-	-	-	-	-	23
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	12	-	-	-	-	-	-	12
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	(12)	-	-	-	(8)	-	-	(20)
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	23	(12)	-	-	-	(8)	4,413	-	4,428
Balances at 31 December 2006	2,278	-	1,652	7,052	2,056	7,818	1,330	-	-	303	-	(3,490)	-	1,297	(152)	4,413	1	24,558

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 Mexico, S.A. (Bank)

From 1 January 2006 to 31 December 2006

Figures in MXN millions

Operating activities:

Net income	4,413
Items included in operations not requiring (providing) funds:	
Result from mark to market valuations	(627)
Allowance for loan losses	4,106
Depreciation and amortisation	848
Deferred taxes	1,203
Undistributed income from subsidiaries, net	2
Value loss estimation for foreclosed assets	242
Total operating items not requiring funds	10,187

Changes in operating accounts:

Increase in retail deposit and money desk	15,891
(Increase) in loan portfolio	(32,180)
Decrease in securities and derivative transactions, net	2,600
Decrease/(increase) in financial instruments	1,810
(Increase)/decrease in other receivable and payable accounts, net	(737)
Funds provided by operations	(2,429)

Financing activities:

Increase/(decrease) in bank deposits and other liabilities	5,779
Subordinated debentures outstanding	(92)
Funds used or provided by financing activities	5,687

Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(1,459)
(Increase)/decrease in deferred credits	50
Decrease in foreclosed assets	74
Funds used in investing activities	(1,335)
Increase in cash and equivalents	1,923
Cash and equivalents at beginning of period	53,157
Cash and equivalents at end of period	55,080

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

Investments in securities

	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Government securities	5,887	9,771	19,388	11,399	11,626
Fiduciary certificates	-	31	-	-	-
Bank securities	1,270	162	3,682	271	81
Shares	18	10	197	342	846
Others	59	6	647	100	74
Trading securities	<u>7,234</u>	<u>9,980</u>	<u>23,914</u>	<u>12,112</u>	<u>12,627</u>
Government securities	33,018	29,430	36,316	28,532	33,813
Fiduciary certificates	3,263	3,420	-	-	-
Bank securities	4,075	4,165	706	708	1,912
Obligations and other securities	7,384	9,982	5,553	5,096	4,481
Shares	197	256	279	272	265
Available for sale securities	<u>47,937</u>	<u>47,253</u>	<u>42,854</u>	<u>34,608</u>	<u>40,471</u>
Sovereign debt securities	601	487	507	367	386
Commercial and industrial subordinated debentures	2	2	2	3	2
Special Cetes (net)	3,506	3,530	3,607	3,621	3,611
MYRAS	50	37	16	7	-
Securities held to maturity	4,159	4,056	4,132	3,998	3,999
Total Financial Instruments	<u>59,330</u>	<u>61,289</u>	<u>70,900</u>	<u>50,718</u>	<u>57,097</u>

In the fourth quarter of 2006 investment in securities increased by MXN 6,379 million versus prior quarter; a MXN 5,508 million increase in government securities, MXN 1,014 million in promissory note securities, MXN (648) million in bonds, MXN 497 million in shares and a increase in other by MXN 8 million.

Repos

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

Figures in constant MXN millions

	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Government securities (debit)	44,550	45,114	31,381	40,672	47,649
Bank securities (debit)	1,685	4,054	5,297	1,629	2,113
Bank securities (own)	-	-	8	333	-
Valuation Increase (decrease)	21	63	14	60	45
Interest in securities receivable under repurchase agreements	28	1	23	102	47
Total in repo agreements (debit)	<u>46,284</u>	<u>49,232</u>	<u>36,723</u>	<u>42,796</u>	<u>49,854</u>
Repo's Government securities (credit)	44,553	45,127	31,384	40,669	47,653
Repo's Bank securities (credit)	1,685	4,054	5,297	1,629	2,113
Repo's Bank securities (own)	-	-	8	333	-
Valuation increase (decrease)	3	3	-	4	4
Accrued interest payable	59	26	21	48	73
Credit balance in repo agreements	<u>46,300</u>	<u>49,210</u>	<u>36,710</u>	<u>42,683</u>	<u>49,843</u>
Repurchase agreements in government securities	16,561	15,836	2,756	2,345	3,016
Repurchase agreements in banking securities	-	-	2,878	-	-
Valuation increase (decrease)	2	1	-	-	-
Accrued interest receivable	44	24	1	-	-
Debit balance repo securities agreements	<u>16,607</u>	<u>15,861</u>	<u>5,635</u>	<u>2,345</u>	<u>3,016</u>
Government securities	16,556	15,824	2,753	2,348	3,011
Bank securities	-	-	2,879	-	-
Valuation increase (decrease)	(87)	10	(1)	-	-
Interest in securities deliverable under repurchase agreements	46	26	1	-	1
Credit balance repo securities agreements	<u>16,515</u>	<u>15,860</u>	<u>5,632</u>	<u>2,348</u>	<u>3,012</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

At 31 December 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	-	-	58,575	55,722	62,059	61,966	-	-	2,946
US Dollars	-	-	77,591	80,097	-	-	85,092	86,692	(4,106)
Interest Rate	35,108	35,108	35,040	35,061	-	-	559,367	558,020	1,326
Total	<u>35,108</u>	<u>35,108</u>	<u>171,206</u>	<u>170,880</u>	<u>62,059</u>	<u>61,966</u>	<u>644,459</u>	<u>644,712</u>	<u>166</u>
For hedging									
Pesos	-	-	-	-	-	-	4,216	-	-
US Dollars	-	-	-	-	-	-	-	4,440	-
Interest Rate	-	-	-	-	-	-	14,033	14,087	-
Total	-	-	-	-	-	-	<u>18,249</u>	<u>18,527</u>	-

Stock Borrowing

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
Received borrowings					
Cetes	225	-	11,664	7,184	6,266
Increase or decrease in cetes	-	-	-	-	-
Bonds	4,342	8,224	-	-	-
Increase or decrease in bonds	4	22	-	-	-
Total	4,571	8,246	11,664	7,184	6,266

Participation by Subsidiary

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

Group Subsidiaries at December 31, 2006

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC Mexico, S.A.	1,139,215,231	99.99%	1,139,131,076
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		1,951,360,058

Trading income

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	For the quarter ending...					Year to date	
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Dec 2005	31 Dec 2006
Valuation	132	(25)	197	387	68	279	627
Derivatives	81	52	137	389	66	239	644
Repos	55	(58)	84	(4)	-	41	22
Debt Securities	(4)	(19)	(24)	2	2	(1)	(39)
Buying and Selling Instruments	325	566	248	192	410	1,133	1,416
Foreign Currency	266	230	112	12	73	898	427
Derivatives	14	13	(72)	186	347	9	474
Repos	(52)	187	81	(3)	(5)	104	260
Shares	-	1	-	-	-	-	1
Debt Securities	97	135	127	(3)	(5)	122	254
Total	457	541	445	579	478	1,412	2,043

Loan Portfolio

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

By type of currency

At December 31, 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	42,861	5,750	35,477	17,390	35,176	-
US Dollars	15,251	223	-	4	2,041	-
Udis Banxico	-	-	-	3,171	-	-
Total	58,112	5,973	35,477	20,565	37,217	-
	<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	1,226	-	1,667	603	-	-
US Dollar	324	-	-	-	-	-
Udis Banxico	-	-	-	500	-	-
Total	1,550	-	1,667	1,103	-	-

On April 3, 2006, the IPAB obligation known as Tranche II Series F and Tranche 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 1,064 and 57 million.

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

At December 31, 2006

Figures in constant MXN millions

	<u>Total loan portfolio</u>	<u>Allowance for Loan Losses per Category</u>			<u>Total reserves</u>
		<u>Commercial loans</u>	<u>Consumer loans</u>	<u>Mortgages loans</u>	
Exempted from rating	29,501				
Graded	138,547				
Risk A	94,812	345	177	116	638
Risk B	37,671	1,908	404	64	2,376
Risk C	2,487	330	495	117	942
Risk D	2,727	331	1,138	507	1,976
Risk E	850	571	199	74	844
Total	168,048	3,485	2,413	878	6,776
Less:					
Constituted Reserves					6,776
Surplus					-

1. The rating and constitution of reserves correspond to last day of the balance sheet at 31 December 2006.

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 2, 2005. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the circular published on December 2, 2005.

3. 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) as of 31 December 2006 was MXN 2,982 million.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in historic MXN millions

	<i>At the quarter ending...</i>				
	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>
Initial balance of non performing loan portfolio	3,433	3,413	3,009	3,720	3,902
Increases	2,393	3,746	3,623	3,346	2,708
Transfer of current loans to past due status	<u>2,393</u>	<u>3,746</u>	<u>3,623</u>	<u>3,346</u>	<u>2,708</u>
Decreases	(2,418)	(4,170)	(2,922)	(3,161)	(2,297)
Restructurings	(28)	(27)	(12)	(47)	(44)
Liquidated credits	(2,043)	(3,860)	(2,428)	(2,636)	(1,858)
Charged in cash	(1,449)	(2,872)	(1,948)	(1,839)	(932)
Foreclosed assets	(1)	(2)	(1)	(23)	-
Writeoffs	(593)	(986)	(479)	(774)	(926)
Sale of portfolio	-	-	-	-	-
Transfer to performing loan status	(347)	(283)	(482)	(478)	(395)
Fx revaluations	<u>5</u>	<u>20</u>	<u>10</u>	<u>(3)</u>	<u>7</u>
Final Balance of Non Performing Loan Portfolio	<u><u>3,413</u></u>	<u><u>3,009</u></u>	<u><u>3,720</u></u>	<u><u>3,902</u></u>	<u><u>4,320</u></u>

Deferred Taxes

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

Figures in constant MXN millions

	<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>	<u>31 Dec</u> <u>2006</u>
Loan loss reserves	980	811	913	807	752
Valuation of securities	(306)	(99)	(66)	(260)	(471)
Fiscal loss	139	130	122	79	82
Loss sharing	868	881	883	894	-
Other Reserves	552	619	448	571	741
Other	129	207	(58)	(137)	(62)
Differences in rates of fixed assets	(301)	(369)	(384)	(418)	(306)
Fiscal result UDIS-Banxico	<u>(1,283)</u>	<u>(1,304)</u>	<u>(1,353)</u>	<u>(1,357)</u>	<u>(1,292)</u>
Total Deferred Taxes	<u>778</u>	<u>876</u>	<u>505</u>	<u>179</u>	<u>(556)</u>

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending...</i>				
	<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>	<u>31 Dec</u> <u>2006</u>
MXN pesos					
Funding	3.17%	2.82%	2.73%	2.65%	2.47%
Bank and other loans	8.04%	7.41%	6.84%	6.87%	6.98%
Foreign currency					
Funding	0.80%	0.87%	0.99%	1.35%	1.60%
Bank and other loans	4.77%	6.05%	6.01%	6.63%	6.36%
UDIS					
Funding	0.20%	0.19%	0.19%	0.19%	0.19%

Long Term Debt

HSBC Mexico, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>MaturityDate</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	6	2,206	25-NOV-2013
		2,200		6	2,206	

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 5,188m, as follows:

- ▶ MXN 259m (5%) to increase legal reserves, and the remaining MXN 4,929 million, 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 Mexico, S.A.

The ordinary shareholders meeting, held on April 26, 2006, approved the application of the year's financial results, totalling MXN 4,374m, as follows:

- ▶ MXN 438 m (10%) to increase legal reserves, and the remaining MXN 3,936 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 18 million from 2005 was applied to the retained earnings account for the Board disposition.

HSBC Casa de Bolsa, S.A. de C.V. payed a dividend in August 2006 for MXN 54 million, charged to the tax profit account with a MXN 1,448 million update charge applied to net income.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in constants in MXN millions

	<u>31 Dec 2005</u>	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>
% of assets subject to credit risk					
Tier 1	17.81 %	17.30 %	16.84%	16.99%	16.62%
Tier 2	3.33 %	2.98 %	2.45%	2.30%	2.03%
Total regulatory capital	<u>21.14 %</u>	<u>20.28 %</u>	<u>19.29%</u>	<u>19.29%</u>	<u>18.65%</u>
% of assets subject to credit and market risk					
Tier 1	12.07 %	13.47 %	12.88%	12.25%	12.29%
Tier 2	2.26 %	2.32 %	1.87%	1.66%	1.50%
Total regulatory capital	<u>14.32 %</u>	<u>15.79 %</u>	<u>14.75%</u>	<u>13.91%</u>	<u>13.79%</u>
Tier 1	18,883	19,821	20,867	22,095	23,260
Tier 2	3,533	3,409	3,030	2,995	2,840
Total regulatory capital	<u>22,416</u>	<u>23,230</u>	<u>23,896</u>	<u>25,090</u>	<u>26,100</u>
RWA credit risk	106,043	114,564	123,894	130,071	139,962
RWA market risk	<u>50,444</u>	<u>32,571</u>	<u>38,096</u>	<u>50,275</u>	<u>49,280</u>
RWA credit and market risk	<u>156,487</u>	<u>147,135</u>	<u>161,990</u>	<u>180,346</u>	<u>189,242</u>

With figures as of 31 August 2006, the Mexican Banking and Securities Commission has classified HSBC Mexico 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	
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Dec 2005	31 Dec 2006
Other income							
Loans to employees	20	22	18	18	16	65	74
Recoveries	6	91	114	89	102	91	396
Other income	433	261	568	303	298	1,401	1,430
Monetary position (other income)	-	1	(1)	85	144	-	229
	<u>459</u>	<u>375</u>	<u>699</u>	<u>495</u>	<u>560</u>	<u>1,557</u>	<u>2,129</u>
Other expenses							
Other losses	(266)	(207)	(468)	(172)	(204)	(1,056)	(1,051)
Monetary position (other expenses)	(6)	-	(7)	5	(15)	(7)	(17)
	<u>(272)</u>	<u>(207)</u>	<u>(475)</u>	<u>(167)</u>	<u>(219)</u>	<u>(1,063)</u>	<u>(1,068)</u>
Total other income (expenses)	<u>187</u>	<u>168</u>	<u>224</u>	<u>328</u>	<u>341</u>	<u>494</u>	<u>1,061</u>
Discontinued operations, extraordinary items and changes in accounting standards	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80)</u>	<u>-</u>

► Other income is integrated by expense reimbursements, profits from property sales, furniture and equipment, management services, updates and other.

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 December 31, 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	-	-	12	-	1,577	1,589
Demand deposits	(1,589)	-	-	-	-	(1,589)
Sundry debtors (assets)	(11)	-	-	-	-	(11)
Sundry creditors (liabilities)	-	-	11	-	-	11
Total	(1,600)	-	23	-	1,577	-
P&L						
Payable commissions	(2)	(3)	-	(1)	-	(6)
Receivable commissions	-	-	3	3	-	6
Interest income	-	-	2	-	26	28
Interest expense	(28)	-	-	-	-	(28)
Administrative services	-	(64)	(116)	(11)	(1)	(192)
Other income	192	-	-	-	-	192
Total	162	(67)	(111)	(9)	25	-

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 a the complete spectrum of financial needs from checking/deposits accounts to credit cards, personal and auto loans, and mortgages, among others.

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

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

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

The consolidated incomes statement information condensed by segments as of December 31, 2006, is shown below:

Figures in constant MXN millions

	FY 2006				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	11,586	4,356	1,166	61	17,169
Provision for Loan Loss	(2,936)	(1,200)	(6)	5	(4,137)
Net Interest Income adjusted	8,650	3,156	1,160	66	13,032
Fees and Commissions, net	6,389	1,975	520	195	9,079
Trading Income	539	128	1,389	(7)	2,049
Total Revenue	15,578	5,259	3,069	254	24,160
Administrative Expenses	(12,908)	(3,156)	(1,385)	(297)	(17,746)
Operating Income	2,670	2,103	1,684	(43)	6,414
Other Income (Expenses), net	629	29	59	344	1,061
Taxes	(1,211)	(785)	(649)	(111)	(2,756)
Net Income before subsidiaries	2,088	1,347	1,094	190	4,719
Undistributed income from subsidiaries	16	-	-	792	808
Continued Operating Results	-	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
Net Income	2,104	1,347	1,094	982	5,527
Minority Shareholders	-	-	-	-	-
Participated Net Income	2,104	1,347	1,094	982	5,527

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS)

Grupo Financiero HSBC

HSBC Holdings plc, the parent of Grupo Financiero HSBC S.A de C.V reports its results under International Financial Reporting Standards (IFRS). There follows a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V from Mexican GAAP to IFRS for the years ended 31 December 2005 and 2006 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<u>YTD</u>	<u>YTD</u>
	2006	2005
Grupo Financiero HSBC – Net Income Under Mexican GAAP	5,527	5,188
Inflation	838	287
Differences arising on the classification and valuation of hedging derivatives †	-	72
Differences arising on the valuation of pensions and post retirement healthcare benefits †	190	82
Differences arising on acquisition costs relating to long-term investment contracts †	(48)	121
Differences arising from the deferral of fees received and paid on the origination of loans	(39)	(65)
Differences arising from the recognition and provisioning for loan impairments †	1,148	709
Differences arising from purchase accounting adjustments †	484	611
Exclusion of results from HSBC Panama ††	(162)	(236)
Other differences in accounting principles †	(238)	402
HSBC Mexico net income under IFRS	7,700	7,171
US dollars equivalent (millions)	706	659
Add back tax expense	3,266	2,880
HSBC Mexico profit before tax under IFRS	10,966	10,051
US dollars equivalent (millions)	1,006	923
<i>Exchange rate used for conversion</i>	10.90	10.89
<i>† Impact shown net of taxes at 29% and 30% for 2006 & 2005 respectively</i>		
<i>†† Refers to 12 months of Panama for 2005 and 7 months for 2006, removed in order to arrive at IFRS results for Mexico only.</i>		

Summary of key differences between Grupo Financiero's results as reported under Mexican GAAP and IFRS

Inflation

Mexican GAAP

Mexican GAAP Bulletin - 10 requires recognition of inflation on financial statements to reflect the current purchasing power of the currency in which such financial information is stated.

IFRS

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires recognition of inflation on financial statements only if the entity's functional currency is the currency of a hyperinflationary economy. As Mexico's economy does not meet the characteristics established in this standard to be considered as hyperinflationary, no inflationary effects are included for IFRS reporting.

Hedge Accounting

Difference on valuation arose on transition to IFRS due to financial instruments that are designated as hedging instruments under Mexican GAAP that did not qualify under IFRS. This difference was taken to the income statement on termination of the hedges in 2005. No further differences exist.

Retirement benefits**Mexican GAAP**

Post-retirement benefit liabilities are not recognized on the balance sheet. The income statement charge is based on contributions made to the schemes.

IFRS

Obligations for defined benefit pension and post-retirement healthcare benefits are recorded on the balance sheet and the income statement based on actuarial calculations.

Acquisition costs of long term investment contracts**Mexican GAAP**

All costs related to the acquisition of long-term investment contracts are expensed as they are incurred.

IFRS

Incremental costs relating to the acquisition of long-term investment contracts are deferred and amortised over the expected life of the contract. However, a decrease in the expected life of a portfolio of contracts has led to accelerated amortization in 2006.

Fees paid and received on origination of loans**Mexican GAAP**

All fees and expenses received or paid on loan origination are recognized as they are incurred.

IFRS

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for under the effective interest rate method over the expected life of the loan.

Loan impairment charges**Mexican GAAP**

Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish authorized methodologies for determining the amount of provision for each type of loan.

IFRS

Loan loss provisions for collectively assessed loans are determined based on a roll-rate methodology reflecting history of losses for each category of loan, past due payments and collateral values. For individually assessed loans, loan loss provisions are calculated based on the discounted cash flow value of the collateral.

Purchase accounting adjustments

These arise from valuations made by HSBC on acquiring Grupo Financiero Bital in November 2002 on various assets and liabilities that differed from the valuation in the local Mexican GAAP books.

Appendix A

Grupo Financiero HSBC, S.A. de C.V. (HBMX)

Consolidated balance sheet on a like-for-like basis

Figures expressed in MXN millions

	Total Group 2006	Mexico[†] 2005	Panama 2005	Total Group 2005
Assets				
Cash and deposits in banks	55,081	53,160	4,433	57,593
Investments in securities	57,097	58,205	1,125	59,330
Trading securities	12,627	7,234	-	7,234
Available-for-sale securities	40,471	46,812	1,125	47,937
Held to maturity securities	3,999	4,159	-	4,159
Securities and derivative operations	235	592	-	592
Repurchase agreements	69	194	-	194
Derivative transactions	166	398	-	398
Performing loans				
Commercial loans	58,112	42,429	5,226	47,655
Loans to financial intermediaries	5,973	7,080	103	7,183
Consumer loans	35,477	24,952	1,777	26,729
Mortgages loans	20,565	15,956	4,980	20,936
Loans to government entities	37,217	37,668	-	37,668
Loans to Fobaproa or IPAB	-	1,142	-	1,142
Total performing loans	157,344	129,227	12,086	141,313
Impaired loans				
Commercial loans	1,540	1,691	46	1,737
Consumer loans	1,667	840	11	851
Mortgages loans	1,103	995	69	1,064
Immediate collection, remittances and other	10	29	-	29
Total impaired loans	4,320	3,555	126	3,681
Gross loans and advances to customers	161,664	132,782	12,212	144,994
Allowance for loan losses	(6,776)	(5,968)	(175)	(6,143)
Net loans and advances to customers	154,888	126,814	12,037	138,851
Other accounts receivable	10,924	15,739	113	15,852
Foreclosed assets	53	369	41	410
Property, furniture and equipment, net	6,094	5,467	236	5,703
Long term investments in equity securities	2,642	2,338	-	2,338
Deferred taxes	-	738	40	778
Goodwill	2,648	2,649	725	3,374
Other assets, deferred charges and intangibles	603	1,546	207	1,753
Total assets	290,265	267,617	18,957	286,574

[†] On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, the balance sheet as at 31 December 2005 has been restated to exclude HSBC Panama to compare on a like-for-like basis. Bold columns have been used for the comparative comments.

Grupo Financiero HSBC, S.A. de C.V. (HBMX)**Consolidated balance sheet on a like-for-like basis***Figures expressed in MXN millions*

	Total Group 2006	Mexico* 2005	Panama 2005	Total Group 2005
Liabilities				
Deposits	219,051	204,747	16,407	221,154
Demand deposits	133,735	123,756	6,982	130,738
Time deposits	81,074	80,991	9,425	90,416
Bonds	4,242	-	-	-
Bank deposits and other liabilities	12,962	7,183	70	7,253
On demand	100	-	-	-
Short-term	10,621	4,968	70	5,038
Long-term	2,241	2,215	-	2,215
Securities and derivative transactions	6,320	4,689	-	4,689
Repurchase agreements	54	118	-	118
Loans with collateral	6,266	4,571	-	4,571
Other accounts payable	16,815	23,404	510	23,914
Income tax and employee profit sharing payable	1,052	1,266	86	1,352
Sundry creditors and others accounts payable	15,763	22,138	424	22,562
Subordinated debentures outstanding	2,206	2,299	387	2,686
Deferred tax	556	-	-	-
Deferred credits	19	17	4	21
Total liabilities	<u>257,929</u>	<u>242,339</u>	<u>17,378</u>	<u>259,717</u>
Equity				
Paid in capital	20,680	19,400	1,280	20,680
Capital stock	7,909	6,629	1,280	7,909
Additional paid in capital	12,771	12,771	-	12,771
Other reserves	11,654	5,876	299	6,175
Capital reserves	843	661	-	661
Retained earnings	12,886	7,891	66	7,957
Result from translation of foreign operations	-	-	(7)	(7)
Cumulative effect of restatement	(3,843)	(3,843)	-	(3,843)
Gains on non monetary asset valuation	-	-	-	-
Valuation of permanent investments	(3,759)	(3,781)	-	(3,781)
Net income	5,527	4,948	240	5,188
Minority interest in capital	2	2	-	2
Total equity	<u>32,336</u>	<u>25,278</u>	<u>1,579</u>	<u>26,857</u>
Total liabilities and equity	<u>290,265</u>	<u>267,617</u>	<u>18,957</u>	<u>286,574</u>

* On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, the balance sheet as at 31 December 2005 has been restated to exclude HSBC Panama to compare on a like-for-like basis. Bold columns have been used for the comparative comments.

Grupo Financiero HSBC, S.A. de C.V. (HBMX)**Consolidated income statement on a like-for-like basis**

Figures expressed in MXN millions

	For the year ended 31 December					
	Mexico* 2006	Panama 2006	Total Group 2006	Mexico* 2005	Panama 2005	Total Group 2005
Interest income	27,147	725	27,872	26,505	942	27,447
Interest expense	(9,389)	(292)	(9,681)	(10,982)	(305)	(11,287)
Monetary position (margin), net	(1,017)	(5)	(1,022)	(325)	(9)	(334)
Net interest income	16,741	428	17,169	15,198	628	15,826
Loan impairment charges	(4,106)	(31)	(4,137)	(1,551)	(11)	(1,562)
Risk adjusted net interest income	12,635	397	13,032	13,647	617	14,264
Fees and commissions receivable	9,994	177	10,171	8,530	256	8,786
Fees payable	(1,061)	(31)	(1,092)	(907)	(48)	(955)
Trading income	2,049	-	2,049	1,424	(4)	1,420
Total operating income	23,617	543	24,160	22,694	821	23,515
Administrative and personnel expenses	(17,418)	(328)	(17,746)	(16,002)	(487)	(16,489)
Net operating income	6,199	215	6,414	6,692	334	7,026
Other income	2,129	-	2,129	1,557	-	1,557
Other expenses	(1,068)	-	(1,068)	(1,058)	(5)	(1,063)
Net income before taxes	7,260	215	7,475	7,191	329	7,520
Income tax and employee profit sharing	(1,459)	(62)	(1,521)	(1,463)	(90)	(1,553)
Deferred income tax	(1,244)	9	(1,235)	(1,403)	-	(1,403)
Net income before subsidiaries	4,557	162	4,719	4,325	239	4,564
Undistributed income from subsidiaries	808	-	808	704	-	704
Income from ongoing operations	5,365	162	5,527	5,029	239	5,268
Discontinued and extraordinary operations and changes in accounting policies, net	-	-	-	(80)	-	(80)
Net income	5,365	162	5,527	4,949	239	5,188

* On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, results for the year ended 31 December 2005 have been restated to exclude 12 months results for HSBC Panama. Results for the year ended 31 December 2006 have been restated to exclude results for HSBC Panama up until the date of disposal in order to compare on a like-for-like basis. Bold columns have been used for the comparative comments.

Risk Management

Risk management in Grupo Financiero HSBC involves compliance with the norms and regulations on risk management included within the CNBV requirements, 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.

The recognition of fundamental precepts it is essential for the efficient and integral risk management, including quantifiable discretionary (credit, market and liquidity) and non-discretionary risk, as operational (technological and legal), and under the premise that the basic processes of identifying, measurement, monitoring, limiting, controlling and disclosure will be satisfied.

Bank's Risk management framework in their main subsidiaries, begins with the Council Administration, whose main 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, lead 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:

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

Local Assets and Liabilities Committees, as Mexico, 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 monthly, reporting to the Management Board and Asset and Liabilities Committee (ALCO).

According with regulatory dispositions, and in order to have independent opinions from the bank management, the committee has three external members – one of them serving as internal 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.
- ▶ Provide 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 Management of Risks processes:

Market risk management at HSBC consists of identifying, measuring, monitoring, limiting, controlling, reporting and revealing the different risks the institution is facing.

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

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

The main market risks the Group is facing 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 government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.

Main elements of the methodologies employed in the management of market risks:

HSBC has decided 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)

VaR is a statistical measure of the worst probable loss in a portfolio because of changes in the market risk factors of the instruments for a given period of time; therefore the calculation of VaR implies the use of a confidence level and a time horizon. From January 2006 on, VaR is obtained by Historical Simulation through full valuation, considering 500 historical daily changes on market risk factors. The Board of Directors has determined a confidence level of 99% with a holding period of one working day, therefore the VaR level becomes the maximum likely loss in a day with a 99% confidence level.

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

PVBP is a measure of market risk exposure arising from movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates involved with the pricing of financial assets and liabilities, by re-valuing the whole position exposed to interest rates.

Forward PVBP (F-PVBP) aims to measure the effect of movements in interest rates on the financial instruments exposed to them. This way, F-PVBP assumes the scenario of an

increase of one basis point in the implied forward rates from the curve.

Spread over yield risk

Spread over yield risk is understood as the possible adverse fluctuation in the market value of positions in financial instruments quoted with an over yield (Mexican floating government bonds), arising from market fluctuations in this risk factor.

Basis Risk

Basis / Spread risk is a term used to describe the risk arising from the move of a market (by its internal factors) against other markets. Basis risk increases when an instrument is used to hedge another one and these two instruments are priced with different interest rate curves

These differences arise because of the diverse features between the markets, among them:

- ▶ Regulation
- ▶ Each Market Restrictions
- ▶ Calendars
- ▶ Market Conventions (term basis in interest rates)

Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts. 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 scenarios. 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:

Aiming to timely detect any decrease in the forecasting quality of the model, automatic data loading systems are used, in such a way that not any manual feeding is required. Besides, in order to prove the reliability of the VaR calculation model, a back testing is carried out, which consists of evaluating that the maximum forecasted losses do not exceed, in average, the established confidence level, contrasting the P&L should had been generated if the portfolio had

remained constant during the VaR's forecast horizon. Back testing is strengthened through a hypothesis test.

In the case of the PVBP, it has been compared to the portfolio's sensitivity before market quotations. The results obtained during the tests have shown that the models are reliable. With the purpose of reinforcing the validation and verification of the different risk factors, a set of matrices has been designed which show 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 current value and their value on the previous working day.

Applicable portfolios:

In order to have a precise and detailed management of the portfolios, Market Risk Management Head of HSBC Mexico, in concordance with the International standards and Local regulations to achieve an effective market risk management, has a perfectly controlled the portfolio structure in a specific way. This specific classification must permanently be comprehensive in terms of the accountancy point of view. This allows the calculation of the market risk measures (sensitivity measures, potential and stress losses) for each subportfolio aligned with the accountancy.

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 monitoring both the own positions and the trading positions.

The VaR is presented in a global way for each one of the mentioned portfolios and is also itemized by risk factors (Interest Rates and Exchange Rates). The PVBP is itemized by rate type (pesos, dollars and Real UDIS-RATE). The Forward PVBP is also presented by segment of the forward curve (Buckets), both for rates in pesos and for rates in dollars.

According to the International Accounting Standards 39 (IAS), the "MMT" portfolio (Money Market Trading) should be part of the "Trading" portfolio for market VaR calculation, but it has to be part of the "Accrual" portfolio for PVBP calculation.

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

"Trading" and "Accrual" portfolios for the fourth quarter of 2006 (dollars millions).

The presented VaR and PVBP limits belongs to the latest updating Limit Mandate of Market Risk previously approved both by the Board and for the Risk Committee.

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the

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

	30 Sep 06	29 Dec 06	Limits*	Average 3rd. quarter 2006	Average 4th. quarter 2006
Bank	(17.83)	(22.69)	30.000	(15.77)	(19.72)
Accrual	(15.63)	(18.88)	27.500	(14.89)	(17.88)
Trading	(2.08)	(2.24)	13.500	(1.87)	(3.01)
MMT	(0.91)	(1.16)	7.500	(0.98)	(1.17)
FX	(0.25)	(0.06)	13.500	(0.25)	(0.23)
Money Desk	(2.23)	(2.20)	13.500	(1.89)	(2.93)
Capital Desk	NA	NA	NA	NA	NA

Absolute Value NA = Non Applicable

From December 2006 on, the Bank's VaR also contains positions from the ALCO book. The Bank's VaR at the end of the 4Q06 varied 27.26% versus the previous quarter. During the quarter the VaR remained under the pre-established limits.

The Bank's average VaR for the 4Q06 fourth quarter of 2006 varied 25.05% 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 September 30 and December 29, 2006 (in millions of dollars).

Comparison of Market VaR vs. Net capital

Net capital in million dollars

	30 Sep 06	29 Dec 06
VaR Total *	15.77	19.72
Net Capital **	2,240.34	2,414.07
VaR / Capital Neto	0.70%	0.82%

* 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 0.82 % of the net capital in 4Q06.

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

	30 Sep 06	29 Dic 06	Limits*	Average 3rd. quarter 2006	Average 4th. quarter 2006
Bank	(0.745)	(1.021)	1.200	(0.629)	(0.951)
Accrual	(0.683)	(0.967)	1.050	(0.586)	(0.867)
Trading	(0.061)	(0.054)	0.350	(0.042)	(0.083)
FX	NA	NA	NA	NA	NA
Money Desk	(0.061)	(0.054)	0.350	(0.042)	(0.083)
Capital Desk	NA	NA	NA	NA	NA

* *Absolute value*

The bank's PVBP for the 4Q06 varied 37.05% 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 4Q06 varied 51.19% 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 by gaps in the maturity of assets and liabilities of the institution. The liabilities considering the customer deposits, both sight and term, have different maturities than the assets considering the loan portfolios and the investment in securities.

HSBC has implemented liquidity limits for ratios both in local currency and in US dollars. These ratios are calculated on a daily basis and compared to the limits authorized by the local ALCO and confirmed by HSBC Group. Additionally the institution performs a daily review of the cash inflows and outflows and values the requirements of the main customers in order to diversify the sources of funding.

HSBC has implemented a methodology to measure cash flow projections for a period of 12 months and has created different liquidity stress test scenarios.

The institution has Developer and implemented since 2003 a Liquidity Contingency Plan that

defines the potential contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the alternate sources of funding the institution would have available. The plan has been reviewed and approved by the local ALCO.

Quantitative Information

The institution had at the end of the year liquidity ratios of 16.4% for 1st line liquidity and 19.9% for 2nd line liquidity, in both cases above the 10% limit.

Additionally the stress test scenarios have been run and in all cases the institution has positive cumulative cash flows.

Credit Risk

Besides periodically monitoring the credit portfolio, HSBC Mexico (HBMX) develops, implements and monitors credit risk models and tools for credit risk management. The main objective of this type of management is to have good information on the quality of the portfolio to take opportunistic measures to reduce the potential losses due to credit risk, complying all the time with the policies and standards of the Group, Basel II and CNBV regulations.

Credit risk is defined as the risk that a client or counterpart can not or does not want to comply with a commitment celebrated with a member or members of the Group, i.e. the potential loss due to the lack of payment from a client or counterpart. For the correct measurement of credit risk, HSBC has credit risk measurement

methodologies, as well as advanced information systems.

In general, the methodologies separate the client risk (probability that a client will default to his/her payment commitments: Probability of Default) from the credit or transaction risk (risk related with the structure of credit, including principally the value and type of guarantees).

In addition, HBMX has developed policies and procedures that include the different stages of the credit process: evaluation, origination, control, monitoring and recovery.

The SICAL system is used to apply the internal grading model "Matriz de Calificación" to the commercial portfolio. This model is the central element of the risk grading process. The "Matriz de Calificación" determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, the level of support from shareholders and the type and value of guarantees, among others. Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

Based on the approval given by the CNBV, SICAL is used to calculate regulatory credit provisions based on the client risk determined by the "Matriz de Calificación". The internal client risk grade is mapped to the regulatory one. The regulatory grades of the commercial portfolio can go from A to E.

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based on the regulation issued by the CNBV ("Circular Única"), but it also uses the same grades from A to E.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a new risk evaluation tool was implemented: Moody's Risk Advisor (MRA), which permits a more profound evaluation of the credit quality of clients. HSBC Group has selected MRA as the main tool for defining client risk grades, and was implemented during the second semester of 2005. Nevertheless, it was until the second half of 2006 that HBMX finished the development of three new MRA models for client risk grading (one for small

companies, another one for medium enterprises and a third one for large corporates).

In addition to the mentioned client risk grading models, 11 more were implemented for Non-Banking Financial Institutions (NBFIs), and one for banks (MRAfB).

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a new client risk grading framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, being 1.1 the level of minimum risk and 10.0 the maximum. The framework includes a direct correspondence to Probabilities of Default and permits a more granular measurement of the credit quality of clients.

With respect to the measurement of Loss Given Default (LGD), which is more related to the credit or transaction risk, HBMX is using a judgmental model for the commercial portfolio since March 2004. Along with the implementation of this model, the "Modelo de Tasas Activas" was also introduced; however, this model was replaced in the second half of 2006 by a profitability model. LGD is being calculated empirically for the consumer and mortgage portfolio.

Also as part of the credit risk management and measurement infrastructure, HBMX has an automated system to manage, control and monitor the commercial credit approval process known as Workflow. With this system the status of a credit application can be consulted in any stage of the credit process. In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a new system was developed, "Garantías II". Finally, is important to comment that HBMX has a system that controls the limits and utilization of credit facilities since their origination, "Líneas III".

Currently, HBMX is working in the construction of a historical data base for the estimation of LGD and Exposure at Default (EaD), important parameters for the calculation of the Expected Loss (EL) of the commercial portfolio.

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done quarterly: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behaviour from

those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

Within the management of the consumer and mortgage portfolio, monthly reports are generated to measure its credit quality. The reports are segmented by product and include general statistics of the portfolio, distribution by number of payments past-due, payments past-due by origination date, payments past-due transitions, among others. In addition, the EL is determined in a monthly basis. The current model to determine the EL considers a two dimension focus, were a PD and LGD is assigned to every credit. The model is calibrated to estimate expected losses in a year, and was elaborated using previous experience with the portfolio.

The EL of the consumer and mortgage portfolio as at 31 DECEMBER 2006 is \$2,981.6 millions of pesos; while the correspondent EL of the commercial portfolio is \$2,980 millions of pesos.

Quantitative Information

The EL of the consumer and mortgage portfolio as at 31 DECEMBER 2006 is \$2,981.6 millions of pesos; while the correspondent EL of the commercial portfolio is \$2,980 millions of pesos.

Operational Risk

Operational Risks are those of incurring in loss due to: fraud, unauthorized activities, errors, omission, inefficiencies, system failures or by external events. These are all the object of the banks risk management function. Both Reputation and Strategy risks are excluded from this definition but not from the Groups risk management agenda.

In order to manage these risks, a central unit has been established and counts with the collaboration of almost a hundred middle managers who report functionally to it.

In order to identify and re-evaluate these risks, the 3rd annual assessment took place through out the group entities during the second semester of 2006. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories (people, processes, systems and external events) which were in turn subdivided into a total of 22 subcategories within which we can identify legal and technological risks. Risks were also graded in terms of three

parameters: likelihood, impact and exposure. With the values obtained from these parameters a risk grade was calculated, which in order of relevance goes from 'A' to 'D'.

Technological Risk

In light of the importance of adequate control over technological risk, those processes related to information technology have been submitted for ISO 9001 certification. Furthermore to rigorous operational methodologies, abundant documentation is available in a software application which was specifically designed by the ISO certifier and is available for review by the authorities.

Legal Risk

In the management of legal risk specific attention is given to the following types of risk:

- ▶ Contractual
- ▶ Litigation,
- ▶ Legislative,
- ▶ Reputational
- ▶ Intellectual Property

And the measures that have been taken include: the establishment of policies and procedures for the appropriate management of legal risks and the celebration of legal acts; the estimation of potential losses derived from adverse judicial resolution or administrative action; the prompt information of judicial and administrative resolutions to employees and managers in general; the realization of legal audits -- the last of which was performed during October-November 2006; and the establishment of a historic database of judicial and administrative resolutions with their causes and costs.

Quantitative Information

As a result we have 2075 risks distributed as follows: 1.2% A type, 8.6% B type, 52.2% C type, and 38% D type risks, which can also be classified onto: 22.7% people, 49% process, 17.6% systems and 10.7% external type risks.

Furthermore, for the 4th consecutive year, during 2006, we have registered and incorporated into a specifically designed database, those major loss events which are of some relevance. As of January 2006 the relevance threshold for reporting these incidences was reduced to \$10,000 USD.

There were 204 events registered during the 4th Quarter of the year which add up to \$6 million

855 thousand American dollars. Based on historical information we estimate future losses for the 1st Quarter of 2007 to be 8 million 681 thousand American dollars.

Concept	Proportion
Fraud	73%
Robbery and assault	6%
Counterfeit bills	2%
Branches	10%
Misings in ATMs, transport firms and others	5%
Other mistakes and losses	4%

This database shall, in the future, constitute the basis for the estimation of operational risk related economic capital.

Corporate Social Responsibility (CSR)

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

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

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

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

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

ESR Certification

In February 2006, HSBC Mexico 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 Mexico 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 Mexico 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.

Other Recognitions

Additionally, HSBC Mexico ranked 4th in Latin Finance’s ranking of Sustainable and Ethical Banks of Latin America, published in August 2006. HBMX ranked fourth in the list, the first Mexican bank on the list, and additionally, ranked 1st in the Ethics ranking.

Community Programmes

These are some of HSBC Mexico’s major programmes:

Education

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

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

HSBC Mexico along with SIFE has developed a financial education program geared to helping adults and young people who are interested in starting their own business and increasing their standard of life. In 2006 the Mexican team,

sponsored by HSBC Mexico, reached the semi finals of the international competition in Paris.

HSBC introduced the donations program of the Product Tu Cuenta, through which 1% of the monthly fee that the clients pay, is channelled to charities which focus in the education of underprivileged children. In 2007 sixteen foundations in 16 states will receive 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 integrate them back in to society.

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

During July and August 2006, funds were raised for Béalos 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 was 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 are especially useful in cities which have traffic problems.

The Environment

In terms of HSBC Mexico's participation in environmental programmes, 124 members of our staff have participated as volunteers in the programme agreed by the HSBC Group with Earthwatch. 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. An important step towards this was the construction of its new headquarters building in Mexico City, Torre HSBC, which was inaugurated in April 2006. In its construction, energy saving systems were implemented in order to reduce atmospheric emissions, as well as features to reduce water consumption and efficient waste management processes. We expect to receive the LEED certification granted by the U.S. Green Building Council, which will make Torre HSBC the most environmental friendly building of its type in Mexico and Latin America,

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 companies 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 including

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 100,000 children.

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.

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