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

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

Independent Auditors' Report

(Free translation from Spanish language original)

The Board of Directors and Stockholders
HSBC México, S. A., Institución de Banca Múltiple,
Grupo Financiero HSBC:

We have examined the accompanying consolidated balance sheets of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries ("the Bank") as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for credit institutions in Mexico. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting basis used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the consolidated financial statements, the Bank is required to prepare and present its financial statements in accordance with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission ("the Banking Commission"), which in general conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or CINIF). These accounting criteria include particular rules, which in certain respects, depart from such rules.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C

Carlos Rivera Nava

February 22, 2008.

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

Consolidated Balance Sheets

December 31, 2007 and 2006

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

Assets	2007	2006
Cash and equivalents (note 5)	$ 48,864,254	57,174,122
Investment securities (note 6):		
Trading	42,235,072	12,031,702
Available-for-sale	29,400,749	42,009,661
Held-to-maturity	4,024,289	4,150,857
	75,660,110	58,192,220
Securities and derivative transactions:		
Debit balances of repurchase/resell agreements (note 7)	39,279	66,037
Derivative financial instruments (note 8)	8,892,785	172,598
	8,932,064	238,635
Current loan portfolio (note 9):		
Commercial loans	73,188,402	60,320,846
Financial institutions	15,048,246	6,200,276
Government entities	37,442,611	38,631,681
Consumer loans	48,034,118	36,825,963
Residential mortgages	18,337,143	21,346,525
Total current loan portfolio	192,050,520	163,325,291
Past due loan portfolio (note 9):		
Commercial loans	2,534,352	1,598,416
Financial institutions	81	313
Government entities	-	1
Consumer loans	4,027,666	1,730,275
Residential mortgages	1,462,594	1,144,788
Other past due debts	-	10,806
Total past due loan portfolio	8,024,693	4,484,599
Total loan portfolio	200,075,213	167,809,890
Less:		
Allowance for loan losses (note 9d)	10,592,619	7,033,599
Loan portfolio, net	189,482,594	160,776,291
Other accounts receivable, net (note 10)	12,003,949	11,213,499
Foreclosed assets (note 11)	82,023	55,509
Premises, furniture and equipment, net (note 12)	6,497,804	6,310,850
Permanent investments in shares (note 13)	136,585	191,666
Deferred taxes (note 21)	882,683	-
Other assets, deferred charges and intangible assets (notes 14 and 19)	1,845,834	608,229
Total assets	$ 344,387,900	294,761,021

Liabilities and Stockholders' Equity	2007	2006
Deposit funding (note 15):		
Demand deposits	$ 142,592,098	140,467,747
Time deposits:		
General public	100,909,514	84,155,599
Money market	19,278,981	-
Bank Bonds (note 16)	4,243,648	4,403,451
	267,024,241	229,026,797
Due to banks and other institutions (notes 9c and 17):		
On demand	-	103,861
Short-term	4,997,988	11,024,442
Long-term	2,609,920	2,326,471
	7,607,908	13,454,774
Securities and derivative transactions:		
Credit balances of repurchase/resell agreements (note 7)	71,998	50,487
Securities lending (note 18)	-	6,504,432
Derivative financial instruments (note 8)	9,074,234	-
	9,146,232	6,554,919
Other accounts payable:		
Income tax and employee statutory profit sharing	1,741,263	1,060,619
Sundry creditors and other accounts payable	24,423,833	16,232,371
	26,165,096	17,292,990
Subordinated debt issued (note 20)	2,207,269	2,290,138
Deferred taxes (note 21)	-	629,692
Deferred credits	395,665	19,845
Total liabilities	312,546,411	269,269,155
Stockholders' equity (note 22):		
Paid-in capital :		
Capital stock	4,271,536	4,078,930
Additional paid-in capital	11,611,498	9,454,308
	15,883,034	13,533,238
Earned capital:		
Statutory reserves	14,077,360	9,496,142
Unrealized gain from valuation of available-for-sale securities	(217,052)	314,178
Deficit in restatement of stockholder's equity	(3,602,546)	(3,622,365)
Results from holding nonmonetary assets:		
From valuation of premises, furniture and equipment	1,346,363	1,346,363
From valuation of permanent investments in shares	(165,336)	(157,572)
Post retirement labour obligations adjustment (note 19)	(136,397)	-
Net income	4,655,559	4,581,218
	15,957,951	11,957,964
Minority interest	504	664
Total stockholders' equity	31,841,489	25,491,866
Commitments and contingent liabilities (note 26)		
Total liabilities and stockholders' equity	$ 344,387,900	294,761,021

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

Consolidated Balance Sheets, Continued

December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007, except capital stock)

Memorandum accounts

		2007	2006
Guarantees issued (notes 9 and 24a)	$	43,663	52,373
Other contingent liabilities		128,485	129,124
Irrevocable lines of credit (notes 9 and 24a)		10,793,405	6,574,441
Assets in trust or under mandate (note 24b)		142,794,175	96,667,819
	$	153,759,728	103,423,757
Assets in custody or under management (note 24d)	$	50,216,457	116,254,686
Investments transactions on behalf of customers (note 24c)		26,726,965	22,798,802
Amounts committed under agreements with the IPAB or FOBAPROA		138,132	162,256
Amounts under derivative instruments (note 8)		1,410,856,027	682,967,315
Investments in SAR funds		3,539,721	3,674,276
Loan portfolio rated		210,912,280	174,436,705
Other memorandum accounts		375,620,987	179,183,653
	$	2,078,010,569	1,179,477,693
Securities receivable under repurchase agreements (note 7)	$	44,889,717	49,173,748
Less - Creditors under repurchase agreements (note 7)		(44,921,784)	(49,158,228)
		(32,067)	15,520
Debtors under resell agreements (note 7)		5,001,069	551,947
Less - Securities deliverable under resell agreements (note 7)		(5,001,721)	(551,917)
		(652)	30
Net repurchase/resell agreements	$	(32,719)	15,550

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the undersigned officers."

At December 31, 2007 and 2006, the historical capital stock of HSBC Mexico, S.A. amounts to $2,471,036 and $2,278,430 pesos, respectively".

SIGNATURE
Paul Thurston
President and Chief Excecutive Officer

SIGNATURE
Victor Jiménez Cervantes
Chief Financial Officer

SIGNATURE
Christopher R. Bentley
Director of Internal Audit

SIGNATURE
Gustavo Caballero Gómez
Chief Accountant

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

Consolidated Statements of Operations

Years ended December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

	2007	2006
Interest income (note 25)	$ 33,816,574	28,046,438
Interest expense (note 25)	(11,110,185)	(9,701,494)
Monetary position result, net	(1,062,592)	(972,277)
Financial margin	21,643,797	17,372,667
Allowance for loan losses (note 9d)	(9,486,087)	(4,261,903)
Financial margin net of allowance for loan losses	12,157,710	13,110,764
Commission and fee income	11,434,847	9,604,952
Commission and fee expense	(1,229,115)	(1,105,780)
Financial intermediation income (note 25)	1,209,881	2,120,750
Total operating income	23,573,323	23,730,686
Administrative and promotional expenses	(19,944,247)	(17,472,140)
Net operating income	3,629,076	6,258,546
Other income (note 25)	4,171,614	2,146,480
Other expense (note 25)	(1,321,559)	(1,083,891)
Income before income tax (IT), employee statutory profit sharing (ESPS) and equity in the results of unconsolidated subsidiaries, associated and affiliated companies	6,479,131	7,321,135
Current IT and ESPS (note 21)	(2,675,588)	(1,488,989)
Deferred IT and ESPS (note 21)	826,531	(1,249,223)
Income before equity in the results of unconsolidated subsidiaries, associated and affiliated companies	4,630,074	4,582,923
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies, net	24,552	(1,706)
Income from continuing operations	4,654,626	4,581,217
Minority interest	933	1
Net income	$ 4,655,559	4,581,218

See accompanying notes to the consolidated financial statements.

"These consolidated statements of operations have been prepared in conformity with the accounting criteria for credit institutions established by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all revenues and expenses derived from the Bank's operations through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the undersigned officers".

SIGNATURE
Paul Thurston
President and Chief Executive Officer

SIGNATURE
Victor Jiménez Cervantes
Chief Financial Officer

SIGNATURE
Christopher R. Bentley
Director of Internal Audit

SIGNATURE
Gustavo Caballero Gómez
Chief Accountant

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

	Paid-in capital				Earned capital												
												Results from holding nonmonetary assets					
	Capital stock	Increase from restatement of paid-in capital stock	Additional paid-in capital	Increase from restatement of additional paid-in capital	Statutory reserves	Increase from restatement of statutory reserves	Income of Prior Years	Unrealized gain (loss) from valuation of available-for-sale securities	Cumulative translation adjustment	Deficit in restatement of stockholders' equity	Increase from restatement of deficit in restatement of stockholders' equity	From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Post retirement labour obligations adjustment	Net income (loss)	Minority interest	Total stockholders' equity
Balances at December 31, 2005	$ 2,278,430	1,800,500	7,052,347	2,401,961	3,618,520	1,337,076	-	290,725	12,308	(2,180,384)	(1,454,656)	1,346,363	(149,839)	-	4,540,546	673	20,894,570
Transfer	-	-	-	-	-	-	4,540,546	-	-	-	-	-	-	-	(4,540,546)	-	-
Changes resulting from stockholder resolutions: (note 22a):																	
Resolution at the Ordinary and Extraordinary General Stockholders' Meeting on April 26, 2006 appropriation of the net income for 2005	-	-	-	-	4,199,457	341,089	(4,540,546)	-	-	-	-	-	-	-	-	-	-
Total items related to stockholders' decisions	-	-	-	-	4,199,457	341,089	-	-	-	-	-	-	-	-	(4,540,546)	-	-
Changes related to the recognition of comprehensive incom (note 22b):																	
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,581,218	-	4,581,218
Valuation effect of unconsolidated subsidiaries, associated and affiliated companies	-	-	-	-	-	-	-	-	(12,308)	-	-	-	(7,733)	-	-	-	(20,041)
Valuation effect of available for sale securities	-	-	-	-	-	-	-	23,453	-	-	-	-	-	-	-	-	23,453
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9)	(9)
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	-	12,675	-	-	-	-	-	12,675
Total comprehensive income	-	-	-	-	-	-	-	23,453	(12,308)	-	12,675	-	(7,733)	-	4,581,218	(9)	4,597,296
Balances at December 31, 2006	2,278,430	1,800,500	7,052,347	2,401,961	7,817,977	1,678,165	-	314,178	-	(2,180,384)	(1,441,981)	1,346,363	(157,572)	-	4,581,218	664	25,491,866
Transfer	-	-	-	-	-	-	4,581,218	-	-	-	-	-	-	-	(4,581,218)	-	-
Changes resulting from stockholder resolutions (note 22a):																	
Resolution at the Ordinary and Extraordinary General Stockholders' Meeting on April 26, 2007 appropriation of the net income for 2006	-	-	-	-	4,413,450	167,768	(4,581,218)	-	-	-	-	-	-	-	-	-	-
Resolution at the Ordinary and Extraordinary General Stockholders' Meeting on December 20, 2007 increase in capital stock	192,606	-	2,157,190	-	-	-	-	-	-	-	-	-	-	-	-	-	2,349,796
Total items related to stockholders' decisions	192,606	-	2,157,190	-	4,413,450	167,768	-	-	-	-	-	-	-	-	(4,581,218)	-	2,349,796
Changes related to the recognition of comprehensive incom (note 22b):																	
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,655,559	-	4,655,559
Valuation effect of available for sale securities	-	-	-	-	-	-	-	(531,230)	-	-	-	-	-	-	-	-	(531,230)
Post retirement labour obligations adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	(136,397)	-	-	(136,397)
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(160)	(160)
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	-	19,819	-	(7,764)	-	-	-	12,055
Total comprehensive income	-	-	-	-	-	-	-	(531,230)	-	-	19,819	-	(7,764)	(136,397)	4,655,559	(160)	3,999,827
Balances at December 31, 2007	$ 2,471,036	1,800,500	9,209,537	2,401,961	12,231,427	1,845,933	-	(217,052)	-	(2,180,384)	(1,422,162)	1,346,363	(165,336)	(136,397)	4,655,559	504	31,841,489

See accompanying notes to the consolidated financial statements.

"These consolidated statements of stockholders' equity were prepared in conformity with the accounting criteria for credit institutions established by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and were applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Bank through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of stockholders' equity were approved by the Board of Directors under the responsibility of the undersigned officers".

SIGNATURE
Paul Thurston
Director General

SIGNATURE
Victor Jiménez Cervantes
Director General Adjunto de Finanzas

SIGNATURE
Christopher R. Bentley
Director General Adjunto de Auditoría

SIGNATURE
Gustavo Caballero Gómez
Director Ejecutivo de Contabilidad

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www.cnbv.gob.mx/Seccion:sector bancario: instituciones de credito: informacion financiera de la banca multiple

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

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

		2007	2006
Operating activities:			
Net income	$	4,655,559	4,581,218
Items included in operations not requiring (providing) funds:			
Net unrealized loss from valuation of securities under repurchase/resell agreements, forwards and financial instruments		6,615	(650,596)
Allowance for loan losses		9,486,087	4,261,903
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies		(14,131)	1,706
Depreciation and amortization		1,049,888	879,909
Deferred income tax and employee statutory profit sharing		(826,531)	1,249,223
Allowance for foreclosed assets		21,143	250,540
Net effect arising from the decrease in post retirement labour obligations		(427,546)	-
Minority interest		(933)	(1)
		13,950,151	10,573,902
Changes in items related to operations:			
Increase (decrease) in operating liabilities			
Deposit funding		37,997,444	16,494,799
Accounts payable		8,794,507	(6,395,269)
(Increase) decrease in operating assets			
Loan portfolio		(38,192,390)	(33,403,713)
Investment securities		(18,107,505)	1,878,686
Securities and derivative transactions, net		(6,000,346)	2,699,034
Other accounts receivable and other assets		(1,659,307)	5,631,453
Funds used in operating activities		(3,217,446)	(2,521,108)
Financing activities:			
Redemption of issued subordinated debt		(82,869)	(95,964)
(Decrease) increase in due to banks and other institutions		(5,846,866)	5,999,030
Increase in capital stock and additional paid-in capital		2,349,796	-
Funds (used in) provided by financing activities		(3,579,939)	5,903,066
Investing activities:			
Acquisition of premises, furniture and equipment, net		(1,236,842)	(1,525,119)
Permanent investments in shares, net		82,040	10,822
(Decrease) increase in deferred charges, net		(310,024)	52,160
(Increase) decrease in foreclosed assets		(47,657)	76,699
Funds used in investing activities		(1,512,483)	(1,385,438)
(Decrease) increase in cash and equivalents		(8,309,868)	1,996,520
Cash and equivalents:			
At beginning of year		57,174,122	55,177,602
At end of year	$	48,864,254	57,174,122

See accompanying notes to the consolidated financial statements

"These consolidated statements of changes in financial position have been prepared in conformity with the accounting criteria for credit institutions established by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all sources and applications of funds derived from the Bank's operations through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the undersigned officers".

SIGNATURE

Paul Thurston
President and Chief Excecutive Officer

SIGNATURE

Victor Jiménez Cervantes
Chief Financial Officer

SIGNATURE

Christopher R. Bentley
Director of Internal Audit

SIGNATURE

Gustavo Caballero Gómez
Chief Accountant

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

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business-

HSBC Mexico, S. A. (HSBC or the Bank) is a subsidiary of Grupo Financiero HSBC, S. A. de C. V. (the Group), which holds 99.99% of its capital stock. HSBC Holding plc (HSBC Holding) currently holds 99.76% of the Group's capital stock. In accordance with the Lending Institutions Act (LIA), HSBC is authorized to provide multiple service banking operations consisting of, receiving deposits, accepting loans, granting loans, trading securities, and entering into trust agreements, among others.

(2) Summary of significant accounting policies-

(a) Authorization and basis of presentation and disclosure-

On January 31, 2008, the accompanying consolidated financial statements were approved by the Board of Directors, under the responsibility of the Bank officers who sign them.

The consolidated financial statements have been prepared based on the banking legislation and in conformity with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission (the Banking Commission). The Banking Commission is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

Effective 2007, the accompanying consolidated financial statements include those of the Bank and those of its subsidiaries that qualifies to be consolidated in accordance with FRS (see note 3) as well as the restructured loan portfolio in UDI Trusts. These Trusts were created to manage the restructured portfolio (see note 9, paragraph b). Significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements for 2006 do not include the non-financial subsidiaries. The consolidated subsidiaries and the percentage of stock participation of the Bank are as follows:

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Activity / Subsidiary	Percentage
Real state operating lease	
Inmobiliaria Bisa, S. A. de C. V.	99.99%
Inmobiliaria Grufin, S. A de C. V.	99.99%
Inmobiliaria Guatusi, S. A. de C. V.	99.99%
Inmobiliaria el Nuevo París, S. A. de C. V.	99.99%
Edificaciones Prime, S. A. de C. V.	99.99%
HSBC Inmobiliaria México, S. A. de C. V.	99.87%
Inmobiliaria GBM Atlántico, S. A. de C. V.	99.96%
Inmobiliaria Banga, S. A. de C. V.	99.99%
Inmobiliaria Bamo, S. A. de C. V.	98.38%
Financial Services	
Internacional Servicios Financieros, S. A. de C. V:	91.57%
Non-operating, however their liquidation process has not commenced as of to date	
Promoción en Bienes Raíces, S. A. de C. V.	99.99%
Mexicana de Fomento, S. A. de C. V.	99.99%
Almacenadora Banpacífico, S. A. de C. V.	99.99%
Inmobiliaria Banci, S. A. de C. V.	99.99%
Desarrollo Turístico, S. A. de C. V.	99.99%

In general, the accounting criteria established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), who renamed and integrated to the structure of the FRS while they are not modified, replaced or repeal, at them accounting principles generally accepted in Mexico (Mexican GAAP), issued by the Mexican Institute of Public Accountants (IMCP). The accounting criteria include rules that in certain instances differ from FRS, as stated in paragraphs “b”, “c” and “o” of this note (“b”, “c”, “e”, “i”, “j” in 2006).

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: the FRS (before Mexican GAAP); International Financial Reporting Standards issued by the International Accounting Standards Board; accounting principles generally accepted in the United States; or in cases not covered by these principles and standards, any other formal and recognized accounting standard that does not contravene the general criteria of the Banking Commission.

(Continued)

The accompanying consolidated financial statements are expressed in Mexican pesos of constant purchasing power, using the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation. UDI values at December 31 are as follows:

December 31	UDI	Annual Inflation
2007	$ 3.9329	3.80%
2006	3.7889	4.16%
2005	3.6375	2.91%
	=====	

For purposes of disclosure in the notes to the consolidated financial statements, when reference is made to pesos or "$", it refers to thousands of Mexican pesos, and when reference is made to "US$" or dollars, it means dollars of the United States of America.

Assets and liabilities related to purchase and sale of foreign currencies, investments in securities, securities repurchase and resell agreements, and derivative financial instruments are recognized in the consolidated financial statements on the trade day, regardless of the settlement date.

The consolidated balance sheet for 2006 includes the new credit portfolio classification in order to be consistent with the classification used in 2007.

(b) Cash and equivalents-

Cash and equivalents consist of cash, precious metals (coins), bank account balances, 24 and 48-hour foreign currency purchase and sale transactions, bank loans with original maturities of up to three days ("Call Money"), deposits with the Central Bank, and margin accounts associated with futures and swaps transactions

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

This category includes deposits related to monetary regulation, as required by the Law of the Banco de México (Central Bank), whose purpose is regulating the liquidity of the money market. In accordance with Bulletin C-10 of FRS, any margin accounts are recorded under "Securities and derivative transactions" including cash and securities contributions and interest payable at maturity.

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

(Continued)

(c) Investment securities-

Investment securities consist of equities and government securities and bank notes, listed and unlisted, classified into three categories depending on management's investment intentions. These categories are described as follows.

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt and equity securities are initially recorded at cost and subsequently marked to market at a price provided by an independent price vendor. If fair and representative market value cannot be obtained, they are recorded at the latest fair value available or otherwise the security is reported at cost plus accrued interest. Equity securities are reported at market value provided by an independent price vendor; if this is not available, by applying the equity method and by exception at the lower of, acquisition cost restated using UDI factors, or their estimated net realizable value. Valuation effects are recognized in results of operations.

Available-for-sale securities-

Securities not classified as trading or held-to-maturity portfolios are classified as "Available-for-sale". "Available-for-sale" securities are recorded at cost and valued in the same way as trading securities; however, the mark-to-market adjustment is reported in stockholders' equity under "Unrealized gain or loss from valuation of Available-for-sale securities" caption. Unrealized gains and losses are cancelled when the respective securities are sold, reporting the difference between net realizable value and acquisition cost in results of operations. Where there is persuasive evidence that a security represents a high credit risk and/or the estimated value has decreased, the book value is written down through a charge to results of operations. If the amount of trading securities is inadequate for settling the amount of securities deliverable in value date transactions in the purchase and sale of securities, the credit balance is shown as a liability under "Sundry Creditors and other accounts payable".

Held-to-maturity securities-

Held-to-maturity securities are those securities that the Bank has the ability and intent to hold until maturity, and that have defined payments and maturities of more than 90 days. Held-to-maturity securities are recorded at acquisition cost and interest is recognized in income as earned.

Transfers between categories-

Transfers of securities between categories, except transfers to the trading securities category, require express authorization from the Banking Commission. Effective 2007, only held-to-maturity securities may be reclassified or redesignated as available-for-sale securities, and the gain or loss on valuation applicable at the date of reclassification or redesignation is recognized in stockholders' equity. FRS C-2 permits available-for-sale securities to be reclassified to or redesignated as held-to-maturity securities under certain conditions. Until 2006, any transfer of securities from available for sale to trading, the cumulative valuation effect recorded in "Unrealised gains / loss from available-for-sale securities" was canceled against the statemenr of operations. For available-for-sale securities that were transferred to held-to-maturity, the amount recorded in "Unrealised gains / loss from available-for-sale securities" was amortized to the statement of operations during the remaining life of the relevant security.

(Continued)

(d) Securities under repurchase/resell agreements-

Securities under repurchase/resell agreements are stated at market value provided by an independent price vendor and the obligations or rights from the commitments to repurchase or resell the securities are stated at the net present value at maturity. The consolidated balance sheet presents the sum of debit or credit balances after individually offsetting the restated values of the securities receivable or deliverable and the repurchase or resale commitment of each repurchase/resell agreement. Transactions where the Bank is both repurchaser and repurchasee with the same entity are not offset. Contrary to FRS requirements, the consolidated balance sheet reflects the net balance between these two restated values, instead of presenting them separately as assets and liabilities and only offsetting similar transactions with the same party. Interest, premiums, gains or losses and valuation adjustments from these transactions are reported in the results of operations under “Interest income”, “Interest expense”, and “Financial intermediation income, net”, respectively.

In accordance with the Circular 1/2003 of the Central Bank, any repurchase transactions, with a maturity period over three days must include an obligation to guarantee such transaction, when the fluctuations in the value of the securities under the repurchase agreement represents a net exposure which exceeds the maximum amount agreed by the parts. The guarantees granted which represented a transfer of ownership are recorded as securities receivable in the “Securities and derivatives trading” account. The guarantees received in connection with a transfer of ownership are recorded as securities receivable in the “Securities and derivative transactions” account. The guarantees received, which does not represent a transfer of property, are recorded in memorandum accounts as assets in custody or under management. Such guarantees are valued in accordance with current guidelines for investment securities, cash equivalents and assets in custody or under management, respectively.

Securities under repurchase/resell agreements that cannot be renegotiated with a third party are reported as secured borrowing or lending transactions. Premiums are recognized in income as they accrued, on a straight-line basis, throughout the term of the transaction.

(e) Derivative transactions-

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes. The accounting treatment is described below:

Futures and forward contracts – The consolidated balance sheet shows the net fluctuation in the market value of the contracts’ future price. These effects are recognized in income, except in the case of hedging transactions where the related gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover. Starting 2007, the presentation on the balance sheet is in accordance with FRS (see note 3).

(Continued)

Swaps – Rights or obligations established in the contract arising from the exchange of cash flows or asset yields (swaps) are recorded as assets or liabilities. The assets and liabilities derived from swaps are marked to market, reporting the net value of the swap on the consolidated balance sheet while the related gains or losses are recognized in income, except in the case of transactions designated as hedges where gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover.

Options – Put and call option obligations (premiums collected) or rights (premiums paid) are recorded at contract value and marked to market, recording all gains or losses in income. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

In conformity with Bulletin C-10 of FRS, derivative financial instruments are reported at fair value, regardless of management's intention. Fair value is initially represented by the agreed-upon consideration. Transaction costs and cash flows received or given to adjust the instrument at the beginning of the transaction to fair value. Changes in the fair value of derivative financial instruments for trading purposes are reported in operations as part of the comprehensive financial results. Derivative financial instruments designated as hedges are presented on the balance sheet in the derivative financial instruments caption. Changes in fair value of these instruments are recorded in the same income statement or comprehensive income line where the gain or loss on valuation of the primary position is recognized, in accordance with the classification of the hedge (fair value hedge, cash flow hedge or foreign currency hedge), and the results of effectiveness tests.

(f) Clearing accounts-

Amounts receivable or payable arising from investment securities, securities under repurchase/resell agreements, securities lending and/or derivative financial instruments which have expired but have not been settled at the consolidated balance sheet date, as well as amounts receivable or payable resulting from the purchase or sale of foreign currencies which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

Debit and credit balances of clearing accounts resulting from foreign currency purchase/sell transactions are offset provided the contractual right exists for offsetting the amounts recorded and there is the intention of settling them on a net basis, or else realizing the asset and liability simultaneously. Assets and liabilities are also offset in transactions of the same nature or that arise from the same contract, provided they have the same maturities and are settled concurrently.

(g) Past due loans and interest-

Outstanding loan and interest balances are classified as past due according to the following criteria:

(Continued)

Commercial loans with principal and interest payable upon maturity – 30 days after due date.

Commercial loans with one principal amortization and periodic interest payments – When interest or principal have not been collected 90 or 30 days after their due date, respectively.

Revolving credits, credit cards and others – When unpaid for two normal billing cycles or when 60 or more days past due.

Commercial loans with principal and interest installments – 90 days after the first unpaid amortization of principal and interest.

Mortgage loans – 90 days after the due date of the first unpaid installment.

Overdrafts from checking accounts without lines of credit – When the overdraft arises.

In addition, a loan is classified as past due when the debtor files for bankrupty protection.

(h) Allowance for loan losses-

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as follows:

Rated loans – Based on studies which classify the loan portfolio, using an internally developed methodology for commercial loans. The Banking Commission in the official letter 141-1/867811/2007 dated March 6, 2007, authorized HSBC to continue using its internally developed methodology for a two year period beginning on December 1, 2006.

HSBC's internally developed methodology links the attributes used with the attributes established in the Banking Comission included in the "General Dispositions relating to the Rating Methodology for Loan Portfolios of Credit Institutions" ("the Dispositions") and published in the Official Gazette on August 20, 2004. Such dispositions excluded loans granted to Government states or municipalities, investment projects with own source of payment and trustees of the trusts or structured credit schemes with own net worth. The allowance for loan losses related to commercial loans granted to small and medium-sized companies, mortgage and consumer lending portfolios consider parametric methodologies established by the Banking Commission (see note 28).

The allowance is established considering the risk levels in accordance with the following table:

Risk level	Range of allowance percentages
A - Minimum	0.5 – 0.9
B - Low	1 – 19.9
C - Medium	20 – 59.9
D - High	60 – 89.9
E - Irrecoverable	90 – 100.0

(Continued)

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

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

Specific reserves – Considered for loans with risk grade B, C, D and E.

Exempt portfolio – consists mainly of loans to government entities, including the IPAB, that are not rated.

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

Additional reserves – Are established for those loans, which in management’s opinion, may give rise to concern in the future given the particular situation of the customer, the industry or the economy. They also include items such as uncollected ordinary interest and others, as well as other reserves as required by the Banking Commission.

Loans considered irrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries on loans previously written off are credited to the allowance. Effective January 1, 2007, recoveries derived from loans written off are recognized in income of the year. Prior to that date, they were credited to the preventive estimate for loan risks.

(i) Other accounts receivable-

Loans to officers and employees, collection rights, and other receivables from identified debtors, whose agreed-upon maturity does not exceed 90 calendar days, are assessed by management to determine their estimated recovery value and, where applicable, a loan loss reserve is created. Effective 2007, the amounts receivable from other debtors, that are not recovered within 90 days subsequent to their initial recording (60 days if balances are unidentified) are reserved for based on a recoverability analysis, in accordance with FRS (see note 3). Prior to 2007, these were reserved, with a charge to the statement of operations of the current year, regardless of their possible recovery, except for those related to recoverable tax balances, value added tax, and clearing accounts (repurchase agreements). This caption also includes debtors on settlement of transactions (24 and 48-hour foreign currency sales).

(Continued)

(j) Foreclosed assets and assets received in lieu of payment-

Assets acquired through foreclosure are stated as the lower value between of the adjudicated value or net realizable value. Assets received in lieu of payment are recorded at the lower of their appraisal value and the value of the asset that gave rise to the adjudication, net of estimates. Effective from 2007, when the book value exceeds the value of the foreclosed asset, the difference will be recognized in statement of income of the year as part of "Other expenses". Prior to 2007, these were considered as loan losses, and applied against the allowance for loans losses. The assets with commitment of sale are shown at the sale price, recognizing the gain or loss in deferred credit or in the income, respectively. The amount of the collected rents derived from foreclosed assets is deducted against the value of the assets.

Effective from January 1, 2007, for recognition of the effects of inflation on the financial information purposes, the foreclosed assets are classified as non-monetary items as considered by the FRS (see note 3). Until December 31, 2006 these were classified as monetary items.

The Bank creates additional reserves on a quarterly basis to recognize potential losses for the deterioration in asset value due to the passing of time. These reserves are created in accordance with the Dispositions described in section (h) and provisions are established as follows:

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

(k) Premises, furniture and equipment-

Premises, furniture and equipment are initially recorded at acquisition cost, and restated for inflation by applying UDI factors.

Depreciation and amortization are calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

(Continued)

(l) Permanent investments in stock-

Investments in affiliated and associated companies are valued by using the equity method, which recognizes changes in income (loss) of the year, and in the caption of “Gain or loss on holding nonmonetary assets by valuation of permanent investments in stock”. The line item also includes other permanent investments in which there is no significant influence.

Valuation adjustments are recognized in the Bank’s stockholders’ equity under “Results from holding non-monetary assets from valuation of permanent investments in shares”. When the valuation of the investment is consistently below the adjusted cost, the investment is written down to realizable value through a charge to results of operations.

(m) Other assets, deferred charges and intangibles-

This caption includes under other assets, recoverable balances of taxes pending to be offset or recovered; under deferred charges, the prepayment of labor obligations and other expenses pending amortization arising from services and commissions paid in advance, whose amortization is made straight line over the term of the related transaction.

(n) Deferred income tax (IT) and employee statutory profit sharing (ESPS)-

IT and ESPS payable for the year are determined in conformity with tax regulations in force.

Deferred IT and ESPS is accounted for under the asset and liability method which compares accounting and tax values. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for unamortized tax loss carryforwards and unused tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations for the period the change is enacted.

Deferred ESPS is recognized for timing differences arising from the reconciliation between book and taxable for profit sharing purposes, on which it may reasonably be estimated that a future liability will arise and there is no indication that the liabilities will not materialize.

(o) Accounting changes and reclassifications-

Effective January 1, 2007, FRS B-3, ***Income Statement***, issued by the Mexican Board of Research and Development of Financial Reporting Standards (CINIF – Spanish acronym), sets forth the general rules for the presentation and structure of that statement. FRS B-3 further eliminates special and extraordinary items and requires that employee profit sharing be presented in the line item of other expenses and income, instead of on a line subsequent to taxes on earnings, as well as revenues, costs, and expenses classified as ordinary and non-ordinary. By express operation of the Banking Commission, Employee Profit Sharing is presented together with tax on earnings.

(Continued)

(p) ***Deposit funding-***

Deposit funding comprises demand and time deposits of the general public, as well as money market funding and bank bonds. Interest is charged to expense on the accrual basis. For instruments sold at a price other than face value, a deferred charge or credit is recognized and the difference is amortized on the straight-line basis over the term of the respective instrument.

(q) ***Due to banks and other institutions-***

Bank and other loans comprise short and long-term bank loans from domestic and foreign banks, loans obtained through credit auctions with Banco de México and development fund financing. In addition, this category includes loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis.

(r) ***Securities lending-***

HSBC conducts securities lending as a borrower. The securities borrowed are guaranteed by HSBC like restricted securities and the term of each transaction is one working day. HSBC pays a premium for each security lent, which is eliminated on maturity or on the roll over of the transaction. The securities loan values and the guaranteed are stated at market value provided by an independent price vendor.

(s) ***Pensions, seniority premiums and post-retirement benefits-***

It consists of defined benefit obligations (DBO) and defined contribution obligations (DCO). DBO includes pension cost, seniority premium benefits, other post-retirement plans, and, beginning 2005 (see note 3), severance compensation for reasons other than restructuring. Such obligations are recognized in the results of operations of each year based on actuarial computations of the present value of these obligations using the projected unit credit method and real interest rates, according to Bulletin D-3 of FRS. Pension DCO are expensed as incurred.

From 2002, HSBC funds the post retirement medical benefits and from 2005 the Bank also recognizes the severance payments obligations. Amortization of unrecognized past service costs is based on an estimated service life of 18 years of employees.

(t) ***Restatement of capital stock and statutory reserves-***

This restatement is determined by multiplying stockholder contributions, statutory reserves and retained earnings (deficit) by UDI factors, which measure accumulated inflation from the dates contributed or generated through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(u) ***Results from holding non-monetary assets-***

The result from holding non-monetary assets represents the difference between the specific valuations of these assets and their cost restated based on the value of the UDI.

(Continued)

(v) Monetary position gains and losses-

HSBC recognizes in income the effect (gain or loss) in the purchasing power of its monetary position, which it determines by multiplying the difference between monetary assets and liabilities at the beginning of each month by inflation through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

The gain or loss from interest-bearing monetary assets and liabilities is included in the consolidated statement of operations as part of the “Financial margin”, while the gain or loss from all other monetary items and the acquisition cost of “Available-for-sale” securities is presented in “Other income” or “Other expense”, respectively.

The monetary position gain or loss from the valuation of “Available-for-sale” securities is recognized in the Bank’s stockholders’ equity under “Unrealized gain or loss from valuation of Available-for-sale securities”.

(w) Revenue recognition-

Interest on loans granted is recorded in income as earned. Interest on past due loans is not recognized in income until collected.

Fees and interest collected in advance are recorded as deferred income under “Deferred credits”, and recognized in results of operations as earned.

Fees related to the issuance of credit cards and services rendered, are recorded in income upon collection.

Effective January 1, 2007, fees charged for initially granting loans (personal, housing, and commercial loans) are recorded as a deferred credit, which is amortized against income of the year as interest income, pursuant to the straight-line method during the life of the loan. The other fees are recognized at the time they are generated in the line item of fees, and rates charged in the consolidated income statement.

Premiums collected on securities repurchase transactions are recognized in income based on the present value of the price at maturity.

(x) Foreign currency transactions-

The accounting records are maintained in both pesos and foreign currencies, which for consolidated financial statement presentation purposes, in the case of currencies other than the dollar are translated from the respective currency to dollars as established by the Banking Commision, and the dollar equivalence with Mexican currency is translated at the exchange rate established by the Central Bank. Foreign exchange gains and losses are recognized in the results of operations.

(Continued)

(y) UDI Trusts-

Asset and liability accounts of the loan portfolios restructured in UDI Trusts are expressed in pesos by applying the UDI value determined by the Central Bank at the end of each month. Income and expense accounts are expressed in pesos by applying the average UDI value.

(z) Contributions to the Bank Savings Protection Institute (IPAB)-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective. Beginning January 1, 2005, the IPAB will guarantee a maximum of 400,000 UDIS ($1,573 as of December 31, 2007) per depositor per institution, in conformity with the decree published in the Official Gazette on December 14, 2000. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

(aa) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings and assets are not recognized until their realization is virtually assured.

(ab) Impairment of premises, furniture and equipment-

The Bank evaluates periodically the adjusted values of property, plant and equipment to determine whether there is an indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or realizable value.

(ac) Use of estimates-

The preparation of consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(Continued)

(3) Changes in accounting policies-

Effective 2007, the pertinent accounting changes are described below:

On September 15, 2006, Amendments to the Accounting Criteria for Lending Institutions (the Amendments) were published in the Official Daily Gazette. Effective 2007, those amendments issued by the Banking Commission unify or homologate some criteria with FRS, and set forth that particular rules will be issued for specialized operations carried out by financial institutions. In the first instance, however, the Commission considers the conceptual framework of FRS and its supplemental process described in FRS A-8, which sets forth that only in the event that FRS do not solve the accounting recognition, a supplemental rule may be selected that belongs to any other regulatory scheme, provided that it meets all the requirements set forth in FRS A-8. The Supplemental rule(s) should be applied in the following order: US GAAP and any other accounting standard that forms part of a set of formally recognized standards. The most relevant particular rules of amendments, and have no significant effect on the Bank's financial information are those set forth below:

Consolidation – All entities are required to consolidate. Only entities belonging to the financial sector were consolidated up to 2006.

Investments in securities – Only held-to-maturity securities are permitted to be reclassified to or redesignated as available-for-sale securities.

Repurchase agreements and securities lending – The rules of recording, valuation, and presentation were included for offsetting guarantees for repurchase agreements and securities lending.

Derivative financial instruments – Effective January 1, 2007, the Bank adopted the amendments to criterion B-5 "Derivative financial instruments and hedging transactions", which are based on Bulletin C-10 of FRS. Those criteria require that all derivatives be recognized at fair value, and set forth specific rules for the recognition of hedging transactions.

Loan portfolio – The treatment for acquisition of loan portfolios was incorporated, as well as for the concept of collection rights. The reversal of provisions for recoveries is permitted to be recognized as income of the year. Fees charged on the origination of the loan will be recognized in income over the life of the loan.

Other receivables – Amounts not recovered at 90 days (60 days if not identified) a provided for based on an analysis of their recovery.

Assets adjudicated under juridical proceedings – These assets are considered as nonmonetary assets for purposes of recognition of inflation on the financial information.

FRS

Application of FRS is considered mandatory as follows: A-1 Structures of the standards, A-8 Supplemental rules, B-1 Accounting changes and error corrections, B-7 Business acquisitions, C-10 Derivative financial instruments and hedging transactions, C-15 Impairment in the value of long-lived assets and their disposal, and D-5 Leases.

(Continued)

(4) Foreign currency exposure-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital. As of December 31, 2007, the maximum allowed amounts to 415 million dollars (335 million dollars as of December 31, 2006). The foreign currency position, in thousands of dollars is analyzed as follows:

	(Millions of dollars)	
	2007	2006
Assets	10,434	11,674
Liabilities	(10,550)	11,491
Net (short) long position	(116)	183
	=====	=====

The exchange rate of the peso to the dollar as of December 31, 2007 and 2006 was $10.9157 and $10.8116, respectively.

(5) Cash and equivalents-

At December 31, 2007 and 2006, cash and equivalents are analyzed as follows:

		2007	2006
Cash on hand	$	10,994,338	11,881,533
Deposits with domestic and foreign banks		8,450,169	8,763,742
Deposits with Central Bank		27,536,841	28,543,725
Bank loans with maturity up to three days		2,489,291	5721,420
Other funds available		125,902	103,005
Restricted funds:			
24 and 48-hour foreign currency purchases		3,696,456	7,209,371
Deposits in guarantee		482,530	253,052
24 and 48-hour foreign currency sales		(4,911,273)	(5,301,726)
	$	48,864,254	57,174,122
		========	========

At December 31, 2007 and 2006, cash on hand by currency included in cash and equivalents caption is as shown in the next page:

HSBC MEXICO, S. A. AND SUBSIDIARIES

Currency	Exchange rate 2007	Exchange rate 2006		2007	2006
Mexican Peso	-	-	$	9,864,033	10,458,798
Dollar	10.9157	10.8116		993,678	919,375
Euro	15.9489	14.2334		64,370	46,611
Canadian Dollar	11.0628	9.2796		59,817	16,048
Sterling	21.7059	21.1702		5,665	3,307
Other currencies	-	-		6,775	2,283
Inflation restatement	-	-		-	435,111
	=======	=======			
			$	10,994,338	11,881,533
				========	========

At December 31, 2007 and 2006, deposits with Banco de México correspond to monetary regulation deposits without term and earn interest at the average bank deposit rate.

At December 31, 2007 and 2006, HSBC had call money loans with 3-day maturities, as follows:

Institute	Term	Rate		2007	2006
BBVA Bancomer, S. A.	2 days	8.25%	$	2,489,291	-
Banco Nacional de México, S. A.	3 days	7.00%		-	4,268,202
Banco Santander, S. A.	3 days	7.00%		-	1,453,218
			$	2,489,291	5,721,420
				=======	=======

At December 31, 2007 and 2006 there are precious metals amounting to $2,629 and $2,131, respectively, which are included in other funds available.

At December 31, 2007 and 2006 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed as follows:

		2007		2006	
		Currencies to be:		Currencies to be:	
		Received	Delivered	Received	Delivered
Dollar	$	3,237,396	(4,416,995)	7,020,537	(5,113,048)
Sterling		5,426	(10,853)	131,849	(65,925)
Euro		395,533	(480,063)	54,666	(106,377)
Other currencies		58,101	(3,362)	2,319	(16,376)
	$	3,696,456	(4,911,273)	7,209,371	(5,301,726)
		=======	========	========	========

(Continued)

(6) Investment securities-

At December 31, 2007 and 2006 the Bank's investments in securities were as follows:

		2007		2006	
Trading:					
Banking promissory notes	$	1,038,489		84,160	
Government securities		40,101,180		11,782,664	
Bonds		1,095,403	42,235,072	164,878	12,031,702
Available-for-sale:					
Equities		12,211		274,878	
Debt securities		29,388,538	29,400,749	41,734,783	42,009,661
Held-to-maturity:					
Special CETES of the UDI Trusts:					
Productive plant		209,387		203,728	
States and municipalities		462,630		446,711	
Residential		3,203,850		3,097,977	
		3,875,867		3,748,416	
Other		148,422	4,024,289	402,441	4,150,857
Total investment securities	$		75,660,110		58,192,220
			========		========

Transfer between categories in investment securities -

During 2007 y 2006, the Bank did not record any transfers between categories in investment securities.

Investments exceeding 5% of net capital in an issuer-

At December 31, 2007 and 2006, investments, other than government securities, from the same issuer exceeding 5% of the Bank's net capital amounting to $1,678 millions and $1,355 millions, respectively, classified as "Available-for-sale securities", are summarized as shown below:

		2007	2006	
			Total	Rate
Banco Nacional de Comercio Exterior, S.N.C.	$		1,768,809	7.14%
Noruega Investment Bank		-	1,901,142	8.08%
Petróleos Mexicanos		-	1,748,585	4.71% a 6.31%
				===========
	$	-	5,418,536	
		======	=======	

(Continued)

Classification of investment securities-

At December 31, 2007 and 2006 the investment securities are classified depending on management's intentions considering their term as follows:

Securities		2007 Short term	2007 Long term	2006 Short term	2006 Long term
Trading	$	24,304,990	17,930,082	91,528	11,940,174
Available-for-sale		6,311,172	23,089,577	400,366	41,609,295
Held-to-maturity		-	4,024,289	30,219	4,120,638
	$	30,616,162	45,043,948	522,113	57,670,107
	$	75,660,110		58,192,220	
		========		========	

The weighted averages of (unaudited) maturity terms in years of investments in securities classified by categories at December 31, 2007 and 2007 are shown below:

Securities	2007	2006
Trading	1.44	0.69
Available-for-sale	4.64	3.59
Held-to-maturity	14.09	14.23

(7) Securities under repurchase/resell agreements-

At December 31, 2007 and 2006, the net debt and credit balances arising from the offsetting of each repurchase/resell agreements transaction, are analyzed as follows:

		2007 Net balance Debit	2007 Net balance Credit	2007 Total	2006 Net balance Debit	2006 Net balance Credit	2006 Total
Securities receivable	$	36,131,610	8,758,107	44,889,717	12,796,283	36,377,465	49,173,748
Creditors under agreements to repurchase		(36,092,703)	(8,829,081)	(44,921,784)	(12,730,401)	(36,427,827)	(49,158,228)
Securities sold under agreements to repurchase		38,907	(70,974)	(32,067)	65,882	(50,362)	15,520
Debtors under agreements to resell		395,360	4,605,709	5,001,069	291,520	260,427	551,947
Securities deliverable		(394,988)	(4,606,733)	(5,001,721)	(291,365)	(260,552)	(551,917)
Securities purchased under agreements to resell		372	(1,024)	(652)	155	(125)	30
Debit (credit) balances under repurchase/resell agreements	$	39,279	(71,998)	(32,719)	66,037	(50,487)	15,550
		========	=======	========	========	========	========

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

At December 31, 200 and 2006, HSBC had executed repurchase/resell agreements and had net positions by type of security and average term in days as follows:

	2007				2006			
	Sale	**Purchase**	**Average selling term**	**Average purchase term**	**Sale**	**Purchase**	**Average selling term**	**Average purchase term**
Securities receivable (deliverable)								
Government								
BONDE A	$ 31,724,328	(1,528,516)	18	2	9,272,019	-	38	-
BPAT	5,286,587	-	46	-	4,668,672	-	56	-
BONDES M	3,370,858	(394,989)	11	2	-	-	-	-
BONDES 182	1,839,036	(2,184,482)	46	2	3,790	(260,552)	82	22
CETES	1,356,108	(893,734)	3	2	10,136,024	(291,365)	11	4
BONDEST	511,957	-	46	-	8,487,071	-	34	-
BONOS	-	-	-	-	6,303,840	-	14	-
BREMS	-	-	-	-	5,296,854	-	4	-
IPAB	-	-	-	-	2,764,052	-	38	-
Bank								
Promissory notes	800,843	-	21	-	2,241,426	-	18	-
	44,889,717	(5,001,721)			49,173,748	(551,917)		
(Creditors) debtors under agreements to repurchase /resell	(44,921,784)	5,001,069			(49,158,228)	551,947		
	(32,067)	(652)			15,520	30		
Reclassifications	71,346	(71,346)			50,517	(50,517)		
Debit (credit) balances under repurchase/resell agreements	$ 39,279	(71,998)			66,037	(50,487)		
	========	========			========	=======		

As of December 31, 2007 and 2006, total net premiums paid under repurchase/resell agreements amounted to $3,023,215 y $2,627,654, respectively.

(8) Derivative transactions -

Notional amounts:

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

At December 31, 2007 and 2006, the memorandum account named "Amounts contracted in derivate instruments" is analyzed as shown on the following page:

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

December 31, 2007

	Notional						Fair Value						
	FX		Interest rate		Total		FX		Interest rate		Total		
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Net
Trading													
Futures	$ -	-	75,891,300	40,460,000	75,891,300	40,460,000	-	-	125,318	56,491	125,318	56,491	68,827
Forwards	-	-	-	-	-	-	1,243,177	1,194,442	-	-	1,243,177	1,194,442	48,735
Options	3,154,637	3,154,637	58,900,000	33,071,765	62,054,637	36,226,402	1,471	1,471	24,870	87,069	26,341	88,540	(62,199)
Swaps	73,631,907	-	1,107,147,098	-	1,180,779,005	-	834,033	919,999	6,663,915	6,814,762	7,497,948	7,734,761	(236,813)
Hedge													
Swaps	-	11,239,583	3,220,000	985,100	3,220,000	12,224,683	-	906,800	105,209	11,376	105,209	918,176	(812,967)
	$ 76,786,544	14,394,220	1,245,158,398	74,516,865	1,321,944,942	88,911,085	2,078,681	3,022,712	6,919,312	6,969,698	8,997,993	9,992,410	(994,417)

$ 1,410,856,027
==========

December 31, 2006

	Notional						Fair Value						
	FX		Interest rate		Total		FX		Interest rate		Total		
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Net
Trading													
Futures	$ -	-	5,149,600	29,957,900	5,149,600	29,957,900	-	-	40,523	61,314	40,523	61,314	(20,791)
Forwards	24,000,000	11,000,000	-	-	24,000,000	11,000,000	347,357	-	-	-	347,357	-	347,357
Options	-	-	52,500,000	9,450,000	52,500,000	9,450,000	-	-	108,659	16,585	108,659	16,585	92,074
Swaps	19,483,058	-	491,547,594	-	511,030,652	-	61,909	-	109,309,664	109,623,936	109,371,573	109,623,936	(252,363)
Hedge													
Swaps	4,148,351	-	3,220,000	7,500,000	7,368,351	7,500,000	-	232,331	-	56,125	-	288,456	-
	$ 47,631,409	11,000,000	552,417,194	46,907,900	600,048,603	57,907,900	409,266	232,331	109,458,846	109,757,960	109,868,112	109,990,291	166,277

	Notional total		Fair value net
	$ 657,956,503		
Inflation restatement	25,010,812	Inflation restatement	6,321
	$ 682,967,315		$ 172,598
	=========		=======

(Continúa)

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

Interest rate and foreign currency swaps represents that the Bank and its customers interchange currencies and/or rates in the future. Options grant the right to receive or pay an interest rate or foreign currency at a determined price. Futures are a standard and mandatory agreement to buy or sell a predetermined amount of a specific tangible good (commodity) on a future day or date, pursuant to a standardized contract. The terms and conditions of derivative transactions of the Bank are in accordance with market standards.

The bank uses derivatives for hedging purposes (cash flows) to convert variable flows to fixed flows. This allows for two types of risks to be hedged.

Interest rate risk. If the underlying instrument is an asset with variable interest rate, such interest is converted into fixed interest rate through an interest rate swap, by receiving a fixed flow and paying a variable flow. If the underlying instrument is a liability, it is converted into fixed interest rate through an interest rate swap, by receiving a variable flow and paying a fixed flow. The hedged risk is the risk attributable to changes in interest rates of the underlying instrument.

Foreign currency risk. - Whether the underlying instrument is an asset or a liability, fixed interest denominated in another currency is translated into pesos by entering into a foreign currency swap. The hedged risk is the risk of changes in the functional currency equivalent to cash flows for a recognized foreign currency and measured by the spot exchange rate.

There is always a one-to-one ratio between the hedged underlying instrument and the hedging instrument. All underlying instruments and hedging instruments are assets and liabilities with the highest credit ratings.

The prospective effectiveness of the inception will be evaluated by comparing the critical terms of the hedged asset/liability, in connection with the hedging instruments. With this reconciliation and on this basis, the hedge is expected to be highly effective upon inception and over the life of the hedge.

Present effectiveness and prospective effectiveness of the life of the hedge will be evaluated at each month-end, by calculating the changes in cash flows of the derivative in all applicable periods in which the instrument has been designated as a hedge. These will be compared with changes in cash flows of the hedged item in the same period to which it applies.

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

(Continued)

Had the primary position not been covered with the derivative financial transactions mentioned earlier, there would have been an adverse impact of $670,030 on the 2007 results of operations ($212,899 on 2006).

At December 31, 2007 and 2006, the credit risk of transactions with derivative financial instruments amounts to $2,090,517 y $2,917,957, respectively. During this year were no losses associated with the credit risk.

(9) Loan portfolio-

At December 31, 2007 and 2006 the loan portfolio and the credit commitments are analyzed as follows:

		2007	2006
Total loan portfolio, shown in the consolidated balance sheet	$	200,075,213	167,809,890
Recorded in memorandum accounts (note 24a):			
Guarantees		43,663	52,373
Irrevocable lines of credit		10,793,405	6,574,441
		10,837,068	6,626,814
	$	210,912,281	174,436,704
		=========	=========

(a) Classification of current and past due loan portfolio by currency, rated portfolio, economic sector and by aging of past due loans-

At December 31, 2007 and 2006, the classification of current and past due loan portfolio by currency, which includes the restructured portfolio of UDI Trusts, and by economic sector, rated portfolio and aging of past due loans is shown in the rated portfolio, which includes HSBC commitments recorded on memorandum accounts in relation to issued guarantees and irrevocable lines of credit, is shown on the following page.

(Continued)

HSBC MEXICO, S. A.
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AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

	Commercial		Financial institutions		Goverment entities		Consumer		Residential mortgages		Past due indebtedness		Total	
Portfolio	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Current:														
Pesos	$ 54,152,081	43,944,512	14,796,616	5,968,230	35,926,937	36,133,993	48,034,118	36,825,963	13,712,589	15,948,042	-	-	166,622,341	138,820,740
Foreign currency	19,036,321	15,831,901	251,630	232,046	1,507,776	2,118,927	-	-	3,755	3,860	-	-	20,799,482	18,186,734
UDIS	-	544,433	-	-	7,898	378,761	-	-	4,620,799	5,394,623	-	-	4,628,697	6,317,817
Total	73,188,402	60,320,846	15,048,246	6,200,276	37,442,611	38,631,681	48,034,118	36,825,963	18,337,143	21,346,525	-	-	192,050,520	163,325,291
Past due:														
Pesos	2,263,935	1,249,650	81	313	-	1	4,027,658	1,730,275	740,319	500,106	-	10,288	7,031,993	3,490,633
Foreign currency	254,307	336,739	-	-	-	-	-	-	-	-	-	518	254,307	337,257
UDIS	16,110	12,027	-	-	-	-	8	-	722,275	644,682	-	-	738,393	656,709
Total	2,534,352	1,598,416	81	313	-	1	4,027,666	1,730,275	1,462,594	1,144,788	-	10,806	8,024,693	4,484,599
Total:														
Pesos	56,416,016	45,194,162	14,796,697	5,968,543	35,926,937	36,133,994	52,061,776	38,556,238	14,452,908	16,448,148	-	10,288	173,654,334	142,311,373
Foreign currency	19,290,628	16,168,640	251,630	232,046	1,507,776	2,118,927	-	-	3,755	3,860	-	518	21,053,789	18,523,991
UDIS	16,110	556,460	-	-	7,898	378,761	8	-	5,343,074	6,039,305	-	-	5,367,090	6,974,526
Total	**$ 75,722,754**	**61,919,262**	**15,048,327**	**6,200,589**	**37,442,611**	**38,631,682**	**52,061,784**	**38,556,238**	**19,799,737**	**22,491,313**	**-**	**10,806**	**200,075,213**	**167,809,890**
Classification by activity														
Manufacturing	$ 34,627,026	26,491,347	-	-	-	-	-	-	-	-	-	-	34,627,026	26,491,347
Agriculture, forestry and fishing	6,780,286	6,988,506	-	-	-	-	-	-	-	-	-	-	6,780,286	6,988,506
Trade and tourism	18,578,900	13,657,119	-	-	-	-	-	-	-	-	-	-	18,578,900	13,657,119
Services	15,736,542	14,782,290	-	-	-	-	-	-	-	-	-	-	15,736,542	14,782,290
Financial services	-	-	14,132,329	5,292,684	-	-	-	-	-	-	-	-	14,132,329	5,292,684
Credit Unions	-	-	647,982	538,908	-	-	-	-	-	-	-	-	647,982	538,908
Lessors	-	-	117,473	227,565	-	-	-	-	-	-	-	-	117,473	227,565
Others to financial organizations	-	-	150,543	141,432	-	-	-	-	-	-	-	-	150,543	141,432
Credit Car	-	-	-	-	-	-	12,862,761	17,077,930	-	-	-	-	12,862,761	17,077,930
Credit Card	-	-	-	-	-	-	29,494,891	15,663,591	-	-	-	-	29,494,891	15,663,591
Multicredit	-	-	-	-	-	-	7,454,047	3,854,624	-	-	-	-	7,454,047	3,854,624
Fixed payment	-	-	-	-	-	-	2,250,085	1,960,093	-	-	-	-	2,250,085	1,960,093
Construction and housing	-	-	-	-	-	-	-	-	19,799,737	22,491,313	-	-	19,799,737	22,491,313
Municipalities	-	-	-	-	990,121	585,204	-	-	-	-	-	-	990,121	585,204
States	-	-	-	-	1,866,137	2,535,856	-	-	-	-	-	-	1,866,137	2,535,856
Credit to the Federal Govermment (support programs)	-	-	-	-	333,474	368,344	-	-	-	-	-	-	333,474	368,344
Other to governmental entities (see note 9a)	-	-	-	-	34,252,879	35,142,278	-	-	-	-	-	-	34,252,879	35,142,278
Loan swap	-	-	-	-	-	-	-	-	-	-	-	-		-
Past due indebtedness	-	-	-	-	-	-	-	-	-	-	-	10,806	-	10,806
	$ 75,722,754	**61,919,262**	**15,048,327**	**6,200,589**	**37,442,611**	**38,631,682**	**52,061,784**	**38,556,238**	**19,799,737**	**22,491,313**	**-**	**10,806**	**200,075,213**	**167,809,890**
Past due loans by aging														
From 1 to 180 days	$ 1,167,156	544,336	-	-	-	1	2,896,316	1,262,504	358,487	251,021	-	8,618	4,421,959	2,066,480
From 181 to 365 days	501,158	380,330	-	-	-	-	608,488	130,798	374,692	265,320	-	238	1,484,338	776,686
From 1 to 2 years	188,267	337,096	-	-	-	-	17,177	3,246	354,134	319,284	-	234	559,578	659,860
More than 2 years	677,771	336,654	81	313	-	-	505,685	333,727	375,281	309,163	-	1,716	1,558,818	981,573
	$ 2,534,352	**1,598,416**	**81**	**313**	**-**	**1**	**4,027,666**	**1,730,275**	**1,462,594**	**1,144,788**	**-**	**10,806**	**8,024,693**	**4,484,599**
Loan portfolio rated														
Portfolio rating risk %														
A-Mínimum	$ 54,817,992	36,480,028	13,405,934	3,459,644	6,698,272	7,303,114	40,084,222	31,258,117	15,325,740	19,915,348	-	-	130,332,160	98,416,251
B-Low	29,488,205	29,974,653	1,642,312	2,740,632	1,141,051	636,612	5,638,147	4,374,558	3,075,359	1,376,673	-	-	40,985,074	39,103,128
C-Medium	787,853	1,016,300	-	-	111,453	54,830	2,038,309	1,141,330	304,778	369,349	-	-	3,242,393	2,581,809
D-High	702,301	490,881	-	-	-	14,359	3,598,487	1,575,753	910,429	749,593	-	-	5,211,217	2,830,586
E-Irrecoverable	547,257	584,214	81	313	-	-	702,620	206,480	183,431	80,350	216,214	10,806	1,649,603	882,163
	86,343,608	68,546,076	15,048,327	6,200,589	7,950,776	8,008,915	52,061,785	38,556,238	19,799,737	22,491,313	216,214	10,806	181,420,447	143,813,937
Allowance														
0.5 a .09 A-Mimimum	362,561	262,871	94,363	33,254	51,702	55,705	200,871	183,597	53,640	120,038	-	-	763,137	655,465
1 a 19.9 B-Low	1,758,102	1,804,078	87,277	139,351	39,888	36,820	505,726	419,944	122,015	65,860	-	-	2,513,008	2,466,053
20 a 59.9 C-Medium	305,183	331,244	-	-	22,291	10,966	912,374	513,417	105,639	121,793	-	-	1,345,487	977,420
60 a 89.9 D-High	512,026	333,126	-	-	-	10,769	2,709,436	1,180,876	639,930	526,433	-	-	3,861,392	2,051,204
90 a 100 E-Irrecoverable	546,973	581,519	81	313	-	-	723,643	206,888	222,684	77,106	216,214	10,806	1,709,595	876,632
	3,484,845	3,312,838	181,721	172,918	113,881	114,260	5,052,050	2,504,722	1,143,908	911,230	216,214	10,806	10,192,619	7,026,774
Additional reserves	-	6,825	-	-	-	-	400,000	-	-	-	-	-	400,000	6,825
	$ 3,484,845	3,319,663	181,721	172,918	113,881	114,260	5,452,050	2,504,722	1,143,908	911,230	216,214	10,806	10,592,619	7,033,599

(Continued)

Unsecured loan:

On September 27, 2002, the Bank granted a $47,356,995 (nominal) loan to the IPAB. The loan is documented by a promissory note that may only be endorsed to Banco de Mexico as a guarantee for the note amount. The loan matures on December 30, 2009 with the right of prepayment, and bears interest at a rate equal to the arithmetic average of the annual yield rates of 91-day Cetes sold during the interest accrual period plus one percentage point. Interest accrued on the loan is payable by the IPAB on the last day of each calendar quarter. At December 31, 2007 and 2006, the balance of the simple loan aggregates $29,158,360 and $30,254,422, respectively and is included in the caption “Loans to government entities”.

Scheme of exchange of portfolio flows

HSBC and the Mexican financial authorities executed agreements to exchange cash flows from commercial loans in exchange for the cash flows of a promissory note, less a percentage of loan losses to be borne by the Bank.

On April 3, 2006, IPAB paid in advance the outstanding amount of $1,206,510 and met its obligations set forth in the agreement mentioned above.

Federal Government support programs:

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

- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benfits to Housing Loan Debtors (BADCV).
- Additional Benefits to FOVI Housing Loan Debtors (BADCVF).

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of December 31, 2007 and 2006, receivables from the Federal Government in connection with discounts granted and the costs in charge of HSBC (see chart in note 9a), are analyzed as shown on the following page.

		2007		2006	
		Portfolio	**Cost**	**Portfolio**	**Cost**
BADCV and BADCVF	$	333,048	221,373	366,898	255,336
FOPYME		2	322	671	702
FINAPE		424	241	775	930
	$	333,474	221,936	368,344	256,968
		======	======	======	======

(b) UDI Trust restructured loans-

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

Certain UDI Trusts have matured or the trust-related liability has been fully settled. Housing funds in force at December 31, 2007 y 2006, included in the loan portfolio and earning interest at the rates of 8.75% and 8.63%, respectively are analyzed as follows:

		2007	**2006**
Current loan portfolio	$	2,895,906	3,291,185
Past due loan portfolio		595,532	518,789
Total	$	3,491,438	3,809,974
		=======	=======

(c) Additional loan portfolio information-

Commission by type of loan:

At December 31, 2007 and 2006, commissions by type of loan presented in commissions and fees collected in the consolidated statements of income, which also include primarily trust and deposit-related commissions are presented below.

Type of loan		**Amount**	
		2007	**2006**
Commercial	$	119,907	137,945
Consumer		4,638,829	2,771,628
Mortgage		53,840	213,904
Government entities		-	7,582
Others		-	57,296
Total	$	4,812,576	3,188,355
		========	=======

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Annual weighted lending rates:

During 2007 and 2006, the annual weighted lending rates (unaudited) were as follows:

	2007	**2006**
Commercial loans	10.70%	11.04%
Financial entities	10.01%	9.03%
Personal loans	22.49%	19.35%
Residential mortgages	11.04%	11.52%
Government entities	8.25%	8.01%

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed mainly by the Central Bank, Nacional Financiera, Banco Nacional de Comercio Exterior and Fondo de Garantía y Fomento para la Agricultura by rediscounting loans with recourse. At December 31, 2007 and 2006, the amount of loans granted under these programs aggregated $7,672,684 and $8,796,837, respectively, and the related liability is included in “Due to banks and other institutions”.

Restructured loans:

At December 31, 2007 and 2006, restructured loans are analyzed as follows:

		2007			**2006**		
		Loan portfolio			**Loan portfolio**		
		Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Agriculture Portfolio Restructure Program System (SIRECA)	$	2,777	5,419	8,196	3,383	6,282	9,665
With Bank funds		1,732,790	142,861	1,875,651	3,026,633	137,920	3,164,553
	$	1,735,567	148,280	1,883,847	3,030,016	144,202	3,174,218
		=======	=====	======	=======	======	=======

Credit support program:

In connection with the Official Communication 100/037/07 dated November 12, 2007, issued by the Banking Commission *(Comisión Bancaria)*, the Bank has implemented a credit support program for 26,455 clients with residence in the States of Tabasco and Chiapas, who were affected by the natural disasters that took place in 2007. The total amount of the credits was $708,839 as of November 1, 2007, and the program consists in deferring up to three months, without accrual of normal and moratory interest, the payment of principal and interest of each client that was up to date in his payment obligations on that date. This is not considered a restructuring in accordance to the Criteria B-6 “Credit Portfolio” issued by the Banking Commission.

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Pursuant to the payment deferral program mentioned above, the clients shall make their next payment in February 2008. The amount of interest not entered in the consolidated income statement as a consequence of the Credit Support Program equals $37,550.

The amount of interest income recognized from the restructuring of past due loans aggregated $1,617,016 and $433,683, for the years ended December 31, 2007 and 2006, respectively. In case of loans to small and medium-size corporations in the commercial loan portfolio, it is frequent that during the restructuring period additional guarantees are obtained. During 2007 and 2006 there was no restructuring in connection with consumer credit, and in connection with mortgages, there was some restructuring carried out without the need of additional guarantees. By and large, restructuring processes result in the remission of part of moratory interest and commissions, which at December 31, 2007 amount to $38,306.

Below is an analysis of the annual movement of past due loans for the years ended December 31, 2007 and 2006:

		2007	2006
Balance at beginning of year	$	4,484,599	3,690,598
Transfers from current to past due loan portfolio		13,541,349	7,056,089
Transfers to current loan portfolio		(531,410)	(513,556)
Collections		(4,641,702)	(3,312,594)
Write-offs		(4,828,143)	(2,435,938)
Balance at end of year	$	8,024,693	4,320,370

Nominal interest that would have accrued in 2007 from the past due loan portfolio is $344,506 ($279,338 in 2006).

Impaired loans:

At December 31, 2007 and 2006, the balance of impaired commercial loans is $1,456,852 and $1,100,574, respectively, of which $27,419 and $126,014 are recorded as current loans and $1,438,433 and $974,560 as past due loans, respectively.

Risk concentration:

As of December 31, 2007, HSBC has recorded three loans that exceed the 10% limit of its basic capital ($3,019 millions), amounting to $11,269,759, representing 37.32% of the basic capital.

At December 31, 2006, HSBC's accounting records includes one loan which individually exceed the 10% of basic capital ($2,414 millions). The sum of the three largest credits of the Bank amounted to $6,271,143 (25.97% of basic capital).

(Continued)

Securitization of mortgage portfolio:

During 2007, on two occasions the Bank sold a portion of its mortgage portfolio by means of transferring of all of the Bank's rights and risks of such mortgage portfolio without reserves or limitations in favor of a Trust (used as a securitization vehicle), which in turn issued certificates that were acquired by the public and a subordinated trust acknowledgment *(constancia fiduciaria subordinada)*. The following are the amounts of the portfolio that was sold in the market, as well as the conditions of the certificates issued by the Trust:

	Nominal portfolio sold	Cash received	Acknowledgment	Certificates Interest Rate Series "A"	Series "B"
22 marzo de 2007	$ 2,525,021	2,474,407	25,250	8.24%	9.58%
2 octubre de 2007	3,538,135	3,456,617	35,381	8.80%	10.11%
	=======	=======	=====	=====	=====

The Bank acquired the acknowledgements, which grant the right to any remainder of the mortgage portfolio upon payment of the amounts due under the certificates.

As of December 31, 2007, the value of the registered acknowledgments under the concept "Securities available for sale" *("Títulos disponibles para la venta")*, is analyzed as follows:

Assets of the trusts	$ 5,824,159
Certificates	(5,713,447)
Original amount of the acknowledgments	(60,631)
Result due to the valuation of the "Securities available for sale", in the Bank's net worth	$ 50,081
	========

In the event that the total amount due of the certificates is less than 10% of the par value of the total amount of the certificates on the date of the offering, the Bank shall have the option to repurchase the remaining portfolio of the trust and with such proceeds the outstanding certificates would be prepaid.

The Bank executed a service provision agreement, through which the Bank provides the administration and collection of the mortgage portfolio sold in the market, in exchange for a commercial commission as consideration.

(Continued)

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(d) Allowance for loan losses-

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

At December 31, 2007 and 2006 the allowance for loan losses, analyzed in section (a) above is comprised as follows:

		2007	2006
Rated loan estimate	$	10,137,142	7,026,774
Additional reserves, including past due interest		455,477	6,825
Total allowance for loan losses	$	10,592,619	7,033,599
		========	=======

The amount of $455,477, includes $400,000 as a reserve for credit cards after certain remarks were made by the Banking Commission *(Comisión Bancaria)* in its official communication 141-1/1500196/2007, which were prudently recorded by the Bank, although the Bank has not yet exercised its right to be heard.

At December 31, 2007, the balance of the general (A) and specific (B-1 to E) allowance for loan losses amounts to $1,163,139 and $9,429,480, respectively ($662,290 and $6,371,309, respectively in 2006).

The movement of the allowance for loan losses for the years ended December 31, 2007 and 2006 (in nominal pesos) is summarized below:

		2007	2006
Balance at beginning of year	$	6,776,023	5,729,773
Increase charged to income*		9,486,087	4,023,799
Reinstatement of reserves		-	333,571
Exchange rate valuation effects		(98,831)	16,945
Applications:			
Write-offs		(5,006,744)	(2,909,848)
Debt forgiveness		(563,916)	(418,217)
		10,592,619	6,776,023
Restatement for inflation		-	257,576
Balance at end of year	$	10,592,619	7,033,599
		========	=======

(Continued)

* Additionally, the expense for loan losses in the 2006 consolidated statements of operations includes $85,148, respectively, for the loss sharing under the IPAB loan swap (see note 9a).

(e) Sale of written-off portfolio-

During 2007, the Bank sold a previously written-off portfolio (commercial from small and medium-size consumer and mortgage corporations), generating a net profit of $158,951 which is included under "Other income".

(10) Other accounts receivable-

At December 31, 2007 and 2006, other accounts receivable are analized as follows:

	2007	2006
Debtors on settlement transactions	$ 6,948,981	7,513,843
Due to personal	2,965,026	2,032,068
Other, net	2,089,942	1,667,588
	$ 12,003,949	11,213,499
	========	========

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

As of December 31, 2007 and 2006, foreclosed assets or assets received in lieu of payment are analyzed on the following page:

	2007		2006	
	Amount	Reserve	Amount	Reserve
Securities and sundry assets:				
Sundry assets	$ 14,700	(5,585)	9,916	(6,884)
Securities	863,924	(863,919)	993,473	(982,220)
	878,624	(869,504)	1,003,389	(989,104)
Premises:				
Land	13,239	(12,548)	38,362	(37,495)
Buildings	90,541	(18,329)	117,224	(76,867)
	103,780	(30,877)	155,586	(114,362)
	$ 982,404	(900,381)	1,158,975	(1,103,466)
	======	======	=======	=======
	$ 82,023		55,509	
	=====		=====	

(Continued)

The debit to the income statement related to the reserve in 2007 amounted to $ 21,143 ($250,540 in 2006).

(12) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2007 and 2006 are analyzed as follows:

		2007	2006	Annual depreciation and amortization rate
Premises	$	3,003,282	3,403,476	5%
Office furniture and equipment		1,039,547	852,754	10%
Computer equipment		2,659,795	2,002,204	Various
Transportation equipment		16,215	21,431	25%
Installation expenses		2,964,208	2,673,049	10% and 5%
Other equipment		920,449	639,099	Various
		10,603,496	9,592,013	
Accumulated depreciation and amortization		(4,939,311)	(4,425,742)	
		5,664,185	5,166,271	
Land		833,619	1,144,579	
	$	6,497,804	6,310,850	
		========	=======	

Depreciation and amortization charged to income in 2007 and 2006 amounted to $1,049,888 and $879,909, respectively.

(13) Permanent investments in shares-

At December 31, 2007 and 2006, permanent investments in shares classified by activity, are analyzed are as shown in the next page.

(Continued)

		2007	2006
Unconsolidated subsidiaries:			
Non-banking real estate companies	$	-	29,349
Other		-	38,777
		-	68,126
Associated and affiliated companies:			
Supplementary banking services		117,319	103,747
Mutual funds		15,411	15,641
Security and protection		1,981	1,982
		134,711	121,370
Others		1,874	2,170
	$	136,585	191,666
		======	======

The recognition of the equity in the results of associated and affiliated companies represented a loss of $ 24,552 in 2007 (a loss of $1,706 in 2006 including non-consolidated subsidiaries).

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

At December 31, 2007 and 2006 other assets deferred charges and intangibles assets include:

		2007	2006
Recoverable taxes	$	92,504	54,784
Labor obligations prepaid (note 19)		1,010,909	524,991
Services and fees paid, net		417,717	28,454
Intangible assets (note 19)		324,704	-
	$	1,845,834	608,229
		=======	======

(15) Deposits funding-

The weighted average deposit rates (unaudited) during the years ended December 31, 2007 and 2006 are analyzed as follows:

	2007 rates			2006 rates		
	Pesos	Dollars	UDIS	Pesos	Dollars	UDIS
Demand deposits	0.58	0.98	-	0.59	0.65	-
Time deposits	5.69	2.78	0.20	5.57	2.17	0.19
	===	===	===	===	===	===

(Continued)

(16) Bank bonds-

On February 13, 2006, the Banking Commission authorized the Bank a bank bonds program for up to $10,000,000. At December 31, 2007, the Bank has made the following issuances under the bank bonds program:

Issuance day	Reference rate	Maturity day		2007	2006
May 10, 2006	TIIE – 0.01%	May 1, 2013	$	2,000,000	2,000,000
May 10, 2006	9.06%	April 27, 2016		1,000,000	1,000,000
June 29, 2006	TIIE	May 1, 2013		1,220,000	1,220,000
				4,220,000	4,220,000
Accrued interest				23,648	23,037
Inflation restatement				-	160,414
Total de Bank bonds			$	4,243,648	4,403,451
				=======	=======

(17) Due to banks and other institutions-

At December 31, 2007 and 2006, bank and other loans are analyzed as follows:

		2007 Term		2006 Term	
		Short	Long	Short	Long
Pesos:					
Banco de México	$	202,735	-	4,673,814	-
Development banks*		2,378,926	55,849	2,583,862	61,582
Multiple bank (on demand)		-	-	103,861	-
Promotion funds*		2,142,605	2,010,559	3,204,816	1,875,720
		4,724,266	2,066,408	10,566,353	1,937,302
Foreign currencies translated into pesos:					
Development banks*		3,000	25,329	23,024	37,118
Promotion funds*		263,291	518,183	512,363	352,006
Foreign banks		7,431	-	26,563	45
		273,722	543,512	561,950	389,169
Total by term		4,997,988	2,609,920	11,128,303	2,326,471
Total due to banks and other institutions	$	7,607,908		13,454,774	
		========		========	

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

(Continued)

At December 31, 2007 and 2006, the average annual rates (unaudited) are analyzed as follows:

	Pesos		Foreign currency	
	2007	**2006**	**2007**	**2006**
Banco de México	7.45%	7.28%	-	-
Development banks	8.20%	7.49%	10.29%	9.61%
Promotion funds	6.75%	6.99%	5.92%	5.95%
	=====	=====	====	=====

(18) Securities lending-

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

	Number of securities		Amount
Bonos	54,600,000	$	6,014,674
Cetes	48,000,000		489,758
		$	6,504,432
			=======

Premiums earned for the year ended December 31, 2006 total $ 12,311

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

HSBC established a pension plan that all employees have the right to be included. The defined benefit pension plan (DBPP) as provided for by the collective bargaining agreement, all employees who reach 60 years old with 5 years of service or 55 years old with 35 years of service are eligible under the established non-contributory pension plan. The plan also covers seniority premium benefits to employees (SPB), in accordance with the Federal Labor Law.

Starting 2002, the Bank recognizes its obligation for medical expenses (MPDB) and starting 2005 its obligation for severance payments (legal indemnity).

The cost, obligations and assets of the DBPP, SPB y MPDB seniority premiums and post-retirement medical benefits plans mentioned in note 2s were determined based on the calculations performed by an independent actuary. The resources or funds contributed for each obligations, they have been affected in trusts.

(Continued)

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Effective April 2004, the defined contribution component was included to the pension plan and starting 2007, to the post-retirement medical benefits plan. At present, only unionized workers and those workers who expressed their intention to continue under the defined contribution component participate in the DBPP and in the MPDB. The remaining employees elected to move to the defined contribution pension plan and the defined contribution post-retirement medical benefits plan (DCPP and DCMB).

Net periodic cost

The components of the net periodic cost for the years ended December 31, 2007 and 2006 are as follows (nominal pesos):

	2007		2006	
	Pensions and seniority premiums	**Medical benefits**	**Pensions and seniority premiums**	**Medical benefits**
Service cost	$ 40,527	90,347	33,604	61,950
Interest cost	69,003	100,267	76,464	97,554
Return on plan assets	(77,480)	(90,725)	(79,696)	(75,476)
Actuarial (gain) loss	5,513	49,728	(319)	32,522
Amortization of plan modifications	5,883	27,339	5,716	48,762
Amortization of transition liability	4,899	12,934	4,770	13,650
Effect of reductions/ extinction	-	-	3,126	102,888
Inflationary effect	1,692	6,649	1,620	7,158
Net periodic cost	$ 50,037	196,629	45,285	289,008

	2007	**2006**
Net periodic cost:		
Pension and seniority premium (DBPP)	$ 50,037	45,285
Medical benefits	196,629	289,008
Excess in funding	20,372	1,999
	267,038	336,292
Period contribution:		
Pensions (DCPP) and DCMP (in 2007)	107,950	86,535
Indemnity payments	212,513	114,174
	$ 587,501	537,001

(Continued)

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Pension obligations, seniority premium and medical expenses

At December 31, 2007 and 2006, labor obligations are analyzed as follows:

	2007		2006	
	Pensions and seniority premiums	**Medical benefits**	**Pensions and seniority premiums**	**Medical benefits**
Projected benefit obligation (PBO)	$ 1,805,914	2,085,063	1,809,172	2,468,240
Unamortized items	(131,638)	(200,388)	(146,604)	(303,719)
Actuarial loss	(398,979)	(1,270,889)	(281,803)	(1,236,460)
Required assets	1,275,297	613,786	1,380,765	928,061
Less: Plan assets	1,301,352	1,598,640	1,380,765	1,496,646
Net projected assets (anticipated payment, see note 14)	$ (26,055)	(984,854)	-	(568,585)
	======	======	=======	=======

Interest rates used in the actuarial projections are:

	2007	**2006**
Rate of return on plan assets	6.50%	6.50%
Discount rate	4.30%	5.30%
Salary increase rate	0.50%	0.75%
Estimated inflation rate	3.50%	3.75%

Liability for legal indemnity

At December 31, 2007 and 2006 the labor obligation for indemnity payments, are analyzed as follows:

	Amount	
	2007	**2006**
PBO	$ 383,023	370,420
Unamortized items:		
Transition assets	(200,481)	(229,788)
Unrecognized actuarial assets	(65,963)	(94,299)
Projected net liability	$ 116,579	46,333
	======	======

(Continued)

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Projected net liability reconciliation:		
Contributions	$ 212,512	118,514
Payments	(134,914)	(107,850)
Subtotal	77,598	10,664
Total liabilities	38,981	37,248
Excess	-	(1,579)
	$ 116,579	46,333
	======	======

Decrease in capital due to the adjustment to labor obligations

As of December 31, 2007, the recognition for DBPP and legal indemnity obligations generated a net decrease in the stockholder's equity, as follows:

	PPBD	**Legal indemnity**
Excess of current benefit obligation over plan assets	$ 214,051	337,574
Net projected asset	26,055	116,579
Additional obligation	240,106	220,995
Intangible asset	124,223	200,481
Capital reduction	115,883	20,514
	$ 136,397	
	======	

(20) Outstanding subordinated debentures-

At December 31, 2007 and 2006, the Bank had issued subordinated debentures, not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed as follows:

	2007	**2006**
Debentures issued:		
In 2003, with maturing in 2013	$ 2,200,000	2,283,629
Accrued interest	7,269	6,509
Total subordinated debentures	$ 2,207,269	2,290,138
	=======	=======

(Continued)

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

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

Under current Mexican tax law, corporations must pay the greater of their IT or AT. Effective January 1, 2008, the Flat Rate Business Tax (IETU) replaces AT. For determining taxable income for IT purposes there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation. ESPS is computed practically on the same basis as IT. During the year ended December 31, 2007 ESPS expense was $682,331 ($580,960 in 2006).

Starting January 1, 2007, AT is calculated at 1.25% rate on assets not subject to financial intermediation, net of certain liabilities. AT payable in excess of IT for the year may be recovered in the ten subsequent years, restated for inflation, only if in some of those years IT exceeded AT.

On October 1, 2007 new laws were published and several tax laws were amended, and a presidential decree was issued on November 5, 2007, that will enter into effect as of January 1, 2008, among which it is important to highlight: (i) the revocation of the IMPAC Law, and (ii) the creation of a new tax called Flat Rate Corporate Tax *(Impuesto Empresarial a Tasa Unica)* (IETU), which shall be determined based on the cash flow and with certain restrictions in connection with authorized deductions, in addition to granting tax credits primarily with respect to inventories, salaries taxed by ISR (income tax) and social security dues, tax losses due to immediate deductions, IMPAC devolutions and deductions in connection with investments in fixed assets, expenses and deferred charges. IETU's rate shall be 16.5% for 2008, 17% for 2009 and 17.5% for 2010 and the following years.

The Bank continues determining IT for the fiscal year, and in the event that the IETU caused during the same fiscal year exceeds the IT, the IT effectively paid may be credited against the IETU, and the exceeding amount shall be paid. In the event the IETU is payable, its payment shall be considered definitive, not subject to devolution in the following exercises (with certain exceptions). According to the financial projections prepared by the Bank's administration, it is expected that IETU will no be payable during 2008, and therefore the tax deferred on December 31, 2007 was determined according to the provisions of ISR.

At December 31, 2007 and 2006, the IT, AT and ESPS expense shown in the consolidated statement of income is analyzed as follows:

	IT	
	2007	**2006**
IT expense at the rate 28% (29% in 2006)	$ 1,910,527	704,521
ESPS expense at the 10% *	682,331	559,685
IT prior years**	-	95,980
IT Subsidiaries	5,990	20,238
AT subsidiaries	12,805	17,847
IT, AT and ESPS in nominal pesos	2,611,653	1,398,271
Inflation effect	63,935	90,718
IT, AT and ESPS in the income statement	$ 2,675,588	1,488,989
	=======	=======

(Continued)

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* The principal difference that increases the base for ESPS purposes for 2006 relates to the treatment of the IPAB portfolio and the shared loss.

** During 2006, HSBC recalculated the tax effects arising from the UDI trusts that ended in prior years, which amended IT returns were filed in 2006. This resulted in a current income tax paid in 2006 of $99,628 ($71,331 and $28,297 of surcharges and updating for inflation) and a deferred income of $744,655 (that affected the preventive estimate, loss sharing and tax loss carryforwards). The foregoing led to surcharges and updating for inflation of $28,297 which were recognized in results of operation for 2006.

Bellow a condensed reconciliation between the accounting results is presented and for purposes of HSBC's IT (unconsolidated) representing 99% and 97% of the consolidated IT expense for the years 2007 and 2006, respectively.

	IT	
	2007	**2006**
Income before IT, ESPS and equity in earnings of unconsolidated subsidiaries, associated and affiliated companies	$ 6,479,131	7,321,135
(Less) income before taxes of subsidaries consolidated	(52,741)	(28,941)
Accounting effects of inflation, net	750,309	357,270
Income in nominal pesos	7,176,699	7,649,464
Add (deduct) reconciling items (in nominal pesos):		
Difference between accounting and tax depreciation	(50,814)	(6,514)
Net tax effects of inflation	(695,953)	(277,828)
Allowance for loan losses	3,777,795	(634,081)
Loan portfolio sale	(3,640,596)	-
Reserve for IPAB promissory note and loss sharing	-	(3,033,622)
Write-offs	741,137	453,114
Commissions received in advance	395,664	-
Provisions	370,758	306,450
Non deductible expenses	203,504	79,193
ESPS 2006 paid in 2007	(236,502)	(388,428)
Trust UDIS Banxico	(286,991)	(308,305)
Prepaid expenses	(526,806)	(496,686)
Non taxable recoveries	(598,531)	(209,335)
Foreclosed assets	(177,152)	(299,175)
Other, net	371,098	(404,864)
Taxable income	$ 6,823,310	2,429,383
	=======	=======

(Continued)

The AT paid by real-estate subsidiaries that may be recovered should their IT exceed their AT in future years amounts to $113,851 and $83,119 at December 31, 2007 and 2006, respectively. Such amounts are recognized as expense in view of their uncertain recoverability.

Deferred IT and ESPS:

In assessing the realizability of deferred tax assets, the Bank's management considers the probability that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, the performance of the loan portfolio and its allowance, and other factors. The Bank's management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred IT and ESPS changes for the years ended December 31, 2007 and 2006, in nominal pesos, are analyzed as follows:

		2007	2006
At beginning of year	$	(606,632)	617,833
Charged to operations:			
Deferred IT and ESPS expense		826,531	(1,203,739)
Prior years deferred IT and ESPS benefit recorded in "Other income"		359,865	-
Reported in capital:			
Valuation effects of available-for-sale financial instruments		277,410	(20,726)
Prior years valuation effect of available-for-sale securities		25,509	-
		882,683	(606,632)
Adjustment for inflation		-	(23,060)
	$	882,683	(629,692)
		======	=======

The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2007 and 2006, in nominal pesos, are as shown in the next page.

(Continued)

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		IT	
		2007	**2006**
Deferred tax assets:			
Allowance for loan losses	$	1,733,380	751,656
Allowance for foreclosed assets		169,884	306,664
Other provisions		227,722	153,028
Fixed assets		130,290	-
ESPS provision (expense deductible beginning 2006)		191,052	212,680
Valuation of financial instruments		128,238	-
Other		168,378	108,736
		2,748,944	1,532,764
Deferred tax liabilities:			
Interest from Cetes UDIS-Banxico		(1,085,181)	(1,292,178)
Valuation of financial instruments		(155,221)	(471,112)
Prepaid expenses		(584,332)	(372,771)
Other		(41,527)	(3,335)
		(1,866,261)	(2,139,396)
Restatement for inflation		-	23,060)
Net deferred tax asset (liability)	$	882,683	(629,692)
		=======	=======

Other considerations:

In accordance with the IT Law, tax loss carryforwards, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. For the fiscal year 2005, the IT rate changes from 32% to 30%, and will further decrease by one percentage point every fiscal period, to 28% in 2007.

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

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

At December 31, 2007, the balances of the Capital Contributions (CUCA) and previously taxed earnings (CUFIN) accounts total $14,751,786 and $8,318,088 respectively.

(Continued)

(22) Stockholders' equity-

The outstanding characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

Activity in 2007

On April 26, 2007, the General Stockholders' Meeting agreed to transfer the income for the year 2006 of $4,581,218 ($4,413,450 nominal), affecting $458,122 ($441,345 nominal) to the statutory reserve, while the remainder $4,123,096 ($3,972,105 nominal) was recorded in the "Other reserves" account and will be made available to the stockholders if and when decided by the Board of Directors.

On December 20, 2007, the General Ordinary Shareholders' Meeting agreed to increase the paid-in capital by the amount of $2,349,999, of which $192,622 corresponded to capital stock and $2,157,377 to stock subscription premium, by issuing 96,311,475 shares which were subscribed and paid at a price of $24.40, for each 1,000 shares held. On December 28, 2007, the Financial Group exercised its preferred right and subscribed and paid 88,550,719 Series "F" shares and 7,752,421 Series "B" shares at a price of $24.40, which represented an increase in the capital stock of $192,606 and a premium for stock subscription of $2,157,190. On January 14, 2008, the minority shareholders lost their right to purchase shares of the Bank, and on that date HSBC's Financial Group subscribed and paid them.

The capital stock at December 31, 2007 and 2006 is represented by 1,235,518,371 and 1,139,215,231 shares, respectively, with a par value of two pesos per share, of which 1,135,981,163 and 1,047,430,444 are Series "F" shares and 99,537,208 and 91,784,787 are Series "B" shares.

Activity in 2006

On April 26, 2006, the Ordinary General Stockholders' Meeting agreed to apply the net income of 2005 amounting to $4,540,546 ($4,199,457 nominal), against "statutory reserves" in the amount of $454,054 ($419,946 nominal), and the remaining $4,086,492 ($3,779,511 nominal) to "Other reserves", that will be available to the stockholders until Board of Directors agreed.

(b) Comprehensive income -

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

HSBC MEXICO, S. A. AND SUBSIDIARIES

(c) Restrictions on stockholders' equity-

The Credit Institutions Law requires that the Bank segregate 10% of its net income for the year to the statutory reserves up to the amount of its paid-in capital stock.

Stockholder contributions may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equal or exceed stockholders' equity. Retained earnings on which no income taxes have been paid, are subject to income taxes in the event of distribution to stockholders.

The unappropriated retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends. Also, gains from marking to market investment securities and derivative transactions may not be distributed until realized.

(d) Capitalization-

The SHCP requires that credit institutions maintain a minimum capitalization percentage of risk-based assets, which is calculated by applying certain specific percentages according to the level of risk assigned. At December 31, 2007 and 2006 information relating to the Bank's net capital, risk-based assets and capital requirements (in millions of pesos) is as shown below:

Basic, supplementary and net capital		2007	2006
Stockholders' equity	$	31,840.9	25,491.2
Reduced by:			
Intangible assets		(1,328.6)	(758.4)
Investments in shares of financial entities		(23.2)	(290.4)
Investments in shares of other companies		(67.1)	(57.4)
Investment in subordinated debt		(230.1)	(241.1)
Basic capital (Tier 1)		30,191.9	24,143.9
Add:			
Subordinated debt		2,200.0	2,283.6
General allowance for loan losses		1,159.5	664.6
Supplementary capital (Tier 2)		3,359.5	2,948.2
Net capital (Tier 1+ Tier 2)	$	33,551.4	27,092.1
		=======	======

(Continued)

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Risk-based assets and capital requirements

	Equivalent risk-weighted assets		Capital requirements	
	2007	**2006**	**2007**	**2006**
Market risk:				
Transactions or positions:				
In pesos at nominal rates	$ 48,153.8	41,815.0	3,852.3	3,345.2
In pesos at interest rates discounted from inflation or denominated in UDIS	1,993.7	1,625.7	159.5	130.1
In foreign currency at nominal rates	3,635.0	4,772.3	290.8	381.8
In UDIS or with yields linked to the Consumer Price Index	20.0	19.4	1.6	1.6
Foreign currency positions or with exchange rate indexed yields	1,827.5	2,919.4	146.2	233.6
Total market risk	55,630.0	51,151.8	4,450.4	4,092.3
Credit risk:				
Group I (weighted at 0%)	-	-	-	-
Group II (weighted at 10%)	258.0	202.5	20.6	16.2
Group II (weighted at 11.5%)	130.5	121.8	10.4	9.8
Group II (weighted at 20%)	8,648.6	7,911.1	691.9	632.9
Group II (weighted at 23%)	346.5	185.6	27.7	14.8
Group III (weighted at 50%)	54.3	24.0	4.3	2.0
Group III (weighted at 100%)	164,238.2	131,718.7	13,139.1	10,537.5
Group III (weighted at 112%)	1,951.4	3,153.0	156.1	252.2
Group III (weighted at 115%)	2,315.0	824.7	185.2	66.0
Group III (weighted at 150%)	2,207.1	1,140.8	176.6	91.2
Total credit risk	180,149.6	145,282.2	14,411.9	11,622.6
Total market and credit risks	$ 235,779.6	196,434.0	18,862.3	15,714.9
	=======	=======	======	======

(Continued)

	2007	2006
Capitalization indices:		
Capital to credit risk assets:		
Basic capital (Tier 1)	16.76%	16.62%
Supplementary capital (Tier 2)	1.86%	2.03%
Net capital (Tier 1 + Tier 2)	18.62%	18.65%
	=====	=====
Capital to market and credit risk assets:		
Basic capital (Tier 1)	12.80%	12.29%
Supplementary capital (Tier 2)	1.43%	1.50%
Net capital (Tier1 + Tier 2)	14.23%	13.79%
	=====	=====

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

Starting 2008, the Ministry of Finance and Public Credit *(Secretaría de Hacienda y Crédito Público)*, resolved that financial institutions shall meet the capital requirements set forth for operative risk.

(23) Related party transactions and balances-

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2007 and 2006, the Bank had granted loans to related parties totaling $4,592,567 and $3,995,842, respectively.

In addition to interest and commissions on the above-mentioned loans, the principal transactions carried out with related parties during the years ended December 31, 2007 and 2006, were as follows:

		2007	2006
Transactions:			
Income:			
Administrative services	$	971,262	928,454
Interest and commissions		348,335	340,525
Other		89,536	298,917
		======	======
Expenses:			
Insurance premiums	$	373,580	124,254
Premiums on securities repurchase/resell agreements		155,371	211,612
Interest and commissions		59,829	26,490
Administrative expenses		220,175	-
Others		-	2,869
		======	======

(Continued)

Balances receivable from and payable to related parties as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	Receivable	Payable	Receivable	Payable
Mutual funds	$ 457	-	319	-
HSBC Seguros, S. A. de C. V.	14,150	28,871	3,067	33,454
HSBC Vida, S. A. de C. V.	2,406	5,280	544	12,482
HSBC Afore, S. A. de C. V.	172	7,614	2,936	10,943
HSBC Casa de Bolsa, S. A. de C. V.	-	59,045	12,018	13,219
HSBC Fianzas, S. A.	-	3,677	-	7,043
HSBC Pensiones, S. A.	-	9,021	390	11,608
HSBC Operadora de Fondos, S. A. de C. V.	2,496	10	-	8
HSBC Servicios, S. A. de C. V.	186,891	-	-	-
Grupo Financiero HSBC, S. A. de C. V.	1,637	7,948	-	1,636,460
Inmx Servicios, S. A. de C. V.	-	63	-	-
Inmx Comercializadora, S. A. de C. V.	21,846	1,310	-	-
HSBC Servicios Financieros, S. A. de C. V.	-	-	-	7
	$ 230,055	122,839	19,274	1,725,224
	=====	=====	=====	====

(24) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-

At December 31, 2007, HSBC had irrevocable commitments to grant loans of $10,793,405 and had issued guarantees of $43,663 ($6,574,441 and $52,373, respectively, in 2006).

At December 31, 2007 the allowance for letters of credits and guarantees issued amounts to $163,464, and is included in the allowance for loan losses ($167,900 in 2006).

(b) Assets in trust or under mandate-

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

	2007	2006
Type of trust:		
Administrative	$ 79,140,919	52,830,769
Guarantee	21,346,010	17,050,201
Investment	27,201,853	14,386,257
Other	14,419,010	11,890,496
	142,107,792	96,157,723
Mandates	686,383	510,096
	$ 142,794,175	96,667,819
	========	========

(Continued)

Trust activities revenue for the years ended December 31, 2007 and 2006 amounted to $170,852 and $134,264, respectively.

(c) Investments on behalf of customers-

The Bank receives funds from the public and invests them in various instruments of the Mexican financial system on behalf of its customers, which it records in memorandum accounts as follows:

		2007	2006
Mutual funds:			
Managed by HSBC	$	933,240	1,798,805
Other		2,011,486	3,688,768
Government securities		14,181,369	11,743,353
Equities and other		9,600,870	5,567,876
	$	26,726,965	22,798,802

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

(d) Assets in custody-

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2007 and 2006, this account comprises:

		2007	2006
Assets in custody	$	128,451	59,906,997
Pledged assets		616,215	588,001
Assets under management		49,471,791	55,759,668
	$	50,216,457	116,254,686

As of December 31, 2006, total assets in custody include a temporary effect for a total of $59,800,000.

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

(a) Statement of operations by segment-

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

Personal Financial Services (PFS) –Focused primarily on individuals that comprises mainly consumer products, which include credit cards, personal and car loans as well as mortgage loans and traditional deposits.

(Continued)

Commercial Banking (CMB) – Focused primarily on corporations, offering financing in Mexican pesos and other currencies, lines of credit for working capital, term loans, and the financing of exports, in addition to financial services relating to checking and investment accounts and cash management.

Corporate, Investment Banking & Markets (CIBM) – Focused primarily on corporations, which comprise: trust, treasury and custody services, corporate finance advisory, as well as risk management and cash flow services. This segment comprises products such as letters of credit, factoring, discounted documents and investments in the money and capital markets.

Other Corporate Activities (OCA) – They relate to business structural operations.

(Continued)

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

Statements of operations by segment

December 31, 2007 and 2006

(Million of Mexican pesos of constant purchasing power as of December 31, 2007)

	Banca									
	PFS		CMB		CIBM		OCA		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Financial margin	$ 15,324	11,770	5,152	4,416	1,168	1,187	-	-	21,644	17,373
Allowance for loan losses	(9,139)	(3,013)	(371)	(1,243)	24	(6)	-	-	(9,486)	(4,262)
Adjusted financial margin	6,185	8,757	4,781	3,173	1,192	1,181	-	-	12,158	13,111
Commissions and fees, net	7,411	5,799	2,187	2,016	608	524	-	160	10,206	8,499
Financial intermediation income	545	554	108	133	556	1,442	-	(8)	1,209	2,121
Total operating income	14,141	15,110	7,076	5,322	2,356	3,147	-	152	23,573	23,731
Administrative and promotion expenses	(14,646)	(12,399)	(3,835)	(3,216)	(1,463)	(1,418)	-	(439)	(19,944)	(17,472)
Net operating income (loss)	(505)	2,711	3,241	2,106	893	1,729	-	(287)	3,629	6,259
Other income, net	1,844	494	297	28	165	60	544	480	2,850	1,062
Taxes	(382)	(1,206)	(1,010)	(803)	(302)	(674)	(155)	(55)	(1,849)	(2,738)
Income before equity in results of subsidiaries	957	1,999	2,528	1,331	756	1,115	389	138	4,630	4,583
Equity in results of subsidiaries	25	(2)	-	-	-	-	-	-	25	(2)
Income from continuing operations	982	1,997	2,528	1,331	756	1,115	389	138	4,655	4,581
Result from discontinued transactions	1	-	-	-	-	-	-	-	1	-
Net income	$ 983	1,997	2,528	1,331	756	1,115	389	138	4,656	4,581

HSBC MEXICO, S. A. AND SUBSIDIARIES

Financial Margin:

The financial margin for the years ended December 31, 2007 and 2006 is analyzed as follows:

	2007	2006
Interest income:		
Cash and equivalents	$ 2,675,775	2,645,693
Investment securities	6,728,445	5,516,003
Interest and premiums on securities purchased under agreements to resell	436,946	1,963,333
Loan portfolio:		
Commercial loans	7,377,183	5,099,467
Financial Institutions	815,044	547,391
Consumer loans	9,678,351	6,255,907
Residential mortgages	2,162,660	2,071,910
Government entities	2,951,107	3,050,117
IPAB	-	68,564
Others, including inflation effect	1,009,063	828,053
	33,816,574	28,046,438
Interest expense:		
Deposit funding	(795,323)	(734,318)
Time deposit	(5,356,838)	(4,359,921)
Due to banks and other institutions	(735,205)	(594,930)
Bank bonds	(342,290)	(213,188)
Interest and premiums on securities purchased under agreements to resell	(3,493,663)	(3,403,342)
Interest by subordinated debt issued	(170,367)	(175,063)
Others, including inflation effect	(216,499)	(220,732)
	(11,110,185)	(9,701,494)
Monetary position result associated to financial margin	(1,062,592)	(972,277)
	$ 21,643,797	17,372,667
	========	========

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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

		2007		2006	
		Financial margin	Others	Financial margin	Others
Assets:					
Cash and equivalents	$	54,575,638	-	52,216,192	147,749
Investment securities		106,337,907	43,443	61,085,855	-
Derivative financial instruments		327,040,990	-	239,468,265	-
Loan portfolio		169,633,189	-	141,710,905	-
Other accounts receivable		-	33,133,003	-	22,479,339
Foreclosed assets		-	-	-	148,229
Deferred income tax		-	2,568,808	-	3,947,235
Permanet investments in shares		-	1,546,146	-	16,317
Others		-	1,027,638	-	1,853,931
Monetary position asset average		657,587,724	38,319,038	494,481,217	28,592,800
Liabilities:					
Deposits		(223,974,421)	-	(206,563,492)	-
Due to banks and other institutions		(11,235,885)	-	(8,497,679)	-
Bank bonds		(4,255,937)	-	(2,633,342)	-
Derivative financial instruments		(336,225,533)	-	(246,961,151)	-
Subordinated debt issued		(2,516,425)	-	(2,509,048)	-
Others account payable		-	(52,164,124)	-	(34,427,641)
Deferred credits		-	(2,147,681)	-	(3,742,517)
Monetary position liability average		(578,208,201)	(54,311,805)	(467,164,712)	(38,170,158)
Monetary position average, net		79,379,523	(15,992,767)	27,316,505	(9,577,358)
Monetary position result	$	(1,062,592)	278,841	(972,277)	264,232
		========	========	========	========

(Continued)

(b) Financial intermediation gain-

For the years ended December 31, 2007 and 2006, the financial intermediation gain (loss) is analyzed as follows:

	2007	2006
Valuation gain (loss):		
Investment securities	$ (107,046)	14,257
Securities repurchase/resell agreements	1,921	21,188
Trading derivatives	(57,056)	432,959
Foreign currency exchange and precious metals	155,566	182,192
	(6,615)	650,596
Purchase/sale gain (loss):		
Investment securities	322,866	445,291
Securities repurchase/resell agreements	221,170	562,709
Foreign currency exchange and precious metals	657,682	432,824
	1,201,718	1,440,824
Restatement for inflation	14,778	29,330
	$ 1,209,881	2,120,750

(c) Other income-

For the years ended December 31, 2007 and 2006, “Other income” is analyzed as follows:

	2007	2006
Recoveries	$ 1,391,110	1,362,476
Recoveries of written-off loan portfolio	326,450	-
Reimbursement of expenses made on behalf subsidiaries	445,984	-
Payments received in relation to the use of infrastructure from subsidiaries	369,264	-
Monetary position gain from non-financial margin items	314,570	264,232
Reimbursement of inter-company expenses	250,734	-
Gain on sale of foreclosed assets or received in lieu of payment	137,263	124,617
Gain on sale of premises, furniture and equipment	-	3,592
Other, including restatement for inflation	936,239	391,563
	$ 4,171,614	2,146,480

(Continued)

(d) Other expense-

As of December 31, 2007, other expenses include write-offs for a total of $1,321,559 and $1,083,891, respectively.

(e) Ratios-

The ratios as of and for the years ended December 31, 2007 and 2006 are analyzed below:

	2007	**2006**
Non-performing loans to total loans	4.0%	2.7%
Allowance for loan losses to past-due loan portfolio	132.0%	156.8%
Operating efficiency *(administrative and promotional expenses to average total assets)*	6.0%	5.9%
ROE *(net income to average stockholders'equity)*	20.8%	19.1%
ROA *(net income to average total assets)*	1.8%	1.5%
Liquidity *(liquid assets/liquid liabilities)**	81.6%	73.3%
Financial margin after provision for loan losses /average earnie assets	3.54%	4.7%
Capital to credit risk assets	18.62%	18.65%
Capital to market and credit risk	14.23%	13.79%

* *Liquid assets* – Cash and equivalents, trading and available-for-sale securities.
* *Liquid liabilities* – Demand deposits, demand and short-term bank and other loans.

(26) Commitments and contingent liabilities-

(a) Leases-

Certain premises and equipment are leased from its related companies. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense aggregated $1,209,906 in 2007 and $955,603 in 2006.

(b) Lawsuits and litigation-

The Bank is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Bank's financial position and results of operations. Certain cases are covered by an indemnity clause of the agreement with the IPAB, the Bank and Atlántico dated on December 7, 2001.

(27) Recently issued accounting standards

Applicable from 2008

The CINIF has issued the following FRS, effective for years beginning from January 1, 2007, and which do not provide for earlier application. Management has estimated that the adoption of the new FRS will not have a significant impact on the Bank's financial statements.

(a) **FRS B-10 *"Effects of inflation"*-** This standard supersedes Bulletin B-10 (Recognition of the effects of inflation on the financial information). The main changes include the definition of two economic environments, which determine when the entities have to recognize the inflation effects on the financial information or not, these are: (i) inflationary environment, when the three precedent years the inflation rate is equal or grater than 26% (annual average inflation rate of 8%); (ii) non-inflationary environment, when the cumulated inflation during the last three years is lower than 25%. It also states that an entity has to recognize the inflation effects when it operates in an inflationary environment and requires that the deficit in equity restatement is reclassified to retained earnings.

(b) **FRS D-3 *"Employee benefits"*-** This standard supersedes Bulletin D-3 (Labor Obligations). The main changes are: (i) a maximum of five years for amortizing pending unamortized items, and the option is provided for immediate recognition of actuarial gains or losses in the results of operations; (ii) the recognition of an additional liability and the related intangible asset or any related item as a separate element, is eliminated of stockholders' equity, is eliminated; (iii) incorporates the ESPS, including deferred ESPS, and requires that this is presented in the income statement within ordinary operations.

(c) **FRS D-4 *"Tax on earnings"*-** This standard supersedes Bulletin D-4. The main changes are: (i) the accounting treatment of ESPS incurred and deferred is transferred to FRS D-3, as mentioned in paragraph (b) above; (ii) AT is recognized as a tax credit (benefit), consequently, a deferred asset will only be recognized, if it is likely to be realized.

(d) **FRS B-12** "***Statement of cash flows"*-** This standard supersedes Bulletin B-12 (Statements of Changes in Financial Position). This FRS: (i) establishes two alternative preparation methods (direct and indirect); (ii) does not consider inflation effects and (iii) requires cash flows from operations, investment and financing to be disclosed.

(Continued)

(e) **FRS B-15** “***Translation of foreign currencies”***- This FRS supersedes Bulletin B-15 (Foreign currency transactions and translation of financial statements from foreign operations). The main changes are; (i) substitution of the integrated foreign operation and foreign entity concepts for determining recording currency, functional currency and reporting currency; (ii) conversion considers the economic environment in which the entity operates.

(28) Risk management-(non audited)-

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

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

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

Assets and Liabilities Committee (ALC)

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

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

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

(Continued)

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

Risk Committee (RC).

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

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

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

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

Market Risk

Qualitative information

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

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

The Board of Directors establishes the RC, whose objective is to manage the risks to which the institution is exposed, and to oversee that transactions adhere to the risk management purposes, policies and procedures and the global and specific risk exposure limits previously approved by the Board of Directors.

Market risk, as defined by the institution, is the "risk that market prices and rates on which the Bank has taken positions – interest rates, foreign exchange rates, stock prices, etc. – move adversely relative to positions taken, thus causing losses to the Bank; that is, the potential loss arising from changes in risk factors relating to the valuation or expected results of assets, liabilities or contingent liability transactions, such as interest rates, foreign exchange rates, price indexes, among others.

(Continued)

The principal market risks to which the Bank is exposed, can be generically classified in accordance to the exposure of its portfolios to variances of the different risk factors, as follows:

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

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

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

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

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

b. Principal elements of market risk management methodologies

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

Value at Risk (VaR)

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

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

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

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

Surcharge risk

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

Base risk

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

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

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

Credit Spread (CS01)

The Credit Spread Risk or CS01 is used to control the risk of keeping the bonds issued by the private sector, the value of which may vary due to changes in the credit rating of the issuers.

Such credit rating is reflected in the profit differential with respect to sovereign bonds. HSBC employs market risk limits to control the sensitivity that value may experience in these positions due to changes in the credit rating of issuers.

Vega or Volatility Risk

HSBC takes positions in instruments that are sensitive to changes in implicit market volatility, such as interest rate options. Vega limits are used to control the risks associated with such market volatilities.

Stress testing

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

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

Methods for Validation and Calibration of Market Risk models

In order to detect in a timely manner any decrease in the prediction quality of the model, automatic data loading systems are in place, thus preventing manual data inputting. Furthermore, for the purpose of measuring the efficiency of the VaR estimation model, **back-testing** is performed. This type of test allows verification that the maximum estimated losses, on average, do not exceed the reliability level established, comparing the profits/losses that would have been generated had the portfolio been held during the VaR holding period. Back-testing is reinforced by performing hypothesis testing procedures.

As for the PVBP, it has been compared with the sensitivity of the portfolios to market quotations. The results of these tests confirm the accuracy of the models. In order to reinforce the validation and verification of the various risk factors, a set of matrices has been designed that show the behavior of different risk factors selected in order to check their reasonableness in relation to the values prevailing in the financial markets and verify the current value and the value on the preceding business day for consistency.

c. Portfolios subject to VaR and PVBP calculation

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

The market risk area calculates the VaR and PVBP for the Bank’s total portfolio and specific Accrual and Trading portfolios so as to monitor the Bank’s own and trading positions.

Global VaR is estimated for each portfolio. Additionally, VaR is broken down by risk factors (Interest Rates and Foreign Exchange Rates). PVBP is broken down by type of rate (pesos, dollars and UDIS – Real Rate), and Forward PVBP is presented by segment of the forward curve (Buckets), for both peso and dollar interest rates.

In accordance with the International Accounting Standard (IAS) 39, the Money Market Trading (MMT) and BST (Balance Sheet Trading) portfolio should be part of the Trading portfolio for purposes of calculating the market VaR and of the Accrual portfolio for calculating the PVBP. By mid 2007, the AFS portfolio was incorporated to the total Trading VaR of the Bank.

Stress testing is performed for the Bank’s portfolio and the Trading and Accrual portfolios. Furthermore, a special stress test is performed for Available for Sale and Hedging Securities.

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Quantitative information

As follows it is going to be presented, the Bank's VaR and PVBP and the Trading and Accrual portfolio sub-division for the 4Q of 2007 (in million of dollars):

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

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

	HBMI Q4 2007 average	**Limits ***	**All Trading Q4. 2007 average**	**Limits ***	**Accrual Q4. 2007 average**	**Limits***
Total	10.44	42.00	3.00	40.00	9.17	27.50
Rates	11.38	42.00	3.48	24.50	9.17	27.50
FX	1.86	8.00	1.85	8.00	N/A	N/A
Volatility changes	0.18	9.50	0.17	7.50	0.01	2.00

Global Market Value at Risk (VaR) (Compared to last quarter)

	Sep 29, 07	**Dec 31, 07**	**Limits***	**Q3 2007 average**	**Q4 2007 average**
HBMI	**12.14**	**14.35**	42.00	17.67	10.44
Accrual	**8.57**	**11.97**	27.50	14.87	9.17
All	**3.08**	**3.33**	32.50	3.64	3.00

* *Absolute value* *NA Not Apply*

The Bank's VaR at the end of 4Q of 2007 varied by 18.20% as compared to the 3Q. During the period the VaR levels remained below the total limits set by Management.

The Bank's average VaR for the 4Q of 2007 varied by 40.91% vs. 3Q. During the period the VaR levels remained below the total limits set by Management.

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VaR vs. Net Capital Comparison

Below is a comparative VaR against Net Capital table as of September 30 and December 31, 2007; in millions of dollars.

	September 30, 2007	December 31, 2007
Total VaR *	15.77	10.44
Net Capital **	2,240.34	3,073.69
VaR / Net Capital	0.65%	0.34%

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

Average VaR represented 0.34% of net capital in 4Q in 2007.

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

	Sep 30, 07	Dec 31, 07	Limits*	Q3 2007 average	Q4 2007 average
Bank	(0.556)	(0.632)	1.200	(0.856)	(0.437)
Accrual	(0.446)	(0.612)	1.075	(0.622)	(0.474)
Trading Desk	(0.109)	0.009	0.350	(0.075)	0.028
Balance Sheet	0.001	(0.029)	0.230	(0.009)	0.009
AFR	(2.44)	(0.236)	0.437	(0.231)	(0.246)
ALCO	(0.003)	(0.001)	0.600	(0.006)	(0.002)

* Absolute value

The Bank’s PVBP at the end of the 4Q of 2007 changed by 13.66% as compared to the 3Q. The Bank’s average PVBP for the 4Q of 2007 varied by 48.94% as compared to the 3Q.

Liquidity risk

Qualitative information

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

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

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

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

Quantitative information

At the December close, the Bank has the following liquidity ratios: 18.7% in the 1st. line and 24.5% in the 2nd line and a limit of 10% in both cases.

Furthermore, the cash flow projections under 4 different scenarios result in positive cash flows.

Credit risk

Qualitative information

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

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

In general, the methodologies separate client risk (probability that a client defaults its payment obligations: Probability of Default) from credit or transaction risks (risk inherent to the structuring of the loan, which mainly includes the value and type of security).

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

During the last quarter of 2007, the MRC (Credit Reserve Module) system was implemented in order to enhance the functionality of the Rating System (SICAL). The commercial portfolio internal rating model is currently applied (Rating Matrix). This model is the key element in connection with the performance of the rating risk process. In principle, the Rating Matrix determines client rating based upon an analysis of three fundamental areas: payment capacity, payment history, and performance status. Afterward, the credit rating is obtained from the client rating adjusted in terms of the period in which the client has issued financial statements, shareholders' support and security, among others. Both ratings, client and credit, range from 1 to 10, with 1 representing the minimum risk and 10 representing the maximum risk.

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

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

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

In addition to the aforesaid customer risk assessment models, 11 models were implemented for financial but non-banking institutions (NBFI DST), one for the banking institutions (MRAfB) and one more for global corporate clients, whose sales are equal or higher than MXN 7,000 million (GLCS). In addition, during the last quarter of 2007, it was implemented a new version of GLCS and MRAof Banks.

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

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

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

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

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

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

Quantitative information

As of December, 31 2007, the expected loss from the consumer and mortgage credit portfolio amounts to $6,171,900; this increased by 20.1% compared to the third quarter of 2007. The expected loss for the commercial loans portfolio is $3,791,000, this increased by 7.2% compared to the third quarter of 2007.

<u>Operational risk</u>

Qualitative information

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

To handle these risks, a specialized central unit has been created, which is assisted by close to one hundred medium-level officers who, as part of their own business units or support areas, report to the specialized central unit and are responsible to communicate the Group’s operational risk management framework.

During the second semester of 2007 and for the third consecutive year the whole operational risks were identified and reassessed throughout the Group structure. During the year, all recognizable risks were designated, described and classified into four general categories: persons, processes, systems and external events, which in turn are divided into 22 subcategories within which specific follow-up is provided to technology and legal risks. Furthermore, all risks were rated from different perspectives: feasibility, impact and exposure degree, deriving in an overall identifiable risk rating from greater to lesser degree of risk as "A", "B", "C" or "D".

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Technology risk

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

Legal risk

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

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

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

Policies and procedures have been implemented to identify, measure and control the legal risks. This is to avoid possible losses due to non-compliance with applicable laws and regulations and unfavorable resolutions, further more to avoid that these risks could result in non-quantifiable losses for the Bank. At the same time, officers and employees have been made aware of the laws and regulations applicable to their operations, in addition audits have been undertaken which objective that of a culture that mitigates the legal risk.

Quantitative Information (Operational Risk including Legal and Technological Risks)

The measure of operational risks as of the fourth quarter of 2007, resulting from the fourth evaluation exercise carried out during autumn of 2007, and taking into account the update performed during the first three quarters of 2007, shows a total of 2,376 identified and evaluated risks, distributed in: 1.30% type A, 10.27% type B, 59.81% type C and 28.62% type D, classified in turn in accordance to their respective category in: 20.37% relative to persons, 50.38% to processes, 18.05% to technology or systems and 11.2% to external factors.

Furthermore, for the fifth consecutive year, during 2007 the main incidents were recorded and e incorporated in the corporate platform expressly designed to manage operational risks.

The threshold report for these type of incidents is equivalent to USD10,000 in national currency and minor events are recorded in a single entry.

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HSBC MEXICO, S. A. AND SUBSIDIARIES

It is estimated that for the first quarter of 2008, realized operational risks included in Other Expenses, will have an approximate impact of $160.7 millions (USD14.65 millions), distributed in the following proportions:

Concept	Proporción
Frauds	48.85%
Robberies and assaults	4.41%
False bills	1.41%
Operating errors	4.83%
Branches	2.97%
Credit card	27.19%
Lacking cashiers, companies of movement and others	1.32%
Others	9.29%

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