

Grupo Financiero HSBC

Financial information at 30 June 2007

2Q07

- ▶ **Press Release**
- ▶ **Quarterly Report
Second Quarter 2007**

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**GRUPO FINANCIERO HSBC, S.A. DE C.V.
SECOND QUARTER 2007 FINANCIAL RESULTS - HIGHLIGHTS**

On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. All comparative commentary within this report is therefore on a like-for-like basis excluding HSBC Panama, as presented in Appendix A. The financial statements on pages 6-11 include HSBC Panama up until the date of disposal.

- ▶ **Net income down 11.8 per cent to MXN2,439 million for the first half of 2007 (MXN2,766 million for the first half of 2006).**
- ▶ **Net loans and advances to customers up MXN28.5 billion, or 20.2 per cent, to MXN169.6 billion at 30 June 2007 (MXN141.1 billion at 30 June 2006).**
- ▶ **Total assets up MXN12.3 billion, or 4.0 per cent, to MXN319.1 billion at 30 June 2007 (MXN306.8 billion at 30 June 2006).**
- ▶ **Cost efficiency ratio (excluding monetary position) of 60.5 per cent for the first half of 2007 (62.3 per cent for the first half of 2006).**
- ▶ **Return on equity of 14.5 per cent for the first half of 2007 (20.7 per cent for the first half of 2006).**

Results are prepared in accordance with Mexican GAAP (generally accepted accounting principles), with figures denominated in Mexican pesos (MXN). Comparative figures are presented on an actual basis, indexed to constant MXN as at 30 June 2007.

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

Commentary by Paul Thurston, CEO of Grupo Financiero HSBC:

“Grupo Financiero HSBC recorded a net income of MXN2,439 million for the six months ended 30 June 2007. This represents an 11.8 per cent decline versus the same period of the previous year.

“The results reflect the investment that HSBC is making in organically growing our business in Mexico, as we continue to build our presence and market share in this fast growing financial services market. The costs of organic growth are showing through in higher expenses and loan impairment charges, but I am pleased to report that we are also seeing positive indicators of this investment bearing fruit, with strong growth in our customer base and loan volumes. Our customer base grew from 7.2 million at June 2006 to 7.9 million at June 2007, credit cards in circulation have increased over 721,000 to 2.2 million, while loans and advances to customers grew 20.2 per cent over the same period.

“The increase in business volumes is driving healthy revenue growth, with higher levels of interest income, fees and commissions in almost all areas of the bank, except for treasury income, where despite the strong progress that has been made in developing our global markets capabilities, revenues are below the record levels achieved in 2006 as a result of a more difficult interest rate environment.

“Expenses increased 10.5 per cent versus the same period last year, as we continued to invest in marketing, staff, IT and other infrastructure costs to support our business expansion, including growing the number of point of sale terminals by more than 46,000 versus the first half of 2006 as well as adding 249 new ATMs and 10 new branches during the same period. Our cost efficiency however has shown continued progress, improving 174bps to 60.5 per cent as revenue growth exceeded expense growth, despite lower trading revenues.

As a result of strong growth particularly in credit cards, small business and self-employed lending, which grew 120.2 percent, 80.1 percent and 64.7 percent respectively, loan impairment charges were higher than the previous year, reflecting the acquisition costs of building our market presence in these segments.

“HSBC continues to invest to be the leading financial services institution in Mexico in the eyes of our customers, offering innovative solutions to better meet our customer needs, and we will continue to develop our infrastructure to improve service standards. I thank our customers and staff for their continued support.”

Overview

In the first half of 2007, Grupo Financiero HSBC’s net income of MXN2,439 million was MXN327 million, or 11.8 per cent, lower than the same period in 2006.

Net interest income (excluding monetary position) was up by MXN1,439 million to MXN10,141 million for the period ended 30 June 2007, a 16.5 per cent increase compared to the same period in 2006. Significant loan growth was partially offset by lower balance sheet management income due primarily to a reduction of MXN13.4 billion in the available-for-sale portfolio. The proceeds from this reduction have been invested in consumer and small business loan growth.

Net fees and commissions were up by MXN688 million to MXN4,963 million for the six months ended 30 June 2007, a 16.1 per cent increase over the same period in 2006. The main growth drivers were an increased number of credit cards in circulation, a rise in customer transactions

and the continued success of the bank's packaged products, *Tu Cuenta* (for personal customers) and *Estímulo* (for business customers). This strong performance offset a decrease in fees resulting from a change in accounting rules in 2007 where origination fees are now registered in net interest income. In addition, point of sale, ATM, payments and cash management services, mutual funds, and trade services also contributed to growth in fee income.

Trading income at MXN777 million was 22.1 per cent lower compared to very strong performance during the same period of the previous year which benefited from favourable market conditions. Although income picked up during the second quarter of 2007 driven by solid results in retail foreign exchange, derivatives and debt trading had reduced revenue opportunities due to the flat yield curve.

Administrative expenses of MXN9,610 million in first half 2007 were 10.5 per cent higher than in the same period in 2006. Expense growth was primarily driven by a combination of higher staff and marketing costs incurred to support business expansion. Personnel expenses increased as a result of the 1,862 new employees hired since June 2006, pay rises and increased incentive costs related to higher revenues. Information technology improvements and investment in the expansion, relocation and renovation of the branch and ATM infrastructure have also contributed to expense growth. With cost growth below the rate of revenue growth, however, the cost efficiency ratio (excluding monetary position) improved from 62.3 per cent in the first half of 2006 to 60.5 per cent for the same period in 2007.

The robust increases in credit card, self-employed and small and medium business lending balances led to an increase in loan impairment charges of MXN2,143 million, compared with the same period in 2006, to reach MXN3,815 million. This however is affected by an additional MXN272 million in the second quarter of 2007 relating to methodology changes to recognize the risk associated with the loan portfolio when the quarter ends on a non-working day as it did in June. In addition, in accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN569 million of general reserves to fulfil loan portfolio requirements in the second quarter of 2006. Considering the above effect, underlying year-on-year growth in loan impairment charges of 70.2 per cent is in line with the strategy to develop a market leading position in credit cards, self-employed and small business lending.

Delinquency rates rose during the period, as the loan book grew, reflecting the acquisition costs of organically growing the lending business. In addition loan underwriting criteria and collections strategies are regularly reviewed to maintain the quality of the portfolio. HSBC has maintained a solid allowance for loan losses as a percentage of impaired loans of 146.2 per cent as at 30 June 2007.

The bank's capital adequacy ratio remains sound at 13.8 per cent.

Business highlights

During the first half of 2007, the bank's **Personal Financial Services (PFS)** segment generated significant business growth, with the opening of some 199,000 new *Tu Cuenta* packaged products, over 381,000 new credit cards issued and higher balances in credit cards, mortgages, self-employed and payroll products. Strong revenues were generated in credit cards, ATMs and fees from *Tu Cuenta*. Continued growth in mutual funds was reflected by a MXN7,413 million rise in funds under management versus the previous year, and a 24.3 percent increase in customer numbers.

In **Commercial Banking (CMB)**, there was strong asset growth driven by a combination of higher real estate balances and growth in lending to small and medium business. Improvements in the products offered to the residential and tourist construction market led to a greater market presence, reflecting HSBC's capabilities to meet the needs of its customers. HSBC's market share in trade services grew by nearly 4 percentage points to 15.0 per cent, leveraging the Group's geographical presence and product capabilities.

The international business centre, which supports Mexican businesses in expanding internationally and foreign companies in investing in Mexico, has had a successful first half of 2007, with approximately 853 inward and outward referrals generated and 143 new accounts added.

In **Corporate, Investment Banking and Markets (CIBM)**, there was strong performance in retail foreign exchange. However despite this and income generated from the sale of securities from the available-for-sale portfolio, there was a reduction in fixed income, interest rate and balance sheet trading revenues due to the uncertainty in the local market with regard to interest rate policy, as well as an extremely flat yield curve in recent months. Corporate banking is joining up customer segments and product lines both locally and internationally, having supported several deals with London and New York during the first half of 2007, while payments and cash management services continues to cross-sale to the corporate customer base.

In March 2007, HSBC Mexico successfully issued its first residential mortgage-backed security (RMBS) for MXN2,500 million, in two series and with a term of 15.9 years. This issuance was the largest of its kind in Latin America and obtained AAA(mex) and mxAAA grades assigned by Fitch Ratings and Standard & Poors, respectively.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,360 branches, 5,533 ATMs, approximately 7.9 million customers and more than 23,000 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through around 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of some US\$2,150 billion at 30 June 2007, HSBC is one of the world's largest banking and financial services organisations. HSBC Holdings plc shares are listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. HSBC is marketed worldwide as 'the world's local bank'.

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Key Indicators *

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

For the quarter ended at

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
a) Liquidity	91.01 %	80.69 %	74.89 %	80.14 %	81.71 %
Profitability					
b) ROE (Return over equity)	19.64 %	20.40 %	14.15 %	16.51 %	12.49 %
c) ROA (Return over assets)	1.84 %	2.02 %	1.55 %	1.82 %	1.37 %
Asset quality					
d) Impaired loans/total loans	2.62 %	2.59 %	2.67 %	3.09 %	3.17 %
e) Coverage ratio	159.74 %	153.39 %	156.87 %	141.60 %	146.15 %
Capitalization					
f) Credit risk	19.29 %	19.25 %	18.65 %	18.65 %	17.84 %
g) Credit and market risk	14.75 %	13.90 %	13.79 %	14.67 %	13.82 %
Operating efficiency					
h) Expenses/Total Assets	5.93 %	5.86 %	6.11 %	6.24 %	6.28 %
i) NIM	6.67 %	6.11 %	6.41 %	7.03 %	7.43 %
Infrastructure					
Branches	1,350	1,347	1,347	1,350	1,360
ATM	5,284	5,353	5,437	5,482	5,533
Head Count	21,972	23,213	23,683	23,510	23,834

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

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

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

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

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

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

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

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

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

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

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

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

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

¹ On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V. to HSBC Asia Holdings BV; therefore, all comparative financial indicators for the Group within this chart are on a like for like basis for HSBC in Mexico only as presented in Appendix A. 1

Income Statement Variance Analysis ¹

Net Income

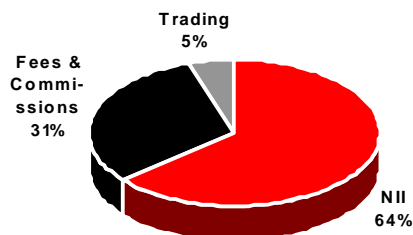
For the first half of 2007, Grupo Financiero HSBC (Group) reported a net income of MXN2,439 million, MXN327 million (11.8%) lower compared to the same period of 2006. The Bank, the main subsidiary of the Group, reported a net income of MXN1,920 million, MXN 357 million (15.7%) lower versus the first half of 2006. The results reflect the investment that HSBC is making in organically growing the business in Mexico, as it continues to build its presence and market share in the fast growing financial services market. The costs of organic growth are showing through in higher expenses and loan impairment charges. In addition, despite the strong progress that has been made in developing our global markets capabilities, revenues are below the record levels achieved in 2006 as a result of a more difficult interest rate environment.

The insurance company registered a strong performance with net income growing 22.9% versus the previous year, largely as a result of the successful cross sales with the branch network and an increase in life and auto premiums.

Total Revenue

In the first half of 2007, the Group's total operating income before loan impairment charges and monetary position was MXN15,881 million, growing MXN1,907 million (13.6%) versus the same period of the previous year. This growth was driven by increases in net interest income (before monetary position) and fee income of MXN1,439 million and MXN688 million, respectively. This was partially offset by a MXN220 million decrease in trading income.

Grupo Financiero HSBC: Revenue distribution first half 2007



Total revenue after loan impairment charges and monetary position, however, decreased MXN351 million (2.9%) versus the previous year to MXN11,789 million, reflecting the acquisition costs of growing the business in order to generate long term profits, which is consistent with the organic growth strategy.

Net Interest Income

The Group's net interest income for the period ended 30 June 2007 was MXN10,141 million, representing an increase of 16.5% versus the same period of 2006.

Growth in the performing loans portfolio and a change in the mix of the balance sheet composition, with increased focus on credit cards, small business and self employed loans, offset a decrease in average interest rates versus the previous year (7.7% in 1H06 and 7.5% in 1H07). A larger growth in time deposits versus demand deposits resulted in an increase in cost of funds and lower deposit spreads. However, net interest income from deposits rose due to higher volumes.

In addition, significant loan growth was partially offset by lower balance sheet management income due primarily to a reduction of MXN13.4 billion in the available-for-sale portfolio versus the first half of 2006. The proceeds from this reduction have been invested in consumer and small business loan growth.

Non-interest income

The Group's net fees and commissions income had a strong performance, totaling MXN4,963 million for the first half 2007. This represented growth of MXN688 million (16.1%) compared to the same period of the previous year. The main growth drivers were an increased number of credit cards in circulation, a rise in customer transactions and the continued success of the bank's packaged products, *Tu Cuenta* (for personal customers) and *Estímulo* (for business customers).

Net fee income from the Bank rose MXN695 million (17.8%) versus the previous year to reach MXN4,593 million.

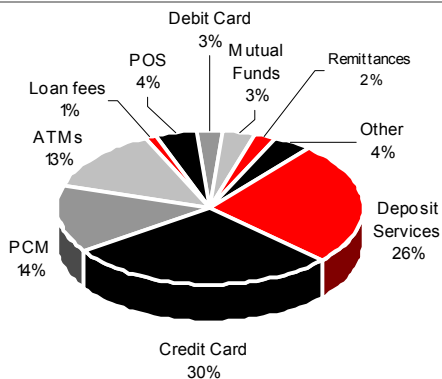
Credit card fee income growth was up 92.9% compared to the previous year, reflecting a significant increase in the number of cards in circulation and ATM cash withdrawals. Fees from

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membership programs rose 63.4%, driven by the success of packaged products like *Tu Cuenta* and *Estimulo*. Fee income from fiduciary trust grew 57.5% as a result of a more extensive share gained in the structured products market in which the structured transactions team within HSBC is gaining a leading role. In addition, card acquiring fees rose 30.5% due to increased number of point of sale terminals coupled with a higher number of affiliated businesses. Trade services, ATM, mutual fund, and cash management services fees also contributed to fee income growth.

Since January 2007, underwriting fees are deferred and amortised in the net interest income, according to the changes in the accounting methodology set by the Mexican regulators. These changes had a net negative effect in the Bank's fees and commissions of MXN224 million versus the first half of the previous year, of which MXN28 million are already amortised within the net interest income. Excluding this effect, fee income growth was 23.6 per cent.

Bank's fees & commissions distribution
(First half 2007)



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

Trading income for the Group decreased MXN220 million falling to MXN777 million for the first half of 2007, falling 22.1% compared to the record levels during the same period of the previous year. Retail foreign exchange had a solid performance, however, the uncertainty in the local market with regard to interest rate policy, as well as an extremely flat yield curve in recent months led to a lower trading income.

The Group's other net income of MXN868 million increased MXN473 million compared to the previous year, largely driven by loan recoveries.

Loan impairment charges

The Group's loan impairment charges for the six months ended 30 June 2007 reached a total of MXN3,815 million. Loan impairment charges were affected by an additional MXN272 million in the second quarter of 2007 relating to methodology changes to recognize the risk associated with the loan portfolio when the quarter ends on a non-working day as it did in June. In addition, in accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN569 million of general reserves to fulfil loan portfolio requirements in the second quarter of 2006. Considering the above effect, underlying year-on-year growth in loan impairment charges of 70.2 per cent is in line with the strategy to develop a market leading position in credit cards, small business and self-employed lending.

Administrative and personnel expenses

For the six months ended 30 June 2007, the Group's expenses were MXN9,610 million, representing an increase of MXN911 million (10.5%) versus the same period of the previous year.

Expenses grew as a result of the investments made to build a market presence in Mexico. During the first half of 2007, HSBC continued to invest in marketing, staff, IT and other infrastructure costs to support business expansion, including growing the number of point of sale terminals by more than 46,000 versus the first half of 2006 as well as adding 249 new ATMs and 10 new branches during the same period. Personnel expenses increased as a result of the over 1,800 new employees hired since June 2006 to reach nearly 24,000.

With cost growth below the rate of revenue growth, however, the cost efficiency ratio (excluding monetary position) improved from 62.3 per cent in the first half of 2006 to 60.5 per cent for the same period in 2007.

Balance Sheet Variance Analysis ¹

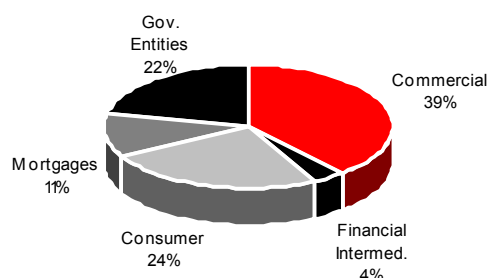
The Group's total assets were MXN319,053 million at 30 June 2007, increasing by MXN12,289 million (4.0%) versus the previous year. Likewise, total assets increased MXN11,280 million (3.7%) versus the previous quarter.

Loan Portfolio

The Group's total performing loans rose 20.1% versus 30 June 2006. The focus on developing a higher yielding balance sheet composition continued with the commercial and consumer loan portfolios increasing by 31.7% and 42.2%, respectively versus the previous year.

Group's Performing Loans Portfolio Distribution

(30 June 2007)



The increase in the commercial loan portfolio was driven by growth in the real estate business, which continued to increase its presence in the residential and tourist construction market. In addition, there was a strong performance in the small and medium business segment, particularly through the success of the integrated package *Estimulo*, which has allocated 3,850 new packages, representing a 98.9% increase versus the previous year.

The consumer loan portfolio grew largely due to the strong performance of credit cards, which increased 120.2% and allocated more than 721,000 cards versus the previous year, reaching a total of 2.2 million cards in circulation. This reflects the sound performance of packaged products like *Tu Cuenta* and the innovative marketing campaign offering a 5% credit card cash back promotion. During the first half of 2007, the number of *Tu Cuenta* accounts rose 19.8% to reach 1.2 million packages sold, with a year-on-year growth of 45.9 per cent.

Mortgage loans increased 6.8% versus the previous year; however, as at 30 March 2007, HSBC issued residential mortgage-backed securities (RMBS) for MXN2,500 million. Excluding the net impact of this transaction on the mortgage loan portfolio, mortgage loan growth was 20.3% compared to 30 June 2006.

In addition, a 68.3% increase in payroll and personal loans also contributed to consumer loan growth.

The table below illustrates the performing loan portfolio composition and the growth in higher-yielding segments like consumer and commercial loans.

Performing Loans Portfolio (Group)

	2Q2007	2Q2006	% var 2Q07 vs. 2Q06
Commercial	66,282	50,322	31.7%
Financial Int.	7,028	6,293	11.7%
Consumer	42,144	29,627	42.2%
Mortgage	19,662	18,412	6.8%
Gov. Entities	37,110	38,798	-4.4%
Total	172,226	143,452	20.1%

Asset Quality

The Group's impaired loans portfolio was MXN5,642 million at 30 June 2007, representing a MXN1,777 million (46.0%) growth versus the previous year. This increase is in line with the strong growth in the consumer and commercial loan portfolio, particularly in credit cards, small and medium business and self-employed lending, which grew 120.2%, 80.1% and 64.7%, respectively. The impaired loans to total loans ratio was 3.2% and the allowance for loan losses as a percentage of impaired loans was 146.2% as at 30 June 2007. Loan underwriting criteria and collections strategies are regularly reviewed to maintain the quality of the portfolio.

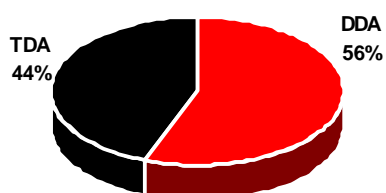
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Impaired Loans (Group)

	2Q2007	2Q2006	% var 2Q07 vs. 2Q06
Commercial	1,816	1,465	24.0%
Consumer	2,508	1,385	81.1%
Mortgage	1,318	1,015	29.9%
Total	5,642	3,865	46.0%

Deposits

The Group's demand and time deposits reached a total of MXN224,694 million at 30 June 2007, increasing MXN5,771 million (2.6%) compared to the previous year. During the first half of 2007 there was a change in the deposit mix with time deposits increasing by 14.9%, while demand deposits decreased by 5.5% versus the previous year.

Bank's Deposits Distribution*(30 June 2007)*

Mutual funds year-on-year balance growth was 19.9%, largely driven by the success of the investment fund *HSBC-D2*, which increased 14.7% versus 30 June 2006. At the end of the first half of 2007, HSBC's mutual funds reached over 109,000 customers, representing some 21,000 customers more than the previous year.

Deposits (Group)

	2Q2007	2Q2006	% var 2Q07 vs. 2Q06
On demand	124,755	131,974	-5.5%
Time deposits	99,939	86,949	14.9%
Mutual funds	44,677	37,264	19.9%
Total	269,371	256,187	5.1%

Shareholder's equity

The Group's shareholder's equity was MXN34,684 million at 30 June 2007, representing a growth of 23.9% versus the previous year, largely due to retained earnings. The Bank's equity by the end of June 2007 was MXN26,324 million, increasing 18.5% versus the previous year. The Bank's capital adequacy ratio of 13.8% remains solid at 30 June 2007, above the CNBV requirements.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in constant MXN millions

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

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
Assets					
Cash and deposits in banks	64,971	55,828	55,517	54,297	49,904
Investments in Securities	71,459	51,118	57,547	53,116	61,429
Trading securities	24,103	12,207	12,726	17,785	28,882
Available-for-sale securities	43,192	34,882	40,791	31,427	28,536
Held to maturity securities	4,164	4,029	4,030	3,904	4,011
Securities and derivative operations	274	799	237	189	83
Repurchase agreements	61	141	69	87	83
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	213	658	168	102	-
Performing loans					
Commercial loans	101,897	96,659	102,103	103,955	110,420
Commercial entities	56,728	52,813	58,571	61,333	66,282
Loans to financial intermediaries	6,371	5,367	6,021	6,083	7,028
Loans to government entities	38,798	38,479	37,511	36,539	37,110
Consumer loans	31,529	34,382	35,758	38,013	42,144
Mortgages loans	23,861	19,747	20,727	18,365	19,662
Loans to Fobaproa or IPAB	157,287	150,788	158,588	160,333	172,226
Total performing loans					
Impaired loans	1,513	1,391	1,552	1,833	1,816
Commercial loans	1,513	1,383	1,552	1,833	1,816
Commercial entities	-	-	-	-	-
Loans to financial intermediaries	-	8	-	-	-
Loans to government entities	1,407	1,498	1,680	2,048	2,508
Consumer loans	1,107	1,102	1,112	1,228	1,318
Mortgages loans	29	16	10	-	-
Total non-performing loans	4,056	4,007	4,354	5,109	5,642
Loan portfolio	161,343	154,795	162,942	165,442	177,868
Allowance for loan losses	(6,398)	(6,145)	(6,830)	(7,234)	(8,246)
Net loan portfolio	154,945	148,650	156,112	158,208	169,622
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	154,945	148,650	156,112	158,208	169,622
Other accounts receivable, net	20,816	23,228	11,011	29,314	25,008
Foreclosed assets	85	56	54	64	65
Property, furniture and equipment, net	5,959	5,799	6,142	6,086	6,029
Long term investments in equity securities	2,689	2,930	2,663	2,835	3,076
Deferred taxes, net	509	181	-	-	196
Goodwill	3,441	2,669	2,669	2,669	2,669
Other assets, deferred charges and intangibles	1,758	643	606	996	972
Total Assets	326,906	291,901	292,558	307,774	319,053

Figures in constant MXN millions

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

	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>	<u>30 Jun</u> <u>2007</u>
Liabilities					
Deposits	240,834	206,685	220,782	212,301	228,945
Demand deposits	139,845	119,373	134,792	120,716	124,755
Time deposits	96,573	82,938	81,714	87,333	99,939
Retail	96,573	82,938	81,714	87,333	89,874
Money market	-	-	-	-	10,065
Bank bonds outstanding	4,416	4,374	4,276	4,252	4,251
Bank deposits and other liabilities	7,626	10,304	13,064	10,545	9,821
On demand	-	-	101	2,007	450
Short term	5,478	8,166	10,705	6,441	6,137
Long term	2,148	2,138	2,258	2,097	3,234
Securities and derivative transactions	11,801	7,271	6,370	4,397	13,231
Repurchase agreements	44	30	54	20	55
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	11,757	7,241	6,316	4,377	13,146
Derivative transactions	-	-	-	-	30
Other accounts payable	34,244	34,151	16,947	44,047	29,945
Income tax and employee profit sharing payable	1,651	1,344	1,061	1,461	1,282
Sundry creditors and others accounts payable	32,593	32,807	15,886	42,586	28,663
Subordinated debentures outstanding	2,708	2,262	2,224	2,200	2,213
Deferred tax	-	-	560	383	-
Deferred credits	23	9	19	119	214
Total Liabilities	<u>297,236</u>	<u>260,682</u>	<u>259,966</u>	<u>273,992</u>	<u>284,369</u>
Stockholder's Equity					
Paid in capital	20,843	20,843	20,843	20,843	20,843
Capital stock	7,971	7,971	7,971	7,971	7,971
Additional paid in capital	12,872	12,872	12,872	12,872	12,872
Capital Gains	8,825	10,374	11,747	12,918	13,820
Capital reserves	927	850	849	850	1,128
Retained earnings	12,988	12,988	12,988	18,559	18,281
Result from the mark-to-market of available-for-sale securities	-	-	-	-	-
Results of foreign operations exchange	11	-	-	-	-
Cumulative effect of restatement	(3,873)	(3,873)	(3,873)	(3,873)	(3,873)
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,119)	(4,033)	(3,789)	(3,988)	(4,155)
Net Income	2,891	4,442	5,572	1,370	2,439
Minority interest in capital	2	2	2	21	21
Total Stockholder's Equity	<u>29,670</u>	<u>31,219</u>	<u>32,592</u>	<u>33,782</u>	<u>34,684</u>
Total Liabilities and Capital	<u>326,906</u>	<u>291,901</u>	<u>292,558</u>	<u>307,774</u>	<u>319,053</u>

Figures in constant MXN millions

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

	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>	<u>30 Jun</u> <u>2007</u>
Memorandum Accounts					
Transactions on behalf of third parties	98,642	106,150	109,687	90,903	98,076
Customer current accounts	29	25	26	(11)	(128)
Customer banks	19	5	-	-	3
Settlement of customer securities and documents	10	20	26	(11)	(131)
Customer securities	78,778	84,611	85,020	65,279	71,390
Customer securities in custody	77,507	84,605	85,014	65,273	71,384
Pledged customers securities and documents	1,271	6	6	6	6
Transactions on behalf of customer	19,835	21,514	24,641	25,635	26,814
Investment on behalf of customers, net	17,239	19,150	22,137	23,322	24,484
Customer repurchase transactions	2,596	2,364	2,504	2,313	2,330
Transactions for the group's own accounts	941,601	1,037,608	1,227,538	1,405,159	1,805,281
Accounts for the group's own registry	139,351	169,277	210,769	171,275	179,502
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	62	53	51	48	47
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	70,586	80,303	93,864	111,364	120,135
Goods in custody or under administration	68,703	88,921	116,854	59,863	59,320
Repurchase/resale agreements	17	111	15	67	28
Securities receivable under repos	37,013	43,133	50,248	45,578	42,007
(-)less					
Creditors repo transactions	37,000	43,020	50,237	45,514	42,026
Reverse repo transactions	5,680	2,364	3,040	5,303	7,280
(less)					
Securities deliverable under repos	5,676	2,366	3,036	5,300	7,233
Securities receivable	-	-	-	4,377	13,146
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	-	-	-	4,377	13,146
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	802,233	868,220	1,016,754	1,229,440	1,612,605

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

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

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

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

Consolidated Income Statement

Figures in constant MXN millions

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

	For the quarter ending....					Year to date	
	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Jun 2006	30 Jun 2007
Interest Income	7,067	6,824	7,158	7,515	7,646	14,109	15,161
Interest expense	(2,565)	(2,367)	(2,368)	(2,426)	(2,594)	(5,023)	(5,020)
Monetary position (margin), net	29	(318)	(544)	(347)	70	(167)	(277)
Net interest income	4,531	4,139	4,246	4,742	5,122	8,919	9,864
Loan impairment charges	(1,077)	(767)	(1,685)	(1,401)	(2,414)	(1,716)	(3,815)
Risk adjusted net interest income	3,454	3,372	2,561	3,341	2,708	7,203	6,049
Fees and commissions receivable	2,520	2,593	2,689	2,697	2,816	4,969	5,513
Fees payable	(282)	(245)	(291)	(274)	(276)	(566)	(550)
Trading Income	451	585	483	324	453	997	777
Total operating income	6,143	6,305	5,442	6,088	5,701	12,603	11,789
Administrative and personnel expenses	(4,491)	(4,432)	(4,464)	(4,686)	(4,924)	(8,990)	(9,610)
Net operating income	1,652	1,873	978	1,402	777	3,613	2,179
Other income	704	499	565	544	874	1,083	1,418
Other expenses	(478)	(168)	(221)	(198)	(352)	(688)	(550)
Net income before taxes	1,878	2,204	1,322	1,748	1,299	4,008	3,047
Income tax and employee profit sharing tax	(196)	(643)	104	(580)	(1,009)	(994)	(1,589)
Deferred income tax	(471)	(244)	(522)	(17)	534	(479)	517
Net income before subsidiaries	1,211	1,317	904	1,151	824	2,535	1,975
Undistributed income from subsidiaries	197	234	225	218	245	356	463
Income from ongoing operations	1,408	1,551	1,129	1,369	1,069	2,891	2,438
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	-	1	-	1
Net income (loss)	1,408	1,551	1,129	1,369	1,070	2,891	2,439

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

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

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

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

Consolidated Statement of Changes in Shareholder's Equity

Figures in constant MXN millions

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

From 1 January 2006 to 30 June 2007

	Capital Contribuido				Capital Ganado								Minority Interest	Total Stockholders Equity	
	Advances for Capital Stock	future capital increases	Shares Premiums	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income			
Balances at 31 December 2006	7,971	-	12,872	-	-	849	12,988	-	-	(3,873)	-	(3,789)	5,572	2	32,592
Movements Inherent to the Shareholders Decision															
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,293	-	-	-	-	(5,572)	-	-	(279)
Constitution of reserves	-	-	-	-	-	279	-	-	-	-	-	-	-	-	279
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	279	5,293	-	-	-	-	(5,572)	-	-	-
Movements for the Recognition of the Comprehensive Income															
Net result	-	-	-	-	-	-	-	-	-	-	-	2,439	-	-	2,439
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	19	19
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	(366)	-	-	-	(366)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	(366)	2,439	19	2,092	
Balances as at 30 June 2007	7,971	-	12,872	-	-	1,128	18,281	-	-	(3,873)	-	(4,155)	2,439	21	34,684

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

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

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

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

Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions

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

From 1 January to 30 June 2007

Operating activities:	
Net income	2,439
Items included in operations not requiring (providing) funds:	
Result from mark-to-market valuations	(91)
Allowances for loan losses	3,815
Depreciation and amortisation	511
Deferred taxes	(517)
Undistributed income from subsidiaries, net	(463)
Value loss estimation for foreclosed assets	16
Total operating items not requiring funds	5,710
Changes in items related to operations:	
Decrease / increase in retail deposit and money desk	8,164
Decrease / increase in loan portfolio	(17,324)
Increase / decrease in investment in securities	(3,790)
Decrease / increase in securities and derivative transactions, net	7,015
Bank deposits and other liabilities	(3,244)
Funds provided by operating activities	(3,469)
Financing activities:	
Subordinated debentures outstanding	(11)
Decrease/increase in accounts payable	12,998
Funds used or provided in financing activities	12,987
Investing activities:	
Decrease/(increase) in property, furniture and equipment, net	(694)
Decrease/(increase) in deferred charges or credits, net	(45)
Decrease in foreclosed assets	(28)
Decrease/increase in accounts receivable	(14,364)
Funds used in investing activities	(15,131)
(Increase)/Decrease in cash and equivalents	(5,613)
Cash and equivalents at beginning of period	55,517
Cash and equivalents at end of period	49,904

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

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

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

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

Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
Assets					
Cash and deposits in banks	61,368	55,827	55,516	54,296	49,903
Investment in Securities	69,686	50,535	56,504	52,039	60,355
Trading securities	23,575	11,624	11,683	16,708	27,808
Available-for-sale securities	41,947	34,882	40,791	31,427	28,536
Held to maturity securities	4,164	4,029	4,030	3,904	4,011
Securities and derivative operations	273	795	232	184	79
Repurchase agreements	61	136	64	81	79
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	212	659	168	103	-
Performing loans					
Commercial loans	95,412	96,659	102,103	103,955	110,420
Commercial entities	50,321	52,813	58,571	61,333	66,282
Loans to financial intermediaries	6,293	5,367	6,021	6,083	7,028
Loans to government entities	38,798	38,479	37,511	36,539	37,110
Consumer loans	29,627	34,382	35,758	38,013	42,144
Mortgages loans	18,412	19,747	20,727	18,365	19,662
Loans to Fobaproa or IPAB	-	-	-	-	-
Total performing loans	143,452	150,788	158,588	160,333	172,226
Impaired loans					
Commercial loans	1,436	1,391	1,552	1,833	1,816
Commercial entities	1,436	1,383	1,552	1,833	1,816
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	8	-	-	-
Consumer loans	1,385	1,498	1,680	2,048	2,508
Mortgage Loans	1,015	1,102	1,112	1,228	1,318
Immediate collection, remittances and other	29	16	10	-	-
Total non-performing loans	3,865	4,007	4,354	5,109	5,642
Total loan portfolio	147,317	154,795	162,942	165,442	177,868
(-) Allowance for loan losses	(6,174)	(6,145)	(6,830)	(7,234)	(8,246)
Net loan portfolio	141,143	148,650	156,112	158,208	169,622
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	141,143	148,650	156,112	158,208	169,622
Other accounts receivable	20,414	23,089	10,888	26,664	24,861
Foreclosed assets	38	56	54	64	65
Property, furniture and equipment, net	5,699	5,791	6,128	6,073	6,016
Long term investments in equity securities	196	178	186	156	144
Deferred taxes	357	143	-	-	150
Other assets, deferred charges and intangibles	1,544	617	591	962	939
Total Assets	300,718	285,681	286,211	298,646	312,134

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>
Liabilities					
Deposits	223,344	208,336	222,383	213,949	230,567
Demand deposits	131,979	121,024	136,393	122,364	126,377
Time deposits	86,949	82,938	81,714	87,333	99,939
Bank bonds outstanding	4,416	4,374	4,276	4,252	4,251
Bank deposits and other liabilities	7,626	10,304	13,064	10,545	9,821
On demand	-	-	101	2,007	450
Short term	5,478	8,166	10,705	6,441	6,137
Long term	2,148	2,138	2,258	2,097	3,234
Securities and derivative transactions	11,800	7,266	6,365	4,392	13,227
Repurchase agreements	43	25	49	15	51
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	11,757	7,241	6,316	4,377	13,146
Derivative transactions	-	-	-	-	30
Other accounts payable	33,426	33,946	16,791	41,337	29,768
Income tax and employee profit sharing payable	1,552	1,311	1,031	1,410	1,237
Sundry creditors and others accounts payable	31,874	32,635	15,761	39,927	28,531
Subordinated debentures outstanding	2,298	2,262	2,224	2,200	2,213
Deferred tax	-	-	611	427	-
Deferred credits	17	9	19	119	214
Total Liabilities	<u>278,511</u>	<u>262,123</u>	<u>261,458</u>	<u>272,969</u>	<u>285,810</u>
Stockholder's Equity					
Paid in capital	13,141	13,141	13,141	13,141	13,141
Capital stock	3,961	3,961	3,961	3,961	3,961
Additional paid in capital	9,180	9,180	9,180	9,180	9,180
Capital Gains	9,066	10,417	11,611	12,517	13,164
Capital reserves	9,221	9,221	9,221	9,221	13,669
Retained earnings	-	-	-	4,448	-
Surplus (Deficit) from securities	(65)	70	305	85	(86)
Results of foreign operations exchange	12	-	-	-	-
Cumulative effect of restatement	(3,537)	(3,530)	(3,517)	(3,489)	(3,489)
Gains on non monetary asset valuation	1,157	1,156	1,154	1,147	1,150
Net Income	2,277	3,500	4,448	1,105	1,920
Minority interest in capital	-	-	1	19	19
Total Stockholder's Equity	<u>22,207</u>	<u>23,558</u>	<u>24,753</u>	<u>25,677</u>	<u>26,324</u>
Total Liabilities and Capital	<u>300,718</u>	<u>285,681</u>	<u>286,211</u>	<u>298,646</u>	<u>312,134</u>

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>	<u>30 Jun</u> <u>2007</u>
Memorandum Accounts					
Guarantees granted	60	53	50	48	47
Other contingent obligations	118	118	125	127	130
Irrevocable lines of credit granted	5,225	5,773	6,384	7,592	8,428
Goods in trust or mandate	70,586	80,303	93,863	111,364	120,135
Goods	70,123	79,914	93,368	110,891	119,553
Trusts	463	389	495	473	582
Goods in custody or under administration	64,565	84,879	112,882	55,936	55,376
Third party investment banking operations, net	17,239	19,150	22,137	23,322	24,484
Amounts committed in transactions with IPAB or Fobaproa	154	160	158	151	148
Amounts contracted in derivative operations	476,705	531,237	663,156	871,120	1,228,910
Investments of retirement savings system funds	3,678	3,634	3,568	3,525	3,540
Integrated loan portfolio	152,605	160,621	169,377	173,081	186,343
Other control accounts	163,748	166,676	173,986	173,842	185,106
	<u>954,683</u>	<u>1,052,604</u>	<u>1,245,686</u>	<u>1,420,108</u>	<u>1,812,647</u>
Securities receivable under repos (less) Repurchase agreements	34,420 (34,404)	40,767 (40,656)	47,747 (47,732)	43,265 (43,201)	39,681 (39,696)
	<u>16</u>	<u>111</u>	<u>15</u>	<u>64</u>	<u>(15)</u>
Reverse repurchase agreements (less) Securities deliverable under repos	3,083 (3,082)	- -	536 (536)	2,989 (2,987)	4,950 (4,907)
	<u>1</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>43</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	- -	- -	- -	4,377 -	13,146 -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,377</u>	<u>13,146</u>

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

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

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

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

Consolidated Income Statement

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date	
	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Jun 2007
Interest income	6,677	6,689	7,107	7,407	7,665	13,436
Interest expense	(2,411)	(2,329)	(2,314)	(2,383)	(2,607)	(4,777)
Monetary position (margin)	30	(295)	(492)	(310)	57	(253)
Net interest income	4,296	4,065	4,301	4,714	5,115	8,503
Loan impairment charges	(1,049)	(780)	(1,686)	(1,401)	(2,414)	(1,672)
Loan impairment charges	(1,049)	(780)	(1,686)	(1,401)	(2,414)	(1,590)
Loss sharing Fobaproa	-	-	-	-	-	(82)
Risk adjusted net interest income	3,247	3,285	2,615	3,313	2,701	6,831
Fees and commissions receivable	2,268	2,347	2,540	2,490	2,646	4,438
Account management	394	381	370	360	379	783
Services	1,874	1,966	2,170	2,130	2,267	3,656
Fees payable	(269)	(241)	(292)	(271)	(272)	(540)
Trading Income	447	583	481	322	451	993
Foreign exchange	113	12	73	176	96	345
Securities trading, net	47	102	(191)	(139)	59	229
Repos	118	(4)	(5)	-	(13)	271
Swaps	5	97	603	384	134	84
Valuation off-shore agencies	164	283	(61)	(106)	97	64
Valuation for trading swaps	-	93	62	7	78	-
Total operating income	5,693	5,974	5,344	5,854	5,526	11,722
Administrative and personnel expenses	(4,166)	(4,226)	(4,385)	(4,540)	(4,796)	(8,354)
Personnel expense	(1,868)	(1,903)	(1,942)	(1,927)	(2,032)	(3,592)
Administrative expense	(2,089)	(2,110)	(2,123)	(2,261)	(2,507)	(4,341)
Depreciation and amortization	(209)	(213)	(220)	(252)	(257)	(421)
Net operating income	1,527	1,748	959	1,314	730	3,368
Other income	614	472	637	555	903	1,001
Other expenses	(477)	(167)	(201)	(199)	(351)	(685)
Net income before taxes	1,664	2,053	1,395	1,670	1,282	3,684
Income tax and employee profit sharing	(155)	(631)	166	(558)	(1,003)	(911)
Deferred income tax	(479)	(195)	(613)	(10)	532	(500)
Net income before subsidiaries	1,030	1,227	948	1,102	811	2,273
Undistributed income from subsidiaries	2	(5)	-	2	4	4
Income from ongoing operations	1,032	1,222	948	1,104	815	2,277
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-
Minority interest	-	-	-	1	-	-
Net income (loss)	1,032	1,222	948	1,105	815	2,277
						1,919

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

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Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2007 to 30 June 2007

	Paid in capital					Earned Capital								Minority Interes	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
Balances at 31 December 2006	3,961	-	9,180	-	-	9,221	-	305	-	-	(3,517)	1,154	-	4,448	1	24,753
Movements Inherent to the Shareholders Decision																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,448	(4,448)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	4,448	-	-	-	-	-	-	(4,448)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	4,448	-	-	-	-	-	-	-	(4,448)	-	-
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	1,920	-	1,920
Surplus (Déficit) from securities	-	-	-	-	-	-	-	(391)	-	-	-	-	-	-	-	(391)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	28	-	-	-	-	18	46
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	(4)	-	-	-	(4)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	(391)	-	-	28	(4)	-	1,920	18	1,571
Balances as at 30 June 2007	3,961	-	9,180	-	-	13,669	-	(86)	-	-	(3,489)	1,150	-	1,920	19	26,324

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

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

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

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* Since January 2007, the consolidated financial statements of the Bank include all the subsidiaries in conformity with the accounting criteria issued by CNBV. Until 2006, the accounting criteria established that only the financial subsidiaries were susceptible for consolidation.

Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2007 to 30 June 2007

Figures in MXN millions

Operating activities:

Net income	1,920
Items included in operations not requiring (providing) funds:	
Result from mark to market valuations	(91)
Allowance for loan losses	3,815
Depreciation and amortisation	509
Deferred taxes	(522)
Undistributed income from subsidiaries, net	(6)
Value loss estimation for foreclosed assets	17
Minority interest	(1)
Total operating items not requiring funds	5,641

Changes in operating accounts:

Increase in retail deposit and money desk	8,185
(Increase) in loan portfolio	(17,325)
Decrease in securities and derivative transactions, net	(4,250)
Decrease/(increase) in financial instruments	7,115
Bank deposits and other liabilities	(3,244)
Funds provided by operations	(3,878)

Financing activities:

Subordinated debentures outstanding	(11)
Decrease/increase in accounts payable	12,995
Funds used or provided by financing activities	12,984

Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(325)
(Increase)/decrease in deferred credits	(45)
Decrease in foreclosed assets	(28)
Decrease/increase in accounts receivable	(14,321)
Funds used in investing activities	(14,719)
Increase in cash and equivalents	(5,613)
Cash and equivalents at beginning of period	55,516
Cash and equivalents at end of period	49,903

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

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

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

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Financial Instruments

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

Figures in constant MXN millions

Investments in securities

	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>	<u>30 Jun</u> <u>2007</u>
Government securities	19,541	11,488	11,717	13,337	26,797
Bank securities	3,711	273	82	3,180	685
Shares	199	345	852	915	931
Others	652	101	75	353	469
Trading securities	<u>24,103</u>	<u>12,207</u>	<u>12,726</u>	<u>17,785</u>	<u>28,882</u>
Government securities	36,601	28,758	34,081	27,204	25,181
Bank securities	762	714	1,927	211	207
Obligations and other securities	5,547	5,136	4,516	4,001	3,137
Shares	282	274	267	11	11
Available for sale securities	<u>43,192</u>	<u>34,882</u>	<u>40,791</u>	<u>31,427</u>	<u>28,536</u>
Sovereign debt securities	511	369	388	245	268
Commercial and industrial subordinated debentures	2	3	2	2	2
Special Cetes (net)	3,634	3,650	3,640	3,657	3,741
MYRAS	17	7	-	-	-
Securities held to maturity	<u>4,164</u>	<u>4,029</u>	<u>4,030</u>	<u>3,904</u>	<u>4,011</u>
Total Financial Instruments	<u>71,459</u>	<u>51,118</u>	<u>57,547</u>	<u>53,116</u>	<u>61,429</u>

In the second quarter of 2007 investment in securities increased by MXN8,313 million versus prior quarter; MXN11,437 million increase in government securities, MXN(2,499) million in promissory note securities, MXN(725) million in bonds, MXN16 million in shares and a increase in other by MXN84 million.

Repos

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

Figures in constant MXN millions

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
Government securities (debit)	31,629	40,991	48,026	43,968	40,478
Bank securities (debit)	5,338	1,642	2,130	1,491	1,476
Bank securities (own)	8	336	-	-	-
Valuation Increase (decrease)	15	61	45	59	31
Interest in securities receivable under repurchase agreements	23	103	47	60	22
Total in repo agreements (debit)	37,013	43,133	50,248	45,578	42,007
Repo's Government securities (credit)	31,633	40,990	48,029	43,969	40,483
Repo's Bank securities (credit)	5,338	1,642	2,130	1,491	1,476
Repo's Bank securities (own)	8	336	-	-	-
Valuation increase (decrease)	-	4	4	4	6
Accrued interest payable	21	48	74	50	61
Credit balance in repo agreements	37,000	43,020	50,237	45,514	42,026
Repurchase agreements in government securities	2,778	2,364	3,039	2,314	7,266
Repurchase agreements in banking securities	2,901	-	-	2,988	-
Valuation increase (decrease)	-	-	-	-	1
Accrued interest receivable	1	-	1	1	13
Debit balance repo securities agreements	5,680	2,364	3,040	5,303	7,280
Government securities	2,774	2,366	3,035	2,313	7,262
Bank securities	2,902	-	-	2,988	-
Valuation increase (decrease)	(1)	-	-	(1)	(29)
Interest in securities deliverable under repurchase agreements	1	-	1	1	-
Credit balance repo securities agreements	5,676	2,366	3,036	5,300	7,233

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	<u>Futures</u>		<u>Forwards Contracts</u>		<u>Options</u>		<u>Swaps</u>		<u>Total (net)</u>
	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	
For trading									
Pesos	-	-	42,441	43,272	78,993	78,996	-	-	(834)
US Dollars	-	-	37,739	36,731	-	-	98,628	99,605	31
Interest Rate	160,285	160,285	172,838	172,858	-	-	917,453	916,660	773
Total	160,285	160,285	253,018	252,861	78,993	78,996	1,016,081	1,016,265	(30)
For hedging									
Pesos	-	-	-	-	-	-	6,509	-	-
US Dollars	-	-	-	-	-	-	-	6,495	-
Interest Rate	-	-	-	-	-	-	4,453	4,624	-
Total	-	-	-	-	-	-	10,962	11,119	-

Stock Borrowing

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
Received borrowings					
Cetes	11,757	7,241	6,316	4,377	13,146
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	-	-	-
Increase or decrease in bonds	-	-	-	-	-
Total	11,757	7,241	6,316	4,377	13,146

Participation by Subsidiary

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

Group Subsidiaries at June 30, 2007

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC Mexico, S.A.	1,139,215,231	99.99%	1,139,139,001
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	97.22%	738,883,014
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
Total	1,972,551,956		1,951,367,983

Trading income

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	For the quarter ending...					Year to date	
	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Jun 2006	30 Jun 2007
Valuation	197	389	3	(81)	172	172	91
Derivatives	138	392	2	(81)	174	189	93
Repos	84	(4)	-	-	(1)	26	(1)
Debt Securities	(25)	1	1	-	(1)	(43)	(1)
Buying and Selling Instruments	250	194	478	403	279	821	682
Foreign Currency	113	12	74	176	96	346	272
Derivatives	(74)	188	414	220	142	(61)	362
Repos	82	(3)	(5)	7	23	271	30
Debt Securities	129	(3)	(5)	-	18	265	18
Total	447	583	481	322	451	993	773

Loan Portfolio

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

By type of currency

Figures in constants MXN millions

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	49,454	6,532	34,409	42,144	16,699	149,238
US Dollars	16,828	496	2,701	-	4	20,029
Udis Banxico	-	-	-	-	2,959	2,959
Total	66,282	7,028	37,110	42,144	19,662	172,226

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Non Performing Loans Portfolio						
Pesos	1,546	-	-	2,508	727	4,781
US Dollars	270	-	-	-	-	270
Udis Banxico	-	-	-	-	591	591
Total	1,816	-	-	2,508	1,318	5,642

On April 3, 2006, the IPAB obligation known as Tranche II Series F and Tranche II Series EI, in relation with the New Programme Contract referred in the Fifth Transitory Article of the Protección al Ahorro Bancario law, expired. The Bank received the remaining payment from IPAB notes of MXN 1,064 and 57 million.

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Global scale ratings			
Foreign currency			
Long term	Baa1	BBB+	A-
Short term	P-2	A-2	F2
Local Currency			
Long term obligations	Aa2	BBB+	A
Long term deposits	Aa2	BBB+	A
Short term	P-1	A-2	F1
BFSR (Moody's)	C	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
Outlook	POS (m)	Positive	Positive
Last update	01-June-07	03-June-07	29-June-07

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	29,306				
Graded	157,037				
Risk A	111,513	436	180	135	751
Risk A-1	77,738	113	180	135	428
Risk A-2	33,775	323	-	-	323
Risk B	37,684	1,755	460	54	2,269
Risk B-1	25,489	600	460	54	1,114
Risk B-2	9,495	734	-	-	734
Risk B-3	2,700	421	-	-	421
Risk C	3,142	453	625	108	1,186
Risk C-1	2,792	313	625	108	1,046
Risk C-2	350	140	-	-	140
Risk D	3,522	336	1,636	585	2,557
Risk E	1,176	730	378	103	1,211
Total	186,343	3,710	3,279	985	7,974
Less:					
Constituted Reserves					8,246
Surplus ³					272

1. The rating and constitution of reserves correspond to last day of the balance sheet at 30 June 2007.

2. The lending portfolio is graded according to the rules for grading lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. For the second stage of the commercial lending portfolio, the institution will use the CNBV methodology, published on December 2, 2005. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the regulation document published on December 2, 2005.

3. As of 30 June 2007, and based on the general accounting principles stated in Mexican regulation, HSBC Mexico S.A. charged against income loan impairment charges of MXN272 million for those mortgage and consumer loans whose payment date was moved to the first working day of July and were not paid on this due date, this in order to have the same effect as if the due date occurred in the last natural day of June.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in historic MXN millions

	<i>At the quarter ending</i>				
	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>
Initial balance of non performing loan portfolio	3,009	3,720	3,902	4,320	5,129
Increases	3,623	3,346	2,708	4,695	4,375
Transfer of current loans to past due status	<u>3,623</u>	<u>3,346</u>	<u>2,708</u>	<u>4,695</u>	<u>4,375</u>
Decreases	(2,922)	(3,161)	(2,297)	(3,901)	(3,852)
Restructurings	(12)	(47)	(44)	(71)	(66)
Liquidated credits	(2,428)	(2,636)	(1,858)	(3,147)	(2,945)
Charged in cash	(1,948)	(1,839)	(932)	(2,278)	(1,636)
Foreclosed assets	(1)	(23)	-	-	(1)
Writeoffs	-	-	-	-	-
Sale of portfolio	(479)	(774)	(926)	(869)	(1,308)
Transfer to performing loan status	(482)	(478)	(395)	(683)	(841)
Fx revaluations	<u>10</u>	<u>(3)</u>	<u>7</u>	<u>15</u>	<u>(10)</u>
Final Balance of Non Performing Loan Portfolio	<u><u>3,720</u></u>	<u><u>3,902</u></u>	<u><u>4,320</u></u>	<u><u>5,129</u></u>	<u><u>5,642</u></u>

Deferred Taxes

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

Figures in constant MXN millions

	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>
Loan loss reserves	920	814	758	691	1,276
Valuation of securities	(67)	(262)	(475)	(66)	(38)
Fiscal loss	124	80	83	109	44
Loss sharing	890	901	-	-	-
Other reserves	451	576	747	812	685
Other	(59)	(140)	(62)	(95)	(17)
Differences in rates of fixed assets	(387)	(421)	(308)	(543)	(458)
Fiscal result UDIS-Banxico	<u>(1,363)</u>	<u>(1,367)</u>	<u>(1,303)</u>	<u>(1,291)</u>	<u>(1,296)</u>
Total Deferred Taxes	<u><u>509</u></u>	<u><u>181</u></u>	<u><u>(560)</u></u>	<u><u>(383)</u></u>	<u><u>196</u></u>

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>
MXN pesos					
Funding	2.73%	2.65%	2.47%	2.58%	2.78%
Bank and other loans	6.84%	6.87%	6.98%	7.12%	7.20%
Foreign currency					
Funding	0.99%	1.35%	1.60%	1.75%	1.69%
Bank and other loans	6.01%	6.63%	6.36%	5.49%	5.24%
UDIS					
Funding	0.19%	0.19%	0.19%	0.20%	0.19%

Long Term Debt

HSBC Mexico, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	13	2,213	25-NOV-2013
		2,200		13	2,213	

HSBC México, S.A., has also issued long term certified marketable securities listed in the Mexican Stock Exchange.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certified Marketable Securities	10-MAY-2006	1,000	MXN	14	1,014	27-APR-2016
Certified Marketable Securities	10-MAY-2006	2,000	MXN	11	2,011	01-MAY-2013
Certified Marketable Securities	29-JUNE-2006	1,220	MXN	6	1,226	01-MAY-2013
		4,220		31	4,251	

Capital

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

Grupo Financiero HSBC

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year 2006 financial results, amounting to MXN5,572m, as follows:

- ▶ MXN279m (5%) to increase legal reserves, and the remaining MXN4,448 million, at the disposal of the Board under the concept of the previous year's financial years

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

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year's financial results, totalling MXN4,448 million, as follows:

- ▶ MXN445 million (10%) to increase legal reserves, and the remaining MXN4,003, at the disposal of the Board under the concept of other reserves.

The capital stock increased to MXN2,278, representing 1,139,215,231 shares.

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

The ordinary share holders meeting held on 20 April, 2007, net income of MXN13 million from 2006 was applied to the retained earnings account for the Board disposition.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions

	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007
% of assets subject to credit risk					
Tier 1	16.84%	16.99%	16.62%	16.64%	15.79%
Tier 2	2.45%	2.30%	2.03%	2.01%	2.05%
Total regulatory capital	<u>19.29%</u>	<u>19.29%</u>	<u>18.65%</u>	<u>18.65%</u>	<u>17.84%</u>
% of assets subject to credit and market risk					
Tier 1	12.88%	12.25%	12.29%	13.09%	12.23%
Tier 2	1.87%	1.66%	1.50%	1.58%	1.59%
Total regulatory capital	<u>14.75%</u>	<u>13.91%</u>	<u>13.79%</u>	<u>14.67%</u>	<u>13.82%</u>
Tier 1	21,032	22,269	23,444	24,195	24,779
Tier 2	3,054	3,019	2,862	2,920	3,222
Total regulatory capital	<u>24,086</u>	<u>25,288</u>	<u>26,306</u>	<u>27,115</u>	<u>28,001</u>
RWA credit risk	124,873	131,099	141,068	145,405	156,959
RWA market risk	38,397	50,672	49,669	39,477	45,639
RWA credit and market risk	<u>163,270</u>	<u>181,771</u>	<u>190,737</u>	<u>184,882</u>	<u>202,598</u>

With a capital ratio above 10%, HSBC Mexico, S.A. is classified in category I, according to the General Standards referred in article 134 Bis from the Financial Institutions Law and according to the General Standards principles for financial institutions issued by the Mexican Banking and Securities Commission referred in article 220.

Other Expenses, Other Income and Extraordinary Items

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

Figures in constant MXN millions

	<i>For the quarter ending</i>				<i>Year to date</i>	
	<i>30 Jun 2006</i>	<i>30 Sep 2006</i>	<i>31 Dec 2006</i>	<i>31 Mar 2007</i>	<i>30 Jun 2007</i>	<i>30 Jun 2007</i>
Other income						
Loans to employees	18	18	16	23	26	39
Recoveries	115	89	105	124	323	207
Other income	572	307	300	307	502	837
Monetary position (other income)	(1)	85	144	90	23	-
	<u>704</u>	<u>499</u>	<u>565</u>	<u>544</u>	<u>874</u>	<u>1,083</u>
Other expenses						
Other losses	(472)	(173)	(205)	(198)	(352)	(682)
Monetary position (other expenses)	(6)	5	(16)	-	-	(6)
	<u>(478)</u>	<u>(168)</u>	<u>(221)</u>	<u>(198)</u>	<u>(352)</u>	<u>(688)</u>
Total other income (expenses)	<u>226</u>	<u>331</u>	<u>344</u>	<u>346</u>	<u>522</u>	<u>395</u>
						<u>868</u>

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

Related Party Transactions

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

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices. The balance of the transactions carried out as of June 30, 2007 is shown below:

Figures in constant MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Group	Total
Balance Sheet						
Cash and deposits in banks	-	-	19	-	1,602	1,621
Demand deposits	(1,621)	-	-	-	-	(1,621)
Repos (assets)	-	-	4	-	-	4
Reverse repos (liabilities)	(4)	-	-	-	-	(4)
Sundry debtors (assets)	4	3	5	-	-	12
Sundry creditors (liabilities)	(8)	-	-	(4)	-	(12)
Total	(1,629)	3	28	(4)	1,602	-
P&L						
Payable commissions	-	(2)	-	-	-	(2)
Receivable commissions	-	-	-	2	-	2
Interest income	-	-	1	-	32	33
Interest expense	(33)	-	-	-	-	(33)
Repos	(86)	-	-	-	-	(86)
Reverse repos	-	-	86	-	-	86
Administrative services	-	(24)	(44)	(6)	-	(74)
Other income	74	-	-	-	-	74
Total	(45)	(26)	43	(4)	32	-

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of June 31, 2007, is shown below:

Figures in constant MXN millions

	Year to date at 30 June 2007				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	6,962	2,442	424	36	9,864
Provision for Loan Loss	(3,704)	(128)	17	-	(3,815)
Net Interest Income adjusted	3,258	2,314	441	36	6,049
Fees and Commissions, net	3,646	1,070	240	7	4,963
Trading Income	261	48	468	-	777
Total Revenue	7,165	3,432	1,149	43	11,789
Administrative Expenses	(7,160)	(1,831)	(685)	66	(9,610)
Operating Income	5	1,601	464	109	2,179
Other Income (Expenses), net	534	39	86	209	868
Taxes	(190)	(577)	(193)	(112)	(1,072)
Net Income before subsidiaries	349	1,063	357	206	1,975
Undistributed income from subsidiaries	13	-	-	450	463
Continued Operating Results	362	1,063	357	656	2,438
Discontinued Operating Results	-	-	-	-	-
Net Income	362	1,063	357	656	2,438
Minority Shareholders	1	-	-	-	1
Participated Net Income	363	1,063	357	656	2,439

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

Grupo Financiero HSBC

HSBC Holdings plc, the parent of Grupo Financiero HSBC, S.A de C.V reports its results under International Financial Reporting Standards (IFRS). There follows a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V from Mexican GAAP to IFRS for the three months ended 30 June 2007 and an explanation of the key reconciling items. IFRS numbers are estimated and provisional.

<i>Figures in MXN millions</i>	30 June
	2007
Grupo Financiero HSBC – Net Income Under Mexican GAAP	2,439
Inflation	250
Differences arising on the valuation of pensions and post retirement healthcare benefits [‡]	30
Differences arising on acquisition costs relating to long-term investment contracts [‡]	(3)
Differences arising from the deferral of fees received and paid on the origination of loans	129
Differences arising from the recognition and provisioning for loan impairments [‡]	410
Differences arising from purchase accounting adjustments [‡]	(17)
Differences arising from the recognition of the present value in-force of long term insurance contracts [‡]	632
Other differences in accounting principles [‡]	9
HSBC México net income under IFRS	3,879
US dollar equivalent (millions)	354
Add back tax expense	1,323
HSBC México profit before tax under IFRS	5,202
US dollar equivalent (millions)	475
<i>Exchange rate used for conversion</i>	10.95

[‡] Net of tax at 28%

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

Inflation **Mexican GAAP**

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

IFRS

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

Retirement benefits **Mexican GAAP**

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

IFRS

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

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

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

IFRS

Incremental costs relating to the acquisition of long-term investment contracts are deferred and amortised over the expected life of the contract.

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

All fees and expenses received or paid on loan origination are deferred and amortised over the life of the loan. However, this policy was introduced 1 January 2007, all fees and expenses having previously been recognised up front.

IFRS

Fees and expenses received or paid on origination of a loan that are directly attributable to the origination of that loan are accounted for under the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005, therefore the difference is driven by the amortisation of fees deferred under IFRS in 2005 and 2006.

Loan impairment charges**Mexican GAAP**

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

IFRS

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

Purchase accounting adjustments

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

Recognition of Present Value of In-Force long term life insurance contracts**Mexican GAAP**

The present value of future earnings is not recognised. Premiums are accounted for on a received basis and reserves are calculated in accordance with guidance as set out by the Insurance Regulator (Comisión Nacional de Seguros y Fianzas).

IFRS

A value is placed on insurance contracts that are classified as long-term insurance business and are in-force at the balance sheet date. The present value of in-force long-term insurance business is determined by discounting future earnings expected to emerge from business currently in force using appropriate assumptions in assessing factors such as recent experience and general economic conditions.

Appendix A

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

Consolidated balance sheet on a like-for-like basis

Figures in constant MXN millions

	Total Group 30 Jun 2007	Mexico[†] 30 Jun 2006	Panama 30 Jun 2006	Total Group 30 Jun 2006
Assets				
Cash and deposits in banks	49,904	61,371	3,600	64,971
Investments in securities	61,429	70,213	1,246	71,459
Trading securities	28,882	24,103	-	24,103
Available-for-sale securities	28,536	41,946	1,246	43,192
Held to maturity securities	4,011	4,164	-	4,164
Securities and derivative operations	83	274	-	274
Repurchase agreements	83	61	-	61
Derivative transactions	-	213	-	213
Performing loans				
Commercial loans	66,282	50,322	6,406	56,728
Loans to financial intermediaries	7,028	6,293	78	6,371
Consumer loans	42,144	29,627	1,902	31,529
Mortgage loans	19,662	18,412	5,449	23,861
Loans to government entities	37,110	38,798	-	38,798
Loans to Fobaproa or IPAB	-	-	-	-
Total performing loans	172,226	143,452	13,835	157,287
Impaired loans				
Commercial loans	1,816	1,436	77	1,513
Consumer loans	2,508	1,385	22	1,407
Mortgage loans	1,318	1,015	92	1,107
Immediate collection, remittances and other	-	29	-	29
Total impaired loans	5,642	3,865	191	4,056
Gross loans and advances to customers	177,868	147,317	14,026	161,343
Allowance for loan losses	(8,246)	(6,174)	(224)	(6,398)
Net loans and advances to customers	169,622	141,143	13,802	154,945
Other accounts receivable	25,008	20,637	179	20,816
Foreclosed assets	65	38	47	85
Property, furniture and equipment, net	6,029	5,707	252	5,959
Long-term investments in equity securities	3,076	2,689	-	2,689
Deferred taxes	196	457	52	509
Goodwill	2,669	2,669	772	3,441
Other assets, deferred charges and intangibles	972	1,566	192	1,758
Total assets	319,053	306,764	20,142	326,906

[†] On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, the balance sheet as at 30 June 2006 has been restated to exclude HSBC Panama to compare on a like-for-like basis. Figures used for comparison purposes are shown in bold.

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

Consolidated balance sheet on a like-for-like basis

Figures in constant MXN millions

	Total Group 30 Jun 2007	Mexico[†] 30 Jun 2006	Panama 30 Jun 2006	Total Group 30 Jun 2006
Liabilities				
Deposits	228,945	223,339	17,495	240,834
Demand deposits	124,755	131,974	7,871	139,845
Time deposits	99,939	86,949	9,624	96,573
Bonds	4,251	4,416	-	4,416
Bank deposits and other liabilities	9,821	7,626	-	7,626
On demand	450	-	-	-
Short-term	6,137	5,478	-	5,478
Long-term	3,234	2,148	-	2,148
Securities and derivative transactions	13,231	11,801	-	11,801
Repurchase agreements	55	44	-	44
Securities deliverable under loan transactions	13,146	11,757	-	11,757
Derivative transactions	30	-	-	-
Other accounts payable	29,945	33,690	554	34,244
Income tax and employee profit sharing payable	1,282	1,591	60	1,651
Sundry creditors and others accounts payable	28,663	32,099	494	32,593
Subordinated debentures outstanding	2,213	2,298	410	2,708
Deferred taxes	-	-	-	-
Deferred credits	214	17	6	23
Total liabilities	284,369	278,771	18,465	297,236
Equity				
Paid in capital	20,843	19,481	1,362	20,843
Capital stock	7,971	6,609	1,362	7,971
Additional paid in capital	12,872	12,872	-	12,872
Other reserves	13,820	8,510	315	8,825
Capital reserves	1,128	926	1	927
Retained earnings	18,281	12,795	193	12,988
Result from mark-to-market of available-for-sale securities	-	16	(16)	-
Result from translation of foreign operations	-	-	11	11
Cumulative effect of restatement	(3,873)	(3,873)	-	(3,873)
Gains on non monetary asset valuation	(4,155)	(4,119)	-	(4,119)
Net income	2,439	2,765	126	2,891
Minority interest in capital	21	2	-	2
Total equity	34,684	27,993	1,677	29,670
Total liabilities and equity	319,053	306,764	20,142	326,906

[†] On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, the balance sheet as at 30 June 2006 has been restated to exclude HSBC Panama to compare on a like for like basis. Figures used for comparison purposes are shown in bold.

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

	<u>Total Group</u> <u>30 Jun</u> <u>2007</u>	<u>Mexico*</u> <u>30 Jun</u> <u>2006</u>	<u>Panama</u> <u>30 Jun</u> <u>2006</u>	<u>Total Group</u> <u>30 Jun</u> <u>2006</u>
Interest income	15,161	13,470	639	14,109
Interest expense	(5,020)	(4,768)	(255)	(5,023)
Monetary position (margin), net	(277)	(162)	(5)	(167)
Net interest income	<u>9,864</u>	<u>8,540</u>	<u>379</u>	<u>8,919</u>
Loan impairment charges	(3,815)	(1,672)	(44)	(1,716)
Risk adjusted net interest income	<u>6,049</u>	<u>6,868</u>	<u>335</u>	<u>7,203</u>
Fees and commissions receivable	5,513	4,813	156	4,969
Fees payable	(550)	(538)	(28)	(566)
Trading income	777	997	-	997
Total operating income	<u>11,789</u>	<u>12,140</u>	<u>463</u>	<u>12,603</u>
Administrative and personnel expenses	(9,610)	(8,699)	(291)	(8,990)
Net operating income	<u>2,179</u>	<u>3,441</u>	<u>172</u>	<u>3,613</u>
Other income	1,418	1,083	-	1,083
Other expenses	(550)	(688)	-	(688)
Net income before taxes	<u>3,047</u>	<u>3,836</u>	<u>172</u>	<u>4,008</u>
Income tax and employee profit sharing	(1,589)	(938)	(56)	(994)
Deferred taxes	517	(488)	9	(479)
Net income before subsidiaries	<u>1,975</u>	<u>2,410</u>	<u>125</u>	<u>2,535</u>
Undistributed income from subsidiaries	463	356	-	356
Income from ongoing operations	<u>2,438</u>	<u>2,766</u>	<u>125</u>	<u>2,891</u>
Minority interest	1	-	-	-
Net income	<u>2,439</u>	<u>2,766</u>	<u>125</u>	<u>2,891</u>

† On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, results for the six months 30 June 2006 have been restated to exclude results for HSBC Panama up until the date of disposal in order to compare on a like-for-like basis. Figures used for comparison purposes are shown in bold.

Risk Management

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

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

Bank's Risk management framework in their main subsidiaries, begins with the Council Administration, whose main responsibility is the approval of objectives, alignment and policies relative to the topic, such as the determination of risk exposure limits which are supported by the ALCO and RMC committees.

Assets and Liabilities (Committee) ALCO

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

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

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

Local Assets and Liabilities Committees, as Mexico, report directly to the Group Finance

Department in London as a way to strengthen the decision making process.

Risk Management Committee (RMC).

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

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

The main objectives of this committee are to:

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

Market Risk Management

Qualitative Information

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

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

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

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

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

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

underlying price of the option (interest rates, actions, exchange rate, etc.).

- ▶ **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.

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

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

Value at Risk (VaR)

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

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

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

Forward PVBP (F-PVBP) aims to measure the effect of movements in interest rates on the financial instruments exposed to them. This way, F-PVBP assumes the scenario of an increase of one basis point in the implied forward rates from the curve.

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CSO1)

Credit spread risk or CSO1 is used to describe the risk of holding private sector issued securities in the trading books that can change in value as a function of changes in the perceived creditworthiness of the respective issuer.

This market perceived credit quality of those corporate bonds is reflected in a spread over the risk free rate for those securities. HSBC uses limits to manage and control the corporate spread risk on its trading books.

Vega or implied volatility risk

HSBC takes positions on instruments that are price sensitive to changes in market implied volatilities such as interest rate options. Vega limits are used to control the risk against changes in market implied volatilities.

Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts. The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical scenarios. Both negative and

positive changes in interest rates are considered in order to fully measure the impact on the different portfolios.

Validation and Calibration Methods for Market Risk models:

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

In the case of the PVBP, it has been compared to the portfolio's sensitivity before market quotations. The results obtained during the tests have shown that the models are reliable. With the purpose of reinforcing the validation and verification of the different risk factors, a set of matrices has been designed which show the behavior of various risk factors in order to ensure that these are reasonably related to the predominant values in the financial markets and to verify the consistency between their current value and their value on the previous working day.

Applicable portfolios:

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

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

The VaR is presented in a global way for each one of the mentioned portfolios and is also itemized by risk factors (Interest Rates and Exchange Rates). The PVBP is presented by MXN rate and portfolio subdivision (Accrual and Trading).

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

The stress tests are carried out for the Bank's portfolio and for the "Trading" and "Accrual" portfolios. Besides a special stress test for

Available for Sale Securities (AFS) and for Hedging Securities (CFH) is carried out.

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "Trading" and "Accrual" portfolios for the second quarter of 2007 (dollars millions).

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

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

	Bank		All Trading		Accrual	
	Average 2nd. Quarter 2007	Limits*	Average 2nd. Quarter 2007	Limits *	Average 2nd. Quarter 2007	Limits *
Combined	(14.989)	42.00	(2.921)	32.50	(14.798)	27.50
Interest Rates	(15.999)	42.00	(2.588)	24.50	(14.807)	27.50
FX	(1.431)	8.00	(1.438)	8.00	N/A	N/A
Volatility IR	(0.091)	9.50	(0.089)	7.50	(0.010)	2.00

Absolute Value NA = Non Applicable

From December 2006 on, the Bank's VaR also contains positions from the ALCO book.

Value in Risk of Global Market (VaR) (Compared to the latest quarter)

	30 March 07	29 June 07	Limits*	Average 1st Quarter 2006	Average 2nd. Quarter 2007
HBMI	(14.95)	(14.64)	42.00	(16.00)	(14.99)
Accrual	(13.98)	(13.66)	27.50	(15.15)	(14.80)
All Trading	(1.78)	(3.04)	32.50	(3.24)	(2.92)

Absolute Value NA = Non Applicable

From December 2006 on, the Bank's VaR also contains positions from the ALCO book.

The Bank's VaR at the end of the 2Q07 varied -2.07% versus the previous quarter. During the quarter the VaR remained under the pre-established limits.

The Bank's average VaR for the end of the 2Q07 varied -6.31% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for March 30th, 2007 and June 30th, 2007 (in millions of dollars).

Comparison of Market VaR vs. Net capital

Net capital in million dollars

	30 March 07	30 June 07
VaR Total *	16.00	14.99
Net Capital **	2,467.87	2,593.98
VaR / Capital Neto	0.65%	0.58%

* The Bank's quarterly VaR average in absolute value

** The Bank's Net Capital at the close of the quarter

The average market VaR represents 0.58% of the net capital in 2Q07.

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

	30 March 07	30 June 07	Limits*	Average 1st. quarter 2007	Average 2nd. quarter 2007
Bank	(0.733)	(0.684)	1.200	(0.702)	(0.745)
Accrual	(0.590)	(0.652)	1.075	(0.609)	(0.687)
Trading desk	(0.541)	(0.064)	0.350	(0.043)	(0.044)
Balance sheet trading**	(0.102)	0.031	0.230	(0.081)	(0.015)
ALCO	(0.035)	(0.008)	0.600	(0.053)	(0.015)

* Absolute value

The bank's PVBP for the 2Q07 varied -6.68% versus prior quarter. The bank's average PVBP for the 2Q07 varied 6.12% versus prior quarter.

Liquidity Risk

Qualitative Information

Liquidity risk is generated by gaps in the maturity of assets and liabilities of the institution. The liabilities considering the customer deposits, both sight and term, have different maturities than the assets considering the loan portfolios and the investment in securities.

HSBC has implemented liquidity limits for ratios both in local currency and in US dollars. These ratios are calculated on a daily basis and compared to the limits authorized by the local

ALCO and confirmed by HSBC Group. Additionally the institution performs a daily review of the cash inflows and outflows and values the requirements of the main customers in order to diversify the sources of funding. HSBC has implemented a methodology to measure cash flow projections for a period of 12 months and has created different liquidity stress test scenarios.

The institution has Developer and implemented since 2003 a Liquidity Contingency Plan that defines the potential contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the alternate sources of funding the institution would have available. The plan has been reviewed and approved by the local ALCO.

Quantitative Information

The institution had at the end of the quarter liquidity ratios of 13.4% for 1st line liquidity and 17.2% for 2nd line liquidity, in both cases above the 10% limit. Additionally the stress test scenarios have been run and in all cases the institution has positive cumulative cash flows.

Credit Risk

Qualitative Information

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

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

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

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

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

and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

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

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

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

In addition to the mentioned client risk grading models, 11 more were implemented for Non-Banking Financial Institutions (NBFIs), one for banks (MRAfB), and one more for global customers, that means, corporate counterparties with annual sales of MXN7,000 millions or above.

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a new client risk grading framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, 20 of them are for non-default customers and 2 for default customers, being 1.1 the level of minimum risk and 10.0 the maximum. The framework includes a direct correspondence to Probabilities of Default and permits a more granular measurement of the credit quality of clients.

With respect to the measurement of Loss Given Default (LGD), which is more related to the credit or transaction risk, HBMX is using a

judgmental model for the commercial portfolio since March 2004. Along with the implementation of this model, the “Modelo de Tasas Activas” was also introduced; however, this model was replaced in the second half of 2006 by a profitability model. LGD is being calculated empirically for the consumer and mortgage portfolio.

Also as part of the credit risk management and measurement infrastructure, HBMX has an automated system to manage, control and monitor the commercial credit approval process known as Workflow. With this system the status of a credit application can be consulted in any stage of the credit process. For corporate banking the Credit Approval and Risk Management (CARM) system is used.

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a new system was developed, “Garantías II”. Finally, it is important to comment that HBMX has a system that controls the limits and utilization of credit facilities since their origination, “Líneas III”.

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

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done quarterly: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behaviour from those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

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

Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at 30 JUNE 2007 is \$4,221.3 millions of pesos. It increased 18% with respect to the first quarter of 2007. The EL correspondent to the commercial portfolio is \$3,308.3 millions of pesos, which reduced 8.3% in the same period.

The credit portfolio provisions average gross value, including off balance sheet accounts (Guarantees granted and Irrevocable lines of credit granted), during April-07 to June 07 is MXN\$173,784 millions.

Operational Risk

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

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

In order to identify and re-evaluate these risks, the 3rd annual assessment took place through out the group entities during the second semester of 2006. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories (people, processes, systems and external events) which were in turn subdivided into a total of 22 subcategories within which we can identify legal and technological risks. Risks were also graded in terms of three parameters: likelihood, impact and exposure. With the values obtained from these parameters a risk grade was calculated, which in order of relevance goes from ‘A’ to ‘D’.

Technological Risk

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

the ISO certifier and is available for review by the authorities.

Legal Risk

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

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

And the measures that have been taken include: the establishment of policies and procedures for the appropriate management of legal risks and the celebration of legal acts; the estimation of potential losses derived from adverse judicial resolution or administrative action; the prompt information of judicial and administrative resolutions to employees and managers in general; the realization of legal audits -- the last of which was performed during March-April 2007; and the establishment of a historic database of judicial resolutions with their causes and costs.

Quantitative Information

As a result we have 2075 risks distributed as follows: 1.2% A type, 8.6% B type, 52.2% C type, and 38% D type risks, which can also be

classified onto: 22.7% people, 49% process, 17.6% systems and 10.7% external type risks. Furthermore, for the 5th consecutive year, during 2007, we have registered and incorporated into a specifically designed database, those major loss events which are of some relevance. As of January 2006 the relevance threshold for reporting these incidences was reduced to \$10,000 USD. Events under the reporting threshold are aggregated into a single record.

We estimate that for the second quarter 2007 operational losses as reflected in the Other Expenses account will have an impact of MXN130 million. Distributed along these categories:

Fraud	49%
Robberys and assaults	4%
Fake currency	1%
Operational Errors	1%
Branches	6%
Credit Card	13%
ATMs and Armored trucks	3%
Other errors and losses	23%

This database shall, in the future, constitute the basis for the estimation of operational expected losses and economic capital.

Corporate Social Responsibility (CSR)

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

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

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

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

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

CSR Certification

In February 2007, HSBC México was awarded, for the second consecutive year, the Certification as a "Socially Responsible Company", by the Mexican Philanthropy Centre (CEMEFI), and Aliarse, an association which groups different business organisations.

This recognition certifies HSBC México as a company that is truly committed to a socially responsible management as part of its culture and business strategy.

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

Community Programmes

These are some of HSBC Mexico's major programmes:

Education

In line with the agreement signed with Amistad, HSBC will disburse US\$300,000 for the education programme in 2007, which is benefiting 16 schools around the country, and more than 15,000 underprivileged children in public and private charitable schools. The programme will now focus on providing tools and training for English as a Second Language, as well as computer laboratories and computer skills to students. Annually, this impacts the education of over 20,000 students.

HSBC has partnered with SIFE in a financial education programme geared to promoting among the future business leaders and entrepreneurs, a culture of social responsibility and of contributing to their communities. Through this programme, students from both private and public universities develop programmes which are aimed at bringing financial education and creating sources of income as well as financial freedom to underprivileged sectors of the community. The SIFE Programme focuses on five areas: entrepreneurship, market economics, success skills, financial literacy and business ethics. In 2006 the Mexican team, sponsored by HSBC México, reached the semi finals in the international world cup competition in Paris.

Through the Tu Cuenta product, HSBC donates 1% of the monthly fee that the clients pay, to charities which focus on education for underprivileged children. In 2007 the programme will cover all the country, including the 31 states and the Federal District.

Through the Mexican Banking Association, HSBC participates with other financial institutions in

supporting programmes led by Fundación Quiera, for street and homeless children, which provide counselling to address addictions, psychological and educational support, as well as preparing them to enter the work force and integrate them back in to society.

HSBC is also participating in Béalos, a fundraising campaign for an educational programme, being led by the Mexican Bank Association (ABM), Fundación Televisa, and six financial institutions, including HSBC. The programme seeks to raise the quality of education for underprivileged youth and aims to benefit 12,200 teachers, furthering their education, and scholarships for more than 27,000 children at the secondary and preparatory/technical levels, as well as homeless children.

Community

The healthcare programme in the ABC Amistad Community Clinic at the ABC Hospital in Santa Fe continues to provide healthcare services to those in surrounding communities that do not have access to public or private healthcare. The programme has benefited over 14,000 members of the community, with preventive care, treatment, and healthcare education since it began operations in 2006. This year, HBMX will donate US\$200,000 for the programme, under the agreement with Amistad, which provided a US\$1,000,000 donation paid in five years (last donation to be paid 2008).

HSBC has been actively involved in advising the management of the new state of the art fire station Ave Fenix, which is being built on Insurgentes Avenue, and that will service the Delegación Cuauhtémoc, as well as other parts of Mexico City. The station was inaugurated in November 2006, and an ongoing fundraising mechanism will be set up to gather funds for the station and its operation. HSBC will participate as the bank of the Foundation, which operates with private sector and public sector funds, and is managed by a board of trustees, the Heroico Cuerpo de Donadores A.C.

The Environment

HSBC Mexico is also working on its direct impact on the environment. An important step towards this was the construction of its new headquarters building in Mexico City, Torre HSBC, which was inaugurated in April 2006. In its construction, energy saving systems were implemented in order

to reduce atmospheric emissions, as well as features to reduce water consumption and efficient waste management processes. HSBC is working to receive the LEED certification from the U.S. Green Building Council, which will make Torre HSBC the most environmental friendly building of its type in Mexico and Latin America,

In June a reforestation event was held, to celebrate Earth Week. Over 600 colleagues and their families participated with HSBC México and bank executives in planting 10,850 trees.

The Arts

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

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

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

HSBC also co-sponsored the British Presence at the 34 Festival Internacional Cervantino held in October 2006.

Customer Donations

Through our ATM donations programme, branded as Niños con Futuro, each time our customers use an ATM, they have the option to donate specific amounts of money, which is channelled to different charity organisations in six regions of the country. The programme is aimed at supporting institutions that focus on improving underprivileged children's

quality of life in three areas: education, healthcare and nutrition. HSBC absorbs the operating costs of the programme. To date, the programme has benefited 100,000 children.

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

In Conclusion

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

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