

Grupo Financiero HSBC

Financial information at 30 June 2009

2Q09

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Second Quarter 2009**

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**GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2009 FINANCIAL RESULTS – HIGHLIGHTS**

- Total operating income before loan impairment charges for the first half of 2009 was MXN18,265 million, down by MXN419 million or 2.2 per cent compared with MXN18,684 million for the same period in 2008.
- Profit before tax for the first half of 2009 was MXN208 million, down by MXN3,416 million or 94.3 per cent compared with MXN3,624 million for the same period in 2008.
- Net income for the first half of 2009 was MXN649 million, down by MXN2,205 million or 77.3 per cent compared with MXN2,854 million for the same period in 2008.
- Gross loans and advances to customers were MXN160.2 billion at 30 June 2009, down by MXN34.8 billion or 17.8 per cent compared with MXN195.0 billion at 30 June 2008.
- Deposits were MXN220.3 billion at 30 June 2009, down by MXN45.6 billion or 17.1 per cent compared with MXN265.8 billion at 30 June 2008.
- Return on equity was 3.6 per cent for the first half of 2009, compared with 15.1 per cent for the same period in 2008.
- The cost efficiency ratio was 58.1 per cent for the first half of 2009, compared with 58.1 per cent for the same period in 2008.
- At 30 June 2009, the Bank's regulatory capital adequacy ratio was 13.4 per cent. The tier 1 capital ratio at 30 June 2009 was 9.7 per cent.

HSBC Mexico S.A. (the Bank) is Grupo Financiero HSBC, S.A. de C.V.'s (HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The Bank is required to file financial information on a quarterly basis (in this case for the quarter ended 30 June 2009) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

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

Overview

Mexico officially entered into recession in the first quarter of this year after two consecutive quarters of falling GDP. Mexico's economy is expected to contract by 9.9 per cent in the second quarter of 2009, after a strong fall to 8.2 per cent in the first quarter; a total contraction of 5.9 per cent is anticipated in 2009. The AH1N1 influenza outbreak in April contributed to the downturn, mostly affecting the tourism industry and small and medium enterprises.

The Mexican Central Bank reduced interbank interest rates from 8.25 to 4.75¹ per cent during the first half of 2009. The exchange rate volatility observed in the first quarter of the year continued during the second quarter. However, during the first six months of 2009 the appreciation reached 4.6 per cent.

In the first half of 2009, Grupo Financiero HSBC's net income was MXN649 million, a decrease of MXN2,205 million, or 77.3 per cent, compared to 30 June 2008. Profit before tax for the first half of 2009 was MXN208 million, a decrease of MXN3,416 million or 94.3 per cent with regards to 30 June 2008. These results are largely due to higher loan impairment charges due to a greater deterioration in credit quality, decreased net interest income as a result of lower credit portfolio and deposit volumes coupled with falling interest rates. This was partially offset by a significant increase in trading income. In addition non recurring income generated from the sale of Visa Inc. US dollar denominated securities IPO shares was reported in the first half of 2008.

Net interest income decreased by MXN1,842 million, or 14.7 per cent, to MXN10,687 million compared to the same period in 2008. Repricing strategies deployed during this period have partially offset lower lending volumes and decreased deposits margins resulting from falling interest rates. In addition, net interest income fell due to the cost of funding larger trading positions. This was more than offset by increased trading income.

Loan impairment charges during the first half of 2009 were MXN8,818 million, an increase of MXN2,426 million or 38.0 per cent compared to the same period in 2008. This increase is mainly due to higher delinquency rates in the consumer loan portfolio, particularly credit cards, and additional credit provisions required in accordance with regulatory requirements for the commercial portfolio, specifically corporate loans, as a result of changes in credit ratings during the first quarter of 2009.

Net fee income was MXN5,061 million at the first half of 2009, a decrease of MXN761 million, or 13.1 per cent, compared to the same period in 2008. This was largely driven by decreased business activity and lower consumer lending volumes, particularly those related to credit card revenues, account management fees, as well as a reduction in transaction volumes from payments and cash management services and ATMs.

Trading income was MXN2,154 million at 30 June 2009, an increase of MXN1,821 million, compared to the same period in 2008. This increase is mainly due to a strong performance, particularly foreign exchange and debt trading, as a result of market volatility and larger trading positions.

¹ Source: Banxico (Banco de México) TIIE rate

Grupo Financiero HSBC, S.A. de C.V.'s management remained focused on expense control. As a result administrative expenses decreased MXN245 million, to MXN10,612 million during the first half of 2009 compared to the same period in 2008, largely achieved from the elimination of a credit card cash back promotional facility and personnel expenses. However, this decrease is offset by the reclassification of employee profit-sharing taxes as operating expenses as required by revised accounting rules in the first half of 2009. Excluding the impact of this change, administrative expenses are MXN972 million, or 8.4 per cent, lower compared to the same period in 2008 and the cost efficiency ratio improvement would be 3.9 percentage points.

Net other income decreased by MXN816 million or 37.3 per cent to MXN1,373 million compared to the same period in 2008, when non recurring income of MXN1,041 million was generated from the sale of Visa Inc. US dollar denominated securities IPO shares.

The performance of our non-bank subsidiaries, particularly HSBC Seguros, contributed with MXN541 million of total net income an increase of MXN13 million compared to the same period in 2008. The performance of our insurance business was driven by cautious underwriting, stable claims behaviour and good expense control.

Gross loans and advances to customers decreased 17.8 per cent to MXN160.2 billion at 30 June 2009, compared to 30 June 2008. The reduction in the loan portfolio was mainly due to prepayments made in government loan portfolios, as well as reduced demand in the consumer and commercial portfolios, coupled with tighter origination criteria.

The coverage ratio (allowance for loan losses/impaired loans) was 126.5 per cent at 30 June 2009, compared to 124.2 per cent at 30 June 2008. Management is focusing its efforts on improving asset quality by maintaining tight control of origination policies and to strengthen collection operations.

Total deposits, including money market funds, decreased 17.1 per cent to MXN220.3 billion at 30 June 2009. This is largely due to a decrease of MXN24.6 billion in money market deposits, replaced with increased bank deposits and subordinated debentures. Demand deposits were MXN117.3 billion, 7.6 per cent lower compared to 30 June 2008. This reduction is mainly a consequence of the economic slowdown, strong competition to attract deposits from the public and reduced branch operations following a restructuring of the network.

During the second quarter of 2009 USD196.7 million or MXN2,593 million subordinated debentures were issued to strengthen our capital base. The Bank continues to remain strongly capitalised with a total capital ratio of 13.4 per cent at 30 June 2009, down 7 basis points compared to 13.5 per cent at 30 June 2008. As of 30 June 2009, the tier 1 capital ratio is 9.7 per cent.

Business highlights

Personal Financial Services

During the first half of 2009 Personal Financial Services implemented a number of strategies to promote the use of alternative distribution channels as the most convenient option for customers for a range of transactions. This includes using the Bank's extensive network of ATMs, electronic banking and telephone banking.

At June 30 2009 the consumer loan portfolio decreased mainly due to tighter underwriting criteria in order to improve credit quality, and lower demand in the market.

During the first half of 2009, the business continued promoting the '*Plan Solución HSBC*', a programme to provide revised repayment terms to its customers in order to improve collections. In addition, a support programme was launched during the month of May to provide payment solutions to all customers who were affected by the AH1N1 influenza outbreak.

Deposit volumes fell as a result of intense competition in a declining economic environment, the elimination of foreign currency cash transactions in branches and reduced branch operations. Marketing campaigns to reinforce our deposit product offerings for '*Cuenta Flexible HSBC*' and '*Cuenta Ahorro HSBC*' continue.

Commercial Banking

Commercial Banking efforts have focussed in maintaining credit portfolio quality, targeting growth in low-risk segments such as states and municipalities, in line with current economic environment. For the first half of 2009 asset quality in our commercial and corporate portfolios remained stable.

During the first half of 2009 customer deposits have decreased compared to 30 June 2008, while falling interest rates have reduced deposit margins.

New products were launched enhancing payments and cash management and bundled products proposal. Continuing with our strategy to be 'the best bank for small business', the first centre for small and medium sized businesses in Mexico was opened in Merida and has been favourably received by that business community. Similar centres are planned to be opened in major cities of the country.

Global Banking and Markets

Global Markets reported strong performance during the first half of 2009 as a result of favourable positioning of the debt portfolio and an increase in foreign exchange trading.

Balance sheet management recorded positive results, despite losses from the sale of securities (mainly USD denominated) as part of a cautious risk management strategy.

Debt Capital Markets continued to support the gradual reopening of the Mexican market. HSBC has been involved as both joint lead manager and bookrunner in the vast majority of transactions in the local market, which include deals for MXN10,000 million from Petróleos Mexicanos, MXN3,500 million from Kimberly Clark de Mexico, MXN2,000 million from Infonavit (which was the first issuance of bonds backed by mortgages in Mexico in 2009) and MXN10,000 million from Bimbo for Weston Foods acquisition. HSBC Mexico was awarded the Best Debt House in Mexico in the Euromoney excellence awards 2009

Global Banking results continue to benefit from repricing strategies in line with market conditions and customer demand.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fifth largest banking and financial services institution with 1,190 branches, 5,992 ATMs, approximately 7.8 million customer accounts and more than 19,000 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, and a member of the HSBC Group. With around 9,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and assets of US\$2,527 billion at 31 December 2008, HSBC is one of the world's largest banking and financial services organisations. 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 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
a) Liquidity	96.98%	85.79%	85.33%	153.49%	132.42%
Profitability					
b) ROE (Return over equity)	7.00%	8.21%	5.43%	8.85%	(1.64)%
c) ROA (Return over assets)	.70%	.83%	.50%	.72%	(0.14)%
Asset quality					
d) Impaired loans/total loans	4.64%	5.18%	5.92%	5.63%	6.43%
e) Coverage ratio	124.21%	122.14%	125.54%	137.78%	126.51%
Capitalization					
f) Credit risk	17.30%	16.58%	17.53%	18.36%	20.91%
g) Credit and market risk operational	13.53%	12.63%	12.83%	12.39%	13.42%
Operating efficiency					
h) Expenses/Total Assets	6.09%	6.49%	4.99%	4.40%	5.39%
i) NIM	7.56%	8.01%	6.86%	5.46%	5.41%
Infrastructure					
Branches	1,332	1,251	1,251	1,189	1,190
ATM	5,875	5,878	5,958	5,918	5,992
Head Count	22,803	20,227	20,012	19,599	19,130

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

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

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

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

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

Income Statement Variance Analysis

Net Income

For the first half of 2009, Grupo Financiero HSBC reported net income of MXN649 million, a decrease of MXN2,205 million (77.3%) compared to the same period in 2008.

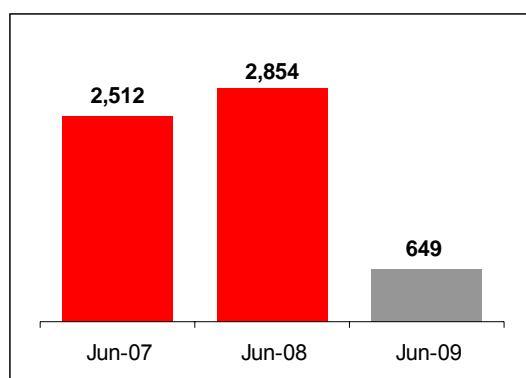
The results of the Group were benefited by the good performance of the subsidiary HSBC Seguros which recorded a profit of MXN541 million, which represents an increase of MXN13 million or 2.5 percent compared to the same period in 2008. The performance of our insurance business was driven by cautious underwriting, stable claims behaviour and good expense control.

Total Operating Income

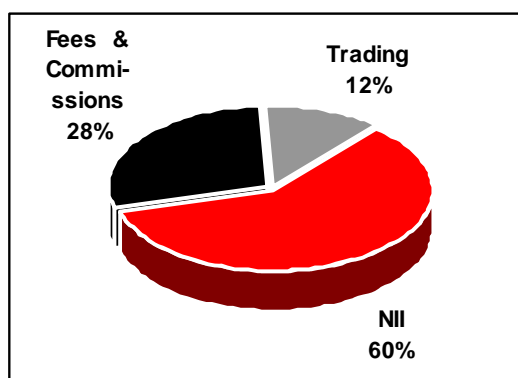
The Group's total operating income in the first half of 2009, before loan impairment charges, amounted to MXN18,265 million, which represents a decrease of MXN419 million (2.2%) compared to the same period of 2008. Trading income recorded an increase of MXN1,821 million, this was offset by the decrease in net interest income of MXN1,842 million and net fee income of MXN761 million, both compared to the first half of 2008.

Total operating income at 30 June 2009, after loan impairment charges, reached MXN9,447 million, a decrease of MXN2,845 million compared to the same period of the prior year. Revenues in the first half of 2009 were affected by the MXN2,426 million increase recorded in loan impairment charges compared to the same period of 2008.

Grupo Financiero HSBC:
Year to date net income



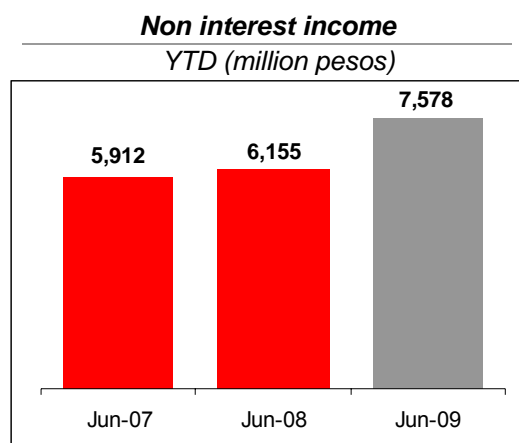
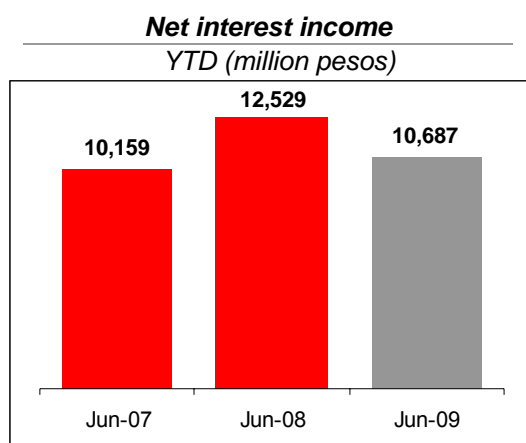
Grupo Financiero HSBC:
Revenue distribution YTD 2Q09



Net Interest Income

Net interest income decreased by MXN1,842 million at 30 June 2009, reaching MXN10,687 million, a 14.7 per cent decrease compared to the first half of 2008.

Net interest income has been affected by a decrease of 10.4 per cent in interest income. Moreover, interest margin has reduced as a result of the combination of different factors, such as the fall in interest rates, lower portfolio and deposits volumes.



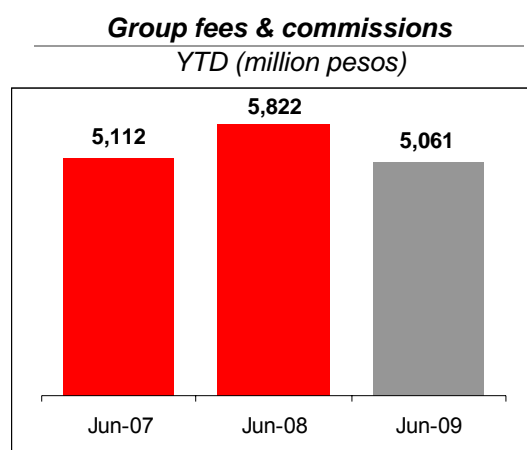
Non-interest Income

Non-interest income for first half of 2009 was MXN7,578 million; up MXN1,423 million 23.1% compared to the same period of 2008.

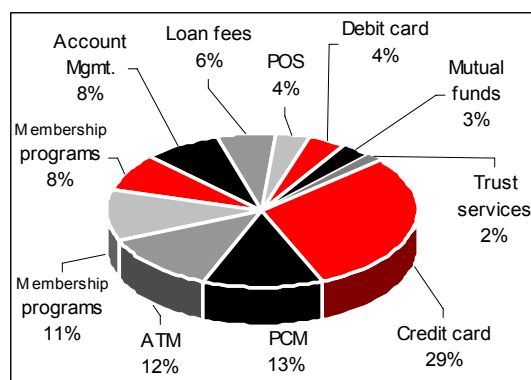
► Fee income

The Group's net fee income at 30 June 2009, reached MXN5,061 million, which represents a decrease of MXN761 million or 13.1 per cent compared to the same period of 2008. Fee income fell due to lower income from credit cards, account management commissions, as well as a decrease in income from ATMs and account management.

Credit card fees decreased by 19.8 per cent compared to the end of the first half of 2008, mainly due to more moderate placement of plastic, combined with a lower volume of transactions. Fees earned from membership programmes also reduced by 2.6 per cent.



Bank's fees & commissions distribution
30 June 2009



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

Despite the improvement and renewal strategy in prior periods in **ATMs** to promote the use of our ATM network by non-HSBC customers, ATMs fees decreased by 13.0 per cent compared with the same period of the prior year, mainly due to lower transaction volumes.

At 30 June 2009, fee income can be essentially explained by the Bank's operations, since they contribute 91.5 per cent of the Group's total net commissions. Total fee income obtained by the Bank amounted to MXN4,632 million at 30 June 2009.

▶ Trading income

Trading income was MXN2,154 million at 30 June 2009, which represents an increase of MXN1,821 million compared to the same period of 2008. This increase is mainly due to a strong performance from foreign exchange and debt trading positions as a result of market volatility during the first half of 2009.

The Group's non-interest income to total to revenue ratio increased from 32.9 per cent at the end of the first half of 2008 to 40.3 per cent en 2009.

▶ Other income

Other income decreased to MXN1,373 million, which represents a decrease of MXN816 million (37.3%) compared with the end of the first half of 2008, a period in which a non-recurring income of MXN1,041 was recorded from the sale of VISA Inc. shares denominated in U.S. dollars.

Loan Impairment Charges

At 30 June 2009, the Group's loan impairment charges were MXN8,818 million, which represents an increase of MXN2,426 million compared to the prior year. This increase is mainly due to higher delinquency rates in the consumer loan portfolio, particularly credit cards, coupled with general weakening of credit quality reflecting the current economic market conditions.

The Group's management is focusing its efforts on improving asset quality by maintaining tight control of origination policies and to strengthen collection operations.

At 30 June 2009, HSBC maintains adequate past-due portfolio ratio of 126.5 per cent.

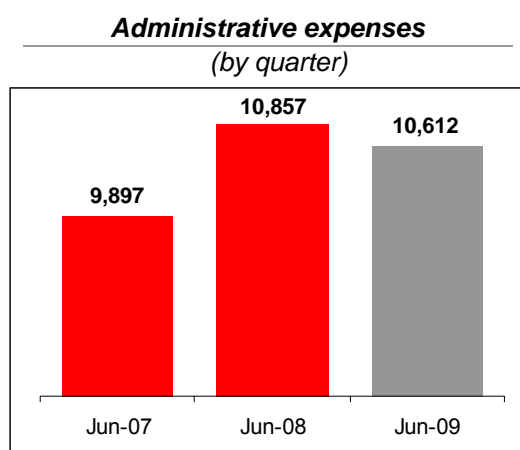
Administrative and Personnel Expenses

At 30 June 2009, the Group's administrative expenses were MXN10,612 million, representing a decrease of MXN245 million (2.3%) compared to the same period of the prior year.

The decrease recorded in administrative expenses was largely achieved from the elimination of a credit card cash back promotional facility and personnel expenses.

The Group's cost efficiency ratio at 30 June 2009 was 58.1 per cent.

The decrease in administrative expenses was offset by the reclassification of employee profit-sharing taxes as operating expenses as required by revised accounting rules in the first half of 2009. Excluding the impact of this change, administrative expenses are MXN972 million, or 8.4 per cent, lower compared to the same period in 2008 and the cost efficiency ratio improvement would be 3.9 percentage points.



Balance sheet Variance Analysis

At 30 June 2009, the Group's total assets amounted MXN410,368 million, which represents an decrease of MXN29,516 million, equivalent to 7.8 per cent, compared to the first half of 2008.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN149,870 million at 30 June 2009, a decrease of 19.4 per cent compared to the same period of 2008. The mortgage loan portfolio recorded decreased by 1.0 per cent compared to the first half of 2008. The commercial portfolio (including financial and government entities) decreased by 20.7 per cent compared to the first quarter of 2008 as the result of several pre-payments, particularly in the public sector. Consumer lending was the second component of the portfolio that reflected a reduction, recording a decrease of 23.6 per cent compared to the same period of 2008.

► Commercial loans (including financial and government entities)

It must be pointed out that during the second half of 2008, the total commercial portfolio has been affected by several pre-payment transactions performed by the Federal Government; therefore, despite greater placement at State and Municipal entity-levels, the balance of the commercial loan portfolio as a whole reflects a decrease of MXN24,566 million at the end of June 2009 compared to the same period of the prior year.

Excluding the Government entities' portfolio, the commercial loan and financial entities' portfolio decreased by MXN2,377 million, which is equivalent to growth of 3.3 per cent compared to the first half of 2008.

► Consumer loans

The consumer loan portfolio decreased mainly as a result of the behaviour observed in the auto and personal loans, as well as credit cards. The reduction in the consumer loan portfolio was mainly due to the reduced demand in the consumer and commercial portfolios, coupled with tighter origination criteria in order to improve credit quality. Auto loans reduced 23.5 per cent, while personal and payroll loans decreased by 29.0 per cent. Credit card balances decreased 20.3 per cent compared to the first half of 2008, with a balance at month-end June of MXN22.8 billion.

► Mortgage loans

The mortgage loan portfolio reflects a decrease of MXN203 million (1.0%) compared to the end of the first half of 2008. Also, it is important to mention that in September 2008, the portfolio was securitised for approximately MXN1.6 billion. However, excluding this effect, the year-on-year growth in the mortgage loan portfolio at 30 June 2009 would have been 7.5 per cent.

Asset quality

As at 30 June 2009, the Group's impaired loan portfolio amounted to MXN10,302 million, which represents an increase of MXN1,254 million compared to the prior year. This increase is largely due to a higher volume of credit cards and mortgage loans in the impaired loan portfolio. The impaired loans to the total loan portfolio ratio is 6.4 per cent, 1.8 percentage points higher than the figure recorded in the same period of the prior year. The coverage ratio at 30 June 2009 was 126.5 per cent, compared with the one observed in the first half of 2008 (124.2%).

The "Plan de Solución HSBC" promotion seeks to improve collections and reduce default among our customers by renegotiating existing credits by granting competitive repayment facilities. In May 2009 a program was launched to provide additional support payment solutions to clients affected by the AH1N1 influenza outbreak.

Deposits

The Group's total deposits at the first half of 2009 amounted to MXN220,278 million, a decrease of 17.1 per cent compared to the first half of the prior year as a consequence of current competition to attract deposits.

The Group continues reinforcing its savings and investment offer with its “*Cuenta Flexible HSBC*” and “*Cuenta Ahorro HSBC*” products, which adapt to customers needs and offer a comprehensive package of services. In the same way, initiatives have been implemented in order to strengthen our presence in the corporate and government sectors in order to attract deposits.

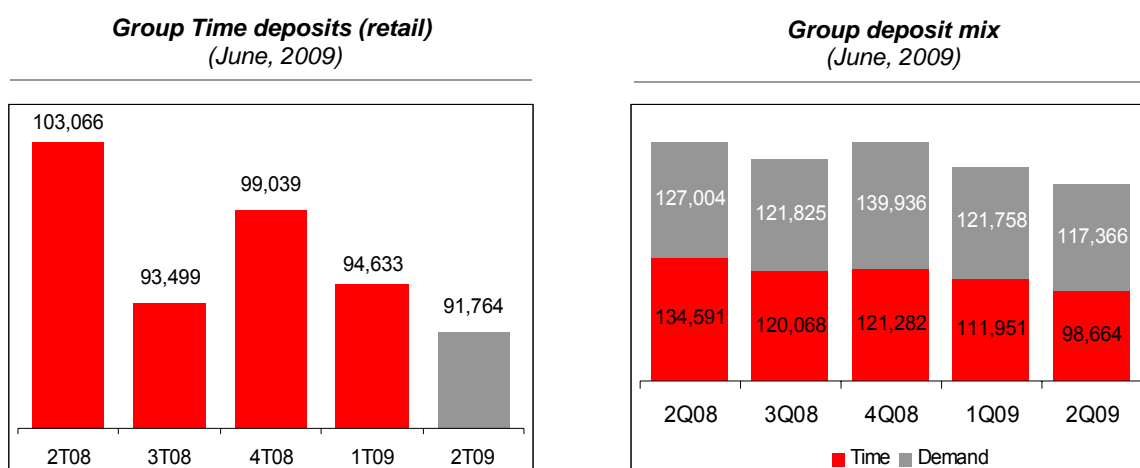
► Demand deposits

At 30 June 2009, demand deposits amounted to MXN117,366 million, 7.6 per cent less compared to the same period of the prior year, which is consistent with market trends.

► Time deposits

Total time deposits reduced 26.7 per cent compared to 30 June 2008, mainly due to a decrease of MXN24,625 million in the money market and by MXN11,302 million in time deposits from the general public. The reduction in money market deposits is the result of current market requirements and a reduction in interest rates.

Time deposits at the end of the first half of 2009 represented 45.7 per cent of the total in the deposit mix (time and demand).



Shareholder's equity

At 30 June 2009, the Group's shareholders' equity was MXN36,628 million representing a decrease of 1.3 per cent compared to the first half of the prior year. Moreover, the Bank's shareholders' equity was MXN29,183 at 30 June 2009, decreasing 4.2 per cent compared to 30 June of the prior year.

Capital Adequacy Ratio

Bank's capital adequacy ratio at 30 June 2009 was 13.4 per cent, placing it above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 9.7 per cent.

On June 30, 2009 the third issuance of subordinated debentures took place, being the first issuance denominated in foreign currency for USD\$196.7 million, equivalent to MXN2,593 million pesos, which strengthens the Bank's capital.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2009

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

	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>
Assets					
Cash and deposits in banks	51,596	50,457	74,161	86,326	65,346
Margin Accounts	-	-	-	-	3,997
Investments in Securities	82,415	62,802	61,701	118,622	126,999
Trading securities	50,311	33,678	24,259	76,932	73,990
Available-for-sale securities	28,080	25,022	28,507	32,681	43,989
Held to maturity securities	4,024	4,102	8,935	9,009	9,020
Repurchase agreements	42	49	140	770	798
Derivative transactions	16,218	23,412	77,453	44,535	31,368
Performing loans					
Commercial loans	118,585	114,213	100,536	101,531	94,019
Commercial entities	72,561	74,528	75,502	77,041	70,184
Loans to financial intermediaries	14,596	17,213	9,484	8,690	7,832
Loans to government entities	31,428	22,472	15,550	15,800	16,003
Consumer loans	47,872	46,637	43,156	40,098	36,564
Mortgages loans	19,490	18,380	19,002	19,531	19,287
Total performing loans	<u>185,947</u>	<u>179,230</u>	<u>162,694</u>	<u>161,160</u>	<u>149,870</u>
Impaired loans					
Commercial loans	2,246	2,073	2,116	2,319	2,425
Commercial entities	2,246	2,073	2,114	2,319	2,425
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	2	-	-
Consumer loans	5,432	6,163	6,533	5,750	5,930
Mortgages loans	1,370	1,565	1,596	1,554	1,947
Other	-	-	-	-	-
Total non-performing loans	<u>9,048</u>	<u>9,801</u>	<u>10,245</u>	<u>9,623</u>	<u>10,302</u>
Loan portfolio	194,995	189,031	172,939	170,783	160,172
Allowance for loan losses	(11,238)	(11,970)	(12,862)	(13,258)	(13,033)
Net loan portfolio	<u>183,757</u>	<u>177,061</u>	<u>160,077</u>	<u>157,525</u>	<u>147,139</u>
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	<u>183,757</u>	<u>177,061</u>	<u>160,077</u>	<u>157,525</u>	<u>147,139</u>
Benefits to be received from trading operations	-	-	-	-	257
Other accounts receivable, net	30,421	16,774	48,552	18,252	15,396
Foreclosed assets	80	91	97	117	134
Property, furniture and equipment, net	6,419	6,478	6,633	6,616	6,583
Long term investments in equity securities	3,263	3,538	3,507	3,322	3,673
Deferred taxes, net	1,805	2,433	2,117	3,254	3,494
Goodwill	2,749	2,749	2,749	2,749	2,749
Other assets, deferred charges and intangibles	2,087	2,153	2,424	2,374	2,435
Total Assets	<u>380,852</u>	<u>347,997</u>	<u>439,611</u>	<u>444,462</u>	<u>410,368</u>

Figures in MXN millions at June 30, 2009

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

	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>
Liabilities					
Deposits	265,849	246,156	265,464	237,981	220,278
Demand deposits	127,004	121,825	139,936	121,758	117,366
Time deposits	134,591	120,068	121,282	111,951	98,664
Retail	103,066	93,499	99,039	94,633	91,764
Money market	31,525	26,569	22,243	17,318	6,900
Bank bonds outstanding	4,254	4,263	4,246	4,272	4,248
Bank deposits and other liabilities	9,529	7,782	10,652	7,658	22,602
On demand	1,031	-	966	170	1,967
Short term	5,996	5,414	7,840	5,731	19,111
Long term	2,502	2,368	1,846	1,757	1,524
Repurchase agreements	53	65	83	76,581	57,115
Settlement accounts	-	-	-	-	3,550
Collateral Sold	-	-	-	-	6,934
Securities to be received in repo transactions	-	-	-	-	6,934
Derivative transactions	15,652	23,893	83,148	45,770	29,572
Other accounts payable	49,980	30,483	37,554	33,946	24,289
Income tax and employee profit sharing payable	1,595	1,932	1,009	1,004	1,341
Creditors for settlement of transactions	-	-	-	-	11,789
Sundry creditors and others accounts payable	48,385	28,551	36,545	32,942	11,159
Subordinated debentures outstanding	2,201	2,205	5,948	6,216	8,932
Deferred tax	-	-	-	-	-
Deferred credits	480	479	492	487	468
Total Liabilities	<u>343,744</u>	<u>311,063</u>	<u>403,341</u>	<u>408,639</u>	<u>373,740</u>
Stockholder's Equity					
Paid in capital	21,466	21,466	21,466	21,466	23,724
Capital stock	8,210	8,210	8,210	8,210	8,452
Additional paid in capital	13,256	13,256	13,256	13,256	15,272
Capital Gains	15,638	15,464	14,799	14,353	12,900
Capital reserves	1,442	1,442	1,442	1,648	1,648
Retained earnings	11,679	11,582	11,582	13,839	11,582
Result from the mark-to-market of					
Available-for-sale securities	(201)	(1,037)	(2,335)	(1,932)	(979)
Adjustment in the pension employee	(136)	(136)	-	-	-
Net Income	2,854	3,613	4,110	798	649
Minority interest	4	4	5	4	4
Total Stockholder's Equity	<u>37,108</u>	<u>36,934</u>	<u>36,270</u>	<u>35,823</u>	<u>36,628</u>
Total Liabilities and Capital	<u>380,852</u>	<u>347,997</u>	<u>439,611</u>	<u>444,462</u>	<u>410,368</u>

Figures in MXN millions at June 30, 2009

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

	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
Memorandum Accounts					
	<u>2,499,013</u>	<u>2,901,384</u>	<u>3,042,496</u>	<u>2,271,016</u>	<u>2,175,281</u>
Guarantees granted	34	33	41	38	35
Contingent assets and liabilities	-	-	-	131	125
Irrevocable lines of credit granted	-	-	-	10,946	10,539
Goods in trust or mandate	188,624	192,544	197,705	190,490	238,917
Trust	188,624	192,544	197,705	190,490	238,268
Mandate	-	-	-	-	649
Agente financiero del Gobierno Federal	-	-	-	-	-
Goods in custody or under administration	305,140	109,363	160,877	177,672	213,580
Collateral received by the institution	-	-	-	-	19,992
Collateral received and sold or delivered as guarantee	-	-	-	-	9,677
Third party investment banking operations, net	28,165	25,871	25,694	23,019	56,804
Other control accounts	1,977,050	2,573,573	2,658,179	1,868,720	1,625,612

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 4,128 millions.

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Consolidated Income Statement

Figures in MXN millions at June 30, 2009

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

	For the quarter ending....					Year to date	
	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Jun 2008	30 Jun 2009
Interest Income	9,511	9,566	9,359	8,749	8,194	18,903	16,943
Interest expense	(3,233)	(3,033)	(3,247)	(3,372)	(2,884)	(6,374)	(6,256)
Net interest income	<u>6,278</u>	<u>6,533</u>	<u>6,112</u>	<u>5,377</u>	<u>5,310</u>	<u>12,529</u>	<u>10,687</u>
Loan impairment charges	(3,594)	(3,870)	(4,619)	(4,751)	(4,067)	(6,392)	(8,818)
Risk adjusted net interest income	<u>2,684</u>	<u>2,663</u>	<u>1,493</u>	<u>626</u>	<u>1,243</u>	<u>6,137</u>	<u>1,869</u>
Fees and commissions receivable	3,178	3,122	3,014	2,789	2,735	6,396	5,524
Fees payable	(288)	(288)	(307)	(246)	(217)	(574)	(463)
Trading Income	(122)	619	1,607	1,406	748	333	2,154
Other operating income	-	-	-	-	363	-	363
Total operating income	<u>5,452</u>	<u>6,116</u>	<u>5,807</u>	<u>4,575</u>	<u>4,872</u>	<u>12,292</u>	<u>9,447</u>
Administrative and personnel expenses	(5,655)	(5,913)	(4,927)	(4,857)	(5,755)	(10,857)	(10,612)
Net operating income	<u>(203)</u>	<u>203</u>	<u>880</u>	<u>(282)</u>	<u>(883)</u>	<u>1,435</u>	<u>(1,165)</u>
Other income	847	857	1,149	1,309	640	2,520	1,949
Other expenses	(96)	(313)	(1,732)	(347)	(229)	(331)	(576)
Net income before taxes	<u>548</u>	<u>747</u>	<u>297</u>	<u>680</u>	<u>(472)</u>	<u>3,624</u>	<u>208</u>
Income tax and employee profit sharing tax	(642)	(927)	232	(1,180)	(688)	(2,336)	(1,868)
Deferred income tax	<u>460</u>	<u>675</u>	<u>(320)</u>	<u>1,096</u>	<u>640</u>	<u>991</u>	<u>1,736</u>
Net income before subsidiaries	<u>366</u>	<u>495</u>	<u>209</u>	<u>596</u>	<u>(520)</u>	<u>2,279</u>	<u>76</u>
Undistributed income from subsidiaries	<u>282</u>	<u>264</u>	<u>288</u>	<u>202</u>	<u>371</u>	<u>576</u>	<u>573</u>
Income from ongoing operations	<u>648</u>	<u>759</u>	<u>497</u>	<u>798</u>	<u>(149)</u>	<u>2,855</u>	<u>649</u>
Minority interest	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Net income (loss)	<u>647</u>	<u>759</u>	<u>497</u>	<u>798</u>	<u>(149)</u>	<u>2,854</u>	<u>649</u>

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

This consolidated income statement was approved by the Board of Directors under the responsibility of the following officers."

www.hsbc.com.mx/ Section: Home Investor Relations 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 MXN millions at June 30, 2009

From 1 January 2009 to 30 June 2009

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

	Paid in capital				Earned capital						Minority Interest	Total Stock-holders Equity
	Capital Stock	Advances for future capital increases	Subordinate Shares d Premiums outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income			
Balances at 01 January 2009	8,210	-	13,256	1,442	11,582	(2,335)	-	-	4,110	5	36,270	
Movements Inherent to the Shareholders Decision												
Subscription of shares	242	-	2,016	-	-	-	-	-	-	-	2,258	
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	
Constitution of reserves	-	-	-	206	-	-	-	-	-	-	206	
Transfer of result of prior years	-	-	-	-	3,904	-	-	-	(4,110)	-	(206)	
Cash dividends	-	-	-	-	(3,904)	-	-	-	-	-	(3,904)	
Others	-	-	-	-	-	-	-	-	-	-	-	
Total Movements Inherent to the Shareholders Decision	242	-	2,016	206	-	-	-	-	(4,110)	-	(1,646)	
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	649	(1)	648	
Result from valuation of available-for-sale securities	-	-	-	-	-	1,356	-	-	-	-	1,356	
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	1,356	-	-	649	(1)	2,004	
Balances as at 30 June 2009	8,452	-	15,272	1,648	11,582	(979)	-	-	649	4	36,628	

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

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

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Consolidated Statement of Cash Flow

Figures in MXN millions at June 30, 2009

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

From 1 January to 30 June 2009

Net income	649
Adjustments for items not involving cash flow:	4,621
Gain or loss on appraisal of activities associated with investment & financing	(4,316)
Allowances for loan losses	8,818
Depreciation and amortisation	569
Income Tax and deferred taxes	132
Undistributed income from subsidiaries	(573)
Other	(9)
Changes in items related to operating activities:	
Margin accounts	(3,997)
Investment securities	(64,374)
Repurchase agreements	(660)
Derivative (assets)	50,834
Loan portfolio	4,119
Benefits to be received from trading operations	(257)
Foreclosed assets	(41)
Operating assets	33,568
Deposits	(45,186)
Bank deposits and other liabilities	11,951
Creditors repo transactions	57,031
Collateral sold or delivered as guarantee	6,934
Derivative (liabilities)	(53,576)
Subordinated debentures outstanding	2,983
Other operating liabilities	(11,606)
Funds provided by operating activities	(12,277)
Investing activities:	
Disposal of property, furniture and equipment	3
Acquisition of property, furniture and equipment	(521)
Disposal of subsidiaries	18
Cash dividend	401
Intangible assets acquisitions	(63)
Funds used in investing activities	(162)
Financing activities:	
Shares issue	2,258
Cash dividend	(3,904)
Funds provided by financing activities	(1,646)
Increase/decrease in cash and equivalents	(8,815)
Cash and equivalents at beginning of period	74,161
Cash and equivalents at end of period	65,346

The present Consolidated Statement of Cash Flows, 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 Cash Flows, was approved by the Board of Directors under the responsibility of the following officers.

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Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2009

HSBC Mexico, S.A. (Bank)

	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
Assets					
Cash and deposits in banks	51,596	50,457	73,603	85,756	65,346
Margin Accounts	-	-	-	-	3,997
Investment in Securities	81,730	62,150	61,029	118,211	126,442
Trading securities	50,209	33,368	24,000	76,857	73,903
Available-for-sale securities	27,497	24,680	28,093	32,345	43,519
Held to maturity securities	4,024	4,102	8,936	9,009	9,020
Repurchase agreements	-	-	-	749	798
Derivative transactions	16,218	23,412	77,453	44,535	31,368
Performing loans					
Commercial loans	118,585	114,213	100,536	101,531	94,019
Commercial entities	72,561	74,528	75,502	77,041	70,184
Loans to financial intermediaries	14,596	17,213	9,484	8,690	7,832
Loans to government entities	31,428	22,472	15,550	15,800	16,003
Consumer loans	47,872	46,637	43,156	40,098	36,564
Mortgages loans	19,490	18,380	19,002	19,531	19,287
Total performing loans	<u>185,947</u>	<u>179,230</u>	<u>162,694</u>	<u>161,160</u>	<u>149,870</u>
Impaired loans					
Commercial loans	2,246	2,073	2,116	2,319	2,425
Commercial entities	2,246	2,073	2,114	2,319	2,425
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	2	-	-
Consumer loans	5,432	6,163	6,533	5,750	5,930
Mortgage Loans	1,370	1,565	1,596	1,554	1,947
Other performing loans	-	-	-	-	-
Total non-performing loans	<u>9,048</u>	<u>9,801</u>	<u>10,245</u>	<u>9,623</u>	<u>10,302</u>
Total loan portfolio	194,995	189,031	172,939	170,783	160,172
Allowance for loan losses	<u>(11,238)</u>	<u>(11,970)</u>	<u>(12,862)</u>	<u>(13,258)</u>	<u>(13,033)</u>
Net loan portfolio	183,757	177,061	160,077	157,525	147,139
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	<u>183,757</u>	<u>177,061</u>	<u>160,077</u>	<u>157,525</u>	<u>147,139</u>
Benefits to be received from trading operations	-	-	-	-	257
Other accounts receivable	30,313	16,567	48,474	17,927	15,241
Foreclosed assets	80	91	97	117	134
Property, furniture and equipment, net	6,407	6,466	6,622	6,606	6,573
Long term investments in equity securities	121	128	139	149	132
Deferred taxes	1,810	2,410	2,134	3,278	3,536
Other assets, deferred charges and intangibles	<u>2,057</u>	<u>2,111</u>	<u>2,372</u>	<u>2,334</u>	<u>2,368</u>
Total Assets	<u><u>374,123</u></u>	<u><u>340,900</u></u>	<u><u>432,134</u></u>	<u><u>437,187</u></u>	<u><u>403,331</u></u>

Figures in MXN millions at June 30, 2009

HSBC Mexico, S.A. (Bank)

	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
Liabilities					
Deposits	266,019	246,338	265,697	238,153	220,987
Demand deposits	127,174	122,007	140,169	121,930	118,075
Time deposits	134,591	120,068	121,282	111,951	98,664
Retail	-	-	-	-	91,764
Money market	-	-	-	-	6,900
Bank bonds outstanding	4,254	4,263	4,246	4,272	4,248
Bank deposits and other liabilities	9,529	7,782	10,652	7,658	22,602
On demand	1,031	-	966	170	1,967
Short term	5,996	5,414	7,840	5,731	19,111
Long term	2,502	2,368	1,846	1,757	1,524
Repurchase agreements	-	-	-	76,560	57,115
Settlement accounts	-	-	-	-	3,550
Collateral Sold	-	-	-	-	6,934
Securities to be received in repo transactions	-	-	-	-	6,934
Derivative transactions	15,652	23,893	83,148	45,770	29,572
Other accounts payable	49,744	30,131	37,286	33,541	23,988
Income tax and employee profit sharing payable	1,540	1,875	879	955	1,241
Creditors for settlement of transactions	-	-	-	-	11,630
Sundry creditors and others accounts payable	48,204	28,256	36,407	32,586	11,117
Subordinated debentures outstanding	2,201	2,205	5,948	6,216	8,932
Deferred tax	-	-	-	-	-
Deferred credits	480	479	492	487	468
Total Liabilities	343,670	310,891	403,301	408,385	374,148
Stockholder's Equity					
Paid in capital	15,883	15,883	15,883	15,883	15,883
Capital stock	4,272	4,272	4,272	4,272	4,272
Additional paid in capital	11,611	11,611	11,611	11,611	11,611
Capital Gains	14,568	14,124	12,948	12,917	13,297
Capital reserves	12,797	12,797	12,797	14,314	14,313
Retained earnings	-	-	-	-	-
Surplus (Deficit) from securities	(296)	(1,077)	(2,368)	(1,940)	(1,032)
Adjustment in the pension employee	(136)	(136)	-	-	-
Net Income	2,203	2,540	2,519	543	16
Minority interest	2	2	2	2	3
Total Stockholder's Equity	30,453	30,009	28,833	28,802	29,183
Total Liabilities and Capital	374,123	340,900	432,134	437,187	403,331

Figures in MXN millions at June 30, 2009

HSBC Mexico, S.A. (Bank)

	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>
Memorandum Accounts					
Guarantees granted	34	33	41	38	35
Contingent assets and liabilities	-	-	-	131	125
Irrevocable lines of credit granted	-	-	-	10,946	10,539
Goods in trust or mandate	188,624	192,544	197,705	190,490	238,917
Goods	187,889	192,003	197,048	189,451	238,268
Trusts	735	541	657	1,039	649
Goods in custody or under administration	301,195	105,415	156,930	749	209,452
Collateral received by the institution	-	-	-	173,725	14,934
Collateral received and sold or delivered as guarantee	-	-	-	-	14,735
Third party investment banking operations, net	28,165	25,871	25,694	23,019	56,804
Amounts committed in transactions with IPAB for Fobaproa	143	148	151	154	157
Amounts contracted in derivative operations	1,306,093	1,914,946	2,038,702	1,263,141	1,036,988
Integrated loan portfolio	204,111	198,785	183,806	181,767	170,747
Other control accounts	436,789	418,601	392,669	389,373	374,240
	<u>2,465,154</u>	<u>2,866,195</u>	<u>3,006,659</u>	<u>2,233,533</u>	<u>2,127,673</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 2,471 millions.

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Consolidated Income Statement

Figures in MXN millions at June 30, 2009

HSBC Mexico, S.A. (Bank)

	<i>For the quarter ending</i>				<i>Year to date</i>		
	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Jun 2008	30 Jun 2009
Interest income	9,491	9,531	9,368	8,656	8,190	18,880	16,846
Interest expense	(3,232)	(3,004)	(3,290)	(3,288)	(2,856)	(6,375)	(6,144)
Position Monetary					-	-	-
Net interest income	<u>6,259</u>	<u>6,527</u>	<u>6,078</u>	<u>5,368</u>	<u>5,334</u>	<u>12,505</u>	<u>10,702</u>
Loan impairment charges	3,594	3,870	4,619	4,751	4,067	6,392	8,818
Loan impairment charges	3,594	3,870	4,619	4,751	4,067	6,392	8,818
Risk adjusted net interest income	<u>2,665</u>	<u>2,657</u>	<u>1,459</u>	<u>617</u>	<u>1,267</u>	<u>6,113</u>	<u>1,884</u>
Fees and commissions receivable	2,957	2,926	2,829	2,604	2,539	5,968	5,143
Account management	356	315	325	271	247	692	518
Services	2,601	2,611	2,504	2,333	2,292	5,276	4,625
Fees payable	(277)	(291)	(322)	(257)	(254)	(557)	(511)
Trading Income	(127)	617	1,605	1,404	745	328	2,149
Foreign exchange	(167)	944	3,849	4,080	(7,209)	(200)	(3,129)
Securities trading, net	42	(8)	(38)	(46)	(13)	27	(59)
Repos	-	-	-	-	-	(3)	-
Swaps	110	320	175	171	244	(6)	415
Valuation off-shore agencies	72	(1,026)	(1,412)	(3,140)	7,455	391	4,315
Valuation for trading swaps	(184)	387	(969)	339	268	119	607
Other operating income	-	-	-	-	363	-	363
Total operating income	<u>5,218</u>	<u>5,909</u>	<u>5,571</u>	<u>4,368</u>	<u>4,660</u>	<u>11,852</u>	<u>9,028</u>
Administrative and personnel expenses	5,374	5,738	5,079	4,754	5,559	10,457	10,313
Personnel expense	2,142	2,616	1,987	2,078	2,489	4,279	4,567
Administrative expense	2,960	2,848	2,820	2,395	2,784	5,648	5,179
Depreciation and amortization	272	274	272	281	286	530	567
Net operating income	<u>(156)</u>	<u>171</u>	<u>492</u>	<u>(386)</u>	<u>(899)</u>	<u>1,395</u>	<u>(1,285)</u>
Other income	855	781	998	1,319	562	2,549	1,881
Other expenses	(223)	(368)	(1,520)	(345)	(229)	(478)	(574)
Net income before taxes	<u>476</u>	<u>584</u>	<u>(30)</u>	<u>588</u>	<u>(566)</u>	<u>3,466</u>	<u>22</u>
Income tax and employee profit sharing	(635)	(921)	304	(1,137)	(646)	(2,285)	(1,783)
Deferred income tax	469	666	(308)	1,083	671	990	1,754
Net income before subsidiaries	<u>310</u>	<u>329</u>	<u>(34)</u>	<u>534</u>	<u>(541)</u>	<u>2,171</u>	<u>(7)</u>
Undistributed income from subsidiaries	20	8	13	10	14	33	24
Income from ongoing operations	<u>330</u>	<u>337</u>	<u>(21)</u>	<u>544</u>	<u>(527)</u>	<u>2,204</u>	<u>17</u>
Minority interest	(1)	-	-	(1)	-	(1)	(1)
Net income (loss)	<u>329</u>	<u>337</u>	<u>(21)</u>	<u>543</u>	<u>(527)</u>	<u>2,203</u>	<u>16</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 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 2009 to 30 June 2009

	Paid in capital				Earned Capital					Minority Interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets			Net Income
Balances at 01 January 2009	4,272	-	11,611	-	12,797	-	(2,368)	-	-	2,519	2	28,833
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	1,516	(1,516)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	2,519	-	-	-	(2,519)	-	-
Cash dividends	-	-	-	-	-	(1,003)	-	-	-	-	-	(1,003)
Total Movements Inherent to the Shareholders Decision	-	-	-	-	1,516	-	-	-	-	(2,519)	-	(1,003)
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	16	1	17
Result from valuation of available-for-sale securities	-	-	-	-	-	-	1,336	-	-	-	-	1,336
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Recognition of the Comprehensive Income	-	-	-	-	-	-	1,336	-	-	16	1	1,353
Balances as at 30 June 2009	4,272	-	11,611	-	14,313	-	(1,032)	-	-	16	3	29,183

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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Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January 2009 to 30 June 2009

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

30 Jun 2009

Net income	16
Adjustments for items not involving cash flow:	5,080
Gain or loss on appraisal of activities associated with investment & financing	(4,316)
Allowances for loan losses	8,818
Depreciation and amortization	568
Income Tax and deferred taxes	29
Undistributed income from subsidiaries	(24)
Other	5
Changes in items related to operating activities:	
Margin accounts	(3,997)
Investment securities	(64,577)
Repurchase agreements	(666)
Derivative (assets)	50,834
Loan portfolio	4,119
Benefits to be received from trading operations	(257)
Foreclosed assets	(41)
Operating assets	33,722
Deposits	(44,711)
Bank deposits and other liabilities	11,950
Creditors repo transactions	57,037
Collateral sold or delivered as guarantee	6,934
Derivative (liabilities)	(53,575)
Subordinated debentures outstanding	2,983
Other operating liabilities	(11,554)
Funds provided by operating activities	(11,799)
Investing activities:	
Disposal of property, furniture and equipment	3
Acquisition of property, furniture and equipment	(521)
Disposal of subsidiaries	23
Disposal of long term investments in equity securities	5
Cash dividend	1
Intangible assets acquisitions	(63)
Funds used in investing activities	(552)
Financing activities:	
Cash dividend	(1,002)
Funds used or provided by financing activities	(1,002)
Increase/decrease in cash and equivalents	(8,257)
Cash and equivalents at beginning of period	73,603
Cash and equivalents at end of period	65,346

The present Statement of Cash Flows 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 of Cash Flows 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 MXN millions at June 30, 2009

Investments in securities

	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>
Government securities	46,395	30,972	19,466	74,374	70,613
Bank securities	2,918	1,163	3,917	1,690	1,804
Shares	113	113	113	66	15
Others	885	1,430	763	802	1,558
Trading securities	<u>50,311</u>	<u>33,678</u>	<u>24,259</u>	<u>76,932</u>	<u>73,990</u>
Government securities	19,809	17,260	24,394	29,004	38,569
Bank securities	1,330	210	-	-	1,966
Obligations and other securities	5,921	6,538	3,063	3,326	3,266
Shares	1,020	1,014	1,050	351	188
Available for sale securities	<u>28,080</u>	<u>25,022</u>	<u>28,507</u>	<u>32,681</u>	<u>43,989</u>
Sovereign debt securities	-	-	-	-	-
Commercial and industrial subordinated debentures	2	-	-	-	-
Special Cetes (net)	4,022	4,102	4,183	4,263	4,328
MYRAS	-	-	-	-	-
Bank securities	-	-	320	324	204
Corporate securities	-	-	4,432	4,422	4,488
Securities held to maturity	<u>4,024</u>	<u>4,102</u>	<u>8,935</u>	<u>9,009</u>	<u>9,020</u>
Total Financial Instruments	<u>82,415</u>	<u>62,802</u>	<u>61,701</u>	<u>118,622</u>	<u>126,999</u>

In the second quarter of 2009 investment in securities increased by MXN 8,377 million compared to the first quarter of 2009; mainly by MXN5,804 million increase in government securities, MXN696 million in promissory note securities, in promissory note MXN2,025, MXN(162) million in shares and increase in other by MXN14 million.

Repos

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

Figures in MXN millions at June 30, 2009

	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>
Government securities (debit)	34,164	41,969	39,382	-	-
Bank securities (debit)	810	584	582	-	-
Valuation Increase (decrease)	20	18	80	-	-
Interest in securities receivable under repurchase agreements	14	42	37	-	-
Total in repo agreements (debit)	<u>35,008</u>	<u>42,613</u>	<u>40,081</u>	<u>-</u>	<u>-</u>
Repo's Government securities (credit)	34,173	41,987	39,402	75,946	56,547
Repo's Bank securities (credit)	810	584	582	569	482
Valuation increase (decrease)	(1)	(1)	(2)	-	-
Accrued interest payable	45	82	71	66	86
Credit balance in repo agreements	<u>35,027</u>	<u>42,652</u>	<u>40,053</u>	<u>76,581</u>	<u>57,115</u>

	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>
Repurchase agreements in government securities	11,593	14,536	8,059	1,521	8,000
Repurchase agreements in banking securities	1,000	-	-	-	-
Valuation increase (decrease)	-	-	-	-	-
Accrued interest receivable	2	16	1	-	1
Debit balance repo securities agreements	<u>12,595</u>	<u>14,552</u>	<u>8,060</u>	<u>1,521</u>	<u>8,001</u>
Government securities	11,585	14,518	8,039	751	7,202
Bank securities	1,000	-	-	-	-
Valuation increase (decrease)	-	1	(9)	-	-
Interest in securities deliverable under repurchase agreements	2	10	2	-	1
Credit balance repo securities agreements	<u>12,587</u>	<u>14,529</u>	<u>8,032</u>	<u>751</u>	<u>7,203</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2009

	<u>Futures</u>		<u>Forwards</u> <u>Contracts</u>		<u>Options</u>		<u>Swaps</u>		<u>Total</u> <u>(net)</u>
	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	
For trading									
Pesos	-	-	61,926	44,050	36,096	36,140	74,222	72,455	19,599
US Dollars	-	-	50,384	65,943	182	182	120,806	123,190	(17,943)
Interest Rate	5,626	5,626	256	380	-	-	123,625	123,361	140
Total	<u>5,626</u>	<u>5,626</u>	<u>112,566</u>	<u>110,373</u>	<u>36,278</u>	<u>36,322</u>	<u>318,653</u>	<u>319,006</u>	<u>1,796</u>
For hedging									
Pesos	-	-	-	-	-	-	2,693	-	-
US Dollars	-	-	-	-	-	-	-	3,485	-
Interest Rate	-	-	-	-	-	-	2,256	3,031	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,949</u>	<u>6,516</u>	<u>-</u>

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2009

	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>
Stock borrowing					
Cetes	-	-	-	-	1,123
Valuation increase (decrease)	-	-	-	-	(13)
Bonds	-	-	-	-	5,584
Valuation increase (decrease)	-	-	-	-	240
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,934</u>

Participation by Subsidiary

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

Group Subsidiaries at June 30, 2009

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,235,526,706	99.99%	1,235,450,480
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.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Global Asset Management (México), S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	100	99.00%	99
Total	2,068,858,232		2,047,674,262

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2009

	For the quarter ending...				Year to date		
	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Jun 2009	
Valuation	(181)	(999)	(1,414)	(3,139)	7,455	365	4,316
Derivatives	(185)	(842)	(161)	(530)	147	362	(383)
Repos	4	-	1	(2)	-	3	(2)
Debt Securities	-	71	1,336	(4)	(428)	-	(432)
Foreign Exchange	-	(228)	(2,590)	(2,603)	7,736	-	5,133
Buying and Selling							
Instruments	54	1,616	3,019	4,543	(6,710)	(37)	(2,167)
Foreign Currency	(167)	943	3,850	4,080	(7,210)	(200)	(3,131)
Derivatives	237	414	(676)	260	214	197	473
Repos	(24)	20	-	-	-	(20)	-
Shares	8	26	-	6	4	(14)	10
Debt Securities	-	213	(155)	197	282	-	479
Total	(127)	617	1,605	1,404	745	328	2,149

Loan Portfolio

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

By type of currency

Figures in MXN millions at June 30, 2009

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	46,686	7,689	14,630	36,564	19,282	124,851
US Dollars	23,497	143	1,374	-	5	25,019
Udis Banxico	-	-	-	-	-	-
Total	70,184	7,832	16,003	36,564	19,287	149,870
Non Performing Loans Portfolio						
Pesos	2,254	-	-	5,930	1,947	10,131
US Dollars	171	-	-	-	-	171
Udis Banxico	-	-	-	-	-	-
Total	2,425	-	-	5,930	1,947	10,302

The IPAB obligations named Tramo II Serie F and Tramo II matured on April 3, 2006.

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	-	BBB+	A
Long term deposits	Baa1		
Short term	P-2	A-2	F1
Local Currency			
Long term obligations	Aa2	BBB+	-
Long term deposits	Aa2	BBB+	-
Short term	P-1	A-2	
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	Stable (m)	Negative	Stable
Last update	20-Nov-08	20-Feb-09	24-Sep-08

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2009

	<i>Total loan portfolio</i>	<i>Allowance for Loan Losses by type of loan</i>			<i>Total reserves</i>
		<i>Commercial loans</i>	<i>Consumer loans</i>	<i>Mortgages loans</i>	
Exempted from rating	8,148				
Graded	162,599				
Risk A	73,699	316	54	55	425
Risk A-1	54,266	130	54	55	239
Risk A-2	19,433	186	-	-	186
Risk B	75,574	2,604	1,040	138	3,782
Risk B-1	53,033	742	658	138	1,538
Risk B-2	17,336	1,184	382	-	1,566
Risk B-3	5,205	678	-	-	678
Risk C	5,805	761	1,600	225	2,586
Risk C-1	5,314	555	1,600	225	2,380
Risk C-2	491	206	-	-	206
Risk D	4,940	356	2,523	751	3,630
Risk E	2,581	1,041	1,491	78	2,610
Total	170,747	5,078	6,708	1,247	13,033
Less:					
Constituted Reserves					13,033
Surplus					-

1. The rating and constitution of reserves correspond to last day of the balance sheet at 30 June 2009.
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 June 11, 2009. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the regulation document published on June 11, 2009.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	At the quarter ending				
	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
Initial Balance of Impaired Loans	7,871	9,048	9,801	10,245	9,623
Increases	6,781	6,666	6,975	6,409	8,811
Transfer of current loans to past due status	6,781	6,666	6,975	6,409	8,811
Decreases	(5,601)	(5,935)	(6,605)	7,031	8,132
Restructurings	(221)	(162)	(120)	64	93
Liquidated credits	(3,600)	(4,195)	(4,983)	5,351	5,560
Charged in cash	(860)	(1,112)	(1,194)	1,053	1,443
Foreclosed assets	(17)	(13)	(9)	17	30
Writeoffs	-	-	-	-	-
Sale of portfolio	(2,723)	(3,070)	(3,780)	4,281	4,087
Transfer to performing loan status	(1,780)	(1,578)	(1,502)	1,626	2,468
Fx revaluations	(3)	22	74	10	(11)
Final Balance of Impaired Loan	9,048	9,801	10,245	9,623	10,302

Deferred Taxes

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

Figures in MXN millions at June 30, 2009

	30 Jun 2008	30 Sep 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009
Loan loss reserves	2,710	3,434	2,137	3,100	3,955
Valuation of securities	(309)	(494)	(294)	(128)	(132)
Fiscal loss	7	7	6	6	14
Other reserves	232	241	744	619	540
PTU Payable	171	237	389	485	34
Foreclosed assets	164	169	19	72	16
Stocks VISA & Mastercard	(170)	(170)	-	-	-
Other	110	109	125	109	129
Differences in rates of fixed assets	(487)	(464)	(307)	(285)	(319)
Fiscal result UDIS-Banxico	(623)	(636)	(702)	(724)	(743)
Total Deferred Taxes	1,805	2,433	2,117	3,254	3,494

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>30 Jun 2008</i>	<i>30 Sep 2008</i>	<i>31 Dec 2008</i>	<i>31 Mar 2009</i>	<i>30 Jun 2009</i>
MXN pesos					
Funding	3.74%	3.64%	3.62%	3.40%	2.77%
Bank and other loans	7.42%	7.82%	8.26%	7.79%	6.32%
Foreign currency					
Funding	0.86%	0.77%	0.50%	0.28%	0.22%
Bank and other loans	3.06%	3.00%	3.51%	1.99%	0.82%
UDIS					
Funding	0.19%	0.19%	0.19%	0.19%	0.20%

Long Term Debt

HSBC Mexico, S.A. (Bank)

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments in local currency pay monthly interest at a rate equivalent to the average 28-day TIIE (interbank rate) of the previous month. For USD transactions the instrument pays 1 month Libor rate plus 3.5 percentage points.

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	1	2,201	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	6	1,824	20-SEP-2018
HSBC 08-2	18-DEC-2008	2,272	MXN	11	2,283	10-DEC-2018
HSBC 09D(USD197) ¹	26-JUN-2009	2,624	USD	-	2,624	28-JUN-2019
		8,914		18	8,932	

¹ Expressed in local currency at issuance date FX rate.

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	4,220	MXN	28	4,248	27-ABR-2016
		4,220		28	4,248	

Capital

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

Grupo Financiero HSBC

The Ordinary Shareholders Meeting, held on March 30, 2009, approved the following distribution of the year 2008 financial results, amounting to MXN4,110 million:

- ▶ Five per cent, MXN206 million, to increase legal reserves, and the remaining MXN2,257 million, at the Board's determination to be applied under the concept of previous year's financial results.

On March 30, 2009 one notice was published in accordance to the agreement of the Board meeting, held on March 31, 2009, a dividend of \$0.847564982 shall be paid per share for each one of the 1,943,032,139 shares. Such dividend was paid on one disbursement on March 31 of 2009.

The general shareholders meeting, held on June 23, 2009 agreed to increase the capital stock amounting to MXN2,258 million, by issuing 120,979,365 shares, which were subscribed and paid at a price of MXN 18.67.

The Ordinary Shareholders Meeting, held on June 30, 2009, approved the dividend of \$1.1617606819009 shall be paid per share for each one of the 1,943,032,139 shares. Such dividend was paid on one disbursement on June 30 of 2009, amounting to MXN2,257.

The capital stock is included in the amount of MXN4,128 million, represented by 2,063,994,710 shares.

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

HSBC Mexico, S.A., net income in 2008, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN2,519 million.

The Ordinary Shareholders Meeting, held on March 30, 2009, approved the following distribution of the year 2008 financial results in the following accounting distribution:

Ten per cent to increase legal reserves MXN252 million, a dividend of \$0.81133657 shall be paid per share for each one of the 1,235'526,706 shares outstanding. Such dividends were paid on one disbursement on March 30 of 2009 for MXN1,002 million and the remaining MXN1,265 million to other reserves.

The capital stock was settled at MXN2,471 million, represented by 1,235'526,706 shares.

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

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN95 million to retained earnings in accordance to the Board decision.

HSBC Afore, S.A. de C.V.

On March, 2009, it was ordered the payment of dividend by MXN100 million. Such dividend was paid on one disbursement on March of 2009.

HSBC Global Asset Management (México) S.A. de C.V.

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN29 million to retained earnings in accordance to the Board decision.

HSBC Servicios S.A. de C.V.

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN43 million to retained earnings in accordance to the Board decision.

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

Figures in MXN millions at June 30, 2009

	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>
% of assets subject to credit risk					
Tier 1	15.40%	14.74%	13.79%	14.40%	15.12%
Tier 2	1.89%	1.84%	3.74%	3.96%	5.79%
Total regulatory capital	<u>17.30%</u>	<u>16.58%</u>	<u>17.53%</u>	<u>18.36%</u>	<u>20.91%</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	12.04%	11.23%	10.09%	9.72%	9.70%
Tier 2	1.48%	1.40%	2.74%	2.67%	3.72%
Total regulatory capital	<u>13.53%</u>	<u>12.63%</u>	<u>12.83%</u>	<u>12.39%</u>	<u>13.42%</u>
Tier 1	26,988	25,818	25,289	25,715	25,317
Tier 2	3,315	3,219	6,860	7,073	9,695
Total regulatory capital	<u>30,303</u>	<u>29,037</u>	<u>32,149</u>	<u>32,788</u>	<u>35,012</u>
RWA credit risk	175,196	175,118	183,381	178,623	167,462
RWA market risk	45,815	49,253	58,907	74,688	78,944
RWA operational risk	3,026	5,543	8,291	11,271	14,483
RWA credit and market risk	<u>224,037</u>	<u>229,914</u>	<u>250,579</u>	<u>264,589</u>	<u>260,889</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 MXN millions at June 30, 2009

	<i>For the quarter ending</i>					<i>Year to date</i>	
	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>	<u>30 Jun 2008</u>	<u>30 Jun 2009</u>
Other income							
Loans to employees	43	44	46	44	40	83	84
Recoveries	295	323	258	475	97	547	572
Other income	509	490	845	790	503	1,890	1,293
	<u>847</u>	<u>857</u>	<u>1,149</u>	<u>1,309</u>	<u>640</u>	<u>2,520</u>	<u>1,949</u>

	<i>For the quarter ending</i>				<i>Year to date</i>	
	<i>30 Jun 2008</i>	<i>30 Sep 2008</i>	<i>31 Dec 2008</i>	<i>31 Mar 2009</i>	<i>30 Jun 2009</i>	<i>30 Jun 2009</i>
Other expenses						
Other losses	(96)	(313)	(1,732)	(347)	(229)	(576)
	(96)	(313)	(1,732)	(347)	(229)	(576)
Total other income (expenses)	751	544	(583)	962	411	1,373

► 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, 2009 is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
Balance Sheet							
Cash and deposits in banks	-	1	94	-	40	573	708
Demand deposits	(708)	-	-	-	-	-	(708)
Sundry debtors (assets)	464	-	7	6	-	-	477
Sundry creditors (liabilities)	-	(10)	(161)	(59)	(247)	-	(477)
Total	(244)	(9)	(60)	(53)	(207)	573	-
P&L							
Payable commissions	-	-	(72)	(211)	-	-	(283)
Receivable commissions	252	-	34	6	-	-	292
Interest income	-	-	3	-	-	-	3
Interest expense	(3)	-	-	-	-	-	(3)
Repos	(181)	-	-	-	-	-	(181)
Reverse repos	-	-	181	-	-	-	181
Administrative services	-	(24)	(13)	(21)	(442)	-	(500)
Other income	491	-	-	-	-	-	491
Total	559	(24)	133	(226)	(442)	-	-

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), Global Banking and Markets (former name 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.

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

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

The consolidated incomes statement information condensed by segments as of *June 30, 2009*, is shown below:

Figures in MXN millions at June 30, 2009

	Year to date at 30 June 2009				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	8,251	2,604	(168)	-	10,687
Provision for Loan Loss	7,536	1,004	278	-	8,818
Net Interest Income adjusted	715	1,600	(446)	-	1,869
Fees and Commissions, net	3,354	1,091	616	-	5,061
Trading Income	59	28	2,067	-	2,154
Other operation income	261	101	1	-	363
Total Revenue	4,389	2,820	2,238	-	9,447
Administrative Expenses	6,833	2,693	1,086	-	10,612
Operating Income	(2,444)	127	1,152	-	(1,165)
Other Income (Expenses), net	699	283	391	-	1,373
Profit Before Taxes	(1,745)	410	1,543	-	208
Taxes	(1,107)	260	979	-	132
Net Income before subsidiaries	(638)	150	564	-	76
Undistributed income from subsidiaries	573	-	-	-	573
Continued Operating Results	(65)	150	564	-	649
Discontinued Operating Results	-	-	-	-	-
Net Income	(65)	150	564	-	649
Minority Shareholders	-	-	-	-	-
Participated Net Income	(65)	150	564	-	649

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 six months to 30 June 2009 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Jun. 2009
Grupo Financiero HSBC – Net Income Under Mexican GAAP	649
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	120
Acquisition costs relating to long-term investment contracts †	(28)
Deferral of fees received and paid on the origination of loans	39
Recognition and provisioning for loan impairments †	326
Purchase accounting adjustments †	(12)
Recognition of the present value in-force of long-term insurance contracts †	7
Tax criteria	179
Other †	636
HSBC México net income under IFRS	1,916
US dollar equivalent (millions)	132
Add back tax expense	655
HSBC México profit before tax under IFRS	2,571
US dollar equivalent (millions)	177
<i>Exchange rate used for conversion</i>	14.5

† Net of tax at 28 per cent.

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

Valuation of pensions and post retirement healthcare benefits

Mexican GAAP

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method and real interest rates.

Unrecognised past service costs are amortised on an estimated service life of the employees.

IFRS

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method.

Actuarial gains and losses are recognised in stockholders equity as they arise.

Unrecognised past service cost are recognised in the Income Statement as they arise.

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 received on loan origination are deferred and amortised over the life of the loan using straight line method. However, this policy was introduced 1 January 2007, all fees 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.

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

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 authorised 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.

Risk Management

Risk management in Financial Group 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.

Fundamental to carry out this work is the recognition of the essential precepts for an efficient and integral risks management, including quantifiable risks (credit, market and liquidity), as well as non-quantifiable risks (operational and legal), under the sights that the basic processes of identifying, measuring, 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, chaired by the CEO and Group General Manager and having the Group Executive Directors as members. These Directors are the heads of the bank's main business lines (PFS, CMB, and CIBM), and support areas like Treasury, Finance, Balance Management, and Economic Capital Planning.

ALCO is the main vehicle to achieve the objectives of an adequate assets and liabilities management. 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).

The Risk Management Committee has three external members – one of them serving as President, so independent opinions and regulatory compliance is achieved. Internally, the member areas are: Executive Direction, Risks Management, CMB, CIBM, PFS, Finance, Audit, Treasury, Global Markets, Planning, Economic Capital, Legal and the Liquidity, Market and Subsidiaries Risks Management areas.

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

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 (CS01)

Credit spread risk or CS01 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 and foreign exchange 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 no 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.

Applicable portfolios:

The Market Risk management calculates the VaR and the PVBP for the total Bank portfolio and for the specific "Accrual" and "All Trading" portfolios.

The VaR is calculated for each one of the mentioned portfolios and is also itemized by risk factors (Interest Rates, Exchange Rates, Interest Rates volatilities, FX volatilities and Equities). The PVBP risk is presented by interest rate and portfolio subdivision (Accrual, Trading Desk and BST).

According to the International Accounting Standards 39 (IAS), the "MMT" portfolio (Money Market Trading) and BST (Balance Sheet Trading) should be part of the "All 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 "All 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 "All Trading" and "Accrual" portfolios for the second quarter of 2009 (millions of dollars).

The following 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 at Risk of Global Market (VaR) (Considering all Risk Factors)						
	Bank		All Trading **		Accrual	
	Average 2Q09	Limits*	Average 2Q09	Limits*	Average 2Q09	Limits*
Combined	34.30	42.00	7.20	32.50	33.08	42.00
Interest Rate	38.14	42.00	5.15	24.50	33.07	42.00
FX	7.16	12.00	7.14	12.00	N/A	N/A
Volatility IR	0.10	9.50	0.09	7.50	0.03	2.0
Volatility FX	0.72	2.00	0.72	2.00	N/A	N/A
Equities	0.15	2.50	0.15	2.50	N/A	N/A

** Includes Trading Desk, BST, MMT, Strategic FX & Equity

Value at Risk of Global Market (VaR) (Last quarter comparison)

	31-Mar-09	30-Jun-09	Limits*	Average 1Q09	Average 2Q09
HBMI	31.51	31.30	42.00	27.61	34.30
Accrual	28.63	37.48	42.00	28.66	33.08
All Trading	8.28	7.93	32.50	9.48	7.20

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of the 2Q09 varied -0.64% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 2Q09 varied 24.26% 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 31st, 2009 and June 30th, 2009 (in millions of dollars).

Market VaR vs. Net Capital Comparison*Net Capital in million Dollars*

	31-Mar-09	30-Jun-09
Total VaR*	27.61	34.30
Net Capital **	2,316.90	2,658.06
VaR / Net Capital	1.19%	1.29%

* 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 1.29% of the net capital in 2Q09.

Present Value for 1bp (PVBP) for Mexican Pesos Rates

	31-Mar-09	30-Jun-09	Limits*	Average 1Q09	Average 2Q09
Bank	(0.478)	(0.765)	1.000	(0.337)	(0.744)
Accrual	(0.358)	(0.679)	0.900	(0.266)	(0.565)
Trading Desk	(0.096)	(0.003)	0.320	(0.057)	(0.125)
Balance Sheet Trading	(0.024)	(0.083)	0.210	(0.014)	(0.054)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 2Q09 varied 59.92% versus prior quarter. The bank's average PVBP for the 2Q09 varied 120.34% versus prior quarter.

Present Value for 1bp (PVBP) for USD Rate					
	31-Mar-09	30-Jun-09	Limits*	Average 1Q09	Average 2Q09
Bank	0.072	0.040	0.300	0.038	0.049
Accrual	0.029	0.042	0.300	0.007	0.020
Trading Desk	0.043	(0.011)	0.080	0.033	0.009
Balance Sheet Trading	0.001	0.009	0.065	0.008	0.021

* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 2Q09 varied -44.05% versus prior quarter. The bank's average PVBP for the 2Q09 varied 29.92% versus prior quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	31-Mar-09	30-Jun-09	Limits*	Average 1Q09	Average 2Q09
Bank	(0.221)	(0.231)	0.350	(0.187)	(0.235)
Accrual	(0.162)	(0.164)	0.300	(0.159)	(0.166)
Trading Desk	(0.037)	(0.040)	0.080	(0.009)	(0.045)
Balance Sheet Trading	(0.021)	(0.026)	0.050	(0.019)	(0.024)

* Absolute Value

NA = Non Applicable

The bank's UDI Rate PVBP for 2Q09 varied 4.77% versus prior quarter. The bank's average PVBP for the 2Q09 varied 25.71% 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 current and time deposit accounts, 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 authorised 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 developed 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 presented at end of the quarter liquidity ratios of 20.6% for 1st line liquidity and 26.0% for 2nd line liquidity, above the 15% minimum required limit. Along the quarter, average levels were 19.9% and 25.3% for 1st for 2nd line liquidity ratios respectively. Compared versus previous quarter, it was observed a benefit in mexican peso liquidity position resulting from the natural maturity of loan portfolio as well as funding obtained from Central Bank.

Expected cash flow projections were performed under different liquidity crisis stress test scenarios, obtaining as a result most positive cumulative net in all cases. This reflects an adequate liquidity position of the Institution for the next twelve months.

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 at the same time with the policies and standards of the Group, Basel II and the CNBV.

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 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 system MRC (Credit Provision Module) was implemented in 4Q07 in order to improve the functionality of the grading system (SICAL). The “Matriz de Calificación” is still being applied to the commercial portfolio. This model is the core element of the regulatory 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, the “Matriz de Calificación” is used to calculate regulatory credit provisions based on the client risk, MRC (formerly SICAL) is used for the calculations. The internal client risk grade obtained from MRC 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 to “Disposiciones de Carácter General Aplicables a las Instituciones de Crédito, published by CNBV”, which used the general methodology.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a risk evaluation tool is used: Moody’s Risk Advisor (MRA), which permits a deeper evaluation of the credit quality of clients based on their qualitative and financial information. In October 2006, HBMX implemented three customer risk rating models for the commercial portfolio (one for small market enterprises, another one for middle market 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), another one for banks (MRAfBanks), and one more for global customers, being those the corporate counterparties with annual sales above or equal to MXN 7,000 millions (GLCS). In 4Q07 new versions of GLCS and MRAfBanks were implemented.

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a client risk grading framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, 20 of them are for non-defaulted customers and 2 for defaulted, 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 transaction risk, HBMX is using a judgmental model for the commercial portfolio since March 2004. In order to convert the model

to an empirical one, HBMX constructed a historical database, which will also be used for the estimation of Exposure at Default (EaD). LGD is being calculated empirically for the consumer and mortgage portfolio.

In the second half of 2006 a risk-adjusted return model, which measures the profitability of each and every client relationship, was introduced. During 2007 and 2008 new versions were implemented.

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 system was implemented in 2006, "Garantías II". Finally, it is important to comment that HBMX also has a system that controls the limits and utilization of credit facilities since their origination, "Líneas III".

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done periodically: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behavior 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, where 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 June 30st, 2009 is \$8,378.5 millions of pesos, which represents the 13.1% of Total Balance performing a decrease of 5.50% compared to that of the previous quarter. The Expected Loss of the commercial portfolio as at June 30st, 2009 is \$3,893.6 millions of pesos, an increase of 2.11% compared to the figure reported in the previous quarter. The EL estimation of this portfolio does not consider undrawn facilities yet.

Operational Risk

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

In order to manage these risks, a central unit has been established and counts with the collaboration of more than a hundred middle managers who report functionally to it, and are responsible for carrying out the Group operational risk management framework.

In order to identify and re-evaluate these risks, the 5th annual assessment took place through out the group entities during the second semester of 2008. 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

Systems department makes use of the RBPM systems development methodology (Risk Based Project Management) which comprises the international processes and practices used when it comes to undertaking projects, for it controls the development's life cycle and through the Clarity tool enables users to have a both, consistent and efficient project management.

All the aforementioned is aimed at keeping an adequate control of technological risk; thus, assuring the continuity of the banking services through the different distribution channels in an agile, secure and reliable manner; whereas the technological risks are still being measured and evaluated by both the Risk Management Committee (RMC) as well as ORICC (Operational Risk & Internal Control Committee) on a monthly basis, where the most relevant issues are addressed in order to notify on the findings and their corresponding follow-up actions and impact-mitigation plans.

Legal Risk

Legal Risk Management is attending the following types of risk:

- ▶ Contractual;
- ▶ Litigation;
- ▶ Legislative or Normative;
- ▶ Reputation; and
- ▶ Intellectual Property.

There have been taken following measures: the establishment of policies and procedures for the suitable legal function and the celebration of juridical acts; the estimation of potential losses derived from adverse judicial or administrative resolutions; the publication to employees and officials of the juridical and administrative dispositions applicable to his operations as well as the establishment of a historical database on the judicial and administrative resolutions, his causes and costs.

To avoid the possible loss due to the nonperformance of the applicable juridical and administrative norms and to avoid unfavorable resolutions, they have been implemented political and procedures for the identification, measurement and control of the legal risks and to prevent this way as far as possible the above mentioned risks from being able to result in losses not estimated for the Institution

Quantitative Information (including Legal and Technological Risk)

As a result of the 5th assessment, and taking into account their upgrades during the second quarter of 2009, we have 2,599 risks distributed as follows: 1.1 % A type, 10.8 % B type, 58.8 % C type, and 29.3 % D type risks, which can also be classified onto: 21.3 % people, 50.5% process, 17.0 % systems and 11.2 % external type risks.

Furthermore, for the 7th consecutive year, during 2009, we have registered those major loss events which are of some relevance. Since January 2006, the relevance threshold for reporting these incidences is USD 10,000, and events under the reporting threshold are aggregated into a single record. These events are registered and incorporated into a specifically designed database.

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

Corporate Sustainability (CSR)

The financial and economic world crisis that we are facing has brought with it wider challenges as for what it means to be a sustainable company in the first place. As we have previously mentioned, our aim is to be a leading brand in corporate sustainability and this is fundamental to our strategic goals. For HSBC the former tradition of having financial strength, long-term relations with our clients and a conservative administration is as important today as it has always been.

One of the consequences of the crisis (with all reason) is that we will see a fundamental reappraisal of the procedures and regulations that govern our commercial activity. Nevertheless, we must bear in mind that these procedures will never be sufficient if the culture of an organization does not encourage the people to do the right thing. It is a responsibility of the management council to supervise and of the administration to foment a sustainable culture in every fiber of the organization. For HSBC, this is fundamental.

It is clear that the economic factor is very important to HSBC but also we need to think about long term topics that our company has to face. HSBC believes that the climatic change is the biggest economic, environmental and social challenge to face in this century because it will affect our business operations as well as to our clients. If we start now, the implications will be less serious.

By the year 2009, in HSBC we want to build up suitable and sustainable opportunities of growth so that our clients, employees and communities, in which we operate, develop and prosper while we create a lasting atmosphere allowing the future generations to bloom. We think that the underlying financial strength, the strategy and the geographic reach of our company places HSBC in a firm position to follow ahead.

In 2008 HSBC was, once again, the most recognized bank for the implementation of regulatory measures relative to the climatic change.

Controlling the environmental track of our global operations is already something inherent to HSBC, and we obtained important results in 2008. We have invested in new technologies that helped us to reduce costs and carbon emissions; we also have set new goals in the use of energy and water, in the reduction of dioxide carbon emissions and less production of wasting materials. We have already adopted more strategies to assure a systematic application of our sustainable programs in our operations.

We firmly believe that we can get better results in the communities by working closer with the organizations which already have experience and knowledge in educative and environmental issues. Our company would not have good future if it did not operate in prosperous societies with educated and enterprising individuals. For HSBC, this shows how important is investment in education and environment protection. We believe that these two elements are important for innovation and enterprising. We depend on the capabilities of future generations; if we did not prepare them rightly, we would limit our potential future. The access to education can change the life and contributes to have equal opportunities. It is also a premise for economic growth and steady development of societies.

According to the HGHQ policy to support education, environment and the community, HBMX donated in the first semester of 2009, \$ 21,696,057.

Education

Based on our social programs, we expect to make influence positively in the lives of children and adolescents, getting involved directly and providing financial support to those projects which let access to a better quality in education; We also expect to create, at the same time, a positive attitude in children and young people, by opening opportunities to facilitate the achievement to success, creating a better future for themselves and better quality of life for their families.

One of the most important sections for HSBC is education, in which, at the moment, we count on 3 governing axes: Integral Education, Educative Scholarships and Rights of the Children.

Our Programs:

Rights of the Children

Objectives of the program:

- To give visibility to the Rights of the Children.
- To spread the 20 Years of Ratification of the Convention of Rights of the Children by the U.N. in Mexico.
- To support the children and society as a whole, so that they know their rights and promote their protection and participation

With the aim of ratifying our commitment with the program, the following actions were held:

- 1st Festival honoring The Rights of the Children. National Auditorium, Mexico City, with an attendance of 9.000 children
- Forums on Rights of the Children in Monterrey, Guadalajara and Mexico City, DF
- Educative workshops approaching the Rights with the presence of Ha*Ash in San Cristóbal de las Casas, Chiapas, Méx., Monterrey and Guadalajara.
- Educative workshops approaching the Rights of the Children in 16 regions of the country in 200 schools participating 14.000 children.
- Mass media and academic sector sensitization so that they spread the rights of the children. The channels to our client contribution are through automatic tellers, RAP and personal references.

Beyond the money

In alliance with *Impulsa*, we work actively in the program of financial education, aiming to teach basic finances issues to children in fifth and sixth grade of primary school.

The pupils will understand the basic principles of money and will apply them in daily life. The students will recognize the importance of money management in taking decisions, Classes are given by our 113 volunteers. Up to now, 2006 students in 52 classrooms have been benefited.

A six year program of whole support to pupils, teachers and families, in 15 full time schools with low score in the national test ENLACE. This program applies in Mexico city, particularly in regions like Miguel Hidalgo, Azcapotzalco and Cuauhtémoc.

The program was developed in alliance with the Secretariat of Public Education (SEP) and Pro-Education focusing mainly on increasing the quality in education that pupils receive. In this way, they would have access to the best practices and educational programs, providing better opportunities in the future.

The program has as governing axis:

- Pedagogic Updating and Skill Development for Teachers
- Skill Development for pupils
- Human Development for family parents
- Strengthening of the educational community

Get Involved

In alliance with A Leer-Ibby and SEP, the program *Circles of Reading* for young people in secondary level in Mexico City (D.F.) was launched. It aims to create reading habits as part of daily life of young adolescents. Through this, it would be possible to approach other artistic expressions. We will include up to 80 secondary schools (7 % of the total in Mexico D.F.).

The benefits to the community will be translated in strategic training for creation, material selection and reading loudly to teachers of secondary. Promoting the reading in a playful way in the school area and related this with other artistic expressions.

The results have been as follows:

Qualified teachers: 286, circles of reading: 816, number of schools in the program: 60, benefited pupils: 7,522, delivered books: 1,200, movies and audibooks delivered: 600.

Sponsor Them

It is an initiative with the participation of the Mexican Bank Association (AMB) and Fundación Televisa, in alliance with public and privated schools in the country, aiming to provide economic support in different modalities to the educative community contributing to its development.

The campaign goes from June to September of 2009. It has already started successfully, has renewed and improved our collect channels, such as, automatic tellers, personal references, branches, accounts RAP, etc.

Our scope to this program is, for the year 2008, 1910 sponsorships, accumulating a total of 5138.

Environment

Our head office in Mexico City, The HSBC Tower, will continue implementing processes for energy saving to reduce atmospheric emissions, water consumption measures and recycling water as well as developing policies and processes for a better waste management.

We are a READ certified company granted by the U.S. Green Building Council, which means to be the first building of this type in Mexico and Latin America. The first building getting such certification.

HSBC is also involved directly into the communities, implementing programs to improve the sustainability. As part of this plan, HSBC is working on community sustainable projects, environment education programs, and income generation.

Our programs:**Green Insurance**

Through our Green Assurance program, in 2009, it has been transformed from a protection forest program and jungle recovery, in prior regions of the country, into an approach in a sustainable development of rural communities based on labor of conservation, protection, restoration and ecosystem enrichment program. In this year, we are duplicating the regions in which we are operating. They are 10 regions (Quintana Roo, Campeche, Chiapas, Oaxaca, State of Mexico, Jalisco, Colima, Nayarit Durango and Chihuahua), with an investment of 11.9 million and the total of communities benefited are 87 and 97,300 assisted hectares.

The actions taken are:

1. Ecological Arrangement and community managed programs.
2. Nurseries.
3. Reforestation on planned territory.
4. Prevention and management of wood fires.
5. Management of water sources.
6. Soil enrichment of jungles and forests.
7. Direct protection.
8. Retention of soils.

Sustainable Communities

In alliance with *Naturalia*, we are implementing a set of productive projects, conservation, restoration, educational and training, leading the community to achieve a sustainable development in the region. We want to consolidate these projects in 5 years time as well as to improve the quality of life in the community of San Juan Atzingo (State of Mexico) without compromising its natural resources, guaranteeing the environmental services for the region and the urban bordering zones.

The actions take are:

1. Nurseries
2. Ecotourism
3. Environmental instruction in schools
4. Ecotecnias
5. Volunteering

Sustainability Room

In alliance with the Interactive Museum of Economy (MIDE) the first room of global Sustainability is being developed in Latin America. It includes:

- The global sustainability room
- A site in the Internet page of MIDE
- An educational extention program.
- Policy for a sustainable operation in the museum

The starting point of this proposal is to present the wide range of the relations implicated in the economic and social activities of the human being with the environment.

The global sustainability room in the MIDE will be divided in three big global areas: economy, social and environmental. The sustainability room provides tools to all level teachers so that they can back up the courses with sensory experiences. In this way, the students will have an emotive and intellectual beginning based on reflection of the topic. It has been planned to inaugurate the sustainability room at the beginning of 2010.

Community

In order to support the society where we operate, HSBC has developed several projects on the subject of health, culture and emergencies.

Our programs:

Culture

Patronage of the exhibition of the English sculptor Anthony Gormley, in Monterrey and Mexico D.F. One of the most recognized sculptors on a global scale and major prestige worldwide for the importance of his work. The work of this artist is an attempt to clarify and understand the concept of space, from the analysis of the physical and mental structures by means of which we construct it. For this, the work of Antony Gormley has been considered as an extraordinary effort to achieve, through the language of the sculpture, to exploration of the human experience of freedom. Next August 19, 2009 it will be an exhibition in San Idelfonso, Mexico City.

Health

With the intention of reducing the rate of death in children and young people with Cancer (70,000 a year) HSBC and Rebeca de Alba Foundation launched a campaign: "*There are dreams that must continue*" collecting resources via ATMs, personal contacts and RAP accounts: 4 million Mexican pesos. The benefited institutions are: *National Institute of Cancerology* (Cd. of Mexico), *Castro Limón Foundation* (Tijuana), *Joined by the Art Against the Cancer* (Monterrey, N.L.), *Mexican Association of Children with Cancer* (Guerrero and Zacatecas) and *Center of Children's Support with Cancer* (Guadalajara).

Emergencies

The rehabilitation of the Municipal Recreative Park of Atasta, Villahermosa, Tabasco is in its last stage, and in the end of August, 2009, it will be inaugurated and returned to the community, with this, there will be a recreational space, to sports, ecology, and educational, as well as temporary hostel. This is the first park with these characteristics in Mexico.

In Conclusion

HSBC Mexico, for its commitment and actions, pretends to keep a balance between environment, society and the profitability of our business, maintaining long term relations with our clients, assuring the success of HSBC in the future time.

In this way, we provide support in multidimensional ways, and it will have important effect in the people, today and in the future generations of Mexico.

HSBC has been recognized, by Latin Finance Magazine, as the third bank in Latin America, as ESR 2009 (Socially responsible Company) for the fourth consecutive year granted by the Mexican Center for Philanthropy.

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