

Grupo Financiero HSBC

Financial information at 30 June 2011

2Q11

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Second Quarter 2011**

*Release date:
29 July 2011*



29 July 2011

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2011 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income before taxes for the first half of 2011 was MXN1,968m, an increase of MXN683m or 53.2% compared with MXN1,285m in the first half of 2010. The 2011 results were affected by restructuring charges, the majority of which related to a reorganization of the bank's regional services. Excluding the effect of these charges, net income before taxes would have been MXN2,945m, up by MXN1,660m or 129.2% compared to the first half of 2010.
- Net income for the first half of 2011 was MXN1,583m, an increase of MXN536m or 51.2% compared to the first six months of 2010. Excluding the effect of the restructuring charges, net income would have been MXN2,267m, up MXN1,220m or 116.5% compared with the first half of 2010.
- Total operating income, net of loan impairment charges, for the first half of 2011 was MXN14,911m, an increase of MXN2,785m or 23.0% compared with MXN12,126m in the first six months of 2010.
- Loan impairment charges for the first half of 2011 were MXN3,202m, a decrease of MXN2,089m or 39.5% compared with MXN5,291m in the first six months of 2010.
- Net loans and advances to customers were MXN178.2bn at 30 June 2011, an increase of MXN34.2bn or 23.8% compared with MXN144.0bn at 30 June 2010. Total impaired loans as a percentage of gross loans and advances to customers improved to 2.5% compared with 4.2% at 30 June 2010. The coverage ratio (allowance for loan losses divided by impaired loans) was 215.8% compared with 158.1% at 30 June 2010.
- At 30 June 2011, deposits were MXN273.3bn, an increase of MXN41.9bn or 18.1% compared with MXN231.4bn at 30 June 2010.
- Return on equity was 6.5% for the first half of 2011, compared with 4.4% for the same period in 2010.
- At 30 June 2011, the bank's capital adequacy ratio was 13.98% and the Tier 1 capital ratio was 10.77%, compared with 16.63% and 12.89%, respectively at 30 June 2010, and 14.5 per cent and 11.2 per cent respectively at 31 December 2010.
- From the first quarter of 2011, regulatory requirements issued by the Comisión Nacional Bancaria y de Valores – CNBV – require financial figures for both the insurance and bond companies, HSBC Seguros and Fianzas Mexico respectively, to be presented on a consolidated basis. As a result, first half 2010 financial results have been re-stated to be comparable with first half of 2011.

HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero 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 first half ended 30 June 2011) 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).

Overview

The economic environment in the first half of 2011 has been mixed. During the first half of 2011, the Mexican economy continued the recovery observed in the last quarter of 2010. In the second quarter of 2011, however, there has been a slowdown in economic momentum in the US, which is likely to have a negative impact on the Mexican industrial sector in the second half of the year.

Domestic demand continues to expand at a moderate pace, slowed by unemployment which is still relatively high. Despite this, the Mexican economy is still expected to grow by 4.1% in 2011. Inflationary pressures continue to be benign, aided by the strengthening of the Mexican peso.

During the first six months of 2011, Grupo Financiero HSBC's net income was MXN1,583m, an increase of MXN536m or 51.2% compared with the first six months of 2010. Higher trading income and lower impairment charges were offset by lower net interest income, net fee income and increased administrative expenses, the latter largely impacted by the restructuring charges.

Net interest income was MXN10,708m, a decrease of MXN561m or 5.0% compared with the first six months of 2010. This decline was mainly driven by higher funding costs, lower credit card balances, and a contraction in spreads in lending products, which were partially offset by higher spreads on available for sale securities.

Loan impairment charges were MXN3,202m, a decline of MXN2,089m or 39.5% compared with the first six months of 2010. This decrease is due to a general improvement in credit quality across the portfolios and lower credit card volumes.

Net fee income was MXN2,910m, a decrease of MXN422m or 12.7% compared with the first six months of 2010. This reduction was mainly a result of a decline in the volume of credit cards and fewer account services and ATM fees, where increased charges to non-HSBC customers led to a change in customer behaviour. Fee income has been also affected by regulatory restrictions limiting the fees that can be charged for ATM and customer deposit services.

Trading income was MXN1,898m, an increase of MXN814m or 75.1% compared with the first six months of 2010. The improvement in trading income is mainly the result of a strong performance in derivatives, partially offset by lower foreign exchange and debt trading results.

Administrative and personnel expenses were MXN12,960m, an increase of MXN2,116m or 19.5% compared with the first six months of 2010. This increase is mainly driven by IT related costs, higher personnel expenses and restructuring charges, partially explained by headcount reduction. Excluding the effect of the restructuring charges, the increase in expenses would have been MXN1,139m or 10.5% compared with the first six months of 2010.

Other operating income was MXN2,597m, an increase of MXN865m or 49.9% compared to the first six months of 2010. This increase is mainly driven by the gain on the sale and leaseback of certain branches in the network.

The performance of non-banking subsidiaries, particularly HSBC Seguros, contributed positively to the bank's results, reporting a net profit of MXN 1,517m for the six months to 30 June 2011, an increase of 25% when compared with the first six months of 2010. The higher results were driven by a 20% growth in net premium income since 30 June 2010, while expenses reduced by 16%. The claims ratio improved 11% when compared to the same period of 2010, mainly due to (T-5) individual life products. In addition, expenses in respect of claims decreased as the result of a refinement to the methodology for calculating claims reserves.

Net loans and advances to customers increased MXN34.2bn or 23.8% to MXN178.2bn at 30 June 2011 compared with 30 June 2010. This increase is mainly driven by growth in the commercial portfolio.

At 30 June 2011, total impaired loans had decreased by 29.7% to MXN4.5bn compared with 30 June 2010, mainly due to a 43.1% reduction in impaired consumer loans, as collections and underwriting processes were tightened. Total impaired loans as a percentage of gross loans and advances to customers improved to 2.5% from 4.2% at 30 June 2010.

Total loan loss allowances at 30 June 2011 were MXN9.7bn, a decrease of MXN414m or 4.1% compared to 30 June 2010. The total coverage ratio (allowance for loan losses divided by impaired loans) was 215.8% at 30 June

2011 compared with 158.1% at 30 June 2010. This increase in the coverage ratio is primarily driven by a reduction in impaired consumer loans, particularly in credit cards.

Total deposits were MXN273.3bn at 30 June 2011, an increase of MXN41.9bn or 18.1% compared with 30 June 2010. This is the result of targeted promotions of the 'Advance', 'Inversion diaria' and 'Premier' deposit products.

At 30 June 2011, the bank's capital adequacy ratio was 13.98% compared with 16.63% at 30 June 2010. The Tier 1 capital ratio was 10.77% compared with 12.89% at 30 June 2010. The reduction in the capital adequacy ratio is mainly due to an increase in credit risk assets, the impact of the adoption of local regulatory operational risk requirements, dividends paid in the first quarter of 2011 and a decrease in retained earnings related to change in local provisioning methodology. Additionally, available for sale security valuations decreased during the first half of 2011, negatively impacting the capital ratio, however this was partially offset by a decrease in market risk RWAs.

In the first quarter of 2011, the bank paid a dividend of MXN1,800m representing MXN1.095 per share and Grupo Financiero HSBC paid a dividend of MXN3,520m representing MXN1.377 per share.

Business Highlights

Retail Banking and Wealth Management (RBWM)

During the first half of 2011, RBWM continued to achieve solid sales in its consumer loan portfolios and repositioned the wealth management business. The New Branch Operating Model is the primary support platform, aimed at developing relationship managers into financial advisors.

New product offerings and promotions were launched in order to reinforce our focus on wealth management, such as: equity trading through personal internet banking and campaigns targeted at providing investment solutions to our affluent customers.

Special focus was placed on leveraging our Global Banking and Commercial Banking relationships to cross-sell our payroll service capabilities. This resulted in the highest payroll account increase in a quarter in the last 6 years, reporting at the second quarter of 2011 a 175% increase in accumulated new payrolls compared with the first quarter of 2011.

Credit card balances across the industry remained flat. However, as a result of the "+ Puntos & + Millas" campaign, we have increased credit card sales by 43% compared to the last quarter. This campaign has also resulted in increased balances in our credit card portfolio. In addition, we launched several strategies aimed at reducing the seasonal balance decrease with campaigns such as instalments on purchases, balance transfers, credit limit increases, extended preferential rates, cash advances and convenience cheques.

We also continued improving the efficiency of our branch network through consolidation where we closed 66 branches during the first half of the year. At the same time, average total branch floor space increased from 410m² in 2010 to 413m² at 30 June 2011.

Commercial Banking

During the first half of 2011, the Commercial Banking loan portfolio and deposits grew by 30% and 21% respectively compared to 30 June 2010.

The "HSBC Empresas" credit card, which was launched three months ago to our business banking customers, is growing strongly. Various strategies are being implemented to encourage the use of this credit card.

Our business proposition for the Business Banking upper segment, which provides customers with a dedicated relationship manager, was launched in the second quarter of 2011. This will be rolled out to the large cities of the northern and central regions of the country during the second half of the year.

For our corporate clients, we are implementing business strategies aimed at increasing our participation in Trade and Supply Chain, Payments and Cash Management, and Global Markets.

Global Banking and Markets

For the first half of 2011, Global Markets continued to report good revenues in balance sheet management and trading.

Cross-selling of Global Markets' products and services to all the bank's customer segments remains the key growth driver. A clear illustration of the success of these initiatives is the distribution of FX structured notes.

In the Debt Capital Markets business, we have placed and participated in bond issuances for a total transaction amount of MXN78,417m, including United Mexican States (UMS), CEMEX, Inbursa, Santander, INFONAVIT, Bancomext, Alsea, Gas Natural and Interacciones. As a result of these issuances, Grupo Financiero HSBC is placed second in local debt capital market league tables.

During the first half of 2011, Global Banking's credit and lending business originated new lending to corporate clients in excess of MXN11,960m, compared to MXN8,000m in the first half of 2010.

Global Banking continues to grow average balances, particularly in Client Bank Deposits which have reported a 63% increase in average balances compared to 30 June 2010.

During the first half of 2011, our Advisory platform participated in two major transactions, the acquisition of business assets by Petromex and the merger of Embotelladora Arca and Grupo Continental, creating the second largest Coca Cola bottler in Latin America.

Sale of HSBC Afore to Principal Financial Group

On 11 April 2011, Grupo Financiero HSBC signed an agreement to sell HSBC Afore, S.A. de C.V., its pension funds management business, to Principal Financial Group, S.A. de C.V. ('Principal') for a cash consideration of MXN2,360m (approximately US\$198m).

Grupo Financiero HSBC and Principal are working together to ensure a smooth transition and have agreed to establish an exclusive distribution agreement, under which Principal will continue the sale and servicing of its pension fund products through Grupo Financiero HSBC's retail banking network in Mexico.

The transaction, which is awaiting all regulatory approvals, is expected to be completed in the third quarter of 2011.

Grupo Financiero HSBC 2011 financial results as reported to HSBC Holdings plc, our ultimate parent company, under International Financial Reporting Standards (IFRS)

For the first half of 2011, Grupo Financiero HSBC reported pre-tax profits of MXN3,433m, an increase of MXN601m or 21.2% compared with MXN2,832m in the first half of 2010.

The higher results compared to that reported under Mexican GAAP is largely due to lower loan impairment charges as result of the different provisioning methodologies. A reconciliation and explanation between the Mexican GAAP and IFRS results is included with the financial statements of this document.

About HSBC

Grupo Financiero HSBC, is one of the leading financial groups in Mexico with 1,078 branches, 6,134 ATMs, approximately eight and a half million total customer accounts and more than 19,000 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC is a 99.99% directly owned subsidiary of HSBC Latin America Holdings (UK) Limited, which is a wholly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 7,500 offices in 87 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and with assets of US\$2,598bn at 31 March 2011, 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 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
a) Liquidity	141.48%	135.07%	109.19 %	122.15%	113.02 %
Profitability					
b) ROE (Return over equity)	1.58%	6.81%	1.87%	7.20%	6.28 %
c) ROA (Return over assets)	0.18%	0.74%	0.20 %	0.76%	0.60 %
Asset quality					
d) Impaired loans/total loans	4.16%	3.56%	3.12%	2.74%	2.47%
e) Coverage ratio	158.16%	175.18%	173.96 %	197.72%	215.81%
Capitalization					
f) Credit risk	30.37%	27.49%	24.28%	22.70%	22.81%
g) Credit and market risk operational	16.63%	15.86%	14.55%	14.41%	13.98%
Operating efficiency					
h) Expenses/Total Assets	5.40%	5.00%	6.07%	5.68%	5.41%
i) NIM	5.60%	4.73%	5.25%	5.36%	5.23%
Infrastructure					
Branches	1,186	1,187	1,144	1,147	1,078
ATM	6,479	6,503	6,331	6,361	6,134
Head Count	19,567	20,466	20,132	20,139	19,400

a) $Liquidity = Liquid\ Assets / Liquid\ Liabilities.$

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

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

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

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

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

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

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

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

h) $Operating\ efficiency = Expenses / Total\ assets$

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

$Performing\ assets = Cash\ and\ deposits\ in\ banks + Investments\ in\ securities + Repurchase\ agreements + Derivatives\ operations + Performing\ loans.$

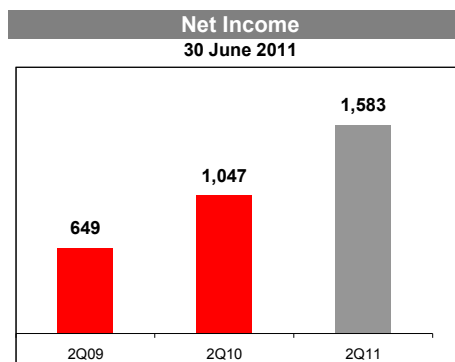
The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC at 30 June 2011 was MXN1,583m, an increase of 51.2% compared with the same period of 2010.

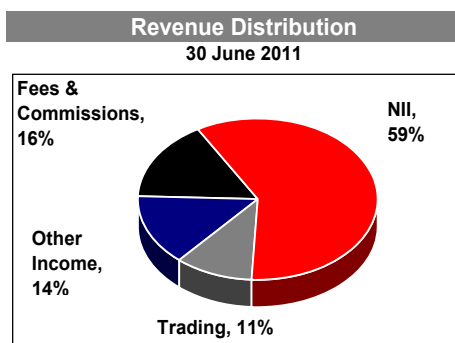
Results were affected by one-off charges related with the restructuring of regional services provided by the bank and the consolidation of our branch network. The non-banking subsidiaries, particularly the insurance company and brokerage company continue showing solid and stable performance.



Total Operating Income

At 30 June 2011, the Group's total operating income, was MXN14,911m, an increase of MXN2,785m (23.0%) compared with 2010.

Increased total operating income is still influenced by higher trading income and improved risk adjusted net interest margin due to lower loan impairment charges. The Group's risk adjusted NII was MXN7,506m, higher 25.6% over the first half of 2010.



Net Interest Income

Net interest income decreased MXN561m for the first half of 2011 to MXN10,708m, 5.0% less than in the first half of 2010.

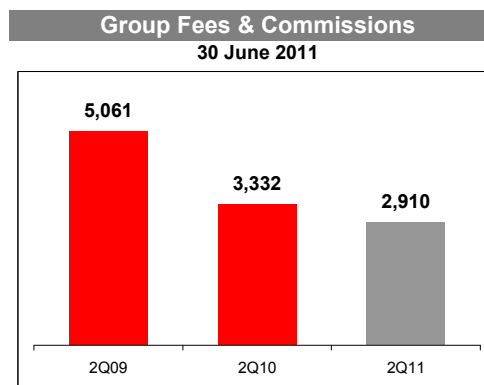
Lower credit cards volumes coupled with higher customer deposits have contributed negatively to the overall performance of the net interest income, nevertheless, higher volumes of available for sale securities have been able to partially offset higher funding costs and lower interest income from the credit cards portfolio.

Non-interest Income

Non-interest income for the quarter ended at 30 June 2011 was MXN7,405m; an increase of MXN1,257m or 20.4% compared with results from the same period in 2010.

► Fee income

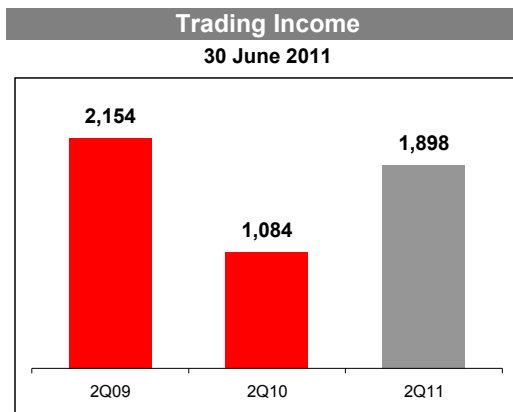
The Group's net fee income for the quarter ended at 30 June 2011 was MXN2,910m, a decrease of MXN422m or 12.7% compared with the same period in 2010. Lower transaction volumes in ATMs, account management and credit cards have negatively affected net fee income.



► **Trading income**

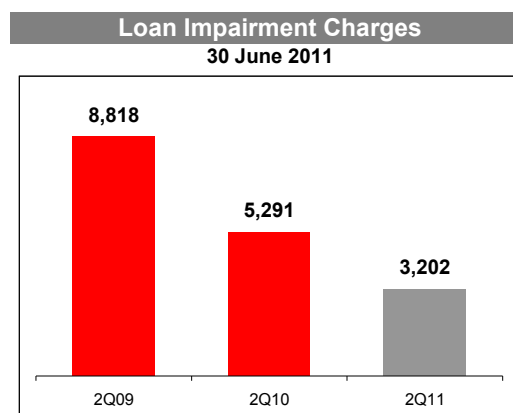
Trading income was MXN1,898m, which represents an increase of MXN814m (75.1%) compared with the first half of 2010. Higher trading of derivative instruments has offset lower debt and foreign exchange trading. In addition a sale of one of our equity investments also contributed to this improvement.

The Group's non-interest income to total revenue ratio increased from 35.3% at 30 June 2010 to 40.9% at 30 June 2011, driven by stronger trading income.



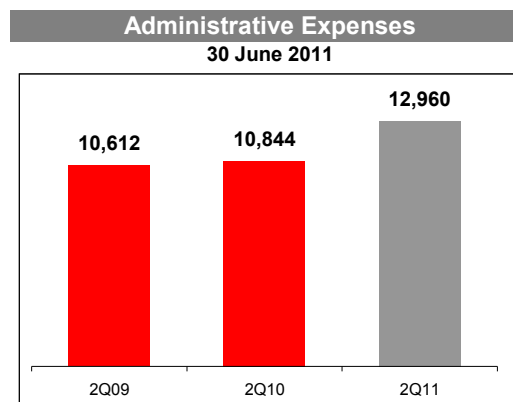
Loan Impairment Charges

At 30 June 2011, the Group's loan impairment charges were MXN3,202m, which represents a decrease of MXN2,089m or 39.5% compared with same period of the prior year. This is a result of an improving asset quality coupled with lower loan reserve requirements on credit card portfolio.



Administrative and Personnel Expenses

The Group's administrative and personnel expenses for the quarter ended 30 June 2011 were MXN12,960, a MXN2,116m or 19.5% increase compared to the same period in 2010. Excluding the effect of one-off charges related with the restructuring of regional services provided by the bank, the increase in expenses would have been MXN1,139m or 10.5% compared with the first half of 2010.



Balance sheet Variance Analysis

At 30 June 2011, the Group's total assets amounted MXN496,054m, which represents an increase of MXN52,755m or 11.9%, compared with the same half of 2010. This increase was driven by higher volumes in the net loan portfolio, mainly in commercial loans.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN177,970m at 30 June 2011, an increase of 20.5% compared with 2010. This growth has been driven by higher commercial and states and municipalities loan portfolios, which grew 33.5% and 15.6% respectively when compared to 30 June 2010.

► **Commercial loans (including financial and government entities)**

At 30 June 2011, the total commercial portfolio increased 30.3% in comparison with 2010; mainly driven by commercial and states and municipalities loan portfolios.

The states and municipalities loan portfolio increased by MXN3,785m or 15.6% compared with first half of 2010. The commercial loan portfolio continues to report an important growth, up 33.5% compared to the same period of 2010. This portfolio growth in is line with the Bank's credit portfolio strategy in order to improve asset quality.

► **Consumer loans**

Consumer loans increased 4.8% during the first half of 2011 compared to the same period in 2010. This result is mainly due to sound personal loans and payroll portfolio performance which shows an increase of 95.3% over the same period in 2010.

Credit card balances were MXN15,983m, down 6.6% compared to the same period of the prior year. Auto loan portfolio was MXN3,571m, showing a decrease of 32.7% compared to the same period in 2010.

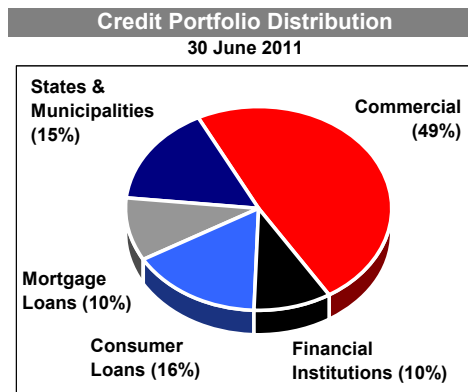
► **Mortgage loans**

The mortgage loan portfolio for the first half of 2011 decreased MXN1,643m or 8.4% compared with the same period of the prior year. As of June 2011, mortgage loan origination presents a moderate growth.

Asset quality

As of June 30 2011, the Group's impaired loan portfolio amounted to MXN4,504m, which represents a decrease of MXN1,904m or 29.7% compared to the same period of 2010. The Group's credit profile continues improving as a result of the actions deployed in order to improve asset quality. This has been mainly driven by effectiveness in collection operations, coupled with lower risk exposure to credit cards and auto loans.

Total impaired loans as a percentage of gross loans and advances to customers improved to 2.5% from 4.2% at 30 June 2010. The coverage ratio (allowance for loan losses divided by impaired loans) at 30 June 2011 was 215.8%, compared to 158.1 reported at 30 June 2010 due to lower impaired loans.



Deposits

The Group's total deposits at 30 June 2011 amounted to MXN273,255m, an increase of 18.1% compared to the 30 June 2010, as a result of the sale and promotion of collection products such as "Advance", "Inversion Diaria" and "Premier".

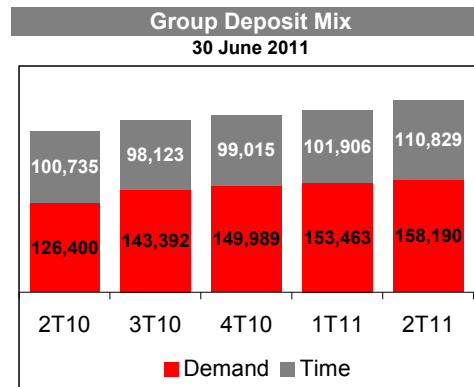
HSBC's presence in the commercial sector continues to produce positive results, particularly in time deposits.

► Demand deposits

At 30 June 2011, demand deposits were MXN158,190m, up 25.2% compared with the first half of 2010, mainly as result of increased sales efforts focussed on demand deposits from corporate clients.

► Time deposits

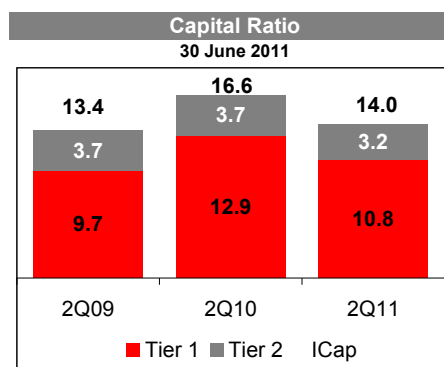
Total time deposits increased 10.0% compared to 30 June 2010, primarily as a result of higher sales and promotion efforts of our flagship time deposit product "Inversion Express".



Shareholder's equity

At 30 June 2011, the Group's equity amounted to MXN47,311m, representing a decrease of 3.1 percent compared to the same period in 2010.

The banks equity was MXN36,839m, at 30 June 2011, down 8.9% compared to 30 June 2010. The reduction in the capital rate is the result of an increase in assets with credit risk, the impact of the implementation of local regulatory requirements for operational risk, the dividend payment and a reduction in the valuation of portfolios available for sale partially offset by a decrease in market risk.



Capital Adequacy Ratio

The Bank's capital adequacy ratio at 30 June 2011 was 13.98%, placing it well above the authorities' requirements. The capital ratio at the end of the reporting period is 10.77%. The lower capital ratios noted above reflect the dividend the bank paid on 18 March 2011 of MXN1,800m representing MXN1.095 per share.

Financial Situation, Liquidity and Capital Resources

HSBC's balance structure has maintained its liquidity. Cash and investments in securities represent 45.8% of total assets, 430 basis points lower than that on the second quarter of 2010. Total assets were MXN496.1bn, up by MXN52.8bn in comparison with 2010. The loan portfolio is adequately diversified across segments, the bank's main credit exposures are with Mexican institutions with top counterparty credit quality and governmental institutions.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2011

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

	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Assets					
Cash and deposits in banks	46,593	70,241	51,327	53,883	53,637
Margin Accounts	3	2	42	50	8
Investments in Securities	175,312	162,002	155,257	170,743	172,448
Trading securities	63,383	53,076	44,160	37,234	37,665
Available-for-sale securities	95,795	92,815	95,683	118,799	119,913
Held to maturity securities	16,134	16,111	15,414	14,710	14,870
Repurchase agreements	-	-	1,856	362	7,774
Derivative transactions	27,829	35,337	28,205	25,379	28,633
Performing loans					
Commercial loans	100,967	110,901	121,855	127,399	131,523
Commercial entities	64,781	73,610	81,084	85,672	86,489
Loans to financial intermediaries	11,979	11,948	12,684	12,591	17,042
Loans to government entities	24,207	25,343	28,087	29,136	27,992
Consumer loans	27,306	27,076	26,665	26,948	28,613
Mortgages loans	19,477	19,302	17,557	17,553	17,834
Total performing loans	147,750	157,279	166,077	171,900	177,970
Impaired loans					
Commercial loans	1,857	1,809	1,669	1,721	1,330
Commercial entities	1,857	1,809	1,664	1,335	1,330
Financial entities	-	-	-	386	-
Loans to government entities	-	-	5	-	-
Consumer loans	2,325	1,826	1,574	1,260	1,324
Mortgages loans	2,226	2,176	2,101	1,854	1,850
Total non-performing loans	6,408	5,811	5,344	4,835	4,504
Loan portfolio	154,158	163,090	171,421	176,735	182,474
Allowance for loan losses	(10,134)	(10,179)	(9,296)	(9,560)	(9,720)
Net loan portfolio	144,024	152,911	162,125	167,175	172,754
Receivables	-	-	-	-	5,488
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	144,024	152,911	162,125	167,175	178,242
Premium receivables	306	308	270	312	310
Accounts receivables from reinsurers and rebonding companies	409	419	555	330	343
Benefits to be received from trading operations	-	-	-	-	-
Other accounts receivable, net	28,414	44,835	22,709	28,783	32,804
Foreclosed assets	165	167	162	165	165
Property, furniture and equipment, net	7,739	7,936	9,073	8,799	8,205
Long term investments in equity securities	192	195	203	200	192
Long-term assets available for sale	2,330	2,431	2,422	2,465	2,361
Deferred taxes, net	4,552	4,102	5,292	5,748	5,454
Goodwill	1,218	1,218	1,218	1,218	1,218
Other assets, deferred charges and intangibles	4,213	5,075	5,332	5,213	4,260
Total Assets	443,299	487,179	446,048	470,825	496,054

Figures in MXN millions at June 30, 2011

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

	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>
Liabilities					
Deposits	231,370	245,777	253,247	259,637	273,255
Demand deposits	126,400	143,392	149,989	153,463	158,190
Time deposits	100,735	98,123	99,015	101,906	110,829
Retail	100,672	98,074	98,785	100,753	109,114
Money market	63	49	230	1,153	1,715
Bank bonds outstanding	4,235	4,262	4,243	4,268	4,236
Bank deposits and other liabilities	16,767	13,869	21,931	19,921	30,161
On demand	5,194	3,000	3,776	3,827	3,950
Short term	9,938	9,282	16,630	14,607	24,744
Long term	1,635	1,587	1,525	1,487	1,467
Repurchase agreements	23,630	38,176	29,911	49,816	48,985
Stock Borrowing	-	-	-	-	2
Settlement accounts	13,155	10,606	2,359	1,440	-
Collateral Sold	18,589	8,715	11,784	9,215	10,292
Repurchase	11,122	4,301	4,957	4,575	5,524
Securities to be received in repo transactions	7,467	4,414	6,827	4,640	4,768
Derivative transactions	31,376	38,175	30,545	24,009	27,274
Technical reserves	10,263	10,389	10,553	10,670	10,675
Reinsurers	241	140	197	35	83
Other accounts payable	38,086	60,553	25,235	40,073	37,547
Income tax and employee profit sharing payable	1,405	1,466	1,229	1,210	1,162
Creditors for settlement of transactions	21,768	41,396	12,785	23,622	23,110
Sundry creditors and others accounts payable	14,913	17,691	11,221	15,241	13,275
Subordinated debentures outstanding	10,160	10,074	10,007	9,881	9,824
Deferred credits	848	762	766	680	645
Total Liabilities	<u>394,485</u>	<u>437,236</u>	<u>396,535</u>	<u>425,377</u>	<u>448,743</u>
Stockholder's Equity					
Paid in capital	32,678	32,678	32,673	32,673	32,673
Capital stock	9,434	9,434	5,111	5,111	5,111
Additional paid in capital	23,244	23,244	27,562	27,562	27,562
Capital Gains	16,125	17,253	16,830	12,764	14,627
Capital reserves	1,726	1,726	1,726	1,726	1,832
Retained earnings	13,058	13,058	13,058	11,368	11,262
Result from the mark-to-market of Available-for-sale securities	607	890	140	(1,277)	220
Result from cash flow hedging transactions	(313)	(308)	(213)	92	(270)
Net Income	1,047	1,887	2,119	855	1,583
Non-controlling interest	11	12	10	11	11
Total Stockholder's Equity	<u>48,814</u>	<u>49,943</u>	<u>49,513</u>	<u>45,448</u>	<u>47,311</u>
Total Liabilities and Capital	<u>443,299</u>	<u>487,179</u>	<u>446,048</u>	<u>470,825</u>	<u>496,054</u>

Figures in MXN millions at June 30, 2011

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

	<i>30 Jun 2010</i>	<i>30 Sep 2010</i>	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>
Memorandum Accounts	2,527,369	2,626,413	2,586,532	2,490,065	2,729,366
Proprietary position	2,448,009	2,539,853	2,506,435	2,399,634	2,633,899
Guarantees granted	26	21	21	16	16
Contingent assets and liabilities	124	119	116	115	95
Irrevocable lines of credit granted	16,185	17,785	16,201	17,185	16,909
Goods in trust or mandate	277,105	282,699	293,814	310,733	311,753
Trust	276,403	281,952	293,051	306,644	307,939
Mandate	702	747	763	4,089	3,814
Goods in custody or under administration	250,496	265,633	251,394	257,710	265,996
Collateral received by the institution	21,896	8,504	13,446	14,220	40,791
Collateral received and sold or delivered as guarantee	23,643	12,037	15,143	17,926	40,524
Values in deposit	53	53	53	53	53
Suspended interest on impaired loans	274	258	254	236	224
Recovery guarantees for issued bonds	48,011	48,011	48,011	45,011	36,649
Paid claims	13	13	13	5	14
Cancelled claims	17	17	17	1	2
Responsibilities from bonds in force	3,591	3,591	3,591	3,623	3,614
Other control accounts	1,806,575	1,901,112	1,864,361	1,732,800	1,917,259

	<i>30 Jun 2010</i>	<i>30 Sep 2010</i>	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>
Third party accounts	79,360	86,560	80,097	90,431	95,467
Clients current accounts	23	(37)	(2)	(24)	149
Custody operations	24,946	25,462	25,396	29,793	31,969
Transactions on behalf of clients	10,088	10,039	11,352	10,120	11,896
Third party investment banking operations, net	44,303	51,096	43,351	50,542	51,453

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 5,111 millions.

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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at June 30, 2011

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

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<i>30 Jun 2010</i>	<i>30 Sep 2010</i>	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>	<i>30 Jun 2011</i>	
Interest Income	7,418	6,776	7,204	7,197	7,614	14,683	14,811
Earned premiums	689	796	602	778	741	1,375	1,519
Interest expense	(2,024)	(2,027)	(2,084)	(2,191)	(2,609)	(3,985)	(4,800)
Increase in technical reserves	80	(93)	(152)	(154)	21	(135)	(133)
Claims	(333)	(405)	(349)	(348)	(341)	(669)	(689)
Net interest income	<u>5,830</u>	<u>5,047</u>	<u>5,221</u>	<u>5,282</u>	<u>5,426</u>	<u>11,269</u>	<u>10,708</u>
Loan impairment charges	<u>(2,678)</u>	<u>(2,217)</u>	<u>(1,776)</u>	<u>(1,654)</u>	<u>(1,548)</u>	<u>(5,291)</u>	<u>(3,202)</u>
Risk adjusted net interest income	<u>3,152</u>	<u>2,830</u>	<u>3,445</u>	<u>3,628</u>	<u>3,878</u>	<u>5,978</u>	<u>7,506</u>
Fees and commissions receivable	2,229	2,105	2,190	1,913	1,963	4,432	3,876
Fees payable	(619)	(550)	(607)	(475)	(491)	(1,100)	(966)
Trading Income	395	1,277	462	1,215	683	1,084	1,898
Other operating income	919	943	1,263	1,108	1,489	1,732	2,597
Administrative and personnel expenses	<u>(5,520)</u>	<u>(5,571)</u>	<u>(6,730)</u>	<u>(6,418)</u>	<u>(6,542)</u>	<u>(10,844)</u>	<u>(12,960)</u>
Net operating income	<u>556</u>	<u>1,034</u>	<u>23</u>	<u>971</u>	<u>980</u>	<u>1,282</u>	<u>1,951</u>
Undistributed income from subsidiaries	-	-	17	8	9	3	17
Net income before taxes	<u>556</u>	<u>1,034</u>	<u>40</u>	<u>979</u>	<u>989</u>	<u>1,285</u>	<u>1,968</u>
Income tax and employee profit sharing tax	(389)	14	(659)	(322)	(454)	(1,017)	(776)
Deferred income tax	<u>(87)</u>	<u>(331)</u>	<u>767</u>	<u>127</u>	<u>102</u>	<u>560</u>	<u>229</u>
Net income before discontinued operations	<u>80</u>	<u>717</u>	<u>148</u>	<u>784</u>	<u>637</u>	<u>828</u>	<u>1,421</u>
Discontinued operations	<u>104</u>	<u>122</u>	<u>87</u>	<u>74</u>	<u>94</u>	<u>211</u>	<u>168</u>
Non-controlling interest	<u>8</u>	<u>1</u>	<u>(3)</u>	<u>(3)</u>	<u>(3)</u>	<u>8</u>	<u>(6)</u>
Net income (loss)	<u>192</u>	<u>840</u>	<u>232</u>	<u>855</u>	<u>728</u>	<u>1,047</u>	<u>1,583</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."

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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions
From 1 January to 30th June 2011

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

	Capital Stock	Advances for future capital increases	Subordinate Shares d Premiums	debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	(Valuation of permanent investments)	Results from holding non-monetary assets Net income	Non-controlling interest	Total Stock-holders Equity
Balances at 01 January 2011	5,111	-	27,562	-	1,726	13,058	(73)	-	-	2,119	10	49,513
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	106	2,013	-	-	-	(2,119)	-	-
Cash dividends	-	-	-	-	-	(3,520)	-	-	-	-	-	(3,520)
Others	-	-	-	-	-	(289)	-	-	-	-	-	(289)
Total Movements Inherent to the Shareholders Decision	-	-	-	-	106	(1,796)	-	-	-	(2,119)	-	(3,809)
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	1,583	1	1,584
Result from valuation of available-for-sale securities	-	-	-	-	-	-	80	-	-	-	-	80
Result from cash flow hedging transactions	-	-	-	-	-	-	(57)	-	-	-	-	(57)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	23	-	-	1,583	1	1,607
Balances at 30 June 2011	5,111	-	27,562	-	1,832	11,262	(50)	-	-	1,583	11	47,311

"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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LUIS PEÑA KEGEL
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ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow*Figures in MXN millions**From 1 January to 30 June 2011***Grupo Financiero HSBC, S.A. de C.V.**

Net income	1,583
Adjustments for items not involving cash flow:	7,932
Gain or loss on appraisal of activities associated with investment & financing	(788)
Allowances for loan losses	3,234
Depreciation and amortization	1,561
Provisions	3,088
Income Tax and deferred taxes	547
Technical reserves	133
Discontinued operations	168
Undistributed income from subsidiaries	(11)
Changes in items related to operating activities:	
Memorandum accounts	34
Investment securities	(29,938)
Repurchase agreements	(5,918)
Stock borrowing	2
Derivative (assets)	306
Loan portfolio	(13,831)
Receivables	(5,488)
Foreclosed assets	(35)
Operating assets	(9,803)
Deposits	19,919
Bank deposits and other liabilities	8,230
Settlement accounts	(2,359)
Creditors repo transactions	19,074
Collateral sold or delivered as guarantee	(1,492)
Derivative (liabilities)	(3,271)
Subordinated debentures outstanding	(183)
Accounts receivables from reinsurers and coinsurers	(343)
Accounts receivables from premiums	(310)
Reinsurers and bonding	83
Other operating liabilities	19,565
Funds provided by operating activities	(5,758)
Investing activities:	
Acquisition of property, furniture and equipment	1,758
Intangible assets acquisitions	607
Funds used in investing activities	2,365
Financing activities:	
Cash dividends	(3,520)
Decrease of Shares	-
Others	(289)
Funds used in financing activities	(3,809)
Increase/decrease in cash and equivalents	2,313
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,324
Cash and equivalents at end of period	53,637

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, 2011

HSBC Mexico, S.A. (Bank)

	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Assets					
Cash and deposits in banks	46,590	70,238	51,324	53,881	53,634
Margin Accounts	3	2	42	50	8
Investment in Securities	160,384	146,757	139,540	156,672	157,931
Trading securities	56,639	46,020	36,548	30,554	30,808
Available-for-sale securities	95,478	92,516	95,315	118,799	119,913
Held to maturity securities	8,267	8,221	7,677	7,319	7,210
Repurchase agreements	-	-	1,856	362	7,773
Derivative transactions	27,829	35,337	28,205	25,379	28,633
Performing loans					
Commercial loans	100,967	110,901	121,855	127,399	131,523
Commercial entities	64,781	73,610	81,084	85,672	86,489
Loans to financial intermediaries	11,979	11,948	12,684	12,591	17,042
Loans to government entities	24,207	25,343	28,087	29,136	27,992
Consumer loans	27,306	27,076	26,665	26,948	28,613
Mortgages loans	19,477	19,302	17,557	17,553	17,834
Total performing loans	147,750	157,279	166,077	171,900	177,970
Impaired loans					
Commercial loans	1,857	1,809	1,669	1,721	1,330
Commercial entities	1,857	1,809	1,664	1,335	1,330
Loans to financial intermediaries	-	-	-	386	-
Loans to government entities	-	-	5	-	-
Consumer loans	2,325	1,826	1,574	1,260	1,324
Mortgage Loans	2,226	2,176	2,101	1,854	1,850
Total non-performing loans	6,408	5,811	5,344	4,835	4,504
Total loan portfolio	154,158	163,090	171,421	176,735	182,474
Allowance for loan losses	(10,134)	(10,179)	(9,296)	(9,560)	(9,720)
Net loan portfolio	144,024	152,911	162,125	167,175	172,754
Receivables	-	-	-	-	5,488
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	144,024	152,911	162,125	167,175	178,242
Other accounts receivable	28,616	44,931	22,870	28,839	32,887
Foreclosed assets	165	167	162	165	161
Property, furniture and equipment, net	7,736	7,932	9,069	8,795	8,205
Long term investments in equity securities	118	119	123	120	113
Long term assets available for sale	-	-	-	-	1
Deferred taxes	4,558	4,088	5,318	5,636	5,328
Other assets, deferred charges and intangibles	3,900	4,623	4,753	5,011	3,917
Total Assets	423,923	467,105	425,387	452,085	476,833

Figures in MXN millions at June 30, 2011

HSBC Mexico, S.A. (Bank)

	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun 2011</u>
Liabilities					
Deposits	231,570	245,986	253,613	260,297	274,106
Demand deposits	126,600	143,601	150,355	154,123	159,041
Time deposits	100,735	98,123	99,015	101,906	110,829
Retail	100,672	98,074	98,785	100,754	109,114
Money market	63	49	230	1,152	1,715
Bank bonds outstanding	4,235	4,262	4,243	4,268	4,236
Bank deposits and other liabilities	16,767	13,869	21,931	19,921	30,161
On demand	5,194	3,000	3,776	3,827	3,950
Short term	9,938	9,282	16,630	14,607	24,744
Long term	1,635	1,587	1,525	1,487	1,467
Repurchase agreements	27,953	42,476	34,868	54,392	54,509
Loan portfolio	1	-	-	-	2
Settlement accounts	13,155	10,606	2,359	1,440	-
Collateral Sold	14,264	4,415	6,827	4,639	4,769
Repurchase	6,797	1	-	-	-
Securities to be received in repo transactions	7,467	4,414	6,827	4,639	4,769
Derivative transactions	31,376	38,175	30,545	24,009	27,274
Other accounts payable	37,408	59,741	26,304	41,452	38,743
Income tax and employee profit sharing payable	1,083	1,001	654	918	694
Contributions for future capital increases	-	-	2,013	2,013	2,013
Creditors for settlement of transactions	21,300	41,357	12,773	23,440	22,900
Sundry creditors and others accounts payable	15,025	17,383	10,864	15,081	13,136
Subordinated debentures outstanding	10,159	10,074	10,007	9,881	9,824
Deferred credits	812	724	730	639	606
Total Liabilities	<u>383,465</u>	<u>426,066</u>	<u>387,184</u>	<u>416,670</u>	<u>439,994</u>
Stockholder's Equity					
Paid in capital	25,605	25,605	25,605	25,605	25,605
Capital stock	5,087	5,087	5,087	5,087	5,087
Additional paid in capital	20,518	20,518	20,518	20,518	20,518
Capital Gains	14,850	15,431	12,595	9,807	11,231
Capital reserves	14,449	14,449	12,436	10,636	11,069
Retained earnings	-	-	-	131	(302)
Result from the mark-to-market of					
Available-for-sale securities	477	750	(48)	(1,277)	220
Result from cash flow hedging transactions	(312)	(308)	(213)	92	(270)
Net Income	236	540	420	225	514
Non-controlling interest	3	3	3	3	3
Total Stockholder's Equity	<u>40,458</u>	<u>41,039</u>	<u>38,203</u>	<u>35,415</u>	<u>36,839</u>
Total Liabilities and Capital	<u>423,923</u>	<u>467,105</u>	<u>425,387</u>	<u>452,085</u>	<u>476,833</u>

Figures in MXN millions at June 30, 2011

HSBC Mexico, S.A. (Bank)

	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>
Memorandum Accounts					
Guarantees granted	26	21	21	16	16
Contingent assets and liabilities	124	119	116	115	95
Irrevocable lines of credit granted	16,185	17,785	16,201	17,185	16,909
Goods in trust or mandate	277,105	282,699	293,814	310,733	311,753
Goods	276,403	281,952	293,051	306,644	307,939
Trusts	702	747	763	4,089	3,814
Goods in custody or under administration	245,386	260,522	246,284	252,599	260,885
Collateral received by the institution	21,827	8,432	13,370	14,220	40,791
Collateral received and sold or delivered as guarantee	19,322	7,739	10,182	13,346	34,990
Third party investment banking operations, net	44,303	51,096	43,351	50,542	51,453
Suspended interest on impaired loans	273	258	254	236	224
Other control accounts	1,789,751	1,884,176	1,846,445	1,724,155	1,908,613
	<u>2,414,302</u>	<u>2,512,847</u>	<u>2,470,038</u>	<u>2,383,147</u>	<u>2,625,729</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 3,287 millions.
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LUIS PEÑA KEGEL
Chief Executive Officer

GUSTAVO CABALLERO GÓMEZ
Chief Financial Officer

ANDREW PAUL MCCANN
Director of Internal Audit

JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Income Statement

Figures in MXN millions at June 30, 2011

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date		
	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Jun 2011	
Interest income	7,294	6,605	7,046	7,017	7,430	14,367	14,447
Interest expense	(2,062)	(2,028)	(2,087)	(2,196)	(2,614)	(3,977)	(4,810)
Net interest income	<u>5,232</u>	<u>4,577</u>	<u>4,959</u>	<u>4,821</u>	4,816	<u>10,390</u>	9,637
Loan impairment charges	(2,678)	(2,217)	(1,776)	(1,654)	(1,548)	(5,291)	(3,202)
Loan impairment charges	<u>(2,678)</u>	<u>(2,217)</u>	<u>(1,776)</u>	<u>(1,654)</u>	(1,548)	<u>(5,291)</u>	(3,202)
Risk adjusted net interest income	<u>2,554</u>	<u>2,360</u>	<u>3,183</u>	<u>3,167</u>	3,268	<u>5,099</u>	6,435
Fees and commissions receivable	2,147	2,020	2,089	1,841	1,882	4,251	3,723
Account management	167	163	164	120	126	345	246
Services	1,980	1,857	1,925	1,721	1,756	3,906	3,477
Fees payable	(405)	(350)	(409)	(328)	(349)	(670)	(677)
Trading Income	353	1,094	315	839	682	811	1,521
Foreign exchange	591	119	18	(556)	358	(165)	(198)
Securities trading, net	(44)	(19)	23	8	103	(55)	111
Repos	-	(5)	-	(8)	-	-	(8)
Swaps	427	(208)	287	691	245	635	936
Valuation off-shore agencies	(526)	1,166	(133)	50	131	435	181
Valuation for trading swaps	(95)	41	120	654	(28)	(39)	626
Valuation for FX options	-	-	-	-	(127)	-	(127)
Other operating income	1,086	1,010	1,348	1,124	1,607	2,047	2,731
Administrative and personnel expenses	5,627	5,645	6,890	6,477	6,619	11,150	13,096
Personnel expense	2,360	2,470	2,948	2,783	2,536	4,736	5,319
Administrative expense	2,925	2,835	3,513	2,920	3,296	5,733	6,216
Depreciation and amortization	342	340	429	774	787	681	1,561
Net operating income	<u>108</u>	<u>489</u>	<u>(364)</u>	<u>166</u>	471	<u>388</u>	637
Undistributed income from subsidiaries	-	(2)	13	9	9	2	18
Net income before taxes	108	487	(351)	175	480	390	655
Income tax and employee profit sharing	(241)	168	(549)	(41)	(277)	(711)	(318)
Deferred income tax	(40)	(352)	784	94	89	549	183
Net income before discontinued operations	<u>(173)</u>	<u>303</u>	<u>(116)</u>	<u>228</u>	292	<u>228</u>	520
Non-controlling interest	8	1	(4)	(3)	(3)	8	(6)
Net income (loss)	<u>(165)</u>	<u>304</u>	<u>(120)</u>	<u>225</u>	289	<u>236</u>	514

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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JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January to 30 June 2011

	Paid in capital				Earned Capital				Non-controlling 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 2011	5,087	-	20,518	-	12,436	-	(261)	-	-	420	3	38,203
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	433	(433)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	420	-	-	-	(420)	-	-
Others	-	-	-	-	(1,800)	-	-	-	-	-	-	(1,800)
Cash dividends	-	-	-	-	-	(289)	-	-	-	-	-	(289)
Total Movements Inherent to the Shareholders Decision	-	-	-	-	(1,367)	(302)	-	-	-	(420)	-	(2,089)
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-	-	514	-	514
Result from valuation of available-for-sale securities	-	-	-	-	-	-	268	-	-	-	-	268
Result from cash flow hedging transactions	-	-	-	-	-	-	(57)	-	-	-	-	(57)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	211	-	-	514	-	725
Balances as at 31 March 2011	5,087	-	20,518	-	11,069	(302)	(50)	-	-	514	3	36,839

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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JUAN JOSÉ CADENA OROZCO
Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January to 30 June 2011

HSBC Mexico, S.A. (Bank)

30 Jun 2011

Net income	514
Adjustments for items not involving cash flow:	7,218
Gain or loss on appraisal of activities associated with investment & financing	(788)
Allowances for loan losses	3,235
Depreciation and amortization	1,561
Provisions	3,087
Income Tax and deferred taxes	135
Undistributed income from subsidiaries	(12)
Changes in items related to operating activities:	
Memorandum accounts	34
Investment securities	(18,126)
Repurchase agreements	(5,917)
Derivative (assets)	306
Loan portfolio	(13,831)
Receivables	(5,488)
Foreclosed assets	1
Operating assets	(10,016)
Deposits	20,493
Bank deposits and other liabilities	8,230
Settlement accounts	(2,359)
Creditors repo transactions	19,641
Stock borrowing	2
Collateral sold or delivered as guarantee	(2,058)
Derivative (liabilities)	(3,271)
Subordinated debentures outstanding	(183)
Other operating liabilities	9,048
Funds provided by operating activities	(3,494)
Investing activities:	
Acquisition of property, furniture and equipment	(675)
Intangible assets acquisitions	836
Funds used in investing activities	161
Financing activities:	
Cash dividend	(1,800)
Others	(289)
Funds used or provided by financing activities	(2,089)
Increase/decrease in cash and equivalents	2,310
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	51,324
Cash and equivalents at end of period	53,634

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, 2011

Investments in securities

	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>
Government securities	56,968	46,330	35,237	31,289	29,422
Bank securities	2,452	2,783	3,590	2,338	3,265
Shares	63	-	27	337	313
Others	3,900	3,963	5,306	3,270	4,665
Trading securities	<u>63,383</u>	<u>53,076</u>	<u>44,160</u>	<u>37,234</u>	<u>37,665</u>
Government securities	88,319	85,344	88,564	111,732	112,768
Bank securities	-	-	-	-	-
Obligations and other securities	7,466	7,460	7,107	7,050	7,133
Shares	10	11	12	17	12
Available for sale securities	<u>95,795</u>	<u>92,815</u>	<u>95,683</u>	<u>118,799</u>	<u>119,913</u>
Special Cetes (net)	11,855	11,923	11,876	11,572	11,884
Bank securities	337	342	140	142	143
Corporate securities	3,942	3,846	3,398	2,996	2,843
Securities held to maturity	<u>16,134</u>	<u>16,111</u>	<u>15,414</u>	<u>14,710</u>	<u>14,870</u>
Total Financial Instruments	<u>175,312</u>	<u>162,002</u>	<u>155,257</u>	<u>170,743</u>	<u>172,448</u>

In the second quarter of 2011 investment in securities increase by MXN1,705 million compared to the first quarter of 2011; mainly by increase obligations and other securities by MXN1,478 million.

Repos**HSBC México, S.A. de C.V. (Bank)**

Figures in MXN millions at June 30, 2011

	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>	<u>31 Dec</u> <u>2010</u>	<u>31 Mar</u> <u>2011</u>	<u>30 Jun</u> <u>2011</u>
Repo's Government securities (credit)	27,375	41,720	33,215	52,677	47,523
Repo's Bank securities (credit)	418	307	1,231	1,441	968
Repo's Others securities (credit)	141	433	406	265	380
Valuation increase (decrease)	-	-	-	-	-
Accrued interest payable	20	16	16	9	114
Credit balance in repo agreements	<u>27,954</u>	<u>42,476</u>	<u>34,868</u>	<u>54,392</u>	<u>48,985</u>
Repurchase agreements in government securities	3,000	3,000	5,000	9,000	29,951
Accrued interest receivable	6	2	7	13	42
Debit balance repo securities agreements	<u>3,006</u>	<u>3,002</u>	<u>5,007</u>	<u>9,013</u>	<u>29,993</u>
Government securities	9,801	3,001	3,147	8,641	22,215
Interest in collateral delivered as guarantee	2	2	4	10	4
Total in collateral delivered as guarantee	<u>9,803</u>	<u>3,003</u>	<u>3,151</u>	<u>8,651</u>	<u>22,219</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2011

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	74,890	68,852	10,147	10,095	89,196	91,521	3,765
Foreign currency	-	-	72,879	77,401	22,257	22,222	134,542	131,306	(1,251)
Interest Rate	125	125	212	377	-	-	178,694	178,792	(263)
Total	125	125	147,981	146,630	32,404	32,317	402,432	401,619	2,251
For hedging									
Pesos	-	-	-	-	-	-	7,877	-	7,877
Foreign currency	-	-	-	-	-	-	-	7,972	(7,972)
Interest Rate	-	-	-	-	-	-	1,538	2,335	(797)
Total	-	-	-	-	-	-	9,415	10,307	(892)

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2011

	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Stock borrowing					
Cetes	92	-	520	-	560
Valuation increase (decrease)	-	-	28	-	-
Bonds	7,364	4,406	6,187	4,640	4,188
Valuation increase (decrease)	11	8	84	(1)	(2)
Shares	-	-	8	-	24
Valuation increase (decrease)	-	-	-	-	(1)
Total	7,467	4,414	6,827	4,639	4,769

Participation by Subsidiary**Grupo Financiero HSBC, S.A. de C.V.**

Group Subsidiaries at June 30, 2011

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,643,363,189	99.99%	1,643,286,963
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	96,440	99.99%	96,439
HSBC Fianzas, S.A.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	211,284,511	99.99%	211,284,508
HSBC Global Asset Management (México), S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	480,100	99.99%	480,099
Total	2,615,602,894		2,594,418,922

Trading income**HSBC Mexico, S.A. (Bank)**

Figures in MXN millions at June 30, 2011

	<i>For the quarter ending...</i>				<i>Year to date</i>		
	<i>30 Jun 2010</i>	<i>30 Sep 2010</i>	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>	<i>30 Jun 2010</i>	<i>30 Jun 2011</i>
Valuation	(881)	1,527	(66)	641	190	77	830
Derivatives	(1,036)	952	250	1,081	(303)	(128)	777
Repos	-	-	-	-	-	-	-
Debt Securities	389	219	(243)	(333)	386	498	53
Foreign Exchange	(234)	356	(73)	(107)	107	(293)	-
Buying and Selling Instruments	1,234	(433)	381	199	492	734	691
Foreign Currency	826	(238)	89	(462)	243	129	(219)
Derivatives	73	(602)	314	439	8	142	447
Repos	-	-	-	-	-	-	-
Shares	(17)	(5)	(10)	(6)	(6)	(18)	(12)
Debt Securities	352	412	(12)	228	247	481	474
Total	353	1,094	315	839	682	811	1,521

Loan Portfolio

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

By type of currency

Figures in MXN millions at 30 June 2011

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
Performing Loan Portfolio						
Pesos	62,335	16,920	26,484	28,613	16,273	150,625
US Dollars	24,154	122	1,508	-	-	25,784
Udis Banxico	-	-	-	-	1,561	1,561
Total	86,489	17,042	27,992	28,613	17,834	177,970
Non Performing Loans Portfolio						
Pesos	1,284	-	-	1,324	1,500	4,108
US Dollars	39	-	-	-	7	46
Udis Banxico	7	-	-	-	343	350
Total	1,330	-	-	1,324	1,850	4,504

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-3	F1
Local Currency			
Long term obligations	A2	BBB	A
Long term deposits	A2	BBB	-
Short term	P-1	A-3	F1
BFSR (Moody's)	C-	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mex)
Short term	MX-1	mxA -1+	F1+ (mex)
Outlook			
	Stable	Stable	Stable
Last update	23-Jun-10	20-May-11	22-Jun-10

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2011

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	9,197				
Graded	190,202				
Risk A	87,328	459	51	44	554
Risk A-1	59,169	190	51	44	285
Risk A-2	28,159	269	0	0	269
Risk B	94,470	3,339	1,887	125	5,351
Risk B-1	58,813	1,114	1,131	125	2,370
Risk B-2	28,167	1,204	756	0	1,960
Risk B-3	7,490	1,021	0	0	1,021
Risk C	6,513	1,043	593	627	2,263
Risk C-1	5,302	514	593	627	1,734
Risk C-2	1,211	529	0	0	529
Risk D	1,561	132	1,046	24	1,202
Risk E	330	263	70	17	350
Total	199,399	5,236	3,647	837	9,720
Less:					
Constituted Reserves					<u>9,720</u>
Surplus					<u>0</u>

- The rating and constitution of reserves correspond to last day of the balance sheet at June 30, 2011.
 - The lending portfolio is graded according to the rules for 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. The methodology distinguishes the qualification of the borrower and based on this determines the operation for the commercial portfolio excluding states and municipalities and Investment Projects, it has approved by the CNBV use an internal methodology. For the consumer portfolio and mortgage is made based on the "General Regulations Applicable to Credit Institutions" issued by the CNBV, specifically using the standard methodology.
 - In order to comply with regulations published in the Official Gazette on August 12, 2009, related to the methodology of reserves for consumer loan portfolio for credit card operations the institution applied Section II of Article 91 of the general provisions applicable to credit institutions and Section II of second transitory article of the mentioned resolution. The article 91 of the Official Gazette of August 12, 2009 was changed by the 92 published on October 25 2010.
- In June 2011 the amount to establish such reserves as a result of the score was MXN 2,678 million. The amount up to that date for this concept was MXN 2,567 million, equivalent to 95.86% of the amount specified by the application of the formula set out in the transitional Article. The amount from interest due reserve was MXN 104 million.
- The implementation of the methodology for qualification of the consumer loan portfolio for credit card operations, led a charge to income statement as June of this year, by the amount of MXN 1,572 millions, which was credited to respective provision presented in the balance sheet.
- On March 2011 considering the methodology change of reserves for not revolving consumer loan portfolio and for mortgages; the Institution conducted the recognition of initial cumulative financial effect resulting from the first application of Paragraph A of Section One and Section A of Section II, both of Chapter V of Title II of the General

provisions applicable to credit institutions accordance with the general provisions applicable to credit institutions, published on October 25, 2010.

The allowance for loan losses in the mortgage portfolio at March 2011 based on article 99 of the General provisions applicable to credit institutions published on October 25, 2010 generates an amount in excess by MXN 207 million, amount that was applied versus reserves to create on April 2011.

The allowance for consumer loan losses at March 2011 was by the amount of MXN 715 million, the increase originated by the methodology change was recognized in equity, in the cumulative earnings account by MXN 289 million, as indicated by the third paragraph of the resolution transitional mentioned.

Movement	Consumer loans
Previous balance	495
Application of the month	(69)
Balance	426
Allowance previous methodology	715
Capital. Cumulative Earnings	(289)

As June 2011, the increase in loan loss reserves charged to Income Statement was by the amount of MXN 3,243 millions, from this amount MXN 78 millions belongs to mortgages portfolio asset foreclosed, MXN 2,621 millions to impaired and MXN 345 millions to write offs.

Non – Performing Loans**HSBC Mexico, S.A. (Bank)**

Figures in MXN millions

	At the quarter ending				
	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Initial Balance of Impaired Loans	6,599	6,408	5,811	5,344	4,835
Increases	4,190	2,999	3,728	4,217	2,094
Transfer of current loans to past due status	4,190	2,999	3,728	4,217	2,094
Decreases	4,382	3,596	4,195	4,726	2,426
Restructurings	15	36	236	106	64
Liquidated credits	3,297	2,665	2,884	2,134	1,591
Charged in cash	926	603	901	516	278
Foreclosed assets	40	11	6	11	8
Writeoffs	0	0	0	0	0
Sale of portfolio	2,330	2,051	1,977	1,607	1,305
Transfer to performing loan status	1,069	898	1,082	2,490	769
Fx revaluations	(1)	3	7	4	(2)
Final Balance of Impaired Loan	6,408	5,811	5,344	4,835	4,504

Deferred Taxes**Grupo Financiero HSBC, S.A. de C.V.**

Figures in MXN millions at June 30, 2011

	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Loan loss reserves	4,757	4,834	4,780	5,001	5,077
Valuation of securities	(365)	(703)	(256)	231	(98)
Fiscal loss	6	3	13	67	11
Other reserves	798	604	1,092	705	866
PTU Payable	50	70	106	132	54
Foreclosed assets	18	75	89	120	134
Other	253	228	229	208	185
Differences in rates of fixed assets	(177)	(206)	55	114	69
Fiscal result UDIS-Banxico	(788)	(803)	(816)	(830)	(844)
Total Deferred Taxes	4,552	4,102	5,292	5,748	5,454

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 2010</i>	<i>30 Sep 2010</i>	<i>31 Dec 2010</i>	<i>31 Mar 2011</i>	<i>30 Jun 2011</i>
MXN pesos					
Funding	2.27%	2.32%	2.28%	2.31%	2.43%
Bank and other loans	5.17%	5.31%	5.56%	5.51%	5.27%
Foreign currency					
Funding	0.07%	0.08%	0.08%	0.08%	0.08%
Bank and other loans	0.64%	0.65%	0.89%	0.64%	0.62%
UDIS					
Funding	0.18%	0.21%	0.24%	0.25%	0.30%

Long Term Debt

HSBC Mexico, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Rate</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-DIC-2008	2,272	MXN	12	2,284	10-DIC-2018
HSBC 09D(USD300) ¹	26-JUN-2009	3,514	USD	1	3,515	28-JUN-2019
		9,804		20	9,824	

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	16	4,236	27-ABR-2016
		4,220		16	4,236	

Capital

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

Grupo Financiero HSBC

On March 3, 2011, the Board Directors authorized a dividend payment of \$1.3774 per share for each of the 2,555,351,034 shares outstanding. The total amount paid by the Group was MXN3,520.

On March 31, 2011 was applied under the concept of previous year's financial results the amount of MXN289, for implementing the new methodology for calculating reserves portfolio credit mortgage and consumer loans and current accounting standards.

The Ordinary Shareholders Meeting, held on April 28, 2011, approved the following distribution of the year 2010 financial results, amounting to MXN2,119 million:

- Five per cent, MXN106 million, to increase legal reserves, and the remaining MXN2,013 million, at the Board's determination to be applied under the concept of previous year's financial results.

The capital stock is included in the amount of MXN5,111 million, represented by 2,555,351,034 shares.

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

HSBC Mexico, S.A., net income in 2010, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN420 million.

- ▶ Ten per cent, MXN42 million, to increase legal reserves, and the remaining MXN378 million, at the Board's determination to be applied under the concept of other reserves.
- ▶ On March, 2011 one notice was published in accordance to the agreement of the Board meeting, a dividend of \$1.09531478619484 shall be paid per share for each one of the 1,643,363,189 shares. Such dividend was paid on one disbursement on March 18 of 2011.
- ▶ On March, 2011 were applied MXN\$289 at the retained earnings account because of the initial financial effect due to the new change of method for the calculation of loans impairment charges.

The capital stock increased to MXN3,287 million representing 1,643'363,189 shares.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2011

	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
% of assets subject to credit risk					
Tier 1	23.54%	21.33%	18.75%	17.14%	17.56%
Tier 2	6.83%	6.16%	5.53%	5.56%	5.25%
Total regulatory capital	<u>30.37%</u>	<u>27.49%</u>	<u>24.28%</u>	<u>22.70%</u>	<u>22.81%</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	12.89%	12.31%	11.24%	10.88%	10.77%
Tier 2	3.74%	3.55%	3.31%	3.53%	3.22%
Total regulatory capital	<u>16.63%</u>	<u>15.86%</u>	<u>14.55%</u>	<u>14.41%</u>	<u>13.98%</u>
Tier 1	36,203	36,420	34,243	31,577	33,694
Tier 2	10,506	10,516	10,096	10,245	10,065
Total regulatory capital	<u>46,709</u>	<u>46,937</u>	<u>44,339</u>	<u>41,822</u>	<u>43,759</u>
RWA credit risk	153,775	170,735	182,631	184,191	191,870
RWA market risk	99,177	93,666	87,098	68,617	83,414
RWA operational risk	<u>28,001</u>	<u>31,474</u>	<u>35,043</u>	<u>37,379</u>	<u>37,704</u>
RWA credit and market risk	<u>280,952</u>	<u>295,875</u>	<u>304,772</u>	<u>290,187</u>	<u>312,988</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 Operating Income (Expenses)

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

Figures in MXN millions at June 30, 2011

	<i>For the quarter ending</i>					<i>Year to date</i>	
	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Jun 2010	30 Jun 2011
Loans to employees	37	34	36	36	35	74	71
Recoveries	260	141	257	282	251	454	533
Credit portfolio recoveries	232	207	192	226	166	488	392
Result of Foreclosed assets	(8)	12	14	8	1	(13)	9
Property sales	-	-	-	-	604	-	604
Other items of income(expenses)	610	730	821	720	601	1,083	1,321
Other income (expenses) arising from op. Insurance and Bonding	98	97	104	106	106	196	212
Monetary position result	(1)	3	10	5	(1)	7	4
Other losses	<u>(309)</u>	<u>(281)</u>	<u>(171)</u>	<u>(275)</u>	<u>(274)</u>	<u>(557)</u>	<u>(549)</u>
Total Other Operating Income (expenses)	<u>919</u>	<u>943</u>	<u>1,263</u>	<u>1,108</u>	<u>1,489</u>	<u>1,732</u>	<u>2,597</u>

► Other items of income (expenses) are 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, 2011 is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Insurance	Bonding	Total
Balance Sheet									
Cash and deposits in banks	-	-	626	-	2	199	23	1	851
Demand deposits	(851)	-	-	-	-	-	-	-	(851)
Repurchase agreements (assets)	-	-	5,524	-	-	-	-	-	5,524
Repurchase agreements (liabilities)	(5,524)	-	-	-	-	-	-	-	(5,524)
Sundry debtors (assets)	475	-	6	25	6	2,013	58	-	2,583
Sundry creditors (liabilities)	(2,079)	-	(210)	(84)	(7)	-	(175)	(3)	(2,558)
Long-term assets available for sale	-	(25)	-	-	-	-	-	-	(25)
Total	(7,979)	(25)	5,946	(59)	1	2,212	(94)	(2)	-
P&L									
Payable commissions	(6)	-	-	(211)	-	-	(6)	-	(223)
Receivable commissions	197	-	30	29	-	-	-	-	256
Discontinued operations	-	(44)	-	-	-	-	-	-	(44)
Interest income	-	-	11	-	-	-	-	-	11
Interest expense	(11)	-	-	-	-	-	-	-	(11)
Repos	(108)	-	-	-	-	-	-	-	(108)
Reverse repos	-	-	108	-	-	-	-	-	108
Earned premiums	-	-	-	-	-	-	97	1	98
Administrative and personnel expenses	(98)	-	-	-	-	-	-	-	(98)
Administrative services	(170)	-	(65)	(42)	(12)	(1)	(305)	(10)	(605)
Other income	444	-	-	-	127	-	45	-	616
Total	248	(44)	84	(224)	115	(1)	(169)	(9)	-

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 30 June 2011, is shown below:

Figures in MXN millions at June 30, 2011

(MXN millions)	Year to date at 30 June 2011				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	6,791	2,959	958	0	10,708
Provision for Loan Loss	2,120	1,092	(10)	0	3,202
Net Interest Income adjusted	4,671	1,867	968	0	7,506
Fees and Commissions, net	1,960	857	93	0	2,910
Trading Income	126	69	1,703	0	1,898
Other operation income	1,695	492	410	0	2,597
Total Revenue	8,452	3,285	3,174	0	14,911
Administrative Expenses	7,946	3,479	1,535	0	12,960
Operating Income	506	(194)	1,639	0	1,951
Other Income (Expenses), net	10	6	1	0	17
Profit Before Taxes	516	(188)	1,640	0	1,968
Taxes	160	(58)	445	0	547
Net Income before discontinued operations	356	(130)	1,195	0	1,421
Discontinued operations	168	0	0	0	168
Minority Shareholders	(4)	(2)	0	0	(6)
Participated Net Income	520	(132)	1,195	0	1,583

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

Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the six months ended 30 June 2011 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Jun 2011
Grupo Financiero HSBC – Net Income Under Mexican GAAP	1,583
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	45
Acquisition costs relating to long-term investment contracts †	(5)
Deferral of fees received and paid on the origination of loans	(12)
Recognition and provisioning for loan impairments †	718
Purchase accounting adjustments †	(143)
Recognition of the present value in-force of long-term insurance contracts †	99
Other †	100
Net income under IFRS	2,385
US dollar equivalent (millions)	200
Add back tax expense	1,048
Profit before tax under IFRS	3,433
US dollar equivalent (millions)	288
<i>Exchange rate used for conversion</i>	11.90

† Net of tax at 30 per cent.

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

Valuation of defined benefit pensions and post retirement healthcare benefits

Mexican GAAP

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method and real interest rates.

IFRS

Defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which 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.

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

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 the origination of loans

Mexican GAAP

From 1 January 2007, loan origination fees are required to be deferred and amortised over the life of the loan on a straight line basis. Prior to 2007, loan origination fees were 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 using the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

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 methodologies for determining the amount of provision for each type of loan.

IFRS

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loans current carrying value.

Purchase accounting adjustments

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

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, operational risk (technological 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 GBM), and support areas like Treasury, Finance, Balance Management, Planning and Economic Capital.

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, GBM, 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

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, there by 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.
- ▶ **Credit Spread risk.** - This is the risk that mark-to-market value of a corporate bond, inter-bank bond or sovereign debt in foreign currency, decreases due to changes in the credit quality perception of the issuer.

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. 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-evaluating 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)
- ▶ Others

Credit Spread Risk (CSO1)

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

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

Vega or implied volatility risk

HSBC takes positions on instruments that are price sensitive to changes in market implied volatilities such as interest rate 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.

Besides this calculus, a linear extrapolation is done using the Forward PVBP based on hypothetical extreme scenarios (assuming that the portfolio is completely linear) to compare both results and obtain portfolio's implied convexity. Also stress test is done in foreign exchange and equity positions.

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.

In the PVBP case, this is compared with the portfolios' sensitivity to market quotes. The obtained results had shown that the models are reliable. Also, with the purpose to reinforce the validation and verification of the risk factors, we design a selected set of matrices showing that risk factors' behavior are in line with the predominant financial market prices and consistent with the previous day values.

Applicable portfolios:

For a detail and accurate portfolio management, HSBC Mexico Market Risk Management Department, use the international standards (IAS) and local standards (local GAAP) to obtain an effective market risk management. The division between accounting schemes has strict control and every portfolio is perfectly well suited and identified in each accounting standard. This division allows calculating any market risk measure (sensitivity measures, potential loss measures and stress test) in sub portfolios in line with the accounting.

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 2011 (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 2Q11	Limits*	Average 2Q11	Limits*	Average 2Q11	Limits*
Combined	17.02	40.00	3.90	27.50	14.38	40.00
Interest Rate	15.99	45.00	3.61	N/A	13.06	40.00
Credit Spread	6.63	24.00	1.48	4.00	5.22	24.00
FX	0.78	7.00	0.78	7.00	N/A	N/A
Volatility IR	0.12	8.00	0.12	N/A	0.00	2.00
Volatility FX	0.22	2.00	0.22	2.00	N/A	N/A
Equities	0.05	2.50	0.05	N/A	N/A	N/A

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

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

	31-Mar-11	30-Jun-11	Limits*	Average 1Q11	Average 2Q11
HBMI	21.16	14.49	40.00	22.65	17.02
Accrual	14.82	12.97	40.00	20.05	14.38
All Trading	7.75	3.38	27.50	6.30	3.90

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of 2Q11 change -31.52% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of 2Q11 change -24.86% versus prior quarter. During the quarter the average VaR was within the limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for March 31st, 2011 and June 30, 2011 (in millions of dollars).

Market VaR vs. Net Capital Comparison

Net Capital in million Dollars

	31-Mar-11	30-Jun-11
Total VaR*	22.65	17.02
Net Capital **	3,512.01	3,732.72
VaR / Net Capital	0.64%	0.46%

* The Bank's quarterly VaR average in absolute value

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

The average market VaR represents 0.46% of the net capital in 1Q2011.

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

	31-Mar-11	30-Jun-11	Limits*	Average 1Q11	Average 2Q11
Bank	(1.162)	(1.211)	1.650	(1.037)	(1.214)
Accrual	(0.874)	(0.921)	1.250	(0.848)	(0.941)
Trading Desk	(0.171)	(0.137)	0.450	(0.077)	(0.135)
Balance Sheet Trading	(0.117)	(0.154)	0.210	(0.112)	(0.138)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 2Q11 change 4.22% versus previous quarter. Bank's average PVBP for 2Q11 change 17.07% versus previous quarter.

Present Value for 1bp (PVBP) for USD Rate					
	31-Mar-11	30-Jun-11	Limits*	Average 1Q11	Average 2Q11
Bank	(0.104)	(0.066)	0.300	(0.074)	(0.097)
Accrual	(0.103)	(0.063)	0.300	(0.100)	(0.097)
Trading Desk	0.003	(0.008)	0.100	0.014	(0.005)
Balance Sheet Trading	(0.004)	0.005	0.070	0.011	0.004

* Absolute Value NA = Non Applicable

The bank's USD Rate PVBP for 2Q11 change -36.54% versus previous quarter. Bank's average PVBP for 2Q11 change 31.08% versus previous quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	31-Mar-11	30-Jun-11	Limits*	Average 1Q11	Average 2Q11
Bank	(0.052)	(0.105)	0.350	(0.123)	(0.108)
Accrual	(0.008)	(0.072)	0.300	(0.068)	(0.067)
Trading Desk	(0.031)	(0.019)	0.100	(0.039)	(0.022)
Balance Sheet Trading	(0.014)	(0.014)	0.050	(0.016)	(0.019)

* Absolute Value NA = Non Applicable

Bank's UDI Rate PVBP for 2Q11 change 101.92% versus prior quarter. Bank's average PVBP for 2Q11 varied -12.20% versus previous 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 ratio limits, both in national currency and in U.S. dollars. These liquidity ratios are calculated on a daily basis and compared with the limits permitted by the Asset and Liability Committee and confirmed by the HSBC Group. Additionally, the institution conducts a daily review of the cash commitments and the requirements of major customers to diversify funding sources.

HSBC additionally has implemented a methodology for measuring the risk of liquidity based on cash flow projections with different maturities and liquidity scenario.

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 at the beginning of the year.

Quantitative Information

The institution presented at end of the quarter expected cash flows under the major stressed scenario of 4,520m USD in the 7 days term; 2,567m USD in the 1 month term and 2,743m USD in 3 months; obtaining as a result positive cumulative net in all cases.

Along the quarter, average level was 4,006m USD in the 7 days term 1,891m USD in 1 month term and 1,890m USD in 3 months term. Compared versus previous quarter, liquidity position change resulted from the intra group and other banks borrowings, money market and retail deposits.

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.

HSBC Mexico has developed eight models for assessing credit risk of customers of commercial portfolio with annual sales up to MXN\$ 7,000 million. These models were implemented in October 2010 and were developed based on a statistical analysis of the different economic activities that resulted in four major segments, which in turn were subdivided by annual turnover level, greater and less than MXN\$ 100 million.

It is important to note that these models were reviewed and approved by experts in models development of HSBC Group Head Office.

In addition to the aforementioned models, HSBC México has implemented the following global models that were developed by HSBC Group Head Office.

- ▶ A model for global customers to assess the corporate counterparties with annual sales equal or above to MXN\$ 7,000 million (GLCS).
- ▶ Another one to assess Bank Financial Institutions (MRAfBanks)
- ▶ And eleven more, were implemented to assessing Non-Banking Financial Institutions (NBFIs).

The implementation of the abovementioned models was done along with the customers risk grading framework, known as Customer Risk Rating (CRR), which contemplates 23 levels, 21 of them are for performing customers and 2 for defaulted customers. The framework includes a direct correspondence to Probabilities of Default to each CRR and permits a more granular measurement of the customer's credit quality.

Regarding to the Loss Given Default (LGD) estimation, which represents the economic loss as a percentage of the Exposure at Default that HSBC Mexico will face at the time a customer defaults, HSBC Mexico developed a local model for assessing the Middle Market Enterprises and corporate customers, which was implemented in February 2011. In addition, for Bank Financial Institutions HSBC Mexico implemented (June 2010) a model developed by Group HSBC Head Office.

For Exposure at Default (EaD) estimation, HSBC México also developed a model for Middle Market Enterprises and corporate customers, which was implemented in October 2010. Besides the Exposure at Default estimation for Banking Financial Institutions is based on the guidelines established by the Group HSBC.

Locally developed models to estimate the Loss Given Default and Exposure at Default described above, were reviewed and approved by experts in model development of the HSBC Group Head Office.

In the second half of 2006 a risk-adjusted return model, which measures the profitability of each customer relationship, was introduced. During 1Q11 a new version were implemented.

Also, as part of the credit risk management and measurement infrastructure, HBMX has a system to manage, control and monitor the commercial credit approval process known as Approval Workflow (SIPAC). 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, were a PD and LGD is assigned to every credit. The model is calibrated to estimate expected losses in a year, and was elaborated using previous experience with the portfolio.

Quantitative information

The Expected Loss of credit cards, mortgage and other retail portfolio as at June 30th, 2011 is MXN 5,042.2 mln which represents the 10.2% of Total Balance performing a decrease of MXN 192.9 millions of pesos (-3.7%) in comparison with previous quarter.

The Expected Loss of the commercial portfolio as at June 30th, 2011 is MXN 3,348.1 millions of pesos, showing an increase of MXN 386.9 millions of pesos (-9.8%) compared to the figure reported in the previous quarter. The EL estimation of this portfolio does not consider undrawn facilities yet.

Operational Risk

Qualitative Information (including Legal and Technological Risk)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

In order to manage these risks, a central specialized unit has been established; and a group of middle managers within the business & support units has also been appointed to functionally report to this Unit and are responsible for spreading the Group's operational risk management framework. They both operate according to the policies, procedures, processes and methodologies approved by the Risk Management Committee which are documented in manuals and instruction books as a complement to the Group's operational risk management and internal control framework.

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee and the Operational Risk Management Group, both sub-committees of the Risk Management Committee, which together are responsible for the fulfillment of applicable norms and regulations in force as well as to understand the institution's risk profile, to establish risk management priorities, assess the strategies and mitigation plans and monitor the evolution of operational risks' behaviour and their mitigants.

A 7th annual assessment exercise took place during 2H'10 in order to identify and re-assess relevant operational risks throughout HSBC Mexico. The methodology applied during this exercise was reinforced based upon the Group's new Operational Risk Management Framework. As part of this exercise, relevant identifiable risks were denominated, described and classified into thirteen categories: Compliance, Fiduciary, Legal, Information, Accounting, Tax, External Fraud, Internal Fraud, People, Physical / Instability, Business Continuity, Systems/ Technology and Operations.

Technological Risk

HSBC México Technology Services (HTS) area keeps a continuous technological risk assessment in adherence to the local laws and regulations and their internal policies, attending the baselines of the local authorities and group's guidelines, between them, those related to the development of methodologies and installation of standard infrastructure, the above as stated on their Technology Functional Instruction Manual (IT FIM).

Interlaced to their operation schemes, HTS also is aligned to the statements within another manual and procedures, between them, the Operations Functional Instruction Manual (OPS FIM), the above due HTS acts as the entity that supplies technology and services for all bank channels and their business lines.

Inside their corporate governance framework, HSBC follow up the matters and requirements made for the local authority throughout their compliance area, where one of their main accountabilities is to keep a continuous review of the assessed risk as well as, the monitoring to comply with the local regulations.

The HTS keeps within their strategic plan a pillar that is related to regulatory matters.

Major methods/methodologies used on the assessment of technological risk are:

- I. Throughout agile, secure and reliable Governance structure, focused on maintain an adequate technological risk control and response capabilities for all bank services that are offered throughout the different distribution channels. Risk is managed at the higher level committees: HTS Steering Committee, Risk Management Committee (RMC), Operational Risk & Internal Control Committee (ORICC) and Operational Risk Management Group (ORMG).
- II. Keeping updated and testing the different case scenarios analyzed on their Businesses Continuity Plan (BCP) and related Disaster Recovery Plan (DRP), for those events that require reinstate their operation on alternate sites.
- III. Performing Risk Based Control Assessments (RCA).
- IV. The management of Information Technology Projects using a group standard tool called Risk Based Project Management (RBPM).
- V. Performing Risk Management activities with the active involvement of a specialized Internal Control area, including but not limited to operational risk, internal, external and regulatory audit management.
- VI. Throughout metrics and dashboards as tools that allow the measurement of the main goals defined within the strategic plans, which in overall refer to systems availability, the compliance on time and quality of major projects and budget, those measurements are reviewed on different forums and committees for decisions making.

Legal Risk

To manage and mitigate the legal risk in terms of financial loss, sanction and / or reputational damage, detailed attention has been given to the following risks identified as inherent of the legal function:

- ▶ Contractual Risk;
- ▶ Dispute Risk;
- ▶ Legislative Risk;
- ▶ Non-Contractual Rights Risk.

Controls and procedures have been designed to mitigate the risk, which include: The establishment of policies and procedures for the suitable legal function and the celebration of juridical acts which includes the executed by the Institution under a different legal system than the Mexican; 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; adherence to policies regarding the management and control of Intellectual Property; the performance of legal audits as well as the establishment of a historical database on the judicial and administrative resolutions, his causes and costs.

To avoid the possible financial loss due to the non-performance of the applicable juridical and administrative norms and also to avoid unfavorable resolutions, policies and procedures have been implemented that allow identify, measure and control the legal risks with the aim of minimize the risks that the Institution is exposed and could result in losses not estimated.

Moreover institutional policies have been fulfilled and necessary procedures established with regard to Operational Risk and Internal Control.

Quantitative Information (including Legal and Technological Risk)

From the assessment of operational risks resulting from the 7th assessment exercise carried out updated in the 1H'11, the set of risks is integrated by 499 identified and assessed relevant risks, distributed as follows: 3% (13) A type, 14% (69) B type, 44% (219) C type, and 40% (198) D type, which can also be classified according to their primary category onto:

Risks Categorization	Qty of Risks	Percentage
Compliance	78	16%
Legal	41	8%
Information	49	10%
Accounting	18	4%
Tax	11	2%
Physical / Instability	9	2%
External Fraud	26	5%
Internal Fraud	21	4%
People	28	6%
Business Continuity	22	4%
Systems	53	11%
Operations	141	28%
Fiduciary	2	0.4%
Total	499	100%

Furthermore, since Jan'06, the loss reporting threshold for individualized losses is of USD 10,000, where minor events are aggregated in a single record. Both event types are recorded in the ad-hoc corporate system platform specifically designed for the management of operational risk and record of operational losses.

Treasury Policies

HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (HSBC Mexico) has three specific objectives in Treasury activities:

1. To fulfil the needs of our client base, mainly being Corporate and Institutional, and in some lesser degree Commercial clients.
2. Provide hedges for HSBC Mexico from interest rate, foreign exchange and liquidity risks. The latter as a part of its normal commercial activity.
3. Positioning and Market Maker activities.

All of the afore mentioned is implemented in compliance with limits established by local regulating entities and with the high control standards from HSBC Group.

Dividends Policy

Grupo HSBC (including HSBC Mexico) does not have a fixed dividend policy. The decision to decret or no to make payment of dividends is determined by the shareholder assembly and the Board of Directors, such decision is based on the reinvestment and capitalization needs.

Paid Dividends

The frequency of the dividends paid by the Bank in the last four periods and the dividend decreted per share has been the following:

- During 2007, no dividend was paid.
- On 2 April 2008, the Board of Directors authorized a dividend payment for MXN2.8328 per share for the 1,235,526,706 outstanding shares.
- Based on the authorization granted by the Board of Directors on 30 March 2009, on 31 March 2009 a dividend payment was made for MXN0.81133657 per share for the 1,235,526,706 outstanding.
- Based on the authorization granted by the Board of Directors on 29 October 2010 a dividend payment was made for MXN1.22497679421977 per share for the 1,643,363,189 outstanding shares.
- Based on the authorization granted by the Board of Directors, on 18 March 2011 a dividend payment was made for MXN1.09531478619484 per share for the 1,643,363,189 outstanding shares.

Internal Control

The administration is responsible of the internal control in HSBC as well as its effectivity. Procedures have been developed to prevent the disposal or non authorized use of assets in order to maintain adequate accounting registers and to generate trustful financial information for internal use or for its publication. Such processes have been designed to manage risk and not to eliminate it; therefore they can only provide a reasonable safeguard against material deviations, errors, losses or frauds.

The key procedures that the administration has established have been designed to facilitate the effectivity of HSBC's internal controls and include the following:

- A clear due diligence has been established, supported by a detailed definition of authority limits enhancing effective operational controls. Responsibility is delegated through writings with instructions clearly defined, including transactional ranges. Appropriate information is considered to determine the level of authority as well as the approach of such responsibility granted in individual basis; this is accomplished through the implementation of monitoring and reporting procedures, adequate segregation of functions and a management structure designed to control responsibility limits. In summary, the administrative board authorises the CEO

(Chief Executive Officer) to delegate faculties to the rest of the Managers who receive the appropriate authority to develop their activities.

- The administrative board in each of its meetings receives briefs about financial information, the development of business, management of key personnel and drafts copies of each committee reunion held. The administrative board also receives presentations of key business areas and of any other relevant affairs that have been requested.
- The systems and procedures that exist in HSBC to identify, manage and inform about relevant risks include: credit, changes in market prices of financial instruments, liquidity, operation errors, law or normativity infringements, non authorized activities and fraud. The exposure to such risks is supervised by the Assets and Liabilities Committee (ALCO) and by the Executive Committee. The Risk Management Committee (RMC), chaired by an external member of the Administrative Board, is celebrated in a monthly basis. In the RMC, assets and liabilities affairs are discussed. Each subsidiary holds individual RMCs that are discussed in HSBC's RMC.
- New procedures have been established in order to identify new risks arising from changes in market place practices as well as from client behavior, which can increase risk exposure to losses or to reputation damage.
- Strategic plans are prepared for each client segment, product group and main support areas. In such manner, operational plans are prepared. These plans are approved annually and revised periodically, establishing key initiatives for our businesses and their possible financial effects.
- Responsibility on the financial performance, capital expenditure, budget exercise, credit risk and market risk are delegated with certain limits to the administration. Additionally, risk management policies are established by the Administrative Board for the following risk areas: credit risk, market risk, liquidity risk, operation risk, information technology risk, insurance risk, accounting risk, fiscal risk, legal risk, human resources risk, reputational risk, acquisition risk, and business risk.
- Internal audit supervises the effectivity of the internal control structure. Internal audit tasks are focused in supervising the areas that represent the higher risks for HSBC, to determine such areas, risk assessments take place. The head of this functions reports to the Audit Committee.
- The administration is responsible to assure that recommendations given by the internal audit area are implemented in the stipulated time; confirmation of implementations is handed to internal audit. The administration must also confirm in annual basis to internal audit that measures have been taken to implement recommendations given by an external author or the regulator.
- The Audit Committee revises periodically the effectiveness of Internal Control and also informs the Administrative Board about the latter. Among the main processes used by the committee in its revisions are: periodical reports of the heads of key risks, annual revision of the performance of internal control against key HSBC indicators, quarterly confirmations that no significant losses have taken place, contingency or uncertainty caused by deficiencies of the internal controls, internal audit reports, external audit reports and regulatory reports.
- The administration, through the Audit Committee, realizes an annual review of the effectivity of the internal control, which covers key financial, operational and compliance indicators as well as the effectivity of the risk management system. The Audit Committee receives periodically information about measures taken by the Administrative Board to correct or resolve any weakness or error detected through the operation of HSBC's internal control.

Corporate Sustainability (CSR)

We believe that being a sustainable bank involves several commitments in our actions; from a business perspective, implies sustainability profitable growth in the long run based on a relationship of trust between our institution and our clients. The sustainable standpoint involves reducing as much as possible the environment impact of our operations and to contribute in our community by supporting programs and projects that promote better education and environment which is the trust of our clients.

Sustainability is achieved through a strategy based on three pillars: Economic: aligning with the principles of Ecuador considering the environmental impact on the group's investments. Environment: Caring for the impact of our carbon footprint on the environment and promoting a sustainable culture within our organization. Social: Supporting education, culture and community projects which promote employee participation in volunteering programs. This is possible to the community investment which in 2011 represents 0.5% out of our PBT.

2011 is a challenging year not only to consolidate our business but to succeed in both, Community and Environmental Investment and the launch of flagship programs. This keeps on the strategy of focusing on giving to the development of hi-impact programs in Education, Environment and Community benefiting the communities where we operate.

The current flagship programs will consolidate like "Sólo levanta la mano" partnership with Lazos Foundation; community-oriented "Niños y adolescentes migrantes no acompañados" with Save the Children and DIF; as for environment matters, will support the model to combat climate change in water, waste and biodiversity projects.

These actions have enabled us to promote a sustainable commitment to our employees and customers.

Our community investment funds on 3 sources: PBT, Client Contribution and Sustainable Products getting a total of \$75,834,044.33 which comes out as follows: \$40,000,000.00 from PBT which was invested as Group policies as: 50% Education, 25% Environment and 25% for Community. \$14,400,000.00 in ATM'S with client contribution during 3 campaigns: Kids with Cancer, Becalos and Extreme Poverty. Plus \$16,000,000.00 via Green Insurance which is invested in environmental programs.

Education

Through our social programs, we are achieving a positive impact in the life of kids and teenagers, by getting involved and providing financial support to institutions that can give them the access to a better education and because of this they can reach success, a better future for themselves and then a better way of life for their families.

For HSBC, one of the subjects that matters the most for sustainability is education, and today we have three main axes inside this sector: Integral education, Scholarships in urban and rural areas and Financial Education.

Our Programs:

HSBC - Lazos Strategic Alliance

The integral scholarships sponsorships goal is at 109%, which means 1023 children sponsored by both HSBC employees and clients. The 19 voluntary activities realized, which represent 119% vs. objective, were a complete success. To note, more than 450 volunteers participated summing up a total of 2,600 hours of volunteering. In the second half of 2011 the financial education program "More Than Money", will be implemented in the 8 schools sponsored by HSBC.

The infrastructure improvement constructions done in the schools "Juan José Martínez Amaro" in Puebla and "Luis Donaldo Colosio" in Mexico City, were completed. Thanks to this, HSBC and their clients are benefiting more than 1,100 children through enhancing the facilities for their elementary schools.

To note, on June 15th, we celebrated the inauguration of the breakfast area of the "Luis Donaldo Colosio" elementary school, which will serve more that 350 kids. Oswaldo Ponce, DGA B&C; Carlos Ramirez, Director Executive C&D; Miguel Laporta, Director of Corporate Sustainability; Alejandro E. Pérez Teuffer President of the Board for Lazos, attended the event as well as core media stakeholders such as Televisa, Cadena Tres, Grupo Imagen, Radio Formula, among others. The inauguration event of the infrastructure improvement realized in Puebla will be held in August.

It is important to note that thanks to HSBC, an alliance with Pepsico Mexico and Consorcio ARA, was established, with the purpose of improving the facilities of the 8 schools sponsored by HSBC.

Zippy's Friends

The program successfully completed its first scholar year. Thanks to this, HSBC in alliance with Lazos Foundation, benefited 646 children from 1st and 2nd grades and 19 teachers.

Lazos reported that the children involved in the program had a significant behavioral improvement. Additionally, the program has managed to create harmony in the classrooms, and to allowed children to express their feelings better. The children have learned to say what they feel without fear and teachers have enhanced their relationship with their students.

One of the many successful stories it is located at Puebla, where the involvement by the teacher Heriberto has been exemplary and has generated a large participation of his students.

Migrants

We are currently working in the communities of San Mateo Ozolco, Suchiate Huixtla, Tijuana, and Header Atzalan Calpan, benefiting over 6,500 children.

During July we began implementing the "Summer House" workshops in 12 states. In August, we will start giving scholarships for repatriated children or at migration risk, benefiting over 1,000 children.

Additionally, it was decided to fund transportation costs for children and adolescents repatriated within the routes of longer distance and greater risk, benefiting over 500 children and teenagers.

The online Diploma "Psychological Attention for Migrants" was developed, in order to train and professionalize personnel working directly with migrant children in shelters located within the borders. It lasts approximately 130 hours and the diploma will be given to 50 people. The training began on April 1st.

A series of workshops iven by Tanesque, a NPO, aimed to raise awareness about the issues related to children traveling alone, started in January and has continued since then in different communities such as Ixcaltepec, Oaxaca, Ozolco, Puebla and Dolores Hidalgo, Guanajuato.

We began working in San Mateo Ozolco, Puebla; a community with a high rate of migrant children. First of all, a detailed diagnosis of the demographic situation of Ozolco – including indicators such as health, education, religion and occupation - was made in order to have a detailed picture of the community's current social situation.

Additionally, we started a program consisting of educational, recreational and sport activities with children in order to avoid migration by enabling them with tools that will help them have better opportunities. To note, this program is benefiting 542 children.

As part of this initiative, on May 11th, Enrique de la Madrid Cordero, Executive Director of Corporate Communications and Public Relations of HSBC Mexico and Mrs. Margarita Zavala, along with members of the Committee, visited San Mateo Ozolco, Puebla. They celebrated the beginning of the renovation of the breakfast area of the "Miguel Negrete" elementary school and the construction of a new classroom and sport facilities at the "Emiliano Zapata school.

To note, the Committee approved the construction of 10 breakfast areas within high-risk communities in the state of Oaxaca. Thanks to this, we managed to generate a strategic alliance with Alfredo Harp Foundation. To note, they will build 10 additional breakfast areas.

Environment

Green Insurance

In order to continue the new projects supported by HSBC Green Insurance, the allocation committee met to assess the organizations for the second half of 2011. The projects listed below will generate a potential environmental impact of a volunteer team and bank employees and to ensure the final destination of resources.

1.- “Fideicomiso Pro Bosque Chapultepec”

Sanitation Forestry in El Sope, running track located in the second section of Chapultepec Park, as well as the rehabilitation of green areas in the same district park. This project is part of the Management Plan for the Rescue of Second Section of Forest Chapultepec. The main purpose of this project is to rehabilitate and rescue the Second Section of Chapultepec Park.

2.- “Parque Ecológico Chipinque”

Restoration and rehabilitation of Chipinque Ecological Park through dams of branches, well-stone dams, vegetative practices, planting grass and fertilizer application for the recovery and accumulation of soil, production of 25,000 pine trees in the forest nursery Park Chipinque, which will be used for reforestation in these areas, so it will carry out various activities for the rehabilitation of gaps and villages affected by the detachment and sliding of earthy material and vegetation.

3.- “Bosque La Primavera”

Investment through the strengthening of strategic capacities of local actors is encouraged participation and empowerment in actions that contribute to permanence of the environment of this protected natural area of the State of Jalisco and in turn drive that favor local enterprises improve their economic conditions.

4.- “Fábrica de Agua Nevado de Toluca”

Establishes the conditions for increasing water retention and recharge aquifers and promotes increasing environmental regeneration.

5.- “Todos por el agua en San Miguel de Allende”

To protect and restore watersheds that ensure the environmental well recharges the aquifer that ensures water quality and supply of urban and rural communities of San Miguel de Allende, Guanajuato.

6.- “Consejo Civil Mexicano para la Silvicultura ”

The aim is to reduce the accelerated deterioration of natural resources in Mexico, encouraging a greater number of communities, ejidos and forest producers to develop their productive activities under the rules of good forestry.

7.- “Grupo Ecológico Sierra Gorda”

The Biosphere Reserve of the Sierra Gorda is the most diverse protected area in Mexico and hosts some of the best preserved forest massifs of central Mexico. The purpose of this resource is to look after the forests that provide air and water, soil, heat balance and causes of biodiversity

8.- “Alternare”

This project aims to solve the main problems of the Biosphere Reserve of the Monarch Butterfly that requires capacity building of local people in different aspects such as generating processes that support them to make decisions regarding the use and care of their natural resources. It requires that the community is good information on the status of their resources especially water that can build a community environmental awareness.

9.- “Proyectos de Alto Impacto en Agua”

This semester has decided to support three high-impact projects in water: a) Water Hucholes Communities with an investment of one million pesos, b) Urban Island Federal District with a million dollars and another project in Tlaxcala.

World’s Environmet Day

The HSBC Group's global celebration to mark the World Environment Day United Nations is highest in the bank's offices in Mexico and environmental activities during the months of June and July. Massive seven activities were conducted for colleagues as:

1. Sustainable Products Fair at the offices of HSBC Mexico and headquartered in Technopark AC 767 with the assistance of colleagues and the participation of 82 volunteers.
2. Climate change conference attended by 187 volunteers.
3. 309 workshops training in green roofs and gardens at home.
4. Installing a green roof in the Giant Monument to the Revolution with 20 volunteers.
5. Family Reforestation in San Miguel de Allende with 80 volunteers and 150 trees planted.
6. Family Reforestation in the Nevado de Toluca and 5000 with 724 volunteers planted trees.
7. 60 children, children of bank employees enrolled in the Summer Courses Environmental.

With the effort of the Environment Month 1177 we achieved a total of volunteers directly involved with the area of corporate sustainability.

Community

Under the community investment principle, HSBC has developed different projects in health, culture and emergency situations.

Our Programmes:

ATM's Campaign

The ATM's campaign in benefit to Rebecca de Alba Foundation was completed, raising a total of \$ 4'101, 446.05 MXP.

The second quarter ATM's campaign is still running in benefit to "Bécalos", it will finish on August 7th.

More Than money

In alliance with the NGO "Impulsa", HSBC is implementing the program of financial education within public schools, with the objective to generate awareness, abilities and strategies for the responsible management of financial resources for children of 5th and 6th grade of elementary schools.

Both the SEP (Secretary of Public Education), as parents, teachers and volunteers of HSBC are highly involved in the implementation of the program.

Volunteering

Activities:

Reforestation Day in "Chipinque Ecological Park" in Monterrey

We successfully concluded four days of reforestation, which involved the participation of one hundred HSBC volunteers and their families. Thanks to this effort, it was possible to plant 600 trees of local species such as white pine and cedar that will contribute to the conservation of flora and fauna that was seriously affected after recently heavy rains and fires.

"Sólo levanta la mano" HSBC – Lazos Strategic Alliance

On "Children's Day", 222 volunteers from Monterrey, Guadalajara, Mexico City, Merida, Leon, Puebla and Tijuana, participated in organizing the celebrations. Roberto Gasca, who is one of our HSBC volunteers, visited each school to put on his magic show "Chamoyin Clown" to more than 2,600 children.

"More Than Money"

We reached the goal that was aimed at the start of the financial education program: "More Than Money"

The growing interest of our staff involved in the program for children from 5th. and 6th. grades in public schools, allowed us to quickly meet the goal set for Mexico to impact more than 1, 400 children in Mexico City and Toluca for the first time.

1, 700 volunteer hours were invested, divided into training, planning and delivery of workshop classes.

Children's Saving Up Day

In order to fulfill its commitment to society, the ABM, promoted financial education in our country. HSBC invited volunteers to join their activity "Savings Day", 160 children were benefited.

Community Global Day

For the third consecutive year, our volunteers participated in two different activities to celebrate the "Global Community Day", on June 24th.

“Ecotecnias”

37 volunteers attended the community "Piedra Grande" in Huixquilucan Edo. Mex to participate in the construction of a bio-bed intensive nopal, wood-saving stoves, organoponics, waterproof water-harvesting tanks, all of them, eco-techniques that have been replicated by communities to improve their standard of living in harmony with the environment.

“Hospitals & Children”

35 volunteers visited the Children’s Hospital Federico Gómez giving sick children moments of joy, entertainment and companionship to more than 200 children.

Cuenta Cuentos (CIE Foundation)

On June 30th, in collaboration with CIE Foundation, we had another event at the Federico Gómez Children’s Hospital, in which more than 80 children were able to play with the clown “Totoy”, there were also piñatas and the actress Claudia Talancón read for them a didactic story for the children. To note, 9 HSBC volunteers assisted to the event and made an especial visit to children with cancer.

Communication

In this quarter, the Directorate of Corporate Sustainability gained notoriety in the press of Social Responsibility through 47 notes accumulated in print, electronic, radio and television advertising equivalency of more than 2 million pesos.

Acknowledgments

In March 2011, the Mexican Center for Philanthropy (CEMEFI) honored for the sixth consecutive year, HSBC Mexico and Socially Responsible Company. This flag expresses the commitment of the bank as a solid and environmentally responsible strategy and organizational culture.

On June 20th, the project for the construction of the breakfast area for the school “Luis Donaldo Colosio”, received the Honourable Mention as Outstanding Project in the event “School Partnership Award” sponsored by the National Council of Educational Alliances in Mexico. To note, 116 projects were received from 12 different states and the projects will be published in the book “Best Practices in Educational Partnerships”.

Promotion of interaction with employees and areas

Through the initiative of the Regional Diversity Committee of HSBC to apply a Social Inclusion Program, Corporate Sustainability and with the support of HR, approved to create a working group responsible for implementing the next programs:

Apprenticeship / Internship

In collaboration with the NGO “Impulsa”, we have developed a proposal to implement both programs. This will be presented within the Social Diversity Committee, so we can decide if the program should be implemented through “Impulsa”.

People with Disabilities

It was decided to begin including people with disabilities in five branches of HSBC in the metropolitan area. In April the analysis of the facilities will be carried. The program will be held in collaboration with Manpower.

We carried out the evaluation of the HSBC Tower facilities and annexes. On March a working group was established with the objective to coordinate the Social Inclusion Programs in Mexico.

Conclusions

We have focused our investment community by developing and implementing flagship programs; this has strengthened the engagement with our stakeholders. Thanks to our campaigns through which not only involve our staff, but also has allowed active participation of our customers, providing not only financial, but also projects of corporate social responsibility and sustainability to their business.

We have had success in our social and environmental investment with the support of our customers through channels and sustainable products: where we expect to raise 45.00% from clients support.

HSBC Mexico seeks to maintain a balance between environment, society and the profitability of its business by establishing long term relationships with its customers, ensuring the success of HSBC in time, and thanks to their commitment and actions. We then provide support in a multidimensional way, which will impact people and future generations of Mexico.

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