

# Grupo Financiero HSBC

*Financial information at 30 September 2007*

## 3Q07

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

*Release date:  
26 October 2007*





October 26, 2007

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

On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. All comparative commentary within this report is therefore on a like-for-like basis excluding HSBC Panama, with the income statement as presented in Appendix A. The financial statements on pages 7-12 include HSBC Panama up to the date of disposal.

- Net income down 10.8 per cent to MXN3,862 million for the nine months ended 30 September 2007 (MXN4,331 million for the nine months ended 30 September 2006).
- Total revenues (excluding monetary position and before loan impairment charges) up 15.9 per cent to MXN24,976 million for the nine months ended 30 September 2007 (MXN21,553 million for the nine months ended 30 September 2006).
- Net loans and advances to customers up MXN33.0 billion, or 21.9 per cent, to MXN183.6 billion at 30 September 2007 (MXN150.5 billion at 30 September 2006).
- Total assets up MXN38.6 billion, or 13.1 per cent, to MXN334.2 billion at 30 September 2007 (MXN295.6 billion at 30 September 2006).
- Cost efficiency ratio (excluding monetary position) improved to 60.1 per cent for the nine months ended 30 September 2007 (61.5 per cent for the nine months ended 30 September 2006).
- Return on equity of 14.8 per cent for the nine months ended 30 September 2007 (20.1 per cent for the nine months ended 30 September 2006).

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

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

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## Commentary by Paul Thurston, CEO of Grupo Financiero HSBC:

“Grupo Financiero HSBC, Mexico’s fourth largest bank in terms of total assets, continues to demonstrate strong business growth, with revenues for the nine months to 30 September 2007 up by 15.9 per cent on the same period of the previous year, despite lower earnings from trading and balance sheet management.

“Year-on-year, credit card outstandings increased by 101.9 per cent to MXN24.3 billion and personal and payroll loans by 89.7 per cent to MXN8.2 billion. The commercial loan portfolio rose 28.9 per cent to MXN68.9 billion. Our packaged products have continued to be very successful, and in the nine months ended 30 September 2007 we sold 230,000 Tu Cuenta packages. Customer deposits increased by 14.5 per cent compared with the same period of 2006.

“In September 2007 we were pleased to join up with other members of the HSBC Group in the re-launch of our HSBC Premier service, the world’s first truly global personal banking service. HSBC Premier provides seamless cross-border banking for our customers in Mexico and around the world.

“In line with the HSBC Group’s organic growth strategy, we continue to expand our presence and market share in Mexico’s growing financial services market and now have some 24,000 employees. We have invested in enhancing our information technology, and modernising our processes to handle greater business volumes and to provide improved services to our clients. The 13.4 per cent growth in costs for the period ended 30 September 2007 was, however, exceeded by revenue growth, enabling us to record a cost efficiency improvement.

“Net income of MXN3,862 million in the nine months ended 30 September 2007, fell by MXN469 million compared with the same period of 2006 as the improvement in net operating income was offset by lower trading results due to weaker markets. Net income was also impacted by higher loan impairment charges, themselves a consequence of the continued investment in organically building our credit portfolio.”

## Overview

For the nine months ended 30 September 2007, Grupo Financiero HSBC’s net income of MXN3,862 million was MXN469 million, or 10.8 per cent, lower than the same period in 2006.

Despite a relatively flat yield curve, net interest income (excluding monetary position) was up MXN2,976 million to MXN16,240 million for the nine months ended 30 September 2007, a 22.4 per cent increase compared with the same period in 2006. The growth has been driven by significant increases in higher-yielding consumer lending, partially offset by lower balance sheet management income due primarily to a reduction in the available-for-sale portfolio.

Income from fees and commissions was MXN7,799 million for the nine months ended 30 September 2007, an increase of 16.6 per cent compared with the same period in 2006. Increased income received from credit cards, membership programmes, ATM, card acquiring, payments and cash management services, investment funds, trusts and trade services fees contributed to the strong performance.

Trading income of MXN937 million for the nine months ended 30 September 2007 was 41.5 per cent lower than the same period of the previous year due to more favourable market conditions in 2006. Income during the third quarter of 2007 continued to be driven by solid results in retail foreign exchange, while derivatives and debt trading had reduced revenue opportunities due to the relatively flat yield curve.

Administrative expenses of MXN15,022 million for the nine months ended 30 September 2007 were 13.4 per cent higher than in the same period in 2006. Personnel expenses increased as a result of the 700 new employees hired since September 2006 to support business expansion. Marketing expenses increased principally due to the Global Premier re-launch and continued promotion of the Tu Cuenta 5 per cent cash back campaign. With revenue growth above the rate of cost growth, the cost efficiency

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ratio (excluding monetary position) improved from 61.5 per cent in the nine months ended 30 September 2006 to 60.1 per cent for the same period in 2007.

During the nine months ended 30 September 2007, loan impairment charges increased by MXN3,959 million to MXN6,442 million compared with the same period in 2006, consistent with HSBC's strategy to grow its loan portfolio organically. Delinquency rates rose during the period, as the loan book grew, reflecting the acquisition costs of organic growth. Loan underwriting criteria and collections strategies are regularly reviewed to maintain the quality of the portfolio. In accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN585 million of general reserves to fulfil loan portfolio requirements in the first nine months of 2006. Loan impairment charges also included MXN174 million relating to changes to recognise the risk associated with the loan portfolio when the quarter ends on a non-working day, as it did in September 2007. HSBC's allowance for loan losses as a percentage of impaired loans was 144.8 per cent at 30 September 2007.

The bank's capital adequacy ratio for the period was 12.40 per cent.

## Business highlights

The bank's **Personal Financial Services (PFS)** had strong business growth in credit cards, personal and payroll loans during the nine months ended 30 September 2007 by leveraging its customer relationship management capabilities and driving sales through direct channels. As delinquency rates have increased amongst consumer lending, collections activities have been reinforced and loan underwriting criteria tightened. During the quarter some 31,000 new Tu Cuenta packaged products were opened and over 200,000 new credit cards issued. During September the HSBC Group re-launched its Premier service globally, upgrading its wealth management proposition and benefiting existing Premier customers in Mexico.

In Mexico, **Commercial Banking (CMB)** is capitalising on HSBC's strategy to be the leading international business bank. By leveraging the Group's geographical presence and product capabilities, market share in trade services has grown by over five percentage points versus prior year to 16.3 per cent, the factoring portfolio has nearly tripled to MXN7.6 billion for the same period and CMB has joined up the Mexican and Latin American businesses across the region through the International Banking Centre in Mexico. HSBC also aims to be the best bank for small businesses and, in the first nine months of 2007, small business loans increased by 38.0 per cent compared to the same period in 2006, to MXN6.3 billion. Strong asset growth in commercial banking was driven additionally by higher real estate balances in Mexico's fast growing real estate market, related to the continued expansion of this business after a re-segmentation strategy earlier in the year to serve customer needs better.

**Corporate, Investment Banking and Markets (CIBM)** is joining up its business across the Latin American region, and creating new links to other HSBC operations, by connecting and referring regional customers to other countries in the HSBC Group. It also offers services such as Global Markets products to CMB clients. There was strong performance in retail foreign exchange. Despite this, however, fixed income, interest rate and balance sheet trading revenues were weaker than prior year's very strong results due to a relatively flat yield curve and uncertainty in the local Mexican market compared with the prior year. Several new infrastructure related transactions have been completed and mandated reflecting HSBC's strong project finance capabilities and a large pipeline of debt capital markets transactions has been built, indicating HSBC's local and global distribution capabilities, as well as a growing penetration of Mexico's corporate market.

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## About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,359 branches, 5,618 ATMs, approximately 8.2 million customers and more than 23,900 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,150 billion at 30 June 2007, HSBC is one of the world's largest banking and financial services organisations. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by nearly 200,000 shareholders in some 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

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## Key Indicators \*

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

For the quarter ended at

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
a) Liquidity	80.69%	74.89%	80.14%	81.71%	<b>76.22%</b>
<b>Profitability</b>					
b) ROE (Return over equity)	20.38%	14.15%	16.51%	12.49%	<b>15.54%</b>
c) ROA (Return over assets)	2.00%	1.54%	1.83%	1.36%	<b>1.69%</b>
<b>Asset quality</b>					
d) Impaired loans/total loans	2.59%	2.67%	3.09%	3.17%	<b>3.42%</b>
e) Coverage ratio	153.37%	156.84%	141.60%	146.16%	<b>144.84%</b>
<b>Capitalization</b>					
f) Credit risk	19.29%	18.65%	18.65%	17.90%	<b>17.43%</b>
g) Credit and market risk	13.91%	13.79%	14.67%	13.88%	<b>12.40%</b>
<b>Operating efficiency</b>					
h) Expenses/Total Assets	5.73%	6.11%	6.24%	6.28%	<b>6.44%</b>
i) NIM	5.99%	6.40%	7.03%	7.43%	<b>7.72%</b>
<b>Infrastructure</b>					
Branches	1,347	1,347	1,350	1,360	<b>1,359</b>
ATM	5,353	5,437	5,482	5,533	<b>5,618</b>
Head Count	23,213	23,683	23,510	23,834	<b>23,919</b>

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 = 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 + 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 <sup>1</sup>

### Net Income

For the first nine months of 2007, Grupo Financiero HSBC (Group) reported a net income of MXN3,862 million, MXN469 million (10.8%) lower compared with the same period of 2006. The Bank, the main subsidiary of the Group, reported a net income of MXN3,038 million, MXN506 million (14.3%) less than the same period of prior year.

The results reflect the investment that HSBC is making to organically grow the business in Mexico, through its infrastructure, systems and people. The costs of organic growth are showing through in higher expenses and loan impairment charges as HSBC continues to build its presence and market share in the fast growing financial services market.

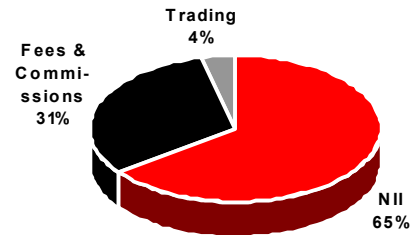
The insurance company registered a strong performance with net income growing 14.0% versus the previous year, largely as a result of the successful cross sales with the branch network and an increase in life and auto premiums.

### Total Revenue

In the nine month months ended 30 September 2007, the Group's total operating income before loan impairment charges and monetary position was MXN24,976 million, growing MXN3,423 million (15.9%) compared with the same period of the previous year. This growth was driven by increases in net interest income (before monetary position) and fee income of MXN2,976 million and MXN1,112 million, respectively. This was partially offset by a MXN665 million (41.5%) reduction in trading income, which totaled MXN937 million for the period.

Total revenue after loan impairment charges and monetary position, however, decreased MXN680 million (3.7%) compared with the same period of 2006 to MXN17,904 million. This reflects the acquisition costs of growing the business in order to generate long term profits, which is consistent with the strategy to organically grow the loan portfolio and increase market share in higher-yielding products.

### Grupo Financiero HSBC: Revenue distribution nine months to Sep07



### Net Interest Income

The Group's net interest income (excluding monetary position) for the nine months ended 30 September 2007 was MXN16,240 million, representing an increase of 22.4% compared to the same period of prior year.

Net interest income benefited from an increase in the loan portfolio, particularly in higher-yielding products. Credit card balances doubled versus prior year, and more than 820 thousand cards have been issued during the same period, while personal and payroll loans increased by 89.7 per cent for the same period. A larger growth in time deposits versus demand deposits resulted in an increase in cost of funds and lower deposit spreads.

In addition, significant loan growth was partially offset by lower balance sheet management income due primarily to a reduction of MXN9.7 billion in the available-for-sale portfolio versus the first nine months of 2006. The proceeds from this reduction have been invested in loan growth.

### Non-interest Income

The Group's net fees and commissions income had a strong performance, totaling MXN7,799 million for the nine months ended 30 September 2007. This represented growth of MXN1,112 million (16.6%) compared to the same period of prior year. The main growth drivers were an

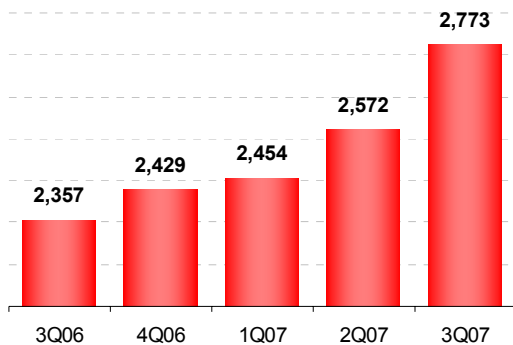
<sup>1</sup>On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. All comparative commentary within this report is therefore on a like-for-like basis excluding HSBC Panama, with the income statement as presented in Appendix A. The financial statements on pages 7-12 include HSBC Panama up to the date of disposal.



increased number of credit cards in circulation, a rise in customer transactions driven by point of sale machines and ATMs. In addition there was continued success in the bank's packaged product *Tu Cuenta*, with 230,000 packages sold in the first nine months of 2007.

Net fee income from the Bank was MXN7,221 million for nine months ended 30 September 2007, registering an increase of MXN1,141 million (18.8%) compared to the same period of 2006.

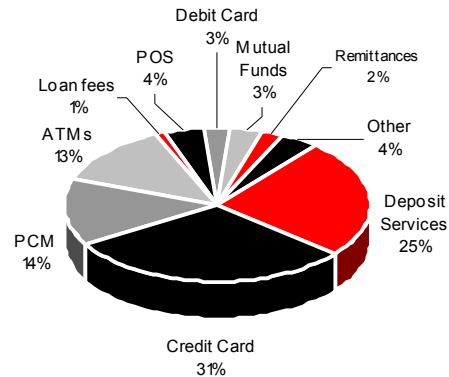
**Group Fees & commissions Growth**  
(by quarter)



Credit card fee income growth was up 105%, versus prior year reflecting a significant increase in the number of cards in circulation and transactions. Fees from membership programs rose 65%, driven by the success of packaged products like *Tu Cuenta* and *Estimulo*. Fee income from fiduciary trust grew 41% as a result of a more extensive share gained in the structured products market. In addition, card acquiring fees rose 38% due to increased number of point of sale terminals coupled with a higher number of affiliated businesses. Trade services, ATM, mutual fund, and cash management services fees also contributed to fee income growth.

Since January 2007, underwriting fees are deferred and amortised in the net interest income, according to the changes in the accounting methodology set by the Mexican regulators.

**Bank's fees & commissions distribution**  
(Nine months ended 30 September 2007)



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

Trading income for the Group for the nine months ended 30 September 2007 was MXN937 million, MXN665 million (41.5%) lower than same period of the previous year due to more favourable market conditions in 2006. Retail foreign exchange had a solid performance, however, the uncertainty in the local market with regard to interest rate policy, as well as an relatively flat yield curve in recent months led to a lower trading income.

The Group's other net income of MXN1,420 million increased MXN685 million compared to the previous year, largely driven by loan recoveries.

**Loan impairment charges**

The Group's loan impairment charges for the nine months ended 30 September 2007 reached a total of MXN6,442 million, representing an increase of MXN 3,959 million compared to the same period of the previous year. In accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN585 million of general reserves to fulfill loan portfolio requirements in the first nine months of 2006. Loan impairment charges were also affected by an additional MXN174 million in the third quarter of 2007 relating to changes to recognize the risk associated with the loan portfolio when the quarter ends on a non-working day as it did in September 2007. HSBC has maintained a solid allowance for loan losses

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as a percentage of impaired loans was 144.8 per cent at 30 September 2007.

### **Administrative and personnel expenses**

For the nine months ended 30 September 2007, the Group's expenses were MXN15,022 million, representing an increase of MXN1,771 million (13.4%) compared to the same period of the previous year.

Expenses grew as a result of the investments made to build a market presence in Mexico. During the third quarter of 2007, HSBC continued to invest in marketing, with the Global Premier re-launch and continued promotion of the *Tu Cuenta* 5 per cent cash back campaign. Investment in information technology and infrastructure is reflected in the addition of more than 56,900 point of sale terminals, 265 new ATMs and 12 new branches during the year. Personnel expenses increased as a result of more than 700 new employees to reach nearly 24,000.

With cost growth below the rate of revenue growth, however, the cost efficiency ratio (excluding monetary position) improved from 61.5% for the nine months ended 30 September 2006, to 60.1% for the same period in 2007.

## Balance Sheet Variance Analysis

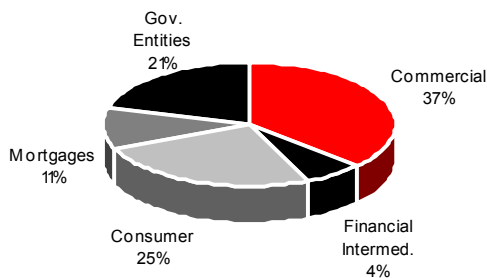
The Group's total assets were MXN334,215 million at 30 September 2007, increasing by MXN38,630 million (13.1%) versus the previous year. Likewise, total assets increased MXN11,135 million (3.4%) versus the previous quarter.

### Loan Portfolio

The Group's total performing loans rose 22.2% versus 30 September 2006. The focus on developing a higher-yielding balance sheet composition continued with the commercial and consumer loan portfolios increasing by 31.7% and 33.5%, respectively versus the previous year.

#### Group's Performing Loans Portfolio Distribution

(30 September 2007)



The increase in the commercial loan portfolio was driven by growth in the real estate business, increasing balance by over 150% and broadening its market share. Additionally, in the first nine months of 2007 small business lending performed well registering a balance growth of 38.0% compared to the same period of 2006.

The consumer loan portfolio grew largely due to the strong performance of credit cards, allocating 582,000 cards in the first nine months of 2007 to reach 2.4 million cards in circulation. This reflects the sound performance of packaged products like *Tu Cuenta* and the innovative marketing campaign offering a 5% credit card cash back promotion. *Tu Cuenta* registered a growth of 35.8%, which translates into 325,000 more packages than prior year.

Mortgage loans increased 4.7% versus prior year; however, as at 30 March 2007, HSBC issued residential mortgage-backed securities (RMBS) for MXN2,500 million. Excluding the net impact of this transaction on the mortgage loan portfolio,

mortgage loan growth was 17.2% versus 30 September 2006. The sound performance in consumer loans was driven by an increase of 89.7 per cent in personal and payroll loans. The table below illustrates the performing loan portfolio composition and the growth in higher-yielding segments like consumer and commercial loans.

#### Performing loans (Group)

	% var.		
	<b>3Q07 vs. 3Q06</b>		
	<b>3Q07</b>	<b>3Q06</b>	<b>3Q06</b>
Commercial	68,943	53,479	28.9%
Financial Int.	11,835	5,435	117.8%
Consumer	46,487	34,816	33.5%
Mortgages	20,935	19,996	4.7%
Gov. Entities	38,324	38,965	-1.6%
<b>Total</b>	<b>186,524</b>	<b>152,691</b>	<b>22.2%</b>

### Asset Quality

The Group's impaired loans portfolio was MXN6,606 million at 30 September 2007, representing a MXN2,549 million (62.8%) growth versus prior year. This increase is in line with the strong growth in the commercial and consumer loan portfolio, particularly in credit cards and personal and payroll loans, which registered an annual increase of 101.9% and 89.7%, respectively. The impaired loans to total loans ratio was 3.4% and the allowance for loan losses as a percentage of impaired loans was 144.8% at 30 September 2007.

#### Impaired loans (Group)

	% var.		
	<b>3Q07 vs. 3Q06</b>		
	<b>3Q07</b>	<b>3Q06</b>	<b>3Q06</b>
Commercial	2,190	1,408	55.5%
Consumer	3,115	1,517	105.3%
Mortgages	1,301	1,116	16.6%
<b>Total</b>	<b>6,606</b>	<b>4,057</b>	<b>62.8%</b>

### Deposits

The Group's demand and time deposits reached a total of MXN234,527 millions at 30 September 2007, increasing MXN 29,663 million (14.5%) versus the third quarter of 2006. During the first nine months of 2007 there was a change in the deposit mix with time deposits increasing by

32.3%, whilst demand deposit grew by 2.1% versus prior year.

In addition, mutual funds year-on-year balance growth was 16.9%, largely driven by the success of the investment fund *HSBC-D2*, which increased 24.8% versus

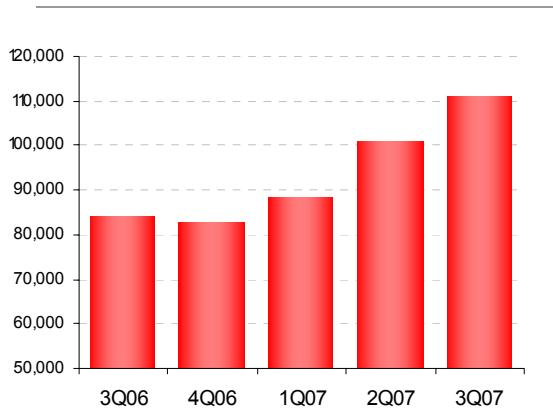
prior year. At 30 September 2007, HSBC's mutual funds reached over 112,000 customers, representing some 19,000 customers more than the previous year.

### Shareholder's equity

The Group's shareholder's equity was MXN36,549 million at 30 September 2007, representing a growth of 15.6% versus the previous year, largely due to retained earnings. The Bank's equity at 30 September 2007 was MXN27,785 million, increasing 16.5% versus the previous year. The Bank's capital adequacy ratio was 12.4% at 30 September 2007, above regulatory requirements.

### Group Time deposits growth (retail)

(September 30, 2007)



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## Financial Statements Grupo Financiero HSBC

### Consolidated Balance Sheet

Figures in constant MXN millions at September 30, 2007  
Financiero HSBC, S.A. de C.V.

Grupo

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Assets</b>					
Cash and deposits in banks	56,532	56,217	54,982	50,533	<b>49,638</b>
Investments in Securities	51,763	58,274	53,788	62,204	<b>52,289</b>
Trading securities	12,361	12,887	18,010	29,246	<b>22,686</b>
Available-for-sale securities	35,322	41,306	31,824	28,896	<b>25,669</b>
Held to maturity securities	4,080	4,081	3,954	4,062	<b>3,934</b>
Securities and derivative operations	810	240	192	84	<b>6,928</b>
Repurchase agreements	143	70	88	84	<b>46</b>
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	667	170	104	-	<b>6,882</b>
Performing loans					
Commercial loans	97,879	103,390	105,266	111,815	<b>119,102</b>
Commercial entities	53,479	59,310	62,107	67,119	<b>68,943</b>
Loans to financial intermediaries	5,435	6,096	6,159	7,117	<b>11,835</b>
Loans to government entities	38,965	37,984	37,000	37,579	<b>38,324</b>
Consumer loans	34,816	36,209	38,493	42,675	<b>46,487</b>
Mortgages loans	19,996	20,989	18,597	19,910	<b>20,935</b>
Loans to Fobaproa or IPAB	152,691	160,588	162,356	174,400	<b>186,524</b>
Total performing loans					
Impaired loans	1,408	1,572	1,856	1,839	<b>2,190</b>
Commercial loans	1,408	1,572	1,856	1,839	<b>2,190</b>
Commercial entities	-	-	-	-	-
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	1,517	1,701	2,074	2,540	<b>3,115</b>
Consumer loans	1,116	1,126	1,243	1,334	<b>1,301</b>
Mortgages loans	16	11	-	-	-
Total non-performing loans	4,057	4,410	5,173	5,713	<b>6,606</b>
Loan portfolio	156,748	164,998	167,529	180,113	<b>193,130</b>
Allowance for loan losses	(6,222)	(6,916)	(7,325)	(8,350)	<b>(9,567)</b>
Net loan portfolio	150,526	158,082	160,204	171,763	<b>183,563</b>
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	150,526	158,082	160,204	171,763	<b>183,563</b>
Other accounts receivable, net	23,520	11,149	29,681	25,324	<b>27,116</b>
Foreclosed assets	57	55	65	66	<b>70</b>
Property, furniture and equipment, net	5,873	6,220	6,163	6,105	<b>6,175</b>
Long term investments in equity securities	2,967	2,697	2,870	3,115	<b>3,379</b>
Deferred taxes, net	183	-	-	199	<b>1,376</b>
Goodwill	2,703	2,703	2,703	2,703	<b>2,703</b>
Other assets, deferred charges and intangibles	651	614	1,009	984	<b>978</b>
<b>Total Assets</b>	<b>295,585</b>	<b>296,251</b>	<b>311,657</b>	<b>323,080</b>	<b>334,215</b>

Figures in constant MXN millions at September 30, 2007

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

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Liabilities</b>					
Deposits	209,293	223,569	214,980	231,836	238,788
Demand deposits	120,879	136,493	122,239	126,330	123,421
Time deposits	83,985	82,746	88,436	101,201	111,106
Retail	83,985	82,746	88,436	91,009	96,018
Money market	-	-	-	10,192	15,088
Bank bonds outstanding	4,429	4,330	4,305	4,305	4,261
Bank deposits and other liabilities	10,435	13,229	10,678	9,944	8,239
On demand	-	102	2,032	456	-
Short term	8,269	10,840	6,522	6,214	5,150
Long term	2,166	2,287	2,124	3,274	3,089
Securities and derivative transactions	7,362	6,450	4,453	13,398	16,005
Repurchase agreements	30	55	21	56	49
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	7,332	6,395	4,432	13,312	8,885
Derivative transactions	-	-	-	30	7,071
Other accounts payable	34,583	17,160	44,603	30,323	32,137
Income tax and employee profit sharing payable	1,361	1,074	1,480	1,298	1,938
Sundry creditors and others accounts payable	33,222	16,086	43,123	29,025	30,199
Subordinated debentures outstanding	2,290	2,252	2,228	2,240	2,203
Deferred tax	-	567	388	-	-
Deferred credits	9	20	121	217	294
<b>Total Liabilities</b>	<b>263,972</b>	<b>263,247</b>	<b>277,451</b>	<b>287,958</b>	<b>297,666</b>
<b>Stockholder's Equity</b>					
Paid in capital	21,106	21,106	21,106	21,106	21,106
Capital stock	8,072	8,072	8,072	8,072	8,072
Additional paid in capital	13,034	13,034	13,034	13,034	13,034
Capital Gains	10,505	11,895	13,079	13,995	15,423
Capital reserves	861	861	860	1,143	1,142
Retained earnings	13,152	13,152	18,793	18,511	18,511
Result from the mark-to-market of available-for-sale securities	-	-	-	-	-
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,922)	(3,922)	(3,922)	(3,922)	(3,922)
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,084)	(3,837)	(4,039)	(4,207)	(4,170)
Net Income	4,498	5,641	1,387	2,470	3,862
Minority interest in capital	2	3	21	21	20
<b>Total Stockholder's Equity</b>	<b>31,613</b>	<b>33,004</b>	<b>34,206</b>	<b>35,122</b>	<b>36,549</b>
<b>Total Liabilities and Capital</b>	<b>295,585</b>	<b>296,251</b>	<b>311,657</b>	<b>323,080</b>	<b>334,215</b>

Figures in constant MXN millions at September 30, 2007

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

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Memorandum Accounts</b>					
Transactions on behalf of third parties	107,490	111,072	92,051	99,315	<b>103,938</b>
Customer current accounts	25	26	(11)	(129)	<b>(4)</b>
Customer banks	5	-	-	3	<b>1</b>
Settlement of customer securities and documents	20	26	(11)	(132)	<b>(5)</b>
Customer securities	85,679	86,093	66,103	72,291	<b>76,774</b>
Customer securities in custody	85,673	86,087	66,097	72,285	<b>76,765</b>
Pledged customers securities and documents	6	6	6	6	<b>9</b>
Transactions on behalf of customer	21,786	24,953	25,959	27,153	<b>27,168</b>
Investment on behalf of customers, net	19,392	22,417	23,616	24,793	<b>25,006</b>
Customer repurchase transactions	2,394	2,536	2,343	2,360	<b>2,162</b>
Transactions for the group's own accounts	1,050,701	1,243,027	1,422,887	1,828,060	<b>2,090,289</b>
Accounts for the group's own registry	171,413	213,428	173,435	181,765	<b>191,608</b>
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	53	51	48	47	<b>44</b>
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	81,317	95,048	112,769	121,650	<b>132,434</b>
Goods in custody or under administration	90,043	118,329	60,618	60,068	<b>59,130</b>
Repurchase/resale agreements	113	15	66	28	<b>(3)</b>
Securities receivable under repos	43,678	50,882	46,153	42,538	<b>48,107</b>
(-)less					
Creditors repo transactions	<u>43,563</u>	<u>50,871</u>	<u>46,089</u>	<u>42,557</u>	<u>48,113</u>
Reverse repo transactions	2,394	3,079	5,369	7,372	<b>5,074</b>
(less)					
Securities deliverable under repos	<u>2,396</u>	<u>3,075</u>	<u>5,367</u>	<u>7,325</u>	<u>5,071</u>
Securities receivable	-	-	4,432	13,312	<b>8,885</b>
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	-	-	4,432	13,312	<b>8,885</b>
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	<u>879,175</u>	<u>1,029,584</u>	<u>1,244,954</u>	<u>1,632,955</u>	<u>1,889,799</u>

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

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

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## Consolidated Income Statement

Figures in constant MXN millions at September 30, 2007  
For the quarter ending....

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

Year to date

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	30 Sep 2006	30 Sep 2007
Interest Income	6,910	7,249	7,610	7,743	<b>8,762</b>	21,198	<b>24,115</b>
Interest expense	(2,397)	(2,398)	(2,457)	(2,626)	<b>(2,792)</b>	(7,483)	<b>(7,875)</b>
Monetary position (margin), net	(322)	(551)	(351)	71	<b>(350)</b>	(492)	<b>(630)</b>
Net interest income	<u>4,191</u>	<u>4,300</u>	<u>4,802</u>	<u>5,188</u>	<u><b>5,620</b></u>	<u>13,223</u>	<u><b>15,610</b></u>
Loan impairment charges	(777)	(1,707)	(1,419)	(2,444)	<b>(2,579)</b>	(2,515)	<b>(6,442)</b>
Risk adjusted net interest income	<u>3,414</u>	<u>2,593</u>	<u>3,383</u>	<u>2,744</u>	<u><b>3,041</b></u>	<u>10,708</u>	<u><b>9,168</b></u>
Fees and commissions receivable	2,626	2,723	2,732	2,851	<b>3,104</b>	7,658	<b>8,687</b>
Fees payable	(247)	(294)	(277)	(280)	<b>(331)</b>	(820)	<b>(888)</b>
Trading Income	<u>592</u>	<u>489</u>	<u>328</u>	<u>459</u>	<u><b>150</b></u>	<u>1,602</u>	<u><b>937</b></u>
Total operating income	<u><b>6,385</b></u>	<u><b>5,511</b></u>	<u><b>6,166</b></u>	<u><b>5,774</b></u>	<u><b>5,964</b></u>	<u><b>19,148</b></u>	<u><b>17,904</b></u>
Administrative and personnel expenses	(4,488)	(4,520)	(4,745)	(4,986)	<b>(5,291)</b>	(13,592)	<b>(15,022)</b>
Net operating income	<u>1,897</u>	<u>991</u>	<u>1,421</u>	<u>788</u>	<u><b>673</b></u>	<u>5,556</u>	<u><b>2,882</b></u>
Other income	505	572	550	886	<b>999</b>	1,601	<b>2,435</b>
Other expenses	(170)	(224)	(201)	(356)	<b>(458)</b>	(866)	<b>(1,015)</b>
Net income before taxes	<u>2,232</u>	<u>1,339</u>	<u>1,770</u>	<u>1,318</u>	<u><b>1,214</b></u>	<u>6,291</u>	<u><b>4,302</b></u>
Income tax and employee profit sharing tax	(652)	106	(587)	(1,022)	<b>(896)</b>	(1,658)	<b>(2,505)</b>
Deferred income tax	(247)	(529)	(17)	540	<b>798</b>	(732)	<b>1,321</b>
Net income before subsidiaries	<u>1,333</u>	<u>916</u>	<u>1,166</u>	<u>836</u>	<u><b>1,116</b></u>	<u>3,901</u>	<u><b>3,118</b></u>
Undistributed income from subsidiaries	237	227	221	248	<b>274</b>	597	<b>743</b>
Income from ongoing operations	<u>1,570</u>	<u>1,143</u>	<u>1,387</u>	<u>1,084</u>	<u><b>1,390</b></u>	<u>4,498</u>	<u><b>3,861</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	-	<b>1</b>	-	<b>1</b>
Net income (loss)	<u>1,570</u>	<u>1,143</u>	<u>1,387</u>	<u>1,084</u>	<u><b>1,391</b></u>	<u>4,498</u>	<u><b>3,862</b></u>

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

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

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

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



## Consolidated Statement of Changes in Shareholder's Equity

Figures in constant MXN millions at September 30, 2007

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

From 1 January 2006 to 30 September 2007

	Capital Contribuido					Capital Ganado							Total Stock- holders Equity	
	Advances for Capital future Stock increases	Shares Premiums	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non- monetary assets (Valuation of permanent investments)	Results from holding non- monetary assets (Valuation of permanent investments)	Net income		Minority Interest
<b>Balances at 31 December 2006</b>	8,072	-	13,034	-	860	13,152	-	-	(3,922)	-	(3,837)	5,641	3	33,003
<b>Movements Inherent to the Shareholders Decision</b>														
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	5,359	-	-	-	-	-	(5,641)	-	(282)
Constitution of reserves	-	-	-	-	282	-	-	-	-	-	-	-	-	282
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	282	5,359	-	-	-	-	-	(5,641)	-	-
<b>Movements for the Recognition of the Comprehensive Income</b>														
Net result	-	-	-	-	-	-	-	-	-	-	-	3,862	-	3,862
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	(333)	-	-	(333)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Minority Interest</b>													17	17
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	(333)	3,862	17	3,546
<b>Balances as at 30 September 2007</b>	<b>8,072</b>	<b>-</b>	<b>13,034</b>	<b>-</b>	<b>1,142</b>	<b>18,511</b>	<b>-</b>	<b>-</b>	<b>(3,922)</b>	<b>-</b>	<b>(4,170)</b>	<b>3,862</b>	<b>20</b>	<b>36,549</b>

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

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

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

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## Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions at September 30, 2007

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

From 1 January to 30 September 2007

<b>Operating activities:</b>	
<b>Net income</b>	<b>3,862</b>
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark-to-market valuations	(72)
Allowances for loan losses	6,442
Depreciation and amortisation	767
Deferred taxes	(1,321)
Undistributed income from subsidiaries, net	(743)
Value loss estimation for foreclosed assets	17
<b>Total operating items not requiring funds</b>	<b>8,952</b>
<b>Changes in items related to operations:</b>	
Decrease / increase in retail deposit and money desk	15,220
Decrease / increase in loan portfolio	(31,923)
Increase / decrease in investment in securities	6,057
Decrease / increase in securities and derivative transactions, net	2,867
Bank deposits and other liabilities	(4,990)
<b>Funds provided by operating activities</b>	<b>(3,817)</b>
<b>Financing activities:</b>	
Subordinated debentures outstanding	(48)
Decrease/increase in accounts payable	14,976
<b>Funds used or provided in financing activities</b>	<b>14,928</b>
<b>Investing activities:</b>	
Decrease/(increase) in property, furniture and equipment, net	(977)
Decrease/(increase) in deferred charges or credits, net	(348)
Decrease in foreclosed assets	(34)
Decrease/increase in accounts receivable	(16,331)
<b>Funds used in investing activities</b>	<b>(17,690)</b>
(Increase)/Decrease in cash and equivalents	(6,579)
Cash and equivalents at beginning of period	56,217
<b>Cash and equivalents at end of period</b>	<b>49,638</b>

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

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

[www.hsbc.com.mx/](http://www.hsbc.com.mx/) Section: Personas, English, HSBC Group, Investor Relations, Financial Information.

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

## Financial Statements HSBC Mexico, S.A.

### Consolidated Balance Sheet

Figures in constant MXN millions at September 30, 2007

HSBC Mexico, S.A. (Bank)

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Assets</b>					
Cash and deposits in banks	56,531	56,216	54,981	50,533	<b>49,637</b>
Investment in Securities	51,173	57,217	52,696	61,116	<b>51,194</b>
Trading securities	11,771	11,830	16,918	28,159	<b>21,591</b>
Available-for-sale securities	35,322	41,306	31,824	28,896	<b>25,669</b>
Held to maturity securities	4,080	4,081	3,954	4,061	<b>3,934</b>
Securities and derivative operations	805	235	186	80	<b>6,926</b>
Repurchase agreements	138	65	82	80	<b>44</b>
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	667	170	104	-	<b>6,882</b>
Performing loans					
Commercial loans	97,879	103,391	105,267	111,814	<b>119,102</b>
Commercial entities	53,479	59,310	62,107	67,119	<b>68,943</b>
Loans to financial intermediaries	5,435	6,096	6,159	7,117	<b>11,835</b>
Loans to government entities	38,965	37,984	37,000	37,579	<b>38,324</b>
Consumer loans	34,816	36,209	38,493	42,675	<b>46,487</b>
Mortgages loans	19,996	20,989	18,597	19,910	<b>20,935</b>
Loans to Fobaproa or IPAB	-	-	-	-	-
Total performing loans	152,691	160,589	162,357	174,400	<b>186,524</b>
Impaired loans					
Commercial loans	1,408	1,572	1,856	1,839	<b>2,190</b>
Commercial entities	1,400	1,572	1,856	1,839	<b>2,190</b>
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	8	-	-	-	-
Consumer loans	1,517	1,701	2,074	2,540	<b>3,115</b>
Mortgage Loans	1,116	1,126	1,243	1,334	<b>1,301</b>
Immediate collection, remittances and other	16	11	-	-	-
Total non-performing loans	4,057	4,409	5,173	5,713	<b>6,606</b>
Total loan portfolio	156,748	164,998	167,530	180,113	<b>193,130</b>
Allowance for loan losses	(6,222)	(6,916)	(7,325)	(8,350)	<b>(9,567)</b>
Net loan portfolio	150,526	158,082	160,205	171,763	<b>183,563</b>
Receivables	-	-	-	-	-
(-) less	-	-	-	-	-
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	150,526	158,082	160,205	171,763	<b>183,563</b>
Other accounts receivable	23,380	11,026	27,001	25,175	<b>26,979</b>
Foreclosed assets	57	55	65	66	<b>70</b>
Property, furniture and equipment, net	5,865	6,205	6,149	6,092	<b>6,162</b>
Long term investments in equity securities	180	188	158	146	<b>146</b>
Deferred taxes	145	-	-	152	<b>1,337</b>
Other assets, deferred charges and intangibles	624	598	974	951	<b>943</b>
<b>Total Assets</b>	<b>289,286</b>	<b>289,822</b>	<b>302,415</b>	<b>316,074</b>	<b>326,957</b>

Figures in constant MXN millions at September 30, 2007

HSBC Mexico, S.A. (Bank)

	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>
<b>Liabilities</b>					
Deposits	210,965	225,189	216,649	233,477	<b>240,465</b>
Demand deposits	122,552	138,114	123,908	127,972	<b>125,098</b>
Time deposits	83,984	82,746	88,436	101,201	<b>111,106</b>
Bank bonds outstanding	4,429	4,329	4,305	4,304	<b>4,261</b>
Bank deposits and other liabilities	10,434	13,229	10,678	9,944	<b>8,239</b>
On demand	-	102	2,032	456	-
Short term	8,269	10,840	6,522	6,214	<b>5,150</b>
Long term	2,165	2,287	2,124	3,274	<b>3,089</b>
Securities and derivative transactions	7,358	6,445	4,448	13,394	<b>16,003</b>
Repurchase agreements	26	50	16	51	<b>47</b>
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	7,332	6,395	4,432	13,312	<b>8,885</b>
Derivative transactions	-	-	-	31	<b>7,071</b>
Other accounts payable	34,374	17,003	41,858	30,144	<b>31,968</b>
Income tax and employee profit sharing payable	1,328	1,043	1,428	1,253	<b>1,891</b>
Sundry creditors and others accounts payable	33,046	15,960	40,430	28,891	<b>30,077</b>
Subordinated debentures outstanding	2,290	2,252	2,228	2,241	<b>2,203</b>
Deferred tax	-	619	432	-	-
Deferred credits	9	20	121	217	<b>294</b>
<b>Total Liabilities</b>	<u>265,430</u>	<u>264,758</u>	<u>276,414</u>	<u>289,417</u>	<u>299,172</u>
<b>Stockholder's Equity</b>					
Paid in capital	13,307	13,307	13,307	13,307	<b>13,307</b>
Capital stock	4,011	4,011	4,011	4,011	<b>4,011</b>
Additional paid in capital	9,296	9,296	9,296	9,296	<b>9,296</b>
Capital Gains	10,548	11,757	12,674	13,330	<b>14,460</b>
Capital reserves	9,337	9,337	9,337	13,841	<b>13,841</b>
Retained earnings	-	-	4,504	-	-
Surplus (Deficit) from securities	71	309	86	(87)	<b>(40)</b>
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,576)	(3,562)	(3,534)	(3,533)	<b>(3,545)</b>
Gains on non monetary asset valuation	1,172	1,169	1,162	1,164	<b>1,166</b>
Net Income	3,544	4,504	1,119	1,945	<b>3,038</b>
Minority interest in capital	1	-	20	20	<b>18</b>
Total Stockholder's Equity	<u>23,856</u>	<u>25,064</u>	<u>26,001</u>	<u>26,657</u>	<u>27,785</u>
<b>Total Liabilities and Capital</b>	<u>289,286</u>	<u>289,822</u>	<u>302,415</u>	<u>316,074</u>	<u>326,957</u>

Figures in constant MXN millions at September 30, 2007

HSBC Mexico, S.A. (Bank)

	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>	<u>30 Jun</u> <u>2007</u>	<u>30 Sep</u> <u>2007</u>
<b>Memorandum Accounts</b>					
Guarantees granted	53	51	49	50	44
Other contingent obligations	119	127	128	131	127
Irrevocable lines of credit granted	5,846	6,464	7,688	8,534	8,638
Goods in trust or mandate	81,317	95,048	112,769	121,650	132,434
Goods	80,923	94,547	112,290	121,061	131,563
Trusts	394	502	479	589	871
Goods in custody or under administration	85,950	114,307	56,642	56,074	55,187
Third party investment banking operations, net	19,392	22,417	23,616	24,793	25,005
Amounts committed in transactions with IPAB or Fobaproa	162	160	153	150	137
Amounts contracted in derivative operations	537,941	671,524	882,113	1,244,417	1,479,801
Investments of retirement savings system funds	3,680	3,613	3,570	3,584	3,540
Integrated loan portfolio	162,647	171,514	175,265	188,694	201,812
Other control accounts	168,779	176,181	176,036	187,442	195,743
	<u>1,065,886</u>	<u>1,261,406</u>	<u>1,438,029</u>	<u>1,835,519</u>	<u>2,102,468</u>
Securities receivable under repos (less) Repurchase agreements	41,282 <u>(41,170)</u>	48,350 <u>(48,335)</u>	43,811 <u>(43,746)</u>	40,182 <u>(40,197)</u>	45,948 <u>(45,951)</u>
	<u>112</u>	<u>15</u>	<u>65</u>	<u>(15)</u>	<u>(3)</u>
Reverse repurchase agreements (less) Securities deliverable under repos	- <u>-</u>	543 <u>(543)</u>	3,027 <u>(3,025)</u>	5,012 <u>(4,969)</u>	2,912 <u>(2,912)</u>
	<u>-</u>	<u>-</u>	<u>2</u>	<u>43</u>	<u>-</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	- <u>-</u>	- <u>-</u>	4,432 <u>-</u>	13,312 <u>-</u>	8,885 <u>-</u>
	<u>-</u>	<u>-</u>	<u>4,432</u>	<u>13,312</u>	<u>8,885</u>

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

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

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## Consolidated Income Statement

Figures in constant MXN millions at September 30, 2007  
For the quarter ending

HSBC Mexico, S.A. (Bank)  
Year to date

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	30 Sep 2006	30 Sep 2007
Interest income	6,774	7,197	7,501	7,762	<b>8,708</b>	20,380	<b>23,971</b>
Interest expense	(2,358)	(2,343)	(2,413)	(2,640)	<b>(2,791)</b>	(7,196)	<b>(7,844)</b>
Monetary position (margin)	(300)	(499)	(314)	57	<b>(310)</b>	(457)	<b>(567)</b>
Net interest income	<u>4,116</u>	<u>4,355</u>	<u>4,774</u>	<u>5,179</u>	<u><b>5,607</b></u>	<u>12,727</u>	<u><b>15,560</b></u>
Loan impairment charges	790	1,708	1,419	2,444	<b>2,579</b>	2,483	<b>6,442</b>
Loan impairment charges	790	1,708	1,419	2,444	<b>2,579</b>	2,399	<b>6,442</b>
Loss sharing Fobaproa	-	-	-	-	-	84	-
Risk adjusted net interest income	<u>3,326</u>	<u>2,647</u>	<u>3,355</u>	<u>2,735</u>	<u><b>3,028</b></u>	<u>10,244</u>	<u><b>9,118</b></u>
Fees and commissions receivable	2,377	2,572	2,521	2,680	<b>2,895</b>	6,872	<b>8,096</b>
Account management	386	374	365	384	<b>357</b>	1,179	<b>1,106</b>
Services	1,991	2,198	2,156	2,296	<b>2,538</b>	5,693	<b>6,990</b>
Fees payable	(244)	(296)	(274)	(276)	<b>(325)</b>	(791)	<b>(875)</b>
Trading Income	591	488	327	456	<b>149</b>	1,597	<b>932</b>
Foreign exchange	12	74	178	97	<b>231</b>	362	<b>507</b>
Securities trading, net	103	(193)	(140)	59	<b>(31)</b>	336	<b>(112)</b>
Repos	(4)	(5)	-	(13)	<b>(1)</b>	270	<b>(14)</b>
Swaps	98	611	389	136	<b>(64)</b>	183	<b>460</b>
Valuation off-shore agencies	287	(62)	(107)	98	<b>(42)</b>	351	<b>(51)</b>
Valuation for trading swaps	95	63	7	79	<b>56</b>	95	<b>142</b>
Total operating income	<u>6,050</u>	<u>5,411</u>	<u>5,929</u>	<u>5,595</u>	<u><b>5,747</b></u>	<u>17,922</u>	<u><b>17,271</b></u>
Administrative and personnel expenses	4,280	4,441	4,597	4,857	<b>5,161</b>	12,739	<b>14,615</b>
Personnel expense	1,927	1,967	1,951	2,058	<b>1,999</b>	5,565	<b>6,008</b>
Administrative expense	2,137	2,251	2,391	2,538	<b>2,914</b>	6,532	<b>7,843</b>
Depreciation and amortization	216	223	255	261	<b>248</b>	642	<b>764</b>
Net operating income	<u>1,770</u>	<u>970</u>	<u>1,332</u>	<u>738</u>	<u><b>586</b></u>	<u>5,183</u>	<u><b>2,656</b></u>
Other income	478	645	561	915	<b>1,026</b>	1,492	<b>2,504</b>
Other expenses	(169)	(203)	(201)	(356)	<b>(457)</b>	(862)	<b>(1,014)</b>
Net income before taxes	<u>2,079</u>	<u>1,412</u>	<u>1,692</u>	<u>1,297</u>	<u><b>1,155</b></u>	<u>5,813</u>	<u><b>4,146</b></u>
Income tax and employee profit sharing	(639)	168	(565)	(1,015)	<b>(881)</b>	(1,562)	<b>(2,462)</b>
Deferred income tax	(198)	(621)	(10)	539	<b>805</b>	(705)	<b>1,333</b>
Net income before subsidiaries	<u>1,242</u>	<u>959</u>	<u>1,117</u>	<u>821</u>	<u><b>1,079</b></u>	<u>3,546</u>	<u><b>3,017</b></u>
Undistributed income from subsidiaries	(5)	-	2	4	<b>14</b>	(2)	<b>20</b>
Income from ongoing operations	<u>1,237</u>	<u>959</u>	<u>1,119</u>	<u>825</u>	<u><b>1,093</b></u>	<u>3,544</u>	<u><b>3,037</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	1	-	-	-	<b>1</b>
Net income (loss)	<u>1,237</u>	<u>959</u>	<u>1,120</u>	<u>825</u>	<u><b>1,093</b></u>	<u>3,544</u>	<u><b>3,038</b></u>

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2007 to 30 September 2007

	Paid in capital					Earned Capital								Minority interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
<b>Balances at 31 December 2006</b>	4,011	-	9,296	-	-	9,337	-	309	-	-	(3,562)	1,169	-	4,504	1	25,065
<b>Movements Inherent to the Shareholders Decision</b>																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,504	(4,504)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	4,504	-	-	-	-	-	-	(4,504)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	4,504	-	-	-	-	-	-	-	(4,504)	-	-
<b>Movements for the Recognition of the Comprehensive Income</b>																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	3,038	-	3,038
Surplus (Déficit) from securities	-	-	-	-	-	-	-	(349)	-	-	-	-	-	-	-	(349)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	17	-	-	-	-	-	17
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	(3)	-	-	-	(3)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Minority Interest</b>															17	17
<b>Total</b>	-	-	-	-	-	-	-	(349)	-	-	17	(3)	-	3,038	17	2,720
<b>Balances as at 30 September 2007</b>	<b>4,011</b>	<b>-</b>	<b>9,296</b>	<b>-</b>	<b>-</b>	<b>13,841</b>	<b>-</b>	<b>(40)</b>	<b>-</b>	<b>-</b>	<b>(3,545)</b>	<b>1,166</b>	<b>-</b>	<b>3,038</b>	<b>18</b>	<b>27,785</b>

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

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

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

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

## Consolidated Statement of Changes in Financial Position

From 1<sup>st</sup>. January 2007 to 30 September 2007

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

### Operating activities:

Net income	3,038
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark to market valuations	764
Allowance for loan losses	6,442
Depreciation and amortisation	(72)
Deferred taxes	(1,333)
Undistributed income from subsidiaries, net	(9)
Value loss estimation for foreclosed assets	18
Minority interest	(1)
<b>Total operating items not requiring funds</b>	<u>8,847</u>

### Changes in operating accounts:

Increase in retail deposit and money desk	15,275
(Increase) in loan portfolio	(31,922)
Decrease in securities and derivative transactions, net	5,623
Decrease/(increase) in financial instruments	2,990
Bank deposits and other liabilities	(4,990)
<b>Funds provided by operations</b>	<u>(4,177)</u>

### Financing activities:

Subordinated debentures outstanding	(48)
Decrease/increase in accounts payable	14,980
<b>Funds used or provided by financing activities</b>	<u>14,932</u>

### Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(654)
(Increase)/decrease in deferred credits	(349)
Decrease in foreclosed assets	(34)
Decrease/increase in accounts receivable	(16,297)
<b>Funds used in investing activities</b>	<u>(17,334)</u>
Increase in cash and equivalents	(6,579)
Cash and equivalents at beginning of period	56,216
<b>Cash and equivalents at end of period</b>	<u>49,637</u>

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

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

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

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## Financial Instruments

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

Figures in constant MXN millions at September 30, 2007

#### Investments in securities

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
Government securities	11,633	11,865	13,506	27,135	19,999
Bank securities	277	83	3,220	694	935
Shares	349	863	926	943	938
Others	102	76	358	474	814
Trading securities	<u>12,361</u>	<u>12,887</u>	<u>18,010</u>	<u>29,246</u>	<u>22,686</u>
Government securities	29,120	34,512	27,548	25,498	21,232
Bank securities	723	1,951	214	210	258
Obligations and other securities	5,201	4,573	4,051	3,177	4,167
Shares	278	270	11	11	12
Available for sale securities	<u>35,322</u>	<u>41,306</u>	<u>31,824</u>	<u>28,896</u>	<u>25,669</u>
Sovereign debt securities	374	394	249	271	124
Commercial and industrial subordinated debentures	3	2	2	2	2
Special Cetes (net)	3,696	3,685	3,703	3,789	3,808
MYRAS	7	-	-	-	-
Securities held to maturity	<u>4,080</u>	<u>4,081</u>	<u>3,954</u>	<u>4,062</u>	<u>3,934</u>
Total Financial Instruments	<u>51,763</u>	<u>58,274</u>	<u>53,788</u>	<u>62,204</u>	<u>52,289</u>

In the third quarter of 2007 investment in securities decrease by MXN9,915 million versus prior quarter; MXN(11,402) million decrease in government securities, MXN289 million in promissory note securities, MXN1,184 million in bonds, MXN(5) million in shares and a increase in other by MXN19 million.

## Repos

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

Figures in constant MXN millions at September 30, 2007

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
Government securities (debit)	41,511	48,631	44,522	40,990	<b>47,163</b>
Bank securities (debit)	1,662	2,157	1,510	1,495	<b>885</b>
Bank securities (own)	340	-	-	-	-
Valuation Increase (decrease)	61	46	60	31	<b>45</b>
Interest in securities receivable under repurchase agreements	104	48	61	22	<b>14</b>
Total in repo agreements (debit)	<u>43,678</u>	<u>50,882</u>	<u>46,153</u>	<u>42,538</u>	<u><b>48,107</b></u>
Repo's Government securities (credit)	41,508	48,635	44,525	40,994	<b>47,166</b>
Repo's Bank securities (credit)	1,662	2,157	1,510	1,495	<b>885</b>
Repo's Bank securities (own)	340	-	-	-	-
Valuation increase (decrease)	4	4	4	6	<b>4</b>
Accrued interest payable	49	75	50	62	<b>58</b>
Credit balance in repo agreements	<u>43,563</u>	<u>50,871</u>	<u>46,089</u>	<u>42,557</u>	<u><b>48,113</b></u>
Repurchase agreements in government securities	2,394	3,078	2,342	7,358	<b>5,072</b>
Repurchase agreements in banking securities	-	-	3,026	-	-
Valuation increase (decrease)	-	-	-	1	-
Accrued interest receivable	-	1	1	13	<b>2</b>
Debit balance repo securities agreements	<u>2,394</u>	<u>3,079</u>	<u>5,369</u>	<u>7,372</u>	<u><b>5,074</b></u>
Government securities	2,396	3,074	2,342	7,354	<b>5,069</b>
Bank securities	-	-	3,026	-	-
Valuation increase (decrease)	-	-	(1)	(29)	-
Interest in securities deliverable under repurchase agreements	-	1	-	-	<b>2</b>
Credit balance repo securities agreements	<u>2,396</u>	<u>3,075</u>	<u>5,367</u>	<u>7,325</u>	<u><b>5,071</b></u>

## Derivative Financial Instruments

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2007

	<u>Futures</u>		<u>Forwards Contracts</u>		<u>Options</u>		<u>Swaps</u>		<u>Total (net)</u>
	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	
For trading									
Pesos	-	-	34,222	30,960	90,475	90,500	-	-	3,237
US Dollars	-	-	41,620	44,872	-	-	134,677	132,146	(721)
Interest Rate	158,203	158,203	105,707	105,658	-	-	1,232,517	1,235,270	(2,705)
Total	<u>158,203</u>	<u>158,203</u>	<u>181,549</u>	<u>181,490</u>	<u>90,475</u>	<u>90,500</u>	<u>1,367,194</u>	<u>1,367,416</u>	<u>(189)</u>
For hedging									
Pesos	-	-	-	-	-	-	8,773	-	-
US Dollars	-	-	-	-	-	-	-	9,271	-
Interest Rate	-	-	-	-	-	-	4,414	4,557	-
Total	-	-	-	-	-	-	<u>13,187</u>	<u>13,828</u>	-

## Stock Borrowing

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2007

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Received borrowings</b>					
Cetes	7,332	6,395	4,432	13,312	<b>8,885</b>
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	-	-	-
Increase or decrease in bonds	-	-	-	-	-
<b>Total</b>	<b>7,332</b>	<b>6,395</b>	<b>4,432</b>	<b>13,312</b>	<b>8,885</b>

## Participation by Subsidiary

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

Group Subsidiaries at September 30, 2007

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

## Trading income

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2007

	For the quarter ending...					Year to date	
	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	30 Sep 2006	30 Sep 2007
<b>Valuation</b>	395	4	(82)	175	<b>(21)</b>	571	<b>72</b>
Derivatives	397	2	(82)	176	<b>(21)</b>	590	<b>73</b>
Repos	(4)	-	-	(1)	-	23	<b>(1)</b>
Debt Securities	(2)	2	-	-	-	(42)	-
<b>Buying and Selling Instruments</b>	196	484	409	281	<b>170</b>	1,026	<b>860</b>
Foreign Currency	12	74	178	97	<b>231</b>	363	<b>506</b>
Derivatives	190	420	223	143	<b>(58)</b>	128	<b>308</b>
Repos	(3)	(5)	8	23	-	270	<b>31</b>
Shares	-	-	-	-	<b>(3)</b>	-	<b>(3)</b>
Debt Securities	(3)	(5)	-	18	-	265	<b>18</b>
<b>Total</b>	<b>591</b>	<b>488</b>	<b>327</b>	<b>456</b>	<b>149</b>	<b>1,597</b>	<b>932</b>

## Loan Portfolio

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

#### By type of currency

Figures in constants MXN millions

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
<b>Performing Loan Portfolio</b>						
Pesos	51,410	11,399	36,124	46,487	17,976	163,396
US Dollars	17,533	436	2,200	-	3	20,172
Udis Banxico	-	-	-	-	2,956	2,956
<b>Total</b>	<b>68,943</b>	<b>11,835</b>	<b>38,324</b>	<b>46,487</b>	<b>20,935</b>	<b>186,524</b>

	Actividad Comercial o Empresarial	Entidades Financieras	Entidades Gubernamental es	Créditos al Consumo	Créditos a la Vivienda	Total
<b>Non Performing Loans Portfolio</b>						
Pesos	1,920	-	-	3,115	731	5,766
US Dollars	270	-	-	-	-	270
Udis Banxico	-	-	-	-	570	570
<b>Total</b>	<b>2,190</b>	<b>-</b>	<b>-</b>	<b>3,115</b>	<b>1,301</b>	<b>6,606</b>

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

## Ratings HSBC México, S.A.

### HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
<b>Global scale ratings</b>			
<b>Foreign currency</b>			
Long term	Baa1	BBB+	A
Short term	P-2	A-2	F1
<b>Local Currency</b>			
Long term obligations	Aa2	BBB+	A+
Long term deposits	Aa2	BBB+	A+
Short term	P-1	A-2	F1
<b>BFSR (Moody's)</b>	C	-	-
<b>Individual / Support rating (Fitch)</b>	-	-	C / 1
<b>National scale / Local currency</b>			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
<b>Outlook</b>	POS (m)	Positive	Positive
<b>Last update</b>	01-June-07	03-June-07	20-September 07

## Loan Portfolio Grading

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2007

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	29,390				
Graded	172,422				
<b>Risk A</b>	<b>120,893</b>	<b>460</b>	<b>194</b>	<b>144</b>	<b>798</b>
Risk A-1	86,828	138	194	144	476
Risk A-2	34,065	322	0	0	322
<b>Risk B</b>	<b>42,284</b>	<b>2,032</b>	<b>543</b>	<b>66</b>	<b>2,641</b>
Risk B-1	27,583	615	543	66	1,224
Risk B-2	11,100	850	0	0	850
Risk B-3	3,601	567	0	0	567
<b>Risk C</b>	<b>3,536</b>	<b>515</b>	<b>780</b>	<b>85</b>	<b>1,380</b>
Risk C-1	3,106	341	780	85	1,206
Risk C-2	430	174	0	0	174
<b>Risk D</b>	<b>4,360</b>	<b>448</b>	<b>2,148</b>	<b>603</b>	<b>3,200</b>
<b>Risk E</b>	<b>1,349</b>	<b>772</b>	<b>467</b>	<b>136</b>	<b>1,374</b>
Total	<b>201,812</b>	<b>4,227</b>	<b>4,132</b>	<b>1,034</b>	<b>9,393</b>
Less:					
Constituted Reserves					<b>9,567</b>
Surplus <sup>3</sup>					<b>174</b>

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

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

3. See Note in page 39.

## Non – Performing Loans

### HSBC Mexico, S.A. (Bank)

Figures in historic MXN millions

	At the quarter ending				
	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
<b>Initial Balance of Impaired Lons</b>	3,720	3,902	4,320	5,129	<b>5,642</b>
Increases	3,346	2,708	4,695	4,375	<b>5,179</b>
Transfer of current loans to past due status	3,346	2,708	4,695	4,375	<b>5,179</b>
Decreases	(3,161)	(2,297)	(3,901)	(3,852)	<b>(4,229)</b>
Restructurings	(47)	(44)	(71)	(66)	<b>(75)</b>
Liquidated credits	(2,636)	(1,858)	(3,147)	(2,945)	<b>(3,167)</b>
Charged in cash	(1,839)	(932)	(2,278)	(1,636)	<b>(2,029)</b>
Foreclosed assets	(23)	-	-	(1)	-
Writeoffs	-	-	-	-	-
Sale of portfolio	(774)	(926)	(869)	(1,308)	<b>(1,138)</b>
Transfer to performing loan status	(478)	(395)	(683)	(841)	<b>(987)</b>
Fx revaluations	(3)	7	15	(10)	<b>14</b>
<b>Final Balance of Impaired Loan</b>	<b>3,902</b>	<b>4,320</b>	<b>5,129</b>	<b>5,642</b>	<b>6,606</b>

## Deferred Taxes

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

Figures in constant MXN millions at September 30, 2007

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
Loan loss reserves	824	768	700	1,292	<b>1,757</b>
Valuation of securities	(265)	(481)	(67)	(39)	<b>67</b>
Fiscal loss	81	84	110	45	<b>54</b>
Loss sharing	912	-	-	-	-
Other reserves	583	756	822	694	<b>697</b>
Other	(141)	(63)	(96)	(16)	<b>62</b>
Differences in rates of fixed assets	(427)	(312)	(550)	(464)	<b>(197)</b>
Fiscal result UDIS-Banxico	(1,384)	(1,319)	(1,307)	(1,313)	<b>(1,064)</b>
<b>Total Deferred Taxes</b>	<b>183</b>	<b>(567)</b>	<b>(388)</b>	<b>199</b>	<b>1,376</b>

## Funding, Loans and Investments in Securities

### HSBC Mexico, S.A. (Bank)

#### Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>
MXN pesos					
Funding	2.65 %	2.47 %	2.58 %	2.78%	<b>3.00%</b>
Bank and other loans	6.87 %	6.98 %	7.12 %	7.20%	<b>7.10%</b>
Foreign currency					
Funding	1.35 %	1.60 %	1.75 %	1.69%	<b>1.76%</b>
Bank and other loans	6.63 %	6.36 %	5.49 %	5.24%	<b>5.37%</b>
UDIS					
Funding	0.19 %	0.19 %	0.20 %	0.19%	<b>0.19%</b>

## Long Term Debt

### HSBC Mexico, S.A. (Bank)

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

*Figures in historic MXN millions*

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	3	2,203	25-NOV-2013
		<b>2,200</b>		<b>3</b>	<b>2,203</b>	

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	41	4,261	27-APR-2016
		<b>4,220</b>		<b>41</b>	<b>4,261</b>	

## Capital

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

#### Grupo Financiero HSBC

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year 2006 financial results, amounting to MXN5,641m, as follows:

- ▶ MXN282m (5%) to increase legal reserves, and the remaining MXN5,359 million, at the disposal of the Board under the concept of the previous year's financial years

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

#### Subsidiaries Grupo Financiero HSBC

##### HSBC Mexico, S.A.

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year's financial results, totalling MXN4,504 million, as follows:

- ▶ MXN450 million (10%) to increase legal reserves, and the remaining MXN4,054, at the disposal of the Board under the concept of other reserves.

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

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

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

## Capital Ratio

### HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at September 30, 2007

	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007
% of assets subject to credit risk					
Tier 1	16.99%	16.62%	16.64%	15.84%	<b>15.53%</b>
Tier 2	2.30%	2.03%	2.01%	2.06%	<b>1.89%</b>
Total regulatory capital	<u>19.29%</u>	<u>18.65%</u>	<u>18.65%</u>	<u>17.90%</u>	<u><b>17.43%</b></u>
% of assets subject to credit and market risk					
Tier 1	12.25%	12.29%	13.09%	12.29%	<b>11.05%</b>
Tier 2	1.66%	1.50%	1.58%	1.60%	<b>1.35%</b>
Total regulatory capital	<u>13.91%</u>	<u>13.79%</u>	<u>14.67%</u>	<u>13.88%</u>	<u><b>12.40%</b></u>
Tier 1	22,550	23,740	24,501	25,092	<b>26,060</b>
Tier 2	3,057	2,899	2,957	3,263	<b>3,172</b>
Total regulatory capital	<u>25,607</u>	<u>26,638</u>	<u>27,458</u>	<u>28,354</u>	<u><b>29,232</b></u>
RWA credit risk	132,753	142,848	147,240	158,388	<b>167,754</b>
RWA market risk	51,312	50,296	39,975	45,845	<b>68,010</b>
RWA credit and market risk	<u>184,065</u>	<u>193,144</u>	<u>187,215</u>	<u>204,233</u>	<u><b>235,764</b></u>

With a capital ratio above 10%, HSBC Mexico, S.A. is classified in category I, according to the General Standards referred in article 134 Bis from the Financial Institutions Law and according to the General



Standards principles for financial institutions issued by the Mexican Banking and Securities Commission referred in article 220.

## Other Expenses, Other Income and Extraordinary Items

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

Figures in constant MXN millions at September 30, 2007

	For the quarter ending				Year to date	
	30 Sep 2006	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	30 Sep 2007
Other income						
Loans to employees	19	16	22	27	32	81
Recoveries	90	106	126	328	555	1,009
Other income	310	304	312	506	354	1,172
Monetary position (other income)	86	146	90	25	58	173
	505	572	550	886	999	2,435
Other expenses						
Other losses	(175)	(208)	(201)	(356)	(458)	(1,015)
Monetary position (other expenses)	5	(16)	-	-	-	-
	(170)	(224)	(201)	(356)	(458)	(1,015)
Total other income (expenses)	335	348	349	530	541	1,420

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

## Related Party Transactions

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

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

Figures in constant MXN millions at September 30, 2007

	Bank	Pension funds	Brokerage house	Mutual funds management	Group	Total
<b>Balance Sheet</b>						
Cash and deposits in banks	-	-	41	-	1,636	1,677
Demand deposits	(1,677)	-	-	-	-	(1,677)
Repos (assets)	-	-	3	-	-	3
Reverse repos (liabilities)	(3)	-	-	-	-	(3)
Sundry debtors (assets)	18	-	-	-	-	18
Sundry creditors (liabilities)	-	(8)	(6)	(4)	-	(18)
<b>Total</b>	<b>(1,662)</b>	<b>(8)</b>	<b>38</b>	<b>(4)</b>	<b>1,636</b>	<b>-</b>
<b>P&amp;L</b>						
Payable commissions	-	(3)	-	-	-	(3)
Receivable commissions	-	-	-	3	-	3
Interest income	-	-	1	-	48	49
Interest expense	(49)	-	-	-	-	(49)
Repos	(127)	-	-	-	-	(127)
Reverse repos	-	-	127	-	-	127
Administrative services	-	(49)	(59)	(11)	-	(119)
Other income	119	-	-	-	-	119
<b>Total</b>	<b>(57)</b>	<b>(52)</b>	<b>69</b>	<b>(8)</b>	<b>48</b>	<b>-</b>

## Information on Customer Segment and Results

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

#### Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of September 30, 2007, is shown below:

Figures in constant MXN millions at September 30, 2007

	Year to date at 30 September 2007				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	10,948	3,782	822	58	15,610
Provision for Loan Loss	(5,790 )	(678 )	26	-	(6,442)
<b>Net Interest Income adjusted</b>	<b>5,158</b>	<b>3,104</b>	<b>848</b>	<b>58</b>	<b>9,168</b>
Fees and Commissions, net	5,766	1,617	403	13	7,799
Trading Income	433	81	423	-	937
<b>Total Revenue</b>	<b>11,357</b>	<b>4,802</b>	<b>1,674</b>	<b>71</b>	<b>17,904</b>
Administrative Expenses	(11,327 )	(2,772 )	(1,027 )	104	(15,022)
<b>Operating Income</b>	<b>30</b>	<b>2,030</b>	<b>647</b>	<b>175</b>	<b>2,882</b>
Other Income (Expenses), net	1,052	139	76	153	1,420
Taxes	(304 )	(591 )	(197 )	(92 )	(1,184)
<b>Net Income before subsidiaries</b>	<b>778</b>	<b>1,578</b>	<b>526</b>	<b>236</b>	<b>3,118</b>
Undistributed income from subsidiaries	29	-	-	714	743
Continued Operating Results	<b>807</b>	<b>1,578</b>	<b>526</b>	<b>950</b>	<b>3,861</b>
Discontinued Operating Results	-	-	-	-	-
<b>Net Income</b>	<b>807</b>	<b>1,578</b>	<b>526</b>	<b>950</b>	<b>3,861</b>
Minority Shareholders	1	-	-	-	1
<b>Participated Net Income</b>	<b>808</b>	<b>1,578</b>	<b>526</b>	<b>950</b>	<b>3,862</b>

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

### Grupo Financiero HSBC

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

<i>Figures in MXN millions</i>	<b>30 Sept 2007</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>3,862</b>
Inflation	555
Differences arising on the valuation of pensions and post retirement healthcare benefits †	46
Differences arising on acquisition costs relating to long-term investment contracts †	(20)
Differences arising from the deferral of fees received and paid on the origination of loans	213
Differences arising from the recognition and provisioning for loan impairments †	463
Differences arising from purchase accounting adjustments †	(23)
Differences arising from the recognition of the present value in-force of long-term insurance contracts †	632
Other differences in accounting principles †	50
<b>HSBC México net income under IFRS</b>	<b>5,778</b>
<b>US dollar equivalent (millions)</b>	<b>528</b>
Add back tax expense	1,148
<b>HSBC México profit before tax under IFRS</b>	<b>6,926</b>
<b>US dollar equivalent (millions)</b>	<b>633</b>
<i>Exchange rate used for conversion</i>	10.95

† Net of tax at 28 per cent.

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

#### **Inflation**

##### **Mexican GAAP**

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

##### **IFRS**

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

#### **Retirement benefits**

##### **Mexican GAAP**

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

##### **IFRS**

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

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

### **Acquisition costs of long-term investment contracts**

#### **Mexican GAAP**

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

#### **IFRS**

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

### **Fees paid and received on origination of loans**

#### **Mexican GAAP**

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

#### **IFRS**

Fees and expenses received on origination of a loan that are directly attributable to the origination of that loan are accounted for under the effective interest rate method over the expected life of the loan. This policy has been in effect since 1 January 2005.

### **Loan impairment charges**

#### **Mexican GAAP**

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

#### **IFRS**

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

### **Purchase accounting adjustments**

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

### **Recognition of present value of in-force long-term life insurance contracts**

#### **Mexican GAAP**

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

#### **IFRS**

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

## Appendix A

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

Figures in constant MXN millions at September 30, 2007

	<b>Total Group</b> <b>30 Sep</b> <b>2007</b>	<b>Mexico*</b> <b>30 Sep</b> <b>2006</b>	<b>Panama</b> <b>30 Sep</b> <b>2006</b>	<b>Total Group</b> <b>30 Sep</b> <b>2006</b>
Interest income	<b>24,115</b>	20,444	754	<b>21,198</b>
Interest expense	<b>(7,875)</b>	(7,180)	(303)	<b>(7,483)</b>
Monetary position (margin), net	<b>(630)</b>	(486)	(6)	<b>(492)</b>
Net interest income	<b>15,610</b>	12,778	445	<b>13,223</b>
Loan impairment charges	<b>(6,442)</b>	(2,483)	(32)	<b>(2,515)</b>
Risk adjusted net interest income	<b>9,168</b>	10,295	413	<b>10,708</b>
Fees and commissions receivable	<b>8,687</b>	7,474	184	<b>7,658</b>
Fees payable	<b>(888)</b>	(787)	(33)	<b>(820)</b>
Trading income	<b>937</b>	1,602	-	<b>1,602</b>
Total operating income	<b>17,904</b>	18,584	564	<b>19,148</b>
Administrative and personnel expenses	<b>(15,022)</b>	(13,251)	(341)	<b>(13,592)</b>
Net operating income	<b>2,882</b>	5,333	223	<b>5,556</b>
Other income	<b>2,435</b>	1,601	-	<b>1,601</b>
Other expenses	<b>(1,015)</b>	(866)	-	<b>(866)</b>
Net income before taxes	<b>4,302</b>	6,068	223	<b>6,291</b>
Income tax and employee profit sharing	<b>(2,505)</b>	(1,593)	(65)	<b>(1,658)</b>
Deferred taxes	<b>1,321</b>	(741)	9	<b>(732)</b>
Net income before subsidiaries	<b>3,118</b>	3,734	167	<b>3,901</b>
Undistributed income from subsidiaries	<b>743</b>	597	-	<b>597</b>
Income from ongoing operations	<b>3,861</b>	4,331	167	<b>4,498</b>
Minority interest	<b>1</b>	-	-	<b>-</b>
Net income	<b>3,862</b>	4,331	167	<b>4,498</b>

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

## Risk Management

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

Fundamental to carry out this work is the recognition of the essential precepts for an efficient and integral risks management, including quantifiable risks (credit, market and liquidity), as well as non-quantifiable risks (operational and legal), under the sights that the basic processes of identifying, measuring, monitoring, limiting, controlling and disclosure will be satisfied.

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

### Assets and Liabilities (Committee) ALCO

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

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

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

Local Assets and Liabilities Committees, as Mexico, report directly to the Group Finance Department in London as a way to strengthen the decision making process.

### Risk Management Committee (RMC).

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

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

The main objectives of this committee are to:

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

- ▶ Track market, credit, and other relevant risks. Additionally, review and approve objectives, operation, and control procedures along with risk tolerance based on market conditions.

## Market Risk Management

### Qualitative Information

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

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

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

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

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

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

- ▶ **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the underlying price of the option (interest rates, actions, exchange rate, etc.).

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

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

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

#### Value at Risk (VaR)

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

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

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

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



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

### Spread over yield risk

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

### Basis Risk

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

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

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

### Credit Spread Risk (CSO1)

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

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

### Vega or implied volatility risk

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

### Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability

distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts. The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical scenarios. Both negative and positive changes in interest rates are considered in order to fully measure the impact on the different portfolios.

### Validation and Calibration Methods for Market Risk models:

Aiming to timely detect any decrease in the forecasting quality of the model, automatic data loading systems are used, in such a way that no manual feeding is required. Besides, in order to prove the reliability of the VaR calculation model, a back testing is carried out, which consists of evaluating that the maximum forecasted losses do not exceed, in average, the established confidence level, contrasting the P&L should had been generated if the portfolio had remained constant during the VaR's forecast horizon.

### Applicable portfolios:

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

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

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

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

**Quantitative Information**

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

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

	Bank		All Trading		Accrual	
	Average 3Q 2007	Limits*	Average 3Q 2007	Limits *	Average 3Q 2007	Limits *
Combined	17.67	42.00	3.64	32.50	14.87	27.50
Interest Rates	18.26	42.00	4.04	24.50	14.88	27.50
FX	1.57	8.00	1.56	8.00	N/A	N/A
Volatility IR	0.05	9.50	0.04	7.50	0.01	2.00

\*Absolute Value NA = Non Applicable

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

	30 June 07	29 Sep 07	Limits*	Average 2nd Quarter 2006	Average 3rd Quarter 2007
HBMI	14.64	12.14	42.00	14.99	17.67
Accrual	14.66	8.57	27.50	14.80	14.87
All Trading	3.04	3.08	32.50	2.92	3.64

\*Absolute Value NA = Non Applicable

The Bank's VaR at the end of the 3Q07 decreased 17.07% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 3Q07 varied 17.88% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

**Comparison of Market VaR vs. Net capital**

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

**Comparison of Market VaR vs. Net capital**

Net capital in million dollars

	30 June 07	30 Sept 07
VaR Total *	17.99	17.67
Net Capital **	2,593.98	2,703.74
VaR / Capital Neto	0.69	0.65

\* 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 0.65 % of the net capital in 3Q07.

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

	30 June 07	30 September 07	Limits*	Average 2nd quarter 2007	Average 3rd quarter 2007
Bank	(0.684)	(0.556)	1.200	(0.745)	(0.856)
Accrual	(0.652)	(0.202)	1.075	(0.687)	(0.622)
Trading desk	(0.064)	(0.109)	0.350	(0.044)	(0.075)
Balance sheet trading**	0.031	0.001	0.230	(0.015)	(0.009)
AFR*	NA	(2.44)	0.437	NA	(0.231)
ALCO	(0.008)	(0.003)	0.600	(0.015)	(0.006)

\* Absolute value

\*\* AFR book is informed in a separated basis for informational proposes and will compute in Total trading VaR

NA = Non Applicable

The bank's PVBP for the 3Q07 varied -18.71% versus prior quarter. The bank's average PVBP for the 2Q07 varied 14.89% versus prior quarter.

alternate sources of funding the institution would have available. The plan has been reviewed and approved by the local ALCO.

**Liquidity Risk****Qualitative Information**

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

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

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

The institution has Developer and implemented since 2003 a Liquidity Contingency Plan that defines the potential contingency levels, the officers responsible for the plan, the steps to be followed in each different scenario and the

**Quantitative Information**

The institution had at the end of the quarter liquidity ratios of 13.0% for 1<sup>st</sup> line liquidity and 18.2% for 2<sup>nd</sup> line liquidity, in both cases above the 10% limit.

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

**Credit Risk****Qualitative Information**

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

Credit risk is defined as the risk that a client or counterpart can not or does not want to comply

with a commitment celebrated with a member or members of the Group, i.e. the potential loss due to the lack of payment from a client or counterpart. For the correct measurement of credit risk, HSBC has credit risk measurement methodologies, as well as advanced information systems.

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

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

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

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

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

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a new risk evaluation tool was implemented: Moody's Risk Advisor (MRA), which permits a more profound evaluation of the credit quality of clients. HSBC Group has selected MRA as the main tool for defining client risk grades, and was implemented during the second semester of 2005.

Nevertheless, it was until the second half of 2006 that HBMX finished the development of three new MRA models for client risk grading (one for small companies, another one for medium enterprises and a third one for large corporates).

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

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

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

Also as part of the credit risk management and measurement infrastructure, HBMX has an automated system to manage, control and monitor the commercial credit approval process known as Workflow. With this system the status of a credit application can be consulted in any stage of the credit process. For corporate banking the Credit Approval and Risk Management (CARM) system is used. In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a new system was developed, "Garantías II". Finally, it is important to comment that HBMX has a system that controls the limits and utilization of credit facilities since their origination, "Líneas III". Currently, HBMX has a historical data base for the estimation of LGD and Exposure at Default

(EaD), important parameters for the calculation of the Expected Loss (EL) of the commercial portfolio.

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

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

### Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at 30 September 2007 is \$5,137.1 millions of pesos. It increased 21.7% with respect to the second quarter of 2007. The EL correspondent to the commercial portfolio is \$3,536 millions of pesos, which increased 6.43% regarding the last trimester.

### Operational Risk

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

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

responsible for carrying out the Group operational risk management framework.

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

At publishing date of these notes, the 4<sup>th</sup> annual risk self-assessment shall be taking place.

### Technological Risk

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

### Legal Risk

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

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

And the measures that have been taken include: the establishment of policies and procedures for the appropriate management of legal risks and the celebration of legal acts; the estimation of potential losses derived from adverse judicial resolution or administrative action; the prompt information of judicial and administrative resolutions to employees and managers in general; the realization of legal audits -- the last

of which was performed during March-April 2007; and the establishment of a historic database of judicial resolutions with their causes and costs.

### Quantitative Information

As a result of the 3<sup>rd</sup> assessment, and taking into account their upgrades during the first three quarters of 2007, we have 2,349 risks distributed as follows: 0.9% A type, 8.4% B type, 58.3% C type, and 32.4% D type risks, which can also be classified onto: 21.1% people, 51.6% process, 16.9% systems and 10.5% external type risks.

Furthermore, for the 5th consecutive year, during 2007, we have registered and incorporated into a specifically designed database, those major loss events which are of some relevance. As of January 2006 the relevance threshold for reporting these incidences was reduced to \$10,000 USD.

Events under the reporting threshold are aggregated into a single record.

We estimate that for the fourth quarter of 2007 operational losses as reflected in the Other Expenses account will have an impact in the order of USD17.5 million, distributed in the following proportions:

Concept	%
Frauds	49%
Robberies and assaults	4%
Counterfeit notes	1%
Operating errors	1%
Branches	6%
Credit Cards	13%
Shortages	3%
Other errors and losses	23%

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

## Corporate Social Responsibility (CSR)

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

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

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

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

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

### CSR Certification

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

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

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

### Community Programmes

These are some of HSBC Mexico’s major programmes:

#### Education

HSBC Mexico donated USD 1.5 million dollars over a five-year period to support secondary, technical and preparatory schools throughout Mexico. This includes the annual adoption of four schools throughout the country, in order to improve infrastructure, equipment, programmes and fostering exchange visits for gifted children with schools in the United Kingdom. After the initial year, an ongoing relationship is maintained with the schools. On an annual basis, more than 15 schools participate in the programme impacting the education of more than 15,000 students.

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

Through the Asociación de Bancos de Mexico (Mexican Banks Association), HSBC works with other financial institutions to support programmes aimed at giving street children psychological counselling, aid against addictions and educational support as well as helping the to reintegrate into society.

In 2007, HSBC participated, along with other banks, in raising funds for the programme “Bécalos” (Scholarship), which will provide scholarships to children in need, homeless children, as well as secondary teachers from public schools, to further their education. HBMX committed MXP 3 million to the programme, and undertook a fundraising campaign among clients through our ATM’s network.

HSBC launched Tu Cuenta, a bundled package of services for PFS customers, providing various services for a fixed monthly fee. HSBC Mexico donates 1% of the customer’s monthly fee paid, which is channelled to smaller foundations around the nation, that provide support to children in the areas of education, healthcare and nutrition. Through this programme HSBC is providing support to 32 charities focused on education in every state of the country.

### Community

HSBC Mexico donated a total of USD 1 million over a five year period, used to build and equip the Community Clinic that operates in the ABC Hospital in Santa Fe. The clinic is providing preventive health care services to more than 13,000 members of the surrounding communities who do not have access to public or private health care systems.

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

### The Environment

HSBC Mexico is also working on its direct impact on the environment. An important step towards this was the construction of its new headquarters building in Mexico City, Torre HSBC, which was inaugurated in April 2006. In its construction, energy saving systems were implemented in order to reduce atmospheric emissions, as well as features to reduce water consumption and efficient waste management processes. HSBC is working to receive the LEED certification from the U.S. Green Building Council, which will make Torre HSBC the most environmental friendly building of its type in Mexico and Latin America.

HSBC Mexico has also implemented the guidelines established by the Group that require environmental standards to be taken into account corporate loans, commercial loans and project financing.

HSBC is promoting eco-techniques through two communities in Mexico, one in Valladolid, Yucatan and the other in Creel, Chihuahua. Eco-techniques are taught to indigenous communities and community leaders to use the available resources in their region to produce fresh water, harvest their own gardens and build their homes in an environmental manner.

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

### The Arts

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



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

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

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

### Customer Donations

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

areas: education, healthcare and nutrition. HSBC absorbs the operating cost of the programme. Since the ATM programme began it has helped more than 100,000 children in the areas of education and healthcare.

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

### Aid in Emergency Situations

HSBC has provided emergency aid, both to communities and customers, and raised funds for emergencies, as in the cases of the Tsunami in Asia, the Hurricanes Stan and Wilma at the end of 2005, and the Earthquake in Peru in 2007.

### In Conclusion

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

## Contacts

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