

Grupo Financiero HSBC

Financial information at 31 December 2007

4Q07

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

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February 27, 2008

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

- Net income up MXN46 million (approximately 1 per cent), to MXN5,615 million for the year ended 31 December 2007 (MXN5,569 million for the year ended 31 December 2006). For the quarter ended 31 December 2007, net income rose 45.2 per cent compared to the same period in 2006, reaching MXN1,687 million.
- Total revenues (excluding monetary position and before loan impairment charges) up 17.5 per cent to MXN35,052 million for the year ended 31 December 2007 (MXN29,832 million for the year ended 31 December 2006).
- Net loans and advances to customers up MXN28.7 billion, or 17.9 per cent, to MXN189.5 billion at 31 December 2007 (MXN160.8 billion at 31 December 2006).
- Total customer deposits up MXN39.7 billion, or 17.8 per cent, to MXN262.7 billion at 31 December 2007 (MXN223.0 billion at 31 December 2006).
- Cost efficiency ratio (excluding monetary position) improved to 58.7 per cent for the year ended 31 December 2007 (60.6 per cent for the year ended 31 December 2006).
- Return on equity of 15.6 per cent for the year ended 31 December 2007 (18.6 per cent for the year ended 31 December 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 of 31 December 2007.

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 8-13 include HSBC Panama up to the date of disposal.

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

Commentary by Paul Thurston, CEO of Grupo Financiero HSBC:

“Grupo Financiero HSBC ended 2007 strongly, with net income for the fourth quarter reaching a record high MXN1,687 million, up 45.2 per cent compared with the same quarter of the prior year. Net income for the year ended 31 December 2007 reached MXN5,615 million, up by MXN46 million compared with the prior year. Strong revenue growth of 17.5 per cent, reaching MXN35.1 billion, despite lower earnings from trading and balance sheet management, enabled us to continue to invest in building the consumer credit portfolio and to absorb the related higher loan impairment charges.

“In 2007, Grupo Financiero HSBC, continued to expand its business presence across the personal, commercial and corporate business segments in a highly competitive environment. Credit cards lending balances were up 85.1 per cent year on year to MXN27.3 billion. Personal and payroll loans rose by 60.1 per cent to MXN8.2 billion and the commercial loan portfolio grew by 21.3 per cent to MXN73.2 billion. Customer deposits increased by 17.8 per cent compared with the same period of 2006.

“The HSBC Premier service was re-launched globally during 2007, providing seamless cross-border banking for our customers in Mexico and around the world. In addition, 293,900 new *Tu Cuenta* packaged products were sold during the year. Increased cross-selling activities in the branch network resulted in higher premium income for the insurance subsidiary further diversifying our sources of income.

“In our commercial business, we launched electronic account opening facilities and a new international factoring service, helping to drive an increase of 16 per cent in our base of commercial customers. This further increased our market share of international trade financing, and increase earnings from this customer segment.

“Consistent with the HSBC Group’s organic growth strategy, we continued expanding our business platform during the year, with 304 new ATMs and further investment in marketing and information technology. Costs increased as we worked to improve client service by streamlining processes, modernising branches and investing in the people who will lead our future growth. The 13.7 per cent increase in costs for the year ended 31 December 2007 was exceeded by revenue growth, enabling us to record a cost efficiency improvement.

“Our aim is to become the leading financial services company in Mexico. Local talent, product knowledge and expertise combined with our extensive international network, the HSBC brand and the sharing of global best practices, represents a significant platform on which to continue building our business in Mexico.

“In the area of corporate responsibility, I am pleased to record that in February 2007 HSBC Mexico was awarded, for the second consecutive year, the “Socially Responsible Company” certification by the Mexican Philanthropy Centre (CEMEFI) and Aliarse. In November 2007, HSBC was also awarded Latin America’s first-ever Leadership in Energy and Environmental Design (LEED) Gold certificate for our headquarters building in Mexico, recognizing it as the most environmentally friendly building of its type in Latin America.”

Overview

For the year ended 31 December 2007, Grupo Financiero HSBC’s net income of MXN5,615 million was MXN46 million higher than the same period in 2006. Net income of MXN1,687 in the fourth quarter of 2007 was the highest recorded for a quarterly period for Grupo Financiero HSBC, and was 45.2 per cent higher than the same period of the prior year.

Net interest income (excluding monetary position) was up MXN4,406 million to MXN22,838 million for the year ended 31 December 2007, a 23.9 per cent increase compared with the same period in 2006. The growth was driven by strong performance in higher-yielding consumer lending as well as in the commercial product portfolio and in deposits, partially offset by lower balance sheet management income.

Income from fees and commissions was MXN10,999 million for the year ended 31 December 2007, an increase of 18.6 per cent compared with the same period in 2006. Increased income from credit cards, membership programmes, card acquiring, trusts, investment funds, trade services and ATM fees contributed to this strong performance.

Trading income of MXN1,215 million for the year ended 31 December 2007 was 42.9 per cent lower than the same period of the previous year, due to the more favourable market conditions that existed in 2006, coupled with a relatively flat yield curve in 2007. Trading income during the fourth quarter of 2007 continued to be driven by solid results in retail foreign exchange, offset by reduced revenue opportunities in derivatives and debt trading.

Administrative expenses of MXN20,563 million for the year ended 31 December 2007 were 13.7 per cent higher than in the same period in 2006. Personnel expenses rose in line with our strategy of investing in business growth. Other operating expenses increased largely from higher credit card servicing costs, IT platform investment and marketing costs principally associated with HSBC Premier global relaunch and continued promotion of the highly successful *Tu Cuenta* product. The cost efficiency ratio (excluding monetary position) has shown constant progress, improving 1.9 percentage points to 58.7 per cent with revenue growth exceeding expense growth.

Loan impairment charges reached MXN9,486 million for the year ended 31 December 2007, driven by higher impairment charges on credit cards as HSBC continued to invest in growing its market presence, and also by higher delinquencies in self employed and small business lending. The impairment charges are consistent with market trends, as well as, the strong organic growth strategy followed by the Group.

Additional loan impairment charges were also required in 2007, in accordance with regulatory requirements for credit card lending to create an additional reserve of MXN 400 million. Furthermore, in compliance with applicable regulations, in 2006 HSBC Mexico assigned MXN647 million of general reserves to specific reserves, which reduced the overall loan impairment charge in that year. The year on year growth in loan impairment charges partially reflects this lower comparative base in 2006.

Regular reviews are undertaken to improve the quality of new business, and ensure close control of customer acquisition channels, based on underwriting experience, and to improve collection strategies. HSBC's allowance for loan losses as a percentage of impaired loans was 132.0 per cent at 31 December 2007.

The bank's capital adequacy ratio for the period was 14.2 per cent, well above regulatory requirements.

Business highlights

Personal Financial Services (PFS) increased new-to-bank customers and leveraged its customer relationship management capabilities to drive strong consumer loan growth. During the year, our credit card base grew by almost 619,000 cards, and card balances, an area in which HSBC has traditionally been underweight in Mexico, increased by 85.1 per cent versus 2006. This drove market share up nearly 3.5 per cent versus the prior year¹, reflecting HSBC's strategy to grow the portfolio organically also led to strong loan growth in Personal and payroll loans.

Demand for mortgages remained strong and HSBC's speed of service and competitive rates, supported by marketing campaigns, fuelled growth. During the year, two mortgage portfolios totalling MXN5,901 million were securitised.

As delinquency rates have increased in consumer lending, collections activities have been reinforced and loan underwriting criteria tightened.

¹ Source: HSBC analysis, based on Mexican Banks Association (ABM) figures as of November 2007 for the six largest banks.

The HSBC Group's Premier service, which was relaunched in Mexico during the year, performed well and increased cross-sales. Fee income registered a significant increase primarily due to a rapidly growing credit card customer base and the continued sales of our bundle packages (293,900 new *Tu Cuenta* packages were opened in 2007). Increased cross-selling activities in the branch network resulted in higher income for the insurance company, which grew its direct premiums by 17 per cent during 2007.

Commercial Banking (CMB) in Mexico continues to leverage its two-pronged strategy to become the leading international business bank and the best bank for small businesses. Lending balances were 16.4 per cent higher than in 2006, primarily driven by commercial real estate and larger local and global CMB customers, complemented by strong volume growth in trade, factoring and deposits. Effective targeted marketing campaigns resulted in customer acquisition and increased cross-sales to existing customers. Organic growth in the small business segment led to higher delinquency rates; however, products with high credit losses have been restructured.

Driven by the HSBC Group's geographical presence and enhanced product capabilities, our trade services market share grew by 4.1 percentage points year-on-year, to 15.7 per cent² and international factoring was successfully launched during the fourth quarter of 2007. HSBC's International Banking Centre in Mexico continues to drive referrals throughout the Latin America region and globally, supporting Mexican businesses who are, or are seeking to, operate internationally. We also launched an electronic account opening service for small businesses in 2007.

Global Banking and Markets continues to join up its business across the Latin American region, and create new links to other HSBC operations, by connecting and referring regional customers to other countries in the HSBC Group. Through our global network, we are enabling major Mexican companies to access the international capital markets, as part of Global Banking & Market's emerging market-led, financing focused strategy.

Increased income received from successful mandates in debt capital markets, and an increase in activity in payments and cash management and project finance reflected HSBC's strategic investments in new transactional infrastructure and growth in its local and global distribution capabilities, as well as a growing penetration in Mexico's corporate market.

In Global Markets, trading results were driven by a strong performance in retail foreign exchange. However, these were offset by lower results in balance sheet management and reduced revenue opportunities in the positioning of derivatives and debt trading, due to a relatively flat yield curve.

² Source: HSBC Analysis, based on Mexican Banking and Securities Commission Statistical Bulletin, figures as of September 2007.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,360 branches, 5,741 ATMs, approximately 8.6 million customers and more than 23,000 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through 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

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
a) Liquidity	74.89%	80.14%	81.71%	76.22%	81.93%
Profitability					
b) ROE (Return over equity)	14.15%	16.51%	12.49%	15.54%	17.83%
c) ROA (Return over assets)	1.54%	1.83%	1.36%	1.69%	1.95%
Asset quality					
d) Impaired loans/total loans	2.67%	3.09%	3.17%	3.42%	4.01%
e) Coverage ratio	156.84%	141.60%	146.16%	144.84%	132.00%
Capitalization					
f) Credit risk	18.65%	18.65%	17.90%	17.43%	18.62%
g) Credit and market risk	13.79%	14.67%	13.88%	12.40%	14.23%
Operating efficiency					
h) Expenses/Total Assets	6.11%	6.24%	6.28%	6.44%	6.12%
i) NIM	6.40%	7.03%	7.43%	7.72%	7.38%
Infrastructure					
Branches	1,347	1,350	1,360	1,359	1,360
ATM	5,437	5,482	5,533	5,618	5,741
Head Count	23,683	23,510	23,834	23,919	23,314

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.

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Income Statement Variance Analysis ¹

Net Income

During 2007, Grupo Financiero HSBC (Group) reported a net income of MXN5,615 million, MXN46 million (1.0% approximately) higher compared with the same period of 2006.

The Group benefited from the robust results of its main subsidiary, HSBC México, S.A. de C.V. (Bank) obtained a net income of MXN4,656 million for the year ended 31 December 2007. During the fourth quarter of 2007, the Group's net income was MXN1,687 million, the highest net income recorded for a quarter period for the Group, representing 45.2 per cent growth versus the previous year.

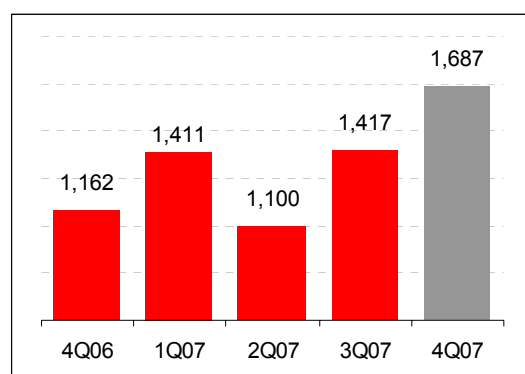
The results reflect the investment that HSBC is making to organically grow the business in Mexico, through its infrastructure, systems and local talent. The costs of organic growth are showing through in higher expenses and loan impairment charges as HSBC continues to build its presence and market share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

Total Revenue

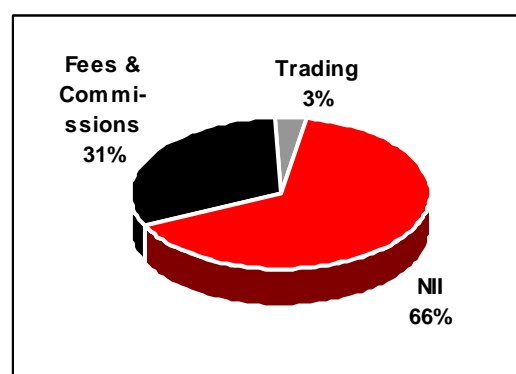
Total revenue for the Group in 2007, before loan impairment charges and the monetary position, was MXN35,052 million, representing an increase of MXN5,220 million (17.5%) compared with the same period of previous year. This growth was driven by increases in net interest income (before monetary position) by MXN4,406 million and fee income of MXN1,725 million, respectively versus 2006. In contrast, trading revenues decreased MXN911 million (42.9%) to close the year with MXN1,215 million.

Total revenue in the fourth quarter, after the monetary position and loan impairment charges, was MXN24,385 million, decreasing MXN130 million (0.5%) compared with the same quarter of 2006. The revenue decrease is attributed to a MXN5,224 million growth in loan impairment charges related to increased requirements based on consumer loan growth and higher delinquencies in the self-employed and small business segments. This reflects the acquisition costs of growing the business in order to generate long term profits, consistent with the strategy to organically grow the loan portfolio and increase market share in higher yielding products.

Grupo Financiero HSBC:
Quarterly Net Income



Grupo Financiero HSBC:
Revenue distribution FY 2007



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Net Interest Income

The Group's net interest income (before the monetary position) in 2007, was MXN22,838 million, representing an increase of 23.9 per cent compared with 2006.

Net interest income benefited from an increase in the loan portfolio, particularly in consumer and commercial loan portfolios as well as time deposits. The outstanding balance of credit cards increased 85.1 per cent versus the prior, while the personal and payroll loans registered an increase in their balances of 60.1 per cent. Time deposits increased MXN36.0 billion in contrast to demand deposits which increased MXN3.7 billion.

The Group's net interest income (excluding monetary position) for the fourth quarter 2007 grew by MXN248 million (4.1%) driven by strong growth in the loan portfolio and deposits during the quarter. Compared with the same period of prior year, growth was MXN1,387 million (28.1%).

Non-interest Income

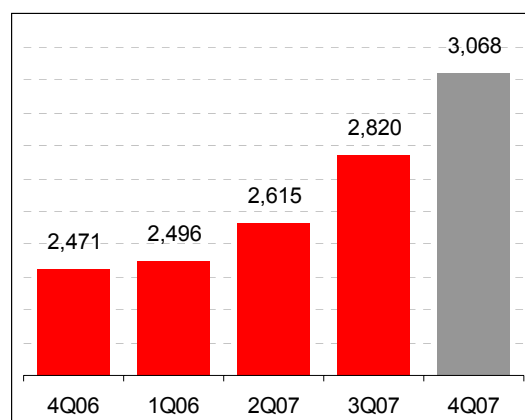
The Group's net fees and commissions income had a strong performance, totaling MXN10,999 million in 2007. This represents a growth of MXN1,725 million (18.6%) compared to previous year. The increase in net fees and commissions is mainly driven by income from credit cards, membership programs, card acquiring, trust, investment funds, international trade services and ATM fees

The positive performance in credit cards is attributed to the constant growth in the number of cards in circulation, which increased by more than 618,000 compared with 2006. The highly successful packaged product *Tu Cuenta* also generated strong increases in fees, with some 294,000 units sold in 2007.

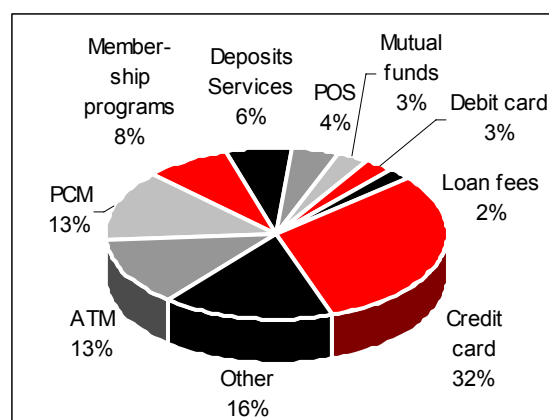
Fees and commissions are mainly driven by the Bank's operations, which represent 93 per cent of the total commissions. Net commissions income obtained by the Bank were MXN10,206 million in 2007, which represents an increase of MXN1,707 million (20.1%) in comparison to the same period of 2006.

In 2007, a strong growth in fees and commissions income was recorded, despite the fact since January 2007, underwriting fees were deferred and were amortized in the net interest income in accordance to methodology changes in commissions recording established by the National Banking and Securities Commission (CNBV).

Group Fees & commissions Growth
(by quarter)



Bank's fees & commissions distribution
(31 december 2007)



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

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Credit card fees doubled in comparison with 2006, driven by increased number of outstandings. Fees from membership programs rose 57 per cent driven by *Tu Cuenta* product. Fiduciary income from trust grew 32 per cent as a result of a higher market share in structured products. In addition, card acquiring fees grew 35 per cent due to an increased number of points of sale, which totaled 105,705 at the end of 2007. Trade services fee income increased due to higher market share coupled with growth derived from the strength of the Group's international network. The revenue generated by investment funds, ATMs and payments & cash management fees also contributed to fee income growth.

Trading income for the Group for the year ended in 31 December 2007 was MXN1,215 million, MXN911 million (42.9%) less than the same period of the previous year, due to more favourable market conditions in 2006. Income for retail foreign exchange had a strong performance, with an increase of MXN111 million, which represents a growth of 15.1 per cent; however, the uncertainty regarding the current market conditions and the flattening of the interest rate yield curve led to lower trading revenues for derivatives and debt trading.

Other net income of MXN2,747 million increased MXN1,645 million compared to previous year, driven by loan recoveries. This growth is mainly explained by loan recoveries (MXN1,342 million) from write-offs recorded since 2007 in this category (previously accounted for by reducing the loan impairment charges), as well as, the income from FIMPE Trust (MXN175 million). This increase is coupled with charges in administrative services to support Latin America intermediaries belonging to the HSBC holdings plc (MXN246.5 million), medical service reserve release (MXN505 million) resulted from the change of scheme from a fixed based benefits to a contribution based and the one-off income generated from the sales of shares from Autopistas de Cuotas, S.A.

The non-interest income to total revenue ratio at the Group level decreased from 38.2 per cent in 2006, to 34.8 per cent in 2007.

Loan impairment charges

The Group's Loan impairment charges for the year ended 31 December 2007 reached a total of MXN9,486 million, representing an increase of MXN5,224 million compared to the prior year. The increase compared to 2006 is explained by increased requirements arising from the strong expansion in the consumer portfolio, mainly by credit cards, in line with the market trend as well as from higher delinquencies in the self-employed and small business portfolios. In accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN647 million of general reserves to fulfill loan portfolio requirements. During the fourth quarter of 2007, the loan impairment charges were affected by an additional MXN400 million loan impairment regulatory requirement for credit card lending balances.

The Group undertakes regular reviews to improve the quality of new business, based on underwriting experience and to improve collection strategies and better manage the customer acquisition channels. HSBC has maintained a solid allowance for loan losses as a percentage of impaired loans was 132.0 per cent in 2007.

Administrative and personnel expenses

The Group's administrative expenses in 2007 were MXN20,563 million, representing an increase of MXN2,482 million (13.7%) compared with the previous year.

Personnel expenses rose in line with the strategy of business growth and the increase of outsourcing personnel reinforced the sales and collection activities. Other operating expenses increased primarily by higher costs related to credit cards services, strengthening the IT platform and an increase in marketing

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expenses related to HSBC Premier global relaunch campaign and the recurrent promotion of the *Tu Cuenta* product.

The Group's cost efficiency ratio (excluding monetary position) was 58.7 per cent in 2007, which represents a significant improvement compared to 60.6 per cent registered in 2006. This improved ratio reflects the increasing revenue at a higher growth rate than the one showed in cost. This outcome is the result of the organic growth strategy implemented in our core business.

Balance Sheet Variance Analysis

The Group's total assets were MXN351,161 million at 31 December 2007, increasing by MXN49,862 million (16.5%) versus the previous year. Likewise, total assets increased MXN11,251 million (3.3%) versus the prior quarter.

Loan Portfolio

The Group's total performing loans rose 17.6 per cent compared with 2006. The change in the balance sheet loan structure is geared towards higher yielding assets. Given this trend, the commercial loan and the financial entities portfolios recorded a year to year growth of 32.6%, and the consumer loans increased 30.4%.

The commercial loan portfolio dynamic was driven by the commercial real state business, which registered a year on year growth of 51.5 per cent, driving increases in market share. The loan portfolio is increasing in most segments given the higher demand for credit driven by the current market conditions as well as our organic growth implementation strategy.

The consumer loan portfolio grew largely due to the strong performance of credit cards, allocating more than 618,000 cards in 2007. This reflects the sound performance of our bundled products like *Tu Cuenta* and the marketing campaign that offers cash back on credit and debit card purchases. The number of *Tu Cuenta* packages grew 29.3 per cent which represents more than 293,000 packages sold during 2007.

Mortgage loans decreased MXN3,010 million compared with 2006, which is explained by the impact of two residential mortgage-backed securities (RMBS) that took place in 2007. Excluding the MXN5,901 million net impact of these transactions, annual growth would have been 14.8 per cent.

Asset Quality

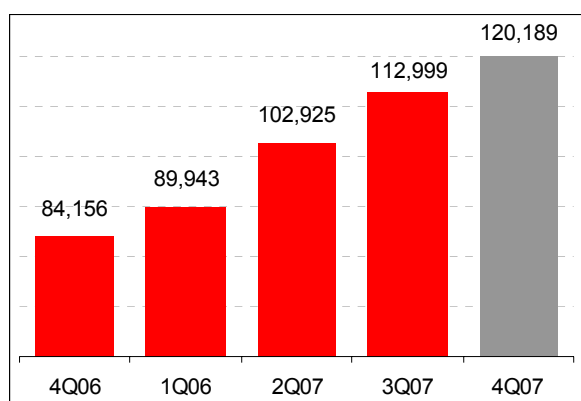
At the end of 2007, the Group's impaired loans were MXN8,025 million, up MXN3,541 million (79.0%) versus prior year. This increase is in line with the organic business growth strategy. The impaired loans to total loans portfolio ratio was 4.0%. The allowance for loan losses as a percentage of impaired loans was 132.0% in 2007, decreasing in comparison to the observed ratio in 2006 (156.8%). HSBC constantly monitors credit underwriting criteria and collection strategies, with the intention of maintaining a balanced and quality loan portfolio.

Deposits

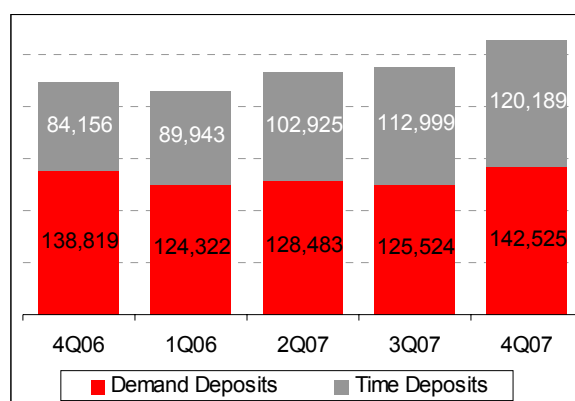
The Group's demand and time deposits were MXN262,714 million in 2007, increasing MXN39,739 versus 2006. The key drivers of this liability behavior are a 42.8 per cent increase in time deposits and a 2.7 per cent increase in demand deposits. Total deposits grew 17.8 per cent in comparison to 2006. In the fourth quarter of 2007 core deposits increased MXN24,191 million, up 10.1 per cent versus prior quarter.

In addition, mutual funds registered an annual growth of 9.8 per cent, highlighting the success of the liquidity fund HSBC-D2, which increased 7.1 per cent in comparison to 2006. In December 2007, HSBC's mutual funds reached more than 119,000 contracts, with 20,500 more clients than previous year.

Group Time deposits growth (retail)
(December, 2007)



Group deposits Mix
(December, 2007)



Shareholder's equity

The Group's shareholder's equity was MXN38,528 million at 31 December 2007, representing a growth of 14.8 per cent versus the previous year, largely due to retained earnings. The Bank's equity at 31 December 2007 was MXN31,83 million, increasing 25.0 per cent versus the previous year. The Bank's capital adequacy ratio was 14.23 per cent at 31 December 2007, above regulatory requirements.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in constant MXN millions at December 31, 2007

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

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Assets					
Cash and deposits in banks	57,175	55,919	51,394	50,483	48,865
Investments in Securities	59,267	54,705	63,264	53,180	76,029
Trading securities	13,106	18,317	29,745	23,072	42,318
Available-for-sale securities	42,010	32,366	29,388	26,107	29,687
Held to maturity securities	4,151	4,022	4,131	4,001	4,024
Securities and derivative operations	244	194	86	7,047	8,933
Repurchase agreements	71	89	86	47	40
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	173	105	-	7,000	8,893
Performing loans					
Commercial loans	105,153	107,060	113,720	121,132	125,679
Commercial entities	60,321	63,165	68,263	70,118	73,188
Loans to financial intermediaries	6,200	6,264	7,238	12,037	15,048
Loans to government entities	38,632	37,631	38,219	38,977	37,443
Consumer loans	36,826	39,149	43,403	47,279	48,034
Mortgages loans	21,347	18,914	20,249	21,292	18,337
Total performing loans	163,326	165,123	177,372	189,703	192,050
Impaired loans					
Commercial loans	1,598	1,887	1,870	2,227	2,534
Commercial entities	1,598	1,887	1,870	2,227	2,534
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	1,730	2,109	2,583	3,168	4,028
Mortgages loans	1,145	1,265	1,357	1,323	1,463
Other	11	-	-	-	-
Total non-performing loans	4,484	5,261	5,810	6,718	8,025
Loan portfolio	167,810	170,384	183,182	196,421	200,075
Allowance for loan losses	(7,034)	(7,449)	(8,492)	(9,730)	(10,593)
Net loan portfolio	160,776	162,935	174,690	186,691	189,482
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	160,776	162,935	174,690	186,691	189,482
Other accounts receivable, net	11,339	30,187	25,755	27,578	12,093
Foreclosed assets	56	67	67	71	82
Property, furniture and equipment, net	6,326	6,268	6,209	6,280	6,511
Long term investments in equity securities	2,743	2,919	3,168	3,437	3,630
Deferred taxes, net	-	-	202	1,400	916
Goodwill	2,749	2,749	2,749	2,749	2,748
Other assets, deferred charges and intangibles	624	1,026	1,001	994	1,872
Total Assets	301,299	316,969	328,585	339,910	351,161

Figures in constant MXN millions at December 31, 2007

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

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Liabilities					
Deposits	227,378	218,644	235,786	242,856	266,958
Demand deposits	138,819	124,322	128,483	125,524	142,525
Time deposits	84,156	89,943	102,925	112,999	120,189
Retail	84,156	89,943	92,559	97,654	100,910
Money market	-	-	10,366	15,345	19,279
Bank bonds outstanding	4,403	4,379	4,378	4,333	4,244
Bank deposits and other liabilities	13,455	10,860	10,114	8,380	7,608
On demand	104	2,067	464	-	-
Short term	11,025	6,633	6,320	5,238	4,998
Long term	2,326	2,160	3,330	3,142	2,610
Securities and derivative transactions	6,560	4,529	13,626	16,278	9,147
Repurchase agreements	56	21	57	50	73
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	6,504	4,508	13,538	9,037	-
Derivative transactions	-	-	31	7,192	9,074
Other accounts payable	17,453	45,362	30,840	32,683	26,317
Income tax and employee profit sharing payable	1,092	1,505	1,320	1,971	1,800
Sundry creditors and others accounts payable	16,361	43,857	29,520	30,712	24,517
Subordinated debentures outstanding	2,290	2,266	2,279	2,241	2,207
Deferred tax	577	394	-	-	-
Deferred credits	20	123	220	299	396
Total Liabilities	<u>267,733</u>	<u>282,178</u>	<u>292,865</u>	<u>302,738</u>	<u>312,633</u>
Stockholder's Equity					
Paid in capital	21,466	21,466	21,466	21,466	21,466
Capital stock	8,210	8,210	8,210	8,210	8,210
Additional paid in capital	13,256	13,256	13,256	13,256	13,256
Capital Gains	12,097	13,304	14,233	15,686	17,060
Capital reserves	875	875	1,162	1,162	1,162
Retained earnings	13,377	19,114	18,827	18,827	18,827
Result from the mark-to-market of available-for-sale securities	-	-	-	-	-
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,989)	(3,989)	(3,989)	(3,989)	(3,989)
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(3,903)	(4,107)	(4,279)	(4,242)	(4,555)
Net Income	5,737	1,411	2,512	3,928	5,615
Minority interest in capital	3	21	21	20	2
<i>Total Stockholder's Equity</i>	<u>33,566</u>	<u>34,791</u>	<u>35,720</u>	<u>37,172</u>	<u>38,528</u>
Total Liabilities and Capital	<u>301,299</u>	<u>316,969</u>	<u>328,585</u>	<u>339,910</u>	<u>351,161</u>

Figures in constant MXN millions at December 31, 2007

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

	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>
Memorandum Accounts					
Transactions on behalf of third parties	112,965	93,619	101,007	105,708	94,672
Customer current accounts	27	(11)	(132)	(5)	8
Customer banks	-	-	3	1	1
Settlement of customer securities and documents	27	(11)	(135)	(6)	7
Customer securities	87,560	67,229	73,523	78,083	65,843
Customer securities in custody	87,554	67,223	73,517	78,074	65,834
Pledged customers securities and documents	6	6	6	9	9
Transactions on behalf of customer	25,378	26,401	27,616	27,630	28,821
Investment on behalf of customers, net	22,799	24,019	25,216	25,432	26,727
Customer repurchase transactions	2,579	2,382	2,400	2,198	2,094
Transactions for the group's own accounts	1,264,210	1,447,134	1,859,211	2,125,909	2,208,956
Accounts for the group's own registry	217,065	176,389	184,864	194,872	196,999
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	52	47	49	45	44
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	96,668	114,691	123,723	134,690	142,794
Goods in custody or under administration	120,345	61,651	61,092	60,137	54,161
Repurchase/resale agreements	15	69	29	(2)	(33)
Securities receivable under repos	51,749	46,940	43,263	48,927	46,971
(-)less					
Creditors repo transactions	51,738	46,874	43,282	48,932	47,016
Reverse repo transactions	3,131	5,461	7,498	5,160	7,095
(less)					
Securities deliverable under repos	3,127	5,458	7,450	5,157	7,083
Securities receivable	-	4,508	13,538	9,037	-
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	-	4,508	13,538	9,037	-
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	<u>1,047,130</u>	<u>1,266,168</u>	<u>1,660,780</u>	<u>1,922,002</u>	<u>2,011,990</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.

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

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Consolidated Income Statement

Figures in constant MXN millions at December 31, 2007

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

For the quarter ending....

Year to date

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Dec 2006	31 Dec 2007
Interest Income	7,372	7,740	7,874	8,912	9,488	28,931	34,014
Interest expense	(2,438)	(2,499)	(2,671)	(2,839)	(3,167)	(10,049)	(11,176)
Monetary position (margin), net	(561)	(357)	72	(356)	(540)	(1,060)	(1,181)
Net interest income	4,373	4,884	5,275	5,717	5,781	17,822	21,657
Loan impairment charges	(1,737)	(1,443)	(2,486)	(2,622)	(2,935)	(4,294)	(9,486)
Risk adjusted net interest income	2,636	3,441	2,789	3,095	2,846	13,528	12,171
Fees and commissions receivable	2,770	2,778	2,900	3,157	3,352	10,558	12,187
Fees payable	(299)	(282)	(285)	(337)	(284)	(1,133)	(1,188)
Trading Income	497	334	466	153	262	2,126	1,215
Total operating income	5,604	6,271	5,870	6,068	6,176	25,079	24,385
Administrative and personnel expenses	(4,597)	(4,826)	(5,071)	(5,380)	(5,286)	(18,421)	(20,563)
Net operating income	1,007	1,445	799	688	890	6,658	3,822
Other income	582	560	900	1,016	1,666	2,211	4,142
Other expenses	(228)	(205)	(362)	(466)	(362)	(1,109)	(1,395)
Net income before taxes	1,361	1,800	1,337	1,238	2,194	7,760	6,569
Income tax and employee profit sharing tax	108	(597)	(1,039)	(911)	(183)	(1,579)	(2,730)
Deferred income tax	(538)	(17)	550	811	(532)	(1,282)	812
Net income before subsidiaries	932	1,186	848	1,138	1,479	4,899	4,651
Undistributed income from subsidiaries	231	225	252	279	207	839	963
Income from ongoing operations	1,162	1,411	1,100	1,417	1,686	5,738	5,614
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	-	1	(1)	1
Net income (loss)	1,162	1,411	1,100	1,417	1,687	5,737	5,615

"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 December 31, 2007

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

From 1 January 2006 to 31 December 2007

	Paid in capital					Earned capital							Minority Interest	Total Stockholders Equity	
	Capital Stock	Advances for future capital increases	Shares Premiums	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Results from non-monetary assets (Valuation of permanent investments)			Net income
Balances at 31 December 2006	8,210	-	13,256	-	-	875	13,377	-	-	(3,989)	-	(3,903)	5,737	3	33,566
Movements Inherent to the Shareholders Decision															
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,450	-	-	-	-	-	(5,737)	-	(287)
Constitution of reserves	-	-	-	-	-	287	-	-	-	-	-	-	-	-	287
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	287	5,450	-	-	-	-	-	(5,737)	-	-
Movements for the Recognition of the Comprehensive Income															
Net result	-	-	-	-	-	-	-	-	-	-	-	-	5,615	-	5,615
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	(652)	-	-	(652)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Total	-	-	-	-	-	-	-	-	-	-	-	(652)	5,615	(1)	4,962
Balances as at 31 December 2007	8,210	-	13,256	-	-	1,162	18,827	-	-	(3,989)	-	(4,555)	5,615	2	38,528

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

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

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

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

Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions at December 31, 2007

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

From 1 January to 31 December 2007

Operating activities:

Net income	5,615
Items included in operations not requiring (providing) funds:	
Result from mark-to-market valuations	7
Allowances for loan losses	9,486
Depreciation and amortisation	1,053
Deferred taxes	(812)
Minority interest	(1)
Undistributed income from subsidiaries, net	(953)
Adjustment in the employee pensions	(428)
Value loss estimation for foreclosed assets	21
Total operating items not requiring funds	13,988

Changes in items related to operations:

Decrease / increase in retail deposit and money desk	39,579
Decrease / increase in loan portfolio	(38,192)
Increase / decrease in investment in securities	(16,871)
Decrease / increase in securities and derivative transactions, net	(6,000)
Bank deposits and other liabilities	(5,847)
Funds provided by operating activities	(27,331)

Financing activities:

Subordinated debentures outstanding	(83)
Decrease/increase in accounts payable	8,788
Funds used or provided in financing activities	8,705

Investing activities:

Decrease/(increase) in property, furniture and equipment, net	(1,825)
Decrease/(increase) in deferred charges or credits, net	(305)
Decrease in foreclosed assets	(48)
Decrease/increase in accounts receivable	(1,494)
Funds used in investing activities	(3,672)
(Increase)/Decrease in cash and equivalents	(8,310)
Cash and equivalents at beginning of period	57,175
Cash and equivalents at end of period	48,865

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

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

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

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

Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in constant MXN millions at December 31, 2007

HSBC Mexico, S.A. (Bank)

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Assets					
Cash and deposits in banks	57,174	55,918	51,394	50,483	48,864
Investment in Securities	58,192	53,594	62,158	52,066	75,660
Trading securities	12,032	17,206	28,639	21,959	42,235
Available-for-sale securities	42,009	32,366	29,388	26,106	29,401
Held to maturity securities	4,151	4,022	4,131	4,001	4,024
Securities and derivative operations	239	189	81	7,044	8,932
Repurchase agreements	66	84	81	45	39
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	173	105	-	6,999	8,893
Performing loans					
Commercial loans	105,153	107,060	113,720	121,132	125,679
Commercial entities	60,321	63,165	68,263	70,118	73,188
Loans to financial intermediaries	6,200	6,264	7,238	12,037	15,048
Loans to government entities	38,632	37,631	38,219	38,977	37,443
Consumer loans	36,826	39,149	43,403	47,279	48,034
Mortgages loans	21,347	18,914	20,249	21,292	18,337
Loans to Fobaproa or IPAB	-	-	-	-	-
Total performing loans	163,326	165,123	177,372	189,703	192,050
Impaired loans					
Commercial loans	1,598	1,887	1,870	2,227	2,534
Commercial entities	1,598	1,887	1,870	2,227	2,534
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	1,730	2,109	2,583	3,168	4,028
Mortgage Loans	1,145	1,265	1,357	1,323	1,463
Immediate collection, remittances and other	11	-	-	-	-
Total non-performing loans	4,484	5,261	5,810	6,718	8,025
Total loan portfolio	167,810	170,384	183,182	196,421	200,075
Allowance for loan losses	(7,034)	(7,449)	(8,492)	(9,730)	(10,593)
Net loan portfolio	160,776	162,935	174,690	186,691	189,482
Receivables	-	-	-	-	-
(-) less	-	-	-	-	-
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	160,776	162,935	174,690	186,691	189,482
Other accounts receivable	11,213	27,461	25,604	27,437	12,005
Foreclosed assets	56	67	67	71	82
Property, furniture and equipment, net	6,311	6,254	6,196	6,267	6,498
Long term investments in equity securities	192	160	148	149	137
Deferred taxes	-	-	155	1,360	883
Other assets, deferred charges and intangibles	608	991	967	960	1,846
Total Assets	294,761	307,569	321,460	332,528	344,389

Figures in constant MXN millions at December 31, 2007

HSBC Mexico, S.A. (Bank)

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Liabilities					
Deposits	229,027	220,342	237,456	244,562	267,025
Demand deposits	140,468	126,020	130,152	127,230	142,592
Time deposits	84,156	89,943	102,925	112,999	120,189
Bank bonds outstanding	4,403	4,379	4,379	4,333	4,244
Bank deposits and other liabilities	13,455	10,860	10,114	8,380	7,608
On demand	104	2,067	464	-	-
Short term	11,024	6,633	6,320	5,238	4,998
Long term	2,327	2,160	3,330	3,142	2,610
Securities and derivative transactions	6,555	4,523	13,622	16,276	9,146
Repurchase agreements	51	15	53	47	72
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	6,504	4,508	13,538	9,037	-
Derivative transactions	-	-	31	7,192	9,074
Other accounts payable	17,293	42,571	30,657	32,511	26,164
Income tax and employee profit sharing payable	1,061	1,452	1,274	1,923	1,741
Sundry creditors and others accounts payable	16,232	41,119	29,383	30,588	24,423
Subordinated debentures outstanding	2,290	2,266	2,279	2,241	2,207
Deferred tax	630	440	-	-	-
Deferred credits	20	123	220	299	396
Total Liabilities	269,269	281,125	294,349	304,269	312,546
Stockholder's Equity					
Paid in capital	13,533	13,533	13,533	13,533	15,883
Capital stock	4,079	4,079	4,079	4,079	4,272
Additional paid in capital	9,454	9,454	9,454	9,454	11,611
Capital Gains	11,958	12,891	13,558	14,707	15,959
Capital reserves	9,496	9,496	14,077	14,077	14,077
Retained earnings	-	4,581	-	-	-
Surplus (Deficit) from securities	314	88	(88)	(40)	(217)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,622)	(3,594)	(3,593)	(3,605)	(3,602)
Gains on non monetary asset valuation	1,189	1,182	1,184	1,186	1,181
Adjustment in the pension employee	-	-	-	-	(136)
Net Income	4,581	1,139	1,978	3,090	4,656
Minority interest in capital	1	19	20	18	1
Total Stockholder's Equity	25,492	26,444	27,111	28,259	31,843
Total Liabilities and Capital	294,761	307,569	321,460	332,528	344,389

Figures in constant MXN millions at December 31, 2007

HSBC Mexico, S.A. (Bank)

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Memorandum Accounts					
Guarantees granted	52	47	49	45	44
Other contingent obligations	129	130	134	129	128
Irrevocable lines of credit granted	6,575	7,819	8,679	8,785	10,793
Goods in trust or mandate	96,668	114,691	123,723	134,691	142,794
Goods	96,158	114,204	123,124	133,805	142,108
Trusts	510	487	599	885	686
Goods in custody or under administration	116,255	57,608	57,030	56,127	50,216
Third party investment banking operations, net	22,799	24,019	25,216	25,431	26,727
Amounts committed in transactions with IPAB or Fobaproa	162	156	152	139	138
Amounts contracted in derivative operations	682,967	897,145	1,265,623	1,505,017	1,410,856
Investments of retirement savings system funds	3,674	3,631	3,645	3,600	3,540
Integrated loan portfolio	174,437	178,253	191,910	205,251	210,912
Other control accounts	179,184	179,035	190,636	199,079	375,621
	<u>1,282,902</u>	<u>1,462,534</u>	<u>1,866,797</u>	<u>2,138,294</u>	<u>2,231,769</u>
Securities receivable under repos (less) Repurchase agreements	49,174 <u>(49,158)</u>	44,558 <u>44,491</u>	40,867 <u>(40,882)</u>	46,731 <u>(46,734)</u>	44,890 <u>(44,922)</u>
	<u>16</u>	<u>67</u>	<u>(15)</u>	<u>(3)</u>	<u>(32)</u>
Reverse repurchase agreements (less) Securities deliverable under repos	552 <u>(552)</u>	3,078 <u>(3,076)</u>	5,098 <u>(5,054)</u>	2,961 <u>(2,961)</u>	5,001 <u>(5,002)</u>
	<u>-</u>	<u>2</u>	<u>44</u>	<u>-</u>	<u>(1)</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	- <u>-</u>	4,508 <u>-</u>	13,538 <u>-</u>	9,037 <u>-</u>	- <u>-</u>
	<u>-</u>	<u>4,508</u>	<u>13,538</u>	<u>9,037</u>	<u>-</u>

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

Historical paid in capital of the Institution amounts to MNX 2,471 millions.

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Consolidated Income Statement

Figures in constant MXN millions at December 31, 2007

HSBC Mexico, S.A. (Bank)

For the quarter ending

Year to date

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Dec 2006	31 Dec 2007
Interest income	7,319	7,629	7,894	8,857	9,437	28,046	33,817
Interest expense	(2,383)	(2,453)	(2,685)	(2,838)	(3,133)	(9,701)	(11,110)
Monetary position (margin)	(507)	(321)	59	(316)	(486)	(972)	(1,063)
Net interest income	<u>4,429</u>	<u>4,855</u>	<u>5,268</u>	<u>5,703</u>	<u>5,818</u>	<u>17,373</u>	<u>21,644</u>
Loan impairment charges	1,737	1,443	2,486	2,622	2,935	4,262	9,486
Loan impairment charges	1,737	1,443	2,486	2,622	2,935	4,177	9,486
Loss sharing Fobaproa	-	-	-	-	-	85	-
Risk adjusted net interest income	<u>2,692</u>	<u>3,412</u>	<u>2,782</u>	<u>3,081</u>	<u>2,883</u>	<u>13,111</u>	<u>12,158</u>
Fees and commissions receivable	2,616	2,564	2,725	2,945	3,201	9,605	11,435
Account management	381	371	390	363	368	1,580	1,492
Services	2,235	2,193	2,335	2,582	2,833	8,025	9,943
Fees payable	(301)	(279)	(280)	(331)	(339)	(1,106)	(1,229)
Trading Income	497	332	464	151	263	2,121	1,210
Foreign exchange	77	182	99	234	157	444	672
Securities trading, net	(197)	(143)	60	(31)	56	145	(58)
Repos	(5)	-	(13)	(1)	-	270	(14)
Swaps	621	395	138	(65)	72	807	540
Valuation off-shore agencies	(63)	(109)	100	(43)	(18)	294	(70)
Valuation for trading swaps	64	7	80	57	(4)	161	140
Total operating income	<u>5,504</u>	<u>6,029</u>	<u>5,691</u>	<u>5,846</u>	<u>6,008</u>	<u>23,731</u>	<u>23,574</u>
Administrative and personnel expenses	4,516	4,675	4,940	5,249	5,080	17,472	19,944
Personnel expense	2,000	1,985	2,093	2,033	2,097	7,660	8,208
Administrative expense	2,290	2,431	2,582	2,963	2,710	8,932	10,686
Depreciation and amortization	226	259	265	253	273	880	1,050
Net operating income	<u>988</u>	<u>1,354</u>	<u>751</u>	<u>597</u>	<u>928</u>	<u>6,259</u>	<u>3,630</u>
Other income	629	572	931	1,044	1,625	2,146	4,172
Other expenses	(207)	(205)	(362)	(465)	(290)	(1,084)	(1,322)
Net income before taxes	<u>1,410</u>	<u>1,721</u>	<u>1,320</u>	<u>1,176</u>	<u>2,263</u>	<u>7,321</u>	<u>6,480</u>
Income tax and employee profit sharing	99	(575)	(1,033)	(896)	(172)	(1,489)	(2,676)
Deferred income tax	(533)	(10)	548	818	(529)	(1,249)	826
Net income before subsidiaries	<u>976</u>	<u>1,136</u>	<u>835</u>	<u>1,098</u>	<u>1,562</u>	<u>4,583</u>	<u>4,630</u>
Undistributed income from subsidiaries	-	2	4	14	4	(2)	25
Income from ongoing operations	<u>976</u>	<u>1,138</u>	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u>4,581</u>	<u>4,655</u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	1	-	-	-	-	1
Net income (loss)	<u>976</u>	<u>1,139</u>	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u>4,581</u>	<u>4,656</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 31 December 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
Balances at 31 December 2006	4,079	-	9,454	-	-	9,496	-	314	-	-	(3,622)	1,189	-	4,581	1	25,492
Movements Inherent to the Shareholders Decision																
Subscription of shares	193	-	2,157	-	-	-	-	-	-	-	-	-	-	-	-	2,350
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,581	(4,581)	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	4,581	-	-	-	-	-	-	(4,581)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	193	-	2,157	-	-	4,581	-	-	-	-	-	-	-	(4,581)	-	2,350
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	4,656	-	4,656
Surplus (Déficit) from securities	-	-	-	-	-	-	(531)	-	-	-	-	-	-	-	-	(531)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	20	-	-	-	-	-	20
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	(8)	-	-	-	-	(8)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	(136)	-	-	-	(136)
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	(531)	-	-	20	(8)	(136)	4,656	-	4,001	
Balances as at 31 December 2007	4,272	-	11,611	-	-	14,077	-	(217)	-	-	(3,602)	1,181	(136)	4,656	1	31,843

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 1st. January 2007 to 31 December 2007

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

Operating activities:

Net income	4,656
Items included in operations not requiring (providing) funds:	
Result from mark to market valuations	7
Allowance for loan losses	9,486
Depreciation and amortisation	1,050
Deferred taxes	(827)
Undistributed income from subsidiaries, net	(14)
Value loss estimation for foreclosed assets	21
Minority interest	(1)
Adjustment in the employee pensions	(428)
Total operating items not requiring funds	<u>13,950</u>

Changes in operating accounts:

Increase in retail deposit and money desk	37,997
(Increase) in loan portfolio	(38,192)
Decrease in securities and derivative transactions, net	(18,108)
Decrease/(increase) in financial instruments	(6,000)
Bank deposits and other liabilities	(5,847)
Funds provided by operations	<u><u>(16,200)</u></u>

Financing activities:

Subordinated debentures outstanding	(83)
Contributions or reimbursements of capital contributed	2,350
Decrease/increase in accounts payable	8,795
Funds used or provided by financing activities	<u><u>11,062</u></u>

Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(1,155)
(Increase)/decrease in deferred credits	(310)
Decrease in foreclosed assets	(48)
Decrease/increase in accounts receivable	(1,659)
Funds used in investing activities	<u><u>(3,172)</u></u>
Increase in cash and equivalents	(8,310)
Cash and equivalents at beginning of period	57,174
Cash and equivalents at end of period	<u><u>48,864</u></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 December 31, 2007

Investments in securities

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Government securities	12,069	13,736	27,597	20,340	40,101
Bank securities	84	3,275	705	951	1,039
Shares	878	942	959	954	184
Others	75	364	484	827	994
Trading securities	<u>13,106</u>	<u>18,317</u>	<u>29,745</u>	<u>23,072</u>	<u>42,318</u>
Government securities	35,098	28,017	25,932	21,594	23,921
Bank securities	1,985	217	213	262	327
Obligations and other securities	4,651	4,120	3,231	4,238	5,427
Shares	276	12	12	13	12
Available for sale securities	<u>42,010</u>	<u>32,366</u>	<u>29,388</u>	<u>26,107</u>	<u>29,687</u>
Sovereign debt securities	401	254	276	126	147
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,748	3,766	3,853	3,873	3,875
MYRAS	-	-	-	-	-
Securities held to maturity	<u>4,151</u>	<u>4,022</u>	<u>4,131</u>	<u>4,001</u>	<u>4,024</u>
Total Financial Instruments	<u>59,267</u>	<u>54,705</u>	<u>63,264</u>	<u>53,180</u>	<u>76,029</u>

In the fourth quarter of 2007 investment in securities decrease by MXN22,849 million versus prior quarter; MXN22,088 million decrease in government securities, MXN1,376 million in promissory note securities, MXN153million in bonds, MXN(770) million in shares and a increase in other by MXN2 million.

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

Figures in constant MXN millions at December 31, 2007

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Government securities (debit)	49,460	45,282	41,688	47,967	46,145
Bank securities (debit)	2,193	1,535	1,520	900	797
Valuation Increase (decrease)	47	61	32	46	9
Interest in securities receivable under repurchase agreements	49	62	23	14	20
Total in repo agreements (debit)	51,749	46,940	43,263	48,927	46,971
Repo's Government securities (credit)	49,465	45,284	41,693	47,969	46,158
Repo's Bank securities (credit)	2,193	1,535	1,520	900	797
Valuation increase (decrease)	4	4	6	4	2
Accrued interest payable	76	51	63	59	59
Credit balance in repo agreements	51,738	46,874	43,282	48,932	47,016
Repurchase agreements in government securities	3,130	2,383	7,484	5,158	7,094
Repurchase agreements in banking securities	-	3,077	-	-	-
Valuation increase (decrease)	-	-	1	-	-
Accrued interest receivable	1	1	13	2	1
Debit balance repo securities agreements	3,131	5,461	7,498	5,160	7,095
Government securities	3,126	2,382	7,480	5,155	7,081
Bank securities	-	3,077	-	-	-
Valuation increase (decrease)	-	(1)	(30)	-	-
Interest in securities deliverable under repurchase agreements	1	-	-	2	2
Credit balance repo securities agreements	3,127	5,458	7,450	5,157	7,083

Derivative Financial Instruments**HSBC Mexico, S.A. (Bank)**

Figures in constant MXN millions at December 31, 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	-	-	32,924	33,007	98,306	98,369	-	-	(146)
US Dollars	-	-	16,694	16,562	1	1	186,887	189,078	(2,059)
Interest Rate	16,411	16,411	100,065	99,996	-	-	1,298,962	1,297,007	2,024
Total	16,411	16,411	149,683	149,565	98,307	98,370	1,485,849	1,486,085	(181)
For hedging									
Pesos	-	-	-	-	-	-	11,766	-	-
US Dollars	-	-	-	-	-	-	-	12,673	-
Interest Rate	-	-	-	-	-	-	5,757	5,873	-
Total	-	-	-	-	-	-	17,523	18,546	-

Stock Borrowing

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at December 31, 2007

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Received borrowings					
Cetes	6,504	4,508	13,538	9,037	-
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	-	-	-
Increase or decrease in bonds	-	-	-	-	-
Total	6,504	4,508	13,538	9,037	-

Participation by Subsidiary

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

Group Subsidiaries at December 31, 2007

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,235,518,371	99.99%	1,235,442,145
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
HSBC Servicios, S.A. de C.V.	100	99.00%	99
Total	2,068,855,196		2,047,671,226

Trading income

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at December 31, 2007

	For the quarter ending...					Year to date	
	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Dec 2006	31 Dec 2007
Valuation	4	(84)	177	(20)	(80)	584	(7)
Derivatives	2	(84)	179	(21)	(83)	602	(9)
Repos	-	-	(1)	-	3	23	2
Debt Securities	2	-	(1)	1	-	(41)	-
Buying and Selling Instruments	493	416	287	172	342	1,537	1,217
Foreign Currency	76	182	99	234	157	444	672
Derivatives	426	227	146	(54)	158	556	473
Repos	(4)	7	24	-	(14)	271	17
Shares	-	-	-	(4)	41	1	37
Debt Securities	(5)	-	18	-	-	265	18
Total	497	332	464	152	262	2,121	1,210

Loan Portfolio

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

By type of currency

Figures in constants MXN millions

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	54,158	14,796	35,935	48,034	15,437	168,360
US Dollars	19,030	252	1,508	-	4	20,794
Udis Banxico	-	-	-	-	2,896	2,896
Total	73,188	15,048	37,443	48,034	18,337	192,050

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Non Performing Loans Portfolio						
Pesos	2,280	-	-	4,028	867	7,175
US Dollars	254	-	-	-	-	254
Udis Banxico	-	-	-	-	596	596
Total	2,534	-	-	4,028	1,463	8,025

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

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Global scale ratings			
Foreign currency			
Long term	Baa1	BBB+	A
Short term	P-2	A-2	F1
Local Currency			
Long term obligations	Aa2	BBB+	A+
Long term deposits	Aa2	BBB+	A+
Short term	P-1	A-2	F1
BFSR (Moody's)	C	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
Outlook	POS (m)	Positive	Positive
Last update	28-Nov-07	27-Nov-07	20-Sep-07

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in constant MXN millions at December 31, 2007

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	29,492				
Graded	181,420				
Risk A	130,332	509	201	54	763
Risk A-1	99,000	213	201	54	467
Risk A-2	31,332	296	0	0	296
Risk B	40,985	1,885	506	122	2,513
Risk B-1	27,299	564	506	122	1,192
Risk B-2	10,514	838	0	0	838
Risk B-3	3,172	484	0	0	484
Risk C	3,242	327	912	106	1,345
Risk C-1	2,825	156	912	106	1,174
Risk C-2	418	171	0	0	171
Risk D	5,211	512	2,709	640	3,861
Risk E	1,650	763	724	223	1,710
Total	210,912	3,997	5,052	1,144	10,193
Less:					
Constituted Reserves					10,593
Surplus ³					400

1. The rating and constitution of reserves correspond to last day of the balance sheet at 31 December 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. The institution used for the case of the commercial portfolio in its first phase, which deals with the grading of the debtor an 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. By Note No. 141-1/1500196/2007, the CNBV notified the Bank some observations and differences in the determination of reserves for credit card, the section 1 of article 91 of the General Provisions Applicable to the Credit Institutions. The Bank exercised its right to a hearing and is awaiting the final resolution of this issue, however, at the discretion prudential the Bank has constituted reserves for MXN \$400 million additional of the reserves identified in the grading process for the portfolio.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in historic MXN millions

	At the quarter ending				
	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Initial Balance of Impaired Lons	3,902	4,320	5,129	5,642	6,606
Increases	2,708	4,695	4,375	5,179	5,983
Transfer of current loans to past due status	2,708	4,695	4,375	5,179	5,983
Decreases	(2,297)	(3,901)	(3,852)	(4,229)	(4,576)
Restructurings	(44)	(71)	(66)	(75)	(155)
Liquidated credits	(1,858)	(3,147)	(2,945)	(3,167)	(3,402)
Charged in cash	(932)	(2,278)	(1,636)	(2,029)	(1,626)
Foreclosed assets	-	-	(1)	-	-
Writeoffs	-	-	-	-	-
Sale of portfolio	(926)	(869)	(1,308)	(1,138)	(1,776)
Transfer to performing loan status	(395)	(683)	(841)	(987)	(1,019)
Fx revaluations	7	15	(10)	14	12
Final Balance of Impaired Loan	4,320	5,129	5,642	6,606	8,025

Deferred Taxes

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

Figures in constant MXN millions at December 31, 2007

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
Loan loss reserves	781	712	1,314	1,787	1,733
Valuation of securities	(489)	(68)	(40)	68	(27)
Fiscal loss	85	112	46	-	1
Loss sharing	-	-	-	-	-
Other reserves	770	836	705	763	679
Other	(65)	(97)	(16)	50	86
Differences in rates of fixed assets	(318)	(560)	(472)	(186)	(471)
Fiscal result UDIS-Banxico	(1,341)	(1,329)	(1,335)	(1,082)	(1,085)
Total Deferred Taxes	(577)	(394)	202	1,400	916

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>31 Dec 2006</i>	<i>31 Mar 2007</i>	<i>30 Jun 2007</i>	<i>30 Sep 2007</i>	<i>31 Dec 2007</i>
MXN pesos					
Funding	2.47%	2.58%	2.78%	3.00%	3.28%
Bank and other loans	6.98%	7.12%	7.20%	7.10%	7.38%
Foreign currency					
Funding	1.60%	1.75%	1.69%	1.76%	1.72%
Bank and other loans	6.36%	5.49%	5.24%	5.37%	5.12%
UDIS					
Funding	0.19%	0.20%	0.19%	0.19%	0.20%

Long Term Debt

HSBC Mexico, S.A. (Bank)

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments 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	7	2,207	25-NOV-2013
		2,200		7	2,207	

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	4,221	MXN	23	4,244	27-ABR-2016
		4,221		23	4,244	

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 MXN5,737m, as follows:

- ▶ MXN287m (5%) to increase legal reserves, and the remaining MXN5,450 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 MXN4,581 million, as follows:

- ▶ MXN458 million (10%) to increase legal reserves, and the remaining MXN4,123, at the disposal of the Board under the concept of other reserves.

The general shareholders meeting, held on December 20, 2007 agreed to increase the capital stock amounting to MXN2,350 million of which are MXN 193 million to capital stock and MXN 2.157 million in shares premiums, by issuing 96,311,475 shares, which were subscribed and paid at a price of MXN 24.40 for every 1,000 shares that they hold.

The capital stock increased to MXN2,471, representing 1,235,518,371 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 December 31, 2007

	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
% of assets subject to credit risk					
Tier 1	16.62%	16.64%	15.84%	15.53%	16.76%
Tier 2	2.03%	2.01%	2.06%	1.89%	1.86%
Total regulatory capital	<u>18.65%</u>	<u>18.65%</u>	<u>17.90%</u>	<u>17.43%</u>	<u>18.62%</u>
% of assets subject to credit and market risk					
Tier 1	12.29%	13.09%	12.29%	11.05%	12.81%
Tier 2	1.50%	1.58%	1.60%	1.35%	1.42%
Total regulatory capital	<u>13.79%</u>	<u>14.67%</u>	<u>13.88%</u>	<u>12.40%</u>	<u>14.23%</u>
Tier 1	24,144	24,918	25,519	26,504	30,192
Tier 2	2,948	3,007	3,318	3,226	3,359
Total regulatory capital	<u>27,092</u>	<u>27,925</u>	<u>28,837</u>	<u>29,730</u>	<u>33,551</u>
RWA credit risk	145,282	149,749	161,087	170,613	180,150

	<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>	<u>31 Dec</u> <u>2007</u>
RWA market risk	51,153	40,656	46,627	69,169	55,630
RWA credit and market risk	196,435	190,405	207,714	239,782	235,780

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 December 31, 2007

	<u>For the quarter ending</u>					<u>Year to date</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>	<u>31 Dec</u> <u>2007</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Dec</u> <u>2007</u>
Other income							
Loans to employees	17	24	27	32	35	76	118
Recoveries	108	128	333	565	727	411	1,753
Other income	309	316	516	359	765	1,486	1,956
Monetary position (other income)	148	92	24	60	139	238	315
	<u>582</u>	<u>560</u>	<u>900</u>	<u>1,016</u>	<u>1,666</u>	<u>2,211</u>	<u>4,142</u>
Other expenses							
Other losses	(211)	(205)	(362)	(466)	(362)	(1,091)	(1,395)
Monetary position (other expenses)	(17)	-	-	-	-	(18)	-
	<u>(228)</u>	<u>(205)</u>	<u>(362)</u>	<u>(466)</u>	<u>(362)</u>	<u>(1,109)</u>	<u>(1,395)</u>
Total other income (expenses)	<u>354</u>	<u>355</u>	<u>538</u>	<u>550</u>	<u>1,304</u>	<u>1,102</u>	<u>2,747</u>

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

Related Party Transactions

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

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices. The balance of the transactions carried out as of December 31, 2007 is shown below:

Figures in constant MXN millions at December 31, 2007

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
Balance Sheet							
Cash and deposits in banks	-	-	59	-	-	8	67
Demand deposits	(67)	-	-	-	-	-	(67)
Repos (assets)			13				13
Reverse repos (liabilities)	(13)						(13)
Sundry debtors (assets)	191	22	-	1	-	-	214
Sundry creditors (liabilities)	(23)	-	-	(2)	(187)	(2)	(214)
Total	88	22	72	(1)	(187)	6	-
P&L							
Payable commissions	(64)	(4)	-	-	-	-	(68)
Receivable commissions	-	-	63	5	-	-	68
Interest income	-	-	2	-	-	61	63
Interest expense	(63)	-	-	-	-	-	(63)
Repos	(163)	-	(8)	-	-	-	(171)
Reverse repos	8	-	163	-	-	-	171
Administrative services	-	(52)	(38)	(21)	(161)	(1)	(273)
Other income	273	-	-	-	-	-	273
Total	(9)	(56)	182	(16)	(161)	60	-

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

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

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

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

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

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

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

Figures in constant MXN millions at December 31, 2007

	Year to date at 31 December 2007				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	15,305	5,152	1,168	32	21,657
Provision for Loan Loss	(9,139)	(371)	24	-	(9,486)
Net Interest Income adjusted	6,166	4,781	1,192	32	12,171
Fees and Commissions, net	8,191	2,187	608	13	10,999
Trading Income	551	108	556	-	1,215
Total Revenue	14,908	7,076	2,356	45	24,385
Administrative Expenses	(15,360)	(3,835)	(1,463)	95	(20,563)
Operating Income	(452)	3,241	893	140	3,822
Other Income (Expenses), net	1,921	297	165	364	2,747
Taxes	(436)	(1,010)	(302)	(170)	(1,918)
Net Income before subsidiaries	1,033	2,528	756	334	4,651
Undistributed income from subsidiaries	37	-	-	926	963
Continued Operating Results	1,070	2,528	756	1,260	5,614
Discontinued Operating Results	-	-	-	-	-
Net Income	1,070	2,528	756	1,260	5,614
Minority Shareholders	1	-	-	-	1
Participated Net Income	1,071	2,528	756	1,260	5,615

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 year ended 31 December 2007 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	31 Dec 2007
Grupo Financiero HSBC – Net Income Under Mexican GAAP	5,615
Inflation	988
Differences arising on the valuation of pensions and post retirement healthcare benefits †	118
Differences arising on acquisition costs relating to long-term investment contracts †	(30)
Differences arising from the deferral of fees received and paid on the origination of loans	276
Differences arising from the recognition and provisioning for loan impairments †	656
Differences arising from purchase accounting adjustments †	(28)
Differences arising from the recognition of the present value in-force of long-term insurance contracts †	722
Other differences in accounting principles †	347
HSBC México net income under IFRS	8,664
US dollar equivalent (millions)	793
Add back tax expense	1,866
HSBC México profit before tax under IFRS	10,530
US dollar equivalent (millions)	963
<i>Exchange rate used for conversion</i>	10.93

† 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 December 31, 2007

	Total Group 30 Sep 2007	Mexico* 30 Sep 2006	Panama 30 Sep 2006	Total Group 30 Sep 2006
Interest income	34,014	28,178	753	28,931
Interest expense	(11,176)	(9,746)	(303)	(10,049)
Monetary position (margin), net	(1,181)	(1,055)	(5)	(1,060)
Net interest income	<u>21,657</u>	<u>17,377</u>	<u>445</u>	<u>17,822</u>
Loan impairment charges	(9,486)	(4,262)	(32)	(4,294)
Risk adjusted net interest income	<u>12,171</u>	<u>13,115</u>	<u>413</u>	<u>13,528</u>
Fees and commissions receivable	12,187	10,374	184	10,558
Fees payable	(1,188)	(1,100)	(33)	(1,133)
Trading income	<u>1,215</u>	<u>2,126</u>	<u>-</u>	<u>2,126</u>
Total operating income	<u>24,385</u>	<u>24,515</u>	<u>564</u>	<u>25,079</u>
Administrative and personnel expenses	(20,563)	(18,081)	(340)	(18,421)
Net operating income	<u>3,822</u>	<u>6,434</u>	<u>224</u>	<u>6,658</u>
Other income	4,142	2,211	-	2,211
Other expenses	(1,395)	(1,109)	-	(1,109)
Net income before taxes	<u>6,569</u>	<u>7,536</u>	<u>224</u>	<u>7,760</u>
Income tax and employee profit sharing	(2,730)	(1,514)	(65)	(1,579)
Deferred taxes	812	(1,291)	9	(1,282)
Net income before subsidiaries	<u>4,651</u>	<u>4,731</u>	<u>168</u>	<u>4,899</u>
Undistributed income from subsidiaries	963	839	-	839
Income from ongoing operations	<u>5,614</u>	<u>5,570</u>	<u>168</u>	<u>5,738</u>
Minority interest	1	(1)	-	(1)
Net income	<u>5,615</u>	<u>5,569</u>	<u>168</u>	<u>5,737</u>

† On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, results for the nine months 31 December 2006 have been restated to exclude results for HSBC Panama up until the date of disposal in order to compare on a like-for-like basis. Figures used for comparison purposes are shown in bold.

Risk Management

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

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 fourth 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.

Value in Risk of Global Market (VaR) (Considering all the Risk Factors)						
	Bank		All Trading		Accrual	
	Average 4Q 2007	Limits*	Average 4Q 2007	Limits *	Average 4Q 2007	Limits *
Combined	10.44	42.00	3.00	40.00	9.17	27.50
Interest Rates	11.38	42.00	3.48	24.50	9.17	27.50
FX	1.86	8.00	1.85	8.00	N/A	N/A
Volatility IR	0.18	9.50	0.17	7.50	0.01	2.00

*Absolute Value NA = Non Applicable

Value in Risk of Global Market (VaR) (Compared to the latest quarter)					
	28 Sep 07	31 Dec 07	Limits*	Average 3rd Quarter 2007	Average 4th Quarter 2007
HBMI	12.14	14.35	42.00	17.67	10.44
Accrual	8.57	11.97	27.50	14.87	9.17
All Trading	3.08	3.33	32.50	3.64	3.00

*Absolute Value NA = Non Applicable

The Bank's VaR at the end of the 4Q07 varied 18.20% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 4Q07 varied -40.91% 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 September 30th, 2007 and December 31st, 2007 (in millions of dollars).

Comparison of Market VaR vs. Net capital

Net capital in million dollars

	28 Sept 07	31 Dec 07
VaR Total *	17.67	10.44
Net Capital **	2,703.74	3,073.69
VaR / Capital Neto	0.65	0.34

* 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 0.34 % of the net capital in 4Q07.

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

	28 Sep 07	31 Dec 07	Limits*	Average 3rd quarter 2007	Average 4th quarter 2007
Bank	(0.556)	(0.632)	1.200	(0.856)	(0.437)
Accrual	(0.446)	(0.612)	1.075	(0.622)	(0.474)
Trading desk	(0.109)	0.009	0.350	(0.075)	0.028
Balance sheet	0.001	(0.029)	0.230	(0.009)	0.009
AFR*	(0.244)	(0.236)	0.437	(0.231)	(0.246)
ALCO	(0.003)	(0.001)	0.600	(0.006)	(0.002)

* 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 4Q07 varied 13.66% versus prior quarter. The bank's average PVBP for the 4Q07 varied -48.94% versus prior quarter.

Liquidity Risk

Qualitative Information

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

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

Additionally the institution performs a daily review of the cash inflows and outflows and values the requirements of the main customers in order to diversify the sources of funding.

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

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

Quantitative Information

The institution had at the end of the quarter liquidity ratios of 18.7% for 1st line liquidity and 24.5% for 2nd line liquidity, in both cases above the 15% 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 system MRC (Credit Provision Module) was implemented in 4Q07 in order to improve the functionality of the grading system (SICAL). The "Matriz de Calificación" is still being applied to the commercial portfolio. This model is the core element of the risk grading process. The "Matriz de Calificación" determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, the level of support from shareholders and the type and value of guarantees, among others. Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

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

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based 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 (MRAfBanks), and one more for global customers, that means, corporate counterparties with annual sales of MXN7,000 millions or above (GLCS). In addition, in the 4Q07 were implemented new versions of GLCS and MRAfBanks.

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, 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 December 31st, 2007 is \$6,171.9 millions of pesos. It increased 20.1% with respect to the 3Q07. The EL correspondent to the commercial portfolio is \$3,791.0 millions of pesos, which increased 7.2% 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 bank's risk management function. Both Reputation and Strategy risks are excluded from this definition but not from the Group's risk management agenda.

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

In order to identify and re-evaluate these risks, the 4th annual assessment took place through out the group entities during the last quarter of 2007. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories (people, processes, systems and external events) which were in turn subdivided into a total of 22 subcategories within which we can identify legal and technological

risks. Risks were also graded in terms of three parameters: likelihood, impact and exposure. With the values obtained from these parameters a risk grade was calculated, which in order of relevance goes from 'A' to 'D'.

Technological Risk

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

Legal Risk

Legal Risk Management is attending the following types of risk:

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

To avoid the possible loss owing to non compliance with legal and administrative norms applicable and to avoid unfavorable resolutions, we have implemented policies and procedures to identify, measure and control Legal risks avoiding non estimated losses for the institution. Also we have diffused among employees and functionaries the legal and administrative disposals applicable to the daily operations and we have made legal audits to get a culture of Legal Risk Mitigation.

Quantitative Information

As a result of the 4th assessment, and taking into account their upgrades during the four quarters of 2007, we have 2,376 risks distributed as follows: 1.30% A type, 10.27% B type, 59.81% C type, and 28.62% D type risks, which can also be classified onto: 20.37% people, 50.38% process, 18.06% systems and 11.2% 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. The relevance threshold for reporting these incidences is \$10,000 USD. Events under the reporting threshold are aggregated into a single record. We estimate that for the first quarter of 2008 operational losses as reflected in the Other Expenses account will have an impact in the order of USD14.65 million, distributed in the following proportions:

Concept	%
Frauds	48.85%
Robberies and assaults	4.41%
Counterfeit notes	1.14%
Operating errors	4.83%
Branches	2.97%
Credit Cards	27.19%
Shortages	1.32%
Other errors and losses	9.29%

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

Corporate Social Responsibility (CSR)

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

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

CSR Certification

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

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

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

Community Programmes

These are some of HSBC Mexico’s major programmes:

Education

In HSBC we are convinced that the development of any nation is directly bound to its human and intellectual capital and that education is essential for progress. Children are the future of all the nations and we know that many talented young people around the world do not have the opportunity to exploit their potential due to a lack of opportunities.

Consequently, through our social programs, we aim to positively impact the lives of these young people and to provide financial support to projects that give them access to a greater quality education which in turn builds in them a belief of hope, a positive attitude and opens opportunities for them to achieve success, to create a better future for them, and with time, a better quality of life for their families also.

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. To date, the programme has benefited 35,000 children in Mexico City, the State of Mexico, Hidalgo, Morelos, Guerrero, Tabasco, Chiapas and Campeche.

In 2007, The HSBC Global Education Trust has launched ‘Future First’, a global USD10 million, 5-year initiative (2007-2012) collaborating with SOS Children’s Villages – the world’s largest NGO for orphans – and with local charitable organisations in countries where HSBC has a presence, to provide education, healthcare, counselling and shelter to hundreds of thousands of street children, children in care and foster children.

Through the Future First program, HSBC has so far supported the following foundations in Mexico:

1. Fundación Casa Alianza México	US\$74,985.00
2. Fundacion Pro Niños De La Calle I.A.P.	US\$25,000.00
3. Fundación Fundación Dr. José María Álvarez	US\$22,394.00
4. Fundación Mexicana Bartolomé de las Casas A.	US\$25,000.00
5. Ayuda y Solidaridad	US\$16,976.00
6. Fundacion Dar y Amar (DAYA) IAP	US\$75,000.00

Combined with the support received from the group at a world-wide level, HSBC Mexico donated \$350,000 pesos to *Casa Daya* for the construction of the Kinder Montessori Daya HSBC. This project is a specialized educative model for vulnerable groups, where the common denominator is to provide a better childhood and the opportunity to reach levels of educational excellence, by creating a healthy educational environment.

Also, we supported the *Bartholomé de las Casas* school whose objective is to care for the physical, mental and emotional health of young people, as well as their integral education. They aim to obtain fairness and to fight poverty, addictions and violence that young people face. HSBC Mexico donated \$100,000.00 pesos to the construction of a Kitchen which will contribute to the sustainability of the institution. The surrounding communities will benefit through the communitarian youth work that Bartolomé carries out.

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 2007, HSBC participated in fundraising programme “Bécalos” (Scholarship), run by the Association of Mexican Banks 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. The programme will benefit 12,200 teachers by supporting their professional development and provide scholarships for more than 27,000 children of secondary, preparatory and technical schools.

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 program, HSBC donated a total of \$6,333,113,00 pesos in 2007 supporting 32 foundations across 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. To date the program has benefited 22,000 patients from the community with preventative medicine, treatments and education in health as well as 6,000 children through the Prevention Program in Schools.

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. In November of 2007 Torre HSBC was granted the LEED certification by the U.S. Green Building Council, which makes it the first building of its type in Mexico and Latin America, to receive this certification.

HSBC Mexico has also implemented the guidelines established by the Group that require environmental standards to be considered when granting 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.

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. To the date the program has donated \$87,000,000.00.

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, the Earthquake in Peru and the Floods in Tabasco in 2007. HSBC provides special emergency care for children who suffer in the event of a disaster. This is a further example of our commitment to underprivileged children in need.

HSBC is distributing its donation to Tabasco in three phases to provide the most efficient and effective support. This three phase plan will include the construction of shelters to provide the necessary and immediate security for children and the creation of "friendly spaces" in which children will be offered psychological and recreational support. Educational workshops will be provided for children in the shelters, and in the longer term will help to reincorporate children back into the formal educational system.

In addition, HSBC will be helping to establish a culture of education for marginalized children. Communities will also be offered advice on strategies and management during emergency situations to establish a culture of

prevention. HSBC Mexico is also making a \$1 million donation to Universidad Juarez who are assisting with the development of a community centre project. This centre will be established using local resources and environmentally friendly and sustainable methods. The centre will provide workshops for the local community to teach them how to react to any future disaster in a constructive way.

In Conclusion

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

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