

# Grupo Financiero HSBC

*Financial information at 31 March 2008*

## 1Q08

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **First Quarter 2008**

*Release date:  
28 April 2008*





April 28, 2008

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FIRST QUARTER 2008 FINANCIAL RESULTS - HIGHLIGHTS**

- Net income for the first quarter of 2008 was MXN2,207 million, up MXN796 million, or 56.4 per cent, compared with MXN1,411 million for the same period in 2007.
- Total operating income (excluding loan impairment charges)\* for the first quarter of 2008 was MXN9,638, up MXN1,567 million, or 19.4 per cent compared with MXN8,071 million for the same period in 2007.
- Net loans and advances to customers were MXN191.4 billion at 31 March 2008, up MXN28.4 billion, or 17.5 per cent, compared with MXN162.9 billion at 31 March 2007.
- Total customer demand and time deposits were MXN259.0 billion at 31 March 2008, up MXN44.7 billion, or 20.9 per cent, compared with MXN214.3 billion at 31 March 2007.
- Cost efficiency ratio\* improved to 54.0 per cent for the first quarter of 2008, compared with 59.8 per cent for the same period in 2007.
- Return on equity was 23.4 per cent for the first quarter of 2008 compared with 16.5 per cent for the same period in 2007.

*HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file periodic financial information on a quarterly basis (in this case for the quarter ended 31 March 2008) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release.*

*□ Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles). Beginning January 1, 2008, in accordance with Financial Information Standard B-10, "Effects of Inflation", the effects of inflation in financial statements shall no longer be recognized. This is due to the change from an inflationary to a non-inflationary economic environment. The comparative figures of the financial statements of periods prior to 2008 are expressed in monetary units with purchasing power at December 31, 2007.*

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

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\* For comparative purposes, the monetary position result has been excluded from 2007 figures.

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

“Grupo Financiero HSBC continued to build our business in Mexico in the first quarter of 2008, increasing our customer base, growing our business volumes, and investing for future growth. Net income of MXN2,207 million was up 56.4 per cent on the same period in 2007.

“Our aim is to become the leading financial services company in Mexico, and we are working hard to strengthen our customer service platform, improve our operating efficiency and manage our portfolio more effectively. Sustainable growth of our business will benefit our customers, employees, shareholders and the local community, and contribute to the development of the Mexican economy.

“By March 31, 2008, our customer base had increased by more than 1.1 million customer accounts year-on-year, through growth in the number of Premier customers and the continued success of the *Tu Cuenta* packaged product. Customer deposits grew by more than 20 per cent year on year. We are also increasing cross sales in key customer segments, and growing our insurance premium income by leveraging our bancassurance model to provide insurance solutions to more existing and potential customers.

“We continued to invest in growing our consumer and commercial credit businesses. Compared to the same period in 2007, credit card balances increased 61 per cent year-on-year to MXN28.3 billion while personal loan and payroll loan balances increased by 48.1 per cent, to MXN8.2 billion. In our commercial business, the commercial portfolio grew by 13.0 per cent to MXN71.3 billion.

“Through continuing to attract new customers, and strengthening our relationships with existing customers, revenues continued to grow strongly, up 19.4 per cent compared to the same period in 2007. This allowed us to absorb the related increase in loan impairment charges, which are a consequence of the investment we are making in building our loan portfolios.

“We continue to invest in building our business organically and improving our business platform. In the past 12 months, we have installed 373 additional ATMs and we are making significant investments to improve the technological infrastructure. We are also investing in streamlining our processes and modernising our branches, which will allow us to increase capacity and improve customer service. Revenue growth exceeded cost growth, which improved the cost efficiency ratio to 54.0 per cent compared to 59.8 per cent in the first quarter of 2007.

“Our net income was positively impacted by the receipt of the proceeds of the sale of stock in Visa Inc, resulting from that company’s IPO, and this has supported further investment in our business.

“In the area of corporate responsibility, I am pleased to report that in March 2008 HSBC Mexico was awarded, for the third consecutive year, the “Socially Responsible Company” certification by the Mexican Philanthropy Centre (CEMEFI) and Aliarse. The Certification was granted to HSBC Mexico after a lengthy due diligence process, where HSBC Mexico 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.”

## Overview

Grupo Financiero HSBC's net income for the first quarter of 2008 was MXN2,207 million, MXN796 million higher than the net income recorded during the same period in 2007.

The Bank's results continue to show solid performance across a range of product lines. Net interest income, fees and trading income reflected continued growth during the first quarter of 2008. The significant contribution of our subsidiaries, particularly HSBC Seguros, added to the results of the Bank.

Net interest income \* increased by MXN1,010 million to MXN6,251 million in the first quarter of 2008, which represents a 19.3 per cent increase on the same period in 2007. This increase was driven by expansion of both the consumer and commercial loan portfolios, and growth in time deposits.

Net fee income was MXN2,932 million in the first quarter of 2008, an increase of 17.5 per cent compared with the same period in 2007. Increased fee income from credit cards, trade services, membership programmes, investment funds, card acquiring and ATMs contributed to this performance.

Trading income was MXN455 million for the first quarter of 2008, which represented a 36.2 per cent increase over the same period in 2007, with particularly strong results achieved in retail foreign exchange business and balance sheet management.

Administrative expenses were MXN5,202 million in the first quarter of 2008, an increase of 7.8 per cent compared with the same period of 2007, which reflects a combination of continued investment with benefits from productivity improvements and effective expense control. Personnel expenses rose in line with our business growth investment strategy. Other operating expenses increased as a result of promotion costs of the *Tu Cuenta* packaged product and investments to strengthen the technological infrastructure. The cost efficiency ratio\* has reduced by 5.8 percentage points to 54.0 per cent, with revenue growth exceeding expense growth.

Other income increased MXN1,083 million to MXN1,438 million in the first quarter of 2008 compared with the same period in 2007. This growth is primarily due to extraordinary income received from the sale of VISA Inc. stock, as a result of the company's global Initial Public Offering.

Loan impairment charges increased by MXN1,355 million to MXN2,798 million in the first quarter of 2008 compared with the same period in 2007. The relatively high requirement for impairment charges is due to a large extent to increased reserves for credit cards, which is the result of the significant investment by HSBC in increasing its market share, as well as higher delinquencies in personal and auto loans. The annual increase in loan impairment charges is consistent with the market trend and reflects the Group's organic growth strategy.

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 134.0 per cent at 31 March 2008, compared to 141.6 per cent for the same period in 2007.

A dividend of MXN4,350 million was declared during the first quarter of 2008 (MXN3,500 million paid by the Bank and MXN850 million paid by HSBC Seguros). The Bank's capital ratio at March 31, 2008 of 13.0 per cent is above the applicable regulatory requirements.

## Business highlights

**Personal Financial Services (PFS)** increased its new-to-bank customers and leveraged its customer relationship management capabilities to drive consumer loan growth. During the first quarter of 2008, credit card portfolio balances have increased 61.0 per cent and our cards base has grown by almost 237,000 new credit card accounts compared with the same period last year. This translated into an

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\* For comparative purposes the monetary position result has been excluded from 2007 figures.

increase in market share of almost 280 basis points compared with last year<sup>1</sup> reflecting the Group's organic portfolio growth strategy. Personal and payroll loans were other areas in which strong increases were observed in the first quarter of 2008.

Collection activities have been strengthened in line with the increase in the delinquency level of consumer loans. Card acquisition continues to be carefully controlled.

Net interest income recorded a positive increase as a result of larger volumes of consumer loans, particularly credit cards. Increased cross-sales in the branch network meant greater income for HSBC Seguros, which increased its premiums by 17.9 per cent in the first quarter of 2008 compared with the same period in 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 14.5 per cent higher than in the first quarter of 2007, due mainly to strong growth in international trade volumes, local and global CMB customers, complemented by the good performance recorded in factoring, the real estate project segment and deposits. Organic growth in the small business segment led to higher delinquency; however, products with significant credit losses have been restructured or discontinued.

Driven by HSBC Group's broad geographic presence and enhanced product capabilities, our trade services market share increased by 5.3 percentage points year-on-year, to reach 18.4 per cent<sup>2</sup>. The strong performance recorded during the first quarter of 2008 was achieved through the bank being one of the first providers of factoring services in the market and with the launch of new applications for an electronic account opening service.

**Global Banking and Markets** continues its strategy to join up its business across the American region and the Global network by connecting regional customers to other countries in the HSBC Group. Through the Group's global network, we are enabling major Mexican companies to access the international capital markets and we can offer complex financial solutions, as part of the Group's emerging market-led, financing focused global banking and markets strategy.

Increased income from trade services and an increase activity in project finance resulted from 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.

Despite an extremely volatile market environment worldwide throughout 2008, Mexican financial markets have remained well anchored. Nevertheless Global Markets has performed well, mainly driven by tactical portfolio investments as well as strong cross selling to our Institutional and Corporate client base.

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<sup>1</sup> Source: HSBC analysis, based on Mexican Banks Association (ABM) figures as of February 2008 for the six largest banks.

<sup>2</sup> Source: HSBC Analysis, based on Mexican Banking and Securities Commission Statistical Bulletin, figures at December 2007.

## About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,359 branches, 5,855 ATMs, approximately 9.0 million customer accounts and more than 22,000 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,354 billion at 31 December 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 about 200,000 shareholders in over 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 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
a) Liquidity	80.14%	81.71%	76.22%	81.93%	<b>88.50%</b>
<b>Profitability</b>					
b) ROE (Return over equity)	16.51%	12.49%	15.54%	17.83%	<b>23.43%</b>
c) ROA (Return over assets)	1.83%	1.36%	1.69%	1.95%	<b>2.47%</b>
<b>Asset quality</b>					
d) Impaired loans/total loans	3.09%	3.17%	3.42%	4.01%	<b>3.90%</b>
e) Coverage ratio	141.60%	146.16%	144.84%	132.00%	<b>134.01%</b>
<b>Capitalization</b>					
f) Credit risk	18.65%	17.90%	17.43%	18.62%	<b>18.22%</b>
g) Credit and market risk operational	14.67%	13.88%	12.40%	14.23%	<b>13.04%</b>
<b>Operating efficiency</b>					
h) Expenses/Total Assets	6.24%	6.28%	6.44%	6.12%	<b>5.83%</b>
i) NIM	7.03%	7.43%	7.72%	7.38%	<b>7.64%</b>
<b>Infrastructure</b>					
Branches	1,350	1,360	1,359	1,360	<b>1,359</b>
ATM	5,482	5,533	5,618	5,741	<b>5,855</b>
Head Count	23,510	23,834	23,919	23,314	<b>22,659</b>

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

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

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

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

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

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

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

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

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

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

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

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

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



## Income Statement Variance Analysis

### Net Income

For the first quarter of 2008, Grupo Financiero HSBC (the Group) reported a net income of MXN2,207 million, MXN796 million higher than the net income figure recorded during the same period in 2007, which is equivalent to a growth of 56.4 per cent. The dynamism in revenue, which increased by 19.4 per cent compared with the first quarter of 2007, reflects the investment made in recent years in the expansion of consumer and commercial lending, which in turn, has allowed us to absorb the related increase in loan impairment charges.

The results of HSBC México S.A. (the Bank) and the Insurance Company (HSBC Seguros) represent 97.3 per cent of the Group's net income for the first quarter of 2008, recording MXN1,874 million and MXN274 million, respectively.

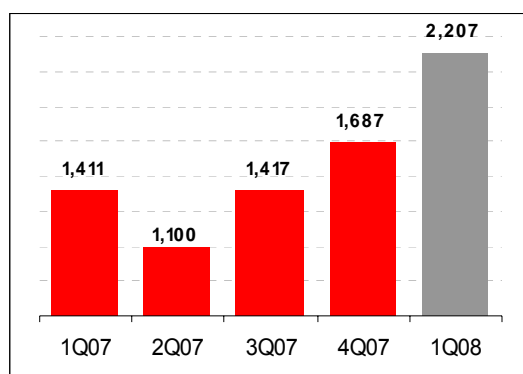
The strength of Grupo Financiero HSBC's results in the first quarter of 2008, reflected in the achievement of a higher level of net income for a quarterly period in the history of the Group, is consistent with the organic business growth strategy, the greater scale achieved in operations and the sound performance in balance sheet structure, all within a complex environment characterized by higher volatility in the financial markets, growing competition and a reduction in worldwide economic growth expectations.

### Total Revenue

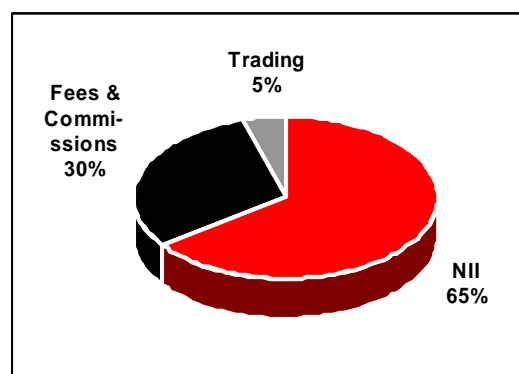
The Group's total operating income (before loan impairment charges) for the first quarter of 2008, was MXN9,638 million, which represents an increase of MXN1,567 million (19.4 per cent) compared to the first quarter of 2007\*. This growth is the result of a solid increase in net interest income of MXN1,010 million and net fees of MXN436 million, both compared to the first quarter of 2007. Trading income increased by MXN121 million compared to the same period in 2007.

In the first quarter of 2008, total operating income after loan impairment charges amounted to MXN6,840 million, which represents an increase of MXN569 million (9.1 %) compared with the same period of the prior year\*. The dynamism in revenues at month-end March 2008 allowed to compensate the MXN1,355 million increase in loan impairment charges as compared to the first quarter of 2007, which is consistent with the growth observed in recent years and an increase in the market share of more profitable products in order to achieve sustainable growth that will lead to long-term income.

**Grupo Financiero HSBC:  
Quarterly Net Income**



**Grupo Financiero HSBC:  
Revenue distribution 1Q08**



\* For comparative purposes, the monetary position results has been excluded from 2007 figures

## Net Interest Income

The Group's Net interest income increased by MXN1,010 million to MXN6,251 million in the first quarter of 2008, which represents a 19.3 per cent increase compared with the same period in 2007.

Net interest income benefited from the annual growth in lending volume, especially credit cards (61.0% increase), personal and payroll loans (48.1% increase) and commercial lending (13.0% increase), as well as from the dynamism seen in deposits, particularly time deposits. Deposits increased by MXN44,612 million, an amount that represents a growth of 20.4 per cent compared with the first quarter of 2007.

As a result of the higher participation of time deposits in the funding structure, at March 2008, a rise has been observed in the cost of funding of almost 80 basis points compared with the figure recorded at March 2007. However, the increase in the funding cost was more than compensated by the increase in the portfolio yield, thus increasing the margin.

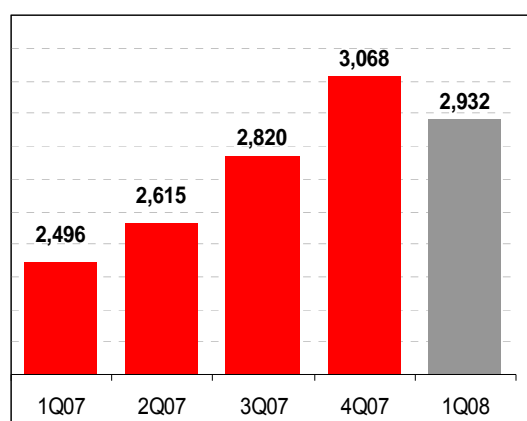
## Non-interest Income

The Group's net fees and commissions income showed positive performance totaling MXN2,932 million at March 31, 2008. This represents an increase of MXN436 million (17.5%) compared with the same period of the prior year, driven mainly by the increase in the customer base and the favorable performance of credit cards and bundled product packages that charge a fixed monthly membership fee (*Tu Cuenta*), together with the good results recorded by trade services, card acquiring, investment funds and ATMs.

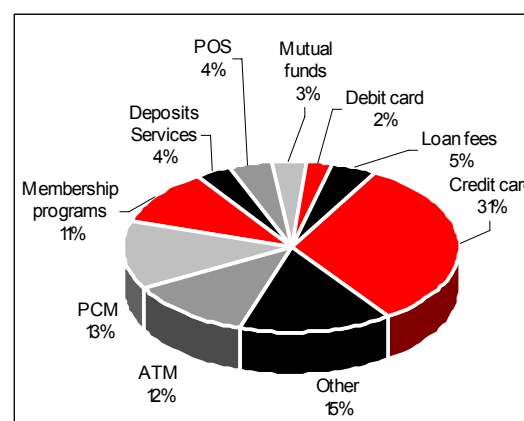
The increase in credit card fees compared to the first quarter of 2007 was 49 per cent, reflecting an increase in number of cards in circulation, which to a great extent, is due to an increase in cross-sales to customers of our bundled products. Fees from membership programs increased by 37 per cent, driven mainly by *Tu Cuenta* product.

Trade services fee income grew by 39 per cent as a result of cross-sales to our extensive business customer base, as well as a greater market share supported by the Group's geographical presence and improvements in product characteristics. Also, point-of-sale fees grew by 13 per cent mainly as a result of the increase in affiliated businesses and the greater number of cards in circulation.

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



**Bank's fees & commissions distribution**  
(31 March 2008)



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

The performance of fees can be mainly explained by the Bank's transactions, since they contribute 93.1 per cent of total net commissions. The total amount of net fees income earned by the Bank amounted to MXN2,731 million in the first quarter of 2008, which represents a growth of MXN446 million (19.5%) compared to the same period of 2007.

The Group's trading income at March 31, 2008, amounted to MXN455 million, MXN121 million (36.2%) higher than the amount recorded during the same period of the prior year. Trading income was driven by income from balance management and from retail foreign exchange transactions.

Other income increased MXN1,083 million to MXN1,438 million in the first quarter of 2008 compared with the same period in of 2007. This growth is largely due to extraordinary income received in March 2008 from the sale of VISA Inc. stock, resulting from that company's global Initial Public Offering.

### **Loan impairment charges**

At March 31, 2008, the Group's loan impairment charges amounted to MXN2,798 million, which represent a decrease of MXN137 million compared to the fourth quarter of 2007. This significant growth in lending, especially consumer lending, influenced the 93.9 per cent increase in loan impairment charges at the end of the first quarter of 2008, in comparison with the same period of the prior year.

Considering the relevance of this concept due to its impact in the net income, the Group, conducts regular reviews of new businesses in order to improve their quality based on our underwriting experience, as well as to improve collection strategies and manage the customer acquisition channels effectively. At March 31, 2008, HSBC maintains a solid coverage of past-due loan portfolio of 134.0 per cent.

### **Administrative and personnel expenses**

At March 31, 2008, the Group's administrative expenses amounted to MXN5,202 million, figure that represents an increase of MXN376 million (7.8%) compared to the same period of the prior year.

This growth rate of administrative and personnel expenses is lower than the dynamism observed in total operating income, which increased by 19.4 per cent. The situation reflects the control and efficiency strategy in the expenditure structure. The Group's cost/income ratio at March 31, 2008, was 54.0 per cent, which represents an improvement of 5.8\* percentage points over the first quarter of 2007. Personnel expenses increased in line with the business growth strategy and in addition, other operating expenses increased mainly as a result of higher expenses incurred from loan recovery services, the strengthening of the technological infrastructure and the increase in marketing expenses related to the continuing promotion of the *Tu Cuenta* bundled product.

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\* For comparative purposes, the monetary position results has been excluded from 2007 figures

## Balance Sheet Variance Analysis

At March 31, 2008, the Group's assets amount to MXN362,212 million, which represent an increase of MXN45,243 million, equivalent to 14.3 per cent compared with the first quarter of 2007.

### Loan Portfolio

The Group's total performing loans balance was MXN194,052 million at March 31, 2008, a figure that represents an increase of 17.5 per cent compared to the first quarter of 2007. The composition of the balance is focused on allocating resources to highly profitable assets; therefore, the consumer portfolio was the most dynamic reflecting a 23.8 per cent growth over the same period of 2007. Commercial loans (including financial and government entities) was the second component of the portfolio that showed solid growth, recording an increase of 18.3 per cent compared to the same period of 2007 and within this concept, loans granted to business and trade activity increased by 13.0 per cent.

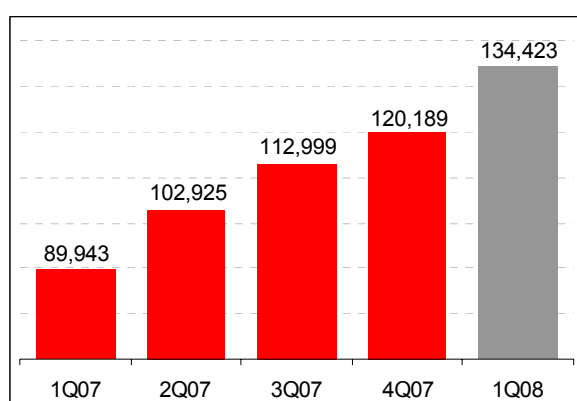
The consumer loan portfolio grew mainly as a result of the sustained growth recorded by credit cards. Credit card balances increased by 61.0 per cent in comparison with the first quarter of 2007, to reach MXN28.3 billion. Personal and payroll loans increased by 48.1 per cent to close the quarter with a balance of MXN8.2 billion.

Mortgage loans recorded a moderate increase of MXN64 million (0.3%) compared with the first quarter of 2007, which can be explained by a residential mortgage-backed securitization (RMBS) that took place in October 2007, to some MXN 3.5 billion. However, had this effect been excluded, the annualized growth to March 2008 of the mortgage portfolio would have been 19.2 per cent.

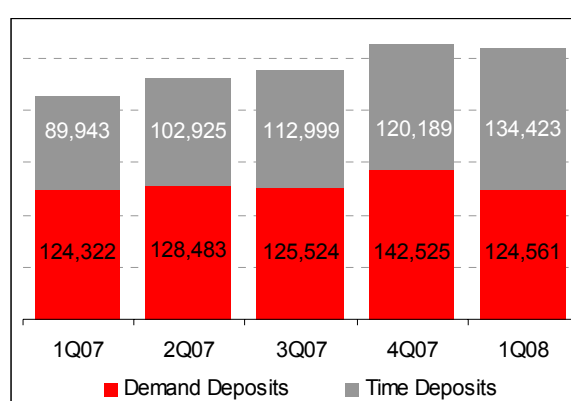
### Asset Quality

At March 31, 2008, the Group's impaired loans were MXN7,871 million, a figure that represents an increase of MXN2,610 million (49.6%) compared to the prior year. This increase is in line with the Group's organic growth strategy. The impaired loans to total loans portfolio ratio was 3.9 per cent. The allowance for loan losses as a percentage of impaired loans at March 31, 2008, was 134.0 per cent; lower in comparison with the percentage observed in the first quarter of 2007 (141.6%). HSBC has a policy of constantly reviewing the granting of loans and collection strategies in order to maintain an adequate level of quality of its lending portfolio.

**Group Time deposits growth**  
(March, 2008)



**Group deposits Mix**  
(March, 2008)



## Deposits

At March 31, 2008, the Group's demand and time deposits amounted to MXN258,984 million, MXN44,719 million more than in the first quarter in 2007, driven mainly by the 49.5 per cent increase in time deposits and a marginal growth of 0.2 per cent in demand deposits. During the first quarter of 2008, the growth of the total deposit balance was 20.4 per cent compared with the first quarter of 2007.

## Shareholder's equity

At March 31, 2008, the Group's stockholders' equity amounted to MXN36,819 million, which represents a 5.8 per cent increase over the first quarter of the prior year. Moreover, the Bank's stockholders' equity amounted to MXN 30,651 at March 31, 2008, which reflects an increase of 15.9 per cent as compared to March 31, 2007.

A dividend of MXN4,350 million was declared during the first quarter of 2008 (MXN3,500 million corresponding to the Bank and MXN850 million to the Insurance Company). Therefore, the Bank's capital ratio at March 31, 2008, was 13 per cent, which is above the regulatory requirements.

## Financial Statements Grupo Financiero HSBC

### Consolidated Balance Sheet

Figures in MXN millions at March 31, 2008

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

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Assets</b>					
Cash and deposits in banks	55,919	51,394	50,483	48,865	53,961
Investments in Securities	54,705	63,264	53,180	76,029	64,293
Trading securities	18,317	29,745	23,072	42,318	30,874
Available-for-sale securities	32,366	29,388	26,107	29,687	29,469
Held to maturity securities	4,022	4,131	4,001	4,024	3,950
Securities and derivative operations	194	86	7,047	8,933	16,045
Repurchase agreements	89	86	47	40	47
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	105	-	7,000	8,893	15,998
Performing loans					
Commercial loans	107,060	113,720	121,132	125,679	126,625
Commercial entities	63,165	68,263	70,118	73,188	71,358
Loans to financial intermediaries	6,264	7,238	12,037	15,048	13,595
Loans to government entities	37,631	38,219	38,977	37,443	41,672
Consumer loans	39,149	43,403	47,279	48,034	48,449
Mortgages loans	18,914	20,249	21,292	18,337	18,978
Total performing loans	165,123	177,372	189,703	192,050	194,052
Impaired loans					
Commercial loans	1,887	1,870	2,227	2,534	2,381
Commercial entities	1,887	1,870	2,227	2,534	2,381
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	2,109	2,583	3,168	4,028	4,294
Mortgages loans	1,265	1,357	1,323	1,463	1,196
Other	-	-	-	-	-
Total non-performing loans	5,261	5,810	6,718	8,025	7,871
Loan portfolio	170,384	183,182	196,421	200,075	201,923
Allowance for loan losses	(7,449)	(8,492)	(9,730)	(10,593)	(10,549)
Net loan portfolio	162,935	174,690	186,691	189,482	191,374
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	162,935	174,690	186,691	189,482	191,374
Other accounts receivable, net	30,187	25,755	27,578	12,093	21,172
Foreclosed assets	67	67	71	82	89
Property, furniture and equipment, net	6,268	6,209	6,280	6,511	6,402
Long term investments in equity securities	2,919	3,168	3,437	3,630	3,037
Deferred taxes, net	-	202	1,400	916	1,142
Goodwill	2,749	2,749	2,749	2,748	2,749
Other assets, deferred charges and intangibles	1,026	1,001	994	1,872	1,948
<b>Total Assets</b>	<b>316,969</b>	<b>328,585</b>	<b>339,910</b>	<b>351,161</b>	<b>362,212</b>

Figures in MXN millions at March 31, 2008

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

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Liabilities</b>					
Deposits	218,644	235,786	242,856	266,958	263,256
Demand deposits	124,322	128,483	125,524	142,525	124,561
Time deposits	89,943	102,925	112,999	120,189	134,423
Retail	89,943	92,559	97,654	100,910	103,344
Money market	-	10,366	15,345	19,279	31,079
Bank bonds outstanding	4,379	4,378	4,333	4,244	4,272
Bank deposits and other liabilities	10,860	10,114	8,380	7,608	7,245
On demand	2,067	464	-	-	-
Short term	6,633	6,320	5,238	4,998	4,591
Long term	2,160	3,330	3,142	2,610	2,654
Securities and derivative transactions	4,529	13,626	16,278	9,147	16,004
Repurchase agreements	21	57	50	73	73
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	4,508	13,538	9,037	-	-
Derivative transactions	-	31	7,192	9,074	15,931
Other accounts payable	45,362	30,840	32,684	26,317	36,239
Income tax and employee profit sharing payable	1,505	1,320	1,971	1,800	1,610
Sundry creditors and others accounts payable	43,857	29,520	30,712	24,517	34,629
Subordinated debentures outstanding	2,266	2,279	2,241	2,207	2,211
Deferred tax	394	-	-	-	-
Deferred credits	123	220	299	396	438
<b>Total Liabilities</b>	<b>282,178</b>	<b>292,865</b>	<b>302,738</b>	<b>312,633</b>	<b>325,393</b>
<b>Stockholder's Equity</b>					
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	13,304	14,233	15,686	17,060	15,351
Capital reserves	875	1,162	1,162	1,162	1,162
Retained earnings	19,114	18,827	18,827	18,827	11,863
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)	-
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,107)	(4,279)	(4,242)	(4,555)	119
Net Income	1,411	2,512	3,928	5,615	2,207
Minority interest in capital	21	21	20	2	2
<b>Total Stockholder's Equity</b>	<b>34,791</b>	<b>35,720</b>	<b>37,172</b>	<b>38,528</b>	<b>36,819</b>
<b>Total Liabilities and Capital</b>	<b>316,969</b>	<b>328,585</b>	<b>339,910</b>	<b>351,161</b>	<b>362,212</b>

Figures in MXN millions at March 31, 2008

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

	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>
<b>Memorandum Accounts</b>					
Transactions on behalf of third parties	93,619	101,007	105,708	94,672	<b>107,098</b>
Customer current accounts	(11)	(132)	(5)	8	<b>61</b>
Customer banks	-	3	1	1	<b>2</b>
Settlement of customer securities and documents	(11)	(135)	(6)	7	<b>59</b>
Customer securities	67,229	73,523	78,083	65,843	<b>78,053</b>
Customer securities in custody	67,223	73,517	78,074	65,834	<b>78,044</b>
Pledged customers securities and documents	6	6	9	9	<b>9</b>
Transactions on behalf of customer	26,401	27,616	27,630	28,821	<b>28,984</b>
Investment on behalf of customers, net	24,019	25,216	25,432	26,727	<b>26,528</b>
Customer repurchase transactions	2,382	2,400	2,198	2,094	<b>2,456</b>
Transactions for the group's own accounts	1,447,134	1,859,211	2,125,909	2,208,956	<b>2,466,865</b>
Accounts for the group's own registry	176,389	184,864	194,872	196,999	<b>227,969</b>
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	47	49	45	44	<b>35</b>
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	114,691	123,723	134,690	142,794	<b>170,020</b>
Goods in custody or under administration	61,651	61,092	60,137	54,161	<b>57,914</b>
Repurchase/resale agreements	69	29	(2)	(33)	<b>(28)</b>
Securities receivable under repos	46,940	43,263	48,927	46,971	<b>46,160</b>
(-)less					
Creditors repo transactions	46,874	43,282	48,932	47,016	<b>46,199</b>
Reverse repo transactions	5,461	7,498	5,160	7,095	<b>3,629</b>
(less)					
Securities deliverable under repos	5,458	7,450	5,157	7,083	<b>3,618</b>
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>1,266,168</u>	<u>1,660,780</u>	<u>1,922,002</u>	<u>2,011,990</u>	<u><b>2,238,924</b></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 MXN millions at March 31, 2008

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

	For the quarter ending....				Year to date		
	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008
Interest Income	7,740	7,874	8,912	9,488	<b>9,392</b>	7,740	<b>9,392</b>
Interest expense	(2,499)	(2,671)	(2,839)	(3,167)	<b>(3,141)</b>	(2,499)	<b>(3,141)</b>
Monetary position (margin), net	(357)	72	(356)	(540)	-	(357)	-
Net interest income	<u>4,884</u>	<u>5,275</u>	<u>5,717</u>	<u>5,781</u>	<u><b>6,251</b></u>	<u>4,884</u>	<u><b>6,251</b></u>
Loan impairment charges	(1,443)	(2,486)	(2,622)	(2,935)	<b>(2,798)</b>	(1,443)	<b>(2,798)</b>
Risk adjusted net interest income	<u>3,441</u>	<u>2,789</u>	<u>3,095</u>	<u>2,846</u>	<u><b>3,453</b></u>	<u>3,441</u>	<u><b>3,453</b></u>
Fees and commissions receivable	2,778	2,900	3,157	3,352	<b>3,218</b>	2,778	<b>3,218</b>
Fees payable	(282)	(285)	(337)	(284)	<b>(286)</b>	(282)	<b>(286)</b>
Trading Income	334	466	153	262	<b>455</b>	334	<b>455</b>
Total operating income	<u>6,271</u>	<u>5,870</u>	<u>6,068</u>	<u>6,176</u>	<u><b>6,840</b></u>	<u>6,271</u>	<u><b>6,840</b></u>
Administrative and personnel expenses	(4,826)	(5,071)	(5,380)	(5,286)	<b>(5,202)</b>	(4,826)	<b>(5,202)</b>
Net operating income	<u>1,445</u>	<u>799</u>	<u>688</u>	<u>890</u>	<u><b>1,638</b></u>	<u>1,445</u>	<u><b>1,638</b></u>
Other income	560	900	1,016	1,666	<b>1,673</b>	560	<b>1,673</b>
Other expenses	(205)	(362)	(466)	(362)	<b>(235)</b>	(205)	<b>(235)</b>
Net income before taxes	<u>1,800</u>	<u>1,337</u>	<u>1,238</u>	<u>2,194</u>	<u><b>3,076</b></u>	<u>1,800</u>	<u><b>3,076</b></u>
Income tax and employee profit sharing tax	(597)	(1,039)	(911)	(183)	<b>(1,694)</b>	(597)	<b>(1,694)</b>
Deferred income tax	(17)	550	811	(532)	<b>531</b>	(17)	<b>531</b>
Net income before subsidiaries	<u>1,186</u>	<u>848</u>	<u>1,138</u>	<u>1,479</u>	<u><b>1,913</b></u>	<u>1,186</u>	<u><b>1,913</b></u>
Undistributed income from subsidiaries	225	252	279	207	<b>294</b>	225	<b>294</b>
Income from ongoing operations	<u>1,411</u>	<u>1,100</u>	<u>1,417</u>	<u>1,686</u>	<u><b>2,207</b></u>	<u>1,411</u>	<u><b>2,207</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	1	-	-	-
Net income (loss)	<u>1,411</u>	<u>1,100</u>	<u>1,417</u>	<u>1,687</u>	<u><b>2,207</b></u>	<u>1,411</u>	<u><b>2,207</b></u>

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

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

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

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

## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions at March 31, 2008

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

From 1 January 2008 to 31 March 2008

	Paid in capital					Earned capital							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 holding non-monetary assets (Valuation of permanent investments)		Net income	Minority Interest
<b>Balances at 31 December 2007</b>	8,210	-	13,256	-	-	1,162	18,827	-	-	(3,989)	-	(4,555)	5,615	2	38,528
<b>Movements Inherent to the Shareholders Decision</b>															
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,615	-	-	-	-	-	(5,615)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(4,350)	-	-	-	-	-	-	-	(4,350)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	1,265	-	-	-	-	-	(5,615)	-	(4,350)
<b>Movements for the Recognition of the Comprehensive Income</b>															
Net result	-	-	-	-	-	-	-	-	-	-	-	-	2,207	-	2,207
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	(8,229)	-	-	3,989	-	4,240	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	434	-	-	434
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Minority Interest</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	(8,229)	-	-	3,989	-	4,674	2,207	-	2,641
<b>Balances as at 31 March 2008</b>	<b>8,210</b>	<b>-</b>	<b>13,256</b>	<b>-</b>	<b>-</b>	<b>1,162</b>	<b>11,863</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119</b>	<b>2,207</b>	<b>2</b>	<b>36,819</b>

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

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

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

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

## Consolidated Statement of Changes in Financial Position

Figures in MXN millions at March 31, 2008

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

From 1 January to 31 March 2008

### Operating activities:

<b>Net income</b>	<b>2,207</b>
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark-to-market valuations	(546)
Allowances for loan losses	2,798
Depreciation and amortisation	259
Deferred taxes	(531)
Minority interest	-
Undistributed income from subsidiaries, net	(294)
Value loss estimation for foreclosed assets	-
<b>Total operating items not requiring funds</b>	<b><u>3,893</u></b>

### Changes in items related to operations:

Decrease / increase in retail deposit and money desk	(3,701)
Decrease / increase in loan portfolio	(4,690)
Increase / decrease in investment in securities	12,282
Decrease / increase in securities and derivative transactions, net	(253)
Bank deposits and other liabilities	(363)
<b>Funds provided by operating activities</b>	<b><u><u>7,168</u></u></b>

### Financing activities:

Subordinated debentures outstanding	3
Cash dividend	(4,350)
Decrease/increase in accounts payable	9,920
<b>Funds used or provided in financing activities</b>	<b><u><u>5,573</u></u></b>

### Investing activities:

Decrease /(increase) in property, furniture and equipment, net	1,170
Decrease /(increase) in deferred charges or credits, net	348
Decrease in foreclosed assets	(8)
Decrease /increase in accounts receivable	(9,155)
<b>Funds used in investing activities</b>	<b><u><u>(7,645)</u></u></b>
(Increase) /Decrease in cash and equivalents	5,096
Cash and equivalents at beginning of period	48,865
<b>Cash and equivalents at end of period</b>	<b><u><u>53,961</u></u></b>

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

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

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

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

## Financial Statements HSBC Mexico, S.A.

### Consolidated Balance Sheet

Figures in MXN millions at March 31, 2008

HSBC Mexico, S.A. (Bank)

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Assets</b>					
Cash and deposits in banks	55,918	51,394	50,483	48,864	53,961
Investment in Securities	53,594	62,158	52,066	75,660	62,971
Trading securities	17,206	28,639	21,959	42,235	29,939
Available-for-sale securities	32,366	29,388	26,106	29,401	29,082
Held to maturity securities	4,022	4,131	4,001	4,024	3,950
Securities and derivative operations	189	81	7,044	8,932	16,043
Repurchase agreements	84	81	45	39	45
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	105	-	6,999	8,893	15,998
Performing loans					
Commercial loans	107,060	113,720	121,132	125,679	126,625
Commercial entities	63,165	68,263	70,118	73,188	71,358
Loans to financial intermediaries	6,264	7,238	12,037	15,048	13,595
Loans to government entities	37,631	38,219	38,977	37,443	41,672
Consumer loans	39,149	43,403	47,279	48,034	48,449
Mortgages loans	18,914	20,249	21,292	18,337	18,978
Loans to Fobaproa or IPAB	-	-	-	-	-
Total performing loans	165,123	177,372	189,703	192,050	194,052
Impaired loans					
Commercial loans	1,887	1,870	2,227	2,534	2,381
Commercial entities	1,887	1,870	2,227	2,534	2,381
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	2,109	2,583	3,168	4,028	4,294
Mortgage Loans	1,265	1,357	1,323	1,463	1,196
Immediate collection, remittances and other	-	-	-	-	-
Total non-performing loans	5,261	5,810	6,718	8,025	7,871
Total loan portfolio	170,384	183,182	196,421	200,075	201,923
Allowance for loan losses	(7,449)	(8,492)	(9,730)	(10,593)	(10,549)
Net loan portfolio	162,935	174,690	186,691	189,482	191,374
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	162,935	174,690	186,691	189,482	191,374
Other accounts receivable	27,461	25,604	27,437	12,005	21,109
Foreclosed assets	67	67	71	82	89
Property, furniture and equipment, net	6,254	6,196	6,267	6,498	6,390
Long term investments in equity securities	160	148	149	137	146
Deferred taxes	-	155	1,360	883	1,087
Other assets, deferred charges and intangibles	991	967	960	1,846	1,914
<b>Total Assets</b>	<b>307,569</b>	<b>321,460</b>	<b>332,528</b>	<b>344,389</b>	<b>355,084</b>

Figures in MXN millions at March 31, 2008

HSBC Mexico, S.A. (Bank)

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Liabilities</b>					
Deposits	220,342	237,456	244,562	267,025	263,393
Demand deposits	126,020	130,152	127,230	142,592	124,698
Time deposits	89,943	102,925	112,999	120,189	134,423
Bank bonds outstanding	4,379	4,379	4,333	4,244	4,272
Bank deposits and other liabilities	10,860	10,114	8,380	7,608	7,245
On demand	2,067	464	-	-	-
Short term	6,633	6,320	5,238	4,998	4,591
Long term	2,160	3,330	3,142	2,610	2,654
Securities and derivative transactions	4,523	13,622	16,276	9,146	16,004
Repurchase agreements	15	53	47	72	73
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	4,508	13,538	9,037	-	-
Derivative transactions	-	31	7,192	9,074	15,931
Other accounts payable	42,571	30,657	32,511	26,164	35,142
Income tax and employee profit sharing payable	1,452	1,274	1,923	1,741	1,546
Sundry creditors and others accounts payable	41,119	29,383	30,588	24,423	33,596
Subordinated debentures outstanding	2,266	2,279	2,241	2,207	2,211
Deferred tax	440	-	-	-	-
Deferred credits	123	220	299	396	438
<b>Total Liabilities</b>	<b>281,125</b>	<b>294,349</b>	<b>304,269</b>	<b>312,546</b>	<b>324,433</b>
<b>Stockholder's Equity</b>					
Paid in capital	13,533	13,533	13,533	15,883	15,883
Capital stock	4,079	4,079	4,079	4,272	4,272
Additional paid in capital	9,454	9,454	9,454	11,611	11,611
Capital Gains	12,892	13,558	14,707	15,959	14,767
Capital reserves	9,496	14,077	14,077	14,077	10,577
Retained earnings	4,581	-	-	-	2,196
Surplus (Deficit) from securities	88	(88)	(40)	(217)	256
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,594)	(3,593)	(3,605)	(3,602)	-
Gains on non monetary asset valuation	1,182	1,184	1,186	1,181	-
Adjustment in the pension employee	-	-	-	(136)	(136)
Net Income	1,139	1,978	3,090	4,656	1,874
Minority interest in capital	19	20	18	1	1
<b>Total Stockholder's Equity</b>	<b>26,444</b>	<b>27,111</b>	<b>28,259</b>	<b>31,843</b>	<b>30,651</b>
<b>Total Liabilities and Capital</b>	<b>307,569</b>	<b>321,460</b>	<b>332,528</b>	<b>344,389</b>	<b>355,084</b>

Figures in MXN millions at March 31, 2008

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

	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>
<b>Memorandum Accounts</b>					
Guarantees granted	47	49	45	44	35
Other contingent obligations	130	134	129	128	129
Irrevocable lines of credit granted	7,819	8,679	8,785	10,793	10,761
Goods in trust or mandate	114,691	123,723	134,691	142,794	170,020
Goods	114,204	123,124	133,805	142,108	169,351
Trusts	487	599	885	686	669
Goods in custody or under administration	57,608	57,030	56,127	50,216	53,969
Third party investment banking operations, net	24,019	25,216	25,431	26,727	26,528
Amounts committed in transactions with IPAB or Fobaproa	156	152	139	138	141
Amounts contracted in derivative operations	897,145	1,265,623	1,505,017	1,410,856	1,628,602
Investments of retirement savings system funds	3,631	3,645	3,600	3,540	3,540
Integrated loan portfolio	178,253	191,910	205,251	210,912	212,720
Other control accounts	179,035	190,636	199,079	375,621	383,027
	<u>1,462,534</u>	<u>1,866,797</u>	<u>2,138,294</u>	<u>2,231,769</u>	<u>2,489,472</u>
Securities receivable under repos (less) Repurchase agreements	44,558 (44,491)	40,867 (40,882)	46,731 (46,734)	44,890 (44,922)	43,715 (43,743)
	<u>67</u>	<u>(15)</u>	<u>(3)</u>	<u>(32)</u>	<u>(28)</u>
Reverse repurchase agreements (less) Securities deliverable under repos	3,078 (3,076)	5,098 (5,054)	2,961 (2,961)	5,001 (5,002)	1,173 (1,173)
	<u>2</u>	<u>44</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	4,508 -	13,538 -	9,037 -	- -	- -
	<u>4,508</u>	<u>13,538</u>	<u>9,037</u>	<u>-</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 MXN millions at Marcr 31, 2008

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

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<i>31 Mar 2007</i>	<i>30 Jun 2007</i>	<i>30 Sep 2007</i>	<i>31 Dec 2007</i>	<i>31 Mar 2008</i>	<i>31 Mar 2007</i>	<i>31 Mar 2008</i>
Interest income	7,629	7,894	8,857	9,437	<b>9,389</b>	7,629	<b>9,389</b>
Interest expense	(2,453)	(2,685)	(2,838)	(3,133)	<b>(3,143)</b>	(2,453)	<b>(3,143)</b>
Monetary position (margin)	(321)	59	(316)	(486)	-	(321)	-
Net interest income	<u>4,855</u>	<u>5,268</u>	<u>5,703</u>	<u>5,818</u>	<u><b>6,246</b></u>	<u>4,855</u>	<u><b>6,246</b></u>
Loan impairment charges	1,443	2,486	2,622	2,935	<b>2,798</b>	1,443	<b>2,798</b>
Loan impairment charges	<u>1,443</u>	<u>2,486</u>	<u>2,622</u>	<u>2,935</u>	<u><b>2,798</b></u>	<u>1,443</u>	<u><b>2,798</b></u>
Risk adjusted net interest income	<u>3,412</u>	<u>2,782</u>	<u>3,081</u>	<u>2,883</u>	<u><b>3,448</b></u>	<u>3,412</u>	<u><b>3,448</b></u>
Fees and commissions receivable	2,564	2,725	2,945	3,201	<b>3,011</b>	2,564	<b>3,011</b>
Account management	371	390	363	368	<b>336</b>	371	<b>336</b>
Services	<u>2,193</u>	<u>2,335</u>	<u>2,582</u>	<u>2,833</u>	<u><b>2,675</b></u>	<u>2,193</u>	<u><b>2,675</b></u>
Fees payable	(279)	(280)	(331)	(339)	<b>(280)</b>	(279)	<b>(280)</b>
Trading Income	332	464	151	263	<b>455</b>	332	<b>455</b>
Foreign exchange	182	99	234	157	<b>(33)</b>	182	<b>(33)</b>
Securities trading, net	(143)	60	(31)	56	<b>(15)</b>	(143)	<b>(15)</b>
Repos	-	(13)	(1)	-	<b>(3)</b>	-	<b>(3)</b>
Swaps	395	138	(65)	72	<b>(116)</b>	395	<b>(116)</b>
Valuation off-shore agencies	(109)	100	(43)	(18)	<b>319</b>	(109)	<b>319</b>
Valuation for trading swaps	7	80	57	(4)	<b>303</b>	7	<b>303</b>
Total operating income	<u>6,029</u>	<u>5,691</u>	<u>5,846</u>	<u>6,008</u>	<u><b>6,634</b></u>	<u>6,029</u>	<u><b>6,634</b></u>
Administrative and personnel expenses	4,675	4,940	5,249	5,080	<b>5,083</b>	4,675	<b>5,083</b>
Personnel expense	1,985	2,093	2,033	2,097	<b>2,137</b>	1,985	<b>2,137</b>
Administrative expense	2,431	2,582	2,963	2,710	<b>2,688</b>	2,431	<b>2,688</b>
Depreciation and amortization	259	265	253	273	<b>258</b>	259	<b>258</b>
Net operating income	<u>1,354</u>	<u>751</u>	<u>597</u>	<u>928</u>	<u><b>1,551</b></u>	<u>1,354</u>	<u><b>1,551</b></u>
Other income	572	931	1,044	1,625	<b>1,694</b>	572	<b>1,694</b>
Other expenses	(205)	(362)	(465)	(290)	<b>(255)</b>	(205)	<b>(255)</b>
Net income before taxes	<u>1,721</u>	<u>1,320</u>	<u>1,176</u>	<u>2,263</u>	<u><b>2,990</b></u>	<u>1,721</u>	<u><b>2,990</b></u>
Income tax and employee profit sharing	(575)	(1,033)	(896)	(172)	<b>(1,650)</b>	(575)	<b>(1,650)</b>
Deferred income tax	(10)	548	818	(529)	<b>521</b>	(10)	<b>521</b>
Net income before subsidiaries	<u>1,136</u>	<u>835</u>	<u>1,098</u>	<u>1,562</u>	<u><b>1,861</b></u>	<u>1,136</u>	<u><b>1,861</b></u>
Undistributed income from subsidiaries	2	4	14	4	<b>13</b>	2	<b>13</b>
Income from ongoing operations	<u>1,138</u>	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u><b>1,874</b></u>	<u>1,138</u>	<u><b>1,874</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	1	-	-	-	-	1	-
Net income (loss)	<u>1,139</u>	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u><b>1,874</b></u>	<u>1,139</u>	<u><b>1,874</b></u>

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2008 to 31 March 2008

	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 (Deficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
<b>Balances at 31 December 2007</b>	4,272	-	11,611	-	-	14,077	-	(217)	-	-	(3,602)	1,181	(136)	4,656	1	31,843
<b>Movements Inherent to the Shareholders Decision</b>																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	4,656	-	-	-	-	-	-	(4,656)	-	-
Cash dividends	-	-	-	-	-	(3,500)	-	-	-	-	-	-	-	-	-	(3,500)
<b>Total</b>	-	-	-	-	-	(3,500)	4,656	-	-	-	-	-	-	(4,656)	-	(3,500)
<b>Movements for the Recognition of the Comprehensive Income</b>																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	1,874	-	1,874
Result from valuation of available-for-sale securities	-	-	-	-	-	-	-	434	-	-	-	-	-	-	-	434
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	(2,460)	39	-	3,602	(1,181)	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Minority Interest</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	(2,460)	473	-	3,602	(1,181)	-	-	1,874	-	2,308
<b>Balances as at 31 March 2008</b>	<b>4,272</b>	<b>-</b>	<b>11,611</b>	<b>-</b>	<b>-</b>	<b>10,577</b>	<b>2,196</b>	<b>256</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>1,874</b>	<b>1</b>	<b>30,651</b>

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

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

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

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



## Consolidated Statement of Changes in Financial Position

From 1<sup>st</sup>. January 2008 to 31 March 2008

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

### Operating activities:

Net income	1,874
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark to market valuations	259
Allowance for loan losses	2,798
Depreciation and amortisation	(546)
Deferred taxes	(521)
Undistributed income from subsidiaries, net	(13)
Value loss estimation for foreclosed assets	2
Minority interest	-
<b>Total operating items not requiring funds</b>	<b>3,853</b>

### Changes in operating accounts:

<b>Increase in retail deposit and money desk</b>	(3,632)
(Increase) in loan portfolio	(4,690)
Decrease in securities and derivative transactions, net	13,296
Decrease/(increase) in financial instruments	120
Bank deposits and other liabilities	(363)
<b>Funds provided by operations</b>	<b>8,584</b>

### Financing activities:

Subordinated debentures outstanding	3
Cash dividend	(3,500)
Contributions or reimbursements of capital contributed	-
Decrease/increase in accounts payable	8,978
<b>Funds used or provided by financing activities</b>	<b>5,481</b>

### Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(146)
(Increase)/decrease in deferred credits	359
Decrease in foreclosed assets	(9)
Decrease/increase in accounts receivable	(9,172)
<b>Funds used in investing activities</b>	<b>(8,968)</b>
Increase in cash and equivalents	5,097
Cash and equivalents at beginning of period	48,864
<b>Cash and equivalents at end of period</b>	<b>53,961</b>

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 MXN millions at March 31, 2008

#### Investments in securities

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
Government securities	13,736	27,597	20,340	40,101	27,786
Bank securities	3,275	705	951	1,039	1,250
Shares	942	959	954	184	1,037
Others	364	484	827	994	801
Trading securities	<u>18,317</u>	<u>29,745</u>	<u>23,072</u>	<u>42,318</u>	<u>30,874</u>
Government securities	28,017	25,932	21,594	23,921	23,214
Bank securities	217	213	262	327	318
Obligations and other securities	4,120	3,231	4,238	5,427	5,266
Shares	12	12	13	12	671
Available for sale securities	<u>32,366</u>	<u>29,388</u>	<u>26,107</u>	<u>29,687</u>	<u>29,469</u>
Sovereign debt securities	253	276	126	147	-
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,767	3,853	3,873	3,875	3,948
MYRAS	-	-	-	-	-
Securities held to maturity	<u>4,022</u>	<u>4,131</u>	<u>4,001</u>	<u>4,024</u>	<u>3,950</u>
Total Financial Instruments	<u>54,705</u>	<u>63,264</u>	<u>53,180</u>	<u>76,029</u>	<u>64,293</u>

In the first quarter of 2008 investment in securities decrease by MXN11,736 million versus prior quarter; MXN(\$13,022) million decrease in government securities, MXN202 million in promissory note securities, MXN158million in bonds, MXN853million in shares and a increase in other by MXN73 million.

## Repos

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

Figures in MXN millions at March 31, 2008

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
Government securities (debit)	45,282	41,688	47,967	46,145	45,417
Bank securities (debit)	1,535	1,520	900	797	694
Valuation Increase (decrease)	61	32	46	9	34
Interest in securities receivable under repurchase agreements	62	23	14	20	15
Total in repo agreements (debit)	46,940	43,263	48,927	46,971	46,160
Repo's Government securities (credit)	45,284	41,693	47,969	46,158	45,428
Repo's Bank securities (credit)	1,535	1,520	900	797	694
Valuation increase (decrease)	4	6	4	2	3
Accrued interest payable	51	63	59	59	74
Credit balance in repo agreements	46,874	43,282	48,932	47,016	46,199
Repurchase agreements in government securities	2,383	7,484	5,158	7,095	3,629
Repurchase agreements in banking securities	3,077	-	-	-	-
Valuation increase (decrease)	-	1	-	-	-
Accrued interest receivable	1	13	2	-	-
Debit balance repo securities agreements	5,461	7,498	5,160	7,095	3,629
Government securities	2,382	7,480	5,155	7,081	3,618
Bank securities	3,077	-	-	-	-
Valuation increase (decrease)	(1)	(30)	-	-	-
Interest in securities deliverable under repurchase agreements	-	-	2	2	-
Credit balance repo securities agreements	5,458	7,450	5,157	7,083	3,618

## Derivative Financial Instruments

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

Figures in MXN millions at March 31, 2008

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	55,720	48,873	115,690	115,701	-	-	6,836
US Dollars	-	-	62,331	69,069	41	41	378,728	378,387	(6,397)
Interest Rate	9,271	9,271	-	-	-	-	1,491,249	1,491,621	(372)
Total	9,271	9,271	118,051	117,942	115,731	115,742	1,869,977	1,870,008	67
For hedging									
Pesos	-	-	-	-	-	-	14,864	-	
US Dollars	-	-	-	-	-	-	-	15,383	
Interest Rate	-	-	-	-	-	-	5,045	5,249	
Total	-	-	-	-	-	-	19,909	20,632	

## Stock Borrowing

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

Figures in MXN millions at March 31, 2008

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Received borrowings</b>					
Cetes	4,508	13,538	9,037	-	-
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	-	-	-
Increase or decrease in bonds	-	-	-	-	-
<b>Total</b>	<b>4,508</b>	<b>13,538</b>	<b>9,037</b>	-	-

## Participation by Subsidiary

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

Group Subsidiaries at March 31, 2008

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,235,526,706	99.99%	1,235,450,480
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	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
<b>Total</b>	<b>2,068,863,531</b>		<b>2,047,679,561</b>

## Trading income

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

Figures in MXN millions at March 31, 2008

	For the quarter ending...					Year to date	
	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008
<b>Valuation</b>	(84)	177	(20)	(80)	546	(84)	546
Derivatives	(84)	179	(21)	(83)	547	(84)	547
Repos	-	(1)	-	3	(1)	-	(1)
Debt Securities	-	(1)	1	-	-	-	-
<b>Buying and Selling Instruments</b>	416	287	171	343	(91)	416	(91)
Foreign Currency	182	99	234	157	(33)	182	(33)
Derivatives	227	146	(59)	159	(40)	227	(40)
Repos	7	24	-	(14)	4	7	4
Shares	-	-	(4)	41	(22)	-	(22)
Debt Securities	-	18	-	-	-	-	-
<b>Total</b>	<b>332</b>	<b>464</b>	<b>151</b>	<b>263</b>	<b>455</b>	<b>332</b>	<b>455</b>

## Loan Portfolio

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

#### By type of currency

Figures in MXN millions

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
<b>Performing Loan Portfolio</b>						
Pesos	51,112	13,546	39,606	48,449	18,974	171,687
US Dollars	20,246	49	2,066	-	4	22,365
Udis Banxico	-	-	-	-	-	-
<b>Total</b>	<b>71,358</b>	<b>13,595</b>	<b>41,672</b>	<b>48,449</b>	<b>18,978</b>	<b>194,052</b>
	<i>Actividad Comercial o Empresarial</i>	<i>Entidades Financieras</i>	<i>Entidades Gubernamental es</i>	<i>Créditos al Consumo</i>	<i>Créditos a la Vivienda</i>	<i>Total</i>
<b>Non Performing Loans Portfolio</b>						
Pesos	2,158	-	-	4,294	1,196	7,648
US Dollars	223	-	-	-	-	223
Udis Banxico	-	-	-	-	-	-
<b>Total</b>	<b>2,381</b>	<b>-</b>	<b>-</b>	<b>4,294</b>	<b>1,196</b>	<b>7,871</b>

## Ratings HSBC México, S.A.

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

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

## Loan Portfolio Grading

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

Figures in MXN millions at March 31, 2008

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	29,571				
Graded	183,149				
<b>Risk A</b>	<b>129,113</b>	<b>524</b>	<b>199</b>	<b>55</b>	<b>778</b>
Risk A-1	93,153	183	199	55	437
Risk A-2	35,960	341	0	0	341
<b>Risk B</b>	<b>43,369</b>	<b>1,729</b>	<b>545</b>	<b>138</b>	<b>2,412</b>
Risk B-1	28,588	453	545	138	1,136
Risk B-2	11,674	827	0	0	827
Risk B-3	3,107	449	0	0	449
<b>Risk C</b>	<b>3,957</b>	<b>430</b>	<b>1,009</b>	<b>119</b>	<b>1,558</b>
Risk C-1	3,542	257	1,009	119	1,385
Risk C-2	415	173	0	0	173
<b>Risk D</b>	<b>5,336</b>	<b>508</b>	<b>2,951</b>	<b>522</b>	<b>3,981</b>
<b>Risk E</b>	<b>1,374</b>	<b>573</b>	<b>802</b>	<b>45</b>	<b>1,420</b>
<b>Total</b>	<b>212,720</b>	<b>3,764</b>	<b>5,506</b>	<b>879</b>	<b>10,149</b>
Less:					
Constituted Reserves					<b>10,549</b>
Surplus <sup>3</sup>					<b>400</b>

1. The rating and constituted reserves correspond to Balance Sheet's last day December 31, 2007.

2. The loan portfolio is graded according to the rules for grading loan portfolio issued by the Mexican Ministry of Finance and Public Credit (SHCP), and to the methodology established by the Mexican Banking and Securities National Commission (CNBV), and if given the case, the grading could be performed in accordance to the internal methodology authorized by the CNBV. The institution uses for the commercial portfolio, in its first stage, an internal methodology authorized by the CNBV which deals with the grading of debtor, for the second stage related to the loan, the institution uses CNBV's methodology, published on December 2, 2005. For the consumer and mortgage portfolio, the Institution uses the methodology established in regulatory document published on December 2, 2005.

3. By means of document No. 141-1/1500196/2007, CNBV gave notice of some comments and differences regarding the constituted reserves for credit cards, derived from the section 1 of article 91 of the General Guidelines for Credit Institutions. The Bank exercised its right for hearing and awaits the final decision of this matter, however, under prudential criteria; the Bank constituted additional reserves for MXN \$400 million to the already identified reserves identified in the portfolio grading process.

## Non – Performing Loans

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

Figures in MXN millions

	At the quarter ending				
	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
<b>Initial Balance of Impaired Lons</b>	4,431	5,282	5,738	6,606	<b>8,025</b>
Increases	4,816	4,506	5,267	5,983	<b>7,641</b>
Transfer of current loans to past due status	4,816	4,506	5,267	5,983	<b>7,641</b>
Decreases	(4,001)	(3,968)	(4,301)	(4,576)	<b>(7,797)</b>
Restructurings	(72)	(69)	(76)	(155)	<b>(95)</b>
Liquidated credits	(3,228)	(3,033)	(3,221)	(3,402)	<b>(6,465)</b>
Charged in cash	(2,337)	(1,685)	(2,064)	(1,626)	<b>(3,733)</b>
Foreclosed assets	-	(1)	-	-	-
Writeoffs	-	-	-	-	-
Sale of portfolio	(891)	(1,347)	(1,157)	(1,776)	<b>(2,732)</b>
Transfer to performing loan status	(701)	(866)	(1,004)	(1,019)	<b>(1,237)</b>
Fx revaluations	15	(10)	14	12	<b>2</b>
<b>Final Balance of Impaired Loan</b>	<b>5,261</b>	<b>5,810</b>	<b>6,718</b>	<b>8,025</b>	<b>7,871</b>

## Deferred Taxes

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

Figures in MXN millions at March 31, 2008

	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008
Loan loss reserves	712	1,314	1,787	1,733	<b>2,139</b>
Valuation of securities	(68)	(40)	68	(27)	<b>(548)</b>
Fiscal loss	112	46	-	1	<b>28</b>
Loss sharing	257	130	209	318	<b>268</b>
Other reserves	282	281	257	191	<b>308</b>
PTU Payable	297	294	297	170	<b>174</b>
Stocks VISA & Mastercard	-	-	-	-	<b>(185)</b>
Other	(97)	(16)	50	86	<b>101</b>
Differences in rates of fixed assets	(560)	(472)	(186)	(471)	<b>(520)</b>
Fiscal result UDIS-Banxico	(1,329)	(1,335)	(1,082)	(1,085)	<b>(623)</b>
<b>Total Deferred Taxes</b>	<b>(394)</b>	<b>202</b>	<b>1,400</b>	<b>916</b>	<b>1,142</b>

## Funding, Loans and Investments in Securities

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

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

	<i>At the quarter ending</i>				
	<u>31 Mar 2007</u>	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>
MXN pesos					
Funding	2.58%	2.78%	3.00%	3.28%	<b>3.42%</b>
Bank and other loans	7.12%	7.20%	7.10%	7.38%	<b>7.39%</b>
Foreign currency					
Funding	1.75%	1.69%	1.76%	1.72%	<b>1.27%</b>
Bank and other loans	5.49%	5.24%	5.37%	5.12%	<b>4.73%</b>
UDIS					
Funding	0.20%	0.19%	0.19%	0.20%	<b>0.20%</b>

## Long Term Debt

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

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i> <i>MXN millions</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i> <i>MXN millions</i>	<i>Maturity Date</i>
INTENAL 03	24-NOV-2003	2,200	MXN	11	2,211	25-NOV-2013
		<b>2,200</b>		<b>11</b>	<b>2,211</b>	

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i> <i>MXN millions</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i> <i>MXN millions</i>	<i>Maturity Date</i>
Certified Marketable Securities	10-MAY-2006	4,221	MXN	51	4,272	27-APR-2016
		<b>4,221</b>		<b>51</b>	<b>4,272</b>	



## Capital

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

#### **Grupo Financiero HSBC**

The capital stock is included in the MXN 3,886 figure, representing 1,943,032,139 shares. The Ordinary Shareholders Meeting, held on April 22, 2008, approved the following distribution of the year 2007 financial results, amounting to MXN5,615 million:

- ▶ Five per cent, MXN281 million, to increase legal reserves, and the remaining MXN5,334 million, at the Board's determination to be applied under the concept of previous year's financial results.

In other regard, MXN8,229 million were applied to Previous Year Results as determined by the Board. This figure represents the accrued results, at December 31, 2007 of the effects of inflation in the financial information. Starting on January 1 of 2008, the effects of inflation shall no longer be recorded, because Mexico is in a non-inflationary environment, as defined in the Financial Information Standards issued by the Mexican Council for Research and Development of Financial Information Standards.

On April 9, 2008 two notices were published in accordance to the agreement of the Board meeting, held on July 30, 2007, a dividend of \$1.7123186 and \$0.5264504 shall be paid per share for each one of the 1,943,032,139 shares. Such dividends will be paid on one disbursement on April 29 and 30 of 2008.

The capital stock is included in the amount of MXN3,886 million, represented by 1,943,032,139 shares.

#### **Subsidiaries Grupo Financiero HSBC**

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

On December 20, 2007, the Ordinary Shareholders Meeting agreed upon the increase in capital stock by MXN2,350 million; MXN193 million will be applied to capital stock and MXN2,157 million to shares premium by issuing 96'311,475 shares, which were subscribed and paid at a price of \$24.40, for each 1,000 shares that shareholders are entitled to.

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

In other regard, MXN2,460 million were applied to Previous Year Results. This figure represents the accrued results, at December 31, 2007 of the effects of inflation in the financial information. Starting on January 1 of 2008, the effects of inflation shall no longer be recorded, because Mexico is in a non-inflationary environment, as defined in the Financial Information Standards issued by the Mexican Council for Research and Development of Financial Information Standards.

HSBC Mexico, S.A, net income in 2007, figure that was audited by Despacho KPMG Cárdenas Dosal, S. C., was MXN4,656 million, amount that applied to retained earnings.

On April 9, 2008, a notice was published in accordance to the agreement of the Board meeting, held on July 30, 2007, a dividend of \$2.8328 shall be paid per share for each one of the 1,235'526,706 shares outstanding. Such dividends will be paid on one disbursement on April 15 of 2008.

The Ordinary Shareholders Meeting, held on April 22, 2008, approved the following distribution of the year 2007 financial results, amounting to MXN4,656 million:

Ten per cent to increase legal reserves MXN466 million and the remaining MXN4,190 million to other reserves.

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

The Ordinary Shareholders Meeting, held on April 21, 2008, approved to affect the net income recorded in 2007 amounting to MXN63 million to retained earnings in accordance to the Board decision.

According to Mexican Banking and Securities National Commission, the effects of inflation shall no longer be recorded, because accrual inflation for the last three financial years is less than 26%. Starting on January 1 of 2008, the effects of inflation shall no longer be recorded, because Mexico is in a non-inflationary environment, as defined in the Financial Information Standards. Given the previous explanation, the cumulative effect of restatement and results on non-monetary assets will be applied to previous years' retained earnings, in the concept of "Accounting changes and errors correction" for MXN198 million.

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

Figures in MXN millions at March 31, 2008

	<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 Mar</u> <u>2008</u>
% of assets subject to credit risk					
Tier 1	16.64%	15.84%	15.53%	16.76%	<b>16.30%</b>
Tier 2	2.01%	2.06%	1.89%	1.86%	<b>1.92%</b>
Total regulatory capital	<u>18.65%</u>	<u>17.90%</u>	<u>17.42%</u>	<u>18.62%</u>	<b><u>18.22%</u></b>
% of assets subject to credit and market risk <sup>1/</sup>					
Tier 1					
Tier 2	13.09%	12.29%	11.05%	12.81%	<b>11.67%</b>
Total regulatory capital	<u>1.58%</u>	<u>1.60%</u>	<u>1.35%</u>	<u>1.42%</u>	<b><u>1.37%</u></b>
	14.67%	13.89%	12.40%	14.23%	<b>13.04%</b>
Tier 1					
Tier 2	24,918	25,519	26,504	30,192	<b>28,267</b>
Total regulatory capital	<u>3,007</u>	<u>3,318</u>	<u>3,226</u>	<u>3,359</u>	<b><u>3,322</u></b>
	27,925	28,837	29,730	33,551	<b>31,589</b>
RWA credit risk					
RWA market risk <sup>1/</sup>	149,749	161,087	170,613	180,150	<b>173,367</b>
RWA credit and market risk	<u>40,656</u>	<u>46,627</u>	<u>69,169</u>	<u>55,630</u>	<b><u>68,856</u></b>

<sup>1/</sup>In march 2008, the assets to credit and market risk includes 713 millions of assets to credit and market risk operationl

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

## Other Expenses, Other Income and Extraordinary Items

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

Figures in MXN millions at March 31, 2008

	For the quarter ending					Year to date	
	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008
Other income							
Loans to employees	24	27	32	35	40	24	40
Recoveries	128	333	565	727	252	128	252
Other income	316	516	359	765	1,381	316	1,381
Monetary position (other income)	92	24	60	139	-	92	-
	560	900	1,016	1,666	1,673	560	1,673
Other expenses							
Other losses	(205)	(362)	(466)	(362)	(235)	(205)	(235)
Monetary position (other expenses)	-	-	-	-	-	-	-
	(205)	(362)	(466)	(362)	(235)	(205)	(235)
Total other income (expenses)	355	538	550	1,304	1,438	355	1,438

► 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 MXN millions at March 31, 2008

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
<b>Balance Sheet</b>							
Cash and deposits in banks	-	2	79	-	48	8	137
Demand deposits	(137)	-	-	-	-	-	(137)
Repos (assets)			11				11
Reverse repos (liabilities)	(11)						(11)
Sundry debtors (assets)	3,500	18	8	9	206	-	3,741
Sundry creditors (liabilities)	(239)	-	-	(2)	-	(3,500)	(3,741)
<b>Total</b>	<b>3,113</b>	<b>20</b>	<b>98</b>	<b>7</b>	<b>254</b>	<b>(3,492)</b>	<b>-</b>
<b>P&amp;L</b>							
Payable commissions	-	(2)	-	-	-	-	(2)
Receivable commissions	-	-	-	2	-	-	2

Interest income	-	-	1	-	-	-	1
Interest expense	(1)	-	-	-	-	-	(1)
Repos	(42)	-	-	-	-	-	(42)
Reverse repos	-	-	42	-	-	-	42
Administrative services	-	(18)	(16)	(8)	(20)	-	(62)
Other income	62	-	-	-	-	-	62
<b>Total</b>	<b>19</b>	<b>(20)</b>	<b>27</b>	<b>(6)</b>	<b>(20)</b>	<b>-</b>	<b>-</b>

## Information on Customer Segment and Results

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

#### **Consolidated Income Statement by Customer Segment**

The consolidated income statement by customer segment includes Personal Financial Services (PFS), Commercial Banking (CMB), 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 March 31, 2008, is shown below:

Figures in constant MXN millions at March 31, 2008

	Year to date at 31 March 2008				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	4,460	1,359	430	2	6,251
Provision for Loan Loss	(2,746 )	(62 )	10	-	(2,798)
<b>Net Interest Income adjusted</b>	<b>1,714</b>	<b>1,297</b>	<b>440</b>	<b>2</b>	<b>3,453</b>
Fees and Commissions, net	2,222	527	180	3	2,932
Trading Income	362	20	73	-	455
<b>Total Revenue</b>	<b>4,298</b>	<b>1,844</b>	<b>693</b>	<b>5</b>	<b>6,840</b>
Administrative Expenses	(3,678 )	(1,050 )	(491 )	17	(5,202)
<b>Operating Income</b>	<b>620</b>	<b>794</b>	<b>202</b>	<b>22</b>	<b>1,638</b>
Other Income (Expenses), net	1,227	115	115	(19 )	1,438
Taxes	(706 )	(343 )	(120 )	6	(1,163)
<b>Net Income before subsidiaries</b>	<b>1,141</b>	<b>566</b>	<b>197</b>	<b>9</b>	<b>1,913</b>
Undistributed income from subsidiaries	17	-	-	277	294
Continued Operating Results	<b>1,158</b>	<b>566</b>	<b>197</b>	<b>286</b>	<b>2,207</b>
Discontinued Operating Results	-	-	-	-	-
<b>Net Income</b>	<b>1,158</b>	<b>566</b>	<b>197</b>	<b>286</b>	<b>2,207</b>
Minority Shareholders	-	-	-	-	-
<b>Participated Net Income</b>	<b>1,158</b>	<b>566</b>	<b>197</b>	<b>286</b>	<b>2,207</b>

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

### Grupo Financiero HSBC

HSBC Holdings plc, the parent of Grupo Financiero HSBC S.A. de C.V. reports its results under International Financial Reporting Standards (IFRS). There follows a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V. from Mexican GAAP to IFRS for the first quarter ended 31 March 2008 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<b>31 Mar 2008</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>2,207</b>
Differences arising on the valuation of pensions and post retirement healthcare benefits †	19
† Differences arising on acquisition costs relating to long-term investment contracts	(11)
Differences arising from the deferral of fees received and paid on the origination of loans	20
Differences arising from the recognition and provisioning for loan impairments †	(197)
Differences arising from purchase accounting adjustments †	(6)
Other differences in accounting principles †	(214)
<b>HSBC México net income under IFRS</b>	<b>1,818</b>
<b>US dollar equivalent (millions)</b>	<b>168</b>
Add back tax expense	481
<b>HSBC México profit before tax under IFRS</b>	<b>2,299</b>
<b>US dollar equivalent (millions)</b>	<b>213</b>
<i>Exchange rate used for conversion</i>	10.81

† Net of tax at 28 per cent.

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

#### Retirement benefits

##### Mexican GAAP

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method and real interest rates. Unrecognised past service costs are amortised on an estimated service life of the employees.

##### IFRS

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

Actuarial gains and losses are recognised in stockholders equity as they arise. Unrecognised past service cost are recognised in the Income Statement as they arise.

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

**IFRS**

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

**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.

## Risk Management

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

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

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

### Assets and Liabilities (Committee) ALCO

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

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

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

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

### Risk Management Committee (RMC)

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

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



The main objectives of this committee are to:

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

## Market Risk Management

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### 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.

## 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 first quarter of 2008 (millions of dollars).

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

Value at Risk of Global Market (VaR) (Considering all Risk Factors)						
	Bank		All Trading		Accrual	
	Average 1Q08	Limits*	Average 1Q08	Limits*	Average 1Q08	Limits*
Combined	13.49	42.00	2.43	40.00	11.96	27.50
Interest Rate	14.49	42.00	4.33	24.50	11.95	27.50
FX	1.67	8.00	1.67	8.00	N/A	N/A
Volatility IR	0.13	9.50	0.13	7.50	0.01	2.00

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

	31-Dec-07	31-Mar-08	Limits*	Average 4Q07	Average 1Q08
HBMI	14.35	14.59	42.00	10.44	13.49
Accrual	11.97	13.22	27.50	9.17	11.96
All Trading	3.33	1.80	32.50	3.00	2.43

\* Absolute Value

N/A = 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 December 31st, 2007 and March 31st, 2008 (in millions of dollars).

**Market VaR vs. Net Capital Comparison**

*Net Capital in million Dollars*

	31-Dec-07	31-Mar-08
Total VaR*	10.44	13.49
Net Capital **	3,073.69	2,966.58
VaR / Net Capital	0.34%	0.45%

\* 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 0.45 % of the net capital in 1Q08.

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

	31-Dec-07	31-Mar-08	Limits*	Average 4Q07	Average 1Q08
Bank	(0.632)	(0.815)	1.200	(0.437)	(0.620)
Accrual	(0.612)	(0.700)	1.075	(0.474)	(0.614)
Trading Desk	0.009	(0.089)	0.350	0.028	0.003
Balance Sheet Trading	(0.029)	(0.025)	0.230	0.009	(0.009)
AFR **	(0.236)	(0.242)	0.437	(0.246)	(0.240)
ALCO	(0.001)	(0.003)	0.030	(0.002)	(0.003)

\* Absolute Value

NA = Non Applicable

The bank's PVBP for the 1Q08 varied 22.44% versus prior quarter. The bank's average PVBP for the 1Q08 varied 29.52% versus prior quarter.

## Liquidity Risk

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### Qualitative Information

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

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

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

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

### Quantitative Information

The institution had at the end of the quarter liquidity ratios of 14.0% for 1st line liquidity and 20.8% for 2nd line liquidity, in the first case below the 15% minimum required limit. Along the quarter, average levels were 15.7% and 21.9% for 1st for 2nd line liquidity ratios respectively. Mexican peso liquidity position was affected by two events on March's closing date:

- ▶ Decrease of \$2,340 MM MXN in Core (retail) Deposits affecting balances related to Cash available
- ▶ Increase of Non-Bank Professional (institutional) Deposits of \$3,147 MM MXN counting as Negative Liquid Assets in 1st line liquidity calculation

Implementing of a mechanism to create a liquid asset cushion with cash and liquid instruments is undergoing with relevant areas, in order to avoid further liquidity limit breaches arising from extraordinary dates and months' end withdrawals from retail depositors.

In the same tenure, expected cash flow stress test scenarios have been run and extreme scenarios present negative cumulative net cash flow given the increase of Advances to clients and short-term institutional Deposits during final days of March.

## Credit Risk

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### Qualitative Information

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

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

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

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

The system MRC (Credit Provision Module) was implemented in 4Q07 in order to improve the functionality of the grading system (SICAL). The “Matriz de Calificación” is still being applied to the commercial portfolio. This model is the core element of the regulatory risk grading process. The “Matriz de Calificación” determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, the level of support from shareholders and the type and value of guarantees, among others. Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

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

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based 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 risk evaluation tool is used: Moody’s Risk Advisor (MRA), which permits a deeper 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 and a third one for large).

In addition to the mentioned client risk grading models, 11 more were implemented for Non-Banking Financial Institutions (NBFIs), another one for banks (MRAfBanks), and one more for global customers, being those the corporate counterparties with annual sales above or equal to MXN 7,000 millions (GLCS). In 4Q07 new versions of GLCS and MRAfBanks were implemented.

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a client risk grading framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, 20 of them are for non-defaulted customers and 2 for defaulted 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. In order to convert the model to an empirical one, HBMX constructed a historical database, which will also be used for the estimation of Exposure at Default (EaD). LGD is being calculated empirically for the consumer and mortgage portfolio.

In the second half of 2006 a risk-adjusted return model which measures the profitability of each and every client relationship was introduced.

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

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a system was implemented in 2006, “Garantías II”. Finally, it is important to comment that HBMX has also a system that controls the limits and utilization of credit facilities since their origination, “Líneas III”.

The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done 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, where a PD and LGD is assigned to every credit. The model is calibrated to estimate expected losses in a year, and was elaborated using previous experience with the portfolio.

### Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at March 31st, 2008 is \$6,824.2 millions of pesos, an increase of 10.6% compared to that of the 4Q07. At the beginning of 2008, a review of the calculation methodology for the commercial portfolio was made to incorporate new regulatory information on non-performing loans. The EL of the commercial portfolio as at March 31st, 2008 is \$3,844.2 millions of pesos, an increase of 1.4% compared to that of the last quarter.

### Operational Risk

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

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

In order to identify and re-evaluate these risks, the 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

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The persistence in the preservation and enhancement of the System Quality Management in accordance with ISO 9001:2000, which is applicable to all products and services related to information technologies, is designed to maintain proper control of technological risk thus ensuring continuity in service banking through different distribution channels as agile, secure and reliable.

### Legal Risk

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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 first quarter of 2008, we have 2,392 risks distributed as follows: 1.30% A type, 10.2% B type, 60.1% C type, and 28.4% D type risks, which can also be classified onto: 20.2% people, 50.2% process, 18.% systems and 11.3% external type risks.

Furthermore, for the 6th consecutive year, during 2008, we have registered those major loss events which are of some relevance. Since January 2006, the relevance threshold for reporting these incidences is USD 10,000, and events under the reporting threshold are aggregated into a single record. These events are registered and incorporated into a specifically designed database.

We estimate that for the second quarter of 2008 operational losses as reflected in the Other Expenses account will have an impact in the order of USD18.5 million, distributed in the following proportions

Concept	%
<b>Frauds</b>	48.6%
<b>Robberies and assaults</b>	3.8%
<b>Counterfeit notes</b>	0.8%
<b>Operating errors</b>	5.9%
<b>Branches</b>	3.0%
<b>Credit Cards</b>	28.1%
<b>Shortages</b>	0.5%
<b>Other errors and losses</b>	9.2%

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



## Corporate Social Responsibility (CSR)

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For HSBC, Corporate Responsibility means conducting our business in a responsible manner and maintaining the highest ethical standards in our relations with customers, employees, investors and suppliers; to comply with the laws of the countries where we operate; to respect human rights; to contribute to the conservation of the environment by managing our direct impact, as well as applying environmental standards to our financing; and 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 March 2008, HSBC México was awarded, for the third 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. Fundación Pro Niños De La Calle I.A.P.	US 25,000.00
3. 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. Fundación Dar y Amar (DAYA) IAP	US\$75,000.00
7. SOS Children's Villages	US\$25,000.00
8. Fundación Juconi	US\$25,000.00

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 (Students in Free Enterprise) 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.

HSBC participates in the fundraising programme "Bécalos" run by the Association of Mexican Banks, which provides 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.

HBMX donated MXN 1,049,165 to Fundación Quiera, the ABM's (Mexican Banking Association) street children programme. Through this programme HBMX, along with other financial institutions, provide support for street and homeless children, through counselling to address addictions, as well as psychological and educational support. In addition, the programme trains them for jobs and helps integrate children back into society.

### 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 is participating 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 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.

**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.

**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 allocating the funds raised for Tabasco in three phases to provide the most efficient and effective support. To date, these phases include the construction and operation of shelters to provide the necessary and immediate security for children and the creation of "friendly spaces" in which children are offered psychological and recreational support. Educational workshops are being provided to children in the shelters, which will help to reincorporate children back into the formal educational system.

In addition, HSBC will be helping to establish a culture of education in emergency and disaster situations for marginalized children. Communities will also be offered advice on strategies and management during emergency situations in order to strengthen a preventative culture. HSBC Mexico also made a donation to Universidad Juarez who is 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 addition, it will serve as a potential shelter and function as a community centre. This is being done with the participation of Save the Children and Fundación Merced.

**In Conclusion**

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

## Contacts

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