

Grupo Financiero HSBC

Financial information at 30 September 2008

3Q08

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

Release date:
31 October 2008





31 October 2008

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

- Net income for the nine months to 30 September 2008 was MXN3,613 million, down MXN315 million or 8.0 per cent compared with MXN3,928 million for the same period in 2007.
- Total operating income (excluding loan impairment charges) for the nine months to 30 September 2008 was MXN28,670 million, up MXN3,268 million or 12.9 per cent compared with MXN25,402 million for the same period in 2007*.
- Net operating income for the nine months to 30 September 2008 was MXN1,638 million, down MXN1,294 million compared to the same period of 2007.
- Net loans and advances to customers were MXN177.1 billion at 30 September 2008, down MXN9.6 billion, or 5.2 per cent, compared with MXN186.7 billion recorded at 30 September 2007.
- Total customer demand and time deposits were MXN241.9 billion at 30 September 2008, up MXN3.4 billion or 1.4 per cent, compared with MXN238.5 billion at 30 September 2007.
- The cost efficiency ratio was 58.5 per cent for the nine months to 30 September 2008, compared to 60.1 per cent for the same period of 2007*.
- Return on equity was 12.8 per cent for the nine months to 30 September 2008, compared with 14.8 per cent for the same period in 2007.
- At 30 September 2008 the Bank's capital adequacy ratio was 12.6 per cent. The Tier 1 capital ratio at the end of the reporting period is 11.2 per cent.
- At 30 September 2008 the Bank continues to report strong liquidity ratios, maintaining a solid position in its customer deposit business and a loan to deposit ratio below 100 per cent.

HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file periodic financial information on a quarterly basis (in this case for the quarter ended 30 September 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). With effect from January 1, 2008, in accordance with Financial Information Standard B-10, "Effects of Inflation", the effects of inflation in financial statements cannot 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).

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

Overview

Grupo Financiero HSBC, S.A. de C.V.'s performance in the nine months to 30 September 2008 has been affected by the ongoing volatility in the global economy. As we reported at the end of the first half, economic deceleration, inflationary pressures, market volatility and the global credit squeeze continue to affect our business.

Grupo Financiero HSBC's net income for the nine months ended 30 September 2008 was MXN3,613 million, MXN315 million less than for the same period in 2007. Our insurance subsidiary HSBC Seguros, accounted for 21.8 per cent of total net income.

In line with the local market trend, credit quality, particularly in the credit card portfolio, continued to deteriorate in the third quarter of 2008, which has led to an increase in provisions.

Net loans and advances to customers decreased by MXN 9.6 billion from MXN186.7 billion in September 2007 to MXN177.1 billion in September 2008, largely as a result of government loan prepayments and a reduction in the mortgage portfolio through securitization.

Net interest income in the nine months to 30 September 2008 increased by MXN2,545 million, reaching MXN19,062 million, a 15.4 per cent growth compared with the same period of 2007*. Enhanced product pricing contributed to this improved performance, especially in the credit card and commercial portfolios.

Net fee income was MXN8,656 million for the nine months ended 30 September 2008, an increase of 9.1 per cent compared to the same period of 2007. This was driven mainly by increased trade services business, membership programs, credit cards, investment funds, trust services, points-of-sale and ATMs.

Trading income was MXN952 million for the nine months ended 30 September 2008, largely unchanged from the same period in 2007. Trading income levels were maintained primarily by strong performance in foreign exchange transactions.

Administrative expenses increased MXN1,493 million or 9.8 per cent for the nine months ended 30 September 2008 compared to the same period of 2007. This increase is largely attributed to one off redundancy expenses, increased marketing expenses for packaged products, investment in technology infrastructure and higher costs associated with loan recoveries. These initiatives have been complemented by a change in the branch opening hours to improve service and our customer's banking experience by, for example, reducing waiting times. Despite these measures our cost efficiency ratio* improved 1.6 percentage points to reach 58.5 per cent. Excluding the effect of non-recurrent personnel expenses, the growth in administrative expenses reduces to 7.5 per cent compared to the same period of 2007 and the cost efficiency ratio would be 57.3* per cent.

Other net income and expenses for the nine months to 30 September increased by MXN1,290 million reaching MXN2,733 million compared with the same period in 2007. This is primarily due to non-recurring income arising from the sale of shares in VISA Inc. and the sale of Mexican Stock Exchange shares in the second quarter as a result of public offerings by those entities.

Consistent with market trends, loan impairment charges increased by MXN3,710 million or 56.6 per cent in the nine months ended 30 September 2008, compared to the same period of 2007. This increase is due to higher delinquencies experienced in an environment of economic deceleration, especially in respect to consumer lending, particularly credit cards.

HSBC's allowance for loan losses as a percentage of impaired loans was 122.1 per cent at 30 September 2008, compared to 144.8 per cent for the same period of 2007.

* To ensure a consistent base for comparison, the 2007 figures exclude the monetary position result.

Adjustments to credit underwriting models have also been implemented in order to improve portfolio credit quality, achieve greater control and streamline collection processes in order to ensure improved risk management. In addition, regular reviews of the credit quality of new business continue and we ensure close control of customer acquisition channels.

The government loan portfolio continued to decrease and is MXN16,505 million lower than 30 September 2007. This is due to customers paying early.

At 30 September 2008 the Bank's capital ratio was strong at 12.6 per cent. The Tier 1 capital ratio at the end of the reporting period was 11.2 percent.

In line with the policies and strategies, Grupo Financiero HSBC S.A. de C.V. management remains focused on maintaining sufficient liquidity levels in the current uncertain and volatile market environment. Our loan to deposit ratio is below 100 per cent and we continue to adopt a conservative approach to asset and liability management.

Business highlights

Personal Financial Services (PFS) focused on implementing strategies to improve service quality both through our branch network and alternative distribution channels. Changes in branch opening hours were introduced and new ATMs were installed and existing ATMs were upgraded. New pricing strategies for products and services have been introduced which are leading to improved contribution to our results. Two new savings and investment product offerings were launched in September: "*Cuenta Flexible HSBC*" and "*Cuenta Ahorro HSBC*", which are tailored according to customer needs and offer a comprehensive package of services.

In addition the mortgage product "*Hipoteca Cero*" promotion was launched in the third quarter of 2008 which focuses on strengthening our long-term relationship with customers by providing a competitive solution.

Commercial Banking (CMB) total operating income increased 2.5 per cent compared to same period in 2007. This growth was largely due to an increase in the loan portfolio, as we continue to support our customers within the limitations of a conservative approach to the credit quality of new business.

We further developed our Small Medium Enterprises (SME) segment by establishing new distribution channels and focusing on the sale of packaged products, which is reflected in higher sales during the quarter.

Our market share in factoring services has increased from 22 to 26¹ per cent compared to the prior year as a result of the implementation, promotion and development of new products.

Strategies have been implemented to offer greater convenience in our services by migrating our customer's transactions to direct channels such as telephone and Internet service centers.

Global Banking and Markets

During the third quarter of 2008, some Mexican companies had to contend with margin calls and pronounced volatility in international markets. In spite of the difficult conditions the performance of Global Markets remained resilient and generated positive results in derivatives and foreign exchange activities.

¹ Source: HSBC analysis based on Mexican Association of Financial Factoring and Related activities Statistical Bulletin, figures at August 2008.

During the period total income from Global Banking recorded a 14.5 per cent increase compared with the same period of 2007, driven primarily by fee income, continued success in Project Finance infrastructure transactions and in Debt Capital Markets activity. HSBC has attained a leading position in both of these strategically important areas. In addition, compared to the prior year, revenues were higher in Trade Services, Trust, and Factoring; and by growth in new business lines, such as Custodial Services.

Operating profit before provisions experienced growth surpassing 46 per cent over the same period of 2007 driven by the above factors, as well as by non-recurring income resulting from the sale of our equity stake in the Mexican Stock Exchange.

Subsequent events

As a result of the recent turbulence in financial markets, particularly the volatility of the peso against the dollar, the financial outlook of our credit portfolio will be assessed under this new economic scenario. However the impact of this assessment is not considered material with regards to the Bank's financial position.

On 2 October 2008, the Bank issued MXN1,818 million subordinated debentures, which qualifies for Tier 2 capital. If this issue were included, our capital ratio would increase to 13.4 per cent.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,251 branches, 5,878 ATMs, approximately 9.2 million customer accounts and more than 20,200 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 128 million customers worldwide through 9,500 offices in 85 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,547 billion at 30 June 2008, HSBC is one of the world's largest banking and financial services organizations. HSBC is marketed worldwide as 'the world's local bank'.

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Key Indicators

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

For the quarter ended at

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
a) Liquidity	76.22%	81.93%	88.50%	96.98%	85.79%
Profitability					
b) ROE (Return over equity)	15.54%	17.83%	23.43%	7.00%	8.21%
c) ROA (Return over assets)	1.69%	1.95%	2.47%	.70%	.83%
Asset quality					
d) Impaired loans/total loans	3.42%	4.01%	3.90%	4.64%	5.18%
e) Coverage ratio	144.84%	132.00%	134.01%	124.21%	122.14%
Capitalization					
f) Credit risk	17.43%	18.62%	18.17%	17.30%	16.58%
g) Credit and market risk operational	12.40%	14.23%	13.23%	13.53%	12.63%
Operating efficiency					
h) Expenses/Total Assets	6.44%	6.12%	5.83%	6.09%	6.49%
i) NIM	7.72%	7.38%	7.64%	7.56%	8.01%
Infrastructure					
Branches	1,359	1,360	1,359	1,332	1,251
ATM	5,618	5,741	5,855	5,875	5,878
Head Count	23,919	23,314	22,659	22,803	20,227

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Statement Variance Analysis

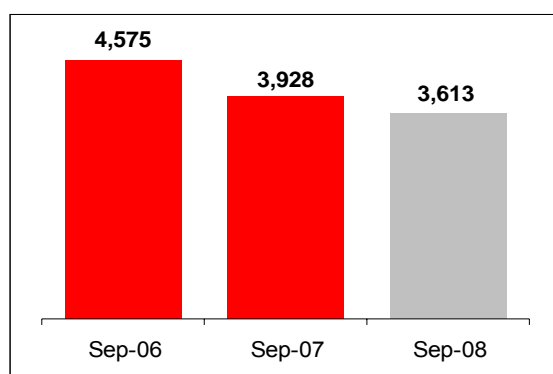
Net Income

Grupo Financiero HSBC, S.A. de C.V.'s performance in the nine months to 30 September 2008 was MXN3,613 million, MXN315 million less than for the same period in 2007. The performance of our subsidiaries, particularly HSBC Seguros, contributed 21.8 per cent of total net income.

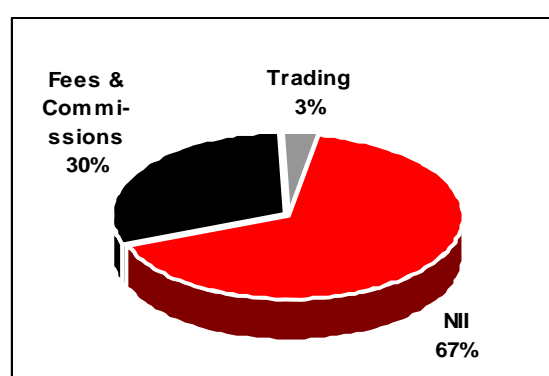
The Group benefited from the positive results obtained by its subsidiaries, mainly by the Bank and the Insurance Company, which represent 92.1 per cent of the Group's net income for the third quarter of 2008, recording a net income of MXN2,540 million and MXN788 million, respectively.

The income recorded by HSBC reflects selective asset growth, cost control policies, as well as proactive product price management. During the period, income decreased as a result of the deterioration observed in the credit quality of consumer products, particularly credit cards in line with the market trend.

Grupo Financiero HSBC:
Year to date net income



Grupo Financiero HSBC
Revenue distribution YTD 3Q08



Total Revenue

The Group's total operating income before loan impairment charges for the nine months to 30 September 2008, was MXN28,670 million, up MXN3,268 million (12.9%) compared to the same period of 2007*. This is due to the increase recorded in net interest income of MXN2,545 million and net fee income of MXN724 million, both compared to the same period of 2007.

Total operating income for the nine months ended 30 September 2008, after loan impairment charges (and the monetary position result for 2007), amounted to MXN18,408 million, which represents an increase of MXN199 million compared to the same period of the prior year. For the nine months to 30 September 2008, total operating income was affected by the MXN3,710 million increase recorded in loan impairment charges, compared with the same period of 2007.

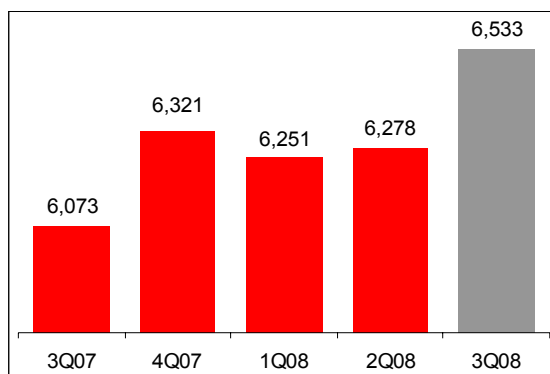
Net Interest Income

Net interest income increased MXN2,545 million in the nine months to 30 September 2008, reaching MXN19,062 million, which represents a positive variation of 15.4 per cent compared to the interest income recorded in the same period of 2007.

Net interest income improved due to the 16.1 per cent increase in interest income as a result of enhanced product performance, particularly credit cards and commercial loans. Interest income was offset by an increase in interest expense as a result of greater funding costs.

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

Net interest income
(by quarter)



Non-interest Income

For the nine months to 30 September 2008, non-interest income was MXN9,608 million, up MXN723 million (8.1%) with regards to the same period of 2007.

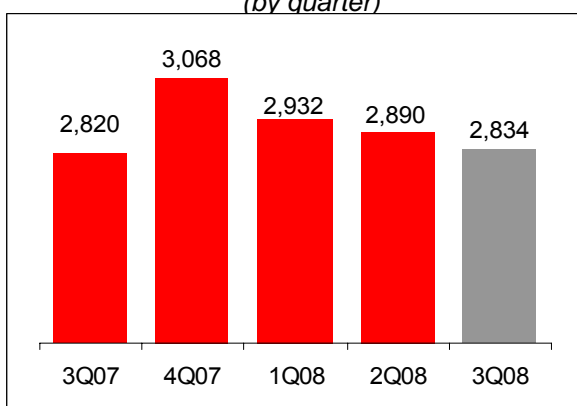
► Fee income

The Group's net fee income in the nine months to 30 September 2008 was MXN8,656 million. This figure represents a growth of MXN724 million (9.1%) compared to the same period of 2007. This increase was mainly driven by enhanced product performance and increases in volumes of fee-generating products, such as trade services, membership programs, credit cards, investment funds, among others.

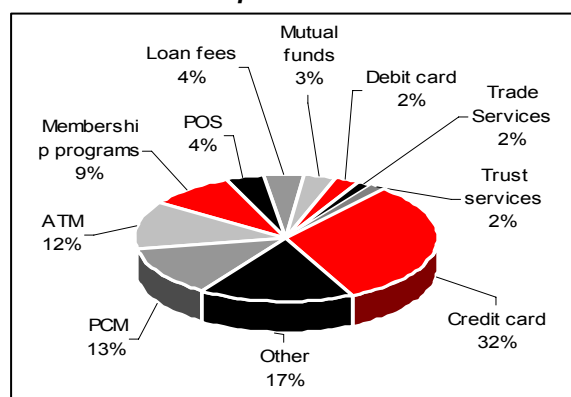
Credit card fees increased 17.8 per cent compared with the same period of 2007, reflecting a higher number of cards in circulation. Fees earned from **membership programs** grew by 27.6 per cent, driven mainly by our packaged products.

ATM fees increased due to the continued cross-sale of products through our extensive ATM network and broad customer base, added to increased use of the network by non-HSBC customers. In order to satisfy our customer's needs, larger emphasis has been placed on the use of ATMs in order to perform almost 120 transactions through automated payments that were traditionally served at the branch.

Group fees & commissions
(by quarter)



Bank's fees & commissions distribution
30 September 2008



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

Trade services fee income increased by 39.5 per cent as a result of cross-sales of products to our extensive corporate customer base. This performance has been favored by the Group's extensive geographical presence and improvements in the attributes of our products.

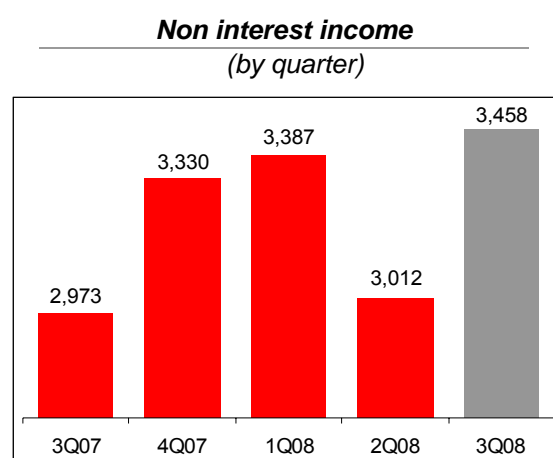
The stable growth in fee income can be essentially explained by the Bank's operations, which contribute 93.0 per cent to the total net commissions. The total fee income obtained by the Bank amounted to MXN8,046 million for the nine months to 30 September 2008, which represents a growth of MXN702 million (9.6%) compared to the same period of 2007.

Mutual funds and trust service fee income also increased by 16.3 and 12.2 per cent, respectively compared to the same period of the prior year, mainly due to on-going promotion and improved product management.

► Trading income

Trading income was MXN952 million for the nine months ended 30 September 2008, MXN 1.0 million down compared to the same period of the prior year. Trading income benefited from the strong performance of foreign exchange transactions.

The non-interest income to total revenue ratio at the Group level decreased from 35.0 per cent in 2007, to 33.5 per cent in 2008.



► Other income

Other Income amounted to MXN2,733 million, which represents a growth of MXN1,290 (89.4%) million compared to the end of the same period of 2007. This growth is primarily due to non-recurring income recorded during the year from the sale of VISA Inc. stock and the sale of Mexican stock market shares as a result of the public offering of both companies.

Loan Impairment Charges

For the nine months to 30 September 2008, the Group's loan impairment charges amounted to MXN10,262 million, up MXN3,710 million compared to the same period in 2007. This increase is due to higher delinquencies experienced in an environment of economic deceleration, especially in respect to consumer lending, particularly credit cards.

Adjustments to credit underwriting models have also been implemented in order to improve portfolio credit quality, achieve greater control and streamline collection processes in order to ensure improved risk management. In addition, regular reviews of new businesses' credit quality continue, ensuring close control of customer acquisition channels. At the same time, we continue to strengthen our collection strategies. At 30 September 2008, HSBC maintains adequate past-due portfolio coverage of 122.1 per cent.

Administrative and Personnel Expenses

For the nine months to 30 September 2008, the Group's administrative expenses reached to MXN16,770 million, up MXN1,493 million (9.8%) compared to same period of the prior year.

Administrative expenses recorded an increase reflecting on-going and efficient expense control, selective investments and improvements in productivity. This increase is attributed to one off redundancy expenses, marketing expenses for packaged products, the development of new initiatives to strengthen the technological infrastructure and loan recovery services. A personnel restructure was implemented during the period in order to reflect improvements in the Bank's operating efficiency.

The Group's cost efficiency ratio (excluding the monetary position result) at 30 September 2008 was 58.5 per cent, which represents an improvement compared to the 60.1 per cent recorded in the same period of the prior year. Excluding the effect of non-recurrent personnel expenses, the growth in administrative expenses reduces to 7.5 per cent compared to the same period of 2007 and the cost efficiency ratio would be 57.3* per cent.

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

Balance sheet Variance Analysis

At 30 September 2008, the Group's assets amount to MXN347,997 million, an increase of MXN8,087 million (2.4%), compared to the same period of 2007.

Loan portfolio

The Group's current loan portfolio was MXN179,230 million at 30 September 2008, a 5.5 per cent decrease compared to the same period of 2007. Balance sheet management focused towards maintaining resources in more-profitable assets. Thus, the consumer loan portfolio reduced by 1.4 per cent compared to the third quarter of 2007. Commercial loans (including financial and governmental entities), also showed a 5.7 per cent decrease compared to the same period of 2007. The mortgage loan portfolio decreased 13.7 per cent compared to the third period of the prior year.

► Commercial loans (including financial and governmental entities)

During this year, the total loan portfolio balance has been affected by several government loan pre-payments. As a result, the commercial portfolio reflects a decrease of MXN16,505 million at the end of the third quarter of 2008 compared to the same period of the prior year.

Excluding the governmental portfolio, the commercial loan and financial entities' portfolio increased by 11.7 per cent compared to the same period of 2007.

► Consumer loans

The consumer loan portfolio decreased mainly as a result of the behavior observed in the auto and personal loan portfolios. Auto loans reduced 16.5 per cent, whereas personal and payroll loans decreased 7.1 per cent. Credit card balances increased 16.0 per cent in comparison with the same period of 2007, reaching MXN28.6 billion.

► Mortgage loans

The mortgage loan portfolio reflects a decrease of MXN2,912 million (13.7%) compared to the same period of 2007, mainly explained by the mortgage securitizations performed in October 2007 and September 2008 of some MXN3.5 billion and MXN1.6 billion, respectively. However, excluding this effect, the year-on-year growth in the mortgage loan portfolio in September 2008 would have been 10.9 per cent.

The "Hipoteca Cero" (Zero-rate Mortgage) promotion was launched during the period in order to strengthen our loan-term relationships with our customers by offering an accessible product.

Asset quality

At 30 September 2008, the Group's impaired loan portfolio amounted to MXN9,801 million, an increase of MXN3,083 million compared to the prior year. This increase is mainly due to a larger volume of impaired loan portfolio of credit cards and personal and payroll loans. The impaired loans to the total loan portfolio ratio is 5.2 per cent.

The allowance for loan losses at 30 September 2008 was 122.1 per cent, lower in comparison with the same period of 2007 (144.8%). HSBC continues to conduct regular reviews of the credit quality of new businesses and ensure close control of customer acquisition channels and strengthening our collection strategies.

Deposits

The Group's total deposits at the end of September 2008 amounted to MXN246,156 million, an increase of MXN3,300 million compared to the same period of the prior year. At the third quarter of 2008 the growth in the total deposit was 1.4 per cent in regards to the same period of 2007.

Two new savings and investment product offerings were launched in September: "Cuenta Flexible HSBC" and "Cuenta Ahorro HSBC", which are tailored according to customer needs and offer a comprehensive package of services.

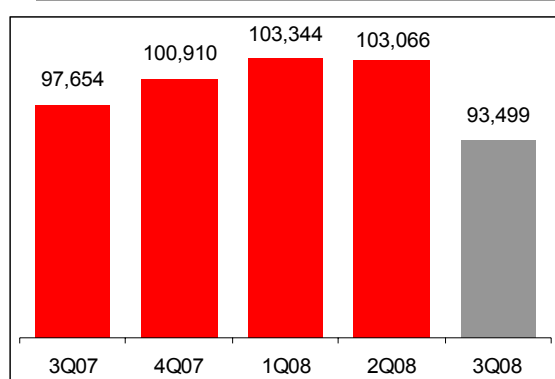
► **Demand deposits**

At 30 September 2008, demand deposits amounted to MXN121,825 million, 2.9 per cent down compared with the same period of the prior year, which is consistent with market trends and the strong competition to capture new customer deposits.

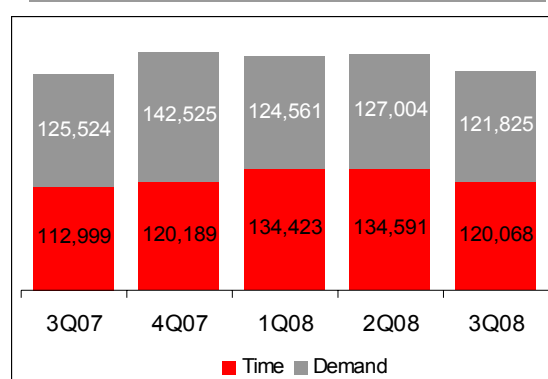
► **Time deposits**

Total time deposits increased MXN7,069 million or 6.3 per cent compared to 30 September 2007. Time deposits at the end of September 2008 represented 49.6 per cent of the total in the deposit mix (time and demand).

Group Time deposits (retail)
(September, 2008)



Group deposit mix
(September, 2008)



Shareholder's equity

The Group's shareholder's equity amounted to MXN36,934 million at the end of September 2008, a slight reduction of 0.6 per cent compared to the same period of the prior year. Moreover, the Bank's shareholder's equity amounted to MXN 30,009 million at 30 September 2008, reflecting a 6.2 per cent increase over the same period of the prior year.

Capital Adequacy Ratio

At 30 September 2008, the Bank's capital adequacy ratio was 12.6 per cent, placing it above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 11.2 percent.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at September 30, 2008

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

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Assets					
Cash and deposits in banks	50,483	48,865	53,961	51,596	50,457
Investments in Securities	53,180	76,029	64,293	82,415	62,802
Trading securities	23,072	42,318	30,874	50,311	33,678
Available-for-sale securities	26,107	29,687	29,469	28,080	25,022
Held to maturity securities	4,001	4,024	3,950	4,024	4,102
Securities and derivative operations	7,047	8,933	16,045	16,260	23,461
Repurchase agreements	47	40	47	42	49
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	7,000	8,893	15,998	16,218	23,412
Performing loans					
Commercial loans	121,132	125,679	126,625	118,585	114,213
Commercial entities	70,118	73,188	71,358	72,561	74,528
Loans to financial intermediaries	12,037	15,048	13,595	14,596	17,213
Loans to government entities	38,977	37,443	41,672	31,428	22,472
Consumer loans	47,279	48,034	48,449	47,872	46,637
Mortgages loans	21,292	18,337	18,978	19,490	18,380
Total performing loans	189,703	192,050	194,052	185,947	179,230
Impaired loans					
Commercial loans	2,227	2,534	2,381	2,246	2,073
Commercial entities	2,227	2,534	2,381	2,246	2,073
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	3,168	4,028	4,294	5,432	6,163
Mortgages loans	1,323	1,463	1,196	1,370	1,565
Other	-	-	-	-	-
Total non-performing loans	6,718	8,025	7,871	9,048	9,801
Loan portfolio	196,421	200,075	201,923	194,995	189,031
Allowance for loan losses	(9,730)	(10,593)	(10,549)	(11,238)	(11,970)
Net loan portfolio	186,691	189,482	191,374	183,757	177,061
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	186,691	189,482	191,374	183,757	177,061
Other accounts receivable, net	27,578	12,093	21,172	30,421	16,774
Foreclosed assets	71	82	89	80	91
Property, furniture and equipment, net	6,280	6,511	6,402	6,419	6,478
Long term investments in equity securities	3,437	3,630	3,037	3,263	3,538
Deferred taxes, net	1,400	916	1,142	1,805	2,433
Goodwill	2,749	2,748	2,749	2,749	2,749
Other assets, deferred charges and intangibles	994	1,872	1,948	2,087	2,153
Total Assets	339,910	351,161	362,212	380,852	347,997

Figures in MXN millions at September 30, 2008

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

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Liabilities					
Deposits	242,856	266,958	263,256	265,849	246,156
Demand deposits	125,524	142,525	124,561	127,004	121,825
Time deposits	112,999	120,189	134,423	134,591	120,068
Retail	97,654	100,910	103,344	103,066	93,499
Money market	15,345	19,279	31,079	31,525	26,569
Bank bonds outstanding	4,333	4,244	4,272	4,254	4,263
Bank deposits and other liabilities	8,380	7,608	7,245	9,529	7,782
On demand	-	-	-	1,031	-
Short term	5,238	4,998	4,591	5,996	5,414
Long term	3,142	2,610	2,654	2,502	2,368
Securities and derivative transactions	16,279	9,147	16,004	15,705	23,958
Repurchase agreements	50	73	73	53	65
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	9,037	-	-	-	-
Derivative transactions	7,192	9,074	15,931	15,652	23,893
Other accounts payable	32,683	26,317	36,239	49,980	30,483
Income tax and employee profit sharing payable	1,971	1,800	1,610	1,595	1,932
Sundry creditors and others accounts payable	30,712	24,517	34,629	48,385	28,551
Subordinated debentures outstanding	2,241	2,207	2,211	2,201	2,205
Deferred tax	-	-	-	-	-
Deferred credits	299	396	438	480	479
Total Liabilities	302,738	312,633	325,393	343,744	311,063
Stockholder's Equity					
Paid in capital	21,466	21,466	21,466	21,466	21,466
Capital stock	8,210	8,210	8,210	8,210	8,210
Additional paid in capital	13,256	13,256	13,256	13,256	13,256
Capital Gains	15,686	17,060	15,351	15,638	15,464
Capital reserves	1,162	1,162	1,162	1,442	1,442
Retained earnings	18,827	18,827	11,863	11,679	11,582
Result from the mark-to-market of available-for-sale securities	-	-	-	(201)	(1,037)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,989)	(3,989)	-	-	-
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,242)	(4,555)	119	-	-
Adjustment in the pension employee	-	-	-	(136)	(136)
Net Income	3,928	5,615	2,207	2,854	3,613
Minority interest in capital	20	2	2	4	4
Total Stockholder's Equity	37,172	38,528	36,819	37,108	36,934
Total Liabilities and Capital	339,910	351,161	362,212	380,852	347,997

Figures in MXN millions at September 30, 2008

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

	<u>30 Sep</u> <u>2007</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>
Memorandum Accounts					
Transactions on behalf of third parties	105,708	94,672	107,098	58,094	57,110
Customer current accounts	(5)	8	61	11	116
Customer banks	1	1	2	1	-
Customer Interests	-	-	-	-	-
Customer Interests receivable	-	-	-	-	144
Settlement of customer securities and documents	(6)	7	59	10	(28)
Customer securities	78,083	65,843	78,053	27,325	26,813
Customer securities in custody	78,074	65,834	78,044	27,316	26,804
Pledged customers securities and documents	9	9	9	9	9
Transactions on behalf of customer	27,630	28,821	28,984	30,758	30,181
Investment on behalf of customers, net	25,432	26,727	26,528	28,165	25,871
Customer repurchase transactions	2,198	2,094	2,456	2,593	4,310
Transactions for the group's own accounts	2,125,909	2,208,956	2,466,865	2,440,935	2,844,274
Accounts for the group's own registry	194,872	196,999	227,969	493,798	301,940
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	45	44	35	34	33
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	134,690	142,794	170,020	188,624	192,544
Goods in custody or under administration	60,137	54,161	57,914	305,140	109,363
Repurchase/resale agreements	(2)	(33)	(28)	(11)	(16)
Securities receivable under repos	48,927	46,971	46,160	35,008	42,613
(-)less					
Creditors repo transactions	48,932	47,016	46,199	35,027	42,652
Reverse repo transactions	5,160	7,095	3,629	12,595	14,552
(less)					
Securities deliverable under repos	5,157	7,083	3,618	12,587	14,529
Securities receivable	9,037	-	-	-	-
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	9,037	-	-	-	-
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	<u>1,922,002</u>	<u>2,011,990</u>	<u>2,238,924</u>	<u>1,947,148</u>	<u>2,542,350</u>

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

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

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Consolidated Income Statement

Figures in MXN millions at September 30, 2008

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

	For the quarter ending....				Year to date		
	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008	30 Sep 2008	
Interest Income	8,912	9,488	9,392	9,511	9,566	24,526	28,469
Interest expense	(2,839)	(3,167)	(3,141)	(3,233)	(3,033)	(8,009)	(9,407)
Monetary position (margin), net	(356)	(540)	-	-	-	(641)	-
Net interest income	<u>5,717</u>	<u>5,781</u>	<u>6,251</u>	<u>6,278</u>	<u>6,533</u>	<u>15,876</u>	<u>19,062</u>
Loan impairment charges	(2,622)	(2,935)	(2,798)	(3,594)	(3,870)	(6,552)	(10,262)
Risk adjusted net interest income	<u>3,095</u>	<u>2,846</u>	<u>3,453</u>	<u>2,684</u>	<u>2,663</u>	<u>9,324</u>	<u>8,800</u>
Fees and commissions receivable	3,157	3,352	3,218	3,178	3,122	8,835	9,518
Fees payable	(337)	(284)	(286)	(288)	(288)	(903)	(862)
Trading Income	<u>153</u>	<u>262</u>	<u>455</u>	<u>(122)</u>	<u>619</u>	<u>953</u>	<u>952</u>
Total operating income	<u>6,068</u>	<u>6,176</u>	<u>6,840</u>	<u>5,452</u>	<u>6,116</u>	<u>18,209</u>	<u>18,408</u>
Administrative and personnel expenses	(5,380)	(5,286)	(5,202)	(5,655)	(5,913)	(15,277)	(16,770)
Net operating income	<u>688</u>	<u>890</u>	<u>1,638</u>	<u>(203)</u>	<u>203</u>	<u>2,932</u>	<u>1,638</u>
Other income	1,016	1,666	1,673	847	857	2,476	3,377
Other expenses	(466)	(362)	(235)	(96)	(313)	(1,033)	(644)
Net income before taxes	<u>1,238</u>	<u>2,194</u>	<u>3,076</u>	<u>548</u>	<u>747</u>	<u>4,375</u>	<u>4,371</u>
Income tax and employee profit sharing tax	(911)	(183)	(1,694)	(642)	(927)	(2,547)	(3,263)
Deferred income tax	811	(532)	531	460	675	1,343	1,666
Net income before subsidiaries	<u>1,138</u>	<u>1,479</u>	<u>1,913</u>	<u>366</u>	<u>495</u>	<u>3,171</u>	<u>2,774</u>
Undistributed income from subsidiaries	279	207	294	282	264	756	840
Income from ongoing operations	<u>1,417</u>	<u>1,686</u>	<u>2,207</u>	<u>648</u>	<u>759</u>	<u>3,927</u>	<u>3,614</u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	1	-	(1)	-	1	(1)
Net income (loss)	<u>1,417</u>	<u>1,687</u>	<u>2,207</u>	<u>647</u>	<u>759</u>	<u>3,928</u>	<u>3,613</u>

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

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

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Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions at September 30, 2008

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

From 1 January 2008 to 30 September 2008

	Paid in capital					Earned capital								Minority Interest	Total Stock-holders 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 fixed assets)	Results from holding non-monetary assets (Valuation of permanent investments)	Ajustes por obligaciones laborales al retiro			Net income
Balances at 31 December 2007	8,210	-	13,256	-	-	1,162	18,827	-	-	(3,989)	-	(4,555)	-	5,615	2	38,528
Movements Inherent to the Shareholders Decision																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,335	-	-	-	-	-	-	(5,615)	-	(280)
Constitution of reserves	-	-	-	-	-	280	-	-	-	-	-	-	-	-	-	280
Cash dividends	-	-	-	-	-	-	(4,350)	-	-	-	-	-	-	-	-	(4,350)
Others	-	-	-	-	-	-	(8,230)	-	-	3,989	-	4,241	-	-	-	-
Total	-	-	-	-	-	280	(7,245)	-	-	3,989	-	4,241	-	(5,615)	-	(4,350)
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	3,613	-	3,613
Surplus (Deficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	(1,037)	-	-	-	314	(136)	-	2	(857)
Total	-	-	-	-	-	-	-	(1,037)	-	-	-	314	(136)	3,613	2	2,756
Balances as at 30 September 2008	8,210	-	13,256	-	-	1,442	11,582	(1,037)	-	-	-	-	(136)	3,613	4	36,934

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

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

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Consolidated Statement of Changes in Financial Position

Figures in MXN millions at September 30, 2008

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

From 1 January to 30 September 2008

Operating activities:

Net income	3,613
Items included in operations not requiring (providing) funds:	
Result from mark-to-market valuations	275
Allowances for loan losses	10,262
Depreciation and amortisation	807
Deferred taxes	(1,666)
Minority interest	1
Undistributed income from subsidiaries, net	(828)
Value loss estimation for foreclosed assets	(9)
Total operating items not requiring funds	12,455

Changes in items related to operations:

Decrease / increase in retail deposit and money desk	(20,801)
Decrease / increase in loan portfolio	2,160
Decrease / increase in investment in securities	12,952
Decrease / increase in securities and derivative transactions, net	282
Bank deposits and other liabilities	174
Funds provided by operating activities	7,222

Financing activities:

Subordinated debentures outstanding	(3)
Cash dividend	(4,350)
Decrease/increase in accounts payable	4,165
Funds used or provided in financing activities	(188)

Investing activities:

Property, furniture and equipment, net	(712)
Decrease / increase in deferred charges or credits, net	233
Foreclosed assets	-
Decrease / increase in accounts receivable	(4,963)
Funds used in investing activities	(5,442)
Increase / decrease in cash and equivalents	1,592
Cash and equivalents at beginning of period	48,865
Cash and equivalents at end of period	50,457

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.

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Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at September 30, 2008

HSBC Mexico, S.A. (Bank)

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Assets					
Cash and deposits in banks	50,483	48,864	53,961	51,596	50,457
Investment in Securities	52,066	75,660	62,971	81,730	62,150
Trading securities	21,959	42,235	29,939	50,209	33,368
Available-for-sale securities	26,106	29,401	29,082	27,497	24,680
Held to maturity securities	4,001	4,024	3,950	4,024	4,102
Securities and derivative operations	7,044	8,932	16,043	16,252	23,459
Repurchase agreements	45	39	45	34	47
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	6,999	8,893	15,998	16,218	23,412
Performing loans					
Commercial loans	121,132	125,679	126,625	118,585	114,213
Commercial entities	70,118	73,188	71,358	72,561	74,528
Loans to financial intermediaries	12,037	15,048	13,595	14,596	17,213
Loans to government entities	38,977	37,443	41,672	31,428	22,472
Consumer loans	47,279	48,034	48,449	47,872	46,637
Mortgages loans	21,292	18,337	18,978	19,490	18,380
Total performing loans	189,703	192,050	194,052	185,947	179,230
Impaired loans					
Commercial loans	2,227	2,534	2,381	2,246	2,073
Commercial entities	2,227	2,534	2,381	2,246	2,073
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	3,168	4,028	4,294	5,432	6,163
Mortgage Loans	1,323	1,463	1,196	1,370	1,565
Immediate collection, remittances and other	-	-	-	-	-
Total non-performing loans	6,718	8,025	7,871	9,048	9,801
Total loan portfolio	196,421	200,075	201,923	194,995	189,031
Allowance for loan losses	(9,730)	(10,593)	(10,549)	(11,238)	(11,970)
Net loan portfolio	186,691	189,482	191,374	183,757	177,061
Receivables	-	-	-	-	-
(-) less	-	-	-	-	-
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	186,691	189,482	191,374	183,757	177,061
Other accounts receivable	27,437	12,005	21,109	30,313	16,567
Foreclosed assets	71	82	89	80	91
Property, furniture and equipment, net	6,267	6,498	6,390	6,407	6,466
Long term investments in equity securities	149	137	146	121	128
Deferred taxes	1,360	883	1,087	1,810	2,410
Other assets, deferred charges and intangibles	960	1,846	1,914	2,057	2,111
Total Assets	332,528	344,389	355,084	374,123	340,900

Figures in MXN millions at September 30, 2008

HSBC Mexico, S.A. (Bank)

	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>
Liabilities					
Deposits	244,562	267,025	263,393	266,019	246,338
Demand deposits	127,230	142,592	124,698	127,174	122,007
Time deposits	112,999	120,189	134,423	134,591	120,068
Bank bonds outstanding	4,333	4,244	4,272	4,254	4,263
Bank deposits and other liabilities	8,380	7,608	7,245	9,529	7,782
On demand	-	-	-	1,031	-
Short term	5,238	4,998	4,591	5,996	5,414
Long term	3,142	2,610	2,654	2,502	2,368
Securities and derivative transactions	16,276	9,146	16,004	15,697	23,956
Repurchase agreements	47	72	73	45	63
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	9,037	-	-	-	-
Derivative transactions	7,192	9,074	15,931	15,652	23,893
Other accounts payable	32,511	26,164	35,142	49,744	30,131
Income tax and employee profit sharing payable	1,923	1,741	1,546	1,540	1,875
Sundry creditors and others accounts payable	30,588	24,423	33,596	48,204	28,256
Subordinated debentures outstanding	2,241	2,207	2,211	2,201	2,205
Deferred tax	-	-	-	-	-
Deferred credits	299	396	438	480	479
Total Liabilities	<u>304,269</u>	<u>312,546</u>	<u>324,433</u>	<u>343,670</u>	<u>310,891</u>
Stockholder's Equity					
Paid in capital	13,533	15,883	15,883	15,883	15,883
Capital stock	4,079	4,272	4,272	4,272	4,272
Additional paid in capital	9,454	11,611	11,611	11,611	11,611
Capital Gains	14,708	15,959	14,767	14,568	14,124
Capital reserves	14,077	14,077	10,577	12,797	12,797
Retained earnings	-	-	2,196	-	-
Surplus (Deficit) from securities	(40)	(217)	256	(296)	(1,077)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,605)	(3,602)	-	-	-
Gains on non monetary asset valuation	1,186	1,181	-	-	-
Adjustment in the pension employee	-	(136)	(136)	(136)	(136)
Net Income	3,090	4,656	1,874	2,203	2,540
Minority interest in capital	18	1	1	2	2
Total Stockholder's Equity	<u>28,259</u>	<u>31,843</u>	<u>30,651</u>	<u>30,453</u>	<u>30,009</u>
Total Liabilities and Capital	<u>332,528</u>	<u>344,389</u>	<u>355,084</u>	<u>374,123</u>	<u>340,900</u>

Figures in MXN millions at September 30, 2008

HSBC Mexico, S.A. (Bank)

	<u>30 Sep</u> <u>2007</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>
Memorandum Accounts					
Guarantees granted	45	44	35	34	33
Other contingent obligations	129	128	129	130	131
Irrevocable lines of credit granted	8,785	10,793	10,761	9,081	9,721
Goods in trust or mandate	134,691	142,794	170,020	188,624	192,544
Goods	133,806	142,108	169,351	187,889	192,003
Trusts	885	686	669	735	541
Goods in custody or under administration	56,127	50,216	53,969	301,195	105,415
Third party investment banking operations, net	25,431	26,727	26,528	28,165	25,871
Amounts committed in transactions with IPAB for Fobaproa	139	138	141	143	148
Amounts contracted in derivative operations	1,505,017	1,410,856	1,628,602	1,306,093	1,914,946
Investments of retirement savings system funds	3,600	3,540	3,540	-	-
Integrated loan portfolio	205,251	210,912	212,720	204,111	198,785
Other control accounts	199,079	375,621	383,027	427,589	418,617
	<u>2,138,294</u>	<u>2,231,769</u>	<u>2,489,472</u>	<u>2,465,165</u>	<u>2,866,211</u>
Securities receivable under repos	46,731	44,890	43,715	32,423	38,321
(less) Repurchase agreements	<u>(46,734)</u>	<u>(44,922)</u>	<u>(43,743)</u>	<u>(32,434)</u>	<u>(38,342)</u>
	<u>(3)</u>	<u>(32)</u>	<u>(28)</u>	<u>(11)</u>	<u>(21)</u>
Reverse repurchase agreements	2,961	5,001	1,173	10,002	10,242
(less) Securities deliverable under repos	<u>(2,961)</u>	<u>(5,002)</u>	<u>(1,173)</u>	<u>(10,002)</u>	<u>(10,237)</u>
	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>5</u>
Securities deliverable under stock borrowing	9,037	-	-	-	-
(Less) Receivables as guarantee for securities lending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>9,037</u>	<u>-</u>	<u>-</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.

www.hsbc.com.mx, Home Investor Relations Investor Relations Financial Information.

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

Consolidated Income Statement

Figures in MXN millions at September 30, 2008

HSBC Mexico, S.A. (Bank)

For the quarter ending

Year to date

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008	30 Sep 2007	30 Sep 2008
Interest income	8,857	9,437	9,389	9,491	9,531	24,379	28,411
Interest expense	(2,838)	(3,133)	(3,143)	(3,232)	(3,004)	(7,977)	(9,379)
Monetary position (margin)	(316)	(486)	-	-	-	(576)	-
Net interest income	<u>5,703</u>	<u>5,818</u>	<u>6,246</u>	<u>6,259</u>	<u>6,527</u>	<u>15,826</u>	<u>19,032</u>
Loan impairment charges	2,622	2,935	2,798	3,594	3,870	6,552	10,262
Loan impairment charges	<u>2,622</u>	<u>2,935</u>	<u>2,798</u>	<u>3,594</u>	<u>3,870</u>	<u>6,552</u>	<u>10,262</u>
Risk adjusted net interest income	<u>3,081</u>	<u>2,883</u>	<u>3,448</u>	<u>2,665</u>	<u>2,657</u>	<u>9,274</u>	<u>8,770</u>
Fees and commissions receivable	2,945	3,201	3,011	2,957	2,926	8,234	8,894
Account management	363	368	336	356	315	1,124	1,007
Services	<u>2,582</u>	<u>2,833</u>	<u>2,675</u>	<u>2,601</u>	<u>2,611</u>	<u>7,110</u>	<u>7,887</u>
Fees payable	(331)	(339)	(280)	(277)	(291)	(890)	(848)
Trading Income	151	263	455	(127)	617	948	945
Foreign exchange	234	157	(33)	(167)	944	516	744
Securities trading, net	(31)	56	(15)	42	(8)	(114)	19
Repos	(1)	-	(3)	-	-	(14)	(3)
Swaps	(65)	72	(116)	110	320	468	314
Valuation off-shore agencies	(43)	(18)	319	72	(1,026)	(52)	(635)
Valuation for trading swaps	<u>57</u>	<u>(4)</u>	<u>303</u>	<u>(184)</u>	<u>387</u>	<u>144</u>	<u>506</u>
Total operating income	<u>5,846</u>	<u>6,008</u>	<u>6,634</u>	<u>5,218</u>	<u>5,909</u>	<u>17,566</u>	<u>17,761</u>
Administrative and personnel expenses	5,249	5,080	5,083	5,374	5,738	14,864	16,195
Personnel expense	2,033	2,097	2,137	2,142	2,616	6,111	6,895
Administrative expense	2,963	2,710	2,688	2,960	2,848	7,976	8,496
Depreciation and amortization	<u>253</u>	<u>273</u>	<u>258</u>	<u>272</u>	<u>274</u>	<u>777</u>	<u>804</u>
Net operating income	<u>597</u>	<u>928</u>	<u>1,551</u>	<u>(156)</u>	<u>171</u>	<u>2,702</u>	<u>1,566</u>
Other income	1,044	1,625	1,694	855	781	2,547	3,330
Other expenses	(465)	(290)	(255)	(223)	(368)	(1,032)	(846)
Net income before taxes	<u>1,176</u>	<u>2,263</u>	<u>2,990</u>	<u>476</u>	<u>584</u>	<u>4,217</u>	<u>4,050</u>
Income tax and employee profit sharing	(896)	(172)	(1,650)	(635)	(921)	(2,504)	(3,206)
Deferred income tax	<u>818</u>	<u>(529)</u>	<u>521</u>	<u>469</u>	<u>666</u>	<u>1,356</u>	<u>1,656</u>
Net income before subsidiaries	<u>1,098</u>	<u>1,562</u>	<u>1,861</u>	<u>310</u>	<u>329</u>	<u>3,069</u>	<u>2,500</u>
Undistributed income from subsidiaries	14	4	13	20	8	20	41
Income from ongoing operations	<u>1,112</u>	<u>1,566</u>	<u>1,874</u>	<u>330</u>	<u>337</u>	<u>3,089</u>	<u>2,541</u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	(1)	-	1	(1)
Net income (loss)	<u>1,112</u>	<u>1,566</u>	<u>1,874</u>	<u>329</u>	<u>337</u>	<u>3,090</u>	<u>2,540</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 30 September 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 (Déficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
Balances at 31 December 2007	4,272	-	11,611	-	-	14,077	-	(217)	-	-	(3,602)	1,181	(136)	4,656	1	31,843
Movements Inherent to the Shareholders Decision																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,656	(4,656)	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	4,656	-	-	-	-	-	-	(4,656)	-	-
Cash dividends	-	-	-	-	-	(3,500)	-	-	-	-	-	-	-	-	-	(3,500)
Total	-	-	-	-	-	1,156	-	-	-	-	-	-	-	(4,656)	-	(3,500)
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	2,540	-	2,540
Result from valuation of available-for-sale securities	-	-	-	-	-	24	(898)	-	-	-	-	-	-	-	-	(874)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	(2,460)	38	-	-	3,602	(1,181)	-	-	-	-	(1)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Total	-	-	-	-	-	(2,436)	-	(860)	-	-	3,602	(1,181)	-	2,540	1	1,666
Balances as at 30 September 2008	4,272	-	11,611	-	-	12,797	-	(1,077)	-	-	-	-	(136)	2,540	2	30,009

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

Figures in MXN millions

From 1 January 2008 to 30 September 2008

HSBC Mexico, S.A. (Bank)

Operating activities:

Net income	2,540
Items included in operations not requiring (providing) funds:	
Result from mark to market valuations	804
Allowance for loan losses	10,262
Depreciation and amortisation	274
Deferred taxes	(1,656)
Undistributed income from subsidiaries, net	(29)
Value loss estimation for foreclosed assets	(9)
Minority interest	<u>1</u>
Total operating items not requiring funds	12,187

Changes in operating accounts:

Decrease/increase in retail deposit and money desk	(20,687)
Decrease/increase in loan portfolio	2,160
Decrease/increase in securities and derivative transactions, net	12,746
Decrease/increase in financial instruments	(87)
Bank deposits and other liabilities	<u>174</u>
Funds provided by operations	<u><u>6,493</u></u>

Financing activities:

Subordinated debentures outstanding	(3)
Cash dividend	(3,500)
Contributions or reimbursements of capital contributed	(14)
Decrease/increase in accounts payable	<u>3,967</u>
Funds used or provided by financing activities	<u><u>450</u></u>

Investing activities:

Property, furniture and equipment and long-term investments	(734)
Decrease/increase in deferred credits	212
Decrease/increase in foreclosed assets	-
Decrease/increase in accounts receivable	<u>(4,828)</u>
Funds used in investing activities	<u><u>(5,350)</u></u>
Increase/decrease in cash and equivalents	1,593
Cash and equivalents at beginning of period	<u>48,864</u>
Cash and equivalents at end of period	<u><u>50,457</u></u>

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

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

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

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Financial Instruments

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

Figures in MXN millions at September 30, 2008

Investments in securities

	<u>30 Sep</u> <u>2007</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sep</u> <u>2008</u>
Government securities	20,340	40,101	27,786	46,395	30,972
Bank securities	951	1,039	1,250	2,918	1,163
Shares	954	184	1,037	113	113
Others	827	994	801	885	1,430
Trading securities	<u>23,072</u>	<u>42,318</u>	<u>30,874</u>	<u>50,311</u>	<u>33,678</u>
Government securities	21,594	23,921	23,214	19,809	17,260
Bank securities	262	327	318	1,330	210
Obligations and other securities	4,238	5,427	5,266	5,921	6,538
Shares	13	12	671	1,020	1,014
Available for sale securities	<u>26,107</u>	<u>29,687</u>	<u>29,469</u>	<u>28,080</u>	<u>25,022</u>
Sovereign debt securities	126	147	-	-	-
Commercial and industrial subordinated debentures	2	2	2	2	-
Special Cetes (net)	3,873	3,875	3,948	4,022	4,102
MYRAS	-	-	-	-	-
Securities held to maturity	<u>4,001</u>	<u>4,024</u>	<u>3,950</u>	<u>4,024</u>	<u>4,102</u>
Total Financial Instruments	<u>53,180</u>	<u>76,029</u>	<u>64,293</u>	<u>82,415</u>	<u>62,802</u>

In the third quarter of 2008 investment in securities decreased by MXN (19,613) million compared to prior quarter; mainly by MXN(17,972) million decrease in government securities, MXN(2,875) million in promissory note securities, MXN1,162 million increase in bonds, MXN(6) million in shares and increase in other by MXN78 million

Repos

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

Figures in MXN millions at September 30, 2008

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Government securities (debit)	47,967	46,145	45,417	34,164	41,969
Bank securities (debit)	900	797	694	810	584
Valuation Increase (decrease)	46	9	34	20	18
Interest in securities receivable under repurchase agreements	14	20	15	14	42
Total in repo agreements (debit)	<u>48,927</u>	<u>46,971</u>	<u>46,160</u>	<u>35,008</u>	<u>42,613</u>
Repo's Government securities (credit)	47,969	46,158	45,428	34,173	41,987
Repo's Bank securities (credit)	900	797	694	810	584
Valuation increase (decrease)	4	2	3	(1)	(1)
Accrued interest payable	59	59	74	45	82
Credit balance in repo agreements	<u>48,932</u>	<u>47,016</u>	<u>46,199</u>	<u>35,027</u>	<u>42,652</u>
Repurchase agreements in government securities	5,158	7,095	3,629	11,593	14,536
Repurchase agreements in banking securities	-	-	-	1,000	-
Valuation increase (decrease)	-	-	-	-	-
Accrued interest receivable	2	-	-	2	16
Debit balance repo securities agreements	<u>5,160</u>	<u>7,095</u>	<u>3,629</u>	<u>12,595</u>	<u>14,552</u>
Government securities	5,155	7,081	3,618	11,585	14,518
Bank securities	-	-	-	1,000	-
Valuation increase (decrease)	-	-	-	-	1
Interest in securities deliverable under repurchase agreements	2	2	-	2	10
Credit balance repo securities agreements	<u>5,157</u>	<u>7,083</u>	<u>3,618</u>	<u>12,587</u>	<u>14,529</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2008

	<i>Futures</i>		<i>Forwards Contracts</i>		<i>Options</i>		<i>Swaps</i>		<i>Total (net)</i>
	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	<i>Asset position</i>	<i>Liability position</i>	
For trading									
Pesos	-	-	58,130	48,750	283,233	283,315	-	-	9,298
US Dollars	-	-	61,429	70,927	6,716	6,734	486,083	491,897	(15,330)
Interest Rate	5,964	5,964	23	35	-	-	1,489,715	1,484,152	5,551
Total	<u>5,964</u>	<u>5,964</u>	<u>119,582</u>	<u>119,712</u>	<u>289,949</u>	<u>290,049</u>	<u>1,975,798</u>	<u>1,976,049</u>	<u>(481)</u>
For hedging									
Pesos	-	-	-	-	-	-	3,529	-	-
US Dollars	-	-	-	-	-	-	-	3,837	-
Interest Rate	-	-	-	-	-	-	15,414	15,676	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,943</u>	<u>19,513</u>	<u>-</u>

Stock Borrowing

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2008

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Received borrowings					
Cetes	9,037	-	-	-	-
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	-	-	-
Increase o decrease in bonds	-	-	-	-	-
Total	9,037	-	-	-	-

Participation by Subsidiary

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

Group Subsidiaries at September 30, 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
Total	2,068,863,531		2,047,679,561

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2008

	For the quarter ending...				Year to date	
	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2007	30 Sep 2008
Valuation	(20)	(80)	546	(181)	(999)	73
Derivatives	(21)	(83)	547	(185)	(842)	74
Repos	-	3	(1)	4	-	(1)
Debt Securities	1	-	-	-	71	-
Foreign Exchange	-	-	-	-	(228)	(228)
Buying and Selling Instruments	171	343	(91)	54	1,616	875
Foreign Currency	234	157	(33)	(167)	943	515
Derivatives	(59)	159	(40)	237	414	314
Repos	-	(14)	4	(24)	20	31
Shares	(4)	41	(22)	8	26	(4)
Debt Securities	-	-	-	-	213	19
Total	151	263	455	(127)	617	948

Loan Portfolio

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

By type of currency

Figures in MXN millions at September 30, 2008

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	49,887	17,105	21,366	46,637	14,128	149,123
US Dollars	24,641	108	1,099	-	4	25,852
Udis Banxico	-	-	7	-	4,248	4,255
Total	74,528	17,213	22,472	46,637	18,380	179,230
Non Performing Loans Portfolio						
Pesos	1,814	-	-	6,163	1,119	9,096
US Dollars	245	-	-	-	-	245
Udis Banxico	14	-	-	-	446	460
Total	2,073	-	-	6,163	1,565	9,801

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

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Global scale ratings			
Foreign currency			
Long term	Baa1	BBB+	A
Short term	P-2	A-2	F1
Local Currency			
Long term obligations	Aa2	BBB+	-
Long term deposits	Aa2	BBB+	-
Short term	P-1	A-2	-
BFSR (Moody's)	C	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
Outlook	POS (m)	Stable	Stable
Last update	28-Nov-07	09-Jul-08	24-Sep-08

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2008

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	12,646				
Graded	186,137				
Risk A	130,559	525	196	52	773
Risk A-1	98,446	215	196	52	463
Risk A-2	32,113	310	-	-	310
Risk B	43,123	1,722	477	152	2,351
Risk B-1	28,380	543	477	152	1,172
Risk B-2	12,517	857	-	-	857
Risk B-3	2,226	322	-	-	322
Risk C	4,046	499	994	162	1,655
Risk C-1	3,357	200	994	162	1,356
Risk C-2	689	299	-	-	299
Risk D	6,416	444	3,717	617	4,778
Risk E	1,993	766	1,163	84	2,013
Total	198,783	3,956	6,547	1,067	11,570
Less:					
Constituted Reserves					11,970
Surplus ³					400

1. The rating and constitution of reserves correspond to last day of the balance sheet at 30 September 2008.

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

3. 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				
	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Initial Balance of Impaired Lons	5,738	6,606	8,025	7,871	9,048
Increases	5,267	5,983	7,641	6,781	6,666
Transfer of current loans to past due status	5,267	5,983	7,641	6,781	6,666
Decreases	(4,301)	(4,576)	(7,797)	(5,601)	(5,935)
Restructurings	(76)	(155)	(95)	(221)	(162)
Liquidated credits	(3,221)	(3,402)	(6,465)	(3,600)	(4,195)
Charged in cash	(2,064)	(1,626)	(3,733)	(860)	(1,112)
Foreclosed assets	-	-	-	(17)	(13)
Writeoffs	-	-	-	-	-
Sale of portfolio	(1,157)	(1,776)	(2,732)	(2,723)	(3,070)
Transfer to performing loan status	(1,004)	(1,019)	(1,237)	(1,780)	(1,578)
Fx revaluations	14	12	2	(3)	22
Final Balance of Impaired Loan	6,718	8,025	7,871	9,048	9,801

Deferred Taxes

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

Figures in MXN millions at September 30, 2008

	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008
Loan loss reserves	1,787	1,733	2,139	2,710	3,434
Valuation of securities	68	(27)	(548)	(309)	(494)
Fiscal loss	-	1	28	7	7
Other reserves	209	318	268	232	241
PTU Payable	257	191	308	171	237
Foreclosed assets	297	170	174	164	169
Stocks VISA & Mastercard	-	-	(185)	(170)	(170)
Other	50	86	101	110	109
Differences in rates of fixed assets	(186)	(471)	(520)	(487)	(464)
Fiscal result UDIS-Banxico	(1,082)	(1,085)	(623)	(623)	(636)
Total Deferred Taxes	1,400	916	1,142	1,805	2,433

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>30 Sep 2007</i>	<i>31 Dec 2007</i>	<i>31 Mar 2008</i>	<i>30 Jun 2008</i>	<i>30 Sep 2008</i>
MXN pesos					
Funding	3.00%	3.28%	3.42%	3.74%	3.64%
Bank and other loans	7.10%	7.38%	7.39%	7.42%	7.82%
Foreign currency					
Funding	1.76%	1.72%	1.27%	0.86%	0.77%
Bank and other loans	5.37%	5.12%	4.73%	3.06%	3.00%
UDIS					
Funding	0.19%	0.20%	0.20%	0.19%	0.19%

*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 THIE (interbank rate) of the previous month.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	5	2,205	25-NOV-2013
		2,200		5	2,205	

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certified Marketable Securities	10-MAY-2006	4,220	MXN	43	4,263	27-ABR-2016
		4,220		43	4,263	

Capital

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

Grupo Financiero HSBC

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, MXN280 million, to increase legal reserves, and the remaining MXN5,335 million, at the Board's determination to be applied under the concept of previous year's financial results.

In other regard, MXN8,230 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 were 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.

Financial information as of December 31, 2007, recognized the effects of inflation in the following accounting entries: debit for MXN2,460 million and credit for MXN24 million as a result for valuation of available for the sale securities.

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.

The shareholders' Sixty six Assembly held on April 28 of 2008 resolved the Fixed Share capital increased for MXN20 million by capitalization of retained earnings, the above mentioned increase was completed in June after CNBV authorization was granted.

As of June 13 the Brokerage House owns 14,176,749 shares of the Mexican Stock Exchange, as a result of the Initial Public Offering that Mexican Stock Exchange (BMV). The above mentioned shares are held as Available for the Sale Securities and they are valued on a daily basis with the market price supplied from PIP (local price vendor), this operation increased the capital at June in MXN95 million.

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

On September 09, 2008, the Shareholders in Extraordinary Session agreed to reduce its variable capital stock by MXN118 million corresponding to investment and current value, determining reimbursement per share of MXN588.53. Additionally, it was ordered the payment of dividend by MXN82 million corresponding MXN363.64 per each share.

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

Figures in MXN millions at September 30, 2008

	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>	<u>30 Sep 2008</u>
% of assets subject to credit risk					
Tier 1	15.53%	16.76%	16.26%	15.40%	14.74%
Tier 2	1.89%	1.86%	1.91%	1.89%	1.84%
Total regulatory capital	<u>17.43%</u>	<u>18.62%</u>	<u>18.17%</u>	<u>17.30%</u>	<u>16.58%</u>
% of assets subject to credit and market risk ^{1/}					
Tier 1	11.05%	12.81%	11.84%	12.04%	11.23%
Tier 2	1.35%	1.42%	1.39%	1.48%	1.40%
Total regulatory capital	<u>12.40%</u>	<u>14.23%</u>	<u>13.23%</u>	<u>13.53%</u>	<u>12.63%</u>
Tier 1	26,504	30,192	28,267	26,988	25,818
Tier 2	3,226	3,359	3,322	3,315	3,219
Total regulatory capital	<u>29,730</u>	<u>33,551</u>	<u>31,589</u>	<u>30,303</u>	<u>29,037</u>
RWA credit risk	170,613	180,150	173,848	175,196	175,118
RWA market risk ^{1/}	69,169	55,630	64,119	45,815	49,253
Operational risk	-	-	713	3,026	5,543
RWA credit and market risk	<u>239,782</u>	<u>235,780</u>	<u>238,680</u>	<u>224,037</u>	<u>229,914</u>

^{1/} As of March 2008 market risk weighted assets include operational risk.

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 September 30, 2008

	For the quarter ending					Year to date	
	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008	30 Sep 2007	30 Sep 2008
Other income							
Loans to employees	32	35	40	43	44	83	127
Recoveries	565	727	252	295	323	1,026	870
Other income	359	765	1,381	509	490	1,191	2,380
Monetary position (other income)	60	139	-	-	-	176	-
	1,016	1,666	1,673	847	857	2,476	3,377
Other expenses							
Other losses	(466)	(362)	(235)	(96)	(313)	(1,033)	(644)
Monetary position (other expenses)	-	-	-	-	-	-	-
	(466)	(362)	(235)	(96)	(313)	(1,033)	(644)
Total other income (expenses)	<u>550</u>	<u>1,304</u>	<u>1,438</u>	<u>751</u>	<u>544</u>	<u>1,443</u>	<u>2,733</u>

► Other income is integrated by expense reimbursements, profits from property sales, furniture and equipment, management services, updates and other, in March, 2008 the shares of VISA were recognized, additional in June, 2008 the shares of INDEVAL and MEXDER were sold.

Related Party Transactions

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

In the normal course of its operations, the HSBC Group carries out transactions with related parties and members of the Group. According to the policies of the Group, all loan operations with related parties are authorized by the Board and they are negotiated with market rates, guarantees and overall standard banking practices.

The balance of the transactions carried out as of September 30, 2008 is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
Balance Sheet							
Cash and deposits in banks	-	2	153	1	18	8	182
Demand deposits	(182)	-	-	-	-	-	(182)
Repos (assets)	-	-	18	-	-	-	18
Reverse repos (liabilities)	(18)	-	-	-	-	-	(18)
Sundry debtors (assets)	266	-	7	5	-	-	278
Sundry creditors (liabilities)	-	(16)	-	(59)	(203)	-	(278)
Total	66	(14)	178	(53)	(185)	8	-
P&L							
Payable commissions	(9)	(8)	-	(192)	-	-	(209)
Receivable commissions	162	-	40	7	-	-	209
Interest income	-	-	6	-	-	-	6
Interest expense	(6)	-	-	-	-	-	(6)
Repos	(149)	-	-	-	-	-	(149)
Reverse repos	-	-	149	-	-	-	149
Administrative services	-	(50)	(72)	(28)	(227)	(1)	(378)
Other income	378	-	-	-	-	-	378
Total	376	(58)	123	(213)	(227)	(1)	-

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 September 30, 2008, is shown below:

Figures in MXN millions at September 30, 2008

	Year to date at 30 September 2008				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	13,397	3,891	1,774	-	19,062
Provision for Loan Loss	9,809	450	3	-	10,262
Net Interest Income adjusted	3,588	3,441	1,771	-	8,800
Fees and Commissions, net	6,521	1,540	595	-	8,656
Trading Income	344	129	479	-	952
Total Revenue	10,453	5,110	2,845	-	18,408
Administrative Expenses	11,985	3,241	1,544	-	16,770
Operating Income	(1,532)	1,869	1,301	-	1,638
Other Income (Expenses), net	2,306	187	240	-	2,733
Profit Before Taxes	774	2,056	1,541	-	4,371
Taxes	283	751	563	-	1,597
Net Income before subsidiaries	491	1,305	978	-	2,774
Undistributed income from subsidiaries	840	-	-	-	840
Continued Operating Results	1,331	1,305	978	-	3,614
Discontinued Operating Results	-	-	-	-	-
Net Income	1,331	1,305	978	-	3,614
Minority Shareholders	(1)	-	-	-	(1)
Participated Net Income	1,330	1,305	978	-	3,613

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 30 September 2008 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Sept. 2008
Grupo Financiero HSBC – Net Income Under Mexican GAAP	3,613
Differences arising on the valuation of pensions and post retirement healthcare benefits †	67
Differences arising on acquisition costs relating to long-term investment contracts †	(28)
Differences arising from the deferral of fees received and paid on the origination of loans	86
Differences arising from the recognition and provisioning for loan impairments †	323
Differences arising from purchase accounting adjustments †	(18)
Differences arising from the recognition of the present value in-force of long-term insurance contracts †	24
Other differences in accounting principles †	14
HSBC México net income under IFRS	4,081
US dollar equivalent (millions)	388
Add back tax expense	1,191
HSBC México profit before tax under IFRS	5,272
US dollar equivalent (millions)	502
<i>Exchange rate used for conversion</i>	10.5

† 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.

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

Mexican GAAP

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

IFRS

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

Risk Management

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

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

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

Assets and Liabilities (Committee) ALCO

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

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

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

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

Risk Management Committee (RMC)

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

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

The main objectives of this committee are to:

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

Market Risk Management

Qualitative Information

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

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

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

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

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

- ▶ **Foreign exchange or currency risk.** - This risk arises in the open positions on different currencies to the local currency, which generates an exposure to potential losses due to the variation of the corresponding exchange rates.
- ▶ **Interest rate risk.** - Arises from asset and liability operations (real nominal or notional), with different expiration dates or re-capitalization dates.
- ▶ **Risk related to shares.** - This risk arises from maintaining open positions (purchase or sale) with shares or share-based instruments, causing an exposure to changes in share prices and the instruments based on these prices.
- ▶ **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the underlying price of the option (interest rates, actions, exchange rate, etc.).
- ▶ **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.

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

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

Value at Risk (VaR)

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

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

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

Forward PVBP (F-PVBP) aims to measure the effect of movements in interest rates on the financial instruments exposed to them. This way, F-PVBP assumes the scenario of an increase of one basis point in the implied forward rates from the curve.

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CSO1)

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

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

Vega or Implied Volatility Risk

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

Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts. The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical scenarios. Both negative and positive changes in interest rates are considered in order to fully measure the impact on the different portfolios.

Validation and Calibration Methods for Market Risk Models:

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

Applicable portfolios:

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

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

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

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

Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the "Trading" and "Accrual" portfolios for the third quarter of 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 3Q08	Limits*	Average 3Q08	Limits*	Average 3Q08	Limits*	
Combined	9.56	42.00	3.57	40.00	9.25	27.50	
Interest Rate	9.32	42.00	3.60	24.50	9.23	27.50	
FX	1.40	8.00	1.40	8.00	N/A	N/A	
Volatility IR	0.57	9.50	0.54	7.50	0.03	2.0	
Volatility FX	0.02	2.00	0.02	2.00	N/A	N/A	

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	30-Jun-08	30-Sep-08	Limits*	Average 2Q08	Average 3Q08
HBMI	9.36	8.34	42.00	11.45	9.56
Accrual	9.00	8.85	27.50	11.23	9.25
All Trading	3.21	3.15	32.50	3.29	3.57

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of the 3Q08 varied -10.93% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 3Q08 varied -16.51% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for June 30th, 2008 and September 30th, 2008 (in millions of dollars).

Market VaR vs. Net Capital Comparison		
Net Capital in million Dollars		
	30-Jun-08	30-Sep-08
Total VaR*	11.45	9.56
Net Capital **	2,940.10	2,644.15
VaR / Net Capital	0.39%	0.36%

* 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 0.36% of the net capital in 2Q08.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	30-Jun-08	30-Sep-08	Limits*	Average 2Q08	Average 3Q08
Bank	(0.163)	(0.013)	1.082	(0.481)	(0.128)
Accrual	(0.256)	(0.138)	0.957	(0.527)	(0.186)
Trading Desk	0.066	0.093	0.350	0.047	0.036
Balance Sheet Trading	0.028	0.032	0.230	(0.001)	0.022
AFR **	(0.263)	(0.305)	0.437	(0.240)	(0.293)
ALCO	(0.000)	0.000	0.030	(0.000)	(0.000)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 3Q08 varied -91.75% versus prior quarter. The bank's average PVBP for the 3Q08 varied -73.31% versus prior quarter.

Present Value for 1bp (PVBP) for USD Rate							
	30-Jun-08	#	30-Sep-08	0	Limits*	Average 2Q08	Average 3Q08
Bank	(0.265)		(0.165)		0.345	(0.255)	(0.161)
Accrual	(0.293)		(0.154)		0.350	(0.269)	(0.188)
Trading Desk	0.021		(0.013)		0.080	0.013	0.015
Balance Sheet Trading	0.008		0.001		0.065	0.002	0.011

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 3Q08 varied -37.53% versus prior quarter. The bank's average PVBP for the 3Q08 varied -36.69% versus prior quarter.

Present Value for 1bp (PVBP) for UDIS Rates					
	30-Jun-08	30-Sep-08	Limits*	Average 2Q08	Average 3Q08
Bank	(0.118)	(0.258)	0.350	(0.205)	(0.228)
Accrual	(0.187)	(0.219)	0.300	(0.200)	(0.212)
Trading Desk	0.075	(0.023)	0.100	(0.002)	(0.005)
Balance Sheet Trading	(0.006)	(0.016)	0.025	(0.004)	(0.010)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 3Q08 varied 118.73% versus prior quarter. The bank's average PVBP for the 3Q08 varied 11% versus prior quarter.

Liquidity Risk

Qualitative Information

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

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

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

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

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

Quantitative Information

The institution presented at end of the quarter liquidity ratios of 15.2% for 1st line liquidity and 22.2% for 2nd line liquidity, above the 15% minimum required limit. Along the quarter, average levels were 16.4% and 22.2% for 1st for 2nd line liquidity ratios respectively. Compared versus previous quarter, Mexican peso liquidity position during 3q08 was impacted by the withdrawn of \$14,000 million MXN on clients' deposits which were partially offset by the collection of \$6,300 million MXN in pre-payments from IPAB.

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

Credit Risk

Qualitative Information

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

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

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

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

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

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

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based 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, being 1.1 the level of minimum risk and 10.0 the maximum. The framework includes a direct correspondence to Probabilities of Default and permits a more granular measurement of the credit quality of clients.

With respect to the measurement of Loss Given Default (LGD), which is more related to the transaction risk, HBMX is using a judgmental model for the commercial portfolio since March 2004. In order to convert the model to an empirical one, HBMX constructed a historical database, which will also be used for the estimation of Exposure at Default (EaD). LGD is being calculated empirically for the consumer and mortgage portfolio.

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

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

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

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

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

Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at September 30th, 2008 is \$8,607.9 millions of pesos, an increase of 11.4% compared to that of the previous quarter. 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. Beginning this quarter the Exposure at Default (EaD) is being integrated in the Expected Loss estimation of the commercial portfolio, except for the still undrawn facilities. The EL of this portfolio as at September 30th, 2008 is \$3,824.1 millions of pesos, an increase of 1.1% compared to that of the previous quarter.

Operational Risk

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

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

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

The use of both, the Quality Management System in compliance with ISO 9001-2000 norm, as well as the IT project management's methodology RBPM (Risk Based Project Management) applied to all products and services regarding Information Technologies, is focused on keeping an accurate control over the technological risks, thus, assuring the continuity of banking services through the different distribution channels, in an agile, secure and reliable manner, whilst continuing with the measuring and evaluation of the technological risk carried out by the Risk Management Committee (RMC).

Legal Risk

Legal Risk Management is attending the following types of risk:

- ▶ Contractual;
- ▶ Litigation;
- ▶ Legislative or Normative;
- ▶ Reputation; 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 (including Legal and Technological Risk)

As a result of the 4th assessment, and taking into account their upgrades during the third quarter of 2008, we have 2,488 risks distributed as follows: 1.2% A type, 9.9% B type, 60.0% C type, and 28.9% D type risks, which can also be classified onto: 20.5% people, 50.2% process, 17.9% systems and 11.4% 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 fourth quarter of 2008 operational losses as reflected in the Other Expenses account will have an impact in the order of MXN 197.5 million, distributed in the following proportion:

Concept	%
Frauds	52%
Robberies and assaults	3%
Counterfeit notes	1%
Operating errors	6%
Credit Cards	2%
Branches	29%
Other errors and losses	7%

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

Corporate Sustainability (CSR)

This year, we've started talking about 'corporate sustainability' rather than 'corporate social responsibility' – to remind ourselves that HSBC is not concerned with providing aid in a one-dimensional sense. Rather, our job is to build our business in a systematic way that inherently takes into consideration the communities where we operate. We have a duty not only to people today but to future generations as well. This includes our management of environmental impacts, our approach to sustainable banking, our people, and the community investment aspects of our business.

At HSBC, we use the word 'sustainable' in three senses. Firstly, sustainable profits growth – this means achieving results that are for the long-term benefit of our shareholders rather than focusing purely on the next quarter.

Second, if we are to achieve sustainable profits growth, then we must also build sustainable customer relationships. This depends on us offering a quality of service that attracts new customers and also helps us to keep existing ones - and to do more business with them.

Thirdly, building these sustainable relationships is, in turn, increasingly dependent on us being able to demonstrate to a wide range of our stakeholders that our business contributes to sustainable development.

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 achieving this goal. These values comprise a preference for long-term and 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 as we consider that these are the areas where we can have the highest impact.

Due to its high commitment HSBC Mexico was recognized by Latin Finance as the third Sustainable Bank in Latin American and the first in Mexico.

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 because they lack opportunities.

Consequently, through our social programmes, 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, create a better future for themselves, and with time, a better quality of life for their families as well.

HSBC Mexico donated USD 1.5 million over a five-year period to support secondary, technical and preparatory schools throughout 8 states of Mexico. To date, the programme has benefited 35,000 children in Mexico City, the State of Mexico, Hidalgo, Morelos, Guerrero, Tabasco, Chiapas and Campeche.

Regarding the Programme Future First, a global USD10 million, 5-year initiative (2007-2012) to support street children around the world, HSBC has supported more than 1,200 children in the 8 leader Institutions in this issue.

The Institutions are:

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

Through the "Cuenta Flexible" programme, which donates 1% of the customer's monthly fee paid, supports Institutions dedicated to provide education to children living in poverty conditions. This Institutions are participating in the Pinta tu Navidad contest (Christmas painting contest). Children from all the Institutions in this Programme have sent their paintings and a Committee formed by the wives of the Bank's main Directors chose the National and International winner. The winners of each Institution are travelling to Can cun Quintana Roo as a Price for their effort in December 2008.

HSBC has also partnered with SIFE (Students in Free Enterprise) in a financial education programme geared towards promoting a culture of social responsibility and of contributing to their communities among the future business leaders and entrepreneurs. Through this programme, students from both private and public universities develop proposals which are aimed at bringing financial education and creating sources of income as well as financial freedom to underprivileged sectors of the community. The SIFE Programme focuses on five areas: entrepreneurship, market economics, success skills, financial literacy and business ethics. In support and follow up of this programme. HSBC sponsored the SIFE (Students in Free Enterprise) 2008 national competition. The winner was the Instituto Tecnológico de Sonora with its programs to aid the poorest communities in Sonora through the development of the elaboration of nopal products, packing of species and training of small business in the SIFE philosophy. This team went to the International Competition in Singapore, being an empowering experience for them and the development and follow up of their projects.

The campaign "Bécalos", is an initiative from the Association of Mexican Banks, Fundación Televisa and the main 12 Banks including HSBC Mexico. The results of this project were announced on October 1st. and this alliance has granted scholarships for more than 28,000 students of preparatory and technical education as well as university in science and technology areas and 31,000 teachers.

Through Fundación Quiera, the ABM's (Mexican Banking Association) street children programme along with other financial institutions, HSBC Mexico provides support for street and homeless children through counselling to address addictions, as well as psychological and educational support. This programme also concerns itself with training the children for jobs and consequently helps to integrate them back into society.

The Programme Niños con Futuro, is an initiative which gives the opportunity to HSBC clients to donate through the ATM's national wide. Up to this date, a donation of 75 million pesos in a five year period has been made to Institutions that provide support in education, health and nutrition.

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.

The Programme Colectón de útiles escolares (school kits) borne as an initiative of HSBC employees, it has grown and now is an Institutional Programme. This year more than 4,500 environmental friendly kits were granted to students in 16 different cities throughout Mexico with the participation of 355 volunteers. The employees participated providing environmental education and climate change talks and activities to students.

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. In its construction, energy saving systems was assembled in order to reduce atmospheric emissions, and features to reduce water consumption and ensure efficient waste management processes were incorporated. In November of 2007, Torre HSBC was presented with 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 also attempts to involve the communities in its efforts to improving sustainability and in finding better and more environmentally friendly ways to approach daily life. As part of this outreach programme, HSBC is promoting eco-techniques through two communities in Mexico, one in Yucatan and the other in Chihuahua. Eco-techniques are taught to indigenous communities and community leaders to enable them to use the available resources in their region to produce fresh water, harvest their own gardens and build their homes in an environmentally-friendly manner which permits them to acquire a better quality of life. In Chihuahua, as an initial stage, HSBC has sponsored and supported the construction of a training centre, the development skills and an exposition on technology which is environmentally appropriate for the area, as well as the building of a "Centre of Nutritional Recovery". In Yucatán, the community centre was constructed under the same philosophy of protecting the environment. In the second stage, it was detected that the eastern part of Yucatán is an area which has not managed to achieve a complete provision of quality education as there are few primary schools which offer English and computing classes, despite the fact that these skills are essential tools for the educational development of the children. Given this precedent, this year HSBC Mexico is supporting the community centre programme which focuses on offering English classes to underprivileged children in order to allow them to develop both written and oral skills in the language. In addition to this, the programme organized recreational, cultural and educational activities to maintain and salvage the community's cultural roots while computing classes were also taught to the children with the provision of internet services complementing the course.

The Arts

For HSBC is very important to participate in cultural activities as part of its policy to support education. HSBC supports culture and art as they are tied to education as well to the country's identity, past, present and future. HSBC recognizes the artistic creations as a reflex of diversity, history and richness of each society. This is clearly shown in the sponsorship of the British Artist, Antony Gormley Exhibition, the most influent author of contemporary art of the last decades in the Museo de Arte Contemporaneo de Monterrey and Museo de San Ildefonso in Mexico City.

In Conclusion

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

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