

# Grupo Financiero HSBC

*Financial information at 31 December 2008*

## 4Q08

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

*Release date:  
02 March 2009*



02 March 2009

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

- Profit before tax for the year ended 31 December 2008 was MXN4,668 million, down by MXN1,901 million or 28.9 per cent compared with MXN6,569 million for the year ended 31 December 2007.
- Net income for the year ended 31 December 2008 was MXN4,110 million, down by MXN1,505 million or 26.8 per cent compared with MXN5,615 million for the year ended 31 December 2007.
- Total operating income before loan impairment charges for the year ended 31 December 2008 was MXN39,096 million, up by MXN4,044 million or 11.5 per cent compared with MXN35,052 million for the year ended 31 December 2007\*.
- Loans and advances to customers were MXN160.1 billion at 31 December 2008, down by MXN29.4 billion or 15.5 per cent, compared with MXN189.5 billion at 31 December 2007.
- Total customer demand and time deposits were MXN261.2 billion at 31 December 2008, down by MXN1.5 billion or 0.6 per cent, compared with MXN262.7 billion at 31 December 2007.
- The cost efficiency ratio was 55.5 per cent for the year ended 31 December 2008, compared with 58.7 per cent for the same period in 2007\*.
- Return on equity was 11.0 per cent for the year ended 31 December 2008, compared with 15.6 per cent for the same period in 2007.
- At 31 December 2008 the Bank's capital adequacy ratio was 12.8 per cent. The Tier 1 capital ratio at 31 December 2008 was 10.1 per cent.
- At 31 December 2008 the Bank continues to report strong liquidity ratios, maintaining a solid position in its customer deposit business and a loan to deposit ratio of 62.3 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 year ended 31 December 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).*

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

## Overview

2008 was a challenging year for the global financial services industry. The impact of the financial crisis did not spread to emerging economies until the second half of 2008. In Mexico, inflation increased 2.7 percentage points to 6.5 per cent compared with year-end 2007 and the Mexican peso devalued strongly against the US dollar in the fourth quarter, closing 2008 at MXN13.8<sup>1</sup>, compared to MXN 10.9<sup>1</sup> in 2007.

The slowdown in economic conditions, after a number of years of solid growth in the retail segment of the Mexican banking system, has resulted in lower business activity and a contraction of credit availability. Some deterioration in asset quality has become evident, especially in consumer lending.

Within this economic scenario, Grupo Financiero HSBC, S.A de C.V. has focused on credit quality and adjusting operating structures to create a more efficient organisation, while at the same time enhancing the services offered to customers.

For the year ended 31 December 2008, Grupo Financiero HSBC's net income was MXN4,110 million, MXN1,505 million less than reported in 2007 (a decrease of 26.8 per cent). This is primarily a result of the increase in loan impairment charges, particularly in credit card portfolios.

Despite a difficult economic environment, net interest income increased by MXN2,336 million to MXN25,174 million for the year ended 31 December 2008, an increase of 10.2 per cent compared with 2007\*. This increase was driven by risk-based pricing initiatives in the second half of 2008, especially in credit cards and commercial lending portfolio products.

Net fee income was MXN11,363 million for the year ended 31 December 2008, an increase of 3.3 per cent compared with 2007. The increase in fee income resulted from several pricing initiatives, including increases in personal loans and account maintenance fees.

Trading income was MXN2,559 million for the year ended 31 December 2008, an increase of MXN1,344 million or 110.6 per cent compared with 2007. This was primarily driven by strong performance in foreign exchange which benefited from the increased volatility in the markets.

Administrative expenses were MXN21,697 million for the year ended 31 December 2008, an increase of MXN1,134 million, or 5.5 per cent compared with 2007 which is below the annual inflation rate. The increase was largely due to one-off redundancy expenses in the second half of 2008, increased investment in credit recovery operations and costs related to the promotion of packaged products. The cost-efficiency ratio improved by 3.2 percentage points to 55.5 per cent. During 2008 several strategies were undertaken to improve operating efficiency including rationalisation of the branch network and a streamlining the organization structure. Management continues to focus efforts on improving efficiency.

Net other income for the year ended 31 December 2008 was MXN2,150 million, a decrease of MXN597 million compared with 2007. Non-recurring income of MXN1,584 million was generated from the sale of shares in VISA Inc. the sales of the Mexican Stock Exchange shares, following their International Public Offering, and sales of written-off loan portfolios. These gains were offset by losses from certain commercial customer defaults on derivative contracts. These losses were limited to a small number of customers and have been contained.

Loan impairment charges were MXN14,881 million for the year ended 31 December 2008, an increase of MXN5,395 million or 56.9 per cent, compared with 2007. This increase is mainly due to higher delinquency rates, particularly in credit cards, as a result of maturing portfolios following the strong growth of recent years and general weakening of credit quality in consumer portfolios, reflecting economic conditions.

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<sup>1</sup> Source: Banxico (Banco de México) FIX exchange rate.

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

Grupo Financiero HSBC's allowance for loan losses as a percentage of impaired loans was 125.5 per cent at 31 December 2008, compared to 132.0 per cent at 31 December 2007. Management has initiated a number of measures to improve the quality of new business, including tightening underwriting standards, adding collections resources and enhanced collection strategies. Regular reviews of the credit quality of new businesses across customer acquisition channels continue.

In December 2008, the "*Plan de Solución HSBC*" programme was launched in an effort to improve the collections process and reduce customer delinquency. This programme supports customers by offering monthly fixed payments according to each customer's payment capacity through a combination of interest rates and repayment periods.

The government loan portfolio decreased MXN21.9 billion or 58 per cent compared with 2007, as a result of pre-payments.

During the fourth quarter of 2008 MXN4,118 million subordinated debentures were issued to strengthen our capital base further. At 31 December 2008 the Bank remained strongly capitalised with a total capital ratio of 12.8 per cent. The Tier 1 capital ratio was 10.1 per cent.

## Business highlights

**Personal Financial Services (PFS)** implemented several strategies to improve customer service and optimize the use of alternative distribution channels through ATMs and e-channels. Enhancements to the ATM network through the upgrade of existing ATMs and the introduction of new ATMs were made during the year. In addition, ATM functionality has been upgraded by enabling additional transaction types through this channel. During the second half of the year pricing was revised for a number of products and services. Additionally, efforts were focused on improving the offer of saving and investment alternatives, with the launch of two new products: "*Cuenta Flexible HSBC*" and "*Cuenta Ahorro HSBC*".

To enhance customer branch experience a restructuring and remodelling programme focussing on improving customer service was initiated in 2008 and will continue in 2009.

## Commercial Banking (CMB)

Commercial Banking results in 2008 were affected by losses resulting from an increase in defaulting customers, coupled with higher provisions in certain non performing credits.

The results in the SME (Small Medium Enterprises) segment benefited from a 50 per cent growth in sales of packaged products, such as "*Estimulo*" compared with the third quarter of 2008. In addition, service offerings for small and medium sized enterprises in several distribution channels were strengthened including telephone and internet services. These initiatives continue our strategy of being the "best bank for small businesses".

Commercial lending growth remained stable, primarily focused on existing clients and products such as Factoring, Trade Services and Agronegocios (Agricultural Businesses). Fee income generated by Factoring and Trade Services reported a 17.6 per cent increase in this business segment. An increase in interest income was achieved as a result of risk-based re-pricing initiatives.

## Global Banking and Markets

In spite of the very difficult conditions faced in the financial markets during 2008, the performance of Global Markets remained resilient and generated strong results. The combination of the Mexican peso depreciation against the US dollar, linked to high volatility in the foreign exchange and interest rate markets, resulted in strong performance in foreign exchange trading (up by 70 per cent compared with the year ended 31 December 2007). Derivatives and debt trading income remained stable, in a volatile market, through effective risk management strategies.

Global Banking continues its success in Project and Export Finance (revenue up 14 per cent compared with the year to 31 December 2007), and has attained a strong position in the Mexican market. In order to realign with the changing market conditions in 2008, loan facilities were re-priced and Payments and Cash Management services were adjusted to retain profitable clients. In addition, revenues were higher in Trade Services (up by 18 per cent) and Trust (up by 12 per cent), for this business segment. Revenues were further enhanced by growth in new business lines, such as Custodial Services. In 2008, Global Banking booked a non-recurring gain of MXN103 million as a result of the sale of our equity stake in the Mexican Stock Exchange.

## **About HSBC**

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,251 branches, 5,958 ATMs, approximately 8.1million customer accounts and more than 20,000 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

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

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## Key Indicators

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

*For the quarter ended at*

	<i>31 Dec</i>	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sept</i>	<i>31 Dec</i>
	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>
a) Liquidity	81.93%	88.50%	96.98%	85.79%	85.33%
<b>Profitability</b>					
b) ROE (Return over equity)	17.83%	23.43%	7.00%	8.21%	5.43%
c) ROA (Return over assets)	1.95%	2.47%	.70%	.83%	.50%
<b>Asset quality</b>					
d) Impaired loans/total loans	4.01%	3.90%	4.64%	5.18%	5.92%
e) Coverage ratio	132.00%	134.01%	124.21%	122.14%	125.54%
<b>Capitalization</b>					
f) Credit risk	18.62%	18.17%	17.30%	16.58%	17.53%
g) Credit and market risk operational	14.23%	13.23%	13.53%	12.63%	12.83%
<b>Operating efficiency</b>					
h) Expenses/Total Assets	6.12%	5.83%	6.09%	6.49%	4.99%
i) NIM	7.38%	7.64%	7.56%	8.01%	6.86%
<b>Infrastructure</b>					
Branches	1,360	1,359	1,332	1,251	1,251
ATM	5,741	5,855	5,875	5,878	5,958
Head Count	23,314	22,659	22,803	20,227	20,012

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

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

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

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

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

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

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

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

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

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

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

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

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

## Income Statement Variance Analysis

### Net Income

Grupo Financiero HSBC's net income for the year ended 31 December 2008 was MXN4,110million, a MXN1,505 million (26.8%) decrease compared to the same period in 2007.

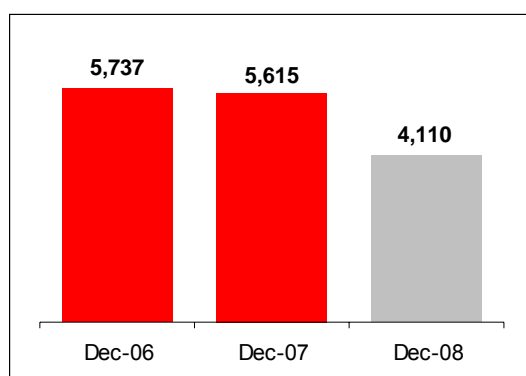
The Group benefited from the positive results obtained by its subsidiaries, mainly by HSBC Seguros, recording a net income of MXN1,065 million, up MXN140 million or 15.1 per cent compared to the prior year.

### Total Operating Income

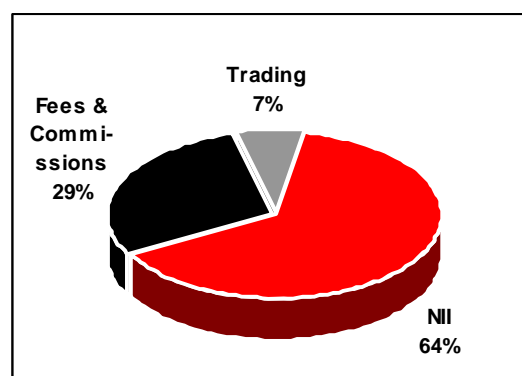
Group's total operating income (before loan impairment charges) for the year ended 31 December 2008 was MXN39,096 million, up MXN4,044 million (11.5%) compared to the same period in 2007\*. The aforementioned is a result of an increase in trading income of MXN1,344 millions and net interest income of MXN2,336 million, both compared to the year ended 31 December 2007.

Total operating income at 31 December 2008 after loan impairment charges (and monetary position result for 2007), reached MXN24,215 million, down MXN170 million compared to the same period in 2007. Total operating income for the year ended 31 December 2008 was affected by the MXN5,395 million increase recorded in loan impairment charges compared to the same period of 2007.

**Grupo Financiero HSBC:**  
Year to date net income



**Grupo Financiero HSBC:**  
Revenue distribution YTD 4Q08



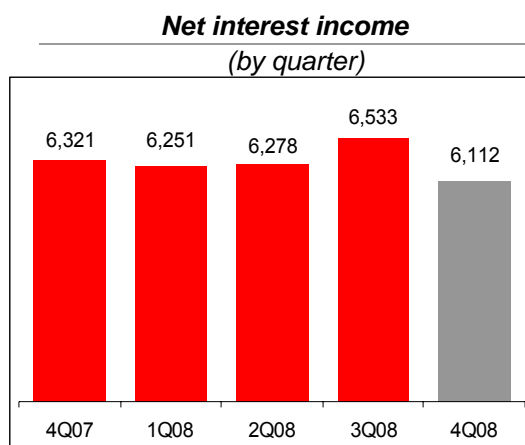
### Net Interest Income

Net interest income increased by MXN2,336 million at 31 December 2008, reaching MXN25,174 million, which represents an increase of 10.2 per cent compared to the interest income recorded in the same period of 2007.

Net interest income improved as a result of an 11.2 per cent rise in interest income due to higher average volumes in the performing loan portfolio, particularly credit cards and commercial loans, benefiting by repricing initiatives implemented during the second half of 2008. These initiatives reflect the current credit risk conditions in the local market. 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.





### Non-interest Income

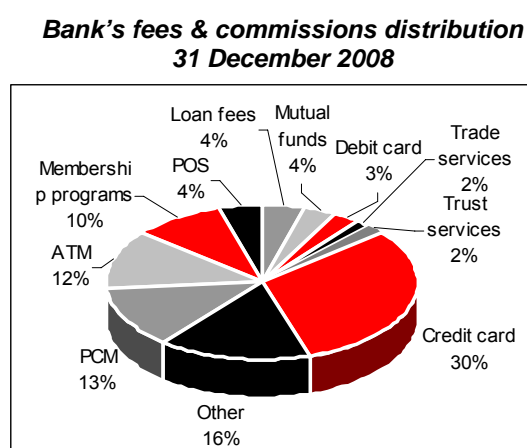
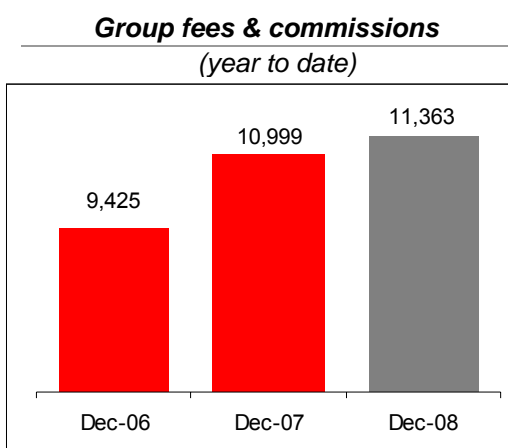
For the year ended 31 December 2008, non-interest income was MXN13,922 million, up MXN1,708 million (14.0%) compared to the same period of 2007.

#### ► Fee income

The Group's net fee income for the year ended 31 December 2008 was MXN11,363 million. This figure represents a growth of MXN364 million or 3.3 per cent compared to the same period of 2007. Product pricing strategies implemented during the year contributed to this improved performance. Fees earned from credit cards, ATMs, trade services, membership programs, account maintenance, loan origination, and investment funds, among others, contributed as well to this improved performance.

**Credit card** fees increased 5.4 per cent compared to the prior year, mainly driven by income from credit card underwriting and origination fees. Fees earned from **membership programs** grew by 20.4 per cent, driven mainly by our packaged products offered during the year, such as, "Tu Cuenta" and "Estímulo".

**ATM** fees increased due to the renewal and installation of new ATMs. To promote the use of our ATM network by non-HSBC customers, greater emphasis has been placed on the use of ATMs in order to perform approximately 400 transactions through automated payments that were traditionally served at the branch, along with the offer of new products and services, such as: credit card payments, insurance policies sales, and lottery services.



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

**Mutual funds** fee income increased 11.2 per cent, mainly due to the redesign of international equity income funds deployed during 2H08. These funds diversify long term capital through investment in shares and debt instruments in foreign markets, meeting our customer's needs.

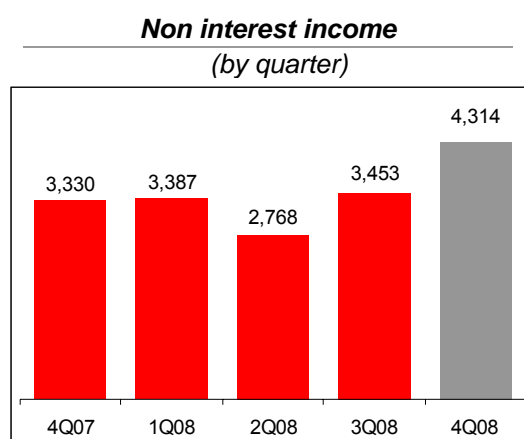
The stable growth in fee income can be essentially explained by the Bank's operations, which contributes with 93.0 per cent of the Group's total net commissions. Total fee income obtained by the Bank amounted MXN10,553 million at 31 December 2008, which represents a growth of MXN347 million (3.4%) compared to the same period of 2007.

Trust services and POS (Point of sale) fee income also increased by 13.2 and 8.3 per cent, respectively compared to FY07, mainly due to on-going promotion and enhanced management of these products.

#### ► **Trading income**

Trading income was MXN2,559 million for the year ended 31 December 2008, up MXN1,344 million compared to the same period of the prior year. Trading income benefited from the strong performance of foreign exchange transactions as a result of the increased volatility in the markets.

The non-interest income to total revenue ratio for the Group increased from 34.8 per cent in 2007, to 35.6 per cent in 2008.



#### ► **Other income**

Other Income reached MXN2,150 million, down MXN597 million (21.7%) compared to the same period of 2007. 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 was offset by counterparty risk losses with commercial customers in derivatives and higher write offs.

## **Loan Impairment Charges**

For the year ended 31 December 2008, the Group's loan impairment charges were MXN14,881 million, up MXN5,395 million compared to the same period in 2007. This increase is due to higher delinquency rates, primarily those related to credit cards, reflecting the maturity of the portfolios obtained through organic growth strategies implemented in previous years.

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 improve risk management. In addition, regular reviews of new businesses' credit quality continue, ensuring close control of customer acquisition channels.

At 31 December 2008, HSBC maintains adequate past-due portfolio coverage of 125.5 per cent.

## Administrative and Personnel Expenses

The Group's administrative expenses for the year ended 31 December 2008 were MXN21,697 million, representing an increase of MXN1,134 million (5.5%) compared to the previous year.

The increase in administrative expenses reflects efficient expense control, selective investments and improvements in productivity. Most of this increase is attributed to one off redundancy expenses in the second half of 2008, cost related to the promotion of packaged products during the year, as well as higher investment in credit recovery.

The Group's cost efficiency ratio (excluding monetary position result) at 31 December 2008 was 55.4 per cent, which represents an improvement compared to the 58.7\* per cent recorded in the same period of the prior year. This improvement was driven by the headcount optimization programme carried out throughout the third quarter of 2008.

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

## Balance sheet Variance Analysis

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At 31 December 2008, the Group's assets amounted MXN439,611 million, increasing by MXN88,450 million (25.2%) compared to 31 December 2007.

### Loan portfolio

The Group's performing loan portfolio was MXN162,694 million at 31 December 2008, a 15.3 per cent decrease compared to 4Q07. The mortgage loan portfolio increased by 3.6 per cent compared to 4Q07. Commercial loans (including financial and government entities) showed a 20.0 per cent decrease compared to 4Q07, as a result of several pre-payments received during the year. Consumer lending portfolio registered a 10.2 per cent decrease compared to the same period of the previous year.

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

During the year, the total portfolio balance has been affected by several government loan pre-payments. As a result, despite loan growth with state and municipal entities, this portfolio reflects a decrease of MXN25,143 million at the end of December 2008 compared to the same period of the previous year.

Excluding the government portfolio, commercial and financial entities' portfolio decreased by MXN3,250 million, which represents 3.7 per cent decrease compared to 4Q07.

#### ► Consumer loans

The consumer loan portfolio decreased mainly as a result of the behaviour observed in the auto and personal loan portfolios. Auto loans reduced 19.0 per cent, whereas personal and payroll loans decreased 14.2 per cent. Credit card balances decreased 2.0 per cent compared to 4Q07, reaching MXN26.7 billion at the end of December 2008.

#### ► Mortgage loans

The mortgage loan portfolio reflects an increase of MXN665 million (3.6%) compared to 4Q07, mainly explained by the sound performance of the "Hipoteca Cero" (Zero-rate Mortgage) programme launched during the third quarter of the year. It is important to mention that in September 2008 a mortgage securitisation took place for some MXN1.6 billion, thus influencing growth in this portfolio. However, excluding that effect, the year-on-year growth in the mortgage loan portfolio at 31 December 2008 would have been 12.7 per cent.

### Asset quality

As at 31 December 2008 the Group's impaired loan portfolio amounted to MXN10,245 million, which represents an increase of MXN2,220 million compared to the prior year. This increase is largely due to higher impaired loans of credit cards and personal and payroll loans. The impaired loans to the total loan portfolio ratio is 5.9 per cent. The allowance for loan losses at 31 December 2008 was 125.5 per cent lower compared to 4Q07 (132.0%). HSBC continues implementing regular reviews of the credit quality of new businesses and ensure close control of customer acquisition channels, based on our experience, and strengthening our collections strategies.

### Deposits

The Group's total deposits at 4Q08 amounted to MXN265,464 million, a decrease of 0.6 per cent or MXN1,494 million compared 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.

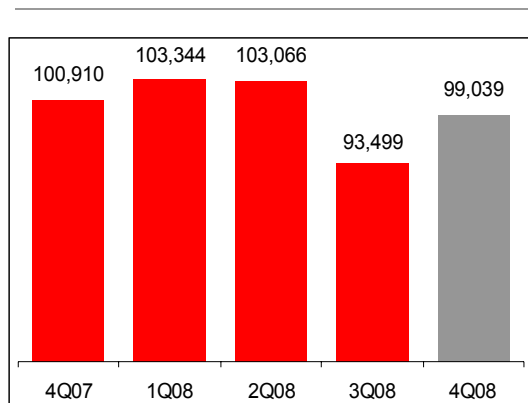
► **Demand deposits**

At 31 December 2008, demand deposits amounted to MXN139,936 million, 1.8 per cent less compared to the same period of the prior year, which is consistent with market trends and the strong competition to attract new customer deposits.

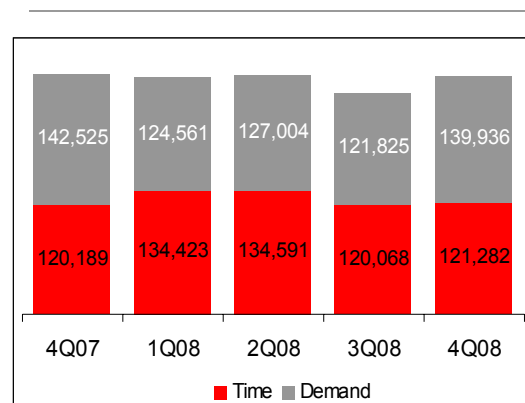
► **Time deposits**

Total time deposits increased MXN1,093 million or 0.9 per cent compared to 31 December 2007. Time deposits at the end of 3Q08 represented 46.4 per cent of the total in the deposit mix (time and demand).

**Group Time deposits (retail)**  
(December, 2008)



**Group deposit mix**  
(December, 2008)



**Shareholder's equity**

At 31 December 2008, the Group's shareholder's equity was MXN36,270 million, representing a decrease of 5.9 per cent compared to the previous year. The Bank's shareholder's equity at 31 December 2008 was MXN28,833 million, decreasing 9.5 per cent compared to the previous year.

During the fourth quarter of 2008, MXN4,118 million subordinated debentures were issued to further strengthen our capital base.

**Capital Adequacy Ratio**

Bank's capital adequacy ratio at 31 December 2008 was 12.8 per cent, placing it above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 10.1 per cent.

## Financial Statements Grupo Financiero HSBC

### Consolidated Balance Sheet

Figures in MXN millions at December 31, 2008

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

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
<b>Assets</b>					
Cash and deposits in banks	48,865	53,961	51,596	50,457	74,161
Investments in Securities	76,029	64,293	82,415	62,802	61,701
Trading securities	42,318	30,874	50,311	33,678	24,259
Available-for-sale securities	29,687	29,469	28,080	25,022	28,507
Held to maturity securities	4,024	3,950	4,024	4,102	8,935
Securities and derivative operations	8,933	16,045	16,260	23,461	77,593
Repurchase agreements	40	47	42	49	140
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	8,893	15,998	16,218	23,412	77,453
Performing loans					
Commercial loans	125,679	126,625	118,585	114,213	100,536
Commercial entities	73,188	71,358	72,561	74,528	75,502
Loans to financial intermediaries	15,048	13,595	14,596	17,213	9,484
Loans to government entities	37,443	41,672	31,428	22,472	15,550
Consumer loans	48,034	48,449	47,872	46,637	43,156
Mortgages loans	18,337	18,978	19,490	18,380	19,002
Total performing loans	192,050	194,052	185,947	179,230	162,694
Impaired loans					
Commercial loans	2,534	2,381	2,246	2,073	2,116
Commercial entities	2,534	2,381	2,246	2,073	2,114
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	2
Consumer loans	4,028	4,294	5,432	6,163	6,533
Mortgages loans	1,463	1,196	1,370	1,565	1,596
Other	-	-	-	-	-
Total non-performing loans	8,025	7,871	9,048	9,801	10,245
Loan portfolio	200,075	201,923	194,995	189,031	172,939
Allowance for loan losses	(10,593)	(10,549)	(11,238)	(11,970)	(12,862)
Net loan portfolio	189,482	191,374	183,757	177,061	160,077
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	189,482	191,374	183,757	177,061	160,077
Other accounts receivable, net	12,093	21,172	30,421	16,774	48,552
Foreclosed assets	82	89	80	91	97
Property, furniture and equipment, net	6,511	6,402	6,419	6,478	6,633
Long term investments in equity securities	3,630	3,037	3,263	3,538	3,507
Deferred taxes, net	916	1,142	1,805	2,433	2,117
Goodwill	2,748	2,749	2,749	2,749	2,749
Other assets, deferred charges and intangibles	1,872	1,948	2,087	2,153	2,424
<b>Total Assets</b>	<b>351,161</b>	<b>362,212</b>	<b>380,852</b>	<b>347,997</b>	<b>439,611</b>

Figures in MXN millions at December 31, 2008

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

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
<b>Liabilities</b>					
Deposits	266,958	263,256	265,849	246,156	265,464
Demand deposits	142,525	124,561	127,004	121,825	139,936
Time deposits	120,189	134,423	134,591	120,068	121,282
Retail	100,910	103,344	103,066	93,499	99,039
Money market	19,279	31,079	31,525	26,569	22,243
Bank bonds outstanding	4,244	4,272	4,254	4,263	4,246
Bank deposits and other liabilities	7,608	7,245	9,529	7,782	10,652
On demand	-	-	1,031	-	966
Short term	4,998	4,591	5,996	5,414	7,840
Long term	2,610	2,654	2,502	2,368	1,846
Securities and derivative transactions	9,147	16,004	15,705	23,958	83,231
Repurchase agreements	73	73	53	65	83
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	-	-	-	-	-
Derivative transactions	9,074	15,931	15,652	23,893	83,148
Other accounts payable	26,317	36,239	49,980	30,483	37,554
Income tax and employee profit sharing payable	1,800	1,610	1,595	1,932	1,009
Sundry creditors and others accounts payable	24,517	34,629	48,385	28,551	36,545
Subordinated debentures outstanding	2,207	2,211	2,201	2,205	5,948
Deferred tax	-	-	-	-	-
Deferred credits	396	438	480	479	492
<b>Total Liabilities</b>	<b>312,633</b>	<b>325,393</b>	<b>343,744</b>	<b>311,063</b>	<b>403,341</b>
<b>Stockholder's Equity</b>					
Paid in capital	21,466	21,466	21,466	21,466	21,466
Capital stock	8,210	8,210	8,210	8,210	8,210
Additional paid in capital	13,256	13,256	13,256	13,256	13,256
Capital Gains	17,060	15,351	15,638	15,464	14,799
Capital reserves	1,162	1,162	1,442	1,442	1,442
Retained earnings	18,827	11,863	11,679	11,582	11,582
Result from the mark-to-market of available-for-sale securities	-	-	(201)	(1,037)	(2,335)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,989)	-	-	-	-
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,555)	119	-	-	-
Adjustment in the pension employee	-	-	(136)	(136)	-
Net Income	5,615	2,207	2,854	3,613	4,110
Minority interest in capital	2	2	4	4	5
<b>Total Stockholder's Equity</b>	<b>38,528</b>	<b>36,819</b>	<b>37,108</b>	<b>36,934</b>	<b>36,270</b>
<b>Total Liabilities and Capital</b>	<b>351,161</b>	<b>362,212</b>	<b>380,852</b>	<b>347,997</b>	<b>439,611</b>

Figures in MXN millions at December 31, 2008

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

	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>
<b>Memorandum Accounts</b>					
Transactions on behalf of third parties	94,672	107,098	58,094	57,110	<b>57,583</b>
Customer current accounts	8	61	11	116	<b>(20)</b>
Customer banks	1	2	1	-	<b>2</b>
Customer Interests	-	-	-	144	<b>-</b>
Customer Interests receivables	7	59	10	(28)	<b>(22)</b>
Customer securities	65,843	78,053	27,325	26,813	<b>26,850</b>
Customer securities in custody	65,834	78,044	27,316	26,804	<b>26,841</b>
Pledged customers securities and documents	9	9	9	9	<b>9</b>
Transactions on behalf of customer	28,821	28,984	30,758	30,181	<b>30,753</b>
Investment on behalf of customers, net	26,727	26,528	28,165	25,871	<b>25,694</b>
Customer repurchase transactions	2,094	2,456	2,593	4,310	<b>5,059</b>
Transactions for the group's own accounts	2,208,956	2,466,865	2,440,935	2,844,274	<b>2,984,913</b>
Accounts for the group's own registry	196,999	227,969	493,798	301,940	<b>358,623</b>
Contingent assets and liabilities	-	-	-	-	<b>-</b>
Guarantees granted	44	35	34	33	<b>41</b>
Irrevocable lines of credit granted	-	-	-	-	<b>-</b>
Goods in trust or mandate	142,794	170,020	188,624	192,544	<b>197,705</b>
Goods in custody or under administration	54,161	57,914	305,140	109,363	<b>160,877</b>
Repurchase/resale agreements	<u>(33)</u>	<u>(28)</u>	<u>(11)</u>	<u>(16)</u>	<b>56</b>
Securities receivable under repos	46,971	46,160	35,008	42,613	<b>40,081</b>
(-)less					
Creditors repo transactions	47,016	46,199	35,027	42,652	<b>40,053</b>
Reverse repo transactions	7,095	3,629	12,595	14,552	<b>8,060</b>
(less)					
Securities deliverable under repos	7,083	3,618	12,587	14,529	<b>8,032</b>
Securities receivable	-	-	-	-	<b>-</b>
Securities receivable under stock borrowing	-	-	-	-	<b>-</b>
(less)					
Securities deliverable under stock borrowing	-	-	-	-	<b>-</b>
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	<b>-</b>
<b>Other registry accounts</b>	<u><b>2,011,990</b></u>	<u><b>2,238,924</b></u>	<u><b>1,947,148</b></u>	<u><b>2,542,350</b></u>	<u><b>2,626,234</b></u>

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

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

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## Consolidated Income Statement

Figures in MXN millions at December 31, 2008

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

	For the quarter ending....				Year to date		
	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008	31 Dec 2007	31 Dec 2008
Interest Income	9,488	9,392	9,511	9,566	<b>9,359</b>	34,014	<b>37,828</b>
Interest expense	(3,167)	(3,141)	(3,233)	(3,033)	<b>(3,247)</b>	(11,176)	<b>(12,654)</b>
Monetary position (margin), net	(540)	-	-	-	-	(1,181)	-
Net interest income	<u>5,781</u>	<u>6,251</u>	<u>6,278</u>	<u>6,533</u>	<u><b>6,112</b></u>	<u>21,657</u>	<u><b>25,174</b></u>
Loan impairment charges	(2,935)	(2,798)	(3,594)	(3,870)	<b>(4,619)</b>	(9,486)	<b>(14,881)</b>
Risk adjusted net interest income	<u>2,846</u>	<u>3,453</u>	<u>2,684</u>	<u>2,663</u>	<u><b>1,493</b></u>	<u>12,171</u>	<u><b>10,293</b></u>
Fees and commissions receivable	3,352	3,218	3,178	3,122	<b>3,014</b>	12,187	<b>12,532</b>
Fees payable	(284)	(286)	(288)	(288)	<b>(307)</b>	(1,188)	<b>(1,169)</b>
Trading Income	<u>262</u>	<u>455</u>	<u>(122)</u>	<u>619</u>	<u><b>1,607</b></u>	<u>1,215</u>	<u><b>2,559</b></u>
Total operating income	<u>6,176</u>	<u>6,840</u>	<u>5,452</u>	<u>6,116</u>	<u><b>5,807</b></u>	<u>24,385</u>	<u><b>24,215</b></u>
Administrative and personnel expenses	(5,286)	(5,202)	(5,655)	(5,913)	<b>(4,927)</b>	(20,563)	<b>(21,697)</b>
Net operating income	<u>890</u>	<u>1,638</u>	<u>(203)</u>	<u>203</u>	<u><b>880</b></u>	<u>3,822</u>	<u><b>2,518</b></u>
Other income	1,666	1,673	847	857	<b>1,149</b>	4,142	<b>4,526</b>
Other expenses	(362)	(235)	(96)	(313)	<b>(1,732)</b>	(1,395)	<b>(2,376)</b>
Net income before taxes	<u>2,194</u>	<u>3,076</u>	<u>548</u>	<u>747</u>	<u><b>297</b></u>	<u>6,569</u>	<u><b>4,668</b></u>
Income tax and employee profit sharing tax	(183)	(1,694)	(642)	(927)	<b>232</b>	(2,730)	<b>(3,031)</b>
Deferred income tax	(532)	531	460	675	<b>(320)</b>	812	<b>1,346</b>
Net income before subsidiaries	<u>1,479</u>	<u>1,913</u>	<u>366</u>	<u>495</u>	<u><b>209</b></u>	<u>4,651</u>	<u><b>2,983</b></u>
Undistributed income from subsidiaries	207	294	282	264	<b>288</b>	963	<b>1,128</b>
Income from ongoing operations	<u>1,686</u>	<u>2,207</u>	<u>648</u>	<u>759</u>	<u><b>497</b></u>	<u>5,614</u>	<u><b>4,111</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	<u>1</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>(1)</u>
Net income (loss)	<u>1,687</u>	<u>2,207</u>	<u>647</u>	<u>759</u>	<u><b>497</b></u>	<u>5,615</u>	<u><b>4,110</b></u>

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

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions at December 31, 2008

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

From 1 January 2008 to 31 December 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
<b>Balances at 31 December 2007</b>	8,210	-	13,256	-	-	1,162	18,827	-	-	(3,989)	-	(4,555)	-	5,615	2	38,528
<b>Movements Inherent to the Shareholders Decision</b>																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,335	-	-	-	-	-	-	(5,615)	-	(280)
Constitution of reserves	-	-	-	-	-	280	-	-	-	-	-	-	-	-	-	280
Cash dividends	-	-	-	-	-	-	(4,350)	-	-	-	-	-	-	-	-	(4,350)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	280	985	-	-	-	-	-	-	(5,615)	-	(4,350)
<b>Movements for the Recognition of the Comprehensive Income</b>																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	4,110	-	4,110
Surplus (Deficit) from securities	-	-	-	-	-	-	-	(179)	-	-	-	179	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	136	-	-	-	136
<b>Minority Interest</b>	-	-	-	-	-	-	(8,230)	(2,156)	-	3,989	-	4,240	-	-	3	(2,154)
<b>Total</b>	-	-	-	-	-	-	-	(2,335)	-	3,989	-	4,555	-	4,110	3	2,092
<b>Balances as at 31 December 2008</b>	<b>8,210</b>	<b>-</b>	<b>13,256</b>	<b>-</b>	<b>-</b>	<b>1,442</b>	<b>11,582</b>	<b>(2,335)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,110</b>	<b>5</b>	<b>36,270</b>

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

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

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## Consolidated Statement of Changes in Financial Position

Figures in MXN millions at December 31, 2008

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

From 1 January to 31 December 2008

### Operating activities:

<b>Net income</b>	<b>4,110</b>
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark-to-market valuations	2,337
Allowances for loan losses	14,881
Depreciation and amortisation	1,079
Deferred taxes	(1,346)
Minority interest	1
Undistributed income from subsidiaries, net	(1,128)
Adjustment in the employee pensions	135
Others	759
<b>Total operating items not requiring funds</b>	<b>20,828</b>

### Changes in items related to operations:

Decrease / increase in retail deposit and money desk	(1,492)
Decrease / increase in loan portfolio	14,525
Decrease / increase in investment in securities	13,287
Decrease / increase in securities and derivative transactions, net	1,174
Bank deposits and other liabilities	3,043
<b>Funds provided by operating activities</b>	<b>51,365</b>

### Financing activities:

Subordinated debentures outstanding	3,741
Cash dividend	(4,350)
Decrease/increase in accounts payable	11,166
<b>Funds used or provided in financing activities</b>	<b>10,557</b>

### Investing activities:

Property, furniture and equipment, net	365
Decrease /increase in deferred charges or credits, net	321
Foreclosed assets	(24)
Decrease /increase in accounts receivable	(37,289)
<b>Funds used in investing activities</b>	<b>(36,626)</b>
Increase /decrease in cash and equivalents	<b>25,296</b>
Cash and equivalents at beginning of period	48,865
<b>Cash and equivalents at end of period</b>	<b>74,161</b>

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

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

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## Financial Statements HSBC Mexico, S.A.

### Consolidated Balance Sheet

Figures in MXN millions at December 31, 2008

HSBC Mexico, S.A. (Bank)

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
<b>Assets</b>					
Cash and deposits in banks	48,864	53,961	51,596	50,457	<b>73,603</b>
Investment in Securities	75,660	62,971	81,730	62,150	<b>61,029</b>
Trading securities	42,235	29,939	50,209	33,368	<b>24,000</b>
Available-for-sale securities	29,401	29,082	27,497	24,680	<b>28,093</b>
Held to maturity securities	4,024	3,950	4,024	4,102	<b>8,936</b>
Securities and derivative operations	8,932	16,043	16,252	23,459	<b>77,587</b>
Repurchase agreements	39	45	34	47	<b>134</b>
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	8,893	15,998	16,218	23,412	<b>77,453</b>
Performing loans					
Commercial loans	125,679	126,625	118,585	114,213	<b>100,536</b>
Commercial entities	73,188	71,358	72,561	74,528	<b>75,502</b>
Loans to financial intermediaries	15,048	13,595	14,596	17,213	<b>9,484</b>
Loans to government entities	37,443	41,672	31,428	22,472	<b>15,550</b>
Consumer loans	48,034	48,449	47,872	46,637	<b>43,156</b>
Mortgages loans	18,337	18,978	19,490	18,380	<b>19,002</b>
Total performing loans	192,050	194,052	185,947	179,230	<b>162,694</b>
Impaired loans					
Commercial loans	2,534	2,381	2,246	2,073	<b>2,116</b>
Commercial entities	2,534	2,381	2,246	2,073	<b>2,114</b>
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	<b>2</b>
Consumer loans	4,028	4,294	5,432	6,163	<b>6,533</b>
Mortgage Loans	1,463	1,196	1,370	1,565	<b>1,596</b>
Immediate collection, remittances and other	-	-	-	-	-
Total non-performing loans	8,025	7,871	9,048	9,801	<b>10,245</b>
Total loan portfolio	200,075	201,923	194,995	189,031	<b>172,939</b>
Allowance for loan losses	(10,593)	(10,549)	(11,238)	(11,970)	<b>(12,862)</b>
Net loan portfolio	189,482	191,374	183,757	177,061	<b>160,077</b>
Receivables	-	-	-	-	-
(-) less	-	-	-	-	-
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	189,482	191,374	183,757	177,061	<b>160,077</b>
Other accounts receivable	12,005	21,109	30,313	16,567	<b>48,474</b>
Foreclosed assets	82	89	80	91	<b>97</b>
Property, furniture and equipment, net	6,498	6,390	6,407	6,466	<b>6,622</b>
Long term investments in equity securities	137	146	121	128	<b>139</b>
Deferred taxes	883	1,087	1,810	2,410	<b>2,134</b>
Other assets, deferred charges and intangibles .....	1,846	1,914	2,057	2,111	<b>2,372</b>
<b>Total Assets</b>	<b>344,389</b>	<b>355,084</b>	<b>374,123</b>	<b>340,900</b>	<b>432,134</b>

Figures in MXN millions at December 31, 2008

HSBC Mexico, S.A. (Bank)

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
<b>Liabilities</b>					
Deposits	267,025	263,393	266,019	246,338	<b>265,697</b>
Demand deposits	142,592	124,698	127,174	122,007	<b>140,169</b>
Time deposits	120,189	134,423	134,591	120,068	<b>121,282</b>
Bank bonds outstanding	4,244	4,272	4,254	4,263	<b>4,246</b>
Bank deposits and other liabilities	7,608	7,245	9,529	7,782	<b>10,652</b>
On demand	-	-	1,031	-	<b>966</b>
Short term	4,998	4,591	5,996	5,414	<b>7,840</b>
Long term	2,610	2,654	2,502	2,368	<b>1,846</b>
Securities and derivative transactions	9,146	16,004	15,697	23,956	<b>83,226</b>
Repurchase agreements	72	73	45	63	<b>78</b>
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	-	-	-	-	-
Derivative transactions	9,074	15,931	15,652	23,893	<b>83,148</b>
Other accounts payable	26,164	35,142	49,744	30,131	<b>37,286</b>
Income tax and employee profit sharing payable	1,741	1,546	1,540	1,875	<b>879</b>
Sundry creditors and others accounts payable	24,423	33,596	48,204	28,256	<b>36,407</b>
Subordinated debentures outstanding	2,207	2,211	2,201	2,205	<b>5,948</b>
Deferred tax	-	-	-	-	-
Deferred credits	396	438	480	479	<b>492</b>
<b>Total Liabilities</b>	<b>312,546</b>	<b>324,433</b>	<b>343,670</b>	<b>310,891</b>	<b>403,301</b>
<b>Stockholder's Equity</b>					
Paid in capital	15,883	15,883	15,883	15,883	<b>15,883</b>
Capital stock	4,272	4,272	4,272	4,272	<b>4,272</b>
Additional paid in capital	11,611	11,611	11,611	11,611	<b>11,611</b>
Capital Gains	15,959	14,767	14,568	14,124	<b>12,948</b>
Capital reserves	14,077	10,577	12,797	12,797	<b>12,797</b>
Retained earnings	-	2,196	-	-	-
Surplus (Deficit) from securities	(217)	256	(296)	(1,077)	<b>(2,368)</b>
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,602)	-	-	-	-
Gains on non monetary asset valuation	1,181	-	-	-	-
Adjustment in the pension employee	(136)	(136)	(136)	(136)	-
Net Income	4,656	1,874	2,203	2,540	<b>2,519</b>
Minority interest in capital	1	1	2	2	<b>2</b>
<b>Total Stockholder's Equity</b>	<b>31,843</b>	<b>30,651</b>	<b>30,453</b>	<b>30,009</b>	<b>28,833</b>
<b>Total Liabilities and Capital</b>	<b>344,389</b>	<b>355,084</b>	<b>374,123</b>	<b>340,900</b>	<b>432,134</b>

Figures in MXN millions at December 31, 2008

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

	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>	<u>30 Sept 2008</u>	<u>31 Dec 2008</u>
<b>Memorandum Accounts</b>					
Guarantees granted	44	35	34	33	<b>41</b>
Other contingent obligations	128	129	130	131	<b>134</b>
Irrevocable lines of credit granted	10,793	10,761	9,081	9,721	<b>10,827</b>
Goods in trust or mandate	142,794	170,020	188,624	192,544	<b>197,705</b>
Goods	142,108	169,351	187,889	192,003	<b>197,048</b>
Trusts	686	669	735	541	<b>657</b>
Goods in custody or under administration	50,216	53,969	301,195	105,415	<b>156,930</b>
Third party investment banking operations, net	26,727	26,528	28,165	25,871	<b>25,694</b>
Amounts committed in transactions with IPAB for Fobaproa	138	141	143	148	<b>151</b>
Amounts contracted in derivative operations	1,410,856	1,628,602	1,306,093	1,914,946	<b>2,038,702</b>
Investments of retirement savings system funds	3,540	3,540	-	-	<b>-</b>
Integrated loan portfolio	210,912	212,720	204,111	198,785	<b>183,806</b>
Other control accounts	375,621	383,027	427,589	418,617	<b>392,613</b>
	<u>2,231,769</u>	<u>2,489,472</u>	<u>2,465,165</u>	<u>2,866,211</u>	<u><b>3,006,603</b></u>
Securities receivable under repos	44,890	43,715	32,423	38,321	<b>35,042</b>
(less) Repurchase agreements	(44,922)	(43,743)	(32,434)	(38,342)	<b>(34,994)</b>
	<u>(32)</u>	<u>(28)</u>	<u>(11)</u>	<u>(21)</u>	<u><b>48</b></u>
Reverse repurchase agreements	5,001	1,173	10,002	10,242	<b>3,001</b>
(less) Securities deliverable under repos	(5,002)	(1,173)	(10,002)	(10,237)	<b>(2,993)</b>
	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u><b>8</b></u>
Securities deliverable under stock borrowing	-	-	-	-	<b>-</b>
(Less) Receivables as guarantee for securities lending	-	-	-	-	<b>-</b>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>-</b></u>

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

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

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**Consolidated Income Statement**

Figures in MXN millions at December 31, 2008

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

For the quarter ending

Year to date

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008	31 Dec 2007	31 Dec 2008
Interest income	9,437	9,389	9,491	9,531	<b>9,368</b>	33,817	<b>37,779</b>
Interest expense	(3,133)	(3,143)	(3,232)	(3,004)	<b>(3,290)</b>	(11,110)	<b>(12,669)</b>
Monetary position (margin)	(486)	-	-	-	-	(1,063)	-
Net interest income	<u>5,818</u>	<u>6,246</u>	<u>6,259</u>	<u>6,527</u>	<u><b>6,078</b></u>	<u>21,644</u>	<u><b>25,110</b></u>
Loan impairment charges	2,935	2,798	3,594	3,870	<b>4,619</b>	9,486	<b>14,881</b>
Loan impairment charges	<u>2,935</u>	<u>2,798</u>	<u>3,594</u>	<u>3,870</u>	<u><b>4,619</b></u>	<u>9,486</u>	<u><b>14,881</b></u>
Risk adjusted net interest income	<u><b>2,883</b></u>	<u><b>3,448</b></u>	<u><b>2,665</b></u>	<u><b>2,657</b></u>	<u><b>1,459</b></u>	<u><b>12,158</b></u>	<u><b>10,229</b></u>
Fees and commissions receivable	3,201	3,011	2,957	2,926	<b>2,829</b>	11,435	<b>11,723</b>
Account management	368	336	356	315	<b>325</b>	1,492	<b>1,332</b>
Services	<u>2,833</u>	<u>2,675</u>	<u>2,601</u>	<u>2,611</u>	<u><b>2,504</b></u>	<u>9,943</u>	<u><b>10,391</b></u>
Fees payable	(339)	(280)	(277)	(291)	<b>(322)</b>	(1,229)	<b>(1,170)</b>
Trading Income	263	455	(127)	617	<b>1,605</b>	1,210	<b>2,550</b>
Foreign exchange	157	(33)	(167)	944	<b>3,849</b>	672	<b>4,593</b>
Securities trading, net	56	(15)	42	(8)	<b>(38)</b>	(58)	<b>(19)</b>
Repos	-	(3)	-	-	-	(14)	<b>(3)</b>
Swaps	72	(116)	110	320	<b>175</b>	540	<b>489</b>
Valuation off-shore agencies	(18)	319	72	(1,026)	<b>(1,412)</b>	(70)	<b>(2,047)</b>
Valuation for trading swaps	(4)	303	(184)	387	<b>(969)</b>	140	<b>(463)</b>
Total operating income	<u>6,008</u>	<u>6,634</u>	<u>5,218</u>	<u>5,909</u>	<u><b>5,571</b></u>	<u>23,574</u>	<u><b>23,332</b></u>
Administrative and personnel expenses	5,080	5,083	5,374	5,738	<b>5,079</b>	19,944	<b>21,274</b>
Personnel expense	2,097	2,137	2,142	2,616	<b>1,987</b>	8,208	<b>8,882</b>
Administrative expense	2,710	2,688	2,960	2,848	<b>2,820</b>	10,686	<b>11,316</b>
Depreciation and amortization	273	258	272	274	<b>272</b>	1,050	<b>1,076</b>
Net operating income	<u>928</u>	<u>1,551</u>	<u>(156)</u>	<u>171</u>	<u><b>492</b></u>	<u>3,630</u>	<u><b>2,058</b></u>
Other income	1,625	1,694	855	781	<b>998</b>	4,172	<b>4,328</b>
Other expenses	(290)	(255)	(223)	(368)	<b>(1,520)</b>	(1,322)	<b>(2,366)</b>
Net income before taxes	<u>2,263</u>	<u>2,990</u>	<u>476</u>	<u>584</u>	<u><b>(30)</b></u>	<u>6,480</u>	<u><b>4,020</b></u>
Income tax and employee profit sharing	(172)	(1,650)	(635)	(921)	<b>304</b>	(2,676)	<b>(2,902)</b>
Deferred income tax	<u>(529)</u>	<u>521</u>	<u>469</u>	<u>666</u>	<u><b>(308)</b></u>	<u>826</u>	<u><b>1,348</b></u>
Net income before subsidiaries	<u>1,562</u>	<u>1,861</u>	<u>310</u>	<u>329</u>	<u><b>(34)</b></u>	<u>4,630</u>	<u><b>2,466</b></u>
Undistributed income from subsidiaries	4	13	20	8	<b>13</b>	25	<b>54</b>
Income from ongoing operations	<u>1,566</u>	<u>1,874</u>	<u>330</u>	<u>337</u>	<u><b>(21)</b></u>	<u>4,655</u>	<u><b>2,520</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	(1)	-	-	1	<b>(1)</b>
Net income (loss)	<u>1,566</u>	<u>1,874</u>	<u>329</u>	<u>337</u>	<u><b>(21)</b></u>	<u>4,656</u>	<u><b>2,519</b></u>

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2008 to 31 December 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
<b>Balances at 31 December 2007</b>	4,272	-	11,611	-	-	14,077	-	(217)	-	-	(3,602)	1,181	(136)	4,656	1	31,843
<b>Movements Inherent to the Shareholders Decision</b>																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,656	(4,656)	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	4,656	-	-	-	-	-	-	(4,656)	-	-
Cash dividends	-	-	-	-	-	(3,500)	-	-	-	-	-	-	-	-	-	(3,500)
<b>Total</b>	-	-	-	-	-	1,156	-	-	-	-	-	-	-	(4,656)	-	(3,500)
<b>Movements for the Recognition of the Comprehensive Income</b>																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	2,519	-	2,519
Result from valuation of available-for-sale securities	-	-	-	-	-	24	-	(2,189)	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	136	-	-	136
<b>Minority Interest</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
<b>Total</b>	-	-	-	-	-	(2,436)	-	(2,151)	-	-	3,602	(1,181)	136	2,519	1	490
<b>Balances as at 31 December 2008</b>	4,272	-	11,611	-	-	12,797	-	(2,368)	-	-	-	-	-	2,519	2	28,833

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 31 December 2008

HSBC Mexico, S.A. (Bank)

### Operating activities:

<b>Net income</b>	<b>2,519</b>
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark to market valuations	1,076
Allowance for loan losses	14,881
Depreciation and amortisation	2,337
Deferred taxes	(1,348)
Undistributed income from subsidiaries, net	(39)
Value loss estimation for foreclosed assets	8
Adjustment in the employee pensions	135
Minority interest	1
Other	751
<b>Total operating items not requiring funds</b>	<b>20,321</b>

### Changes in operating accounts:

Decrease/increase in retail deposit and money desk	(1,327)
Decrease/increase in loan portfolio	14,525
Decrease/increase in securities and derivative transactions, net	13,793
Decrease/increase in financial instruments	1,174
Bank deposits and other liabilities	3,044
<b>Funds provided by operations</b>	<b>51,530</b>

### Financing activities:

Subordinated debentures outstanding	3,741
Cash dividend	(3,500)
Contributions or reimbursements of capital contributed	-
Decrease/increase in accounts payable	11,053
<b>Funds used or provided by financing activities</b>	<b>11,294</b>

### Investing activities:

Property, furniture and equipment and long-term investments	(1,162)
Decrease/increase in deferred credits	238
Decrease/increase in foreclosed assets	(24)
Decrease/increase in accounts receivable	(37,137)
<b>Funds used in investing activities</b>	<b>(38,085)</b>
Increase/decrease in cash and equivalents	<b>24,739</b>
Cash and equivalents at beginning of period	48,864
<b>Cash and equivalents at end of period</b>	<b>73,603</b>

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

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

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

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## Financial Instruments

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

Figures in MXN millions at December 31, 2008

#### Investments in securities

	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>
Government securities	40,101	27,786	46,395	30,972	<b>19,466</b>
Bank securities	1,039	1,250	2,918	1,163	<b>3,917</b>
Shares	184	1,037	113	113	<b>113</b>
Others	994	801	885	1,430	<b>763</b>
Trading securities	<u>42,318</u>	<u>30,874</u>	<u>50,311</u>	<u>33,678</u>	<u><b>24,259</b></u>
Government securities	23,921	23,214	19,809	17,260	<b>24,394</b>
Bank securities	327	318	1,330	210	-
Obligations and other securities	5,427	5,266	5,921	6,538	<b>3,063</b>
Shares	12	671	1,020	1,014	<b>1,050</b>
Available for sale securities	<u>29,687</u>	<u>29,469</u>	<u>28,080</u>	<u>25,022</u>	<u><b>28,507</b></u>
Sovereign debt securities	147	-	-	-	-
Commercial and industrial subordinated debentures	2	2	2	-	-
Special Cetes (net)	3,875	3,948	4,022	4,102	<b>4,183</b>
MYRAS	-	-	-	-	-
Bank securities					<b>320</b>
Corporate securities					<b>4,432</b>
Securities held to maturity	<u>4,024</u>	<u>3,950</u>	<u>4,024</u>	<u>4,102</u>	<u><b>8,935</b></u>
Total Financial Instruments	<u>76,029</u>	<u>64,293</u>	<u>82,415</u>	<u>62,802</u>	<u><b>61,701</b></u>

In the third quarter of 2008 investment in securities decreased by MXN (1,101) million compared to prior quarter; mainly by MXN(4,372) million decrease in government securities, MXN(2,875) million in promissory note securities, MXN4,142 million increase in bonds, in promissory note MXN7,296, MXN36 million in shares and increase in other by MXN81 million

## Repos

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

Figures in MXN millions at December 31, 2008

	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>
Government securities (debit)	46,145	45,417	34,164	41,969	<b>39,382</b>
Bank securities (debit)	797	694	810	584	<b>582</b>
Valuation Increase (decrease)	9	34	20	18	<b>80</b>
Interest in securities receivable under repurchase agreements	<u>20</u>	<u>15</u>	<u>14</u>	<u>42</u>	<u><b>37</b></u>
Total in repo agreements (debit)	<u><u>46,971</u></u>	<u><u>46,160</u></u>	<u><u>35,008</u></u>	<u><u>42,613</u></u>	<u><u><b>40,081</b></u></u>
Repo's Government securities (credit)	46,158	45,428	34,173	41,987	<b>39,402</b>
Repo's Bank securities (credit)	797	694	810	584	<b>582</b>
Valuation increase (decrease)	2	3	(1)	(1)	<b>(2)</b>
Accrued interest payable	<u>59</u>	<u>74</u>	<u>45</u>	<u>82</u>	<u><b>71</b></u>
Credit balance in repo agreements	<u><u>47,016</u></u>	<u><u>46,199</u></u>	<u><u>35,027</u></u>	<u><u>42,652</u></u>	<u><u><b>40,053</b></u></u>
Repurchase agreements in government securities	7,095	3,629	11,593	14,536	<b>8,059</b>
Repurchase agreements in banking securities	-	-	1,000	-	-
Valuation increase (decrease)	-	-	-	-	-
Accrued interest receivable	<u>-</u>	<u>-</u>	<u>2</u>	<u>16</u>	<u><b>1</b></u>
Debit balance repo securities agreements	<u><u>7,095</u></u>	<u><u>3,629</u></u>	<u><u>12,595</u></u>	<u><u>14,552</u></u>	<u><u><b>8,060</b></u></u>
Government securities	7,081	3,618	11,585	14,518	<b>8,039</b>
Bank securities	-	-	1,000	-	-
Valuation increase (decrease)	-	-	-	1	<b>(9)</b>
Interest in securities deliverable under repurchase agreements	<u>2</u>	<u>-</u>	<u>2</u>	<u>10</u>	<u><b>2</b></u>
Credit balance repo securities agreements	<u><u>7,083</u></u>	<u><u>3,618</u></u>	<u><u>12,587</u></u>	<u><u>14,529</u></u>	<u><u><b>8,032</b></u></u>

## Derivative Financial Instruments

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

Figures in MXN millions at December 31, 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	-	-	101,528	80,489	285,010	285,070	-	-	20,979
US Dollars	-	-	87,139	110,993	28,238	28,227	592,225	602,206	(33,824)
Interest Rate	5,910	5,910	32	302	-	-	1,490,854	1,483,434	7,150
Total	<u><b>5,910</b></u>	<u><b>5,910</b></u>	<u><b>188,699</b></u>	<u><b>191,784</b></u>	<u><b>313,248</b></u>	<u><b>313,297</b></u>	<u><b>2,083,079</b></u>	<u><b>2,085,640</b></u>	<u><b>(5,695)</b></u>
For hedging									
Pesos	-	-	-	-	-	-	3,647	-	-
US Dollars	-	-	-	-	-	-	-	5,279	-
Interest Rate	-	-	-	-	-	-	11,696	13,153	-
Total	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>15,343</b></u>	<u><b>18,432</b></u>	<u><b>-</b></u>

## Participation by Subsidiary

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

Group Subsidiaries at December 31, 2008

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,235,526,706	99.99%	1,235,450,480
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	100	99.00%	99
<b>Total</b>	<b>2,068,858,232</b>		<b>2,047,674,262</b>

## Trading income

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

Figures in MXN millions at December 31, 2008

	For the quarter ending...				Year to date	
	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008	31 Dec 2008
<b>Valuation</b>	(80)	546	(181)	(999)	(1,414)	(7)
Derivatives	(83)	547	(185)	(842)	(161)	(9)
Repos	3	(1)	4	-	1	2
Debt Securities	-	-	-	71	1,336	-
Foreign Exchange	-	-	-	(228)	(2,590)	-
<b>Buying and Selling Instruments</b>	343	(91)	54	1,616	3,019	1,217
Foreign Currency	157	(33)	(167)	943	3,850	672
Derivatives	159	(40)	237	414	(676)	473
Repos	(14)	4	(24)	20	-	17
Shares	41	(22)	8	26	-	37
Debt Securities	-	-	-	213	(155)	18
<b>Total</b>	<b>263</b>	<b>455</b>	<b>(127)</b>	<b>617</b>	<b>1,605</b>	<b>1,210</b>

## Loan Portfolio

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

#### By type of currency

Figures in MXN millions at December 31, 2008

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
<b>Performing Loan Portfolio</b>						
Pesos	46,338	9,094	14,149	43,156	14,870	127,607
US Dollars	29,164	390	1,394	-	5	30,953
Udis Banxico	-	-	7	-	4,127	4,134
<b>Total</b>	<b>75,502</b>	<b>9,484</b>	<b>15,550</b>	<b>43,156</b>	<b>19,002</b>	<b>162,694</b>
<b>Non Performing Loans Portfolio</b>						
Pesos	1,934	-	2	6,533	1,135	9,604
US Dollars	180	-	-	-	-	180
Udis Banxico	-	-	-	-	461	461
<b>Total</b>	<b>2,114</b>		<b>2</b>	<b>6,533</b>	<b>1,596</b>	<b>10,245</b>

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 &amp; Poor's</u>	<u>Fitch</u>
<b>Global scale ratings</b>			
<b>Foreign currency</b>			
Long term	-	BBB+	A
Long term deposits	Baa1		
Short term	P-2	A-2	F1
<b>Local Currency</b>			
Long term obligations	Aa2	BBB+	-
Long term deposits	Aa2	BBB+	-
Short term	P-1	A-2	
<b>BFSR (Moody's)</b>	C	-	-
<b>Individual / Support rating (Fitch)</b>	-	-	C / 1
<b>National scale / Local currency</b>			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
<b>Outlook</b>	Stable (m)	Negative	Stable
<b>Last update</b>	20-Nov-08	20-Feb-09	24-Sep-08

## Loan Portfolio Grading

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

Figures in MXN millions at December 31, 2008

	<i>Total loan portfolio</i>	<i>Allowance for Loan Losses by type of loan</i>			<i>Total reserves</i>
		<i>Commercial loans</i>	<i>Consumer loans</i>	<i>Mortgages loans</i>	
Exempted from rating	8,339				
Graded	175,465				
<b>Risk A</b>	<b>83,655</b>	<b>370</b>	<b>66</b>	<b>55</b>	<b>491</b>
Risk A-1	61,055	152	66	55	273
Risk A-2	22,600	218	0	0	218
<b>Risk B</b>	<b>78,664</b>	<b>2,188</b>	<b>1,171</b>	<b>135</b>	<b>3,494</b>
Risk B-1	59,138	651	786	135	1,572
Risk B-2	16,514	1,109	385	0	1,494
Risk B-3	3,012	428	0	0	428
<b>Risk C</b>	<b>5,539</b>	<b>681</b>	<b>1,643</b>	<b>154</b>	<b>2,478</b>
Risk C-1	5,053	473	1,643	154	2,270
Risk C-2	486	208	0	0	208
<b>Risk D</b>	<b>4,572</b>	<b>383</b>	<b>2,348</b>	<b>652</b>	<b>3,383</b>
<b>Risk E</b>	<b>3,035</b>	<b>867</b>	<b>2,055</b>	<b>94</b>	<b>3,016</b>
<b>Total</b>	<b>183,804</b>	<b>4,489</b>	<b>7,283</b>	<b>1,090</b>	<b>12,862</b>
Less:					
Constituted Reserves					<b>12,862</b>
Surplus					<b>0</b>

1. The rating and constitution of reserves correspond to last day of the balance sheet at 31 December 2008.
2. The lending portfolio is graded according to the rules for grading lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. For the second stage of the commercial lending portfolio, the institution will use the CNBV methodology, published on December 2, 2005. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the regulation document published on December 2, 2005.

## Non – Performing Loans

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

Figures in MXN millions

	At the quarter ending				
	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
<b>Initial Balance of Impaired Lons</b>	6,606	8,025	7,871	9,048	<b>9,801</b>
Increases	5,983	7,641	6,781	6,666	<b>6,975</b>
Transfer of current loans to past due status	5,983	7,641	6,781	6,666	<b>6,975</b>
Decreases	(4,576)	(7,797)	(5,601)	(5,935)	<b>(6,605)</b>
Restructurings	(155)	(95)	(221)	(162)	<b>(120)</b>
Liquidated credits	(3,402)	(6,465)	(3,600)	(4,195)	<b>(4,983)</b>
Charged in cash	(1,626)	(3,733)	(860)	(1,112)	<b>(1,194)</b>
Foreclosed assets	-	-	(17)	(13)	<b>(9)</b>
Writeoffs	-	-	-	-	<b>-</b>
Sale of portfolio	(1,776)	(2,732)	(2,723)	(3,070)	<b>(3,780)</b>
Transfer to performing loan status	(1,019)	(1,237)	(1,780)	(1,578)	<b>(1,502)</b>
Fx revaluations	12	2	(3)	22	<b>74</b>
<b>Final Balance of Impaired Loan</b>	<b>8,025</b>	<b>7,871</b>	<b>9,048</b>	<b>9,801</b>	<b>10,245</b>

## Deferred Taxes

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

Figures in MXN millions at December 31, 2008

	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sept 2008	31 Dec 2008
Loan loss reserves	1,733	2,139	2,710	3,434	<b>2,137</b>
Valuation of securities	(27)	(548)	(309)	(494)	<b>(294)</b>
Fiscal loss	1	28	7	7	<b>6</b>
Other reserves	318	268	232	241	<b>744</b>
PTU Payable	191	308	171	237	<b>389</b>
Foreclosed assets	170	174	164	169	<b>19</b>
Stocks VISA & Mastercard	-	(185)	(170)	(170)	<b>-</b>
Other	86	101	110	109	<b>125</b>
Differences in rates of fixed assets	(471)	(520)	(487)	(464)	<b>(307)</b>
Fiscal result UDIS-Banxico	(1,085)	(623)	(623)	(636)	<b>(702)</b>
<b>Total Deferred Taxes</b>	<b>916</b>	<b>1,142</b>	<b>1,805</b>	<b>2,433</b>	<b>2,117</b>

## Funding, Loans and Investments in Securities

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

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>31 Dec 2007</i>	<i>31 Mar 2008</i>	<i>30 Jun 2008</i>	<i>30 Sept 2008</i>	<i>31 Dec 2008</i>
MXN pesos					
Funding	3.28%	3.42%	3.74%	3.64%	<b>3.62%</b>
Bank and other loans	7.38%	7.39%	7.42%	7.82%	<b>8.26%</b>
Foreign currency					
Funding	1.72%	1.27%	0.86%	0.77%	<b>0.50%</b>
Bank and other loans	5.12%	4.73%	3.06%	3.00%	<b>3.51%</b>
UDIS					
Funding	0.20%	0.20%	0.19%	0.19%	<b>0.19%</b>

### \*Long Term Debt

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

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments pay monthly interest at a rate equivalent to the average 28-day THIE (interbank rate) of the previous month; THIE (interbank rate) plus 60 basis points and THIE (interbank rate) plus 200 basis points of the previous month, respectively.

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	9	2,209	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	3	1,820	20-SEP-2018
HSBC 08-2	18-DEC-2008	1,913	MXN	6	1,919	10-DEC-2018
		<b>5,931</b>		<b>18</b>	<b>5,948</b>	

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certified Marketable Securities	10-MAY-2006	4,220	MXN	26	4,246	27-ABR-2016
		<b>4,220</b>		<b>26</b>	<b>4,246</b>	



## 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 were 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.

In the council session celebrated on October 23rd 2008, a dividend payment was decreed by MXN \$60 million authorized by the council members, corresponding to MXN 0.825 for every share that one finds in circulation.

In the 67th shareholders assembly celebrated on October 31st 2008, the shareholders agreed to increased the share capital in its floating part by MXN \$20 million and as consequence realize the cancellation, emission and exchange of the representative titles, by means the capitalization of the above mentioned quantity, from the retain earnings account.

**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 December 31, 2008

	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>
% of assets subject to credit risk					
Tier 1	16.76%	16.26%	15.40%	14.74%	13.79%
Tier 2	1.86%	1.91%	1.89%	1.84%	3.74%
Total regulatory capital	<u>18.62%</u>	<u>18.17%</u>	<u>17.30%</u>	<u>16.58%</u>	<u>17.53%</u>
% of assets subject to credit and market risk <sup>1/</sup>					
Tier 1	12.81%	11.84%	12.04%	11.23%	10.09%
Tier 2	<u>1.42%</u>	<u>1.39%</u>	<u>1.48%</u>	<u>1.40%</u>	<u>2.74%</u>

	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>
Total regulatory capital	14.23%	13.23%	13.53%	12.63%	12.83%
Tier 1	30,192	28,267	26,988	25,818	25,289
Tier 2	3,359	3,322	3,315	3,219	6,860
Total regulatory capital	33,551	31,589	30,303	29,037	32,149
RWA credit risk	180,150	173,848	175,196	175,118	183,381
RWA market risk <sup>1/</sup>	55,630	64,119	45,815	49,253	58,907
Operational risk	-	713	3,026	5,543	8,291
RWA credit and market risk	235,780	238,680	224,037	229,914	250,579

<sup>1/</sup> 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 December 31, 2008

	<u>For the quarter ending</u>					<u>Year to date</u>	
	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>	<u>30 Sept</u> <u>2008</u>	<u>31 Dec</u> <u>2008</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Dec</u> <u>2008</u>
Other income							
Loans to employees	35	40	43	44	46	118	173
Recoveries	727	252	295	323	258	1,753	1,128
Other income	765	1,381	509	490	845	1,956	3,225
Monetary position (other income)	139	-	-	-	-	315	-
	1,666	1,673	847	857	1,149	4,142	4,526
Other expenses							
Other losses	(362)	(235)	(96)	(313)	(1,732)	(1,395)	(2,376)
Monetary position (other expenses)	-	-	-	-	-	-	-
	(362)	(235)	(96)	(313)	(1,732)	(1,395)	(2,376)
Total other income (expenses)	1,304	1,438	751	544	(583)	2,747	2,150

► 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 *December 31, 2008* is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
<b>Balance Sheet</b>							
Cash and deposits in banks	-	1	122	-	109	1	233
Demand deposits	(233)	-	-	-	-	-	(233)
Repos (assets)	-	-	20	-	-	-	20
Reverse repos (liabilities)	(20)	-	-	-	-	-	(20)
Sundry debtors (assets)	391	-	6	5	-	-	402
Sundry creditors (liabilities)	-	(8)	-	(54)	(340)	-	(402)
<b>Total</b>	<b>138</b>	<b>(7)</b>	<b>148</b>	<b>(49)</b>	<b>(231)</b>	<b>1</b>	<b>-</b>
<b>P&amp;L</b>							
Payable commissions	-	-	-	-	-	-	-
Receivable commissions	(31)	(11)	-	(296)	-	-	(338)
Interest income	249	-	79	10	-	-	338
Interest expense	-	-	8	-	-	-	8
Repos	(8)	-	-	-	-	-	(8)
Reverse repos	(281)	-	-	-	-	-	(281)
Administrative services	-	-	281	-	-	-	281
Other income	-	(54)	(100)	(37)	(360)	(1)	(552)
<b>Total</b>	<b>552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>552</b>
	<b>481</b>	<b>(65)</b>	<b>268</b>	<b>(323)</b>	<b>(360)</b>	<b>(1)</b>	<b>-</b>

## Information on Customer Segment and Results

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

#### Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of *December 31, 2008*, is shown below:

Figures in MXN millions at December 31, 2008

	Year to date at 31 December 2008				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	17,969	5,276	1,929	-	25,174
Provision for Loan Loss	13,423	1,278	180	-	14,881
<b>Net Interest Income adjusted</b>	<b>4,546</b>	<b>3,998</b>	<b>1,749</b>	-	<b>10,293</b>
Fees and Commissions, net	8,655	1,983	725	-	11,363
Trading Income	838	412	1,309	-	2,559
<b>Total Revenue</b>	<b>14,039</b>	<b>6,393</b>	<b>3,783</b>	-	<b>24,215</b>
Administrative Expenses	15,332	4,293	2,072	-	21,697
<b>Operating Income</b>	<b>(1,293 )</b>	<b>2,100</b>	<b>1,711</b>	-	<b>2,518</b>
<b>Other Income (Expenses), net</b>	2,700	(1,081 )	532	-	2,151
<b>Profit Before Taxes</b>	<b>1,406</b>	<b>1,019</b>	<b>2,243</b>	-	<b>4,669</b>
<b>Taxes</b>	508	368	810	-	1,686
<b>Net Income before subsidiaries</b>	<b>899</b>	<b>651</b>	<b>1,433</b>	-	<b>2,983</b>
Undistributed income from subsidiaries	1,128	-	-	-	1,128
Continued Operating Results	<b>2,027</b>	<b>651</b>	<b>1,433</b>	-	<b>4,111</b>
Discontinued Operating Results	-	-	-	-	-
<b>Net Income</b>	<b>2,027</b>	<b>651</b>	<b>1,433</b>	-	<b>4,111</b>
Minority Shareholders	(1 )	-	-	-	(1)
<b>Participated Net Income</b>	<b>2,026</b>	<b>651</b>	<b>1,433</b>	-	<b>4,110</b>

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

### Grupo Financiero HSBC

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

<i>Figures in MXN millions</i>	<b>31 Dec. 2008</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>4,110</b>
Differences arising on the valuation of pensions and post retirement healthcare benefits †	384
Differences arising on acquisition costs relating to long-term investment contracts †	(42)
Differences arising from the deferral of fees received and paid on the origination of loans	71
Differences arising from the recognition and provisioning for loan impairments †	576
Differences arising from purchase accounting adjustments †	(24)
Differences arising from the recognition of the present value in-force of long-term insurance contracts †	(54)
Differences in tax criteria	1,642
Other differences in accounting principles †	(117)
<b>HSBC México net income under IFRS</b>	<b>6,546</b>
<b>US dollar equivalent (millions)</b>	<b>590</b>
Add back tax expense	530
<b>HSBC México profit before tax under IFRS</b>	<b>7,076</b>
<b>US dollar equivalent (millions)</b>	<b>637</b>
<i>Exchange rate used for conversion</i>	11.1

† 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 using straight line method. 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

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

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

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

### Assets and Liabilities (Committee) ALCO

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

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

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

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

### Risk Management Committee (RMC)

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

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

The main objectives of this committee are to:

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



## Market Risk Management

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### Qualitative Information

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

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

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

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

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

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

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

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

### Value at Risk (VaR)

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

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

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

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

### Spread over yield risk

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

### Basis Risk

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

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

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

### Credit Spread Risk (CSO1)

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

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

### Vega or Implied Volatility Risk

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

### Extreme Conditions Tests (Stress Test)

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

### 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. In the middle of 2007, the AFR portfolio has been included as a part of the Total Trading VaR, this presents the same characteristics of the portfolios previously mentioned. From December 28<sup>th</sup>, 2008, the positions of AFR were moved into AFS. In this same date a reclassification of AFS and Trading portfolio was realized to place them into Held to Maturity (HTM). For all the previous, a report with the international standard (IAS) is generated as well as another one for local intentions (Local GAAP)

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

### Quantitative Information

Below, the market VaR and the Bank’s PVBP will be presented and their subdivisions in the “Trading” and “Accrual” portfolios for the fourth quarter of 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 4Q08	Limits*	Average 4Q08	Limits*	Average 4Q08	Limits*
Combined	24.68	52.00	7.17	40.00	26.64	37.50
Interest Rate	30.95	52.00	7.07	24.50	26.63	37.50
FX	3.12	8.00	5.38	8.00	N/A	N/A
Volatility IR	0.67	9.50	0.63	7.50	0.04	2.0
Volatility FX	0.40	2.00	0.40	2.00	N/A	N/A

\*\* All Trading Includes: Trading Desk, BST, MMT, ALCO and Strategic FX

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	30-Sep-08	31-Dec-08	Limits*	Average 3Q08	Average 4Q08
HBMI	8.34	27.66	52.00	9.56	24.68
Accrual	8.85	29.03	37.50	9.25	26.64
All Trading	3.15	8.21	40.00	2.27	7.17

\* Absolute Value

N/A = Non Applicable

The Bank’s VaR at the end of the 4Q08 varied 231.86% versus the previous quarter. During the quarter the VaR remained under the limits. This variation is due to the volatility that was registered in the international markets during October and November, despite of low risk exposure. As a consequence, the VaR limits for HBMI and Accrual portfolios had to increase for 10 million dollars.

The Bank’s average VaR for the end of the 4Q08 varied 158.22% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

## Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for September 30th, 2008 and December 31st, 2008 (in millions of dollars).

Market VaR vs. Net Capital Comparison		
Net Capital in million Dollars		
	30-Sep-08	31-Dec-08
Total VaR*	9.56	24.68
Net Capital **	2,644.15	2,351.69
VaR / Net Capital	0.36%	1.05%

\* 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 1.05% of the net capital in 4Q08.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	30-Sep-08	31-Dec-08	Limits*	Average 3Q08	Average 4Q08
Bank	(0.013)	(0.200)	1.082	(0.128)	(0.141)
Accrual	(0.138)	(0.220)	0.957	(0.186)	(0.198)
Trading Desk	0.093	0.024	0.350	0.036	0.049
Balance Sheet Trading	0.032	(0.004)	0.230	0.022	0.008
AFR **	(0.305)	0.000	0.437	(0.293)	(0.290)
ALCO	0.000	0.000	0.030	(0.000)	(0.000)

\* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 4Q08 varied 1389.09% versus prior quarter. The bank's average PVBP for the 4Q08 varied 9.77% versus prior quarter.

Present Value for 1bp (PVBP) for USD Rate					
	30-Sep-08	31-Dec-08	0 Limits*	Average 3Q08	Average 4Q08
Bank	(0.165)	(0.012)	0.345	(0.161)	(0.030)
Accrual	(0.154)	(0.027)	0.350	(0.188)	(0.063)
Trading Desk	(0.013)	0.009	0.080	0.015	0.015
Balance Sheet Trading	0.001	0.005	0.065	0.011	0.018

\* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 4Q08 varied -92.6% versus prior quarter. The bank's average PVBP for the 4Q08 varied -81.30% versus prior quarter.

Present Value for 1bp (PVBP) for UDIS Rates					
	30-Sep-08	31-Dec-08	Limits*	Average 3Q08	Average 4Q08
Bank	(0.258)	(0.195)	0.350	(0.228)	(0.196)
Accrual	(0.219)	(0.169)	0.300	(0.212)	(0.163)
Trading Desk	(0.023)	(0.011)	0.100	(0.005)	(0.020)
Balance Sheet Trading	(0.016)	(0.015)	0.050	(0.010)	(0.013)

\* Absolute Value

NA = Non Applicable

The bank's UDI Rate PVBP for 4Q08 varied -24.3% versus prior quarter. The bank's average PVBP for the 4Q08 varied -13.9% versus prior quarter.

## Liquidity Risk

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### Qualitative Information

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

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

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

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

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

### Quantitative Information

The institution presented at end of the quarter liquidity ratios of 24.2% for 1st line liquidity and 30.2% for 2nd line liquidity, above the 15% minimum required limit. Along the quarter, average levels were 21.0% and 27.5% for 1st for 2nd line liquidity ratios respectively. Compared versus previous quarter, it was observed an improvement in mexican peso liquidity position resulting from the increase in customers deposits by \$9,600 million MXN during December.

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

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### Qualitative Information

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

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

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

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

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

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

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based to “Disposiciones de Carácter General Aplicables a las Instituciones de Crédito, published by CNBV”, which used the general methodology.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a risk evaluation tool is used: Moody’s Risk Advisor (MRA), which permits a deeper evaluation of the credit quality of clients. 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 periodically: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behavior from those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

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

### Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at December 31st, 2008 is \$9,070.5 millions of pesos, an increase of 5.4% 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 December 31st, 2008 is \$3,854.9 millions of pesos, an increase of 0.80% compared to that of the previous quarter.

## Operational Risk

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

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

In order to identify and re-evaluate these risks, the 5th annual assessment took place through out the group entities during the second semester of 2008. 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

Systems department makes use of the RBPM systems development methodology (Risk Based Project Management) which comprises the international processes and practices used when it comes to undertaking projects; for it controls the development's life cycle and through the Clarity tool enables users to have a both, consistent and efficient project management. RBPM is integrated as part of the Quality Management System utilized by the systems' department.

All the aforementioned is aimed at keeping an adequate control of technological risk; thus, assuring the continuity of the banking services through the different distribution channels in an agile, secure and reliable manner; whereas the technological risks are still being measured and evaluated by both, the Risk Management Committee (RMC) as well as the GGRO (Operational Risk management Group) in which, on a monthly basis, the most relevant issues are addressed in order to notify on the findings and their corresponding follow-up actions and impact-mitigation plans.

## Legal Risk

Legal Risk Management is attending the following types of risk:

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

There have been taken following measures: the establishment of policies and procedures for the suitable legal function and the celebration of juridical acts; the estimation of potential losses derived from adverse judicial or administrative resolutions; the publication to employees and officials of the juridical and administrative dispositions applicable to his operations; the achievement of legal audits, the last one was in process during December, 2008; as well as the establishment of a historical database on the judicial and administrative resolutions, his causes and costs.

To avoid the possible loss due to the nonperformance of the applicable juridical and administrative norms and to avoid unfavorable resolutions, they have been implemented political and procedures for the identification, measurement and control of the legal risks and to prevent this way as far as possible the above mentioned risks from being able to result in losses not estimated for the Institution.

### Quantitative Information (including Legal and Technological Risk)

As a result of the 5th assessment, and taking into account their upgrades during the last quarter of 2008, we have 2,545 risks distributed as follows: 1.37% A type, 11.55% B type, 58.86% C type, and 28.22% D type risks, which can also be classified onto: 21.74% people, 50.05% process, 17.01% systems and 11.20% 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 first quarter of 2009 operational losses as reflected in the Other Expenses account will have an impact in the order of MXN 216 million, distributed in the following proportions:

Concept	%
Frauds	50.4%
Robberies and assaults	3.6%
Counterfeit notes	0.6%
Operating errors	6.2%
Branches	2.5%
Credit Cards	28.9%
Other errors and losses	7.8%

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



## Corporate Sustainability (CSR)

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### From Corporate Responsibility to Corporate Sustainability

In 2007, we continued our efforts to embed and deliver HSBC's sustainability strategy, which recognizes that the Group's continued financial success depends on our ability to manage and address non-financial considerations material to our business. This requires an understanding that these non-financial issues do not exist in isolation from our core functions and operations but are integral to the way we do business. We refer to 'corporate sustainability' rather than 'corporate responsibility' as it describes more succinctly the management of our direct environmental footprint, sustainability risk and business opportunities, and our community investment activities.

Our goal is to be one of the world's leading brands in corporate sustainability. This is not solely an environmental or social agenda, nor is it confined to governance and ethics. Sustainability is about bringing all of these issues together into our business model, and about maintaining the long-term growth of a successful business for the benefit of our stakeholders. For HSBC, sustainability is about making decisions that maintain the right balance between the environment, society and the economy to ensure long-term business success. We believe that it is our duty to our customers, investors and employees to foster an ethical, responsible and sustainable corporate philosophy.

We believe that it is our duty to our customers, investors and employees to foster an ethical, responsible and sustainable corporate philosophy. It is easy to pay lip service to sustainability; it is more difficult to effect real change. Commitment to sustainable principles must be part of a company's culture, permeating every level of the organization. Since we want sustainability to be ingrained in our corporate ethos, and because we want to get the most out of every penny and every minute spent on sustainable initiatives, we have made sustainability a key component of our strategy.

According to HGHQ's policies to support education, the environment, the community, HBMX donated \$ 34, 247,643.50 on 4Q08.

### 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. These 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 Cancun Quintana Roo as a Prize 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 1<sup>st</sup>. 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 98 million pesos in a six year period has been made to Institutions that provide support in education, health and nutrition.

**Integral Education in Public Schools.-** This is a Programme that seeks to improve the quality of Education. It will be developed in alliance with the Public Education Ministry and Pro-Educación. This project will work through a formative integral education support and training of students, teachers and parents. The programme will be applied in 15 full time public elementary schools in Mexico City. The main objective is to improve the education that the students receive to give them access to better practices and better educational programmes that will provide them more real opportunities in the future. The programme includes:

Financial Education.

Environmental Education.

English

Installation, maintenance and operation of IT classrooms

Health Programme: Nutrition, dental health, lenses, and prevention of addictions.

Reading Programme: Installation, Maintenance and Use of School Libraries.

Workshop “Our School Asks” where students and parents will have the opportunity of expressing their opinions.

**Approach to reading.-** In alliance with A Leer-Ibby and the Public Education Ministry, the Reading Circles programme for teenagers will be introduced in Public Secondary Schools within the Government programme of Always Open School in Weekends.

The programme of “Approach to Reading” is part of a formative offer articulated in seven principal areas (Math, Spanish, Sciences, Civic Education and Ethics, Artistic Education, Physical Education and IT and Communication) which will permit to offer alternative spaces of learning, recreation and socialization for the young population that studies in Public Secondary Schools. The format of workshops based on recreational activities seeks to improve the development of learning by competences, this will have a direct impact in a better educational performance.

**Learning and Construction on Capacities.-** In alliance with Fundación Quiera (ABM), the programme consists of facilitating resources, alliances and links that will permit the improvement of the efficacy in the attention that different

NGO's provide to street children, to expand the strategic information and the knowledge through the following action areas:

**Exchange and learning:** to share results, to systematize and to validate successful models; **Investigation:** studies and diagnoses on the problems of street children and children at risk; **Diffusion:** to share results, better practices, as well as the results of the studies and investigations.

### 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.

**Children's rights.-** This programme will be developed in alliance with Save the Children, Foundation CIE and Group HA-ASH (pop music Mexican duet). In its 25<sup>th</sup>. Anniversary, the main goal is to promote and to create awareness of the Children's Rights Declaration. The programme will include seminars and regional events seeking to sensitize the authorities, society and the mass media of the importance of generating a culture on the treatment and respect of children and their rights.

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 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.

**Global Sustainability Hall at the MIDE.-** In alliance with the Interactive Economy Museum (Museo Interactivo de Economía MIDE) the first Global Sustainability Hall in Latinamerica is being developed. This Hall will include the social, environment and economic scenarios of sustainability through a permanent interactive exhibition that will use the latest technology to contribute to reduce the impacts of global warming.

**Rehabilitation of the Park Atasta in Tabasco.-** In alliance with Save the Children, the Center Municipality and Juarez's University, the objective is the rehabilitation of Tabasco's principal park using amicable technologies with the environment, the promotion of a healthy life style and the awakening of the conscience of the care and respect to the environment. If to occur a flood, the park is located in a privileged area which will allow it to be used as a shelter in case of an emergency.

**Sustainable Communities.-** In alliance with Naturalia, Wal-mart and Reforestamos México, this is an integral project to rescue and rehabilitate the community of San Juan Atzingo in Zempoala Edo. de Mexico. This programme intends the development of the community and the establishment of different income generating activities such as fishery, forest production and eco-tourism, and will also include an integral education programme.

### 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 Exhibit Anthony Gormley work in Monterrey and México. Anthony Gormley is one of the most famous and prestigious sculptors in the World due to the importance of his work. The work of this artist is an intent to clarify and to understand the notion of space, from the analysis of the mental and physical structures by means of which we build it. The work of Anthony Gormley is seen as an extraordinary effort by achieving, through the language of sculpture, to explore the human experience of liberty.

### In Conclusion

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.

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