

31 July 2007

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

*On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. All comparative commentary within this report is therefore on a like-for-like basis excluding HSBC Panama, as presented in Appendix A. The financial statements on pages 6-14 include HSBC Panama up until the date of disposal.*

- Net income down 11.8 per cent to MXN2,439 million for the first half of 2007 (MXN2,766 million for the first half of 2006).
- Net loans and advances to customers up MXN28.5 billion, or 20.2 per cent, to MXN169.6 billion at 30 June 2007 (MXN141.1 billion at 30 June 2006).
- Total assets up MXN12.3 billion, or 4.0 per cent, to MXN319.1 billion at 30 June 2007 (MXN306.8 billion at 30 June 2006).
- Cost efficiency ratio (excluding monetary position) of 60.5 per cent for the first half of 2007 (62.3 per cent for the first half of 2006).
- Return on equity of 14.5 per cent for the first half of 2007 (20.7 per cent for the first half of 2006).

*HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (HSBC) primary subsidiary, and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file periodic financial information on a quarterly basis (in this case for the quarter ended 30 June 2007) 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 figures denominated in Mexican pesos (MXN). Comparative figures are presented on an actual basis, indexed to constant MXN as at 30 June 2007.*

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

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

“Grupo Financiero HSBC recorded a net income of MXN2,439 million for the six months ended 30 June 2007. This represents an 11.8 per cent decline versus the same period of the previous year.

“The results reflect the investment that HSBC is making in organically growing our business in Mexico, as we continue to build our presence and market share in this fast growing financial services market. The costs of organic growth are showing through in higher expenses and loan impairment charges, but I am pleased to report that we are also seeing positive indicators of this investment bearing fruit, with strong growth in our customer base and loan volumes. Our customer base grew from 7.2 million at June 2006 to 7.9 million at June 2007, credit cards in circulation have increased over 721,000 to 2.2 million, while loans and advances to customers grew 20.2 per cent over the same period.

“The increase in business volumes is driving healthy revenue growth, with higher levels of interest income, fees and commissions in almost all areas of the bank, except for treasury income, where despite the strong progress that has been made in developing our global markets capabilities, revenues are below the record levels achieved in 2006 as a result of a more difficult interest rate environment.

“Expenses increased 10.5 per cent versus the same period last year, as we continued to invest in marketing, staff, IT and other infrastructure costs to support our business expansion, including growing the number of point of sale terminals by more than 46,000 versus the first half of 2006 as well as adding 249 new ATMs and 10 new branches during the same period. Our cost efficiency however has shown continued progress, improving 174bps to 60.5 per cent as revenue growth exceeded expense growth, despite lower trading revenues.

“As a result of strong growth particularly in credit cards, small business and self-employed lending, which grew 120.2 percent, 80.1 percent and 64.7 percent respectively, loan impairment charges were higher than the previous year, reflecting the acquisition costs of building our market presence in these segments.

“HSBC continues to invest to be the leading financial services institution in Mexico in the eyes of our customers, offering innovative solutions to better meet our customer needs, and we will continue to develop our infrastructure to improve service standards. I thank our customers and staff for their continued support.”

### **Overview**

In the first half of 2007, Grupo Financiero HSBC’s net income of MXN2,439 million was MXN327 million, or 11.8 per cent, lower than the same period in 2006.

Net interest income (excluding monetary position) was up by MXN1,439 million to MXN10,141 million for the period ended 30 June 2007, a 16.5 per cent increase compared to the same period in 2006. Significant loan growth was partially offset by lower balance sheet management income due primarily to a reduction of MXN13.4 billion in the available-for-sale portfolio. The proceeds from this reduction have been invested in consumer and small business loan growth.

Net fees and commissions were up by MXN688 million to MXN4,963 million for the six months ended 30 June 2007, a 16.1 per cent increase over the same period in 2006. The main growth drivers were an increased number of credit cards in circulation, a rise in customer transactions and the continued success of the bank's packaged products, *Tu Cuenta* (for personal customers) and *Estímulo* (for business customers). This strong performance offset a decrease in fees resulting from a change in accounting rules in 2007 where origination fees are now registered in net interest income. In addition, point of sale, ATM, payments and cash management services, mutual funds, and trade services also contributed to growth in fee income.

Trading income at MXN777 million was 22.1 per cent lower compared to very strong performance during the same period of the previous year which benefited from favourable market conditions. Although income picked up during the second quarter of 2007 driven by solid results in retail foreign exchange, derivatives and debt trading had reduced revenue opportunities due to the flat yield curve.

Administrative expenses of MXN9,610 million in first half 2007 were 10.5 per cent higher than in the same period in 2006. Expense growth was primarily driven by a combination of higher staff and marketing costs incurred to support business expansion. Personnel expenses increased as a result of the 1,862 new employees hired since June 2006, pay rises and increased incentive costs related to higher revenues. Information technology improvements and investment in the expansion, relocation and renovation of the branch and ATM infrastructure have also contributed to expense growth. With cost growth below the rate of revenue growth, however, the cost efficiency ratio (excluding monetary position) improved from 62.3 per cent in the first half of 2006 to 60.5 per cent for the same period in 2007.

The robust increases in credit card, self-employed and small and medium business lending balances led to an increase in loan impairment charges of MXN2,143 million, compared with the same period in 2006, to reach MXN3,815 million. This however is affected by an additional MXN272 million in the second quarter of 2007 relating to methodology changes to recognise the risk associated with the loan portfolio when the quarter ends on a non-working day as it did in June. In addition, in accordance with Mexican regulation in 2006, HSBC Mexico assigned MXN569 million of general reserves to fulfil loan portfolio requirements in the second quarter of 2006. Considering the above effect, underlying year-on-year growth in loan impairment charges of 70.2 per cent is in line with the strategy to develop a market leading position in credit cards, self-employed and small business lending.

Delinquency rates rose during the period, as the loan book grew, reflecting the acquisition costs of organically growing the lending business. In addition loan underwriting criteria and collections strategies are regularly reviewed to maintain the quality of the portfolio. HSBC has maintained a solid allowance for loan losses as a percentage of impaired loans of 146.2 per cent as at 30 June 2007.

The bank's capital adequacy ratio remains sound at 13.8 per cent.

## **Business highlights**

During the first half of 2007, the bank's **Personal Financial Services (PFS)** segment generated significant business growth, with the opening of some 199,000 new *Tu Cuenta* packaged products, over 381,000 new credit cards issued and higher balances in credit cards, mortgages, self-employed and payroll products. Strong revenues were generated in credit cards, ATMs and fees from *Tu Cuenta*. Continued growth in mutual funds was reflected by a MXN7,413 million rise in funds under management versus the previous year, and a 24.3 per cent increase in customer numbers.

In **Commercial Banking (CMB)**, there was strong asset growth driven by a combination of higher real estate balances and growth in lending to small and medium business. Improvements in the products offered to the residential and tourist construction market led to a greater market presence, reflecting HSBC's capabilities to meet the needs of its customers. HSBC's market share in trade services grew by nearly four percentage points to 15.0 per cent, leveraging the Group's geographical presence and product capabilities.

The international business centre, which supports Mexican businesses in expanding internationally and foreign companies in investing in Mexico, has had a successful first half of 2007, with approximately 853 inward and outward referrals generated and 143 new accounts added.

In **Corporate, Investment Banking and Markets (CIBM)**, there was strong performance in retail foreign exchange. However despite this and income generated from the sale of securities from the available-for-sale portfolio, there was a reduction in fixed income, interest rate and balance sheet trading revenues due to the uncertainty in the local market with regard to interest rate policy, as well as an extremely flat yield curve in recent months. Corporate banking is joining up customer segments and product lines both locally and internationally, having supported several deals with London and New York during the first half of 2007, while payments and cash management services continues to cross-sell to the corporate customer base.

In March 2007, HSBC Mexico successfully issued its first residential mortgage-backed security (RMBS) for MXN2,500 million, in two series and with a term of 15.9 years. This issuance was the largest of its kind in Latin America and obtained AAA(mex) and mxAAA grades assigned by Fitch Ratings and Standard & Poors, respectively.

## **About HSBC**

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,360 branches, 5,533 ATMs, approximately 7.9 million customers and more than 23,000 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 125 million customers worldwide through 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and

Africa. With assets of US\$2,150 billion at 30 June 2007, HSBC is one of the world's largest banking and financial services organisations. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by nearly 200,000 shareholders in some 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

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## Consolidated Balance Sheet

Figures in MXN millions

	GROUP		BANK	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
<b>Assets</b>				
Cash and deposits in banks	<b>49,904</b>	64,971	<b>49,903</b>	61,368
Investment in securities	<b>61,429</b>	71,459	<b>60,355</b>	69,686
Trading securities	<b>28,882</b>	24,103	<b>27,808</b>	23,575
Available-for-sale securities	<b>28,536</b>	43,192	<b>28,536</b>	41,947
Held to maturity securities	<b>4,011</b>	4,164	<b>4,011</b>	4,164
Securities and derivative operations	<b>83</b>	274	<b>79</b>	273
Repurchase agreements	<b>83</b>	61	<b>79</b>	61
Derivative transactions	-	213	-	212
Performing loans				
Commercial loans	<b>66,282</b>	56,728	<b>66,282</b>	50,322
Loans to financial intermediaries	<b>7,028</b>	6,371	<b>7,028</b>	6,293
Consumer loans	<b>42,144</b>	31,529	<b>42,144</b>	29,627
Mortgage loans	<b>19,662</b>	23,861	<b>19,662</b>	18,412
Loans to government entities	<b>37,110</b>	38,798	<b>37,110</b>	38,798
Loans to Fobaproa or IPAB	-	-	-	-
Total performing loans	<b>172,226</b>	157,287	<b>172,226</b>	143,452
Impaired loans				
Commercial loans	<b>1,816</b>	1,513	<b>1,816</b>	1,436
Consumer loans	<b>2,508</b>	1,407	<b>2,508</b>	1,385
Mortgage loans	<b>1,318</b>	1,107	<b>1,318</b>	1,015
Immediate collection, remittances and other	-	29	-	29
Total impaired loans	<b>5,642</b>	4,056	<b>5,642</b>	3,865
Gross loans and advances to customers	<b>177,868</b>	161,343	<b>177,868</b>	147,317
Allowance for loan losses	<b>(8,246)</b>	(6,398)	<b>(8,246)</b>	(6,174)
Net loans and advances to customers	<b>169,622</b>	154,945	<b>169,622</b>	141,143
Other accounts receivable	<b>25,008</b>	20,816	<b>24,861</b>	20,414
Foreclosed assets	<b>65</b>	85	<b>65</b>	38
Property, furniture and equipment, net	<b>6,029</b>	5,959	<b>6,016</b>	5,699
Long-term investments in equity securities	<b>3,076</b>	2,689	<b>144</b>	196
Deferred taxes	<b>196</b>	509	<b>150</b>	357
Goodwill	<b>2,669</b>	3,441	-	-
Other assets, deferred charges and intangibles	<b>972</b>	1,758	<b>939</b>	1,544
<b>Total assets</b>	<b>319,053</b>	326,906	<b>312,134</b>	300,718

## Consolidated Balance Sheet (continued)

<i>Figures in MXN millions</i>	GROUP		BANK	
	<i>30 June 2007</i>	<i>30 June 2006</i>	<i>30 June 2007</i>	<i>30 June 2006</i>
<b>Liabilities</b>				
Deposits	<b>228,945</b>	240,834	<b>230,567</b>	223,344
Demand deposits	<b>124,755</b>	139,845	<b>126,377</b>	131,979
Time deposits	<b>99,939</b>	96,573	<b>99,939</b>	86,949
Bonds	<b>4,251</b>	4,416	<b>4,251</b>	4,416
Bank deposits and other liabilities	<b>9,821</b>	7,626	<b>9,821</b>	7,626
On demand	<b>450</b>	-	<b>450</b>	-
Short-term	<b>6,137</b>	5,478	<b>6,137</b>	5,478
Long-term	<b>3,234</b>	2,148	<b>3,234</b>	2,148
Securities and derivative transactions	<b>13,231</b>	11,801	<b>13,227</b>	11,800
Repurchase agreements	<b>55</b>	44	<b>51</b>	43
Securities deliverable under loan Transactions	<b>13,146</b>	11,757	<b>13,146</b>	11,757
Derivative transactions	<b>30</b>	-	<b>30</b>	-
Other accounts payable	<b>29,945</b>	34,244	<b>29,768</b>	33,426
Income tax and employee profit sharing payable	<b>1,282</b>	1,651	<b>1,237</b>	1,552
Sundry creditors and other accounts payable	<b>28,663</b>	32,593	<b>28,531</b>	31,874
Subordinated debentures outstanding	<b>2,213</b>	2,708	<b>2,213</b>	2,298
Deferred taxes	-	-	-	-
Deferred credits	<b>214</b>	23	<b>214</b>	17
<b>Total liabilities</b>	<b>284,369</b>	297,236	<b>285,810</b>	278,511
<b>Equity</b>				
Paid in capital	<b>20,843</b>	20,843	<b>13,141</b>	13,141
Capital stock	<b>7,971</b>	7,971	<b>3,961</b>	3,961
Additional paid in capital	<b>12,872</b>	12,872	<b>9,180</b>	9,180
Other reserves	<b>13,820</b>	8,825	<b>13,164</b>	9,066
Capital reserves	<b>1,128</b>	927	<b>13,669</b>	9,221
Retained earnings	<b>18,281</b>	12,988	-	-
Result from the mark-to-market of available-for-sale securities	-	-	<b>(86)</b>	(65)
Result from translation of foreign Operations	-	11	-	12
Cumulative effect of restatement	<b>(3,873)</b>	(3,873)	<b>(3,489)</b>	(3,536)
Gains on non-monetary asset valuation	<b>(4,155)</b>	(4,119)	<b>1,150</b>	1,157
Net income	<b>2,439</b>	2,891	<b>1,920</b>	2,277
Minority interest in capital	<b>21</b>	2	<b>19</b>	-
Total equity	<b>34,684</b>	29,670	<b>26,324</b>	22,207
<b>Total liabilities and equity</b>	<b>319,053</b>	326,906	<b>312,134</b>	300,718

## Consolidated Balance Sheet (continued)

<i>Figures in MXN millions</i>	<b>GROUP</b>	
	<u>30 June 2007</u>	<u>30 June 2006</u>
<b>Memorandum Accounts</b>		
Transactions on behalf of third parties	<b>98,076</b>	98,642
Customer current accounts	<b>(128)</b>	29
Customer bank	<b>3</b>	19
Settlement of customer securities and documents	<b>(131)</b>	10
Customer securities	<b>71,390</b>	78,778
Customer securities in custody	<b>71,384</b>	77,507
Pledged customers securities and documents	<b>6</b>	1,271
Transactions on behalf of customers	<b>2,330</b>	2,596
Customer repurchase transactions	<b>2,330</b>	2,596
Other transactions on behalf of customers	<b>24,484</b>	17,239
Investment on behalf of customers, net	<b>24,484</b>	17,239
Other memorandum accounts	<b>388,136</b>	320,033
Investment of the SAR funds	<b>3,540</b>	3,678
Integrated loan portfolio	<b>186,343</b>	152,605
Other memorandum accounts	<b>198,253</b>	163,750
Transactions for the group's own accounts	<b>1,417,145</b>	621,570
Accounts for the group's own registry	<b>1,417,117</b>	621,553
Guarantees granted	<b>47</b>	62
Irrevocable lines of credit granted	<b>8,428</b>	5,225
Goods in trust or mandate	<b>120,134</b>	70,586
Goods in custody or under administration	<b>55,376</b>	64,565
Amounts committed in transactions with		
Fobaproa	<b>148</b>	154
Amounts contracted in derivative operations	<b>1,228,910</b>	476,705
Securities in custody	<b>3,944</b>	4,138
Other contingent obligations	<b>130</b>	118
Repurchase/resale agreements		
Securities receivable under repos	<b>42,007</b>	37,013
(less) Repurchase agreements	<b>(42,026)</b>	(37,000)
	<u><b>(19)</b></u>	<u>13</u>
Reverse repurchase agreements	<b>7,280</b>	5,680
(less) Securities deliverable under repos	<b>(7,233)</b>	(5,676)
	<u><b>47</b></u>	<u>4</u>

## Consolidated Balance Sheet (continued)

<i>Figures in MXN millions</i>	<b>BANK</b>	
	<u>30 June 2007</u>	<u>30 June 2006</u>
<b>Memorandum Accounts</b>		
Guarantees granted	47	60
Other contingent obligations	130	118
Irrevocable lines of credit granted	8,428	5,225
Goods in trust or mandate	120,135	70,586
Goods in custody or under administration	55,376	64,565
Third party investment banking operations, net	24,484	17,239
Amounts committed in transactions with Fobaproa	148	154
Amounts contracted in derivative operations	1,228,910	476,705
Investments of retirement savings system funds	3,540	3,678
Integrated loan portfolio	186,343	152,605
Other control accounts	185,106	163,748
	<u>1,812,647</u>	<u>954,683</u>
Securities receivable under repos	39,681	34,420
(less) Repurchase agreements	<u>(39,696)</u>	<u>(34,404)</u>
	<u>(15)</u>	<u>16</u>
Reverse repurchase agreements	4,950	3,083
(less) Securities deliverable under repos	<u>(4,907)</u>	<u>(3,082)</u>
	<u>43</u>	<u>1</u>
Securities deliverable under loan transactions	13,146	-
(less) Goods deliverable in guarantee for loan transactions	<u>-</u>	<u>-</u>
	<u>13,146</u>	<u>-</u>

## Consolidated Income Statement

<i>Figures in MXN millions</i>	GROUP		BANK	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest income	<b>15,161</b>	14,109	<b>15,072</b>	13,436
Interest expense	<b>(5,020)</b>	(5,023)	<b>(4,990)</b>	(4,777)
Monetary position (margin), net	<b>(277)</b>	(167)	<b>(253)</b>	(156)
Net interest income	<b>9,864</b>	8,919	<b>9,829</b>	8,503
Loan impairment charges	<b>(3,815)</b>	(1,716)	<b>(3,815)</b>	(1,672)
Risk adjusted net interest income	<b>6,049</b>	7,203	<b>6,014</b>	6,831
Fees and commissions receivable	<b>5,513</b>	4,969	<b>5,136</b>	4,438
Fees payable	<b>(550)</b>	(566)	<b>(543)</b>	(540)
Trading income	<b>777</b>	997	<b>773</b>	993
Total operating income	<b>11,789</b>	12,603	<b>11,380</b>	11,722
Administrative and personnel expenses	<b>(9,610)</b>	(8,990)	<b>(9,336)</b>	(8,354)
Net operating income	<b>2,179</b>	3,613	<b>2,044</b>	3,368
Other income	<b>1,418</b>	1,083	<b>1,458</b>	1,001
Other expenses	<b>(550)</b>	(688)	<b>(550)</b>	(685)
Net income before taxes	<b>3,047</b>	4,008	<b>2,952</b>	3,684
Income tax and employee profit sharing tax	<b>(1,589)</b>	(994)	<b>(1,561)</b>	(911)
Deferred income tax	<b>517</b>	(479)	<b>522</b>	(500)
Net income before subsidiaries	<b>1,975</b>	2,535	<b>1,913</b>	2,273
Undistributed income from subsidiaries	<b>463</b>	356	<b>6</b>	4
Income from ongoing operations	<b>2,438</b>	2,891	<b>1,919</b>	2,277
Minority interest	<b>1</b>	-	<b>1</b>	-
Net income	<b>2,439</b>	2,891	<b>1,920</b>	2,277

## Statement of Changes in Shareholder's Equity

### GROUP

Figures in MXN millions

	Capital contributed	Capital reserves	Retained earnings	Deficit in restatement of stock- holders' equity	Net income	Minority interest	Total equity
<b>Balances at 31 December 2006</b>	<b>20,843</b>	<b>849</b>	<b>12,988</b>	<b>(7,662)</b>	<b>5,572</b>	<b>2</b>	<b>32,592</b>
<b>Movements inherent to the shareholder's decision</b>							
Capitalisation of retained earnings	-	-	5,293	-	(5,572)	-	(279)
Constitution of reserves	-	279	-	-	-	-	279
Other movements	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>279</b>	<b>5,293</b>	<b>-</b>	<b>(5,572)</b>	<b>-</b>	<b>-</b>
<b>Movements for the recognition of the comprehensive income</b>							
Net income	-	-	-	-	2,439	-	2,439
Gains on non- monetary asset valuation	-	-	-	(366)	-	19	(347)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(366)</b>	<b>2,439</b>	<b>19</b>	<b>2,092</b>
<b>Balances at 30 June 2007</b>	<b>20,843</b>	<b>1,128</b>	<b>18,281</b>	<b>(8,028)</b>	<b>2,439</b>	<b>21</b>	<b>34,684</b>

## Statement of Changes in Shareholder's Equity (continued)

### BANK

Figures in MXN millions

	Capital contributed	Capital reserves	Retained earnings	Result from valuation of available- for-sale securities	Deficit in restatement of stock- holders' equity	Net income	Minority interest	Total equity
<b>Balances at 31 December 2006</b>	<b>13,141</b>	<b>9,221</b>	<b>-</b>	<b>305</b>	<b>(2,363)</b>	<b>4,448</b>	<b>1</b>	<b>24,753</b>
<b>Movements inherent to the shareholder's decision</b>								
Transfer of result of prior years	-	4,448	-	-	-	(4,448)	-	-
Other movements	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>4,448</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,448)</b>	<b>-</b>	<b>-</b>
<b>Movements for the recognition of the comprehensive income</b>								
Net income	-	-	-	-	-	1,920	-	<b>1,920</b>
Result from valuation of available- for-sale securities	-	-	-	(391)	-	-	-	<b>(391)</b>
Cumulative effect of restatement	-	-	-	-	28	-	18	<b>46</b>
Others	-	-	-	-	(4)	-	-	<b>(4)</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(391)</b>	<b>24</b>	<b>1,920</b>	<b>18</b>	<b>1,571</b>
<b>Balances at 30 June 2007</b>	<b>13,141</b>	<b>13,669</b>	<b>-</b>	<b>(86)</b>	<b>(2,339)</b>	<b>1,920</b>	<b>19</b>	<b>26,324</b>

## Consolidated Statement of Changes in Financial Position

### GROUP

Figures in MXN millions

	<u>30 June 2007</u>	<u>30 June 2006</u>
<b>Operating activities:</b>		
Net income	2,439	2,891
<b>Items included in operations not requiring (providing) funds:</b>		
Result from mark-to-market valuations	(91)	(997)
Allowances for loan losses	3,815	1,716
Depreciation and amortisation	511	440
Deferred taxes	(517)	479
Undistributed income from subsidiaries, net	(463)	(356)
Value loss estimation for foreclosed assets	16	1
<b>Total operating items not requiring funds</b>	<u>5,710</u>	<u>4,174</u>
<b>Changes in items related to operations:</b>		
(Decrease) / Increase in deposits	8,164	17,932
(Increase) / Decrease in loan portfolio	(17,324)	(16,713)
(Increase) / Decrease in securities and derivative transactions, net	7,015	7,397
(Increase) / Decrease in financial instruments	(3,790)	(10,662)
(Decrease) / Increase in bank deposits and other liabilities	(3,244)	316
<b>Funds provided by operating activities</b>	<u>(3,469)</u>	<u>2,444</u>
<b>Financing activities:</b>		
Subordinated debentures outstanding	(11)	-
(Decrease) / Increase in other payable accounts	12,998	10,140
<b>Funds used or provided in financing activities</b>	<u>12,987</u>	<u>10,140</u>
<b>Investing activities:</b>		
(Increase) / Decrease in property, furniture and equipment, net	(694)	(917)
(Increase) / Decrease in deferred charges or credits, net	(45)	(202)
(Increase) / Decrease in foreclosed assets	(28)	328
(Increase) / Decrease in other receivable accounts	(14,364)	(4,870)
<b>Funds used in investing activities</b>	<u>(15,131)</u>	<u>(5,661)</u>
(Decrease) / Increase in cash and equivalents	(5,613)	6,923
Cash and equivalents at beginning of period	<u>55,517</u>	<u>58,048</u>
<b>Cash and equivalents at end of period</b>	<u>49,904</u>	<u>64,971</u>

## Consolidated Statement of Changes in Financial Position *(continued)*

### BANK

*Figures in MXN millions*

	<u>30 June 2007</u>	<u>30 June 2006</u>
<b>Operating activities:</b>		
Net income	1,920	2,277
<b>Items included in operations not requiring (providing) funds:</b>		
Result from mark-to-market valuations	(91)	(63)
Allowances for loan losses	3,815	1,672
Depreciation and amortisation	509	421
Deferred taxes	(522)	500
Undistributed income from subsidiaries, net	(6)	(3)
Value loss estimation for foreclosed assets	17	236
Minority interest	(1)	-
<b>Total operating items not requiring funds</b>	<u>5,641</u>	<u>5,040</u>
<b>Changes in operating accounts:</b>		
(Decrease) / Increase in deposits	8,185	16,976
(Increase) / Decrease in loan portfolio	(17,325)	(15,000)
(Increase) / Decrease in securities and derivative transactions, net	7,115	-
(Increase) / Decrease in financial instruments	(4,250)	(4,280)
(Decrease) / Increase in bank deposits and other liabilities	(3,244)	5,416
<b>Funds provided by operations</b>	<u>(3,878)</u>	<u>8,152</u>
<b>Financing activities:</b>		
Subordinated debentures outstanding	(11)	(19)
(Decrease) / Increase in other payable accounts	12,995	387
<b>Funds used or provided by financing activities</b>	<u>12,984</u>	<u>368</u>
<b>Investing activities:</b>		
(Increase) / Decrease in property, furniture and equipment, net	(325)	(618)
(Increase) / Decrease in deferred charges or credits, net	(45)	(209)
(Increase) / Decrease in foreclosed assets	(28)	98
(Increase) / Decrease in other receivable accounts	(14,321)	-
<b>Funds used in investing activities</b>	<u>(14,719)</u>	<u>(729)</u>
(Decrease) / Increase in cash and equivalents	(5,613)	7,791
Cash and equivalents at beginning of period	55,516	53,577
<b>Cash and equivalents at end of period</b>	<u>49,903</u>	<u>61,368</u>

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

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 6 months ended 30 June 2007 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<b>30 June</b>
	<b>2007</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>2,439</b>
Inflation	250
Differences arising on the valuation of pensions and post retirement healthcare benefits <sup>‡</sup>	30
Differences arising on acquisition costs relating to long-term investment contracts <sup>‡</sup>	(3)
Differences arising from the deferral of fees received and paid on the origination of loans	129
Differences arising from the recognition and provisioning for loan impairments <sup>‡</sup>	410
Differences arising from purchase accounting adjustments <sup>‡</sup>	(17)
Differences arising from the recognition of the present value in-force of long term insurance contracts <sup>‡</sup>	632
Other differences in accounting principles <sup>‡</sup>	9
<b>HSBC México net income under IFRS</b>	<b>3,879</b>
<b>US dollar equivalent (millions)</b>	<b>354</b>
Add back tax expense	1,323
<b>HSBC México profit before tax under IFRS</b>	<b>5,202</b>
<b>US dollar equivalent (millions)</b>	<b>475</b>
<i>Exchange rate used for conversion</i>	10.95

<sup>‡</sup> Net of tax at 28%

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

#### **Inflation**

##### **Mexican GAAP**

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

##### **IFRS**

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

#### **Retirement benefits**

##### **Mexican GAAP**

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

##### **IFRS**

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

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

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

#### **Mexican GAAP**

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

#### **IFRS**

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

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

#### **Mexican GAAP**

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

#### **IFRS**

Fees and expenses received 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, therefore the difference is driven by the amortisation of fees deferred under IFRS in 2005 and 2006.

### **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 authorized methodologies for determining the amount of provision for each type of loan.

#### **IFRS**

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

### **Purchase accounting adjustments**

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

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

#### **Mexican GAAP**

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

#### **IFRS**

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

Appendix A:  
**Grupo Financiero HSBC, S.A. de C.V. (HBMX)**  
**Consolidated balance sheet on a like-for-like basis**

Figures in MXN millions

	<i>Total Group</i> <i>30 June</i> <i>2007</i>	<i>Mexico</i> <sup>‡</sup> <i>30 June</i> <i>2006</i>	<i>Panama</i> <i>30 June</i> <i>2006</i>	<i>Total Group</i> <i>30 June</i> <i>2006</i>
<b>Assets</b>				
Cash and deposits in banks	49,904	61,371	3,600	64,971
Investments in securities	61,429	70,213	1,246	71,459
Trading securities	28,882	24,103	-	24,103
Available-for-sale securities	28,536	41,946	1,246	43,192
Held to maturity securities	4,011	4,164	-	4,164
Securities and derivative operations	83	274	-	274
Repurchase agreements	83	61	-	61
Derivative transactions	-	213	-	213
Performing loans				
Commercial loans	66,282	50,322	6,406	56,728
Loans to financial intermediaries	7,028	6,293	78	6,371
Consumer loans	42,144	29,627	1,902	31,529
Mortgage loans	19,662	18,412	5,449	23,861
Loans to government entities	37,110	38,798	-	38,798
Loans to Fobaproa or IPAB	-	-	-	-
Total performing loans	172,226	143,452	13,835	157,287
Impaired loans				
Commercial loans	1,816	1,436	77	1,513
Consumer loans	2,508	1,385	22	1,407
Mortgage loans	1,318	1,015	92	1,107
Immediate collection, remittances and other	-	29	-	29
Total impaired loans	5,642	3,865	191	4,056
Gross loans and advances to customers	177,868	147,317	14,026	161,343
Allowance for loan losses	(8,246)	(6,174)	(224)	(6,398)
Net loans and advances to customers	169,622	141,143	13,802	154,945
Other accounts receivable	25,008	20,637	179	20,816
Foreclosed assets	65	38	47	85
Property, furniture and equipment, net	6,029	5,707	252	5,959
Long-term investments in equity securities	3,076	2,689	-	2,689
Deferred taxes	196	457	52	509
Goodwill	2,669	2,669	772	3,441
Other assets, deferred charges and intangibles	972	1,566	192	1,758
<b>Total assets</b>	<b>319,053</b>	<b>306,764</b>	<b>20,142</b>	<b>326,906</b>

<sup>‡</sup> On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. Therefore, the balance sheet as at 30 June 2006 has been restated to exclude HSBC Panama to compare on a like-for-like basis.

**Grupo Financiero HSBC, S.A. de C.V. (HBMX)**  
**Consolidated balance sheet on a like-for-like basis (continued)**

Figures in MXN millions

	<i>Total Group</i> <i>30 June</i> <i>2007</i>	<i>Mexico</i> <sup>‡</sup> <i>30 June</i> <i>2006</i>	<i>Panama</i> <i>30 June</i> <i>2006</i>	<i>Total Group</i> <i>30 June</i> <i>2006</i>
<b>Liabilities</b>				
Deposits	228,945	223,339	17,495	240,834
Demand deposits	124,755	131,974	7,871	139,845
Time deposits	99,939	86,949	9,624	96,573
Bonds	4,251	4,416	-	4,416
Bank deposits and other liabilities	9,821	7,626	-	7,626
On demand	450	-	-	-
Short-term	6,137	5,478	-	5,478
Long-term	3,234	2,148	-	2,148
Securities and derivative transactions	13,231	11,801	-	11,801
Repurchase agreements	55	44	-	44
Securities deliverable under loan transactions	13,146	11,757	-	11,757
Derivative transactions	30	-	-	-
Other accounts payable	29,945	33,690	554	34,244
Income tax and employee profit sharing payable	1,282	1,591	60	1,651
Sundry creditors and others accounts payable	28,663	32,099	494	32,593
Subordinated debentures outstanding	2,213	2,298	410	2,708
Deferred taxes	-	-	-	-
Deferred credits	214	17	6	23
<b>Total liabilities</b>	<b>284,369</b>	<b>278,771</b>	<b>18,465</b>	<b>297,236</b>
<b>Equity</b>				
Paid in capital	20,843	19,481	1,362	20,843
Capital stock	7,971	6,609	1,362	7,971
Additional paid in capital	12,872	12,872	-	12,872
Other reserves	13,820	8,510	315	8,825
Capital reserves	1,128	926	1	927
Retained earnings	18,281	12,795	193	12,988
Result from mark-to-market of available-for-sale securities	-	16	(16)	-
Result from translation of foreign operations	-	-	11	11
Cumulative effect of restatement	(3,873)	(3,873)	-	(3,873)
Gains on non monetary asset valuation	(4,155)	(4,119)	-	(4,119)
Net income	2,439	2,765	126	2,891
Minority interest in capital	21	2	-	2
<b>Total equity</b>	<b>34,684</b>	<b>27,993</b>	<b>1,677</b>	<b>29,670</b>
<b>Total liabilities and equity</b>	<b>319,053</b>	<b>306,764</b>	<b>20,142</b>	<b>326,906</b>

<sup>‡</sup> On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. Therefore, the balance sheet as at 30 June 2006 has been restated to exclude HSBC Panama to compare on a like-for-like basis.

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

Figures in MXN millions

	<u>Total Group</u> <u>30 June</u> <u>2007</u>	<u>Mexico<sup>†</sup></u> <u>30 June</u> <u>2006</u>	<u>Panama</u> <u>30 June</u> <u>2006</u>	<u>Total Group</u> <u>30 June</u> <u>2006</u>
Interest income	15,161	13,470	639	14,109
Interest expense	(5,020)	(4,768)	(255)	(5,023)
Monetary position (margin), net	(277)	(162)	(5)	(167)
Net interest income	<u>9,864</u>	<u>8,540</u>	<u>379</u>	<u>8,919</u>
Loan impairment charges	(3,815)	(1,672)	(44)	(1,716)
Risk adjusted net interest income	<u>6,049</u>	<u>6,868</u>	<u>335</u>	<u>7,203</u>
Fees and commissions receivable	5,513	4,813	156	4,969
Fees payable	(550)	(538)	(28)	(566)
Trading income	<u>777</u>	<u>997</u>	<u>-</u>	<u>997</u>
Total operating income	<u>11,789</u>	<u>12,140</u>	<u>463</u>	<u>12,603</u>
Administrative and personnel expenses	<u>(9,610)</u>	<u>(8,699)</u>	<u>(291)</u>	<u>(8,990)</u>
Net operating income	<u>2,179</u>	<u>3,441</u>	<u>172</u>	<u>3,613</u>
Other income	1,418	1,083	-	1,083
Other expenses	(550)	(688)	-	(688)
Net income before taxes	<u>3,047</u>	<u>3,836</u>	<u>172</u>	<u>4,008</u>
Income tax and employee profit sharing	(1,589)	(938)	(56)	(994)
Deferred taxes	517	(488)	9	(479)
Net income before subsidiaries	<u>1,975</u>	<u>2,410</u>	<u>125</u>	<u>2,535</u>
Undistributed income from subsidiaries	463	356	-	356
Income from ongoing operations	<u>2,438</u>	<u>2,766</u>	<u>125</u>	<u>2,891</u>
Minority interest	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>2,439</u>	<u>2,766</u>	<u>125</u>	<u>2,891</u>

<sup>†</sup> On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A. de C.V. to HSBC Asia Holdings BV. Therefore, results for the six months ended 30 June 2006 have been restated to exclude results for HSBC Panama up until the date of disposal in order to compare on a like-for-like basis.