

# Grupo Financiero HSBC

*Financial information at 31 March 2007*

## 1Q07

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

*Release date:  
30 April 2007*



April 30, 2007

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FIRST 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 6-17 include HSBC Panama up until the date of disposal.*

- ▶ **Net income down 3.6 per cent to MXN1,376 million for the first quarter of 2007 (MXN1,428 million for the first quarter of 2006).**
- ▶ **Net loans and advances to customers up MXN25.7 billion, or 19.3 per cent, to MXN158.9 billion at 31 March 2007 (MXN133.2 billion at 31 March 2006).**
- ▶ **Total assets up MXN29.5 billion, or 10.6 per cent, to MXN309.0 billion at 31 March 2007 (MXN279.5 billion at 31 March 2006).**
- ▶ **Cost efficiency ratio (excluding monetary position) of 59.8 per cent for the first quarter of 2007 (61.8 per cent for the first quarter of 2006).**
- ▶ **Return on equity of 16.5 per cent for the first quarter of 2007 (21.8 per cent for the first quarter of 2006).**

*Results are prepared in accordance with Mexican GAAP (generally accepted accounting principles), with figures denominated in Mexican pesos (MXN). Comparative figures are presented on an actual basis, indexed to constant MXN as at 31 March 2007.*

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

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

“Grupo Financiero HSBC has achieved strong business growth during the first quarter of 2007 as a result of our continued investment in building our customer base and business volumes in Mexico. Year-on-year, our personal customer base is up by more than 800,000 clients, the number of credit cards in issue has increased by 69.4 per cent to 2.1 million cards, and our small business client base has risen by 21 per cent. Our packaged products have continued to be very successful, and in the first quarter we sold 170,000 *Tu Cuenta* and 1,718 *Estimulo* packages.

“Net income of MXN1,376 million in the first quarter of 2007, however, fell by MXN52 million compared with the first quarter of 2006 as overall strong revenue momentum was offset by reduced revenues in Global Markets, with trading income down MXN224 million year-on-year.

“The group achieved strong total revenue growth of 11.1 per cent – despite lower earnings from Global Markets – exceeding cost growth of 7.5 per cent for the period ended 31 March 2007 compared with the same period of 2006, and resulting in a cost efficiency improvement. Loan impairment charges grew as a consequence of our investment in expanding our consumer and small business commercial loan portfolios.

“In line with the HSBC Group’s organic growth strategy, we continue to invest in building our business in Mexico, and are modernising and streamlining our processes to handle greater business volumes and provide improved services to our clients. By combining the Group’s knowledge, network and brand with the experience and capabilities of our staff, we are driving product innovation and service enhancements to capture market share in key markets.

“Our commitment to Corporate Responsibility remains strong and I am pleased to announce that, in 2007, for the second consecutive year, the Mexican Philanthropy Centre (CEMEFI) and Aliarse recognised HSBC Mexico with a certification for *Socially Responsible Company 2007*.”

### **Overview**

In the first quarter of 2007, Grupo Financiero HSBC’s net income of MXN1,376 million was MXN52 million, or 3.6 per cent, lower than the same period in 2006.

Net interest income (excluding monetary position) was up by MXN692 million to MXN5,110 million for the period ended 31 March 2007, a 15.7 per cent increase compared to the same period in 2006. Lower spreads on deposits, as a result of reduced market rates, and lower net interest income in Global Markets, were more than offset by significant growth in higher-yielding credit card lending and small- and medium-sized business (SME) products.

Net fees and commissions were up by MXN321 million to MXN2,433 million for the quarter ended 31 March 2007, a 15.2 per cent increase on the same period in 2006. This was mainly driven by an increased number of credit cards in circulation and the continued success of the bank’s packaged products, *Tu Cuenta* (for personal customers) and *Estimulo* (for business customers), in addition to ATM, point of sale, mutual fund and trade services fees.

Trading income at MXN325 million was 40.8 per cent lower than in the same period of the previous year. Retail foreign exchange continues to drive positive results, but both interest rate and fixed income trading portfolios generated lower income than in the same period in

2006, affected by the volatility in the local markets resulting from both local and international market conditions.

Administrative expenses of MXN4,705 million were 7.5 per cent higher than in the same period in 2006. Personnel expenses increased as a result of the 2,199 new employees hired since March 2006. Marketing expenses, 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 61.8 per cent in the first quarter of 2006 to 59.8 per cent for the same period in 2007.

During the first quarter of 2007, loan impairment charges increased by MXN781 million to MXN1,407 million compared with the same period in 2006, reflecting strong growth in the consumer loan portfolio and higher impairment in the small business and self-employed loan portfolios. These were partially offset by higher recoveries (which are included in Other Income in 2007 in accordance with new Mexican GAAP reporting requirements). The allowance for loan losses as a percentage of impaired loans was 141.6 per cent as at 31 March 2007.

The bank's capital adequacy ratio remains sound at 14.7 per cent, well above Mexican Banking and Securities Commission (CNBV) requirements.

### **Business highlights**

During the first quarter of 2007, the bank's **Personal Financial Services (PFS)** business generated significant volume growth, with higher balances in credit cards, mortgages, personal and payroll loans. More than 370,000 new credit cards were issued during the quarter. At the end of March 2007, total customer loans were up 27.8 per cent year-on-year. Higher revenues were generated from credit cards, ATMs and from the *Tu Cuenta* packaged financial services product, which reached 1.2 million accounts at 31 March 2007. Insurance premiums continued to grow, with a 15.6 per cent increase year-on-year.

During the first quarter of 2007, the distribution network grew with six new branches opened and 76 new ATMs installed. In March, HSBC launched a savings account, *Cuenta Chicos HSBC*, for children between the ages of one and 15 years' old.

In **Commercial Banking (CMB)**, customer loans were 32.9 per cent higher than in the first quarter of 2006 as HSBC continued to be a market leader in delivering banking services to the small and micro business sector in Mexico. There were higher revenues from card acquiring and trade services fees, as well as increased cross-sales activity through ATMs and of payments and cash management (PCM) services. HSBC Mexico's trade services business continues to increase market share and has now opened offices in three regional centres, in Monterrey, Guadalajara and Puebla.

The international business centre, which supports Mexican businesses in expanding internationally and foreign companies in investing in Mexico, has been expanded to cater for the growth in inward and outward business flows between HSBC Mexico and HSBC Group members in other countries.

In **Corporate, Investment Banking and Markets (CIBM)**, revenues from the PCM business increased compared to the first quarter of 2006. However, in Global Markets, revenues were significantly lower than in the same period of 2006, as interest rate, fixed

income and balance sheet trading were all negatively affected by the volatility in the local markets resulting from both local and international market conditions. This was partially offset by continued profitability in retail foreign exchange and the sale of securities from the available-for-sale portfolio.

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 1,350 branches, 5,482 ATMs, approximately 7.8 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 82 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$1,861 billion at 31 December 2006, HSBC is one of the world's largest banking and financial services organisations. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by nearly 200,000 shareholders in some 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

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## Key Indicators \*

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

For the quarter ended at

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
a) Liquidity	86.72 %	91.01 %	80.69 %	74.89 %	<b>80.14 %</b>
<b>Profitability</b>					
b) ROE (Return over equity)	21.80 %	19.65 %	20.41 %	14.16 %	<b>16.52 %</b>
c) ROA (Return over assets)	2.08 %	1.84 %	2.02 %	1.55 %	<b>1.83 %</b>
<b>Asset quality</b>					
d) Impaired loans/total loans	2.26 %	2.62 %	2.59 %	2.67 %	<b>3.09 %</b>
e) Coverage ratio	177.81 %	159.75 %	153.37 %	156.84 %	<b>141.59 %</b>
<b>Capitalization</b>					
f) Credit risk	20.28 %	19.29 %	19.25 %	18.65 %	<b>18.65 %</b>
g) Credit and market risk	15.79 %	14.75 %	13.90 %	13.79 %	<b>14.67 %</b>
<b>Operating efficiency</b>					
h) Expenses/Total Assets	6.36 %	5.94 %	5.86 %	6.12 %	<b>6.24 %</b>
i) NIM	6.89 %	6.66 %	6.11 %	6.42 %	<b>7.03 %</b>
<b>Infrastructure</b>					
Branches	1,346	1,350	1,347	1,347	<b>1,350</b>
ATM	5,177	5,284	5,353	5,437	<b>5,482</b>
Head Count	21,311	21,972	23,213	23,683	<b>23,510</b>

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

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

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

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

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

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

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

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

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

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.

<sup>1</sup> On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V. to HSBC Asia Holdings BV; therefore, all comparative financial indicators for the Group within this chart are on a like for like basis for HSBC in Mexico only as presented in Appendix A. 1

## Income Statement Variance Analysis <sup>1</sup>

### Net Income

For the first quarter of 2007, Grupo Financiero HSBC (Group) reported a net income of MXN1,376 million, MXN52 million (3.6%) lower compared to the same period of 2006. Overall strong revenue momentum was offset by reduced revenues in Global Markets, with trading income down MXN224 million year-on-year.

Results from HSBC Mexico (Bank) and the insurance company together represented 96% of the Group's net income, with MXN1,110 million and MXN211 million, respectively.

### Total Revenue

The Group's total operating income in the first quarter 2007, before loan impairment charges and monetary position, was MXN7,868 million, growing MXN789 million (11.1%) versus the same period of the previous year. This growth was driven by net interest income of MXN5,110 million and fee income of MXN2,433 million, while trading income was MXN325 million during the quarter.

#### Grupo Financiero HSBC: Revenue distribution 1Q07



Total revenue growth was impacted by a MXN224 million decrease in trading income versus previous year as a result of volatility in the local markets which were affected by both local and international market conditions. Total operating income, after loan impairment charges, was down by MXN145 million (2.3%) to MXN6,113 million, versus the first quarter 2006.

### Net Interest Income

The Group's net interest income for the period ended 31 March 2007 was MXN5,110 million,

representing an increase of 15.7% versus the same period of 2006. Growth in the performing loans portfolio and a change in the mix of the balance sheet composition, with increased focus on consumer and small business loans, offset the negative impact from the decrease in Global Markets' net interest income and lower deposit spreads resulting from a decrease in average interest rates versus previous year (8.0% in 1T06 and 7.4% in 1T07).

Versus previous quarter, Group's net interest income rose MXN299 million (6.2%), as a result of a 10 basis points increase in average market interest rates and solid growth in the credit card and commercial loan portfolios, particularly in the small business and real estate segments.

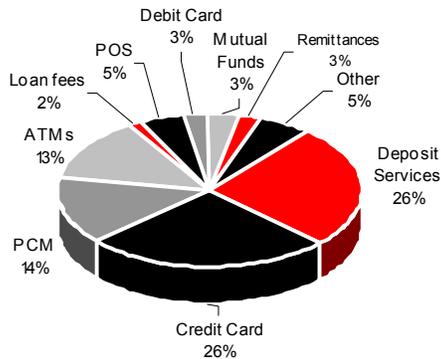
### Non-interest income

The Group's net fees and commissions income showed positive performance, totaling MXN2,433 million for the first quarter 2007. This represented growth of MXN321 million (15.2%) compared to the same period of previous year, largely driven by increased contributions from packaged products with a monthly membership fee (*Tu Cuenta* and *Estimulo*), credit card and mutual fund fees, along with revenues from card acquiring, trade services, ATMs, and payments & cash management services (PCM).

Credit card fee income growth was 81.5% compared to previous year, reflecting a significant increase in the number of cards in circulation, largely due to increased cross-sale activity with *Tu Cuenta* customers and improvements made in reducing activation times. Fees from membership programs rose 67.1%, driven by the success of packaged products like *Tu Cuenta* and *Estimulo*. Fee income from trade services grew 37.5% as a result of successful cross sales with PCM and ATMs. In addition, card acquiring fees rose 45.7% due to increased activations of credit cards coupled with an increasing number of affiliated businesses.

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**Bank's fees & commissions distribution (1Q07)**



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

Trading income for the Group decreased MXN224 million falling to MXN325 million for the first quarter of 2007, representing a 40.8% decrease compared to the same period in 2006. Retail foreign exchange continues to drive trading results; however, in Global Markets, revenues in interest rate, fixed income and balance sheet trading were significantly lower than in the same period of 2006.

As a result of a lower trading income compared to the first quarter of 2006, the Group's non-interest income to total revenue ratio decreased from 37.6% for the period ended 31 March 2006 to 35.1% during the same period of 2007.

**Loan impairment charges**

The Group's loan impairment charges for the quarter ended 31 March 2007, increased MXN781 million (124.8%) reaching a total of MXN1,407 million. This increase reflects the strong growth in the consumer loan portfolio and higher impairment in the small business and self-employed loan portfolios. However, these were partially offset by higher recoveries (which are included in Other Income in 2007 in accordance with new Mexican GAAP reporting requirements).

Versus previous quarter, loan impairment charges decreased MXN286 million (16.9%), which allowed for a higher net income compared with fourth quarter 2006.

**Administrative and personnel expenses**

For the quarter ended 31 March 2007, the Group's expenses were MXN4,705 million, representing an increase of MXN328 million (7.5%) versus the same period of previous year. This growth rate is lower than the total revenue growth of 11.1% resulting in a cost efficiency improvement. The Group's cost:income ratio (excluding monetary position) for the first quarter 2007 was 59.8%, showing an improvement compared to 61.8% for the same period in 2006.

Personnel expenses increased as a result of the 2,199 new employees hired since March 2006. Marketing expenses, information technology improvements and investment in the expansion, relocation and renovation of the branch and ATM infrastructure have also contributed to expense growth.

## Balance Sheet Variance Analysis <sup>1</sup>

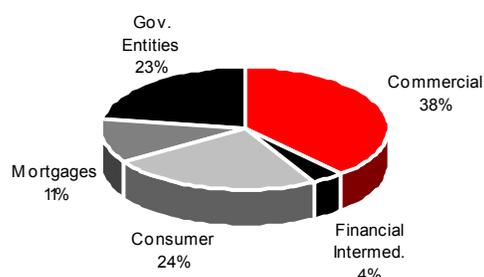
The Group's total assets were MXN309,028 million at 31 March 2007, increasing by MXN29,520 million (10.6%) versus prior year. Likewise, total assets increased MXN15,276 million versus previous quarter.

### Loan Portfolio

The Group's total performing loans rose 18.7% versus 31 March 2006. The focus on improving the balance sheet composition continued with the consumer and commercial loan portfolios increases of 39.7% and 30.2%, respectively versus previous year.

#### Group's Performing Loans Portfolio Distribution

(31 March 2007)



The increase in commercial loans portfolio was driven by growth in the small and medium business segment, particularly through the success of the integrated package *Estimulo*, which has allocated 1,718 new packages during the first quarter 2007, representing a 24.1% increase versus previous quarter.

The consumer loans portfolio grew largely due to the strong performance of personal and payroll loans and credit cards which, at 31 March 2007, reached over 2 million cards in circulation, representing a 69.3% increase in cards in force and a 119.0% increase in total volumes versus previous year. This reflects the strong performance of packaged products like *Tu Cuenta* and the innovative marketing campaign offering a 5% credit card cash back promotion. During the first quarter of 2007 alone, the number of *Tu Cuenta* accounts rose 16.9% to reach year-on-year growth of 58.8%.

Mortgage loans increased 5.7% versus previous year; however, as at 30 March 2007, HSBC issued residential mortgage-backed securities

(RMBS) for MXN2,500 million. Excluding the net impact of this transaction on the mortgage loan portfolio, mortgage loan growth was 20.2% compared to 31 March 2006.

The table below illustrates the change in the performing loan portfolio composition and the growth in higher-yielding segments like consumer and commercial loans.

#### Performing Loans Portfolio (Group)

	1Q2007	1Q2006	% var 1Q07 vs. 1Q06
Commercial	61,583	44,098	39.7%
Financial Int.	6,107	5,699	7.2%
Consumer	38,168	29,305	30.2%
Mortgage	18,440	17,444	5.7%
Gov. Entities	36,689	39,045	-6.0%
<b>Total</b>	<b>160,987</b>	<b>135,591</b>	<b>18.7%</b>

### Asset Quality

The Group's impaired loans portfolio was MXN5,129 million at 31 March 2007, representing a MXN1,993 million (63.6%) growth versus previous year. This increase reflects strong growth in the consumer loan portfolio and higher impairment in the small business and self-employed loan portfolios. Impaired loans to total loans ratio was 3.1% and the allowance for loan losses as a percentage of impaired loans was 141.6% as at 31 March 2007.

#### Impaired Loans (Group)

	1Q2007	1Q2006	% var 1Q07 vs. 1Q06
Commercial	1,840	1,268	45.1%
Consumer	2,056	957	114.8%
Mortgage	1,233	911	35.3%
<b>Total</b>	<b>5,129</b>	<b>3,136</b>	<b>63.6%</b>

### Deposits

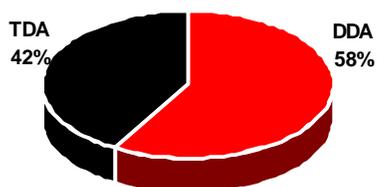
The Bank's customer deposits reached MXN210,553 million at 31 March 2007, increasing MXN8,041 million (4.0%) compared to the previous year. Demand deposits continue to register positive growth, increasing 4.7%

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versus previous year due to the successful build-out of an extensive base of low cost funds driven by innovative products like *Tu Cuenta* which had 170,000 new accounts opened during the first quarter 2007, reaching a total of 1.2 million accounts. Time deposits, at 31 March 2007, increased 3.0% versus previous year.

**Bank's Deposits Distribution**

(31 March 2007)



In addition, mutual funds balance year-on-year growth was 23.2%, largely driven by the success of the investment fund *HSBC-D2*, which increased 22.7% versus the first quarter of 2006. During the first quarter of 2007, HSBC's mutual funds reached 102,944 customers, 22,378 more than previous year.

**Deposits (Bank)**

	1Q2007	1Q2006	% var 1Q07 vs. 1Q06
On demand	122,863	117,361	4.7%
Time deposits	87,690	85,151	3.0%
Mutual funds	43,122	34,989	23.2%
<b>Total</b>	<b>253,675</b>	<b>237,501</b>	<b>6.8%</b>

**Shareholder's equity**

The Group's shareholder's equity was MXN33,919 million at 31 March 2007, representing a growth of 26.5% versus previous year, largely due to retained earnings. The Bank's equity by the end of March 2007 was MXN25,781 million, increasing 20.3% versus prior year and 3.7% versus prior quarter; therefore, the Bank's capital adequacy ratio of 14.7% remains solid at 31 March 2007, above the CNBV requirements. In addition, the RMBS issuance will have, in the up-coming quarters, a positive net effect in the capital adequacy ratio as a result of a reduction in risk-weighted assets.

## Financial Statements Grupo Financiero HSBC

### Consolidated Balance Sheet

Figures in constant MXN millions

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

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
<b>Assets</b>					
Cash and deposits in banks	53,865	65,236	56,055	55,743	54,519
Investments in Securities	62,026	71,751	51,327	57,782	53,334
Trading securities	10,100	24,201	12,257	12,778	17,858
Available-for-sale securities	47,821	43,369	35,024	40,957	31,555
Held to maturity securities	4,105	4,181	4,046	4,047	3,921
Securities and derivative operations	626	274	802	238	190
Repurchase agreements	86	61	141	70	87
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	540	213	661	168	103
Performing loans					
Commercial loans	93,552	102,312	97,054	102,519	104,379
Commercial entities	49,865	56,959	53,028	58,810	61,583
Loans to financial intermediaries	5,806	6,397	5,389	6,045	6,107
Loans to government entities	37,881	38,956	38,637	37,664	36,689
Consumer loans	31,130	31,658	34,522	35,904	38,168
Mortgages loans	22,652	23,959	19,828	20,812	18,440
Loans to Fobaproa or IPAB	1,164	-	-	-	-
Total performing loans	148,498	157,929	151,404	159,235	160,987
Non-performing loans					
Commercial loans	1,315	1,548	1,412	1,569	1,840
Commercial entities	1,315	1,548	1,404	1,569	1,840
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	8	-	-
Consumer loans	971	1,413	1,504	1,687	2,056
Mortgages loans	991	1,112	1,107	1,116	1,233
Total non-performing loans	3,277	4,073	4,023	4,372	5,129
Loan portfolio	151,775	162,002	155,427	163,607	166,116
Allowance for loan losses	(5,764)	(6,425)	(6,170)	(6,857)	(7,262)
Net loan portfolio	146,011	155,577	149,257	156,750	158,854
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	146,011	155,577	149,257	156,750	158,854
Other accounts receivable, net	22,565	20,901	23,322	11,055	29,430
Foreclosed assets	337	85	56	54	65
Property, furniture and equipment, net	5,897	5,984	5,823	6,167	6,111
Long term investments in equity securities	2,532	2,700	2,942	2,674	2,845
Deferred taxes, net	886	511	181	-	-
Goodwill	3,426	3,455	2,680	2,680	2,680
Other assets, deferred charges and intangibles	1,744	1,765	645	609	1,000
<b>Total Assets</b>	<b>299,915</b>	<b>328,239</b>	<b>293,090</b>	<b>293,752</b>	<b>309,028</b>

Figures in constant MXN millions

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

	<u>31 Mar</u> <u>2006</u>	<u>30 Jun</u> <u>2006</u>	<u>30 Sep</u> <u>2006</u>	<u>31 Dec</u> <u>2006</u>	<u>31 Mar</u> <u>2007</u>
<b>Liabilities</b>					
Deposits	220,240	241,816	207,527	221,683	<b>213,167</b>
Demand deposits	124,622	140,416	119,860	135,342	<b>121,208</b>
Time deposits	95,618	96,966	83,276	82,048	<b>87,690</b>
Retail	95,618	96,966	83,276	82,048	<b>87,690</b>
Money market	-	-	-	-	-
Bank bonds outstanding	-	4,434	4,391	4,293	<b>4,269</b>
Bank deposits and other liabilities	6,389	7,657	10,347	13,117	<b>10,588</b>
On demand	-	-	-	101	<b>2,015</b>
Short term	4,281	5,500	8,200	10,748	<b>6,467</b>
Long term	2,108	2,157	2,147	2,268	<b>2,106</b>
Securities and derivative transactions	8,408	11,849	7,300	6,396	<b>4,415</b>
Repurchase agreements	63	44	30	54	<b>20</b>
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	8,345	11,805	7,270	6,342	<b>4,395</b>
Derivative transactions	-	-	-	-	-
Other accounts payable	33,642	34,383	34,291	17,016	<b>44,226</b>
Income tax and employee profit sharing payable	1,965	1,658	1,349	1,065	<b>1,467</b>
Sundry creditors and others accounts payable	31,677	32,725	32,942	15,951	<b>42,759</b>
Subordinated debentures outstanding	2,699	2,719	2,271	2,233	<b>2,209</b>
Deferred tax	-	-	-	563	<b>384</b>
Deferred credits	30	23	9	19	<b>120</b>
<b>Total Liabilities</b>	<u>271,408</u>	<u>298,447</u>	<u>261,745</u>	<u>261,027</u>	<u><b>275,109</b></u>
<b>Stockholder's Equity</b>					
Paid in capital	20,928	20,928	20,928	20,928	<b>20,928</b>
Capital stock	8,004	8,004	8,004	8,004	8,004
Additional paid in capital	12,924	12,924	12,924	12,924	12,924
Capital Gains	7,576	8,862	10,415	11,795	<b>12,970</b>
Capital reserves	668	931	853	853	<b>853</b>
Retained earnings	13,304	13,041	13,041	13,041	<b>18,635</b>
Result from the mark-to-market of available-for-sale securities	-	-	-	-	-
Results of foreign operations exchange	10	12	-	-	-
Cumulative effect of restatement	(3,888)	(3,888)	(3,888)	(3,888)	<b>(3,888)</b>
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,007)	(4,137)	(4,051)	(3,805)	<b>(4,006)</b>
Net Income	1,489	2,903	4,460	5,594	<b>1,376</b>
Minority interest in capital	3	2	2	2	<b>21</b>
Total Stockholder's Equity	<u>28,507</u>	<u>29,792</u>	<u>31,345</u>	<u>32,725</u>	<u><b>33,919</b></u>
<b>Total Liabilities and Capital</b>	<u>299,915</u>	<u>328,239</u>	<u>293,090</u>	<u>293,752</u>	<u><b>309,028</b></u>

Figures in constant MXN millions

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

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
<b>Memorandum Accounts</b>					
Transactions on behalf of third parties	97,523	99,044	106,582	110,136	91,274
Customer current accounts	1	29	25	26	(11)
Customer banks	1	19	5	-	-
Settlement of customer securities and documents	-	10	20	26	(11)
Customer securities	75,545	79,099	84,956	85,367	65,545
Customer securities in custody	74,214	77,823	84,950	85,361	65,539
Pledged customers securities and documents	1,331	1,276	6	6	6
Transactions on behalf of customer	21,977	19,916	21,601	24,743	25,740
Investment on behalf of customers, net	19,380	17,309	19,228	22,228	23,417
Customer repurchase transactions	2,597	2,607	2,373	2,515	2,323
Transactions for the group's own accounts	1,077,769	945,441	1,041,840	1,232,544	1,410,889
Accounts for the group's own registry	148,491	139,920	169,968	211,628	171,973
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	61	63	53	51	48
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	72,039	70,874	80,631	94,246	111,818
Goods in custody or under administration	76,391	68,983	89,284	117,331	60,107
Repurchase/resale agreements	23	17	112	16	67
Securities receivable under repos	49,823	37,164	43,310	50,453	45,764
(-)less					
Creditors repo transactions	49,801	37,151	43,196	50,441	45,700
Reverse repo transactions	16,051	5,703	2,374	3,053	5,324
(less)					
Securities deliverable under repos	16,050	5,699	2,376	3,049	5,321
Securities receivable	-	-	-	-	4,395
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	-	-	-	-	4,395
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	929,255	805,504	871,760	1,020,900	1,234,454

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

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

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

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

## Consolidated Income Statement

Figures in constant MXN millions

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

	For the quarter ending...				Year to date	
	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	31 Mar 2007
Interest Income	7,071	7,096	6,852	7,188	<b>7,546</b>	<b>7,546</b>
Interest expense	(2,468)	(2,576)	(2,376)	(2,377)	<b>(2,436)</b>	<b>(2,436)</b>
Monetary position (margin), net	(197)	29	(320)	(547)	<b>(348)</b>	<b>(348)</b>
Net interest income	<u>4,406</u>	<u>4,549</u>	<u>4,156</u>	<u>4,264</u>	<u><b>4,762</b></u>	<u><b>4,762</b></u>
Loan impairment charges	(642)	(1,081)	(771)	(1,693)	<b>(1,407)</b>	<b>(1,407)</b>
Risk adjusted net interest income	<u>3,764</u>	<u>3,468</u>	<u>3,385</u>	<u>2,571</u>	<u><b>3,355</b></u>	<u><b>3,355</b></u>
Fees and commissions receivable	2,458	2,531	2,604	2,700	<b>2,708</b>	<b>2,708</b>
Fees payable	(284)	(283)	(245)	(291)	<b>(275)</b>	<b>(275)</b>
Trading Income	<u>549</u>	<u>452</u>	<u>587</u>	<u>485</u>	<u><b>325</b></u>	<u><b>325</b></u>
Total operating income	<u>6,487</u>	<u>6,168</u>	<u>6,331</u>	<u>5,465</u>	<u><b>6,113</b></u>	<u><b>6,113</b></u>
Administrative and personnel expenses	(4,518)	(4,509)	(4,450)	(4,482)	<b>(4,705)</b>	<b>(4,705)</b>
Net operating income	<u>1,969</u>	<u>1,659</u>	<u>1,881</u>	<u>983</u>	<u><b>1,408</b></u>	<u><b>1,408</b></u>
Other income	380	707	501	567	<b>546</b>	<b>546</b>
Other expenses	(210)	(480)	(169)	(222)	<b>(199)</b>	<b>(199)</b>
Net income before taxes	<u>2,139</u>	<u>1,886</u>	<u>2,213</u>	<u>1,328</u>	<u><b>1,755</b></u>	<u><b>1,755</b></u>
Income tax and employee profit sharing tax	(801)	(197)	(646)	105	<b>(582)</b>	<b>(582)</b>
Deferred income tax	(8)	(473)	(245)	(525)	<b>(17)</b>	<b>(17)</b>
Net income before subsidiaries	<u>1,330</u>	<u>1,216</u>	<u>1,322</u>	<u>908</u>	<u><b>1,156</b></u>	<u><b>1,156</b></u>
Undistributed income from subsidiaries	159	198	235	226	<b>220</b>	<b>220</b>
Income from ongoing operations	<u>1,489</u>	<u>1,414</u>	<u>1,557</u>	<u>1,134</u>	<u><b>1,376</b></u>	<u><b>1,376</b></u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Net income (loss)	<u><u>1,489</u></u>	<u><u>1,414</u></u>	<u><u>1,557</u></u>	<u><u>1,134</u></u>	<u><u><b>1,376</b></u></u>	<u><u><b>1,376</b></u></u>

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

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

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in constant MXN millions

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

From 1 January 2006 to 31 March 2007

	Capital Contribuido				Capital Ganado								Total Stock- holders Equity		
	Advances for Capital future Stock	Capital increases	Shares Premiums	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non- monetary assets (Valuation of permanent investments)	Net income		Minority Interest	
<b>Balances at 31 December 2006</b>	8,004	-	12,924	-	-	853	13,041	-	-	(3,888)	-	(3,806)	5,594	2	32,724
<b>Movements Inherent to the Shareholders Decision</b>															
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,594	-	-	-	-	-	(5,594)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	5,594	-	-	-	-	-	(5,594)	-	-
<b>Movements for the Recognition of the Comprehensive Income</b>															
Net result	-	-	-	-	-	-	-	-	-	-	-	-	1,376	-	1,376
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	19	19
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	(200)	-	-	(200)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	-	(200)	1,376	19	1,195
<b>Balances as at 31 March 2007</b>	<b>8,004</b>	<b>-</b>	<b>12,924</b>	<b>-</b>	<b>-</b>	<b>853</b>	<b>18,635</b>	<b>-</b>	<b>-</b>	<b>(3,888)</b>	<b>-</b>	<b>(4,006)</b>	<b>1,376</b>	<b>21</b>	<b>33,919</b>

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

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

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

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## Consolidated Statement of Changes in Financial Position

Figures in constant MXN millions

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

From 1 January to 31 March 2007

### Operating activities:

<b>Net income</b>	<b>1,376</b>
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark-to-market valuations	82
Allowances for loan losses	1,407
Depreciation and amortisation	252
Deferred taxes	17
Undistributed income from subsidiaries, net	(220)
Value loss estimation for foreclosed assets	2
<b>Total operating items not requiring funds</b>	<b>2,916</b>

### Changes in items related to operations:

Decrease / increase in retail deposit and money desk	(8,516)
Decrease / increase in loan portfolio	(3,511)
Increase / decrease in investment in securities	4,366
Decrease / increase in securities and derivative transactions, net	(1,932)
Bank deposits and other liabilities	(2,530)
<b>Funds provided by operating activities</b>	<b>(9,207)</b>

### Financing activities:

Subordinated debentures outstanding	(23)
Decrease/increase in accounts payable	27,211
<b>Funds used or provided in financing activities</b>	<b>27,188</b>

### Investing activities:

Decrease/(increase) in property, furniture and equipment, net	(331)
Decrease/(increase) in deferred charges or credits, net	(94)
Decrease in foreclosed assets	(12)
Decrease/increase in accounts receivable	(18,768)
<b>Funds used in investing activities</b>	<b>(19,205)</b>

(Increase)/Decrease in cash and equivalents	<b>(1,224)</b>
Cash and equivalents at beginning of period	<b>55,743</b>
<b>Cash and equivalents at end of period</b>	<b>54,519</b>

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

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

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

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## Financial Statements HSBC Mexico, S.A.

### Consolidated Balance Sheet

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
<b>Assets</b>					
Cash and deposits in banks	49,217	61,618	56,055	55,742	<b>54,518</b>
Investment in Securities	60,170	69,970	50,741	56,735	<b>52,251</b>
Trading securities	9,739	23,671	11,672	11,730	<b>16,775</b>
Available-for-sale securities	46,326	42,118	35,024	40,957	<b>31,555</b>
Held to maturity securities	4,105	4,181	4,045	4,048	<b>3,921</b>
Securities and derivative operations	625	274	798	233	<b>184</b>
Repurchase agreements	86	61	137	64	<b>82</b>
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	539	213	661	169	<b>102</b>
Performing loans					
Commercial loans	87,677	95,802	97,053	102,519	<b>104,379</b>
Commercial entities	44,098	50,526	53,028	58,810	<b>61,583</b>
Loans to financial intermediaries	5,699	6,319	5,389	6,045	<b>6,107</b>
Loans to government entities	37,881	38,957	38,637	37,664	<b>36,689</b>
Consumer loans	29,305	29,748	34,522	35,904	<b>38,168</b>
Mortgages loans	17,444	18,488	19,828	20,812	<b>18,440</b>
Loans to Fobaproa or IPAB	1,164	-	-	-	-
Total performing loans	135,591	144,037	151,403	159,234	<b>160,987</b>
Non-performing loans					
Commercial loans	1,267	1,471	1,412	1,569	<b>1,840</b>
Commercial entities	1,267	1,471	1,404	1,569	<b>1,840</b>
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	8	-	-
Consumer loans	957	1,391	1,504	1,687	<b>2,056</b>
Mortgage Loans	911	1,019	1,107	1,116	<b>1,233</b>
Total non-performing loans	3,135	3,881	4,023	4,372	<b>5,129</b>
Total loan portfolio	138,726	147,918	155,426	163,606	<b>166,116</b>
(-) Allowance for loan losses	(5,576)	(6,199)	(6,170)	(6,857)	<b>(7,262)</b>
Net loan portfolio	133,150	141,719	149,256	156,749	<b>158,854</b>
Receivables	-	-	-	-	-
(-) less	-	-	-	-	-
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	133,150	141,719	149,256	156,749	<b>158,854</b>
Other accounts receivable	21,873	20,498	23,184	10,932	<b>26,773</b>
Foreclosed assets	294	38	56	54	<b>65</b>
Property, furniture and equipment, net	5,640	5,722	5,815	6,153	<b>6,097</b>
Long term investments in equity securities	208	197	178	187	<b>156</b>
Deferred taxes	742	359	144	-	-
Other assets, deferred charges and intangibles	1,544	1,550	619	593	<b>966</b>
<b>Total Assets</b>	<b>273,463</b>	<b>301,945</b>	<b>286,846</b>	<b>287,378</b>	<b>299,864</b>

Figures in constant MXN millions

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

	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>
<b>Liabilities</b>					
Deposits	202,512	224,255	209,185	223,290	<b>214,822</b>
Demand deposits	117,361	132,517	121,518	136,949	<b>122,863</b>
Time deposits	85,151	87,304	83,276	82,048	<b>87,690</b>
Bank bonds outstanding	-	4,434	4,391	4,293	<b>4,269</b>
Bank deposits and other liabilities	6,389	7,657	10,347	13,118	<b>10,588</b>
On demand	-	-	-	101	<b>2,015</b>
Short term	4,281	5,501	8,199	10,748	<b>6,467</b>
Long term	2,108	2,156	2,148	2,269	<b>2,106</b>
Securities and derivative transactions	8,407	11,849	7,296	6,391	<b>4,410</b>
Repurchase agreements	62	44	26	49	<b>15</b>
Collateral received under lending transactions	-	-	-	-	<b>-</b>
Stock borrowings	8,345	11,805	7,270	6,342	<b>4,395</b>
Derivative transactions	-	-	-	-	<b>-</b>
Other accounts payable	32,408	33,562	34,084	16,860	<b>41,505</b>
Income tax and employee profit sharing payable	1,909	1,559	1,317	1,034	<b>1,416</b>
Sundry creditors and others accounts payable	30,499	32,003	32,767	15,826	<b>40,089</b>
Subordinated debentures outstanding	2,301	2,307	2,271	2,233	<b>2,209</b>
Deferred tax	-	-	-	614	<b>429</b>
Deferred credits	24	17	9	19	<b>120</b>
<b>Total Liabilities</b>	<b><u>252,041</u></b>	<b><u>279,647</u></b>	<b><u>263,192</u></b>	<b><u>262,525</u></b>	<b><u>274,083</u></b>
<b>Stockholder's Equity</b>					
Paid in capital	13,194	13,194	13,194	13,194	<b>13,194</b>
Capital stock	3,977	3,977	3,977	3,977	<b>3,977</b>
Additional paid in capital	9,217	9,217	9,217	9,217	<b>9,217</b>
Capital Gains	8,227	9,103	10,460	11,658	<b>12,568</b>
Capital reserves	4,831	9,258	9,258	9,258	<b>9,258</b>
Retained earnings	4,427	-	-	-	<b>4,466</b>
Surplus (Deficit) from securities	90	(65)	70	306	<b>86</b>
Results of foreign operations exchange	12	12	-	-	<b>-</b>
Cumulative effect of restatement	(3,545)	(3,551)	(3,544)	(3,532)	<b>(3,504)</b>
Gains on non monetary asset valuation	1,165	1,163	1,162	1,159	<b>1,152</b>
Net Income	1,247	2,286	3,515	4,466	<b>1,110</b>
Minority interest in capital	1	1	-	1	<b>19</b>
<b>Total Stockholder's Equity</b>	<b><u>21,422</u></b>	<b><u>22,298</u></b>	<b><u>23,654</u></b>	<b><u>24,853</u></b>	<b><u>25,781</u></b>
<b>Total Liabilities and Capital</b>	<b><u>273,463</u></b>	<b><u>301,945</u></b>	<b><u>286,846</u></b>	<b><u>287,378</u></b>	<b><u>299,864</u></b>

Figures in constant MXN millions

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

	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>
<b>Memorandum Accounts</b>					
Guarantees granted	61	62	54	52	47
Other contingent obligations	13,805	118	118	126	127
Irrevocable lines of credit granted	5,584	5,246	5,797	6,410	7,623
Goods in trust or mandate	72,039	70,874	80,631	94,246	111,818
Goods	71,540	70,409	80,241	93,749	111,343
Trusts	499	465	390	497	475
Goods in custody or under administration	72,294	64,828	85,225	113,343	56,165
Third party investment banking operations, net	19,380	17,309	19,228	22,228	23,417
Amounts committed in transactions with IPAB or Fobaproa	119	155	160	158	152
Amounts contracted in derivative operations	400,399	478,649	533,403	665,860	874,673
Investments of retirement savings system funds	3,680	3,693	3,649	3,582	3,540
Integrated loan portfolio	144,371	153,227	161,276	170,067	173,788
Other control accounts	360,802	164,416	167,356	174,695	174,551
	<u>1,092,534</u>	<u>958,577</u>	<u>1,056,897</u>	<u>1,250,767</u>	<u>1,425,901</u>
Securities receivable under repos (less) Repurchase agreements	47,239 (47,204)	34,560 (34,544)	40,934 (40,823)	47,942 (47,927)	43,442 (43,377)
	<u>35</u>	<u>16</u>	<u>111</u>	<u>15</u>	<u>65</u>
Reverse repurchase agreements (less) Securities deliverable under repos	13,454 (13,466)	3,096 (3,095)	-	538 (538)	3,001 (2,999)
	<u>(12)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>2</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	- - -	- - -	- - -	- - -	4,395 - 4,395
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,395</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 2,278 millions.

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## Consolidated Income Statement

Figures in constant MXN millions

HSBC Mexico, S.A. (Bank)

	For the quarter ending.....				Year to date	
	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	31 Mar 2007
Interest income	6,787	6,705	6,716	7,136	<b>7,438</b>	<b>7,438</b>
Interest expense	(2,376)	(2,421)	(2,339)	(2,323)	<b>(2,392)</b>	<b>(2,392)</b>
Monetary position (margin)	(187)	30	(296)	(495)	<b>(313)</b>	<b>(313)</b>
Net interest income	<u>4,224</u>	<u>4,314</u>	<u>4,081</u>	<u>4,318</u>	<b>4,733</b>	<b>4,733</b>
Loan impairment charges	(626)	(1,053)	(783)	(1,693)	<b>(1,407)</b>	<b>(1,407)</b>
Loan loss provisions bank	(543)	(1,053)	(783)	(1,693)	<b>(1,407)</b>	<b>(1,407)</b>
Loss sharing Fobaproa	(83)	-	-	-	-	-
Risk adjusted net interest income	<u>3,598</u>	<u>3,261</u>	<u>3,298</u>	<u>2,625</u>	<b>3,326</b>	<b>3,326</b>
Fees and commissions receivable	2,179	2,278	2,357	2,551	<b>2,500</b>	<b>2,500</b>
Account management	390	396	383	371	<b>362</b>	<b>362</b>
Services	1,789	1,882	1,974	2,180	<b>2,138</b>	<b>2,138</b>
Fees payable	(273)	(270)	(242)	(293)	<b>(272)</b>	<b>(272)</b>
Trading Income	547	451	594	485	<b>324</b>	<b>324</b>
Foreign exchange	233	114	12	74	<b>177</b>	<b>177</b>
Securities trading, net	183	47	103	(192)	<b>(139)</b>	<b>(139)</b>
Repos	153	119	(4)	(5)	-	-
Swaps	79	6	105	606	<b>385</b>	<b>385</b>
Valuation off-shore agencies	(101)	165	284	(61)	<b>(106)</b>	<b>(106)</b>
Valuation for trading swaps	-	-	94	63	<b>7</b>	<b>7</b>
Total operating income	<u>6,051</u>	<u>5,720</u>	<u>6,007</u>	<u>5,368</u>	<b>5,878</b>	<b>5,878</b>
Administrative and personnel expenses	(4,205)	(4,183)	(4,243)	(4,403)	<b>(4,558)</b>	<b>(4,558)</b>
Personnel expense	(1,731)	(1,875)	(1,911)	(1,950)	<b>(1,934)</b>	<b>(1,934)</b>
Administrative expense	(2,261)	(2,098)	(2,118)	(2,232)	<b>(2,371)</b>	<b>(2,261)</b>
Depreciation and amortization	(213)	(210)	(214)	(221)	<b>(253)</b>	<b>(253)</b>
Net operating income	<u>1,846</u>	<u>1,537</u>	<u>1,764</u>	<u>965</u>	<b>1,320</b>	<b>1,320</b>
Other income	390	617	474	640	<b>558</b>	<b>558</b>
Other expenses	(209)	(479)	(167)	(202)	<b>(200)</b>	<b>(200)</b>
Net income before taxes	<u>2,027</u>	<u>1,675</u>	<u>2,071</u>	<u>1,403</u>	<b>1,678</b>	<b>1,678</b>
Income tax and employee profit sharing	(760)	(155)	(633)	167	<b>(561)</b>	<b>(561)</b>
Deferred income tax	(21)	(481)	(196)	(616)	<b>(10)</b>	<b>(10)</b>
Net income before subsidiaries	<u>1,246</u>	<u>1,038</u>	<u>1,242</u>	<u>952</u>	<b>1,107</b>	<b>1,107</b>
Undistributed income from subsidiaries	1	2	(13)	-	<b>2</b>	<b>2</b>
Income from ongoing operations	<u>1,247</u>	<u>1,040</u>	<u>1,229</u>	<u>952</u>	<b>1,109</b>	<b>1,109</b>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-
Minority interest	-	-	-	-	<b>1</b>	<b>1</b>
Net income (loss)	<u>1,247</u>	<u>1,040</u>	<u>1,229</u>	<u>952</u>	<b>1,110</b>	<b>1,110</b>

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2007 to 31 March 2007

	Paid in capital					Earned Capital								Minority interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
<b>Balances at 31 December 2006</b>	3,977	-	9,217	-	-	9,258	-	306	-	-	(3,532)	1,159	-	4,466	1	24,852
<b>Movements Inherent to the Shareholders Decision</b>																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	4,466	-	-	-	-	-	-	(4,466)	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	4,466	-	-	-	-	-	-	(4,466)	-	-
<b>Movements for the Recognition of the Comprehensive Income</b>																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	1,110	-	1,110
Surplus (Déficit) from securities	-	-	-	-	-	-	-	(220)	-	-	-	-	-	-	-	(220)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	28	-	-	-	-	18	46
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	(7)	-	-	-	(7)
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	(220)	-	-	28	(7)	-	1,110	18	929
<b>Balances as at 31 March 2007</b>	<b>3,977</b>	<b>-</b>	<b>9,217</b>	<b>-</b>	<b>-</b>	<b>9,258</b>	<b>4,466</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>(3,504)</b>	<b>1,152</b>	<b>-</b>	<b>1,110</b>	<b>19</b>	<b>25,781</b>

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

These operations were performed following healthy banking 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.

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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 constant MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2007 to 31 March 2007

Figures in MXN millions

### Operating activities:

Net income	1,110
<b>Items included in operations not requiring (providing) funds:</b>	
Result from mark to market valuations	82
Allowance for loan losses	1,407
Depreciation and amortisation	253
Deferred taxes	10
Undistributed income from subsidiaries, net	21
Value loss estimation for foreclosed assets	2
Minority interest	(1)
<b>Total operating items not requiring funds</b>	<b>2,884</b>

### Changes in operating accounts:

Increase in retail deposit and money desk	(8,468)
(Increase) in loan portfolio	(3,511)
Decrease in securities and derivative transactions, net	4,155
Decrease/(increase) in financial instruments	(1,908)
Bank deposits and other liabilities	(2,530)
<b>Funds provided by operations</b>	<b>(9,378)</b>

### Financing activities:

Subordinated debentures outstanding	(24)
Decrease/increase in accounts payable	24,579
<b>Funds used or provided by financing activities</b>	<b>24,555</b>

### Investing activities:

(Increase) in property, furniture and equipment and long-term investments	(167)
(Increase)/decrease in deferred credits	(10)
Decrease in foreclosed assets	(13)
Decrease/increase in accounts receivable	(16,213)
Funds used in investing activities	(16,403)
Increase in cash and equivalents	(1,226)
Cash and equivalents at beginning of period	55,744
<b>Cash and equivalents at end of period</b>	<b>54,518</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 constant MXN millions

#### Investments in securities

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
Government securities	9,888	19,620	11,536	11,765	<b>13,392</b>
Fiduciary certificates	31	-	-	-	-
Bank securities	164	3,726	274	82	<b>3,193</b>
Shares	11	200	346	856	<b>918</b>
Others	6	655	101	75	<b>355</b>
Trading securities	<u>10,100</u>	<u>24,201</u>	<u>12,257</u>	<u>12,778</u>	<u><b>17,858</b></u>
Government securities	29,785	36,751	28,875	34,219	<b>27,315</b>
Fiduciary certificates	3,461	-	-	-	-
Bank securities	4,264	765	717	1,935	<b>212</b>
Obligations and other securities	10,052	5,570	5,157	4,535	<b>4,017</b>
Shares	259	283	275	268	<b>11</b>
Available for sale securities	<u>47,821</u>	<u>43,369</u>	<u>35,024</u>	<u>40,957</u>	<u><b>31,555</b></u>
Sovereign debt securities	493	513	371	391	<b>247</b>
Commercial and industrial subordinated debentures	2	2	3	2	<b>2</b>
Special Cetes (net)	3,572	3,649	3,665	3,654	<b>3,672</b>
MYRAS	38	17	7	-	-
Securities held to maturity	<u>4,105</u>	<u>4,181</u>	<u>4,046</u>	<u>4,047</u>	<u><b>3,921</b></u>
Total Financial Instruments	<u>62,026</u>	<u>71,751</u>	<u>51,327</u>	<u>57,782</u>	<u><b>53,334</b></u>

In the first quarter of 2007 investment in securities decreased by MXN (4,448) versus prior quarter; a MXN (5,277) increase in government securities, MXN 1'388 in promissory note securities, MXN (639) in bonds, MXN 62 in shares and a increase in other by MXN 18.

## Repos

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

Figures in constant MXN millions

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
Government securities (debit)	45,655	31,758	41,160	48,221	44,148
Bank securities (debit)	4,103	5,360	1,649	2,138	1,497
Bank securities (own)	-	8	337	-	-
Valuation Increase (decrease)	64	15	61	46	59
Interest in securities receivable under repurchase agreements	1	23	103	48	60
<b>Total in repo agreements (debit)</b>	<b>49,823</b>	<b>37,164</b>	<b>43,310</b>	<b>50,453</b>	<b>45,764</b>
Repo's Government securities (credit)	45,670	31,761	41,159	48,225	44,149
Repo's Bank securities (credit)	4,102	5,361	1,648	2,138	1,497
Repo's Bank securities (own)	-	8	337	-	-
Valuation increase (decrease)	3	-	4	4	4
Accrued interest payable	26	21	48	74	50
<b>Credit balance in repo agreements</b>	<b>49,801</b>	<b>37,151</b>	<b>43,196</b>	<b>50,441</b>	<b>45,700</b>
Repurchase agreements in government securities	16,026	2,789	2,374	3,052	2,323
Repurchase agreements in banking securities	-	2,913	-	-	3,000
Valuation increase (decrease)	1	-	-	-	-
Accrued interest receivable	24	1	-	1	1
<b>Debit balance repo securities agreements</b>	<b>16,051</b>	<b>5,703</b>	<b>2,374</b>	<b>3,053</b>	<b>5,324</b>
Government securities	16,014	2,785	2,376	3,048	2,322
Bank securities	-	2,914	-	-	3,000
Valuation increase (decrease)	10	(1)	-	-	(1)
Interest in securities deliverable under repurchase agreements	26	1	-	1	-
<b>Credit balance repo securities agreements</b>	<b>16,050</b>	<b>5,699</b>	<b>2,376</b>	<b>3,049</b>	<b>5,321</b>

## Derivative Financial Instruments

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

At 31 March 2007

Figures in constant MXN millions

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	47,602	37,362	78,709	78,692	-	-	10,257
US Dollars	-	-	47,348	57,413	-	-	86,230	86,915	(10,750)
Interest Rate	20,584	20,584	78,901	78,931	-	-	790,953	790,327	596
<b>Total</b>	<b>20,584</b>	<b>20,584</b>	<b>173,851</b>	<b>173,706</b>	<b>78,709</b>	<b>78,692</b>	<b>877,183</b>	<b>877,242</b>	<b>103</b>
For hedging									
Pesos	-	-	-	-	-	-	8,731	-	-
US Dollars	-	-	-	-	-	-	-	9,199	-
Interest Rate	-	-	-	-	-	-	4,463	4,675	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,194</b>	<b>13,874</b>	<b>-</b>

## Stock Borrowing

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

At 31 March 2007

Figures in constant MXN millions

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
<b>Received borrowings</b>					
Cetes	-	11,804	7,270	6,341	<b>4,395</b>
Increase or decrease in cetes	-	-	-	-	-
Bonds	8,323	-	-	-	-
Increase or decrease in bonds	22	-	-	-	-
<b>Total</b>	<b>8,345</b>	<b>11,804</b>	<b>7,270</b>	<b>6,341</b>	<b>4,395</b>

## Participation by Subsidiary

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

Group Subsidiaries at March 31, 2007

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC Mexico, S.A.	1,139,215,231	99.99%	1,139,139,001
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	97.22%	738,883,014
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
<b>Total</b>	<b>1,972,551,956</b>		<b>1,951,367,983</b>

## Trading income

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

At 31 March 2007

Figures in constant MXN millions

	For the quarter ending...				31 Mar 2007	Year to date	
	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006		31 Mar 2006	31 Mar 2007
<b>Valuation</b>	(26)	199	392	4	<b>(82)</b>	(26)	<b>(82)</b>
Derivatives	51	139	394	2	<b>(82)</b>	51	<b>(82)</b>
Repos	(58)	85	(4)	-	-	(58)	-
Debt Securities	(19)	(25)	2	2	-	(19)	-
<b>Buying and Selling Instruments</b>	573	251	202	480	<b>406</b>	573	<b>406</b>
Foreign Currency	233	114	12	74	<b>177</b>	233	<b>177</b>
Derivatives	13	(74)	188	416	<b>222</b>	13	<b>222</b>
Repos	190	82	(3)	(5)	<b>7</b>	190	<b>7</b>
Shares	-	-	8	-	-	-	-
Debt Securities	137	129	(3)	(5)	-	137	-
<b>Total</b>	<b>547</b>	<b>450</b>	<b>594</b>	<b>484</b>	<b>324</b>	<b>547</b>	<b>324</b>

## Loan Portfolio

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

#### By type of currency

At March 31, 2007  
millions

Figures in constants MXN

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
<b>Performing Loan Portfolio</b>						
Pesos	45,454	5,874	33,967	38,168	15,342	138,805
US Dollars	16,129	233	2,722	-	4	19,088
Udis Banxico	-	-	-	-	3,094	3,094
<b>Total.....</b>	<b>61,583</b>	<b>6,107</b>	<b>36,689</b>	<b>38,168</b>	<b>18,440</b>	<b>160,987</b>
<b>Non Performing Loans Portfolio</b>						
Pesos	1,516	-	-	2,056	672	4,244
US Dollars	324	-	-	-	-	324
Udis Banxico	-	-	-	-	561	561
<b>Total.....</b>	<b>1,840</b>	<b>-</b>	<b>-</b>	<b>2,056</b>	<b>1,233</b>	<b>5,129</b>

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

## Ratings HSBC México, S.A.

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

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
<b>Global Scale Ratings</b>			
<b>Foreign Currency</b>			
Long Term	Baa1	BBB	A-
Short Term	P-2	A-3	F2
<b>Local Currency</b>			
Long Term Obligations	A-1	BBB+	A
Long Term Deposits	A-1	BBB+	A
Short Term	P-1	A-2	F1
<b>BSFR (Moody's)</b>	D +	-	-
<b>Fitch Individual / Support rating</b>	-	-	C / 1
<b>National / Local Scale Ratings</b>			
Long Term	Aaa.mx	mxAAA	AAA (mx)
Short Term	MX-1	mxA -1+	F1+ (mx)
<b>Last update</b>	POS (m)	Stable	Positive
<b>Outlook</b>	10-Nov-06	13-Nov-06	17-Aug-06

## Loan Portfolio Grading

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

At March 31, 2007  
millions

Figures in constant MXN

	Total loan portfolio	Allowance for Loan Losses per Category			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	29,584				
Graded	144,203				
<b>Risk A</b>	<b>101,500</b>	<b>399</b>	<b>193</b>	<b>122</b>	<b>714</b>
Risk A-1	70,731	101	193	122	415
Risk A-2	30,769	298	0	-	298
<b>Risk B</b>	<b>35,963</b>	<b>1,728</b>	<b>423</b>	<b>73</b>	<b>2,224</b>
Risk B-1	22,439	459	423	73	956
Risk B-2	10,804	853	-	-	853
Risk B-3	2,720	415	-	-	415
<b>Risk C</b>	<b>2,555</b>	<b>341</b>	<b>560</b>	<b>89</b>	<b>990</b>
Risk C-1	2,335	251	560	89	900
Risk C-2	220	90	-	-	90
<b>Risk D</b>	<b>3,100</b>	<b>394</b>	<b>1,312</b>	<b>553</b>	<b>2,259</b>
<b>Risk E</b>	<b>1,085</b>	<b>682</b>	<b>316</b>	<b>78</b>	<b>1,076</b>
<b>Total</b>	<b>173,787</b>	<b>3,544</b>	<b>2,804</b>	<b>914</b>	<b>7,262</b>
Less:					
Constituted Reserves					<b>7,262</b>
Surplus					-

1. The rating and constitution of reserves correspond to last day of the balance sheet at 31 March 2007.

2. The lending portfolio is graded according to the rules for grading lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. 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 circular published on December 2, 2005.

3. HSBC Mexico has recently implemented a new grading scale with 22 levels to measure debtor risk and expected loss model currently in use considers a bidimensional focus where a default probability and a percentage of loss severity are assigned to each loan. The model was levered to estimate expected losses on a year span of time and was elaborated utilizing previous portfolio history. The expected loss from the consumer and mortgage loan portfolios as at 31 March 2007 was MXN3,579 million, while commercial loan portfolio expected loss was MXN3,444 million.

## Non – Performing Loans

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

At March 31, 2007

Figures in historic MXN millions

	At the quarter ending...				
	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
<b>Initial balance of non performing loan portfolio</b>	3,413	3,009	3,720	3,902	<b>4,320</b>
Increases	3,746	3,623	3,346	2,708	<b>4,695</b>
Transfer of current loans to past due status	3,746	3,623	3,346	2,708	<b>4,695</b>
Decreases	(4,170)	(2,922)	(3,161)	(2,297)	<b>(3,901)</b>
Restructurings	(27)	(12)	(47)	(44)	<b>(71)</b>
Liquidated credits	(3,860)	(2,428)	(2,636)	(1,858)	<b>(3,147)</b>
Charged in cash	(2,872)	(1,948)	(1,839)	(932)	<b>(2,278)</b>
Foreclosed assets	(2)	(1)	(23)	-	-
Writeoffs	(986)	(479)	(774)	(926)	<b>(869)</b>
Sale of portfolio	-	-	-	-	-
Transfer to performing loan status	(283)	(482)	(478)	(395)	<b>(683)</b>
Fx revaluations	20	10	(3)	7	<b>15</b>
<b>Final Balance of Non Performing Loan Portfolio</b>	<b>3,009</b>	<b>3,720</b>	<b>3,902</b>	<b>4,320</b>	<b>5,129</b>

## Deferred Taxes

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

At March 31, 2007

Figures in constant MXN millions

	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007
Loan loss reserves	821	924	817	761	<b>694</b>
Valuation of securities	(100)	(67)	(263)	(477)	<b>(67)</b>
Fiscal loss	132	124	80	83	<b>109</b>
Loss sharing	892	894	905	-	-
Other reserves	625	452	577	750	<b>816</b>
Other	210	(58)	(139)	(63)	<b>(95)</b>
Differences in rates of fixed assets	(374)	(389)	(423)	(309)	<b>(545)</b>
Fiscal result UDIS-Banxico	(1,320)	(1,369)	(1,373)	(1,308)	<b>(1,296)</b>
<b>Total Deferred Taxes</b>	<b>886</b>	<b>511</b>	<b>181</b>	<b>(563)</b>	<b>(384)</b>

## Funding, Loans and Investments in Securities

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

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

At March 31, 2007

Figures in constant MXN millions

	<i>At the quarter ending...</i>				
	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>
MXN pesos					
Funding	2.82%	2.73%	2.65%	2.47%	<b>2.58%</b>
Bank and other loans	7.41%	6.84%	6.87%	6.98%	<b>7.12%</b>
Foreign currency					
Funding	0.87%	0.99%	1.35%	1.60%	<b>1.75%</b>
Bank and other loans	6.05%	6.01%	6.63%	6.36%	<b>5.49%</b>
UDIS					
Funding	0.19%	0.19%	0.19%	0.19%	<b>0.20%</b>

## Long Term Debt

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

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>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
		<b>2,200</b>		<b>9</b>	<b>2,209</b>	

## Capital

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

#### Capital

##### Grupo Financiero HSBC

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year 2006 financial results, amounting to MXN 5,594m, as follows:

- ▶ MXN 280m (5%) to increase legal reserves, and the remaining MXN 5,314 million, at the disposal of the Board under the concept of the previous year's financial years

The capital stock is included in the MXN 3,886 figure, representing 1,943,032,139 shares.

##### Subsidiaries Grupo Financiero HSBC

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

The ordinary shareholders meeting, held on April 26, 2007, approved the application of the year's financial results, totalling MXN4,466 million, as follows:

- ▶ MXN447 million (10%) to increase legal reserves, and the remaining MXN4,020, at the disposal of the Board under the concept of other reserves.

The capital stock increased to MXN2,278, representing 1,139,215,231 shares.

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

The ordinary share holders meeting held on 20 April, 2007, net income of MXN 13 million from 2006 was applied to the retained earnings account for the Board disposition.

## Capital Ratio

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

At March 31, 2007

Figures in constant MXN millions

	<u>31 Mar 2006</u>	<u>30 Jun 2006</u>	<u>30 Sep 2006</u>	<u>31 Dec 2006</u>	<u>31 Mar 2007</u>
% of assets subject to credit risk					
Tier 1	17.30%	16.84%	16.99%	16.62%	16.64%
Tier 2	2.98%	2.45%	2.30%	2.03%	2.01%
Total regulatory capital	<u>20.28%</u>	<u>19.29%</u>	<u>19.29%</u>	<u>18.65%</u>	<u>18.65%</u>
% of assets subject to credit and market risk					
Tier 1	13.47%	12.88%	12.25%	12.29%	13.09%
Tier 2	2.32%	1.87%	1.66%	1.50%	1.58%
Total regulatory capital	<u>15.79%</u>	<u>14.75%</u>	<u>13.91%</u>	<u>13.79%</u>	<u>14.67%</u>
Tier 1	20,059	21,117	22,360	23,539	24,294
Tier 2	3,450	3,066	3,031	2,874	2,932
Total regulatory capital	<u>23,509</u>	<u>24,183</u>	<u>25,391</u>	<u>26,414</u>	<u>27,226</u>
RWA credit risk	115,940	125,382	131,633	141,643	145,998
RWA market risk	32,963	38,554	50,879	49,872	39,638
RWA credit and market risk	<u>148,903</u>	<u>163,936</u>	<u>182,512</u>	<u>191,515</u>	<u>185,636</u>

With figures as of 31 March 2007, the Mexican Banking and Securities Commission has classified HSBC Mexico S.A. in category I in accordance with the General Standards referred in article 134 Bis from the Financial Institutions Law.

## Other Expenses, Other Income and Extraordinary Items

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

At March 31, 2007

Figures in constant MXN millions

	For the quarter ending...				Year to date	
	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006	31 Mar 2007	31 Mar 2007
Other income						
Loans to employees	22	18	19	16	23	23
Recoveries	92	116	90	105	125	125
Other income	265	574	306	302	308	308
Monetary position (other income)	1	(1)	86	144	90	90
Other expenses						
Other losses	(210)	(474)	(174)	(206)	(199)	(199)
Monetary position (other expenses)	-	(6)	5	(16)	-	-
	(210)	(480)	(169)	(222)	(199)	(199)
Total other income (expenses)	170	227	332	345	347	347
Discontinued operations, extraordinary items and changes in accounting standards	-	-	-	-	-	-

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

## Related Party Transactions

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

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

At March 31, 2007

Figures in constant MXN millions

	Bank	Afore	Casa de Bolsa	Operadora de Fondos	Group	Total
<b>Balance Sheet</b>						
Cash and deposits in banks	-	-	32	-	1,622	1,654
Demand deposits	(1,654)	-	-	-	-	(1,654)
Sundry debtors (assets)	(36)	-	-	(1)	-	(37)
Sundry creditors (liabilities)	1	-	33	3	-	37
<b>Total</b>	<b>(1,689)</b>	<b>-</b>	<b>65</b>	<b>2</b>	<b>1,622</b>	<b>-</b>
<b>P&amp;L</b>						
Payable commissions	(1)	(1)	-	-	-	(2)
Receivable commissions	-	-	1	1	-	2
Interest income	-	-	-	-	16	16
Interest expense	(16)	-	-	-	-	(16)
Administrative services	-	-	(30)	(3)	-	(33)
Other income	33	-	-	-	-	33
<b>Total</b>	<b>16</b>	<b>(1)</b>	<b>(29)</b>	<b>(2)</b>	<b>16</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), 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.

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

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

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

Figures in constant MXN millions

	For year ended 31 March 2007				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	3,299	1,186	242	35	4,762
Provision for Loan Loss	(1,197)	(187)	(23)	-	(1,407)
<b>Net Interest Income adjusted</b>	<b>2,102</b>	<b>999</b>	<b>219</b>	<b>35</b>	<b>3,355</b>
Fees and Commissions, net	1,781	518	124	10	2,433
Trading Income	120	35	170	-	325
<b>Total Revenue</b>	<b>4,003</b>	<b>1,552</b>	<b>513</b>	<b>45</b>	<b>6,113</b>
Administrative Expenses	(3,465)	(872)	(347)	(21)	(4,705)
<b>Operating Income</b>	<b>538</b>	<b>872</b>	<b>347</b>	<b>21</b>	<b>4,705</b>
Other Income (Expenses), net	234	24	37	52	347
Taxes	(265)	(239)	(69)	(26)	(599)
<b>Net Income before subsidiaries</b>	<b>507</b>	<b>465</b>	<b>134</b>	<b>50</b>	<b>1,156</b>
Undistributed income from subsidiaries	5	-	-	215	220
Continued Operating Results	<b>512</b>	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
<b>Net Income</b>	<b>512</b>	<b>465</b>	<b>134</b>	<b>265</b>	<b>1,376</b>
Minority Shareholders	-	-	-	-	-
<b>Participated Net Income</b>	<b>512</b>	<b>465</b>	<b>134</b>	<b>265</b>	<b>1,376</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 three months ended 31 March 2007 and an explanation of the key reconciling items. IFRS numbers are estimated and provisional.

<i>Figures in MXN millions</i>	<u>31 Mar</u> <u>2007</u>
<b>Grupo Financiero HSBC – Net income under Mexican GAAP</b>	<b>1,376</b>
Inflation	319
Differences arising on the valuation of pensions and post retirement healthcare benefits <sup>†</sup>	17
Differences arising on acquisition costs relating to long-term investment contracts <sup>†</sup>	(14)
Differences arising from the deferral of fees received and paid on the origination of loans <sup>†</sup>	78
Differences arising from the recognition and provisioning for loan impairments <sup>†</sup>	(137)
Differences arising from purchase accounting adjustments <sup>†</sup>	-
Other differences in accounting principles <sup>†</sup>	<u>(69)</u>
<b>HSBC Mexico estimated and provisional net income under IFRS</b>	<b>1,570</b>
<b>US dollar equivalent (millions)</b>	<b>142</b>
Add back tax expense	<u>571</u>
<b>HSBC Mexico estimated and provisional profit before tax under IFRS</b>	<b>2,141</b>
<b>US dollar equivalent (millions)</b>	<b>194</b>
 <i>Exchange rate used for translation of MXN/US\$</i>	 <b>11.02</b>
<sup>†</sup> <i>Impact shown net of taxes at 28 per cent.</i>	

### 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 impact of inflation of holding monetary assets and liabilities (net monetary position). In addition, prior years are restated 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 amortised over the expected remaining contractual life of the employees within each scheme.

**IFRS**

The charge to the Income Statement for Defined Benefit and Healthcare schemes is determined using the Projected Unit Credit Method with annual actuarial valuations performed on each plan. Actuarial differences are recognised in equity as they arise. Current service costs and any past service costs, together with the unwinding of the discount less the expected return on plan assets are charged to operating expenses.

**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. However, a decrease in the expected life of a portfolio of contracts has led to accelerated amortisation in 2006.

**Fees paid and received on origination of loans****Mexican GAAP**

From January 2007, all fees and expenses related to loan allocation were deferred in fixed payments until the maturity date.

**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 Mexican Banking and Securities Commission. Such rules establish authorised methodologies for determining the amount of provision for each type of loan.

**IFRS**

Loan impairment allowances 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.

## Appendix A

### Grupo Financiero HSBC, S.A. de C.V. (HBMX)

#### Consolidated balance sheet on a like-for-like basis

Figures in constant MXN millions

	<b>Total Group</b>	<b>Mexico*</b>	<b>Panama</b>	<b>Total Group</b>
	<b>Mar</b>	<b>Mar</b>	<b>Mar</b>	<b>Mar</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
<b>Assets</b>				
Cash and deposits in banks	54,519	49,219	4,646	53,865
Investments in securities	53,334	60,531	1,495	62,026
Trading securities	17,858	10,100	-	10,100
Available-for-sale securities	31,555	46,326	1,495	47,821
Held to maturity securities	3,921	4,105	-	4,105
Securities and derivative operations	190	626	-	626
Repurchase agreements	87	86	-	86
Derivative transactions	103	540	-	540
Performing loans				
Commercial loans	61,583	44,098	5,767	49,865
Loans to financial intermediaries	6,107	5,699	107	5,806
Consumer loans	38,168	29,305	1,825	31,130
Mortgage loans	18,440	17,444	5,208	22,652
Loans to government entities	36,689	37,881	-	37,881
Loans to Fobaproa or IPAB	-	1,164	-	1,164
Total performing loans	160,987	135,591	12,907	148,498
Impaired loans				
Commercial loans	1,840	1,268	47	1,315
Consumer loans	2,056	957	14	971
Mortgage loans	1,233	911	80	991
Total impaired loans	5,129	3,136	141	3,277
Gross loans and advances to customers	166,116	138,727	13,048	151,775
Allowance for loan losses	(7,262)	(5,576)	(188)	(5,764)
Net loans and advances to customers	158,854	133,151	12,860	146,011
Other accounts receivable	29,430	22,418	147	22,565
Foreclosed assets	65	294	43	337
Property, furniture and equipment, net	6,111	5,649	248	5,897
Long term investments in equity securities	2,845	2,532	-	2,532
Deferred taxes	-	845	41	886
Goodwill	2,680	2,680	746	3,426
Other assets, deferred charges and intangibles	1,000	1,563	181	1,744
<b>Total assets</b>	<b>309,028</b>	<b>279,508</b>	<b>20,407</b>	<b>299,915</b>

\* 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 31 March 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

Figures in constant MXN millions

	Total Group Mar 2007	Mexico <sup>‡</sup> Mar 2006	Panama Mar 2006	Total Group Mar 2006
<b>Liabilities</b>				
Deposits	213,167	202,428	17,812	220,240
Demand deposits	121,208	117,277	7,345	124,622
Time deposits	87,690	85,151	10,467	95,618
Bonds	4,269	-	-	-
Bank deposits and other liabilities	10,588	6,389	-	6,389
On demand	2,015	-	-	-
Short-term	6,467	4,281	-	4,281
Long-term	2,106	2,108	-	2,108
Securities and derivative transactions	4,415	8,408	-	8,408
Repurchase agreements	20	63	-	63
Securities deliverable under loan transactions	4,395	8,345	-	8,345
Other accounts payable	44,226	33,142	500	33,642
Income tax and employee profit sharing payable	1,467	1,935	30	1,965
Sundry creditors and others accounts payable	42,759	31,207	470	31,677
Subordinated debentures outstanding	2,209	2,301	398	2,699
Deferred taxes	384	-	-	-
Deferred credits	120	25	5	30
<b>Total liabilities</b>	<b>275,109</b>	<b>252,693</b>	<b>18,715</b>	<b>271,408</b>
<b>Equity</b>				
Paid in capital	20,928	19,612	1,316	20,928
Capital stock	8,004	6,688	1,316	8,004
Additional paid in capital	12,924	12,924	-	12,924
Other reserves	12,970	7,200	376	7,576
Capital reserves	853	668	-	668
Retained earnings	18,635	13,006	298	13,304
Result from mark-to-market of available-for sale securities	-	(7)	7	-
Result from translation of foreign operations	-	-	10	10
Cumulative effect of restatement	(3,888)	(3,888)	-	(3,888)
Gains on non monetary asset valuation	(4,006)	(4,007)	-	(4,007)
Net income	1,376	1,428	61	1,489
Minority interest in capital	21	3	-	3
<b>Total equity</b>	<b>33,919</b>	<b>26,815</b>	<b>1,692</b>	<b>28,507</b>
<b>Total liabilities and equity</b>	<b>309,028</b>	<b>279,508</b>	<b>20,407</b>	<b>299,915</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 31 March 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 constant MXN millions*

	<u><b>Total Group Mar 2007</b></u>	<u><b>Mexico* Mar 2006</b></u>	<u><b>Panama Mar 2006</b></u>	<u><b>Total Group Mar 2006</b></u>
Interest income	7,546	6,770	301	7,071
Interest expense	(2,436)	(2,352)	(116)	(2,468)
Monetary position (margin), net	(348)	(195)	(2)	(197)
Net interest income	<u>4,762</u>	<u>4,223</u>	<u>183</u>	<u>4,406</u>
Loan impairment charges	(1,407)	(626)	(16)	(642)
Risk adjusted net interest income	<u>3,355</u>	<u>3,597</u>	<u>167</u>	<u>3,764</u>
Fees and commissions receivable	2,708	2,383	75	2,458
Fees payable	(275)	(271)	(13)	(284)
Trading income	<u>325</u>	<u>549</u>	<u>-</u>	<u>549</u>
Total operating income	<u>6,113</u>	<u>6,258</u>	<u>229</u>	<u>6,487</u>
Administrative and personnel expenses	(4,705)	(4,377)	(141)	(4,518)
Net operating income	<u>1,408</u>	<u>1,881</u>	<u>88</u>	<u>1,969</u>
Other income	546	380	-	380
Other expenses	(199)	(210)	-	(210)
Net income before taxes	<u>1,755</u>	<u>2,051</u>	<u>88</u>	<u>2,139</u>
Income tax and employee profit sharing	(582)	(773)	(28)	(801)
Deferred taxes	(17)	(9)	1	(8)
Net income before subsidiaries	<u>1,156</u>	<u>1,269</u>	<u>61</u>	<u>1,330</u>
Undistributed income from subsidiaries	220	159	-	159
Income from ongoing operations	<u>1,376</u>	<u>1,428</u>	<u>61</u>	<u>1,489</u>
Net income	<u>1,376</u>	<u>1,428</u>	<u>61</u>	<u>1,489</u>

\* On 8 August 2006, HSBC Panama was sold by Grupo Financiero HSBC, S.A de C.V to HSBC Asia Holdings BV. Therefore, results for the quarter ended 31 March 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

## Risk Management

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

The recognition of fundamental precepts it is essential for the efficient and integral risk management, including quantifiable discretionary (credit, market and liquidity) and non-discretionary risk, as operational (technological and legal), and under the premise that the basic processes of identifying, measurement, 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, lead 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 administration. 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).

According with regulatory dispositions, and in order to have independent opinions from the bank management, the committee has three external members – one of them serving as internal President. Internally, the member areas are: Executive Direction, Risks, CMB, CIBM, PFS, Finance, Audit, Treasury, Global Markets, Planning, Economic Capital, Legal and the Liquidity, Market and Subsidiaries Risks.

The main objectives of this committee are to:

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

## Market Risk Management

### Qualitative Information

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

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

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

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

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

- ▶ **Foreign exchange or currency risk.** - This risk arises in the open positions on different currencies to the local currency, which generates an exposure to potential losses due to the variation of the corresponding exchange rates.
- ▶ **Interest rate risk.** - Arises from asset and liability operations (real nominal or notional), with different expiration dates or re-capitalization dates.
- ▶ **Risk related to shares.** - This risk arises from maintaining open positions (purchase or sale) with shares or share-based instruments, causing an exposure to changes in share prices and the instruments based on these prices.
- ▶ **Volatility risk.** - Arises in the financial instruments that contain options, in such a way that the price (among others factors) depends on the perceived volatility in the

underlying price of the option (interest rates, actions, exchange rate, etc.).

- ▶ **Basic or margin risk.** - This risk arises when an instrument is utilized for hedging and each one of them is valued with different rate curves (for example, a government bond hedged with a by-product of inter-bank rates) so that its market value may differ from each other, generating an imperfect hedge.

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

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.

#### Value at Risk (VaR)

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#### 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-valuating the whole position exposed to interest rates.

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movements of a basis point in interest rates involved with the pricing of financial assets and liabilities, by re-valuating the whole position exposed to interest rates.

### 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)

### 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 not any 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. Back testing is strengthened through a hypothesis test.

In the case of the PVBP, it has been compared to the portfolio's sensitivity before market quotations. The results obtained during the tests have shown that the models are reliable. With the purpose of reinforcing the validation and verification of the different risk factors, a set of matrices has been designed which show the behavior of various risk factors in order to ensure that these are reasonably related to the predominant values in the financial markets and to verify the consistency between their current value and their value on the previous working day.

### Applicable portfolios:

In order to have a precise and detailed management of the portfolios, Market Risk Management Head of HSBC Mexico, in concordance with the International standards and Local regulations to achieve an effective market risk management, has a perfectly controlled the portfolio structure in a specific way. This specific classification must permanently be comprehensive in terms of the accountancy point of view. This allows the calculation of the market risk measures (sensitivity measures, potential and stress losses) for each subportfolio aligned with the accountancy.

The Market Risk area calculates the VaR and the PVBP for the total Bank portfolio and for the specific Accrual and Trading portfolios, with the purpose of monitoring both the own positions and the trading positions.

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

According to the International Accounting Standards 39 (IAS), the "MMT" portfolio (Money Market Trading) and BST (Balance Sheet Trading) should be part of the "Trading" portfolio for market VaR calculation, but it has to be part of the "Accrual" portfolio for PVBP calculation.

The stress tests are carried out for the Bank's portfolio and for the "Trading" and "Accrual"

portfolios. Besides a special stress test for Available for Sale Securities (AFS) and for Hedging Securities (CFH) is carried out.

### Quantitative Information

Below, the market VaR and the Bank's PVBP will be presented and their subdivisions in the

"Trading" and "Accrual" portfolios for the first quarter of 2007 (dollars millions).

The presented 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.

	Bank		All Trading		Accrual	
	Average 1st. Quarter 2007	Limits*	Average 1st. Quarter 2007	Limits *	Average 1st. Quarter 2007	Limits *
VaR Total	(16.00)	42.00	(3.24)	32.50	(15.15)	27.50
Interest Rates	(16.68)	42.00	(3.30)	24.50	(15.37)	27.50
FX	(1.46)	8.00	(1.38)	8.00	N/A	N/A
Volatility IR	(1.23)	9.50	(0.37)	7.50	(0.92)	2.00

Absolute Value NA = Non Applicable

### Value in Risk of Global Market (VaR) (Compared to the latest quarter)

	29 Dec 06	30 Mar 07	Limits*	Average 4th. Quarter 2006	Average 1st. Quarter 2007
Bank	(22.69)	(14.95)	42.00	(19.72)	(16.00)
Accrual	(18.88)	(13.98)	27.50	(17.88)	(15.15)
All Trading	(2.24)	(1.78)	32.50	(3.01)	(3.24)

The Bank's VaR at the end of the 1Q07 varied -34.12% versus the previous quarter. During the quarter the VaR remained under the pre-established limits.

The Bank's average VaR for the end of the 1Q07 varied -18.87% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

### Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for December 29th, 2006 and March 30th, 2007 (in millions of dollars).

### Comparison of Market VaR vs. Net capital

Net capital in million dollars

	29 Dec 06	30 Mar 07
VaR Total *	19.72	16.00
Net Capital **	2,414.07	2,467.87
VaR / Capital Neto	0.82%	0.65%

\* The Bank's quarterly VaR average in absolute value

\*\* The Bank's Net Capital at the close of the quarter

The average market VaR represents 0.65 % of the net capital in 1Q07.

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

	29 Dic 06	30 Mar 07	Limits*	Average 4th. quarter 2006	Average 1st. quarter 2007
Bank	(1.021)	(0.733)	1.200	(0.951)	(0.702)
Accrual	(0.967)	(0.590)	1.050	(0.867)	(0.609)
Trading	(0.054)	(0.041)	0.350	(0.083)	(0.043)

\* Absolute value

The bank's PVBP for the 1Q07 varied -28.17% versus prior quarter. The bank's average PVBP for the 1Q07 varied -26.23% versus prior quarter.

### Liquidity Risk

#### Qualitative Information

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

HSBC has implemented liquidity limits for ratios both in local currency and in US dollars. These ratios are calculated on a daily basis and compared to the limits authorized by the local ALCO and confirmed by HSBC Group. Additionally the institution performs a daily review of the cash inflows and outflows and values the requirements of the main customers in order to diversify the sources of funding.

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

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

#### Quantitative Information

The institution had at the end of the quarter liquidity ratios of 13.1% for 1<sup>st</sup> line liquidity and 17.9% for 2<sup>nd</sup> line liquidity, in both cases above the 10% limit. Additionally the stress test scenarios have been run and in all cases the institution has positive cumulative cash flows.

### Credit Risk

#### Qualitative Information

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

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

In general, the methodologies separate the client risk (*probability that a client will default to his/her payment commitments: Probability of Default*) from the credit or transaction risk (*risk related with the structure of 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 SICAL system is used to apply the internal grading model “Matriz de Calificación” to the commercial portfolio. This model is the central element of the risk grading process. The “Matriz de Calificación” determines the client grade with the analysis of three fundamental areas: payment capacity, payment experience and operational situation. The credit grade is obtained by adjusting the client grade based on the date of the financial statements, the level of support from shareholders and the type and value of guarantees, among others. Both grades, the client and the credit one, can go from 1 to 10, being 1 the minimum risk and 10 the maximum.

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

The calculation of the regulatory provisions for the consumer and mortgage portfolio is done separately, and is based on the regulation issued by the CNBV (“Circular Única”), but it also uses the same grades from A to E.

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a new risk evaluation tool was implemented: Moody’s Risk Advisor (MRA), which permits a more profound evaluation of the credit quality of clients. HSBC Group has selected MRA as the main tool for defining client risk grades, and was implemented during the second semester of 2005. Nevertheless, it was until the second half of 2006 that HBMX finished the development of three new MRA models for client risk grading (one for small companies, another one for medium enterprises and a third one for large corporates).

In addition to the mentioned client risk grading models, 11 more were implemented for Non-Banking Financial Institutions (NBFIs), one for banks (MRAfB), and one more for global customers, that means, corporate counterparties with annual sales of MXN7,000 millions or above.

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a new client risk grading

framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, 20 of them are for non-default customers and 2 for default customers, being 1.1 the level of minimum risk and 10.0 the maximum. The framework includes a direct correspondence to Probabilities of Default and permits a more granular measurement of the credit quality of clients.

With respect to the measurement of Loss Given Default (LGD), which is more related to the credit or transaction risk, HBMX is using a judgmental model for the commercial portfolio since March 2004. Along with the implementation of this model, the “M006Fdelo de Tasas Activas” was also introduced; however, this model was replaced in the second half of 2006 by a profitability model. LGD is being calculated empirically for the consumer and mortgage portfolio.

Also as part of the credit risk management and measurement infrastructure, HBMX has an automated system to manage, control and monitor the commercial credit approval process known as Workflow. With this system the status of a credit application can be consulted in any stage of the credit process. In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a new system was developed, “Garantías II”. Finally, it is important to comment that HBMX has a system that controls the limits and utilization of credit facilities since their origination, “Líneas III”.

Currently, HBMX has a historical data base for the estimation of LGD and Exposure at Default (EaD), important parameters for the calculation of the Expected Loss (EL) of the commercial portfolio.

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

Within the management of the consumer and mortgage portfolio, monthly reports are generated to measure its credit quality. The reports are segmented by product and include

general statistics of the portfolio, distribution by number of payments past-due, payments past-due by origination date, payments past-due transitions, among others. In addition, the EL is determined in a monthly basis. The current model to determine the EL considers a two dimension focus, where a PD and LGD is assigned to every credit. The model is calibrated to estimate expected losses in a year, and was elaborated using previous experience with the portfolio.

## Operational Risk

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

In order to manage these risks, a central unit has been established and counts with the collaboration of almost a hundred middle managers who report functionally to it.

In order to identify and re-evaluate these risks, the 3<sup>rd</sup> annual assessment took place through out the group entities during the second semester of 2006. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories (people, processes, systems and external events) which were in turn subdivided into a total of 22 subcategories within which we can identify legal and technological risks. Risks were also graded in terms of three parameters: likelihood, impact and exposure. With the values obtained from these parameters a risk grade was calculated, which in order of relevance goes from 'A' to 'D'.

## Technological Risk

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

## Legal Risk

In the management of legal risk specific attention is given to the following types of risk:

- ▶ Contractual
- ▶ Litigation,
- ▶ Legislative,
- ▶ Reputational
- ▶ Intellectual Property

And the measures that have been taken include: the establishment of policies and procedures for the appropriate management of legal risks and the celebration of legal acts; the estimation of potential losses derived from adverse judicial resolution or administrative action; the prompt information of judicial and administrative resolutions to employees and managers in general; the realization of legal audits -- the last of which was performed during October-November 2006; and the establishment of a historic database of judicial and administrative resolutions with their causes and costs.

## Quantitative Information

As a result we have 2075 risks distributed as follows: 1.2% A type, 8.6% B type, 52.2% C type, and 38% D type risks, which can also be classified onto: 22.7% people, 49% process, 17.6% systems and 10.7% external type risks.

Furthermore, for the 5<sup>th</sup> consecutive year, during 2007, we have registered and incorporated into a specifically designed database, those major loss events which are of some relevance. As of January 2006 the relevance threshold for reporting these incidences was reduced to \$10,000 USD. Events under the reporting threshold are aggregated into a single record.

We estimate that for the second quarter 2007 operational losses as reflected in the Other Expenses account will have an impact of 6.5 million USD. Distributed along these categories.

Concept	Proportion
Fraud	59%
Robery and assault	8%
Counterfeit bills	3%
Operatives errors	3%
Branches	7%
Credit Card	6%
Misings in ATMs, transport firms and others	6%
Other mistakes and losses	8%

This database shall, in the future, constitute the basis for the estimation of operational risk related economic capital.

## Corporate Social Responsibility (CSR)

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

Our aim is to be the “leading financial services company in Mexico in the eyes of our customers”. By ‘leading’, we mean ‘preferred’, ‘admired’, and ‘dynamic’, recognizing the strength of our brand, our corporate character, and our earnings growth. Our strategy, “Managing for Growth” is an aggressive road map for marshalling our resources in the best interests of customers, shareholders, staff, and other stakeholders.

HSBC’s core values are integral to achieve this goal. These values comprise a preference for long-term, ethical client relationships, personal integrity, and striving to continuously improve customer service.

HSBC Mexico has also begun to implement the guidelines established by the Group, which require environmental standards to be evaluated in project financing, as well as in corporate and business loans for projects which could have an effect on the environment.

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

### ESR Certification

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

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

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

### Community Programmes

These are some of HSBC Mexico’s major programmes:

#### Education

Through the British Mexican Friendship Society (Amistad), HSBC Mexico is donating USD 1.5 million over a five-year period to support secondary, technical and preparatory schools throughout Mexico. This includes the annual adoption of four schools around the country in order to improve buildings, equipment, programmes and fostering exchange visits for gifted children with schools in the United Kingdom. Currently, this programme impacts the education of over 20,000 students, in 17 schools throughout the country.

HSBC Mexico is also providing USD 1 million funding to be used over the next five years for the construction and operation of the AMISTAD ABC CLINIC operating in the new facility which the ABC Hospital built in Santa Fé. The clinic will provide health care services to more than 7,000 members of the surrounding communities who do not have access to public or private health care systems.

HSBC has partnered with SIFE in a financial education programme geared to promoting among the future business leaders and entrepreneurs, a culture of social responsibility and of contributing to their communities. Through this programme, students from both private and public universities develop programmes which are aimed at bringing financial education and creating sources of income as well as financial freedom to underprivileged sectors of the community. The SIFE Programme focuses on five areas: entrepreneurship, market economics, success skills, financial literacy and business ethics. In 2006 the Mexican team, sponsored by HSBC México, reached the semi

finals in the international world cup competition in Paris.

Through the program of the Product Tu Cuenta, HSBC donates 1% of the monthly fee that the clients pay, to charities which focus in education for underprivileged children. By the end of 1Q07, 24 foundations from 24 states are participating in the programme, and by year's end HSBC expects to cover all the states in the country.

Through the Mexican Banking Association, HSBC participates with other financial institutions in supporting programmes led by Fundación Quiera, for street and homeless children, which provide counselling to address addictions, psychological and educational support, as well as preparing them to enter the work force and integrate them back in to society.

HSBC also participates in Bécalos, a fundraising campaign for an educational programme, being led by the Mexican Bank Association (ABM), Fundación Televisa, and six financial institutions, including HSBC. The programme seeks to raise the quality of education for underprivileged youth and aims to benefit 12,200 teachers, furthering their education, and scholarships for more than 10,000 children at the secondary and preparatory/technical levels, as well as homeless children.

### **The Environment**

In terms of HSBC Mexico's participation in environmental programmes, 124 members of our staff have participated as volunteers in the programme agreed by the HSBC Group with Earthwatch. This project identifies more than 25,000 flora and fauna species in a five year period around the world. Additionally, Mexico will benefit from the USD 17 million commitment made by HSBC Group to the World Wildlife Fund to study the problems and solutions of the pollution in three major rivers around the world, one of them being the Río Bravo on the Mexico-U.S. border.

HSBC Mexico is also working on its direct impact on the environment. An important step towards this was the construction of its new headquarters building in Mexico City, Torre HSBC, which was inaugurated in April 2006. In its construction, energy saving systems were implemented in order to reduce atmospheric emissions, as well as features to reduce water consumption and

efficient waste management processes. HSBC is working to receive the LEED certification from the U.S. Green Building Council, which will make Torre HSBC the most environmental friendly building of its type in Mexico and Latin America,

### **The Arts**

HSBC Mexico has also been active in supporting cultural activities, as they are tied to education, as well to a country's identity, its past, present and future. In 2005, HSBC Mexico and the HSBC Group sponsored the exhibits of Frida Kahlo at the Tate Modern Museum in London, as well as that of Henry Moore in Mexico, which was on display at the Dolores Olmedo Patiño Museum in Mexico City. HSBC Mexico also co-sponsored four Mexican theatre companies that were presented by the Anglo Mexican Foundation at the Riverside Studios of London, and the Fringe Fest, within the Edinburgh Theatre Festival during the summer of 2005, one of the most important international theatre festivals in the world.

Furthermore HSBC donated the construction of the replica of the court for the Prehispanic Ball Game, which was built on the grounds of Mexico's prestigious Museo Nacional de Antropología (National Museum of Anthropology), and will be seen by more than 1,600,000 people including thousands of students and tourists that visit the Museum annually.

In 2006, HSBC co-sponsored, the presentation in Mexico City of the Vienna Philharmonic Orchestra, and also co-sponsored the British Presence at the 34 Festival Internacional Cervantino.

### **Customer Donations**

Through our ATM donations programme, branded as **Niños con Futuro**, each time our customers use an ATM, they have the option to donate specific amounts of money, which is channelled to different charity organisations in six regions of the country. The programme is aimed at supporting institutions that focus on improving underprivileged children's quality of life in three areas: education, healthcare and nutrition. HSBC absorbs the operating costs of the programme. To date, the programme has benefited 100,000 children.

The programme received a best community practice award in 2004 from the Mexican Centre for Philanthropy (CEMEFI) and Aliarse, a business organisation that promotes social responsibility.

### **In Conclusion**

As “the world’s local bank”, HSBC recognises fully the importance of our wider obligations to society and calls for the increasing involvement of our

colleagues in corporate responsibility, especially in our support of education, health, and the environment.

## **Contacts**

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