

Grupo Financiero HSBC

Financial information at 30 June 2008

2Q08

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

*Release date:
28 July 2008*





July 28, 2008

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

- Net income for the first half of 2008 was MXN2,854 million, up 13.6 per cent compared with MXN2,512 million for the same period in 2007.
- Total operating income (excluding loan impairment charges) for the first half of 2008 was MXN18,684 million, up MXN2,328 million or 14.2 per cent compared with MXN16,356 million for the same period in 2007*.
- Net operating income for the first half of 2008 was MXN1,435 million, down MXN810 million compared to the same period of 2007.
- Net loans and advances to customers were MXN183.8 billion at 30 June 2008, up MXN9.1 billion, or 5.2 per cent, compared with MXN174.7 billion recorded at 30 June 2007.
- Total customer demand and time deposits were MXN261.6 billion at 30 June 2008, up MXN30.2 billion or 13.0 per cent, compared with MXN231.4 billion at 30 June 2007.
- The cost efficiency ratio was 58.1 per cent in the first half of 2008, compared to 60.5 per cent for the same period of 2007*.
- Return on equity was 15.1 per cent in the first half of 2008, compared with 14.5 per cent for the same period in 2007.

HSBC Mexico S.A. (the bank) is Grupo Financiero HSBC, S.A. de C.V.'s (HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file periodic financial information on a quarterly basis (in this case for the quarter ended June 30 2008) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC, S.A. de C.V. has elected to file this release.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles). With effect from January 1, 2008, in accordance with Financial Information Standard B-10, "Effects of Inflation", the effects of inflation in financial statements cannot be recognized. This is due to the change from an inflationary to a non-inflationary economic environment. The comparative figures of the financial statements of periods prior to 2008 are expressed in monetary units with purchasing power at December 31, 2007.

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

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

Overview

The net income of Grupo Financiero HSBC, S.A. de C.V. was MXN2,854 million in the first half of 2008, up MXN342 million compared with the net income for the same period in 2007.

In an environment characterized by economic deceleration, inflationary pressures and greater market volatility, the bank's results reflect selective growth of assets and expense control, as well as a flexible pricing strategy for products. Credit quality, particularly of credit card and revolving credit portfolios, has deteriorated in the first half of 2008 and, consequently, income was affected by the significant increase in loan impairment charges. The performance of our subsidiaries, particularly HSBC Seguros, added to the results, with a contribution of 18.5 per cent of total net income.

Net interest income increased by MXN2,085 million in the six months to 30 June 2008 to MXN12,529 million, which represents growth of 20.0 per cent compared to the same period in 2007*. This increase was driven by growth in the consumer loan portfolio, particularly in credit cards and the commercial portfolio, which contributed MXN1,323 million and MXN633 million respectively.

Net fee income was MXN5,822 million in the first half of 2008, an increase of 13.9 per cent over the same period in 2007. Increased fee income from credit cards, trade services, membership programs, ATMs, payments and cash management, investment funds and card acquiring contributed significantly to the growth in the period.

Trading income was MXN333 million in the first half of 2008, MXN467 million or 58.4 per cent lower compared to the same period in 2007. The increase in longer-term interest rates observed in the last two months affected the mark to market of the bond positions, resulting in lower income.

In this period, particular emphasis has been placed on the expense control policy. Administrative expenses increased in the first half of 2008 by MXN960 million, compared to the same period in 2007, reflecting a combination of selective investment, with improvements in productivity and more efficient expense control. Part of the increase is attributable to higher promotion expenses for the *Tu Cuenta* packaged product, the on-going strengthening of the technological infrastructure and loan recovery service costs. Staff expenses rose in line with our business growth investment strategy. The cost efficiency ratio* improved by 2.4 percentage points to 58.1 per cent, with revenue growth of 14.2 per cent exceeding expense growth of 9.7 per cent.

Other income increased MXN1,296 million to MXN2,189 million in the first half of 2008. This growth is primarily due to extraordinary income of MXN1,045 million received during the first half of 2008 from the sale of VISA Inc. stock, as a result of the company's global Initial Public Offering ("IPO"), and MXN114 million following the sale of HSBC's shares in the Mexican Stock Exchange ("BMV") to the exchange prior to BMV's IPO.

Loan impairment charges increased by MXN2,463 million in the first half of 2008 compared with the same period in 2007. This increase is due to greater requirements for impairment charges as a result of portfolio growth and increased credit card reserves, in line with the expansion of the credit card portfolio, as well as higher delinquency in this portfolio and loans to individuals and small businesses. This increase in loan impairment charges is consistent with market trends and also reflects the cost of HSBC's strategy to grow organically in areas in which the bank had previously been under represented. HSBC's allowance for loan losses as a percentage of impaired loans was 124.2 per cent at 30 June 2008, compared to 146.2 per cent for the same period in 2007.

Regular reviews of the credit quality of new business are undertaken to ensure close control of customer acquisition channels, including external referring agencies. Adjustments have also been made to the credit underwriting models to improve the portfolio credit quality. At the same time, we continue to strengthen our collection capabilities.

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

Loans to government entities have decreased by MXN6,791 million compared to the same period in 2007 as a result of several repayments made by government entities.

The Bank's capital ratio at June 30 2008 was 13.5 per cent.

Business highlights

Personal Financial Services reported stable growth in consumer loans, mainly through leveraging its customer relationship management capabilities. In the first half of 2008, our credit card portfolio continued to increase as a result of the implementation of the bank's strategy to grow organically, delivering a rising market share, from 9.0 to 10.8 per cent compared to the same period last year¹. Personal and payroll loans were other areas that contributed to the growth in the consumer portfolio, showing an increase of 20.5 per cent in the first half of 2008 compared to the same period in 2007.

Deposit growth has been strong during the first half of 2008, increasing 9.8 per cent compared to the same period in 2007. Time deposits increased 13.8 per cent compared to the same period in 2007, and comprise 53.5 per cent of total deposits. Net interest income related to deposits has increased 7.5 per cent compared to the same period in 2007.

Higher consumer loan volumes, particularly credit cards, also contributed to an increase in net interest income.

Commercial Banking in Mexico saw an increase in lending balances of 15.7 per cent compared to the first half of 2007, due mainly to strong growth in factoring businesses, trade services, real estate projects and the State and Municipal sectors.

The favorable performance of the commercial portfolio is combined with greater growth in the deposit base, with an annual increase of 17.2 per cent compared with the same period in 2007.

Driven by the HSBC Group's broad geographic presence and enhanced product capabilities our trade services market share increased by 2.7 percentage points compared to the same period in 2007, to reach 17.7² per cent. The strong performance of our factoring services business has been augmented by improving processes and products designed to meet our customers' needs, such as the Export Factoring product.

Global Banking and Markets is committed to carry on developing efficient financial solutions for Mexican clients by building on the Group's experienced global network. During the period, Global Banking and Markets launched Custodial Services, as part of the range of products offered to Mexican clients in order to increase its penetration in the corporate market in Mexico.

Global Banking focused its activities in Debt Capital Markets and Project Finance deals with its Global Clients, achieving increases of 36.4 per cent and 294.7 per cent respectively, compared to the same period in 2007. The most significant deals during the first half of 2008 were related to debt capital markets, syndicated finance, trade services, loans, derivatives and foreign exchange transactions. As result of its increased penetration in the market, HSBC Mexico achieved second place in the June 2008 Debt Capital Markets League Tables.

Foreign exchange gains increased 14.6 per cent in the first six months to 30 June 2008 compared to same period of 2007, benefiting from the volatility experienced in the markets and the strong foreign exchange flows generated by the branch network.

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

² Source: HSBC Analysis, based on Mexican Banking and Securities Commission Statistical Bulletin, figures at March 2007.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,332 branches, 5,875 ATMs, approximately 9.1 million customer accounts and more than 22,800 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 128 million customers worldwide through 10,000 properties in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,354 billion at 31 December 2007, HSBC is one of the world's largest banking and financial services organisations. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 200,000 shareholders in over 100 countries and territories. HSBC is marketed worldwide as 'the world's local bank'.

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Key Indicators

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

For the quarter ended at

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
a) Liquidity	81.71%	76.22%	81.93%	88.50%	96.98%
Profitability					
b) ROE (Return over equity)	12.49%	15.54%	17.83%	23.43%	7.00%
c) ROA (Return over assets)	1.36%	1.69%	1.95%	2.47%	.70%
Asset quality					
d) Impaired loans/total loans	3.17%	3.42%	4.01%	3.90%	4.64%
e) Coverage ratio	146.16%	144.84%	132.00%	134.01%	124.21%
Capitalization					
f) Credit risk	17.90%	17.43%	18.62%	18.22%	17.30%
g) Credit and market risk operational	13.88%	12.40%	14.23%	13.04%	13.51%
Operating efficiency					
h) Expenses/Total Assets	6.28%	6.44%	6.12%	5.83%	6.09%
i) NIM	7.43%	7.72%	7.38%	7.64%	7.56%
Infrastructure					
Branches	1,360	1,359	1,360	1,359	1,332
ATM	5,533	5,618	5,741	5,855	5,875
Head Count	23,834	23,919	23,314	22,659	22,803

a) *Liquidity = Liquid Assets / Liquid Liabilities.*

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

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

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

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

d) *Impaired loans balance at quarter end / Total loans balance at quarter.*

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

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

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

h) *Operating efficiency = Expenses / Total assets*

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

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

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

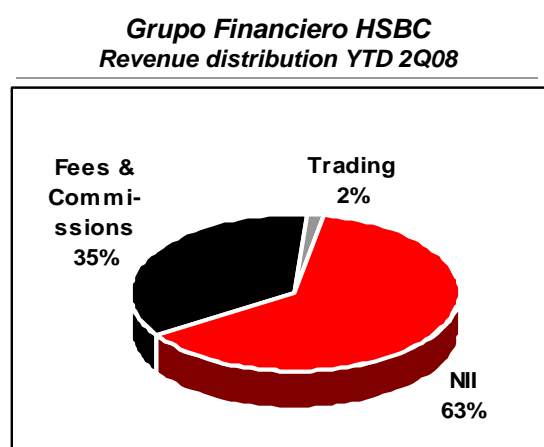
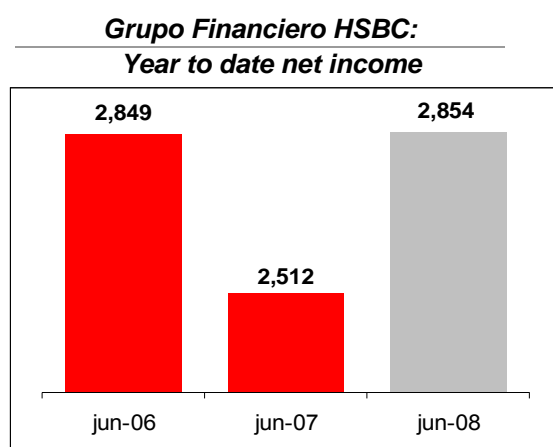
Income Statement Variance Analysis

Net Income

For the first half of 2008, Grupo Financiero HSBC (the Group) reported net income of MXN2,854 million, MXN342 million higher than the net income for the same period in 2007, or 13.6 per cent growth.

The Group benefited from the positive results achieved by its subsidiaries. Both, the Bank's and the Insurance Company (HSBC Seguros) income, represents 95.7 per cent of the Group's total net income for the first half of 2008, recording MXN2,203 million and MXN528 million, respectively.

The results reflect the investments made by HSBC in recent years in line with the organic growth strategy; more efficient cost control and flexible price strategies to the extent that we continue to build our market share. Organic growth costs are reflected in higher loan impairment charges as according to forecast.



Total revenue

The Group's total operating income before loan impairment charges for the first half of 2008 was MXN18,684 million, an increase of MXN2,328 million (14.2 %) compared to the same period of 2007*. This growth is the result of the increase recorded in net interest income of MXN2,085 million and net fees of MXN710 million, both compared to the first half of 2007. The increase in income was also partially offset by lower trading income of MXN467 million.

Total operating income for the first half of 2008 after loan impairment charges (and the monetary position result for 2007), amounted to MXN12,292 million, an increase of MXN150 million compared to the same period of the prior year. Revenues at the end of June 2008 were partially offset by the increase of MXN2,463 million in loan impairment charges compared to the first half of 2007.

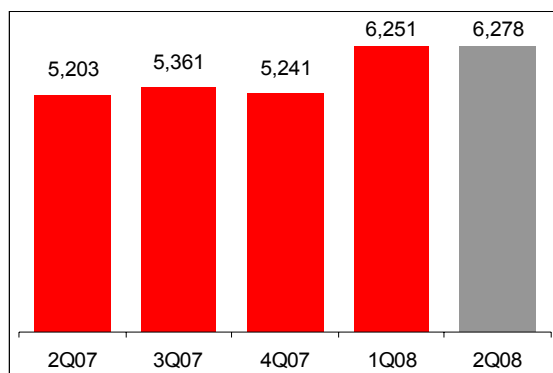
Net interest income

Net interest income increased by MXN2,085 million for the first half of 2008 to MXN12,529 million, which represents an increase of 20 per cent compared to the same period in 2007*.

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

Net interest income was benefited by a 21 per cent growth in interest income driven by growth in the consumer loan portfolio, particularly credit cards and the commercial loan portfolio, which contributed MXN1,323 and MXN633 million, respectively. In addition, the dynamism seen in deposits, particularly time deposits contributed to this increase. Total demand and time deposits rose by MXN20,187 million, representing a 13.0 percent growth compared to the first half of 2007.

Net interest income
(by quarter)



Non-interest income

Non interest income for the first half of 2008 was MXN6,155 million, MXN243 million (4.1 %) up compared with the same period in 2007.

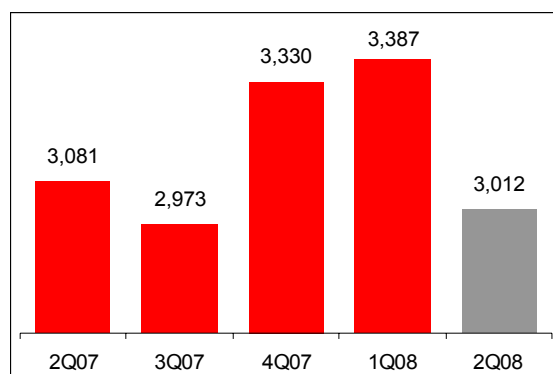
➤ Fees and commissions

The Group's net fees and commissions income showed a favourable performance totalling MXN5,822 million in the first half of 2008. This represents a MXN710 million (13.9 per cent) growth compared to the same period in 2007. This growth was mainly driven by the increase in the customer base, and improved performance from credit card and other fee generating products such as ATMs, payments and cash management, investment funds and points-of-sale, among other products.

Credit card fees increased by 30 per cent compared with the first half of 2007, as a result of a greater number of cards in circulation. **Membership program fees** increased by 33 per cent, driven mainly by the *Tu Cuenta* product.

ATM fee income increased as a result of the cross-sale of products through our ATM network and the extensive customer base, in addition to increased transaction volumes in ATM's by non-customers.

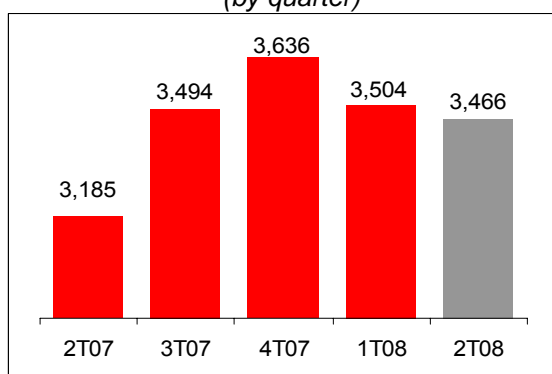
Non interest income
(by quarter)



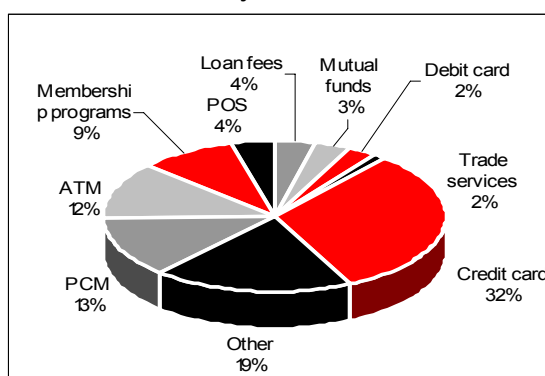
Trade services fee income increased by 31 per cent as a result of cross-sales of products to our extensive business customer base, as well as a greater market share, reflecting a 2.7 per cent³ year-on-year increase, supported by the Group's geographical presence and improvements in product features.

The fees and commissions sound performance can be primarily explained by the Bank's operations since they contribute 92.9 per cent of total fees. The Bank's total income amounted to MXN5,411 million in the first half of 2008, which represents a growth of MXN681 million (14.4 per cent) compared to the same period of 2007.

Group fees & commissions
(by quarter)



Bank's fees & commissions distribution
30 June 2008



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

➤ **Trading**

The Group's trading income at 30 June 2008 was MXN333 million, MXN467 million less than the amount recorded in the same period of the prior year. The increase in longer-term interest rates observed in the last two months affected the mark to market of the bond positions, resulting in lower income.

➤ **Other income**

Other Income amounted to MXN2,189 million, which represents an increase of MXN1,296 million compared to the first half of 2007. This strong increase can be basically explained by extraordinary income of MXN1,159 million recorded in this period from the sale of VISA Inc. stock, and sale of HSBC's shares in the Mexican Stock Exchange as a result of the companies' Initial Public Offerings (IPO).

Loan impairment charges

Loan impairment charges increased by MXN2,463 compared with the same period of 2007. The increase in the portfolio, in line with the organic growth strategy, coupled with less favourable market conditions, has resulted in a greater creation of reserves, particularly in credit cards portfolio and loans to individuals and small businesses.

Considering the relevance of this item because of its impact on income, the Group regularly performs reviews of new businesses to ensure close control of customer acquisition channels in order to improve

³ Source: HSBC Analysis, based on Mexican Banking and Securities Commission Statistical Bulletin, figures at March 2007.

their quality, based on our underwriting experience. Adjustments have also been made to credit underwriting models to improve loan portfolio quality. HSBC maintains adequate allowance for loan losses as a percentage of impaired loans of 124.2 per cent at 30 June 2008.

Administrative and personnel expenses

For the first half of 2008, the Group's administrative expenses were MXN10,857 million, reporting an increase of 9.7 per cent compared to the same period of the prior year.

Particular emphasis on the expense control policy has been placed during the first half-year of this period resulting in an increase in administrative expenses of MXN960 million compared with the same period in 2007, reflecting a combination of selective investment, with improvements in productivity and more efficient expense control. Other operating expenses increased mainly due to increased marketing expenses for the promotion of packaged products, strengthening of the technological infrastructure and loan recovery service costs. Personnel expenses increased in line with the business growth strategy. The Group's cost efficiency ratio (excluding the monetary position result in 2007) at 30 June 2008 was 58.1 per cent, which represents an improvement of 2.4 percentage points compared to the first half of 2007.

Balance sheet Variance Analysis

At 30 June 2008, the Group's assets total MXN380,852 million, an increase of MXN52,267 million or 15.9 per cent, compared to the same period of 2007.

Loan portfolio

The Group's performing loan portfolio was MXN185,947 million at 30 June 2008, which represents an increase of 4.8 per cent compared to the same period of 2007. Efforts are focused on allocating resources towards more profitable assets. As a result, the consumer loan portfolio was the most dynamic with a growth of 10.3 per cent compared to 30 June 2007. Commercial loans (including financial entities and government portfolio) also registered a 4.3 per cent growth compared to the same period of 2007.

➤ Commercial Loans (includes financial entities and government entities)

As of April this year, the total credit portfolio balance has been affected as a result of several prepayments in the loan portfolio to government entities reflecting a decreased by MXN6,791 million compared to the same period in 2007.

➤ Consumer Loans

The consumer loan portfolio increased mainly as a result of the performance shown by credit card loans. Credit card balances rose by 32.2 per cent compared with the second quarter of 2007 to MXN28.6 billion. Personal and payroll loan balances increased by 20.5 per cent and ended the quarter with a balance of MXN8.0 billion.

➤ Mortgage Loans

The mortgage loan portfolio decreased by MXN759 million (3.7 %) compared to the same period of 2007, which can be explained to a large extent by a residential mortgage-backed securitization (RMBS) that took place in October 2007 for approximately some MXN 3.5 billion. However, if this effect was excluded, the annualized growth to June 2008 of the mortgage loan portfolio would have been 13.9 per cent.

Asset quality

At 30 June 2008, the Group's impaired loans were MXN9,048 million, which represents a growth of MXN3,238 million compared to same period in 2007. This increase is mainly due to a greater volume of impaired loans of credit cards and personal and payroll loans reflecting the Group's organic growth strategy. The impaired loans to total loans ratios was 4.6 per cent. The allowance for loan losses as a percentage of impaired loans was 124.2 per cent, less in comparison with percentage observed in the second quarter of 2007 (146.1 %). HSBC maintains a policy of constantly reviewing new businesses and ensures close control of the customer acquisition channels based on our underwriting experience, as well as strengthening collection strategies.

Deposits

Total Deposits at 30 June 2008 were MXN265,849 million, up MXN30,063 million compared with the same period in 2007. On a quarterly basis total deposits for the second quarter of 2008 were 13.0 higher compared with the same period previous year.

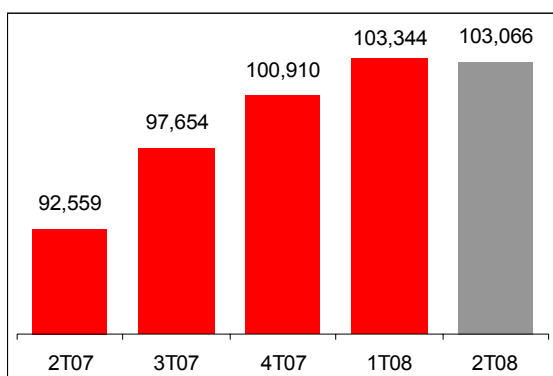
➤ Demand deposits

Demand deposits at 30 June, 2008 were MXN127,004 million, 1.2 per cent below with regards to same period in 2007, in line with market trends.

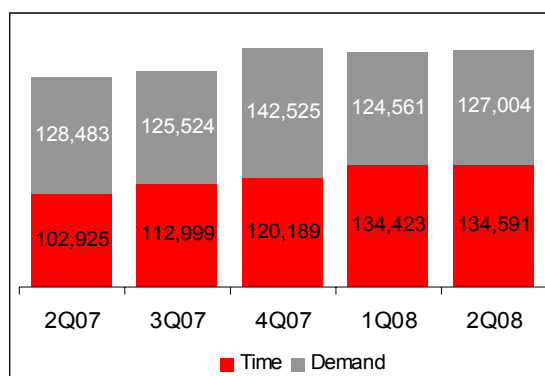
➤ **Time deposits**

Total time deposits increased by MXN31,666 million, 30.8 per cent compared with 30 June 2007. In the first half of 2008 time deposits comprise 51.5 per cent of total deposits (demand plus time deposits)

Group Time deposits (retail)
(June, 2008)



Group deposit mix
(June, 2008)



Shareholder's equity

At 30 June 2008, the Group's shareholders' equity amounted to MXN37,108 million, an increase of 3.9 per cent compared to the second quarter of the prior year. The Bank's stockholders' equity amounted to MXN 30,453 at 30 June 2008, reflecting an increase of 12.3 per cent compared to 30 June 2007.

In March 2008, a dividend of MXN4,350 million was decreed (MXN3,500 million corresponding to the Bank and MXN850 million to the Insurance Company), which was paid on 15 April. Notwithstanding the aforementioned, the Bank's capitalization ratio at 30 June 2008 was 13.5 per cent, above the regulatory requirements.

Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2008

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

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Assets					
Cash and deposits in banks	51,394	50,483	48,865	53,961	51,596
Investments in Securities	63,264	53,180	76,029	64,293	82,415
Trading securities	29,745	23,072	42,318	30,874	50,311
Available-for-sale securities	29,388	26,107	29,687	29,469	28,080
Held to maturity securities	4,131	4,001	4,024	3,950	4,024
Securities and derivative operations	86	7,047	8,933	16,045	16,260
Repurchase agreements	86	47	40	47	42
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	-	7,000	8,893	15,998	16,218
Performing loans					
Commercial loans	113,720	121,132	125,679	126,625	118,585
Commercial entities	68,263	70,118	73,188	71,358	72,561
Loans to financial intermediaries	7,238	12,037	15,048	13,595	14,596
Loans to government entities	38,219	38,977	37,443	41,672	31,428
Consumer loans	43,403	47,279	48,034	48,449	47,872
Mortgages loans	20,249	21,292	18,337	18,978	19,490
Total performing loans	177,372	189,703	192,050	194,052	185,947
Impaired loans					
Commercial loans	1,870	2,227	2,534	2,381	2,246
Commercial entities	1,870	2,227	2,534	2,381	2,246
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	2,583	3,168	4,028	4,294	5,432
Mortgages loans	1,357	1,323	1,463	1,196	1,370
Other	-	-	-	-	-
Total non-performing loans	5,810	6,718	8,025	7,871	9,048
Loan portfolio	183,182	196,421	200,075	201,923	194,995
Allowance for loan losses	(8,492)	(9,730)	(10,593)	(10,549)	(11,238)
Net loan portfolio	174,690	186,691	189,482	191,374	183,757
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	174,690	186,691	189,482	191,374	183,757
Other accounts receivable, net	25,755	27,578	12,093	21,172	30,421
Foreclosed assets	67	71	82	89	80
Property, furniture and equipment, net	6,209	6,280	6,511	6,402	6,419
Long term investments in equity securities	3,168	3,437	3,630	3,037	3,263
Deferred taxes, net	202	1,400	916	1,142	1,805
Goodwill	2,749	2,749	2,748	2,749	2,749
Other assets, deferred charges and intangibles	1,001	994	1,872	1,948	2,087
Total Assets	328,585	339,910	351,161	362,212	380,852

Figures in MXN millions at June 30, 2008

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

	<u>30 Jun</u> <u>2007</u>	<u>30 Sep</u> <u>2007</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>
Liabilities					
Deposits	235,786	242,856	266,958	263,256	265,849
Demand deposits	128,483	125,524	142,525	124,561	127,004
Time deposits	102,925	112,999	120,189	134,423	134,591
Retail	92,559	97,654	100,910	103,344	103,066
Money market	10,366	15,345	19,279	31,079	31,525
Bank bonds outstanding	4,378	4,333	4,244	4,272	4,254
Bank deposits and other liabilities	10,114	8,380	7,608	7,245	9,529
On demand	464	-	-	-	1,031
Short term	6,320	5,238	4,998	4,591	5,996
Long term	3,330	3,142	2,610	2,654	2,502
Securities and derivative transactions	13,626	16,278	9,147	16,004	15,705
Repurchase agreements	57	50	73	73	53
Collateral delivered under lending transactions	-	-	-	-	-
Stock borrowings	13,538	9,037	-	-	-
Derivative transactions	31	7,192	9,074	15,931	15,652
Other accounts payable	30,840	32,684	26,317	36,239	49,980
Income tax and employee profit sharing payable	1,320	1,971	1,800	1,610	1,595
Sundry creditors and others accounts payable	29,520	30,712	24,517	34,629	48,385
Subordinated debentures outstanding	2,279	2,241	2,207	2,211	2,201
Deferred tax	-	-	-	-	-
Deferred credits	220	299	396	438	480
Total Liabilities	<u>292,865</u>	<u>302,738</u>	<u>312,633</u>	<u>325,393</u>	<u>343,744</u>
Stockholder's Equity					
Paid in capital	21,466	21,466	21,466	21,466	21,466
Capital stock	8,210	8,210	8,210	8,210	8,210
Additional paid in capital	13,256	13,256	13,256	13,256	13,256
Capital Gains	14,233	15,686	17,060	15,351	15,638
Capital reserves	1,162	1,162	1,162	1,162	1,442
Retained earnings	18,827	18,827	18,827	11,863	11,679
Result from the mark-to-market of available-for-sale securities	-	-	-	-	(201)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,989)	(3,989)	(3,989)	-	-
Gains on non-monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(4,279)	(4,242)	(4,555)	119	-
Adjustment in the pension employee	-	-	-	-	(136)
Net Income	2,512	3,928	5,615	2,207	2,854
Minority interest in capital	21	20	2	2	4
Total Stockholder's Equity	<u>35,720</u>	<u>37,172</u>	<u>38,528</u>	<u>36,819</u>	<u>37,108</u>
Total Liabilities and Capital	<u>328,585</u>	<u>339,910</u>	<u>351,161</u>	<u>362,212</u>	<u>380,852</u>

Figures in MXN millions at June 30, 2008

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

	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>
Memorandum Accounts					
Transactions on behalf of third parties	101,007	105,708	94,672	107,098	58,094
Customer current accounts	(132)	(5)	8	61	11
Customer banks	3	1	1	2	1
Settlement of customer securities and documents	(135)	(6)	7	59	10
Customer securities	73,523	78,083	65,843	78,053	27,325
Customer securities in custody	73,517	78,074	65,834	78,044	27,316
Pledged customers securities and documents	6	9	9	9	9
Transactions on behalf of customer	27,616	27,630	28,821	28,984	30,758
Investment on behalf of customers, net	25,216	25,432	26,727	26,528	28,165
Customer repurchase transactions	2,400	2,198	2,094	2,456	2,593
Transactions for the group's own accounts	1,859,211	2,125,909	2,208,956	2,466,865	2,440,935
Accounts for the group's own registry	184,864	194,872	196,999	227,969	493,798
Contingent assets and liabilities	-	-	-	-	-
Guarantees granted	49	45	44	35	34
Irrevocable lines of credit granted	-	-	-	-	-
Goods in trust or mandate	123,723	134,690	142,794	170,020	188,624
Goods in custody or under administration	61,092	60,137	54,161	57,914	305,140
Repurchase/resale agreements	<u>29</u>	<u>(2)</u>	<u>(33)</u>	<u>(28)</u>	<u>(11)</u>
Securities receivable under repos	43,263	48,927	46,971	46,160	35,008
(-)less					
Creditors repo transactions	43,282	48,932	47,016	46,199	35,027
Reverse repo transactions	7,498	5,160	7,095	3,629	12,595
(less)					
Securities deliverable under repos	7,450	5,157	7,083	3,618	12,587
Securities receivable	13,538	9,037	-	-	-
Securities receivable under stock borrowing	-	-	-	-	-
(less)					
Securities deliverable under stock borrowing	13,538	9,037	-	-	-
(less)					
Accrued interests receivable on non performing loans	-	-	-	-	-
Other registry accounts	<u>1,660,780</u>	<u>1,922,002</u>	<u>2,011,990</u>	<u>2,238,924</u>	<u>1,947,148</u>

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

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

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

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Consolidated Income Statement

Figures in MXN millions at June 30, 2008

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

	For the quarter ending....				Year to date		
	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Jun 2008	
Interest Income	7,874	8,912	9,488	9,392	9,511	15,614	18,903
Interest expense	(2,671)	(2,839)	(3,167)	(3,141)	(3,233)	(5,170)	(6,374)
Monetary position (margin), net	72	(356)	(540)	-	-	(285)	-
Net interest income	5,275	5,717	5,781	6,251	6,278	10,159	12,529
Loan impairment charges	(2,486)	(2,622)	(2,935)	(2,798)	(3,594)	(3,929)	(6,392)
Risk adjusted net interest income	2,789	3,095	2,846	3,453	2,684	6,230	6,137
Fees and commissions receivable	2,900	3,157	3,352	3,218	3,178	5,678	6,396
Fees payable	(285)	(337)	(284)	(286)	(288)	(566)	(574)
Trading Income	466	153	262	455	(122)	800	333
Total operating income	5,870	6,068	6,176	6,840	5,452	12,142	12,292
Administrative and personnel expenses	(5,071)	(5,380)	(5,286)	(5,202)	(5,655)	(9,897)	(10,857)
Net operating income	799	688	890	1,638	(203)	2,245	1,435
Other income	900	1,016	1,666	1,673	847	1,460	2,520
Other expenses	(362)	(466)	(362)	(235)	(96)	(567)	(331)
Net income before taxes	1,337	1,238	2,194	3,076	548	3,138	3,624
Income tax and employee profit sharing tax	(1,039)	(911)	(183)	(1,694)	(642)	(1,636)	(2,336)
Deferred income tax	550	811	(532)	531	460	532	991
Net income before subsidiaries	848	1,138	1,479	1,913	366	2,034	2,279
Undistributed income from subsidiaries	252	279	207	294	282	477	576
Income from ongoing operations	1,100	1,417	1,686	2,207	648	2,511	2,855
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	1	-	(1)	1	(1)
Net income (loss)	1,100	1,417	1,687	2,207	647	2,512	2,854

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

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

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Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions at June 30, 2008

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

From 1 January 2008 to 30 June 2008

	Paid in capital					Earned capital								Minority Interest	Total Stock-holders Equity	
	Capital Stock	Advances for future capital increases	Shares Premiums	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Results from holding non-monetary assets (Valuation of permanent investments)	Ajustes por obligaciones laborales al retro			Net income
Balances at 31 December 2007	8,210	-	13,256	-	-	1,162	18,827	-	-	(3,989)	-	(4,555)	-	5,615	2	38,528
Movements Inherent to the Shareholders Decision																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	5,335	-	-	-	-	-	-	(5,615)	-	(280)
Constitution of reserves	-	-	-	-	-	280	-	-	-	-	-	-	-	-	-	280
Cash dividends	-	-	-	-	-	-	(4,350)	-	-	-	-	-	-	-	-	(4,350)
Others	-	-	-	-	-	-	(8,228)	-	-	3,989	-	4,239	-	-	-	-
Total	-	-	-	-	-	280	(7,243)	-	-	3,989	-	4,239	-	(5,615)	-	(4,350)
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	2,854	-	2,854
Surplus (Déficit) from securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	95	(201)	-	-	-	316	(136)	-	2	76
Total	-	-	-	-	-	-	95	(201)	-	-	-	316	(136)	2,854	2	2,930
Balances as at 30 June 2008	8,210	-	13,256	-	-	1,442	11,679	(201)	-	-	-	-	(136)	2,854	4	37,108

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

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

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Consolidated Statement of Changes in Financial Position

Figures in MXN millions at June 30, 2008

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

From 1 January to 30 June 2008

Operating activities:

Net income	2,854
Items included in operations not requiring (providing) funds:	
Result from mark-to-market valuations	(365)
Allowances for loan losses	6,392
Depreciation and amortisation	532
Deferred taxes	(991)
Minority interest	1
Undistributed income from subsidiaries, net	(576)
Value loss estimation for foreclosed assets	7
Total operating items not requiring funds	<u>7,854</u>

Changes in items related to operations:

Decrease / increase in retail deposit and money desk	(1,108)
Decrease / increase in loan portfolio	(667)
Decrease / increase in investment in securities	(6,021)
Decrease / increase in securities and derivative transactions, net	(769)
Bank deposits and other liabilities	1,921
Funds provided by operating activities	<u>1,210</u>

Financing activities:

Subordinated debentures outstanding	(7)
Cash dividend	(4,350)
Decrease/increase in accounts payable	23,663
Funds used or provided in financing activities	<u>19,306</u>

Investing activities:

Property, furniture and equipment, net	579
Decrease /increase in deferred charges or credits, net	186
Foreclosed assets	(5)
Decrease /increase in accounts receivable	(18,545)
Funds used in investing activities	<u>(17,785)</u>
Increase /decrease in cash and equivalents	2,731
Cash and equivalents at beginning of period	48,865
Cash and equivalents at end of period	<u>51,596</u>

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

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

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Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2008

HSBC Mexico, S.A. (Bank)

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Assets					
Cash and deposits in banks	51,394	50,483	48,864	53,961	51,596
Investment in Securities	62,158	52,066	75,660	62,971	81,730
Trading securities	28,639	21,959	42,235	29,939	50,209
Available-for-sale securities	29,388	26,106	29,401	29,082	27,497
Held to maturity securities	4,131	4,001	4,024	3,950	4,024
Securities and derivative operations	81	7,044	8,932	16,043	16,252
Repurchase agreements	81	45	39	45	34
Collateral received under lending transactions	-	-	-	-	-
Securities deliverable under lending transactions	-	-	-	-	-
Derivative transactions	-	6,999	8,893	15,998	16,218
Performing loans					
Commercial loans	113,720	121,132	125,679	126,625	118,585
Commercial entities	68,263	70,118	73,188	71,358	72,561
Loans to financial intermediaries	7,238	12,037	15,048	13,595	14,596
Loans to government entities	38,219	38,977	37,443	41,672	31,428
Consumer loans	43,403	47,279	48,034	48,449	47,872
Mortgages loans	20,249	21,292	18,337	18,978	19,490
Total performing loans	177,372	189,703	192,050	194,052	185,947
Impaired loans					
Commercial loans	1,870	2,227	2,534	2,381	2,246
Commercial entities	1,870	2,227	2,534	2,381	2,246
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	-	-	-	-
Consumer loans	2,583	3,168	4,028	4,294	5,432
Mortgage Loans	1,357	1,323	1,463	1,196	1,370
Immediate collection, remittances and other	-	-	-	-	-
Total non-performing loans	5,810	6,718	8,025	7,871	9,048
Total loan portfolio	183,182	196,421	200,075	201,923	194,995
Allowance for loan losses	(8,492)	(9,730)	(10,593)	(10,549)	(11,238)
Net loan portfolio	174,690	186,691	189,482	191,374	183,757
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	174,690	186,691	189,482	191,374	183,757
Other accounts receivable	25,604	27,437	12,005	21,109	30,313
Foreclosed assets	67	71	82	89	80
Property, furniture and equipment, net	6,196	6,267	6,498	6,390	6,407
Long term investments in equity securities	148	149	137	146	121
Deferred taxes	155	1,360	883	1,087	1,810
Other assets, deferred charges and intangibles	967	960	1,846	1,914	2,057
Total Assets	321,460	332,528	344,389	355,084	374,123

Figures in MXN millions at June 30, 2008

HSBC Mexico, S.A. (Bank)

	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>
Liabilities					
Deposits	237,456	244,562	267,025	263,393	266,019
Demand deposits	130,152	127,230	142,592	124,698	127,174
Time deposits	102,925	112,999	120,189	134,423	134,591
Bank bonds outstanding	4,379	4,333	4,244	4,272	4,254
Bank deposits and other liabilities	10,114	8,380	7,608	7,245	9,529
On demand	464	-	-	-	1,031
Short term	6,320	5,238	4,998	4,591	5,996
Long term	3,330	3,142	2,610	2,654	2,502
Securities and derivative transactions	13,621	16,276	9,146	16,004	15,697
Repurchase agreements	52	47	72	73	45
Collateral received under lending transactions	-	-	-	-	-
Stock borrowings	13,538	9,037	-	-	-
Derivative transactions	31	7,192	9,074	15,931	15,652
Other accounts payable	30,658	32,511	26,164	35,142	49,744
Income tax and employee profit sharing payable	1,274	1,923	1,741	1,546	1,540
Sundry creditors and others accounts payable	29,384	30,588	24,423	33,596	48,204
Subordinated debentures outstanding	2,279	2,241	2,207	2,211	2,201
Deferred tax	-	-	-	-	-
Deferred credits	220	299	396	438	480
Total Liabilities	<u>294,348</u>	<u>304,269</u>	<u>312,546</u>	<u>324,433</u>	<u>343,670</u>
Stockholder's Equity					
Paid in capital	13,533	13,533	15,883	15,883	15,883
Capital stock	4,079	4,079	4,272	4,272	4,272
Additional paid in capital	9,454	9,454	11,611	11,611	11,611
Capital Gains	13,559	14,707	15,959	14,767	14,568
Capital reserves	14,077	14,077	14,077	10,577	12,797
Retained earnings	-	-	-	2,196	-
Surplus (Deficit) from securities	(88)	(40)	(217)	256	(296)
Results of foreign operations exchange	-	-	-	-	-
Cumulative effect of restatement	(3,593)	(3,605)	(3,602)	-	-
Gains on non monetary asset valuation	1,185	1,186	1,181	-	-
Adjustment in the pension employee	-	-	(136)	(136)	(136)
Net Income	1,978	3,090	4,656	1,874	2,203
Minority interest in capital	20	18	1	1	2
Total Stockholder's Equity	<u>27,112</u>	<u>28,259</u>	<u>31,843</u>	<u>30,651</u>	<u>30,453</u>
Total Liabilities and Capital	<u>321,460</u>	<u>332,528</u>	<u>344,389</u>	<u>355,084</u>	<u>374,123</u>

Figures in MXN millions at June 30, 2008

HSBC Mexico, S.A. (Bank)

	<u>30 Jun</u> <u>2007</u>	<u>30 Sep</u> <u>2007</u>	<u>31 Dec</u> <u>2007</u>	<u>31 Mar</u> <u>2008</u>	<u>30 Jun</u> <u>2008</u>
Memorandum Accounts					
Guarantees granted	49	45	44	35	34
Other contingent obligations	134	129	128	129	130
Irrevocable lines of credit granted	8,679	8,785	10,793	10,761	9,081
Goods in trust or mandate	123,723	134,691	142,794	170,020	188,624
Goods	123,124	133,805	142,108	169,351	187,889
Trusts	599	885	686	669	735
Goods in custody or under administration	57,030	56,127	50,216	53,969	301,195
Third party investment banking operations, net	25,216	25,431	26,727	26,528	28,165
Amounts committed in transactions with IPAB or Fobaproa	152	139	138	141	143
Amounts contracted in derivative operations	1,265,623	1,505,017	1,410,856	1,628,602	1,306,093
Investments of retirement savings system funds	3,645	3,600	3,540	3,540	-
Integrated loan portfolio	191,910	205,251	210,912	212,720	204,111
Other control accounts	190,636	199,079	375,621	383,027	427,589
	<u>1,866,797</u>	<u>2,138,294</u>	<u>2,231,769</u>	<u>2,489,472</u>	<u>2,465,165</u>
Securities receivable under repos (less) Repurchase agreements	40,867 <u>(40,882)</u>	46,731 <u>(46,734)</u>	44,890 <u>(44,922)</u>	43,715 <u>(43,743)</u>	32,423 <u>(32,434)</u>
	<u>(15)</u>	<u>(3)</u>	<u>(32)</u>	<u>(28)</u>	<u>(11)</u>
Reverse repurchase agreements (less) Securities deliverable under repos	5,098 <u>(5,054)</u>	2,961 <u>(2,961)</u>	5,001 <u>(5,002)</u>	1,173 <u>(1,173)</u>	10,002 <u>(10,002)</u>
	<u>44</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Securities deliverable under stock borrowing (Less) Receivables as guarantee for securities lending	13,538 <u>-</u>	9,037 <u>-</u>	- <u>-</u>	- <u>-</u>	- <u>-</u>
	<u>13,538</u>	<u>9,037</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

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Consolidated Income Statement

Figures in MXN millions at June 30, 2008

HSBC Mexico, S.A. (Bank)

For the quarter ending

Year to date

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Jun 2007	30 Jun 2008
Interest income	7,894	8,857	9,437	9,389	9,491	15,523	18,880
Interest expense	(2,685)	(2,838)	(3,133)	(3,143)	(3,232)	(5,139)	(6,375)
Monetary position (margin)	59	(316)	(486)	-	-	(261)	-
Net interest income	<u>5,268</u>	<u>5,703</u>	<u>5,818</u>	<u>6,246</u>	<u>6,259</u>	<u>10,123</u>	<u>12,505</u>
Loan impairment charges	2,486	2,622	2,935	2,798	3,594	3,929	6,392
Loan impairment charges	<u>2,486</u>	<u>2,622</u>	<u>2,935</u>	<u>2,798</u>	<u>3,594</u>	<u>3,929</u>	<u>6,392</u>
Risk adjusted net interest income	<u>2,782</u>	<u>3,081</u>	<u>2,883</u>	<u>3,448</u>	<u>2,665</u>	<u>6,194</u>	<u>6,113</u>
Fees and commissions receivable	2,725	2,945	3,201	3,011	2,957	5,289	5,968
Account management	390	363	368	336	356	761	692
Services	<u>2,335</u>	<u>2,582</u>	<u>2,833</u>	<u>2,675</u>	<u>2,601</u>	<u>4,528</u>	<u>5,276</u>
Fees payable	(280)	(331)	(339)	(280)	(277)	(559)	(557)
Trading Income	464	151	263	455	(127)	796	328
Foreign exchange	99	234	157	(33)	(167)	281	(200)
Securities trading, net	60	(31)	56	(15)	42	(83)	27
Repos	(13)	(1)	-	(3)	-	(13)	(3)
Swaps	138	(65)	72	(116)	110	533	(6)
Valuation off-shore agencies	100	(43)	(18)	319	72	(9)	391
Valuation for trading swaps	80	57	(4)	303	(184)	87	119
Total operating income	<u>5,691</u>	<u>5,846</u>	<u>6,008</u>	<u>6,634</u>	<u>5,218</u>	<u>11,720</u>	<u>11,852</u>
Administrative and personnel expenses	4,940	5,249	5,080	5,083	5,374	9,615	10,457
Personnel expense	2,093	2,033	2,097	2,137	2,142	4,077	4,279
Administrative expense	2,582	2,963	2,710	2,688	2,960	5,014	5,648
Depreciation and amortization	265	253	273	258	272	524	530
Net operating income	<u>751</u>	<u>597</u>	<u>928</u>	<u>1,551</u>	<u>(156)</u>	<u>2,105</u>	<u>1,395</u>
Other income	931	1,044	1,625	1,694	855	1,502	2,549
Other expenses	(362)	(465)	(290)	(255)	(223)	(566)	(478)
Net income before taxes	<u>1,320</u>	<u>1,176</u>	<u>2,263</u>	<u>2,990</u>	<u>476</u>	<u>3,041</u>	<u>3,466</u>
Income tax and employee profit sharing	(1,033)	(896)	(172)	(1,650)	(635)	(1,607)	(2,285)
Deferred income tax	548	818	(529)	521	469	537	990
Net income before subsidiaries	<u>835</u>	<u>1,098</u>	<u>1,562</u>	<u>1,861</u>	<u>310</u>	<u>1,971</u>	<u>2,171</u>
Undistributed income from subsidiaries	4	14	4	13	20	6	33
Income from ongoing operations	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u>1,874</u>	<u>330</u>	<u>1,977</u>	<u>2,204</u>
Discontinued and extraordinary operations, and changes in accounting policies, net	-	-	-	-	-	-	-
Minority interest	-	-	-	-	(1)	1	(1)
Net income (loss)	<u>839</u>	<u>1,112</u>	<u>1,566</u>	<u>1,874</u>	<u>329</u>	<u>1,978</u>	<u>2,203</u>

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

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

* 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 Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2008 to 30 June 2008

	Paid in capital					Earned Capital								Minority interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Donations	Capital Reserves	Retained earnings	Surplus (Déficit) from securities	Cash for hedge reserve	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets	Adjustments to retirement fund obligations			Net Income
Balances at 31 December 2007	4,272	-	11,611	-	-	14,077	-	(217)	-	-	(3,602)	1,181	(136)	4,656	1	31,843
Movements Inherent to the Shareholders Decision																
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	4,656	(4,656)	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	4,656	-	-	-	-	-	-	(4,656)	-	-
Cash dividends	-	-	-	-	-	(3,500)	-	-	-	-	-	-	-	-	-	(3,500)
Total	-	-	-	-	-	1,156	-	-	-	-	-	-	-	(4,656)	-	(3,500)
Movements for the Recognition of the Comprehensive Income																
Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	2,203	-	2,203
Result from valuation of available-for-sale securities	-	-	-	-	-	24	(117)	-	-	-	-	-	-	-	-	(93)
Cash for hedge reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative effect of restatement	-	-	-	-	-	(2,460)	38	-	-	3,602	(1,181)	-	-	-	-	(1)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Total	-	-	-	-	-	(2,436)	-	(79)	-	-	3,602	(1,181)	-	2,203	1	2,110
Balances as at 30 June 2008	4,272	-	11,611	-	-	12,797	-	(296)	-	-	-	-	(136)	2,203	2	30,453

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

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

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

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

Consolidated Statement of Changes in Financial Position

Figures in MXN millions

From 1 January 2008 to 30 June 2008

HSBC Mexico, S.A. (Bank)

Operating activities:

Net income	2,203
Items included in operations not requiring (providing) funds:	
Result from mark to market valuations	(365)
Allowance for loan losses	6,392
Depreciation and amortisation	530
Deferred taxes	(990)
Undistributed income from subsidiaries, net	(33)
Value loss estimation for foreclosed assets	7
Minority interest	1
Total operating items not requiring funds	7,745

Changes in operating accounts:

Decrease/increase in retail deposit and money desk	(1,006)
Decrease/increase in loan portfolio	(667)
Decrease/increase in securities and derivative transactions, net	(211)
Decrease/increase in financial instruments	(6,380)
Bank deposits and other liabilities	1,921
Funds provided by operations	1,402

Financing activities:

Subordinated debentures outstanding	(7)
Cash dividend	(3,476)
Contributions or reimbursements of capital contributed	-
Decrease/increase in accounts payable	23,581
Funds used or provided by financing activities	20,098

Investing activities:

Property, furniture and equipment and long-term investments	(389)
Decrease/increase in deferred credits	147
Decrease/increase in foreclosed assets	(6)
Decrease/increase in accounts receivable	(18,520)
Funds used in investing activities	(18,768)

Increase/decrease in cash and equivalents **2,732**

Cash and equivalents at beginning of period **48,864**

Cash and equivalents at end of period **51,596**

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.

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Financial Instruments

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

Figures in MXN millions at June 30, 2008

Investments in securities

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Government securities	27,597	20,340	40,101	27,786	46,395
Bank securities	705	951	1,039	1,250	2,918
Shares	959	954	184	1,037	113
Others	484	827	994	801	885
Trading securities	<u>29,745</u>	<u>23,072</u>	<u>42,318</u>	<u>30,874</u>	<u>50,311</u>
Government securities	25,932	21,594	23,921	23,214	19,809
Bank securities	213	262	327	318	1,330
Obligations and other securities	3,231	4,238	5,427	5,266	5,921
Shares	12	13	12	671	1,020
Available for sale securities	<u>29,388</u>	<u>26,107</u>	<u>29,687</u>	<u>29,469</u>	<u>28,080</u>
Sovereign debt securities	276	126	147	-	-
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,853	3,873	3,875	3,948	4,022
MYRAS	-	-	-	-	-
Securities held to maturity	<u>4,131</u>	<u>4,001</u>	<u>4,024</u>	<u>3,950</u>	<u>4,024</u>
Total Financial Instruments	<u>63,264</u>	<u>53,180</u>	<u>76,029</u>	<u>64,293</u>	<u>82,415</u>

In the second quarter of 2008 investment in securities increased by MXN18,122 million compared to prior quarter; mainly by MXN15,204 million increase in government securities, MXN2,680 million in promissory note securities, MXN739 million in bonds, MXN(924) million in mutual funds, MXN349 million in shares and increase in other by MXN74 million.

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

Figures in MXN millions at June 30, 2008

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Government securities (debit)	41,688	47,967	46,145	45,417	34,164
Bank securities (debit)	1,520	900	797	694	810
Valuation Increase (decrease)	32	46	9	34	20
Interest in securities receivable under repurchase agreements	23	14	20	15	14
Total in repo agreements (debit)	<u>43,263</u>	<u>48,927</u>	<u>46,971</u>	<u>46,160</u>	<u>35,008</u>
Repo's Government securities (credit)	41,693	47,969	46,158	45,428	34,173
Repo's Bank securities (credit)	1,520	900	797	694	810
Valuation increase (decrease)	6	4	2	3	(1)
Accrued interest payable	63	59	59	74	45
Credit balance in repo agreements	<u>43,282</u>	<u>48,932</u>	<u>47,016</u>	<u>46,199</u>	<u>35,027</u>
Repurchase agreements in government securities	7,484	5,158	7,095	3,629	11,593
Repurchase agreements in banking securities	-	-	-	-	1,000
Valuation increase (decrease)	1	-	-	-	-
Accrued interest receivable	13	2	-	-	2
Debit balance repo securities agreements	<u>7,498</u>	<u>5,160</u>	<u>7,095</u>	<u>3,629</u>	<u>12,595</u>
Government securities	7,480	5,155	7,081	3,618	11,585
Bank securities	-	-	-	-	1,000
Valuation increase (decrease)	(30)	-	-	-	-
Interest in securities deliverable under repurchase agreements	-	2	2	-	2
Credit balance repo securities agreements	<u>7,450</u>	<u>5,157</u>	<u>7,083</u>	<u>3,618</u>	<u>12,587</u>

Derivative Financial Instruments**HSBC Mexico, S.A. (Bank)**

Figures in MXN millions at June 30, 2008

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	50,976	36,690	86,376	86,567	-	-	14,095
US Dollars	-	-	52,047	65,876	204	205	396,721	395,211	(12,320)
Interest Rate	6,314	6,314	-	-	-	-	1,133,568	1,134,777	(1,209)
Total	<u>6,314</u>	<u>6,314</u>	<u>103,023</u>	<u>102,566</u>	<u>86,580</u>	<u>86,772</u>	<u>1,530,289</u>	<u>1,529,988</u>	<u>566</u>
For hedging									
Pesos	-	-	-	-	-	-	6,781	-	
US Dollars	-	-	-	-	-	-	-	7,096	
Interest Rate	-	-	-	-	-	-	11,037	11,081	
Total							<u>17,818</u>	<u>18,177</u>	

Stock Borrowing

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2008

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

Participation by Subsidiary

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

Group Subsidiaries at June 30, 2008

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,235,526,706	99.99%	1,235,450,480
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	97.22%	738,883,014
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	100	99.00%	99
Total	2,068,863,531		2,047,679,561

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2008

	For the quarter ending...					Year to date	
	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Jun 2007	30 Jun 2008
Valuation	177	(20)	(80)	546	(181)	93	365
Derivatives	179	(21)	(83)	547	(185)	95	362
Repos	(1)	-	3	(1)	4	(1)	3
Debt Securities	(1)	1	-	-	-	(1)	-
Buying and Selling Instruments	287	171	343	(91)	54	703	(37)
Foreign Currency	99	234	157	(33)	(167)	281	(200)
Derivatives	146	(59)	159	(40)	237	373	197
Repos	24	-	(14)	4	(24)	31	(20)
Shares	-	(4)	41	(22)	8	-	(14)
Debt Securities	18	-	-	-	-	18	-
Total	464	151	263	455	(127)	796	328

Loan Portfolio

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

By type of currency

Figures in MXN millions at June 30, 2008

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	50,673	14,440	30,381	47,872	15,089	158,455
US Dollars	21,888	156	1,040	-	4	23,088
Udis Banxico	-	-	7	-	4,397	4,404
Total	72,561	14,596	31,428	47,872	19,490	185,947
Non Performing Loans Portfolio						
Pesos	2,016	-	-	5,432	982	8,430
US Dollars	212	-	-	-	-	212
Udis Banxico	18	-	-	-	388	406
Total	2,246	-	-	5,432	1,370	9,048

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

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	Moody's	Standard & Poor's	Fitch
Global scale ratings			
Foreign currency			
Long term	Baa1	BBB+	A
Short term	P-2	A-2	F1
Local Currency			
Long term obligations	Aa2	BBB+	A+
Long term deposits	Aa2	BBB+	A+
Short term	P-1	A-2	F1
BFSR (Moody's)	C	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mx)
Short term	MX-1	mxA -1+	F1+ (mx)
Outlook	POS (m)	Stable	Positive
Last update	28-Nov-07	09-Jul-08	20-Sep-07

Loan Portfolio Grading

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2008

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	18,905				
Graded	185,206				
Risk A	131,809	524	202	56	782
Risk A-1	99,023	207	202	56	465
Risk A-2	32,786	317	-	-	317
Risk B	41,898	1,619	498	143	2,260
Risk B-1	27,652	423	498	143	1,064
Risk B-2	12,114	898	-	-	898
Risk B-3	2,132	298	-	-	298
Risk C	3,713	373	982	147	1,502
Risk C-1	3,233	171	982	147	1,300
Risk C-2	480	202	-	-	202
Risk D	5,957	451	3,391	590	4,432
Risk E	1,829	828	969	65	1,862
Total	204,111	3,795	6,042	1,001	10,838
Less:					
Constituted Reserves					11,238
Surplus ³					400

1. The rating and constituted reserves correspond to Balance Sheet's last day June 30, 2008.

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

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

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	At the quarter ending				
	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Initial Balance of Impaired Lons	5,282	5,738	6,606	8,025	7,871
Increases	4,506	5,267	5,983	7,641	6,781
Transfer of current loans to past due status	4,506	5,267	5,983	7,641	6,781
Decreases	(3,968)	(4,301)	(4,576)	(7,797)	(5,601)
Restructurings	(69)	(76)	(155)	(95)	(221)
Liquidated credits	(3,033)	(3,221)	(3,402)	(6,465)	(3,600)
Charged in cash	(1,685)	(2,064)	(1,626)	(3,733)	(860)
Foreclosed assets	(1)	-	-	-	(17)
Writeoffs	-	-	-	-	-
Sale of portfolio	(1,347)	(1,157)	(1,776)	(2,732)	(2,723)
Transfer to performing loan status	(866)	(1,004)	(1,019)	(1,237)	(1,780)
Fx revaluations	(10)	14	12	2	(3)
Final Balance of Impaired Loan	5,810	6,718	8,025	7,871	9,048

Deferred Taxes

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

Figures in MXN millions at June 30, 2008

	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008
Loan loss reserves	1,314	1,787	1,733	2,139	2,710
Valuation of securities	(40)	68	(27)	(548)	(309)
Fiscal loss	46	-	1	28	7
Other reserves	130	209	318	268	232
PTU Payable	281	257	191	308	171
Foreclosed assets	294	297	170	174	164
Stocks VISA & Mastercard	-	-	-	(185)	(170)
Other	(16)	50	86	101	110
Differences in rates of fixed assets	(472)	(186)	(471)	(520)	(487)
Fiscal result UDIS-Banxico	(1,335)	(1,082)	(1,085)	(623)	(623)
Total Deferred Taxes	202	1,400	916	1,142	1,805

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>
MXN pesos					
Funding	2.78%	3.00%	3.28%	3.42%	3.74%
Bank and other loans	7.20%	7.10%	7.38%	7.39%	7.42%
Foreign currency					
Funding	1.69%	1.76%	1.72%	1.27%	0.86%
Bank and other loans	5.24%	5.37%	5.12%	4.73%	3.06%
UDIS					
Funding	0.19%	0.19%	0.20%	0.20%	0.19%

Long Term Debt

HSBC Mexico, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i> <i>MXN millions</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i> <i>MXN millions</i>	<i>Maturity Date</i>
INTENAL 03	24-NOV-2003	2,200	MXN	1	2,201	25-NOV-2013
		2,200		1	2,201	

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i> <i>MXN millions</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i> <i>MXN millions</i>	<i>Maturity Date</i>
Certified Marketable Securities	10-MAY-2006	4,221	MXN	33	4,254	27-ABR-2016
		4,221		33	4,254	

Capital

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

Grupo Financiero HSBC

The Ordinary Shareholders Meeting, held on April 22, 2008, approved the following distribution of the year 2007 financial results, amounting to MXN5,615 million:

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

In other regard, MXN8,228 million were applied to Previous Year Results as determined by the Board. This figure represents the accrued results, at December 31, 2007 of the effects of inflation in the financial information. Starting on January 1 of 2008, the effects of inflation shall no longer be recorded, because Mexico is in a non-inflationary environment, as defined in the Financial Information Standards issued by the Mexican Council for Research and Development of Financial Information Standards.

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

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

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Figures in MXN millions at June 30, 2008

	<u>30 Jun 2007</u>	<u>30 Sep 2007</u>	<u>31 Dec 2007</u>	<u>31 Mar 2008</u>	<u>30 Jun 2008</u>
% of assets subject to credit risk					
Tier 1	15.84%	15.53%	16.76%	16.30%	15.41%
Tier 2	2.06%	1.89%	1.86%	1.92%	1.89%
Total regulatory capital	<u>17.90%</u>	<u>17.42%</u>	<u>18.62%</u>	<u>18.22%</u>	<u>17.30%</u>
% of assets subject to credit and market risk ^{1/}					
Tier 1	12.29%	11.05%	12.81%	11.67%	12.03%
Tier 2	1.60%	1.35%	1.42%	1.37%	1.48%
Total regulatory capital	<u>13.89%</u>	<u>12.40%</u>	<u>14.23%</u>	<u>13.04%</u>	<u>13.51%</u>
Tier 1	25,519	26,504	30,192	28,267	26,988
Tier 2	3,318	3,226	3,359	3,322	3,315
Total regulatory capital	<u>28,837</u>	<u>29,730</u>	<u>33,551</u>	<u>31,589</u>	<u>30,303</u>
RWA credit risk	161,087	170,613	180,150	173,367	175,196
RWA market risk ^{1/}	46,627	69,169	55,630	68,856	49,044
RWA credit and market risk	<u>207,714</u>	<u>239,782</u>	<u>235,780</u>	<u>242,223</u>	<u>224,240</u>

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

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

Other Expenses, Other Income and Extraordinary Items

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

Figures in MXN millions at June 30, 2008

	For the quarter ending					Year to date	
	30 Jun 2007	30 Sep 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Jun 2007	30 Jun 2008
Other income							
Loans to employees	27	32	35	40	43	51	83
Recoveries	333	565	727	252	295	461	547
Other income	516	359	765	1,381	509	832	1,890
Monetary position (other income)	24	60	139	-	-	116	-
	900	1,016	1,666	1,673	847	1,460	2,520
Other expenses							
Other losses	(362)	(466)	(362)	(235)	(96)	(567)	(331)
Monetary position (other expenses)	-	-	-	-	-	-	-
	(362)	(466)	(362)	(235)	(96)	(567)	(331)
Total other income (expenses)	538	550	1,304	1,438	751	893	2,189

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

Related Party Transactions

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

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

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

Figures in MXN millions at June 30, 2008

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
Balance Sheet							
Cash and deposits in banks	-	2	137	1	22	8	170
Demand deposits	(170)	-	-	-	-	-	(170)
Repos (assets)	-	-	8	-	-	-	8
Reverse repos (liabilities)	(8)	-	-	-	-	-	(8)
Sundry debtors (assets)	248	-	15	3	-	-	266
Sundry creditors (liabilities)	-	(15)	(3)	(107)	(141)	-	(266)
Total	70	(13)	157	(103)	(119)	8	-

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
P&L							
Payable commissions	-	(5)	-	(74)	-	-	(79)
Receivable commissions	62	-	12	5	-	-	79
Interest income	-	-	3	-	-	-	3
Interest expense	(3)	-	-	-	-	-	(3)
Repos	(99)	-	-	-	-	-	(99)
Reverse repos	-	-	99	-	-	-	99
Administrative services	-	(34)	(49)	(18)	(147)	(1)	(249)
Other income	249	-	-	-	-	-	249
Total	209	(39)	65	(87)	(147)	(1)	-

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of June 30, 2008, is shown below:

Figures in MXN millions at June 30, 2008

	Year to date at 30 June 2008				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	8,932	2,599	978	20	12,529
Provision for Loan Loss	(6,143)	(258)	9	-	(6,392)
Net Interest Income adjusted	2,789	2,341	987	20	6,137
Fees and Commissions, net	4,452	1,041	317	12	5,822
Trading Income	132	53	148	-	333
Total Revenue	7,373	3,435	1,452	32	12,292
Administrative Expenses	(7,751)	(2,085)	(966)	(55)	(10,857)
Operating Income	(378)	1,350	486	(23)	1,435
Other Income (Expenses), net	1,789	125	227	48	2,189
Taxes	(525)	(551)	(266)	(3)	(1,345)
Net Income before subsidiaries	886	924	447	22	2,279
Undistributed income from subsidiaries	40	-	-	536	576
Continued Operating Results	-	-	-	-	-
Discontinued Operating Results	-	-	-	-	-
Net Income	926	924	447	558	2,855
Minority Shareholders	(1)	-	-	-	(1)
Participated Net Income	925	924	447	558	2,854

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

Grupo Financiero HSBC

HSBC Holdings plc, the parent of Grupo Financiero HSBC S.A. de C.V. reports its results under International Financial Reporting Standards (IFRS). There follows a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V. from Mexican GAAP to IFRS for the first quarter ended 30 June 2008 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 June 2008
Grupo Financiero HSBC – Net Income Under Mexican GAAP	2,854
Differences arising on the valuation of pensions and post retirement healthcare benefits †	42
† Differences arising on acquisition costs relating to long-term investment contracts	(20)
Differences arising from the deferral of fees received and paid on the origination of loans	60
Differences arising from the recognition and provisioning for loan impairments †	161
Differences arising from purchase accounting adjustments †	(12)
Differences arising from the recognition of the present value in-force of long-term insurance contracts †	19
Other differences in accounting principles †	12
HSBC México net income under IFRS	3,116
US dollar equivalent (millions)	293
Add back tax expense	949
HSBC México profit before tax under IFRS	4,065
US dollar equivalent (millions)	382
<i>Exchange rate used for conversion</i>	10.6

† Net of tax at 28 per cent.

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

Retirement benefits

Mexican GAAP

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

IFRS

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method. Actuarial gains and losses are recognised in stockholders equity as they arise. Unrecognised past service cost are recognised in the Income Statement as they arise.

Summary of key differences between Grupo Financiero's results as reported under Mexican GAAP and IFRS (continued)**Acquisition costs of long-term investment contracts****Mexican GAAP**

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

IFRS

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

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

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

IFRS

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

Loan impairment charges**Mexican GAAP**

Loan impairment charges are calculated following the rules issued by the Mexican Ministry of Finance and the National Banking and Securities Commission. Such rules establish authorised methodologies for determining the amount of provision for each type of loan.

IFRS

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

Purchase accounting adjustments

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

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

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

IFRS

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

Risk Management

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

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

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

Assets and Liabilities (Committee) ALCO

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

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

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

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

Risk Management Committee (RMC)

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

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

The main objectives of this committee are to:

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

- ▶ Track market, credit, and other relevant risks. Additionally, review and approve objectives, operation, and control procedures along with risk tolerance based on market conditions.

Market Risk Management

Qualitative Information

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

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

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

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

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

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

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

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

Value at Risk (VaR)

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

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

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

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

Spread over yield risk

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

Basis Risk

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

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

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

Credit Spread Risk (CSO1)

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

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

Vega or implied volatility risk

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

Extreme Conditions Tests (Stress Test)

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

Validation and Calibration Methods for Market Risk models:

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

Applicable portfolios:

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

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

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

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

Quantitative Information

Below, the market VaR and the Bank’s PVBP will be presented and their subdivisions in the “Trading” and “Accrual” portfolios for the second quarter of 2008 (millions of dollars).

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

Value at Risk of Global Market (VaR) (Considering all Risk Factors)						
	Bank		All Trading		Accrual	
	Average 2Q08	Limits*	Average 2Q08	Limits*	Average 2Q08	Limits*
Combined	11.45	42.00	2.74	40.00	11.23	27.50
Interest Rate	12.06	42.00	3.44	24.50	11.23	27.50
FX	1.89	8.00	1.89	8.00	N/A	N/A
Volatility IR	0.37	9.50	0.36	7.50	0.02	2.0

Value at Risk of Global Market (VaR) (Last quarter comparison)					
	31-Mar-08	30-Jun-08	Limits*	Average 1Q08	Average 2Q08
HBMI	14.59	9.36	42.00	13.49	11.45
Accrual	13.22	9.00	27.50	11.96	11.23
All Trading	1.80	2.17	32.50	2.43	2.74

* Absolute Value

N/A = Non Applicable

The Bank’s VaR at the end of the 2Q08 varied -55.85% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank’s average VaR for the end of the 2Q08 varied -17.82% 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 March 31st, 2007 and June 30th, 2008 (in millions of dollars).

Market VaR vs. Net Capital Comparison*Net Capital in million Dollars*

	31-Mar-08	30-Jun-08
Total VaR*	13.49	11.45
Net Capital **	2,966.58	2,940.10
VaR / Net Capital	0.45%	0.39%

* 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 0.39% of the net capital in 2Q08.

Present Value for 1bp (PVBP) for Mexican Pesos Rates					
	31-Mar-08	30-Jun-08	Limits*	Average 1Q08	Average 2Q08
Bank	(0.815)	(0.163)	1.082	(0.620)	(0.481)
Accrual	(0.700)	(0.256)	0.957	(0.614)	(0.527)
Trading Desk	(0.089)	0.066	0.350	0.003	0.047
Balance Sheet Trading	(0.025)	0.028	0.230	(0.009)	(0.001)
AFR **	(0.242)	(0.263)	0.437	(0.240)	(0.240)
ALCO	(0.003)	(0.000)	0.030	(0.003)	(0.000)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 2Q08 varied -400% versus prior quarter. The bank's average PVBP for the 2Q08 varied -28.95% versus prior quarter.

Liquidity Risk**Qualitative Information**

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

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

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

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

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

Quantitative Information

The institution had at the end of the quarter liquidity ratios of 19.0% for 1st line liquidity and 25.0% for 2nd line liquidity, above the 15% minimum required limit. Along the quarter, average levels were 17.7% and 23.7% for 1st for 2nd line liquidity ratios respectively. Mexican peso liquidity position improved along the quarter given the collection of \$10,380 million MXN in pre-payments from IPAB.

In the same tenure, expected cash flow stress test scenarios have been run, most extreme scenario presents a negative cumulative net cashflow arising from an important maturity concentration of CD's issued in the market.

Implementing of a mechanism is undergoing with relevant areas in order to consider the issuance of new CD's in the context of liquidity stress scenarios, with the objective of avoiding maturity concentration in the future.

Credit Risk

Qualitative Information

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

Credit risk is defined as the risk that a client or counterparty 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 counterparty. For the correct measurement of credit risk, HSBC has credit risk measurement methodologies, as well as advanced information systems.

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

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

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

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

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

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

The implementation of the mentioned models in the last paragraphs was done along with the introduction of a client risk grading framework, known as Customer Risk Rating (CRR), which contemplates 22 levels, 20 of them are for non-defaulted customers and 2 for defaulted, being 1.1 the level of minimum risk and 10.0 the maximum. The framework includes a direct correspondence to Probabilities of Default and permits a more granular measurement of the credit quality of clients.

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

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

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

In addition, and with the objective of enhancing the management of guarantees of the commercial portfolio, a system was implemented in 2006, "Garantías II". Finally, it is important to comment that HBMX also has a system that controls the limits and utilization of credit facilities since their origination, "Líneas III". The efficiency evaluation of the origination models for the consumer and mortgage portfolio is done quarterly: the population being evaluated is compared to the one used in the development of the models, that the model can distinguish clients with good behaviour from those with bad, and that the model continues assigning high scores to clients with a low risk. If a low efficiency is detected in a model, it is recalibrated or replaced.

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

Quantitative information

The Expected Loss (EL) of the consumer and mortgage portfolio as at June 30th, 2008 is MXN 7,726.6 millions, an increase of 13.2% compared to that of the previous quarter. At the beginning of 2008 a review of the calculation methodology for the commercial portfolio was made to incorporate new regulatory information on non-performing loans. The EL of the commercial portfolio as at June 30th, 2008 is \$3,784.3 millions of pesos, a decrease of 2.1% compared to that of the previous quarter.

Operational Risk

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

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

In order to identify and re-evaluate these risks, the 4th annual assessment took place through out the group entities during the last quarter of 2007. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories (people, processes, systems and external events) which were in turn subdivided into a total of 22 subcategories within which we can identify legal and technological risks. Risks were also graded in terms of three parameters: likelihood, impact and exposure. With the values obtained from these parameters a risk grade was calculated, which in order of relevance goes from 'A' to 'D'.

Technological Risk

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

Legal Risk

Legal Risk Management is attending the following types of risk:

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

To avoid the possible loss owing to non compliance with legal and administrative norms applicable and to avoid unfavorable resolutions, we have implemented policies and procedures to identify measure and control Legal risks avoiding non estimated losses for the institution. Also we have diffused among employees and functionaries the legal and administrative disposals applicable to the daily operations and we have made legal audits to get a culture of Legal Risk Mitigation.

Quantitative Information (including Legal and Technological Risk)

As a result of the 4th assessment, and taking into account their upgrades during the second quarter of 2008, we have 2,410 risks distributed as follows: 1.40% A type, 10.2% B type, 59.8% C type, and 28.6% D type risks, which can also be classified onto: 20.3% people, 50.6% process, 17.9% systems and 11.2% external type risks.

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

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

Concept	%
Frauds	50.8
Robberies and assaults	3.8
Counterfeit notes	0.7
Operating errors	6.0
Branches	2.7
Credit Cards	27.8
Shortages	0.3
Other errors and losses	7.9

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

Corporate Sustainability (CS)

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

This includes our management of environmental impacts, our approach to sustainable banking, our people, and the community investment aspects of our business.

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

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

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

Our aim is to be the "leading financial services company in Mexico in the eyes of our customers". By 'leading', we mean 'preferred', 'admired', and 'dynamic', recognizing the strength of our brand, our corporate character, and our earnings growth.

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

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

CSR Certification

In March 2008, HSBC México was awarded, for the third consecutive year, the Certification as a "Socially Responsible Company", by the Mexican Philanthropy Centre (CEMEFI), and Aliarse, an association formed from different business organizations.

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.

Education

In HSBC we are convinced that the development of any nation is directly bound to its human and intellectual capital and that education is essential for progress. Children are the future of all the nations and we know that many talented young people around the world do not have the opportunity to exploit their potential because they lack opportunities.

Consequently, through our social programmes, we aim to positively impact the lives of these young people and to provide financial support to projects that give them access to a greater quality education which, in turn, builds in them a belief of hope, a positive attitude and opens opportunities for them to achieve success, create a better future for themselves, and with time, a better quality of life for their families as well.

HSBC Mexico donated USD 1.5 million over a five-year period to support secondary, technical and preparatory schools throughout 8 states of Mexico. This includes the annual adoption of four schools throughout the country, in order to improve infrastructure, equipment, programmes and fostering exchange visits for gifted children with schools in the United Kingdom. After the initial year, an ongoing relationship is maintained with the schools. To date, the programme has benefited 35,000 children in Mexico City, the State of Mexico, Hidalgo, Morelos, Guerrero, Tabasco, Chiapas and Campeche.

In 2007, the HSBC Global Education Trust launched 'Future First', a global USD10 million, 5-year initiative (2007-2012) collaborating with SOS Children's Villages, the world's largest NGO for orphans, and with local charitable organisations in countries where HSBC has a presence, to provide education, healthcare, counselling and shelter to thousands of street children, children in care and foster children.

Through the Future First programme, HSBC has so far supported the following foundations in Mexico:

1. Fundación Casa Alianza México	US\$74,985.00
2. Fundación Pro Niños De La Calle I.A.P.	US\$25,000.00
3. Fundación Dr. José María Álvarez,	US\$22,394.00
4. Fundación Mexicana Bartolomé de las Casas A.	US\$25,000.00
5. Ayuda y Solidaridad	US\$16,976.00
6. Fundación Dar y Amar (DAYA) IAP	US\$75,000.00
7. SOS Children's Villages	US\$25,000.00
8. Fundación Juconi	US\$25,000.00

As part of the HSBC Graduate Development Programme through Amistad Británico Mexicana IAP, graduates provide ecological education in schools around Mexico City in an attempt to improve environmental awareness in the classroom. The young professionals develop projects which are then implemented in the participating schools.

Combined with the support received from the group at a world-wide level, HSBC Mexico donated \$350,000 pesos to Casa Daya for the construction of the Montessori Kindergarten HSBC. This project is a specialized educative model for vulnerable groups, where the common denominator is to provide a better childhood and the opportunity to reach levels of educational excellence, by creating a healthy environment for their development.

We also supported the Bartholomé de las Casas school whose objective is to care for the physical, mental and emotional health of young people, as well as for their integral education. The school aims to obtain equality while fighting poverty, addictions and violence among young adults. HSBC Mexico donated \$100,000.00 pesos to the construction of a kitchen workshop which will contribute to the sustainability of the institution. The surrounding communities will benefit through the communitarian youth work that Bartolomé carries out.

Through the "Tu Cuenta" programme, which donates 1% of the customer's monthly fee paid, support is also being provided to the Casa Hogar Marsh, a children's home which provides food, education, shelter and medical assistance to 80 children between the ages of 6 and 19. As part of the support offered to this institution, and in an effort to combine the donations made by HSBC through its marketing area, in this case the Mexican Open, HSBC volunteers and the children from the home were able to attend an event in Acapulco where famous Mexican tennis players including Leo Lavalle and Angélica Gavaldón held practice session with them to promote sports and a healthy life style. The children from the home were able to enjoy the sporting activities which are of great importance to their development and recovery from abandonment, domestic violence and extreme poverty, which most of them have experienced.

HSBC has also partnered with SIFE (Students in Free Enterprise) in a financial education programme geared towards promoting a culture of social responsibility and of contributing to their communities among the future business leaders and entrepreneurs. Through this programme, students from both private and public universities develop proposals which are aimed at bringing financial education and creating sources of income as well as financial freedom to underprivileged sectors of the community. The SIFE Programme focuses on five areas: entrepreneurship, market economics, success skills, financial literacy and business ethics. In

support and follow up of this programme, HSBC sponsored the SIFE (Students in Free Enterprise) 2008 national competition which was formally inaugurated on the 19th of June with the presentation of each of the 42 project proposals. The proposals were grouped into six categories from which the winners competed in the final held on the 20th of June. Out of the 22 universities competing, the team from the Instituto Tecnológico de Sonora (ITSON) was announced the winner of the \$70,000 prize and the team will be representing Mexico in this year's International SIFE Competition which will be held in Singapore, with 45 countries participating. HSBC not only sponsored part of the competition but also participated through volunteers who supervised the projects and the participating university students. HSBC is greatly committed to supporting and evaluating the team which will be representing Mexico at an international level.

Moreover, an important fundraising programme in which HSBC participates is "Bécalos", run by the Association of Mexican Banks, which provides scholarships to allow children in need, homeless children, and secondary school teachers from public schools to further their education. HBMX committed MXP 3 million to the programme, and undertook a fundraising campaign among clients through our ATM network. The programme will benefit 12,200 teachers by supporting their professional development and provide scholarships for more than 27,000 children in secondary, preparatory and technical schools.

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

HSBC, in collaboration with the DIF Hidalgo organization and the Rigoberta Menchu Foundation, also held an international congress for families and young adults from the 28th to the 30th of May of this year. The first lady of Mexico, Mrs. Margarita Zavala Calderón, the Governor of the state of Hidalgo among other governors, Dr. Rigoberta Menchú Tum, 1992 Nobel peace prize winner. During the three days that the congress was held for, themes focused on education and youth were presented and discussed by experts on the subjects.

Community

HSBC Mexico donated a total of USD 1 million over a five year period, used to build and equip the Community Clinic that operates in the ABC Hospital in Santa Fe. To date the program has benefited 22,000 patients from the community with preventative medicine, treatments and education in health as well as 6,000 children through the Prevention Program in Schools.

In addition to this, HSBC's donations also contribute to the Red Cross's annual healthcare campaign.

HSBC is also particularly concerned with involving all of its employees in fundraising events or as volunteers at projects for different institutions. It is vital to HSBC that its employees contribute directly to the communities in which the bank operates through first-hand experiences which often have an educational and long-lasting impact on its participants. As part of this initiative, HSBC, through the Tu Cuenta programme, supported the construction of two psycho-pedagogies classrooms in the new shelter of Casa de la Sal which attends to children with HIV/AIDS. On the 8th of May, more than 40 volunteers from Compliance Global arrived at this new shelter to paint and furnish two classrooms as well as to carry out an environmental activity consisting of equipping the Green Areas of the new facilities with ornamental plants, an orchard, a vegetable garden, a compost heap, and trees. That same evening, a casino night was organized to benefit the children with HIV/AIDS and a dinner-gala was held in honour of the famous Mexican singer, Benny Ibarra, for his valuable collaboration with the HSBC Mexico Emergency Programme in support of the tsunami, Peru, and Tabasco.

Furthermore, in alliance with the newspaper "El Récord" and Sportcity, HSBC organized a "Bicibús" event to raise additional funds to pay for operations for children with eye cataracts through APEC, an association to avoid blindness in Mexico. APEC is an institution dedicated to preventing and correcting blindness among children throughout Mexico, with external programmes for operating cataracts and other ocular lesions, as well as through giving talks on prevention and care in the case of lesions or irreversible diseases. The "Bicibús" is a double-decker tour bus on which 18 fixed bicycles were set up to invite HSBC employees, celebrities and the general public to burn calories, thereby achieving two feats: one being to promote a healthy life style and the

use of the bicycle and, two being to support the fundraising programme for APEC. Each calorie burned by a participant corresponded to one peso donated by the bank to this important cause of protecting Mexican children.

The Environment

HSBC Mexico is also working on its direct impact on the environment. An important step towards this was the construction of its new headquarters building in Mexico City, Torre HSBC. In its construction, energy saving systems were assembled in order to reduce atmospheric emissions, and features to reduce water consumption and ensure efficient waste management processes were incorporated. In November of 2007, Torre HSBC was presented with the LEED certification by the U.S. Green Building Council, which makes it the first building of its type in Mexico and Latin America, to receive this certification.

HSBC Mexico has also implemented the guidelines established by the Group that require environmental standards to be considered when granting corporate loans, commercial loans and project financing.

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

The Arts

HSBC Mexico has also been active in supporting cultural activities, as they are tied to education as well to the country's identity, past, present and future.

Aid in Emergency Situations

HSBC has provided emergency aid, both to communities and customers, and raised funds for emergencies, as in the cases of the Tsunami in Asia, the Hurricanes Stan and Wilma at the end of 2005, the Earthquake in Peru and the Floods in Tabasco in 2007. HSBC provides special emergency care for children who suffer in the event of a disaster. This is a further example of our commitment to underprivileged children in need.

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

In addition to this, HSBC will be helping to establish a culture of education in emergency and disaster situations for marginalized children. Communities will also be offered advice on strategies and management during emergency situations in order to strengthen a preventative culture. HSBC Mexico also made a donation to Universidad Juarez which is assisting with the development of a community centre project which will be constructed using local resources and environmentally friendly and sustainable methods. The centre will provide workshops for the local community to teach them how to react to any future disasters and it will also

serve as a potential shelter. This is being done with the participation of Save the Children and Fundación Merced.

In Conclusion

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

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