

# Grupo Financiero HSBC

*Financial information at 31 December 2009*

## 4Q09

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Fourth Quarter 2009**

*Release date:  
01 March 2010*





1 March 2010

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FOURTH QUARTER 2009 FINANCIAL RESULTS – HIGHLIGHTS**

- Total operating income before loan impairment charges for the year ended 31 December 2009 was MXN34,620 million, down by MXN5,313 million or 13.3 per cent compared with MXN39,933 million in 2008.
- Net income for the year ended 31 December 2009 was MXN1,554 million, down by MXN2,556 million or 62.2 per cent compared with MXN4,110 million in 2008.
- Profit before tax for the year ended 31 December 2009 was MXN134 million, down by MXN3,742 million or 96.5 per cent compared with MXN3,876 million in 2008.
- Net loans and advances to customers were MXN149.5 billion at 31 December 2009, down by MXN10.6 billion or 6.6 per cent compared with MXN160.1 billion at 31 December 2008.
- Time and Demand deposits were MXN234.3 billion at 31 December 2009, down by MXN26.9 billion or 10.3 per cent compared with MXN261.2 billion at 31 December 2008.
- Return on equity was 3.7 per cent for year ended 31 December 2009, compared with 11.0 per cent for 2008.
- The cost:efficiency ratio was 62.7 per cent for the year ended 31 December 2009, compared with 56.4 per cent for 2008.
- Grupo Financiero HSBC received a capital injection of MXN8,954 million from HSBC Holdings plc in late 2009. At 31 December 2009, the bank's capital adequacy ratio was 17.8 per cent. The tier 1 capital ratio was 13.8 per cent.

*HSBC Mexico S.A. (the Bank) is Grupo Financiero HSBC, S.A. de C.V.'s (Grupo Financiero HSBC) primary subsidiary company and is subject to supervision by the Mexican Banking and Securities Commission. The Bank is required to file financial information on a quarterly basis (in this case for the quarter ended 31 December 2009) 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).*

*Figures for the financial statements for 2008 have been reclassified for comparative purposes following changes in local accounting rules deployed in 2009.*

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

## Overview

In 2009 economic activity in Mexico fell by 6.5 per cent as a result of the global economic crisis and the strong dependence on trade with the United States of America. This contraction is one of the most severe that the Mexican economy has experienced in decades. The situation was exacerbated by the H1N1 viral outbreak and the related economic shutdown in the first half of the year. The annual consumer price index rate continued to moderate, falling from 6.5 per cent in December 2008 to 3.6 per cent in December 2009. In response to the deterioration in economic conditions, the Central Bank of Mexico cut its overnight interest rate by 375 basis points during the first seven months of 2009 to 4.5 per cent by the end of the year. The exchange rate of the Mexican peso was volatile throughout the year, ending 2009 at 13.1 against the US dollar, compared to 13.8 at the end of 2008. Despite the difficult and volatile international environment, recent economic data has shown encouraging signs of improvement with GDP growth of 2.9 per cent and 2.0 per cent in the third and fourth quarters respectively.

Mexican banks implemented a number of government programmes to mitigate the effects of the economic slow-down and the impact of the H1N1 viral outbreak. Despite this difficult environment, the Mexican banking system remained strongly capitalized and highly liquid.

Grupo Financiero HSBC was impacted by the economic environment as margins reduced as a result of lower market interest rates. It was also affected by the combination of portfolio seasoning, which followed expansion in market share in previous years, and increased delinquencies in secured and unsecured personal lending products.

As a result Grupo Financiero HSBC redefined its goals and plans for 2009 focussing on a conservative strategy to prioritise risk appetite and reinforce collections efforts. This began to show results in the second half of the year, with improved liquidity, capital strength and cost control. Cost control was achieved despite incurring additional infrastructure and systems investment costs designed to improve the quality of service to customers.

Additionally, during the year credit origination models were reassessed and special emphasis placed on monitoring the credit quality of customers by offering several refinancing programmes to support them during the difficult economic conditions.

In December 2009 a capital injection for MXN8,954 million was completed. In addition the bank issued MXN3,917 million of subordinated debentures to strengthen the Tier 2 capital base which further improved the total capital ratio and liquidity levels of the bank.

These actions have placed Grupo Financiero HSBC on a solid platform to resume growth in the short to medium term.

Within this difficult environment Grupo Financiero HSBC's net income for the year ended 31 December 2009 was MXN1,554 million, a decrease of MXN 2,556 million or 62.2 per cent compared to 2008. This decrease is largely due to a fall in net interest income and lower fee income. This was partially offset by a decrease in loan impairment charges, lower tax expense and tight cost control policies throughout the year.

Net interest income decreased by MXN3,969 million or 15.8 per cent in 2009 to MXN21,220 million compared to 2008. The reduction in net interest income was primarily due to the

slowdown in economic activity, reduced risk appetite, decreased deposit margins and the cost of maintaining sound liquidity levels. In particular the consumer credit portfolio decreased 30.4 per cent compared with the same period last year, while deposits decreased 10.1 percent compared to 2008.

Loan impairment charges decreased by MXN409 million or 2.7 per cent in 2009 to MXN14,472 million compared to 2008. During the second half of the year, loan impairment charges were 35.9 per cent lower compared to the first half of 2009. A change in the methodology for calculating provisions for consumer loans was introduced by the regulator in the third quarter of 2009, with a subsequent decrease of MXN321 million in loan impairment charges.

Additionally, there has been a focus on improved risk management, the strengthening of the collections operations and lower portfolio volumes to reduce loan impairment charges.

Net fee income was MXN9,705 million for the year ended 31 December 2009, a decrease of MXN1,659 million or 14.6 per cent compared to 2008. The economic slowdown had a negative effect in transaction volumes and consequently fee income generation, particularly from credit cards, payment and cash management services, account management and ATMs. In addition, tighter credit origination criteria affected credit card fee generation.

Trading income was MXN2,861 million for the year ended 31 December 2009, an increase of MXN302 million or 11.8 per cent compared to 2008. This positive performance was mainly driven by high volatility in the markets and strong performances in debt and derivative trading.

Administrative expenses were MXN21,697 million for the year ended 31 December 2009, a decrease of MXN808 million or 3.6 per cent compared to 2008. This was made possible by strict cost control actions implemented during the year, such as the branch rationalisation strategy which led to lower staff costs, together with the impact of the cancellation of a credit card cash back promotional facility in the latter part of 2008.

Net other income was MXN1,683 million for the year ended 31 December 2009, an increase of MXN354 million or 26.6 per cent compared to 2008. This is mainly due to non recurring derivative losses incurred as a result of counterparty default in 2008, mostly offset by non recurring income of MXN1,041 million from the sale of VISA Inc shares recorded in 2008.

The performance of our subsidiaries, principally HSBC Seguros, contributed MXN1,159 million of total net income, an increase of MXN95 million or 8.9 per cent compared to 2008. The performance was driven by lower claims and improved operational efficiency.

As a consequence of the economic conditions and the change in risk appetite, net loans and advances to customers were MXN149.5 billion at 31 December 2009, a decrease of MXN10.6 billion or 6.6 per cent compared to 31 December 2008. This decrease was driven by a reduction in consumer loans of 30.4 per cent.

Total impaired loans decreased by 22.5 per cent to MXN7,939 million at 31 December 2009 compared to 31 December 2008. Specifically, non-performing consumer loans decreased 41.4 per cent compared to 2008. Total impaired loans as a percentage of gross loans and advances to customers improved to 4.96 per cent from 5.92 per cent as at 31 December 2008.

Total loan loss allowances at 31 December 2009 were MXN10,447 million, a decrease of MXN2,415 million or 18.8 per cent compared to 31 December 2008.

The total coverage ratio (allowance for loan losses/impaired loans) was 131.6 per cent at 31 December 2009, compared to 125.5 per cent at 31 December 2008.

Total deposits decreased by 10.1 per cent to MXN238.5 billion at 31 December 2009 compared to 31 December 2008. Demand deposits were MXN127.8 billion, 8.7 per cent lower compared to 31 December 2008. The decrease in demand deposits is mainly as a consequence of the difficult economic conditions and strong competition to attract customer deposits. Total time deposits decreased MXN14.8 billion or 12.2 per cent compared to 31 December 2008 largely as a result of lower money market deposits as funding requirements decreased in line with the lower asset balances. Customer time deposits (excluding money market funds) increased 6.4 per cent to MXN105.4 billion. This increase is a result of new product offerings and the promotion of existing products.

In December 2009, Grupo Financiero HSBC shareholders approved a capital injection of MXN8,954 million which was subsequently injected to the bank. This capital increase further strengthened the bank's capital position and as a consequence the bank's capital adequacy ratio improved to 17.8 per cent at 31 December 2009. The Tier 1 capital ratio was 13.8 per cent.

## **Business Highlights**

### **Personal Financial Services**

During 2009, Personal Financial Services (PFS) implemented several strategies aimed at offering differentiated services and products to the target customer base. Part of the strategy to improve the quality of the customer experience is the renovation of the branch and ATM network. In the last year and a half, 345 branches have been refurbished under a new business model.

The consumer loan portfolio has continued to decline in line with a more conservative underwriting appetite and lower demand for credit.

Throughout the year PFS continued supporting its customers through offering different refinancing opportunities for consumer loan products, particularly credit cards and mortgages, in order to improve collections and offer payments solutions to customers to assist them during the difficult economic conditions.

Demand and time deposit volumes decreased during 2009 as a consequence of lower economic activity and strong market competition. In addition the elimination of foreign currency cash transactions in branches and the reduction in the branch network also contributed to lower deposit volumes. Nevertheless several strategies were implemented to mitigate these effects including reinforcing our existing products and launching new products, such as "*Inversión Express*", launched in July 2009, which has been well received and has generated approximately 60,000 new accounts. At the same time, PFS continued to promote the "*Cuenta Flexible HSBC*" and "*Cuenta Ahorro HSBC*" products by providing incentives for customers to open accounts. In November, "*Escudo Total HSBC*" was launched, which is an insurance product that provides

full coverage protection at no cost to the customer for our payroll and “*Cuenta Flexible HSBC*” products.

## **Commercial Banking**

Commercial Banking achieved loan portfolio growth despite the challenging market conditions. Deposit volumes decreased slightly as a result of a drop in demand deposits. This was partially offset by increased time deposit volumes.

Repricing strategies were implemented in the fourth quarter of 2009 to business banking product offerings making them more competitive and attractive to customers. In addition, Commercial Banking is developing specialized teams to assist our business banking clients in the branch network.

The State and Municipality segment continued to show strong growth in both loans and deposits. This business segment holds great potential and will strengthen the bank’s national presence.

Throughout 2009, several initiatives were taken to promote our international business capabilities, including cross border customer referrals, with particular emphasis on business opportunities with China and the United States of America.

## **Global Banking and Markets**

Global Markets reported record results in 2009 as a consequence of a favourable positioning of the bond and derivatives trading portfolios. Global Markets achieved several accomplishments during the year, including being ranked the third largest in terms of foreign exchange trading for corporate clients (Euromoney Survey) and the third largest government debt market maker for corporate and institutional clients according to the Market Makers Index from the Finance Ministry (Secretaria de Hacienda y Credito Publico).

Balance Sheet Management reported a record year. Active interest rate risk management within a volatile environment was mostly responsible for 2009 results.

For the third consecutive year, Debt Capital Markets (DCM) was able to maintain its third ranking position in the local market in the Country Debt Capital Markets League Tables. DCM achieved better results than in 2008 mainly as a result of debt refinancing and bond issuance transactions with corporate and public sector issuers.

Global Banking posted strong results during 2009 as a result of increased loan margins, strong fee revenues, strict cost discipline and strong asset quality. HSBC’s increased franchise penetration and leadership were recognized through various awards, including Debt House of the Year in Mexico by Latin Finance. Several deals in which HSBC played a leading role were selected as “Deals of the Year” by Latin Finance, including Grupo Bimbo (Best Corporate Issuer and Best Syndicated Loan) and Cemex (Best Loan Refinancing).

Project Finance, Asset Management and Securities Services contributed with major new business wins and are strongly positioned within their relevant markets.

## About HSBC

Grupo Financiero HSBC, S.A. de C.V. is one of the leading financial groups in Mexico with 1,191 branches, 6,249 ATMs, approximately 7.6 million customer accounts and more than 19,200 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and assets of US\$2,422 billion at June 30th 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

### **For further information contact:**

#### **London**

Patrick McGuinness  
Group Media Relations  
Telephone: +44 (0)20 7991 0111

Alastair Brown  
Investor Relations  
Telephone: +44 (0)20 7992 1938

#### **Mexico City**

Roy Caple  
Public Affairs  
Telephone: +52 (55) 5721 6060

Yordana Aparicio  
Investor Relations  
Telephone: +52 (55) 5721 5192

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## Key Indicators

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

*For the quarter ended at*

	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>
a) Liquidity	85.33%	153.49%	132.42%	124.03%	<b>119.80%</b>
<b>Profitability</b>					
b) ROE (Return over equity)	5.43%	8.85%	(1.64)%	9.82%	<b>3.73%</b>
c) ROA (Return over assets)	.50%	.72%	(0.14)%	.90%	<b>0.37%</b>
<b>Asset quality</b>					
d) Impaired loans/total loans	5.92%	5.63%	6.43%	5.75%	<b>4.96%</b>
e) Coverage ratio	125.54%	137.78%	126.51%	121.32%	<b>131.60%</b>
<b>Capitalization</b>					
f) Credit risk	17.53%	18.36%	20.91%	22.14%	<b>28.85%</b>
g) Credit and market risk operational	12.83%	12.39%	13.42%	13.51%	<b>17.81%</b>
<b>Operating efficiency</b>					
h) Expenses/Total Assets	4.99%	4.40%	5.39%	5.14%	<b>5.93%</b>
i) NIM	6.86%	5.46%	5.41%	5.38%	<b>5.82%</b>
<b>Infrastructure</b>					
Branches	1,251	1,189	1,190	1,190	<b>1,191</b>
ATM	5,958	5,918	5,992	6,084	<b>6,249</b>
Head Count	20,012	19,599	19,130	18,984	<b>19,222</b>

*For the quarter ended at*

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 + Repurchase agreements + Derivatives operations + Performing loans.*

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

## Income Statement Variance Analysis

### Net Income

Grupo Financiero HSBC's net income for the year ended 31 December 2009 was MXN1,554 million, a decrease of MXN2,556 million (62.2%) compared to the same period in 2008.

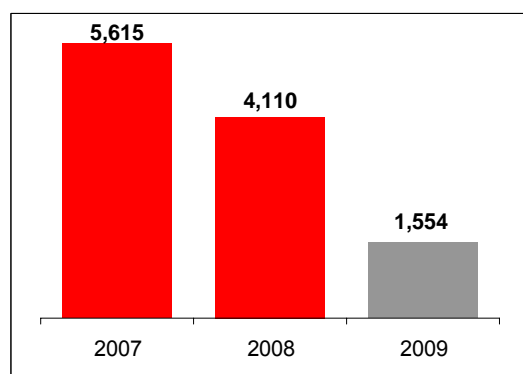
The results of the Group were benefited by the good performance of the subsidiary HSBC Seguros which recorded a profit of MXN1,159 million, which represents an increase of MXN95 million or 8.9 per cent compared to the same period in 2008.

### Total Operating Income

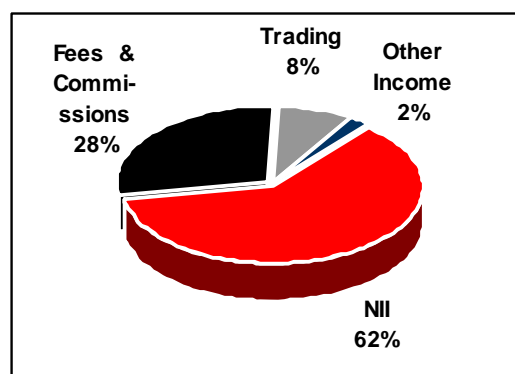
The Group's total operating income for the year ended 31 December 2009, before loan impairment charges, was MXN34,620 million, a decrease of MXN5,313 million (13.3%) compared to the same period of 2008. This decrease is mainly due to the decrease in net interest income of MXN3,969 million and net fee income of MXN1,659 million, partially offset by an increase in trading income of MXN302 million.

Total operating income for the year ended 31 December 2009, after loan impairment charges, was MXN20,148 million, a decrease of MXN4,904 million (19.6%) compared to the same period of the prior year. Revenues in 2009 were benefited by the MXN409 million decrease in loan impairment charges compared to the same period in 2008.

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



**Grupo Financiero HSBC**  
Revenue distribution YTD 4Q09



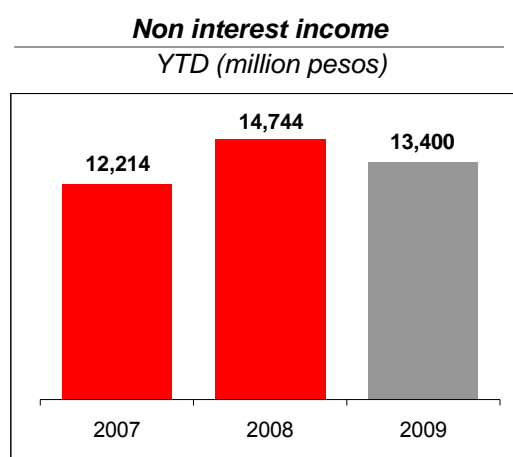
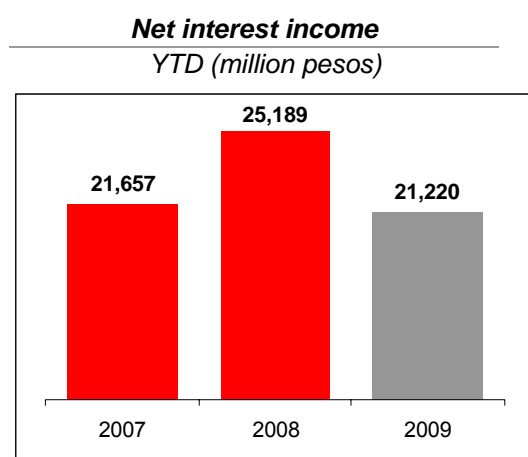
### Net Interest Income

Net interest income decreased by MXN3,969 million for the year ended 31 December 2009, reaching MXN21,220 million, a 15.8 per cent decrease compared to the same period in 2008.

Net interest income has been affected by a decrease of 17.0 per cent in interest income. This decrease is driven by the combination of different factors such as a lower portfolio and deposit volumes and deposits and lower interest rates.

### Non-interest Income

Non-interest income for the year ended 31 December 2009 was MXN13,400 million; a decrease of MXN1,344 million or 9.1 per cent compared to 2008.



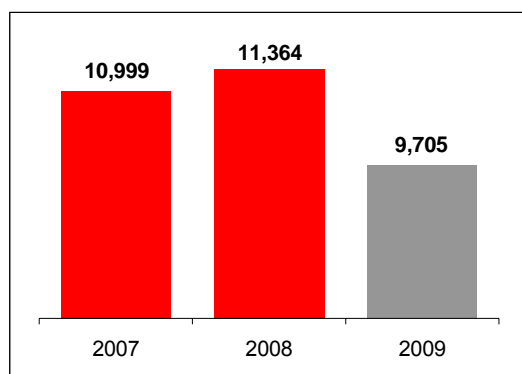
► **Fee income**

The Group's net fee income for the year ended 31 December 2009, was MXN9,705 million, a decrease of MXN1,659 million or 14.6 per cent compared to 2008. Fee income fell due to lower income from credit cards, account management commissions, as well as a decrease in income from PCM (Payments and cash management) and ATMs. In addition, tighter credit origination criteria affected credit card fee generation.

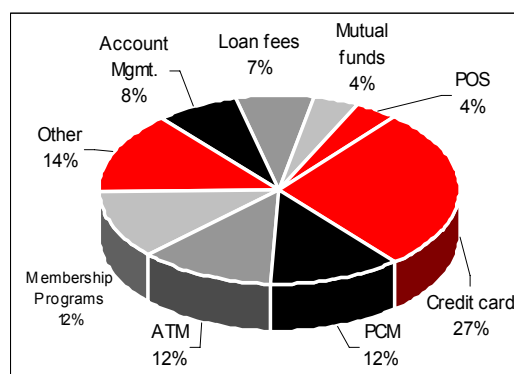
Account management fees decreased by 28 percent compared to 2008, mainly driven by lower income from returned checks and lower fees related to minimum balances. This decrease reflects the impact of new provisions applicable from August 2009 relating to the charge of certain account services fees

**Credit card** fees decreased by 24 per cent compared with 2008, mainly as a result of decreased income from cash withdrawals, lower loan origination, coupled with lower transactions volumes.

**Group fees & commissions**  
YTD (million pesos)



**Bank's fees & commissions distribution**  
31 December 2009



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

ATMs fees decreased by 15.6 per cent compared with 2008, mainly due to lower transaction volumes.

At 30 December 2009, fee income can be essentially explained by the Bank's operations, since they contribute 90.4 per cent of the Group's total net commissions. Total fee income obtained by the Bank amounted to MXN8,770 million at 31 December 2009.

### ▶ Trading income

Trading income was MXN2,861 million at 31 December 2009, which represents an increase of MXN302 million (11.8%) compared to the same period of 2008. This increase is mainly due to a strong performance from foreign exchange and debt trading positions as a result of market volatility.

The Group's non-interest income to total revenue ratio increased from 36.9 per cent at 31 December 2009 to 37.8 per cent in 2009, mainly due to higher trading income.

### ▶ Other income

Other income increased to MXN1,683 million, which represents an increase of MXN354 million (26.6%) compared with 2008. This is mainly due to non recurring derivative losses incurred as a result of counterparty default in 2008, mostly offset by non recurring income of MXN1,041 million from the sale of VISA Inc shares recorded in 2008.

## Loan Impairment Charges

The Group's loan impairment charges were MXN14,472 million, which represents a decrease of MXN409 million or 2.7 per cent compared to the prior year. Loan impairment charges During the second half of the year, loan impairment charges were 35.9 per cent lower compared to the first half of 2009. A change in the methodology for calculating provisions for consumer loans was introduced by the regulator in the third quarter of 2009, with a subsequent decrease of MXN321 million in loan impairment charges.

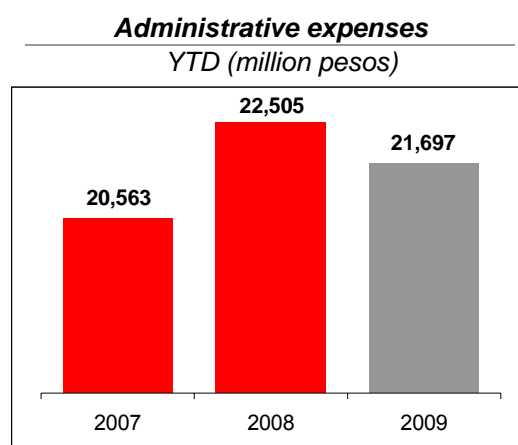
Additionally, there has been a focus on improved risk management, the strengthening of the collections operations and lower portfolio volumes to reduce loan impairment charges.

## Administrative and Personnel Expenses

The Group's administrative expenses for the year ended 31 December 2009 were MXN21,697million, a MXN808 million or 3.6 per cent decrease compared to the same period of the prior year. .

The Group's cost efficiency ratio at 30 September 2009 was 62.7 per cent.

The main drivers of the underlying decrease were a reduction in personnel expenses and the elimination of a credit card cash back promotional facility.



## Balance sheet Variance Analysis

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At 31 December 2009, the Group's total assets amounted MXN393,790 million, which represents an increase of MXN80,874 million, equivalent to 17.0 per cent, compared to the fourth quarter of 2008, mainly driven by a reduction in the loan portfolio.

### Loan portfolio

The Group's performing loan portfolio balance amounted to MXN152,013 million at 31 December 2009, a decrease of 6.6 per cent compared to the fourth quarter of 2008. The mortgage loan portfolio increased by 3.5 per cent compared to the fourth quarter of 2008. The commercial portfolio (including financial and government entities) increased by 1.8 per cent compared to the fourth quarter of 2008 driven by an increase in government loans and business banking products. Consumer portfolio reflected a reduction, recording a decrease of 30.4 per cent compared to the same period of 2008.

The current loan portfolio fourth quarter of 2009 register higher levels as the preceding quarter, ended in September 2009, with increases in the commercial (5.6 per cent), government (8.2 per cent) portfolios.

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

During the fourth quarter of 2009, the total commercial portfolio increased 1.8 per cent even though several pre-payment transactions performed by the Federal Government were made during this period; therefore, the balance of the commercial loan portfolio reflects a increase of MXN1,769 million at the end of December 2009 compared to the same period of the prior year.

Excluding the Government entities' and financial entities' portfolios, the commercial loan portfolio increased by MXN4,302 million, which is equivalent to 4.7 per cent increase compared to the fourth quarter of 2008. During the first half of the year, the commercial portfolio balance was affected by the global economic situation and the influenza outbreak in the country, both of which had a negative impact on economic activity. However, both the commercial and the government portfolios once more reflected positive trends since the third quarter of 2009.

#### ► Consumer loans

The consumer loan portfolio decreased mainly as a result of the behaviour observed in the auto and personal loans, as well as credit cards. The reduction in the consumer loan portfolio during 2009 was mainly due to reduced demand for credit in the market, coupled with tighter origination criteria in order to improve credit quality. Auto loans reduced 20.8 per cent, while personal and payroll loans decreased by 33.9 per cent. Credit card balances decreased 28.8per cent compared to the fourth quarter of 2008, with a balance at month-end December of MXN19.0 billion.

#### ► Mortgage loans

The mortgage loan portfolio reflects an increase of MXN659 million (3.5%) compared the fourth quarter of 2008, Similarly to the commercial and government portfolios, mortgage loan portfolio recorded strong positive trends compared with previous quarters of the year.

### Asset quality

As at 31 December 2009, the Group's impaired loan portfolio amounted to MXN7,939 million, which represents a decrease of MXN2,306 million (22.5%) compared to the prior year. This decrease is largely due to a reduction in the impaired loans of consumer product and credit card loans, resulted from management's efforts to achieve more conservative loan origination and stricter collection management policies. The impaired loans to the total loan portfolio ratio was 4.96 per cent, 0.96 percentage points lower than the figure recorded in the same period of the prior year, 0.78 percentage points lower compared to the third quarter of 2009. The coverage ratio at 31 December 2009 was 131.6 per cent, compared with the one observed in the fourth quarter of 2008 (125.5%).

Various customer support programs have continued during the third quarter in order to optimize collections and reduce customer delinquencies.

## Deposits

The Group's total deposits at 31 December 2009 amounted to MXN238,539 million, a decrease of 10.1 per cent compared to the fourth quarter of the prior year as a consequence of the current economic environment, the elimination of cash transactions in foreign currency in branches and the intense competition to attract deposits. "Inversion Express", launched in July, has partially offset this reduction in deposits, has been well received by customers.

During 2009, the savings and investment products, "Cuenta Flexible HSBC" and "Cuenta Ahorro HSBC" are still being promoted and offered to our customers and the general public.

In November, "Escudo Total HSBC" was launched, which is an insurance product that provides full coverage protection at no cost to the customer for our payroll and "Cuenta Flexible HSBC" products.

Our presence in the corporate and business sector continues to produce positive results. Our relationship with States and Municipalities segments has also resulted in greater deposit accounts.

### ► Demand deposits

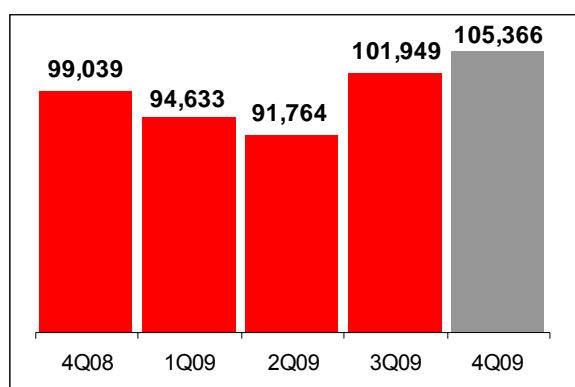
At 31 December 2009, demand deposits amounted to MXN127,773 million, 8.7 per cent less compared to the same period of the prior year, as a result of the current economic environment and the level of market competition. Demand deposits increased 12.3 percent compared to the third quarter of 2009

### ► Time deposits

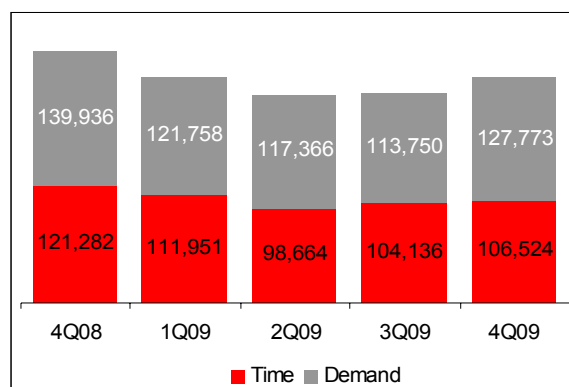
Total time deposits reduced 12.2 per cent compared to 31 December 2008, mainly due to a decrease of MXN21,086 million in the money market, which was partially offset by an increase of MXN6,327 million in time deposits from the general public. The launch of the "Inversion Express" product in July of this year has been well accepted by the public, with a placement of approximately 60,000 new accounts since its launch. The decrease in money market deposits is largely as a result of funding requirements decreased in line with the lower asset balances.

Time deposits at the end of the fourth quarter of 2009 represented 45.5 per cent of the total in the deposit mix (time and demand).

**Group Time deposits (retail)**  
(December, 2009)



**Group deposit mix**  
(December, 2009)



## Shareholder's equity

At 31 December 2009, the Group's shareholders' equity was MXN46,989 million representing a increase of 29.6 per cent compared to the fourth quarter of the prior year. Moreover, the Bank's shareholders' equity was MXN39,497 at 31 December 2009, increasing 37.0 per cent compared to 31 December of the prior year. In December 2009, Grupo Financiero HSBC shareholders approved a capital injection of MXN8,954 million which was subsequently injected to the bank. This capital increase further strengthened the bank's capital position.

## Capital Adequacy Ratio

Bank's capital adequacy ratio at 31 December 2009 was 17.8 per cent, placing it above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 13.8 per cent.

## Financial Statements Grupo Financiero HSBC

### Consolidated Balance Sheet

Figures in MXN millions at December 31, 2009

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

	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>
<b>Assets</b>					
Cash and deposits in banks	74,157	86,326	65,346	60,387	<b>68,322</b>
Margin Accounts	3	-	3,997	3,685	<b>3</b>
Investments in Securities	96,839	118,622	126,999	116,290	<b>121,471</b>
Trading securities	56,308	76,932	73,990	60,071	<b>41,339</b>
Available-for-sale securities	31,596	32,681	43,989	47,450	<b>71,630</b>
Held to maturity securities	8,935	9,009	9,020	8,769	<b>8,502</b>
Repurchase agreements	55	770	798	3,500	<b>1,593</b>
Derivative transactions	77,453	44,535	31,368	31,865	<b>24,113</b>
Performing loans					
Commercial loans	100,536	101,531	94,019	96,849	<b>102,305</b>
Commercial entities	75,502	77,041	70,184	72,034	<b>76,091</b>
Loans to financial intermediaries	9,484	8,690	7,832	7,008	<b>6,951</b>
Loans to government entities	15,550	15,800	16,003	17,807	<b>19,263</b>
Consumer loans	43,156	40,098	36,564	32,734	<b>30,048</b>
Mortgages loans	19,001	19,531	19,287	19,834	<b>19,660</b>
Total performing loans	<u>162,693</u>	<u>161,160</u>	<u>149,870</u>	<u>149,417</u>	<b><u>152,013</u></b>
Impaired loans					
Commercial loans	2,116	2,319	2,425	2,153	<b>1,745</b>
Commercial entities	2,114	2,319	2,425	2,102	<b>1,745</b>
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	2	-	-	51	-
Consumer loans	6,533	5,750	5,930	4,756	<b>3,826</b>
Mortgages loans	1,596	1,554	1,947	2,200	<b>2,368</b>
Other	-	-	-	-	-
Total non-performing loans	<u>10,245</u>	<u>9,623</u>	<u>10,302</u>	<u>9,109</u>	<b><u>7,939</u></b>
Loan portfolio	172,938	170,783	160,172	158,526	<b>159,952</b>
Allowance for loan losses	(12,862)	(13,258)	(13,033)	(11,051)	<b>(10,447)</b>
Net loan portfolio	<u>160,076</u>	<u>157,525</u>	<u>147,139</u>	<u>147,475</u>	<b><u>149,505</u></b>
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	<u>160,076</u>	<u>157,525</u>	<u>147,139</u>	<u>147,475</u>	<b><u>149,505</u></b>
Benefits to be received from trading operations	-	-	257	168	-
Other accounts receivable, net	48,554	18,252	15,396	16,845	<b>7,708</b>
Foreclosed assets	97	117	134	164	<b>174</b>
Property, furniture and equipment, net	6,633	6,616	6,583	6,721	<b>7,525</b>
Long term investments in equity securities	3,507	3,322	3,673	4,000	<b>3,662</b>
Deferred taxes, net	2,117	3,254	3,494	4,168	<b>4,268</b>
Goodwill	2,749	2,749	2,749	2,749	<b>2,749</b>
Other assets, deferred charges and intangibles	2,424	2,374	2,435	2,602	<b>2,697</b>
<b>Total Assets</b>	<b><u>474,664</u></b>	<b><u>444,462</u></b>	<b><u>410,368</u></b>	<b><u>400,619</u></b>	<b><u>393,790</u></b>



Figures in MXN millions at December 31, 2009

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

	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>
<b>Liabilities</b>					
Deposits	265,464	237,981	220,278	222,147	<b>238,539</b>
Demand deposits	139,936	121,758	117,366	113,750	<b>127,773</b>
Time deposits	121,282	111,951	98,664	104,136	<b>106,524</b>
Retail	99,039	94,633	91,764	101,949	<b>105,366</b>
Money market	22,243	17,318	6,900	2,187	<b>1,158</b>
Bank bonds outstanding	4,246	4,272	4,248	4,261	<b>4,242</b>
Bank deposits and other liabilities	10,652	7,658	22,602	23,029	<b>24,856</b>
On demand	966	170	1,967	-	<b>3,336</b>
Short term	7,840	5,731	19,111	21,629	<b>20,236</b>
Long term	1,846	1,757	1,524	1,400	<b>1,284</b>
Repurchase agreements	32,048	76,581	57,115	32,612	<b>24,502</b>
Settlement accounts	-	-	3,550	161	-
Collateral Sold	-	-	6,934	6,697	<b>6,305</b>
Securities to be received in repo transactions	-	-	6,934	6,697	<b>6,305</b>
Derivative transactions	86,237	45,770	29,572	31,621	<b>27,132</b>
Other accounts payable	37,552	33,946	24,289	36,346	<b>14,515</b>
Income tax and employee profit sharing payable	1,009	1,004	1,341	1,742	<b>1,179</b>
Creditors for settlement of transactions	-	-	11,789	23,265	<b>2,984</b>
Sundry creditors and others accounts payable	36,543	32,942	11,159	11,339	<b>10,352</b>
Subordinated debentures outstanding	5,949	6,216	8,932	9,655	<b>10,221</b>
Deferred tax	-	-	-	-	-
Deferred credits	492	487	468	538	<b>731</b>
<b>Total Liabilities</b>	<b>438,394</b>	<b>408,639</b>	<b>373,740</b>	<b>362,806</b>	<b>346,801</b>
<b>Stockholder's Equity</b>					
Paid in capital	21,466	21,466	23,724	23,725	<b>32,678</b>
Capital stock	8,210	8,210	8,452	8,452	<b>9,434</b>
Additional paid in capital	13,256	13,256	15,272	15,273	<b>23,244</b>
Capital Gains	14,799	14,353	12,900	14,083	<b>14,308</b>
Capital reserves	1,442	1,648	1,648	1,648	<b>1,648</b>
Retained earnings	11,582	13,839	11,582	11,582	<b>11,582</b>
Result from the mark-to-market of Available-for-sale securities	(1,388)	(1,932)	(979)	(490)	<b>(76)</b>
Result from cash flow hedging transactions	(947)	-	-	(220)	<b>(400)</b>
Adjustment in the pension employee	-	-	-	-	-
Net Income	4,110	798	649	1,563	<b>1,554</b>
Minority interest	5	4	4	5	<b>3</b>
<b>Total Stockholder's Equity</b>	<b>36,270</b>	<b>35,823</b>	<b>36,628</b>	<b>37,813</b>	<b>46,989</b>
<b>Total Liabilities and Capital</b>	<b>474,664</b>	<b>444,462</b>	<b>410,368</b>	<b>400,619</b>	<b>393,790</b>

Figures in MXN millions at December 31, 2009

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

	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>
<b>Memorandum Accounts</b>					
	3,029,292	2,271,016	2,175,281	2,159,896	<b>2,110,033</b>
Guarantees granted	41	38	35	31	<b>30</b>
Contingent assets and liabilities	134	131	125	124	<b>126</b>
Irrevocable lines of credit granted	10,827	10,946	10,539	11,850	<b>15,071</b>
Goods in trust or mandate	197,705	190,490	238,917	249,973	<b>266,641</b>
Trust	197,705	190,490	238,268	249,474	<b>264,890</b>
Mandate	-	-	649	499	<b>1,751</b>
Agente financiero del Gobierno Federal	-	-	-	-	<b>-</b>
Goods in custody or under administration	160,877	177,672	213,580	204,931	<b>246,061</b>
Collateral received by the institution	6,861	-	19,992	14,844	<b>16,649</b>
Collateral received and sold or delivered as guarantee	6,821	-	9,677	11,342	<b>20,130</b>
Third party investment banking operations, net	25,694	23,019	56,804	56,489	<b>57,064</b>
Other control accounts	2,620,332	1,868,720	1,625,612	1,610,312	<b>1,488,261</b>

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 5,111 millions.

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**Consolidated Income Statement**

Figures in MXN millions at December 31, 2009

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

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>	<b>31 Dec 2009</b>	
Interest Income	9,359	8,749	8,194	7,276	<b>7,197</b>	37,843	<b>31,416</b>
Interest expense	(3,247)	(3,372)	(2,884)	(2,058)	<b>(1,882)</b>	(12,654)	<b>(10,196)</b>
Net interest income	<u>6,112</u>	<u>5,377</u>	<u>5,310</u>	<u>5,218</u>	<u><b>5,315</b></u>	<u>25,189</u>	<u><b>21,220</b></u>
Loan impairment charges	(4,619)	(4,751)	(4,067)	(2,598)	<b>(3,056)</b>	(14,881)	<b>(14,472)</b>
Risk adjusted net interest income	<u>1,493</u>	<u>626</u>	<u>1,243</u>	<u>2,620</u>	<u><b>2,259</b></u>	<u>10,308</u>	<u><b>6,748</b></u>
Fees and commissions receivable	3,014	2,789	2,735	2,682	<b>2,508</b>	12,533	<b>10,714</b>
Fees payable	(307)	(246)	(217)	(270)	<b>(276)</b>	(1,169)	<b>(1,009)</b>
Trading Income	1,607	1,406	748	417	<b>290</b>	2,559	<b>2,861</b>
Other operating income	-	-	363	257	<b>214</b>	821	<b>834</b>
Total operating income	<u>5,807</u>	<u>4,575</u>	<u>4,872</u>	<u>5,706</u>	<u><b>4,995</b></u>	<u>25,052</u>	<u><b>20,148</b></u>
Administrative and personnel expenses	(4,927)	(4,857)	(5,755)	(5,208)	<b>(5,877)</b>	(22,505)	<b>(21,697)</b>
Net operating income	<u>880</u>	<u>(282)</u>	<u>(883)</u>	<u>498</u>	<u><b>(882)</b></u>	<u>2,547</u>	<u><b>(1,549)</b></u>
Other income	1,149	1,309	640	622	<b>740</b>	3,692	<b>3,311</b>
Other expenses	(1,732)	(347)	(229)	(450)	<b>(602)</b>	(2,363)	<b>(1,628)</b>
Net income before taxes	<u>297</u>	<u>680</u>	<u>(472)</u>	<u>670</u>	<u><b>(744)</b></u>	<u>3,876</u>	<u><b>134</b></u>
Income tax and employee profit sharing tax	232	(1,180)	(688)	(646)	<b>284</b>	(2,728)	<b>(2,230)</b>
Deferred income tax	(320)	1,096	640	485	<b>181</b>	1,850	<b>2,402</b>
Net income before subsidiaries	<u>209</u>	<u>596</u>	<u>(520)</u>	<u>509</u>	<u><b>(279)</b></u>	<u>2,998</u>	<u><b>306</b></u>
Undistributed income from subsidiaries	288	202	371	406	<b>269</b>	1,113	<b>1,248</b>
Income from ongoing operations	<u>497</u>	<u>798</u>	<u>(149)</u>	<u>915</u>	<u><b>(10)</b></u>	<u>4,111</u>	<u><b>1,554</b></u>
Minority interest	-	-	-	(1)	<b>1</b>	(1)	-
<b>Net income (loss)</b>	<u><u>497</u></u>	<u><u>798</u></u>	<u><u>(149)</u></u>	<u><u>914</u></u>	<u><u><b>(9)</b></u></u>	<u><u>4,110</u></u>	<u><u><b>1,554</b></u></u>

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

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

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

From 1 January 2009 to 31 December 2009

	Paid in capital			Earned capital						Minority Interest	Total Stock-holders Equity
	Capital Stock	Advances for future capital increases	Subordinate Shares and debentures Premiums outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income		
<b>Balances at 01 January 2009</b>	8,210	-	13,256	1,442	11,582	(2,335)	-	-	4,110	5	36,270
<b>Movements Inherent to the Shareholders Decision</b>											
Subscription of shares	1,224	-	9,988	-	-	-	-	-	-	-	11,212
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	206	2,257	-	-	-	(2,463)	-	-
Cash dividends	-	-	-	-	(2,257)	-	-	-	(1,647)	-	(3,904)
Others	-	-	-	-	-	-	-	-	-	-	-
<b>Total Movements Inherent to the Shareholders Decision</b>	1,224	-	9,988	206	-	-	-	-	(4,110)	-	7,308
<b>Movements for the Recognition of the Comprehensive Income</b>											
<b>Comprehensive Income</b>											
Net result	-	-	-	-	-	-	-	-	1,554	(2)	1,552
Result from valuation of available-for-sale securities	-	-	-	-	-	2,083	-	-	-	-	2,083
Result from cash flow hedging transactions	-	-	-	-	-	-	(224)	-	-	-	(224)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Total Movements Inherent for the Recognition of the Comprehensive Income</b>	-	-	-	-	-	2,083	(224)	-	1,554	(2)	3,411
<b>Balances as at 31 December 2009</b>	<b>9,434</b>	<b>-</b>	<b>23,244</b>	<b>1,648</b>	<b>11,582</b>	<b>(252)</b>	<b>(224)</b>	<b>-</b>	<b>1,554</b>	<b>3</b>	<b>46,989</b>

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

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

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## Consolidated Statement of Cash Flow

Figures in MXN millions

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

From 1 January to 31 December 2009

<b>Net income</b>	<b>1,554</b>
<b>Adjustments for items not involving cash flow:</b>	<b>14,088</b>
Gain or loss on appraisal of activities associated with investment & financing	(2,590)
Allowances for loan losses	14,643
Depreciation and amortization	1,248
Accrual	1,664
Income Tax and deferred taxes	(172)
Undistributed income from subsidiaries	(1,248)
Other	543
<b>Changes in items related to operating activities:</b>	
Margin accounts	-
Investment securities	(24,024)
Repurchase agreements	(1,540)
Derivative (assets)	56,345
Loan portfolio	(3,902)
Benefits to be received from trading operations	-
Foreclosed assets	(86)
Operating assets	40,684
Deposits	(26,926)
Bank deposits and other liabilities	14,204
Creditors repo transactions	(7,546)
Collateral sold or delivered as guarantee	6,305
Derivative (liabilities)	(58,547)
Subordinated debentures outstanding	4,272
Other operating liabilities	(26,989)
<b>Funds provided by operating activities</b>	<b>(27,750)</b>
<b>Investing activities:</b>	
Disposal of property, furniture and equipment	13
Acquisition of property, furniture and equipment	(2,152)
Disposal of subsidiaries	619
Cash dividend	474
Intangible assets acquisitions	(274)
<b>Funds used in investing activities</b>	<b>(1,320)</b>
<b>Financing activities:</b>	
Shares issue	11,212
Cash dividend	(3,904)
<b>Funds provided by financing activities</b>	<b>7,308</b>
Increase/decrease in cash and equivalents	<b>(6,120)</b>
<b>Adjustments to cash flow variations in the exchange rate and inflation levels</b>	<b>285</b>
Cash and equivalents at beginning of period	<b>74,157</b>
<b>Cash and equivalents at end of period</b>	<b>68,322</b>

The present Consolidated Statement of Cash Flows, 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 Cash Flows, was approved by the Board of Directors under the responsibility of the following officers.

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## Financial Statements HSBC Mexico, S.A.

### Consolidated Balance Sheet

Figures in MXN millions at December 31, 2009

HSBC Mexico, S.A. (Bank)

	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Sep 2009	31 Dec 2009
<b>Assets</b>					
Cash and deposits in banks	73,600	85,756	65,346	60,387	<b>68,322</b>
Margin Accounts	3	-	3,997	3,685	<b>3</b>
Investment in Securities	96,169	118,211	126,442	115,616	<b>120,241</b>
Trading securities	56,050	76,857	73,903	59,870	<b>40,607</b>
Available-for-sale securities	31,183	32,345	43,519	46,977	<b>71,132</b>
Held to maturity securities	8,936	9,009	9,020	8,769	<b>8,502</b>
Repurchase agreements	48	749	798	3,500	<b>1,593</b>
Derivative transactions	77,453	44,535	31,368	31,865	<b>24,113</b>
Performing loans					
Commercial loans	100,536	101,531	94,019	96,849	<b>102,305</b>
Commercial entities	75,502	77,041	70,184	72,034	<b>76,091</b>
Loans to financial intermediaries	9,484	8,690	7,832	7,008	<b>6,951</b>
Loans to government entities	15,550	15,800	16,003	17,807	<b>19,263</b>
Consumer loans	43,156	40,098	36,564	32,734	<b>30,048</b>
Mortgages loans	19,001	19,531	19,287	19,834	<b>19,660</b>
Total performing loans	162,693	161,160	149,870	149,417	<b>152,013</b>
Impaired loans					
Commercial loans	2,116	2,319	2,425	2,153	<b>1,745</b>
Commercial entities	2,114	2,319	2,425	2,102	<b>1,745</b>
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	2	-	-	51	-
Consumer loans	6,533	5,750	5,930	4,756	<b>3,826</b>
Mortgage Loans	1,596	1,554	1,947	2,200	<b>2,368</b>
Other performing loans	-	-	-	-	-
Total non-performing loans	10,245	9,623	10,302	9,109	<b>7,939</b>
Total loan portfolio	172,938	170,783	160,172	158,526	<b>159,952</b>
Allowance for loan losses	(12,862)	(13,258)	(13,033)	(11,051)	<b>(10,447)</b>
Net loan portfolio	160,076	157,525	147,139	147,475	<b>149,505</b>
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	160,076	157,525	147,139	147,475	<b>149,505</b>
Benefits to be received from trading operations	-	-	257	168	-
Other accounts receivable	48,474	17,927	15,241	16,615	<b>7,620</b>
Foreclosed assets	97	117	134	164	<b>174</b>
Property, furniture and equipment, net	6,622	6,606	6,573	6,714	<b>7,525</b>
Long term investments in equity securities	139	149	132	127	<b>133</b>
Deferred taxes	2,134	3,278	3,536	4,228	<b>4,305</b>
Other assets, deferred charges and intangibles .....	2,372	2,334	2,368	2,522	<b>2,608</b>
<b>Total Assets</b>	<b>467,187</b>	<b>437,187</b>	<b>403,331</b>	<b>393,066</b>	<b>386,142</b>

Figures in MXN millions at December 31, 2009

HSBC Mexico, S.A. (Bank)

	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>
<b>Liabilities</b>					
Deposits	265,697	238,153	220,987	222,269	<b>238,726</b>
Demand deposits	140,169	121,930	118,075	113,872	<b>127,960</b>
Time deposits	121,282	111,951	98,664	104,136	<b>106,524</b>
Retail	99,039	94,633	91,764	101,949	<b>105,366</b>
Money market	22,243	17,318	6,900	2,187	<b>1,158</b>
Bank bonds outstanding	4,246	4,272	4,248	4,261	<b>4,242</b>
Bank deposits and other liabilities	10,652	7,658	22,602	23,029	<b>24,856</b>
On demand	966	170	1,967	-	<b>3,336</b>
Short term	7,840	5,731	19,111	21,629	<b>20,236</b>
Long term	1,846	1,757	1,524	1,400	<b>1,284</b>
Repurchase agreements	32,042	76,560	57,115	32,612	<b>24,544</b>
Settlement accounts	-	-	3,550	161	-
Collateral Sold	-	-	6,934	6,697	<b>6,305</b>
Securities to be received in repo transactions	-	-	6,934	6,697	<b>6,305</b>
Derivative transactions	86,237	45,770	29,572	31,621	<b>27,132</b>
Other accounts payable	37,286	33,541	23,988	35,972	<b>14,130</b>
Income tax and employee profit sharing payable	879	955	1,241	1,587	<b>1,014</b>
Creditors for settlement of transactions	-	-	11,630	21,860	<b>2,984</b>
Sundry creditors and others accounts payable	36,407	32,586	11,117	12,525	<b>10,132</b>
Subordinated debentures outstanding	5,948	6,216	8,932	9,655	<b>10,221</b>
Deferred tax	-	-	-	-	-
Deferred credits	492	487	468	538	<b>731</b>
<b>Total Liabilities</b>	<b>438,354</b>	<b>408,385</b>	<b>374,148</b>	<b>362,554</b>	<b>346,645</b>
<b>Stockholder's Equity</b>					
Paid in capital	15,883	15,883	15,883	16,623	<b>25,605</b>
Capital stock	4,272	4,272	4,272	4,334	<b>5,087</b>
Additional paid in capital	11,611	11,611	11,611	12,289	<b>20,518</b>
Capital Gains	12,948	12,917	13,297	13,886	<b>13,889</b>
Capital reserves	12,797	14,314	14,313	14,313	<b>14,313</b>
Retained earnings	-	-	-	-	-
Result from the mark-to-market of Available-for-sale securities	(1,421)	(1,940)	(1,032)	(593)	<b>(160)</b>
Result from cash flow hedging transactions	(947)	-	-	(220)	<b>(400)</b>
Adjustment in the pension employee	-	-	-	-	-
Net Income	2,519	543	16	386	<b>136</b>
Minority interest	2	2	3	3	<b>3</b>
Total Stockholder's Equity	28,833	28,802	29,183	30,512	<b>39,497</b>
<b>Total Liabilities and Capital</b>	<b>467,187</b>	<b>437,187</b>	<b>403,331</b>	<b>393,066</b>	<b>386,142</b>

Figures in MXN millions at December 31, 2009

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

	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>	<u>30 Sep</u> <u>2009</u>	<u>31 Dec</u> <u>2009</u>
<b>Memorandum Accounts</b>					
Guarantees granted	41	38	35	31	<b>30</b>
Contingent assets and liabilities	134	131	125	124	<b>126</b>
Irrevocable lines of credit granted	10,827	10,946	10,539	11,850	<b>15,071</b>
Goods in trust or mandate	197,705	190,490	238,917	249,973	<b>266,641</b>
Goods	197,048	189,451	238,268	249,474	<b>264,890</b>
Trusts	657	1,039	649	499	<b>1,751</b>
Goods in custody or under administration	156,930	749	209,452	200,803	<b>240,951</b>
Collateral received by the institution	6,861	173,725	14,934	10,198	<b>16,649</b>
Collateral received and sold or delivered as guarantee	6,821	-	14,735	6,697	<b>15,203</b>
Third party investment banking operations, net	25,694	23,019	56,804	56,489	<b>57,064</b>
Suspended interest on impaired loans	243	154	157	159	<b>250</b>
Amounts contracted in derivative operations	2,038,702	1,263,141	1,036,988	1,036,767	<b>892,568</b>
Integrated loan portfolio	183,806	181,767	170,747	170,408	<b>175,055</b>
Other control accounts	392,521	389,373	374,240	364,776	<b>376,400</b>
	<u>3,020,285</u>	<u>2,233,533</u>	<u>2,127,673</u>	<u>2,108,275</u>	<u><b>2,056,008</b></u>

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

Historical paid in capital of the Institution amounts to MNX 3,287 millions.

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**Consolidated Income Statement**

Figures in MXN millions at December 31, 2009

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

	<i>For the quarter ending</i>				<i>Year to date</i>		
	<b>31 Dec 2008</b>	<b>31 Mar 2009</b>	<b>30 Jun 2009</b>	<b>30 Sep 2009</b>	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>	<b>31 Dec 2009</b>
Interest income	9,368	8,656	8,190	7,272	7,130	37,794	<b>31,248</b>
Interest expense	(3,290)	(3,288)	(2,856)	(14,307)	(1,863)	12,669	<b>10,026</b>
Position Monetary	-	-	-	-	-	-	-
Net interest income	<u>6,078</u>	<u>5,368</u>	<u>5,334</u>	<u>5,253</u>	<u>5,267</u>	<u>25,125</u>	<u><b>21,222</b></u>
Loan impairment charges	4,619	4,751	4,067	2,598	3,056	14,881	<b>14,472</b>
Loan impairment charges	<u>4,619</u>	<u>4,751</u>	<u>4,067</u>	<u>2,598</u>	<u>3,056</u>	<u>14,881</u>	<u><b>14,472</b></u>
Risk adjusted net interest income	<u>1,459</u>	<u>617</u>	<u>1,267</u>	<u>2,655</u>	<u>2,211</u>	<u>10,244</u>	<u><b>6,750</b></u>
Fees and commissions receivable	2,829	2,604	2,539	2,381	2,241	11,723	<b>9,765</b>
Account management	325	271	247	231	205	1,332	<b>954</b>
Services	<u>2,504</u>	<u>2,333</u>	<u>2,292</u>	<u>2,150</u>	<u>2,036</u>	<u>10,391</u>	<u><b>8,811</b></u>
Fees payable	(322)	(257)	(254)	(214)	(270)	(1,170)	<b>(995)</b>
Trading Income	1,605	1,404	745	416	287	2,550	<b>2,852</b>
Foreign exchange	3,849	4,080	(7,209)	1,706	1,246	4,593	<b>(177)</b>
Securities trading, net	(38)	(46)	(13)	(5)	4	(19)	<b>(60)</b>
Repos	-	-	-	-	-	(3)	-
Swaps	175	171	244	87	289	489	<b>791</b>
Valuation off-shore agencies	(1,412)	(3,140)	7,455	(1,164)	(1,413)	(2,047)	<b>1,738</b>
Valuation for trading swaps	<u>(969)</u>	<u>339</u>	<u>268</u>	<u>(208)</u>	<u>161</u>	<u>(463)</u>	<u><b>560</b></u>
Other operating income	-	-	363	257	214	821	<b>834</b>
Total operating income	<u>5,571</u>	<u>4,368</u>	<u>4,660</u>	<u>5,495</u>	<u>4,683</u>	<u>24,168</u>	<u><b>19,206</b></u>
Administrative and personnel expenses	5,079	4,754	5,559	5,136	5,632	22,081	<b>21,081</b>
Personnel expense	1,987	2,078	2,489	2,014	2,223	9,689	<b>8,804</b>
Administrative expense	2,820	2,395	2,784	2,774	3,088	11,316	<b>11,041</b>
Depreciation and amortization	272	281	286	348	321	1,076	<b>1,236</b>
Net operating income	<u>492</u>	<u>(386)</u>	<u>(899)</u>	<u>359</u>	<u>(949)</u>	<u>2,087</u>	<u><b>(1,875)</b></u>
Other income	998	1,319	562	559	800	3,493	<b>3,240</b>
Other expenses	<u>(1,520)</u>	<u>(345)</u>	<u>(229)</u>	<u>(449)</u>	<u>(600)</u>	<u>(2,353)</u>	<u><b>(1,623)</b></u>
Net income before taxes	<u>(30)</u>	<u>588</u>	<u>(566)</u>	<u>469</u>	<u>(749)</u>	<u>3,227</u>	<u><b>(258)</b></u>
Income tax and employee profit sharing	304	(1,137)	(646)	(589)	337	(2,598)	<b>(2,035)</b>
Deferred income tax	(308)	1,083	671	487	156	1,852	<b>2,397</b>
Net income before subsidiaries	<u>(34)</u>	<u>534</u>	<u>(541)</u>	<u>367</u>	<u>(256)</u>	<u>2,481</u>	<u><b>104</b></u>
Undistributed income from subsidiaries	13	10	14	3	6	39	<b>33</b>
Income from ongoing operations	<u>(21)</u>	<u>544</u>	<u>(527)</u>	<u>370</u>	<u>(250)</u>	<u>2,520</u>	<u><b>137</b></u>
Minority interest	-	(1)	-	-	-	(1)	<b>(1)</b>
Net income (loss)	<u>(21)</u>	<u>543</u>	<u>(527)</u>	<u>370</u>	<u>(250)</u>	<u>2,519</u>	<u><b>136</b></u>

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

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## Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2009 to 31 December 2009

	Paid in capital				Earned Capital					Minority Interest	Total stockholder's Equity	
	Capital Stock	Advances for future capital increases	Shares Premium	Subordinated debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets			Net Income
<b>Balances at 01 January 2009</b>	4,272	-	11,611	-	12,797	-	(2,368)	-	-	2,519	2	28,833
<b>Movements Inherent to the Shareholders Decision</b>												
Subscription of shares	815	-	8,907	-	-	-	-	-	-	-	-	9,722
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	1,516	(1,516)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	2,519	-	-	-	(2,519)	-	-
Cash dividends	-	-	-	-	-	(1,003)	-	-	-	-	-	(1,003)
<b>Total Movements Inherent to the Shareholders Decision</b>	<b>815</b>	<b>-</b>	<b>8,907</b>	<b>-</b>	<b>1,516</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,519)</b>	<b>-</b>	<b>8,719</b>
<b>Movements for the Recognition of the Comprehensive Income</b>												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	136	1	137
Result from valuation of available-for-sale securities	-	-	-	-	-	-	2,208	-	-	-	-	2,208
Result from cash flow hedging transactions	-	-	-	-	-	-	-	(400)	-	-	-	(400)
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Movements Inherent for the Recognition of the Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,208</b>	<b>(400)</b>	<b>-</b>	<b>136</b>	<b>1</b>	<b>1,945</b>
<b>Balances as at 31 December 2009</b>	<b>5,087</b>	<b>-</b>	<b>20,518</b>	<b>-</b>	<b>14,313</b>	<b>-</b>	<b>(160)</b>	<b>(400)</b>	<b>-</b>	<b>136</b>	<b>3</b>	<b>39,497</b>

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

These operations were performed following healthy banking 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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## Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January 2009 to 31 December 2009

HSBC Mexico, S.A. (Bank)

31 Dec 2009

<b>Net income</b>	<b>136</b>
<b>Adjustments for items not involving cash flow:</b>	<b>14,705</b>
Gain or loss on appraisal of activities associated with investment & financing	(2,590)
Allowances for loan losses	14,643
Depreciation and amortization	1,237
Accrual	1,265
Income Tax and deferred taxes	(362)
Undistributed income from subsidiaries	(33)
Other	545
<b>Changes in items related to operating activities:</b>	
Margin accounts	-
Investment securities	(23,542)
Repurchase agreements	(1,547)
Derivative (assets)	56,345
Loan portfolio	(3,902)
Benefits to be received from trading operations	-
Foreclosed assets	(86)
Operating assets	40,693
Deposits	(26,971)
Bank deposits and other liabilities	14,204
Creditors repo transactions	(7,498)
Collateral sold or delivered as guarantee	6,305
Derivative (liabilities)	(58,547)
Subordinated debentures outstanding	4,273
Other operating liabilities	(26,514)
<b>Funds provided by operating activities</b>	<b>(26,787)</b>
<b>Investing activities:</b>	
Disposal of property, furniture and equipment	13
Acquisition of property, furniture and equipment	(2,153)
Disposal of subsidiaries	23
Disposal of long term investments in equity securities	15
Cash dividend	1
Intangible assets acquisitions	(235)
<b>Funds used in investing activities</b>	<b>(2,336)</b>
<b>Financing activities:</b>	
Shares issue	9,722
Cash dividend	(1,003)
<b>Funds used or provided by financing activities</b>	<b>8,719</b>
<b>Increase/decrease in cash and equivalents</b>	<b>(5,563)</b>
<b>Adjustments to cash flow variations in the exchange rate and inflation levels</b>	<b>285</b>
<b>Cash and equivalents at beginning of period</b>	<b>73,600</b>
<b>Cash and equivalents at end of period</b>	<b>68,322</b>

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

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

The present Statement of Cash Flows has been approved by the Board of Directors under the responsibility of signing the officers.

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## Financial Instruments

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

Figures in MXN millions at December 31, 2009

#### Investments in securities

	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>
Government securities	51,516	74,374	70,613	55,077	<b>36,229</b>
Bank securities	3,917	1,690	1,804	3,036	<b>2,562</b>
Shares	-	66	15	366	<b>16</b>
Others	875	802	1,558	1,592	<b>2,532</b>
Trading securities	<u>56,308</u>	<u>76,932</u>	<u>73,990</u>	<u>60,071</u>	<u><b>41,339</b></u>
Government securities	27,482	29,004	38,569	43,742	<b>66,793</b>
Bank securities	-	-	1,966	-	<b>1,212</b>
Obligations and other securities	3,063	3,326	3,266	3,459	<b>3,611</b>
Shares	1,050	351	188	249	<b>14</b>
Available for sale securities	<u>31,596</u>	<u>32,681</u>	<u>43,989</u>	<u>47,450</u>	<u><b>71,630</b></u>
Sovereign debt securities	-	-	-	-	-
Special Cetes (net)	4,183	4,263	4,328	4,379	<b>4,189</b>
Bank securities	320	324	204	209	<b>204</b>
Corporate securities	4,433	4,422	4,488	4,181	<b>4,109</b>
Securities held to maturity	<u>8,935</u>	<u>9,009</u>	<u>9,020</u>	<u>8,769</u>	<u><b>8,502</b></u>
Total Financial Instruments	<u>96,839</u>	<u>118,622</u>	<u>126,999</u>	<u>116,290</u>	<u><b>121,471</b></u>

In the fourth quarter of 2009 investment in securities increase by MXN 5,181 million compared to the third quarter of 2009; mainly by increase government securities MXN4,204 million, promissory note MXN1,089 among others.

## Repos

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

Figures in MXN millions at December 31, 2009

	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>
Government securities (debit)	34,343	-	-	-	-
Bank securities (debit)	582	-	-	-	-
Valuation Increase (decrease)	80	-	-	-	-
Interest in securities receivable under repurchase agreements	37	-	-	-	-
Total in repo agreements (debit)	<u>35,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Repo's Government securities (credit)	34,343	75,925	56,547	31,995	<b>23,996</b>
Repo's Bank securities (credit)	582	569	482	593	<b>526</b>
Valuation increase (decrease)	(2)	-	-	-	-
Accrued interest payable	71	66	86	24	<b>22</b>
Credit balance in repo agreements	<u>34,994</u>	<u>76,560</u>	<u>57,115</u>	<u>32,612</u>	<u><b>24,544</b></u>

	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>	<u>30 Sep</u> <u>2009</u>	<u>31 Dec</u> <u>2009</u>
Repurchase agreements in government securities	3,000	1,500	8,000	3,500	<b>10,500</b>
Repurchase agreements in banking securities	-	-	-	-	-
Valuation increase (decrease)	-	-	-	-	-
Accrued interest receivable	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>9</u>
Debit balance repo securities agreements	<u>3,001</u>	<u>1,500</u>	<u>8,001</u>	<u>3,500</u>	<u><b>10,509</b></u>
Government securities	3,000	751	7,202	-	<b>8,916</b>
Bank securities	-	-	-	-	-
Valuation increase (decrease)	(9)	-	-	-	-
Interest in securities deliverable under repurchase agreements	<u>2</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Credit balance repo securities agreements	<u>2,993</u>	<u>751</u>	<u>7,203</u>	<u>-</u>	<u><b>8,917</b></u>

## Derivative Financial Instruments

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

Figures in MXN millions at December 31, 2009

	<u>Futures</u>		<u>Forwards</u> <u>Contracts</u>		<u>Options</u>		<u>Swaps</u>		<u>Total</u> <u>(net)</u>
	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	<u>Asset</u> <u>position</u>	<u>Liability</u> <u>position</u>	
For trading									
Pesos	-	-	44,624	35,360	21,037	21,074	65,291	64,104	10,414
US Dollars	-	-	32,340	41,697	3,734	3,728	112,401	115,386	(12,336)
Interest Rate	5,455	5,455	228	370	-	-	94,740	94,406	192
Total	<u>5,455</u>	<u>5,455</u>	<u>77,192</u>	<u>77,427</u>	<u>24,771</u>	<u>24,802</u>	<u>272,432</u>	<u>273,896</u>	<u>(1,730)</u>
For hedging									
Pesos	-	-	-	-	-	-	1,897	-	
US Dollars	-	-	-	-	-	-	-	2,447	
Interest Rate	-	-	-	-	-	-	2,117	2,856	
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,014</u>	<u>5,303</u>	

## Collateral Sold or delivered as guarantee

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

Figures in MXN millions at December 31, 2009

	<u>31 Dec</u> <u>2008</u>	<u>31 Mar</u> <u>2009</u>	<u>30 Jun</u> <u>2009</u>	<u>30 Sep</u> <u>2009</u>	<u>31 Dec</u> <u>2009</u>
<b>Stock borrowing</b>					
Cetes	-	-	1,123	1,437	<b>788</b>
Valuation increase (decrease)	-	-	(13)	-	-
Bonds	-	-	5,584	5,258	<b>5,504</b>
Valuation increase (decrease)	-	-	240	2	(3)
Shares	-	-	-	-	<b>17</b>
Valuation increase (decrease)	-	-	-	-	(1)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>6,934</u>	<u>6,697</u>	<u><b>6,305</b></u>

## Participation by Subsidiary

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

Group Subsidiaries at December 31, 2009

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A.	1,643,363,189	99.99%	1,643,286,963
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	96,440	99.99%	96,439
HSBC Fianzas, S.A.	759,985,454	97.22%	738,877,715
HSBC Casa de Bolsa, S.A. de C.V.	158,500,801	99.99%	158,500,798
HSBC Global Asset Management (México), S.A. de C.V.	1,000	99.90%	999
HSBC Servicios, S.A. de C.V.	100	99.00%	99
<b>Total</b>	<b>2,562,339,184</b>		<b>2,541,155,212</b>

## Trading income

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

Figures in MXN millions at December 31, 2009

	For the quarter ending...				Year to date		
	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Dec 2008	31 Dec 2009
<b>Valuation</b>	(1,414)	(3,139)	7,455	(1,157)	(829)	(2,048)	2,590
Derivatives	(161)	(530)	147	(1,153)	(590)	(641)	3,007
Repos	1	(2)	-	-	-	4	(2)
Debt Securities	1,336	(4)	(428)	(11)	(255)	1,407	(699)
Foreign Exchange	(2,590)	(2,603)	7,736	7	17	(2,818)	284
<b>Buying and Selling Instruments</b>	3,019	4,543	(6,710)	1,573	1,116	4,598	262
Foreign Currency	3,850	4,080	(7,210)	1,700	1,229	4,593	(461)
Derivatives	(676)	260	214	(353)	(245)	(65)	(124)
Repos	-	-	-	-	-	-	-
Shares	-	6	4	12	(12)	12	10
Debt Securities	(155)	197	282	214	144	58	837
<b>Total</b>	<b>1,605</b>	<b>1,404</b>	<b>745</b>	<b>416</b>	<b>287</b>	<b>2,550</b>	<b>2,852</b>

## Loan Portfolio

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

#### By type of currency

Figures in MXN millions at December 31, 2009

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
<b>Performing Loan Portfolio</b>						
Pesos	54,988	6,783	17,940	30,048	16,093	125,852
US Dollars	21,103	168	1,317			22,588
Udis Banxico	-	-	6	-	3,567	3,573
<b>Total</b>	<b>76,091</b>	<b>6,951</b>	<b>19,263</b>	<b>30,048</b>	<b>19,660</b>	<b>152,013</b>
<b>Non Performing Loans Portfolio</b>						
Pesos	1,694	-	-	3,826	1,800	7,320
US Dollars	51					51
Udis Banxico	-	-	-	-	568	568
<b>Total</b>	<b>1,745</b>	<b>-</b>	<b>-</b>	<b>3,826</b>	<b>2,368</b>	<b>7,939</b>

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

## Ratings HSBC México, S.A.

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

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
<b>Global scale ratings</b>			
<b>Foreign currency</b>			
Long term	-	BBB	A-
Long term deposits	Baa1		
Short term	P-2	A-3	F1
<b>Local Currency</b>			
Long term obligations	A2	BBB	A
Long term deposits	A2	BBB	-
Short term	P-1	A-3	F1
<b>BFSR (Moody's)</b>	C-	-	-
<b>Individual / Support rating (Fitch)</b>	-	-	C / 1
<b>National scale / Local currency</b>			
Long term	Aaa.mx	mxAAA	AAA (mex)
Short term	MX-1	mxA -1+	F1+ (mex)
<b>Outlook</b>	Stable	Negative	Negative
<b>Last update</b>	19-Oct-09	14-Dic-09	23-Nov-09

(\*) Indicates the long term ratings for which the negative outlook rating applies.

## Loan Portfolio Grading

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

Figures in MXN millions at December 31, 2009

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	8,264				
Graded	166,791				
<b>Risk A</b>	<b>76,116</b>	<b>337</b>	<b>54</b>	<b>57</b>	<b>448</b>
Risk A-1	54,760	133	54	57	244
Risk A-2	21,356	204	-	-	204
<b>Risk B</b>	<b>77,863</b>	<b>2,532</b>	<b>1,014</b>	<b>128</b>	<b>3674</b>
Risk B-1	57,746	818	366	128	1,312
Risk B-2	13,640	924	648	-	1,572
Risk B-3	6,477	790	-	-	790
<b>Risk C</b>	<b>5,846</b>	<b>781</b>	<b>715</b>	<b>221</b>	<b>1717</b>
Risk C-1	5,162	459	715	221	1,395
Risk C-2	684	322	-	-	322
<b>Risk D</b>	<b>5,755</b>	<b>253</b>	<b>2,094</b>	<b>1042</b>	<b>3389</b>
<b>Risk E</b>	<b>1,211</b>	<b>832</b>	<b>279</b>	<b>108</b>	<b>1219</b>
Total	<b>175,055</b>	4,735	4,156	1,556	10,447
Less:					
Constituted Reserves					<b>10,447</b>
Surplus					-

1. The rating and constitution of reserves correspond to last day of the balance sheet at December 31, 2009.

2. The lending portfolio is graded according to the rules for grading lending portfolios issued by the Secretaría de Hacienda y Crédito Público (SHCP – Mexican Government's Secretary of Public Lending) and to the methodology established by the CNBV (Mexican Banking and Securities National Committee), and if it is the case, according to the internal methodology authorized by the CNBV. The methodology distinguishes the qualification of the borrower and based on this determines the operation for the commercial portfolio excluding states and municipalities and Investment Projects, it has approved by the CNBV use an internal methodology. For the consumer portfolio and mortgage is made based on the "General Regulations Applicable to Credit Institutions" issued by the CNBV, specifically using the standard methodology.

3. The institution chose to establish reserves for consumer loan portfolio for credit card operations, calculated in accordance with Section II of Article 91 of the general provisions applicable to credit institutions in accordance with Section II of second transitory article of the resolution amending the general provisions applicable to credit institutions, as published in the Official Gazette on August 12, 2009.

In December 2009 the amount to establish such reserves as a result of the score was MXN 5,093 million. The amount up to that date for this concept was MXN 2,971 million, equivalent to 58.33% of the amount specified by the application of the formula set out in that Article transient.

The implementation of the new methodology for qualification of the consumer loan portfolio for credit card operations, led a charge to income, the allowance for loan losses net of MXN 704 million, which was credited to the respective provision that presented in the balance sheet.



## Non – Performing Loans

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

Figures in MXN millions

	<i>At the quarter ending</i>				
	<i>31 Dec 2008</i>	<i>31 Mar 2009</i>	<i>30 Jun 2009</i>	<i>30 Sep 2009</i>	<i>31 Dec 2009</i>
<b>Initial Balance of Impaired Loans</b>	9,801	10,245	9,623	10,302	<b>9,109</b>
Increases	6,975	6,409	8,811	6,204	<b>4,670</b>
Transfer of current loans to past due status	<u>6,975</u>	<u>6,409</u>	<u>8,811</u>	<u>6,204</u>	<u><b>4,670</b></u>
Decreases	(6,530)	(7,031)	(8,132)	(7,397)	<b>(5,840)</b>
Restructurings	(120)	(64)	(93)	(170)	<b>(41)</b>
Liquidated credits	(4,984)	(5,351)	(5,560)	(5,636)	<b>(4,646)</b>
Charged in cash	(1,194)	(1,053)	(1,443)	(1,106)	<b>(942)</b>
Foreclosed assets	(9)	(17)	(30)	(30)	<b>(23)</b>
Writeoffs	-	-	-	-	<b>-</b>
Sale of portfolio	(3,780)	(4,281)	(4,087)	(4,500)	<b>(3,681)</b>
Transfer to performing loan status	<u>(1,502)</u>	<u>(1,626)</u>	<u>(2,468)</u>	<u>(1,597)</u>	<u><b>(1,156)</b></u>
Fx revaluations	<u>75</u>	<u>10</u>	<u>(11)</u>	<u>6</u>	<u><b>3</b></u>
<b>Final Balance of Impaired Loan</b>	<u>10,245</u>	<u>9,623</u>	<u>10,302</u>	<u>9,109</u>	<u><b>7,939</b></u>

## Deferred Taxes

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

Figures in MXN millions at December 31, 2009

	<i>31 Dec 20088</i>	<i>31 Mar 20099</i>	<i>30 Jun 2009</i>	<i>30 Sep 2009</i>	<i>31 Dec 2009</i>
Loan loss reserves	2,137	3,100	3,955	4,405	<b>4,055</b>
Valuation of securities	(294)	(128)	(132)	(46)	<b>(40)</b>
Fiscal loss	6	6	14	24	<b>17</b>
Other reserves	744	619	540	578	<b>863</b>
PTU Payable	389	485	34	55	<b>88</b>
Foreclosed assets	19	72	16	35	<b>17</b>
Stocks VISA & Mastercard	-	-	-	-	<b>-</b>
Other	125	109	129	157	<b>227</b>
Differences in rates of fixed assets	(307)	(285)	(319)	(283)	<b>(199)</b>
Fiscal result UDIS-Banxico	<u>(702)</u>	<u>(724)</u>	<u>(743)</u>	<u>(757)</u>	<u><b>(760)</b></u>
<b>Total Deferred Taxes</b>	<u>2,117</u>	<u>3,254</u>	<u>3,494</u>	<u>4,168</u>	<u><b>4,268</b></u>

## Funding, Loans and Investments in Securities

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

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<i>31 Dec 2008</i>	<i>31 Mar 2009</i>	<i>30 Jun 2009</i>	<i>30 Sep 2009</i>	<i>31 Dec 2009</i>
MXN pesos					
Funding	3.62%	3.40%	2.77%	2.17%	<b>2.19%</b>
Bank and other loans	8.26%	7.79%	6.32%	5.07%	<b>5.21%</b>
Foreign currency					
Funding	0.50%	0.28%	0.22%	0.15%	<b>0.10%</b>
Bank and other loans	3.51%	1.99%	0.82%	0.75%	<b>0.70%</b>
UDIS					
Funding	0.19%	0.19%	0.20%	0.20%	<b>0.20%</b>

## Long Term Debt

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

HSBC Mexico, S.A. has long term non-convertible subordinated debentures. These instruments pay monthly interest at a rate equivalent to the average 28-day THIE (interbank rate) of the previous month for local currency transactions and Libor rate 1 (one) month plus 3.50% for transactions in dollars.

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Rate</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	5	2,205	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	2	1,820	20-SEP-2018
HSBC 08-2	18-DIC-2008	2,272	MXN	5	2,277	10-DIC-2018
HSBC 09D(USD300) <sup>1</sup>	26-JUN-2009	3,917	USD	2	3,919	28-JUN-2019
		<b>10,207</b>		<b>14</b>	<b>10,221</b>	

<sup>1</sup> Expressed in local currency at issuance date FX rate.

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Maturity Date</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
Certified Marketable Securities	10-MAY-2006	4,220	MXN	22	4,242	27-ABR-2016
		<b>4,220</b>		<b>22</b>	<b>4,242</b>	

## Capital

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

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#### **Grupo Financiero HSBC**

The Ordinary Shareholders Meeting, held on March 30, 2009, approved the following distribution of the year 2008 financial results, amounting to MXN4,110 million:

- ▶ Five per cent, MXN206 million, to increase legal reserves, and the remaining MXN2,257 million, at the Board's determination to be applied under the concept of previous year's financial results.

On March 30, 2009 one notice was published in accordance to the agreement of the Board meeting, held on March 31, 2009, a dividend of \$0.847564982 shall be paid per share for each one of the 1,943,032,139 shares. Such dividend was paid on one disbursement on March 31 of 2009, amounting to MXN1,647.

The general shareholders meeting, held on June 23, 2009 agreed to increase the capital stock amounting to MXN2,259 million, by issuing 120,979,365 shares, which were subscribed and paid at a price of MXN 18.67.

The Ordinary Shareholders Meeting, held on June 30, 2009, approved the dividend of \$1.1617606819009 shall be paid per share for each one of the 1,943,032,139 shares. Such dividend was paid on one disbursement on June 30 of 2009, amounting to MXN2,257.

The general shareholders meeting, held on December 21, 2009 agreed to increase the capital stock amounting to MXN8,954 million, by issuing 500,000,000 shares, which were subscribed and paid at a price of MXN 18.2236.

The capital stock is included in the amount of MXN5,101 million, represented by 2,555,350,789 shares.

#### **Subsidiaries Grupo Financiero HSBC**

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

HSBC Mexico, S.A., net income in 2008, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN2,519 million.

The Ordinary Shareholders Meeting, held on March 30, 2009, approved the following distribution of the year 2008 financial results in the following accounting distribution:

Ten per cent to increase legal reserves MXN252 million, a dividend of \$0.81133657 shall be paid per share for each one of the 1,235'526,706 shares outstanding. Such dividends were paid on one disbursement on March 30 of 2009 for MXN1,002 million and the remaining MXN1,265 million to other reserves.

The general shareholders meeting, held on August 28, 2009 agreed to increase the capital stock amounting to MXN740 million of which are MXN62 million to capital stock and MXN678 million in shares premiums, by issuing 31'329,382 shares, which were subscribed and paid at a price of MXN23.62 for every 100 shares that they hold.

The general shareholders meeting, held on October 22, 2009 agreed to increase the capital stock amounting to MXN6,290 million of which are MXN527 million to capital stock and MXN5,763 million in shares premiums, by issuing 263'670,618 shares, which were subscribed and paid at a price of MXN23.86 for every 100 shares that they hold.

The general shareholders meeting, held on December 29, 2009 agreed to increase the capital stock amounting to MXN2,692 million of which are MXN226 million to capital stock and MXN2,466 million in shares premiums, by issuing 112'836,483 shares, which were subscribed and paid at a price of MXN23.86 for every 100 shares that they hold.

The capital stock increased to MXN3,287 million representing 1,643'363,189 shares.

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

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN95 million to retained earnings in accordance to the Board decision.

The general shareholders meeting, held on December 21, 2009 agreed to increase the capital stock amounting to MXN45 million, by issuing 59,381,674 shares, which were subscribed and paid at a price of MXN 0.7578.

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

On March, 2009, it was ordered the payment of dividend by MXN100 million. Such dividend was paid on one disbursement on March of 2009, and august 2009 by MX 140 million.

**HSBC Global Asset Management (México) S.A. de C.V.**

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN29 million to retained earnings in accordance to the Board decision.

**HSBC Servicios S.A. de C.V.**

The Ordinary Shareholders Meeting, approved to affect the net income recorded in 2008 amounting to MXN43 million to retained earnings in accordance to the Board decision.

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

Figures in MXN millions at December 31, 2009

	<u>31 Dec 2008</u>	<u>31 Mar 2009</u>	<u>30 Jun 2009</u>	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>
% of assets subject to credit risk					
Tier 1	13.79%	14.40%	15.12%	15.89%	<b>22.37%</b>
Tier 2	3.74%	3.96%	5.79%	6.24%	<b>6.48%</b>
Total regulatory capital	<u>17.53%</u>	<u>18.36%</u>	<u>20.91%</u>	<u>22.14%</u>	<u><b>28.85%</b></u>
% of assets subject to credit, market risk and operational risk					
Tier 1	10.09%	9.72%	9.70%	9.70%	<b>13.81%</b>
Tier 2	2.74%	2.67%	3.72%	3.81%	<b>4.00%</b>
Total regulatory capital	<u>12.83%</u>	<u>12.39%</u>	<u>13.42%</u>	<u>13.51%</u>	<u><b>17.81%</b></u>
Tier 1	25,289	25,715	25,317	26,088	<b>35,927</b>
Tier 2	6,860	7,073	9,695	10,249	<b>10,401</b>
Total regulatory capital	<u>32,149</u>	<u>32,788</u>	<u>35,012</u>	<u>36,337</u>	<u><b>46,328</b></u>
RWA credit risk	183,381	178,623	167,462	164,150	<b>160,597</b>
RWA market risk	58,907	74,688	78,944	87,110	<b>78,397</b>
RWA operational risk	8,291	11,271	14,483	17,780	<b>21,066</b>
RWA credit and market risk	<u>250,579</u>	<u>264,589</u>	<u>260,889</u>	<u>269,040</u>	<u><b>260,061</b></u>

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

## Other Expenses, Other Income and Extraordinary Items

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

Figures in MXN millions at December 31, 2009

	For the quarter ending					Year to date	
	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Dec 2008	31 Dec 2009
Other income							
Loans to employees	46	44	40	36	37	173	157
Recoveries	247	475	97	74	210	1,117	856
Other income	22	790	503	512	493	2,402	2,298
	315	1,309	640	622	740	3,692	3,311
Other expenses	(1,732)	(347)	(229)	(450)	(602)	(2,363)	(1,628)
Other losses	(1,732)	(347)	(229)	(450)	(602)	(2,363)	(1,628)
Total other income (expenses)	(583)	962	411	172	138	1,329	1,683

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

## Related Party Transactions

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

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

The balance of the transactions carried out as of December 31, 2009 is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
<b>Balance Sheet</b>							
Cash and deposits in banks	-	1	148	1	19	18	187
Demand deposits	(187)	-	-	-	-	-	(187)
Repurchase agreements (assets)	-	-	4,931	42	-	-	4,973
Repurchase agreements (liabilities)	(4,931)	-	(42)	-	-	-	(4,973)
Sundry debtors (assets)	263	-	-	-	-	-	263
Sundry creditors (liabilities)	-	(3)	(14)	(21)	(225)	-	(263)
<b>Total</b>	<b>(4,855)</b>	<b>(2)</b>	<b>5,023</b>	<b>22</b>	<b>(206)</b>	<b>18</b>	<b>-</b>
<b>P&amp;L</b>							
Payable commissions	(33)	(6)	-	(441)	-	-	(480)
Receivable commissions	378	-	103	35	-	-	516
Interest income	-	-	5	-	-	-	5
Interest expense	(5)	-	-	-	-	-	(5)
Repos	(286)	-	-	-	-	-	(286)
Reverse repos	-	-	286	-	-	-	286
Administrative services	(264)	(73)	(215)	(46)	(610)	(1)	(1,209)
Other income	909	-	-	10	254	-	1,173
<b>Total</b>	<b>699</b>	<b>(79)</b>	<b>179</b>	<b>(442)</b>	<b>(356)</b>	<b>(1)</b>	<b>-</b>

## Information on Customer Segment and Results

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

#### Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of *December 31, 2009*, is shown below:

Figures in MXN millions at December 31, 2009

	Year to date at 31 December 2009				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	15,622	4,916	682	-	21,220
Provision for Loan Loss	12,748	1,666	59	-	14,472
<b>Net Interest Income adjusted</b>	<b>2,875</b>	<b>3,250</b>	<b>624</b>	-	<b>6,748</b>
Fees and Commissions, net	6,550	2,209	945	-	9,704
Trading Income	166	105	2,590	-	2,861
Other operation income	745	90	-	-	835
<b>Total Revenue</b>	<b>10,335</b>	<b>5,653</b>	<b>4,159</b>	-	<b>20,148</b>
Administrative Expenses	14,029	5,489	2,179	-	21,697
<b>Operating Income</b>	<b>(3,693)</b>	<b>164</b>	<b>1,980</b>	-	<b>(1,549)</b>
<b>Other Income (Expenses), net</b>	<b>936</b>	<b>236</b>	<b>511</b>	-	<b>1,683</b>
<b>Profit Before Taxes</b>	<b>(2,757)</b>	<b>400</b>	<b>2,491</b>	-	<b>133</b>
<b>Taxes</b>	<b>(88)</b>	<b>(5)</b>	<b>(79)</b>	-	<b>(172)</b>
<b>Net Income before subsidiaries</b>	<b>(2,670)</b>	<b>405</b>	<b>2,570</b>	-	<b>305</b>
Undistributed income from subsidiaries	1,218	11	19	-	1,248
Continued Operating Results	<b>(1,452)</b>	<b>416</b>	<b>2,589</b>	-	<b>1,553</b>
Discontinued Operating Results	-	-	-	-	-
<b>Net Income</b>	<b>(1,452)</b>	<b>416</b>	<b>2,589</b>	-	<b>1,553</b>
Minority Shareholders	-	-	-	-	-
<b>Participated Net Income</b>	<b>(1,452)</b>	<b>416</b>	<b>2,589</b>	-	<b>1,554</b>

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

### Grupo Financiero HSBC

HSBC Holdings plc, the parent of Grupo Financiero HSBC S.A. de C.V. reports its results under International Financial Reporting Standards (IFRS). There follows a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V. from Mexican GAAP to IFRS for the six months to 31 December 2009 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	<b>31 Dec. 2009</b>
<b>Grupo Financiero HSBC – Net Income Under Mexican GAAP</b>	<b>1,554</b>
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	317
Acquisition costs relating to long-term investment contracts †	(46)
Deferral of fees received and paid on the origination of loans	66
Recognition and provisioning for loan impairments †	237
Purchase accounting adjustments †	(23)
Recognition of the present value in-force of long-term insurance contracts †	38
Tax criteria	303
Deferred tax on loan sales	1,535
Other †	475
<b>HSBC México net income under IFRS</b>	<b>4,456</b>
<b>US dollar equivalent (millions)</b>	<b>319</b>
Add back tax expense	(650)
<b>HSBC México profit before tax under IFRS</b>	<b>3,806</b>
<b>US dollar equivalent (millions)</b>	<b>272</b>
<i>Exchange rate used for conversion</i>	<b>14.0</b>

† Net of tax at 30 per cent.

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

##### **Valuation of pensions and post retirement healthcare 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.

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

###### **Mexican GAAP**

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

###### **IFRS**

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

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

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

**IFRS**

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

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

**Loan impairment charges****Mexican GAAP**

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

**IFRS**

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

**Purchase accounting adjustments**

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

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

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

**IFRS**

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



## Risk Management

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

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

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

### Assets and Liabilities (Committee) ALCO

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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)

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

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

The main objectives of this committee are to:

- ▶ Develop mechanisms to identify actual and potential risks.

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

## Market Risk Management

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### Qualitative Information

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

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

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

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

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

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

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

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

## Value at Risk (VaR)

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

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

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

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

## Spread over yield risk

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

## Basis Risk

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

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

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

## Credit Spread Risk (CSO1)

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

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

## Vega or implied volatility risk

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

## Extreme Conditions Tests (Stress Test)

These are models that take into account extreme values that sporadically occur, therefore they are highly improbable according to probability distributions assumed for the market risk factors, but if these extreme events occur could generate moderate to severe impacts.

The generation of stress scenarios in HSBC, for the analysis of the sensitivity of positions and their risk exposure to interest rates, is carried out by considering hypothetical scenarios. Both negative and positive changes in interest

rates are considered in order to fully measure the impact on the different portfolios. Furthermore Stress tests are performed for Equities.

### Validation and Calibration Methods for Market Risk models:

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

### Applicable portfolios:

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

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

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

The stress tests are carried out for the Bank's portfolio and for the "All 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 "All Trading" and "Accrual" portfolios for the fourth quarter of 2009 (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 4Q09	Limits*	Average 4Q09	Limits*	Average 4Q09	Limits*
Combined	30.59	45.00	6.20	32.50	33.39	42.00
Interest Rate	35.15	50.00	4.48	24.50	33.39	42.00
FX	6.34	12.00	6.34	12.00	N/A	N/A
Volatility IR	0.04	9.50	0.04	7.50	0.03	2.0
Volatility FX	0.14	2.00	0.14	2.00	N/A	N/A
Equities	0.61	2.50	0.61	2.50	N/A	N/A

\*\* Includes Trading Desk, BST, MMT, Strategic FX & Equity

**Value at Risk of Global Market (VaR) (Last quarter comparison)**

	30-Sep-09	31-Dec-09	Limits*	Average 3Q09	Average 4Q09
HBMI	33.61	34.79	45.00	32.95	30.59
Accrual	34.07	33.51	42.00	36.90	33.39
All Trading	7.32	3.31	32.50	6.06	6.20

\* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of the 4Q09 varied 3.51% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 4Q09 varied -7.18% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

**Comparison of Market VaR vs. Net capital**

Below a chart comparing the market VaR versus net capital is presented for September 30th, 2009 and December 31st, 2009 (in millions of dollars).

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

	30-Sep-09	31-Dec-09
Total VaR*	32.95	30.59
Net Capital **	2,693.06	3,545.70
VaR / Net Capital	1.22%	0.86%

\* 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 0.86% of the net capital in 4Q09.

**Present Value for 1bp (PVBP) for Mexican Pesos Rates**

	30-Sep-09	31-Dec-09	Limits*	Average 3Q09	Average 4Q09
Bank	(0.872)	(0.759)	1.200	(0.878)	(0.801)
Accrual	(0.728)	(0.590)	0.900	(0.735)	(0.654)
Trading Desk	(0.103)	(0.101)	0.320	(0.074)	(0.105)
Balance Sheet Trading	(0.041)	(0.069)	0.210	(0.069)	(0.043)

\* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 4Q09 varied -12.91% versus prior quarter. The bank's average PVBP for the 4Q09 varied -8.77% versus prior quarter.

**Present Value for 1bp (PVBP) for USD Rate**

	30-Sep-09	31-Dec-09	Limits*	Average 3Q09	Average 4Q09
Bank	0.058	0.077	0.300	0.064	0.062
Accrual	0.050	0.055	0.300	0.043	0.058
Trading Desk	0.011	0.025	0.050	0.008	0.001
Balance Sheet Trading	(0.003)	(0.002)	0.065	0.013	0.003

\* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 4Q09 varied 32.97% versus prior quarter. The bank's average PVBP for the 4Q09 varied -3.32% versus prior quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	30-Sep-09	31-Dec-09	Limits*	Average 3Q09	Average 4Q09
Bank	(0.312)	(0.205)	0.350	(0.226)	(0.217)
Accrual	(0.158)	(0.156)	0.300	(0.163)	(0.161)
Trading Desk	(0.132)	(0.027)	0.080	(0.043)	(0.035)
Balance Sheet Trading	(0.022)	(0.021)	0.050	(0.020)	(0.022)

\* Absolute Value

NA = Non Applicable

The bank's UDI Rate PVBP for 4Q09 varied -34.27% versus prior quarter. The bank's average PVBP for the 4Q09 varied -3.78% 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 authorized by the local ALCO and confirmed by HSBC Group.

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

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

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

### Quantitative Information

The institution presented at end of the quarter liquidity ratios of 26.2% for 1st line liquidity and 30.8% for 2nd line liquidity, above the 15% minimum required limit. Along the quarter, average levels were 23.5% and 28.2% for 1st for 2nd line liquidity ratios respectively. Regarding the last quarter, the liquidity position in domestic currency was benefited by the reduction in short-term transactions with other banks and bank loans of less than a month, and the increase in core deposits.

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

## Credit Risk

### Qualitative Information

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

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

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

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

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

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

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

With the objective of establishing a better infrastructure for credit risk management and measurement for the commercial portfolio, a risk evaluation tool is used: Moody’s Risk Advisor (MRA), which permits a deeper evaluation of the credit quality of clients based on their qualitative and financial information. In October 2006, HBMX implemented three customer risk rating models for the commercial portfolio (one for small market enterprises, another one for middle market enterprises and a third one for large corporates).

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

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

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

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

Also, as part of the credit risk management and measurement infrastructure, HBMX has a system to manage, control and monitor the commercial credit approval process known as Approval Workflow (SIPAC). With this

system the status of a credit application can be consulted in any stage of the credit process. For corporate banking the Credit Approval and Risk Management (CARM) system is used.

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

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

Within the management of the consumer and mortgage portfolio, monthly reports are generated to measure its credit quality. The reports are segmented by product and include general statistics of the portfolio, distribution by number of payments past-due, payments past-due by origination date, payments past-due transitions, among others. In addition, the EL is determined in a monthly basis. The current model to determine the EL considers a two dimension focus, 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 December 31st, 2009 is \$4,355.8 millions of pesos, which represents the 7.8% of Total Balance performing a decrease of 32.9% compared to that of the previous quarter. The Expected Loss of the commercial portfolio as at December 31st, 2009 is \$3,483.7 millions of pesos, showing a decrease of 5% compared to the figure reported in the previous quarter. The EL estimation of this portfolio does not consider undrawn facilities yet.

### Operational Risk

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Operational Risk is that of incurring in losses due to inadequate or failed internal processes, people and systems or from external events, including technological and legal risks.

In order to manage these risks, a central specialized unit has been established; and a group of middle managers within the business & support units has also been appointed to functionally report to this Unit and are responsible for spreading the Group's operational risk management framework. They both operate according to the policies, procedures, processes and methodologies approved by the Risk Management Committee which are documented in manuals and instruction books as a complement to the Group's operational risk management and internal control framework.

The corporate governance structure which supports the Operational Risk function relies on the Operational Risk and Internal Control Committee and the Operational Risk Management Group, both sub-committees of the Risk Management Committee, which together are responsible for the fulfilment of applicable norms and regulations in force as well as to understand the institution's risk profile, to establish risk management priorities, assess the strategies and mitigation plans and monitor the evolution of operational risks' behaviour and their mitigants.

A 6<sup>th</sup> annual assessment exercise took place during 2H'09 in order to identify and re-assess all operational risks throughout Group's structure. As part of this exercise, all identifiable risks were denominated, described and classified into four general categories: people, processes, systems and external events, and into 23 specific subcategories, including those of legal and technological nature.

Risks were also graded in terms of three parameters: likelihood, impact and exposure, leading to a risk rating as a result of the combination of the three; which in order of relevance, runs from 'A' to 'D'.



## Technological Risk

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Systems department uses RBPM (Risk Based Project Management) systems development methodology which comprises international processes and practices used to undertake projects since it controls the development's life cycle enabling users, through "Clarity" tool, to have a consistent and efficient project management.

The aforementioned aims to keep an adequate control of technological risk; thus, assuring the continuity of the banking service through the different distribution channels in an agile, secure and reliable manner; whereas the technological risks are still being measured and evaluated in both Risk Management (RMC) and Operational Risk & Internal Control (ORICC) Committees, on a monthly basis, where the most relevant issues are addressed in order to notify the findings and their corresponding mitigation initiatives.

## Legal Risk

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Within the Legal Risk management regarding to financial loss, sanction and/or reputational damage, a detailed attention has been given to the following types of risk:

- ▶ Contractual;
- ▶ Dispute;
- ▶ Legislative;
- ▶ Non-Contractual Rights.

Besides, some measures have been undertaken: The establishment of policies and procedures for the suitable legal function and the celebration of juridical acts which includes the executed by the Institution under a different legal system than the Mexican; the estimation of potential losses derived from adverse judicial or administrative resolutions; the publication to employees and officials of the juridical and administrative dispositions applicable to his operations; the performance of legal audits as well as the establishment of a historical database on the judicial and administrative resolutions, his causes and costs.

To avoid the possible financial loss due to the non-performance of the applicable juridical and administrative norms and also to avoid unfavorable resolutions, policies and procedures have been implemented that allow identify, measure and control the legal risks with the aim of minimize the risks that the Institution is exposed and could result in losses not estimated.

In the last quarterly of 2009, Manuals, Policies and Circulars of Legal Department were updated; also the controls about risk were improved.

## Quantitative Information (including Legal and Technological Risk)

The assessment of operational risks resulting from the 6<sup>th</sup> assessment exercise carried out in Fall 2009, and taking into account their upgrades at closure of December, the set of risks is integrated by 2,300 identified and assessed risks, distributed as follows: 0.4% A type, 10.9% B type, 65.7% C type, and 23.1% D type, which can also be classified according to their primary category onto: 20.6% people, 52.0% process, 16.3% systems and 11.1% external factors.

Furthermore, for the 7<sup>th</sup> consecutive year, major incidents are recorded. Since Jan'06, the loss reporting threshold for individualized losses is of USD 10,000, where minor events are aggregated in a single record. Both event types are recorded in the ad-hoc corporate system platform specifically designed for the management of operational risk and record of operational losses.

## Corporate Sustainability (CSR)

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The importance of running a sustainable business for the long term has been highlighted by the global financial crisis. At HSBC, sustainable business means achieving profits for our shareholders, underpinned by good governance, long-lasting customer relationships, and highly committed staff delivering the corporate strategy and managing the social and environmental impact of our business. We believe by taking this approach, we can provide shared value for the benefit of our shareholders and the wider economy, the environment and society.

Sustainability has been embedded into the business in a number of ways. We have made sustainability a key element of the employee induction and senior management training programmes and have fully integrated sustainability risk issues into the Group's risk management process covering all corporate clients.

Managing the challenges of climate change will be one of the greatest tasks of the 21st century. Climate change presents different types of risk for our business and for our clients. It also brings the potential of stimulating a new era of growth, innovation and development. There are opportunities for expanding banking, insurance, investment and trade services to facilitate improvements in energy efficiency and promoting renewable energy, as well as carbon management and adaptation.

Without educated, entrepreneurial individuals operating in thriving societies, our business would not have a future. For HSBC, this means there is a clear case for investing in education and protecting the environment which we believe are essential building blocks for innovation and enterprise.

According to the HGHQ policy to support education, environment and the community, HBMX donated in the 2009, MXN\$61,906,000.00

We are dependent upon the skills of future generations, if we do not prepare them adequately, we limit our future potential.

### Education

Access to education can be life changing and helps to equalise opportunity. It is also a pre-requisite for economic growth and the development of stable societies. Our flagship education initiative "Aprendamos Programme"

"Aprendamos" will contribute to the integral development of students, teachers and parents in 15 full time elementary schools in the Federal District, in order to raise the quality of the education received by the students.

### Strategic objectives

1. To train the teachers to increase their knowledge and at the same time to acquire new and innovative pedagogic techniques to improve their scholastic labor.
2. To support family parents strengthening their human development and to involve them in their children's education.
3. To give the students the necessary skills to have better opportunities for the future
4. To benefit the integration of a real formative community
5. To create a replicable and risible model in the time to benefit more schools

### "More than Money"

As household debt rises throughout many developed countries and the world faces economic uncertainty, gaining an early understanding of how to create and manage a sustainable income is ever more important for individuals and for society as a whole.

HBMX launched in 2008 "More than Money" in partnership with Impulsa. Impulsa is an organization dedicated to educating students about workforce readiness, entrepreneurship and financial literacy through experimental programmes.

HBMX employees are involved in classroom activities where they draw on their own skills and experience to teach children about earning, spending, sharing and saving money.

## **Environment**

### **Green Insurance**

Through our Green Assurance program, in 2009, it has been transformed from a protection forest program and jungle recovery, in prior regions of the country, into an approach in a sustainable development of rural communities based on labor of conservation, protection, restoration and ecosystem enrichment program. In this year, we are duplicating the regions in which we are operating. They are 10 regions (Quintana Roo, Campeche, Chiapas, Oaxaca, State of Mexico, Jalisco, Colima, Nayarit Durango and Chihuahua), with an investment of 11.9 million and the total of communities benefited are 87 and 97,300 assisted hectares.

The actions taken are:

1. Ecological Arrangement and community managed programs.
2. Nurseries.
3. Reforestation on planned territory.
4. Prevention and management of wood fires.
5. Management of water sources.
6. Soil enrichment of jungles and forests.
7. Direct protection.
8. Retention of soils.

## **Community**

Through our ATM donations programme, branded as Niños con Futuro each time our clients use an ATM, they have the option to donate specific amounts of money, which is channelled to different charity organisations in six regions of the country. The programme is aimed at supporting Institutions that focus on improving underprivileged children's quality of life in three areas: education, healthcare and nutrition. HSBC absorbs the operating cost of the programme. The programme donated in 2009 MXN\$14,000,000.00

### **Emergencies**

As a social responsible company HBMX aims to use its resources to offer support when disaster strikes. We work through aid organizations capable of meeting needs quickly.

Our support often take the form of cash donations and where appropriate in-kind donations and volunteer efforts employees. The level of our support is based on an assessment of the scale of the tragedy, requirements of aid organizations and the extent to which HSBC's employees and customers affected. We may also help collect donations from customers and employees. In some countries contributions are doubled by HSBC.

The rehabilitation of the Municipal Recreative Park of Atasta, Villahermosa, Tabasco is an example it was inaugurated on October and returned to the community, with this, there will be a recreational space, to sports, ecology, and educational, as well as temporary hostel. This is the first park with these characteristics in Latin America.

### **CSR Certification**

In March 2009, HSBC México was awarded, for the fourth consecutive year, the Certification as a "Socially Responsible Company", by the Mexican Philanthropy Centre (CEMEFI), and Aliarse, an association which groups different business organisations.

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

### **HSBC receives an acknowledgement for "Corporate Sustainability in Internet"**

In October 2009 The Internet Mexican Association acknowledged HBMX with the most outstanding works in the Internet industry during the last year.

This time, HSBC Mexico's Internet page was acknowledged with this award as the best 'Corporate Sustainability' category.

This award acknowledges the work carried out by the Bank in favour of the neediest social groups and the environment.

Some examples of the campaigns we have had in our Internet page are:

- Water care
- Bécalos
- Donations
- Green Insurance
- As well as the spreading of diverse corporate and environmental sustainability matters in which HSBC takes part, both, locally and globally.

### **In Conclusion**

Our strategy has been tested by the economic conditions in 2009 and remains intact. As one of the largest global emerging markets banks, with an extensive international network and a diverse customer base, we continue to build our business by focusing on fast-growing markets round the world and on businesses where international connectivity is important. We are able to do this from a position of financial strength.

Our business success contributes to the wider economy in a number of ways. By managing our business well, particularly in these challenging times, we can bring tangible benefits to the markets in which we operate. The most fundamental contribution HSBC makes to the economy, the environment and society is through delivering a robust business and sustainable revenues.

## **Contacts**

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### Media enquiries:

London: Richard Lindsay  
Tel: +44 (0) 20 7991 1555

Mexico City: Roy Caple  
Tel: +52 (55) 5721 6060

### Investor Relations:

London: Danielle Neben  
Tel: +44 (0) 20 7992 1938

Mexico City: Yordana Aparicio  
Tel: +52 (55) 5721 5192