

FITCH ASSIGNS RATINGS TO HSBC MEXICO

Fitch Ratings-New York-26 April 2006: Fitch Ratings has assigned the following ratings to HSBC Mexico (HSBCM)

- Foreign Currency Long-term Issuer Default Rating (IDR) 'BBB+'
- Foreign Currency Short-term IDR 'F2'
- Local Currency Long-term IDR 'A'
- Local Currency Short-term IDR 'F1'
- Individual Rating 'C'
- Support Rating '2'
- Outlook Stable

The bank's foreign currency IDR is at the country ceiling, while its local currency IDR is two notches above that of the Mexican sovereign. These ratings, along with the bank's support rating, reflect the bank's solid ownership structure and its shareholder's strong commitment to the bank. The individual ratings reflect the bank's overall enhanced financial and competitive profile following a significant restructuring by its new shareholder, a trend which we believe will continue in the future.

HSBC acquired Banco Internacional (Bital) in November 2002 for USD\$1.1 billion. At that time, Bital was faced with the challenges of fully provisioning for contingencies that arose from the support programs provided by the government after the 1995 banking crisis and consolidating Banco del Atlantico, a mid-sized intervened bank acquired from the Mexican authorities in 1997, which remained a separate legal entity until 2002. By the end of 2002, HSBC had injected USD\$800 million into Bital (renamed HSBC Mexico) to fully reserve for contingencies. Hefty provisions and non-recurring expenses affected results in 2002 and to a lesser extent in 2003, but the improved profile has boosted profitability in 2004 and more in 2005. Strong earnings growth has been attributable to loan growth, lower levels of non-performing and low-yielding assets and increasing but stable trading revenues. Moreover, we believe the trend is likely to continue as the bank manages to contain loan provisions, expand non-interest revenues and improve efficiency.

Asset quality has also improved following large charge-offs made in 2003 and 2004 on the back of an enhanced risk management platform. At the end of 2005, the bank's non-performing to total loans ratio was 2.7% (4.8% at the end of 2004) and reserve coverage was ample at 168%. Fobaproa notes were exchanged for IPAB notes and subsequently amortized in 2005, although government exposure and borrower concentrations remain high. The appetite for market risk is moderate. HSBCM's main strengths include its ample liquidity and a highly diversified and stable retail deposit base. While rising steadily over the past few years, Fitch considers HSBCM's capital to be somewhat tight and relatively encumbered by net fixed, net foreclosed and deferred assets (40% of equity at end-2005, while equity/assets stood at 7.7%). Fitch expects that capital adequacy is likely to continue improving, in view of its enhanced profitability and conservative dividend policy.

HSBCM is Mexico's fourth largest bank with 11% of the system's assets and loans at the end of 2005, while its market share in terms of deposits was over 15%. HSBCM (formerly Bital) was established in 1941, acquired in 1972 by the government, re-privatized in 1992 and acquired by HSBC in 2002 from local investors. HSBCM is part of Grupo Financiero HSBC (GFHSBC), which also has subsidiaries with operations in the following sectors: insurance and annuities, pension fund management, securities brokerage, surety bonds, mutual fund management, and a Panamanian subsidiary involved in commercial and retail banking. In 2005, HSBCM accounted for 91% and 84% of GFHSBC's assets and earnings, respectively. At that date, HSBCM had 1,345 branches, 19,808 employees and 5,065 ATMs.

Contact: Alejandro Garcia or Rene Ibarra + 52 81 8335-7179, Monterrey, Mexico; Linda Hammel +1-212-908-0303 or Peter Shaw +1-212-908-0553, New York.

Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.