

July 31, 2004
Mexico City

HSBC MÉXICO, S.A.
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO HSBC
FINANCIAL REPORT AS OF JUNE 30, 2004

In compliance with the disposal of general character applicable to the financial information of the Credit Institutions issued by the Mexican National Banking Commission—*Comision Nacional Bancaria y de Valores (CNBV)*—on June 30, 2003, related to the disclosure of financial information presented in the current report, please find enclosed the consolidated financial statement of HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC as of June 30, 2004.

The figures included in the current report are in millions of Mexican pesos expressed in constant prices as of June 2004, unless otherwise explicitly indicated.

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The HSBC Group

HSBC is one of the five largest banking and financial services institutions in Mexico, with some 1,321 branches, 4,500 ATMs, and over 16,800 employees.

HSBC is a directly held, 99.76 per cent owned subsidiary of HSBC Holdings plc. With global headquarters in London, UK, the HSBC Group serves over 110 million customers world-wide from more than 9,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$1,034 billion at 31 December 2003, HSBC is one of the world's largest banking and financial services organizations. HSBC is marketed worldwide as 'the world's local bank'.

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Basic Financial Statements**Consolidated Balance Sheet***Figures in MXN Millions*

	<i>June 30</i>	<i>Sept. 30</i>	<i>Dec. 30</i>	<i>March 31</i>	<i>June 30</i>
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
Assets					
Cash and deposits in banks	37,873	36,125	36,940	33,567	36,807
Financial instruments	8,192	10,268	23,099	26,992	22,598
Trading securities	249	1,309	9,167	12,191	4,200
Available for sale securities	915	2,054	7,206	8,363	12,310
Securities held to maturity	7,028	6,905	6,726	6,438	6,088
Securities and derivative operations	261	120	70	141	209
Repurchase agreements	108	86	66	94	121
Operations that represent loans with collateral	-	-	-	-	-
Securities receivable in loan operations	-	1	2	2	-
Derivative transactions	153	33	2	45	88
Performing loans					
Commercial loans	20,800	20,318	20,661	18,826	19,638
Loans to financial intermediaries	2,409	2,656	2,116	1,746	1,605
Consumer loans	11,353	11,528	15,080	14,187	13,781
Mortgage	12,531	11,933	11,435	11,113	11,045
Loans to government entities	3,530	3,887	5,906	6,059	5,760
Loans to Fobaproa or IPAB	57,968	57,605	56,681	55,923	56,081
Total current loans	<u>108,591</u>	<u>107,927</u>	<u>111,879</u>	<u>107,854</u>	<u>107,910</u>
Non-performing loans					
Commercial loans	5,507	4,480	4,171	3,989	3,667
Loans to financial intermediaries	33	1	1	1	1
Consumer loans	435	471	416	360	442
Mortgage	2,619	2,602	667	764	823
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	166	146	95	68	77
Total non-performing loans	<u>8,760</u>	<u>7,700</u>	<u>5,350</u>	<u>5,182</u>	<u>5,010</u>
Total loan portfolio	<u>117,351</u>	<u>115,627</u>	<u>117,229</u>	<u>113,036</u>	<u>112,920</u>
(-) Allowance for loan losses	<u>(11,058)</u>	<u>(9,799)</u>	<u>(8,171)</u>	<u>(8,012)</u>	<u>(7,921)</u>
Net loan portfolio	106,293	105,828	109,058	105,024	104,999
Other accounts receivable	5,337	11,378	3,119	16,493	9,996
Foreclosed assets	846	877	848	792	718
Property, furniture and equipment, net	3,254	3,084	3,094	3,336	3,371
Long term investments in equity securities	392	394	377	378	358
Deferred taxes	3,741	3,423	3,381	2,973	2,496
Other assets, deferred charges and intangibles	168	207	754	730	695
Total Assets	<u>166,357</u>	<u>171,704</u>	<u>180,740</u>	<u>190,426</u>	<u>182,247</u>

<i>Figures in MXN Millions</i>	<i>June 30</i>	<i>Sept. 30</i>	<i>Dec. 30</i>	<i>March 31</i>	<i>June 30</i>
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
Liabilities					
Deposits.....	134,563	136,495	149,338	151,078	148,090
Demand deposits	80,158	81,170	96,396	86,953	92,133
Time deposits	54,405	55,325	52,942	64,125	55,957
Bank bonds outstanding	-	-	-	-	-
Bank deposits and other liabilities.....	10,390	9,248	8,874	8,150	9,805
On demand	634	308	-	280	-
Short term	90	84	69	5,382	7,354
Long term	9,666	8,856	8,805	2,488	2,451
Securities and derivative transactions.....	26	80	163	126	160
Repurchase agreements	14	11	51	14	50
Securities deliverable in repurchase agreements	-	-	-	-	2
Operations with derivative instruments	12	-	-	-	-
Derivative transactions	-	69	112	112	108
Other accounts payable.....	8,228	12,350	8,261	16,341	10,532
Income tax and employee profit sharing payable	128	190	-	-	171
Sundry creditors and others accounts payable	8,100	12,160	8,261	16,341	10,361
Subordinated debentures outstanding.....	2,004	1,990	2,243	2,210	2,210
Deferred tax.....	-	-	-	-	-
Deferred credits.....	18	18	12	11	-
Total Liabilities	<u>155,229</u>	<u>160,181</u>	<u>168,891</u>	<u>177,916</u>	<u>170,797</u>
Stockholder's Equity					
Paid in capital.....	9,736	9,722	9,676	9,676	9,676
Capital stock	3,280	3,280	3,280	3,280	3,280
Additional paid in capital	6,456	6,442	6,396	6,396	6,396
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital gains.....	1,390	1,799	2,171	2,833	1,772
Capital reserves	2,773	2,779	2,533	2,533	2,388
Retained earnings	(8)	-	-	1,580	-
Surplus from mark to market of available for sale securities	1	30	25	62	(132)
Result from translation of foreign operations	11	11	11	11	11
Cumulative effect of restatement	(3,503)	(3,281)	(3,011)	(3,030)	(3,077)
Gains on non monetary asset valuation					
Valuation of fixed assets	1,482	1,168	1,168	1,168	1,168
Valuation of permanent investments	(204)	(118)	(135)	(134)	(110)
Adjustments to retirement fund obligations	-	-	-	-	-
Net income	838	1,210	1,580	643	1,524
Minority interest in capital.....	2	2	2	1	2
Total stockholder's equity	<u>11,128</u>	<u>11,523</u>	<u>11,849</u>	<u>12,510</u>	<u>11,450</u>
Total Liabilities and Capital	<u>166,357</u>	<u>171,704</u>	<u>180,740</u>	<u>190,426</u>	<u>182,247</u>

Figures in MXN Millions

	June 30 2003	Sept. 30 2003	Dec. 30 2003	March 31 2004	June 30 2004
Memorandum Accounts					
Guarantees granted	37	39	71	149	166
Other contingent obligations	8,873	11,617	9,809	18,016	14,727
Irrevocable lines of credit granted	837	682	651	683	654
Goods in trust or mandate	41,235	39,594	44,189	49,284	58,793
Goods in custody or under administration	103,426	106,064	109,009	87,614	98,468
Third party investment banking operations, net	14,826	11,501	14,122	24,089	15,080
Amounts committed in transactions with Fobaproa	7,773	7,709	7,542	7,439	7,457
Amounts contracted in derivative operations	17,977	17,021	23,060	44,663	53,634
Investments of retirement savings system funds	2,244	2,308	2,306	2,574	2,691
Integrated loan portfolio	118,226	116,349	117,950	114,213	114,224
Other control accounts	295,208	297,789	312,553	312,301	307,347
	<u>610,662</u>	<u>610,673</u>	<u>641,262</u>	<u>661,025</u>	<u>673,241</u>
Securities receivable under repos	62,095	66,344	60,468	41,994	47,799
(less) Repurchase agreements	<u>(62,109)</u>	<u>(66,258)</u>	<u>(60,454)</u>	<u>(41,903)</u>	<u>(47,704)</u>
	<u>(14)</u>	<u>86</u>	<u>14</u>	<u>91</u>	<u>95</u>
Reverse repurchase agreements	15,242	17,262	28,098	19,815	26,833
(less) Securities deliverables under repos	<u>(15,233)</u>	<u>(17,273)</u>	<u>(28,098)</u>	<u>(19,826)</u>	<u>(26,857)</u>
	<u>9</u>	<u>(11)</u>	<u>-</u>	<u>(11)</u>	<u>(24)</u>

The present 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 y 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 signing officers.

Historical paid in capital of the institution amounts to MNX 2,003 millions.

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Consolidated Income Statement

Figures in MXN millions

	For the quarter ending...					YTD...	
	30 Jun 2003	30 Sep 2003	31 Dec 2003	31 Mar 2004	30 Jun 2004	30 Jun 2003	30 Jun 2004
Interest income	4,342	3,734	4,085	4,249	4,441	9,686	8,690
Interest expense (-)	2,055	1,536	1,765	1,753	1,733	4,612	3,486
Monetary position (margin), net	(7)	(40)	(96)	(45)	2	(35)	(43)
Net interest income.....	<u>2,280</u>	<u>2,158</u>	<u>2,224</u>	<u>2,451</u>	<u>2,710</u>	<u>5,039</u>	<u>5,161</u>
Loan-loss provisions (-).....	757	563	684	377	283	1,750	660
Loan loss provisions bank	695	555	684	376	245	1,677	621
Loss sharing Fobaproa	62	8	-	1	38	73	39
Risk adjustment net interest income	<u>1,523</u>	<u>1,595</u>	<u>1,540</u>	<u>2,074</u>	<u>2,427</u>	<u>3,289</u>	<u>4,501</u>
Fees and commissions	1,552	1,573	1,670	1,573	1,629	2,996	3,202
Account management	390	398	371	371	400	764	771
Services	1,162	1,175	1,299	1,202	1,229	2,232	2,431
Fees Paid	(146)	(142)	(159)	(163)	(166)	(279)	(329)
Trading Income	504	293	118	278	85	696	364
Foreign exchange	60	185	181	96	69	196	165
Securities trading, net	64	83	30	84	4	78	88
Repo's	263	32	1	(1)	7	306	6
Valuation off-shore agencies	117	(7)	(94)	99	5	116	105
Total operating income	<u>3,433</u>	<u>3,319</u>	<u>3,169</u>	<u>3,762</u>	<u>3,975</u>	<u>6,702</u>	<u>7,738</u>
Administrative and personnel expenses (-)	2,646	2,627	2,890	2,764	2,556	5,224	5,320
Personnel expense	1,088	1,132	1,239	1,178	1,163	2,107	2,341
Administrative expense	1,418	1,357	1,511	1,445	1,244	2,835	2,688
Depreciation and amortization	140	138	140	141	149	282	291
Net operating income.....	<u>787</u>	<u>692</u>	<u>279</u>	<u>998</u>	<u>1,419</u>	<u>1,478</u>	<u>2,418</u>
Other income	99	220	211	101	453	188	552
Other expenses	(115)	(205)	(302)	(124)	(202)	(211)	(326)
Net income before taxes.	<u>771</u>	<u>707</u>	<u>188</u>	<u>975</u>	<u>1,670</u>	<u>1,455</u>	<u>2,644</u>
Income tax and employee profit sharing	(29)	(68)	164	(4)	(177)	(116)	(180)
Deferred income tax	(299)	(270)	15	(330)	(615)	(505)	(945)
Net income before subsidiaries.....	<u>443</u>	<u>369</u>	<u>367</u>	<u>641</u>	<u>878</u>	<u>834</u>	<u>1,519</u>
Undistributed income from subsidiaries	3	2	4	2	3	5	5
Income from ongoing operations.....	<u>446</u>	<u>371</u>	<u>371</u>	<u>643</u>	<u>881</u>	<u>839</u>	<u>1,524</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-
Net income (loss).....	<u>446</u>	<u>371</u>	<u>371</u>	<u>643</u>	<u>881</u>	<u>839</u>	<u>1,524</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 y 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

From January 1st to June 30, 2004

Figures in Millions of MX Pesos

	Paid in Capital				Capital Gains										Minority Interest	Total Stockholders Equity			
	Capital stock	Paid-in capital	Update of paid in capital	Additional paid in capital	Update of additional paid in capital	Capital Reserves	Update of capital reserves	Retained earnings	Update of retained earnings	Surplus from mark to market of available for sale securities	Result from translation of foreign operations	Update of restatement	Update of restatement	Valuation of fixed assets			Valuation of permanent investments	Adjustments to retirements fund obligations	Net income
Balances as of December 31, 2003	2,003	-	1,220	5,127	1,156	589	1,899	-	-	24	10	(2,957)	-	1,147	(133)	-	1,553	2	11,642
Movements inherent to the shareholders decision																			
Transfer of result of prior years	-	-	-	-	-	1,553	28	-	-	-	-	-	-	-	-	-	(1,580)	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	(561)	(1,164)	-	-	-	-	-	-	-	-	-	-	-	(1,725)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	992	(1,136)	-	-	-	-	-	-	-	-	-	(1,580)	-	(1,725)
Movements for the recognition of the integral income																			
Integral income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,524
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	-	(157)	-	-	-	-	-	-	-	-	(157)
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	57	-	113	-	44	-	-	1	-	-	(119)	20	(2)	-	28	-	142
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25	-	-	-	25
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	57	-	113	-	44	-	-	(156)	-	-	(119)	20	23	-	1,552	-	1,533
Balances as of June 30, 2004	2,003	-	1,277	5,127	1,269	1,581	807	-	-	(132)	11	(2,957)	(119)	1,168	(110)	-	1,524	2	11,451

The present statement of changes in stockholder's equity was prepared in accordance to the accounting principles for banking institutions which are issued by the Mexican National Banking Commission as specified in articles 99, 101 y 102 of the law for credit institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all movements in capital accounts derived from the operations performed by the institution up to the date mentioned above. These operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of signing officers.

Consolidated Statement of Changes in Financial Position

From January 1 to June 30, 2004

Figures in MXN millions

Operating activities	
Net income	1,524
(Deduct)-Charges (credits) to income not requiring (providing) funds:	
Depreciation and amortization	291
Allowance for loan losses	660
Provisions for loan losses	25
Gains / (losses) from mark to market valuations	(105)
Deferred taxes	945
Undistributed income from subsidiaries	(5)
Increase (reduction) of the minority interest	-
	<u>3,335</u>
Changes in Operating Accounts:	
Increase (decrease) in retail deposit and money desk	(1,248)
Increase (decrease) of interbank and other loans	931
Amortization of interbank and other loans	-
Increase (decrease) of loan portfolio	3,530
Increase (decrease) of financial instruments	307
Increase (decrease) of other receivable and payable accounts	(4,691)
Funds provided by operations	<u>2,164</u>
Financing Activities:	
Subordinated debentures outstanding	(33)
Increase (decrease) in capital	(1,725)
Amortization of mandatory convertible subordinated debentures	-
Result from foreign currency transactions	-
Convertible subordinated debentures	-
Fiscal results of agencies	-
Funds provided by financing activities	<u>(1,758)</u>
Investing Activities:	
Increase (decrease) of Property, furniture and equipment and long term investments	(585)
Increase (decrease) in deferred credits	46
Increase (decrease) in loans to employee	-
Funds used in investing activities	<u>(539)</u>
Increase (decrease) in funds available	(133)
Funds available at beginning of period	<u>36,940</u>
Funds available at end of period	<u>36,807</u>

The present statement of changes in financial position was prepared in accordance to the accounting principles for banking institutions, which are issued by the Mexican National Banking Commission, as specified in articles 99, 101 y 102 of the law for credit institutions of general observance and mandatory, applied in a consistent manner. This statement reflects all movements in funds derived from the operations performed by the institution up to the date mentioned above. These operations were performed following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of signing officers.

Key indicators

	<i>For the quarter ending ...</i>				
	<u>30 Jun</u> <u>2003</u>	<u>30 Sep</u> <u>2003</u>	<u>31 Dec</u> <u>2003</u>	<u>31 Mar</u> <u>2004</u>	<u>30 Jun</u> <u>2004</u>
Non performing loans / total loans ratio	7.5%	6.7%	4.6%	4.6%	4.4%
Non performing loans / total loans ratio, (excluding Fobaproa/IPAB)	14.8%	13.3%	8.8%	9.1%	8.8%
Coverage ratio	126.2%	127.3%	152.7%	154.6%	158.1%
Operative Efficiency.....	6.4%	6.2%	6.6%	6.0%	5.5%
Cost:income.....	63.2%	67.7%	75.0%	66.8%	60.0%
Net interest margin (NIM).....	3.9%	4.1%	3.6%	4.9%	5.8%
Net interest margin before allowance	5.9%	5.6%	5.2%	5.8%	6.5%
Return on average equity (ROAE).....	17.0%	13.1%	12.7%	21.1%	29.4%
Return on assets (ROA).....	1.1%	0.9%	0.8%	1.4%	1.9%
Capitalization ratio					
Credit risk	16.6%	17.3%	19.5%	22.02%	20.80%
Credit and market risk	14.5%	14.7%	14.1%	16.32%	14.89%
Liquidity	48.3%	48.4%	55.3%	58.4%	53.6%

Variance Analysis of the Balance Sheet and Income Statement

HSBC reported net income of MXN 1,524 million in the first half of 2004, representing a 81.6 per cent increase over prior year. The second quarter's net income was MXN 881 million, or 37.0 per cent above 1Q04 and 97.5 per cent greater than 2Q03. The bank's improved net income is due to increasing deposits and a strengthened capital base.

Net interest income amounted to MXN 5,161 million in 1H04, or 2.4 per cent above prior year. The effect of lower interest rates on NII has been offset by the growing deposit base and ALCO/treasury hedging. There were exceptionally high interest rates in 1H03, resulting in extraordinary NII. NII in the second quarter of 2004 increased 10.6 per cent versus 1Q04, due to the slight increase in interest rates during the quarter, customer deposit growth, and consumer lending among higher yielding consumer and credit card products.

Net fees and commissions amounted to MXN 2,873 million in the first half of 2004, representing a 5.7 per cent increase versus prior year. This was due to an increase in retail and commercial customer transaction volumes, related to credit cards, loans, remittances, trade services, and payroll administration. Net fees and commissions in the second quarter increased 3.8 per cent and 4.1 per cent versus 1Q04 and 2Q03, respectively.

In 1H04, HSBC Mexico reported trading gains of MXN 364 million, representing a 47.7 per cent decrease versus prior year, mainly due to weak earnings in money market trading, triggered by the increase in interest rates. Trading results in the second quarter amounted to MXN 85 million, which was lower than the MXN 278 million reported in 1Q04.

Total expenses were up 1.8 per cent in 1H04 versus 1H03. Personnel expenses increased 11.1 per cent over the same period due to increased headcount for investment in business growth and control initiatives. YTD administrative expenses fell by 5.2 per cent versus prior year, mainly due to a VAT adjustment (see below), a stricter expense discipline and the renegotiation of supplier contracts. The cost:income ratio in 1H04 was 63.4 per cent, which was greater than 1H03's 61.8 per cent, mainly due to the lower trading income reported in 1H04 versus prior year.

As of JUN04 and retroactively effective to 2003, HSBC accredited 100 per cent of IVA paid against taxes, which resulted in an expense reduction in 2004 and a recovery in 2003 of MXN 248.8 and 334.7 million, respectively.

The size and composition of the balance sheet mostly reflects the significant cleaning and reduction of the non-performing loan portfolio that took place in 2003. Asset quality as of 30 June 2004 has improved considerably versus prior year: non-performing loans are down 42.8 per cent due to the application of credit reserves in 2003. The coverage ratio rose from 126.2 per cent at 30 June 2003 to 158.1 per cent at 30 June 2004. The performing consumer loan portfolio increased 21.4 per cent versus prior year. While the performing loan portfolio remained flat versus prior year, the total loan portfolio decreased 3.8 per cent due to the impact of the significant reduction in non-performing loans.

The capital strength of HSBC Mexico remains strong. The capital adequacy ratio at JUN04 was 14.9 per cent, versus 14.5 per cent at JUN03 and 16.3 per cent at MAR04. Although the capital ratio is up versus prior year, the decrease versus prior quarter is due to a dividend payment of MXN 1,725 million from HSBC Mexico (Mexican Bank) to Grupo Financiero HSBC (Mexican Group).

Subsequent Events

HSBC subsidiary, B.I. Financial Holdings, Ltd., (registered in Grand Cayman), as well as its subsidiary, B.I. Bank & Trust, Ltd., are currently in the process of closing.

On July 13, 2004, in accordance with the Precedent No. 31 New Program Contract between the IPAB and HSBC Mexico, S.A., the bank paid the Fobaproa trust for the amount of related credits, as defined in Article 73 of the Credit Institution Law (*Ley de Instituciones de Crédito*).

The amount stems from the difference between the historical payments of the original credit and the actualized present value (calculated at the interest rate of the Fobaproa note) as of MAR04, as shown in the chart below:

MXN Millions	Update	
	Original	March 2004
Credits	9	28
Payments received	13	21
Difference Paid		7

Although all original capital and interest were paid in full, the bank agreed to eliminate the difference of 7 (see chart above) from the Trust, as indicated by the PCCC.

Financial Instruments

	30 Jun 2003	30 Sep 2003	31 Dec 2003	31 Mar 2004	30 Jun 2004
Government securities	1	(515)	305	1,340	(1,246)
Cetes (Mexican Treasury Bills)	-	-	-	-	-
Bank securities	(102)	1,143	7,880	9,609	4,500
Shares	29	10	11	-	-
Sovereign government debt bonds	-	-	-	-	-
Others	320	670	971	1,241	947
Trading securities	<u>249</u>	<u>1,038</u>	<u>9,167</u>	<u>12,191</u>	<u>4,200</u>
Government securities	-	-	2,814	5,681	9,573
Cetes (Mexican Treasury Bills)	-	86	151	253	486
Bank securities	-	-	1,530	-	-
Obligations and other securities	914	1,950	2,689	2,409	2,238
Shares	-	18	22	19	13
Available for sale securities.....	<u>914</u>	<u>2,054</u>	<u>7,205</u>	<u>8,363</u>	<u>12,310</u>
Cetes (Mexican Treasury Bills)	1,107	1,043	1,060	921	962
Commercial and industrial subordinated debentures	2	2	2	2	2
Cetes (Mexican Treasury Bills)					
Government securities (net)	4,911	4,889	4,775	4,723	4,788
FRN. Serfin	371	391	390	383	-
Treasury Bills					
MYRAS	638	582	500	409	336
Other debt securities					
Securities held until maturity.....	<u>7,028</u>	<u>6,906</u>	<u>6,727</u>	<u>6,438</u>	<u>6,088</u>
Total Financial Instruments	<u>8,192</u>	<u>10,268</u>	<u>23,099</u>	<u>26,992</u>	<u>22,598</u>

In the second quarter of 2004, there was a MXN 4,394 million decrease compared to 1Q04, mainly due to a MXN 5,109 million decrease in bank securities, a MXN 1,305 million increase in government securities, a MXN 294 million decrease in SWAP operations, a MXN 172 million decrease in UMS global bonds, a MXN 72 million decrease in MYRAS, and a MXN 52 million decrease in others.

Repurchase and resale agreements

	30 Jun 2003	30 Sep 2003	31 Dec 2003	31 Mar 2004	30 Jun 2004
Government securities (debit)	44,888	46,312	46,370	37,125	44,523
Bank securities (debit)	17,137	19,875	14,020	4,722	3,122
Bank securities	-	-	-	-	-
Valuation Increase (decrease)	42	109	70	127	125
Interest in securities receivable under repurchase agreements	27	49	7	20	29
Total in repo agreements (debit).....	<u>62,095</u>	<u>66,344</u>	<u>60,468</u>	<u>41,994</u>	<u>47,799</u>

Government securities (credit)	44,888	46,312	46,370	37,125	44,523
Bank securities (credit)	17,137	19,875	14,020	4,722	3,122
Bank securities	-	-	-	-	-
Valuation Increase (decrease)	-	-	(3)	2	(1)
Interest in securities receivable under repurchase agreements	83	70	66	53	60
Credit Balance in repo agreements	<u>62,109</u>	<u>66,257</u>	<u>60,454</u>	<u>41,903</u>	<u>47,705</u>
Repurchase agreements in government securities	5,944	10,661	16,488	7,707	23,120
Repurchase agreements in banking securities	9,280	6,590	11,603	12,094	3,695
Valuation Increase (decrease)	-	-	-	-	1
Interest in securities deliverable under repurchase agreements	18	10	7	14	18
Debit Balance repo securities agreements.....	<u>15,242</u>	<u>17,262</u>	<u>28,098</u>	<u>19,815</u>	<u>26,833</u>
	<u>30 Jun</u>	<u>30 Sep</u>	<u>31 Dec</u>	<u>31 Mar</u>	<u>30 Jun</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
Government securities	5,944	10,661	16,488	7,707	23,120
Bank securities	9,280	6,590	11,603	12,094	3,695
Valuation increase (decrease)	(11)	12	-	8	25
Interest in securities deliverable under repurchase agreements	21	19	7	16	17
Credit Balance repo securities agreements	<u>15,233</u>	<u>17,274</u>	<u>28,098</u>	<u>19,826</u>	<u>26,857</u>

Derivative Financial Instruments

At 30 June, 2004

	<i>Futures</i>		<i>Forwards Contracts</i>		<i>Options</i>		<i>Swaps</i>	
	<i>Active position</i>	<i>Passive position</i>	<i>Active position</i>	<i>Passive position</i>	<i>Active position</i>	<i>Passive position</i>	<i>Active position</i>	<i>Passive position</i>
Trading purpose.....								
Pesos	8,298	8,300	15,915	15,241	-	-	9,460	9,457
US Dollars	-	-	1,320	1,354	-	-	-	-
Interest Rate	-	-	-	-	-	-	-	-
Coverage purpose								
Pesos	-	-	-	-	-	-	5,235	5,233
US Dollars	-	-	-	-	-	-	-	-
Interest Rate	-	-	-	-	-	-	-	-

Trading Income

	<i>For the quarter ending...</i>					<i>YTD...</i>	
	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Jun</i>	<i>30 Jun</i>
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Trading securities	293	90	38	39	(6)	293	(6)
Trading shares	34	28	1	44	17	34	17
Valuation of market shares and securities	3	50	(27)	67	(61)	3	(61)
Derivatives	114	(56)	(66)	31	66	114	66
Trading currency	59	183	178	96	70	59	70
Total	<u>504</u>	<u>295</u>	<u>123</u>	<u>277</u>	<u>86</u>	<u>504</u>	<u>86</u>

Loan Portfolio**By type of currency**

At June 30, 2004

	<i>Commercial loans</i>	<i>IPAB / Fobaproa</i>	<i>Consumer loans</i>	<i>Mortgage loans</i>	<i>Government loans</i>
Current loan portfolio					
Pesos	13,705	1,551	13,779	5,391	4,352
US Dollars	6,411	54	1	4	807
Udis Banxico	4	-	-	5,650	601
Total	<u>20,120</u>	<u>1,605</u>	<u>13,780</u>	<u>11,045</u>	<u>5,760</u>

Past due loan portfolio					
Pesos	2,053	1	442	450	-
US Dollars	969	-	-	-	-
Udis Banxico	722	-	-	373	-
Total	<u>3,744</u>	<u>1</u>	<u>442</u>	<u>823</u>	<u>-</u>

Loan Portfolio Grading

At June 30, 2004

	Loan portfolio	Allowances for loan losses per category			
		Commercial loans	Consumer loans	Mortgage loans	Total reserves
Except	56,294				
Grade.....	57,930				
“A” Risk	38,610	157	63	32	252
“B” Risk	11,383	491	213	245	949
“C” Risk	3,158	356	241	423	1,020
“D” Risk	2,089	730	476	210	1,416
“E” Risk	2,691	2,526	64	100	2,690
Total	114,224	4,260	1,057	1,010	6,327
Less:					
Constituted reserves					7,921
Surplus					1,593

1. Loan portfolio grading and creation of reserves figures as of 30 June, 2004.
2. The loan portfolio is rated in accordance to the methodology for the classification and creation for loan losses issued by the Ministry of Finance and the methodology issued by CNBV. For commercial and mortgages loans internal methodology can be used with prior authorization by CNBV. The institution applies the Credit Risk +TM methodology for the commercial loans, for the mortgage loans establish in circular 1460 and for the consumer loans establish in 1493 y 1449 circulars.
3. Reserves created in excess are explained by other reserves for mortgage loans MXN 1,593 million.

Past due loans

	For the quarter ending...			
	30 Sep 2003	31 Dec 2003	31 Mar 2004	30 Jun 2004
Initial balance of non-performing loan portfolio	8,401	7,439	5,256	5,177
Increases				
Transfer of current loans to past due status	4,639	3,813	2,611	2,781
Purchase of portfolio	-	-	-	-
Suspended interest	3	-	-	-
	<u>4,642</u>	<u>3,813</u>	<u>2,611</u>	<u>2,781</u>
Decreases				
Restructurings	(41)	(58)	(49)	(180)
Liquidated credits				
Charged in cash	(3,926)	(2,346)	(1,519)	(1,341)
Foreclosed assets	(23)	(14)	(3)	(9)
Writeoffs	(1,461)	(1,338)	(631)	(800)
Sale of portfolio	-	(146)	-	-
Transfer to performing loan status	(256)	(2,180)	(510)	(657)
	<u>(5,707)</u>	<u>(6,081)</u>	<u>(2,712)</u>	<u>(2,987)</u>
Fx revaluations	103	85	22	39
Interest capitalization	-	-	-	-
Final balance of non performing loan portfolio	7,439	5,256	5,177	5,010

Deferred taxes

	<u>30 Jun</u> <u>2003</u>	<u>30 Sep</u> <u>2003</u>	<u>31 Dec</u> <u>2003</u>	<u>31 Mar</u> <u>2004</u>	<u>30 Jun</u> <u>2004</u>
Loan losses reserves	3,353	3,264	3,201	2,984	2,735
Valuation of securities	138	145	143	141	254
Fiscal loss	900	721	777	650	322
Other	39	145	117	115	29
	<u>4,431</u>	<u>4,275</u>	<u>4,238</u>	<u>3,889</u>	<u>3,340</u>
Differences in rates of fixed assets	(212)	(356)	(334)	(371)	(343)
Fiscal result UDIS-Banxico	<u>(475)</u>	<u>(497)</u>	<u>(522)</u>	<u>(545)</u>	<u>(500)</u>
Total Deferred taxes	<u>3,741</u>	<u>3,422</u>	<u>3,381</u>	<u>2,972</u>	<u>2,496</u>

Funding, Loans and Investment in securities**Funding and bank loans – Interest rates “Average”**

	<i>For the quarter ending . . .</i>				
	<u>30 Jun</u> <u>2003</u>	<u>30 Sep</u> <u>2003</u>	<u>31 Dec</u> <u>2003</u>	<u>31 Mar</u> <u>2003</u>	<u>30 Jun</u> <u>2004</u>
Loans in MXN pesos					
Funding	2.64%	1.79%	2.27%	1.80%	1.95%
Bank and other loans	7.79%	4.84%	5.29%	5.52%	5.85%
Loans in foreign currency					
Funding	0.58%	0.57%	0.56%	0.48%	0.46%
Bank and other loans	1.86%	1.93%	2.08%	1.98%	2.13%
UDIS					
Funding	0.92%	0.68%	0.81%	0.79%	0.81%

Long Term Debt

HSBC has long term debt subordinated obligations. These instruments pay monthly interest at a rate equivalent to the average 28-day TIIE (interbank rate) of the previous month.

<i>Instrument</i>	<i>Issue date</i>	<i>Amount</i>	<i>Currency</i>	<i>Amount in circulation</i>	<i>Date of maturity</i>
		<i>Millions of MXN</i>		<i>Millions of MXN</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	2,200	25-NOV-2013
		<u>2,200</u>		<u>2,200</u>	

Capital**Movements in Capital**

The 27APR04 shareholders meeting approved the registry of 2003 profits as follows:

MXN 1,552,630,000 was allocated in the following manner: 10% of 155,263,000 to increase the legal reserve and the remaining 90% or 1,397,367,000 was allocated to other capital reserves.

Dividend Payments

HSBC Mexico made a dividend payment of MXN 1.72205 per share (on a base of 1,001,715,231 shares in circulation) during the month of June 2004.

Capitalization Ratio

<i>Figures in MXN Millions</i>	<i>30 Jun</i>		<i>30 Sep</i>		<i>31 Dec</i>		<i>31 Mar</i>		<i>30 Jun</i>	
	<u>2003</u>		<u>2003</u>		<u>2003</u>		<u>2004</u>		<u>2004</u>	
% of assets subject to credit risk										
Basic capital	13.59	%	14.60	%	14.91	%	17.36	%	16.19	%
Supplementary capital	<u>3.05</u>	%	<u>2.73</u>	%	<u>4.59</u>	%	<u>4.66</u>	%	<u>4.61</u>	%
Net capital.....	16.64	%	17.33	%	19.50	%	22.02	%	20.80	%
% of assets subject to credit and market risk										
Basic capital	11.81	%	12.41	%	10.79	%	12.87	%	11.59	%
Supplementary capital	<u>2.65</u>	%	<u>2.32</u>	%	<u>3.32</u>	%	<u>3.45</u>	%	<u>3.30</u>	%
Net capital.....	14.46	%	14.73	%	14.11	%	16.32	%	14.89	%
Basic capital	8,700		9,353		9,696		10,863		10,271	
Supplementary capital	<u>1,952</u>		<u>1,752</u>		<u>2,984</u>		<u>2,917</u>		<u>2,924</u>	
Net capital	10,652		11,106		12,680		13,780		13,195	
Assets subject to credit risk	64,022		64,081		65,025		62,579		63,446	
Assets subject to market risk	<u>9,649</u>		<u>11,311</u>		<u>24,838</u>		<u>21,843</u>		<u>25,146</u>	
Assets subject to credit and market risk.....	73,671		75,392		89,864		84,422		88,592	

Other expenses, other income and extraordinary items

<i>Figures in MXN Millions</i>	<i>For the quarter ending...</i>					<i>YTD...</i>	
	<u>30 Jun</u>	<u>30 Sep</u>	<u>31 Dec</u>	<u>31 Mar</u>	<u>30 Jun</u>	<u>30 Jun</u>	<u>30 Jun</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Other income							
Loans to employees	6	7	7	8	10	13	18
Recoveries	8	74	54	27	338	20	365
Other income	85	141	146	65	104	157	170
Result from monetary position (other income)	<u>-</u>	<u>(1)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
	99	221	210	101	452	188	553
Other expenses							
Other losses	(107)	(196)	(274)	(42)	(193)	(167)	(235)
Result from monetary position (other income)	<u>(8)</u>	<u>(10)</u>	<u>(28)</u>	<u>(82)</u>	<u>(9)</u>	<u>(45)</u>	<u>(91)</u>
	(115)	(205)	(302)	(124)	(202)	(211)	(326)
Total Other income (expenses).....	<u>(16)</u>	<u>16</u>	<u>(92)</u>	<u>(23)</u>	<u>250</u>	<u>(23)</u>	<u>227</u>
Discontinued operations, extraordinary items and changes in accounting standards	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

YTD other income increased by over 190 per cent versus prior year, due to the recuperation of taxes related to fiscal year 2003, which was registered in 2Q04 due to the accreditation of 100 per cent of VAT paid. Other losses increased 40.7 per cent, mainly due to the application of legal reserves and the sale of some bank proprietary fixed assets. During the second quarter of 2004, there were no extraordinary items.

Market Risk Management

HSBC uses Value at Risk (VaR) to measure its risk exposure versus limits. VaR is an estimate, with a predetermined confidence interval, of how much market value the bank can lose by maintaining a position for a determined time horizon. This calculation is made via MonteCarlo and historical simulations under a 99% confidence interval. The time horizon considered in this calculation is 1 day.

<i>Millions of USD</i>	<i>Average for the quarter ending...</i>			<i>Limits</i>
	<i>31 Dec 2003</i>	<i>31 Mar 2004</i>	<i>30 Jun 2004</i>	
Equity	0.06	0.05	0.05	0.75
Exchange	0.20	0.23	0.08	1.00
Money desk trading	1.91	2.19	0.68	7.50
Total	1.93	2.13	0.92	8.50

In comparison with the previous quarter, the VaR decreased by a factor of 2.3, maintaining itself below the administration's pre-established limits. Money desk trading showed a decrease in risk exposure by a factor of 3.2, which is part of the bank's strategy; the VaR of this category constitutes only 9 per cent of the authorized limit.