

Grupo Financiero HSBC

Financial information at 30 June 2010

2Q10

- ▶ **Press Release**
- ▶ **Quarterly Report**
- ▶ **Second Quarter 2010**

*Release date:
30 July 2010*



30 July 2010

**GRUPO FINANCIERO HSBC, S.A. DE C.V.
FIRST HALF 2010 FINANCIAL RESULTS – HIGHLIGHTS**

- Net income for the first half of 2010 was MXN1,047 million, an increase of MXN398 million or 61.3 per cent compared with MXN649 million for the same period in 2009.
- Net income before tax for the first half of 2010 was MXN634 million, an increase of MXN426 million or 204.8 per cent compared with MXN208 million for the same period in 2009.
- Total operating income for the first half of 2010 was MXN10,419 million, an increase of MXN972 million or 10.3 per cent compared with MXN9,447 million in the same period in 2009.
- Loan impairment charges for the first half of 2010 were MXN5,291 million, a decrease of MXN3,527 or 40.0 per cent compared with MXN8,818 million for the same period in 2009.
- Net loans and advances to customers were MXN144.0 billion at 30 June 2010, a decrease of MXN3.1 billion or 2.1 per cent compared with MXN147.1 billion at 30 June 2009. Total impaired loans as a percentage of gross loans and advances to customers improved to 4.2 per cent from 6.4 per cent compared with 30 June 2009 and the coverage ratio was 158.1 per cent compared with 126.5 per cent at 30 June 2009.
- Deposits were MXN231.4 billion at 30 June 2010, an increase of MXN11.1 billion or 5.0 per cent compared with MXN220.3 billion at 30 June 2009.
- Return on equity was 4.4 per cent for the first half of 2010, compared with 3.6 per cent for the same period in 2009.
- At 30 June 2010, the bank's capital adequacy ratio was 16.6 per cent and tier 1 capital ratio was 12.9 per cent, compared with 13.4 per cent and 9.7 per cent respectively at 30 June 2009.

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 30 June 2010) 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).

Overview

Mexico's GDP growth forecast for 2010 has been revised upwards to 4.4 per cent from 3.6 per cent, following better than expected first quarter GDP growth and improvements in other economic indicators such as the Manufacturing and Non-Manufacturing Purchasing Managers Indexes. These data confirm the improving outlook for the Mexican economy. The Mexican peso appreciated to 12.8 to the US dollar from 13.1 at the end of 2009.

Headline and core inflation pressures are expected to be benign for the remainder of 2010. Monetary tightening is now expected to begin in early 2011 instead of late 2010. Interest rates are expected to rise in the first half of 2011 and are forecast to increase by 100 basis points to 5.5 per cent by the end of the year.

During the first half of 2010, Grupo Financiero HSBC maintained its strategy to become the best bank for its clients, shareholders and employees. The bank consolidated measures introduced in previous years to improve the asset quality of its credit portfolios and lay the foundations for future business growth. Cautious risk management, strong collections and capital strength continue to be key pillars supporting this period's performance. With improving customer service continuing to be a principle objective, as of the end of June, branch opening hours have been standardized, providing convenient service schedules for all our customers. Early indications from customer satisfaction surveys show that this standardization has been well received.

In the first half of 2010, Grupo Financiero HSBC's net income was MXN1,047 million, an increase of MXN398 million or 61.3 per cent compared with the same period in 2009. Key factors contributing to the improvement are the reduction in loan impairment charges and higher net income from subsidiaries. These two factors more than offset the effect of lower revenues when compared with the same period in 2009.

Net interest income was MXN10,407 million, a decrease of MXN280 million or 2.6 per cent compared with the same period in 2009. This reduction was mainly due to lower margins on customer deposits as a result of lower interest rates, and lower consumer portfolio volumes, particularly credit cards. This has been partially offset by net interest income generated through available for sale securities positions.

Loan impairment charges were MXN5,291 million, a decrease of MXN3,527 million or 40.0 per cent when compared with the same period in 2009. Lower portfolio volumes, particularly in consumer lending, improved credit quality of originations and enhanced collections practices have played a significant role in bringing about this improvement. The decrease in loan impairment charges was achieved despite MXN448 million of additional reserve requirements resulting from local regulatory changes in the methodology for calculating provisions for consumer loans introduced in the third quarter of 2009.

Risk adjusted net interest income was MXN5,116 million, up by MXN3,247 million or 173.7 per cent when compared with MXN1,869 million for the same period in 2009.

Net fee income was MXN4,013 million, a decrease of MXN1,048 million or 20.7 per cent compared with the same period in 2009. This decrease was driven by lower credit card fees as a result of lower portfolio volumes, lower transactional volumes from payments and cash management and a reduction in account management fees.

Trading income was MXN815 million, a decrease of MXN1,339 million or 62.2 per cent compared with the same period in 2009. This decrease is due to an extraordinary first half in 2009 in foreign exchange and debt trading as a result of the extreme market volatility experienced during the financial crisis. In the first half of 2010, market conditions have led to lower foreign exchange and less debt trading operations, this has been partially offset by an increase in securities sales.

Administrative and personnel expenses were MXN11,219 million, an increase of MXN607 million or 5.7 per cent compared with the same period in 2009. This increase is mainly due to higher personnel costs, as a result of an increase in headcount and expenditure related to infrastructure and technology and regional operations.

The performance of non-banking subsidiaries, particularly HSBC Seguros, contributed positively to the bank's results, reporting a net profit of MXN 608.8 million at 30 June 2010, an increase of 12.5 per cent compared with the same period in 2009. The higher results were driven by growth in net premium income, mainly as a result of the sale of individual life products (*T-5*), which report a 12 per cent increase when compared to June 2009 and increased sales of a life endowment product launched in the second half of 2009. Additionally, claims have

decreased 6 per cent when compared to June 2009, particularly in individual life products, where claims report an 18 per cent decrease when compared to the same period in 2009. Tight expense control has also contributed to the results.

Net loans and advances to customers decreased MXN3.1 billion or 2.1 per cent to MXN144.0 billion at 30 June 2010 compared with 30 June 2009. This decrease is consistent with Grupo Financiero HSBC's strategy of prudent credit origination criteria, and reflects subdued demand for credit in the financial system as a whole. Growth in lending to financial institutions and government entities partially offset reductions in other credit portfolios.

Total impaired loans decreased by 37.8 per cent to MXN6.4 billion at 30 June 2010 when compared with 30 June 2009, mainly due to a 60.8 per cent reduction in non-performing consumer loans. Total impaired loans as a percentage of gross loans and advances to customers improved to 4.2 per cent from 6.4 per cent at 30 June 2009.

Total loan loss allowances at 30 June 2010 were MXN10.1 billion, a decrease of MXN2.9 billion or 22.2 per cent when compared with 30 June 2009. The total coverage ratio (allowance for loan losses divided by impaired loans) was 158.1 per cent at 30 June 2010, when compared with 126.5 per cent at 30 June 2009.

Total deposits were MXN231.4 billion at 30 June 2010, an increase of MXN11.1 billion or 5.0 per cent when compared with 30 June 2009. This increase is due to the Bank's focus on strengthening the deposit base through promoting competitive deposit product offerings. Demand deposits increased MXN9.1 billion or 7.7 percent to MXN126.4 billion and time deposits increased MXN2.1 billion or 2.1 percent to MXN100.7 billion.

At 30 June 2010, the bank's capital adequacy ratio was 16.6 per cent when compared with 13.4 per cent at 30 June 2009. The tier 1 capital ratio was 12.9 per cent when compared with 9.7 per cent at 30 June 2009. This increase is a result of the MXN8,954 million capital injection received in the fourth quarter of 2009.

In July 2010, Banco de Mexico announced new regulations limiting the fees that can be charged for various banking services. This is likely to have a significant impact on future fee income.

Business Highlights

Personal Financial Services (PFS)

During the first half of 2010, PFS implemented a series of strategies aimed at growing deposits in the affluent segment and prudent reactivation of credit growth, while continuing with the rollout of the branch renovation programme.

Mutual funds sales volumes have increased following a targeted marketing campaign to promote the awareness and benefits of investing in HSBC's mutual funds, complemented by a focus by Premier Relationship Managers on sales.

Payroll accounts increased as a result of the implementation of a number of sales-focused activities across a number of commercial sectors, assisted by product enhancement - *Escudo Total* - and delivery through a dedicated implementation service team. These actions, coupled with a World Cup promotion campaign drove an increase in checking and savings accounts ("*Flexible*", "*Ahorro*" and "*La Efectiva*") during the first half of 2010. In addition, significant improvements to the account opening process were implemented at the beginning of the year.

Market consumer lending activity remained subdued in the first half of 2010. The Bank prudently increased credit card sales and implemented a number of activities and promotions to targeted credit card customers including interest-free periods, balance transfer offers, preferential interest rates and cash advance offers. The Premier MasterCard World Elite card was launched at the beginning of the year to provide Premier customers with a best in class credit card proposition.

Special focus has also been given to increasing payroll loan sales, including a six-month interest free period promotion. The increased sales are being supported by strengthened credit origination processes and prudent credit risk policies to ensure high credit quality standards are maintained.

Commercial Banking

During the first half of 2010, Commercial Banking has focused on supporting customers with their business plans, resulting in 29 per cent growth in the credit portfolio and 19 per cent growth in deposits, compared with 30 June 2009.

Business Banking continues to be one of the business's top priorities and a specialized sales force has been established for this segment. Enhancements have been made to our credit product offerings, particularly for long-standing customers, that are aimed at increasing our credit portfolio while at the same time strengthening credit quality.

Commercial Banking continued its strategy of targeting states and municipalities through providing specialized training to our executives and strengthening our regional presence in this segment.

Global Banking and Markets

Global Markets achieved strong results for the first half of 2010, driven by Balance Sheet Management. This was mainly due to the successful risk management strategy of repositioning within the yield curve in anticipation of the delay to the timing of interest rate increases.

Trading results were lower compared to the same period in 2009 due to less favorable market conditions. During the first half of 2010, HSBC was ranked fourth in the Banco de Mexico Primary Dealers league table.

Debt Capital Markets has been actively involved in transactions that have re-opened the local debt markets. In the midst of a period of low investor sentiment, the bank proved that the market was still open for blue-chip issuers such as PEMEX, Liverpool, INFONAVIT and GMAC Mexicana. This helped the bank achieve second position in the Mexican debt issuance league tables.

HSBC's local and worldwide Global Banking business expertise, market intelligence, and seamless execution, resulted in deals such as Pemex (deal of the year of Trade Finance Magazine and Global Trade Review). Global Banking also executed advisory deals for top tier local corporate customers, highlighting the strength of the newly developed HSBC Latin America Advisory platform.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is one of the leading financial groups in Mexico with 1,186 branches, 6,479 ATMs, approximately eight million customer accounts and more than 19,500 employees. For more information, consult our website at www.hsbc.com.mx.

Grupo Financiero HSBC, S.A. de C.V. is a 99.99 per cent directly owned subsidiary of HSBC Holdings plc, and a member of the HSBC Group. With around 8,000 offices in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and assets of US\$2,364 billion at 31 December 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

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
a) Liquidity	132.42%	124.03%	119.80%	140.61%	141.48 %
Profitability					
b) ROE (Return over equity)	(1.64)%	9.82%	3.73%	7.17%	1.58%
c) ROA (Return over assets)	(0.14)%	.90%	0.37%	0.86%	0.18 %
Asset quality					
d) Impaired loans/total loans	6.43%	5.75%	4.96%	4.25%	4.16%
e) Coverage ratio	126.51%	121.32%	131.60%	149.21%	158.16 %
Capitalization					
f) Credit risk	20.91%	22.14%	28.85%	29.62%	30.37%
g) Credit and market risk operational	13.42%	13.51%	17.81%	17.35%	16.63%
Operating efficiency					
h) Expenses/Total Assets	5.39%	5.14%	5.93%	5.57%	5.40%
i) NIM	5.41%	5.38%	5.82%	5.65%	5.60%
Infrastructure					
Branches	1,190	1,190	1,191	1,191	1,186
ATM	5,992	6,084	6,249	6,358	6,479
Head Count	19,130	18,984	19,222	19,287	19,567

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) $NIM = Annualized\ net\ interest\ income / Average\ performing\ assets.$

$Performing\ assets = Cash\ and\ deposits\ in\ banks + Investments\ in\ securities + Repurchase\ agreements + Derivatives\ operations + Performing\ loans.$

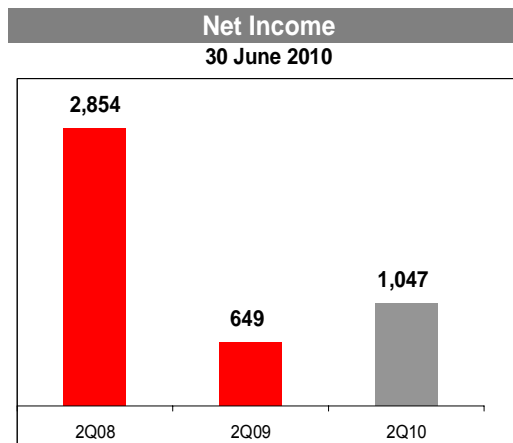
The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC at 30 June 2010 was MXN1,047 million, an increase of MXN398 million (61.3%) compared to the same period in 2009.

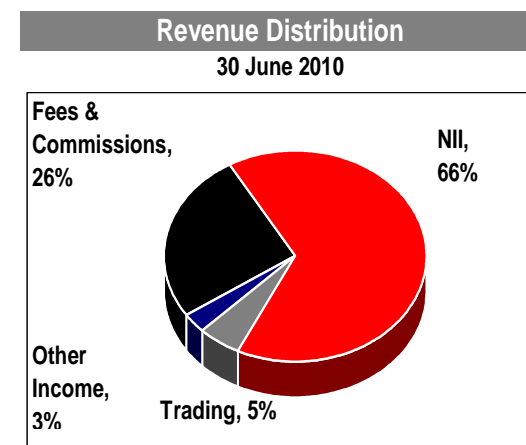
This positive performance is mainly driven by increased income from HSBC Mexico (Bank) and HSBC Seguros which grew 1,375 per cent and 12.5 per cent respectively. Improved underwriting and strong collection operations made possible a solid recovery from last year's levels.



Total Operating Income

At 30 June 2010, the Group's total operating income, was MXN10,419 million, an increase of MXN972 million (10.3%) compared to the same period of 2009.

This result is mainly due to a 40 per cent reduction in loan impairment charges, which led to an improvement of the Group's risk adjusted NII of 3,247 million or 173.7 per cent up from June 2009.



Net Interest Income

Net interest income decreased by MXN280 million during the first half of 2010 to MXN10,407 million, a 2.6 per cent decrease compared to the same period in 2009.

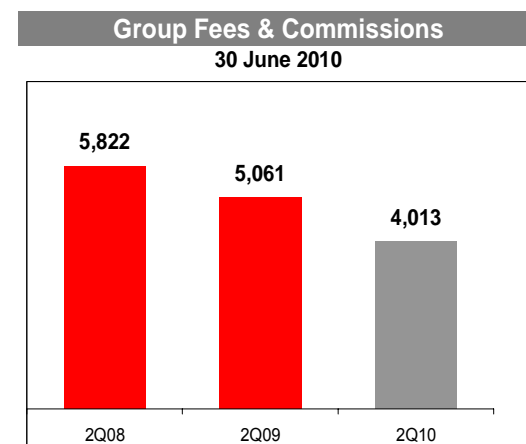
Net interest income has been affected by lower portfolio volumes; particularly in consumer portfolios. In addition, lower interest rate environment has had a negative impact in margin on deposits.

Non-interest Income

Non-interest income for the first half of 2010 was MXN5,303 million; a decrease of MXN2,275 million or 30.0 per cent compared to the same period in 2009.

► Fee income

The Group's net fee income for the first half of 2010, was MXN4,013 million, a decrease of MXN1,048 million or 20.7 per cent compared to the same period in 2009. Fee income was directly affected by lower consumer portfolio volumes – particularly credit cards, lower transactional volumes and cash management.



During the first half of 2010, total fee income for the Bank amounted to MXN3,581 million, which represents 89.2 per cent of the Group's total net fee income.

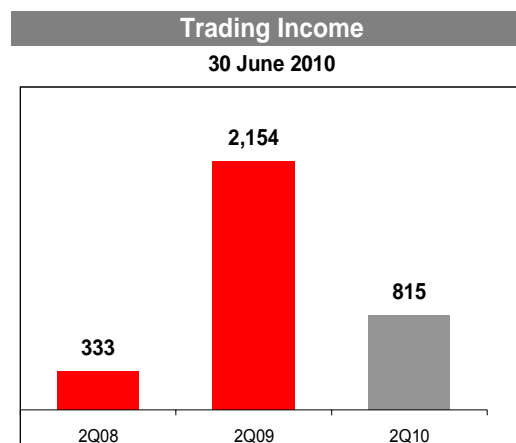
► **Trading income**

Trading income was MXN815 million, which represents a decrease of MXN1,339 million (62.2%) compared to the same period of 2009. This decrease reflects the extraordinary first half market conditions in 2009 in foreign exchange and debt trading as a result of the extreme market volatility experienced during the financial crisis.

The Group's non-interest income to total revenue ratio decreased from 41.5 per cent at 30 June 2009 to 33.8 per cent for the same period in 2010, mainly due to lower trading income.

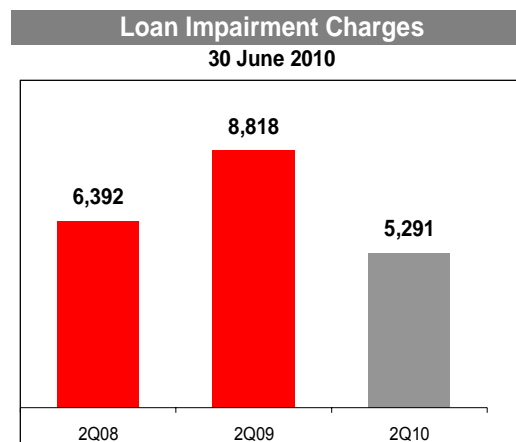
► **Other income**

Other income increased to MXN1,434 million, which represents MXN61 million or 4.4 per cent above the reported in same period in 2009. This increase is mainly due to income generated from intercompany regional operations.



Loan Impairment Charges

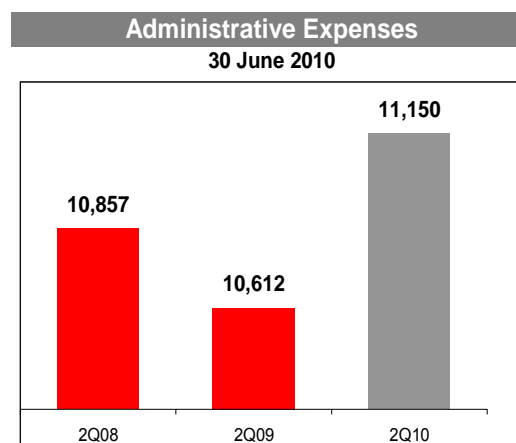
The Group's loan impairment charges were MXN5,291 million, which represents a decrease of MXN3,527 million or 40.0 per cent compared to the same period of the prior year. This improvement comes as a result of improved risk management, and stronger collections operations; current market dynamics have also had a positive influence given constrained portfolio volumes, particularly in consumer loans.



Administrative and Personnel Expenses

The Group's administrative expenses during the first half 2010 were MXN11,219 million, a MXN607 million or 5.7 per cent increase compared to the same period of the prior year.

This increase is mainly due to higher personnel expenses, as a result of the growth in personnel and expenditure on infrastructure, technological projects and regional operations.



Balance sheet Variance Analysis

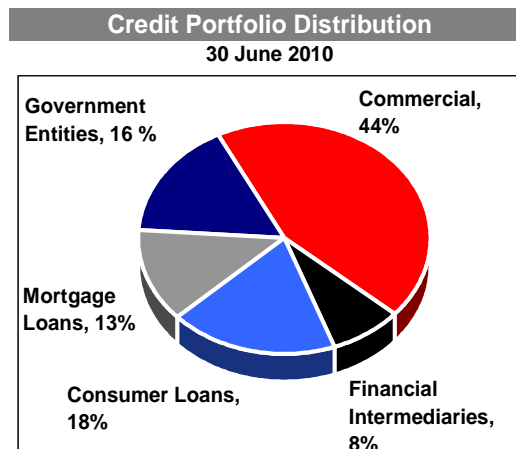
At 30 June 2010, the Group's total assets amounted MXN432,364 million, which represents an increase of MXN21,996 million or 5.4 per cent, compared to the first half of 2009, mainly driven by growth in the investment portfolio, primarily focused in available for sale securities.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN147,750 million at 30 June 2010, a decrease of 1.4 per cent compared to the first half of 2009. This reduction has been led by consumer loans which diminished 25.3 per cent in comparison with 30 June 2009; following the opposite trend, mortgage loans and commercial loans (including financial intermediaries and government entities) have grown; 1.0 and 7.4 per cent respectively.

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

During the first half of 2010, the total commercial portfolio increased 7.4 per cent in comparison to the first half of 2009; financial institutions and governments have been the main drivers of this growth as these portfolios increased 51.8 per cent since 30 June 2009.



The Government entities' portfolio increased by MXN8,204 million, which is equivalent to 51.3 per cent increase compared to the first half of 2009. Following the same trend, financial intermediaries' portfolio grew 52.9 per cent compared to the same period for 2009. All together the government entities portfolio and the financial institutions portfolio have been responsible for the growth of the commercial loan portfolio.

► **Consumer loans**

The consumer loan portfolio has decreased 25.3 per cent in comparison to the first half of 2009; this is mainly due to decreased credit card and auto loan portfolios. The composition of the consumer portfolio remains highly concentrated in credit cards and auto loans; conservative approach on some consumer lending products has increased focus on payroll loans, thus increasing its participation on the consumer portfolio mix. As of 30 June 2010, credit card balance was MXN17,112 million while auto loans balance is of MXN5,301; 25.0 per cent and 20.4 percent less than last year's same period.

► **Mortgage loans**

The mortgage loan portfolio for the first half of 2010 increased MXN190 million or 1.0 per cent compared to the first half of 2009. In March 2010, "Uno con uno", the Bank's new mortgage loan product was launched aiming to offer our customers a competitive product and strengthen our long-term relationship with our clients.

Asset quality

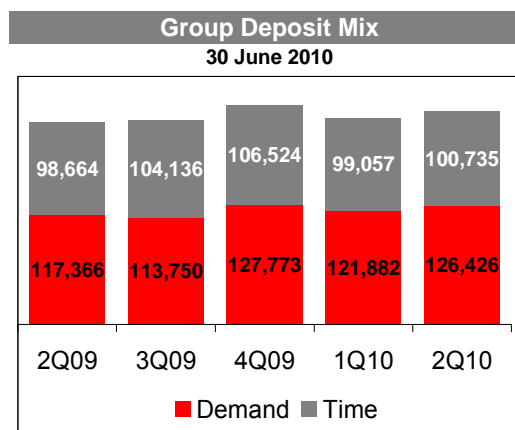
As of June 30 2010, the Group's impaired loan portfolio amounted to MXN6,408 million, which represents a decrease of MXN3,894 million (37.8%) compared to the same period of the prior year. This improvement in credit quality of the portfolio comes as a result of a general reduction of impaired loans led by consumer loans; particularly credit cards (58.2%) and auto loans (61.0%) confirming positive results from the actions deployed by management to improve loan origination and collection operations.

Impaired loans to total loan portfolio ratio was 4.2 per cent, 2.2 percentage points lower than the figure recorded in the same period of the prior year. The coverage ratio at 30 June 2010 was 158.1 per cent, compared to 126.5 reported at 30 June 2009.

Deposits

The Group's total deposits at 30 June 2010 amounted to MXN231,396 million, an increase of 5.0 per cent compared to the first half of the prior year as a consequence of higher funding through demand deposits and time deposits.

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



► Demand deposits

At 30 June 2010, demand deposits amounted to MXN126,426 million, 7.7 per cent higher compared to the same period of the prior year, despite the effects of the previous year economic downturn and highly competitive environment.

► Time deposits

Total time deposits increased 2.1 per cent compared to 30 June 2009, mainly due to the promotion of investment products. The launch of the "Inversion Express" product in July 2009 has been well accepted by the public, with a placement of approximately 125,575 new accounts since its launch. The decrease in money market deposits is largely as a result of lower funding requirements in line with the lower asset balances.

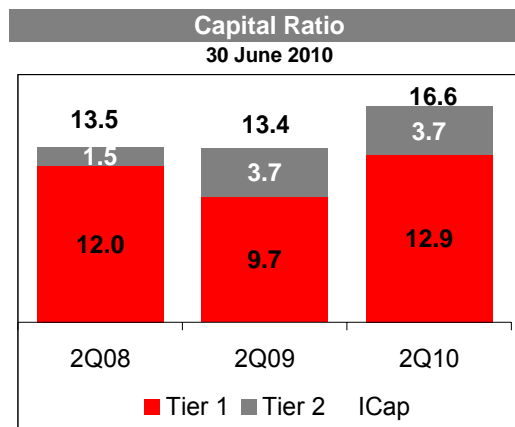
Shareholder's equity

At 30 June 2010, the Group's shareholders' equity was MXN48,806 million representing an increase of 33.2 per cent compared to the first half of the prior year.

The Bank's shareholders' equity was MXN40,458 at 30 June 2010, increasing 38.6 per cent compared to 30 June 2009. This increase is largely driven by the capital injection received on December 2009 by Grupo Financiero HSBC.

Capital Adequacy Ratio

The Bank's capital adequacy ratio at 30 June 2010 was 16.6 per cent, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 12.9 per cent.



Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2010

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

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Assets					
Cash and deposits in banks	65,346	60,387	68,322	59,431	46,590
Margin Accounts	3,997	3,685	3	3	3
Investments in Securities	126,999	116,290	121,471	134,967	161,953
Trading securities	73,990	60,071	41,339	46,386	57,463
Available-for-sale securities	43,989	47,450	71,630	80,042	96,223
Held to maturity securities	9,020	8,769	8,502	8,539	8,267
Repurchase agreements	798	3,500	1,593	14	-
Derivative transactions	31,368	31,865	24,113	22,773	27,829
Performing loans					
Commercial loans	94,019	96,849	102,305	101,019	100,967
Commercial entities	70,184	72,034	76,091	70,775	64,781
Loans to financial intermediaries	7,832	7,008	6,951	7,412	11,979
Loans to government entities	16,003	17,807	19,263	22,832	24,207
Consumer loans	36,564	32,734	30,048	28,008	27,306
Mortgages loans	19,287	19,834	19,660	19,769	19,477
Total performing loans	149,870	149,417	152,013	148,796	147,750
Impaired loans					
Commercial loans	2,425	2,153	1,745	1,648	1,857
Commercial entities	2,425	2,102	1,745	1,648	1,857
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	51	-	-	-
Consumer loans	5,930	4,756	3,826	2,794	2,325
Mortgages loans	1,947	2,200	2,368	2,157	2,226
Other	-	-	-	-	-
Total non-performing loans	10,302	9,109	7,939	6,599	6,408
Loan portfolio	160,172	158,526	159,952	155,395	154,158
Allowance for loan losses	(13,033)	(11,051)	(10,447)	(9,847)	(10,134)
Net loan portfolio	147,139	147,475	149,505	145,548	144,024
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	147,139	147,475	149,505	145,548	144,024
Benefits to be received from trading operations	257	168	-	-	-
Other accounts receivable, net	15,396	16,845	7,708	20,170	28,565
Foreclosed assets	134	164	174	211	165
Property, furniture and equipment, net	6,583	6,721	7,525	7,715	7,736
Long term investments in equity securities	3,673	4,000	3,662	4,023	4,287
Deferred taxes, net	3,494	4,168	4,268	4,667	4,481
Goodwill	2,749	2,749	2,749	2,749	2,749
Other assets, deferred charges and intangibles	2,435	2,602	2,697	3,221	3,982
Total Assets	410,368	400,619	393,790	405,492	432,364

Figures in MXN millions at June 30, 2010

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

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Liabilities					
Deposits	220,278	222,147	238,539	225,206	231,396
Demand deposits	117,366	113,750	127,773	121,882	126,426
Time deposits	98,664	104,136	106,524	99,057	100,735
Retail	91,764	101,949	105,366	99,057	100,672
Money market	6,900	2,187	1,158	-	63
Bank bonds outstanding	4,248	4,261	4,242	4,267	4,235
Bank deposits and other liabilities	22,602	23,029	24,856	11,955	16,767
On demand	1,967	-	3,336	2,245	5,194
Short term	19,111	21,629	20,236	8,060	9,938
Long term	1,524	1,400	1,284	1,650	1,635
Repurchase agreements	57,115	32,612	24,502	42,295	27,954
Settlement accounts	3,550	161	-	5,518	13,155
Collateral Sold	6,934	6,697	6,305	11,539	14,264
Repurchase	-	-	-	-	6,797
Securities to be received in repo transactions	6,934	6,697	6,305	11,539	7,467
Derivative transactions	29,572	31,621	27,132	24,886	31,376
Other accounts payable	24,289	36,346	14,515	24,874	37,674
Income tax and employee profit sharing payable	1,341	1,742	1,179	1,201	1,197
Creditors for settlement of transactions	11,789	23,265	2,984	12,954	21,768
Sundry creditors and others accounts payable	11,159	11,339	10,352	10,719	14,709
Subordinated debentures outstanding	8,932	9,655	10,221	10,006	10,160
Deferred tax	-	-	-	-	-
Deferred credits	468	538	731	830	812
Total Liabilities	373,740	362,806	346,801	357,109	383,558
Stockholder's Equity					
Paid in capital	23,724	23,725	32,678	32,678	32,678
Capital stock	8,452	8,452	9,434	9,434	9,434
Additional paid in capital	15,272	15,273	23,244	23,244	23,244
Capital Gains	12,900	14,083	14,308	15,702	16,125
Capital reserves	1,648	1,648	1,648	1,648	1,726
Retained earnings	11,582	11,582	11,582	13,136	13,058
Result from the mark-to-market of Available-for-sale securities	(979)	(490)	(76)	406	607
Result from cash flow hedging transactions	-	(220)	(400)	(343)	(313)
Net Income	649	1,563	1,554	855	1,047
Non-controlling interest	4	5	3	3	3
Total Stockholder's Equity	36,628	37,813	46,989	48,383	48,806
Total Liabilities and Capital	410,368	400,619	393,790	405,492	432,364

Figures in MXN millions at June 30, 2010

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

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Memorandum Accounts	2,175,281	2,159,896	2,110,033	2,165,550	2,464,653
Guarantees granted	35	31	30	25	26
Contingent assets and liabilities	125	124	126	128	124
Irrevocable lines of credit granted	10,539	11,850	15,071	14,013	16,185
Goods in trust or mandate	238,917	249,973	266,641	271,462	277,105
Trust	238,268	249,474	264,890	270,792	276,403
Mandate	649	499	1,751	670	702
Goods in custody or under administration	213,580	204,931	246,061	238,131	250,496
Collateral received by the institution	19,992	14,844	16,649	26,071	21,827
Collateral received and sold or delivered as guarantee	9,677	11,342	20,130	30,896	23,643
Third party investment banking operations, net	56,804	56,489	57,064	39,564	44,303
Other control accounts	1,625,612	1,610,312	1,488,261	1,545,260	1,830,944

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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Income Statement

Figures in MXN millions at June 30, 2010

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

	For the quarter ending				Year to date	
	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Jun 2010
Interest Income	8,194	7,276	7,197	7,126	7,265	14,391
Interest expense	(2,884)	(2,058)	(1,882)	(1,960)	(2,024)	(3,984)
Net interest income	5,310	5,218	5,315	5,166	5,241	10,407
Loan impairment charges	(4,067)	(2,598)	(3,056)	(2,613)	(2,678)	(5,291)
Risk adjusted net interest income	1,243	2,620	2,259	2,553	2,563	5,116
Fees and commissions receivable	2,735	2,682	2,508	2,336	2,367	4,703
Fees payable	(217)	(270)	(276)	(276)	(414)	(690)
Trading Income	748	417	290	460	355	815
Other operating income	183	257	214	251	224	475
Total operating income	4,692	5,706	4,995	5,324	5,095	10,419
Administrative and personnel expenses	(5,755)	(5,208)	(5,877)	(5,566)	(5,653)	(11,219)
Net operating income	(1,063)	498	(882)	(242)	(558)	(800)
Other income	824	622	740	894	1,150	2,044
Other expenses	(233)	(450)	(602)	(252)	(358)	(610)
Net income before taxes	(472)	670	(744)	400	234	634
Income tax and employee profit sharing tax	(688)	(646)	284	(524)	(281)	(805)
Deferred income tax	640	485	181	618	(51)	567
Net income before subsidiaries	(520)	509	(279)	494	(98)	396
Undistributed income from subsidiaries	371	406	269	361	282	643
Income from ongoing operations	(149)	915	(10)	855	184	1,039
Non-controlling interest	-	(1)	1	-	8	8
Net income (loss)	(149)	914	(9)	855	192	1,047

"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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

From 1 January 2010 to 30 June 2010

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

	Paid in capital				Earned capital					Non-controlling interest	Total Stockholders Equity	
	Capital Stock	Advances for future capital increases	Subordinate Shares Premiums	debentures outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	(Valuation of permanent investments)			Net income
Balances at 01 January 2010	9,434	-	23,244	-	1,648	11,582	(476)	-	-	1,554	3	46,989
Movements Inherent to the Shareholders Decision												
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	78	(78)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	1,554	-	-	-	(1,554)	-	-
--Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	-	-	-	-	78	1,476	-	-	-	(1,554)	-	-
Movements for the Recognition of the Comprehensive Income												
Comprehensive Income												
Net result	-	-	-	-	-	-	-	-	-	1,047	-	1,047
Result from valuation of available-for-sale securities	-	-	-	-	-	-	683	-	-	-	-	683
Result from cash flow hedging transactions	-	-	-	-	-	-	87	-	-	-	-	87
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	770	-	-	1,047	-	1,817
Balances as at 30 June 2010	9,434	-	23,244	-	1,726	13,058	294	-	-	1,047	3	48,806

"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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

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

From 1 January to 30 June 2010

Net income	1,047
Adjustments for items not involving cash flow:	5,493
Gain or loss on appraisal of activities associated with investment & financing	(104)
Allowances for loan losses	5,303
Depreciation and amortization	681
Accrual	-
Income Tax and deferred taxes	238
Undistributed income from subsidiaries	(625)
Other	-
Changes in items related to operating activities:	
Investment securities	(25,704)
Repurchase agreements	1,593
Derivative (assets)	(4,111)
Loan portfolio	190
Benefits to be received from trading operations	-
Foreclosed assets	(3)
Operating assets	(20,857)
Deposits	(7,143)
Bank deposits and other liabilities	(8,089)
Creditors repo transactions	3,452
Collateral sold or delivered as guarantee	7,959
Derivative (liabilities)	4,244
Subordinated debentures outstanding	(61)
Other operating liabilities	22,435
Funds provided by operating activities	(26,095)
Investing activities:	
Disposal of property, furniture and equipment	-
Acquisition of property, furniture and equipment	(892)
Disposal of subsidiaries	-
Cash dividend	-
Intangible assets acquisitions	(1,285)
Funds used in investing activities	(2,177)
Financing activities:	
Shares issue	-
Cash dividend	-
Funds provided by financing activities	-
Increase/decrease in cash and equivalents	(21,732)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	68,322
Cash and equivalents at end of period	46,590

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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Financial Statements HSBC Mexico, S.A.

Consolidated Balance Sheet

Figures in MXN millions at June 30, 2010

HSBC Mexico, S.A. (Bank)

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Assets					
Cash and deposits in banks	65,346	60,387	68,322	59,431	46,590
Margin Accounts	3,997	3,685	3	3	3
Investment in Securities	126,442	115,616	120,241	133,620	160,384
Trading securities	73,903	59,870	40,607	45,654	56,639
Available-for-sale securities	43,519	46,977	71,132	79,427	95,478
Held to maturity securities	9,020	8,769	8,502	8,539	8,267
Repurchase agreements	798	3,500	1,593	14	-
Derivative transactions	31,368	31,865	24,113	22,773	27,829
Performing loans					
Commercial loans	94,019	96,849	102,305	101,019	100,967
Commercial entities	70,184	72,034	76,091	70,775	64,781
Loans to financial intermediaries	7,832	7,008	6,951	7,412	11,979
Loans to government entities	16,003	17,807	19,263	22,832	24,207
Consumer loans	36,564	32,734	30,048	28,008	27,306
Mortgages loans	19,287	19,834	19,660	19,769	19,477
Total performing loans	149,870	149,417	152,013	148,796	147,750
Impaired loans					
Commercial loans	2,425	2,153	1,745	1,648	1,857
Commercial entities	2,425	2,102	1,745	1,648	1,857
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	-	51	-	-	-
Consumer loans	5,930	4,756	3,826	2,794	2,325
Mortgage Loans	1,947	2,200	2,368	2,157	2,226
Other performing loans	-	-	-	-	-
Total non-performing loans	10,302	9,109	7,939	6,599	6,408
Total loan portfolio	160,172	158,526	159,952	155,395	154,158
Allowance for loan losses	(13,033)	(11,051)	(10,447)	(9,847)	(10,134)
Net loan portfolio	147,139	147,475	149,505	145,548	144,024
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	147,139	147,475	149,505	145,548	144,024
Benefits to be received from trading operations	257	168	-	-	-
Other accounts receivable	15,241	16,615	7,620	20,253	28,616
Foreclosed assets	134	164	174	211	165
Property, furniture and equipment, net	6,573	6,714	7,525	7,715	7,736
Long term investments in equity securities	132	127	133	134	118
Deferred taxes	3,536	4,228	4,305	4,693	4,558
Other assets, deferred charges and intangibles	2,368	2,522	2,608	3,157	3,900
Total Assets	403,331	393,066	386,142	397,552	423,923

Figures in MXN millions at June 30, 2010

HSBC Mexico, S.A. (Bank)

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Liabilities					
Deposits	220,987	222,269	238,726	225,481	231,570
Demand deposits	118,075	113,872	127,960	122,157	126,600
Time deposits	98,664	104,136	106,524	99,057	100,735
Retail	91,764	101,949	105,366	99,057	100,672
Money market	6,900	2,187	1,158	-	63
Bank bonds outstanding	4,248	4,261	4,242	4,267	4,235
Bank deposits and other liabilities	22,602	23,029	24,856	11,955	16,767
On demand	1,967	-	3,336	2,245	5,194
Short term	19,111	21,629	20,236	8,060	9,938
Long term	1,524	1,400	1,284	1,650	1,635
Repurchase agreements	57,115	32,612	24,544	42,295	27,954
Loan portfolio	-	-	-	-	1
Settlement accounts	3,550	161	-	5,518	13,155
Collateral Sold	6,934	6,697	6,305	11,539	14,264
Repurchase	-	-	-	-	6,797
Securities to be received in repo transactions	6,934	6,697	6,305	11,539	7,467
Derivative transactions	29,572	31,621	27,132	24,886	31,376
Other accounts payable	23,988	35,972	14,130	24,645	37,408
Income tax and employee profit sharing payable	1,241	1,587	1,014	1,124	1,083
Creditors for settlement of transactions	11,630	21,860	2,984	12,947	21,300
Sundry creditors and others accounts payable	11,117	12,525	10,132	10,574	15,024
Subordinated debentures outstanding	8,932	9,655	10,221	10,006	10,159
Deferred tax	-	-	-	-	-
Deferred credits	468	538	731	830	812
Total Liabilities	374,148	362,554	346,645	357,155	383,465
Stockholder's Equity					
Paid in capital	15,883	16,623	25,605	25,605	25,605
Capital stock	4,272	4,334	5,087	5,087	5,087
Additional paid in capital	11,611	12,289	20,518	20,518	20,518
Capital Gains	13,297	13,886	13,889	14,789	14,850
Capital reserves	14,313	14,313	14,313	14,449	14,449
Retained earnings	-	-	-	-	-
Result from the mark-to-market of Available-for-sale securities	(1,032)	(593)	(160)	282	477
Result from cash flow hedging transactions	-	(220)	(400)	(343)	(312)
Net Income	16	386	136	401	236
Non-controlling interest	3	3	3	3	3
Total Stockholder's Equity	29,183	30,512	39,497	40,397	40,458
Total Liabilities and Capital	403,331	393,066	386,142	397,552	423,923

Figures in MXN millions at June 30, 2010

HSBC Mexico, S.A. (Bank)

	<u>30 Jun</u> 2009	<u>30 Sep</u> 2009	<u>31 Dec</u> 2009	<u>31 Mar</u> 2010	<u>30 Jun</u> 2010
Memorandum Accounts					
Guarantees granted	35	31	30	25	26
Contingent assets and liabilities	125	124	126	128	124
Irrevocable lines of credit granted	10,539	11,850	15,071	14,013	16,185
Goods in trust or mandate	238,917	249,973	266,641	271,462	277,105
Goods	238,268	249,474	264,890	270,792	276,403
Trusts	649	499	1,751	670	702
Goods in custody or under administration	209,452	200,803	240,951	233,020	245,386
Collateral received by the institution	14,934	10,198	16,649	26,071	21,827
Collateral received and sold or delivered as guarantee	14,735	6,697	15,203	26,071	19,322
Third party investment banking operations, net	56,804	56,489	57,064	39,564	44,303
Suspended interest on impaired loans	-	-	250	273	-
Amounts contracted in derivative operations	-	1,036,767	892,568	970,458	-
Other control accounts	1,582,132	535,343	551,455	532,377	1,790,024
	<u>2,127,673</u>	<u>2,108,275</u>	<u>2,056,008</u>	<u>2,113,462</u>	<u>2,414,302</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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Income Statement

Figures in MXN millions at June 30, 2010

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date		
	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Jun 2010	
Interest income	8,190	7,272	7,130	7,073	7,294	16,846	14,367
Interest expense	(2,856)	(2,019)	(1,863)	(1,915)	(2,062)	(6,144)	(3,977)
Net interest income	<u>5,334</u>	<u>5,253</u>	<u>5,267</u>	<u>5,158</u>	<u>5,232</u>	<u>10,702</u>	<u>10,390</u>
Loan impairment charges	(4,067)	(2,598)	(3,056)	(2,613)	(2,678)	(8,818)	(5,291)
Loan impairment charges	<u>(4,067)</u>	<u>(2,598)</u>	<u>(3,056)</u>	<u>(2,613)</u>	<u>(2,678)</u>	<u>(8,818)</u>	<u>(5,291)</u>
Risk adjusted net interest income	<u>1,267</u>	<u>2,655</u>	<u>2,211</u>	<u>2,545</u>	<u>2,554</u>	<u>1,884</u>	<u>5,099</u>
Fees and commissions receivable	2,539	2,381	2,241	2,104	2,147	5,143	4,251
Account management	247	231	205	178	167	518	345
Services	2,292	2,150	2,036	1,926	1,980	4,625	3,906
Fees payable	(254)	(214)	(270)	(265)	(405)	(511)	(670)
Trading Income	745	416	287	458	353	2,149	811
Foreign exchange	(7,209)	(1,706)	1,246	(756)	591	(3,129)	(165)
Securities trading, net	(13)	(5)	4	(11)	(44)	(59)	(55)
Repos	-	-	-	-	-	-	-
Swaps	244	87	289	208	427	415	635
Valuation off-shore agencies	7,455	(1,164)	(1,413)	961	(526)	4,315	435
Valuation for trading swaps	268	(208)	161	56	(95)	607	(39)
Other operating income	<u>363</u>	<u>257</u>	<u>214</u>	<u>251</u>	<u>224</u>	<u>363</u>	<u>475</u>
Total operating income	<u>4,660</u>	<u>5,495</u>	<u>4,683</u>	<u>5,093</u>	<u>4,873</u>	<u>9,028</u>	<u>9,966</u>
Administrative and personnel expenses	(5,559)	(5,136)	(5,632)	(5,523)	(5,627)	(10,313)	(11,150)
Personnel expense	(2,489)	(2,014)	(2,223)	(2,376)	(2,360)	(4,567)	(4,736)
Administrative expense	(2,784)	(2,774)	(3,088)	(2,808)	(2,925)	(5,179)	(5,733)
Depreciation and amortization	(286)	(348)	(321)	(339)	(342)	(567)	(681)
Net operating income	<u>(899)</u>	<u>359</u>	<u>(949)</u>	<u>(430)</u>	<u>(754)</u>	<u>(1,285)</u>	<u>(1,184)</u>
Other income	562	559	800	958	1,171	1,881	2,129
Other expenses	(229)	(449)	(600)	(248)	(309)	(574)	(557)
Net income before taxes	<u>(566)</u>	<u>469</u>	<u>(749)</u>	<u>280</u>	<u>108</u>	<u>22</u>	<u>388</u>
Income tax and employee profit sharing	(646)	(589)	337	(470)	(241)	(1,783)	(711)
Deferred income tax	671	487	156	589	(40)	1,754	549
Net income before subsidiaries	<u>(541)</u>	<u>367</u>	<u>(256)</u>	<u>399</u>	<u>(173)</u>	<u>(7)</u>	<u>226</u>
Undistributed income from subsidiaries	14	3	6	2	-	24	2
Income from ongoing operations	<u>(527)</u>	<u>370</u>	<u>(250)</u>	<u>401</u>	<u>(173)</u>	<u>17</u>	<u>228</u>
Non-controlling interest	-	-	-	-	8	(1)	8
Net income (loss)	<u>(527)</u>	<u>370</u>	<u>(250)</u>	<u>401</u>	<u>(165)</u>	<u>16</u>	<u>236</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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Statement of Changes in Shareholder's Equity

Figures in MXN millions

HSBC Mexico, S.A. (Bank)

From 1 January 2010 to 30 June 2010

	Paid in capital				Earned Capital					Non-controlling 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
Balances at 01 January 2010	5,087	-	-20,518	-	14,313	-	(560)	-	-	136	3	39,497
Movements Inherent to the Shareholders Decision	-	-	-	-	-	-	-	-	-	-	-	-
Subscription of shares	-	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	136	(136)	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	136	-	-	-	(136)	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent to the Shareholders Decision	-	-	-	-	136	-	-	-	-	(136)	-	-
Movements for the Recognition of the Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-	-	236	-	236
Result from valuation of available-for-sale securities	-	-	-	-	-	-	637	-	-	-	-	637
Result from cash flow hedging transactions	-	-	-	-	-	-	88	-	-	-	-	88
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	725	-	-	236	-	961
Balances as at 30 June 2010	<u>5,087</u>	<u>-</u>	<u>-20,518</u>	<u>-</u>	<u>14,449</u>	<u>-</u>	<u>165</u>	<u>-</u>	<u>-</u>	<u>236</u>	<u>3</u>	<u>40,458</u>

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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Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Consolidated Statement of Cash Flow

Figures in MXN millions

From 1 January 2010 to 30 June 2010

HSBC Mexico, S.A. (Bank)

30 Jun 2010

Net income	236
Adjustments for items not involving cash flow:	6,059
Gain or loss on appraisal of activities associated with investment & financing	(102)
Allowances for loan losses	5,303
Depreciation and amortization	681
Accrual	-
Income Tax and deferred taxes	162
Undistributed income from subsidiaries	15
Other	-
Changes in items related to operating activities:	
Investment securities	(25,763)
Repurchase agreements	1,593
Derivative (assets)	(3,818)
Loan portfolio	190
Benefits to be received from trading operations	-
Foreclosed assets	(3)
Operating assets	(20,996)
Deposits	(7,156)
Bank deposits and other liabilities	(8,089)
Creditors repo transactions	3,410
Cambio en préstamo de valores (pasivo)	-
Collateral sold or delivered as guarantee	7,959
Derivative (liabilities)	4,244
Subordinated debentures outstanding	(62)
Other operating liabilities	22,648
Funds provided by operating activities	(25,843)
Investing activities:	
Disposal of property, furniture and equipment	-
Acquisition of property, furniture and equipment	(892)
Disposal of subsidiaries	-
Disposal of long term investments in equity securities	-
Cash dividend	-
Intangible assets acquisitions	(1,292)
Funds used in investing activities	(2,184)
Financing activities:	
Shares issue	-
Cash dividend	-
Funds used or provided by financing activities	-
Increase/decrease in cash and equivalents	(21,732)
Adjustments to cash flow variations in the exchange rate and inflation levels	-
Cash and equivalents at beginning of period	68,322
Cash and equivalents at end of period	46,590

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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LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Chief Executive	Officer Chief Financial Officer	Director of Internal Audit	Chief Accountant

Financial Instruments

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

Figures in MXN millions at June 30, 2010

Investments in securities

	<u>30 Jun 2009</u>	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>
Government securities	70,613	55,077	36,229	40,912	51,379
Bank securities	1,804	3,036	2,562	2,475	2,442
Shares	15	366	16	290	63
Others	1,558	1,592	2,532	2,709	3,579
Trading securities	<u>73,990</u>	<u>60,071</u>	<u>41,339</u>	<u>46,386</u>	<u>57,463</u>
Government securities	38,569	43,742	66,793	77,341	88,778
Bank securities	1,966	-	1,212	-	-
Obligations and other securities	3,266	3,459	3,611	2,687	7,435
Shares	188	249	14	14	10
Available for sale securities	<u>43,989</u>	<u>47,450</u>	<u>71,630</u>	<u>80,042</u>	<u>96,223</u>
Sovereign debt securities	4,328	4,379	4,189	4,237	4,284
Special Cetes (net)	-	-	-	-	-
Bank securities	204	209	204	208	203
Corporate securities	4,488	4,181	4,109	4,094	3,780
Securities held to maturity	<u>9,020</u>	<u>8,769</u>	<u>8,502</u>	<u>8,539</u>	<u>8,267</u>
Total Financial Instruments	<u>126,999</u>	<u>116,290</u>	<u>121,471</u>	<u>134,967</u>	<u>161,953</u>

In the second quarter of 2010 investment in securities increase by MXN26,986 million compared to the first quarter of 2010; mainly by increase government securities MXN21,904 million, promissory note MXN5,082 among others.

Repos

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

Figures in MXN millions at June 30, 2010

	<u>30 Jun 2009</u>	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>
Repo's Government securities (credit)	56,547	31,995	23,996	40,887	27,375
Repo's Bank securities (credit)	482	593	484	1,176	418
Repo's Others securities (credit)	-	-	-	222	141
Valuation increase (decrease)	-	-	-	-	-
Accrued interest payable	86	24	22	10	20
Credit balance in repo agreements	<u>57,115</u>	<u>32,612</u>	<u>24,502</u>	<u>42,295</u>	<u>27,954</u>
Repurchase agreements in government securities	8,000	3,500	10,501	14,500	3,000
Accrued interest receivable	1	-	9	14	6
Debit balance repo securities agreements	<u>8,001</u>	<u>3,500</u>	<u>10,510</u>	<u>14,514</u>	<u>3,006</u>
Government securities	7,202	-	8,916	14,486	9,801
Interest in collateral delivered as guarantee	1	-	1	14	2
Total in collateral delivered as guarantee	<u>7,203</u>	<u>-</u>	<u>8,917</u>	<u>14,500</u>	<u>9,803</u>

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2010

	Futures		Forwards Contracts		Options		Swaps		Total (net)
	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	Asset position	Liability position	
For trading									
Pesos	-	-	49,579	41,746	10,971	10,973	72,558	76,018	4,371
US Dollars	-	-	51,591	59,171	9,300	9,296	125,190	124,318	(6,704)
Interest Rate	3,330	3,330	152	515	-	-	124,140	123,621	156
Total	3,330	3,330	101,322	101,432	20,271	20,269	321,888	323,957	(2,177)
For hedging									
Pesos	-	-	-	-	-	-	688	-	688
US Dollars	-	-	-	-	-	-	-	870	(870)
Interest Rate	-	-	-	-	-	-	1,526	2,714	(1,188)
Total	-	-	-	-	-	-	2,214	3,584	(1,370)

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2010

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Stock borrowing					
Cetes	1,123	1,437	788	240	92
Valuation increase (decrease)	(13)	-	-	-	-
Bonds	5,584	5,258	5,504	11,287	7,364
Valuation increase (decrease)	240	2	(3)	12	11
Shares	-	-	17	-	-
Valuation increase (decrease)	-	-	(1)	-	-
Total	6,934	6,697	6,305	11,539	7,467

Participation by Subsidiary

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

Group Subsidiaries at June 30, 2010

	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
Total	2,562,339,184		2,541,155,212

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at June 30, 2010

	For the quarter ending...				Year to date		
	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Jun 2010	
Valuation	7,455	(1,157)	(829)	958	(881)	4,316	77
Derivatives	147	(1,153)	(590)	908	(1,036)	(383)	(128)
Repos	-	-	-	-	-	(2)	-
Debt Securities	(428)	(11)	(255)	109	389	(432)	498
Foreign Exchange	7,736	7	16	(59)	(234)	5,131	(293)
Buying and Selling Instruments	(6,710)	1,573	1,116	(500)	1,234	(2,167)	734
Foreign Currency	(7,210)	1,700	1,229	(697)	826	(3,131)	129
Derivatives	214	(353)	(245)	69	73	473	142
Repos	-	-	-	-	-	-	-
Shares	4	12	(12)	(1)	(17)	10	(18)
Debt Securities	282	214	144	129	352	479	481
Total	745	416	287	458	353	2,149	811

Loan Portfolio

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

By type of currency

Figures in MXN millions at June 30, 2010

	Commercial or Business Activity	Financial Intermediaries	Government Entities	Consumer Loans	Mortgage Loans	Total
Performing Loan Portfolio						
Pesos	48,693	11,832	22,741	27,306	16,074	126,646
US Dollars	16,088	147	1,461	-	3,403	21,099
Udis Banxico	-	-	5	-	-	5
Total	64,781	11,979	24,207	27,306	19,477	147,750
Non Performing Loans Portfolio						
Pesos	1,812	-	-	2,325	1,747	5,884
US Dollars	45	-	-	-	-	45
Udis Banxico	-	-	-	-	479	479
Total	1,857	-	-	2,325	2,226	6,408

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

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	Moody's	Standard & Poor's	Fitch
Global scale ratings			
Foreign currency			
Long term	-	BBB	A-
Long term deposits	Baa1		
Short term	P-2	A-3	F1
Local Currency			
Long term obligations	A2	BBB	A
Long term deposits	A2	BBB	-
Short term	P-1	A-3	F1
BFSR (Moody's)	C-	-	-
Individual / Support rating (Fitch)	-	-	C / 1
National scale / Local currency			
Long term	Aaa.mx	mxAAA	AAA (mex)
Short term	MX-1	mxA -1+	F1+ (mex)
Outlook	Stable	Negative	Stable
Last update	23-Jun-10	06-May-10	22-Jun-10

(*) 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 June 30, 2010

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	8,140				
Graded	167,432				
Risk A	80,293	411	53	53	517
Risk A-1	49,021	121	53	53	227
Risk A-2	31,272	290	0	0	290
Risk B	76,567	2,670	1,098	140	3,908
Risk B-1	53,771	773	437	140	1,350
Risk B-2	16,820	1,182	661	0	1,843
Risk B-3	5,976	715	0	0	715
Risk C	4,897	703	581	189	1,473
Risk C-1	4,534	551	581	189	1,321
Risk C-2	363	152	0	0	152
Risk D	4,163	211	1,459	1,038	2,708
Risk E	1,512	1,164	250	114	1,528
Total	175,572	5,159	3,441	1,534	10,134
Less:					
Constituted Reserves					10,134
Surplus					0

1. The rating and constitution of reserves correspond to last day of the balance sheet at June 30, 2010.
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 June 2010 the amount to establish such reserves as a result of the score was MXN 3,726 million. The amount up to that date for this concept was MXN 2,639 million, equivalent to 70.83% 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 to June this year, the allowance for loan losses net USD 3.199 million, which was credited to respective provision presented in the balance sheet.

Non – Performing Loans

HSBC Mexico, S.A. (Bank)

Figures in MXN millions

	At the quarter ending				
	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Initial Balance of Impaired Loans	9,623	10,302	9,109	7,939	6,599
Increases	8,811	6,204	4,670	4,218	4,190
Transfer of current loans to past due status	8,811	6,204	4,670	4,218	4,190
Decreases	8,132	7,397	5,840	5,558	4,382
Restructurings	93	170	41	16	15
Liquidated credits	5,560	5,636	4,646	4,489	3,297
Charged in cash	1,443	1,106	942	1,394	927
Foreclosed assets	30	30	23	22	40
Writeoffs	0	0	0	0	0
Sale of portfolio	4,087	4,500	3,681	3,073	2,330
Transfer to performing loan status	2,468	1,597	1,156	1,062	1,069
Fx revaluations	(11)	6	3	9	(1)
Final Balance of Impaired Loan	10,302	9,109	7,939	6,599	6,407

Deferred Taxes

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

Figures in MXN millions at June 30, 2010

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
Loan loss reserves	3,955	4,405	4,055	4,623	4,757
Valuation of securities	(132)	(46)	(40)	(240)	(381)
Fiscal loss	14	24	17	15	6
Other reserves	540	578	863	858	742
PTU Payable	34	55	88	113	50
Foreclosed assets	16	35	17	20	18
Stocks VISA & Mastercard	-	-	-	-	-
Other	129	157	227	257	253
Differences in rates of fixed assets	(319)	(283)	(199)	(205)	(176)
Fiscal result UDIS-Banxico	(743)	(757)	(760)	(774)	(788)
Total Deferred Taxes	3,494	4,168	4,268	4,667	4,481

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

At the quarter ending

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
MXN pesos					
Funding	2.77%	2.17%	2.19%	2.21%	2.27%
Bank and other loans	6.32%	5.07%	5.21%	5.14%	5.17%
Foreign currency					
Funding	0.22%	0.15%	0.10%	0.07%	0.07%
Bank and other loans	0.82%	0.75%	0.70%	0.61%	0.64%
UDIS					
Funding	0.20%	0.20%	0.20%	0.18%	0.18%

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.

Figures in historic MXN millions

Instrument	Issue Date	Amount	Currency	Interest payable	Amount in circulation	Rate
		MXN millions			MXN millions	
INTENAL 03	24-NOV-2003	2,200	MXN	1	2,201	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	6	1,824	20-SEP-2018
HSBC 08-2	18-DEC-2008	2,272	MXN	11	2,283	10-DEC-2018
HSBC 09D(USD300) ¹	26-JUN-2009	3,850	USD	1	3,851	28-JUN-2019
		10,140		19	10,159	

¹ 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

Instrument	Issue Date	Amount	Currency	Interest payable	Amount in circulation	Maturity Date
		MXN millions			MXN millions	
Certified Marketable Securities	10-MAY-2006	4,220	MXN	15	4,235	27-ABR-2016
		4,220		15	4,235	

Capital

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

Grupo Financiero HSBC

The Ordinary Shareholders Meeting, held on April 16, 2010, approved the following distribution of the year 2009 financial results, amounting to MXN1,554 million:

- Five per cent, MXN78 million, to increase legal reserves, and the remaining MXN1,476 million, at the Board's determination to be applied under the concept of previous year's financial results.

The capital stock is included in the amount of MXN5,111 million, represented by 2,555,350,789 shares.

Subsidiaries Grupo Financiero HSBC

HSBC Mexico, S.A.

HSBC Mexico, S.A., net income in 2009, figure that was audited by Despacho KPMG Cárdenas Dosal, S.C., was MXN136 million.

- Ten per cent, MXN13 million, to increase legal reserves, and the remaining MXN123 million, at the Board's determination to be applied under the concept of other reserves.

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

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at March 31, 2010

	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010
% of assets subject to credit risk					
Tier 1	15.12%	15.89%	22.37%	23.10%	23.54%
Tier 2	5.79%	6.24%	6.48%	6.51%	6.83%
Total regulatory capital	<u>20.91%</u>	<u>22.14%</u>	<u>28.85%</u>	<u>29.62%</u>	<u>30.37%</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	9.70%	9.70%	13.81%	13.53%	12.89%
Tier 2	3.72%	3.81%	4.00%	3.81%	3.74%
Total regulatory capital	<u>13.42%</u>	<u>13.51%</u>	<u>17.81%</u>	<u>17.35%</u>	<u>16.63%</u>
Tier 1	25,317	26,088	35,927	36,334	36,203
Tier 2	9,695	10,249	10,401	10,242	10,506
Total regulatory capital	<u>35,012</u>	<u>36,337</u>	<u>46,328</u>	<u>46,576</u>	<u>46,709</u>
RWA credit risk	167,462	164,150	160,597	157,257	153,775
RWA market risk	78,944	87,110	78,397	86,803	99,177
RWA operational risk	14,483	17,780	21,066	24,461	28,001
RWA credit and market risk	<u>260,889</u>	<u>269,040</u>	<u>260,061</u>	<u>268,522</u>	<u>280,952</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 June 30, 2010

	For the quarter ending				Year to date		
	30 Jun 2009	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Jun 2009	30 Jun 2010
Other income							
Loans to employees	40	36	37	37	37	88	74
Recoveries	97	74	210	193	261	572	454
Other income	319	512	493	664	852	1,289	1,516
	824	622	740	894	1,150	1,949	2,044
Other expenses	(233)	(450)	(602)	(252)	(358)	(576)	(610)
Other losses	(233)	(450)	(602)	(252)	(358)	(576)	(610)
Total other income (expenses)	591	172	138	642	792	1,373	1,434

► 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 June 30, 2010 is shown below:

Figures in MXN millions

	Bank	Pension funds	Brokerage house	Mutual funds management	Services	Group	Total
Balance Sheet							
Cash and deposits in banks	-	-	152	-	4	18	174
Demand deposits	(174)	-	-	-	-	-	(174)
Repurchase agreements (assets)	-	-	4,325	-	-	-	4,325
Repurchase agreements (liabilities)	(4,325)	-	-	-	-	-	(4,325)
Sundry debtors (assets)	738	-	7	10	-	-	755
Sundry creditors (liabilities)	(3)	(21)	(470)	(72)	(189)	-	(755)
Total	(3,764)	(21)	4,014	(62)	(185)	18	-
P&L							
Payable commissions	(4)	(4)	-	(206)	-	-	(214)
Receivable commissions	188	-	26	20	-	-	234
Interest income	-	-	3	-	-	-	3
Interest expense	(3)	-	-	-	-	-	(3)
Repos	(109)	-	-	-	-	-	(109)
Reverse repos	-	-	109	-	-	-	109
Administrative services	(11)	(48)	(86)	(26)	-	-	(171)
Other income	139	1	-	5	6	-	151
Total	200	(51)	52	(207)	6	-	-

Information on Customer Segment and Results

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

Consolidated Income Statement by Customer Segment

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

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

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

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

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

The consolidated incomes statement information condensed by segments as of *June 30, 2010*, is shown below:

Figures in MXN millions at June 30, 2010

(Cifras en millones de pesos)	Year to date at 30 June 2010				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	6,842	2,350	1,215	0	10,407
Provision for Loan Loss	4,441	693	157	0	5,291
Net Interest Income adjusted	2,401	1,657	1,058	0	5,116
Fees and Commissions, net	2,598	1,007	408	0	4,013
Trading Income	102	86	627	0	815
Other operation income	394	81	0	0	475
Total Revenue	5,495	2,832	2,093	0	10,419
Administrative Expenses	6,788	3,057	1,374	0	11,219
Operating Income	(1,293)	(226)	719	0	(800)
Other Income (Expenses), net	532	354	548	0	1,434
Profit Before Taxes	(762)	129	1,267	0	634
Taxes	(286)	48	476	0	238
Net Income before subsidiaries	(475)	80	791	0	396
Undistributed income from subsidiaries	634	5	4	0	643
Continued Operating Results	159	85	795	0	1,039
Net Income	159	85	795	0	1,039
Minority Shareholders	8	0	0	0	8
Participated Net Income	167	85	795	0	1,047

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 30 June 2010 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Jun 2010
Grupo Financiero HSBC – Net Income Under Mexican GAAP	1,047
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	40
Acquisition costs relating to long-term investment contracts †	(20)
Deferral of fees received and paid on the origination of loans	27
Recognition and provisioning for loan impairments †	884
Purchase accounting adjustments †	(12)
Recognition of the present value in-force of long-term insurance contracts †	(9)
Tax criteria	338
Other †	(100)
HSBC México net income under IFRS	2,195
US dollar equivalent (millions)	173
Add back tax expense	637
HSBC México profit before tax under IFRS	2,832
US dollar equivalent (millions)	224
<i>Exchange rate used for conversion</i>	<i>12.67</i>

† Net of tax at 30 per cent.

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

IFRS adjustments are calculated in accordance with HSBC Group accounting policies.

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.

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

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. This policy was introduced from 1 January 2007, previous to this all fees were recognised up front.

IFRS

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

Loan impairment charges

Mexican GAAP

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

IFRS

Impairment losses on collectively assessed loans are calculated as follows:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.
- In other cases, loans are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Impairment losses on individually assessed loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying value.

Purchase accounting adjustments

Purchase accounting adjustments arose from the valuation of assets and liabilities on acquiring Grupo Financiero Bital in November 2002 under IFRS. Under Mexican GAAP, a different valuation methodology is applied.

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

Mexican GAAP

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

IFRS

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

Risk Management

Risk management in 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

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

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

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

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

Risk Management Committee (RMC)

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

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

The main objectives of this committee are to:

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

Market Risk Management

Qualitative Information

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

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

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

Market risk is defined as “the risk that the rates and market prices on which the Group has taken positions – interest rates, exchange rates, stock prices, etc.- will oscillate in an adverse way to the positions taken, there by 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.

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 second quarter of 2010 (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 2Q10	Limits*	Average 2Q10	Limits*	Average 2Q10	Limits*
Combined	35.36	45.00	10.02	27.50	25.99	45.00
Interest Rate	35.03	50.00	9.67	N/A	25.99	42.00
FX	1.05	12.00	1.05	12.00	N/A	N/A
Volatility IR	0.02	8.00	0.03	N/A	0.01	2.0
Volatility FX	0.18	2.00	0.18	2.00	N/A	N/A
Equities	0.32	2.50	0.32	N/A	N/A	N/A

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

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

	31-Mar-10	30-Jun-10	Limits*	Average 1Q10	Average 2Q10
HBMI	34.28	33.41	45.00	35.82	35.36
Accrual	27.95	24.59	45.00	30.13	25.99
All Trading	5.11	9.86	27.50	6.69	10.02

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of the 2Q10 varied -2.52% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 2Q10 varied -1.27% versus prior quarter. During the quarter the average VaR remained under the pre-established limits.

Comparison of Market VaR vs. Net capital

Below a chart comparing the market VaR versus net capital is presented for March 31st, 2010 and June 30th, 2010 (in millions of dollars).

Market VaR vs. Net Capital Comparison

Net Capital in million Dollars

	31-Mar-10	30-Jun-10
Total VaR*	35.82	35.36
Net Capital **	3,777.30	3,636.58
VaR / Net Capital	0.95%	0.97%

* 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 0.97% of the net capital in 2Q10.

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

	31-Mar-10	30-Jun-10	Limits*	Average 1Q10	Average 2Q10
Bank	(0.882)	(1.126)	1.350	(0.873)	(1.131)
Accrual	(0.732)	(0.757)	1.050	(0.661)	(0.793)
Trading Desk	(0.087)	(0.196)	0.320	(0.152)	(0.206)
Balance Sheet Trading	(0.063)	(0.173)	0.210	(0.061)	(0.131)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 2Q10 varied 27.68% versus prior quarter. The bank's average PVBP for the 2Q10 varied 29.56% versus prior quarter.

Present Value for 1bp (PVBP) for USD Rate					
	31-Mar-10	30-Jun-10	Limits*	Average 1Q10	Average 2Q10
Bank	0.084	0.047	0.300	0.099	0.099
Accrual	0.063	(0.005)	0.300	0.062	0.044
Trading Desk	0.015	0.021	0.050	0.031	0.020
Balance Sheet Trading	0.007	0.032	0.070	0.006	0.035

* Absolute Value

NA = Non Applicable

The bank's USD Rate PVBP for 2Q10 varied -43.76% versus prior quarter. The bank's average PVBP for the 2Q10 varied 0.03% versus prior quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	31-Mar-10	30-Jun-10	Limits*	Average 1Q10	Average 2Q10
Bank	(0.228)	(0.223)	0.350	(0.207)	(0.219)
Accrual	(0.165)	(0.154)	0.300	(0.160)	(0.160)
Trading Desk	(0.044)	(0.047)	0.080	(0.028)	(0.039)
Balance Sheet Trading	(0.019)	(0.023)	0.050	(0.019)	(0.019)

* Absolute Value

NA = Non Applicable

The bank's UDI Rate PVBP for 2Q10 varied -2.03% versus prior quarter. The bank's average PVBP for the 2Q10 varied 6.05% 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 a methodology to measure liquidity risk based on cash flow projections for a period of 12 months in local currency and in US dollars.

This methodology is calculated on a daily basis under different stress test scenarios, in a period of 6 months the Cumulative Net Cash flows projections must be positive. Major stress test scenario considers the following assumptions: 100% withdrawal of non-core deposits, security haircuts of 10% for government securities and 20% for liquid equities, no further issuance possible, no deposits or non-retail CDs are renewed on maturity, disbursement 20% of committed facilities and no new business growth.

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.

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

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

The institution presented at end of the quarter a surplus in expected cash flow under the major stress test scenario of 2,805m USD. Along the quarter, average level was 1,165m USD. Compared versus previous quarter, liquidity position was benefited resulting from the change of internal category related to Core Deposits measurement.

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, 2008 and 2009 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 June 30th, 2010 is \$7,667.6 millions of pesos, which represents the 14.9% of Total Balance, showing a decrease of \$1,106.0 millions of pesos compared to previous quarter. This is attributable to Credit Cards new acquisition models, credit policies, collections efforts, line decreases and cancellation strategies. The Expected Loss of the commercial portfolio as at June 30th, 2010 is \$4,110.9 millions of pesos, showing an increase of 20.20% compared to the figure reported in the previous quarter. The EL estimation of this portfolio does not consider undrawn facilities yet.

Operational Risk

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 fulfillment 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 6th 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

IT area controls the technological risk through three means:

1) In order to realize the project, through processes and international practices, the software development life cycle is controlled via an internal methodology identified as RBPM (Risk Bases Project Management), and the Clarity tool (global HSBC tool) to guarantee a consistent and efficient management of the projects.

2) Additionally, through the DRP (Disaster Recovery Plan) process focused in the recovery of the systems in case of disasters, and the management of Service Levels and critical processes, the continuity is ensured, covering the client's service expectations and global HSBC standards.

3) Through an agile, secure and reliable Governance structure, and oriented to maintain an adequate technological risk control and response capacities for all the banking services that offer in their different distribution channels, the risk is managed in the senior management committees: HTS Steering Committee, Risk Management Committee (RMC) y Operational Risk & Internal Control Committee (ORICC).

Legal Risk

Within the Legal Risk management, a detailed attention has been given to the following types of risk:

- ▶ Contractual;
- ▶ Litigation;
- ▶ Legislative or Regulatory;
- ▶ Reputation; and
- ▶ 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; the estimation of potential losses derived from adverse judicial or administrative resolutions; the disclosure to employees and officials of the juridical and administrative dispositions applicable to their 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 loss due to the non-performance of the applicable juridical and administrative norms and to avoid unfavourable resolutions, policies and procedures have been established for the identification, measurement and control of the legal risks and to prevent this way as far as possible the above mentioned risks from being able to result in losses not estimated for the Institution.

Quantitative Information (including Legal and Technological Risk)

The assessment of operational risks resulting from the 6th assessment exercise carried out in Fall 2009, and taking into account their upgrades at closure of 2Q10, the set of risks is integrated by 2,359 identified and assessed risks, distributed as follows: 0.9% A type, 11.1% B type, 65.2% C type, and 22.8% D type, which can also be classified according to their primary category onto: 22.5% people, 50.5% process, 13.8% systems and 13.2% external factors.

Furthermore, 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)

The global and local economic crisis brought significant challenges to the economic and social development in Mexico.

We believe that being a sustainable bank involves several commitments in our actions; from a business perspective, implies sustainable profitable growth in the long run based on a relationship of trust between our institution and our clients. To be sustainable implies to reduce as much as possible the environment impact of our operations and to contribute to our community with supporting programs and projects that will promote better education and a better environment.

Sustainability is achieved through a strategy based on three pillars: Economic: aligning with the principles of Ecuador considering the environmental impact on the group's investments. Environment: caring for the impact of our carbon footprint on the environment and promoting a sustainable culture within our organization. Social: through our community investment, through a defined annual fund 0.5% to our earnings before taxes, expecting 0.8% for 2011.

During the first quarter of this year we have focused on developing a strategic plan to aim our community investment for 2011 in larger programs, with greater impact, and that will empower the internal commitment of our employees through volunteering, it is also aimed to improve customer relation between our union of workers and our clients.

Our Investment Community Fund has three sources of income; PBT, Channels and sustainable products. The over-all goal for 2010 is \$74.6 million pesos, composed by \$40 million pesos from PBT to be invested in education (50%), environment (25%) and community (25%). \$18.6 million pesos from channels (ATM's) through client donations to our current campaigns (Child Protection, Child Cancer, Bécalos) and \$16 million pesos from sustainable products like "green insurance".

According to HSBC Holdings PLC policy of supporting education, environment and community, Grupo Financiero HSBC donated in the first semester of 2010, \$21.7 million pesos.

Education

Based on our social programs, we expect to create a positive influence in the lives of children and teenagers, through providing financial support to education projects aimed to improve the quality of the education these children and teenagers have access to. We also expect to create, a positive attitude in children and young people by providing them with opportunities to achieve success, a better future for themselves and a better life quality for their families.

One of the most important segments for HSBC is education, in which, we count on three governing axes: Integral Education, Educative Scholarships in rural and urban areas and Financial Education.

Our Programs:

Lazos-HSBC Programme

Through the initiative of the Strategic Control Unit (Channels), HSBC developed an alliance with Lazos Foundation; which are experts in nationwide education aimed to support underprivileged children that most likely will abandon their studies in case they don't receive a scholarship within the next year.

Lazos foundation is one of the soundest institutions in Mexico in terms of management and transparency.

The initial proposal includes eight schools located in the cities where our Divisional Offices are located, including Tijuana, Guadalajara, León, Mérida, Puebla, Mexico City and Monterrey. This program has been presented to the Divisional Directors by Carlos Ramírez team. To each Divisional Director a goal of scholarships, infrastructure and volunteer activities depending on the needs of each region has been assigned and will count with the supervision and guide of Lazos Foundation.

The launching event is planned for August-September 2010 and also launching events in all the Divisional Directions are considered.

Prevention and Treatment of Children and Adolescents Migrants and Returnees Unaccompanied

HSBC, Presidencia Nacional de la Republica Mexicana and the Nation DIF signed an agreement to invest 40 million pesos in a prevention program for children and young unaccompanied migrants and returnees. This program seeks to develop capabilities and skills in children to stay and take root in their home communities, ensuring full respect for their rights, the care of their needs and promoting the development of their capacities. The ultimate goal is to give the migrant child the opportunity to rejoin his family and formal education. Several visits have been conducted to migrant centers, including Tijuana, Mexicali, Colorado and San Luis Rios Tapachula, to some of these visits, Margartia Zavala, Mexico's first lady has attended. The Trust is already legally constituted and the first funds have been transferred.

Bécalos

This is an initiative of the ABM and Fundación Televisa designed to support young adults in their High School and University studies through donations made in ATM's. The scholarships are directed to studies in Technology and Science. This campaign has been promoted and implemented in ATM's since June 1, ending in September 30; so far one million pesos have been donated.

Aprendamos

A six year program of whole support to pupils, teachers and families, in fifteen full time schools that received low scores in the national test ENLACE. This program currently runs in Mexico City, particularly in regions like Miguel Hidalgo, Azcapotzalco and Cuauhtémoc. The program was developed in alliance with the Ministry of Public Education (SEP) and Pro-Education focusing mainly on improving the quality of education that pupils receive. In this way, they would have access to the best practices and educational programs.

Más allá del dinero.

In alliance with *Impulsa*, we work actively in the program of financial education, aiming to teach basic finances issues to children in fifth and sixth grade of primary school.

The program has a broad involvement with SEP, parents and volunteers from HSBC.

The students will understand the basic principles of money and will apply them in their daily life. The students will recognize the importance of money management in taking decisions, classes are given by our 113 volunteers. Up to July, 2010, 2006 students in 52 classrooms have been benefited.

Environment

Our head office in Mexico City, the HSBC Tower, will continue implementing energy saving and water recycling processes to reduce atmospheric emissions water wastes. Policies focused to implement a better waste management are being developed.

We are a LEED certified company granted by the U.S. Green Building Council, which means to be the first building of this type in Mexico and Latin America. HSBC is working on community sustainable projects, environment education programs, and income generation programs.

Our programs:

Chapultepec Forest

Through our client's donations to Green Insurance, we started our environmental sanitation program in the second section of Chapultepec Park, referred to as "El Sope" with an investment of 5 million pesos. The program will encompass diverse activities with environmentalist specialists, volunteers and trust HSBC PROBOSQUES de Chapultepec.

On July 22nd 2010, we had a press conference in Chapultepec announcing the results of this investment. The same day we a reforestation campaign took place with 50 employees and governmental authorities.

Green Insurance

The program had an expansion in its main objective. The new program objective is to fight against the urgent threat of climate change. To achieve this we will develop four projects regarding: water, biodiversity, energy and waste. Our actions will be targeted in: conservation, education, protection and productive projects.

We have created new alliances with NGOs like WWF, Probosque de Chapultepec Trust and Cosejo Civil Mexicano para la Silvicultura Sostenible.

Currently we have operations in 10 states: Quintana Roo, Campeche, Chiapas, Oaxaca, State of Mexico, Jalisco, Colima, Nayarit Durango and Chihuahua, and have invested 11.9 million benefiting 87 communities and assisted 97,300 hectares. The taken actions we have made:

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.

Sustainable Communities

Along Naturalia, we have invested 1.7 million pesos and we are implementing a set of productive projects, conservation, restoration, educational and training, leading the community to achieve a sustainable development in the region. We want to consolidate these projects in 5 years as well as improving the quality of life in the community of San Juan Atzingo (State of Mexico) not compromising its natural resources, guaranteeing the environmental services for the region and the urban bordering zones.

The actions take are:

1. Nurseries
2. Ecotourism
3. Environmental instruction in schools
4. Ecotecnias
5. Volunteering

HSBC Sustainable in its Operations

We established the name of the internal communication campaign “HSBC; Sustainable Operation” and launched 4 weekly electronic newsletter.

On April 22nd we had the conference “The Power of One” with Claude Ouimet as speaker. He is the Senior Vice President and General Manager for InterfaceFLOR in Canada and Latin America. Claude’s mix of manufacturing, sales, and marketing knowledge gives him a unique perspective for integrating sustainability throughout the InterfaceFLOR corporate culture. He brings his passion for environmentally sound practices not only to manufacturing technology and practices, but also to sales strategies and marketing concepts that reflect the company’s Mission Zero.

Community

In order to support the society where we operate, HSBC has developed several projects aimed to promote health, culture and contingency plans in case of emergency.

Our programs:

Culture

We sponsor the National Museum of Anthropology with a grant of one million pesos. Many volunteers have been recruited to serve the Museum and are also invited to the most important exhibitions that are carried out during the year.

Campaign to support Children with Cancer (Fundación Rebecca de Alba, AC)

Through our ATM donation campaign, HSBC clients donated in the months of April and May to support 6 different NGOs that support children with cancer around the Country. Spokeswoman Rebecca de Alba held several press conferences to raise awareness and invite HSBC clients and the general public to donate. More than 600 hundred children will be benefited with this campaign. This is the second year this campaign was launched and there is the commitment for a third year.

Swimming in favor of Children with Cancer

The Western Divisional Director swam accompanied by 20 Premier clients from Cancun to Isla Mujeres, each kilometer achieved gain a donation of \$1,000 pesos, the whole team obtained a \$200,000 pesos donation to support and NGO that provides children with cancer and their families integral support (treatments, shelter, food, medication, etc.). Four children will receive their treatments thanks to the effort of this brave group of volunteers.

ABC's Cancer Center

HSBC Broker House division granted six million pesos for the ABC's Cancer Center competition. It's remarkable to mention that the Broker House made the donation via Corporate Sustainability. The relationships between these institutions have always been generous. The Bank has been ABC's corporative partner from the beginning of its operations in 1999, its generous grant of \$ 1 million dollars supported the construction and equipment of the ABC Friendship Clinic, which serves the people of the bordering zones of low resources and to those who do not have access to the social security.

HSBC has canalized grants of its clients in favor of the program of Lip and Cleaved Palate of the ABC in the campaign "Kids with Future", transforming the destiny of 57 children with this problematic. We are willing to keep this relationship with the Medical Center and for this reason a selected group of HSBC directors attended to unveil a commemorative signal, such as Mexico's CEO Luis Peña Kegel and Stuart Parkinson.

Volunteering

Until 30 June, 2010 1,169 colleagues nationwide have participated in volunteering activities, this is 70.12% of the goal determined for Mexico.

Financial Education

During May and June, 87 volunteers distributed the program of financial education for children "Más que dinero" and a "Workshop for parents" in public schools of 4 cities: Cuernavaca, Cancún, Merida and Monterrey. With the "Workshop for parents" our volunteer team created awareness among parents in responsible and sustainable consumption, as well as teaching them tips and techniques to better administrate the family budget.

In Mexico City, 27 volunteers became qualified in the second part of environmental workshop to contribute in the formation of an environmental culture in the children of already received financial education in 15 public schools.

Family Reforestation

On behalf of the World's Environment Day, we organized 3rd Family reforestation on June 5th in the community of San Felipe del Rincón in Mexico State, where 130 volunteers and 270 guests participated in the reforestation of 2,500 trees on 4 hectares.

At the same time, the volunteers of the State of Morelos were added to the celebration and organized reforestation "Vazquez a Valley", which counted on the participation of 29 volunteers and 39 guests to plant 500 trees.

Health

On the Global Community Day, 77 volunteers of the Mexico City and Toluca participated in activities destined to support poor communities through clothes and toys donations, reforestation of fruit trees and entertainment of 200 children of the Federico Gómez Children Hospital.

Communication

The Communication area of the Corporate Sustainability department has centered both, internal and external messages to position HSBC as the Sustainable Bank of Mexico. Media relations management has been established to create awareness of the bank within clients. Internally, we have attracted new people to our campaigns and reinforced events and conferences. We pretend to generate engagement with employees who might become volunteers in the future.

In the period January-June 2010, this Direction has hosted 8 press conferences with great media coverage that resulted in an ad equivalence of more than \$3 million pesos in press, radio, television and Internet. The campaigns where we participated are:

- Bicibus, in favor of Save the Children (2 conferences; opening and closure)
- La Hora del Planeta, with WWF
- La Hora del Planeta, with WWF and Mexico City Government
- Fundación Rebecca de Alba (2 conferences; opening and closure)
- Book presentation “Desarrollo de una conciencia sustentable”
- Closure of “Esta vez por Haití, únete” campaign with Save the Children

In addition, we increased our relations with Federal Government hosting the Television of Presidency in our headquarters to record a program in sustainable buildings. Also we participated in the UN campaign “Blue Heart” illuminating the lobby in blue to combat human trafficking.

In March 2010, HSBC México was awarded for the fifth consecutive year with the Certification in “Social Responsible Company”, by the Mexican Philanthropy Centre (CEMEFI), and Aliarse. This recognition certifies HSBC México as a company that is truly committed to a social responsible management as part of its culture and business strategy.

On behalf of the World’s Environment Day, the Environment Management created the Week of Environment in order to attract new volunteers to join the Reforestation that HSBC supported. The CS team managed to attract more than 500 volunteers in such an important day.

Corporate Sustainability will keep building HSBC position as the Sustainable Bank in Mexico with its 3 axis that support community, education and environment. We’ll keep as well creating new media relations in order to publish our activities so we can be the reference in these topics within the country.

Conclusions

2009 economic crisis has left social challenges within our communities, for this reason, we must make efficient use of our communitarian investment. We managed to fund our social and environmental investment with the fundraising among our clients that represents 46.44% of the active participation.

With commitment and actions, HSBC Mexico is looking forward to keep a balance between environment, society and business, establishing long term relations with our clients, assuring the success of HSBC. In this way we provide support in a multidimensional way that will impact our people and the future generations in Mexico.

Contacts

Media enquiries:

London: Patrick McGuinness
Tel: +44 (0)20 7991 0111

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

Investor Relations:

London: Alastair Brown
Tel: +44 (0) 20 7992 1938

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