

Grupo Financiero HSBC

Financial information at 30 September 2010

3Q10

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

*Release date:
29 October 2010*



29 October 2010

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

- Net income before tax and before including the undistributed profit of subsidiaries for the nine months to 30 September 2010 was MXN1,325 million, an increase of MXN447 million or 50.9 per cent compared with MXN878 million for the same period in 2009.
- Net income for the nine months to 30 September 2010 was MXN1,887 million, an increase of MXN324 million or 20.7 per cent compared with MXN1,563 million for the same period in 2009.
- Total operating income for the nine months to 30 September 2010 was MXN16,016 million, an increase of MXN863 million or 5.7 per cent compared with MXN15,153 million in the same period in 2009.
- Loan impairment charges for nine months to 30 September 2010 were MXN7,508 million, a decrease of MXN3,908 million or 34.2 per cent compared with MXN11,416 million for the same period in 2009.
- Net loans and advances to customers were MXN152.9 billion at 30 September 2010, an increase of MXN5.4 billion or 3.7 per cent compared with MXN147.5 billion at 30 September 2009. Total impaired loans as a percentage of gross loans and advances to customers improved to 3.6 per cent compared with 5.7 per cent at 30 September 2009. The coverage ratio was 175.2 per cent compared with 121.3 per cent at 30 September 2009.
- Deposits were MXN245.8 billion at 30 September 2010, an increase of MXN23.7 billion or 10.6 per cent compared with MXN222.1 billion at 30 September 2009.
- Return on equity was 5.2 per cent for the nine months to 30 September 2010, compared with 5.6 per cent for the same period in 2009. The decrease in return on equity is largely driven by the capital injection received in December 2009.
- At 30 September 2010, the bank's capital adequacy ratio was 15.9 per cent and the tier 1 capital ratio was 12.3 per cent, compared with 13.5 per cent and 9.7 per cent respectively at 30 September 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 September 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

GDP for the third quarter of 2010 recovered strongly, increasing 7.6 per cent year-on-year and 3.2 per cent on a seasonally adjusted quarterly basis. Expectations of a less dynamic US economy pose negative risks for the Mexican industrial sector. Domestically, high unemployment levels, tight credit conditions, and low levels of consumer confidence will likely restrain domestic demand.

2010 inflation forecasts have reduced to 4.5 per cent from 4.9 per cent. As such, it is now expected that the Central Bank will gradually begin to tighten monetary policy in the last quarter of 2011 to 5.0 per cent from the current rate of 4.5 per cent.

Grupo Financiero HSBC continues to focus on its strategy to become the best bank for its clients, shareholders and employees. Asset quality continues to improve as a result of prudent risk management and strengthened collections operations. Capital strength remains a key pillar to support business growth and investments in our branch network and technological infrastructure.

For the nine months to 30 September 2010, Grupo Financiero HSBC's net income was MXN1,887 million, an increase of MXN324 million or 20.7 per cent compared with the same period in 2009. The reduction in loan impairment charges and growth in net income from subsidiaries continue to drive improved results, more than offsetting lower revenues and increased expenses in the bank when compared to the same period in 2009.

Net interest income was MXN14,996 million, a decrease of MXN909 million or 5.7 per cent compared with the same period in 2009. This reduction is driven by lower margins on customer deposits as a result of lower interest rates and lower consumer portfolio volumes, particularly credit cards.

Loan impairment charges were MXN7,508 million, a decrease of MXN3,908 million or 34.2 per cent when compared with the same period in 2009. This reduction is mainly driven by improved credit quality, achieved through tighter origination criteria and enhanced collection practices, particularly in consumer lending. The decrease in loan impairment charges was achieved despite MXN550 million additional reserves for the "Punto Final" programme recognised in July 2010.

Risk adjusted net interest income as of 30 September 2010 was MXN7,488 million, up by MXN2,999 million or 66.8 per cent when compared with MXN4,489 million for the same period in 2009.

Net fee income was MXN5,922 million, a decrease of MXN1,551 million or 20.8 per cent compared with the same period in 2009. Lower credit card fees continue to negatively impact fee income, mainly driven by lower volume. In addition, lower transactional volumes from payments and cash management and ATM transactions have also contributed to the decrease in fee income.

Trading income was MXN1,912 million, a decrease of MXN659 million or 25.6 per cent compared with the same period in 2009. This reduction mostly results from strong performance in foreign exchange in 2009 as a result of greater market volatility. Market conditions have been less volatile in 2010 which have led to lower foreign exchange and debt trading operations, partially offset by an increase in securities sales and derivative trading.

Administrative and personnel expenses were MXN16,894 million, an increase of MXN1,074 million or 6.8 per cent compared with the same period in 2009. This increase is mainly due to higher personnel costs, resulting from increased headcount and increased expenditure related to infrastructure and technology.

Non-banking subsidiaries continue to report solid performance. This was most notable in the insurance company HSBC Seguros, which reported net profit of MXN958 million up by 4.9 per cent compared with the same period in 2009. This increase is primarily a result of higher earned premiums in individual life products (*T-5*) and life endowment products, in addition to higher income in the investment portfolio. Results have also benefited from savings from renegotiation of reinsurance contracts for 2010 and tight expense control.

Net loans and advances to customers increased MXN5.4 billion or 3.7 per cent to MXN152.9 billion at 30 September 2010 compared with 30 September 2009. This increase is mainly due to growth in high quality assets, such as loans to financial institutions and government entities.

Total impaired loans decreased by 36.2 per cent to MXN5.8 billion at 30 September 2010 when compared with 30 September 2009, mainly due to a 61.6 per cent reduction in non-performing consumer loans. Total impaired loans as a percentage of gross loans and advances to customers improved to 3.6 per cent from 5.7 per cent at 30 September 2009.

Total loan loss allowances at 30 September 2010 were MXN10.2 billion, a decrease of MXN0.9 billion or 7.9 per cent when compared with 30 September 2009. The total coverage ratio (allowance for loan losses divided by impaired loans) was 175.2 per cent at 30 September 2010, when compared with 121.3 per cent at 30 September 2009.

Total deposits were MXN245.8 billion at 30 September 2010, an increase of MXN23.7 billion or 10.6 per cent when compared with 30 September 2009. This is due to an increased focus on sales and promotion of deposit products. Demand deposits increased MXN29.6 billion or 26.1 per cent to MXN143.4 billion and time deposits decreased MXN6.0 billion or 5.8 per cent to MXN98.1 billion.

At 30 September 2010, the bank's capital adequacy ratio was 15.9 per cent when compared with 13.5 per cent at 30 September 2009. The tier 1 capital ratio was 12.3 per cent when compared with 9.7 per cent at 30 September 2009. This increase is primarily the result of the MXN8,954 million capital injection received in the fourth quarter of 2009.

Business Highlights

Personal Financial Services (PFS)

During the third quarter of the year, PFS increased product penetration and cross selling to the current customer base. In addition special focus was given to promoting products to the affluent segment.

As a sign of success in our strategy to improve the customer experience, our flagship deposit account products "*Flexible*" and "*Nomina*" received the highest ranking by the Commission for Financial Services Users Protection - (CONDUSEF) for transparency and quality of information provided to customers.

Payroll accounts continue to grow as a result of further product enhancements and nationwide advertising campaigns.

Despite a contraction in the consumer lending market, several strategies were deployed to promote our consumer products. Some of the promotions implemented for credit cards include instalments on all purchases, back-to-school offers, balance transfers, preferential interest rates and convenience cheque cash advances. In July 2010, the *Advance Visa* credit card was launched in order to provide our new *Advance* segment customers with a superior credit card proposition.

For consumer loans, we have deployed large scale marketing campaigns and targeted direct mail marketing campaigns for payroll and personal loan customers. In August 2010, record sales were achieved in payroll and personal loans. Special focus has also been given to improving customer sales experience through simplified ATM screens to facilitate payroll and personal loan disbursements.

New wealth management product offerings have been made available for our more affluent customers, such as our enhanced range of mutual funds. All of our mutual funds can now also be purchased direct through internet banking.

Commercial Banking

Deposits and loans grew by 14 per cent and 39 per cent respectively when compared to 30 September 2009.

Our specialised Business Banking sales force is now nationwide and enhancements to the "Credito a Negocios" product have increased credit applications by 100 per cent.

During this quarter we have supported our corporate clients with integrated foreign exchange and treasury solutions and structured finance products. The latter has contributed to our strategy to be a Leading International Business partner.

The States and Municipalities credit portfolio has increased 43 per cent. The increase in credit has leveraged a deposit growth of 29 per cent compared with the third quarter of 2009.

Global Banking and Markets

Global Markets reported strong results for the nine months to 30 September 2010, with the third quarter being the strongest reporting period to date.

Balance Sheet Management continued to benefit from prudent interest rate positioning. Year to date trading results, although encouraging, continue to be lower when compared to 30 September 2009. The bank continued to strengthen its presence in the local market, evidenced by improved rankings and market share in Interest Rates and Foreign Exchange products.

Debt Capital Markets continued to support the growth of local debt markets through active involvement in first-of-its kind transactions, and introducing new asset classes such as the State of Mexico's securitisation of future real estate registry revenue. The bank continues to consolidate its position as a leading underwriter in Mexico by maintaining its second position in the local debt issuance league tables.

The Global Banking business continued to grow in line with its strategy. A recent example of connectivity between the local and HSBC New York based Global Banking teams was the referral of a transaction for one of the world's largest wireless telecom providers, involving the issuance of an inaugural fixed income bond denominated in Euro and Sterling, which provided a new funding source for the company.

Advisory deals have been executed successfully in a joint effort with the HSBC Global Banking business worldwide. For example, HSBC acted as an exclusive financial and M&A advisor in an important acquisition with a company dedicated to the production and distribution of soft drinks. The bank also acted as arranger in a senior unsecured term loan for a branded consumer food company to acquire a leading value brand company in the packaged meat sector in the US. These transactions set a precedent for future offerings of alternative funding options to our clients.

About HSBC

Grupo Financiero HSBC, S.A. de C.V. is one of the leading financial groups in Mexico with 1,187 branches, 6,503 ATMs, approximately eight million total customer accounts and more than 20,000 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 87 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa and assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

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Key Indicators

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

For the quarter ended at

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
a) Liquidity	124.03%	119.80%	140.61%	141.48%	135.07 %
Profitability					
b) ROE (Return over equity)	9.82%	3.73%	7.17%	1.58%	6.81%
c) ROA (Return over assets)	.90%	0.37%	0.86%	0.18%	0.74 %
Asset quality					
d) Impaired loans/total loans	5.75%	4.96%	4.25%	4.16%	3.56%
e) Coverage ratio	121.32%	131.60%	149.21%	158.16%	175.18 %
Capitalization					
f) Credit risk	22.14%	28.85%	29.62%	30.37%	27.49%
g) Credit and market risk operational	13.51%	17.81%	17.35%	16.63%	15.86%
Operating efficiency					
h) Expenses/Total Assets	5.14%	5.93%	5.57%	5.40%	5.00%
i) NIM	5.38%	5.82%	5.65%	5.60%	4.73%
Infrastructure					
Branches	1,190	1,191	1,191	1,186	1,187
ATM	6,084	6,249	6,358	6,479	6,503
Head Count	18,984	19,222	19,287	19,567	20,466

a) $Liquidity = \text{Liquid Assets} / \text{Liquid Liabilities}$.

$Liquid Assets = \text{Cash and deposits in banks} + \text{Trading securities} + \text{Available for sale securities}$

$Liquid Liabilities = \text{Demand deposits} + \text{Bank deposits and other on demand} + \text{Bank deposits and other short term liabilities}$

b) $ROE = \text{Annualized quarter net income} / \text{Average shareholders equity}$.

c) $ROA = \text{Annualized quarter net income} / \text{Average total assets}$.

d) $\text{Impaired loans balance at quarter end} / \text{Total loans balance at quarter}$.

e) $\text{Coverage ratio} = \text{Balance of provisions for loan losses at quarter end} / \text{Balance of impaired loans}$

f) $\text{Capitalization ratio by credit risk} = \text{Net capital} / \text{Credit risk weighted assets}$.

g) $\text{Capitalization ratio by credit and market risk operational} = \text{Net capital} / \text{Credit and market risk weighted assets}$.

h) $\text{Operating efficiency} = \text{Expenses} / \text{Total assets}$

i) $NIM = \text{Annualized net interest income} / \text{Average performing assets}$.

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

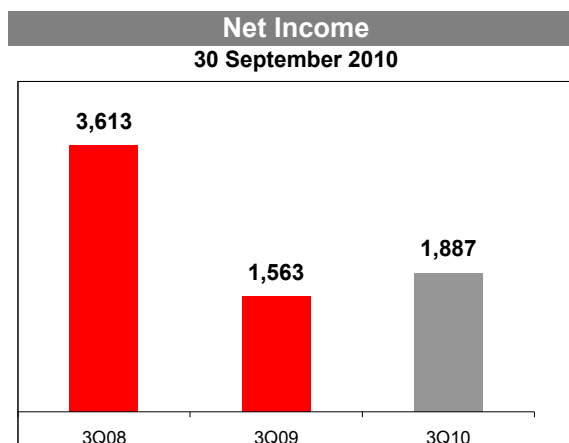
The averages utilized correspond to the average balance of the quarter in study and the balance of the previous quarter.

Income Statement Variance Analysis

Net Income

Net income for Grupo Financiero HSBC at 30 September 2010 was MXN1,887 million, an increase of MXN324 million (20.7 per cent) compared with the same period in 2009.

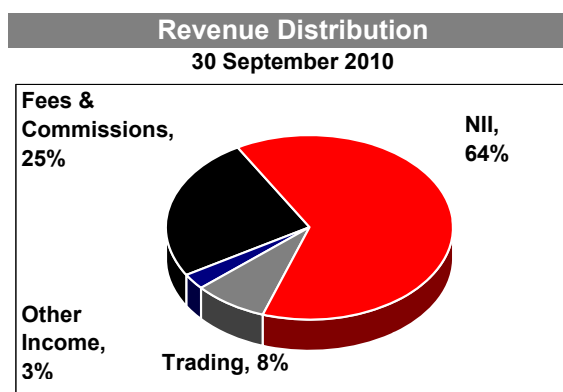
This positive performance is mainly driven by improved asset quality in the Bank and consistent performance of HSBC Seguros, HSBC Casa de Bolsa, and HSBC Operadora de Fondos; each grew 4.9 per cent, 56.9 per cent and 38.9 per cent respectively.



Total Operating Income

At 30 September 2010, the Group's total operating income, was MXN16,016 million, an increase of MXN863 million (5.7 per cent) compared to the same period of 2009.

This result is largely due to a 34.2 per cent reduction in loan impairment charges, which led to an improvement of the Group's risk adjusted NII of 2,999 million or 66.8 per cent when compared with September 2009.



Net Interest Income

Net interest income decreased by MXN909 million during the nine months ended at 30 September 2010 to MXN14,996 million, a 5.7 per cent decrease compared to the same period in 2009.

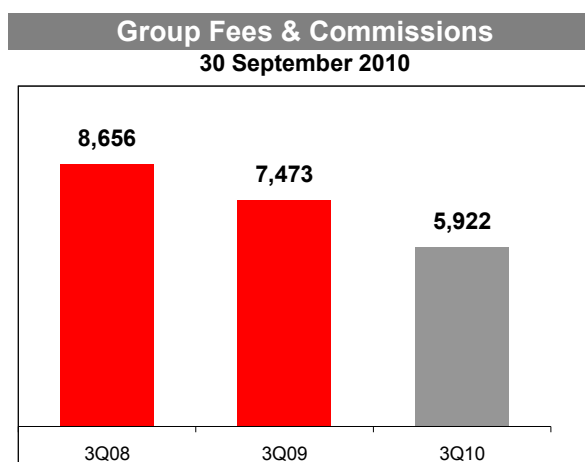
Lower volumes in consumer portfolios have restrained net interest income growth; nevertheless, positions in available-for-sale securities have partially diminished the effects of a stable loan portfolio in a low interest rate environment. On the funding side, the bank's constant efforts to promote customer deposits have contributed to important decreases in interest expenses, offsetting low yields from performing assets.

Non-interest Income

Non-interest income for the nine months ended at 30 September 2010 was MXN8,528 million; a decrease of MXN2,136 million or 20.0 per cent compared to the same period in 2009.

► Fee income

The Group's net fee income for the nine months ended at 30 September 2010, was MXN5,922 million, a decrease of MXN1,551 million or 20.8 per cent compared to the same period in 2009. Fee income continues to be affected by lower volumes in



the consumer portfolio, especially credit cards, as well as lower transactional volumes from payments and cash management and ATM transactions.

During the nine months ended at 30 September 2010, total fee income for the Bank amounted to MXN5,251 million, which represents 88.7 per cent of the Group's total net fee income.

► **Trading income**

Trading income was MXN1,912 million, which represents a decrease of MXN659 million (25.6 per cent) compared to the same period of 2009. This reduction reflects the extraordinary volatility that was present in the market during 2009. Still Grupo Financiero HSBC has been able to maintain constant income through derivative and investment positions.

The Group's non-interest income to total to revenue ratio decreased from 40.1 per cent at 30 September 2009 to 36.3 per cent for the same period in 2010, mainly due to lower fee income and decreased trading income.

► **Other income**

Other income increased to MXN2,203 million, which represents MXN658 million or 42.6 per cent above the reported in same period in 2009. This is due to lower operating losses and higher recoveries.

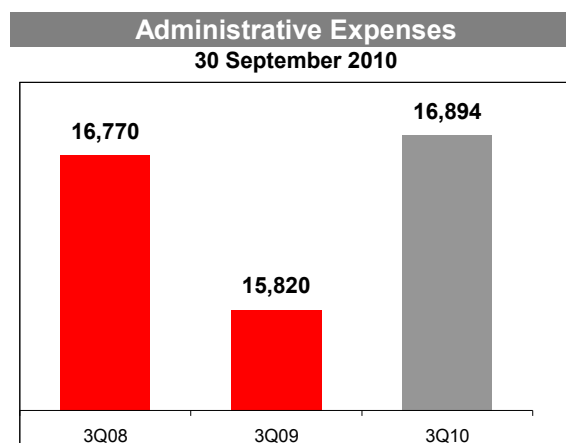
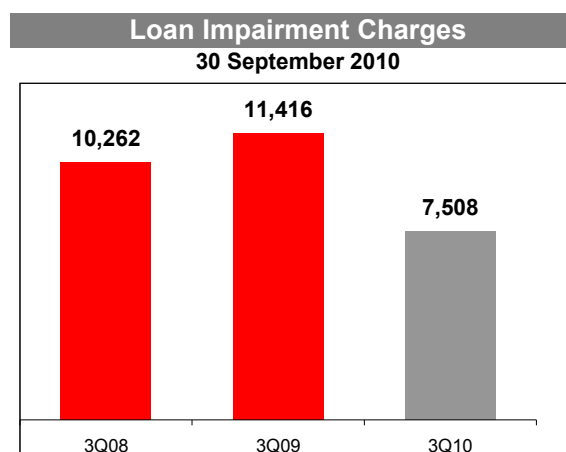
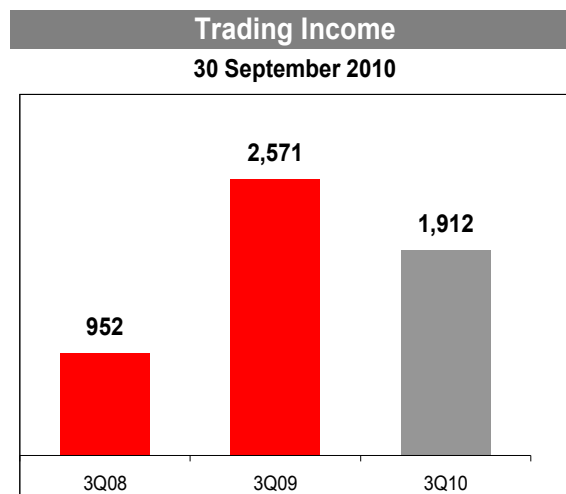
Loan Impairment Charges

The Group's loan impairment charges were MXN7,508 million, which represents a decrease of MXN3,908 million or 34.2 per cent compared to the same period of the prior year. Stronger collections operations, prudent underwriting and improved risk management have been key factors for this reduction in spite of MXN550 million of additional reserves created early in the third quarter for "Punto Final"; a governmental program directed to support mortgage loans originated from the 1995 economic crisis.

Administrative and Personnel Expenses

The Group's administrative and personnel expenses during the nine months ended at 30 September 2010 were MXN16,894 million, a MXN1,074 million or 6.8 per cent increase compared to the same period in 2009.

Higher personnel expenses through all 2010 and expenditure in technological projects and infrastructure are the main drivers of this uptrend in administrative and personnel expenses.



Balance sheet Variance Analysis

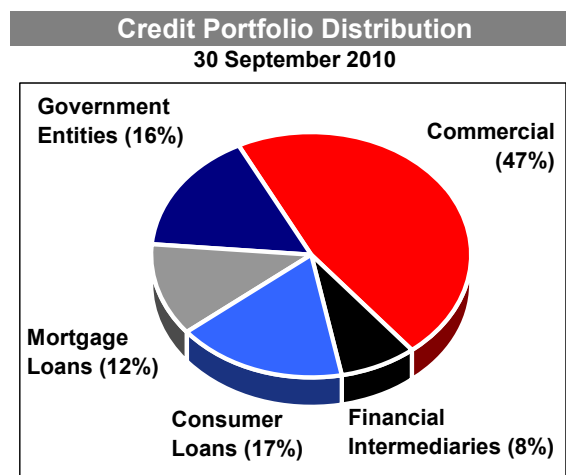
At 30 September 2010, the Group's total assets amounted MXN476,041 million, which represents an increase of MXN75,422 million or 18.8 per cent, compared to the same period of 2009, mainly driven by growth in the available-for-sale positions in the investment portfolio and higher accounts receivable.

Loan portfolio

The Group's performing loan portfolio balance amounted to MXN157,279 million at 30 September 2010, an increase of 5.3 per cent compared to the third quarter of 2009. This growth has been led by loans to financial intermediaries and government entities which grew 70.5 per cent and 42.3 per cent respectively when compared with 30 September 2009.

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

During the third quarter of 2010, the total commercial portfolio increased 14.5 per cent in comparison to the same period of 2009; financial institutions and governments have been the main drivers of this growth as these portfolios together increased 50.3 per cent since 30 September 2009.



The Government entities' portfolio increased by MXN7,536 million or 42.3 per cent compared to the third quarter of 2009. In the same fashion, financial intermediaries' portfolio grew 70.5 per cent compared to the same period for 2009. All together the government entities portfolio and the financial institutions continue to be responsible for the growth of the commercial loan portfolio.

► **Consumer loans**

The consumer loan portfolio decreased 17.3 per cent when compared with the third quarter of 2009, this is mainly due to a general reduction in consumer lending products, mainly driven by reduced volumes in credit card and auto loan portfolios. The consumer loan portfolio mix is still concentrated in credit cards, but more secure products like payroll loans have won participation in the portfolio. As of 30 September 2010, credit card balance was MXN16,745 million while auto loans balance was MXN4,800; 20.1 per cent and 22.4 per cent less than last year's same period.

► **Mortgage loans**

The mortgage loan portfolio for the third quarter of 2010 decreased MXN532 million or 2.7 per cent compared with the third quarter of 2009. This reduction is consistent with actions deployed to restrict asset quality deterioration; it also demonstrates how current economic conditions are still constraining growth for this type of lending.

Asset quality

As of September 30 2010, the Group's impaired loan portfolio amounted to MXN5,811 million, which represents a decrease of MXN3,298 million (36.2 per cent) compared to the same period of 2009. This improvement in credit quality of the portfolio comes as a result of a general reduction of impaired loans mainly consumer loans; particularly credit cards (58.9 per cent), auto loans (59.7 per cent) and payroll loans (65.5 per cent) confirming positive results from the actions deployed by management to improve loan origination and collection operations. Impaired loans to total loan portfolio ratio was 3.6 per cent,

2.2 percentage points lower than the figure recorded in the same period of the prior year. The coverage ratio at 30 September 2010 was 175.2 per cent, compared to 121.3 reported at 30 September 2009.

Deposits

The Group's total deposits at 30 September 2010 amounted to MXN245,789 million, an increase of 10.6 per cent compared to the third quarter of the prior year as a result of a larger deposit base composed mainly of time and demand deposits.

The Bank continues to benefit from its presence in the corporate and business sector as time deposits coming from States and Municipalities report an increase.

► Demand deposits

At 30 September 2010, demand deposits amounted to MXN143,404 million, a 26.1 per cent increase compared to the same period of 2009, resulting from increased sales efforts focussed on expanding the customer deposit base in an efficient manner.

► Time deposits

Total time deposits decreased 5.8 per cent compared to 30 September 2009, mainly due to strong focus on demand deposits over time deposits, favouring deposit funding mix.

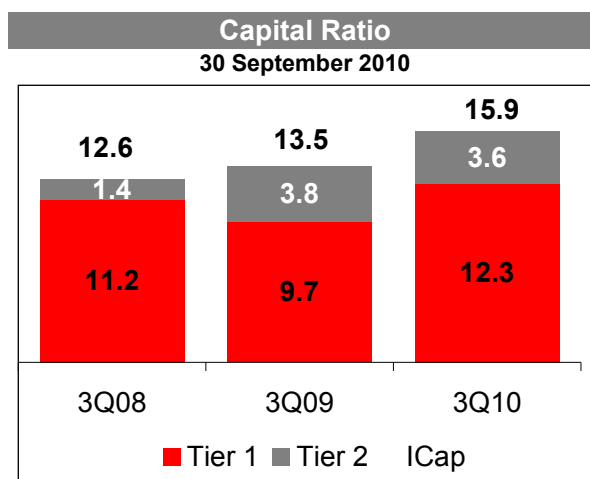
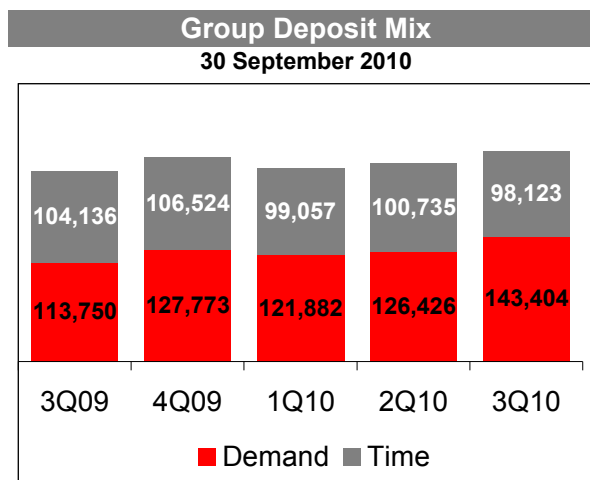
Shareholder's equity

At 30 September 2010, the Group's shareholders' equity was MXN49,936 million representing an increase of 32.1 per cent compared to the same period of 2009.

The Bank's shareholders' equity was MXN41,039 at 30 September 2010, increasing 34.5 per cent compared to 30 September 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 September 2010 was 15.9 per cent, placing it well above the authorities' requirements. The Tier 1 capital ratio at the end of the reporting period is 12.3 per cent.



Financial Statements Grupo Financiero HSBC

Consolidated Balance Sheet

Figures in MXN millions at September 30, 2010

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

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Assets					
Cash and deposits in banks	60,387	68,322	59,431	46,590	70,238
Margin Accounts	3,685	3	3	3	2
Investments in Securities	116,290	121,471	134,967	161,953	148,262
Trading securities	60,071	41,339	46,386	57,463	46,681
Available-for-sale securities	47,450	71,630	80,042	96,223	93,360
Held to maturity securities	8,769	8,502	8,539	8,267	8,221
Repurchase agreements	3,500	1,593	14	-	-
Derivative transactions	31,865	24,113	22,773	27,829	35,337
Performing loans					
Commercial loans	96,849	102,305	101,019	100,967	110,901
Commercial entities	72,034	76,091	70,775	64,781	73,610
Loans to financial intermediaries	7,008	6,951	7,412	11,979	11,948
Loans to government entities	17,807	19,263	22,832	24,207	25,343
Consumer loans	32,734	30,048	28,008	27,306	27,076
Mortgages loans	19,834	19,660	19,769	19,477	19,302
Total performing loans	149,417	152,013	148,796	147,750	157,279
Impaired loans					
Commercial loans	2,153	1,745	1,648	1,857	1,809
Commercial entities	2,102	1,745	1,648	1,857	1,809
Loans to financial intermediaries	-	-	-	-	-
Loans to government entities	51	-	-	-	-
Consumer loans	4,756	3,826	2,794	2,325	1,826
Mortgages loans	2,200	2,368	2,157	2,226	2,176
Total non-performing loans	9,109	7,939	6,599	6,408	5,811
Loan portfolio	158,526	159,952	155,395	154,158	163,090
Allowance for loan losses	(11,051)	(10,447)	(9,847)	(10,134)	(10,179)
Net loan portfolio	147,475	149,505	145,548	144,024	152,911
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	147,475	149,505	145,548	144,024	152,911
Benefits to be received from trading operations	168	-	-	-	-
Other accounts receivable, net	16,845	7,708	20,170	28,565	45,039
Foreclosed assets	164	174	211	165	167
Property, furniture and equipment, net	6,721	7,525	7,715	7,736	7,932
Long term investments in equity securities	4,000	3,662	4,023	4,287	4,656
Deferred taxes, net	4,168	4,268	4,667	4,481	4,023
Goodwill	2,749	2,749	2,749	2,749	2,749
Other assets, deferred charges and intangibles	2,602	2,697	3,221	3,982	4,725
Total Assets	400,619	393,790	405,492	432,364	476,041

Figures in MXN millions at September 30, 2010

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

	<u>30 Sep</u> <u>2009</u>	<u>31 Dec</u> <u>2009</u>	<u>31 Mar</u> <u>2010</u>	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>
Liabilities					
Deposits	222,147	238,539	225,206	231,396	245,789
Demand deposits	113,750	127,773	121,882	126,426	143,404
Time deposits	104,136	106,524	99,057	100,735	98,123
Retail	101,949	105,366	99,057	100,672	98,074
Money market	2,187	1,158	-	63	49
Bank bonds outstanding	4,261	4,242	4,267	4,235	4,262
Bank deposits and other liabilities	23,029	24,856	11,955	16,767	13,869
On demand	-	3,336	2,245	5,194	3,000
Short term	21,629	20,236	8,060	9,938	9,282
Long term	1,400	1,284	1,650	1,635	1,587
Repurchase agreements	32,612	24,502	42,295	27,954	42,476
Settlement accounts	161	-	5,518	13,155	10,606
Collateral Sold	6,697	6,305	11,539	14,264	4,415
Repurchase	-	-	-	6,797	1
Securities to be received in repo transactions	6,697	6,305	11,539	7,467	4,414
Derivative transactions	31,621	27,132	24,886	31,376	38,175
Other accounts payable	36,346	14,515	24,874	37,674	59,977
Income tax and employee profit sharing payable	1,742	1,179	1,201	1,197	1,149
Creditors for settlement of transactions	23,265	2,984	12,954	21,768	41,396
Sundry creditors and others accounts payable	11,339	10,352	10,719	14,709	17,432
Subordinated debentures outstanding	9,655	10,221	10,006	10,160	10,074
Deferred credits	538	731	830	812	724
Total Liabilities	<u>362,806</u>	<u>346,801</u>	<u>357,109</u>	<u>383,558</u>	<u>426,105</u>
Stockholder's Equity					
Paid in capital	23,725	32,678	32,678	32,678	32,678
Capital stock	8,452	9,434	9,434	9,434	9,434
Additional paid in capital	15,273	23,244	23,244	23,244	23,244
Capital Gains	14,083	14,308	15,702	16,125	17,253
Capital reserves	1,648	1,648	1,648	1,726	1,726
Retained earnings	11,582	11,582	13,136	13,058	13,058
Result from the mark-to-market of					
Available-for-sale securities	(490)	(76)	406	607	890
Result from cash flow hedging transactions	(220)	(400)	(343)	(313)	(308)
Net Income	1,563	1,554	855	1,047	1,887
Non-controlling interest	5	3	3	3	5
Total Stockholder's Equity	<u>37,813</u>	<u>46,989</u>	<u>48,383</u>	<u>48,806</u>	<u>49,936</u>
Total Liabilities and Capital	<u>400,619</u>	<u>393,790</u>	<u>405,492</u>	<u>432,364</u>	<u>476,041</u>

Figures in MXN millions at September 30, 2010

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

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Memorandum Accounts					
	2,159,896	2,110,033	2,165,550	2,464,653	2,567,753
Guarantees granted	31	30	25	26	21
Contingent assets and liabilities	124	126	128	124	119
Irrevocable lines of credit granted	11,850	15,071	14,013	16,185	17,785
Goods in trust or mandate	249,973	266,641	271,462	277,105	282,699
Trust	249,474	264,890	270,792	276,403	281,952
Mandate	499	1,751	670	702	747
Goods in custody or under administration	204,931	246,061	238,131	250,496	265,633
Collateral received by the institution	14,844	16,649	26,071	21,827	12,730
Collateral received and sold or delivered as guarantee	11,342	20,130	30,896	23,643	12,037
Third party investment banking operations, net	56,489	57,064	39,564	44,303	51,096
Other control accounts	1,610,312	1,488,261	1,545,260	1,830,944	1,925,633

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

LUIS PEÑA KEGEL	GUSTAVO CABALLERO GOMEZ	JAMES JUSTIN YORKE MADSEN	BRENDA TORRES MELGOZA
Director General	Director General Adjunto de Finanzas	Director General Adjunto de Auditoría	Director de Contabilidad

Consolidated Income Statement

Figures in MXN millions at September 30, 2010

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

	For the quarter ending					Year to date	
	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010	30 Sep 2009	30 Sep 2010
Interest Income	7,276	7,197	7,126	7,265	6,616	24,219	21,007
Interest expense	(2,058)	(1,882)	(1,960)	(2,024)	(2,027)	(8,314)	(6,011)
Net interest income	<u>5,218</u>	<u>5,315</u>	<u>5,166</u>	<u>5,241</u>	<u>4,589</u>	<u>15,905</u>	<u>14,996</u>
Loan impairment charges	(2,598)	(3,056)	(2,613)	(2,678)	(2,217)	(11,416)	(7,508)
Risk adjusted net interest income	<u>2,620</u>	<u>2,259</u>	<u>2,553</u>	<u>2,563</u>	<u>2,372</u>	<u>4,489</u>	<u>7,488</u>
Fees and commissions receivable	2,682	2,508	2,336	2,367	2,268	8,206	6,971
Fees payable	(270)	(276)	(276)	(414)	(359)	(733)	(1,049)
Trading Income	417	290	460	355	1,097	2,571	1,912
Other operating income	<u>257</u>	<u>214</u>	<u>251</u>	<u>224</u>	<u>219</u>	<u>620</u>	<u>694</u>
Total operating income	<u>5,706</u>	<u>4,995</u>	<u>5,324</u>	<u>5,095</u>	<u>5,597</u>	<u>15,153</u>	<u>16,016</u>
Administrative and personnel expenses	(5,208)	(5,877)	(5,566)	(5,653)	(5,675)	(15,820)	(16,894)
Net operating income	<u>498</u>	<u>(882)</u>	<u>(242)</u>	<u>(558)</u>	<u>(78)</u>	<u>(667)</u>	<u>(878)</u>
Other income	622	740	894	1,150	1,052	2,571	3,096
Other expenses	(450)	(602)	(252)	(358)	(283)	(1,026)	(893)
Net income before taxes	<u>670</u>	<u>(744)</u>	<u>400</u>	<u>234</u>	<u>691</u>	<u>878</u>	<u>1,325</u>
Income tax and employee profit sharing tax	(646)	284	(524)	(281)	121	(2,514)	(684)
Deferred income tax	<u>485</u>	<u>181</u>	<u>618</u>	<u>(51)</u>	<u>(339)</u>	<u>2,221</u>	<u>228</u>
Net income before subsidiaries	<u>509</u>	<u>(279)</u>	<u>494</u>	<u>(98)</u>	<u>473</u>	<u>585</u>	<u>869</u>
Undistributed income from subsidiaries	<u>406</u>	<u>269</u>	<u>361</u>	<u>282</u>	<u>367</u>	<u>979</u>	<u>1,010</u>
Income from ongoing operations	<u>915</u>	<u>(10)</u>	<u>855</u>	<u>184</u>	<u>840</u>	<u>1,564</u>	<u>1,879</u>
Non-controlling interest	<u>(1)</u>	<u>1</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>(1)</u>	<u>8</u>
Net income (loss)	<u>914</u>	<u>(9)</u>	<u>855</u>	<u>192</u>	<u>840</u>	<u>1,563</u>	<u>1,887</u>

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

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

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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 to 30 September 2010

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

	Paid in capital				Earned capital					Non-controlling interest	Total Stock-holders Equity
	Capital Stock	Advances for future capital increases	Subordinate Shares d Premiums outstanding	Capital Reserves	Retained earnings	Surplus/ Deficit from securities	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of permanent investments)	Net income		
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	-	-	-	-	-	-	-	-	1,887	2	1,889
Result from valuation of available-for-sale securities	-	-	-	-	-	966	-	-	-	-	966
Result from cash flow hedging transactions	-	-	-	-	-	92	-	-	-	-	92
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	1,058	-	-	1,887	2	2,947
Balances at 30 September 2010	9,434	-	23,244	1,726	13,058	582	-	-	1,887	5	49,936

"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 September 2010

Net income	1,887
Adjustments for items not involving cash flow:	6,354
Gain or loss on appraisal of activities associated with investment & financing	(1,669)
Allowances for loan losses	7,534
Depreciation and amortization	1,021
Income Tax and deferred taxes	456
Undistributed income from subsidiaries	(988)
Changes in items related to operating activities:	
Investment securities	(14,054)
Repurchase agreements	1,593
Derivative (assets)	(10,275)
Loan portfolio	(10,914)
Foreclosed assets	(19)
Operating assets	(37,331)
Deposits	7,250
Bank deposits and other liabilities	(10,987)
Creditors repo transactions	17,974
Collateral sold or delivered as guarantee	(1,890)
Derivative (liabilities)	11,043
Subordinated debentures outstanding	(147)
Other operating liabilities	44,894
Funds provided by operating activities	(2,863)
Investing activities:	
Disposal of property, furniture and equipment	-
Acquisition of property, furniture and equipment	(1,434)
Disposal of subsidiaries	-
Cash dividend	-
Intangible assets acquisitions	(2,028)
Funds used in investing activities	(3,462)
Financing activities:	
Shares issue	-
Cash dividend	-
Funds provided by financing activities	-
Increase/decrease in cash and equivalents	1,916
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	70,238

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 September 30, 2010
(Bank)

HSBC Mexico, S.A.

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Assets					
Cash and deposits in banks	60,387	68,322	59,431	46,590	70,238
Margin Accounts	3,685	3	3	3	2
Investment in Securities	115,616	120,241	133,620	160,384	146,757
Trading securities	59,870	40,607	45,654	56,639	46,020
Available-for-sale securities	46,977	71,132	79,427	95,478	92,516
Held to maturity securities	8,769	8,502	8,539	8,267	8,221
Repurchase agreements	3,500	1,593	14	-	-
Derivative transactions	31,865	24,113	22,773	27,829	35,337
Performing loans					
Commercial loans	96,849	102,305	101,019	100,967	110,901
Commercial entities	72,034	76,091	70,775	64,781	73,610
Loans to financial intermediaries	7,008	6,951	7,412	11,979	11,948
Loans to government entities	17,807	19,263	22,832	24,207	25,343
Consumer loans	32,734	30,048	28,008	27,306	27,076
Mortgages loans	19,834	19,660	19,769	19,477	19,302
Total performing loans	149,417	152,013	148,796	147,750	157,279
Impaired loans					
Commercial loans	2,153	1,745	1,648	1,857	1,809
Commercial entities	2,102	1,745	1,648	1,857	1,809
Loans to government entities	51	-	-	-	-
Consumer loans	4,756	3,826	2,794	2,325	1,826
Mortgage Loans	2,200	2,368	2,157	2,226	2,176
Total non-performing loans	9,109	7,939	6,599	6,408	5,811
Total loan portfolio	158,526	159,952	155,395	154,158	163,090
Allowance for loan losses	(11,051)	(10,447)	(9,847)	(10,134)	(10,179)
Net loan portfolio	147,475	149,505	145,548	144,024	152,911
Receivables	-	-	-	-	-
(-) less					
Provision for doubtful receivables	-	-	-	-	-
Total loan portfolio	147,475	149,505	145,548	144,024	152,911
Benefits to be received from trading operations	168	-	-	-	-
Other accounts receivable	16,615	7,620	20,253	28,616	44,931
Foreclosed assets	164	174	211	165	167
Property, furniture and equipment, net	6,714	7,525	7,715	7,736	7,932
Long term investments in equity securities	127	133	134	118	119
Deferred taxes	4,228	4,305	4,693	4,558	4,088
Other assets, deferred charges and intangibles	2,522	2,608	3,157	3,900	4,623
Total Assets	393,066	386,142	397,552	423,923	467,105

Figures in MXN millions at September 30, 2010

HSBC Mexico, S.A. (Bank)

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Liabilities					
Deposits	222,269	238,726	225,481	231,570	245,986
Demand deposits	113,872	127,960	122,157	126,600	143,601
Time deposits	104,136	106,524	99,057	100,735	98,123
Retail	101,949	105,366	99,057	100,672	98,074
Money market	2,187	1,158	-	63	49
Bank bonds outstanding	4,261	4,242	4,267	4,235	4,262
Bank deposits and other liabilities	23,029	24,856	11,955	16,767	13,869
On demand	-	3,336	2,245	5,194	3,000
Short term	21,629	20,236	8,060	9,938	9,282
Long term	1,400	1,284	1,650	1,635	1,587
Repurchase agreements	32,612	24,544	42,295	27,954	42,476
Loan portfolio	-	-	-	1	-
Settlement accounts	161	-	5,518	13,155	10,606
Collateral Sold	6,697	6,305	11,539	14,264	4,415
Repurchase	-	-	-	6,797	1
Securities to be received in repo transactions	6,697	6,305	11,539	7,467	4,414
Derivative transactions	31,621	27,132	24,886	31,376	38,175
Other accounts payable	35,972	14,130	24,645	37,408	59,741
Income tax and employee profit sharing payable	1,587	1,014	1,124	1,083	1,001
Creditors for settlement of transactions	21,860	2,984	12,947	21,300	41,357
Sundry creditors and others accounts payable	12,525	10,132	10,574	15,025	17,383
Subordinated debentures outstanding	9,655	10,221	10,006	10,159	10,074
Deferred credits	538	731	830	812	724
Total Liabilities	362,554	346,645	357,155	383,465	426,066
Stockholder's Equity					
Paid in capital	16,623	25,605	25,605	25,605	25,605
Capital stock	4,334	5,087	5,087	5,087	5,087
Additional paid in capital	12,289	20,518	20,518	20,518	20,518
Capital Gains	13,886	13,889	14,789	14,850	15,431
Capital reserves	14,313	14,313	14,449	14,449	14,449
Retained earnings	-	-	-	-	-
Result from the mark-to-market of					
Available-for-sale securities	(593)	(160)	282	477	750
Result from cash flow hedging transactions	(220)	(400)	(343)	(312)	(308)
Net Income	386	136	401	236	540
Non-controlling interest	3	3	3	3	3
Total Stockholder's Equity	30,512	39,497	40,397	40,458	41,039
Total Liabilities and Capital	393,066	386,142	397,552	423,923	467,105

Figures in MXN millions at September 30, 2010

HSBC Mexico, S.A. (Bank)

	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>	<u>30 Sep 2010</u>
Memorandum Accounts					
Guarantees granted	31	30	25	26	21
Contingent assets and liabilities	124	126	128	124	119
Irrevocable lines of credit granted	11,850	15,071	14,013	16,185	17,785
Goods in trust or mandate	249,973	266,641	271,462	277,105	282,699
Goods	249,474	264,890	270,792	276,403	281,952
Trusts	499	1,751	670	702	747
Goods in custody or under administration	200,803	240,951	233,020	245,386	260,522
Collateral received by the institution	10,198	16,649	26,071	21,827	8,432
Collateral received and sold or delivered as guarantee	6,697	15,203	26,071	19,322	7,739
Third party investment banking operations, net	56,489	57,064	39,564	44,303	51,096
Suspended interest on impaired loans	-	250	273	273	258
Other control accounts	1,572,110	1,444,023	1,502,835	1,789,751	1,884,176
	<u>2,108,275</u>	<u>2,056,008</u>	<u>2,113,462</u>	<u>2,414,302</u>	<u>2,512,847</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 September 30, 2010

HSBC Mexico, S.A. (Bank)

	For the quarter ending				Year to date		
	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010	30 Sep 2010	
Interest income	7,272	7,130	7,073	7,294	6,605	24,118	20,972
Interest expense	(2,019)	(1,863)	(1,915)	(2,062)	(2,028)	(8,163)	(6,005)
Net interest income	<u>5,253</u>	<u>5,267</u>	<u>5,158</u>	<u>5,232</u>	<u>4,577</u>	<u>15,955</u>	<u>14,967</u>
Loan impairment charges	(2,598)	(3,056)	(2,613)	(2,678)	(2,217)	(11,416)	(7,508)
Loan impairment charges	<u>(2,598)</u>	<u>(3,056)</u>	<u>(2,613)</u>	<u>(2,678)</u>	<u>(2,217)</u>	<u>(11,416)</u>	<u>(7,508)</u>
Risk adjusted net interest income	<u>2,655</u>	<u>2,211</u>	<u>2,545</u>	<u>2,554</u>	<u>2,360</u>	<u>4,539</u>	<u>7,459</u>
Fees and commissions receivable	2,381	2,241	2,104	2,147	2,020	7,524	6,271
Account management	231	205	178	167	163	749	508
Services	2,150	2,036	1,926	1,980	1,857	6,775	5,763
Fees payable	(214)	(270)	(265)	(405)	(350)	(725)	(1,020)
Trading Income	416	287	458	353	1,094	2,565	1,905
Foreign exchange	1,706	1,246	(756)	591	119	(1,423)	(46)
Securities trading, net	(5)	4	(11)	(44)	(19)	(64)	(74)
Repos	-	-	-	-	(5)	-	(5)
Swaps	87	289	208	427	(208)	502	427
Valuation off-shore agencies	(1,164)	(1,413)	961	(526)	(1,166)	3,151	1,601
Valuation for trading swaps	(208)	161	56	(95)	41	399	2
Other operating income	<u>257</u>	<u>214</u>	<u>251</u>	<u>224</u>	<u>219</u>	<u>620</u>	<u>694</u>
Total operating income	<u>5,495</u>	<u>4,683</u>	<u>5,093</u>	<u>4,873</u>	<u>5,343</u>	<u>14,523</u>	<u>15,309</u>
Administrative and personnel expenses	(5,136)	(5,632)	(5,523)	(5,627)	(5,645)	(15,449)	(16,795)
Personnel expense	(2,014)	(2,223)	(2,376)	(2,360)	(2,470)	(6,581)	(7,206)
Administrative expense	(2,774)	(3,088)	(2,808)	(2,925)	(2,385)	(7,953)	(8,568)
Depreciation and amortization	(348)	(321)	(339)	(342)	(340)	(915)	(1,021)
Net operating income	<u>359</u>	<u>(949)</u>	<u>(430)</u>	<u>(754)</u>	<u>(302)</u>	<u>(926)</u>	<u>(1,486)</u>
Other income	559	800	958	1,171	1,072	2,440	3,201
Other expenses	<u>(449)</u>	<u>(600)</u>	<u>(248)</u>	<u>(309)</u>	<u>(281)</u>	<u>(1,023)</u>	<u>(838)</u>
Net income before taxes	<u>469</u>	<u>(749)</u>	<u>280</u>	<u>108</u>	<u>489</u>	<u>491</u>	<u>877</u>
Income tax and employee profit sharing	(589)	337	(470)	(241)	168	(2,372)	(543)
Deferred income tax	<u>487</u>	<u>156</u>	<u>589</u>	<u>(40)</u>	<u>(352)</u>	<u>2,241</u>	<u>197</u>
Net income before subsidiaries	<u>367</u>	<u>(256)</u>	<u>399</u>	<u>(173)</u>	<u>304</u>	<u>360</u>	<u>531</u>
Undistributed income from subsidiaries	<u>3</u>	<u>6</u>	<u>2</u>	<u>-</u>	<u>(2)</u>	<u>27</u>	<u>-</u>
Income from ongoing operations	<u>370</u>	<u>(250)</u>	<u>401</u>	<u>(173)</u>	<u>303</u>	<u>387</u>	<u>531</u>
Non-controlling interest	-	-	-	8	1	(1)	9
Net income (loss)	<u>370</u>	<u>(250)</u>	<u>401</u>	<u>(165)</u>	<u>304</u>	<u>386</u>	<u>540</u>

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

following healthy banking practice and following applicable legal and administrative requirements. The present statement has been approved by the Board of Directors under the responsibility of signing officers.
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www.enbv.gob.mx

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 to 30 September 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	-	-	-	-	-	-	-	-	-	540	-	540
Result from valuation of available-for-sale securities	-	-	-	-	-	-	910	-	-	-	-	910
Result from cash flow hedging transactions	-	-	-	-	-	-	92	-	-	-	-	92
Results from holding non-monetary assets	-	-	-	-	-	-	-	-	-	-	-	-
Total Movements Inherent for the Recognition of the Comprehensive Income	-	-	-	-	-	-	1,002	-	-	540	-	1,542
Balances as at 30 September 2010	5,087	-20,518			14,449	-	442	-	-	540	3	41,039

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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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

From 1 January to 30 September 2010

HSBC Mexico, S.A. (Bank)

30 Sep 2010

Net income	540
Adjustments for items not involving cash flow:	7,252
Gain or loss on appraisal of activities associated with investment & financing	(1,667)
Allowances for loan losses	7,534
Depreciation and amortization	1,021
Income Tax and deferred taxes	346
Undistributed income from subsidiaries	18
Changes in items related to operating activities:	
Investment securities	(13,830)
Repurchase agreements	1,593
Derivative (assets)	(10,339)
Loan portfolio	(10,914)
Foreclosed assets	(19)
Operating assets	(37,311)
Deposits	7,260
Bank deposits and other liabilities	(10,987)
Creditors repo transactions	17,932
Collateral sold or delivered as guarantee	(1,890)
Derivative (liabilities)	11,043
Subordinated debentures outstanding	(147)
Other operating liabilities	45,180
Funds provided by operating activities	(2,429)
Investing activities:	
Disposal of property, furniture and equipment	-
Acquisition of property, furniture and equipment	(1,432)
Disposal of subsidiaries	-
Disposal of long term investments in equity securities	-
Cash dividend	-
Intangible assets acquisitions	(2,015)
Funds used in investing activities	(3,447)
Financing activities:	
Shares issue	-
Cash dividend	-
Funds used or provided by financing activities	-
Increase/decrease in cash and equivalents	1,916
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	70,238

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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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 September 30, 2010

Investments in securities

	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>	<u>30 Sep 2010</u>
Government securities	55,077	36,229	40,912	51,379	40,389
Bank securities	3,036	2,562	2,475	2,442	2,622
Shares	366	16	290	63	-
Others	1,592	2,532	2,709	3,579	3,670
Trading securities	<u>60,071</u>	<u>41,339</u>	<u>46,386</u>	<u>57,463</u>	46,681
Government securities	43,742	66,793	77,341	88,778	85,889
Bank securities	-	1,212	-	-	-
Obligations and other securities	3,459	3,611	2,687	7,435	7,460
Shares	249	14	14	10	11
Available for sale securities	<u>47,450</u>	<u>71,630</u>	<u>80,042</u>	<u>96,223</u>	93,360
Sovereign debt securities	4,379	4,189	4,237	4,284	4,333
Special Cetes (net)	-	-	-	-	-
Bank securities	209	204	208	203	207
Corporate securities	4,181	4,109	4,094	3,780	3,681
Securities held to maturity	<u>8,769</u>	<u>8,502</u>	<u>8,539</u>	<u>8,267</u>	8,221
Total Financial Instruments	<u>116,290</u>	<u>121,471</u>	<u>134,967</u>	<u>161,953</u>	148,262

In the third quarter of 2010 investment in securities decrease by MXN13,691 million compared to the second quarter of 2010; mainly driven by lower government securities MXN13,878 million and promissory note MXN187 among others.

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

Figures in MXN millions at September 30, 2010

	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>	<u>30 Sep 2010</u>
Repo's Government securities (credit)	31,995	23,996	40,887	27,375	41,720
Repo's Bank securities (credit)	593	484	1,176	418	307
Repo's Others securities (credit)	-	-	222	141	433
Valuation increase (decrease)	-	-	-	-	-
Accrued interest payable	24	22	10	20	16
Credit balance in repo agreements	<u>32,612</u>	<u>24,502</u>	<u>42,295</u>	<u>27,954</u>	42,476
Repurchase agreements in government securities	3,500	10,501	14,500	3,000	3,000
Accrued interest receivable	-	9	14	6	2
Debit balance repo securities agreements	<u>3,500</u>	<u>10,510</u>	<u>14,514</u>	<u>3,006</u>	3,002
Government securities	-	8,916	14,486	9,801	3,001
Interest in collateral delivered as guarantee	-	1	14	2	2
Total in collateral delivered as guarantee	<u>-</u>	<u>8,917</u>	<u>14,500</u>	<u>9,803</u>	3,003

Derivative Financial Instruments

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 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	-	-	67,250	52,084	9,073	9,065	75,248	77,219	13,203
US Dollars	-	-	52,469	66,947	5,089	5,087	125,976	126,629	(15,129)
Interest Rate	1,191	1,191	164	449	-	-	158,575	157,580	710
Total	1,191	1,191	119,883	119,480	14,162	14,152	359,799	361,428	(1,216)
For hedging									
Pesos	-	-	-	-	-	-	7,096	-	7,096
US Dollars	-	-	-	-	-	-	-	7,399	(7,399)
Interest Rate	-	-	-	-	-	-	1,215	2,534	(1,319)
Total	-	-	-	-	-	-	8,311	9,933	(1,622)

Collateral Sold or delivered as guarantee

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2010

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Stock borrowing					
Cetes	1,437	788	240	92	-
Valuation increase (decrease)	-	-	-	-	-
Bonds	5,258	5,504	11,287	7,364	4,406
Valuation increase (decrease)	2	(3)	12	11	8
Shares	-	17	-	-	-
Valuation increase (decrease)	-	(1)	-	-	-
Total	6,697	6,305	11,539	7,467	4,414

Participation by Subsidiary

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

Group Subsidiaries at September 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.	480,100	99.99%	480,099
Total	2,562,819,184		2,541,635,212

Trading income

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2010

	<i>For the quarter ending...</i>				<i>Year to date</i>		
	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010	30 Sep 2010	
Valuation	(1,157)	(829)	958	(881)	1,527	3,152	1,604
Derivatives	(1,153)	(590)	908	(1,036)	952	(201)	824
Repos	-	-	-	-	-	(2)	-
Debt Securities	(11)	(255)	109	389	219	(443)	717
Foreign Exchange	7	16	(59)	(234)	356	3,798	63
Buying and Selling							
Instruments	1,573	1,116	(500)	1,234	(433)	(587)	301
Foreign Currency	1,700	1,229	(697)	826	(238)	(1,423)	(109)
Derivatives	(353)	(245)	69	73	(602)	121	(460)
Repos	-	-	-	-	-	-	-
Shares	12	(12)	(1)	(17)	(5)	22	(24)
Debt Securities	214	144	129	352	412	693	894
Total	416	287	458	353	1,094	2,565	1,905

Loan Portfolio

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

By type of currency

Figures in MXN millions at 30 September 2010

	<i>Commercial or Business Activity</i>	<i>Financial Intermediaries</i>	<i>Government Entities</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Total</i>
Performing Loan Portfolio						
Pesos	54,043	11,804	23,995	27,076	16,007	132,925
US Dollars	19,567	144	1,343	-	-	21,054
Udis Banxico	-	-	5	-	3,295	3,300
Total	<u>73,610</u>	<u>11,948</u>	<u>25,343</u>	<u>27,076</u>	<u>19,302</u>	<u>157,279</u>
Non Performing Loans Portfolio						
Pesos	1,771	-	-	1,826	1,738	5,335
US Dollars	38	-	-	-	-	38
Udis Banxico	-	-	-	-	438	438
Total	<u>1,809</u>	<u>-</u>	<u>-</u>	<u>1,826</u>	<u>2,176</u>	<u>5,811</u>

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

Special Accounting Criteria

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

Figures in nominal MXN at 30 September 2010

- a) Due to the misfortunate events derived from the flooding caused by hurricanes “Alex”, “Karl” and the tropical storm “Frank” which produced significant damages in municipalities of the states of Nuevo Leon, Coahuila, Tamaulipas, San Luis Potosi, Oaxaca, Tabasco and Guerrero; all of them declared as disaster areas by the Secretaria de Gobernacion; financial institutions members of the Asociacion de Bancos de Mexico, A.C. (ABM) which have regional presence on those states decided to support economic recovery by implementing several policies.

To accomplish such policies, associate financial institutions asked consent of the Comision Nacional Bancaria y de Valores (CNBV) through ABM to maintain as performing loans those mortgage, automobile, credit card, personal, payroll, SMEs and agriculture and livestock portfolios under the following timeline:

Municipalities affected by hurricane “Alex” from 1 July 2010 until 30 September 2010.

Municipalities affected by hurricane “Karl” and tropical storm “Frank” from 21 August 2010 until 20 November 2010.

As a response to the ABM request, CNBV issued official minute 100/042/2010 on 14 July 2010 and official minute 100/047/2010 on 24 September 2010, on both, CNBV authorizes financial institutions to apply as temporary measures special accounting criteria in order to support such municipalities, becoming effective in the issue date of each official minute.

HSBC Mexico as an associate member of ABM participated in such measures by applying the special accounting criteria to those clients affected in the before mentioned municipalities. HSBC Mexico credit

portfolios subject to such special criteria are the mortgage, consumer, SMEs, credit card, automobile and personal loans portfolios. For such mentioned portfolios, deferral of principal plus interest was delayed for two months, not being applicable if the term of the deferral excess 30 September 2010 for those creditors affected by hurricane “Alex”, for creditors affected by hurricane “Karl” and tropical storm “Frank”, the end of the deferral period can not excess 20 November 2010.

- b) Derived from the undertaking of the before mentioned policies, HSBC Mexico applied the following special accounting criteria to those participating credit portfolios:
 - a. Performing loans which were granted deferral of payments are not considered as restructured loans, according to paragraph 24 of the B-6 accounting criteria. Such credits will remain as performing for a two month time frame from the date those were included in the deferral of payment program, but can not excess 30 September 2010 or 20 November 2010 depending if those were affected by hurricane “Alex” or by hurricane “Karl” and tropical storm “Frank”.
- c) Amounts that would have been registered in the Balance Sheet as well as in the Income Statement as of 30 September 2010 if such special accounting criteria would have not been applied are the following and are referred to the non-registered interests of such participating loans in these programs.

Performing Loan Portfolio	<i>Consumer Loans</i>	<i>Mortgage Loans</i>
Calculated Interests as of 30 September 2010	76,413.4	71,039.6

- d) Due to the nature of the program implemented by HSBC Mexico which only consisted of deferral of payments for two months, it was not necessary to perform any accounting register as a consequence of this CNBV authorized program.

Ratings HSBC México, S.A.

HSBC Mexico, S.A. (Bank)

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
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			
Last update	Stable	Negative	Stable
	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 September 30, 2010

	Total loan portfolio	Allowance for Loan Losses by type of loan			Total reserves
		Commercial loans	Consumer loans	Mortgages loans	
Exempted from rating	8,186				
Graded	172,709				
Risk A	85,525	414	55	54	523
Risk A-1	58,348	167	55	54	276
Risk A-2	27,177	247	0	0	247
Risk B	78,125	2,799	1,163	136	4,098
Risk B-1	43,909	879	477	136	1,492
Risk B-2	28,683	1,201	686	0	1,887
Risk B-3	5,533	719	0	0	719
Risk C	4,204	555	560	178	1,293
Risk C-1	3,979	462	560	178	1,200
Risk C-2	225	93	0	0	93
Risk D	3,729	222	1,289	1,018	2,529
Risk E	1,126	908	141	687	1,736
Total	180,895	4,898	3,208	2,073	10,179
Less:					
Constituted Reserves					10,179
Surplus					0

1. The rating and constitution of reserves correspond to last day of the balance sheet at September 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 September 2010 the amount to establish such reserves as a result of the score was MXN 3,333 million. The amount up to that date for this concept was MXN 2,569 million, equivalent to 77.08% 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 September this year, the allowance for loan losses net MXN 4,358 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 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Initial Balance of Impaired Loans	10,302	9,109	7,939	6,599	6,408
Increases	6,204	4,670	4,218	4,190	2,999
Transfer of current loans to past due status	6,204	4,670	4,218	4,190	2,999
Decreases	7,397	5,840	5,558	4,382	3,596
Restructurings	170	41	16	15	36
Liquidated credits	5,636	4,646	4,489	3,297	2,665
Charged in cash	1,106	942	1,394	927	603
Foreclosed assets	30	23	22	40	11
Writeoffs	0	0	0	0	0
Sale of portfolio	4,500	3,681	3,073	2,330	2,051
Transfer to performing loan status	1,597	1,156	1,062	1,069	898
Fx revaluations	6	3	9	-1	3
Final Balance of Impaired Loan	9,109	7,939	6,599	6,408	5,811

Deferred Taxes

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

Figures in MXN millions at September 30, 2010

	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010
Loan loss reserves	4,405	4,055	4,623	4,757	4,834
Valuation of securities	(46)	(40)	(240)	(381)	(719)
Fiscal loss	24	17	15	6	3
Other reserves	578	863	858	742	540
PTU Payable	55	88	113	50	70
Foreclosed assets	35	17	20	18	75
Stocks VISA & Mastercard	-	-	-	-	
Other	157	227	257	253	227
Differences in rates of fixed assets	(283)	(199)	(205)	(176)	(204)
Fiscal result UDIS-Banxico	(757)	(760)	(774)	(788)	(803)
Total Deferred Taxes	4,168	4,268	4,667	4,481	4,023

Funding, Loans and Investments in Securities

HSBC Mexico, S.A. (Bank)

Funding and bank loans – Average Interest rates

	<i>At the quarter ending</i>				
	<u>30 Sep 2009</u>	<u>31 Dec 2009</u>	<u>31 Mar 2010</u>	<u>30 Jun 2010</u>	<u>30 Sep 2010</u>
MXN pesos					
Funding	2.17%	2.19%	2.21%	2.27%	2.32%
Bank and other loans	5.07%	5.21%	5.14%	5.17%	5.31%
Foreign currency					
Funding	0.15%	0.10%	0.07%	0.07%	0.08%
Bank and other loans	0.75%	0.70%	0.61%	0.64%	0.65%
UDIS					
Funding	0.20%	0.20%	0.18%	0.18%	0.21%

Long Term Debt

HSBC Mexico, S.A. (Bank)

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

Figures in historic MXN millions

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i>	<i>Rate</i>
		<i>MXN millions</i>			<i>MXN millions</i>	
INTENAL 03	24-NOV-2003	2,200	MXN	3	2,203	25-NOV-2013
HSBC 08	30-SEP-2008	1,818	MXN	1	1,819	20-SEP-2018
HSBC 08-2	18-DEC-2008	2,272	MXN	2	2,274	10-DEC-2018
HSBC 09D(USD300) ¹	26-JUN-2009	3,777	USD	1	3,778	28-JUN-2019
		10,067		7	10,074	

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

<i>Instrument</i>	<i>Issue Date</i>	<i>Amount</i> <i>MXN millions</i>	<i>Currency</i>	<i>Interest payable</i>	<i>Amount in circulation</i> <i>MXN millions</i>	<i>Maturity Date</i>
Certified Marketable Securities	10-MAY-2006	4,220	MXN	42	4,262	27-ABR-2016
		4,220		42	4,262	

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.

HSBC Servicios.

The General Ordinary Shareholders meeting held on September 2, 2010 agreed to increase the capital stock amounting to MXN240 million, by issuing 480,000 shares, which were subscribed and paid at a price of MXN500 per share.

Capital Ratio

HSBC Mexico, S.A. (Bank)

Figures in MXN millions at September 30, 2010

	<u>30 Sep</u> <u>2009</u>	<u>31 Dec</u> <u>2009</u>	<u>31 Mar</u> <u>2010</u>	<u>30 Jun</u> <u>2010</u>	<u>30 Sep</u> <u>2010</u>
% of assets subject to credit risk					
Tier 1	15.89%	22.37%	23.10%	23.54%	21.33%
Tier 2	6.24%	6.48%	6.51%	6.83%	6.16%
Total regulatory capital	<u>22.14%</u>	<u>28.85%</u>	<u>29.62%</u>	<u>30.37%</u>	<u>27.49%</u>
% of assets subject to credit, market risk and operational risk					
Tier 1	9.70%	13.81%	13.53%	12.89%	12.31%
Tier 2	3.81%	4.00%	3.81%	3.74%	3.55%
Total regulatory capital	<u>13.51%</u>	<u>17.81%</u>	<u>17.35%</u>	<u>16.63%</u>	<u>15.86%</u>
Tier 1	26,088	35,927	36,334	36,203	36,420
Tier 2	10,249	10,401	10,242	10,506	10,516
Total regulatory capital	<u>36,337</u>	<u>46,328</u>	<u>46,576</u>	<u>46,709</u>	<u>46,937</u>
RWA credit risk	164,150	160,597	157,257	153,775	170,735
RWA market risk	87,110	78,397	86,803	99,177	93,666
RWA operational risk	17,780	21,066	24,461	28,001	31,474
RWA credit and market risk	<u>269,040</u>	<u>260,061</u>	<u>268,522</u>	<u>280,952</u>	<u>295,875</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 September 30, 2010

	For the quarter ending				Year to date	
	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010	30 Sep 2010	30 Sep 2010
Other income						
Loans to employees	36	37	37	37	34	120
Recoveries	74	210	193	261	141	646
Other income	512	493	664	852	877	1,805
	622	740	894	1,150	1,052	2,571
Other expenses	(450)	(602)	(252)	(358)	(283)	(1,026)
Other losses	(450)	(602)	(252)	(358)	(283)	(893)
Total other income (expenses)	172	138	642	792	769	1,545

► 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 September 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 *September 30, 2010*, is shown below:

Figures in MXN millions at September 30, 2010

(MXN millions)	Year to date at 30 September 2010				Total
	PFS	CMB	CIBM	OAC	
Net Interest Income	10,084	3,543	1,369	0	14,996
Provision for Loan Loss	6,697	566	245	0	7,508
Net Interest Income adjusted	3,387	2,977	1,124	0	7,488
Fees and Commissions, net	3,815	1,528	580	0	5,922
Trading Income	139	120	1,653	0	1,912
Other operation income	597	97	0	0	694
Total Revenue	7,937	4,721	3,357	0	16,016
Administrative Expenses	10,161	4,641	2,092	0	16,894
Operating Income	(2,224)	80	1,265	0	(878)
Other Income (Expenses), net	1,061	445	697	0	2,203
Profit Before Taxes	(1,162)	525	1,962	0	1,325
Taxes	(400)	181	676	0	456
Net Income before subsidiaries	(762)	344	1,286	0	869
Undistributed income from subsidiaries	908	98	4	0	1,010
Continued Operating Results	146	442	1,290	0	1,879
Net Income	146	442	1,290	0	1,879
Minority Shareholders	8	0	0	0	8
Participated Net Income	155	442	1,290	0	1,887

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). Set out below is a reconciliation of the results of Grupo Financiero HSBC S.A. de C.V. from Mexican GAAP to IFRS for the nine months to 30 September 2010 and an explanation of the key reconciling items.

<i>Figures in MXN millions</i>	30 Sep 2010
Grupo Financiero HSBC – Net Income Under Mexican GAAP	1,887
Differences arising from:	
Valuation of pensions and post retirement healthcare benefits †	60
Acquisition costs relating to long-term investment contracts †	(26)
Deferral of fees received and paid on the origination of loans	29
Recognition and provisioning for loan impairments †	1,274
Purchase accounting adjustments †	(15)
Recognition of the present value in-force of long-term insurance contracts †	(11)
Other †	257
HSBC México net income under IFRS	3,455
US dollar equivalent (millions)	272
Add back tax expense	877
HSBC México profit before tax under IFRS	4,332
US dollar equivalent (millions)	341
<i>Exchange rate used for conversion</i>	<i>12.71</i>

† Net of tax at 30 per cent.

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

Valuation of pensions and post retirement healthcare benefits

Mexican GAAP

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method and real interest rates.

Unrecognised past service costs are amortised on an estimated service life of the employees.

IFRS

Obligations are recognised in the Income Statement of each year based on actuarial computations of the present value of those obligations using the projected unit credit method.

Actuarial gains and losses are recognised in stockholders equity as they arise.

Unrecognised past service costs 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. However, this policy was introduced 1 January 2007, all fees having previously been recognised up front.

IFRS

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

Loan impairment charges

Mexican GAAP

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

IFRS

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 loans 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 (CS01)

Credit spread risk or CS01 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 third 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 3Q10	Limits*	Average 3Q10	Limits*	Average 3Q10	Limits*
Combined	30.33	45.00	9.74	27.50	23.23	45.00
Interest Rate	30.23	50.00	9.70	N/A	23.23	42.00
FX	1.20	12.00	1.20	12.00	N/A	N/A
Volatility IR	0.01	8.00	0.01	N/A	0.00	2.0
Volatility FX	0.08	2.00	0.08	2.00	N/A	N/A
Equities	0.02	2.50	0.02	N/A	N/A	N/A

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

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

	30-Jun-10	30-Sep-10	Limits*	Average 2Q10	Average 3Q10
HBMI	33.41	21.66	45.00	35.36	30.33
Accrual	24.59	18.51	45.00	25.99	23.23
All Trading	9.86	5.08	27.50	10.02	9.74

* Absolute Value

N/A = Non Applicable

The Bank's VaR at the end of the 3Q10 varied -35.17% versus the previous quarter. During the quarter the VaR remained under the limits.

The Bank's average VaR for the end of the 3Q10 varied -14.23% 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 June 30th, 2010 and September 30th, 2010 (in millions of dollars).

Market VaR vs. Net Capital Comparison

Net Capital in million Dollars

	30-Jun-10	30-Sep-10
Total VaR*	35.36	30.33
Net Capital **	3,636.58	3,725.21
VaR / Net Capital	0.97%	0.81%

* 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 0.81% of the net capital in 3Q10.

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

	30-Jun-10	30-Sep-10	Limits*	Average 2Q10	Average 3Q10
Bank	(1.126)	(0.921)	1.350	(1.131)	(1.082)
Accrual	(0.757)	(0.692)	1.050	(0.793)	(0.707)
Trading Desk	(0.196)	(0.080)	0.320	(0.206)	(0.203)
Balance Sheet Trading	(0.173)	(0.150)	0.260	(0.131)	(0.171)

* Absolute Value

NA = Non Applicable

The bank's MXN Rate PVBP for 3Q10 varied -18.18% versus prior quarter. The bank's average PVBP for the 3Q10 varied -4.33% versus prior quarter.

Present Value for 1bp (PVBP) for USD Rate					
	30-Jun-10	30-Sep-10	Limits*	Average 2Q10	Average 3Q10
Bank	0.047	(0.010)	0.300	0.099	0.019
Accrual	(0.005)	(0.046)	0.300	0.044	(0.030)
Trading Desk	0.021	0.011	0.050	0.020	0.015
Balance Sheet Trading	0.032	0.026	0.070	0.035	0.033

* Absolute Value NA = Non Applicable

The bank's USD Rate PVBP for 3Q10 varied -120.29% versus prior quarter. The bank's average PVBP for the 3Q10 varied -81.34% versus prior quarter.

Present Value for 1bp (PVBP) for UDI Rates					
	30-Jun-10	30-Sep-10	Limits*	Average 2Q10	Average 3Q10
Bank	(0.223)	(0.193)	0.350	(0.219)	(0.203)
Accrual	(0.154)	(0.165)	0.300	(0.160)	(0.160)
Trading Desk	(0.047)	(0.014)	0.080	(0.039)	(0.022)
Balance Sheet Trading	(0.023)	(0.013)	0.050	(0.019)	(0.021)

* Absolute Value NA = Non Applicable

The bank's UDI Rate PVBP for 3Q10 varied -13.79% versus prior quarter. The bank's average PVBP for the 3Q10 varied -7.56% 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 2,750m USD. Along the quarter, average level was 2,957m USD. Compared versus previous quarter, liquidity position was benefited resulting from the change of internal category related to Core Deposits measurement and the applicable stress scenario of the Institution.

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 September 30th, 2010 is \$6,682.3 millions of pesos, which represents the 13.3% of Total Balance, this means a decrease of \$985.3 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 September 30th, 2010 is \$4,021.0 millions of pesos, showing a decrease of 2.19% compared to the figure reported in the previous quarter. The EL estimation of this portfolio does not consider undrawn facilities yet.

Operational Risk

Qualitative Information (including Legal and Technological 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. During the 3Q and 4Q of 2010 Group is working on a new Operational Risk Evaluation System based on its methodology, results will be reflected in the 4Q of 2010.

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

The area of IT maintains an adequate risk control technology through the use of the Group's related to Methodologies and Standards FIMs (Functional Instructions Manual), RBPM (Risk Based Project Management), etc. Additional to the current and local HTS processes, identified as BIM's (general procedures and work instructions).

The adequate control of the technological risk is through three means:

- 1) In order to guarantee an efficient and consistent project management, the software development life cycle is controlled through international processes and practices with an internal methodology named RBPM (Risk Based Project Management) and the Clarity tool (global HSBC tool).
- 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 critic 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) and 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; 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 3Q10, the set of risks is integrated by 1944 identified and assessed risks, distributed as follows: 0.5% A type, 12.4% B type, 67.1% C type, and 20.0% D type, which can also be classified according to their primary category onto: 21.1% people, 51.6% process, 15.3% systems and 12.0% 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.

For third quarter 2010, we released our flagship program in education, "Sólo levanta la mano" in partnership with Lazos Foundation. In which employees of our business areas and distribution channels participate as volunteers across our divisions within the country.

The environmental projects have managed to implement an attention model for combating climate change by supporting projects in four main areas: water, energy, waste and biodiversity.

These actions have strengthened commitment among our employees and customers.

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 has donated for the nine months to September 2010, \$32.3 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:

Program HSBC -Lazos

Through the initiative of PFS, 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 project started inside eight schools, each one of them is located near to the headquarter of each Divisional Direction of HSBC, which are: Tijuana, Guadalajara, Leon, Merida, Puebla, Mexico City and its metro area, and Monterrey. The program has been introduced in each of the Divisional Directions, led by Lic. Carlos Ramírez and his

team, and they assigned goals in the subject of scholarships, infrastructure and volunteering, depending in the needs of each school, region and always under the guidance and supervision of Lazos.

The national launch was carried out on September 8th, having as host Torre HSBC and with the presence of the Director General for HSBC Mexico, Ing. Luis Peña, Directors of the Bank, the Patronage of “Fundación Lazos” headed by Dr. Fernando Landeros, businessmen and customers.

Prevention and Attention for Migrant Children and Adolescents Unaccompanied and Repatriated

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”

Trough an initiative of ABM and “Fundación Televisa”, from June 1 to September 30, a campaign of donations in ATM’s was carried out to obtain resources for scholarships to students of low-income Highschools and Colleges.

Aprendamos

This is an integral support to kids, teachers and families in 15 schools who failed the national test ENLACE in some Mexico City’s boroughs.

This program was developed with the Ministry of Education and Pro-educación where the main objective is to provide better education so children can guarantee better education and other social programs in the future.

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.

This program has a strong engagement within the Ministry of Education, families and HSBC volunteers.

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. More than two-thousand students have been benefited.

Environment

Derived from the redefinition of the Green Insurance program 2010 and according to the specific topics addressed by it (water, waste, energy and forest) we have defined the criteria and guidelines that will guide decisions based in four levels of action: education, conservation, protection and production programs. Supported projects are:

1. The generation of a significant environmental impact.
2. Collective efforts to create a multiplying effect in resources.
3. Adequate allocation of resources with a minimum ratio of operating and administrative expenses.
4. Provide the possibility of voluntary actions by bank employees and clients.
5. Adopt best practices in similar activities, ensuring the excellence of the services provided.
6. Enabling efficiencies in the use of the resources involved, to ensure their sustainability in the medium and long term.
7. That can verify and ensure the final destination of resources

For the last quarter of the year, nine projects were presented by the different divisions of the bank; six met the defined criteria and all together will represent 5.6 million dollars in support for 2011.

We have targeted resources from our natural disasters fund to mitigate the damage caused by Hurricane Alex and flooding in Veracruz, with a million pesos for each of these events.

Corporate Sustainability Index

Universidad Anahuac Mexico Sur with the financial support of HSBC has developed an index that integrates concepts of economic research, social and environmental order to transcend the field of corporate sustainability in Mexico. It is expected that this a project will in time measure the magnitude of the contributions made by companies in the long run as more investors and companies participate in the index.

The index considers the interrelationship between economic, social, environmental and, especially, to promote respect for human rights, preserve the environment and operate with transparency and commitment to society.

HSBC expects that by supporting this index it will become the main driver of Corporate Sustainability among companies in Mexico as the index will influence the behavior of institutions towards convergence with social commitment, environmental and corporate transparency.

HSBC Climate Partnership (HCP)

The HCP program in Mexico was honored as "Best Practice of Corporate Social Responsibility 2010" in category Care and Preservation of Environment. It was perceived to generate additional value to the bank, as well as communities where it operates.

During the last quarter of the year, there will be climate champions' travel in order to pursue forty certifications in 2010.

Awareness campaign "Mi libro verde"

HSBC, in partnership with other institutions launched "Mi Libro Verde: Your footprint on Earth", this is an effort to raise awareness of our actions in order to conduct ourselves in a more friendly environment way.

Interactive Museum of Economics (MIDE)

HSBC sponsors the Chamber of sustainability of the Interactive Museum of Economics that will be opened in January 2011. The interactive content of the exhibition will relate to the sustainability programs and practices that the bank has developed over time.

As part of the MIDE inaugural program, MIDE will take the, necessary steps to implement the Diploma in Economics and Sustainability and Economy cycle in shirtsleeves dedicated to Sustainable Development, the project of Young Entrepreneurs for Sustainable Development and other educational programs normally offered by the museum as part of their regular work with schools and the general public. HSBC will support this activities by organizing an international conference which will invite distinguished speakers like Sir Nicholas Stern.

Community

Under our principle to support the community in which the bank operates, we have created several projects in health, culture and emergency situations.

Our Programmes:

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.

Future First

This is an initiative from HSBC India and the HSBC Global Trust to support street situation children. We have fundraised USD\$25 thousand dollars for a year to the following Organisations:

Fundación de la Asociación de Bancos de México Quiera, AC (DF)

It supports education and reintegration to street situation children with a strengthen focus to the community.

IPODERAC (Puebla)

A replication and success model in Latin America, IPODERAC is one of the leading NGOs in supporting vulnerable kids; it gives special focus to drug prevention, education and employment.

Ciudad de los Niños (Monterrey)

Ciudad de los Niños is the largest organization based in Monterrey focused in supporting vulnerable kids. It has a strong presence in the Topochico, and supports 1,500 kids providing them with values and a safe environment.

Albergue Infantil Los Pinos (Guadalajara)

They provide education, shelter, food, clothes, psychological and medical attention in the Guadalajara area.

Volunteering

Up to September 30, 2010 we have involved to 1,461 colleagues in volunteering activities, which is equivalent to 87% of the goal determined for Mexico to 2010:

Activities

July, 16th

Taking joy and happy moments to communities of limited resources is the objective of “CUENTA CUENTOS” a program which was implemented for an indigenous community in Querétaro: eleven volunteers participated.

July, 22th

We performed cleansing activities in Chapultepec Forest. This activity was supported by the Green Insurance; 38 volunteers met in a well-known track to participate in a reforestation.

July, 24th

89 Volunteers of Puebla and Huamantla, organized a reforestation in “Malitzi Park”, clients and families were invited. The activity counted with the participation of their Divisional Director Juan Alberto González. Altogether 500 trees were planted.

August, 17th

Motivated by the celebration of “International Environment Day”, 17 volunteers participated in the plantation of 400 trees in “Cerro del Cubilete”, Leon.

September

During September, 150 volunteers took training in financial literacy for children and a “Workshop for parents” to benefit public schools of eight cities: San Luis Potosí, Aguascalientes, Reynosa, Saltillo, Juarez, Veracruz and Queretaro.

September, 20th

VERACRUZ EMERGENCY

16 Veracruz volunteers participated actively in the reception of nonperishable food and armed of pantries appointed to employees victims and people of the community affected by Karl hurricane.

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 eight 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 in which we participated were:

- 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 Goberment
- Fundación Rebecca de Alba (2 conferences; opening and closure)
- Book presentation “Desarrollo de una conciencia sustentable”
- Closure of “Esta vez por Haití, únete” campaing 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 three axis that support community, education and environment. We will keep creating new media relations in order to publish our activities so we can be the reference in these topics within the country.

Conclusions

The economic crisis that crashed the world in 2009 left us social challenges in our community, for this reason, we must make more efficient our communitarian investment. We managed to increased our social and environmental investment with the fundraising among our clients that represents 46% of the active participation.

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

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