

October 29, 2004
Mexico City

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

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

The figures included in the current report are in millions of Mexican pesos expressed in constant prices as of September 30, 2004, unless otherwise explicitly indicated.

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HSBC Third Quarter 2004 Financial Results Summary

Commentary by Sandy Flockhart, CEO HSBC Mexico:

"Results to 30 September 2004 continued to exceed expectations. YTD net income was 2,283 million pesos, representing a significant increase from prior year. The Growth in our core Personal Financial Services and Commercial Banking businesses remains robust, fortified by an increase in consumer lending and transactional volumes. Our corporate banking and treasury businesses have also been consistently profitable in 2004 despite volatile market conditions."

"HSBC Mexico continues to invest heavily in Mexico. Staffing levels are up by over 1,500 people as HSBC invests for business growth. In October, HSBC was present at the inauguration of Tecnoparque Azcapotzalco, a state-of-the-art operations centre, where we will lease a building for our processing, collection, call centre and other operations. It will house 2,000 HSBC Mexico employees starting in 2005; many of these employees will be new hires in order to support our growth in transactional volumes and to reinforce our commitment to high quality customer service in Mexico. The building offers efficiencies and advanced technology, as well as world class office standards that meet HSBC's strict environmental requirements."

"In October, HSBC introduced its new product for small businesses, called "Estímulo." The product offers an integrated package of financial services that include a line of credit up to MXN 1 million (that does not require a guarantee or security), in addition to checking, corporate credit cards, payroll services, POS terminal, and telephone/internet banking. This product was developed to serve HSBC Mexico's existing 130 thousand small business customers, in addition to targeting a large segment in Mexico that is currently under-served by the banking community."

"Grupo Financiero HSBC, the parent company of HSBC Mexico, announced the acquisition of HSBC USA's operations in Panama, which include 15 branches, 4 subsidiary companies, 640 employees, 60 thousand retail accounts, and one thousand CMB and CIB multinational clients. The acquisition positions our Mexican banking operations as a regional hub for Central America and the Caribbean, in addition to realising synergies and cost savings in respect of information technology and operations as well as sharing of best practices."

"In the third quarter, HSBC Mexico paid back all its third party related loans to the Fobaproa trust. The cost of this write-off totaled approximately MXN 7 million pesos (or approximately USD 610k), and was fully charged against earnings in 3Q04. The GEL audits undertaken with the supervision of the IPAB on HSBC's Fobaproa loan portfolios have commenced, and we expect these to be finalized by early 2005."

"Finally, the capital adequacy ratio of HSBC has continued to strengthen from 14.0 per cent at 30 September 2003 to 15.7 per cent at 30 September 2004. During the same period, non-performing loans declined 49.4 per cent, and the ratio of loan loss reserves to non-performing loans improved to 174.3 per cent. The bank's capital position and overall balance sheet strength effectively position the institution to support its customers' financial expansion plans in the years ahead."

The HSBC Group

HSBC is one of the five largest banking and financial services institutions in Mexico, with some 1,321 branches, 4,500 ATMs, and over 17,300 employees.

HSBC is a directly held, 99.76 per cent owned subsidiary of HSBC Holdings plc. With global headquarters in London, UK, the HSBC Group serves over 110 million customers world-wide from more than 10,000 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$1,154 billion at 30 June 2004, 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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Consolidated Balance Sheet*Figures in MXN Millions*

	<i>Sept. 30</i> <u>2003</u>	<i>Dec. 31</i> <u>2003</u>	<i>March 31</i> <u>2004</u>	<i>June 30</i> <u>2004</u>	<i>Sept. 30</i> <u>2004</u>
Assets					
Cash and deposits in banks	36,620	37,446	34,028	37,311	37,575
Financial instruments.....	10,409	23,416	27,362	22,908	28,491
Trading securities	1,327	9,292	12,358	4,258	984
Available for sale securities	2,082	7,305	8,478	12,478	22,871
Securities held to maturity	7,000	6,819	6,526	6,172	4,636
Securities and derivative operations	122	71	143	212	139
Repurchase agreements	88	67	96	122	89
Operations that represent loans with collateral	-	-	-	-	-
Securities receivable in loan operations	1	2	2	-	-
Derivative transactions	33	2	45	90	50
Performing loans					
Commercial loans	20,597	20,944	19,084	19,908	19,544
Loans to financial intermediaries	2,692	2,145	1,769	1,627	3,188
Consumer loans	11,686	15,286	14,382	13,970	13,914
Mortgage	12,096	11,592	11,265	11,196	11,337
Loans to government entities	3,940	5,987	6,142	5,839	5,669
Loans to Fobaproa or IPAB	58,396	57,459	56,690	56,849	56,304
Total current loans	<u>109,407</u>	<u>113,413</u>	<u>109,332</u>	<u>109,389</u>	<u>109,956</u>
Non-performing loans					
Commercial loans	4,541	4,228	4,044	3,718	2,470
Loans to financial intermediaries	1	1	1	1	1
Consumer loans	478	422	365	448	478
Mortgage	2,637	676	774	834	922
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	149	96	69	77	75
Total non-performing loans	<u>7,806</u>	<u>5,423</u>	<u>5,253</u>	<u>5,078</u>	<u>3,946</u>
Total loan portfolio	<u>117,213</u>	<u>118,836</u>	<u>114,585</u>	<u>114,467</u>	<u>113,902</u>
(-) Allowance for loan losses	<u>(9,934)</u>	<u>(8,283)</u>	<u>(8,122)</u>	<u>(8,029)</u>	<u>(6,878)</u>
Net loan portfolio	<u>107,279</u>	<u>110,553</u>	<u>106,463</u>	<u>106,438</u>	<u>107,024</u>
Other accounts receivable.....	11,533	3,162	16,718	10,132	9,970
Foreclosed assets	889	860	803	728	558
Property, furniture and equipment, net	3,126	3,136	3,382	3,418	3,497
Long term investments in equity securities.....	399	382	384	362	379
Deferred taxes.....	3,470	3,428	3,013	2,531	2,464
Other assests, deferred charges and intangibles.....	<u>210</u>	<u>764</u>	<u>740</u>	<u>705</u>	<u>678</u>
Total Assets	<u>174,057</u>	<u>183,218</u>	<u>193,036</u>	<u>184,745</u>	<u>190,775</u>

<i>Figures in MXN Millions</i>	<i>Sept. 30 2003</i>	<i>Dec. 31 2003</i>	<i>March 31 2004</i>	<i>June 30 2004</i>	<i>Sept. 30 2004</i>
Liabilities					
Deposits.....	138,366	151,385	153,149	150,119	154,116
Demand deposits	82,283	97,718	88,145	93,396	92,761
Time deposits	56,083	53,667	65,004	56,723	61,355
Bank bonds outstanding	-	-	-	-	-
Bank deposits and other liabilities.....	9,375	8,995	8,262	9,939	10,228
On demand	312	-	284	-	259
Short term	85	70	5,456	7,455	7,324
Long term	8,978	8,925	2,522	2,484	2,645
Securities and derivative transactions.....	81	165	128	162	128
Repurchase agreements	11	52	14	50	20
Securities deliverable in repurchase agreements	-	-	-	2	-
Operations with derivative instruments	-	-	-	-	-
Derivative transactions	70	113	114	110	108
Other accounts payable.....	12,520	8,374	16,565	10,677	11,728
Income tax and employee profit sharing payable	192	-	-	174	382
Sundry creditors and others accounts payable	12,328	8,374	16,565	10,503	11,346
Subordinated debentures outstanding.....	2,017	2,274	2,239	2,241	2,202
Deferred tax.....	-	-	-	-	-
Deferred credits.....	18	13	11	-	-
Total Liabilities.....	162,377	171,206	180,354	173,138	178,402
Stockholder's Equity					
Paid in capital.....	9,856	9,809	9,809	9,809	9,809
Capital stock	3,325	3,325	3,325	3,325	3,325
Additional paid in capital	6,531	6,484	6,484	6,484	6,484
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains.....	1,823	2,201	2,872	1,796	2,562
Capital reserves	2,817	2,568	2,568	2,421	2,421
Retained earnings	-	-	1,602	-	-
Surplus from mark to market of available for sale securities	31	25	63	(134)	(129)
Result from translation of foreign operations	11	11	11	11	11
Cumulative effect of restatement	(3,327)	(3,052)	(3,073)	(3,120)	(3,070)
Gains on non monetary asset valuation					
Valuation of fixed assets	1,184	1,184	1,184	1,184	1,184
Valuation of permanent investments	(119)	(137)	(135)	(111)	(138)
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	1,226	1,602	652	1,545	2,283
Minority interest in capital.....	1	2	1	2	2
Total Stockholder's Equity.....	11,680	12,012	12,682	11,607	12,373
Total Liabilities and Capital.....	174,057	183,218	193,036	184,745	190,775

<i>Figures in MXN Millions</i>	<i>Sept. 30</i>	<i>Dec. 31</i>	<i>March 31</i>	<i>June 30</i>	<i>Sept. 30</i>
	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>
Memorandum Accounts					
Guarantees granted	41	72	152	172	189
Other contingent obligations	11,776	9,943	18,263	14,929	20,064
Irrevocable lines of credit granted	691	660	692	663	1,051
Goods in trust or mandate	40,137	44,795	49,959	59,598	59,539
Goods in custody or under administration	107,518	110,503	88,815	99,817	77,125
Third party investment banking operations, net	11,658	14,316	24,419	15,286	17,497
Amounts committed in transactions with Fobaproa	7,815	7,645	7,541	7,559	1,212
Amounts contracted in derivative operations	17,254	23,376	45,275	54,369	71,056
Investments of retirement savings system funds	2,339	2,338	2,610	2,728	2,790
Integrated loan portfolio	117,944	119,567	115,778	115,789	114,224
Other control accounts	301,871	316,837	316,582	311,559	302,133
	<u>619,044</u>	<u>650,052</u>	<u>670,086</u>	<u>682,469</u>	<u>666,880</u>
Securities receivable under repos	67,254	61,297	42,570	48,454	41,195
(less) Repurchase agreements	<u>(67,166)</u>	<u>(61,283)</u>	<u>(42,477)</u>	<u>(48,358)</u>	<u>(41,130)</u>
	<u>88</u>	<u>14</u>	<u>93</u>	<u>96</u>	<u>65</u>
Reverse repurchase agreements	17,499	28,483	20,087	27,201	15,009
(less) Securities deliverables under repos	<u>(17,510)</u>	<u>(28,483)</u>	<u>(20,098)</u>	<u>(27,225)</u>	<u>(15,006)</u>
	<u>(11)</u>	<u>-</u>	<u>(11)</u>	<u>(24)</u>	<u>3</u>

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

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

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Consolidated Income Statement

Figures in MXN millions

	For the quarter ending...					YTD...	
	30 Sept. 2003	31 Dec. 2003	31 March 2004	30 June 2004	30 Sept. 2004	30 Sept. 2003	30 Sept. 2004
Interest income	3,785	4,141	4,307	4,502	4,205	13,604	13,015
Interest expense (-)	1,557	1,789	1,777	1,757	1,336	6,233	4,870
Monetary position (margin), net	(41)	(98)	(46)	2	(70)	(75)	(115)
Net interest income.....	<u>2,187</u>	<u>2,254</u>	<u>2,484</u>	<u>2,747</u>	<u>2,799</u>	<u>7,296</u>	<u>8,030</u>
Loan-loss provisions (-).....	571	693	382	287	366	2,345	1,035
Loan loss provisions bank	562	693	381	248	298	2,262	928
Loss sharing Fobaproa	9	-	1	39	68	83	107
Risk adjustment net interest income	<u>1,616</u>	<u>1,561</u>	<u>2,102</u>	<u>2,460</u>	<u>2,433</u>	<u>4,951</u>	<u>6,995</u>
Fees and commissions	1,594	1,693	1,595	1,651	1,710	4,632	4,956
Account management	404	376	376	406	385	1,178	1,167
Services	1,190	1,317	1,219	1,245	1,325	3,454	3,789
Fees Paid	(144)	(161)	(166)	(168)	(162)	(427)	(495)
Trading Income	299	121	281	87	260	1,003	629
Foreign exchange	188	184	97	70	189	386	357
Securities trading, net	85	31	85	4	71	163	160
Repo's	33	1	(1)	7	13	343	19
Valuation off-shore agencies	(7)	(95)	100	6	(13)	111	93
Total operating income.....	<u>3,365</u>	<u>3,214</u>	<u>3,812</u>	<u>4,030</u>	<u>4,241</u>	<u>10,159</u>	<u>12,085</u>
Administrative and personnel expenses (-)	2,663	2,929	2,802	2,591	2,993	7,959	8,386
Personnel expense	1,148	1,256	1,194	1,179	1,291	3,284	3,664
Administrative expense	1,375	1,531	1,465	1,261	1,555	4,249	4,280
Depreciation and amortization	140	142	143	151	147	426	442
Net operating income.....	<u>702</u>	<u>285</u>	<u>1,010</u>	<u>1,439</u>	<u>1,248</u>	<u>2,200</u>	<u>3,699</u>
Other income	223	212	104	459	209	414	768
Other expenses	(208)	(306)	(126)	(205)	(250)	(422)	(580)
Net income before taxes.....	<u>717</u>	<u>191</u>	<u>988</u>	<u>1,693</u>	<u>1,207</u>	<u>2,192</u>	<u>3,887</u>
Income tax and employee profit sharing	(69)	166	(4)	(179)	(439)	(187)	(622)
Deferred income tax	(274)	15	(335)	(623)	(27)	(785)	(985)
Net income before subsidiaries.....	<u>374</u>	<u>372</u>	<u>649</u>	<u>891</u>	<u>741</u>	<u>1,220</u>	<u>2,280</u>
Undistributed income from subsidiaries	2	4	2	3	5	7	10
Income from ongoing operations.....	<u>376</u>	<u>376</u>	<u>651</u>	<u>894</u>	<u>746</u>	<u>1,227</u>	<u>2,290</u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	-	-	-	(7)	-	(7)
Minority interest	-	-	-	-	-	-	-
Net income (loss).....	<u>376</u>	<u>376</u>	<u>651</u>	<u>894</u>	<u>739</u>	<u>1,227</u>	<u>2,283</u>

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

The present statement has been approved by the Board of Directors under the responsibility of signing officers.

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Consolidated Statement of Changes in Shareholder's EquityFrom January 1st to September 30, 2004

Figures in Millions of MX Pesos

	Paid in Capital				Capital Gains										Minority Interest	Total Stockholders Equity			
	Capital stock	Paid-in capital	Update of paid in capital	Additional paid in capital	Update of additional paid in capital	Capital Reserves	Update of capital reserves	Retained earnings	Update of retained earnings	Surplus from mark to market of available for sale securities	Result from translation of foreign operations	Update of restatement	Update of restatement	Valuation of fixed assets			Valuation of permanent investments	Adjustments to retirements fund obligations	Net income
Balances as of December 31, 2003	2,003	-	1,220	5,127	1,156	589	1,899	-	-	24	10	(2,957)	-	1,147	(133)	-	1,553	2	11,642
Movements Inherent to the Shareholders Decision																			
Transfer of result of prior years	-	-	-	-	-	-	-	1,553	-	-	-	-	-	-	-	-	(1,553)	-	-
Constitution of reserves	-	-	-	-	-	1,553	-	(1,553)	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	(561)	(1,164)	-	-	-	-	-	-	-	-	-	-	-	(1,725)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	992	(1,164)	-	-	-	-	-	-	-	-	-	(1,553)	-	(1,725)
Movements for the Recognition of the Integral Income																			
Integral Income																			
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,283	-	2,283
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	(155)	-	-	-	-	-	-	-	-	-	(155)
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	102	-	199	-	105	-	-	1	-	-	(111)	36	(4)	-	-	-	329
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	102	-	199	-	105	-	(154)	-	-	(111)	36	(5)	-	-	2,283	-	2,456
Balances as of September 30, 2004	2,003	-	1,322	5,127	1,356	1,581	840	-	-	(129)	11	(2,957)	(111)	1,184	(138)	-	2,283	2	12,373

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

Consolidated Statement of Changes in Financial Position

From January 1 to September 30, 2004

Figures in MXN millions

Operating activities	
Net income	2,283
(Deduct)-Charges (credits) to income not requiring (providing) funds:	
Depreciation and amortization	442
Allowance for loan losses	1,035
Provisions for loan losses	38
Gains / (losses) from mark to market valuations	(93)
Deferred taxes	985
Undistributed income from subsidiaries	(9)
Increase (reduction) of the minority interest	-
	<u>4,681</u>
Changes in Operating Accounts:	
Increase (decrease) in retail deposit and money desk	2,731
Increase (decrease) of interbank and other loans	1,233
Amortization of interbank and other loans	-
Increase (decrease) of loan portfolio	2,795
Increase (decrease) of financial instruments	(5,241)
Increase (decrease) of other receivable and payable accounts	(3,513)
Funds provided by operations	<u>2,686</u>
Financing Activities:	
Subordinated debentures outstanding	(72)
Increase (decrease) in capital	(1,749)
Amortization of mandatory convertible subordinated debentures	-
Result from foreign currency transactions	-
Convertible subordinated debentures	-
Fiscal results of agencies	-
Funds provided by financing activities	<u>(1,821)</u>
Investing Activities:	
Increase (decrease) of property, furniture and equipment and long term investments	(808)
Increase (decrease) in deferred credits	73
Increase (decrease) in loans to employee	-
Funds used in investing activities	<u>(735)</u>
Increase (decrease) in funds available	130
Funds available at beginning of period	37,445
Funds available at end of period	<u>37,575</u>

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

Key Indicators

	For the quarter ending ...				
	30 Sept. 2003	31 Dec. 2003	31 March 2004	30 June 2004	30 Sept. 2004
Non performing loans / total loans ratio	6.66%	4.56%	4.58%	4.44%	3.46%
Non performing loans / total loans ratio, (excluding Fobaproa/IPAB)	13.27%	8.84%	9.07%	8.81%	6.85%
Coverage ratio	127.26%	152.74%	154.62%	158.11%	174.30%
Operative efficiency	6.22%	6.56%	5.96%	5.49%	6.38%
Cost: income	67.67%	74.99%	66.79%	60.02%	64.97%
Net interest margin (NIM)	4.13%	3.58%	4.92%	5.79%	5.52%

	<i>For the quarter ending ...</i>				
	<i>30 Sept. 2003</i>	<i>31 Dec. 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>
Net interest margin before allowance	5.59%	5.17%	5.82%	6.47%	6.36%
Return on average equity (ROAE).....	13.13%	12.70%	21.12%	29.41%	24.62%
Return on assets (ROA).....	0.88%	0.84%	1.39%	1.89%	1.57%
Capitalization ratio					
Credit risk	17.33%	19.50%	22.02%	20.80%	22.45%
Credit and market risk	13.97%	14.11%	16.18%	14.95%	15.72%
Liquidity	48.41%	55.27%	58.44%	53.59%	61.22%

Variance Analysis of Balance Sheet and Income Statement

YTD provisions amounted to MXN 1,035 million, representing a 55.9 percent decrease versus prior year. This reflects the changing size and composition of the balance sheet, and shows the significant reduction in non performing assets since the acquisition by HSBC. At 30SEP04, asset quality shows a considerable improvement versus prior year: non performing loans decreased 49.4 percent to MXN 3,946 million, due to writeoffs in 2003 and 2004; the coverage ratio (provisions / non performing loans) increased to 174.3 percent at 30SEP04 from 127.3 percent at 30SEP03.

The total net credit portfolio totaled MXN 107,024 million at 30SEP04, and remains in-line with prior year. This was mainly the result of a decrease in reserves offset by a decrease in nonperforming loans, while the performing loan portfolio remained flat.

The investment portfolio of financial instruments increased by MXN 18,082 million versus prior year due to the investment of the bank's excess liquidity in government securities.

The decrease in deferred taxes versus prior year is due to the amortisation of the bank's buildup of prior years' fiscal losses against the current year's taxable income. In addition, deferred taxes declined due to the deduction of the prior years' buildup of excess credit provisions.

HSBC Mexico continues to strengthen its capital base. The bank's capital adequacy ratio was 15.7 percent at SEP04, representing an increase from 14.0 percent at SEP03 and 14.9 percent at JUN04.

HSBC Mexico reported net income of MXN 2,283 million YTD 30SEP04. This was 86.1 percent above the prior year's MXN 1,227 million. The third quarter's net income was MXN 739 million, representing a decrease of 17.3 percent versus prior quarter, mainly due to an increase in personnel and administrative expenses. Net income was 96.5 percent greater than 3Q03, due to an increase in customer deposits and consumer lending.

YTD net interest margin was MXN 8,030 million, representing a 10.1 percent increase over the prior year's MXN 7,296 million. Net interest income increased due to a growing deposit base and greater consumer lending. NII in the third quarter was 1.9 percent above 2Q04 and 28.0 percent above 3Q03, mainly due to a slight increase in interest rates during the quarter, in addition to deposit growth and credit growth among credit cards and consumer. In 3Q04, there was a MXN 70 million loss in the monetary position, caused by higher inflation.

Fees and commissions (net) amounted to MXN 4,461 million at YTD 30SEP04, representing a 6.1 percent increase over prior year. The increase was generated by greater transactional volumes in our PFS and CMB customer segments, chiefly among credit card, consumer, remittances, trade services, and payments and cash management. Fees and commissions in 3Q04 were 4.4 percent above prior quarter and 6.8 percent above prior year.

Trading results YTD totaled MXN 629 million, representing a 37.3 percent decline versus prior year, mainly due to lower income from repo's, triggered by the increase in interest rates. The third quarter's trading results were MXN 260 million, significantly above the prior quarter's MXN 87 million, due to higher foreign exchange and securities trading.

Total expenses YTD increased 5.4 percent versus prior year. Personnel expenses increased 11.6 percent in the same period, in-line with business growth initiatives; administrative expense growth was only 1.0 percent, due to greater expense discipline. The YTD Cost:Income ratio was 63.9 percent, remaining at about the same level as the 63.7 percent reported in the previous year.

Financial Instruments

	<u>30 Sept.</u> <u>2003</u>	<u>31 Dec.</u> <u>2003</u>	<u>31 March</u> <u>2004</u>	<u>30 June</u> <u>2004</u>	<u>30 Sept.</u> <u>2004</u>
Government securities	(522)	309	1,359	(1,264)	(527)
Cetes (Mexican Treasury Bills)	-	-	-	-	-
Bank securities	1,158	7,988	9,741	4,562	567
Shares	10	11	11	-	-
Sovereign government debt bonds					
Others	679	984	1,258	960	943
Trading securities	<u>1,326</u>	<u>9,292</u>	<u>12,358</u>	<u>4,258</u>	<u>984</u>
Government securities	-	2,853	5,759	9,704	18,954
Cetes (Mexican Treasury Bills)	87	153	257	492	1,801
Bank securities	-	1,551	-	-	-
Obligations and other securities	1,977	2,726	2,442	2,268	2,104
Shares	18	22	20	13	12
Available for sale securities.....	<u>2,082</u>	<u>7,304</u>	<u>8,478</u>	<u>12,478</u>	<u>22,871</u>
Cetes (Mexican Treasury Bills)	1,057	1,074	934	975	831
Commercial and industrial subordinated debentures	2	2	2	2	2
Cetes (Mexican Treasury Bills)					
Government securities (net)	4,956	4,841	4,788	4,854	3,553
FRN. Serfin	376	395	388	-	-
Treasury Bills					
Myras	590	507	414	341	250
Other debt securities					
Securities held until maturity.....	<u>7,000</u>	<u>6,819</u>	<u>6,526</u>	<u>6,172</u>	<u>4,636</u>
Total Financial Instruments	<u>10,409</u>	<u>23,415</u>	<u>27,362</u>	<u>22,908</u>	<u>28,491</u>

In the third quarter of 2004, there was a MXN 5,583 million increase in the total of Financial Instruments compared to 2Q04, mainly due to a MXN 9,250 million increase in government securities, a MXN 1,309 million increase in stock market certificate, a MXN 737 million decrease in value date transactions, a MXN 3,995 million decrease in promissory notes, a MXN 1,301 million decrease in Mexican Treasury Bills, a MXN 164 million decrease in Global UMS and PEMEX bond, a MXN 144 million decrease in Strip Aztec Bond, a MXN 91 million decrease in MYRAS, and a MXN 18 million decrease in others.

Repurchase and Resale Agreements

	<u>30 Sept.</u> <u>2003</u>	<u>31 Dec.</u> <u>2003</u>	<u>31 March</u> <u>2004</u>	<u>30 June</u> <u>2004</u>	<u>30 Sept.</u> <u>2004</u>
Government securities (debit)	46,947	47,006	37,634	45,133	37,064
Bank securities (debit)	20,147	14,212	4,787	3,165	4,010
Bank securities					
Valuation Increase (decrease)	110	71	129	126	100
Interest in securities receivable under repurchase agreements	49	7	20	30	21
Total in repo agreements (debit).....	<u>67,254</u>	<u>61,297</u>	<u>42,570</u>	<u>48,454</u>	<u>41,195</u>
Repo's Government securities (credit)	46,947	47,006	37,634	45,133	37,064
Repo's Bank securities (credit)	20,147	14,212	4,787	3,165	4,010
Repo's Bank securities					

Valuation increase (decrease)	-	(3)	2	(1)	(1)
Accrued interest payable	71	67	54	61	56
Credit balance in repo agreements	<u>67,166</u>	<u>61,282</u>	<u>42,477</u>	<u>48,359</u>	<u>41,129</u>
Repurchase agreements in government securities	10,808	16,714	7,813	23,437	13,500
Repurchase agreements in banking securities	6,681	11,762	12,260	3,745	1,500
Valuation increase (decrease)	-	-	-	1	1
Accrued interest receivable	10	7	14	18	9
Debit balance repo securities agreements	<u>17,499</u>	<u>28,483</u>	<u>20,087</u>	<u>27,201</u>	<u>15,010</u>
Government securities	10,808	16,714	7,813	23,437	13,500
Bank securities	6,681	11,762	12,260	3,745	1,500
Valuation increase (decrease)	13	-	8	26	(1)
Interest in securities deliverable under repurchase agreements	9	7	16	18	8
Credit balance repo securities agreements	<u>17,510</u>	<u>28,483</u>	<u>20,097</u>	<u>27,225</u>	<u>15,007</u>

Derivative Financial Instruments

At 30 September, 2004

	Futures		Forwards Contracts		Options		Swaps	
	Active position	Passive position	Active position	Passive position	Active position	Passive position	Active position	Passive position
Trading purpose.....								
Pesos	-	-	18,285	18,333	-	-	-	-
US Dollars	-	-	1,552	1,543	-	-	-	-
Interest Rate	10,699	10,700	-	-	-	-	18,018	18,007
Coverage purpose								
Pesos	-	-	-	-	-	-	-	-
US Dollars	-	-	-	-	-	-	-	-
Interest Rate	-	-	-	-	-	-	7,692	7,693

Trading Income

	For the quarter ending...					YTD...	
	30 Sept. 2003	31 Dec. 2003	31 March 2004	30 June 2004	30 Sept. 2004	30 Sept. 2003	30 Sept. 2004
Valuation	(6)	(95)	99	6	(13)	111	93
Derivatives	(49)	(73)	52	29	(19)	68	64
Repo's	44	(20)	46	(24)	5	54	26
Shares	(1)	-	-	-	0	(11)	-
Debt Securities	-	(2)	1	1	1	-	3
Buying and Selling Instruments	305	220	182	81	272	892	536
Foreign Currency	187	181	97	71	187	383	356
Derivatives	6	-	6	(8)	-	18	(2)
Repo's	90	39	37	(6)	12	470	42
Shares	21	-	3	(2)	5	19	7
Debt Securities	1	-	39	26	68	2	133
Total	<u>299</u>	<u>125</u>	<u>281</u>	<u>87</u>	<u>259</u>	<u>1,003</u>	<u>629</u>

Loan Portfolio**By type of currency**

At September 30, 2004

	<u>Commercial loans</u>	<u>Ipab / Fobaproa</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Government loans</u>
Current Loan Portfolio					
Pesos	13,143	3,145	13,913	5,831	4,251
US Dollars	6,398	43	1	4	815
Udis Banxico	3	-	-	5,502	603
Total	<u>19,544</u>	<u>3,188</u>	<u>13,914</u>	<u>11,337</u>	<u>5,669</u>
Past due loan portfolio					
Pesos	1,733	658	478	457	-
US Dollars	679	-	-	-	-
Udis Banxico	58	-	-	465	-
Total	<u>2,470</u>	<u>658</u>	<u>478</u>	<u>922</u>	<u>-</u>

Loan Portfolio Grading

At September 30, 2004

	<u>Loan Portfolio</u>	<u>Allowances for loan losses per category</u>			
		<u>Commercial loans</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Total reserves</u>
Except	56,615				
Grade.....	58,527				
“A” Risk	41,099	170	58	44	272
“B” Risk	10,634	379	207	243	828
“C” Risk	3,061	314	227	425	965
“D” Risk	2,178	723	466	300	1,488
“E” Risk	1,555	1,385	73	97	1,555
Total	115,142	2,971	1,031	1,109	5,108
Less:					
Constituted Reserves					6,878
Surplus					1,770

1. Loan portfolio grading and creation of reserves figures as of 30 September, 2004.
2. The loan portfolio is rated in accordance to the methodology for the classification and creation for loan losses issued by the Ministry of Finance and the methodology issued by CNBV. For commercial and mortgages loans internal methodology can be used with prior authorization by CNBV. The institution applies the Credit Risk +TM methodology for the commercial loans, for the mortgage loans establish in circular 1460 and for the consumer loans establish in 1493 y 1449 circulars.
3. Reserves created in excess are explained by other reserves for mortgage loans MXN 1,770 million.

Past due loans

	<i>For the quarter ending...</i>			
	<i>31 Dec. 2003</i>	<i>31 March 2003</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>
Initial balance of non performing loan portfolio	7,439	5,256	5,177	5,010
Increases	3,813	2,611	2,781	2,866
Transfer of current loans to past due status	3,813	2,611	2,781	2,866
Purchase of portfolio	-	-	-	-
Suspended interest	-	-	-	-
Decreases	(6,082)	(2,712)	(2,987)	(3,944)
Restructurings	(58)	(49)	(180)	(51)
Liquidated credits	(3,698)	(2,153)	(2,150)	(2,730)
Charged in cash	(2,346)	(1,519)	(1,341)	(3,053)
Foreclosed assets	(14)	(3)	(9)	(22)
Writeoffs	(1,338)	(631)	(800)	345
Sale of portfolio	(146)	-	-	-
Transfer to performing loan status	(2,180)	(510)	(657)	(1,163)
Fx revaluations	85	22	38	14
Interest capitalization	-	-	-	-
Final balance of non performing loan portfolio	5,256	5,177	5,010	3,946

Deferred Taxes

	<i>30 Sept. 2003</i>	<i>31 Dec 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>
Loan losses reserves	3,308	3,244	3,025	2,772	2,459
Valuation of securities	147	145	143	257	48
Fiscal loss	731	788	659	327	34
Loss Sharing	-	-	-	-	2,091
Other	147	119	116	30	1
Differences in rates of fixed assets	(361)	(339)	(376)	(348)	(173)
Fiscal result UDIS-Banxico	(502)	(529)	(554)	(507)	(1,996)
Total Deferred taxes	<u>3,470</u>	<u>3,428</u>	<u>3,013</u>	<u>2,531</u>	<u>2,464</u>

Funding, Loans and Investment in Securities

Funding and bank loans – Interest rates “Average”

	<i>For the quarter ending . . .</i>				
	<i>30 Sept. 2003</i>	<i>31 Dec 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>
Loans in MXN pesos					
Funding	1.79%	2.27%	1.80%	1.95%	2.22%
Bank and other loans	4.84%	5.29%	5.52%	5.85%	6.21%
Loans in foreign currency					
Funding	0.57%	0.56%	0.48%	0.46%	0.51%
Bank and other loans	1.93%	2.08%	1.98%	2.13%	2.51%
UDIS					
Funding	0.68%	0.81%	0.79%	0.81%	0.81%

Long Term Debt

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

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

Capital

Movements in Capital

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

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

Dividend Payments

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

Capitalization Ratio

<i>Figures in MXN Millions</i>	<i>30 Sept. 2003</i>	<i>31 Dec. 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>
% of assets subject to credit risk					
Basic capital	14.60%	14.91%	17.36%	16.19%	17.96%
Supplementary capital	2.73%	4.59%	4.66%	4.61%	4.50%
Net capital.....	<u>17.33%</u>	<u>19.50%</u>	<u>22.02%</u>	<u>20.80%</u>	<u>22.45%</u>
% of assets subject to credit and market risk					
Basic capital	11.77%	10.79%	12.76%	11.64%	12.57%
Supplementary capital	2.20%	3.32%	3.43%	3.31%	3.15%
Net capital.....	<u>13.97%</u>	<u>14.11%</u>	<u>16.18%</u>	<u>14.95%</u>	<u>15.72%</u>
Basic capital	9,482	9,828	11,012	10,412	11,721
Supplementary capital	1,776	3,025	2,957	2,964	2,935
Net capital	<u>11,258</u>	<u>12,853</u>	<u>13,968</u>	<u>13,376</u>	<u>14,656</u>
Assets subject to credit risk	64,953	65,913	63,437	64,316	65,269
Assets subject to market risk	15,647	25,178	22,876	25,148	27,951
Assets subject to credit and market risk.....	<u>80,600</u>	<u>91,091</u>	<u>86,313</u>	<u>89,464</u>	<u>93,220</u>

Other Expenses, Other Income and Extraordinary Items

<i>Figures in MXN Millions</i>	<i>For the quarter ending...</i>					<i>YTD...</i>	
	<i>30 Sept. 2003</i>	<i>31 Dec. 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>	<i>30 Sept. 2003</i>	<i>30 Sept. 2004</i>
Other income							
Loans to employees	7	7	8	10	10	20	28
Recoveries	75	55	27	343	32	95	402
Other income	143	148	66	106	166	302	338
Result from monetary position (other income)	(1)	3	-	-	-	(3)	-
	<u>224</u>	<u>213</u>	<u>102</u>	<u>459</u>	<u>208</u>	<u>414</u>	<u>769</u>
Other expenses							
Other losses	(198)	(278)	(43)	(195)	(214)	(367)	(452)
Result from monetary position (other income)	(10)	(29)	(83)	(9)	(35)	(55)	(127)
	<u>(208)</u>	<u>(306)</u>	<u>(126)</u>	<u>(205)</u>	<u>(250)</u>	<u>(422)</u>	<u>(580)</u>
Total other income (expenses).....	<u>16</u>	<u>(93)</u>	<u>(24)</u>	<u>254</u>	<u>(42)</u>	<u>(8)</u>	<u>189</u>
Discontinued operations, extraordinary items and changes in accounting standards	-	-	-	-	7	-	7

YTD Other Income increased 85.7 percent versus prior year, mainly driven by greater recoveries and the sale of properties.

YTD Other Losses increased by 23.2 percent versus prior year, mainly due to an increase in legal reserves.

During 3Q04, HSBC Mexico paid back all its third party related loans to the Fobaproa trust, as defined in Article 73 of the *Ley de Instituciones de Crédito*, and in accordance with the signing of the new program contract with the IPAB on 14JUL04. The cost of this write-off totaled approximately MXN 7 million pesos (or approximately USD 610k), and was fully charged (through the extraordinary line) against earnings in 3Q04. The GEL audits undertaken with the supervision of the IPAB on HSBC's Fobaproa loan portfolios have commenced, and we expect these to be finalized by early 2005.

Market Risk Management

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

<i>Millions of USD</i>	<i>Average for the quarter ending...</i>				<i>Limits</i>
	<i>31 Dec. 2003</i>	<i>31 March 2004</i>	<i>30 June 2004</i>	<i>30 Sept. 2004</i>	
Equity	0.06	0.05	0.06	0.00	0.00
Exchange	0.20	0.24	0.08	0.00	1.80
Money Desk Trading	1.91	2.21	0.68	0.45	5.00
Total	1.93	2.20	0.92	0.77	6.00

In comparison with the previous quarter, the VaR decreased by 16.58 percent, maintaining itself below the administration's pre-established limits. Money desk trading showed a decrease in risk exposure, which is part of the bank's strategy; the VaR of this category constitutes only 9 per cent of the authorized limit.