

México City.  
February 6, 2006.

**GRUPO FINANCIERO HSBC, S.A. DE C.V.  
FINANCIAL REPORT AS OF DECEMBER 31, 2005**

**2005 Results - Highlights**

- Net income of MXN 4,981 million for the year ended 31 December 2005, an increase of 47.8 per cent over the previous year.
- Return on average common equity of 22.1 per cent for 2005, compared with 15.7 per cent in 2004.
- Cost: income ratio of 61.8 per cent in 2005, improving from the previous year's 66.4 per cent (adjusted for a non-recurrent VAT recovery received in 2004).
- Total assets of MXN 275.1 billion at 31 December 2005, compared with MXN 227.8 billion at 31 December 2004.

**Overview – Commentary by Sandy Flockhart, CEO & Group General Manager**

“Grupo Financiero HSBC reported strong 2005 results, with YTD net income amounting to 4,981 million pesos, representing an increase of 47.8 per cent over prior year. Results in the Bank continued to exceed expectations, due to robust revenue growth across all product categories. Net interest income, fees and trading all reached record levels during the year. This was coupled with strong performances in our Insurance, Afore, and Panama Bank subsidiaries.

Growth of 28.3 per cent in net interest income, from MXN 11,845 million to MXN 15,193 million, was driven by higher deposit balances and widening spreads, strong loan growth, and higher average interest rates than in 2004. The net interest margin improved from prior year largely due to an increase in the bank's margin from 6.3 per cent in 2004 to 6.8 per cent in 2005.

Fees and commissions increased by 10.7 per cent over the previous year due to growth in credit cards, electronic banking, ATMs, membership programmes, commercial lending, Afore pension fund management, trade services and remittances. Trading results were excellent, up 49.3 per cent over 2004, benefiting from successful strategic positioning, higher customer volumes and the launch of new products on the back of enhanced treasury systems.

Administrative expenses grew 19.6 per cent (excluding the non-recurrent recovery of VAT received in 2004) as HSBC continued to invest heavily in its Mexican operations. Personnel

costs increased due to additional headcount and variable compensation to support revenue growth and to improve customer service. Operating costs were driven by significant investment in systems and higher marketing expenses.

Loan impairment charges increased 9.4 per cent for the year, in line with robust lending growth and reflecting the high credit quality of new lending and improved economic conditions. In the bank, the ratio of non-performing loans to total loans decreased to 2.7 per cent, compared with 3.0 per cent in the previous year, and the reserve coverage on non-performing loans was 168 per cent. The bank's capital adequacy ratio remained solid at 14.3 per cent at 31 December 2005.

### **By customer segment**

The personal financial services division reported a solid performance due to higher deposit balances and widening spreads, strong loan growth and higher fee income. Fixed rate mortgage volumes increased 151 per cent over the previous year, driven mainly by the bank's low rate offer.

HSBC remains Mexico's market leader amongst banks in auto loans issued. A unique new internet-based product, 'Venta Directa', was launched during the year, enabling the direct sales of used cars between customers, using HSBC's financing and the website as the intermediary. HSBC is also the first Mexican bank to offer pre-approved personal loans through its ATMs, which helped grow balances by 109 per cent compared with 2004. Targeted customer campaigns drove record growth in credit cards, with balances 84 per cent higher and cards in circulation increasing by 80 per cent to 1.1 million cards.

HSBC's market share in customer deposits continued to increase, reaching record highs in 2005. This was accomplished while maintaining a cost of funds significantly below that of the market. The bank saw good growth of *Tu Cuenta*, an integrated package of financial services for a flat monthly fee. Since its launch in February, it has generated 611,000 accounts, averaging some 2,300 new customers per day. Mutual fund balances were up 58 per cent from the previous year, benefiting from an expanded product offering and increased cross sales to our extensive customer base. The *HSBC D-2* fund is now the largest mutual fund for individual investors in Mexico, with assets of over MXN 20 billion at year end.

The Afore pension funds business continued to perform strongly, with 394,000 new customers which led to a 50 per cent growth in fees. In the insurance company, growth in premiums was attributed to strong sales in packaged products in personal financial services (including mortgages, credit cards and *Tu Cuenta*) which have imbedded insurance components.

Fee income from international remittances rose 55 per cent due to the continued success of *La Efectiva*, HSBC's electronic remittance card. Monthly transactions now exceed one million, representing a market share among banks of approximately 20 per cent and a five-fold increase since acquisition. We continue to leverage HSBC's extensive branch network in the US to create growth opportunities.

In commercial banking, deposit balances grew by 38 per cent as a result of the expansion into the SME market. Loan balances rose by 21 per cent, principally in the services and commerce

sectors due to the increase in new clients. Trade services increased its market share, generating revenue growth of 39 per cent over the previous year. The recently launched *Estímulo* combined loan and overdraft product for smaller companies has been very successful, with over 3,500 packages sold with an average cross-sale of 4.6 products.

The corporate, investment banking and markets division continued to strengthen its market position with lending growth of MXN 11,890 million, or 90 per cent, over 2004, benefiting in part from HSBC's extensive international network for multinational companies. HSBC was officially appointed market maker in debt trading desk by the Central Bank and is now ranked third in the Mexican FX market. The installment of new treasury systems in early 2005 allowed HSBC to operate derivatives in Mexico, which has contributed strong earnings for the year.

HSBC's newly-formed Group Investment Banking Financing (GIBF) won mandates to arrange and underwrite the securitisation of mortgages and bridge loans. GIBF also underwrote and placed the company's first local bond issue for Petroleos Mexicanos and successfully sole lead arranged a 10-year MXN 2 billion bond for the Inter-American Development Bank.

### **In conclusion**

"Having passed the 3 year anniversary of the Bital acquisition, I am very pleased with the progress made to date. Leveraging the knowledge, network and brand of the HSBC Group alongside the experience and capabilities of our Mexican colleagues has been a powerful driver for executing change and generating results in Mexico. Nevertheless, HSBC continues to work towards being *the number one financial services institution in México in the eyes of our customers*. Numerous initiatives are underway to improve customer service and to strengthen the bank's product offerings in order to support the future financial requirements of our customers."

### **The HSBC Group**

Grupo Financiero HSBC, S.A. de C.V. is Mexico's fourth largest banking and financial services institution with 1,400 branches, 5,000 ATMs, 6 million customers and more than 22,000 employees. For more information, consult our website at [www.hsbc.com.mx](http://www.hsbc.com.mx).

Grupo Financiero HSBC, S.A. de C.V. is a directly controlled subsidiary of, and 99.8 per cent owned by, HSBC Holdings plc. Headquartered in London, UK, the HSBC Group serves over 110 million customers worldwide through 9,700 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$1,467 billion at 30 June 2005, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

### **Basis of Presentation:**

These consolidated financial statements have been prepared in accordance with Mexican generally accepted accounting principles, with figures denominated in Mexican Pesos (MXN).

**Forward-Looking Financial Information:**

This document contains forward-looking statements, including statements regarding the business and anticipated financial performance of Grupo Financiero HSBC, S.A. de C.V. (GF HSBC). These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where GF HSBC operates. Mexico is a competitive banking environment and pressures on interest rates and our net margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on our revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact our results and financial condition

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## **HSBC's Corporate Social Responsibility Programme in Mexico**

For HSBC, Corporate Social Responsibility (CSR) means conducting our business in a responsible manner and maintaining the highest ethical standards in our relations with customers, employees, investors and suppliers; to complying with the laws of the countries where we operate; respecting human rights; contributing to environmental conservation by managing our direct impact, as well as applying environmental standards to our financing; and supporting the communities in which we operate.

Our aim in Mexico is to be the "leading financial services company in Mexico in the eyes of our customers". By leading, we mean preferred, admired, and dynamic, recognizing the strength of our brand, our corporate character, and our earnings growth. Our strategy, "Managing for Growth" is an aggressive road map for marshalling our resources in the best interests of customers, shareholders, staff, and other stakeholders.

HSBC's core values are integral to achieve this goal. These values comprise of a preference for long-term, ethical client relationships, personal integrity, and the continuous drive to improve customer service.

In Mexico, HSBC has also begun to implement the guidelines established by the Group that require environmental standards to be taken into account in project financing, as well as in corporate and business loans which could have an effect on the environment.

HSBC Mexico's community programmes focus on education, healthcare, the environment, the arts and relief work. We consider that these are the areas where we can have the highest impact.

These are some of HSBC Mexico's major programmes:

### **Education**

Through the British Mexican Friendship Society (Amistad), HSBC Mexico is donating USD 1.5 million over a five-year period to support secondary, technical and preparatory schools throughout Mexico. This includes the annual adoption of four schools around the country in order to improve buildings, equipment, programmes and fostering exchange visits for gifted children with schools in the United Kingdom. Annually, this impacts the education of over 20,000 students.

HSBC Mexico also donated USD 1 million to be used over the next five years for the construction and operation of the AMISTAD ABC CLINIC operating in the new facility which the ABC Hospital built in Santa Fé. The clinic will provide health care services to more than 7,000 members of the surrounding communities who do not have access to public or private health care systems.

HSBC Mexico with the American School Foundation is also funding the HSBC ASF English as a Second Language Teaching Academy, which will provide 240 public school teachers with the latest teaching skills and methodology, in teaching English to their students. We expect more than 80,000 students from public schools, on an annual basis, to benefit from this programme.

Through the Mexican Banking Association, HSBC participates with other financial institutions in supporting programmes for street and homeless children, which provide counselling to address

addictions, psychological and educational support, as well as preparing them to enter the work force, and helping integrate them back in to society.

### **The Environment**

In terms of HSBC Mexico's participation in environmental programmes, in 2005, more than 30 members of our staff participated in the ongoing HSBC Group programme with Earthwatch, of which more than 87 colleagues have participated in since 2003. This project has identified more than 25,000 flora and fauna species in a five year period around the world. Additionally, Mexico will benefit from the USD 17 million commitment made by HSBC Group to the World Wildlife Fund to study the problems and solutions of the pollution in three major rivers around the world, one of them being the Río Bravo on the Mexico-U.S. border.

HSBC Mexico is also working on its direct impact on the environment, through the construction of a new headquarter building in Mexico City, which will save energy, in order to reduce atmospheric emissions, recycle water, and manage waste. We expect this to be the most environmental friendly building in Mexico and Latin America.

### **The Arts**

HSBC Mexico has also been active in supporting cultural activities, as they are tied to education, as well to a country's identity, its past, present and future. This year HSBC Mexico and the HSBC Group sponsored the exhibits of Frida Kahlo at the Tate Modern Museum in London, as well as that of Henry Moore in Mexico, which was on display at the Dolores Olmedo Patiño Museum in Mexico City. HSBC Mexico also co-sponsored four Mexican theatre works that were presented by the Anglo Mexican Foundation at the Riverside Studios of London, and the Fringe Fest, within the Edinburgh Theatre Festival during the summer of 2005, one of the most important international theatre festivals in the world.

Furthermore, HSBC donated the construction of the replica of the court for the Prehispanic Ball Game, which was built on the grounds of Mexico's prestigious Museo Nacional de Antropología (National Museum of Anthropology), and will be seen by more than 1,600,000 people, which include thousands of students and tourists that visit the Museum annually.

### **Customer Donations**

Through our ATM donations programme, branded as **Niños con Futuro**, each time our customers use an ATM, they have the option to donate specific amounts of money, which is channelled to different charity organisations in six regions of the country. The programme is aimed at supporting institutions that focus on improving underprivileged children's quality of life in three areas: education, healthcare and nutrition. HSBC absorbs the operating costs of the programme. Since the ATM programme began it has helped more than 79,100 children in the areas of education and healthcare. From November, 2002 to June 28, 2005, the programme has collected MXN 47 million.

The programme received a best community practice award in 2004 from the Mexican Centre for Philanthropy (CEMEFI) and Alliarise.

**Relief Efforts**

At present, HSBC Mexico is providing support to the communities and customers in Southeast Mexico, whom were affected by Hurricanes Stan and Wilma.

This includes two accounts set up for employee donations, one for Chiapas, the other for the Yucatán Peninsula. These contributions will be matched by the bank, and channelled through relief organisations helping children affected in the region. An account for client donations was set up with FAI Save the Children, and our ATM's have been adapted to accept donations for the region.

In addition, HSBC has joined other banks in supporting clients in the area, by providing grace periods for personal loans, as well as working together with our Commercial and Corporate clients, to help them through this difficult period.

**In Conclusion**

As "the world's local bank", HSBC fully recognises the importance of our wider obligations to society and calls for the increasing involvement of our colleagues in corporate social responsibility, especially in our support of education, health, and the environment.

**Grupo Financiero HSBC, S.A. de C.V.**
*Figures in MXN millions*
**Consolidated Balance Sheet**

	<i>31 Dec</i> <i>2004</i>	<i>31 Mar</i> <i>2005</i>	<i>30 Jun</i> <i>2005</i>	<i>30 Sep</i> <i>2005</i>	<i>31 Dec</i> <i>2005</i>
<b>Assets</b>					
Cash and deposits in banks .....	47,089	52,673	45,352	49,143	<b>55,291</b>
Financial instruments .....	47,546	37,954	47,001	49,983	<b>56,960</b>
Trading securities	3,065	366	346	4,837	<b>6,945</b>
Available for sale securities	40,334	33,573	42,588	41,153	<b>46,022</b>
Securities held to maturity	4,147	4,015	4,068	3,993	<b>3,993</b>
Securities and derivative operations.....	112	381	137	267	<b>568</b>
Repurchase agreements	69	109	101	93	<b>186</b>
Stock borrowings	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	43	271	36	173	<b>382</b>
Performing loans .....					
Commercial loans	31,330	35,343	41,081	44,778	<b>45,751</b>
Loans to financial intermediaries	4,270	3,501	4,236	5,191	<b>6,896</b>
Consumer loans	16,480	17,060	17,991	19,973	<b>25,660</b>
Mortgage	16,640	17,201	17,775	18,921	<b>20,099</b>
Loans to government entities	6,478	7,336	36,536	36,893	<b>36,163</b>
Loans to Fobaproa or IPAB	43,020	43,099	18,591	947	<b>1,096</b>
Total performing loans .....	118,217	123,539	136,211	126,703	<b>135,665</b>
Non-performing loans					
Commercial loans	1,993	2,033	1,963	1,754	<b>1,667</b>
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	549	556	635	683	<b>818</b>
Mortgage	919	850	972	1,135	<b>1,021</b>
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	42	75	47	30	<b>28</b>
Total non-performing loans .....	3,503	3,515	3,616	3,601	<b>3,534</b>
Total loan portfolio .....	121,720	127,054	139,827	130,304	<b>139,199</b>
(-) Allowance for loan losses.....	(6,758)	(6,550)	(6,409)	(6,137)	<b>(5,897)</b>
Net loan portfolio .....	114,962	120,505	133,418	124,168	<b>133,302</b>
Other accounts receivable .....	4,499	11,423	21,099	9,713	<b>15,218</b>
Foreclosed assets.....	562	525	467	446	<b>394</b>
Property, furniture and equipment, net.....	4,350	4,585	4,816	5,110	<b>5,475</b>
Long term investments in equity securities.....	2,306	2,431	2,398	2,066	<b>2,245</b>
Deferred taxes .....	2,274	2,077	1,686	1,278	<b>747</b>
Goodwill.....	3,148	3,132	3,112	3,182	<b>3,239</b>
Other assets, deferred charges and intangibles.....	927	902	920	928	<b>1,683</b>
<b>Total Assets</b>	<b>227,776</b>	<b>236,587</b>	<b>260,406</b>	<b>246,284</b>	<b>275,122</b>

	<i>31 Dec</i> <u>2004</u>	<i>31 Mar</i> <u>2005</u>	<i>30 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>31 Dec</i> <u>2005</u>
<b>Liabilities</b>					
Deposits .....	185,182	182,094	192,218	193,826	<b>212,316</b>
Demand deposits	115,401	106,456	108,636	108,047	<b>125,513</b>
Time deposits	69,726	75,638	83,582	85,779	<b>86,803</b>
Bank bonds outstanding	56	-	-	-	-
Bank deposits and other liabilities .....	9,244	10,418	16,876	7,040	<b>6,963</b>
On demand	-	-	-	-	<b>21</b>
Short term	6,619	7,972	14,519	4,884	<b>4,816</b>
Long term	2,625	2,446	2,356	2,156	<b>2,126</b>
Settlement accounts to be recorded for sale .....	-	257	1,738	-	-
Securities and derivative transactions .....	41	96	3,933	2,979	<b>4,502</b>
Repurchase agreements	41	96	49	88	<b>113</b>
Stock borrowings	-	-	3,884	2,890	<b>4,389</b>
Derivative transactions	-	-	-	-	-
Settlement accounts to be recorded for purchase	-	-	-	-	-
Other accounts payable .....	9,807	19,443	20,072	15,354	<b>22,959</b>
Income tax and employee profit sharing payable	742	455	203	394	<b>1,298</b>
Sundry creditors and others accounts payable	9,065	18,988	19,869	14,960	<b>21,661</b>
Subordinated debentures outstanding .....	2,675	2,662	2,645	2,618	<b>2,579</b>
Deferred tax .....	-	-	-	-	-
Deferred credits .....	86	64	53	15	<b>20</b>
<b>Total Liabilities</b> .....	<b>207,036</b>	<b>215,034</b>	<b>237,535</b>	<b>221,832</b>	<b>249,339</b>
<b>Stockholder's Equity</b>					
Paid in capital .....	19,853	19,853	19,853	19,853	<b>19,853</b>
Capital stock	7,593	7,593	7,593	7,593	<b>7,593</b>
Additional paid in capital	12,260	12,260	12,260	12,260	<b>12,260</b>
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains .....	884	1,697	3,015	4,597	<b>5,928</b>
Capital reserves	465	465	634	634	<b>634</b>
Retained earnings	4,437	7,808	7,640	7,640	<b>7,640</b>
Surplus (Deficit) from securities	-	-	-	-	-
Results of foreign operations exchange	(1)	-	(4)	(4)	<b>(7)</b>
Cumulative effect of restatement	(3,690)	(3,691)	(3,690)	(3,690)	<b>(3,690)</b>
Gains on non monetary asset valuation	-	-	-	-	-
Valuation of fixed assets	-	-	-	-	-
Valuation of permanent investments	(3,698)	(4,065)	(3,810)	(3,585)	<b>(3,630)</b>
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	3,370	1,179	2,245	3,601	<b>4,981</b>
Minority interest in capital .....	3	3	3	3	<b>2</b>
<b>Total Stockholder's Equity</b> .....	<b>20,740</b>	<b>21,553</b>	<b>22,871</b>	<b>24,453</b>	<b>25,783</b>
<b>Total Liabilities and Capital</b> .....	<b>227,776</b>	<b>236,587</b>	<b>260,406</b>	<b>246,284</b>	<b>275,122</b>

	<i>31 Dec</i> <u>2004</u>	<i>31 Mar</i> <u>2005</u>	<i>30 Jun</i> <u>2005</u>	<i>30 Sep</i> <u>2005</u>	<i>31 Dec</i> <u>2005</u>
<b>Memorandum Accounts</b>					
Transactions on behalf of third parties	78,248	87,779	91,153	84,422	<b>86,016</b>
Customer current accounts	(4)	(7)	3	(3)	<b>1</b>
Customer banks	1	1	-	-	-
Settlement of customer securities and documents	(5)	(8)	3	(3)	<b>1</b>
Customer securities	50,009	52,551	59,958	65,172	<b>66,738</b>
Customer securities in custody	49,433	51,737	59,144	63,766	<b>65,592</b>
Pledged customers securities and documents	575	813	814	1,406	<b>1,146</b>
Transactions on behalf of customer	2,619	2,522	2,669	2,572	<b>2,411</b>
Customer repurchase transactions	2,619	2,522	2,669	2,572	<b>2,411</b>
Customer option repurchase transaction	-	-	-	-	-
Other transactions on behalf of customers	25,624	32,713	28,522	16,681	<b>16,866</b>
Investment on behalf of customers, net	25,624	32,713	28,522	16,681	<b>16,866</b>
Other memorandums accounts	440,454	456,676	490,375	448,878	<b>481,483</b>
Investment of the SAR funds	2,958	3,122	3,174	3,264	<b>3,292</b>
Integrated loan portfolio	115,148	119,799	131,940	121,721	<b>131,294</b>
Other memorandum accounts	322,348	333,755	355,261	323,893	<b>346,897</b>
Transactions for the group's own accounts	226,047	330,725	343,814	396,109	<b>339,597</b>
<b>Memorandum Accounts</b>	<b>226,020</b>	<b>330,712</b>	<b>343,762</b>	<b>396,103</b>	<b>339,524</b>
Guarantees granted	224	191	58	59	<b>57</b>
Irrevocable lines of credit granted	2,257	3,155	2,820	3,218	<b>3,761</b>
Goods in trust or mandate	63,606	64,468	65,830	66,886	<b>67,769</b>
Goods in custody or under administration	50,566	52,137	61,578	62,098	<b>56,937</b>
Amounts committed in transactions with Fobaproa	983	889	1,070	470	<b>123</b>
Amounts contracted in derivative operations	94,647	194,456	196,579	254,176	<b>205,915</b>
Securities in custody	4,082	4,066	4,070	4,073	<b>3,986</b>
Other contingent obligations	9,654	11,350	11,758	5,124	<b>976</b>
Repurchase/resale agreements	39,776	39,705	45,612	43,839	<b>44,434</b>
Securities receivable under repos	(39,749)	(39,738)	(45,559)	(43,827)	<b>(44,450)</b>
(less) Repurchase agreements	<u>28</u>	<u>(33)</u>	<u>53</u>	<u>12</u>	<u>(16)</u>
Reverse repurchase agreements	8,836	10,216	14,230	14,217	<b>15,944</b>
(less) Securities deliverable under repos	<u>(8,836)</u>	<u>(10,169)</u>	<u>(14,231)</u>	<u>(14,223)</u>	<u>(15,855)</u>
	<u>-</u>	<u>46</u>	<u>(1)</u>	<u>(6)</u>	<u><b>89</b></u>

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 3,886 millions.

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**Grupo Financiero HSBC, S.A. de C.V.**
*Figures in MXN millions*
**Consolidated Income Statement**

	<i>For the quarter ending....</i>					<i>YTD</i>	
	<i>31 Dec</i>	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>	<i>31 Dec</i>	<i>31 Dec</i>
	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Interest Income	5,565	5,892	6,549	7,018	<b>6,891</b>	19,393	<b>26,350</b>
Interest expense (-)	2,054	2,200	2,915	3,007	<b>2,715</b>	7,197	<b>10,837</b>
Monetary position (margin), net	(187)	(51)	(22)	(74)	<b>(173)</b>	(351)	<b>(320)</b>
Net interest income .....	<u>3,324</u>	<u>3,640</u>	<u>3,612</u>	<u>3,938</u>	<u><b>4,003</b></u>	<u>11,845</u>	<u><b>15,193</b></u>
Loan-loss provisions (-)	(276)	(247)	(369)	(481)	<b>(403)</b>	(1,370)	<b>(1,499)</b>
Risk adjustment net interest income...	<u>3,048</u>	<u>3,394</u>	<u>3,243</u>	<u>3,457</u>	<u><b>3,600</b></u>	<u>10,475</u>	<u><b>13,694</b></u>
Fees and commissions.....	2,101	1,960	1,984	2,240	<b>2,252</b>	7,616	<b>8,435</b>
Fees Paid .....	(215)	(212)	(235)	(216)	<b>(254)</b>	(637)	<b>(917)</b>
Trading Income .....	<u>248</u>	<u>218</u>	<u>288</u>	<u>418</u>	<u><b>439</b></u>	<u>913</u>	<u><b>1,363</b></u>
Total operating income.....	<u>5,182</u>	<u>5,360</u>	<u>5,279</u>	<u>5,899</u>	<u><b>6,037</b></u>	<u>18,367</u>	<u><b>22,575</b></u>
Administrative and personnel expenses (-) .....	<u>3,759</u>	<u>3,680</u>	<u>3,867</u>	<u>4,125</u>	<u><b>4,158</b></u>	<u>12,987</u>	<u><b>15,830</b></u>
Net operating income .....	<u>1,423</u>	<u>1,680</u>	<u>1,413</u>	<u>1,774</u>	<u><b>1,879</b></u>	<u>5,380</u>	<u><b>6,745</b></u>
Other income	536	222	280	552	<b>441</b>	1,363	<b>1,495</b>
Other expenses	(458)	(173)	(121)	(466)	<b>(261)</b>	(1,076)	<b>1,021</b>
Net income before taxes.....	<u>1,501</u>	<u>1,729</u>	<u>1,572</u>	<u>1,860</u>	<u><b>2,059</b></u>	<u>5,666</u>	<u><b>7,219</b></u>
Income tax and employee profit sharing	(571)	(281)	(401)	(477)	<b>(331)</b>	(1,247)	<b>(1,491)</b>
Deferred income tax	(230)	(387)	(198)	(256)	<b>(505)</b>	(1,270)	<b>(1,346)</b>
Net income before subsidiaries .....	<u>700</u>	<u>1,061</u>	<u>972</u>	<u>1,126</u>	<u><b>1,223</b></u>	<u>3,149</u>	<u><b>4,382</b></u>
Undistributed income from subsidiaries	98	119	171	229	<b>157</b>	228	<b>675</b>
Income from ongoing operations .....	<u>798</u>	<u>1,179</u>	<u>1,143</u>	<u>1,356</u>	<u><b>1,380</b></u>	<u>3,377</u>	<u><b>5,057</b></u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	-	(78)	-	-	(7)	<b>(78)</b>
Minority interest	-	-	-	-	-	-	-
Net income (loss) .....	<u>798</u>	<u>1,179</u>	<u>1,066</u>	<u>1,356</u>	<u><b>1,380</b></u>	<u>3,370</u>	<u><b>4,981</b></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 the from 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., Sección: Ligas de Interés, HSBC [www.hsbc.com.mx](http://www.hsbc.com.mx) English, Investor Relations – Financial Information. [www.cnbv.gov.mx/Sector Bancario/Instituciones de Crédito/Información Financiera de la Banca Múltiple](http://www.cnbv.gov.mx/Sector Bancario/Instituciones de Crédito/Información Financiera de la Banca Múltiple), Section: Información Estadística.

## Consolidated Statement of Changes in Shareholder's Equity

From January 1, 2005 to December 31, 2005.

	Paid in Capital			Capital Gains								Minority Interest	Total Stockholders Equity	
	Capital stock	Shares Premium	Additional paid-in capital	Capital Reserves	Retained earnings	Surplus (Deficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Results from holding non-monetary assets (Valuation of fixed assets)	Results from holding non-monetary assets (Valuation of permanent investments)	Adjustments to retirement fund obligations			Net income
<b>Balances as of December 31, 2004</b>	7,593	12,260	-	466	4,437	-	(1)	(3,691)	-	(3,698)	-	3,371	3	20,740
<b>Movements Inherent to the Shareholders Decision</b>														
Subscription of shares	-	-	-	-	3,371	-	-	-	-	-	-	(3,371)	-	-
Capitalization of retained earnings	-	-	-	168	(168)	-	-	-	-	-	-	-	-	-
Constitution of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	168	3,202	-	-	-	-	-	-	(3,371)	-	-
<b>Total</b>														
<b>Movements for the Recognition of the Comprehensive Income</b>														
-Net result	-	-	-	-	-	-	-	-	-	-	-	4,981	-	4,981
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	(6)	-	-	-	-	-	-	(6)
-Result from translation of foreign operations	-	-	-	-	-	-	-	2	-	-	-	-	(1)	1
-Cumulative effect of restatement	-	-	-	-	-	-	-	-	-	67	-	-	-	67
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Adjustments to retirement fund obligations	-	-	-	-	-	-	(6)	2	-	67	-	4,981	(1)	5,043
<b>Balances as of December 31, 2005</b>	<b>7,593</b>	<b>12,260</b>	-	<b>634</b>	<b>7,640</b>	-	<b>(7)</b>	<b>(3,689)</b>	-	<b>(3,631)</b>	-	<b>4,981</b>	<b>2</b>	<b>24,783</b>

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.

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**Consolidated Statement of Changes in Financial Position**

*From January 1, 2005 to December 31, 2005.*

**Operating activities**

Net income (loss) ..... **4,981**

**Items included in operations not requiring (providing) funds:**

Gains / (losses) from mark to market valuations (1,352)

Allowances for loan losses 1,499

Depreciation and amortization 849

Deferred taxes 1,346

Undistributed income from subsidiaries, net (675)

Increase (reduction) of the minority interest -

**Net Result of items included in operations not requiring (providing) funds..... 6,648**

**Changes in items related to operations:**

Increase (decrease) in deposits: 27,134

Increase (decrease) of loan portfolio (19,838)

Increase (decrease) of securities and derivative transactions, net (8,062)

Increase (decrease) of financial instruments 4,004

Other accounts receivable 2,432

**Funds provided by operating activities ..... 12,318**

**Financing Activities:**

Subordinated debentures outstanding (96)

Increase (Decrease) in bank and other loans (2,281)

**Funds used or provided in financing activities ..... (2,377)**

**Investing Activities:**

Increase (decrease) of property, furniture and equipment, net (1,273)

Increase (decrease) in deferred charges or credits, net (472)

Other investment activities 6

**Funds used in investing activities..... (1,739)**

Increase (decrease) in cash and equivalents: **8,202**

Cash and equivalents at beginning of period: **47,089**

Cash and equivalents at end of period..... **55,291**

"The present consolidated Statement of changes in financial position, 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 changes in financial position, was approved by the Board of Directors under the responsibility of the following officers.

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**Grupo Financiero HSBC, S.A. de C.V.**
**Key Indicators**

	<i>For the quarter ending...</i>				
	<i>31 Dec 2004</i>	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>
Non performing loans / total loans ratio ...	2.9%	2.8%	2.6%	2.8%	<b>2.5%</b>
Coverage ratio .....	192.9%	186.4%	177.3%	170.4%	<b>166.8%</b>
Operating efficiency.....	6.7%	6.3%	6.2%	6.5%	<b>6.4%</b>
Net interest margin (NIM) .....	5.7%	6.3%	5.7%	6.1%	<b>5.8%</b>
Return on average equity (ROAE) .....	15.7%	22.3%	19.2%	22.9%	<b>22.07%</b>
Return on assets (ROA) .....	1.4%	2.0%	1.7%	2.1%	<b>2.1%</b>
Capitalization ratio					
Credit risk.....	20.2%	19.6%	19.8%	19.2%	<b>21.1%</b>
Credit and market risk.....	13.7%	15.0%	14.6%	13.4%	<b>14.3%</b>
Liquidity.....	74.2%	75.7%	71.7%	84.2%	<b>83.1%</b>

Non performing loans / total loans ratio = Balance of non performing loans at quarter end / Balance of total loans at quarter end.

Coverage ratio= Balance of provisions for loan losses at quarter end / Balance of non performing loans at quarter end.

Operating efficiency = Annualized administrative expenses at quarter end / Average total assets.

ROE = Annualized net income at quarter end / Average shareholder's equity.

ROA = Annualized net income at quarter end / Average total assets.

Capitalization ratio = Net Capital / Risk weighted assets.

Liquidity = Liquid assets / Liquid liabilities.

Liquid Assets = Cash and deposits in banks + Trading securities + Available for Sale securities.

Liquid Liabilities = Demand deposits + Bank deposits and other on demand + Bank deposits and other short term liabilities.

NIM = Annualized net interest income / Average total assets.

Performing Assets = Cash and deposits in banks + Investment in securities + Derivative Operations + Performing loans.

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

**Banking Sector**
**HSBC México, S.A.**  
*Figures in MXN millions*
**Consolidated Balance Statement**

	<u>31 Dic</u> <u>2004</u>	<u>31 Mzo</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dic</u> <u>2005</u>
<b>Assets</b>					
Cash and deposits in banks .....	44,628	50,044	42,496	47,106	<b>51,033</b>
Financial instruments .....	45,530	36,757	45,519	48,135	<b>55,523</b>
Trading securities	2,729	-	-	4,158	<b>6,589</b>
Available for sale securities	38,654	32,743	41,450	39,984	<b>44,941</b>
Held to maturity securities	4,147	4,014	4,069	3,993	<b>3,993</b>
Securities and derivative operations.....	103	381	131	252	<b>573</b>
Repurchase agreements	59	109	95	79	<b>191</b>
Stock borrowings	-	-	-	-	-
Settlement Accounts to be recorded for purchase	-	-	-	-	-
Derivative transactions	44	272	36	173	<b>382</b>
Performing loans					
Commercial loans	28,166	30,676	36,275	39,609	<b>40,733</b>
Loans to financial intermediaries	4,131	3,400	4,143	5,100	<b>6,797</b>
Consumer loans	15,142	15,770	16,776	18,246	<b>23,954</b>
Mortgage	12,355	12,770	13,247	14,170	<b>15,319</b>
Loans to government entities	6,478	7,336	36,536	36,892	<b>36,162</b>
Loans to Fobaproa or IPAB	43,019	43,101	18,591	946	<b>1,097</b>
Total performing loans	<u>109,291</u>	<u>113,053</u>	<u>125,568</u>	<u>114,963</u>	<b><u>124,062</u></b>
Non-performing loans					
Commercial loans	1,943	1,992	1,918	1,708	<b>1,624</b>
Loans to financial intermediaries	-	-	-	-	-
Consumer loans	540	549	623	673	<b>807</b>
Mortgage	851	784	906	1,070	<b>955</b>
Loans to government entities	-	-	-	-	-
Immediate collection, remittances and other	42	75	47	31	<b>27</b>
Total non-performing loans	<u>3,376</u>	<u>3,400</u>	<u>3,494</u>	<u>3,482</u>	<b><u>3,413</u></b>
Total loan portfolio	<u>112,667</u>	<u>116,453</u>	<u>129,062</u>	<u>118,445</u>	<b><u>127,475</u></b>
(-) Allowance for loan losses	<u>(6,588)</u>	<u>(6,376)</u>	<u>(6,256)</u>	<u>(5,984)</u>	<b><u>(5,729)</u></b>
Net loan portfolio .....	<u>106,079</u>	<u>110,077</u>	<u>122,806</u>	<u>112,461</u>	<b><u>121,746</u></b>
Other accounts receivable .....	4,054	10,561	19,785	8,715	<b>14,677</b>
Foreclosed assets.....	510	470	420	403	<b>354</b>
Property, furniture and equipment, net.....	4,116	4,354	4,599	4,888	<b>5,240</b>
Long term investments in equity securities.....	401	395	171	175	<b>196</b>
Deferred taxes .....	2,199	1,968	1,562	1,154	<b>618</b>
Other assets, deferred charges and intangibles.....	<u>786</u>	<u>742</u>	<u>765</u>	<u>716</u>	<b><u>1,464</u></b>
<b>Total Assets</b>	<b><u>208,406</u></b>	<b><u>215,749</u></b>	<b><u>238,254</u></b>	<b><u>224,005</u></b>	<b><u>251,424</u></b>

	<i>31 Dic</i> <i>2004</i>	<i>31 Mzo</i> <i>2005</i>	<i>30 Jun</i> <i>2005</i>	<i>30 Sep</i> <i>2005</i>	<i>31 Dic</i> <i>2005</i>
<b>Pasivo</b>					
Deposits .....	174,393	170,495	179,796	181,970	<b>196,566</b>
Demand deposits	110,109	100,973	102,820	103,708	<b>118,811</b>
Time deposits	64,284	69,522	76,976	78,262	<b>77,755</b>
Bank bonds outstanding	-	-	-	-	-
Bank deposits and other liabilities .....	9,244	10,417	16,876	7,006	<b>6,896</b>
On demand	244	-	-	-	-
Short term	6,375	7,972	14,519	4,799	<b>4,737</b>
Long term	2,625	2,445	2,357	2,207	<b>2,159</b>
Settlement accounts to be recorded for sale	-	-	-	-	-
Securities and derivative transactions .....	32	359	5,665	2,963	<b>4,507</b>
Repurchase agreements	32	96	43	73	<b>118</b>
Settlement accounts to be recorded for purchase	-	263	1,738	-	-
Stock borrowings	-	-	3,884	2,890	<b>4,389</b>
Derivative transactions	-	-	-	-	-
Other accounts payable .....	9,106	18,212	19,016	13,919	<b>21,909</b>
Income tax and employee profit sharing payable	683	424	154	318	<b>1,201</b>
Sundry creditors and others accounts payable	8,423	17,788	18,862	13,601	<b>20,708</b>
Subordinated debentures outstanding.....	2,271	2,262	2,261	2,235	<b>2,206</b>
Deferred tax .....	-	-	-	-	-
Deferred credits.....	14	10	8	3	<b>15</b>
<b>Total Liabilities</b> .....	<b>195,060</b>	<b>201,755</b>	<b>223,622</b>	<b>208,096</b>	<b>232,099</b>
<b>Stockholder's Equity</b>					
Paid in capital.....	10,317	10,317	10,317	10,317	<b>12,517</b>
Capital stock	3,498	3,498	3,498	3,498	<b>3,773</b>
Additional paid in capital	6,819	6,819	6,819	6,819	<b>8,744</b>
Mandatorily convertible subordinated debentures	-	-	-	-	-
Capital Gains.....	3,027	3,676	4,314	5,590	<b>6,808</b>
Capital reserves	1,955	1,955	4,583	4,583	<b>4,583</b>
Retained earnings	-	3,190	-	-	-
Surplus (Deficit) from securities	16	(304)	7	230	<b>269</b>
Results of foreign operations exchange	11	11	11	11	<b>11</b>
Cumulative effect of restatement	(3,238)	(3,300)	(3,316)	(3,307)	<b>(3,360)</b>
Gains on non monetary asset valuation					
Valuation of fixed assets	1,245	1,245	1,245	1,245	<b>1,245</b>
Valuation of permanent investments	(152)	(148)	(142)	(143)	<b>(139)</b>
Adjustments to retirement fund obligations	-	-	-	-	-
Net Income	3,190	1,027	1,926	2,971	<b>4,199</b>
Minority interest in capital.....	2	1	1	2	-
Total Stockholder's Equity .....	<b>13,346</b>	<b>13,994</b>	<b>14,632</b>	<b>15,909</b>	<b>19,325</b>
<b>Total Liabilities and Capital</b> .....	<b>208,406</b>	<b>215,749</b>	<b>238,254</b>	<b>224,005</b>	<b>251,424</b>

	<u>31 Dic</u> <u>2004</u>	<u>31 Mzo</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dic</u> <u>2005</u>
<b>Memorandum Accounts</b>					
Guarantees granted	222	192	57	58	<b>57)</b>
Other contingent obligations	9,654	11,350	11,758	5,124	<b>976</b>
Irrevocable lines of credit granted	2,257	3,154	2,820	3,218	<b>3,761</b>
Goods in trust or mandate	63,605	64,468	65,830	66,886	<b>67,769</b>
Goods in custody or under administration	50,567	52,137	61,578	62,098	<b>56,937</b>
Third party investment banking operations, net	25,624	32,713	28,522	16,681	<b>16,866</b>
Amounts committed in transactions with Fobaproa	983	889	1,070	470	<b>123</b>
Amounts contracted in derivative operations	94,648	194,456	196,579	254,176	<b>205,915</b>
Investments of retirement savings system funds	2,958	3,122	3,174	3,264	<b>3,292</b>
Integrated loan portfolio	115,148	119,799	131,940	121,721	<b>131,294</b>
Other control accounts	322,347	333,753	355,260	323,893	<b>346,896</b>
	<u>688,013</u>	<u>816,033</u>	<u>858,588</u>	<u>857,589</u>	<u><b>833,885</b></u>
Securities receivable under repos	37,140	37,179	42,941	41,277	<b>42,005</b>
(less) Repurchase agreements	<u>(37,110)</u>	<u>(37,211)</u>	<u>(42,887)</u>	<u>(41,255)</u>	<u><b>(42,017)</b></u>
	<u>30</u>	<u>(32)</u>	<u>54</u>	<u>22</u>	<u><b>(12)</b></u>
Reverse repurchase agreements	6,197	7,689	11,556	11,645	<b>13,511)</b>
(less) Securities deliverable under repos	<u>(6,195)</u>	<u>(7,735)</u>	<u>(11,554)</u>	<u>(11,628)</u>	<u><b>(13,596)</b></u>
	<u>2</u>	<u>(46)</u>	<u>2</u>	<u>17</u>	<u><b>(85)</b></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 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 2,278 millions.

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**Consolidated Income Statement**

	<i>For the quarter ending...</i>					<i>YTD</i>	
	<i>31 Dic</i>	<i>31 Mzo</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dic</i>	<i>31 Dic</i>	
	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>
Interest income	5,355	5,680	6,324	6,741	<b>6,582</b>	19,044	<b>25,327</b>
Interest expense (-)	1,989	2,133	2,804	2,903	<b>2,626</b>	7,111	<b>10,467</b>
Monetary position (margin), net	(152)	(39)	(16)	(54)	<b>(132)</b>	(273)	<b>(241)</b>
Net interest income .....	<u>3,214</u>	<u>3,508</u>	<u>3,504</u>	<u>3,784</u>	<u><b>3,824</b></u>	<u>11,660</u>	<u><b>14,619</b></u>
Loan-loss provisions (-).....	274	240	373	479	<b>397</b>	1,363	<b>1,489</b>
Loan loss provisions bank	179	102	301	345	<b>341</b>	1,155	<b>1,089</b>
Loss sharing Fobaproa	95	138	72	134	<b>56</b>	208	<b>400</b>
Risk adjustment net interest income ...	<u>2,940</u>	<u>3,268</u>	<u>3,131</u>	<u>3,305</u>	<u><b>3,427</b></u>	<u>10,297</u>	<u><b>13,130</b></u>
Fees and commissions .....	1,969	1,721	1,800	1,981	<b>2,061</b>	7,181	<b>7,564</b>
Account management	387	365	377	400	<b>373</b>	1,615	<b>1,516</b>
Services	1,582	1,356	1,423	1,581	<b>1,688</b>	5,566	<b>6,048</b>
Fees Paid.....	(253)	(200)	(226)	(207)	<b>(246)</b>	(774)	<b>(879)</b>
Trading Income.....	244	218	285	413	<b>439</b>	907	<b>1,356</b>
Foreign exchange	193	(54)	445	214	<b>265</b>	569	<b>870</b>
Securities trading, net	75	49	(23)	(23)	<b>(88)</b>	243	<b>(85)</b>
Repos	7	23	66	77	<b>124</b>	28	<b>290</b>
Swaps	-	-	-	-	<b>11</b>	-	<b>11</b>
Valuation off-shore agencies	(31)	200	(203)	145	<b>127</b>	67	<b>270</b>
Total operating income .....	<u>4,900</u>	<u>5,007</u>	<u>4,990</u>	<u>5,492</u>	<u><b>5,681</b></u>	<u>17,611</u>	<u><b>21,171</b></u>
Administrative and personnel expenses (-).....	3,411	3,398	3,593	3,807	<b>3,900</b>	12,232	<b>14,698</b>
Personnel expense	1,497	1,452	1,622	1,818	<b>1,750</b>	5,350	<b>6,641</b>
Administrative expense	1,745	1,762	1,777	1,773	<b>1,923</b>	6,248	<b>7,236</b>
Depreciation and amortization	169	184	194	216	<b>227</b>	634	<b>821</b>
Net operating income.....	<u>1,489</u>	<u>1,609</u>	<u>1,397</u>	<u>1,685</u>	<u><b>1,781</b></u>	<u>5,379</u>	<u><b>6,473</b></u>
Other income	519	222	271	522	<b>490</b>	1,327	<b>1,504</b>
Other expenses	(452)	(168)	(117)	(466)	<b>(242)</b>	(1,062)	<b>(993)</b>
Net income before taxes. ....	<u>1,556</u>	<u>1,663</u>	<u>1,551</u>	<u>1,741</u>	<u><b>2,029</b></u>	<u>5,644</u>	<u><b>6,984</b></u>
Income tax and employee profit sharing	(542)	(246)	(381)	(451)	<b>(305)</b>	(1,196)	<b>(1,383)</b>
Deferred income tax	(228)	(389)	(197)	(256)	<b>(499)</b>	(1,265)	<b>(1,341)</b>
Net income before subsidiaries.....	<u>786</u>	<u>1,028</u>	<u>973</u>	<u>1,034</u>	<u><b>1,225</b></u>	<u>3,183</u>	<u><b>4,260</b></u>
Undistributed income from subsidiaries	3	-	2	10	<b>3</b>	14	<b>16</b>
Income from ongoing operations .....	<u>789</u>	<u>1,028</u>	<u>975</u>	<u>1,044</u>	<u><b>1,228</b></u>	<u>3,197</u>	<u><b>4,276</b></u>
Discontinued operations, extraordinary items and changes in accounting standards, net	-	-	(78)	-	<b>1</b>	(7)	<b>(77)</b>
Minority interest	-	-	-	-	<b>-</b>	-	<b>-</b>
Net income (loss).....	<u>789</u>	<u>1,028</u>	<u>897</u>	<u>1,044</u>	<u><b>1,229</b></u>	<u>3,190</u>	<u><b>4,199</b></u>

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**Banking Sector**

**HSBC México, S.A.**  
Figures in MXN millions

**Consolidated Statement of Changes in Shareholder's Equity**

From January 1, 2005 to December 31, 2005

	Paid in Capital					Capital Gains											Minority Interest	Total Stockholders Equity	
	Capital stock	Unpaid Capital stock	Increase from re-statement of paid-in capital stock	Shares' premium	Re-statement of shares' premium	Capital Reserves	Re-statement of statutory reserves	Retained earnings	Re-statement of retained earnings	Surplus (Deficit) from securities	Results of foreign operations exchange	Cumulative effect of restatement	Deficit in restatement of stock-holders' equity	Results from holding non-monetary assets (Valuation of fixed assets)	Results from holding non-monetary assets retirement (Valuation of permanent obligations)	Adjustments to fund Net income			
Balances as of December 31, 2004	2,004	-	1,395	5,127	1,499	1,036	863	-	-	16	11	(3,147)	-	1,210	(148)	-	3,099	2	12,968
<b>Movements Inherent to the Shareholders Decision</b>																			
Subscription of shares	275	-	-	1,925	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,200
Capitalization of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of result of prior years	-	-	-	-	-	-	-	3,099	-	-	-	-	-	-	-	-	(3,099)	-	-
Constitution of reserves	-	-	-	-	-	3,099	-	(3,099)	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	-	(517)	(32)	-	-	-	-	-	-	-	-	-	-	-	(550)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>1,925</b>	<b>-</b>	<b>2,582</b>	<b>(32)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,099)</b>	<b>-</b>	<b>1,651</b>
<b>Movements for the Recognition of the Comprehensive Income</b>																			
Integral Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Net result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,199	-	4,199
-Surplus from mark to market of available for sale securities	-	-	-	-	-	-	-	-	252	-	-	-	-	-	-	-	-	-	252
-Result from translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Cumulative effect of restatement	-	-	99	-	193	-	134	-	-	1	-	-	(215)	36	(4)	-	-	-	243
-Gains on non-monetary asset valuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	-	-	-	13
-Adjustments to retirement fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>99</b>	<b>-</b>	<b>193</b>	<b>-</b>	<b>134</b>	<b>-</b>	<b>-</b>	<b>253</b>	<b>-</b>	<b>-</b>	<b>(215)</b>	<b>36</b>	<b>9</b>	<b>-</b>	<b>4,199</b>	<b>(1)</b>	<b>4,707</b>
<b>Balances as of December 31, 2005</b>	<b>2,279</b>	<b>-</b>	<b>1,494</b>	<b>7,052</b>	<b>1,692</b>	<b>3,618</b>	<b>965</b>	<b>-</b>	<b>-</b>	<b>269</b>	<b>11</b>	<b>(3,147)</b>	<b>(215)</b>	<b>1,246</b>	<b>(139)</b>	<b>-</b>	<b>4,199</b>	<b>1</b>	<b>19,325</b>

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 the signing officers.

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**Banking Sector**

**HSBC México, S.A.**  
*Figures in MXN millions*

**Consolidated Statement of Changes in Financial Position**

From January 1, 2005 to December 31, 2005

**Operating activities**

Net income (loss) ..... **4,199**

**Items included in operations not requiring (providing) funds:**

Depreciation and amortization	821
Allowance for loan losses	1,489
Provisions for foreclosed assets	-
Gains / (losses) from mark to market valuations	(270)
Deferred taxes	1,341
Undistributed income from subsidiaries, net	(16)
Allowance for decrease in property value	52
Increase (reduction) of the minority interest	-

**Net Result of items included in operations not requiring (providing) funds..... 7,618**

**Changes in Operating Accounts:**

Increase (decrease) in retail deposit and money desk	22,173
Increase (decrease) of loan portfolio	(17,156)
Increase (decrease) of financial instruments	(5,466)
Increase (decrease) of other receivable and payable accounts, net	1,499

**Funds provided by operations..... 8,668**

**Financing Activities:**

Subordinated debentures outstanding	(64)
Interbank and other loans	(2,348)
Dividends paid	(561)
Increase (decrease) in capital	2,200
Result from foreign currency transactions	-
Convertible subordinated debentures	-
Fiscal results of agencies	-

**Funds used or provided by financing activities ..... (773)**

**Investing Activities:**

Increase (decrease) of property, furniture and equipment and long term investments	(1,834)
Increase (decrease) in deferred credits	240
Increase (decrease) in foreclosed assets	104

**Funds used in investing activities..... (1,490)**

Increase (decrease) in cash and equivalents ..... 6,404

Cash and equivalents at beginning of period..... 44,629

**Cash and equivalents at end of period..... 51,033**

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.

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**Banking Sector**  
**HSBC México, S.A.**  
*Figures in MXN millions*

**Key Indicators**

	<i>For the quarter ending ...</i>				
	<i>31 Dec 2004</i>	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>
Non performing loans / total loans ratio ...	3.0%	2.9%	2.7%	2.9%	<b>2.7%</b>
Coverage ratio .....	195.1%	187.5%	179.0%	171.9%	<b>167.9%</b>
Operating efficiency.....	6.7%	6.4%	6.3%	6.6%	<b>6.6%</b>
Net interest margin (NIM).....	6.4%	7.0%	6.6%	7.2%	<b>6.6%</b>
Return on average equity (ROE) .....	24.0%	30.1%	25.1%	27.4%	<b>27.9%</b>
Return on assets (ROA).....	1.5%	1.9%	1.6%	1.8%	<b>2.1%</b>
Capitalization ratio					
Credit risk.....	20.2%	19.6%	19.8%	19.2%	<b>21.1%</b>
Credit and market risk .....	13.7%	15.0%	14.6%	13.4%	<b>14.3%</b>
Liquidity.....	73.7%	76.0%	71.5%	84.1%	<b>83.0%</b>

Non performing loans / total loans ratio = Balance of non performing loans at quarter end / Balance of total loans at quarter end.

Coverage ratio= Balance of provisions for loan losses at quarter end / Balance of non performing loans at quarter end.

Operating efficiency = Annualized administrative expenses at quarter end / Average total assets.

ROE = Annualized net income at quarter end / Average shareholder's equity.

ROA = Annualized net income at quarter end / Average total assets.

Capitalization ratio = Net Capital / Risk weighted assets.

Liquidity = Liquid assets / Liquid liabilities.

Liquid Assets = Cash and deposits in banks + Trading securities + Available for Sale securities.

Liquid Liabilities = Demand deposits + Bank deposits and other on demand + Bank deposits and other short term liabilities.

NIM = Annualized net interest income / Average total assets.

Performing Assets = Cash and deposits in banks + Investment in securities + Derivative Operations + Performing loans.

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

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## **Variance Analysis of Balance Sheet and Income Statement**

### **Balance**

The Group's total assets increased nearly 21% versus prior year, driven by increases in loans and investments in securities and funded by growth in deposits.

There was significant growth in investments in securities and derivative operations, benefiting from investments in technology that have permitted more complex transactions. This is a reflection of the Group's established strategy to reduce interest rate sensitivity and to strengthen the financial instruments portfolio.

On the other hand, in August and September MXN 17 billion of Fobaproa notes payments were received, leading to gradual increases in the loan portfolio of approximately MXN 6 billion in both available liquidity and in investment in securities. Additionally, in December the level of regulatory deposits increased MXN 5 billion due to a Banxico requirement for higher deposits relating to the regulation of liquidity in the financial markets.

The Group's performing loans observed significant growth during the year, especially in commercial and consumer loans which increased MXN 14 and MXN 9 billion, or 46 and 56% respectively. Mortgages registered 21% growth during the year, prompted by the launch of a competitive fixed rate campaign, as well as of products to take advantage of Infonavit resources. Even though the amount of performing loans decreased approximately MXN 17 billion during the third quarter due to the prepayment of Fobaproa notes, performing loans finished the year with 15% growth. The Group's loan portfolio benefited from solid growth in commercial and mortgage loans in its Panama subsidiary.

The IPAB loan was reclassified to loans to government entities, which consequently increased the portfolio by MXN 29,684 million in the year.

In the past year the bank's performing loans had solid performance, driven by 45% growth in commercial and nearly 58% in consumer loans. This was largely due to organic growth in vehicle finance (coupled with the purchase of a vehicle finance portfolio), an increase in the credits offered to PyME's tripling loans in 12 months, 84% growth in credit cards and more than the 100% growth in payroll loans. While performing loans grew nearly 15% in the last 12 months, non-performing loans remained flat. Versus the previous quarter, performing loans grew 8%, while non-performing loans decreased 2 percent.

Property also grew significantly with HSBC's new headquarters, Torre Ángel, opening in 2006. It is also important to note the strong reduction in deferred taxes from MXN 2,274 million at December 31, 2004 to MXN 747 million by the end of 2005, representing a decrease of 67 percent.

In the last quarter there was a solid increase in customer deposits due to December's seasonal effect. Versus prior year total customer deposits grew 15 percent. In the last quarter of the year alone, the Bank's deposits grew 8%. In the year time deposits in the Bank grew 21%, while demand deposits grew 8%, representing a change in the deposit mix. While in December 2004 time deposits represented 37% of total deposits, in 2005 this percentage grew to almost 40 percent.

These positive results have contributed to a 21% increase in the Bank's capital.

## Income Statement

### Net Income

At the close of 2005, Grupo Financiero HSBC reported favorable results with an annual net income of MXN 4,981 million, representing 48% growth versus 2004. This increase is largely due to the contribution of the Bank with annual net income of MXN 4,200, followed by the Insurance Company with MXN 504 and the Panama subsidiary with MXN 202 million.

In the last quarter of the year the Bank reached a net income of MXN 1,380 million, which represents a 27% increase versus prior quarter and a 56% increase versus the same quarter in 2004. This result was largely influenced by a strong increase in deposits and credits.

### Net Interest Income

The Group's net interest income grew by 30% versus prior year driven by solid growth in commercial loans coupled with robust growth in deposits.

In the last quarter the Group reported net interest income of MXN 3,824 million largely due to an increase in deposits and strong performance in packaged products like "*Tu Cuenta*".

### Non-interest Income

The Group's fees and commissions increased by 8% over prior year. The Bank contributed to this growth with strong performance in credit cards, electronic banking, ATMs, membership programs, remittances and bank loans.

Packaged products such as *Estímulo* directed to support small and medium businesses and innovative launches like *La Efectiva*- a debit card for sending remittances, or *Venta Directa*- a product that permits the sale of used cars among clients utilizing HSBC's financing and its internet as the intermediary, have performed an important role in fees and commissions growth.

Trading income increased by 49% versus prior year and 16% versus prior quarter in spite of maintaining conservative risk positions in the financial markets. This was driven by strength in retail foreign exchange and proper positioning in the money market.

### Provisions

Provisions grew by 14% versus prior year, in line with the growth in the loan portfolio and reflecting better credit quality and macroeconomic conditions. In the Bank non-performing loans to total loans decreased from 3.0% in prior year to 2.7% in 2005 and the coverage ratio was 168%.

### Administrative Expenses

During the year administrative expenses grew by 22%. This increase reflects a growth in the number and training of personnel, greater investments in technology, an increase in the variable incentive payment tied to revenue growth and in promotion (marketing) expenses. HSBC now counts on its sufficient infrastructure to grow organically: young and qualified personnel, one of the best networks of ATMs and branch offices with the most extensive hours in the market, a new and improved operations center and a new corporate headquarters.

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

Figures in MXN millions

**Financial Instruments**

At December 31, 2005

	<u>31 Dec</u> <u>2004</u>	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>
Government securities	930	270	236	3,261	5,652
Fiduciary certificates	-	-	-	-	-
Bank securities	2,091	28	29	1,467	1,219
Shares	21	17	17	17	18
Sovereign government debt bonds	-	-	-	-	-
Others	23	51	64	92	57
Trading securities.....	<u>3,065</u>	<u>366</u>	<u>346</u>	<u>4,837</u>	<u>6,945</u>
Government securities					
Fiduciary certificates	33,287	25,905	31,964	29,528	31,699
Bank securities	2,072	2,029	2,018	2,022	3,133
Obligations and other securities	321	310	1,953	4,241	3,912
Shares	4,635	5,310	6,636	5,351	7,089
Available for sale securities.....	<u>20</u>	<u>18</u>	<u>17</u>	<u>10</u>	<u>189</u>
	<u>40,334</u>	<u>33,573</u>	<u>42,588</u>	<u>41,153</u>	<u>46,022</u>
Sovereign debt securities	828	726	706	586	577
Commercial and industrial subordinated debentures	2	2	2	2	2
Special Cetes (net)	3,148	3,188	3,278	3,344	3,366
Myras	169	98	82	61	48
Other debt securities	-	-	-	-	-
Securities held to maturity.....	<u>4,147</u>	<u>4,015</u>	<u>4,068</u>	<u>3,993</u>	<u>3,993</u>
Total Financial Instruments.....	<u>47,546</u>	<u>37,954</u>	<u>47,001</u>	<u>49,983</u>	<u>56,960</u>

In the fourth quarter of 2005 there was an increase in investment in securities of MXN 6,977 versus prior quarter. This is mainly due to MXN 4,562 million in government securities (mainly in bonds and cetes), in Pagarés with liquidable return of MXN (586) at maturity, an increase of MXN 1,738 in UMS Global and others of MXN 1,263.

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

Figures in MXN millions

**Repurchase Agreements**

At December 31, 2005

	<u>31 Dec</u> <u>2004</u>	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>
Government securities (debit)	36,767	39,078	40,883	38,919	42,769
Bank securities (debit)	2,917	619	3,103	4,465	1,618
Bank securities (own)	-	-	1,502	390	-
Valuation Increase (decrease)	74	(5)	89	75	20
Interest in securities receivable under repurchase agreements	17	13	35	(11)	27
Total in repo agreements (debit).....	<u>39,776</u>	<u>39,705</u>	<u>45,612</u>	<u>43,839</u>	<u>44,434</u>
Repo's Government securities (credit)	36,770	39,079	40,884	38,928	42,772
Repo's Bank securities (credit)	2,917	619	3,103	4,465	1,618
Repo's Bank securities (own)	-	-	1,502	390	-
Valuation increase (decrease)	1	(1)	2	3	3

Accrued interest payable	61	41	67	40	57
Credit balance in repo agreements .....	<u>39,749</u>	<u>39,738</u>	<u>45,559</u>	<u>43,827</u>	<u>44,450</u>
Repurchase agreements in government securities	8,812	10,198	14,226	13,697	15,899
Repurchase agreements in banking securities	-	-	-	507	-
Valuation increase (decrease)	1	-	2	3	3
Accrued interest receivable	23	17	1	9	42
Debit balance repo securities agreements .....	<u>8,836</u>	<u>10,216</u>	<u>14,230</u>	<u>14,217</u>	<u>15,944</u>
Government securities	8,810	10,198	14,224	13,686	15,895
Bank securities	-	-	-	507	-
Valuation increase (decrease)	4	(44)	4	20	(84)
Interest in securities deliverable under repurchase agreements	22	15	2	9	44
Credit balance repo securities agreements .....	<u>8,836</u>	<u>10,169</u>	<u>14,231</u>	<u>14,223</u>	<u>15,855</u>

**Banking sector**

**HSBC México, S.A.**  
*Figures in MXN millions*

**Derivative Financial Instruments**

*At December 31, 2005*

	<u>Futures</u>		<u>Forwards Contracts</u>		<u>Options</u>		<u>Swaps</u>		
	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>	<u>Liability position</u>	<u>Asset position</u>
For trading .....									
Pesos	-	-	67,136	61,032	-	-	-	-	6,104
US Dollars	-	-	75,093	81,090	1,375	1,329	40,174	41,197	(6,974)
Interest Rate	22,638	22,638	-	-	-	-	168,377	167,125	1,252
<b>Total</b>	<b>22,638</b>	<b>22,638</b>	<b>142,229</b>	<b>142,122</b>	<b>1,375</b>	<b>1,329</b>	<b>208,551</b>	<b>208,322</b>	<b>382</b>
For hedging .....									
Pesos	-	-	-	-	-	-	2,015	-	-
US Dollars	-	-	-	-	-	-	-	2,000	-
Interest Rate	-	-	-	-	-	-	193	187	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,208</b>	<b>2,188</b>	<b>-</b>

**Banking sector**

**HSBC México, S.A.**  
*Figures in MXN millions*

**Stock Borrowings**

*At December 31, 2005*

	<u>31 Dec 2004</u>	<u>31 Mar 2005</u>	<u>30 Jun 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>
<b>Received borrowings</b>					
Cetes	-	-	-	936	216
Increase or decrease in cetes	-	-	-	-	-
Bonds	-	-	4,053	1,956	4,168
Increase or decrease in bonds	-	-	(168)	(2)	3
<b>Total.....</b>	<b>-</b>	<b>-</b>	<b>3,884</b>	<b>2,890</b>	<b>4,388</b>

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

**Participation by Subsidiary**

Group Subsidiaries at December 2005

	Number of Shares owned by subsidiaries	Participation Percentage	Number of Shares owned by HSBC Group
HSBC México, S.A. Institución de Banca Múltiple	1,139,215,231	99.99%	1,139,116,640
HSBC Seguros, S.A. de C.V.	392,200	99.99%	392,199
HSBC Afore, S.A. de C.V.	225,500	99.99%	225,499
HSBC Fianzas, S.A.	759,990,753	97.22%	738,883,014
HSBC Casa de Bolsa, S.A. de C.V.	72,727,272	99.99%	72,727,271
HSBC Operadora de Fondos, S.A. de C.V.	1,000	99.90%	999
HSBC Bank Panamá S.A.	1,000,000	100.00%	1,000,000
<b>Total</b>	<b>1,973,551,956</b>		<b>1,952,345,622</b>

**Banking sector**

**HSBC México, S.A.**

Figures in MXN millions

**Trading Income**

	<i>For the quarter ending . . .</i>					<i>YTD . . .</i>	
	<i>31 Dec 2004</i>	<i>31 Mar 2005</i>	<i>30 Jun 2005</i>	<i>30 Sep 2005</i>	<i>31 Dec 2005</i>	<i>31 Dec 2004</i>	<i>31 Dec 2005</i>
<b>Valuation</b>	<b>(32)</b>	<b>195</b>	<b>(199)</b>	<b>142</b>	<b>119</b>	<b>59</b>	<b>257</b>
Derivatives	3	221	(236)	69	69	65	218
Repos	(34)	(27)	55	52	52	(8)	38
Shares	-	-	-	-	-	-	-
Debt Securities	(1)	(1)	(18)	(3)	(3)	2	-
<b>Buying and Selling Instruments</b>	<b>271</b>	<b>19</b>	<b>480</b>	<b>265</b>	<b>325</b>	<b>802</b>	<b>1,089</b>
Foreign Currency	189	(52)	437	212	264	542	861
Derivatives	2	(4)	(5)	6	14	-	11
Repos	88	28	48	70	(46)	130	100
Shares	-	-	-	-	-	6	-
Debt Securities	(8)	47	-	(23)	93	124	117
<b>Total</b>	<b>239</b>	<b>214</b>	<b>281</b>	<b>407</b>	<b>444</b>	<b>861</b>	<b>1,346</b>

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

Figures in MXN millions

**Loan Portfolio**

By type of currency

At December 31, 2005

	<i>Commercial Loans</i>	<i>Financial Intermediaries</i>	<i>Consumer Loans</i>	<i>Mortgage Loans</i>	<i>Government Loans</i>	<i>IPAB</i>
<b>Performing Loan Portfolio</b>						
Pesos	29,292	6,573	23,954	11,437	34,872	1,096
US Dollars	11,442	224	-	4	1,290	-

Udis Banxico	-	-	-	3,878	-	-
Subtotal .....	<u>40,734</u>	<u>6,797</u>	<u>23,954</u>	<u>15,319</u>	<u>36,162</u>	<u>1,096</u>
Panama	5,018	99	1,706	4,781	-	-
<b>Total.....</b>	<b><u>45,752</u></b>	<b><u>6,896</u></b>	<b><u>25,660</u></b>	<b><u>20,100</u></b>	<b><u>36,162</u></b>	<b><u>1,096</u></b>
	<i>Commercial</i>	<i>Financial</i>	<i>Consumer</i>	<i>Mortgage</i>	<i>Government</i>	<i>IPAB</i>
	<i>Loans</i>	<i>Intermediaries</i>	<i>Loans</i>	<i>Loans</i>	<i>Loans</i>	
Non Performing Loans Portfolio						
Pesos	1,218	-	807	434	-	-
US Dollar	433	-	-	-	-	-
Udis Banxico	-	-	-	521	-	-
<b>Total.....</b>	<b><u>1,651</u></b>	<b><u>-</u></b>	<b><u>807</u></b>	<b><u>955</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
Panama	43	-	11	66	-	-
<b>Total.....</b>	<b><u>1,694</u></b>	<b><u>-</u></b>	<b><u>818</u></b>	<b><u>1,021</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

**Banking sector**

**HSBC México, S.A.**  
*Figures in MXN millions*

**Loan Portfolio Grading**

*At December 31, 2005*

	<i>Loan Portfolio</i>	<i>Allowance for Loan Losses per category</i>			
		<i>Commercial Loans</i>	<i>Loan Portfolio</i>	<i>Commercial Loans</i>	<i>Loan Portfolio</i>
Exempted from rating	30,623,545				
Graded.....	100,670,120				
“A” Risk	67,443,389	246,599	234,602	123,137	604,338
A-1 Risk	29,133,492	1,451,720	237,955	55,006	1,744,681
A-2 Risk	1,304,227	205,141	257,818	59,103	522,062
“B” Risk	1,808,551	278,951	564,968	439,467	1,283,386
B-1 Risk	<u>980,461</u>	<u>820,294</u>	<u>94,386</u>	<u>62,078</u>	<u>976,758</u>
B-2 Risk	<b>131,293,665</b>	<b>3,002,705</b>	<b>1,389,729</b>	<b>738,790</b>	<b>5,131,224</b>
B-3 Risk					
Constituted Reserves.....					<b>5,729,773</b>
Surplus.....					<b>598,549</b>

1. The last day month figures, corresponding to the balance sheet at 31 December 2005, are the ones used to grade and establish the reserves.

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. For the second stage of the commercial lending portfolio, the institution will use the CNBV methodology, published on August 20, 2004. For the Consumer Lending portfolio and the Mortgage portfolio, the Institution will use the methodology of the circular published on December 2, 2005.

3. The surplus in constituted reserves is explained by: \$598,549 in other reserves for the mortgage portfolio.

**Banking sector**

**HSBC México, S.A.**

*Figures in MXN millions*

**Non-performing Loans**

	<i>For the quarter ending...</i>				
	<u>31 Dec 2004</u>	<u>31 Mar 2005</u>	<u>30 Jun 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>
<b>Initial balance of non performing loan portfolio</b>	<b>3,946</b>	<b>3,280</b>	<b>3,324</b>	<b>3,423</b>	<b>3,433</b>
Increases	3,701	3,337	3,876	6,762	2,393
Transfer of current loans to past due status	3,701	3,337	3,876	6,762	2,393
Purchase of portfolio	-	-	-	-	-
Suspended interest	-	-	-	-	-
Decreases	(4,377)	(3,300)	(3,757)	(6,756)	(2,419)
Restructurings	(72)	(5)	(5)	(58)	(28)
Liquidated credits	(3,383)	(2,413)	(3,282)	(6,289)	(2,044)
Charged in cash	(2,496)	(2,094)	(2,902)	(5,556)	(1,449)
Foreclosed assets	(6)	(14)	(2)	(29)	(3)
Debt capitalized in the bank's favour	-	-	(1)	-	-
Writeoffs	(881)	(306)	(377)	(704)	(593)
Sale of portfolio	(207)	-	-	-	-
Transfer to performing loan status	(715)	(882)	(470)	(410)	(347)
Fx revaluations	10	7	(20)	4	5
Interest capitalization	-	-	-	-	-
<b>Final Balance of Non Performing Loan Portfolio</b>	<b>3,280</b>	<b>3,324</b>	<b>3,423</b>	<b>3,433</b>	<b>3,413</b>

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

*Figures in MXN millions*

**Deferred Taxes**

	<u>31 Dec 2004</u>	<u>31 Mar 2005</u>	<u>30 Jun 2005</u>	<u>30 Sep 2005</u>	<u>31 Dec 2005</u>
Loan loss reserves	2,232	1,874	1,593	1,360	<b>941</b>
Valuation of securities	(40)	158	(22)	(213)	<b>(294)</b>
Fiscal loss	77	97	78	60	<b>133</b>
Loss sharing	2,144	2,173	2,189	2,216	<b>833</b>
Other	-	-	-	-	<b>461</b>
	147	78	167	115	<b>194</b>
Differences in rates of fixed assets	(374)	(367)	(357)	(230)	<b>(289)</b>
Fiscal result UDIS-Banxico	(1,912)	(1,936)	(1,962)	(2,030)	<b>(1,232)</b>
	2,274	2,077	1,686	1,278	<b>747</b>
Total Deferred Taxes					
Loan loss reserves	<u>2,232</u>	<u>1,874</u>	<u>1,593</u>	<u>1,360</u>	<u><b>941</b></u>

**Banking sector**

**HSBC México, S.A.**

*Figures in MXN millions*

**Funding, Loans and Investment in Securities**

**Funding and bank loans – Average Interest rates**

	<i>For the quarter ending...</i>				
	<i>31 Dec</i>	<i>31 Mar</i>	<i>30 Jun</i>	<i>30 Sep</i>	<i>31 Dec</i>
	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
Loans in MXN pesos					
Funding	2.43%	2.71%	3.27%	3.46%	<b>3.17%</b>
Bank and other loans	7.23%	8.09%	9.16%	9.01%	<b>8.04%</b>
Loans in foreign currency					
Funding	0.56%	0.69%	0.62%	0.68%	<b>0.80%</b>
Bank and other loans	2.86%	3.19%	3.65%	4.51%	<b>4.77%</b>
UDIS					
Funding	0.81 %	0.64%	0.27%	0.22%	<b>0.20%</b>

**Banking sector**

**HSBC México, S.A.**

*Figures in MXN millions*

**Long Term Debt**

HSBC 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.

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

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

*Figures in MXN millions*

**Capital**

**Grupo Financiero HSBC, S.A. de C.V. (Group)**

The ordinary shareholders meeting, held on April 21, 2005, approved the application of the year's financial year results, amounting to MXN 3,370 m, as per the following:

- MXN 169m (5%) to increase legal reserves, and the remaining MXN 3,202 m, at the disposal of the Board under the concept of the previous year's financial years.

**Subsidiaries:**

**HSBC México, S.A. (Bank)**

The ordinary shareholders meeting, held on April 21, 2005, approved the application of the year's financial results, totalling MXN 3,190 m, as per the following:

- MXN 319 m (10%) to increase legal reserves, and the remaining MXN 2,871 m, at the disposal of the Board under the concept of other reserves.

**Dividends**

HSBC México, S.A., paid a dividend of 0.549058 per share for all 1,001,715,231 of its shares in circulation equivalent to MXN 550 million in July 2005, charged to fiscal net income.

**Share Subscriptions**

The assembly of shareholders on November 17, 2005, approved to increase the capital stock in the following form:

- MXN 275 by means of the emission of 137,500,000 shares that were subscribed and paid for in cash worth \$16 pesos, from which \$2 pesos corresponded to capital stock and the remaining balance to the shareholder's premium, for which the shareholders had the right to subscribe and to pay 137.2646 shares for each 1,000 shares they own.

The capital stock increased to MXN 2,278, representing 1,139,215,231 shares.

**HSBC Brokerage House**

The ordinary shareholders meeting, held on April 21, 2005, approved the application of the year's financial results, totalling MXN 11 m, as per the following:

- MXN 0.545 m (5%) to increase legal reserves, and the remaining MXN 10.4 m, at the disposal of the Board under the concept of the previous year's financial results

**Banking sector**  
**HSBC México, S.A.**  
*Figures in MXN millions*

**Capital Ratio**

	<u>31 Dec</u> <u>2004</u>	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>
% of assets subject to credit risk					
Tier 1	16.11%	16.11%	15.99%	15.77%	<b>17.81%</b>
Tier 2	4.13%	3.45%	3.77%	3.42%	<b>3.33%</b>
Total regulatory capital .....	<u>20.24%</u>	<u>19.56%</u>	<u>19.76%</u>	<u>19.19%</u>	<u><b>21.14%</b></u>
% of assets subject to credit and market risk					
Tier 1	10.90%	12.32%	11.80%	10.97%	<b>12.06%</b>
Tier 2	2.79%	2.64%	2.78%	2.38%	<b>2.26%</b>
Total regulatory capital .....	<u>13.69%</u>	<u>14.96%</u>	<u>14.58%</u>	<u>13.35%</u>	<u><b>14.32%</b></u>
Tier 1	12,176	13,017	13,656	14,990	<b>18,128</b>
Tier 2	3,123	2,788	3,223	3,248	<b>3,392</b>
Total regulatory capital .....	<u>15,299</u>	<u>15,806</u>	<u>16,879</u>	<u>18,238</u>	<u><b>21,520</b></u>
RWA credit risk	75,586	80,791	85,402	95,023	<b>101,805</b>
RWA market risk	36,135	24,867	30,384	41,588	<b>48,428</b>
RWA credit and market risk.....	<u>111,720</u>	<u>105,659</u>	<u>115,786</u>	<u>136,612</u>	<u><b>150,233</b></u>

In accordance with the general rules referred to in the Article 134 bis of the Lending Institution Law, HSBC México, S.A. is classified as category I for presenting a 14.3% capitalization rate in the fourth quarter of 2005.

**Casa de Bolsa, S.A. de C.V.**

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

Figures in MXN millions

**Capital Ratio (Brokerage House)**

	<u>31 Dec</u> <u>2004</u>	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>
% of assets subject to credit risk					
Tier 1	159.3%	157.1%	174.6%	219.6%	198.1%
Total regulatory capital.....	159.3%	157.1%	174.6%	219.6%	198.1%
% of assets subject to credit risk					
Tier 1	111.9%	117.9%	129.4%	151.9%	126.5%
Total regulatory capital.....	111.9%	117.9%	129.4%	151.9%	126.5%
Tier 1	97	101	112	125	105
Tier 2	-	-	-	-	-
Total regulatory capital .....	97	101	112	125	105
RWA credit risk	61	64	64	57	53
RWA market risk	26	21	22	25	30
RWA credit and market risk.....	87	85	86	82	83

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

Figures in MXN millions

**Other Expenses, Other Income and Extraordinary Items**

	<i>For the quarter ending...</i>					<i>YTD...</i>	
	<u>31 Dec</u> <u>2004</u>	<u>31 Mar</u> <u>2005</u>	<u>30 Jun</u> <u>2005</u>	<u>30 Sep</u> <u>2005</u>	<u>31 Dec</u> <u>2005</u>	<u>31 Dic</u> <u>2004</u>	<u>31 Dic</u> <u>2005</u>
Other income							
Loans to employees	10	12	14	17	19	40	63
Recoveries	390	27	39	16	6	815	88
Other income	136	183	224	522	416	508	1,344
Result from monetary position (other income)	-	-	3	(3)	-	-	-
	536	222	280	552	441	1,363	1,495
Other expenses							
Other losses	(429)	(170)	(123)	(466)	(255)	(914)	(1,014)
Result from monetary position (other income)	(29)	(3)	2	-	(6)	(162)	(7)
	(458)	(173)	(121)	(466)	(261)	(1,076)	(1,021)
Total other income (expenses) .....	78	49	159	86	180	287	474
Discontinued operations, extraordinary items and changes in accounting standards .....	-	-	(78)	-	-	(7)	(78)

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

Figures in MXN millions

### Related Party Transactions

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 December 31, 2005 is shown below:

	Bank	Afore	Brokerage House	Investment Funds Operator	Group	Total
<b>Balance</b>						
Cash and Balances at central/other banks and items in the course of collection	-	-	1	-	-	1
Deposits (liabilities)	(1)	-	-	-	-	(1)
Repos	5	-	5	-	-	10
Reverse repos	(5)	-	(5)	-	-	(10)
Sundry debtors (assets)	-	-	-	-	-	-
Sundry creditors (liabilities)	-	-	-	-	-	-
<b>Total</b>	<b>(1)</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Results</b>						
Payable commissions	(2)	(2)	(38)	(3)	-	(45)
Receivable commissions	36	-	4	5	-	45
Administrative services	(11)	(20)	(32)	(4)	-	(67)
Other income	55	12	-	-	-	67
<b>Total</b>	<b>78</b>	<b>(10)</b>	<b>(66)</b>	<b>(2)</b>	<b>-</b>	<b>-</b>

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

Figures in MXN millions

### Information on Customer Segment and Results

#### Consolidated Income Statement by Customer Segment

The consolidated income statement by customer segment includes Personal Financial Services (PFS), Commercial Banking (CMB), 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.

*Corporate, Investment Banking and Markets (CIBM)* – 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 December 31, 2005, is shown below:

	December 2005				
	PFS	CMB	CIBM	OAC	Total
Net Interest Income	9,003	2,731	1,788	1,671	15,193
Provision for Loan Loss	(85 )	9	-	(1,422)	(1,499)
<b>Net Interest Income adjusted</b>	<b>8,918</b>	<b>2,740</b>	<b>1,788</b>	<b>248</b>	<b>13,694</b>
Fees and Commissions, net	4,704	1,641	385	789	7,518
Trading Income	299	66	980	17	1,363
<b>Total Revenue</b>	<b>13,921</b>	<b>4,447</b>	<b>3,153</b>	<b>1,054</b>	<b>22,575</b>
Administrative Expenses	11,547	2,460	1,179	644	15,830
<b>Operating Income</b>	<b>2,374</b>	<b>1,987</b>	<b>1,974</b>	<b>410</b>	<b>6,745</b>
Other Income (Expenses), net	-	5	7	462	474
Taxes	(989 )	(816 )	(828 )	(204 )	(2,837)
<b>Net Income before subsidiaries</b>	<b>1,385</b>	<b>1,176</b>	<b>1,153</b>	<b>668</b>	<b>4,382</b>
Undistributed income from subsidiaries	17	-	-	642	659
Continued Operating Results	-	-	-	16	16
Discontinued Operating Results	-	-	-	(76 )	(76)
<b>Net Income</b>	<b>1,402</b>	<b>1,176</b>	<b>1,153</b>	<b>1,250</b>	<b>4,981</b>
Minority Shareholders	-	-	-	-	-
<b>Participated Net Income</b>	<b>1,402</b>	<b>1,176</b>	<b>1,153</b>	<b>1,250</b>	<b>4,981</b>

## Market Risk Management

The measures and quantitative information presented are in accordance with CNBV (Mexican Banking and Securities Commission.) regulations, related to the disclosure of policies and procedures established by credit institutions for market risk management.

In accordance with the “Circular de Disposiciones Prudenciales en material de Administración Integral de Riesgos”, published by the CNBV, the bank recognizes basic rules for an efficient market risk management, evaluating them under quantifiable (credit, market and liquidity) and non-quantifiable (operation and legal) risks, and under the vision of satisfying the basic processes of identifying, measuring, monitoring, limiting, controlling, and communicating.

### Qualitative Information

#### **Description of the qualitative aspects related to the Integral Administration of Risks processes:**

Market risk administration at HSBC consists of identifying, measuring, watching, limiting, controlling, reporting and revealing the different risks that the institution faces.

The Board of Directors includes a Risk Committee that manages risk and ensures that the operations are executed in accordance with the objectives, policies and procedures for prudent risk administration, 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, thereby causing losses for the Group”, that is to say, the potential loss by changes in the risk factors will impact the valuation or the expected results of asset and liability operations or causes of contingent liabilities, such as interest rates, exchange rates, and price indices, among others.

The main market risks facing Group 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 governmental bond hedge with a by-product of inter-bank rates) so that its value to market can differ, generating imperfections in the cover.

**Main elements of the methodologies employed in the administration of market risk:**

HSBC has elected 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)**

The VaR is a statistical measure of the worst probable loss in a portfolio due to changes in the market risk factors of the instruments for the given time period. The calculation of VaR uses a confidence level and a time horizon. The VaR is obtained by Monte Carlo simulation, capturing the potential losses by movements in all the market risk factors. The Board of Directors, at the suggestion of the Risk Committee, has determined a confidence level of 99% with a time period of one working day.

**Present value of a Basis Point (PVBP) and Forward PVBP (F-PVBP)**

The PVBP is a measure of market risk exposure to movements in interest rates. This measure illustrates the potential loss by movements of a basis point in interest rates on the pricing of assets and financial liabilities.

The Forward PVBP (F-PVBP) measures the effect of movements in interest rates on applicable financial instruments. In this sense, the F-PVBP assumes the setting under which the implied forward rate curve increases by one basis point.

**Extreme Conditions Tests (Stress Test)**

These are models that take into account extreme values that sporadically occur but are highly improbable. 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 settings. 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:**

Any model is subject to possible erroneous or slanted results by diverse causes such as the poor quality of data, deficient specification of the model, miscalculations or simply because reality was different than the presumptions in the model. In order to detect a defect in the forecast quality of a model, systems automatically loads data, instead of doing so manually. Also, to test the confidentiality of the VaR calculation model, backtesting is carried out. This is a test that consists of forecasting the maximum possible loss amounts, contrasting the losses/gains that would have been generated versus the actual portfolio during the VaR’s time horizon. On average, the losses do not exceed the confidence levels established. The backtesting is reinforced by carrying out a hypothesis test.

For the case of the PVBP, this has been compared with the sensitivity of the portfolio with the market quotations. The results obtained in the tests have shown that the models are dependable. With the purpose of reinforcing the validation and verification of the different risk factors, a matrix has been designed that shows the behavior of various risk factors in order to ensure that these are reasonably related to the predominant values in the financial markets and to verify the consistency between their present value and their value on the previous working day.

**Applicable portfolios:**

The Market Risk area calculates the VaR and the PVBP for the total Bank portfolio and for the specific Accrual and Trading portfolios, with the purpose of watching their own positions and the negotiation positions.

The VaR is presented in global form for each portfolio mentioned and is also itemized for risk factors (Interest Rates and Exchange Rates). The PVBP is itemized by rate type (pesos, dollars and Real UDIS-RATE). Also the Forward PVBP is presented by segment of the forward curve (Buckets), so much for rates in pesos as for rates in dollars.

The stress tests are carried out for the Bank’s portfolio, and for the “Trading” and “Accrual” portfolios; also, a special stress test for the Available for the Sale Securities (AFS) and the 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 "Trading" and "Accrual" portfolios for the third quarter of 2005 (in millions of dollars).

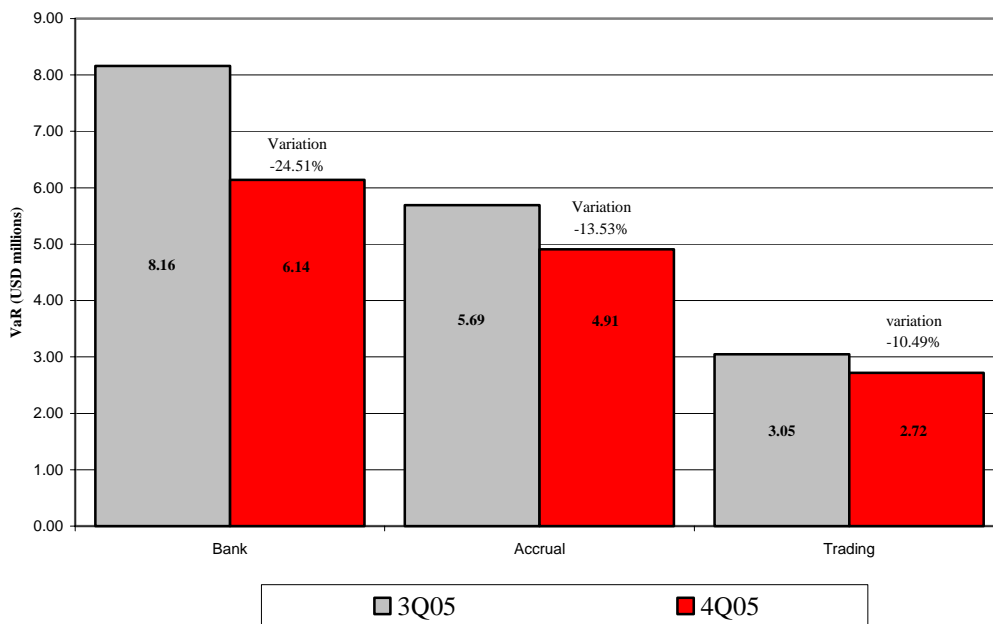
**Value in Risk of Global Market (VaR) (Considering all the Risk Factors)**

	30 Sep 05	31 Dec 05	Limits*	3Q 2005 Average	4Q 2005 Average
Bank	(8.07)	(6.17)	30.000	(8.16)	(6.14)
Accrual	(4.76)	(5.78)	27.500	(5.69)	(4.91)
Trading	(4.32)	(3.05)	13.500	(3.05)	(2.72)
MMT	(2.82)	(1.45)	7.500	(2.42)	(1.65)
Fx	(0.02)	(0.35)	13.500	(0.10)	(0.69)
Money Desk	(1.64)	(2.30)	13.500	(0.95)	(1.49)

\* Absolute Value  
NA = Non Applicable

The market VaR of the bank for 4Q05 varied 23.64% versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.

**MARKET VALUE COMPARISON\***



\*Figures in MXN millions, absolute value

**Comparison of Market VaR vs. Net capital**

Below a chart comparing the market VaR versus net capital is presented for the last two quarters of 2005 (in millions of dollars).

	<u>30 Sep 05</u>	<u>31 Dec 05</u>
VaR Total *	8.16	6.14
Net Capital **	1,658.23	2,023.68
VaR / Capital Neto	0.49%	0.30%

\* The Bank's quarterly VaR average in absolute value

\*\* The Bank's Net Capital at the close of the quarter

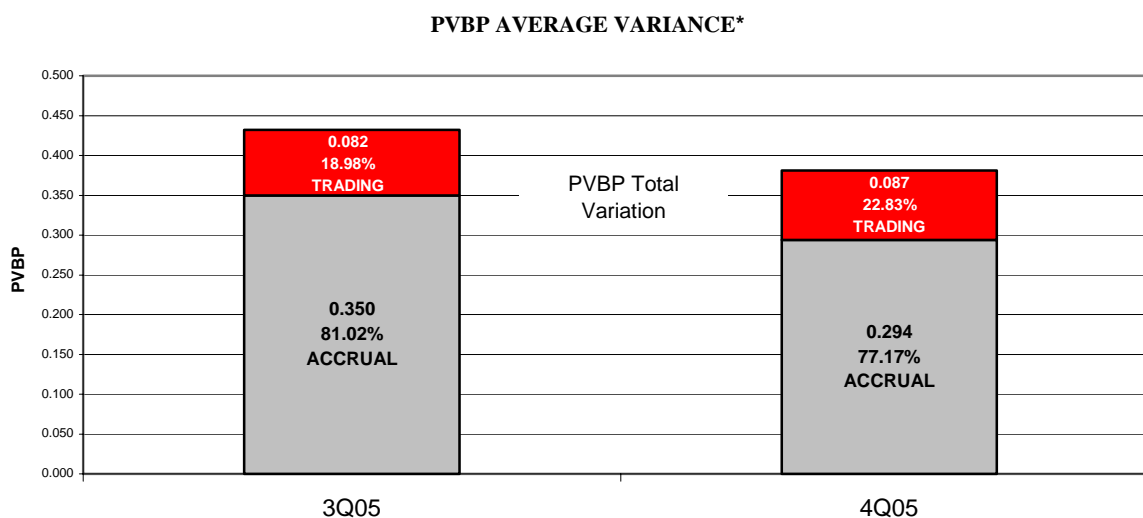
The net capital of 4Q05 varied 22.04% versus prior quarter. The average market VaR represents 0.30% of the net capital in 4Q05 and 0.49% in 3Q05 (a change of 19 basis points).

**Present value of a Basis Point (PVBP) for Rates in Pesos**

	<u>30 Sep 05</u>	<u>31 Dec 05</u>	<u>Límites*</u>	<u>3Q 2005 Average</u>	<u>4Q 2005 Average</u>
Banco	(0.508)	(0.503)	0.550	(0.432)	(0.381)
Accrual	(0.368)	(0.360)	0.600	(0.350)	( 0.294)
Trading	(0.140)	(0.144)	0.200	(0.082)	(0.087)
Mesa de dinero	(0.140)	(0.144)	0.200	(0.082)	(0.087)

\* Valor absoluto

The Bank's PVBP for 4Q05 varied 0.98% versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.



\*Figures in MXN millions, absolute value

Bank's average PVBP for 4Q05 varied 11.81% con respecto al PVBP promedio del trimestre anterior. versus prior quarter. During the period, the levels of market VaR were maintained under the pre-established limits.

**Banking sector**

**HSBC México, S.A.**  
*Figures in MXN millions*

**Accounting differences in IAS vs. Mexican GAAP**

Summary of the main differences between the profit attributable to shareholders' reported by Grupo Financiero HSBC S.A. de C.V. under Mexican GAAP and International Accounting Standards (IAS).

On January 1, 2005, HSBC adopted to convert their financial information to International Accounting Standards (IAS).

In Mexico, the consolidated financial statements have been prepared according to the accounting policies established by the National Banking Commission (CNBV), which has some differences with the accounting principles generally accepted in Mexico (PCGA).

**Accounting Differences in IAS vs. Mexican GAAP**

Millones de pesos corrientes	Anual 05	4T05	3T05	2T05	1T05
<b>Grupo Financiero HSBC – Net Income Under CNBV criteria</b>	<b>4,981</b>	<b>1,430</b>	<b>1,346</b>	<b>1,052</b>	<b>1,153</b>
- Inflationary effects	494	196	144	54	101
- Temporary differences in the classification and valuation of hedging derivatives *	72	-	-	89	(17)
- Differences in the accounting and valuation of Pensions and Post Retirement Healthcare benefits *	82	31	17	24	9
- Temporary differences in the recognition of deferred commissions paid, relative to the Afore Business *	121	54	25	29	13
- Temporary differences in the recognition of fees and commissions income *	(112)	(25)	(46)	(4)	(38)
- Temporary differences in the recognition and provisioning for credit losses *	47	47	-	-	-
- Purchase Accounting valuation adjustment related to Fobaproa notes earning below market rates *	(18)	(306)	(24)	258	55
- Purchase Accounting valuation adjustment related to Fobaproa notes earning below market rates *	1,338	475	313	315	236
- Other differences in accounting principals *	401	286	44	1	70
<b>Net Income under IFRS</b>	<b>7,408</b>	<b>2,187</b>	<b>1,820</b>	<b>1,819</b>	<b>1,582</b>
<b>USD Equivalent (millions)</b>	<b>680</b>	<b>204</b>	<b>170</b>	<b>170</b>	<b>142</b>
Plus taxes	2,949	713	755	786	695
<b>PBT (IFRS)</b>	<b>10,356</b>	<b>2,900</b>	<b>2,575</b>	<b>2,604</b>	<b>2,277</b>
<b>USD Equivalent (millions)</b>	<b>951</b>	<b>271</b>	<b>240</b>	<b>244</b>	<b>204</b>
<i>Exchange change rate</i>	<i>10.89</i>	<i>10.71</i>	<i>10.71</i>	<i>10.68</i>	<i>11.18</i>
<i>* Impact shown net of taxes at 30%</i>					

**Relevant Concepts related to**

*a) Differences in the Results*

GF HSBC, S.A de C.V. registered a net income of MXN 4,981 millions for 2005, different from the figures registered by HSBC Holding plc. of MXN 7,408 millions. The main differences between these figures are as follows:

1. Mexican Financial Institutions prepared and present their financial statements in accordance to accounting principles established by the CNBV (“in most cases are similar to PCGA in Mexico), which differ in certain aspects from the International Accounting Standards (IAS). The differences between both accounting principles, can be grouped as follows:
  - a) Temporary differences, registered only in the moment when some expenses or incomes are recognized. Nevertheless, revenues reported by the entity are the same along the life of the financial instrument or loan.
  - b) Items originated by accountant criteria and that are permanent. Specifically this includes re-statement and other derivative effects of inflationary effects, like repomo in the case of the CNBV criteria, and intangibles amortization, goodwill, and other items related to IFRS application.
2. Some concepts included in figures reported by HSBC Holding, plc., are not part of the results from entities and legal vehicles that consolidate with Grupo Financiero HSBC, S.A. de C.V.

*b) Main Differences in the Account Record Criteria*

1. The impact of inflationary effects under Mexican GAAP has to be adjusted so that historical numbers are shown in real terms. Under Mexican GAAP the financial statements disclose an account called “Monetary Positions Gain (losses)”, derived from the differences between the monetary assets and liabilities. This does not exist under IAS.
2. Differences between the disclosure and the valuation of hedge derivatives. Under Mexican GAAP the valuation of an instrument has to be recorded next to the primary position recorded; under IAS the valuation must be recorded against equity as hedge derivatives are classified as cash flow hedges.
3. Differences in the loan portfolio’s valuation and classification. The calculation methodology under IAS is different than under Mexican GAAP.
4. Differences in labour obligation classification and valuation. The assumptions used in the actuarial calculation under IAS are different from Mexican GAAP.
5. Amortization of the fair value determined under the purchase accounting method, derived from the acquisition of “Grupo Financiero Bital S.A. de C.V.”
6. Differences in the goodwill valuation and classification, and technical reserves of the Insurance business. The method used under IFRS differs from the ones established by local authorities.