

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

Independent Auditors' Report
(Free translation from Spanish Language original)

The Board of Directors and Stockholders
Grupo Financiero HSBC, S. A. de C. V.,
Sociedad Controladora Filial
and subsidiaries:

(Thousands of Mexican pesos of constant purchasing power
as of December 31, 2006, except when otherwise indicated)

We have examined the accompanying consolidated balance sheets of Grupo Financiero HSBC, S. A. de C. V., Sociedad Controladora Filial and subsidiaries ("the Group") as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for financial group holding companies in Mexico. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the consolidated financial statements, the Group is required to prepare and present its consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for Financial Group Holding companies in Mexico, which in general conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board for Research and Development of Financial Reporting Standards. These accounting criteria include particular rules, which in certain respects depart from these standards.

Acquisition of Grupo Financiero Finacomer, S. A. and Subsidiaries and HSBC Bank Panamá, S. A.-

As explained in note 13 to the consolidated financial statements, on September 1, 2005 HSBC Bank (Panamá), S. A. acquired all operations of Grupo Finacomer, S. A. and affiliated companies, which entailed acquiring assets, liabilities and stockholders' equity amounting to 40, 28 and 12 million dollars, respectively. On July 31, 2004 the Group acquired from HSBC Bank USA 100% of the shares representing the capital stock of 15 branches, along with their respective assets and liabilities, that include 100% of the capital stock of Overseas Reality Corporation of Panamá; Panamá Realty Investment, S. A.; HSBC Investment Corporation (Panamá), S. A. and HSBC Securities (Panamá), S. A., with assets, liabilities and stockholders' equity of 1,019, 895 and 124 million dollars, respectively. For legal and statutory reasons, a new bank has been created from these companies, called HSBC Bank (Panamá), S. A.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Financiero HSBC, S. A. de C. V., Sociedad Controladora Filial and subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for financial group holding companies in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C

SIGNATURE

Carlos Rivera Nava

February 23, 2007

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

Assets	<u>2006</u>	<u>2005</u>	Liabilities and Stockholders' Equity	<u>2006</u>	<u>2005</u>
Cash and equivalents (note 5)	\$ 55,081,253	57,592,945	Deposit funding (note 15):		
Investment securities (note 6):			Demand deposits	\$ 133,735,136	130,737,791
Trading	12,626,582	7,234,088	Time deposits:		
Available-for-sale	40,471,233	47,937,386	General public	81,073,753	86,928,455
Held-to-maturity	3,998,849	4,159,485	Money market	-	3,488,064
	<u>57,096,664</u>	<u>59,330,959</u>	Bonds (note 16)	4,242,193	-
				<u>219,051,082</u>	<u>221,154,310</u>
Securities and derivative transactions:			Due to banks and other institutions (notes 9c and 17):		
Debit balances of repurchase/resell agreements (note 7)	68,844	193,819	Immediate recoverableness	100,058	-
Derivative financial instruments (note 8)	166,277	397,823	Short-term	10,620,718	5,037,765
	<u>235,121</u>	<u>591,642</u>	Long-term	2,241,274	2,214,913
				<u>12,962,050</u>	<u>7,252,678</u>
Current loan portfolio (note 9):			Securities and derivative transactions:		
Commercial loans	58,111,848	47,655,477	Credit balances of repurchase/resell agreements (note 7)	53,669	117,734
Financial institutions	5,973,217	7,182,774	Securities lending (note 18)	6,266,234	4,571,458
Consumer loans	35,477,367	26,728,566		<u>6,319,903</u>	<u>4,689,192</u>
Residential mortgages	20,564,798	20,936,014	Other accounts payable:		
Government entities	37,216,958	37,667,816	Income tax and employee statutory profit sharing	1,052,364	1,351,905
IPAB	-	1,141,775	Sundry creditors and other accounts payable	15,761,180	22,562,374
Total current loan portfolio	<u>157,344,188</u>	<u>141,312,422</u>		<u>16,813,544</u>	<u>23,914,279</u>
Past due loan portfolio (note 9):			Subordinated debentures outstanding (note 20)	2,206,271	2,686,420
Commercial loans	1,539,881	1,736,617	Deferred taxes (note 21)	555,952	-
Financial institutions	302	315	Deferred credits	19,118	20,864
Consumer loans	1,666,912	851,435		<u>257,927,920</u>	<u>259,717,743</u>
Residential mortgages	1,102,865	1,063,853	Total liabilities		
Government entities	1	-	Stockholders' equity (note 22):		
Other past due debts	10,410	28,931	Paid-in capital:		
Total past due loan portfolio	<u>4,320,371</u>	<u>3,681,151</u>	Capital stock	7,908,945	7,908,945
Total loan portfolio	<u>161,664,559</u>	<u>144,993,573</u>	Additional paid-in capital	12,770,599	12,770,599
Less:				<u>20,679,544</u>	<u>20,679,544</u>
Allowance for loan losses (note 9d)	6,776,024	6,142,658	Earned capital:		
Loan portfolio, net	<u>154,888,535</u>	<u>138,850,915</u>	Statutory reserves	842,923	660,534
Other accounts receivable, net (note 10)	10,923,669	15,851,673	Results of prior years	12,886,338	7,957,483
Foreclosed assets (note 11)	53,476	409,902	Cumulative translation adjustment	284	(7,311)
Premises, furniture and equipment, net (note 12)	6,094,199	5,703,384	Deficit in restatement of stockholder's equity	(3,842,720)	(3,842,720)
Permanent investments in shares (note 13)	2,642,145	2,338,408	Results from holding nonmonetary assets:		
Deferred income tax (note 21)	-	777,890	From valuation of permanent investments in shares	(3,759,375)	(3,781,674)
Other assets (notes 14 and 19):			Net income	5,527,298	5,188,268
Goodwill	2,648,016	3,373,500		<u>11,654,748</u>	<u>6,174,580</u>
Deferred charges and intangibles	601,597	1,753,045	Minority interest	2,463	2,396
	<u>290,264,675</u>	<u>286,574,263</u>		<u>32,336,755</u>	<u>26,856,520</u>
Total assets	\$		Total stockholders' equity	32,336,755	26,856,520
			Commitments and contingent liabilities (note 26)	<u>290,264,675</u>	<u>286,574,263</u>
			Total liabilities and stockholders' equity	\$	

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

Memorandum accounts

Transactions on behalf of third parties	<u>2006</u>	<u>2005</u>	Transactions for the Group's own accounts	<u>2006</u>	<u>2005</u>
Customer current accounts:			Memorandum accounts:		
Customer banks	\$ 412	410	Guarantees issued (note 24a)	\$ 50,454	59,078
Settlement of customer transactions	<u>25,761</u>	<u>821</u>	Irrevocable lines of credit (note 24a)	6,333,680	3,917,743
	<u>26,173</u>	<u>1,231</u>	Assets in trust or under mandate (note 24b)	93,127,766	70,589,720
Customer securities:			Assets in custody or under management (note 24d)	111,997,346	59,307,410
Customer securities in custody	84,347,457	68,322,203	Amounts committed under agreements with the IPAB	156,314	128,357
Pledged customer securities and documents	<u>6,108</u>	<u>1,193,393</u>	Amounts contracted in derivative instruments	657,956,503	214,486,944
	<u>84,353,565</u>	<u>69,515,596</u>	Securities in custody	3,940,647	4,151,953
Transactions on behalf of customers (note 24):			Other contingent obligations	<u>124,395</u>	<u>502,541,789</u>
Customers repurchase transactions	2,484,739	2,510,987		<u>873,687,105</u>	<u>855,182,994</u>
Investments on behalf of customers, net (note 24c)	<u>21,963,892</u>	<u>17,567,609</u>	Repurchase/resell agreements (note 7)		
	<u>24,448,631</u>	<u>20,078,596</u>	Securities receivable under repurchase agreements	49,853,726	46,284,195
Total on behalf of third parties	108,828,369	89,595,423	Less - Creditors under agreements to repurchase	<u>49,842,753</u>	<u>46,300,267</u>
Investment of the SAR funds	3,539,720	3,428,669		10,973	(16,072)
Credit rating risk of loan portfolio	168,048,693	136,759,115	Debtors under agreements to resell	3,016,667	16,607,585
Other memorandum accounts	<u>172,622,804</u>	<u>361,337,272</u>	Less - Securities deliverable under resell agreements	<u>3,012,465</u>	<u>16,515,428</u>
Total on behalf of third parties	\$ <u>344,211,217</u>	<u>501,525,056</u>		4,202	92,157
			Net repurchase/resell agreements	<u>15,175</u>	<u>76,085</u>
			Total own accounts	\$ <u>873,702,280</u>	<u>855,259,079</u>

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets, with those of the financial and other entities comprising the Financial 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 financial and other entities comprising the Financial Group that are subject to consolidation, through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

These consolidated balance sheets were approved by the Board of Directors under the responsibility of the undersigned officers.

The historical capital stock of the Financial Group amounts to \$3,886,064,278 nominal pesos.

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
_____ Alexander A. Flockhart President and Chief Executive Officer	_____ Germán Osuna Castelaín Chief Financial Officer	_____ W. Graham Thomson Director of Internal Audit	_____ Sergio Armando Torres López Chief Accountant

www.hsbc.com.mx/Personas/hsbc.mexico/Relacion con Inversionistas/Información Financiera
www.cnbv.gob.mx/sector bancario: instituciones de crédito: información financiera de la banca múltiple

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

	<u>2006</u>	<u>2005</u>
Interest income (note 25)	\$ 27,871,857	27,446,964
Interest expense (note 25)	(9,681,155)	(11,287,584)
Monetary position result, net	<u>(1,021,663)</u>	<u>(333,666)</u>
Financial margin	17,169,039	15,825,714
Allowance for loan losses (note 9d)	<u>(4,136,867)</u>	<u>(1,561,810)</u>
Financial margin net of allowance for loan losses	13,032,172	14,263,904
Commission and fee income	10,171,338	8,786,692
Commission and fee expense	(1,091,713)	(955,486)
Financial intermediation income (note 25)	<u>2,048,613</u>	<u>1,420,191</u>
Total operating income	24,160,410	23,515,301
Administrative and promotional expenses	<u>(17,746,140)</u>	<u>(16,489,053)</u>
Net operating income	6,414,270	7,026,248
Other income (note 25)	2,129,862	1,556,812
Other expense (note 25)	<u>(1,068,221)</u>	<u>(1,063,420)</u>
Income before income tax, employee statutory profit sharing (ESPS) and equity in the results of unconsolidated subsidiaries, associated and affiliated companies	<u>7,475,911</u>	<u>7,519,640</u>
Current income tax (IT) (note 21)	(1,521,015)	(1,553,159)
Deferred IT and ESPS (note 21)	<u>(1,235,317)</u>	<u>(1,402,113)</u>
	<u>(2,756,332)</u>	<u>(2,955,272)</u>
Income before equity in the results of unconsolidated subsidiaries, associated and affiliated companies	4,719,579	4,564,368
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies, net	<u>808,046</u>	<u>703,504</u>
Income from continuing operations	5,527,625	5,267,872
Discontinued operations, extraordinary items and changes in accounting policies net (note 25)	<u>-</u>	<u>(79,202)</u>
Net income before minority interest	5,527,625	5,188,670
Minority interest	<u>(327)</u>	<u>(402)</u>
Net income	\$ <u>5,527,298</u>	<u>5,188,268</u>

See accompanying notes to the consolidated financial statements.

"These consolidated statements of operations, with those of the financial and other entities comprising the Financial 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 financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of operations were approved by the Board of Directors under the responsibility of the undersigned officers."

SIGNATURE

Alexander A. Flockhart
President and Chief Executive Officer

SIGNATURE

W. Graham Thomson
Director of Internal Audit

SIGNATURE

Germán Osuna Castelán
Chief Financial Officer

SIGNATURE

Sergio Armando Torres López
Chief Accountant

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

	Paid-in capital		Earned capital				Results from holding nonmonetary assets from valuation of permanent investments in shares	Net income	Minority interest	Total stockholders' equity
	Capital stock	Additional paid-in capital	Statutory reserves	Results of prior years	Cumulative translation adjustment	Deficit in restatement of stockholders' equity				
Balances at December 31, 2004	\$ 7,908,945	12,770,599	484,990	4,622,131	(949)	(3,844,527)	(3,851,325)	3,510,896	3,156	21,603,916
Changes resulting from stockholder resolutions (note 22a):										
Resolution at the Ordinary General Stockholders' Meeting on April 21, 2005 Appropriation of the net income for 2004	-	-	175,544	3,335,352	-	-	-	(3,510,896)	-	-
Total items related to stockholders' decisions	-	-	175,544	3,335,352	-	-	-	(3,510,896)	-	-
Changes related to the recognition of comprehensive income (note 22b):										
Net income	-	-	-	-	-	-	-	5,188,268	-	5,188,268
Cumulative translation adjustment	-	-	-	-	(6,362)	-	-	-	-	(6,362)
Valuation effect of unconsolidated subsidiaries, associated and affiliated	-	-	-	-	-	-	69,651	-	-	69,651
Minority interest	-	-	-	-	-	-	-	-	(760)	(760)
Recognition of the year's effects of inflation	-	-	-	-	-	1,807	-	-	-	1,807
Total comprehensive income	-	-	-	-	(6,362)	1,807	69,651	5,188,268	(760)	5,252,604
Balances at December 31, 2005	7,908,945	12,770,599	660,534	7,957,483	(7,311)	(3,842,720)	(3,781,674)	5,188,268	2,396	26,856,520
Changes resulting from stockholder resolutions (note 22a):										
Resolution at the Ordinary General Stockholders' Meeting on April 26, 2006 Appropriation of the net income for 2005	-	-	259,413	4,928,855	-	-	-	(5,188,268)	-	-
Resolution at the Ordinary General Stockholders' Meeting on December 26, 2006. HSBC Panama's sell effect (note 1)	-	-	(77,024)	-	-	-	-	-	-	(77,024)
Total items related to stockholders' decisions	-	-	182,389	4,928,855	-	-	-	(5,188,268)	-	(77,024)
Changes related to the recognition of comprehensive income (note 22b):										
Net income	-	-	-	-	-	-	-	5,527,298	-	5,527,298
Cumulative translation adjustment	-	-	-	-	7,595	-	-	-	-	7,595
Valuation effect of unconsolidated subsidiaries, associated and affiliated	-	-	-	-	-	-	22,299	-	-	22,299
Minority interest	-	-	-	-	-	-	-	-	67	67
Recognition of the year's effects of inflation	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	7,595	-	22,299	5,527,298	67	5,557,259
Balances at December 31, 2006	\$ 7,908,945	12,770,599	842,923	12,886,338	284	(3,842,720)	(3,759,375)	5,527,298	2,463	32,336,755

See accompanying notes to the consolidated financial statements.

"These consolidated statements of stockholders' equity, with those of the financial and other entities comprising the Financial 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 financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of stockholders' equity were approved by the Board of Directors under the responsibility of the undersigned officers."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Alexander A. Flockhart President and Chief Executive Officer	Germán Osuna Castelán Chief Financial Officer	W. Graham Thomson Director of Internal Audit	Sergio Armando Torres López Chief Accountant

GRUPO FINANCIERO HSBC, S. A. de C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

	<u>2006</u>	<u>2005</u>
Operating activities:		
Net income	\$ 5,527,298	5,188,268
Items included in operations not requiring (providing) cash:		
Net unrealized loss from valuation of securities under repurchase/resell agreements, forwards and financial instruments	(617,163)	(285,215)
Allowance for loan losses	4,136,867	1,561,810
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies	(808,046)	(703,504)
Depreciation and amortization	870,225	885,037
Deferred income tax and employee statutory profit sharing	1,235,317	1,402,113
Allowance for foreclosed assets	241,365	54,462
Minority interest	327	402
	<u>10,586,190</u>	<u>8,103,373</u>
Changes in items related to operations:		
(Decrease) in operating liabilities:		
Deposit funding	(2,103,228)	28,263,675
Accounts payable	(7,100,735)	13,698,698
(Increase) decrease in operating assets:		
Loan portfolio	(20,174,487)	(20,664,209)
Investment securities	2,238,422	(9,521,137)
Securities and derivative transactions, net	2,600,268	4,171,228
Other accounts receivable	6,804,936	(12,047,612)
Funds (used in) provided by operating activities	<u>(7,148,634)</u>	<u>12,004,016</u>
Financing activities:		
(Redemption) placing of outstanding subordinated debentures	(480,149)	(99,860)
Decrease in due to banks and other institutions	5,709,372	(2,375,942)
Funds generated by (used in) financing activities	<u>5,229,223</u>	<u>(2,475,802)</u>
Investing activities:		
HSBC Panama sell effect	(77,024)	-
Acquisition of premises, furniture and equipment, net	(1,261,040)	(2,057,717)
Permanent investments in shares, net	526,348	838,678
Currency translation adjustment	7,595	(6,362)
Decrease (increase) in deferred charges, net	96,779	120,272
Decrease in foreclosed assets	115,061	120,479
Funds used in investing activities	<u>(592,281)</u>	<u>(984,650)</u>
Minority interest		
(Decrease) increase in cash and equivalents	(2,511,692)	8,543,564
Cash and equivalents:		
At beginning of year	<u>57,592,945</u>	<u>49,049,381</u>
At end of year	<u>\$ 55,081,253</u>	<u>57,592,945</u>

See accompanying notes to the consolidated financial statements

"These consolidated statements of changes in financial position have been prepared in conformity with the accounting criteria of the financial and other entities comprising the Financial 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 financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the undersigned officers.

SIGNATURE

Alexander A. Flockhart
President and Chief Executive Officer

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Director of Internal Audit

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Germán Osuna Castelán
Chief Financial Officer

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Sergio Armando Torres López
Chief Accountant

GRUPO FINANCIERO HSBC, S. A. DE C. V. Sociedad Controladora Filial AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006,
except when otherwise indicated)

These consolidated financial statements have been translated from the Spanish Language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions-

Description of business-

Grupo Financiero HSBC, S. A. de C. V. (“the Financial Group”) is a subsidiary of HSBC Holdings plc. (HSBC), which currently holds 99.80% of its capital stock; it is authorized to buy and administer the voting stock issued by financial and brokerage entities, auxiliary credit institutions, and others entities primarily engaged in providing complementary services to one or more of these financial entities.

At December 31, 2006 the Financial Group and its consolidated subsidiaries is comprised of HSBC México, S. A. (HSBC or the Bank), authorized to engage in commercial banking transactions, which include but are not limited to: accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services; HSBC Casa de Bolsa, S. A. de C. V. (the Brokerage Firm) which acts as financial intermediary in transactions with authorized securities; HSBC Operadora de Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión (Operadora) which provides administrative and operating services to mutual funds of the Financial Group; HSBC Afore, S. A. de C. V., (entity regulated by the National Retirement Savings System Commission) whose primary purpose is to open, administer and operate individual retirement savings accounts. These entities are regulated by the National Banking and Securities Commission (the Banking Commission) and other applicable laws.

The Financial Group’s subsidiaries, not subject to consolidation according to the accounting criteria of the Banking Commission are: HSBC Seguros, S. A. de C. V. and HSBC Fianzas, S. A., which are controlled by the National Insurance and Bonding Commission and other applicable laws.

In Mexico, by Law, the Group has unlimited liability for the obligations and losses of each of its Mexican subsidiaries.

The subsidiaries and the Group’s equity percentage as of December 31, 2006 are as follows:

<u>Subsidiaries</u>	<u>Percentage</u>
HSBC México	99.99%
HSBC Seguros	99.99%
HSBC Afore	99.99%
HSBC Fianzas	97.22%
HSBC Casa de Bolsa	99.99%
HSBC Operadora de Fondos	99.90%
HSBC Panamá (sold August 15, 2006)	100.00%

Significant transactions-

The Financial Group and the Bank (its principal subsidiary) carried out the significant transactions described on the following page:

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GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Grupo Financiero Finacomer, S. A. and Subsidiaries.-

As explained in note 13 to the financial statements, on September 1, 2005 HSBC Bank (Panamá), S. A. acquired all operations of Grupo Finacomer, S. A. and affiliated companies, which entailed acquiring assets, liabilities and stockholders' equity amounting to 40 million, 28 million and 12 million dollars, respectively

On August 8, 2006, the Group's stockholders decided to carry out a corporate restructuring of the subsidiaries; therefore, HSBC sold its equity in HSBC Bank (Panamá), S.A. to HSBC Asia Holding (see note 14). The loss of \$77,024 is reported in the statement of stockholders' equity.

(2) **Summary of significant accounting policies-**

(a) *Financial statement presentation-*

On January 23, 2007 the undersigned Group officers authorized the accompanying consolidated financial statements for publication.

The consolidated financial statements have been prepared based on the banking legislation and in conformity with the accounting criteria for financial group holding companies in Mexico established by the Banking Commission. The Banking Commission is responsible for the inspection and supervision of financial group holding companies and for reviewing their financial information. The financial statements of HSBC Panamá has been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and according with the practice of banking industry.

The accompanying consolidated financial statements include the financial statements of the financial group and of its subsidiaries subject to consolidation. Significant intercompany transactions and balances have been eliminated on consolidation. The operations of HSBC Panamá 2006 only include the result from January 1 to August 7, 2006 (see note 13).

The consolidated financial statements also include the Bank's UDI-restructured loan portfolio trusts (UDI Trusts), which were created with the purpose of managing the restructured loan portfolio through the support programs established by the Federal Government (see note 9, section b), with the Bank acting as trustor and trustee and the Federal Government as beneficiary. The trusts have been valued and pursuant to the accounting rules prescribed by the Banking Commission.

In general, the accounting criteria established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), who renamed and integrated to the structure of the FRS while they are not modified, replaced or repeal, at them accounting principles generally accepted in Mexico (Mexican GAAP), issued by the Mexican Institute of Public Accountants (IMCP). The accounting criteria include rules that in certain instances differ from FRS, which do not limit the consolidation of financial subsidiaries and that indicated in sections b, d, e, i and l of this note.

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: the FRS (before Mexican GAAP); International Financial Reporting Standards issued by the International Accounting Standards Board; accounting principles generally accepted in the United States; or in cases not covered by these principles and standards, any other formal and recognized accounting standard that does not contravene the general criteria of the Banking Commission.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The accompanying consolidated financial statements are expressed in Mexican pesos of constant purchasing power, using the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation. UDI values at December 31 are as follows:

<u>December 31</u>	<u>UDI</u>	<u>Annual Inflation</u>
2006	\$ 3.7889	4.16%
2005	3.6375	2.91%
2004	3.5347	5.47%
	=====	

For purposes of disclosure in the notes to the consolidated financial statements, when reference is made to pesos or “\$”, it refers to Mexican pesos, and when reference is made to “US\$” or dollars, it means dollars of the United States of America.

Assets and liabilities related to purchase and sale of foreign currencies, investments in securities, securities repurchase and resell agreements, and derivative financial instruments are recognized in the consolidated financial statements on the trade day, regardless of the settlement date.

(b) Cash and equivalents-

Cash and equivalents consist of cash, precious metals (coins), bank account balances, 24 and 48-hour foreign currency purchase and sale transactions, bank loans with original maturities of up to three days (“Call Money”) deposits with the Central Bank, and margin accounts associated with futures and swaps transactions.

Offsetting entries for 24 and 48-hour foreign currency purchase and sale transactions represent rights or obligations, which are recorded in "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively.

This category includes the deposits relation to monetary regulation, in compliance with the Law of the Banco de México (Central Bank), whose purpose is regulating the liquidity of the money market. In accordance with Bulletin C-10 of FRS any margin accounts are recorded under “Securities and derivative transactions” including cash and securities contributions and interest payable at maturity.

The caption also includes cash deposits given as collateral for repurchase/resell agreements, classified as restricted funds.

(c) Investment securities-

Investment securities consist of equities and government securities and bank notes, listed and unlisted, classified into three categories depending on management’s investment intentions. These categories are described on the following page.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt and equity securities are initially recorded at cost and subsequently marked to market at the price provided by an independent price vendor. When a fair and representative market value cannot be determined, they are recorded at the latest fair value or otherwise the security is reported at cost plus accrued interest. Equity securities are reported at the lower of market value provided by an independent price vendor, by applying the equity method and acquisition cost restated using UDI factors, or their estimated net realizable value. Valuation effects are recognized in results of operations.

Available-for-sale securities-

Securities not classified as trading or held-to-maturity portfolios are classified as "Available-for-sale". "Available-for-sale" securities are recorded at cost and valued in the same way as trading securities; however, the mark-to-market adjustment is reported in stockholders' equity under "Unrealized gain or loss from valuation of Available-for-sale securities" caption. Unrealized gains and losses are cancelled when the respective securities are sold, reporting the difference between net realizable value and acquisition cost in results of operations. Where there is persuasive evidence that a security represents a high credit risk and/or the estimated value has decreased, the book value is written down through a charge to results of operations. If the amount of trading securities is inadequate for settling the amount of securities deliverable in value date transactions in the purchase and sale of securities, the credit balance is shown as a liability under "Assigned values pending settlement".

Held-to-maturity securities-

Held-to-maturity securities are those securities that the Financial Group has the ability and intent to hold until maturity, and that have defined payments and maturities of more than 90 days. Held-to-maturity securities are recorded at acquisition cost and interest is recognized in income as earned.

Transfers between categories-

Transfers of securities between categories, except transfers to the trading securities category, require express authorization from the Banking Commission. The cumulative effect of the "Unrealized gain or loss from valuation of Available-for-sale securities" is cancelled and recognized in income upon transferring "Available-for-sale" securities to the trading securities category. For transfers of "Available-for-sale" securities to the "Held-to-maturity" securities category, the "Unrealized gain or loss from valuation of "Available-for-sale" securities is amortized to income based on the remaining term of the securities.

(d) *Securities under repurchase/resell agreements-*

Securities under repurchase/resell agreements are stated at market value provided by an independent price vendor and the obligations or rights from the commitments to repurchase or resell the securities are stated at the net present value at maturity. The consolidated balance sheet presents the sum of debit or credit balances after individually offsetting the restated values of the securities receivable or deliverable and the repurchase or resale commitment of each repurchase/resell agreement. Transactions where the Financial Group is both repurchaser and repurchasee with the same entity are not offset. Contrary to the FRS requirements, the consolidated balance sheet reflects the net balance between these two restated values, instead of presenting them separately as assets and liabilities and only offsetting similar transactions with the same party. Interest, premiums, gains or losses and valuation adjustments from these transactions are reported in the results of operations under "Interest income", "Interest expense", and "Financial intermediation income, net", respectively.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

In accordance with the Circular 1/2003 of the Central Bank, any repurchase transactions, with a maturity period over 3 days; must include an obligation to guarantee such transaction, when the fluctuations in the value of the securities under the repurchase agreement represents a net exposure which exceeds the maximum amount agreed by the parts. The guarantee granted is recorded under the category of investment in securities as guaranteed trading securities or in the category of cash and equivalents as restricted funds. The guarantee received, which does not represent a transfer of property, are recorded in memorandum accounts as assets in custody or under management. Such guarantees are valued in accordance with current guidelines for investment securities, cash equivalents and assets in custody or under management, respectively.

Securities under repurchase/resell agreements that cannot be renegotiated with a third party are reported as secured borrowing or lending transactions. Premiums are recognized in income as they accrued, on a straight-line basis, throughout the term of the transaction.

(e) ***Derivative transactions-***

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes, the accounting treatment is described below:

Futures and forward contracts – The consolidated balance sheet shows the net fluctuation in the market value of the contracts' future price, these effects are recognized in income, except in the case of hedging transactions where the related gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover.

Swaps – Rights or obligations established in the contract arising from the exchange of cash flows or asset yields (swaps) are recorded as assets or liabilities. The assets and liabilities derived from swaps are marked to market, reporting the net value of the swap on the consolidated balance sheet while the related gains or losses are recognized in income, except in the case of transactions designated as hedges where gains or losses are recorded as deferred credits or debits, amortized using the straight-line method over the term of the underlying instruments and shown together with the primary position they cover.

Options – Put and call option obligations (premiums collected) or rights (premiums paid) are recorded at contract value and marked to market, recording all gains or losses in income. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

In conformity with Bulletin C-10 of the FRS, as from January 1, 2005, derivative financial instruments are reported at fair value, regardless of management's intention. Fair value is initially represented by the agreed-upon consideration. Transaction costs and cash flows received or given to adjust the instrument at the beginning of the transaction to fair value, not related to option premiums, are amortized during the term of the transaction. Changes in the fair value of derivative financial instruments for trading purposes are reported in operations as part of the comprehensive financial results. Derivate financial instruments held for hedging purposes are presented in "Derivative financial instruments" and the fair value changes are recorded, depending on the hedge category (fair value, cash flow or foreign exchange) and depending on the effectiveness measurement either in income or other comprehensive income, are presented in the same line of the consolidated statement of operations where primary positions are recognized.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(f) Clearing accounts-

Amounts receivable or payable arising from investment securities, securities under repurchase/resell agreements, securities lending and/or derivative financial instruments which have expired but have not been settled at the consolidate balance sheet date, as well as amounts receivable or payable resulting from the purchase or sale of foreign currencies which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

Debit and credit balances of clearing accounts resulting from foreign currency purchase/sell transactions are offset provided the contractual right exists for offsetting the amounts recorded and there is the intention of settling them on a net basis, or else realizing the asset and liability simultaneously. Assets and liabilities are also offset in transactions of the same nature or that arise from the same contract, provided they have the same maturities and are settled concurrently.

(g) Past due loans and interest-

Outstanding loan and interest balances are classified as past due according to the following criteria:

Commercial loans with principal and interest payable upon maturity – 30 days after due date.

Commercial loans with one principal amortization and periodic interest payments – When interest or principal have not been collected 90 or 30 days after their due date, respectively.

Revolving credits, credit cards and others – When unpaid for two normal billing cycles or when 60 or more days past due.

Commercial loans with principal and interest installments – 90 days after the first unpaid amortization of principal and interest.

Mortgage loans – 90 days after the due date of the first unpaid installment.

Overdrafts from checking accounts without lines of credit – When the overdraft arises.

In addition, a loan is classified as past due when the debtor files for bankruptcy protection.

(h) Allowance for loan losses-

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as follows.

Rated loans – Based on studies which classify the loan portfolio, using an internally developed methodology for commercial loans. The Banking Commission in the official letter 601-II-DGSIFC-7651 dated January 27, 2005, authorized HSBC to continue using its internally developed methodology, for a 2 year period beginning December 1, 2004; on September 27, 2006, the Bank applied for an extension in order to continue using its internal methodology, which is in the process of being analyzed by the Banking Commission.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

HSBC's internally developed methodology links the attributes used with the attributes established in the Banking Commission included in the "General Dispositions relating to the Rating Methodology for Loan Portfolios of Credit Institutions" ("the Dispositions") and published in the Official Gazette on August 20, 2004, which took effect starting December 1, 2004. Such dispositions excluded loans granted to Government states or municipalities, investment projects with own source of payment and trustees of the trusts or structured credit schemes with own net worth. These Dispositions also allow individual assessment of the associated risk, individually evaluated in accordance with the methodology prescribed by the Dispositions, including residential mortgages and other consumer loans (see note 28).

The allowance percentages are established considering risk levels according to the following table:

<u>Risk level</u>	<u>Range of allowance percentages</u>
A - Minimum	0.5 – 0.9
B - Low	1 – 19.9
C - Medium	20 – 59.9
D - High	60 – 89.9
E - Irrecoverable	90 – 100.0

The Dispositions supersede the circulars 1449, 1460, 1480, 1493, 1494 and 1514 of the Banking Commission. The Dispositions establish new rules to record credit provisions for potential losses of credit loans and to recognize potential losses, due to time, in the value of the foreclosed assets or received in lieu of payment (see note 2j). The adoption of the dispositions did not have an impact on the credit allowance, because they are very similar to the internal developed methodology of HSBC.

General reserves – In accordance with the Dispositions risk grade A are general reserves.

Specific reserves – Considered for loans with risk grade B, C, D and E.

Exempt portfolio – Consists mainly of loans to government entities, including the IPAB, that are not rated.

Impaired loans – Consist of commercial loans (principal and interest) which, based on information and current facts, as well as on the process to review loans, are not likely to be fully recovered as set forth in the agreement. Both, current and past due portfolios may be identified as impaired loans. For consolidated financial statement disclosure purposes, "impaired loans" are those commercial loans classified by HSBC as having the risk levels "D" and "E"

Additional reserves – Are established for those loans, which in management's opinion, may give rise to concern in the future given the particular situation of the customer, the industry or the economy. They also include items such as uncollected ordinary interest and others, the ultimate collection of which may, in management's opinion, result in a loss for the Financial Group.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Loans considered irrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries on loans previously written off are credited to the allowance.

(i) ***Other accounts receivable-***

The sundry debtor amounts that are not collected within 90 days following the date of first entry (60 days if the balances are not identified) are reserved and charged to the year's income, irrespective of the likelihood of their recovery, except for balances relating to recoverable taxes, value added tax paid and settling accounts. This caption also includes debtors on settlement of transactions (24 and 48-hour foreign currency sales).

(j) ***Foreclosed assets and assets received in lieu of payment-***

Assets acquired through foreclosure are stated as the lower value between of the adjudicated value or net realizable value. Assets received in lieu of payment are stated at the lower of the appraisal value or the price agreed upon by the parties. Any shortfall between the appraisal value and the balance due is written off against the allowance for loan losses. Assets are written down to reflect any subsequent impairment in their value through a charge against the results of the operations. The assets with commitment of sale are shown at the sale price, recognizing the gain or loss in deferred credit or in the income, respectively. The amount of the collected rents derived from foreclosed assets is deducted against the value of the assets.

The Financial Group creates additional allowances on a quarterly basis to recognize potential losses for the deterioration in asset value due to the passing of time. These allowances are created in accordance with the Dispositions described in section (h) and provisions are established as follows:

<u>Elapsed months since the date of foreclosure or lieu of payment</u>	<u>Percentage of the allowance</u>	
	<u>Premises</u>	<u>Sundry assets</u>
More than: 6	0	10
12	10	20
18	10	45
24	15	60
30	25	100
36	30	100
42	35	100
48	40	100
54	50	100
60	100	100

(k) ***Premises, furniture and equipment-***

Premises, furniture and equipment are initially recorded at acquisition cost, and restated for inflation by applying UDI factors.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Depreciation and amortization are calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

(l) *Permanent investments in shares-*

The investments in subsidiary companies not subject to consolidation are accounted for under the equity method. The Financial Group's equity in the results of subsidiary companies is recognized in the year's income and its equity in the increase or decrease of other stockholders' equity accounts is recognized in the Financial Group's stockholders' equity under the caption "Results from holding non-monetary assets from valuation of permanent investments in shares".

This category also includes permanent investments in shares of issuing companies where the Financial Group exerts no significant influence, which are valued using the cost method and differs from the FRS, adjusted for inflation by applying the UDI value. Valuation adjustments are recognized in the Financial Group's stockholders' equity under "Results from holding non-monetary assets from valuation of permanent investments in shares". When the valuation of the investment is consistently below the adjusted cost, the investment is written down to realizable value through a charge to results of operations

(m) *Other assets, deferred charges and intangibles-*

This caption includes under other assets, recoverable balances of taxes pending to be offset or recovered; under deferred charges, the prepayment of labor obligations and other expenses pending amortization arising from services and commissions paid in advance, whose amortization is made straight line over the term of the related transaction.

(n) *Deferred income tax (IT) and employee statutory profit sharing (ESPS)-*

IT and ESPS payable for the year are determined in conformity with tax regulations in force.

Deferred income tax is accounted for under the asset and liability method which compares accounting and tax values. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for unamortized tax loss carryforwards and unused tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

Deferred ESPS is recognized for timing differences arising from the reconciliation between book and taxable for profit sharing purposes, on which it may reasonably be estimated that a future liability will arise and there is no indication that the liabilities will not materialize.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**(o) Goodwill-**

Goodwill of subsidiary companies represents the excess of the acquisition value of the companies over the identified amount of their tangible and intangible assets. In determining this amount, intangible assets acquired, with no recoverable value, are eliminated, and the remainder is restated using UDI factors. Since January 1, 2005, goodwill will no longer be amortized but instead be tested for impairment (see note 13) based on Bulletin C-15 of the FRS annually at minimum.

(p) Deposit funding-

Deposit funding comprises demand and time deposits of the general public, as well as money market funding. Interest is charged to expense on the accrual basis. For instruments sold at a price other than face value, a deferred charge or credit is recognized and the difference is amortized on the straight-line basis over the term of the respective instrument.

(q) Due to banks and other institutions-

Bank and other loans comprise short and long-term bank loans from domestic and foreign banks, loans obtained through credit auctions with Banco de México and development fund financing. In addition, this category includes loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis.

(r) Securities lending-

The Financial Group, as a borrower, conducts securities lending. The securities borrowed are guaranteed by the Financial Group like restricted securities and the term of each transaction is one working day. The Financial Group pays a premium for each security lent, which is eliminated on maturity or on the roll over of the transaction. The securities loan values and the guaranteed are stated at market value provided by an independent price vendor.

(s) Pensions, seniority premiums and post-retirement benefits-

It consists of defined benefit obligations (DBO) and defined contribution obligations (DCO). As regards DBO, the net periodic cost, pension, seniority premium benefits, other post-retirement plans, and, beginning 2005 (see note 3), severance compensation for reasons other than restructuring are recognized in the results of operations of each year based on actuarial computations of the present value of these obligations using the projected unit credit method and real interest rates, according to Bulletin D-3 of FRS. Pension DCO are expensed as incurred.

Since 2002, HSBC funds the post retirement medical benefits. Amortization of unrecognized past service costs is based on an estimated service life of employees of 25 years.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**(t) Restatement of capital stock and statutory reserves-**

This restatement is determined by multiplying stockholder contributions, statutory reserves and retained earnings by UDI factors, which measure accumulated inflation from the dates contributed or generated through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(u) Results from holding non-monetary assets-

The result from holding non-monetary assets represents the difference between the specific valuations of these assets and their cost restated based on the value of the UDI.

(v) Monetary position gains and losses-

The Financial Group recognizes in income the effect (gain or loss) in the purchasing power of its monetary position, which it determines by multiplying the difference between monetary assets and liabilities at the beginning of each month by inflation through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

The gain or loss from interest-bearing monetary assets and liabilities is included in the consolidated statement of operations as part of the "Financial margin", while the gain or loss from all other monetary items and the acquisition cost of "Available-for-sale" securities is presented in "Other income" or "Other expense", respectively.

The monetary position gain or loss from the valuation of "Available-for-sale" securities is recognized in the Financial Group's stockholders' equity under "Unrealized gain or loss from valuation of Available-for-sale securities".

(w) Revenue recognition-

Interest on loans granted is recorded in income as earned. Interest on past due loans is not recognized in income until collected.

Fees and interest collected in advance are recorded as deferred income under "Deferred credits", and recognized in results of operations as earned.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Fees related to the issuance of credit cards and services rendered, and those corresponding to commercial, personal and mortgage loans are recorded in income upon collection. In the case of loans subject to fees and conditioned to the occurrence of a particular event, fees are deferred and recognized in income over the term of the loan.

Premiums collected on securities repurchase transactions are recognized in income based on the present value of the price at maturity.

(x) ***Foreign currency transactions-***

The accounting records are maintained in both pesos and foreign currencies, which for consolidated financial statement presentation purposes, in the case of currencies other than the dollar are translated from the respective currency to dollars as established by the Banking Commission, and the dollar equivalence with Mexican currency is translated at the exchange rate established by the Central Bank. Foreign exchange gains and losses are recognized in the results of operations.

(y) ***UDI Trusts-***

Asset and liability accounts of the loan portfolios restructured in UDI Trusts are expressed in pesos by applying the UDI value determined by the Central Bank at the end of each month. Income and expense accounts are expressed in pesos by applying the average UDI value.

(z) ***Contributions to the Bank Savings Protection Institute (IPAB)-***

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective. Beginning in January 1, 2005, the IPAB will guarantee a maximum of 400,000 UDIS per depositor per institution, in conformity with the decree published in the Official Gazette on December 14, 2000. The Financial Group recognizes in results of operations the mandatory contributions to the IPAB.

(aa) ***Contingencies-***

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings and assets are not recognized until their realization is virtually assured.

(ab) ***Impairment of premises, furniture and equipment-***

The Financial Group evaluates periodically the adjusted values of property, plant and equipment to determine whether there is an indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or realizable value.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(ac) Use of estimates-

The preparation of consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(3) Changes in accounting policies-

2006:

None for the year of 2006, the countable applicable changes from the year 2007 describe in note 27.

FRS

Begging January 1, 2006, financial statements prepared in accordance with Mexican GAAP must be prepared in conformity with Financial Reportin Standards, which update and comprise the accounting standards in Mexico. Through May 2004, the Accounting Principles Commission (Comisión de Principios de Contabilidad or CPC) of the Mexican Institute of Public Accountants was in charge of issuing said standards contained in the Bulletins of Mexican GAAP (Bulletins), which are deemed standards, and in the Circulars, which are regarded as opinions or interpretations.

Through December 2005, Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) has issued eight series A and one series B Financial Reporting Standards. Therefore, Mexican FRS currently include both the standards issued by CINIF and the Bulletins and Circulars issued by CPC, that have not been revised, substituted or superseded by the new FRS

The principal changes included in the aforementioned FRS, which are effective for years beginning after in January 1, 2006, are the following:

- (a) Donations received are included in the results of operatins, instead of in contributed capital.
- (b) Elimination of special and extraordinary items, classifying income statement items as ordinary and non-ordinary.
- (c) Retroactive recognition of the effects of changes in particular standards.
- (d) Disclosure of the authorized date for issuance of financial statements, as well as the officer or body authorizing issuance.

The structure of the financial statements were not modified by the foregoing changes.

2005

Embedded derivatives-

Bulletin C-10 of the FRS establishes additional and more precise rules for accounting of derivative financial instruments (including those embedded derivatives associated with other transactions such as the purchase and sale of goods or services, funding, etc. contracted with underlying securities) and enhances disclosure requirements relating to the exposure to financial risks of an entity.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Labor obligations-

Beginning January 1, 2006, HSBC recognizes the compensation liabilities payable to workers upon termination of labor relationship before retirement age (statutory compensation benefits) for reasons other than restructuring. The foregoing is determined based on computations prepared by independent actuaries, using the projected unit credit method and real interest rates. The issue mentioned in this paragraph increase in expenses of the year in \$30,923.

(4) Foreign currency exposure-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital \$3,488,949 for the Bank and \$8,372 for the Brokerage Firm in 2006 (\$2,832,442 and \$16,820 in 2005, respectively).

At December 31, 2006 and 2005 the foreign currency position, in thousands of dollars is analyzed as follows:

	<u>(Thousands of dollars)</u>	
	<u>2006</u>	<u>2005</u>
Assets	11,674,804	19,327,161
Liabilities	<u>11,491,434</u>	<u>19,399,588</u>
Net (short) long position	183,370	(72,427)
	=====	=====

The exchange rate of the peso to the dollar as of December 31, 2006 and 2005 was \$10.8116 and \$10.6344, respectively.

(5) Cash and equivalents-

At December 31, 2006 and 2005, cash and equivalents are analyzed as follows:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 11,446,422	9,889,335
Deposits with domestic and foreign banks	8,443,700	7,945,255
Deposits with Central Bank	27,498,431	28,654,944
Bank loans with maturity up to three days	5,511,897	7,678,328
Other funds available	99,233	342,175
Restricted funds:		
24 and 48-hour foreign currency purchases	6,945,358	16,023,477
Deposits in guarantee	243,785	20,444
24 and 48-hour foreign currency sales	<u>(5,107,573)</u>	<u>(12,961,013)</u>
	\$ 55,081,253	57,592,945
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

At December 31, 2006 the cash account by type of currency included in the cash equivalents caption is as follows:

<u>Currency</u>	<u>Original currency amount</u>	<u>Exchange rate</u>	<u>Amount in Mexican pesos</u>
Mexican pesos	\$ 10,458,798	-	\$ 10,458,798
Dollar	85,035,947	10.8116	919,375
Euro	3,274,728	14.2334	46,611
Canadian Dollar	1,729,392	9.2796	16,048
British Pounds	156,231	21.1702	3,307
Other currencies			<u>2,283</u>
			<u>\$ 11,446,422</u>
			=====

At December 31, 2006 and 2005, deposits with Banco de México correspond to monetary regulation deposits without term and earn interest at the average bank deposit rate.

At December 31, 2006 and 2005, HSBC had "Call money loans" with 3-day maturities, as follows:

<u>Institute</u>	<u>Term</u>	<u>Rate</u>	<u>2006</u>	<u>2005</u>
Banco Nacional de México, S. A.	3 days	7.00%	\$ 4,111,897	1,979,091
Banco Santander, S. A.	3 days	7.00%	1,400,000	-
BBVA Bancomer, S. A.	3 days	8.25%	-	3,229,044
Nacional Financiera, S. N. C.	3 days	8.25%	-	1,562,442
Banco Mercantil del Norte, S. A.	3 days	8.25%	-	<u>907,751</u>
			<u>\$ 5,511,897</u>	<u>7,678,328</u>
			=====	=====

At December 31, 2006 and 2005 there are precious metals for \$2,053 and \$27,448, respectively, which are included in "Other funds available".

At December 31, 2006 and 2005 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, valued in Mexican pesos, are analyzed as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Receivable</u>	<u>Deliverable</u>	<u>Receivable</u>	<u>Deliverable</u>
Dollar	\$ 6,763,439	(4,925,805)	15,974,490	(12,844,679)
British Pounds	127,021	(63,511)	-	(4,379)
Euro	52,664	(102,481)	47,672	(90,121)
Other currencies	<u>2,234</u>	<u>(15,776)</u>	<u>1,315</u>	<u>(21,834)</u>
	<u>\$ 6,945,358</u>	<u>(5,107,573)</u>	<u>16,023,477</u>	<u>(12,961,013)</u>
	=====	=====	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(6) Investment securities-

At December 31, 2006 and 2005 the investments in securities were as follows:

	<u>2006</u>	<u>2005</u>
<u>Trading:</u>		
Debt securities	\$ 277,685	55,125
Banking promissory notes	81,078	1,276,955
Government securities	11,351,173	5,887,388
Bonds	158,840	-
Shares	<u>757,806</u>	<u>14,620</u>
	<u>12,626,582</u>	<u>7,234,088</u>
<u>Available-for-sale:</u>		
Equities	264,812	196,511
Debt securities	<u>40,206,421</u>	<u>47,740,875</u>
	<u>40,471,233</u>	<u>47,937,386</u>
<u>Held-to-maturity:</u>		
Special CETES of the UDI Trusts (see note 9b):		
Productive plant	196,267	189,918
States and municipalities	430,352	416,429
Residential mortgages	<u>2,984,526</u>	<u>2,900,429</u>
	3,611,145	3,506,776
Other	<u>387,704</u>	<u>652,709</u>
	<u>3,998,849</u>	<u>4,159,485</u>
Total investment securities	\$ 57,096,664	59,330,959
	=====	=====

Transfer between investment categories-

During 2006 y 2005, the Financial Group did not make any transfers between investment categories.

As of December 31, 2006 and 2005, the investment in debt securities of the same issues other than government securities, greater than \$1,305 and \$1,121 millions, respectively (5% of the net capital of HSBC), classified as "Trading" and "Available-for-sale" securities, are analyzed on the following page:

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>Amount</u>	
	<u>Partial</u>	<u>Total</u>
<u>Available-for-sale</u>	<u>2006</u>	
Banco Nacional de Comercio Exterior, S.N.C.	\$ 1,704,034	-
Noruega Investment Bank	1,831,521	-
Petróleos Mexicanos	1,684,550	\$ 5,220,105
	=====	=====
<u>Available-for-sale</u>	<u>2005</u>	
Banco Santander, S. A.	\$ 1,650,674	-
Banco Inbursa, S. A.	2,084,861	\$ 3,735,535
	=====	=====

Classification of investment securities-

At December 31, 2006 and 2005 the investment securities are classified depending on management's intentions considering their term as follows:

<u>Securities</u>	<u>2006</u>		<u>2005</u>	
	<u>Short</u>	<u>Long</u>	<u>Short</u>	<u>Long</u>
Trading	\$ 1,123,667	11,502,915	1,910,044	5,324,044
Available-for-sale	385,704	40,085,529	1,033,740	46,903,646
Held-to-maturity	<u>29,112</u>	<u>3,969,737</u>	<u>64,777</u>	<u>4,094,708</u>
	\$ 1,538,483	55,558,181	3,008,561	56,322,398
	=====	=====	=====	=====
	\$ 57,096,664		59,330,959	
	=====		=====	

(7) Securities under repurchase/resell agreements-

At December 31, 2006 and 2005, the net debt and credit balances arising from the offsetting of each repurchase/resell agreements transaction, are analyzed on the following page.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>2006</u>			<u>2005</u>		
	<u>Net balance</u>			<u>Net balance</u>		
	<u>Debit</u>	<u>Credit</u>	<u>Total</u>	<u>Debit</u>	<u>Credit</u>	<u>Total</u>
Securities receivable	\$ 13,695,488	36,158,238	49,853,726	33,002,484	13,281,710	46,284,194
Creditors under agreements to repurchase	<u>(13,631,665)</u>	<u>(36,211,088)</u>	<u>(49,842,753)</u>	<u>(32,904,030)</u>	<u>(13,396,237)</u>	<u>(46,300,267)</u>
Securities sold under agreements to repurchase	<u>63,823</u>	<u>(52,850)</u>	<u>10,973</u>	<u>98,454</u>	<u>(114,527)</u>	<u>(16,073)</u>
Securities deliverable	(1,449,623)	(1,562,842)	(3,012,465)	(11,283,101)	(5,232,327)	(16,515,428)
Debtors under agreements to resell	<u>1,454,644</u>	<u>1,562,023</u>	<u>3,016,667</u>	<u>11,378,466</u>	<u>5,229,120</u>	<u>16,607,586</u>
Securities purchased under agreements to resell	<u>5,021</u>	<u>(819)</u>	<u>4,202</u>	<u>95,365</u>	<u>(3,207)</u>	<u>92,158</u>
Debit (credit) balances under repurchase/resell agreements	\$ <u>68,844</u>	<u>(53,669)</u>		<u>193,819</u>	<u>(117,734)</u>	

At December 31, 2006 and 2005, the Financial Group had executed repurchase/resell agreements and had net positions by type of security and average term in days as follows:

	<u>2006</u>				<u>2005</u>			
	<u>Sale</u>	<u>Purchase</u>	<u>Average selling term</u>	<u>Average purchase term</u>	<u>Sale</u>	<u>Purchase</u>	<u>Average selling term</u>	<u>Average purchase term</u>
<u>Securities receivable (deliverable)</u>								
<u>Government</u>								
BONDE182	\$ 1,019,031	(1,266,390)	82	22	\$ 11,803,594	(10,532,557)	25	27
BONDEST	8,176,268	-	34	-	-	-	-	-
BONOS	6,072,988	-	14	-	3,309,232	(3,017,272)	20	29
BPAT	4,812,478	(314,776)	56	55	4,717,708	(446,392)	22	28
BREMS	5,102,879	-	4	-	8,417,492	(2,218,177)	24	-
CETES	10,326,448	(842,308)	11	4	14,621,130	(284,364)	5	-
IPAB	3,152,710	(489,880)	38	26	1,667,648	-	35	-
BONDES A	<u>8,932,470</u>	<u>-</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	47,595,272	(2,913,354)			44,536,804	16,498,762		
<u>Bank</u>								
Promissory notes	2,159,343	-	18	-	1,747,390	(16,666)	7	-
Bonds	<u>99,111</u>	<u>(99,111)</u>	<u>8</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	49,853,726	(3,012,465)			46,284,194	(16,515,428)		
(Creditors) debtors under agreements to repurchase /resell	<u>(49,842,753)</u>	<u>3,016,667</u>			<u>(46,300,267)</u>	<u>16,607,586</u>		
	10,973	4,202			(16,073)	92,158		
Reclassifications	<u>57,871</u>	<u>(57,871)</u>			<u>209,892</u>	<u>(209,892)</u>		
Debit (credit) balances under repurchase/resell agreements	\$ <u>68,844</u>	<u>(53,669)</u>			\$ <u>193,819</u>	<u>(117,734)</u>		

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(8) Derivative transactions-

Notional amounts:

Notional amounts of contracts represent the derivatives volume outstanding and not the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied for determining the amount of cash flows to be exchanged.

At December 31, 2006 and 2005, the memorandum account "Amounts contracted in derivate instruments" is analyzed as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Purchase</u>	<u>Sale</u>	<u>Purchase</u>	<u>Sale</u>
Trading	\$ 592,680,252	50,407,900	36,152,296	166,081,916
Hedging	7,368,351	7,500,000	475,032	3,205,930
Inflation effect	-	-	<u>1,524,686</u>	<u>7,047,084</u>
	600,048,603	57,907,900	38,152,014	176,334,930
	=====	=====	=====	=====
	\$ 657,956,503		214,486,944	
	=====		=====	

TradingNotional amounts:

	<u>2006</u>			<u>2005</u>		
	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>
<u>Interest rate contracts:</u>						
Mexder Futures	\$ 5,149,600	(29,957,900)	(24,808,300)			
Options	52,500,000	(9,450,000)	43,050,000	1,329,300	-	1,329,300
Swaps	<u>491,547,594</u>	<u>-</u>	<u>491,547,594</u>	<u>34,822,996</u>	<u>(143,443,816)</u>	<u>(108,620,820)</u>
	<u>549,197,194</u>	<u>(39,407,900)</u>	<u>509,789,294</u>	<u>36,152,296</u>	<u>(143,443,816)</u>	<u>(107,291,520)</u>
			=====			=====
<u>Foreing currency:</u>						
Forwards	24,000,000	(11,000,000)	13,000,000	-	(22,638,100)	(22,638,100)
Swaps MXN-UDI	3,100,000	-	3,100,000	-	-	-
Swaps MXN-USD	7,030,951	-	7,030,851	-	-	-
Swaps USD-UDI	324,348	-	324,348	-	-	-
Swaps UDI-USD	335,444	-	335,444	-	-	-
Swaps UDI-MXN	3,018,917	-	3,018,917	-	-	-
Swaps USD-MXN	<u>5,673,398</u>	<u>-</u>	<u>5,673,398</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>43,483,058</u>	<u>(11,000,000)</u>	<u>32,483,058</u>	<u>-</u>	<u>(22,638,100)</u>	<u>(22,638,100)</u>
			=====			=====
	\$ 592,680,252	50,407,900		36,152,296	166,081,916	
	=====	=====		=====	=====	

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Mark to market:

At December 31, 2006 and 2005, the fair value of derivative financial instruments for trading purposes is analyzed as follows:

	<u>2006</u>			<u>2005</u>		
	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>
Currency Forwards (mainly dollar and pesos)	\$ 1,401,990	(1,054,633)	347,357	148,149,857	(148,038,147)	111,710
Interest rate futures	40,523	(61,314)	(20,791)	-	-	-
Interest rate options	108,659	(16,585)	92,074	47,853	-	47,853
Cross currency swaps	19,970,378	(19,908,469)	61,909	1,793,524	(1,783,124)	10,400
Interest rate swaps	<u>109,309,664</u>	<u>(109,623,936)</u>	<u>(314,272)</u>	<u>29,751,372</u>	<u>(29,523,513)</u>	<u>227,859</u>
	\$ <u>130,831,214</u>	<u>(130,664,937)</u>	<u>166,277</u>	<u>179,742,606</u>	<u>(179,344,784)</u>	<u>397,822</u>

Hedging

The fair value of agreements with derivative financial transactions with hedging purposes are presented in the consolidated balance sheet along with the asset or liability (primary position) being hedged.

<u>Underlying</u>	<u>Risk</u>	<u>Primary position</u>	<u>2006</u>	<u>2005</u>
Currency – dollar	Exchange	Investment securities (note 6)	\$ (223,823)	20,663
Interest rate	Rate change	Loans to IPAB (note 9b)	(54,070)	-
			=====	=====

Notional amounts:

	<u>2006</u>		<u>2005</u>	
	<u>Purchase</u>	<u>Sale</u>	<u>Purchase</u>	<u>Sale</u>
<u>Hedging</u>				
<u>Interest rate:</u>				
Swaps	\$ 7,500,000	3,220,000	156,000	-
<u>Currency:</u>				
Swaps	<u>-</u>	<u>4,148,351</u>	<u>319,032</u>	<u>3,205,930</u>
	\$ <u>7,500,000</u>	<u>7,368,351</u>	<u>475,032</u>	<u>3,205,930</u>
	=====	=====	=====	=====

In purchasing interest rate swaps a fixed rate is received and a variable rate is delivered while in sales, a variable rate is received and a fixed rate delivered. In purchasing and selling foreign currency swaps currency is received and delivered, respectively.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The Bank's primary objectives in executing derivative transactions are neutralizing market, credit and liquidity risks that may affect the entity's future results. These instruments are also offered to certain of our customers with the same intention. The execution of these transactions is in agreement with the policies established by HSBC Holding Plc and with the authorization of Banco de México. Valuation models are duly authorized and are proper for recognition of the risks involved.

The value of exposure to market risk of transactions with derivative financial instruments is included in the Value at Risk of HSBC's Global Market, which is explained in note 28.

Had the primary position not been covered with the derivative financial transactions mentioned earlier, there would have been a favorable impact of \$205,102 on the 2006 results of operations.

At December 31, 2006, the credit risk of transactions with derivative financial instruments amounts to \$2,811,101. During the year here were no losses associated with the credit risk.

(9) Loan portfolio-

	<u>2006</u>	<u>2005</u>
Total loan portfolio, shown in the consolidated balance sheet	\$ <u>161,664,559</u>	<u>144,993,573</u>
Recorded in memorandum accounts (note 24a):		
Guarantees	50,454	59,078
Irrevocable lines of credit	<u>6,333,680</u>	<u>3,917,743</u>
	<u>6,384,134</u>	<u>3,976,821</u>
	\$ 168,048,693	148,970,394
	=====	=====

(a) *Classification of current and past due loan portfolio by currency, rated portfolio, economic sector and by aging of past due loans-*

At December 31, 2006 and 2005, the classification of current and past due loan portfolio by currency, which includes the restructured portfolio of UDI Trusts, and by economic sector, rated portfolio and aging of past due loans includes HSBC's commitments recorded in memorandum accounts on security granted and opening of irrevocable credit, is shown on the following page.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

Portfolio	Commercial		Financial institutions		Consumer		Residential mortgages		Government entities		IPAB		Past due indebtedness		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Current:																
Pesos	\$ 42,335,229	30,508,554	5,749,669	6,847,118	35,477,367	24,951,589	15,364,011	10,125,828	34,810,738	35,929,024	-	1,141,775	-	-	133,737,014	109,503,888
Foreign currency	15,252,124	16,478,237	223,548	335,656	-	1,776,971	3,719	4,983,560	2,041,330	1,343,749	-	-	-	-	17,520,721	24,918,173
UDIS	524,495	668,686	-	-	-	6	5,197,068	5,826,626	364,890	395,043	-	-	-	-	6,086,453	6,890,361
Total	58,111,848	47,655,477	5,973,217	7,182,774	35,477,367	26,728,566	20,564,798	20,936,014	37,216,958	37,667,816	-	1,141,775	-	-	157,244,188	141,312,422
Past due:																
Pesos	1,203,887	1,079,399	302	315	1,666,912	840,062	481,792	298,111	1	-	-	-	9,911	28,460	3,362,805	2,246,347
Foreign currency	324,407	495,900	-	-	-	11,075	69,416	-	-	-	-	-	499	471	324,906	576,862
UDIS	11,587	161,318	-	-	-	298	621,073	696,326	-	-	-	-	-	-	632,660	857,942
Total	1,539,881	1,736,617	302	315	1,666,912	851,435	1,102,865	1,063,853	1	-	-	-	10,410	28,931	4,320,371	3,681,151
Total:																
Pesos	43,539,116	31,587,953	5,749,971	6,847,433	37,144,278	25,791,651	15,845,803	10,423,939	34,810,739	35,929,024	-	1,141,775	9,911	28,460	137,099,818	111,750,235
Foreign currency	15,576,531	16,974,137	223,548	335,656	-	1,788,046	3,719	5,052,976	2,041,330	1,343,749	-	-	499	471	17,845,627	25,495,035
UDIS	536,082	830,004	-	-	-	304	5,818,141	6,522,952	364,890	395,043	-	-	-	-	6,719,113	7,748,303
Total	\$ 59,651,729	49,392,094	5,973,519	7,183,089	37,144,278	27,580,001	21,667,663	21,999,867	37,216,959	37,667,816	-	1,141,775	10,410	28,931	161,664,558	144,993,573

Classification by activity

Manufacturing	\$ 25,521,213	19,434,607	-	-	-	-	-	-	-	-	-	-	-	-	25,521,213	19,434,607
Agriculture, forestry and fishing	6,732,581	7,803,376	-	-	-	-	-	-	-	-	-	-	-	-	6,732,581	7,803,376
Trade and tourism	13,156,984	13,333,922	-	-	-	-	-	-	-	-	-	-	-	-	13,156,984	13,333,922
Services	14,240,951	8,820,190	-	-	-	-	-	-	-	-	-	-	-	-	14,240,951	8,820,190
Financial services	-	-	5,098,862	6,299,116	-	-	-	-	-	-	-	-	-	-	5,098,862	6,299,116
Credit Unions	-	-	519,173	438,043	-	-	-	-	-	-	-	-	-	-	519,173	438,043
Lessors	-	-	219,231	276,074	-	-	-	-	-	-	-	-	-	-	219,231	276,074
Others to financial organizations	-	-	136,253	169,855	-	-	-	-	-	-	-	-	-	-	136,253	169,855
Credit Car	-	-	-	-	16,452,522	14,732,055	-	-	-	-	-	-	-	-	16,452,522	14,732,055
Credit Card	-	-	-	-	15,089,978	7,995,217	-	-	-	-	-	-	-	-	15,089,978	7,995,217
Multicredito	-	-	-	-	3,713,465	2,190,922	-	-	-	-	-	-	-	-	3,713,465	2,190,922
Fixed payment	-	-	-	-	1,888,313	2,661,807	-	-	-	-	-	-	-	-	1,888,313	2,661,807
Construction and housing	-	-	-	-	-	-	21,667,663	21,999,867	-	-	-	-	-	-	21,667,663	21,999,867
Municipalities	-	-	-	-	-	-	-	-	563,773	416,368	-	-	-	-	563,773	416,368
States	-	-	-	-	-	-	-	-	2,442,991	2,426,923	-	-	-	-	2,442,991	2,426,923
Credit to the Federal Government (support programs)	-	-	-	-	-	-	-	-	354,855	390,005	-	-	-	-	354,855	390,005
Other to governmental entities	-	-	-	-	-	-	-	-	33,855,340	34,434,520	-	-	-	-	33,855,340	34,434,520
Simple loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan swap	-	-	-	-	-	-	-	-	-	-	-	1,141,775	-	-	-	1,141,775
Past due indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	10,410	28,931	10,410	28,931
Total	\$ 59,651,729	49,392,095	5,973,519	7,183,088	37,144,278	27,580,001	21,667,663	21,999,867	37,216,959	37,667,816	-	1,141,775	10,410	28,931	161,664,558	144,993,573

Past due loans by aging

From 1 to 180 days	\$ 524,403	333,318	-	-	1,216,271	719,751	241,828	277,118	1	-	-	-	8,303	28,460	1,990,806	1,358,647
From 181 to 365 days	366,402	322,626	-	-	126,008	112,620	255,604	301,177	-	-	-	-	229	-	748,243	736,623
From 1 to 2 years	324,751	241,573	-	-	3,127	16,405	307,592	259,502	-	-	-	-	225	-	635,695	517,480
More than 2 years	324,325	839,100	302	315	321,506	2,659	297,841	226,056	-	-	-	-	1,653	471	945,627	1,068,601
Total	1,539,881	1,736,617	302	315	1,666,912	851,435	1,102,865	1,063,853	1	-	-	-	10,410	28,931	4,320,371	3,681,151

Loan portfolio rated**Portfolio rating risk %**

0.5 a - 09 A-Minimum	\$ 35,144,100	29,454,526	3,332,949	3,423,197	30,113,420	23,429,590	19,186,032	19,392,366	7,035,668	6,058,273	-	-	-	-	94,812,169	81,757,952
1 a 19.9 B-Low	28,876,957	21,870,769	2,640,268	3,755,916	4,214,358	2,643,276	1,326,258	1,625,041	613,299	778,379	-	-	-	-	37,671,140	30,673,381
20 a 59.9 C-Medium	979,082	779,968	-	3,660	1,099,534	619,183	355,823	191,688	52,822	15,439	-	-	-	-	2,487,261	1,609,938
60 a 89.9 D-High	472,905	437,272	-	-	1,518,048	789,799	722,142	723,304	13,833	59,168	-	-	-	-	2,726,928	2,009,543
90 a 100 E-Irrecoverable	562,820	826,407	302	315	198,919	98,155	77,408	67,469	-	-	-	-	10,410	28,931	849,859	1,021,277
Total	66,035,864	53,368,942	5,973,519	7,183,088	37,144,279	27,580,003	21,667,663	21,999,868	7,715,622	6,911,259	-	-	10,410	28,931	138,547,357	117,072,091
Allowance																
0.5 a - 09 A-Minimum	253,244	182,305	32,036	31,127	176,875	259,739	115,642	128,263	53,665	43,433	-	-	-	-	631,462	644,867
1 a 19.9 B-Low	1,738,011	1,287,653	134,248	185,943	404,565	257,825	63,448	58,804	35,472	46,680	-	-	-	-	2,375,744	1,836,905
20 a 59.9 C-Medium	319,114	268,545	-	1,463	494,615	276,232	117,333	62,111	10,564	3,088	-	-	-	-	941,626	611,439
60 a 89.9 D-High	320,927	277,494	-	-	1,137,631	604,079	507,155	488,780	10,375	36,923	-	-	-	-	1,976,688	1,407,276
90 a 100 E-Irrecoverable	560,223	825,195	302	315	199,312	98,315	74,282	64,662	-	-	-	-	10,410	28,931	844,529	1,017,418
Total	6,575	-	-	-	-	-	-	623,466	-	-	-	-	-	1,287	6,575	624,753
Total	\$ 3,198,094	2,841,192	166,586	218,848	2,412,998	1,496,190	877,860	1,426,086	110,076	130,124	-	-	10,410	30,218	6,776,024	6,142,658

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Unsecured loan:

On September 27, 2002, the Bank granted a \$47,356,995 (nominal) loan to the IPAB. The loan is documented by a promissory note that may only be endorsed to Banco de Mexico as a guarantee for the note amount. The loan matures on December 30, 2009 with the right of prepayment, and bears interest at a rate equal to the arithmetic average of the annual yield rates of 91-day Cetes sold during the interest accrual period plus one percentage point. Interest accrued on the loan is payable by the IPAB on the last day of each calendar quarter. In November and December 2004, the IPAB prepaid principal of \$12,474,750 and \$2,686,639, respectively. At December 31, 2006 and 2005, the balance of the simple loan aggregates \$29,146,481 and \$30,366,532, respectively and is included in "Loans to government entities".

Loan swap:

HSBC and the Mexican financial authorities executed agreements to exchange cash flows from commercial loans in exchange for the cash flows of a promissory note, less a percentage of loan losses to be borne by the Bank.

At December 31, 2006 and 2005, the loan swap is analyzed as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 1,096,145	17,740,636
Interest, net of normal collection	66,181	1,571,290
Amount received of an early way	<u>(1,162,326)</u>	<u>(18,215,781)</u>
	\$ -	1,096,145
	=====	=====

The remainder of the IPAB loan was collected on April 3, 2006; consequently the IPAB brings to a conclusion the commitments assumed in the aforesaid agreement.

Federal Government support programs:

As a result of the economic crisis in 1995, the Federal Government and the Mexican Bankers' Association established loan support programs and agreements with debtors of credit institutions.

- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benefits to Housing Loan Debtors (BADCV).
- Additional Benefits to FOVI Housing Loan Debtors (BADCVF).

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Federal Government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of December 31, 2006 and 2005, receivables from the Federal Government in connection with discounts granted and the costs in charge of HSBC (see chart in note 9a), are analyzed as shown below:

	<u>2006</u>		<u>2005</u>	
	<u>Portfolio</u>	<u>Cost</u>	<u>Portfolio</u>	<u>Cost</u>
BADCV and BADCVF	\$ 353,462	245,985	386,893	274,800
FOPYME	646	676	1,909	1,887
FINAPE	<u>747</u>	<u>896</u>	<u>1,203</u>	<u>783</u>
	\$ 354,855	247,557	390,005	277,470
	=====	=====	=====	=====

(b) *UDI Trust restructured loans-*

The Bank participated in several loan-restructuring programs established between the Federal Government and the Mexican banks, mainly of changing the peso-denominated loans to UDIs, through trusts created with funding provided by the Central Bank.

Certain UDI Trusts have matured or the trust-related liability has been fully settled. Housing funds in force at December 31, 2006 y 2005, included in the loan portfolio and earning interest at the rates of 8.63 and 8.55%, respectively are analyzed as follows:

	<u>2006</u>	<u>2005</u>
Current loan portfolio	3,170,659	4,039,062
Past due loan portfolio	<u>499,791</u>	<u>542,066</u>
Total	3,670,450	4,581,128
	=====	=====

(c) *Additional loan portfolio information-*

Commission by type of loan:

At December 31, 2006 and 2005, commissions by type of loan presented in commissions and fees collected in the consolidated statements of income, which also include primarily trust and deposit-related commissions are presented on the following page:

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

<u>Type of loan</u>	<u>Amount</u>	
	<u>2006</u>	<u>2005</u>
Commercial	\$ 132,893	107,616
Consumer	2,670,129	1,873,459
Mortgage	206,071	141,592
Government entities	7,304	6,382
Others	<u>55,198</u>	<u>64,074</u>
Total	\$ 3,071,595	2,193,123

Annual weighted lending rates:

During 2006 and 2005, the annual weighted lending rates (unaudited) were as follows:

	<u>2006</u>	<u>2005</u>
Commercial loans	11.04%	12.10%
Financial entities	9.03%	9.89%
Personal loans	19.35%	20.42%
Residential mortgages	11.52%	12.15%
Government entities	8.01%	8.93%

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed mainly by the Central Bank, Nacional Financiera, Banco Nacional de Comercio Exterior and Fondo de Garantía y Fomento para la Agricultura by rediscounting loans with recourse. At December 31, 2006 and 2005, the amount of loans granted under these programs aggregated \$8,648,098 and \$7,759,783, respectively, and the related liability is included in "Due to banks and other institutions".

Restructured loans:

At December 31, 2006 and 2005, restructured loans are analyzed as follows:

	<u>2006</u>			<u>2005</u>		
	<u>Loan portfolio</u>			<u>Loan portfolio</u>		
	<u>Current</u>	<u>Past due</u>	<u>Total</u>	<u>Current</u>	<u>Past due</u>	<u>Total</u>
Agriculture Portfolio Restructure Program System (SIRECA)	\$ 3,259	6,052	9,311	5,094	61,615	66,709
With Bank funds	<u>2,915,795</u>	<u>132,869</u>	<u>3,048,664</u>	<u>2,857,574</u>	<u>315,876</u>	<u>3,173,450</u>
	\$ 2,919,054	138,921	3,057,975	2,862,668	377,491	3,240,159

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The amount of interest income recognized from the restructuring of past due loans aggregated \$393,630 and \$433,683, for the years ended December 31, 2006 and 2005, respectively. Consumer loans are not being restructured. Mortgage loans are being restructured without considering additional guarantees. It is frequent that in the restructuring process of portfolios for small and medium-sized companies additional guarantees are obtained. By and large, restructuring processes result in the remission of part of default interest and commissions, which at December 31, 2006 amount to \$170,660.

Below is an analysis of the annual movement of past due loans for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 3,555,445	3,648,790
Collections	(3,191,283)	(3,229,380)
Write-offs	(2,346,732)	(1,387,155)
Transfers to current loan portfolio	(494,749)	(664,437)
Transfers from current to past due loan portfolio	6,395,011	5,374,385
Other minor items	<u>402,678</u>	<u>(61,052)</u>
 Balance at end of year	 \$ 4,320,370 =====	 3,681,151 =====

The estimate of nominal interest that would have accrued in 2006 from the past due loan portfolio is \$269,108 (\$350,017 in 2005).

Impaired loans:

At December 31, 2006 and 2005, the balance of impaired commercial loans is \$1,060,270 and \$1,599,657, respectively, of which \$121,399 and \$384,146 are recorded as current loans and \$938,871 and \$1,215,511 as past due loans, respectively.

Risk concentration:

At December 31, 2006, HSBC's accounting records includes one loan which individually exceed the 10% of basic capital. The sum of the three largest credits amounted to \$6,041,489 (25.97% of basic capital).

At December 31, 2005, HSBC's accounting records includes one loan which exceeded 10% basic capital. The sum of the three largest credits amounted to \$5,684,377 (30.10% of basic capital).

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(d) Allowance for loan losses-

As explained in notes 2h and 28, an allowance is established to provide for credit risks associated with the collection of the HSBC loan portfolio.

At December 31, 2006 and 2005 the allowance for loan losses, analyzed in section (a) above is comprised as follows:

	<u>2006</u>	<u>2005</u>
Rated loan estimate	\$ 6,769,449	5,517,905
Additional reserves, including past due interest	<u>6,575</u>	<u>624,753</u>
Total allowance for loan losses	\$ <u>6,776,024</u>	<u>6,142,658</u>

At December 31, 2006, the balance of the general (A) and specific (B-1 to E) allowance for loan losses amounts to \$638,036 and \$6,137,987, respectively (\$1,269,619 and \$4,873,039, respectively in 2005).

The movement of the allowance for loan losses for the years ended December 31, 2006 and 2005 (in nominal pesos) is summarized below:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 5,729,773	6,567,047
Provisions charged to income*	4,023,799	1,159,571
Reinstatement of reserves	333,571	484,787
Exchange rate valuation effects	16,945	2,969
Applications:		
Write-offs	(2,909,848)	(1,497,380)
Debt forgiveness	<u>(418,217)</u>	<u>(819,822)</u>
	6,776,023	5,897,172
Restatement for inflation	<u>-</u>	<u>245,486</u>
Balance at end of year	\$ <u>6,776,023</u>	<u>6,142,658</u>

* Additionally, the expense for loan losses in the 2006 and 2005 in the consolidated statements of operations includes \$82,030 and \$353,969, respectively, for the loss sharing under the IPAB loan swap (see note 9a).

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(10) Other accounts receivable-

At December 31, 2006 and 2005 other accounts receivable are analyzed as follows:

	<u>2006</u>	<u>2005</u>
Debtors on settlement transactions	\$ 7,238,680	13,025,837
Due to personal	1,957,652	1,619,161
Other, net	<u>1,727,337</u>	<u>1,206,675</u>
	\$ 10,923,669	15,851,673
	=====	=====

(11) Foreclosed assets or received in lieu of payment-

As of December 31, 2006 and 2005, foreclosed assets or assets received in lieu of payment are analyzed as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Reserve</u>	<u>Amount</u>	<u>Reserve</u>
Securities and sundry assets:				
Sundry assets	\$ 9,553	(6,632)	52,316	(7,268)
Securities	<u>957,091</u>	<u>(946,250)</u>	<u>1,026,555</u>	<u>(986,240)</u>
	<u>966,644</u>	<u>(952,882)</u>	<u>1,078,871</u>	<u>(993,508)</u>
Premises:				
Land	36,957	(36,122)	263,128	(236,684)
Buildings	<u>112,931</u>	<u>(74,052)</u>	<u>1,011,053</u>	<u>(712,958)</u>
	<u>149,888</u>	<u>(110,174)</u>	<u>1,274,181</u>	<u>(949,642)</u>
	\$ 1,116,532	(1,063,056)	2,353,052	(1,943,150)
	=====	=====	=====	=====
	\$ 53,476		409,902	
	=====		=====	

The debit to the consolidated income statement related to the reserve in 2006 amounted to \$241,365 (\$54,462 in 2005)

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(12) Premises, furniture and equipment-

Premises, furniture and equipment, at December 31, 2006 and 2005, are analyzed as follows:

	<u>2006</u>	<u>2005</u>	<u>Annual depreciation and amortization rate</u>
Premises	\$ 3,278,838	3,264,204	Various
Office furniture and equipment	831,133	2,765,135	Various
Computer equipment	1,943,100	2,496,181	Various
Transportation equipment	21,289	138,442	Various
Installation expenses	2,575,160	2,278,756	10% and 5%
Other equipment	<u>615,695</u>	<u>873,163</u>	Various
	9,265,215	11,815,881	
Accumulated depreciation and amortization	<u>(4,273,680)</u>	<u>(7,156,758)</u>	
	4,991,535	4,659,123	
Land	<u>1,102,664</u>	<u>1,044,261</u>	
	\$ 6,094,199	5,703,384	
	=====	=====	

Depreciation and amortization charged to income in 2006 and 2005 amounted to \$870,225 and \$885,037, respectively.

(13) Permanent investments in shares-

At December 31, 2006 and 2005, permanent investments in shares of unconsolidated subsidiaries, associated and affiliated companies, classified by activity, are analyzed as follows:

	<u>2006</u>	<u>2005</u>
Unconsolidated subsidiaries:		
Insurance	\$ 1,791,919	1,487,408
Guarantee companies	214,414	241,092
Real estate companies	28,683	30,602
Associated and affiliated companies:		
Security and protection	1,909	1,908
Supplementary banking services	148,832	95,318
Statutory pensions funds	343,084	317,878
Mutual funds	69,650	15,019
Other activities	<u>43,654</u>	<u>149,183</u>
	\$ 2,642,145	2,338,408
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The equity in results of unconsolidated subsidiaries, associated and affiliated companies amounted to \$808,046 in 2006 (\$703,504 in 2005).

(14) Other assets, deferred charges and intangibles net-

At December 31, 2006 and 2005, other assets, deferred charges and intangibles include:

	<u>2006</u>	<u>2005</u>
Recovering taxes	\$ 52,778	945,518
Labor obligations prepaid (see note 19)	505,765	526,818
Services and fess paid	27,412	52,360
Others	<u>15,642</u>	<u>228,349</u>
	\$ 601,597	1,753,045
	=====	=====
Goodwill:		
Insurance	\$ 1,276,407	1,276,407
Afore	1,595,422	1,595,422
HSBC Panama	<u>-</u>	<u>725,483</u>
	2,871,829	3,597,312
Accumulated amortization	<u>(223,813)</u>	<u>(223,812)</u>
	\$ 2,648,016	3,373,500
	=====	=====

On August 8, 2006, the Group's stockholders decided to carry out a corporate restructuring of the subsidiaries; therefore, HSBC sold its equity in HSBC Bank (Panama) to HSBC Asia Holding.

Acquisition of Grupo Financiero Finacomer, S. A. and Subsidiaries and HSBC Bank Panamá, S. A.-

On September 1, 2005 HSBC Bank (Panamá), S.A. acquired all the operations of Grupo Finacomer, S. A. and affiliated companies, which entailed acquiring assets, liabilities and stockholders' equity amounting to 40, 28 and 12 million dollars, respectively. On July 31, 2004 the Group acquired from HSBC Bank USA 100% of the shares representing the capital stock of 15 branches, along with their respective assets and liabilities, and 100% of the capital stock of the Overseas Reality Corporation of Panamá; Panamá Realty Investment, S. A.; HSBC Investment Corporation (Panamá), S. A. and HSBC Securities (Panamá), S. A., with assets, liabilities and stockholders' equity of 1,019 million, 895 million and 124 million dollars, respectively. For legal and statutory reasons, a new bank has been created from these companies, called HSBC Bank (Panamá), S. A.

Beginning January 1, 2005, goodwill will be evaluated for impairment in conformity with the new C-15 of the FRS.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(15) Deposits funding-

The weighted average deposit rates (unaudited) during the years ended December 31, 2006 and 2005 are analyzed as follows:

	<u>2006 rates</u>			<u>2005 rates</u>		
	<u>Pesos</u>	<u>Dollars</u>	<u>UDIS</u>	<u>Pesos</u>	<u>Dollars</u>	<u>UDIS</u>
Demand deposits	0.59	0.65	-	0.67	0.49	-
Time deposits	5.57	2.17	0.19	6.40	1.05	0.30
	===	===	=====	=====	===	===

(16) Bank bonds-

On February 13, 2006, the Banking Commission authorized the Bank a bank bonds program for up to \$10,000,000. At December 31, 2006, the Bank has made the following issued under the bank bonds program as follows:

<u>Issuance day</u>	<u>Reference rate</u>	<u>Maturity day</u>	<u>Amount</u>
May 10, 2006	TIE	May 1, 2013	\$ 2,000,000
May 10, 2006	9.08%	April 27, 2016	1,000,000
June 29, 2006	TIE	May 1, 2013	<u>1,220,000</u>
			4,220,000
Accrued interest			<u>22,193</u>
Total de Bank Bonds			\$ <u>4,242,193</u> =====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(17) Due to banks and other institutions-

At December 31, 2006 and 2005, bank and other loans are analyzed as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Term</u>		<u>Term</u>	
	<u>Short</u>	<u>Long</u>	<u>Short</u>	<u>Long</u>
Pesos:				
Banco de México	\$ 4,502,655	-	-	-
Development banks*	2,489,239	59,327	1,080,297	178,112
Multiple bank	100,058	-	-	-
Promotion funds*	<u>3,087,453</u>	<u>1,807,030</u>	<u>3,146,915</u>	<u>1,925,606</u>
	\$ <u>10,179,405</u>	<u>1,866,357</u>	<u>4,227,212</u>	<u>2,103,718</u>
Traslated into pesos:				
Development banks*	22,181	35,759	104,411	8,780
Promotion funds*	493,600	339,115	549,469	81,862
Foreign banks	<u>25,590</u>	<u>43</u>	<u>101,580</u>	<u>75,646</u>
	<u>541,371</u>	<u>374,917</u>	<u>755,460</u>	<u>166,288</u>
Total by term	<u>10,720,776</u>	<u>2,241,274</u>	<u>4,982,672</u>	<u>2,270,006</u>
Total due to banks and other institutions	\$ <u>12,962,050</u>		<u>7,252,678</u>	

* Funds granted under the development fund program (see note 9c)

At December 31, 2006 and 2005, the average annual rates (unaudited) are analyzed as follows:

	<u>Pesos</u>		<u>Foreign currency</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	Banco de México	7.28%	-	-
Development banks	7.49%	10.25%	9.61%	5.91%
Promotion funds	6.99%	7.86%	5.95%	3.96%
	=====	=====	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(18) Securities lending-

At December 31, 2005, as borrower, HSBC had securities loans maturing on January 2, 2007 and 2006, respectively. The type of security, number and amount of the securities loans are described as follows:

	Number of securities			Amount	
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
Bonos	54,600,000	40,840,000	\$	5,794,411	4,346,328
Cetes	48,000,000	23,200,000		<u>471,823</u>	<u>225,130</u>
	=====	=====	\$	<u>6,266,234</u>	<u>4,571,458</u>

Premiums earned for the year ended December 31, 2006 amounted to \$11,860 (\$12,797 in 2005)

(19) Pensions, seniority premiums, post-retirement benefits and compensation upon termination of labor relationship-

HSBC established a pension plan that all employees have the right to be included. The defined benefit pension plan (DBPP) as provided for by the collective bargaining agreement, all employees who reach 60 years old with 5 years of service or 55 years old with 35 years of service are eligible under the established non-contributory pension plan.

The plan also covers seniority premium benefits to employees, in accordance with the Federal Labor Law.

The cost, obligations and assets of the DBPP, seniority premiums and post-retirement medical benefits plans mentioned in note 2s were determined based on the calculations performed by an independent actuary. The resources or funds contributed for each obligations, they have been affected in trust.

Beginning April 2004, the defined benefit pensions plan incorporates a defined contribution component, consequently the employees, in accordance with their age and service years, either remained in the existing scheme or transferred to the defined contribution scheme. DBPP includes all the union employees and employees whose retirement date is near; the rest of the employees elected the defined contribution pension plan (DCPP).

Since 2005 the Financial Group recognizes obligations for severance compensation upon the termination of the employment relationship

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The components of the net periodic cost for the years ended December 31, 2006 and 2005 are as follows (nominal pesos):

	2006		2005	
	<u>Pensions and seniority premiums</u>	<u>Medical benefits</u>	<u>Pensions and seniority premiums</u>	<u>Medical benefits</u>
Service cost	\$ 33,604	61,950	27,799	58,179
Interest cost	76,464	97,554	71,077	90,159
Return on plan assets	(79,696)	(75,476)	(84,594)	(61,887)
Actuarial (gain) loss	(319)	32,522	(538)	32,678
Amortization of plan modifications	5,716	48,762	5,549	56,843
Amortization of transition liability	4,770	13,650	4,631	15,913
Effect of reductions/ extinction	3,126	102,888	(4,908)	-
Inflationary effect	<u>1,620</u>	<u>7,158</u>	<u>718</u>	<u>5,756</u>
Net periodic cost	\$ 45,285	289,008	19,734	197,641
	=====	=====	=====	=====
			<u>2006</u>	<u>2005</u>
Net periodic cost:				
Pension and seniority premium (DBPP)			\$ 45,285	19,734
Medical benefits			289,008	197,641
Excess in funding			<u>1,999</u>	<u>3,998</u>
			336,292	221,373
Period contribution:				
DCPP			<u>86,535</u>	<u>69,743</u>
Benefits to personnel			422,827	291,113
Indemnity payments			<u>114,174</u>	<u>97,940</u>
		\$	<u>537,001</u>	<u>389,056</u>
			=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

At December 31, 2006 and 2005, labor obligations are analyzed as follows:

	2006		2005	
	<u>Pensions and seniority premiums</u>	<u>Medical benefits</u>	<u>Pensions and seniority premiums</u>	<u>Medical benefits</u>
Projected benefit obligation (PBO)	\$ 1,742,919	2,377,851	1,539,013	1,902,971
Amortization pending items	(141,235)	(292,597)	(146,286)	(436,966)
Actuarial loss	<u>(271,484)</u>	<u>(1,191,180)</u>	<u>(92,918)</u>	<u>(854,603)</u>
Required assets	1,330,200	894,074	1,299,809	611,402
Less: Plan assets	<u>1,330,200</u>	<u>1,441,838</u>	<u>1,308,805</u>	<u>1,136,175</u>
Net projected assets (see note 14)	\$ -	547,764	8,996	524,773
	=====	=====	=====	=====

Interest rates used in the actuarial projections are:

	<u>2006</u>	<u>2005</u>
Rate of return on plan assets	6.50%	6.50%
Discount rate	5.30%	5.30%
Salary increase rate	0.75%	0.75%
Estimated inflation rate	3.75%	3.33%

At December 31, 2006 and 2005 the labor obligation for indemnity payments, are analyzed as follows:

	<u>Amount</u>	
	<u>2006</u>	<u>2005</u>
PBO	\$ 356,855	319,399
Unamortized items:		
Transition assets	(221,373)	(241,549)
Unrecognized actuarial assets	<u>(90,846)</u>	<u>(43,832)</u>
Projected net liability	\$ 44,636	34,018
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>Amount</u>	
	<u>2006</u>	<u>2005</u>
Projected net liability reconciliation:		
Contributions	\$ 114,174	97,940
Payments	(103,900)	(62,056)
Subtotal	10,274	35,884
Total liabilities	35,884	-
Excess	(1,522)	(1,866)
	\$ 44,636	34,018
	=====	=====

(20) Outstanding subordinated debentures-

At December 31, 2006 and 2005, the subordinated debentures, not convertible into shares of its capital stock and accrued interest thereon are analyzed as follows:

	<u>2006</u>	<u>2005</u>
<u>Debentures issued:</u>		
In 2003, maturing in 2013	\$ 2,200,000	2,291,581
Accrued interest	<u>6,271</u>	<u>7,141</u>
	\$ 2,206,271	2,298,722
In 2004, maturing in 2014 (HSBC Panamá)	<u>-</u>	<u>387,698</u>
Total subordinated debentures	\$ 2,206,271	2,686,420
	=====	=====

Debt bear interest at a 28-day equivalent Equilibrium Interbank Interest Rate (TIIE). HSBC reserves the right to redeem them before of the maturity of the debentures beginning in May 2009.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(21) Income tax (IT), tax on asset (AT) and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the greater of their IT and AT. For determining taxable income for IT purposes there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation. ESPS is computed practically on the same basis as IT. During the year ended December 31, 2006 ESPS expense was \$559,685 (\$432,876 in 2005).

AT is calculated at the 1.8% rate on assets not subject to financial intermediation, net of certain liabilities. AT payable in excess of IT for the year may be recovered in the ten subsequent years, restated for inflation.

At December 31, 2005 the IT, AT and ESPS expense shown in the consolidated statement of income is analyzed as follows:

	<u>IT</u>	
	<u>2006</u>	<u>2005</u>
IT expense at the rate 29% (30% in 2005)	\$ 704,521	143,010
ESPS expense at the 10%*	559,685	432,876
IT prior years**	95,980	717,385
ESPS prior years	-	97,922
Excess of the provision	<u>74,275</u>	<u>49,703</u>
 IT and ESPS in the income statement	 \$ 1,434,461	 1,440,897
	=====	=====

* The principal difference that increases the base for ESPS purposes relates to the treatment of the IPAB portfolio and the shared loss.

** During 2006 and 2005, HSBC recalculated the tax effects arising from the UDI trusts that ended in prior years, which amended IT returns were filed in 2006. This resulted in a current income tax paid in 2006 of \$95,980 (\$68,719 and \$27,261 of surcharges and updating for inflation) and a deferred income of \$717,385 (that affected the preventive estimate, loss sharing and tax loss carryforwards). The foregoing led to surcharges and updating for inflation of \$27,261 and \$104,406, which were recognized in results of operation for 2006 and 2005, respectively.

The AT paid by the real estate subsidiaries, which would be recoverable if their IT exceeded the AT in future years, as of December 31, 2006 and 2005 amounts to \$80,075 and \$63,983, respectively. Such amounts are recognized as expenses due to uncertainty as to recovery.

In the next page is a reconciliation between the accounting income and taxable income for IT and ESPS purposes of HSBC that accounts for 95% and 96% of the consolidated expense for the years 2006 and 2005, respectively:

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>IT</u>	
	<u>2006</u>	<u>2005</u>
Income before IT, ESPS and equity in earnings of unconsolidated subsidiaries, associated and affiliated companies	\$ 7,053,029	7,274,872
(Less) income before taxes of subsidiaries consolidated	(27,881)	(5,602)
Accounting effects of inflation, net	<u>624,316</u>	<u>65,178</u>
Income in nominal pesos	7,649,464	7,334,449
Add (deduct) reconciling items (in nominal pesos):		
Difference between accounting and tax depreciation	(6,514)	38,310
Net tax effects of inflation	(277,828)	149,364
Allowance for loan losses	(634,081)	(2,897,342)
Reserve for FOBAPROA promissory note and loss sharing	(3,033,622)	(4,095,694)
Write-offs	453,114	480,836
Nondeductible expenses	79,193	112,824
Provisions	306,450	(253,894)
ESPS 2005 paid in 2006	(388,428)	-
Trust UDIS Banxico	(308,305)	(434,904)
Prepaid expenses	(496,686)	(361,788)
Non taxable recoveries	(209,335)	(81,488)
Special Cetes	-	643,519
Foreclosed assets	(299,175)	-
Other, net	<u>(404,864)</u>	<u>(157,490)</u>
Taxable income	\$ 2,429,383	476,701
	=====	=====

Deferred IT and ESPS:

The decrease in deferred taxes during 2005 comes from the recognition of the accumulated income of the UDIS Trust and the decrease during 2004, comprises the amortization of the tax loss carryforwards, the effect of special cetes Udis-Banxico, the loss sharing (see note 9a) and the valuation allowance. The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2006 and 2005, in nominal pesos are presented on the following page:

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Deferred IT and ESPS changes for the years ended December 31, 2006 and 2005, in nominal pesos, are analyzed as follows:

	<u>2006</u>	<u>2005</u>
At beginning of year	\$ 746,802	2,274,609
Charged to operations:		
Deferred IT and ESPS expense	(1,235,317)	(1,346,079)
Reported in capital:		
Valuation effects of available-for-sale financial instruments	(20,726)	(160,376)
Other	<u>(46,711)</u>	<u>(21,352)</u>
	(555,952)	746,802
Adjustment for inflation	<u>-</u>	<u>31,088</u>
	\$ (555,952)	777,890
	=====	=====

<u>Entity</u>	<u>2006</u>	<u>2005</u>
Financial Group	\$ 13,719	40,570
HSBC México	(606,632)	617,833
HSBC Panamá		38,270
Others	<u>36,961</u>	<u>50,129</u>
	(555,952)	746,802
Adjustment for inflation	<u>-</u>	<u>31,088</u>
	\$ (555,952)	777,890
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>IT</u>	
	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Allowance:		
For loan losses	\$ 751,656	978,061
For foreclosed assets	306,664	340,546
Others	179,480	162,114
Tax loss carryforwards	-	47,494
Loss-Sharing	-	833,136
ESPS provision	212,680	120,350
Other	<u>132,964</u>	<u>115,590</u>
	<u>1,583,444</u>	<u>2,597,291</u>
Deferred tax liabilities:		
Interest from Cetes UDIS-Banxico	(1,292,178)	(1,232,172)
Valuation of financial instruments	(471,112)	(291,930)
Prepaid expenses	(372,771)	(323,118)
Other	<u>(3,335)</u>	<u>(3,269)</u>
	(2,139,396)	(1,850,489)
Restatement for inflation	<u>-</u>	<u>31,088</u>
Net deferred tax	\$ (555,952)	777,890
	=====	=====

In assessing the realizability of deferred tax assets, HSBC management considers the probability that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, the performance of the loan portfolio and its allowance, and other factors. HSBC management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with the IT Law, tax loss carryforwards, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. At December 31, 2004, HSBC amortized all tax losses. For the fiscal year 2005, the IT rate changes from 32% to 30%, and will further decrease by one percentage point every fiscal period, to 28% in 2007.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

In accordance with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm's-length transactions.

At December 31, 2006, the balances of the Capital Contributions (CUCA) and previously taxed earnings (CUFIN) accounts total \$27,706,937 and \$5,752,393, respectively

Tax in Panama:

The IT rate for HSBC Panama is 30%.

(22) Stockholders' equity-

The principal characteristics of stockholders' equity are described below:

(a) *Structure of capital stock-*

Activity in 2006

On April 26, 2006, the General Stockholders' Meeting agreed to transfer the income for the year 2005 of \$5,188,268 (\$4,980,924 nominal), affecting \$259,413 (\$249,046 nominal) to the statutory reserve, while the remainder \$4,928,855 (\$4,731,878 nominal) was recorded in the other reserves account and will be made available to the stockholders if and when decided by the Board of Directors.

On December 26, 2006, the General Stockholders' Meeting held a resolution was passed to charge the loss on the sale of the shares of HSBC Panamá of \$77,024 (\$75,029 nominal) to the stockholders' equity of the Financial Group, in conformity with Bulletin B-7 "Business Acquisitions" of the Financial Reporting Standards.

After the above activity, the capital stock of the Financial Group as at December 31, 2006 and 2005 is comprised as follows:

- Fixed capital without right for withdrawal amounting to \$1,923,033 (nominal) represented by 961,516,572 Series "F" shares with a par value of two pesos each, which are fully subscribed and paid up.
- Authorized variable capital amounting to \$1,963,031 (nominal) represented by 981,515,567 Series "B" shares with a par value of two pesos each, which are fully subscribed and paid up.

Activity in 2005

On April 21, 2005, the Ordinary General Stockholders' Meeting agreed to apply the net income of 2004 amounting to \$3,510,896 (\$3,275,315 nominal), against "statutory reserves" in the amount of \$175,544 (\$163,766 nominal), and the remaining \$3,335,352 (\$3,111,549 nominal) to other reserves, that will be available to the stockholders until Board of Directors agreed.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

After the above activity, the capital stock of the Financial Group as at December 31, 2006 and 2005 is comprised as follows:

- Fixed capital without right for withdrawal amounting to \$1,923,033 (nominal) represented by 961,516,572 Series "F" shares with a par value of two pesos each, which are fully subscribed and paid up.
- Authorized variable capital amounting to \$1,963,031 (nominal) represented by 981,515,567 Series "B" shares with a par value of two pesos each, which are fully subscribed and paid up.

(b) *Comprehensive income (loss)-*

The comprehensive income (loss) reported in the consolidated statement of stockholders' equity represents the results of the Financial Group's activities during the year and includes the net income (loss), the gain or loss from valuing investments in "Available-for-sale" securities, permanent investment in shares and premises, furniture and equipment, and the translation effect of the foreign subsidiary, which in accordance with the applicable accounting principles, are reported directly in stockholders' equity.

(c) *Restrictions on stockholders' equity-*

The Credit Institution Law requires that the Group segregate 10% of its net income for the year to the statutory reserves up to the amount of its paid-in capital stock.

Stockholder contributions may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equal or exceed stockholders' equity. Retained earnings on which no income taxes have been paid, are subject to income taxes in the event of distribution to stockholders.

The unappropriated retained earnings of subsidiaries may not be distributed to the Financial Group stockholders until these are received by way of dividends. Also, gains from marking to market investment securities and derivative transactions may not be distributed until realized

(d) *Capitalization-*

The SHCP requires that credit institutions maintain a minimum capitalization percentage of risk-based assets, which is calculated by applying certain specific percentages according to the level of risk assigned. At December 31, 2006 and 2005 information relating to the Bank's net capital, risk-based assets and capital requirements (in millions of pesos) is as shown on the following page:

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	<u>2006</u>	<u>2005</u>
<u>Basic, supplementary and net capital</u>		
Stockholders' equity	\$ 24,557.7	20,128.7
Reduced by:		
Intangible assets	(730.6)	(944.2)
Investments in shares of financial entities	(279.8)	(203.8)
Investments in shares of other companies	(55.3)	(76.9)
Investment in subordinated debt	<u>(232.3)</u>	<u>(20.9)</u>
Basic capital (Tier 1)	<u>23,259.7</u>	<u>18,882.9</u>
Add:		
Subordinated debentures	2,200.0	2,291.6
General allowance for loan losses	<u>640.3</u>	<u>1,241.9</u>
Supplementary capital (Tier 2)	<u>2,840.3</u>	<u>3,533.5</u>
Net capital (Tier 1+ Tier 2)	\$ 26,100.0 =====	22,416.4 =====

Risk-based assets and capital requirements

	Equivalent risk-weighted assets		Capital requirements	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Market risk:</u>				
Transactions or positions:				
In pesos at nominal rates	\$ 40,283.7	42,232.4	3,222.7	3,378.6
In pesos at real rates or denominated in UDIS	1,566.2	1,647.9	125.3	131.9
In foreign currency at nominal rates	4,597.5	5,466.9	367.8	437.4
In UDIS or with returns linked to the Consumer Price Index	18.7	13.4	1.5	1.0
Foreign currency positions or with exchange rate indexed yields	2,812.5	1,082.7	225.0	86.6
Equities or with indexed yields	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>-</u>
Total market risk, carried forward	\$ <u>49,278.6</u>	<u>50,443.5</u>	<u>3,942.3</u>	<u>4,035.5</u>

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

	Equivalent risk-weighted assets		Capital requirements	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Total market risk, brought forward	\$ 49,278.6	50,443.5	3,942.3	4,035.5
<i>Credit risk:</i>				
Group I (weighted at 0%)	-	-	-	-
Group II (weighted at 10%)	195.1	168.7	15.6	13.4
Group II (weighted at 11.5%)	117.3	-	9.4	-
Group II (weighted at 20%)	7,621.4	7,320.6	609.7	585.6
Group II (weighted at 23%)	178.8	624.9	14.3	49.9
Group III (weighted at 50%)	23.1	23.1	1.9	1.9
Group III (weighted at 100%)	126,895.1	94,545.5	10,151.6	7,563.7
Group III (weighted at 112%)	3,037.5	1,927.3	243.0	154.2
Group III (weighted at 115%)	794.5	470.6	63.6	37.6
Group III (weighted at 150%)	<u>1,099.0</u>	<u>962.0</u>	<u>87.9</u>	<u>77.0</u>
Total credit risk	<u>139,961.8</u>	<u>106,042.7</u>	<u>11,197.0</u>	<u>8,483.3</u>
Total market and credit risks	\$ 189,240.4	156,486.2	15,139.3	12,518.8
	=====	=====	=====	=====

	<u>2006</u>	<u>2005</u>
<i>Capitalization indices:</i>		
Capital to credit risk assets:		
Basic capital (Tier 1)	16.62%	17.81%
Supplementary capital (Tier 2)	<u>2.03%</u>	<u>3.33%</u>
Net capital (Tier 1 + Tier 2)	18.65%	21.14%
	=====	=====
Capital to market and credit risk assets:		
Basic capital (Tier 1)	12.29%	12.06%
Supplementary capital (Tier 2)	<u>1.50%</u>	<u>2.26%</u>
Net capital (Tier1 + Tier 2)	13.79%	14.32%
	=====	=====

Monthly the Bank informs Asset and Liability Committee of Capital index and the ponderate grow assets to market and credit risk, as well as the tendency of capital index. The important Commercial Banking's transactions and bursary the potential impact in capital requirement is analyzed.

(23) Related party transactions and balances-

During the normal course of business, the Financial Group carries out transactions with related parties. According to the policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices. At December 31, 2006 and 2005, the Financial Group had granted loans to related parties totaling \$6,380,584 and \$1,592,644, respectively.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

In addition to interest and commissions on the above-mentioned loans, the principal transactions carried out with related parties during the years ended December 31, 2006 and 2005, were as follows:

	<u>2006</u>	<u>2005</u>
<u>Transactions:</u>		
Income:		
Administrative services	\$ 237,199	346,064
Other	283,960	275,706
	=====	=====
Expenses:		
Insurance premiums	\$ 119,704	-
Administrative expenses	-	114,891
Others	450	-
	=====	=====

Balances receivable from and payable to related parties as of December 31, 2006 and 2005, were as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Receivable</u>	<u>Payable</u>
Mutual funds	\$ 307	-	19,068	-
HSBC Seguros, S. A. de C. V.	2,955	-	-	-
HSBC Vida, S. A. de C. V.	524	-	-	1,372
HSBC Casa de Bolsa, S. A. de C. V.	-	-	-	273
HSBC Fianzas, S. A.	-	-	-	7,807
HSBC Pensiones, S. A.	376	8,109	91	-
HSBC Operadora de Fondos, S. A. de C. V.	-	-	265	-
	=====	=====	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(24) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-

At December 31, 2006, the Financial Group had irrevocable commitments to grant loans of \$6,333,680 and had issued guarantees of \$50,454 (\$3,917,743 and \$59,078, respectively, in 2005).

At December 31, 2006 the allowance for letters of credits and guarantees issued amounts to \$161,751, respectively, and is included in the allowance for loan losses (\$87,565 in 2005).

(b) Assets in trust or under mandate-

The Financial Group's trust activity, which is recorded in memorandum accounts, is summarized as follows:

	<u>2006</u>	<u>2005</u>
Type of trust:		
Administrative	\$ 50,896,064	35,815,043
Guarantee	16,425,809	10,592,791
Investment	13,859,421	12,733,814
Other	<u>11,455,056</u>	<u>11,137,056</u>
	92,636,350	70,278,704
Mandates	<u>491,416</u>	<u>311,016</u>
	\$ 93,127,766	70,589,720
	=====	=====

Trust department revenue for the years ended December 31, 2006 and 2005 amounted to \$129,347 and \$114,926, respectively.

(c) Investments on behalf of customers-

The Financial Group receives funds from the public and invests them in various instruments of the Mexican financial system on behalf of its customers, which it records in memorandum accounts as follows:

	<u>2006</u>	<u>2005</u>
Mutual funds:		
Managed by HSBC	\$ 1,732,932	1,697,100
Other	3,553,682	905,149
Government securities	11,313,302	9,819,696
Equities and other	<u>5,363,976</u>	<u>5,145,664</u>
	\$ 21,963,892	17,567,609
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The amount of funds invested in the Financial Group's own instruments forms part of the liabilities included in the consolidated balance sheet.

(d) *Assets in custody-*

The Financial Group records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2006 and 2005, this account comprises:

	<u>2006</u>	<u>2005</u>
Assets in custody	\$ 57,713,155	15,034,548
Pledged assets	566,468	766,043
Assets under management	<u>53,717,723</u>	<u>43,506,819</u>
	\$ 111,997,346	59,307,410
	=====	=====

(25) Additional information on results of operation and segments-

(a) *Statement of operations by segment of HSBC-*

The consolidated statement of operations by segment includes Personal Financial Services, Commercial Banking, Corporate, Investment Banking and Markets and other Corporate Activities. A brief description of the Bank's which comprises (98% of the Financial Group) business segments follows.

Personal Financial Service (PFS)s – Focused primarily on individuals that comprises mainly consumer products, which include credit cards, personal and car loans as well as mortgage loans and traditional deposits.

Commercial Banking (CMB) – Focused primarily on corporations, offering financing in Mexican pesos and other currencies, lines of credit for working capital, term loans, and the financing of exports, in addition to financial services relating to checking and investment accounts and cash management.

Corporate, Investment Banking & Markets (CIBM) – Focused primarily on corporations, which comprise: trust, treasury and custody services, corporate finance advisory, as well as risk management and cash flow services. This segment comprises products such as letters of credit, factoring, discounted documents and investments in the money and capital markets.

Other Corporate Activities (OCA) – They relate to structural business operations.

The consolidated statement of operations by segment of HSBC, is as shown on the following page.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V.
Sociedad Controladora Filial
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(Million of Mexican pesos of constant purchasing power as of December 31, 2006)

	Banking								Total	
	PFS		CMB		CIBM		OAC			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Financial margin	\$ 11,339	9,018	4,254	2,685	1,144	1,836	-	1,688	16,737	15,228
Allowance for loan losses	<u>(2,903)</u>	<u>(37)</u>	<u>(1,197)</u>	<u>(6)</u>	<u>(6)</u>	<u>-</u>	<u>-</u>	<u>(1,508)</u>	<u>(4,106)</u>	<u>(1,551)</u>
Adjusted financial margin	8,436	8,981	3,057	2,679	1,138	1,836	-	181	12,631	13,677
Commissions and fees, net	5,587	4,737	1,942	1,523	505	432	154	271	8,188	6,963
Financial intermediation income	<u>534</u>	<u>342</u>	<u>128</u>	<u>78</u>	<u>1,389</u>	<u>1,021</u>	<u>(8)</u>	<u>(29)</u>	<u>2,043</u>	<u>1,412</u>
Total operating income	14,557	14,060	5,127	4,279	3,032	3,289	146	423	22,862	22,052
Administrative and promotion expenses	<u>(11,945)</u>	<u>(11,667)</u>	<u>(3,098)</u>	<u>(2,464)</u>	<u>(1,366)</u>	<u>(1,219)</u>	<u>423</u>	<u>40</u>	<u>(16,832)</u>	<u>(15,310)</u>
Net operating income (loss)	2,612	2,393	2,029	1,816	1,666	2,070	(277)	462	6,030	6,742
Other income, net	476	-	27	-	58	-	462	533	1,023	533
Taxes	<u>(1,162)</u>	<u>(922)</u>	<u>(774)</u>	<u>(699)</u>	<u>(649)</u>	<u>(797)</u>	<u>(53)</u>	<u>(419)</u>	<u>(2,638)</u>	<u>(2,838)</u>
Income (loss) before equity in results of subsidiaries	1,926	1,472	1,282	1,117	1,075	1,273	132	575	4,415	4,437
Equity in results of subsidiaries	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>	<u>(2)</u>	<u>17</u>
Income of continuing operations	1,924	1,472	1,282	1,117	1,075	1,273	132	592	4,413	4,454
Result of discontinued transactions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80)</u>	<u>-</u>	<u>(80)</u>
Net income (loss)	\$ <u>1,924</u>	<u>1,472</u>	<u>1,282</u>	<u>1,117</u>	<u>1,075</u>	<u>1,273</u>	<u>132</u>	<u>512</u>	<u>4,413</u>	<u>4,374</u>

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Financial Margin

The financial margin at December 31, 2006 and 2005, is analyzed as follows:

	<u>2006</u>	<u>2005</u>
<i><u>Interest income:</u></i>		
Cash and equivalents	\$ 2,684,360	2,801,795
Investment securities	5,351,334	4,120,506
Interest and premiums on securities purchased under agreements to resell	1,891,434	4,198,536
Loan portfolio:		
Comercial loans	5,119,077	4,323,070
Financial Institutions	552,427	429,775
Consumer loans	6,163,994	4,101,627
Residential mortgages	2,182,461	1,860,518
Government entities	2,938,419	2,565,359
IPAB	66,053	2,570,059
Others, including inflation effect	<u>922,298</u>	<u>475,719</u>
	<u>27,871,857</u>	<u>27,446,964</u>
 Interest expense:		
Deposit funding	(754,254)	(760,010)
Time deposit	(4,444,077)	(4,901,453)
Due to banks and other institutions	(574,078)	(987,836)
Bank bonds	(205,381)	-
Interest and premiums on securities purchased under agreements to resell	(3,278,709)	(4,045,199)
Interest by subordinated debt issued	(168,652)	(224,544)
Others, including inflation effect	<u>(256,004)</u>	<u>(368,542)</u>
	<u>(9,681,155)</u>	<u>(11,287,584)</u>
 Monetary position result associated to financial margin		
	<u>(1,021,663)</u>	<u>(333,666)</u>
	\$ 17,169,039	15,825,714
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The average balance of the principal monetary asset and liability captions used in determining the net monetary position of HSBC from financial margin and non-financial margin items is shown below:

	2006		2005	
	<u>Financial</u>	<u>Others</u>	<u>Financial</u>	<u>Others</u>
	<u>margin</u>		<u>margin</u>	<u>Others</u>
Assets:				
Cash and equivalents	\$ 50,303,993	-	45,862,930	-
Investment securities	58,848,842	142,338	50,308,924	78,832
Derivative financial instruments	230,698,745	-	576,502	-
Loan portfolio	136,521,338	-	123,617,756	-
Other accounts receivable	-	21,656,128	-	10,227,996
Foreclosed assets	-	142,801	-	293,657
Deferred income tax	-	3,802,684	-	2,701,270
Permanet investments in shares	-	15,719	-	15,559
Others	<u>-</u>	<u>1,786,039</u>	<u>-</u>	<u>455,618</u>
 Monetary position asset average	 <u>476,372,918</u>	 <u>27,545,709</u>	 <u>220,366,112</u>	 <u>13,772,932</u>
Liabilities:				
Deposits	(198,998,971)	-	(194,363,295)	-
Due to banks and other institutions	(8,186,487)	-	(12,553,518)	-
Bank bonds	(2,536,907)	-	-	-
Derivative financial instruments	(237,917,235)	-	(2,642,194)	-
Subordinated debt issued	(2,417,165)	-	(2,440,445)	-
Others account payable	-	(33,166,873)	-	(11,978,676)
Deferred credits	<u>-</u>	<u>(3,605,463)</u>	<u>-</u>	<u>(1,632,149)</u>
 Monetary position liability average	 <u>(450,056,765)</u>	 <u>(36,772,336)</u>	 <u>(211,999,452)</u>	 <u>(13,610,825)</u>
 Monetary position average, net	 <u>26,316,153</u>	 <u>(9,226,627)</u>	 <u>8,366,660</u>	 <u>162,107</u>
 Monetary position result	 \$ <u>(936,671)</u>	 <u>254,556</u>	 <u>(251,395)</u>	 <u>(4,174)</u>
	=====	=====	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(b) Financial intermediation gain-

For the years ended December 31, 2006 and 2005, the financial intermediation gain (loss) is analyzed as follows:

	<u>2006</u>	<u>2005</u>
<i>Valuation gain (loss):</i>		
Investment securities	\$ 13,755	(2,619)
Securities repurchase/resell agreements	20,412	39,089
Trading derivatives	417,104	249,749
Foreign currency exchange and precious metals	<u>175,520</u>	<u>(5,221)</u>
	<u>626,791</u>	<u>280,999</u>
<i>Purchase/sale gain (loss):</i>		
Investment securities	429,479	(76,635)
Securities repurchase/resell agreements	547,109	302,238
Foreign currency exchange and precious metals	<u>416,974</u>	<u>901,936</u>
	<u>1,393,562</u>	<u>1,127,539</u>
Restatement for inflation	<u>28,260</u>	<u>11,653</u>
	\$ <u>2,048,613</u>	<u>1,420,191</u>
	=====	=====

(c) Other income-

For the years ended December 31, 2006 and 2005, other income is analyzed as follows:

	<u>2006</u>	<u>2005</u>
Recoveries	\$ 1,312,825	892,349
Monetary position gains and losses on items not related to financial margin.	254,556	-
Gain on sale of foreclosed assets or received in lieu of payment	120,053	220,208
Gain on sale of premises, furniture and equipment	3,460	2,385
Other, including restatement for inflation	<u>438,968</u>	<u>441,870</u>
	\$ <u>2,129,862</u>	<u>1,556,812</u>
	=====	=====

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

(d) Other expense-

At December 31, 2006 and 2005, other expense includes:

	<u>2006</u>	<u>2005</u>
Write-offs and losses	\$ 1,044,272	943,388
Monetary position loss from non-financial margin items	(349)	4,714
Other, including restatement for inflation	<u>24,298</u>	<u>115,318</u>
	\$ 1,068,221	1,063,420
	=====	=====

(e) Ratios-

The ratios as of and for the years ended December 31, 2006 and 2005, are analyzed below:

	<u>2006</u>	<u>2005</u>
Non-performing loans to total loans	2.7%	2.7%
Allowance for loan losses to past-due loan portfolio	156.8%	167.9%
Operating efficiency (<i>administrative and promotional expenses to average total assets</i>)	6.1%	6.6%
ROE (<i>net income to average stockholders' equity</i>)	19.1%	27.9%
ROA (<i>net income to average total assets</i>)	1.5%	2.0%
Liquidity (<i>liquid assets/liquid liabilities</i>)*	74.9%	83.0%
Financial margin after provision for loan losses /average earnie assets	6.4%	5.9%
Capital to credit risk assets	18.65%	21.14%
Capital to market and credit risk	13.79%	14.32%

* *Liquid assets* – Cash and equivalents, trading and available-for-sale securities.

* *Liquid liabilities* – Demand deposits, demand and short-term bank and other loans.

(f) Extraordinary item-

In May 2005, IPAB concluded the audit that fulfills the fifth article requirements of the Bank Saving Protection Law, during the period from January 2001 to march 2004, regarding the management, legality and legitimacy of HSBC's loan portfolio that was part of the Capitalization Program and Purchase Porfolio ("the Program"). As a result of the audit the IPAB regarded some loans as replicated and asked the accrued interest to be cancelled (loans without principal reported in the Program). The Bank recognized a loss of \$79,202 which it recorded under "Discontinued operations, extraordinary items and changes in accounting policies" in the consolidated statement of operations.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**(26) Commitments and contingent liabilities-****(a) Leases-**

Certain premises and equipment are leased from its related companies. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense aggregated \$941,336 in 2006 and \$877,193 in 2005.

(b) Lawsuits and litigation-

The Financial Group is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Financial Group's financial position and results of operations. Certain cases are covered by an indemnity clause of the agreement with the IPAB, HSBC and Atlántico dated December 7, 2001.

(c) Labor obligations-

Those arising from the obligations mentioned in the last paragraph of note 2s.

(d) Sole accountability agreement-

The Financial Group subscribed an agreement with its subsidiaries, whereby it undertakes several and unlimited responsibility for complying with the obligations of the financial entities comprising the Group, relating to activities that based on the applicable provisions, correspond to each of them. In addition, the Financial Group has unlimited responsibility for the losses of each and every one of such entities.

(27) Recently issued accounting standards-

On August 11 and 14, 2006, General Rules applicable to Financial Information reporting by parent companies of Financial Groups subject to the National Banking and Securities Commission's oversight were published in the Federal Official Gazette, effective January 1, 2007.

On January 8, 2007, General Rules applicable to Financial Information reporting by parent companies of Financial Groups subject to the National Banking and Securities Commission's oversight were published in the Federal Official Gazette, effective January 15, 2007.

On September 15, 2006 the Official Gazette of the Federation published the Amendments to the Accounting Criteria for Credit Institutions (the Amendments) issued by the Banking Commission that will come into effect as of 2007. These amendments homologate certain criteria with FRS and establish that particular rules will be issued for specialized transactions carried out by financial institutions but consider in the first instance in the conceptual framework of the FRS and the supplementary use process described in FRS A-8, which provides that a supplementary standard may only be used if the FRS do not offer a solution to the accounting recognition, provided such supplementary standard meets with all the requirements noted by the aforementioned FRS-. The process which provides for the supplementary use of other accounting principles and standards cites the following order: US GAAP and any other formal and recognized accounting standards. The most relevant particular rules of amendments are mentioned on the following page and have no significant effects on the Bank's financial information.

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GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Consolidation – Consolidation of all entities is required. Through 2006 only entities of the financial sector are consolidated.

Investment securities- Only the transfer of held-to-maturity securities to the available-for-sale securities category is allowed.

Securities under repurchase/resell agreement and securities on loan – Registration, valuation and presentation rules were included for the offsetting of guarantees in repurchase/resell and securities on loan transactions.

Loan portfolio- The treatment for the acquisition of loan portfolio and the concept for collection rights were incorporated. The year's gain from releasing provisions for recovered loans is permitted. Loan origination fees shall be recognized in income throughout the loan's life.

Sundry debtors- Amounts still due after 90 days (60 days if unidentified) are reserved based on a recoverability analysis.

Foreclosed assets- For purposes of recognizing inflation on the financial information foreclosed assets are deemed non-monetary assets.

FRS

The following FRS are deemed of mandatory application: A-1 Standards structure; A-8 Supplementary nature of standards; B-1 Accounting changes and correction of errors; B-7 Business acquisitions; C-10 Derivative financial instruments and hedging transactions; C-15 Impairment and disposition of long-lived assets; and D-5 Leasing.

(28) Risk management-

At the Financial Group of HSBC in Mexico the comprehensive risk management involves both compliance of Prudential Provisions in the Subject of Comprehensive Risk Management included in the Sole Circular issued by the National Banking and Securities Commission and the worldwide Group regulations, which ultimate purpose is generating shareholder value, maintaining a conservative profile as to exposing the organization to risk.

The recognition of fundamental precepts is essential for efficient and effective comprehensive management of risks, both quantifiable and discretionary (credit, market and liquidity) and non-discretionary: operational (technology and legal) and under the premise that basic identification, measurement, monitoring, limitation, control and divulging processes are fulfilled.

As in its principal affiliates, the Bank's risk management function begins with the Board of Directors, who has primary responsibility for approving the related objectives, guidelines and policies and for determining the risk exposure limits, which is supported by the Assets and Liabilities Committee (ALC) and the Risk Committee (RC).

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Assets and Liabilities Committee (ALC)

This Committee meets on a monthly basis and is chaired by the Bank's Executive President and General Director. Committee members include senior bank executives from areas such as: Corporate, Business and Commercial and support areas such as: Treasury, Finance, Risks, Treasury Operations, Balance Sheet Management, Planning and Economic Capital. Similar structures are maintained at other affiliates.

The ALC is the prime vehicle for attaining the objectives of an adequate management of assets and liabilities. Its principal purposes concerning risks are as follows:

- Providing strategic management and ensuring tactical follow-up by creating a balance sheet structure that integrates objective compliance within the pre-established risk parameters.
- Identifying, monitoring and controlling all relevant risks, including the information generated by the RC.
- Distributing the necessary information for proper decision making.
- Conducting overall reviews of sources and destination of funds.
- Determining the most likely environment for the Bank's assets and liabilities in planning and considering contingency scenarios.
- Evaluating alternatives for: rates, prices and portfolio mixes.
- Reviewing and becoming accountable for: distribution and maturity of assets and liabilities, position and size of interest margins, liquidity levels and economic utility.

For reinforcing decision making, the local ALCs as is the case of Mexico's report directly to the Group's Central Finance Direction in London.

Risk Committee (RC).

The Risk Committee meets once a month and reports both to the Board of Directors and to the ALC.

In following up on regulatory provisions and so as to have opinions independent from the Bank's management, the Committee includes three external members, one of which chairs the Committee. Internally, the areas that participate in this Committee are: General Direction, Risks, Corporate Banking, Business Banking, Commercial Banking, Finance, Auditing, Treasury, Global Markets, Planning, Economic Capital, Liquidity Risks, Market Risks, Affiliate Risk and Legal Risk.

The major Committee objectives, which are shared with Bank affiliates, are as follows:

- Developing focused and integrated mechanisms for identifying current and potential risks.
- Assessing the materialization of risks and their potential impact.
- Advanced solutions for improving the risk profile or mitigate specific or relevant risks.
- Developing a clear map of the risk profile and trends as to credit, market and other risks and potential changes in the business strategy.
- Risk process aimed at handling relevant risks, contingencies and mitigating measures as well as consolidated risk reports to be submitted to the ALC.
- Monitoring of market, credit, liquidity and other relevant risks and reviewing and approving goals, operations and control procedures as well as risk tolerance levels based on market conditions.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**Market Risk****a. Qualitative information****Description of qualitative issues related to the Comprehensive Risk Management process**

The objective of the HSBC's market risk management function is to identify measure, monitor, limit, control, inform and disclose the various risks to which the institution is exposed.

The Board of Directors establishes the RC, whose objective is to manage the risks to which the institution is exposed, and to oversee that transactions adhere to the risk management purposes, policies and procedures and the global and specific risk exposure limits previously approved by the Board of Directors.

Market risk, as defined by the institution, is the "risk that market prices and rates on which the Bank has taken positions – interest rates, foreign exchange rates, stock prices, etc. – move adversely relative to positions taken, thus causing losses to the Financial Group; that is, the potential loss arising from changes in risk factors relating to the valuation or expected results of assets, liabilities or contingent liability transactions, such as interest rates, foreign exchange rates, price indexes, among others.

The principal market risks to which the Financial Group is exposed based on its portfolio exposure to changes in various risk factors, are generally classified as follows:

- a) Currency or exchange risk.- This risk arises in open positions of currencies other than the local currency, which lead to exposure to potential losses due to variances in the exchange rates involved.
- b) Interest rate risk.- This risk results from having to maintain assets and liabilities (real, nominal or notional) with various maturity or depreciation dates. Thus, exposure to changes in the interest rate levels is created.
- c) Stock risk.- This risk emerges from maintaining open positions (purchase or sale) with stock or stock-based instruments. Thus, exposure to changes in the market price of stock or stock-based instruments is created.
- d) Volatility risk – The volatility risk is related to financial instruments with options so that their price depends, among other factors, on volatility perceived in the option's underlying asset (interest rate, stock, exchange rate, etc.)
- e) Base or margin risk. This risk arises when an instrument is used as hedge of another one and each is valued using different rate curves (for instance, a government bond hedged by an interbank rate derivative) so that the market value may differ leading to hedge imperfections.

b. Principal elements of market risk management methodologies

The Financial Group measures elected to identify and quantify the Market Risk exposure are Value at Risk (VaR) and "Present Value of a Basis Point" (PVBP) calculations, which measure the sensitivity to interest rates. Both risk measures are monitored on a daily basis compared to market risk exposure limits duly approved by Management. Additionally, stress testing is performed. Furthermore, it is important to mention that to calculate VaR and PVBP, all of the Financial Group's positions are marked to market.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**Value at Risk (VaR)**

The VaR is the statistical measure of a portfolio's maximum potential loss arising from changes in market risk factors of the financial instruments for a given holding period. Therefore, the VaR calculation is based on specific levels of confidence and holding periods. Since 2006, the VaR is obtained by Historical Simulation with total valuation, considering 500 historic changes in the market risk factors. The Board of Directors, at the Risk Committee's proposal, has set a confidence level of 99% with a 1-day holding period; accordingly, the VaR level represents the maximum loss that that the Bank could possible experience in one day with a 99% probability.

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

The PVBP is a technique to measure the market risk exposure resulting from changes in interest rates. This measure shows the potential loss that results from a one basis point change in interest rates used to determine the price of financial assets and liabilities, marking to market all of the positions in financial instruments sensitive to interest rates.

The purpose of the Forward PVBP (F-PVBP) is to measure the effect of interest rate changes on financial instruments subject to interest rates. In this sense, the F-PVBP is based on the assumption of a scenario in which the forward rates implied in the curve increase by one basis point.

Surcharge risk

By surcharge risk we understand the potential adverse fluctuation in the value of positions of financial instruments with surcharge (floating government bonds) due to market fluctuations in such risk factor.

Base risk

Base risk is the term used for describing the risk that exists for the movement of a market (due to internal factors) with respect to others. The base risk increases when an instrument is used for hedging another one and the instrument prices are set by two different interest rate curves.

These differences are caused by the various existing characteristics between markets, which are:

- Regulation
- Individual market restrictions
- Calendars
- Conventions (basis in rates)

Stress testing

This is a technique that takes into consideration extreme values occurring isolatedly but which are unlikely based on the distribution of probabilities assumed for the market risk factors, but in case it happens this could generate from moderate to severe impacts. The generation of stress testing scenarios for analyzing the sensitivity of the Bank's positions and the interest rate risk exposure is performed on the basis of hypothetical scenarios. Both positive and negative changes are considered to measure the impact on the portfolios of the Financial Group.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

At the same time, the base PVBP forward is linearly extrapolated to the hypothetical scenarios (assuming that the portfolio is perfectly linear) so as to compare both calculations and obtain the implied convexity

Methods for Validation and Calibration of Market Risk models

In order to detect in a timely manner any decrease in the prediction quality of the model, automatic data loading systems are in place, thus preventing manual data inputting. Furthermore, for the purpose of measuring the efficiency of the VaR estimation model, **back-testing** is performed. This type of test allows verification that the maximum estimated losses, on average, do not exceed the reliability level established, comparing the profits/losses that would have been generated had the portfolio been held during the VaR holding period. Back-testing is reinforced by performing hypothesis testing procedures.

As for the PVBP, it has been compared with the sensitivity of the portfolios to market quotations. The results of these tests confirm the accuracy of the models. In order to reinforce the validation and verification of the various risk factors, a set of matrices has been designed that show the behavior of different risk factors selected in order to check their reasonableness in relation to the values prevailing in the financial markets and verify the current value and the value on the preceding business day for consistency.

c. Portfolios subject to VaR and PVBP calculation

For a detailed and precise portfolio management, and adhering to the international and local standards or effective market risk management, the Market Risk management of HSBC Mexico has perfect control of the portfolio structure. Such specific classification should at all times be comprehensible from an accounting viewpoint. This allows for calculating the risk measures (sensitivity, potential loss and stress measures) for any sub-portfolio aligned with the accounting.

The market risk area calculates the VaR and PVBP for the HSBC's total portfolio and specific Accrual and Trading portfolios so as to monitor the Financial Group's own and trading positions.

Global VaR is estimated for each portfolio. Additionally, VaR is broken down by risk factors (Interest Rates and Foreign Exchange Rates). PVBP is broken down by type of rate (pesos, dollars and UDIS – Real Rate), and Forward PVBP is presented by segment of the forward curve (Buckets), for both peso and dollar interest rates.

In accordance with the International Accounting Standard (IAS) 39, the Money Market Trading (MMT) portfolio should be part of the Trading portfolio for purposes of calculating the market VaR and of the Accrual portfolio for calculating the PVBP.

Stress testing is performed for the Financial Group's portfolio and the Trading and Accrual portfolios. Furthermore, a special stress test is performed for Available for Sale and Hedging Securities.

Quantitative information

As follows it is going to be presented, the Bank's VaR and PVBP and the Trading and Accrual portfolio sub-division for the 4Q of 2006 (in million of dollars).

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

The VaR & PVBP limits shown correspond to the latest up dating of Market Risk Limits approved by Group's Board of Directors and the Risk Committee.

Value at Risk (VaR) (All risk factors being considered)

	2006				
	September 30	December 29	Límites*	3 rd quarter average	4 th quarter average
Bank	(17.83)	(22.69)	30.000	(15.77)	(19.72)
Accrual	(15.63)	(18.88)	27.500	(14.89)	(17.88)
Trading	(2.08)	(2.24)	13.500	(1.87)	(3.01)
MMT	(0.91)	(1.16)	7.500	(0.98)	(1.17)
Foreign exchange desk	(0.25)	(0.06)	13.500	(0.25)	(0.23)
Money Market desk	(2.23)	(2.20)	13.500	(1.89)	(2.93)
Capital market desk	NA	NA	NA	NA	NA

* Absolute value

NA = Not Apply

As of December 2006, the HSBC's VaR includes the position of the ALCO book.

The Bank's VaR at the end of 4Q of 2006 varied by 27.26% as compared to the 3Q. During the period the VaR levels remained below the total limits set by Management.

The Bank's average VaR for the 4Q of 2006 varied by 25.05% vs.3Q. During the period the VaR levels remained below the total limits set by Management.

VaR vs. Net Capital Comparison

Below is a comparative VaR against Net Capital table as of September 30 and December 29, 2006, in millions of dollars.

	September 30, 2006	December 29, 2006
Total VaR *	15.77	19.72
Net Capital **	2,240.34	2,414.07
VaR / Net Capital	0.70%	0.82%

* Quarterly Average VaR of the Bank (absolute value)

** Net Capital of the Bank at the end of quarter

Average VaR represented 0.82% of net capital in 4Q 2006.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES

Present Value of a Basis Point (PVBP) for Peso Interest Rates

	2006				
	September 30	December 29	Límites*	3 rd . Quarter average	4 th . Quarter average
Bank	(0.745)	(1.021)	1.200	(0.629)	(0.951)
Accrual	(0.683)	(0.967)	1.050	(0.586)	(0.867)
Trading	(0.061)	(0.054)	0.350	(0.042)	(0.083)
Foreing exchange desk	NA	NA	NA	NA	NA
Money market desk	(0.061)	(0.054)	0.350	(0.042)	(0.083)
Capital markets desk	NA	NA	NA	NA	NA

* Absolute value

The Bank's PVBP at the end of the 4Q of 2005 changed by 37.05% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

The Bank's average PVBP for the 4Q of 2005 varied by 51.19% as compared to the 3Q. During the period the PVBP levels remained below the total limits set by Management.

Liquidity risk

Qualitative information

Liquidity risk arises primarily from gaps between the maturities of the Institution's assets and liabilities. Customer demand and time deposits mature on dates which differ from those of loans placed and investment securities.

HSBC has implemented liquidity ratio limits both in pesos and dollars. These liquidity ratios are calculated daily and compared to the limits authorized by the Assets and Liabilities Committee and confirmed by the HSBC Group. In addition, the Institution performs a daily review of cash commitments and evaluates the requirements of the principal customers for diversifying the sources of funding.

HSBC implemented a methodology for measuring liquidity risk based on different period cash flow projections and the formulation of liquidity scenarios.

Since 2003, HSBC has implemented a liquidity contingency plan, which defines the potential liquidity-related contingencies and establishes plan responsible individuals, action plan and alternative sources of funding available to the Institution should a contingency arise. During the year, the Assets and Liabilities Committee ratified the plan.

Quantitative information

At the December close, the Institution has the following liquidity ratios: 16.4% in the 1st. line and 19.9% in the 2nd line and a limit of 10% in both cases, furthermore, the cash flow projections under 4 different scenarios result in positive cash flows

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**Credit risk****Qualitative information**

For managing the credit risk at HSBC México (HBMX), in addition to following up on the behavior of the loan portfolio on a regular basis, risk assessment tools are developed, implemented and monitored. The primary objective of managing the credit risk is knowing the quality of the portfolio and taking timely action for reducing potential losses associated with credit risks, complying at all times with the Group's and Basilea II policies and standards as well as CNBV regulations.

Credit risk is defined as the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract with a Group member or members, that is, the potential loss on lack of payment by a borrower or counterparty. For the proper measurement of the credit risk HSBC has credit risk quantification methodologies as well as advanced information systems.

Generally, methodologies segregate the customer risk (likelihood that the customer fails to comply with payment commitments: Probability of default) from the transaction or credit risk (risk inherent to the loan structuring, that includes chiefly the value and type of collateral).

In addition, HBMX has developed policies and procedures that comprise the various loan process stages: assessment, granting, control, follow-up and recovery.

Through the rating system the internal commercial portfolio rating model (Rating Matrix) is applied. Such model is core element to the functioning of the risk rating process. In principle, the Rating Matrix determines the customer's rating based on the analysis of three fundamental areas: repayment capacity, payment experience and operating situation.

Subsequently, the loan rating is obtained from the customer rating and adjusted among other things, based on the age of financial statements, stockholder support and collateral. Both ratings, the customer's and the loan's go from 1 to 10, 1 being the minimum risk and 10 the maximum risk

Based on the endorsement granted by the CNBV the SICAL is used for calculating the regulatory credit reserves using the customer risk rating provided by the Rating Matrix. This rating has a direct correspondence with the debtor's regulatory ratings. The commercial portfolio ratings, as to allowance for loan losses, go from risk level A to E.

The calculation of the allowance for loan losses for consumer and mortgage loan portfolio is done separately and based on the Sole Circular issued by the CNBV, although using the same scale from A to E.

With the purpose of establishing a better credit risk management and measurement infrastructure for commercial loans, a new risk assessment tool has been implemented:

(Continued)

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Moody's Risk Advisor (MRA), which allows for a more profound assessment of the creditworthiness of customers. The HSBC Group has determined that MRA, implemented during the second half of 2005, be the principal tool for defining the credit rating of customers. However, it was not until the second half of 2006 when HBMX completed its development in MRA of three new models for rating customer risk (for small, medium and large sized entities).

In addition to the aforesaid customer risk assessment models, 11 models were implemented for financial but non-bank institutions (NBFIDST) and one more for the banking institutions (MRAfB).

The implementation of the models mentioned in earlier paragraphs was accompanied by a new customer risk rating scale known as Customer Risk Rating (CRR), which has 22 levels, 1.1 being the minimum risk level and 10.0 the maximum. Such scale has direct relationship with the Probability of Default and allows for a more granular measurement of the credit rating of customers.

As to the measurement of the Severity of the Loss, which is closely related to the credit or transaction risk, HBMX is using an expert model since March 2004 for commercial loans. With the implementation of such model, the Active Rates Model was introduced but ceased to be used in the second half of 2006 and replaced by the Profitability Model. For consumer and mortgage loans, the Severity of the Loss has for some time been measured empirically.

Also as part of the risk management and measurement infrastructure there is an automated system that allows for managing, controlling and properly following up on the commercial loan approval process, known as "workflow". This system allows for finding out the status of the loan application during any process stage. Additionally and for the purpose of improving the management of collateral in commercial loans a new system called "Garantías II" was developed. Last, it is important to mention that a system is in place "Líneas III" for controlling limits and the use of lines of credit since their approval.

We are currently working on a database that provides empirical support both to the Loss Severity Model (LSM) and the Exposure upon Default Model (EDM), factors that are determinant in calculating the Expected Loss in commercial loans.

An efficiency assessment of consumer and mortgage loan originating models is performed on a quarterly basis, for verifying that the population being assessed by the model is similar to the population used for constructing the model, that the model continues to have the ability to distinguish delinquent customers from those who are not and that the model continues to award high ratings to customers with lesser risk. The model is recalibrated or replaced when an efficiency deviation is detected.

As part of the management of the consumer and mortgage loan portfolios monthly reports are issued for measuring creditworthiness. Reports are segmented by product and include general portfolio statistics, measures of distribution by level of default, default measures by date of opening, transition reports by level of default, etc. Also, the portfolio expected loss is determined monthly. The expected loss model currently being used considers a two-dimensional approach where each loan is assigned a Likelihood of Default and a percentage of Severity of Loss. The model is calibrated for estimating losses expected over an annual horizon and was prepared using the previous portfolio experience.

Quantitative information

At December 31, 2006 the expected consumer and mortgage loan portfolio loss is \$2,981,600 while the loss associated with commercial loans is \$2,980,000.

(Continued)

GRUPO FINANCIERO HSBC, S. A. DE C. V. AND SUBSIDIARIES**Operational risk****Qualitative information**

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events and interests the Bank's risk management function. Strategy and reputational risks are excluded from operational risks but not from the Group's agenda to deal with other risks.

To handle these risks, a specialized central unit has been created, which is assisted by close to one hundred medium-level officers who, as part of their own business units or support areas, report to the specialized central unit.

During the second semester of 2006 and for the third consecutive year the whole operational risks were identified and reassessed throughout the Group structure. During the year, all recognizable risks were designated, described and classified into four general categories: persons, processes, systems and external events, which in turn are divided into 22 subcategories within which specific follow-up is provided to technology and legal risks. Furthermore, all risks were rated from different perspectives: feasibility, impact and exposure degree, deriving in an overall identifiable risk rating from greater to lesser degree of risk as "A", "B", "C" or "D".

Technology risk

In view of the significance of exercising proper control over technology-related risks, information technology processes have been submitted to an ISO 9001 certification procedure; therefore, in addition to a rigorous operating methodology, these processes are thoroughly documented. This documentation resides in a computerized application designed specifically by the ISO certifier, which is available for review by the supervising authority.

Legal risk

The legal risk management has given detailed attention to the following types of risk:

- Contractual;
- Litigation;
- Legislative;
- Reputational; and
- Intellectual property.

On the other hand, measures have been taken such as: establishing policies and procedures for the proper legal management and execution of acts with legal consequences; the estimation of potential losses derived from adverse judicial or administrative resolutions; the communication to employees and officers of juridical and administrative provisions applicable to the operations; the conduction of legal audits, the last of which took place during October and November 2006; and the establishment of a historic database of judicial and administrative resolutions, their causes and costs.

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Quantitative information

The outcome of this third year is 2,075 identified and assessed risks, distributed as follows:

Also, for the fourth year in a row, during 2006 major incidents (those entailing costs of certain relevance) are recorded and incorporated in the corporate platform designed for managing operational risks. Since January 2006, the reporting threshold was reduced to an amount in pesos equivalent to US\$10,000.

During the 4th quarter there were 204 loss incidents from operational risks aggregating \$75,400 (US\$6.9 million). It is estimated that for the first quarter of 2007, the materialization of operational risks, reflected in the "Other Expenses" statement of income account will have an impact of roughly \$88,000, distributed as follows:

Concept	Proporción
Frauds	73%
Robberies and assaults	6%
False bills	2%
Branches	10%
Lacking cashiers, companies of movement and others	5%
Others	4%

The contents of such database shall contribute in the future the support for estimating unexpected losses and the economic capital from the operational risk.