HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2010 and 2009

(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
HSBC México, S. A., Institución de Banca Múltiple,
Grupo Financiero HSBC and Subsidiaries:

We have examined the accompanying consolidated balance sheets of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries ("the Bank") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank'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 credit institutions in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the reporting standards 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 Bank is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for credit institutions 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 such standards.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC and Subsidiaries as of December 31, 2010 and 2009, and the consolidated results of its operations, the changes in its stockholders' equity and cash flows for the years then ended, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C

Ricardo Delfín Quinzaños

February 14, 2011.

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2010 and 2009

(Thousands of Mexican pesos)

Assets	2010	2009
Cash and equivalents (note 5)	$ 51,323,651	68,321,890
Margin accounts (note 6)	41,804	3,446
Investment securities (note 7):		
Trading	36,547,998	40,607,135
Available-for-sale	95,315,261	71,131,730
Held-to-maturity	7,677,338	8,502,284
	139,540,597	120,241,149
Debtors under agreements to resell (note 8)	1,855,977	1,592,823
Derivatives (note 10):		
Trading	28,094,316	24,113,054
Hedging	110,558	173
	28,204,874	24,113,227
Current loan portfolio (note 11):		
Commercial loans:		
Commercial activity	81,084,002	76,091,230
Financial institutions	12,683,647	6,951,151
Government entities	28,087,159	19,263,389
Consumer loans	26,664,511	30,048,215
Residential mortgages	17,557,502	19,660,468
Total current loan portfolio	166,076,821	152,014,453
Past due loan portfolio (note 11):		
Commercial loans:		
Commercial activity	1,664,203	1,745,046
Financial institutions	108	37
Government entities	5,207	-
Consumer loans	1,573,528	3,825,506
Residential mortgages	2,101,032	2,368,084
Total past due loan portfolio	5,344,078	7,938,673
Total loan portfolio	171,420,899	159,953,126
Less:		
Allowance for loan losses (note 11c)	9,296,367	10,446,975
Loan portfolio, net	162,124,532	149,506,151
Other accounts receivable, net (note 12)	22,870,726	7,791,606
Foreclosed assets (note 13)	162,408	173,754
Property, furniture and equipment, net (note 14)	9,068,907	7,525,374
Permanent investments in shares (note 15)	122,631	132,589
Deferred taxes (note 23)	5,318,243	4,304,829
Other assets, deferred charges and intangible assets (notes 16 and 20)	4,752,832	2,607,640
Total assets	$ 425,387,182	386,314,478

Liabilities and Stockholders' Equity	2010	2009
Deposit funding (note 17):		
Demand deposits	$ 150,355,330	127,959,533
Time deposits:		
General public	98,785,045	105,365,747
Money market	229,913	1,157,714
Bank bonds (note 18)	4,242,519	4,241,981
	253,612,807	238,724,975
Due to banks and other institutions (notes 11b and 19):		
On demand	3,775,570	3,335,720
Short-term	16,630,130	20,236,217
Long-term	1,525,151	1,283,583
	21,930,851	24,855,520
Securities to be paid	2,358,895	-
Creditors under agreements to repurchase (note 8)	34,868,101	24,543,934
Securities lending (note 9)	276	31
Collateral sold or pledged as guarantee:		
Securities lending (note 9)	6,827,342	6,304,650
Derivatives (note 10):		
Trading	28,742,976	25,842,707
Hedging	1,801,548	1,288,849
	30,544,524	27,131,556
Other accounts payable:		
Income tax and employee statutory profit sharing (note 23)	653,174	1,014,579
Contributions for future capital increases not yet formalized by its corporate government (note 24a)	2,013,082	-
Settlement transactions (note 12)	12,773,051	2,983,522
Sundry creditors and other accounts payable	10,863,097	10,305,839
	26,302,404	14,303,940
Subordinated debt issued (note 22)	10,007,441	10,220,978
Deferred credits	730,474	730,763
	10,737,915	10,951,741
Total liabilities	387,183,115	346,816,347
Stockholders' equity (note 24):		
Paid-in capital:		
Capital stock	5,087,226	5,087,226
Additional paid-in capital	20,518,122	20,518,122
	25,605,348	25,605,348
Earned capital:		
Statutory reserves	12,436,599	14,313,391
Unrealized gain (loss) from valuation of available-for-sale securities	(47,905)	(159,648)
Mark to market from cashflow hedges	(213,009)	(399,904)
Net income	420,337	136,291
	12,596,022	13,890,130
Non-controlling interest	2,697	2,653
Total stockholders' equity	38,204,067	39,498,131
Commitments and contingent liabilities (note 28)		
Total liabilities and stockholders' equity	$ 425,387,182	386,314,478

(Continued)

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Balance Sheets, continued

December 31, 2010 and 2009

(Thousands of Mexican pesos)

Memorandum accounts

		2010	2009
Guarantees issued (notes 11 and 26a)	$	20,583	30,487
Other contingent liabilities		115,581	125,868
Irrevocable lines of credit (notes 11 and 26a)		16,201,600	15,070,940
Assets in trust or under mandate (note 26b)		293,813,951	266,641,081
Assets in custody or under management (note 26d)		246,283,741	240,950,511
Collaterals received by the entity (note 7)		13,369,616	16,649,406
Collaterals received by the entity and sold or pledged in guarantee (note 7)		10,181,844	15,202,882
Investment banking transactions on behalf of customers, net (note 26c)		43,351,480	57,064,028
Uncollected interest accrued in respect of overdue credit portfolio (note 11b)		253,615	250,311
Amounts under derivative instruments (note 10)		1,162,253,191	892,568,124
Loan portfolio rated		187,643,082	175,054,554
Other memorandum accounts		496,549,448	376,399,965

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect the transactions carried out by HSBC 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."

"At December 31, 2010 and 2009, the historical capital stock of HSBC México, S.A. amounts to $3,286,726".

SIGNATURE

Luis Peña Kegel
Chief Executive Officer

SIGNATURE

Gustavo Caballero Gómez
Chief Financial Officer

SIGNATURE

Andre Paul McCann
Director of Internal Audit

SIGNATURE

Brenda Torres Melgoza
Chief Accountant

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www.cnbv.gob.mx

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2010 and 2009

(Thousands of Mexican pesos)

		2010	2009
Interest income (note 27a)	$	28,018,393	31,247,970
Interest expense (note 27a)		(8,092,078)	(10,026,478)
Financial margin		19,926,315	21,221,492
Allowance for loan losses (note 11c)		(9,283,843)	(14,472,226)
Financial margin net of allowance for loan losses		10,642,472	6,749,266
Commission and fee income (note 11b)		8,359,986	9,765,381
Commission and fee expense		(1,429,104)	(994,908)
Financial intermediation income (note 27b)		2,219,660	2,851,948
Other operating income		899,905	834,530
Total operating income		20,692,919	19,206,217
Administrative and promotional expenses		(23,685,221)	(21,081,228)
Net operating income		(2,992,302)	(1,875,011)
Other income (note 27c)		4,515,010	3,240,343
Other expenses (note 27d)		(1,009,703)	(1,623,005)
Income before income taxes and equity in the results of unconsolidated subsidiaries, associated and affiliated companies		513,005	(257,673)
Current income taxes (note 23)		(1,091,711)	(2,035,092)
Deferred income tax (note 23)		981,471	2,396,895
Income before equity in the results of unconsolidated subsidiaries, associated and affiliated companies		402,765	104,130
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies, net (note 15)		12,666	33,238
Income from continuing operations		415,431	137,368
Non-controlling interest		4,906	(1,077)
Net income	$	420,337	136,291

See accompanying notes to the consolidated financial statements.

"These consolidated statements of operations have been prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect all revenues and expenses derived from the Bank's operations 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 statements of operations were approved by the Board of Directors under the responsibility of the undersigned officers".

SIGNATURE
Luis Peña Kegel
Chief Excecutive Officer

SIGNATURE
Gustavo Caballero Gómez
Chief Financial Officer

SIGNATURE
Andrew Paul McCann
Director of Internal Audit

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HSBC MEXICO, S. A.,
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2010 and 2009

(Thousands of Mexican pesos)

	Paid-in capital		Earned capital						
	Capital stock	**Additional paid-in capital**	**Capital reserves**	**Accumulated profits**	**Unrealized gain (loss) from valuation of available-for-sale securities**	**Mark to market from cashflow hedges**	**Net income**	**Non-controlling interest**	**Total stockholders' equity**
Balances at December 31, 2008	$ 4,271,553	11,611,685	12,796,834	-	(1,420,532)	(947,427)	2,518,985	2,269	28,833,367
Changes resulting from stockholder resolutions (note 24a):									
Transfer	-	-	-	2,518,985	-	-	(2,518,985)	-	-
Resolution at the Ordinary General Stockholders' Meeting on March 30, 2009 - Dividend payment	-	-	-	(1,002,428)	-	-	-	-	(1,002,428)
Resolution at the Ordinary General Stockholders' Meeting on March 30, 2009 - Reserve constitution	-	-	1,516,557	(1,516,557)	-	-	-	-	-
Resolution at the Ordinary General Stockholders' Meeting on August 28, 2009 - Increase in capital stock	62,659	677,341	-	-	-	-	-	-	740,000
Resolution at the Board of Director's Meeting on October 22, 2009 - Increase in capital stock	527,341	5,762,895	-	-	-	-	-	-	6,290,236
Resolution at the Ordinary General Stockholders' Meeting on December 29, 2009 - Increase in capital stock	225,673	2,466,201	-	-	-	-	-	-	2,691,874
Total items related to stockholders' decisions	815,673	8,906,437	1,516,557	-	-	-	(2,518,985)	-	8,719,682
Changes related to the recognition of comprehensive income (note 24b):									
Net income	-	-	-	-	-	-	136,291	-	136,291
Valuation effect of available-for-sale securities and hedging of cash flow	-	-	-	-	1,260,884	547,523	-	-	1,808,407
Non-controlling interest	-	-	-	-	-	-	-	384	384
Total comprehensive income	-	-	-	-	1,260,884	547,523	136,291	384	1,945,082
Balances at December 31, 2009	5,087,226	20,518,122	14,313,391	-	(159,648)	(399,904)	136,291	2,653	39,498,131
Changes resulting from stockholder resolutions (note 24a):									
Transfer	-	-	-	136,291	-	-	(136,291)	-	-
Resolution at the Ordinary General Stockholders' Meeting on April 16, 2010 - Reserve constitution	-	-	136,291	(136,291)	-	-	-	-	-
Resolution at the Board of Director's Meeting on October 21, 2010 - Dividends paid	-	-	(2,013,083)	-	-	-	-	-	(2,013,083)
Total items related to stockholders' decisions	-	-	(1,876,792)	-	-	-	(136,291)	-	(2,013,083)
Changes related to the recognition of comprehensive income (note 24b):									
Net income	-	-	-	-	-	-	420,337	-	420,337
Valuation effect of available-for-sale securities and hedging of cashflow	-	-	-	-	111,743	186,895	-	-	298,638
Non-controlling interest	-	-	-	-	-	-	-	44	44
Total comprehensive income	-	-	-	-	111,743	186,895	420,337	44	719,019
Balances at December 31, 2010	$ 5,087,226	20,518,122	12,436,599	-	(47,905)	(213,009)	420,337	2,697	38,204,067

See accompanying notes to the consolidated financial statements.

"These consolidated statements of stockholders' equity were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly, these reflect all the stockholders' equity account entries relating to the transactions carried out by the Bank 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 statements of stockholders' equity were approved by the Board of Directors under the responsibility of the undersigned officers".

Luis Peña Kegel Chief Excecutive Officer	Gustavo Caballero Gómez Chief Financial Officer	Andrew Paul McCann Director of Internal Audit	Brenda Torres Melgoza Chief Accountant

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Thousand of Mexican pesos)

		2010	2009
Net profit	$	420,337	136,291
Adjustments for non cash items:			
Profit or loss from valuation changes in respect of operating activities		(1,870,526)	(2,589,748)
Allowance for loan losses		9,283,843	14,472,226
Reserve for uncollectible or difficult to collect items		123,134	171,120
Depreciation and amortization		1,611,514	1,236,724
Provisions		2,404,389	1,265,050
Current and deferred income taxes		110,240	(361,803)
Employees profit sharing - current and deferred		352,011	543,794
Equity in the results of unconsolidated subsidiaries, associated and affiliated companies		(12,666)	(33,238)
Non-controlling interest		(4,906)	1,077
		12,417,370	14,841,493
Operating activities:			
Change in margin accounts		(38,358)	97
Change in investment securities		(18,733,320)	(23,542,285)
Change in debtors under agreements to resell		(263,154)	(1,546,662)
Change in derivatives (assets)		(2,506,525)	56,345,037
Change in loan portfolio		(21,902,224)	(3,902,337)
Cange in foreclosed assets		387	(86,115)
Change in other operating assets		(15,099,995)	40,521,375
Change in deposit funding		14,887,832	(26,972,318)
Change in loans from banks and other institutions		(2,924,669)	14,204,182
Change in settlement accounts		2,358,895	-
Change in creditors under agreements to repurchase		10,324,167	(7,497,933)
Change in securities lending (liability)		245	31
Change in collateral sold or pledged as guarantee		522,692	6,304,650
Change in derivatives (liability)		3,412,968	(58,546,757)
Change in subordinated debt issued		(213,537)	4,272,478
Change in other operating liabilities		5,198,515	(26,341,466)
		(12,558,711)	(11,946,530)
Net cash used in operating activities			
Investing activities:			
Proceeds from sale of property, furniture and equipment		366,981	13,460
Purchase of property, furniture and equipment		(3,360,974)	(2,153,071)
Proceeds from dividends received		27,574	38,754
Increase in other assets and deferred charges		(1,464,900)	(235,401)
Net cash used in investing activities		(4,431,319)	(2,336,258)
Financing activities:			
Proceeds from issuance of stock		-	9,722,110
Dividends paid in cash		(2,013,083)	(1,002,428)
Contributions for future capital increases not yet formalized		2,013,082	-
Net cash (used in) provided by financing activities		(1)	8,719,682
Net decrease in cash and equivalentes		(16,990,031)	(5,563,106)
Cash flow adjustments from variances in foreign exchange rate		(8,208)	285,448
Cash and equivalents at the beginning of year		68,321,890	73,599,548
Cash and equivalents at end of year	$	51,323,651	68,321,890

See accompanying notes to the consolidated financial statements.

"These consolidated statement of cash flows, were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are of general and mandatory nature. Accordingly this reflects all cash provided and used derived from the Bank's operations through the date noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"This consolidated statament of cash flow were approved by the Board of Directors under the responsibility of the undersigned officers".

Luis Peña Kegel
Chief Executive Officer

Gustavo Caballero Gómez
Chief Financial Officer

Andrew Paul McCann
Director of Internal Audit

Brenda Torres Melgoza
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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 -

Business description-

HSBC México, S. A. (the Bank or HSBC) is a subsidiary of Grupo Financiero HSBC, S. A. de C. V. (the Group), who owns 99.99% of its capital stock. HSBC Latin America Holdings (UK) Limited (HSBC LAH) currently owns 99.99% of the Group's capital stock. In accordance with the Law of Credit Institutions (LCA), the Bank is authorized to provide multiple service banking operations, consisting of receiving deposits, accepting loans, granting loans, trading securities and derivative transactions and entering into trust agreements, among others.

Significant transactions and other issues-

2010

On July 15, 2010 the Federal Government and several credit institutions including the Bank signed an agreement, for the early termination of the support programs for mortgage borrowers. Support programs consisted of the possibility for the borrowers to restructure the loans and of discounts that were granted and which were proportionately absorbed by the Federal Government and the Bank, which were applied in each payment made on the loans subject programs. In this regard, the early termination scheme may incorporate any performing loan as at December 31, 2010 or any unperforming loan which was restructured under certain conditions on or before December 31, 2010. The early termination scheme consisted in providing those credits incorporated on December 31, 2010 or the date of restructuring, whichever comes first, the benefit of the discount for the portion borne by the Federal Government and by the Bank on the unpaid balance of the credit. The discount amount by the Federal Government shall be paid in five equal instalments being the first in December 2011 and the remainder in June of the years 2012 to 2015, to which they will add a financial cost and subject to the delivery of a series of reports to the National Banking and Securities Commission (the Banking Commission). Note 11 to the financial statements shows a breakdown of the amounts of discounts granted and its effects on the financial statements.

Business environment-

During 2009 the Bank was particularly affected by the economic environment, by the level of maturity of their credit portfolios following its rapid expansion of market share in preceding years and by the reduction in margins caused by the fall in market interest rates.

(Continued)

Considering the above, HSBC redefined its objectives and plans for 2009 focused on a conservative strategy in which the risk appetite and collections activities strengthening were prioritised.

During 2010, the Bank was benefited from the measures implemented in prior periods to improve asset quality through a prudent risk management and strengthened collection practices. This resulted in an improvement in the operation, driven by lower demand of allowances for loan losses. The Bank's efforts were focused on business generation (mainly, commercial loans), improving its asset quality, maintaining optimal levels of capital liquidity and solvency. In order to support the service that the Bank provides to its customers, the Bank is continuing its investments in the branch network and systems, resulting in an increase on its operating expenses.

Considering the economic environment prevailing in 2010, which reported a weak domestic demand, the Bank will continue taking measures in order to keep their business as a going concern, of the measures taken, the following ones can be mentioned:

- Promote the portfolio growth, mainly driven by higher credit quality assets in the commercial portfolio.
- Increased focus on sales and promotion of deposit products, resulting in a customer deposit increase, thereby strengthening the liquidity levels.
- Continued focus on asset quality and collection actions.
- Reductions for the allowance of loan losses.

The Bank’s management considers that afore mentioned measures, will contribute to the strengthening and development of the business in the future.

2009

Subordinated debt issuance programme -

As part of a programme of subordinated debt issuance including both preference and non preference non convertible instruments, which was authorized by the Banking Commission on September 25, 2008, the Bank completed its first foreign currency issuance of subordinated debt on June 26, 2009.

(Continued)

(Thousands of Mexican pesos)

This issuance was for a total of US$300 million, of which US$196.7 million was placed on the date of issue, and US$103.3 million was placed subsequently. Maturity of the debt instruments issued is 10 years, and they return a variable rate of Libor plus 3.5%.

(2) Summary of significant accounting policies-

(a) Authorization and basis of presentation and disclosure-

On February 14, 2011, Luis Peña Kegel (Chief Executive Officer), Gustavo Caballero Gómez (Chief Financial Officer), Adrew Paul McCann (Internal Audit Director) and Brenda Torres Melgoza (Chief Accountant) authorized the issuance of the accompanying financial statements and related notes thereto.

In accordance with the General Corporations law and the Bank's statutes, the stockholders are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted for approval at the next Stockholders' Meeting.

The consolidated financial statements have been prepared based on banking legislation and in conformity with the accounting criteria for credit institutions in Mexico, issued by the Banking Commission, which were in effect at the consolidated balance sheet date. The Banking Commission is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

The accompanying consolidated financial statements include those of the Bank and those of its subsidiaries, including the special purpose entities (SPE) that qualify to be consolidated in accordance with the accounting criteria issued by the Banking Commission. Significant intercompany transactions and balances have been eliminated in consolidation. The consolidation was performed using the individual financial statements of the subsidiaries at December 31, 2010 and 2009. The consolidated subsidiaries and the percentage of stock participation of the Bank are as shown in below:

Activity / Subsidiary	Percentage
Real estate	
Inmobiliaria Bisa, S. A. de C. V.	99.99%
Inmobiliaria Grufin, S. A de C. V.	99.99%
Inmobiliaria Guatusi, S. A. de C. V.	99.99%
Inmobiliaria el Nuevo París, S. A. de C. V.	99.99%
Edificaciones Prime, S. A. de C. V.	99.99%

(Continued)

(Thousands of Mexican pesos)

Activity / Subsidiary	Percentage
Real estate	
Promoción en Bienes Raíces, S. A. de C. V.	99.99%
HSBC Inmobiliaria México, S. A. de C. V.	99.96%
Inmobiliaria GBM Atlántico, S. A. de C. V.	99.96%
Inmobiliaria Banga, S. A. de C. V.	99.99%
Inmobiliaria Bamo, S. A. de C. V.	98.38%
Financial services	
HSBC Servicios Financieros, S. A. de C. V.	94.49%
Non-operating entities, where the liquidation process has not commenced as of the date of these financial statements:	
Mexicana de Fomento, S. A. de C. V.	99.99%
Almacenadora Banpacífico, S. A. de C. V.	99.99%
Inmobiliaria Banci, S. A. de C. V.	99.99%
Desarrollo Turístico, S. A. de C. V.	99.99%

The consolidated SPE corresponds to a joint venture of which the Bank participates in 99.4% of the risks and benefits of the assets and liabilities, whose purpose is the acquisition of bonds issued by a foreign entity, which are secured by Bonds M. At December 31, 2010, these bonds amounts to $4,834,554, which are included as part of the available for sale securities.

In general, the accounting criteria issued 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 for its acronym in Spanish), the accounting criteria include rules that in certain instances differ from FRS, as stated in paragraphs “c”, “d” “g” “h”, “i”, “j”, “l” and “aa” of this note.

The accounting criteria for credit institutions indicate that the Banking Commission will issue specific rules for specialized transactions. In cases where there is no specific accounting criteria for credit institutions expressed by the Banking Commission or in the wider context of the FRS, then the supplementary process stated in FRS A-8 should be followed. Only in cases where International Financial Reporting Standards (IFRS) do not contain a solution to the accounting recognition, there is the option to adopt supplementary rules or guidance from a different regulatory body, as long as it complies with all the requirements as stated in the aforementioned FRS. The supplementary rules should be applied in the following order; the United States general accepted accounting standards (US GAAP) and then any other accounting rule, which is included within a set of formal and recognized standards.

(Continued)

The accompanying consolidated financial statements include the recognition of the effects of inflation on the financial information through to December 31, 2007, the date on which according to the guidance in FRS B-10 "Effects of Inflation" the economy changed from an inflationary to a non inflationary environment, using for this purpose the Investment Unit value (UDI for its acronym in Spanish). The UDI is a unit of measurement whose value is determined by the "Banco de México" (Central Bank) based on inflation. Annual inflation percentages of the three preceding years and the UDI values at the end of indicated years are as follows:

December 31	UDI	Annual inflation
2010	$ 4.5263	4.29%
2009	4.3401	3.72%
2008	4.1843	6.39%
	=====	=====

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

Assets and liabilities related to the 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 date, regardless of the settlement date.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant items subject to such estimates and assumptions include the valuation of investment securities and securities and derivative transactions, repurchase transactions, settlement accounts and security loans, allowances for doubtful accounts, foreclosed assets, retirement pension obligations and deferred tax. Recent volatility in capital and money markets and the current economic environment in Mexico and globally could cause the values of assets and liabilities to differ form the actual amounts received or paid when settled. Therefore actual results could differ from those estimates.

(Continued)

(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") and deposits with the Central Bank.

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 deposits related to monetary regulation, as required by the Law of the Central Bank, whose purpose is regulating the liquidity of the money market.

(c) Margin accounts-

This account is comprised of the total collateral held in cash, bonds, shares or other highly liquid instruments in respect of derivative transactions on recognized stock market exchanges. Margin accounts should be presented in a specific account included within the consolidated balance sheet. This differs from FRS C-10, which establishes that they should be presented within the derivative financial instruments account, including the amounts in cash and shares as well as net profits.

(d) 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 as follows:

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt securities are initially and subsequently marked to market at a price provided by an independent price vendor. Shares are also valued at fair value using prices provided by an independent price vendor. Valuation effects are recognized in results of operations within "Financial intermediation income". If the amount of trading securities is short for settling the amount of securities deliverable in value date transactions in relation to purchase-and-sale of securities, the credit balance is shown as a liability under "Sundry creditors and other accounts payable".

(Continued)

Available-for-sale securities-

Securities not classified as trading or held-to-maturity are classified as "Available-for-sale". "Available-for-sale" are recorded in the same way as trading securities; however, the mark-to-market adjustment is reported in stockholders' equity under the caption "Unrealized gain or loss from valuation of Available-for-sale securities". Unrealized gains and losses are cancelled when the respective securities are sold, reporting the difference between net realizable value and acquisition cost within the results of operations.

It is necessary to evaluate whether at the consolidated balance sheet date there exists objective evidence of impairment, considering the difference between the initial carrying value of the security net of any principal payment or amortization and the fair value of the security. Any difference identified as impairment should be recognised in the income statement for the period.

Held-to-maturity securities-

Held-to-maturity securities are those securities that the Bank has the ability and intent to hold until maturity, and that have defined payments. Held-to-maturity securities are initially recorded at fair value and subsequently at amortized cost. Interest is recognized in income as earned. When securities mature, the difference between the actual amount received and the net book value is recognized in the consolidated statement of operations within "Financial intermediation income".

If objective evidence of impairment exists in respect of held to maturity securities, the value of the security should be reduced and the impairment amount should be recognised in the current year income statement.

Transfers between categories-

In accordance with the criterion B-2 "Investments in Securities" issued by the Banking Commission on the 28 October 2009, any sale of securities recorded as held to maturity should be reported to the Banking Commission. Likewise, reclassifications from the categories "trading securities" and "available for sale securities" to the category "securities held to maturity" or from "trading securities" to "available for sale" are permitted only with the express permission of the Banking Commission. In addition, reclassification from the category "securities held to maturity" to "securities available for sale" is permitted only when there is no longer the intention or ability to hold those securities to maturity.

(Continued)

Until October 28, 2009, only Held-to-maturity securities could be reclassified or redesignated as available-for-sale securities, if there was no longer the intention to hold the securities until maturity. When a transfer from held-to-maturity to available-for-sale was made the difference between book value and fair value was recorded in stockholders' equity. FRS C-2 allows available-for-sale securities to be reclassified to or redesignated as held-to-maturity securities and from held to maturity and available-for-sale under certain conditions and no authorization from the Banking Commission is required.

During 2010 and 2009, there were no transfers between categories.

For operations where no settlement is agreed upon immediate or same day value date, on the date of the agreement the right and / or the obligation should be recorded in the clearing accounts until the liquidation is settled. In cases where the receivable is not settled within 90 calendar days from the date on which it was registered in clearing accounts, it will be reclassified as past due debt and estimation should be registered for the total amount.

(e) Securities under repurchase/resell agreements-

Repurchase agreements that do not comply with the terms set out in criterion C-1 "Recognition and derecognition of financial assets", have been treated as collateralized financing transactions, reflecting the economic substance of such transactions and regardless of whether they are cash based or securities based.

The Bank in recognizing these transactions as financing transactions recognizes the receipt of cash or an account receivable, as well as an account payable for the agreed price, which represents the obligation to repay that money, and reclassifies the financial asset as restricted collateral. When the Bank is acting as the provider of finance, it recognizes the payment of cash or an account payable and also registers an account receivable in respect of the agreed price, which represents the right to recover the cash provided and recognizes the collateral received in a memorandum account. Over the life of the repo, the account payable or receivable are presented in the consolidated balance sheet as debtors or creditors as appropriate, and are valued at amortized cost, recognizing interest in the results for the year as it accrues, according to the effective interest method. The accrual of interest arising from the repo operation will be presented under the heading of "Income or interest expense", as appropriate. The differential, if any, that is generated by the sale of or using the security as collateral will be presented under the heading of "Financial intermediation income".

(Continued)

With respect to financial assets pledged as collateral, these are recorded as restricted financial instruments and are valued at fair value using prices provided by an independent price vendor authorized by the Banking Commission.

Changes in fair value are recognised in equity or in the income statement accordingly.

In accordance with the Circular 1/2003 of the Central Bank, any repurchase transactions, with a maturity period over three 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 collaterals granted (without transfer of ownership) are recorded in the securities portfolio as securities for trading or in collateral, and if it corresponds to cash deposits, are registered under the cash equivalents account.

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.

(f) Securities lending-

In operations where the Bank transfers securities to a borrower and received other financial assets as collateral, it recognizes the fair value of the securities lent as restricted, while financial assets received as collateral (including cash managed in trusts), are recognized in memorandum accounts. When the Bank receives securities in a securities lending transaction, it records the value of the securities in memorandum accounts while the financial assets provided as collateral are recognized as restricted (including cash managed in trusts). In both cases the financial assets received or delivered as collateral are recorded following the rules of valuation, presentation and disclosure in accordance with applicable accounting standard, while the values recorded in memorandum accounts are valued according to custody operation rules. The premium earned is recognized in the income statement, through the effective interest method over the life of the operation, against a receivable or payable as appropriate. The account payable which represents the obligation to repay the transaction value is reported in the consolidated balance sheet under the heading of “Collateral sold or pledged as guarantee”.

(Continued)

(g) Derivative transactions-

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes. These instruments are recognized at fair value, regardless of their classification. 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' 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 subsequently valuated at fair value, recording all gains or losses in the statement of operations. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

In conformity with FRS C-10, 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. Changes in the fair value of derivative financial instruments for trading purposes are reported in operations as part of the comprehensive financial results. Derivative financial instruments designated as hedges are presented on the balance sheet in the derivative financial instruments caption. Changes in fair value of these instruments are recorded in the same income statement or comprehensive income line where the gain or loss on valuation of the primary position is recognized, in accordance with the classification of the hedge (fair value hedge, cash flow hedge or foreign currency hedge), and the results of effectiveness tests.

(Continued)

(h) 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 consolidated 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 included within “Other accounts payable” and “Sundry creditors and other accounts payable”.

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.

In accordance with FRS unpaid balances are not reclassified to “Other receivables” and “Sundry creditors and other accounts payable.”

(i) 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 past due billing cycles or when the billing period is not monthly, at the equivalent of 60 days past due.

(Continued)

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

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

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.

Non-current loans for which fully settled outstanding balances is made (including interest) and restructured or renewed loans showing sustained payment of credit, are reclassified as current. When those loans are reclassified to current portfolio, interest recorded in memorandum accounts, are recognized in statement of operations at the moment of reclassification.

FRS do not consider the classification of the credit portfolio between performing (current) and non-performing (non-current).

(j) 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 – The loan portfolio is rated according to the rating rules for loan portfolio issued by the Ministry of Finance and Public Credit (SHCP for its acronym in Spanish) and the methodology established by the Banking Commission, it could also be rated, with an internal developed methodology authorized by the Banking Commission. The methodology distinguishes the status of the borrower and based on this determines the operation one. For commercial loans, excluding government and investment projects, it is authorized by the Banking Commission to use an internal methodology in accordance with the office No. 141-1/5905/2010 dated November 8, 2010, in which the Banking Commission expressed the permission to the Bank to continue using its internal methodology for a period of one year from December 1, 2010, the above mentioned because the new internal models for measuring the credit risk applicable to these assets are in the process of certification by the authority. The rating of commercial loans with balances of less than 4,000,000 of UDI, consumer and mortgage loans are rated based on "general provision applicable to credit institutions (The "Dispositions") issued by the Banking Commission, specifically using the standard methodology.

(Continued)

(Thousands of Mexican pesos)

The allowance is established considering the risk levels in accordance with the following table:

Risk level	**Range of allowance percentages**
A - Minimum	0.50 – 0.99
B - Low	1.00 – 19.99
C - Medium	20.00 – 59.99
D - High	60.00 – 89.99
E - Irrecoverable	90.00 – 100.0

The “Dispositions” establish rules for the creation of allowances that recognize potential losses in the loan portfolio and of foreclosed assets or received in lieu of payment over time.

General reserves – In accordance with the Dispositions risk grade A and B-1 risk grade from the revolving consumer portfolio are considered general reserves.

Specific reserves – Those reserves resulting from loans with risk grade B, C, D and E, but not including those which result from risk grade B-1 from the revolving portfolio.

Exempt portfolio – consists mainly of loans to the IPAB, which are not rated.

Impaired loans – Commercial loans which are not likely to be fully recovered. 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, as well as other reserves as required by the Banking Commission.

Loans considered irrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries derived from loans written off are recognized in income of the year.

On August 13, 2009, the Banking Commission approved changes to the methodology for establishing reserves for loan losses related to consumer loans, particularly for the credit card portfolio. The Bank chose the alternative to recognise the total of these new reserves affecting the income statement within 24 months.

(Continued)

The FRS do not consider specific methodologies for the establishment of the allowance for credit risks and therefore entities must develop methodologies using cash flows estimated to be recoverable by the borrowers. Furthermore, the NIF does not consider the gradual recognition of additional reserves required.

(k) Other accounts receivable-

Loans to officers and employees, collection rights, and other receivables from identified debtors, whose agreed-upon maturity does not exceed 90 calendar days, are assessed by management to determine their estimated recovery value and, where applicable, a loan loss reserve is created. Amounts receivable from other accounts receivable, that are not recovered within 90 days subsequent to their initial recording (60 days if balances are unidentified) are totally reserved, except for those related to recoverable tax balances, value added tax, and clearing accounts. This caption also includes debtors on settlement of transactions (24 and 48-hour foreign currency sales).

(l) Foreclosed assets and assets received in lieu of payment-

Foreclosed assets are recorded at the lesser of: (a) cost, (b) its fair value deducted from the strictly necessary costs and expenses that are incurred in the adjudication and (c) the value of the asset or amortizations due or overdue that led to the adjudication, net of its estimates.

When the book value exceeds the value of the foreclosed asset, the difference will be recognized in the statement of operations of the year as part of “Other expenses”. In the case of a promise of sale-and-repurchase agreements including ownership reserves, these transactions do not comply with the requirements of accounting criteria C-1 “Recognition and derecognition of financial assets”. In this case the asset should be recognized and classified as restricted, depending on the relevant type of asset, at the book value on the date of the agreement, even if the agreed sale price is higher than the book value.

Payments received in advance in relation to the aforementioned assets are recorded as a liability. The gains or losses arising from these transactions are recorded in “Other income” or “Other expense” on the date that the conditions to consider that the ownership has been transferred in accordance with accounting criteria C-1 are met.

The Bank creates additional reserves on a quarterly basis to recognize potential losses for the deterioration in asset value due to the passing of time. These reserves are created in accordance with the Dispositions which are determined as shown in the following page.

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Elapsed months since the date of foreclosure or lieu of payment		Percentage of the allowance Real Estate	Other assets
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

In accordance with FRS, provisions are established based on the loss in fair value of the property and not on a predetermined percentage.

(m) Property, furniture and equipment-

Property, furniture and equipment are initially recorded at acquisition cost and through to December 31, 2007, were adjusted for inflation by using factors derived from the UDI.

Depreciation and amortization are calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets. The useful lives of each class of property furniture and equipment are shown in note 14.

(n) Permanent investments-

Investments in affiliated and associated companies are valued using the equity method, which recognizes changes in income (loss) of the year. It is also included under this caption other permanent investments in which there is no significant influence, which are recorded at their acquisition cost.

(o) Other assets, deferred charges and intangibles-

Other assets include recoverable balances of taxes pending to be offset or recovered. Deferred charges include the prepayment of labour 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.

(Continued)

The caption “Intangible Assets” includes costs directly related to the installation and commissioning of computer equipment software and the cost of the necessary licenses to operate such equipment. According to the internal policies of HSBC, only projects that comply with the following characteristics are subject to be capitalized: (i) the assets are identifiable, (ii) the Bank has control over the assets and (iii) that there will be anticipated future economic benefits from them. The average life of these assets which are amortized on a straight line basis is 3 to 5 years, based on its characteristics.

(p) Income taxes (income tax (IT) and flat rate business tax (IETU)), and employee statutory profit sharing (ESPS)-

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

Deferred IT or IETU and ESPS 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 consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for unamortized tax loss carry forwards 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 the change is enacted.

To determine whether deferred IT or IETU should be recognized, the Bank identifies the base on which the differences causing deferred tax will be amortized and the likelihood of payment or recovery of each tax.

(q) Deposit funding-

Deposit funding comprises demand and time deposits of the general public, as well as money market funding and bank bonds. Interest expense is recognised 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.

(r) Due to banks and other institutions-

Bank and other loans comprises short and long-term bank loans from domestic and foreign banks, loans obtained through credit auctions with Central Bank 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.

(Continued)

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

Termination benefits other than restructuring and retirement to which employees are entitled are recorded in the statement of operations, based on actuarial computations using the projected unit credit method, considering the projected salaries. At December 31, 2010 and for purposes of recognizing benefits upon retirements, the remaining average service life of employees entitled to plan benefits approximates 19 years; 14 years approximately for Seniority Premium and 16 years approximately for retirement benefits.

Actuarial gains or losses are recognized in the statement of operations as accrued considering the remaining service life of the employees expected to receive plan benefits and are amortized based on life expectations of the group of retirees.

In the case of pension plan of defined contribution and other defined contribution benefits are recognized in the statement of operations as accrued.

(t) Share-based payment -

The Bank has established a payment program based on shares of its holding Company's equity for certain employees, recognizing an operating expense in the consolidated statement of income and a liability, during the vesting period, at the estimated fair value of the equity securities when settling the liability.

(u) Restatement of capital stock and statutory reserves-

Until December 31, 2007, this restatement was determined by multiplying stockholder contributions, statutory reserves and retained earnings (deficit) by UDI factors, which measure accumulated inflation from the dates contributed or generated until December 31, 2007, the date on which the economy became non-inflationary in accordance with FRS B-10 "Effects of inflation".

(v) Revenue recognition-

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

(Continued)

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

The annuity and renewal fees for credit cards are deferred over a period of twelve months.

Fees charged for initially granting loans (personal, housing, and commercial loans) are recorded as a deferred credit, which is amortized against income of the year as interest income, pursuant to the straight-line method during the life of the loan. All other fees are recognized at the time they are generated in the line item of fees, and rates charged in the consolidated statement of operations.

The interest from repurchase transactions are recognized as generated.

(w) 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 into 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 statement of operations during the year.

(x) 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 January 1, 2005, the IPAB will guarantee a maximum of 400,000 UDIS ($1,810,523 as of December 31, 2010) per depositor and per institution, in conformity with the decree published in the Official Gazette on December 14, 2000. The Bank recognizes in results of operations the mandatory contributions to the IPAB.

(y) 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.

(Continued)

(z) Impairment of premises, property, furniture and equipment-

The Bank evaluates periodically the adjusted values of property, plant and equipment and intangibles 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.

(aa) Income statement-

The Bank presents the income statement as required by the accounting standards for credit institutions in Mexico that differs from the presentation required by the FRS, as the FRS consider the presentation of the statement of operations classifying the revenues, costs and expenses in ordinary and non ordinary.

(3) Changes in accounting policies and reclassifications-

The FRS, their interpretations (INT FRS) and Revisions mentioned below, issued by the CINIF became effective for fiscal years beginning on or after January 1, 2010, and does not apply to the Bank as its transactions are regulated by the Banking Commission or are transactions not performed by the bank.

(a) FRS B-16 *"Financial statements of not-for-profit entities*
(b) FRS C-1 *"Cash and cash equivalents"*
(c) Revision to paragraph 3 of Bulletin C-3 *"Accounts receivable"*
(d) FRS E-2 *"Donations received or granted by not-for-profit entities*
(e) INT FRS 17 *"Service concession contracts"*

In December 2009, CINIF issued the document referred to as "2010 FRS Revisions" setting forth the following accounting changes, which does not apply to the Bank as its transactions are regulated by the Banking Commission.

- FRS B-1 "Accounting changes and corrections of errors"
- FRS B-2 "Statement of Cash Flows"
- FRS B-7 "Business acquisitions"
- FRS C-7 "Investments in associates and other permanent investments"

Reclassifications-

Some 2009 figures were reclassified to be consistent with the presentations and classifications used in 2010.

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Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

(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. In accordance to the basic capital of HSBC, as published by the Central Bank as of September 30, 2010 and 2009, the maximum exposure permitted amounts to USD$433,584 thousands and USD$290,016 thousands, respectively.

The foreign currency position is analyzed as follows:

	(Millons of dollars)	
	2010	**2009**
Assets	20,223	15,535
Liabilities	(20,327)	(15,543)
Net liabilities	(104)	(8)
	=====	=====

The exchange rate of the peso to the dollar as of December 31, 2010 and 2009 was $12.3496 and $13.0659, respectively. The exchange rate on February 14, 2011, the date of issuance of the consolidated financial statements was $12.0461.

(5) Cash and cash equivalents-

At December 31, 2010 and 2009, cash and cash equivalents are analyzed as follows:

	2010	**2009**
Cash	$ 11,044,098	11,165,500
Deposits with domestic and foreign banks	6,759,615	1,635,794
Guaranteed deposits	2,532,426	3,015,233
Central Bank deposits	32,571,918	52,364,689
Bank loans with maturity up to three days	4,128	-
Other funds available	9,115	22,530
Restricted funds:		
24 and 48-hour foreign currency purchases	10,581,743	2,209,414
24 and 48-hour foreign currency sales	(12,179,392)	(2,091,270)
	$ 51,323,651	68,321,890
	========	========

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Thousands of Mexican pesos)

At December 31, 2010 and 2009, cash at Mexican pesos by currency included in the cash and equivalents caption is as follows:

Currency		Exchange rate 2010	Exchange rate 2009		2010	2009
Mexican Peso	$	-	-	$	10,799,188	11,042,727
Dollar		12.3496	13.0659		239,559	121,410
Euro		16.5633	18.7456		4,845	1,012
Canadian Dollar		12.4279	12.4733		48	27
Sterling		19.3345	21.0975		128	76
Other currencies		-	-		330	248
		=======	=======			
				$	11,044,098	11,165,500
					========	========

At December 31, 2010, the Bank did not have deposits in dollars with the Central Bank. At December 31, 2009 the Bank had deposits in dollars with the Central Bank for an amount of USD$600,480, equivalent to $7,845,813, in compliance with the circular letter 36/2008, of the Central Bank.

At December 31, 2010 and 2009, the deposits with the Central Bank in local currency relates to monetary regulation deposits with no specific term and bear interest at the average rate of deposit fundings.

At December 31, 2010, HSBC had call money loans with 3-day maturities, as follows:

Institution	Term	Rate	Amount
Nacional Financiera, SNC.	3 days	4.50%	$ 4,128
			====

At December 31, 2010 and 2009 there are precious metals amounting to $157 and $103, respectively, which are included in other funds available.

At December 31, 2010 and 2009 currencies receivable and deliverable on purchases and sales to be settled in 24 and 48 hours, translated into pesos, are analyzed in the following page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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		2010		2009	
Currency		**Purchased**	**Sold**	**Purchased**	**Sold**
Dollar	$	10,542,769	(12,140,303)	2,188,794	(2,091,270)
Sterling		38,669	(38,481)	-	-
Euro		-	-	20,620	-
Other currencies		305	(608)	-	-
	$	10,581,743	(12,179,392)	2,209,414	(2,091,270)
		========	========	=======	=======

(6) Margin accounts-

As of December 31, 2010 and 2009, the margin accounts relates to deposits at the MexDer, Mercado Mexicano de Derivados, S. A. de C. V. amounting to $41,804 and $3,446, respectively.

(7) Investment securities-

At December 31, 2010 and 2009 the Bank's investments in securities are analysed as follows:

	2010		2009	
Trading *:				
Government securities	$ 30,151,812		36,229,419	
Banking promissory notes	3,388,471		3,482,792	
Bonds	2,980,218		878,444	
Equities	27,497	36,547,998	16,480	40,607,135
Available-for-sale *:				
Equities	11,551		13,841	
Government securities	93,020,495		65,225,771	
Corporate securities	2,283,215	95,315,261	5,892,118	71,131,730
Held-to-maturity *:				
Special CETES of the UDI Trusts:				
Mortgages	3,824,665		3,659,796	
States and municipalities	553,776		529,562	
	4,378,441		4,189,358	
Transferred securities:				
Banking promissory notes	-		202,363	
Bonds	3,298,897	7,677,338	4,110,563	8,502,284
Total investment securities		$ 139,540,597		120,241,149
		=========		==========

*See explanation in the following page.

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Thousands of Mexican pesos)

* The total of trading securities, available-for-sale and securities held to maturity include restricted securities which have been pledged as collateral, according to the detail provided later in the collateral section.

On October 15, 2009, the special CETES of the UDI Trust in respect of productive plant reached their maturity; therefore the Bank received a total of $237,357 including $11,127 of interest.

During 2010 and 2009, the Bank did not record any transfers between categories in investment securities.

Collateral

At 31 December 2010 and 2009 securities pledged and received as collateral, including collateral sold or pledged as a guarantee were as follows:

		2010	2009
Pledged (Restricted securities) (note 8)			
Trading securities	$	20,540,602	24,421,329
Securities available for sale		14,167,780	-
Securities held to maturity		190,576	141,734
	$	34,898,958	24,563,063
Received (in memorandum accounts) (notes 8 and 9)			
In respect of repurchase transactions	$	5,005,323	10,344,756
In respect of securities loan:			
Fixed income		8,355,713	6,304,650
Variable income		8,580	-
	$	13,369,616	16,649,406
Collateral sold or pledged as guarantee			
In respect of repurchase transactions	$	3,354,502	8,898,232
In respect of securities loan:			
Fixed income		6,818,762	6,304,650
Variable income		8,580	-
	$	10,181,844	15,202,882

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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Collateral pledged, received or sold and given as a guarantee originates primarily from sale and repurchase and stock borrowing and lending transactions. Collaterals received are recorded in memorandum accounts whilst the collaterals sold or pledged as guarantees are recorded in the account "Collateral sold or given as guarantee" whose balance in the case of repurchase transactions is presented net of the collaterals received in the consolidated financial statements.

At December 31, 2010 and 2009, the Bank had the right to pledge as a guarantee, the collateral received in sale and repurchase transactions or the right to sell or pledge the collateral received in stock borrowing transactions.

At December 31, 2010, investments (other than government securities), from the same issuer exceeding 5% of the Bank's net capital of $2,217 million for a total value of $6,372 million as follows:

Issuer	Symbol	Series		Amount	Rate
Brazilian government	BNTN071	140101	$	5,452	9.76%
Brazilian government	BRAZX87	130617		676	10.25%
Brazilian government	BRAZT75	120111		244	11.00%
			$	6,372	

At December 31, 2009, the Bank did not maintain within its securities portfolio (other than government securities), from the same issuer amounting to greater than 5% of its net capital of $2,338 million.

Classification of investment securities-

At December 31, 2010 and 2009 investment securities are classified depending on management's intentions and considering their term as shown as follows:

		2010		2009	
Securities		**Short term**	**Long term**	**Short term**	**Long term**
Trading	$	31,288,812	5,259,186	27,537,748	13,069,387
Available-for-sale		14,718,076	80,597,186	41,892,710	29,239,020
Held-to-maturity		315,841	7,361,496	1,142,502	7,359,782
	$	46,322,729	93,217,868	70,572,960	49,668,189
		$ 139,540,597		120,241,149	
		========		==========	

(Continued)

(Thousands of Mexican pesos)

The weighted averages of (unaudited) maturity terms in years of investments in securities classified by categories at December 31, 2010 and 2009 are shown below:

Securities	**2010**	**2009**
Trading	0.45	1.00
Available-for-sale	2.66	2.28
Held-to-maturity	8.30	8.32

The weighted average rates and interest income from securities at December 31, 2010 and 2009, is shown below:

		2010		**2009**	
Securities		**Interest**	**Rate**	**Interest**	**Rate**
Trading	$	1,579,072	3.89%	3,737,494	6.15%
Available-for-sale		4,734,655	5.78%	2,874,508	6.46%
Held-to-maturity		445,165	5.88%	329,319	7.27%
	$	6,758,892		6,941,321	
		=======		=======	

During the years ended December 31, 2010 and 2009, the net gains in respect of available for sale securities were $49,469 and $480,766, respectively.

During the years ended December 31, 2010 and 2009, the Bank did not register any losses caused by deterioration in available for sale securities or those held to maturity.

The loss derived from the valuation of available for sale securities recognised in the stockholders' equity at December 31, 2010 and 2009 were $560,146 and $441,624, respectively, including the effect of cashflow hedges. In addition during 2010 and 2009, the Bank reclassified to the statement of operations $930,752 and $386,208, respectively, on the sale of various available for sale securities.

(8) Securities under repurchase/resell agreements-

The debtor and creditor balances in respect of sale and repurchase agreements at December 31, 2010 and 2009, as shown in the following page.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

		Reported		Reporting	
		2010	**2009**	**2010**	**2009**
Repo operations	$	5,007,150	10,509,429	34,868,101	24,543,934
Collaterals sold or pledged		(3,151,173)	(8,916,606)	-	-
	$	1,855,977	1,592,823	34,868,101	24,543,934
		========	=======	========	=========

Below is displayed the type and total amount of both collateral delivered as part of repurchase transactions and restricted securities received in such transactions and the average terms of those open operations at December 31, 2010 and 2009:

		2010				2009			
		Reporting (restricted)	Reported (memorandum account)	Average selling term	Average purchase term	Reporting (restricted)	Reported (memorandum account)	Average selling term	Average purchase term
Government									
BONDE D	$	8,410,053	-	32	-	10,203,490	-	35	-
CETES		18,857,080	-	6	-	7,299,346	-	6	-
BONDS		-	-	-	-	3,879,900	10,344,756	11	22
BPAT		-	2,334,283	-	30	298,374	-	69	-
BPAS		981,115	-	69	-	1,427,850	-	55	-
BONDS M		5,004,504	-	3	-	-	-	-	-
BONDES 182		-	2,671,040	-	30	918,669	-	9	-
Bank notes									
FBANOBRAS		-	-	-	-	393,700	-	18	-
INBURSA		301,906	-	18	-	-	-	-	-
BANAMEX		929,727	-	3	-	-	-	-	-
Corporate notes									
Bonds		414,573	-	24	-	141,734	-	28	-
	$	34,898,958	5,005,323			24,563,063	10,344,756		
		========	========			========	=======		

During 2010 and 2009, interest income and expense from repurchase agreements, recognised in the consolidated income statement amounted to $426,784 and $200,874 and $1,933,788 and $3,096,526, respectively (note 27a).

(9) Collateral sold or pledged as a guarantee-

Securities lending

At December 31, 2010 and 2009, the collateral received in stock borrowing transactions and sold or pledged as a guarantee is shown in the following page.

(Continued)

(Thousands of Mexican pesos)

	2010			2009		
	Securities	**Amount**	**Average term**	**Securities**	**Amount**	**Average term**
Cetes	90,000,000	$ 547,502	3	80,000,000	$ 787,929	4
Bonds	59,000,000	5,849,861	3	50,840,000	5,392,478	4
Udibonos	2,000,000	421,399	28	236,500	108,203	21
Shares	169,600	8,580	4	500,000	16,040	4
		$ 6,827,342			$ 6,304,650	

Securities lending transactions outstanding at December 31, 2010 and 2009, have earned premium income payable of $276 and $31, which is recognised in the securities lending account in the consolidated balance sheet.

During 2010 and 2009, interest expense arising from securities lending transactions recognised in the consolidated statement of operations, amounted to $30,443 and $22,801, respectively.

(10) Derivative transactions -

The Bank’s main 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 the Central Bank. Valuation models are duly authorized and are proper for recognition of the risks involved.

Interest rate and foreign currency swaps represents that the Bank and its customers interchange currencies and/or rates in the future. Options grant the right to receive or pay an interest rate or foreign currency at a determined price. Futures are a standard and mandatory agreement to buy or sell a predetermined amount of a specific tangible good (commodity) on a future day or date, pursuant to a standardized contract. The terms and conditions of derivative transactions of the Bank are in accordance with market standards.

The Bank uses derivatives for hedging purposes (cash flows) to convert variable flows to fixed flows. This allows two risk types of hedged:

Interest rate risk - If the underlying instrument is an asset with variable interest rate, such interest is converted into fixed interest rate through an interest rate swap, by receiving a fixed flow and paying a variable flow. If the underlying instrument is a liability, it is converted into fixed interest rate through an interest rate swap, by receiving a variable flow and paying a fixed flow. The hedged risk is the risk attributable to changes in interest rates of the underlying instrument.

(Continued)

(Thousands of Mexican pesos)

Foreign currency risk - Whether the underlying instrument is an asset or a liability, fixed interest denominated in another currency is translated into pesos by entering into a foreign currency swap. The hedged risk is the risk of changes in the functional currency equivalent to cash flows for a recognized foreign currency and measured by the spot exchange rate.

There is always a one-to-one ratio between the hedged underlying instrument and the hedging instrument.

The prospective effectiveness of the inception will be evaluated by comparing the critical terms of the hedged asset/liability, in connection with the hedging instruments. With this reconciliation and on this basis, the hedge is expected to be highly effective upon inception and over the life of the hedge.

Present effectiveness and prospective effectiveness of the life of the hedge will be evaluated at each month-end, by calculating the changes in cash flows of the derivative in all applicable periods in which the instrument has been designated as a hedge. These will be compared with changes in cash flows of the hedged item in the same period to which it applies.

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 29.

Should the primary position not have been covered with the derivative financial transactions mentioned earlier, there would have been an adverse impact of $47,954 and $9,273 in the results of operations for 2010 and 2009, respectively.

Fair value hedges

In respect of fair value hedges, at December 31, 2010 and 2009, hedging instrument losses and gains in respect of the hedged instruments were ($521,747) and $502,344 and ($585,891) and $552,323 respectively.

Cashflow hedges

At 31 December 2010, the periods in which cashflows in respect of cashflow hedges are expected to occur are as follows:

	2011	**2012**	**2013**	**2014**	**2015**
Swaps in US dollars	505,039	493,438	383,344	157,757	27,797
	======	======	======	======	======

(Continued)

The total amount recognised in comprehensive income during 2010 in respect to fair value changes in effective cash flow hedges was a profit of $102,021 (profit of $242,198 in 2009).

The amount reclassified from comprehensive income to the income statement for the years ended on December 31, 2010 and 2009 in respect of the unamortized fair value of re-designated hedges and in respect of the sale of the hedged positions (bonds) was a loss of $62,415 and $241,989, respectively, which was registered in “Financial intermediation income”.

During 2010 and 2009 the amount reclassified from comprehensive income to the income statement for the respective years in respect of the amortization of the fair value of swaps re- designated from cash flow swaps to net interest income was a loss of $15,980 and $84,209, respectively.

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, 2010 and 2009, the memorandum account “Amounts under derivative instruments” is analyzed as shown in the following page.

At December 31, 2010 and 2009, HSBC did not provide non cash collateral in respect of derivative liabilities. Equally HSBC did not receive any non cash collateral from derivative counterparties.

At December 31, 2010 and 2009, the credit risk in respect of derivative financial instruments, amounted to $2,812,995 and $4,476,555, respectively.

During the years ended December 31, 2010 and 2009, the Bank had entered into derivative contracts with counterparties who defaulted on the amounts owing to the Bank under these contracts. The amounts owing in respect of these contracts as at December 31, 2010 and 2009 were $914,974 and $972,088, which were fully accrued.

Compensation and net exposure to credit risk in derivatives

The Bank has the right to make derivative transactions at the time of settlement under the ISDA and CSA which have jointly agreed with its customers. The effect that this right of reimbursement had over the credit risk exposure at December 31, 2010 and 2009 was $11,792,571 and $7,835,816, respectively.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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December 31, 2010

		Notional						Fair Value						
		FX		Interest rate		Total		FX		Interest rate		Total		
		Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading														
Futures	$	-	-	305,000	134,800	305,000	134,800	-	-	-	-	-	-	-
Forwards		-	-	53,057,000	55,061,000	53,057,000	55,061,000	2,054,435	1,149,245	262,712	340,970	2,317,147	1,490,215	826,932
Options		1,571,045	1,504,357	3,333,043	5,700,633	4,904,088	7,204,990	13,836	13,836	32,480	28,412	46,316	42,248	4,068
Swaps		124,764,953	98,283,269	392,256,964	400,335,185	517,021,917	498,618,454	12,645,254	14,420,367	13,085,599	12,790,146	25,730,853	27,210,513	(1,479,660)
		126,335,998	99,787,626	448,952,007	461,231,618	575,288,005	561,019,244	14,713,525	15,583,448	13,380,791	13,159,528	28,094,316	28,742,976	(648,660)
Hedge														
Swaps		5,423,869	15,767,516	-	4,754,558	5,423,869	20,522,074	110,558	1,097,770	-	703,778	110,558	1,801,548	(1,690,990)
		5,423,869	15,767,516	-	4,754,558	5,423,869	20,522,074	110,558	1,097,770	-	703,778	110,558	1,801,548	(1,690,990)
	$	131,759,867	115,555,142	448,952,007	465,986,176	580,711,874	581,541,318	14,824,083	16,681,218	13,380,791	13,863,306	28,204,874	30,544,524	(2,339,650)

$1,162,253,192

December 31, 2009

		Notional						Fair Value						
		FX		Interest rate		Total		FX		Interest rate		Total		
		Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Purchase / Asset	Sale / Liability	Net
Trading														
Futures	$	-	-	2,792,400	2,662,400	2,792,400	2,662,400	-	-	-	-	-	-	-
Forwards		-	-	74,732,000	49,748,000	74,732,000	49,748,000	2,003,013	2,095,960	227,896	370,280	2,230,909	2,466,240	(235,331)
Options		2,025,672	1,633,695	7,436,444	13,621,022	9,462,116	15,254,717	74,855	68,411	52,526	89,980	127,381	158,391	(31,010)
Swaps		88,768,018	101,937,082	274,406,411	263,238,183	363,174,429	365,175,265	12,860,627	14,658,026	8,894,137	8,560,050	21,754,764	23,218,076	(1,463,312)
		90,793,690	103,570,777	359,367,255	329,269,605	450,160,945	432,840,382	14,938,495	16,822,397	9,174,559	9,020,310	24,113,054	25,842,707	(1,729,653)
Hedge														
Swaps		-	1,756,803	231,772	7,578,222	231,772	9,335,025	-	549,553	173	739,296	173	1,288,849	(1,288,676)
	$	90,793,690	105,327,580	359,599,027	336,847,827	450,392,717	442,175,407	14,938,495	17,371,950	9,174,732	9,759,606	24,113,227	27,131,556	(3,018,329)

$892,568,124

(Continued)

(Thousands of Mexican pesos)

(11) Loan portfolio-

At December 31, 2010 and 2009 the loan portfolio and the credit commitments are analyzed as follows:

		2010	2009
Total loan portfolio, shown in the consolidated balance sheet	$	171,420,899	159,953,126
Recorded in memorandum accounts (note 26a):			
Guarantees		20,583	30,487
Lending commitments		16,201,600	15,070,940
		16,222,183	15,101,427
	$	187,643,082	175,054,553
		=========	=========

(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, 2010 and 2009, the classification of current and past due loan portfolios by currency, which includes economic sector, rated portfolio and ageing of past due loans is shown in the rated portfolio, which includes the Bank commitments recorded on memorandum accounts in relation to issued guarantees and irrevocable lines of credit, as shown in the following page.

Loan to IPAB:

On September 27, 2002, the Bank granted a $47,356,995 (nominal) loan to IPAB. The loan was documented by a promissory note that may only be endorsed to the Central Bank as a guarantee for the note amount. In addition, on May 12, 2005, the Bank granted to IPAB an unsecured loan for a total nominal amount of $5,000,000. Finally on May 31, 2007, the Bank and IPAB signed a new agreement to document the consolidated principal outstanding balance as of that date amounting to of $29,058,308. In accordance to the aforementioned agreement, the total balance was split into four tranches of $7,264,577 each, which mature between May and December 2013, payments in advance are permitted. Each tranche bears interest at an annual rate equal to the annual yield rates of 28-day CETES plus 56 basis points. During 2010 and 2009 no prepayments were received. As of December 31, 2010 and 2009, the outstanding balance of this loan amounted to $8,013,271 and $8,012,916, respectively and was included in the loan portfolio within “Loans to government entities”.

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	Commercial		Financial institutions		Government entities		Consumer		Residential mortgages		Total	
Portfolio	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Current:												
Pesos	$ 55,214,072	54,979,313	12,572,475	6,782,983	26,828,621	17,940,493	26,664,511	30,048,215	15,817,643	16,093,131	137,097,322	125,844,135
Foreign currency	25,869,930	21,111,917	111,172	168,168	1,254,271	1,317,113	-	-	-	-	27,235,373	22,597,198
UDIS	-	-	-	-	4,267	5,783	-	-	1,739,859	3,567,337	1,744,126	3,573,120
Total	81,084,002	76,091,230	12,683,647	6,951,151	28,087,159	19,263,389	26,664,511	30,048,215	17,557,502	19,660,468	166,076,821	152,014,453
Past due:												
Pesos	1,613,753	1,694,576	108	37	5,207	-	1,573,528	3,825,506	1,714,210	1,800,229	4,906,806	7,320,348
Foreign currency	50,450	50,470	-	-	-	-	-	-	-	-	50,450	50,470
UDIS	-	-	-	-	-	-	-	-	386,822	567,855	386,822	567,855
Total	1,664,203	1,745,046	108	37	5,207	-	1,573,528	3,825,506	2,101,032	2,368,084	5,344,078	7,938,673
Total:												
Pesos	56,827,825	56,673,889	12,572,583	6,783,020	26,833,828	17,940,493	28,238,039	33,873,721	17,531,853	17,893,360	142,004,128	133,164,483
Foreign currency	25,920,380	21,162,387	111,172	168,168	1,254,271	1,317,113	-	-	-	-	27,285,823	22,647,668
UDIS	-	-	-	-	4,267	5,783	-	-	2,126,681	4,135,192	2,130,948	4,140,975
Total	**$ 82,748,205**	**77,836,276**	**12,683,755**	**6,951,188**	**28,092,366**	**19,263,389**	**28,238,039**	**33,873,721**	**19,658,534**	**22,028,552**	**171,420,899**	**159,953,126**
Classification by activity												
Manufacturing	$ 52,700,943	44,830,708	-	-	-	-	-	-	-	-	52,700,943	44,830,708
Agriculture, forestry and fishing	7,340,587	6,270,557	-	-	-	-	-	-	-	-	7,340,587	6,270,557
Trade and tourism	18,375,491	10,996,675	-	-	-	-	-	-	-	-	18,375,491	10,996,675
Services	4,331,184	15,738,336	-	-	-	-	-	-	-	-	4,331,184	15,738,336
Financial services	-	-	7,310,738	5,671,103	-	-	-	-	-	-	7,310,738	5,671,103
Credit Unions	-	-	1,303,137	589,729	-	-	-	-	-	-	1,303,137	589,729
Lessors	-	-	5,098	25,286	-	-	-	-	-	-	5,098	25,286
Municipalities	-	-	-	-	1,730,772	1,205,212	-	-	-	-	1,730,772	1,205,212
States	-	-	-	-	5,629,937	3,632,508	-	-	-	-	5,629,937	3,632,508
Credit to the Federal Govermment (support programs)	-	-	-	-	1,204,245	251,104	-	-	-	-	1,204,245	251,104
Other govenment entities (see note 11a)	-	-	-	-	19,527,412	14,174,565	-	-	-	-	19,527,412	14,174,565
Others to financial organizations	-	-	4,064,782	665,070	-	-	-	-	-	-	4,064,782	665,070
Automobile credit	-	-	-	-	-	-	4,165,808	6,754,044	-	-	4,165,808	6,754,044
Credit Card	-	-	-	-	-	-	17,586,595	22,085,171	-	-	17,586,595	22,085,171
Multicredit	-	-	-	-	-	-	5,154,937	3,609,988	-	-	5,154,937	3,609,988
Fixed payment	-	-	-	-	-	-	1,330,699	1,424,518	-	-	1,330,699	1,424,518
Construction and housing	-	-	-	-	-	-	-	-	19,658,534	22,028,552	19,658,534	22,028,552
	82,748,205	**77,836,276**	**12,683,755**	**6,951,188**	**28,092,366**	**19,263,389**	**28,238,039**	**33,873,721**	**19,658,534**	**22,028,552**	**171,420,899**	**159,953,126**
Past due loans by aging												
From 1 to 180 days	$ 809,259	434,408	108	10	5,207	-	1,507,664	3,561,831	677,567	782,734	2,999,805	4,778,983
From 181 to 365 days	375,692	585,582	-	27	-	-	65,864	129,792	585,765	889,289	1,027,321	1,604,690
From 1 to 2 years	196,114	506,588	-	-	-	-	-	-	832,518	628,325	1,028,632	1,134,913
More than 2 years	283,138	218,468	-	-	-	-	-	133,883	5,182	67,736	288,320	420,087
	$ 1,664,203	**1,745,046**	**108**	**37**	**5,207**	**-**	**1,573,528**	**3,825,506**	**2,101,032**	**2,368,084**	**5,344,078**	**7,938,673**

NOTE: The amounts above are for cumulative amounts of capital (for 2010 and 2009 $170,555,245 and $159,057,702, respectively) and interest (for 2010 and 2009 $865,654 and $895,424, respectively) which are classified in the consolidated balance sheets of HSBC México, S. A. in the assets under the caption of current and past due loans.

Loan portfolio rated	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Portfolio rating risk %												
A-Mínimum	$ 40,462,133	39,057,472	8,539,517	4,394,985	14,185,818	6,440,447	9,891,458	9,989,589	15,511,713	16,233,444	88,590,639	76,115,937
B-Low	56,330,229	51,144,534	3,747,505	2,556,166	4,507,070	3,843,403	14,973,223	16,740,461	2,164,753	3,578,292	81,722,780	77,862,856
C-Medium	1,383,566	1,673,901	218,222	-	181,962	610,006	1,506,901	2,876,227	538,244	685,512	3,828,895	5,845,646
D-High	316,667	227,872	-	10	-	105,513	1,715,575	3,949,882	1,350,392	1,471,440	3,382,634	5,754,717
E-Irrecoverable	477,793	833,924	178,511	27	-	-	150,881	317,562	93,431	59,864	900,616	1,211,377
	98,970,388	92,937,703	12,683,755	6,951,188	18,874,850	10,999,369	28,238,038	33,873,721	19,658,533	22,028,552	178,425,564	166,790,533
Allowance												
0.5 a .09 A-Mimimum	264,212	241,182	63,756	30,594	100,889	60,700	56,399	39,275	54,291	12,258	539,547	384,009
1 a 19.9 B-Low	2,449,798	2,153,566	201,842	102,575	174,779	274,167	1,234,662	1,012,760	78,861	125,026	4,139,942	3,668,094
20 a 59.9 C-Medium	382,114	555,469	87,289	-	36,392	217,159	503,321	721,353	166,981	209,979	1,176,097	1,703,960
60 a 89.9 D-High	230,140	170,518	-	6	-	79,135	1,041,472	2,080,883	945,275	1,028,521	2,216,887	3,359,063
90 a 100 E-Irrecoverable	476,580	832,180	178,511	27	-	-	123,827	277,140	93,431	107,957	872,349	1,217,304
	3,802,844	3,952,915	531,398	133,202	312,060	631,161	2,959,681	4,131,411	1,338,839	1,483,741	8,944,822	10,332,430
Additional reserves	27,474	19,913	3	-	-	-	230,598	23,171	93,470	71,461	351,545	114,545
	$ 3,830,318	3,972,828	531,401	133,202	312,060	631,161	3,190,279	4,154,582	1,432,309	1,555,202	9,296,367	10,446,975
General and specific allowances												
General	$ 273,483	245,125	63,756	30,594	100,889	60,700	76,145	316,215	110,434	56,817	624,707	709,451
Specific	3,556,835	3,727,703	467,645	102,608	211,171	570,461	3,114,134	3,838,367	1,321,875	1,498,385	8,671,660	9,737,524
	$ 3,830,318	**3,972,828**	**531,401**	**133,202**	**312,060**	**631,161**	**3,190,279**	**4,154,582**	**1,432,309**	**1,555,202**	**9,296,367**	**10,446,975**

(Continued)

(Thousands of Mexican pesos)

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).

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, 2010 and 2009, receivables from the Federal Government in connection with discounts granted and the costs in charge of HSBC (see chart in note 11a), are analyzed as shown as follows:

	2010		2009	
	Portfolio	**Cost**	**Portfolio**	**Cost**
BADCV	$ 1,204,201	753,170	250,818	161,191
FINAPE	44	23	286	152
	$ 1,204,245	753,193	251,104	161,343

Early termination agreement

As mentioned in note 1 to the financial statements on July 15, 2010 an agreement to finalize the support programmes related to mortgage loans was signed. The discounts related to the early termination agreement are shown as follows:

	In charge to	
	Bank	**Federal Government**
Discounts	$ 457,151	972,707
Additional discount granted by the Bank	92,522	-
Total discount	$ 549,673	972,707

(Continued)

(Thousands of Mexican pesos)

As of December 31, 2010, the discount related to the Federal Government was reclassified to form part of the accounts receivable from the Federal Government which forms part of the current loans portfolio with government entities; the corresponding amount of discount related to the Bank was cancelled against the allowance for loan losses, in accordance with the special accounting criteria issued by the Banking Commission.

The Government discount related to those clients that must show a sustained payment in pesos or UDIS by March 31, 2011 amounts to $167,076.

There were no discount in charge to the Government related to credits in UDIS for which they received prior discounts over the outstanding balance before they were incorporated in to the "Discount program", as referred at the numeral 3.1.2 of the special rules 1430 issued by the Banking Commission.

A reconciliation of the movements in the allowance for loan losses related to the conditioned discount covered by the Bank is shown below:

Balance as of November 2010	$ 69,726
Debt forgiveness, discounts and/or rebates	(2,181)
Conditioned discount assigned to the Bank	(549,673)
Allowance charged to the statement of operations	496,122
Final Balance	$ 13,994
	======

At December 31, 2010 there were some clients that did not meet the requirements to be incorporated into the early terminations program. However, in accordance to the actual rules it is still possible that they will subsequently be incorporated in to the program; in such case the Bank must have to absorb the 100% of discount granted. The maximum amount of discount that the Bank would be absorbed by these claims amounted to $171,293.

(Continued)

(Thousands of Mexican pesos)

Program to support victims of hurricanes “Alex” and “Karl” and storm “Frank”

As a consequence from natural disasters caused by hurricanes “Alex” and “Karl” and tropical storm “Frank”, the Banking Commission issued through the offices 100/042/210 dated July 14, 2010 and 100/047/2010 dated September 24, 2010 special temporary accounting criteria for the implementation of the program to support victims with loans contracted at the affected areas, such loans relates to: mortgages, consumer, credit card and automobile, loans. These clients were given the deferral of principal and interest up to 2 months, the term of such deferral could not be later than September 30, 2010 in the cases of those affected by hurricane “Alex”, and not after November 20, 2010 for those clients affected by hurricane “Karl” and tropical storm “Frank”.

Current outstanding loans which were granted the deferral of principal and interest, were not considered restructured as provided in paragraph 24 of standard B-6 and were held as part of the current portfolio for a period up to 2 months, depending on the date the client join the program and no later than September 30, 2010 or November 20, 2010, depending on the program to which were added.

In the case that the aforementioned program was not been applied, the amounts that would have been accounted in the consolidated Balance Sheet and the consolidated Statement of Operations for the year ended December 31, 2010 are analyzed as follows:

	Interest amount
Consumer loans	$ 77,450
Mortgage loans	84,514
	$ 161,964

Since the Bank solely applied a principal deferral up to 2 months, there were no other or additional accounting records for the application program to support victims of the natural disasters.

(Thousands of Mexican pesos)

(b) Additional loan portfolio information-

<u>*Commission by type of loan:*</u>

For the years ended at December 31, 2010 and 2009, commissions by type of loan included in commissions and fees collected within the consolidated statements of income, are presented below.

		Amount	
		2010	**2009**
Commercial	$	513,131	463,684
Consumer		3,176,863	3,739,136
Mortgage		48,414	48,371
Total	$	3,738,408	4,251,191
		=======	=======

Initial commissions charged to the credits for the years ended December 31, 2010 and 2009 amounted to $276,103 and $375,218, respectively.

The weighted average of amortization period for such commissions and fees are as follows:

	Months
Commercial	36
Consumer	45
Mortgage	188
	===

The initial costs and expenses for the issuance of credits related to the years ended December 31, 2010 and 2009 amounts to $115,268 and $185,448, respectively. These amounts relate to payment of commissions and underwriting credits.

(Continued)

(Thousands of Mexican pesos)

Annual weighted lending rates:

During 2010 and 2009, the annual weighted lending rates (unaudited) were as follows:

	2010	2009
Commercial loans	11.44%	10.74%
Financial entities	5.16%	8.34%
Personal loans	25.93%	26.07%
Mortgages loans	10.07%	10.46%
Government entities	6.16%	7.20%

Loans discounted with recourse:

Mexican Government has established certain funds to promote the development of specific areas of agriculture, cattle ranching, industrial and tourism sectors, which are managed mainly by the Central Bank, Nacional Financiera SNC (a national development bank, NAFIN), the National Foreign Trade Bank, and the Guarantee Fund for Agricultural Development by discounting loans with recourse. At December 31, 2010 and 2009, the amount of loans granted under these programmes amounted to $9,884,482 and $8,768,920, respectively, and the related liability is included in "Due to banks and other institutions".

Restructured loans:

At December 31, 2010 and 2009, restructured loans are analyzed as follows:

		2010			2009		
		Loan portfolio			Loan portfolio		
		Current	Past due	Total	Current	Past due	Total
Commercial	$	14,980,001	704,829	15,684,830	15,882,118	396,067	16,278,185
Consumer		13,387	3,916	17,303	11,030	9,134	20,164
Credit Card		609,220	208,706	817,926	887,822	516,252	1,404,074
Mortgage		93,378	69,658	163,036	84,279	63,931	148,210
	$	15,695,986	987,109	16,683,095	16,865,249	985,384	17,850,633

As of December 31, 2010 y 2009, the total amount of credits restructured under the Systems Programme for Restructuring Agricultural Portfolios (SIRECA) amounted $2,417 and $5,790, respectively.

(Continued)

(Thousands of Mexican pesos)

For the years ended December 31, 2010 and 2009, the amount of interest income recognised due to the restructuring of overdue loans was $914,421 and $1,185,287, respectively. In respect of loans to small and medium enterprises in the commercial portfolio, with the aim of reducing the level of the Bank's credit risk, there is an agreement with NAFIN to promote this type of credits, where NAFIN supports up to 50% of the loan granted. For the years ended December 31, 2010 and 2009, NAFIN supported $4,408 million and $2,777 million, respectively, for the 50% mentioned above.

During 2010 and 2009 the Bank undertook the restructuring of consumer, mortgages, commercial loans and credit cards without taking additional guarantees. In addition, during 2009 a programme was undertaken to invite credit card holders to modify the terms of their facilities principally by including the suspension of their revolving credit and the conversion of their outstanding balance into a loan with a fixed rate and fixed term and payments. The total of credits restructured during 2010 and 2009 was $1,825 million and $8,364 million, respectively. Generally the restructuring process includes the waiver of some part of the capital, interest or commissions payable, and as of December 31, 2010 and 2009 the amount waived was $246,244 and $835,867, respectively.

Non performing loans

Nominal interest that would have accrued in 2010 from the past due loan portfolio amounted to $253,615 ($250,311 in 2009).

An analysis of the annual movement of past due loans for the years ended December 31, 2010 and 2009, is shown as follows:

		2010	**2009**
Balance at beginning of year	$	7,938,673	10,245,004
Transfers from current to past due loan portfolio		9,878,205	17,803,721
Transfers to current loan portfolio		(1,443,031)	(1,503,787)
Collections		(2,241,365)	(2,370,939)
Write-offs		(8,806,595)	(16,244,141)
FX effect		18,191	8,815
Balance at end of year	$	5,344,078	7,938,673

During 2010 and 2009, there were no write-offs of loans granted to related parties.

At December 31, 2010, the amount of recoveries for those loans that were previously written amounted $431,294 ($501,702 in 2009).

Impaired loans:

At December 31, 2010 and 2009, the balance of impaired commercial loans is $972,971 and $1,167,347, respectively, of which $286,711 and $309,267 are recorded as current loans and $686,260 and $858,080 as past due loans, respectively.

Risk concentration:

As of December 31, 2010, the Bank maintains four loans that exceeded the 10% limit of its basic capital ($3,424 millions). The loans amounted to $23,606,334, which represented 68.93% of the basic capital. The three largest loans maintained by the Bank amount to $18,843,775 and represent 55.03% of the basic capital.

As of December 31, 2009, the Bank maintains a loan that exceeded the 10% limit of its basic capital ($3,635 millions). The loan amounted to $5,048,402, which represented 13.88% of the basic capital. The three largest loans maintained by the Bank amount to $10,129,153 and represent 27.85% of the basic capital.

Securitisation of mortgage portfolio:

Outstanding securitisation transactions as of December 31, 2010 and 2009, relate to transactions undertaken in 2008 and 2007, by means of transferring of all of the Bank's rights and risks of such mortgage portfolio without reserves or limitations in favour of a Trust (used as a securitization vehicle). The Trust issued certificates that were acquired by the public and a subordinated trust acknowledgment *(constancia fiduciaria subordinada),* which gives the Bank the right to receive any remaining funds of the Trust. The Trust note is recorded on the available-for-sale investment portfolio on the consolidated balance sheet.

As of December 31, 2010 and 2009, the value of the Trust acknowledgments is for an amount of $75,766 and $142,183, respectively, and it is obtained based on the Trust' net asset value.

In the following page are shown the amounts of the portfolio that was sold in the market, as well as the conditions of the certificates issued by the Trust.

(Thousands of Mexican pesos)

	Nominal portfolio sold	Cash recieved	Aknowledgment	Maturity date	Certificates Interest Rate Serie "A"	Serie "B"	Serie "A1"	Serie "B1"
March 22, 2007	$ 2,525,021	2,474,407	25,250	1 to 30 years	8.24%	9.58%	-	-
October 2, 2007	3,538,135	3,456,617	35,381	2025	8.80%	10.11%	-	-
September 4, 2008	1,662,872	1,483,244	162,973	2028	-	-	9.99%	10.16%
	=======	=======	======		======	======	======	======

The Bank acquired the Trust acknowledgments, which grant the right to any remainder of the mortgage portfolio upon payment of the amounts due under the certificates.

As of December 31, 2010 and 2009, the book value of the Trust acknowledgments is accounted under the caption "Available-for-sale portfolio" within the "Investment securities", and is analyzed as follows:

	2010	2009
Assets of the Trusts	$ 4,966,869	5,763,206
Trust certificates	(4,875,840)	(5,605,484)
Other liabilities of the Trusts	(15,263)	(15,539)
Original amount of the Trust acknowledgments	(223,604)	(223,604)
Valuation of "Available-for-sale securities" recorded on stockholders' equity	$ (147,838)	(81,421)
	=======	=======

In the event that the total amount due of the certificates is less than 10% of the par value of the total amount of the certificates on the date of the offering, the Bank shall have the option to repurchase the remaining portfolio of the trust and with such proceeds the outstanding certificates would be repaid.

The Bank executed a service provision agreement, through which the Bank provides the administration and collection of the mortgage portfolio sold in the market, in exchange for a commercial commission.

(c) Allowance for loan losses-

As explained in notes 2j and 29, an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

At December 31, 2010 and 2009 the allowance for loan losses, analyzed in section (a) above is shown below:

		2010	2009
Rated loan estimate	$	8,944,822	10,332,430
Additional reserves, including past due interest		351,545	114,545
Total allowance for loan losses	$	9,296,367	10,446,975

The classification by risk grade of the commercial portfolio, financial entities and government entities credit reserves at December 31, 2010 and 2009, is as follows:

		2010	2009
A-1	$	187,218	132,501
A-2		250,911	203,918
B-1		1,010,665	819,458
B-2		1,147,909	924,070
B-3		670,952	790,321
C-1		334,013	459,138
C-2		181,856	322,304
D		235,097	253,193
E		655,158	832,288
	$	4,673,779	4,737,191

(Continued)

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As explained in note 2(j) to the consolidated financial statements, on August 13, 2009, the Banking Commission approved changes in the methodology for calculating loan loss reserves for consumer loans, particularly within the credit card portfolio. In order to establish the additional reserves created by this new methodology financial institutions were provided two options to recognize changes in the allowance for loan losses, the first option was to recognize at September 30, 2009 the provisions directly in equity within the accumulated results and the second option to recognize the total of these new reserves affecting the income statement within 24 months. The Bank chose the second alternative with the result that on August 12, 2009, the date at which the new methodology came into effect, the Bank did not have to register an increase in reserves because the required reserves under the new methodology was $3,083,083, which was $1,343,400 less than the reserves which were required at that point in time according to the previous methodology.

As of December 31, 2010, the amount recorded in respect of loan loss reserves for credit cards under the methodology approved by the Banking Commission in August 13, 2009, amounts to $2,660,269. According to the calculation as of December 31, 2010, the amount that was not registered due to the application of the option elected by the Bank amounts to $493,626. In the following eight months it will be concluded the gradual 24 month period.

The movement of the allowance for loan losses for the years ended December 31, 2010 and 2009 is summarized below:

		2010	**2009**
Balance at beginning of year	$	10,446,975	12,861,973
Increase charged to income		9,283,843	14,472,226
Exchange rate valuation effects		(42,073)	(65,055)
Credit reinstatements		-	158,708
Applications:			
Write-offs		(9,062,312)	(15,387,945)
Debt forgiveness		(1,330,066)	(1,592,932)
Balance at end of year	$	9,296,367	10,446,975
		========	========

(Continued)

(d) Sale of written-off portfolio-

During 2010 and 2009, the Bank sold a previously written-off loan portfolio (commercial from small and medium-size, consumer and mortgage corporations), generating a net profit of $22,015 and $32,311, respectively, which is included under “Other income“ in the consolidated statement of operations.

(e) Credit policies-

Management constantly reviews the consistency between the objectives, guidelines and policies, supporting infrastructure (processes, appropriate personnel and computer systems) and functions of credit origination and management within the Bank, ensuring at all times, irrespective in carrying out their activities to avoid conflicts of interest, in addition those activities performed by the Comprehensive Risk Management process.

Credit promoting

Promotion of retail credit (individuals) and commercial (individuals with small business and companies) is performed through a branch, internet and / or other means, according to business areas.

Credit evaluation-

Qualitative and quantitative evaluations to approve and grant the different types of financing is done through individual or parametric methods, using models or opinion of highly qualified personnel that meet the standards of the Basel II and the Banking Commission established independently by the area of credit risk.

Credit approval-

Only the highest level by the Board of Directors are empowered to approve individual commercial loans, who in such case, may be delegated to other local officials experienced, considering the level of risk of potential borrowers and their operations.

Credit approval by parametric methods, is performed using automated systems to analyze customer information, based on minimum required information which is standardized data and information, which shed weight for a favorable outcome has been previously defined by the risk area.

(Continued)

Instrumentation-

The legal department is responsible for the implementation of all credit transactions, including processing of all credit contracts, promissory notes and the issuance of the opinion of the legal capacity of their applicants.

Monitoring, control and recovery-

The rating of the loan portfolio is made according to the methodology and procedures to comply with the Group standards, Basel II and the Banking Commission, determined by the area of credit risk.

Credit records are concentrated in specialized facilities and are administered by accredited, while parametric loans are integrated by credit.

Monitoring, administrative or judicial recovery, including the assignment of loan portfolio, involves fair treatment of customers and considering best practices, according to criteria established by the business areas, collections, legal and/or credit risk, as appropriate, as well as the areas and people who perform the role of comprehensive risk management.

To ensure a risk-based approach, that is consistent with the problematic exposure and minimizes potential losses, management requirements and criteria that must be met are established, which responsibility is of the area of analysis and credit approval.

Officials of the segments are responsible for detecting early warnings of broken profiles of their credit portfolios, as well as gather the necessary information for analysis and monitoring, within the management process.

The control and monitoring of credit activity is complemented by the internal audit function, independent of the business and administrative areas.

(12) Other accounts receivable-

At December 31, 2010 and 2009, other accounts receivable are analyzed in the following page.

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(Thousands of Mexican pesos)

		2010	2009
Debtors on settlement transactions	$	17,287,406	3,151,580
Due to personnel		3,220,219	3,319,816
Others		3,609,847	2,727,910
Preventive estimations		(1,246,746)	(1,407,700)
	$	22,870,726	7,791,606
		========	========

The balance of settlement accounts recorded under other accounts payable at December 31, 2010 and 2009 was $12,773,051 and $2,983,522, respectively.

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

As of December 31, 2010 and 2009, foreclosed assets or assets received in lieu of payment are analyzed as follows:

		2010		2009	
		Amount	Reserve	Amount	Reserve
Securities and sundry assets:					
Sundry assets	$	305	(210)	1,684	(165)
Securities		31,096	(31,096)	34,177	(34,177)
		31,401	(31,306)	35,861	(34,342)
Property:					
Land		7,443	(5,178)	7,641	(4,774)
Buildings		190,088	(30,040)	194,195	(24,827)
		197,531	(35,218)	201,836	(29,601)
	$	228,932	(66,524)	237,697	(63,943)
		======	=====	======	=====
		$ 162,408		173,754	
		======		=====	

The debit to the statement of operations related to the valuation reserve in 2010 amounted to $10,959 ($9,796 in 2009)

(Continued)

(Thousands of Mexican pesos)

(14) Property, furniture and equipment-

Property, furniture and equipment at December 31, 2010 and 2009 are analyzed as follows:

	2010	2009	Annual depreciation and amortization rate
Property	$ 3,188,672	3,202,628	5%
Office furniture and equipment	1,646,532	1,356,001	10%
Computer equipment	4,885,534	3,850,714	Various
Transportation equipment	10,911	12,587	25%
Installation expenses	4,388,433	3,652,573	5% and 10%
Other equipment	1,944,700	1,514,571	Various
	16,064,782	13,589,074	
Accumulated depreciation and amortization	(8,078,290)	(6,906,055)	
	7,986,492	6,683,019	
Land	1,082,415	842,355	
	$ 9,068,907	7,525,374	

Depreciation and amortization charged to the statement of operations in 2010 and 2009 amounted to $1,450,460 and $1,236,724, respectively.

On March 30, 2010, a subsidiary of the Bank acquired certain idle assets of its affiliate company Banco HSBC (Costa Rica), S. A. These assets are entirely in Costa Rica and the amount paid was for $349,806. Some of those assets have encumbrances, however such encumbrances does not put in risk the ownership of the property.

(15) Permanent investments in shares-

Investments in associates and other permanent investments

At December 31, 2010 and 2009, permanent investments in shares classified by activity, are analyzed in the following page.

(Continued)

(Thousands of Mexican pesos)

		2010	2009
Associated and affiliated companies:			
Supplementary banking services	$	100,374	107,497
Mutual funds		18,539	17,592
Security and protection		2,592	2,337
		121,505	127,426
Others		1,126	5,163
	$	122,631	132,589
		======	======

The recognition of the equity in the results of associated and affiliated companies represented a gain of $12,666 in 2010 ($33,238 in 2009).

(16) Other assets, deferred charges and intangibles assets-

At December 31, 2010 and 2009 other assets deferred charges and intangibles assets include:

		2010	2009
Recoverable taxes	$	905,456	64,110
Prepaid labour obligations (note 20)		891,341	919,936
Pre-paid services, commissions and intangibles, net		2,956,035	1,623,594
	$	4,752,832	2,607,640
		=======	=======

The movement for the years ended at December 31, 2010 and 2009 of other assets, deferred charges and intangible assets are analyzed as follows:

		2010	2009
Initial balance	$	2,607,640	2,372,239
Deferred charges for the year from:			
Taxes		841,346	-
Shares in trust		-	(145,634)
Software		424,332	219,363
Prepaid expenses		1,086,903	303,822
Others		(46,335)	(72,055)
Amortization for the year		(161,054)	(70,095)
Year-end balance	$	4,752,832	2,607,640
		=======	=======

(Continued)

(Thousands of Mexican pesos)

(17) Deposits funding-

The weighted average deposit rates (unaudited) for the years ended December 31, 2010 and 2009 are analyzed as follows:

	2010			2009		
	Pesos	**Dollars**	**UDIS**	**Pesos**	**Dollars**	**UDIS**
Demand deposits	0.78	0.04	-	0.47	0.04	-
Time deposits	3.92	0.14	0.21	4.83	0.46	0.20
	===	===	===	===	===	===

(18) Bank bonds-

On February 13, 2006, the Banking Commission authorized the Bank’s bond issuance program for up to $10,000,000. At December 31, 2009, the Bank has made the following issuances under the bank bonds program.

Issuance day	Reference rate	Maturity day		2010	2009
May 10, 2006 (1)	TIIE – 0.01%	May 1, 2013	$	2,000,000	2,000,000
June 29, 2006 (1)	TIIE – 0.01%	May 1, 2013		1,220,000	1,220,000
May 10, 2006 (2)	9.08%	April 27, 2016		1,000,000	1,000,000
				4,220,000	4,220,000
Accrued interest				22,519	21,981
Total of Bank bonds			$	4,242,519	4,241,981
				=======	========

(1) Interest payments on a monthly basis
(2) Interest payments on a semi-annual basis

(19) Due to banks and other institutions-

At December 31, 2010 and 2009, due to banks and other institutions are analyzed in the following page.

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	2010		2009	
	Term		Term	
	Short	Long	Short	Long
Pesos:				
Development banks*	$ 5,771,771	4,265	4,310,098	16,198
Multiple bank (on demand)	3,775,570	-	3,335,720	-
Promotion funds*	2,022,073	1,081,555	1,827,659	1,152,997
	11,569,414	1,085,820	9,473,477	1,169,195
Foreign currencies translated into pesos:				
Central Bank	-	-	13,085,058	-
Commercial Bank	8,558,312	28,846	4,217	-
Development banks*	31,608	17,222	-	22,056
Promotion funds*	246,366	393,263	1,009,185	92,332
	8,836,286	439,331	14,098,460	114,388
Total by term	20,405,700	1,525,151	23,571,937	1,283,583
Total due to banks and other institutions	$ 21,930,851		24,855,520	

* Funds granted under the development fund program (see note 11b).

At December 31, 2010 and 2009, the annual average rates (unaudited) are analyzed as follows:

	Pesos		Foreign currency	
	2010	2009	2010	2009
Central Bank	4.62%	6.37%	0.70%	0.72%
Development banks	6.16%	6.89%	5.70%	7.03%
Promotion funds	4.75%	6.00%	0.89%	1.21%

(Continued)

(Thousands of Mexican pesos)

(20) Employee benefits-

HSBC maintains a defined pension plan that covers all employees who reach 60 years old with 5 years of service or 55 years old with 35 years of service. The benefits are based on years of service and the employee's compensation. The Bank paid annual contributions to the plan equal to the maximum amount that can be deducted for income tax purposes based on the projected unit credit method.

In addition to the defined benefit pension plan, the Bank sponsors other postretirement benefits through pantry vouchers, life insurance and major medical plan that provide postretirement medical benefits to employees who have rendered their services to the Bank until their retirement date and for their wife, parents and child under 21 years.

Effective April 2004, the defined contribution component was included in the pension plan and starting 2007, in the postretirement medical benefits plan. At present, only unionized workers and those workers who expressed their intention to continue under the defined contribution component participate in the defined pension plan and in the postretirement benefits. The remaining employees elected to move to the defined contribution pension plan and the defined contribution postretirement medical benefits plan.

Cash flows-

Contributions and benefits paid were as follows:

		Funds contributions		Paid benefits	
		2010	**2009**	**2010**	**2009**
Termination	$	14,477	13,210	22,895	23,085
Retirement		121,957	91,498	133,053	169,615
Other post retirement benefits		116,407	144,898	148,868	60,251
Year-end balances	$	252,841	249,606	304,816	252,951
		======	======	======	======

The cost, obligations and other pension plans, seniority premiums and fees at the end of the employment relationship other than restructuring, referred to in note 2 (s) were determined based on estimates prepared by independent actuaries at December 31, 2010 and 2009. The components of net cost of the years ended December 31, 2010 and 2009 are shown in the following page.

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		Benefits					
		2010			2009		
		Termination	Retirement	Total	Termination	Retirement	Total
Net periodic cost (income):							
Service cost	$	38,222	20,225	58,447	54,908	21,452	76,360
Interest cost		33,963	145,262	179,225	29,402	120,492	149,894
Return on plan assets		(4,303)	(82,667)	(86,970)	(4,593)	(81,143)	(85,736)
Net actuarial gain or loss		(14,314)	30,047	15,733	(6,378)	19,688	13,310
Labour cost of past services:							
Amortization of prior services and plan amendments		-	22,883	22,883	-	5,492	5,492
Amortization of (asset) liability in transition		38,280	8,573	46,853	38,309	8,901	47,210
Effect from early settlement prior to early extinction		-	13,018	13,018	(9,326)	34,979	25,653
Net period cost	$	91,848	157,341	249,189	102,322	129,861	232,183

		Other Post-retirement benefits	
		2010	2009
Net periodic cost:			
Service cost	$	43,244	45,346
Interest cost		160,989	146,149
Return of plan assets		(161,203)	(144,668)
Net actuarial gain or loss		52,648	45,960
Labour cost of past services:			
Amortization of (assets) liability in transition		34,306	35,309
Net actuarial gain or loss		15,018	42,030
Net periodic cost	$	145,002	170,126

Below is the determination of liabilities for benefit plans at December 31, 2010, with the applicable requirements of paragraph 131 of the FRS D-3:

		Retirement benefits		Other	
		Seniority premium	Pension plan	Post-retirement benefits	Total
Defined benefit obligation:					
Defined benefit obligation at beggining of the year	$	29,290	1,745,903	1,935,192	3,710,385
Service cost		2,386	17,839	43,244	63,469
Interest cost		2,450	142,812	160,989	306,251
Subtotal to the following page	$	34,126	1,906,554	2,139,425	4,080,105

(Thousands of Mexican pesos)

		Retirement benefit		Other	
		Seniority premium	Pension plan	Post-retirement benefits	Total
Subtotal from the previous page	$	34,126	1,906,554	2,139,425	4,080,105
Actuarial gain or loss		4,522	218,264	469,019	691,805
Paid benefits		(1,464)	(131,589)	(148,868)	(281,921)
Past service cost		-	244,514	-	244,514
Reduction/liquidation effect		-	(28,816)	(26,570)	(55,386)
Defined benefit obligations	$	37,184	2,208,927	2,433,006	4,679,117

Below is the determination of plan benefits liabilities at December 31, 2010:

		Retirement benefit		Other	
		Seniority premium	Pension plan	Post-retirement benefits	Total
Plan assets:					
Plan assets at the beginning of the year	$	(19,486)	(947,006)	(1,857,454)	(2,823,946)
Expected performance		(1,796)	(80,871)	(161,203)	(243,870)
Actuarial gain or loss		(801)	(58,231)	(76,809)	(135,841)
Company contributions		(3,705)	(118,251)	(116,407)	(238,363)
Paid benefits		1,464	131,589	148,868	281,921
Anticipated liquidations		-	28,816	26,570	55,386
Plan assets	$	(24,324)	(1,043,954)	(2,036,435)	(3,104,713)

The Bank estimates that during 2011 they will make contributions to defined benefit plans amounting to $330,874 (includes Termination Seniority premium).

Below are the categories of plan assets at December 31, 2010:

		Retirement benefits		Other
		Seniority premium	Pension plan	Postretirement benefits
Fair value for the plan assets:				
Local equity instruments	$	20%	20%	20%
Global equity instruments		10%	10%	10%
Debt instruments		49%	49%	49%
Short term debt instruments		21%	21%	21%
Total	$	100%	100%	100%

(Continued)

(Thousands of Mexican pesos)

Below are the 2010 amounts and in the last four preceding annual periods the defined benefit obligation, fair value of plan assets, the status of the plan and the experience adjustments arising from the liabilities and assets of the plan:

		Seniority premium				
		2006*	**2007***	**2008**	**2009**	**2010**
Defined benefit liabilities	$	109,711	116,335	27,409	29,290	37,184
Plan assets		(109,165)	(124,292)	(19,521)	(19,486)	(24,324)
Plan situation		546	(7,957)	7,888	9,804	12,860
Experience adjustments:						
Plan liabilities	$	7,244	(9,500)	(1,177)	7,438	4,522
Plan assets		6	1,810	10,150	(2,139)	(801)
		======	=======	=====	=====	======

* Includes termination and retirement as under the FRS D-3 there was no separation.

		Retirement plan				
		2006	**2007**	**2008**	**2009**	**2010**
Defined benefit liabilities	$	1,554,228	1,689,579	1,536,980	1,745,903	2,208,927
Plan assets		(1,142,055)	(1,177,060)	(980,321)	(947,006)	(1,043,954)
Plan situation	$	412,173	512,519	556,659	798,897	1,164,973
Experience adjustments:						
Plan liabilities		171,578	208,503	(15,404)	351,502	218,264
Plan assets		(1,173)	(47,999)	168,635	(47,793)	(58,231)
		========	=======	=======	========	=======

		Other postretirement benefits				
		2006	**2007**	**2008**	**2009**	**2010**
Defined benefit liabilities	$	2,365,640	2,085,064	1,886,304	1,935,192	2,433,006
Plan assets		(1,429,627)	(1,598,640)	(1,583,022)	(1,857,454)	(2,036,435)
Plan situation	$	936,013	486,424	303,282	77,738	396,571
Experience adjustments:						
Plan liabilities		432,197	72,513	125,761	47,235	469,019
Plan assets		11,891	64,774	132,989	(104,807)	(76,809)
		========	=======	=======	========	=======

(Continued)

(Thousands of Mexican pesos)

At December 31, 2010 and 2009 the present value of the liabilities for the benefits of the plans are as follows:

	Benefits				Other postretirement Benefits	
	Termination		Retirement			
	2010	2009	2010	2009	2010	2009
Acquired rights and obligations amount	$ NA	NA	1,432,647	NR	1,551,457	NR

NA – Not applicable / NR - Not reported

	Benefits				Other postretirement benefits	
	Termination		Retirement			
	2010	2009	2010	2009	2010	2009
Defined benefit liabilities amount	$ 489,872	453,099	2,246,111	1,775,193	2,433,006	1,935,192
Fair value plan assets	(47,690)	(50,008)	(1,068,278)	(966,492)	(2,036,435)	(1,857,454)
Funds financial situation	442,182	403,091	1,177,833	808,701	396,571	77,738
Unrecognized past services:						
(liabilities) / assets in transition	(77,014)	(115,294)	(17,020)	(25,908)	(55,959)	(91,115)
Plan modifications	-	-	(276,427)	(55,596)	-	-
Actuarial gain (loss)	-	-	(800,107)	(678,302)	(1,231,953)	(906,559)
Projected Liabilities / (Assets)	$ 365,168	287,797	84,279	48,895	(891,341)	(919,936)

	Termination and retirement benefits		Other postretirement benefits	
	2010	2009	2010	2009
Nominal discount rate used to show the present value of obligations	7.50%	8.50%	7.50%	8.00%
Nominal rate of increase in the levels of future salaries	4.50%	4.50%	4.50%	4.50%
Nominal rate of return expected in the plan assets	9.00%	8.60%	9.00%	8.60%
Medical inflation rate	6.75%	6.75%	6.75%	6.75%
Average remaining work life of employees (applicable to retirement benefits)	18.89	18.32	15.66	18.32

At December 31, 2010, the amortization periods in years of the remaining items are shown in the following page.

(Continued)

(Thousands of Mexican pesos)

	Retirement benefits		**Other**
	Seniority premium	**Pension plan**	**Post-retirement benefits**
(Liabilities) / Assets of transition	3 years	3 years	3 years
Plan modifications	-	11 years	-
Actuarial (Loss) / Gain	13 years	17 years	14 years

The effect of the increase or decrease of one percentage point in the increase rate of medical expenses used in the actuarial projections is shown below:

		Increase in 1%	**Decrease in 1%**
Labour cost	$	22,189	(17,675)
Financial cost		33,493	(25,068)
Defined benefit obligations		446,569	(334,234)

For the years ended at December 31, 2010 and 2009, the Bank recognized expenses for defined contribution plans, which amount to $ 151,020 and $ 69,829, respectively.

(21) Share based payments-

HSBC offers different share based payment programmes to management level personnel with the aim of aligning the interests of these personnel with those of the Group´s shareholders, and at the same time, as a way to encourage high performing staff. The award period for these programmes ranges from one to three years on average.

At December 31, 2010 and 2009, the amount of outstanding share based payment awards amounted to $123,149 and $165,622, respectively, and were registered in the caption "Sundry creditors and other accounts payable". The cost of these programmes for the financial years ended December 31, 2010 and 2009 of $56,837 and $88,881 respectively, was included within administrative and promotional expenses in the income statement.

(22) Subordinated debt issued-

At December 31, 2010 and 2009, the Bank had issued subordinated debentures, which are not convertible into shares of its capital stock. The debentures and accrued interest thereon are analyzed as follows:

		2010	**2009**
Debentures issued:			
In 2003, maturing in 2013	$	2,200,000	2,200,000
In 2008, maturing in 2018		4,090,249	4,090,249
In 2009, maturing in 2019		3,702,218	3,919,770
Accrued interest		14,974	10,959
Total subordinated debentures	$	10,007,441	10,220,978
		========	=========

(Continued)

As mentioned in note 1, as part of a programme of subordinated non convertible debt issuance (both preference and non preference securities), authorised by the Banking Commission, HSBC undertook a foreign currency issuance on 26 June 2009. This issuance was for a total of US$300 million, of which US$196.7 million was placed on the date of issue and the remaining US$103.3 million was placed at a later date. The term of this issue is 10 years and it pays a variable rate of interest at Libor plus 3.5%.

During October and December 2008, the Bank made two public offerings of subordinated debt obligations, non convertible to HSBC shares for a total amount of $1,817,603 and $2,300,000, respectively. Of the second emission, as of December 31, 2010 and 2009, $27,354, had not been placed. . The subordinated obligations have a maturity of 10 years and bear interest at a rate equivalent to the 28-day Inter-bank Interest Rate (TIIE) plus 60 and 200 basis points, respectively.

The subordinated obligations issued in 2003 through a private offering, bear interest at a rate equivalent to the 28-day TIIE. HSBC has the right to prepay the subordinated obligations issued during 2003 and 2008 any time after 5 years from the date of issue.

At December 31, 2010 and 2009, the balance of subordinated obligations count as supplementary capital for the determination of the capitalization ratio, which is calculated based on the applicable rules as of those dates, issued by the Central Bank.

(23) Income taxes (Income Tax (IT) and Flat Rate Business Tax (IETU)) and employee statutory profit sharing (ESPS) -

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years. The IT Law in effect as of December 31, 2009 provides for an IT rate of 28%, while in accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is l7% for 2009 and 17.5% for 2010 and thereafter. 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.

The Bank considered for the ESPS calculation a month's salary limit in accordance with Article 127 Section III of the Federal Labour Law. The difference between the result from the calculation in accordance with IT basis and the previously mentioned limit was recorded as a bonus payable to employees. For the year ended December 2010, ESPS expense amounted to $352,011 ($297,849, in 2009) and is included within "Administrative and promotional expenses" in the consolidated statement of operations.

(Continued)

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According to the financial projections prepared by the Bank's administration, it is expected that IETU will not be payable in subsequent years, and therefore the deferred tax as of December 31, 2010 and 2009 was determined in accordance with the provisions of IT.

At December 31, 2010 and 2009, the IT and IETU expense shown in the consolidated statement of income is analyzed as follows:

		IT	
		2010	**2009**
IT expense at the rate 30% (28% for 2009)	$	938,394	1,988,055
Non creditable IT paid to foreigners		-	17,592
IT of subsidiaries		4,793	4,925
IETU of subsidiaries		30,595	24,520
IT from a special purpose entity (SPE)		117,929	-
Income Tax in the consolidated statement of operations	$	1,091,711	2,035,092
		=======	========

A condensed reconciliation between the accounting results and the results for the purpose of IT calculation for the Bank only which represents the main consolidated IT expense for the years 2010 and 2009, respectively is shown as follows:

		IT	
		2010	**2009**
Consolidated income before IT and equity in earnings of unconsolidated subsidiaries, associates and affiliates	$	513,005	(257,673)
Less consolidation effects		(309,526)	(167,160)
Income (loss) of the Bank in nominal pesos		203,479	(424,833)
(Deduct) add reconciling items (in nominal pesos):			
Difference between accounting and tax depreciation		2,211	52,962
Net tax effects of inflation		(427,863)	(728,109)
Allowance for loan losses		5,224,250	10,178,870
Loan portfolio sale		(3,382,794)	(4,617,964)
Write-offs		660,880	977,545
Commissions received in advance		(289)	239,238
ESPS paid during the year		(300,740)	(297,849)
Current ESPS		358,458	293,860
Deferred ESPS		-	303,314
Non taxable recoveries		(738,718)	(560,230)
Provisions		2,086,867	477,577
Non deductible expenses		142,272	161,372
Special CETES		(189,084)	(243,699)
Subtotal to the following page	$	3,638,929	5,812,054

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		IT	
		2010	**2009**
Subtotal from the previous page	$	3,638,929	5,812,054
Maturity of CETES		-	218,327
Prepaid expenses		(39,923)	201,301
Sale of foreclosed assets		(14,881)	(5,965)
Sale of fixed assets		13,598	(4,291)
Fair value valuation		(739,206)	972,754
Other, net		(49,491)	(93,982)
Taxable income	$	2,809,026	7,100,198
		=======	========
IT at 30% (28% for 2009)	$	842,708	1,988,055
Accrual excess		95,686	-
IT registered in results	$	938,394	1,988,055
		=======	========

Deferred IT and ESPS:

In assessing whether the deferred tax assets will be realized, the Bank's 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. The Bank's management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred IT and ESPS changes for the years ended December 31, 2010 and 2009, in nominal pesos, are analyzed as follows:

		2010	**2009**
At beginning of year	$	4,304,829	2,133,899
Charged to operations:			
IT Benefit		981,471	2,396,895
Deferred ESPS expense		-	(303,314)
Prior years deferred IT and ESPS benefit recorded in (“Other Expense“) “Other income“		-	54,946
Reported in capital:			
Valuation effects of available-for-sale and financial instruments		26,121	19,442
Others		5,822	2,961
	$	5,318,243	4,304,829
		========	=======

(Continued)

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The items that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2010 and 2009, are as shown below:

		2010	2009
Deferred tax assets:			
Allowances:			
Allowance for loan losses	$	4,779,802	4,055,179
Allowance for foreclosed assets		88,972	16,782
Other provisions		790,886	394,602
Allowance for unrecoverable accounts		229,632	312,316
Property, furniture and equipment		678,449	254,429
ESPS provision		105,603	88,158
Valuation of financial instruments		96,111	429,879
Commissions paid in advance		219,142	219,228
Other		53,656	48,336
		7,042,253	5,818,909
Deferred tax liabilities:			
Interest from Special CETES from the UDIS Trust		(816,293)	(759,567)
Valuation of financial instruments		(241,205)	(359,889)
Prepaid expenses		(646,149)	(375,182)
Other		(20,363)	(19,442)
		(1,724,010)	(1,514,080)
Net deferred tax asset	$	5,318,243	4,304,829
		=======	=======

Other considerations:

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, 2010, the balances of the Capital Contributions and previously taxed earnings accounts total $27,329,767 and $14,144,695, respectively ($26,177,937 and $10,370,583 respectively in 2009).

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(24) Stockholders' equity-

The outstanding characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

Movements in 2010

On March 24, 2010, the Extraordinary General Meeting of Shareholders agreed to cancel 25,491,086 shares that were not subscribed and paid.

On April 16, 2010, the General Ordinary Meeting of Shareholders agree to transfer the net 2009 profit by $136,291 affecting $13,629 to the legal reserve and $122,662 was recorded in the other reserves account, and will be made available to the shareholders by the approval of the Board of Directors.

At the Board of Directors meeting celebrated on October 21, 2010, the Board of Directors authorized the payment of a dividend by the amount of $1.22497679421977 pesos per share on each of the 1,643,363,189 zero coupon shares with a total charge to the tax profit fiscal account totalling $2,013,083.

On December 17, 2010, the Board of Directors authorized the Group to make a contribution in the amount of $2,013,082 on December 29, 2010. The contribution was recorded as a contribution of future capital increases as a liability in the Bank in accordance with FRS C-11 "Equity" until it is formalized in the next General Meeting of Shareholders.

At December 31, 2010 and 2009, the capital stock is represented by 1,643,363,189 shares, with a par value of two pesos per share, of which 1,529,637,131, are Series "F" shares and 113,726,058, are Series "B" shares.

Movements in 2009

On 30 March 2009, the General Ordinary Meeting of Shareholders agreed to transfer the net profit for the year to December 31, 2008 of $2,518,985, with $251,898 going to the legal reserve and $1,264,659 being registered in other reserves which will be made available to the shareholders by the approval of the Board of Directors. On the same date, the Board authorized the payment of a dividend of $0.81133657 pesos per share for each of the 1,235,526,706 zero coupon shares outstanding with a total charge to the tax profits fiscal account of $1,002,428.

(Continued)

On August 28, 2009, the Extraordinary General Meeting of Shareholders resolved to increase the share capital through the issuance of 295,000,000 shares, of which 263,670,618 shares were deposited in the treasury to be available to the Board of Directors for their subsequent placement, and the remaining 31,329,382 shares were subscribed and paid for with a nominal value of $2 pesos and a premium of $21.62 pesos. Consequently the share capital increased by $62,659 and the share premium account by $677,341.

On October 22, 2009, the Board of Directors authorized HSBC to circulate the treasury shares considered necessary in accordance to the emission mentioned in the preceding paragraph. In addition, HSBC was empowered to determine the price and terms of the placement. In accordance with the notice published on December 4, 2009, the shareholders were notified of their right to subscribe and pay for 263,670,618 shares at a subscription price of $23.8564 pesos per share. Of this subscription price $2 pesos corresponded to the nominal value of share capital and $21.8564 to the share premium. Consequently, the share capital increased by $527,341 and the share premium account by $5,762,895, which were paid on December 23, 2009.

On December 29, 2009, the Extraordinary General Meeting of the shareholders, agreed to increase the share capital through the emission of 112,836,483 shares with a nominal value of $2 pesos and a premium of $21.86 per share. This would increase the share capital in total by $225,673 and the share premium by $2,466,201.

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of stockholders’ equity represents the results of the Bank’s activities during the year and includes the net income, the gain or loss from mark to market of investments in “Available-for-sale“ securities and for cashflow hedges, which in accordance to the relevant FRS, are recorded stockholders’ equity.

(c) Restrictions on stockholders’ equity-

The Credit Institutions Law requires that the Bank 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.

(Continued)

(Thousands of Mexican pesos)

The un-appropriated retained earnings of subsidiaries may not be distributed to the Bank's 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-

In accordance with the Law of Credit Institutions, credit institutions are required to maintain a net capital in relation to their exposure to market risk, credit risk and other risks which are incurred during the course of their operations. Net capital cannot be lower than the total of adding up the capital requirement for each type of risk. In accordance with the Capitalization Rules, credit institutions must comply with the capital requirement for operational risk.

Information in relation to the Bank's net capital, risk based assets and capital requirements as of December 31, 2010 and 2009, is shown below (unaudited). The amounts for 2010 and 2009 correspond to those Published by the Central Bank at the date of emission of the financial statements.

	2010	2009
Basic, supplementary and net capital		
Stockholders' equity	$ 40,192,936	39,808,135
Reduced by:		
Intangible assets	(5,702,817)	(3,174,781)
Investments in shares of financial entities	(30,587)	(29,255)
Investments in shares of other companies	(91,561)	(90,257)
Investment in subordinated debt	(86,759)	(91,809)
Investment in financial instruments related to securitizations	(37,883)	(71,091)
Basic capital (Tier 1), to the following page	**$** 34,243,329	36,350,942

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

		2010	2009
Basic capital (Tier 1), from the previous page	**$**	34,243,329	36,350,942
Add:			
Not convertible subordinated debt		9,115,153	9,766,899
General allowance for loan losses		1,019,015	704,861
Investment in financial instruments related to securitizations		(37,883)	(71,091)
Supplementary capital (Tier 2)		10,096,285	10,400,669
Net capital (Tier 1+ Tier 2)	$	44,339,614	46,751,611
		========	========

Equity. **-** Considers the contributions for future capital of $2,013,082.

Intangible assets .- Consider the excess of the deferred taxes on the 10% capacity of the Capital Base as required deduction for $1,232,245 and $377,120, at December 31, 2010 and 2009, respectively.

Subordinated debentures not convertible .**-** The issuance of subordinated debentures not convertible issued in 2003, computed for the supplementary Capital balance at December 31, 2010 and 2009 at a rate of 60% and 80%, respectively, equivalent to $1,320,000 and $1,760,000, respectively.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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(Thousands of Mexican pesos)

Risk-based assets and capital requirements

		Equivalent risk-weighted assets		Capital requirement	
		2010	**2009**	**2010**	**2009**
Market risk:					
Transactions or positions:					
In pesos at nominal rates	$	76,213,438	67,971,313	6,097,075	5,437,705
In pesos at interest rate above nominal rate		478,050	862,563	38,244	69,005
In pesos at interest rates discounted from inflation or denominated in UDIS		2,480,575	2,684,725	198,446	214,778
In foreign currency at nominal rates		4,128,838	5,501,825	330,307	440,146
In UDIS or with yields linked to the Consumer Price Index		21,075	30,125	1,686	2,410
Foreign currency positions or with exchange rate indexed yields		3,551,688	1,281,488	284,135	102,519
Share transactions or transaction based on shares		224,763	65,188	17,981	5,215
Total market risk	$	87,098,427	78,397,227	6,967,874	6,271,778
Credit risk:					
Group II (weighted at 50%)	$	3,182,856	-	254,628	-
Group III (weighted at 10%)		397,681	447,928	31,815	35,834
Group III (weighted at 11.5%)		229,818	172,358	18,385	13,789
Group III (weighted at 20%)		6,457,082	4,683,056	516,567	374,645
Group III (weighted at 53%)		3,280,622	2,794,930	262,450	223,594
Group III (weighted at 50%)		536,427	589,572	42,914	47,166
Group IV (weighted at 20%)		2,208,641	1,776,982	176,691	142,159
Group V (weighted at 20%)		390,702	416,700	31,256	33,336
Group V (weighted at 50%)		42,730	45,123	3,418	3,610
Group V (weighted at 150%)		12,908,369	6,390,746	1,032,670	511,260
Credit risk to the following page	$	29,634,928	17,317,395	2,370,794	1,385,393

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

	Equivalent risk-weighted assets		Capital requirement	
	2010	**2009**	**2010**	**2009**
Credit risk from previous page	$ 29,634,928	17,317,395	2,370,794	1,385,393
Group VI (weighted at 50%)	3,296,227	3,026,447	263,698	242,116
Group VI (weighted at 75%)	1,772,667	1,768,458	141,813	141,477
Group VI (weighted at 100%)	33,643,926	39,403,300	2,691,514	3,152,264
Group VII (weighted at 20%)	1,695,533	2,231,445	135,643	178,516
Group VII (weighted at 20%)	250	366	20	29
Group VII (weighted at 50%)	761,553	-	60,924	-
Group VII (weighted at 57.5%)	486,537	-	38,923	-
Group VII (weighted at 100%)	83,308,720	72,272,839	6,664,698	5,781,826
Group VII (weighted at 115%)	3,469,611	3,046,442	277,569	243,715
Group VII (weighted at 150%)	254,835	-	20,387	-
Group VIII (weighted at 125%)	2,738,204	4,403,261	219,056	352,261
Other assets (weighted at 100%)	21,567,764	19,367,393	1,725,421	1,549,392
Total credit risk	182,630,755	162,837,346	14,610,460	13,026,989
Operational risk	35,043,208	21,066,032	2,803,457	1,685,282
Total market risk, credit risk and operational risk	$ 304,772,390	262,300,605	24,381,791	20,984,049

	2010	**2009**
Capitalization ratios:		
Capital to credit risk assets:		
Basic capital (Tier 1)	18.75%	22.32%
Supplementary capital (Tier 2)	5.53%	6.39%
Net capital (Tier 1 + Tier 2)	24.28%	28.71%

(Continued)

(Thousands of Mexican pesos)

	2010	2009
Capital to market, credit and operational risk assets:		
Basic capital (Tier 1)	11.24%	13.86%
Supplementary capital (Tier 2)	3.31%	3.96%
Net capital (Tier1 + Tier 2)	14.55%	17.82%
	=====	=====

The Bank reports on a monthly basis the trend of the capitalization indices, detailing basic capital and net capital to the Risk Committee and the Assets and Liabilities Committee. In addition, significant variances in the risk-weighted assets by credit and market risk, and variances in stockholders' equity, are explained and reported.

In addition, prior to undertaking any material commercial banking or treasury transactions, an assessment is made to determine their effect on the capital requirement. Based on this, the above mentioned Committees may authorize the proposed transactions. For these operations the Bank considers as a basis the minimum capitalization index, which is higher than the required by the Banking Commission in the Early Warnings.

(25) Related party transactions and balances-

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's 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, 2010 and 2009, the Bank had granted loans to related parties totalling $4,352,215 and $4,569,096, respectively.

At December 31, 2010 open derivative positions with related parties amounted to $12,554,645 ($13,577,051 in 2009).

During the years ended 31 December 2010 and 2009 the Bank did not write off any intercompany balances.

The main transactions carried out with related parties during the years ended December 31, 2010 and 2009, are shown in the following page.

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HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

		2010	2009
Transactions:			
Income:			
Administrative services	$	3,152,094	1,557,765
Interest and commissions		420,438	391,151
Other		1,006	25,218
		=======	======
Expenses:			
Insurance premiums	$	229,894	185,182
Premiums on securities repurchase/resell agreements		211,130	286,399
Interest and commissions, payable		15,235	37,748
Administrative expenses		213,509	387,234
		=======	======

Balances receivable from and payable to related parties as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	Receivable	**Payable**	**Receivable**	**Payable**
Holding				
Grupo Financiero HSBC, S. A. de C. V.	$ 198	2,030,385*	-	18,259
Other related parties				
HSBC Seguros, S. A. de C. V.	195,241	80,435	9,725	6,036
HSBC Vida, S. A. de C. V.	17,183	379	940	1,036
HSBC Afore, S. A. de C. V.	23,274	8,987	2,613	10,271
HSBC Casa de Bolsa, S. A. de C. V.	14,359	252,066	13,603	147,824
HSBC Fianzas, S. A.	5,020	4,423	1,179	5,898
HSBC Pensiones, S. A.	2,053	3,169	314	1,945
HSBC Global Asset Management, S. A. de C. V.	73,285	16	20,519	504
HSBC Servicios, S. A. de C. V.	4,549	7,869	225,261	19,023
HSBC Bank Brasil, S. A. Banco Multiplo	250,975	1,220	3,904	13,312
Inmx Servicios, S. A. de C. V.	-	100	-	125
Inmx Comercialización, S. A. de C. V.	7	110	-	125
HSBC Holdings Plc.	40,876	-	31,712	-
HSBC Banco Salvadoreño, S. A.	87,483	-	1,226	1,179
HSBC Seguros Salvadoreño, S. A.	6,454	-	-	-
HSBC Bank Panamá, S.A.	110,971	-	-	653,295
Subtotal, to the following page	$ 831,928	2,389,159	310,996	878,832

*It includes investment for future capital increases for $2,013,082.

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

	2010		2009	
	Receivable	**Payable**	**Receivable**	**Payable**
Subtotal, from previous page	$ 831,928	2,389,159	310,996	878,832
Representation office of HSBC Bank Panamá, S. A. (Guatemala)	530	-	-	-
HSBC Colombia, S. A.	125	41,808	636	12,540
HSBC Bank USA National Association	-	-	6,008	-
Banco HSBC Costa Rica, S. A.	33,016	-	359	-
Banco HSBC Honduras, S. A.	41,026	-	199	-
Seguros HSBC Honduras, S. A.	2,310	-	-	-
HSBC Software Development (China)	-	11,915	-	8,187
HSBC Bank Argentina S. A.	91,686	4,940	-	5,226
HSBC Argentina Holding, S. A.	25	-	-	-
HSBC New York Life Seguros de Vida (Argentina), S. A.	2,635	- .	-	-
HSBC La Buenos Aires Seguros, S. A.	5,040	-	-	-
HSBC Finance Corporation (HBIO)	5,118	-	-	-
HSBC Bank plc.	10,623	48,742	-	1,816
The Hong Kong and Shangai Banking Corporation Limited	-	16,255	-	1,038
HSBC Latin America Holdings (UK) Limited	47,636	-	-	-
HSBC Software Development (India) Private Limited	2,003	20,507	-	-
HSBC Software development (Brazil)	-	9,071	-	-
Oficina de Representación HSBC Bank Panamá, S. A. (Nicaragua)	659	-	-	-
HSBC Technologies and Services (USA) Inc.	-	15,396	-	-
HSBC Technologies Inc.	-	11,034	-	-
HSBC Bank Peru, S. A.	90,115	-	-	-
HSBC Bank (Paraguay), S. A.	47,937	-	-	-
HSBC Bank (Uruguay), S. A.	29,010	-	-	-
HSBC Bank Canada	-	23,177	-	-
HSBC Bank (Chile), S. A.	34,661	-	-	-
	$ 1,276,083	2,592,004	318,198	907,639
	=======	=======	======	=======

Accounts receivable and payable from / to related parties do not bear interests and do not have defined maturities, except for the transaction in the following page.

(Continued)

(Thousands of Mexican pesos)

On December 1, 2008, HSBC Brazil undertook a private issuance of subordinated notes for a total of US$100 million at a variable rate, from which the Bank purchased US$10 million. The remaining notes were purchased by related parties in Mexico and overseas. This note bears interests at LIBOR plus 650 basis points payable on a quarterly basis.

The principal balance matures on December 1, 2014, with the option of the issuer to make prepayments. On the June 30, 2009 these notes were sold to HSBC Bank Panama for a total of US$10.05 millions, which represented the nominal value plus the interest which had accrued up to the date of the sale. At December 31, 2009 the accrued interest included in results was US$56 thousand.

Also, as mentioned in note 14, on March 30, 2010 a subsidiary of the Bank acquired the foreclosed assets of the related party Banco HSBC (Costa Rica), S. A. amounting to $349,806.

(26) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees-

At December 31, 2010, HSBC had irrevocable commitments to grant loans of $16,201,600 and had issued guarantees of $20,583 ($15,070,940 and $30,487, respectively, in 2009).

At December 31, 2010 the allowance for letters of credits and guarantees issued amounts to $378,975, and is included in the allowance for loan losses ($317,997 in 2009).

(b) Assets in trust or under mandate-

At December 31, 2010 and 2009, the Bank's trust activity, which is recorded in memorandum accounts, is summarized as follows:

		2010	2009
Type of trust:			
Administrative	$	181,450,953	119,941,674
Guarantee		36,319,353	44,834,589
Investment		53,517,653	79,897,931
Other		21,762,812	20,215,738
		293,050,771	264,889,932
Mandates		763,180	1,751,149
	$	293,813,951	266,641,081
		=========	=========

(Continued)

(Thousands of Mexican pesos)

Trust activities revenue for the years ended December 31, 2010 and 2009 amounted to $194,490 and $191,628, respectively.

(c) Investments on behalf of customers-

The Bank receives funds from the public and invests them in various instruments of the Mexican financial system on behalf of its customers, which are recorded in memorandum accounts as follows:

		2010	2009
Mutual funds:			
Managed by HSBC	$	969,753	1,001,348
Other		5,734,330	2,080,236
Government securities		14,325,146	40,917,349
Equities and other		22,322,251	13,065,095
	$	43,351,480	57,064,028
		========	========

The amount of funds invested in the Bank's own instruments forms part of the liabilities and are included in the consolidated balance sheet.

(d) Assets in custody-

The Bank records in this account the assets and securities of third parties it receives in custody or for management purposes. At December 31, 2010 and 2009, this account comprises:

		2010	2009
Assets in custody	$	205,802,076	199,920,717
Pledged assets		509,572	478,310
Assets under management		39,972,093	40,551,484
	$	246,283,741	240,950,511
		=========	=========

(Continued)

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

(a) Condensed statement of operations by segment-

The condensed consolidated statement of operations by segment includes Personal Financial Services (PFS), Commercial Banking (CMB)**,** Global Banking and Markets (GBM) and other Corporate Activities. A brief description of the Bank's business segments follows.

Personal Financial Services –Focused primarily on individuals that comprise mainly consumer products, which include credit cards, personal and car loans as well as mortgage loans and traditional deposits.

Commercial Banking – 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.

Global Banking & Markets – 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 – They relate to business structural operations.

The allocation of income to each segment is determined in accordance with the profile of the client. For the allocation of expenses to each segment a cost management system is used which utilizes an Activity Based Costing (ABC) approach, although directly identifiable segment costs are not subject to this methodology. Within HSBC a catalogue of transactions and their relevant costs exists, and in this way each time that a transaction is completed for a client, the cost of this transaction is registered in the segment to which that client belongs.

In the following page is presented the condensed statement of operations by segment for the years ended December 31, 2010 and 2009.

(Continued)

HSBC MEXICO, S. A.
Institución de Banca Múltiple, Grupo Financiero HSBC
AND SUBSIDIARIES

Condensed statements of operations by segment

Years ended December 31, 2010 and 2009

(Million of pesos)

	Personal and Private Financial Services		Corporate Banking		Global and Market Banking		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Financial margin	$ 13,053	15,616	4,766	4,923	2,107	683	19,926	21,222
Allowance for loan losses	(8,321)	(12,748)	(471)	(1,666)	(492)	(59)	(9,284)	(14,473)
Adjusted financial margin	4,732	2,868	4,295	3,257	1,615	624	10,642	6,749
Commissions and fees, net	4,214	5,764	2,025	2,169	692	837	6,931	8,770
Financial intermediation income	132	97	150	121	1,938	2,634	2,220	2,852
Other operating income	793	745	107	90	-	-	900	835
Total operating income	9,871	9,474	6,577	5,637	4,245	4,095	20,693	19,206
Administrative and promotion expenses	(14,329)	(13,630)	(6,413)	(5,334)	(2,943)	(2,117)	(23,685)	(21,081)
Net operating (loss) income	(4,458)	(4,156)	164	303	1,302	1,978	(2,992)	(1,875)
Other income, net	2,177	867	579	234	749	516	3,505	1,617
Taxes	714	188	(235)	31	(589)	143	(110)	362
Income before equity in the results of associated companies	(1,567)	(3,101)	508	568	1,462	2,637	403	104
Equity in the results of associated companies	7	33	4	-	1	-	12	33
Income before non controlling interest	(1,560)	(3,068)	512	568	1,463	2,637	415	137
Non controlling interest	3	(1)	2	-	-	-	5	(1)
Net income	$ (1,557)	(3,069)	514	568	1,463	2,637	420	136

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

The assets and liabilities in thousands by the different segments at December 31, 2010 and 2009, are analyzed as follows:

	2010			2009		
	PFS	**CMB**	**GBM**	**PFS**	**CMB**	**GBM**
Assets	$ 56,147	76,913	41,949	53,844	55,336	42,566
Liabilities	146,455	86,340	12,071	147,229	78,377	8,441
	======	=====	=====	======	=====	=====

Financial Margin:

The financial margin for the years ended December 31, 2010 and 2009 is analyzed as follows.

	2010	**2009**
Interest income:		
Cash and equivalents	$ 1,788,622	2,056,936
Investment securities	6,758,892	6,941,321
Interest and premiums on securities purchased under agreements to resell	426,784	200,874
Loan portfolio:		
Commercial loans	7,205,818	6,838,579
Financial institutions	537,403	657,206
Consumer loans	7,871,304	11,073,239
Residential mortgages	1,847,282	2,213,427
Government entities	1,392,680	1,122,646
Initial fees for loan granting	295,498	305,966
Others	(105,890)	(162,224)
Total interest income to the following page	$ 28,018,393	31,247,970

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

		2010	2009
Total interest income from previous page	$	28,018,393	31,247,970
Interest expense:			
Deposit funding		(1,102,788)	(651,827)
Time deposit		(3,831,826)	(4,813,178)
Due to banks and other institutions		(444,949)	(673,355)
Bank bonds		(251,905)	(290,963)
Interest and premiums on securities purchased under agreements to resell		(1,933,788)	(3,096,526)
Interest by subordinated debt issued		(519,416)	(498,615)
Others, including inflation effect		(7,406)	(2,014)
		(8,092,078)	(10,026,478)
	$	19,926,315	21,221,492
		========	=========

(b) Financial intermediation gain (loss) -

For the years ended December 31, 2010 and 2009, the financial intermediation gain (loss) is analyzed as follows:

		2010	2009
Valuation gain (loss):			
Investment securities	$	430,201	(698,626)
Securities repurchase/resell agreements		-	(2,154)
Trading derivatives		1,448,532	3,005,080
Foreign currency exchange and precious metals		(8,207)	285,448
		1,870,526	2,589,748
Purchase/sale gain (loss):			
Investment securities		883,261	846,517
Securities repurchase/resell agreements		(513,807)	(123,547)
Foreign currency exchange and precious metals		(20,320)	(460,770)
		349,134	262,200
	$	2,219,660	2,851,948
		=======	=======

(Continued)

(Thousands of Mexican pesos)

(c) Other income-

For the years ended December 31, 2010 and 2009, “Other income“ is analyzed as follows:

		2010	**2009**
Recoveries	$	852,332	856,421
Reimbursement of expenses made on behalf of subsidiaries		2,689,105	1,267,241
Payments received in relation to the use of infrastructure from subsidiaries		470,298	444,677
Restructure and sale of VISA and Master Card		-	69,449
Loans to employees		144,158	157,118
Credit card claims		40,704	74,033
Other		318,413	371,404
	$	4,515,010	3,240,343
		=======	=======

On December 31, 2009 an affiliate of the Bank transferred through an employer substitution, several directors and managers who maintained regional functions. Consequently, from the transfer date the Bank recharges to various affiliated companies in the region of Latinamerica administrative services related to these personnel.

On March 31, 2009, the Bank sold the remaining shares of VISA received on March 31, 2008 (1,010,387 shares) that were in its possession, at a price of 47.625017 dollars per share, equivalent to 48,120,698 dollars , which resulted in a gain of 4,907,565 dollars equal to $69,449, same that are registered in the category of "Other income". This operation was done under a formal process of sale between certain institutions.

(d) Other expense-

During the years ended December 31, 2010 and 2009, other expenses include write-offs for a total of $1,009,703 and $1,623,005, respectively. Included within these write-offs are losses incurred as a result of fraud of $524,937 ($658,592 in 2009) and tax payments in respect of previous years of $39,685 ($392,172 in 2009).

In addition, it includes the loss on sale on June 24, 2010 of 1,051 shares of Master Card that were in possession of the Bank at that time. The sale was settle at a price of 201.623606 dollars per share, equivalent to 211,906 dollars, which generated a loss of 16,920 dollars, equivalent to $215.

HSBC MEXICO, S. A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Thousands of Mexican pesos)

(e) Financial Ratios-

The ratios as of and for the years ended December 31, 2010 and 2009 are analyzed below:

	2010	**2009**
Non-performing loans to total loans	3.12%	4.96%
Allowance for loan losses to past-due loan portfolio	173.96%	131.60%
Operating efficiency *(administrative and promotional expenses to average total assets)*	6.18%	5.16%
ROE *(net income to average stockholders' equity)*	1.20%	1.31%
ROA *(net income to average total assets)*	0.11%	0.11%
Liquidity *(liquid assets/liquid liabilities)**	107.30%	117.80%
Financial margin after provision for loan losses /average interest earning assets	4.99%	1.83%
Capital index to credit risk assets	24.28%	28.71%
Capital index to market and credit risk	14.55%	17.82%

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

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

(28) Commitments and contingent liabilities-

(a) Leases-

Certain premises and equipment are leased. Lease agreements provide for regular adjustments to rent amounts based on changing economic factors. Total lease expense amounted $1,296,290 in 2010 and $1,376,372 in 2009.

(b) Lawsuits and litigation-

The Bank 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 Bank's financial position and results of operations.

(Continued)

In accordance with FRS C-9 liabilities, provisions, contingent assets and liabilities and commitments, the Bank classifies its legal obligations in:

Probable: When the possibility of future event occurs is high (probability of loss greater than 50%);

Possible: The possibility that the future events occurring is more than remote but less than likely (probability of loss greater than 5% and less than 50%);

Remote: The possibility that the future events occurring is low (probability of loss greater than 5%).

At December 31, 2010 and 2009, the Bank presented in the consolidated financial statements the recognition of liabilities for this purpose for an amount of $315,489 and $172,751 respectively, which correspond to cases in which it was considered that the possibility of loss would likely be probable. The Bank at December 31, 2010 and 2009 had outstanding cases with a possible loss contingency in the amount of $60,201,676 and $2,552,503, respectively.

(29) Risk management (non audited) -

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

The recognition of fundamental concepts is essential for efficient and effective comprehensive management of risks, both quantifiable and discretional (credit, market and liquidity) and non-discretional: 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 Management Committee (RMC).

(Continued)

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 RMC.
- 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 Management Committee (RMC)

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

In accordance with the 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.

(Continued)

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.

Market Risk

Qualitative information

a. Description of qualitative issues related to the Comprehensive Risk Management process

Description of the qualitative aspects related to the Comprehensive Risk Management process:

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

(Continued)

The Board of Directors establishes the RMC, 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 Bank; 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 main market risks to which the Bank is exposed, can be generally classified in accordance with the exposure of its portfolios to variances of the different risk factors, as follows:

- 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.

- 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.

- 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.

- 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.)

- 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.

(Continued)

- Credit Risk Margin. - It is the risk of incurring losses in the price of corporate bonds, bank or sovereign in foreign currency for credit changes in the credit perception of the issuer.

b. Principal elements of market risk management methodologies

The Bank 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 Bank's positions are marked to market.

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 January 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.

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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)

Credit Spread (CS01)

The Credit Spread Risk or CS01 is used to control the risk of keeping the bonds issued by the private sector, the value of which may vary due to changes in the credit rating of the issuers.

Such credit rating is reflected in the profit differential with respect to sovereign bonds. HSBC employs market risk limits to control the sensitivity that value may experience in these positions due to changes in the credit rating of issuers.

Vega or Volatility Risk

The Bank takes positions in instruments that are sensitive to changes in implicit market volatility, such as interest rate options and foreign exchange. Vega limits are used to control the risks associated with such market volatilities.

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 Bank.

(Continued)

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. In addition stress tests are performed in relation to exchange rates and share prices.

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 behaviour 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.

Portfolios subject to VaR and PVBP calculation

For a detailed and precise portfolio management, and adhering to the international (IAS) and local (Local GAAP) 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 (sensibility, potential loss and stress measures) for any sub-portfolio aligned with the accounting.

The market risk area calculates the VaR and PVBP for the Bank's total portfolio and specific Accrual and Total Trading portfolios so as to monitor the Bank'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 and Interest rate, FX and Shares volatilities).

(Continued)

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) and BST (Balance Sheet Trading) portfolio should be part of the Total Trading portfolio for purposes of calculating the market VaR and of the Accrual portfolio for calculating the PVBP.

Stress testing is performed for the Bank's portfolio and the Total 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 Total Trading and Accrual portfolio sub-division for the 4Q of 2010 (in million of dollars).

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

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

	HSBC		Total Trading **		Accrual	
	Q4 2010	Limits	Q4 2010	Limits	Q4 2010	Limits
Total	23.18	45.00	5.49	27.50	20.65	45.00
Interest rates	22.65	50.00	5.36	N/A	20.65	42.00
Exchange rates	0.77	12.00	0.77	12.00	N/A	N/A
Interest rates volatility	0.02	8.00	0.02	N/A	0.00	2.00
FX rates volatility	0.05	2.00	0.05	2.00	N/A	N/A
Equities	0.08	2.50	0.08	N/A	N/A	N/A

** Total Trading Include: Trading Desk, BST, MMT, Strategic FX and Equity

(Continued)

Global Market Value at Risk (VaR) (Compared to last quarter)

	September 30, 2010	December 31, 2010	Limits *	Q3 2010 average	Q4 2010 average
Bank	21.66	25.34	45.00	30.33	23.18
Accrual	18.51	24.09	45.00	23.23	20.65
Total trading	5.08	5.80	27.50	9.74	5.49

* *Absolute value, N/A - Not Apply*

The Bank's VaR at the end of the 4Q of 2010 was 16.98% higher than compared to the 3Q 2010. During the period, VaR levels remained below the limits set by management.

The Bank's average VaR for the 4Q of 2010 was (23.57%) lower than the average VaR for the 3Q 2010.

Comparison of Market risk VaR to Net Capital

Below a comparative VaR average against Net Capital table as of September 30 and December 31, 2010; in millions of dollars:

VaR vs. Net Capital Comparison
Net capital in million of dollars

	September 30, 2010	December 31, 2010
Total VaR *	30.33	23.18
Net Capital **	3,725.21	3,589.23
VaR / Net Capital	0.81%	0.65%

* Quarterly Average VaR of the Bank (absolute value)
** Net Capital of the Bank at the end of quarter

(Continued)

HSBC MEXICO, S. A. AND SUBSIDIARIES

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Average market VaR represented 0.65% of net capital in 4Q in 2010.

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

	Sep 30, 10	Dec 31, 10	Limits *	Q3 2010 average	Q4 2010 average
Bank	(0.921)	(1.111)	1.500	(1.082)	(1.099)
Accrual	(0.692)	(0.993)	1.250	(0.707)	(0.875)
Trading desk	(0.080)	(0.046)	0.320	(0.203)	(0.126)
Balance sheet trading	(0.150)	(0.073)	0.210	(0.171)	(0.098)

* Absolute value N/A – Not applicable

The Bank's PVBP in local interest rate at the end of Q4 2010 changed by 20.63% as compared to Q3 2010, The Bank's average PVBP for Q4 2010 varied by 1.57% as compared to Q3 2010.

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

	Sep 30, 10	Dec 31, 10	Limits*	Q3 2010 average	Q4 2010 average
Bank	(0.010)	(0.043)	0.300	0.019	(0.016)
Accrual	(0.046)	(0.055)	0.300	(0.030)	(0.036)
Trading desk	0.011	0.011	0.050	0.015	0.007
Balance sheet trading	0.026	0.001	0.070	0.033	0.014

* Absolute value N/A - Not applicable

The Bank's PVBP in US dollars interest rate at the end of Q4 2010 changed by 330.00% as compared to the PVBP at the end of Q3 2010. The Bank's average PVBP for Q4 2010 changed by (184.21%) as compared to the average PVBP for Q3 2010.

(Continued)

(Thousands of Mexican pesos)

Present Value of a Basis Point (PVBP) for UDIS interest rates

	Sep 30, 10	Dec 31, 10	Limits*	Q3 2010 average	Q4 2010 average
Bank	(0.193)	(0.114)	0.200	(0.203)	(0.175)
Accrual	(0.165)	(0.081)	0.100	(0.160)	(0.139)
Trading desk	(0.014)	(0.020)	0.080	(0.022)	(0.020)
Balance sheet trading	(0.013)	(0.013)	0.050	(0.021)	(0.015)

* Absolute value NA – Not applicable

The Bank's PVBP in UDIS interest rate at the end of Q4 2010 changed by (40.93%) as compared to the PVBP at the end of Q3 2010. The Bank's average PVBP for Q4 2010 changed by (13.79%) as compared to the average PVBP for Q3 2010.

<u>Liquidity risk</u>

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.

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

Since 2003, HSBC 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 end of Q4 2010, HSBC liquidity ratios were USD$ 3.676m in term up to 7 days, USD$ 2.073m in a term of a month, USD$ 2,745m in a term of 3 months and USD$ 2.191m in a term of 6 months; every scenario resulted in a positive cumulated cash flow. This is a reflection of the Entity's adequate cash flow position for the subsequent twelve months.

During the quarter, average levels were USD$ 3.961m in 7 days, USD$ 2.285m for 1 month, of USD$ 2.480m for 3 months and USD $ 2.166m for 6 months. With respect to last quarter's liquidity position was affected by transactions changes made, money market operations and long-term investment.

Credit risk

Qualitative information

For managing the credit risk at HSBC, in addition to following up on the behaviour 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 the same time with the Group's and Basel II policies and standards as well as Banking Commission's 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.

In general, the methodologies separate client risk (probability that a client defaults its payment obligations: Probability of Default) from credit or transaction risks (risk inherent to the structuring of the loan, which mainly includes the value and type of security).

(Continued)

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

During the last quarter of 2007, the MRC (Credit Reserve Module) system was implemented in order to enhance the functionality of the Rating System (SICAL). The commercial portfolio internal rating model is currently applied (Rating Matrix). This model is the key element in connection with the performance of the rating risk process. In principle, the Rating Matrix determines client rating based upon an analysis of three fundamental areas: payment capacity, payment history, and performance status. Afterward, the credit rating is obtained from the client rating adjusted in terms of the period in which the client has issued financial statements, shareholders' support and security, among others. Both ratings, client and credit, range from 1 to 10, with 1 representing the minimum risk and 10 representing the maximum risk.

Based on the endorsement granted by the Banking Commission 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 loan loss reserves for the consumer and mortgage portfolios are determined in accordance with the General Dispositions Applicable to the Credit Institution issued by the Banking Commission, using specifically the standard methodology.

With the purpose of establishing a better credit risk management and measurement infrastructure for commercial loans, a new risk assessment tool has been implemented: Moody's Risk Advisor (MRA), which allows for a more profound assessment of the creditworthiness of customers based on the relevant financial and qualitative information. Since October 2006, management have implemented three new models for rating customer risk for the commercial portfolio (for small, medium and large sized entities).

In addition to the aforesaid customer risk assessment models, 11 models were implemented for financial but non-banking institutions (NBFI DST), one for the banking institutions (MRAfBanks) and one more for global corporate clients, whose sales are equal or higher than MXN 7,000 million (GLCS). In addition, during the last quarter of 2007, it was implemented a new version of GLCS and MRAfBanks.

(Continued)

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.

In respect to the measurement of the Severity of the Loss, which is closely related to the credit or transaction risk, HSBC is using an expert model since March 2004 for commercial loans.

HSBC built an historic data base in order to convert the expert model into an empiric model, which will also be used to determine the estimation of the Non-compliance Exposure (EaD). For consumer and mortgage loans, the Severity of the Loss has for some time been measured empirically.

In mid 2006, HSBC introduced the profitability model adjusted for risk of the commercial loan portfolio, which measures profitability in relation to each client. During 2008 and 2007, new versions have been implemented.

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 of the Commercial Banking, known as Workflow Authorisation (SIPAC). This system allows for finding out the status of the loan application during any process stage. For Corporate Banking, HSBC uses HSBC's Group global "Credit approval and Risk Management" system (CARM).

Additionally and for the purpose of improving the management of collateral in commercial loans, since 2006 a new system called "Garantías II" was implemented. 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.

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.

(Continued)

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, 2010, the expected loss for the consumer and mortgage portfolios is $5,853.5 million pesos, which represents 12.2% of the balance of these portfolios and which represents a change of 12.4% compared with the expected loss at Q3 2010. The expected loss for the commercial portfolio at December 31, 2010 is $4,094.6 million pesos, representing a change of 1.8% compared to Q3 2010. For the estimation of expected loss for this portfolio, approved but undrawn lines of credit are not taken into consideration.

Operational risk

Qualitative information

Operational risk is the risk of loss arising from internal processes, people and systems failure or external events including technological and legal risks.

To handle these risks, a specialized central unit has been created, which is assisted by medium-level officers who, as part of their own business units or support areas, report to the specialized central unit and are responsible to communicate the Group’s operational risk management framework. Both the central unit and the team of officers operate in accordance with the policies, procedures and methodologies approved by the Risk Management Committee and documented in manuals and other instruction documents in respect of the Group’s management of operational risks and internal control.

The corporate governance structure which underpins the function is complemented by the Operational Risk and Internal Control Committee and by the Operational Risk Management Group which operate as sub-committees of the Risk Management Committee and which are responsible for compliance with the relevant applicable standards and regulations as well as knowing and understanding the risk profile of the company, establishing the risk management priorities, evaluating the strategies and plans for risk mitigation and to monitor risk exposure and mitigation measures on an ongoing basis.

(Continued)

During the second semester of 2010 and for the seventh 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 thirteen general categories: Compliance, Trust, Legal, Information, Accounting, Tax, Internal Fraud, External Fraud, People, Physical/Stability, Business Continuity, Technological/Systems and Operations.

Technology risk

The area of information technology (IT) maintains an adequate control technology risk through the guidelines of the Group related to methodologies and standards: FIMs (Functional Instruction Manual), RBPM (risk-based project management), and BIM (procedures general and local work instructions HTS).

The three principal measures are:

1) In order to ensure consistent and efficient project management, it is carried out through processes and practices that control the life cycle of systems development through an internal methodology called RBPM (Risk Based Project Management) and the Clarity tool (HSBC Global tool).

2) Through the process of DRP (Disaster Recovery Plan), focused on system recovery in case of disaster, the service level and critical processes management, continuity is ensured by meeting the expectations of customer service and global standards HSBC.

3) Through a streamlined governance structure, safe and reliable: designed to maintain proper control of technological risks and response capabilities for all banking services provided at the various distribution channels. The risk is managed in the high-level committees: HTS Steering Committee, Risk Management Committee (RMC) and Operational Risk & Internal Control Committee (ORICC).

Legal risk

Legal risks which could give rise to financial loss, sanctions or reputational damage have been defined as follows:

- Contractual;
- Litigation;
- Legislative;
- Non contractual rights.

(Continued)

(Thousands of Mexican pesos)

In respect of these risks, measures have been taken such as: establishing policies and procedures for the proper legal management and execution of acts with legal consequences including those which fall under a judicial system different from the national system; 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; and the establishment of a historic database of judicial and administrative resolutions, their causes and costs.

Policies and procedures have been implemented to identify, measure and control the legal risks. This is to avoid possible losses due to non-compliance with applicable laws and regulations and unfavorable resolutions, further more to avoid that these risks could result in non-quantifiable losses for the Bank.

In the last quarter of 2010, manuals, policies and circulars were updated to improve risk control.

Quantitative Information (Operational Risk including Legal and Technological Risks)

The measure of operational risks resulting from the 7° evaluation exercise carried out during the autumn of 2010, and taking into account the update performed at the end of December, the composition of risks shows a total of 532 identified and evaluated risks, distributed in: 1% (6) type A, 12% (65) type B, 43% (229) type C and 44% (232) type D, classified in turn in accordance to their primary category in:

Risk Category	Quantity	Percentage
Compliance	92	17.29%
Trust	1	0.19%
Legal	44	8.27%
Information	52	9.77%
Accounting	18	3.38%
Tax	11	2.07%
Internal Fraud	21	3.95%
External Fraud	28	5.26%
People	31	5.83%
Physical/Stability	19	3.57%
Bussiness Continuity	22	4.14%
Systems/Technological	53	9.96%
Operations	140	26.32%
Total	532	100.00%

(Continued)

The materiality threshold for the individualized report for these type of incidents is equivalent to USD10,000 in local currency and minor events are recorded in a single entry. Both categories are recorded on the corporate platform designed specifically to manage operational risks.

(30) Recently issued accounting standards

I. On October 25, 2010 the Ministry of Finance published in the Official Gazette the resolution amending the General Provisions Applicable to Credit Institutions for credit reserves allowance, changing the model of provisioning based on an incurred loss to an expected loss model, which will enter into force on March 1, 2011, regarding the loan portfolios of mortgage and consumer portfolio as shown as follows:

a. **Portfolio Consumer Credit Rating –** Require the separation of the consumer portfolio into two groups: a) holding non-revolving consumer credit, and b) operations loan portfolio by credit card and other revolving credit.

- For consumer non-revolving loan portfolios provides that the allowance for loan losses is based on the estimated probability of default, loss severity and exposure of the breach; considered for the calculation of the estimate of balances for the last day of each month, regardless of credit payment scheme. This new methodology considers the following factors for determining: i) the amount payable, ii) payment made, iii) days late, iv) total term, v) remaining term, vi) the original loan amount, vii) the original value of the property viii) outstanding credit and ix) the type of credit.

  Additionally, when revolving consumer credit have guarantees, the cover and exposed parts must be separated, whereas if cash collateral and / or liquid collateral assignment in the severity of the loss of 10% to the exposed part and in case mortgage collaterals may be assigned a severity of the loss of 60% to the exposed part.

- In relation to the loan portfolio and operations related with other revolving credit the methodology for determining the allowance for loan losses relating to credits related to credit cards is established, which came into force in 2009 as detailed in notes 2j and 11.

b. **Rating housing mortgage portfolio** - the allowance for loan losses based on the estimated probability of default, loss severity and exposure at default is established; considering for the calculation of the estimated balances the last day of each month. This new methodology considers the following factors for determining: i) the amount payable, ii) payment made, iii) value of the property iv) outstanding credit, v) days late, vi) name of the credit and vii) integration of record.

To determine the severity of the loss, the component of credit recovery rate will be used, which is affected if the loan has collateral trust or under a court classified by region to the states belonging to such courts.

The institutions that are beneficiaries of schemes of first loss coverage or pass coverage schemes, issued by other financial institutions or entities, with respect to claims considered in the housing mortgage loan portfolio in particular, may adjust the percentage of loss reserves corresponding to the claim question, using a factor that includes a percentage covered by such schemes of coverage, as long as they comply with the terms and conditions by the beneficiary institution, otherwise it should not be considered schemes coverage.

Also in the two cases of consumer loans or housing mortgage, it allows the use of internal methodologies that can be obtained from the National Banking and Securities Commission. During the period from March 1, 2011 and November 30, 2011, credit institutions shall create the total amount of reserves mentioned above.

However, the initial effect of the change in the amount of reserves mentioned above should be recognized in the figures of March 31, 2011, affecting the item previous year's results, observing the provisions of paragraph 11 of the FRS B-1 "Accounting Changes and Error Corrections".

Up to date, the management is in the process of reviewing and implementing new models of credit provisioning, as well as in process of impact assessment that will have on their figures the adoption of those models.

II. On January 27, 2011, it was published in the Official Journal of the Federation the resolution amending the general provisions applicable to credit institutions, which replace the accounting criteria and entered into force the following day of its publication, stating that credit institutions, for comparative purposes, and for the preparation of quarterly and annual financial statements should present financial information for the first quarter of 2011, based on accounting criteria contained in the resolution. Management considers that the effects of this changes will not be important.

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Among other changes, the following ones are established:

a. **Criterion A-2 “Application of particular rules”-** It is established that as part of other income (expenses) of the operation, should be presented under the following headings:

- Interest earned on loans to employees
- The rental income for the landlord.
- The effect of the original lease termination, resulting from a sublease. It also adds the concept of “other costs associated” to comprehensive financing capitalization in convergence with FRS D-6.

b. **Criterion A-3 “Applications of general rules”-** It is established among others the following:

- They are added as restricted assets to those from operations are not settled on the same day. For margin accounts given attachment clarifies the criteria B-5.
- It incorporates treatment due payable operations (liabilities) in settlement accounts related to its liquidations.
- It is specified to be assessed if the holding of certificates of a trust gives control or significant influence or recognition for consolidation by the equity method.
- The concept of mate3riality focuses on the concepts established in the FRS is clarified for a better accuracy in their application (professional criteria).

c. **Criterion A-4 “Supplementary application to the accounting principles“-** It is amended and clarified the scope and elements of U.S. GAAP on supplementary cases.

d. **Criterion C-3 “Related Parties”-** The following is established:

- Change the term "relationship" with the term "close relative" in convergence with the NIF, stipulating that it must also address the applicable law.
- It is considered related parties "close relatives of any person" instead of "spouses or people who have relationship with individuals."
- It is considered within the power of control individuals "who are considered close relatives" instead of "with whom they are related by consanguinity or affinity within the fourth civil degree, the spouse or concubine."

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e. **Criterion D-1 “Balance sheet”-** It is established among others the following:

- The loan portfolio is submitted in accordance with the claim in question; net of interest received in advance and deferred loans for the financial income payable under capitalized leases.
- Debtors granted by cash collateral will be presented under "Other receivables, net."
- Creditors received cash collateral will be presented as part of the heading "Other accounts payable."
- Eliminates the caption "Deferred credits and charges anticipated" the advance of interest charges, fees for the initial granting of credit and annuity fees charged by credit card.

f. **Criterion D-2 “Income statement”-** It is restructured the income statement in a comprehensive manner for attachment to FRS and IFRS.

- Eliminates minimum items on the income statement:

  - Total income (loss) of the operation.
  - Profit before participation of non-consolidated subsidiaries and affiliates.

- It brings the concept of administration and promotion expenses "after the financial margin for loan losses along with other concepts (fees charged and paid the result from trading and other income (expense) of the operation).
- The income (expense) of the operation, the concepts that integrated the "other income (expense) to remove this item.
- The share in profit of unconsolidated subsidiaries and affiliates is presented after the “result of the operation" and before "income before income taxes "
- The name of the concept of "controlling interests" is changed for "Consolidated Income Statement." This concept shows the segregation of the portion of net income attributable to non controlling interest when presenting the consolidated income statement.

g. **Criterion D-4 “cash flow statement”-** The concept of “cash” is modified for “cash and cash equivalents” in convergence with the FRS.

- The name of "adjustment to cash flow from changes in the exchange rate and inflation levels" is changed for "effects of changes in the value of cash and cash equivalents."

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- This concept was incorporated into the impact on cash balances from valuation at fair value.
- It requires that changes in operational items are presented net of the estimate, according to the indirect method (investments, receivables and foreclosed assets).
- It incorporates the treatment for the conversion of cash flows of foreign operations that are in inflationary economic environment.
- Clarifies that should eliminate the cash flows between all entities within the economic entity that consolidates the development of the state of consolidated cash flows
- The same revelations established in the FRS B-2 are included.

The Bank will adopt the changes to general rules applicable to credit institutions in their information for the first quarter of 2011, which management estimates will not generate significant effects.

III. The CINIF has issued the FRS and Revisions listed below:

a. **FRS B-5 *"Segment financial information"*** - FRS B-5 is effective beginning January 1, 2011, with retrospective application. The principal changes as compared to superseded Bulletin B-5 – "Segment financial information" include the following:

- The information to be disclosed by operating segment is the information regularly used by top management and does not require segmentation into primary and secondary information or into segments identified based on products or services (economic segments), geographical areas, and homogeneous customer groups. Additionally, disclosure by the entity as a whole of information on its products or services, geographical areas and principal customers and suppliers is required.

- FRS B-5 does not require that the entity's business areas be subject to different risks to qualify as operating segments.

- Business areas in pre-operating stage may be classified as operating segments.

- FRS B-5 requires disclosing separately by segment, interest revenue and expense, as well as all other components of comprehensive financial results (CFS). In specific cases, disclosure of net interest income is permissible.

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- Disclosure of the liability amounts included in the usual operating segment information normally used by top management for making the entity's operating decisions is required.

Management estimates that the effects of adoption of this new FRS will not be material.

b. **FRS B-9 *"Interim financial reporting-*** FRS B-9 is effective beginning January 1, 2011 with retrospective application. The principal changes as compared to superseded Bulletin B-9 "Interim financial reporting" include the following:

- FRS B-9 requires that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for not-for-profit entities, the presentation of the statement of activities is expressly required.

- FRS B-9 establishes that the financial information reported at the end of an interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement at the immediately preceding year-end date.

- New terminology is included and defined.

Management estimates that the effects of adoption of this new FRS will not be material.

c. **FRS C-5 "Prepayments"–** FRS C-5 is effective beginning January 1, 2011, with retrospective application, supersedes Bulletin C.5, and includes primarily the following changes:

- Advances for purchase property, plant and equipment and intangible assets (non-current assets), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepaid expenses must be reported based on the nature of the item to be acquired, either under current assets or non-current assets.

- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be reported in the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related future period.

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- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, accounting policies for recognition and impairment losses, as well as relevant reversal of impairments.

Management estimates that the effects of adoption of this new FRS will not be material.

d. **FRS C-6 "Property, plant and equipment"-** FRS C-6 is effective beginning January 1, 2011, except for changes arising from segregation into the components of property, plant and equipment items having a clearly different useful life, which will be effective for fiscal years beginning on or after January 1, 2012. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes with respect to the superseded Bulletin include the following:

- Property, plant and equipment to develop or maintain biological and extraction industry assets are within the scope of this FRS.

- The treatment for asset exchanges based on the economic substance is included.

- The bases for determination of the residual value of a component are added.

- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.

- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.

- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

e. **FRS C-18 "Property, plant and equipment retirement obligations" –** FRS C-18 is effective beginning January 1, 2011, and primarily provides for the following:

- Requirements that must be considered for valuation of a (Fixed Asset) component retirement obligation.

- Requirement to recognize retirement obligations as a provision that increases the acquisition cost of a component.

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- How changes in the valuation of retirement obligations (provisions) resulting from revisions to the cash flows, the periodicity for settlement and the suitable discount rate to be used must be recognized for accounting purposes.

- Use of a suitable discount rate on estimated future cash flows, incorporating the cost of money and the entity's credit risk

- Use of the expected present value technique to determine the best estimate for retirement obligations.

- Disclosures that are to be made in case an entity has component retirement obligation.

Management estimates that the effects of adoption of this new FRS will not be material.

2011 FRS Revisions-

In December 2010, the CINIF issued the document referred to as "2011 FRS Revisions", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

a. Bulletin C-3 "Accounts receivable" - Recognition of interest income on accounts receivable when accrued is established, provided the relevant amount is reliably valued and likely to be recovered. Furthermore, it is provided that interest income on accounts receivable unlikely to be recovered must not be recognized. These revisions are effective beginning January 1, 2011 y are retrospectively applicable.

b. FRS C-10 "Derivative financial instruments and hedging activities" – The revisions to this new FRS are effective beginning January 1, 2011, with retrospective application. The principal revisions include the following:

- Certain effects of hedge effectiveness may be excluded.

- An intra-group transaction may be recognized as hedging only when the functional currencies of the related parties are different from each other.

- Reporting of the effect of the hedged interest rate risk is required, when a portfolio portion is the hedged position.

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- Account margins must be reported separately.

- In a hedge relationship, a proportion of the total amount of the hedging instrument may be designated as the hedging instrument. The impossibility of designating a hedge relationship for a portion of the term of the hedging instrument is specified.

Management estimates that the effects of adoption of this new FRS will not be material.