

A Transforming Transaction Combining Two Successful Business Models

HSBC 

HOUSEHOLD 

November 14, 2002

Forward Looking Statements

This presentation may contain certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of the safe-harbour provisions of the US federal securities laws. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors that are beyond the companies' ability to control or estimate precisely, such as changes in economic and market conditions, changes in interest rates and foreign exchange rates, changes in law, governmental policy and regulation, the effects of competition, the ability of HSBC and Household to adequately identify and manage the risks they face, changes resulting from the proposed acquisition including the difficulties integrating systems, operational functions and cultures, and other risk factors detailed in HSBC's and Household's respective reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement. Neither HSBC nor Household undertake any obligation to publicly release any revisions to these forward-looking statement to reflect events or circumstances after the date of this announcement.







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Strategic Rationale

- Bringing together one of the world's top asset generators with one of the world's top deposit gatherers
- Significant geographic and business line diversification
- Stable and lower cost funding for Household with enhanced market access
- Meaningful opportunities to broaden the product range available to both retail and commercial customers
- International roll-out of Household's business model
- Leveraging Household's strong marketing, credit management and technology skills

Creating a Financial Services Franchise Balanced between North America, Europe and Asia

<u>Criteria</u>		<u>Key Points</u>
Strategic Fit		Consumer focused asset generator
Human Fit		Shared vision for the future
Technology Fit		Complementary platforms and approach
Ease of Integration		Management continuity and branding to be preserved
EPS Accretion		Yes and risk adjusted value enhancing
Manageable Risk		Careful consideration of business model and controls

Overview of HSBC

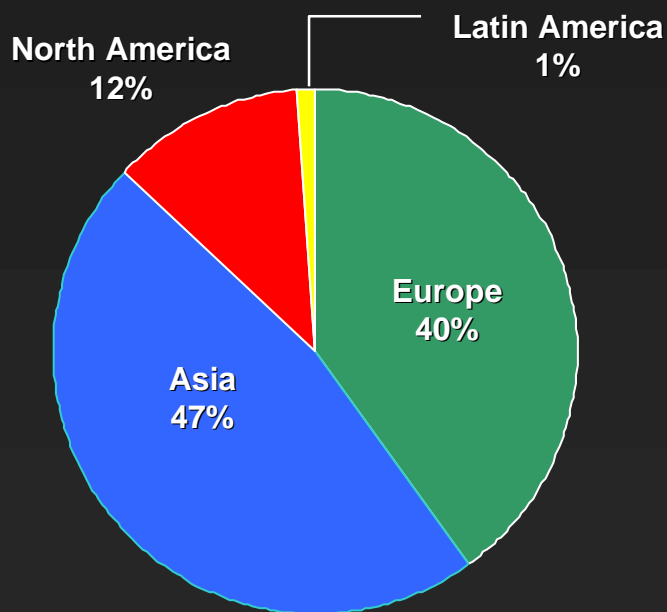
HSBC

- Established in 1865
- Headquartered in the United Kingdom
 - Over 7,000 offices in 81 countries
- World's 3rd largest financial institution by market capitalisation (US\$107bn)
- 190,000 shareholders in over 100 countries and territories
 - Stock listed on London, New York, Hong Kong and Paris exchanges
- US\$51bn of shareholders' funds; Pre-tax cash profits* of US\$5.5bn for the first six months of 2002

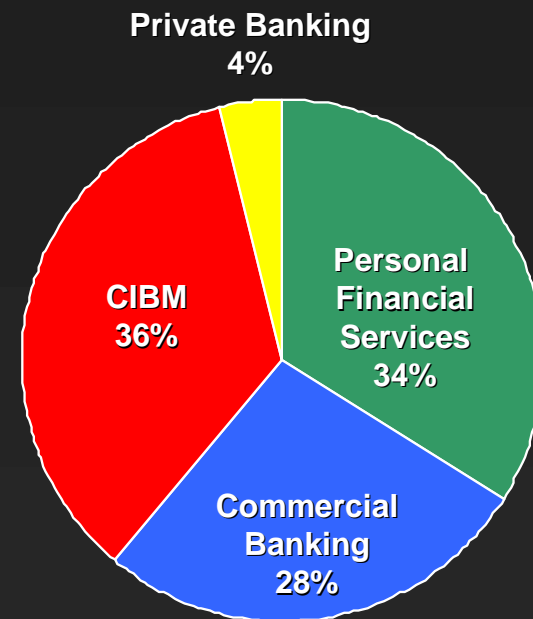
* Cash basis pre-tax profits are derived by adjusting reported pre-tax profits to eliminate the impact of the amortisation of goodwill arising from acquisitions.

HSBC's Geographic and Business Mix

Geographic Mix*

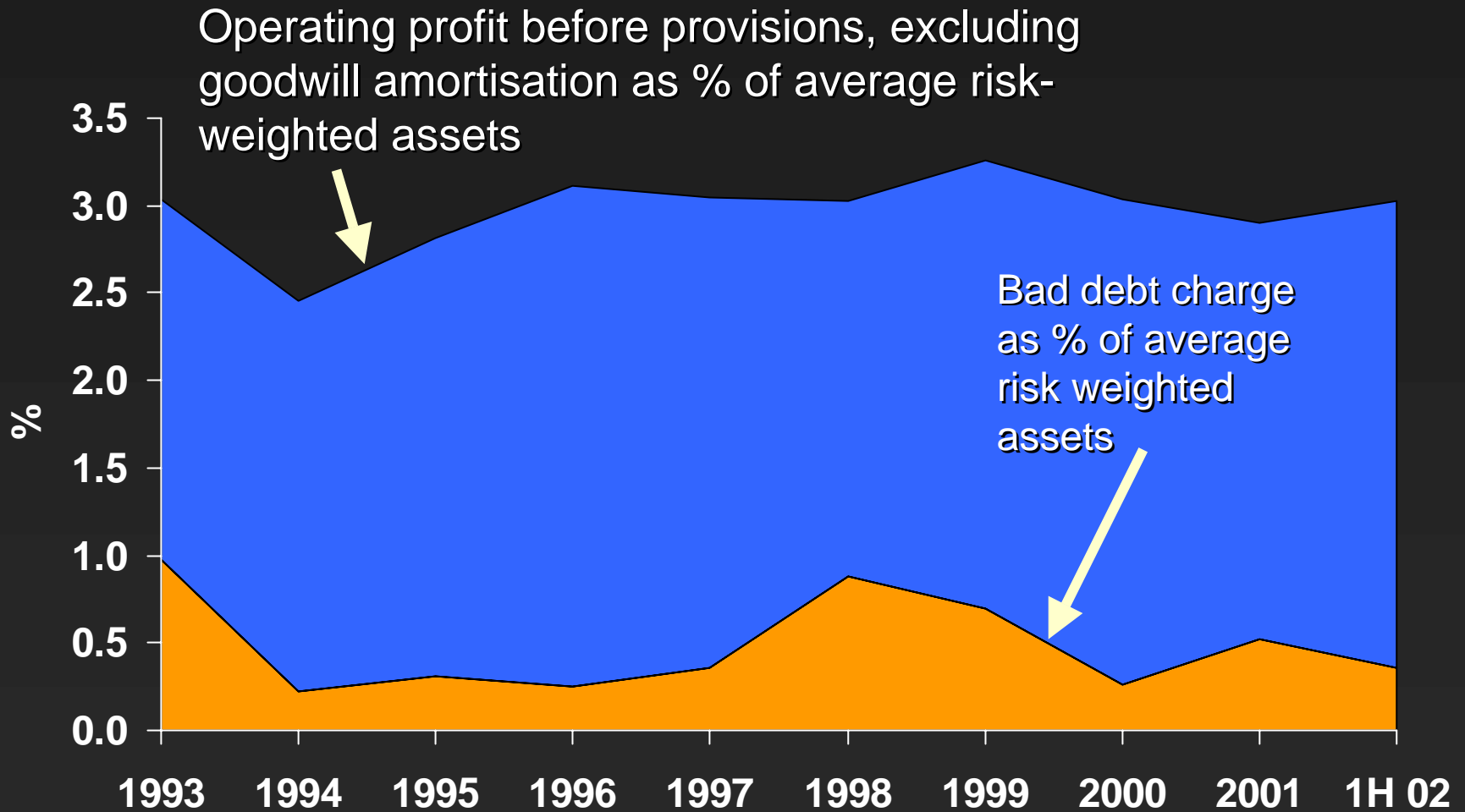


Business Mix*



* Cash basis pre-tax profits for the six months ended 30 June 2002.

HSBC's Operating Margin



Characteristics of HSBC's Business Model

- Customer driven approach organised around customer segments
- Fair pricing and product choice underpin customer service
- Differentiation through home grown information systems
- Leveraging internationality through multiple channels
- Conservative and thrifty
- Collective management character based on long-term careers

HSBC's Presence in the U.S.

- Long history in the United States
 - First agency in San Francisco in 1865
 - Acquired Marine Midland in 1980
 - Acquired Republic New York Corporation in 1999
- Strong U.S. banking franchise
 - 11th largest U.S. bank
 - 423 branches nationwide (plus 15 in Panama)
 - Total U.S. assets of US\$90bn
 - Total U.S. deposits US\$56bn
- HSBC USA is AA- rated

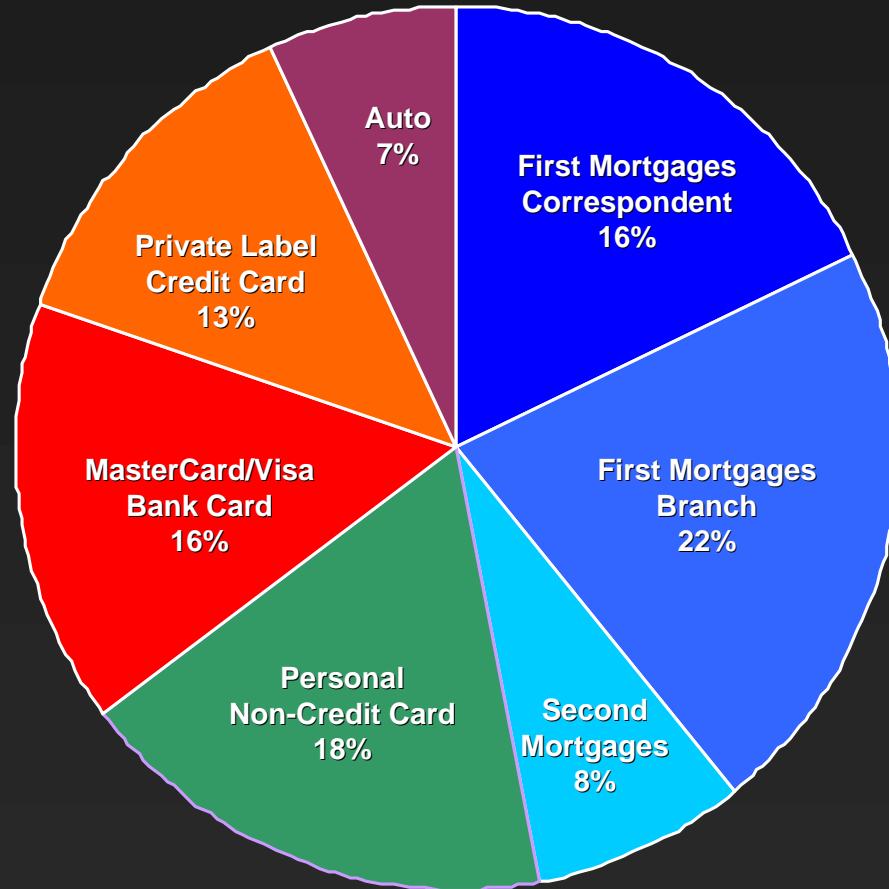
Overview of Household

Household

- Established in 1878
- Recognised leader in U.S. consumer lending
 - Leading market share in all businesses
 - Leading brand names in consumer finance
 - Profitable and growing credit card businesses – private label and bank card
- Extensive customer base and distribution network
 - 53+ million customers across the entire United States
 - Nationwide branch network, direct mail and e-commerce
 - Significant distribution through alliances and business partnerships
- Consistent financial performance
 - US\$1.8bn of after-tax profits in 2001
 - US\$1.2bn of after-tax profits for the first nine months of 2002 after absorbing US\$333m charge
 - Disciplined and sustainable asset growth
 - Strong margins and returns on a total and risk-adjusted basis
- Leads “Best Practices” in consumer finance

Household's Receivables by Type

US\$105.5 Billion

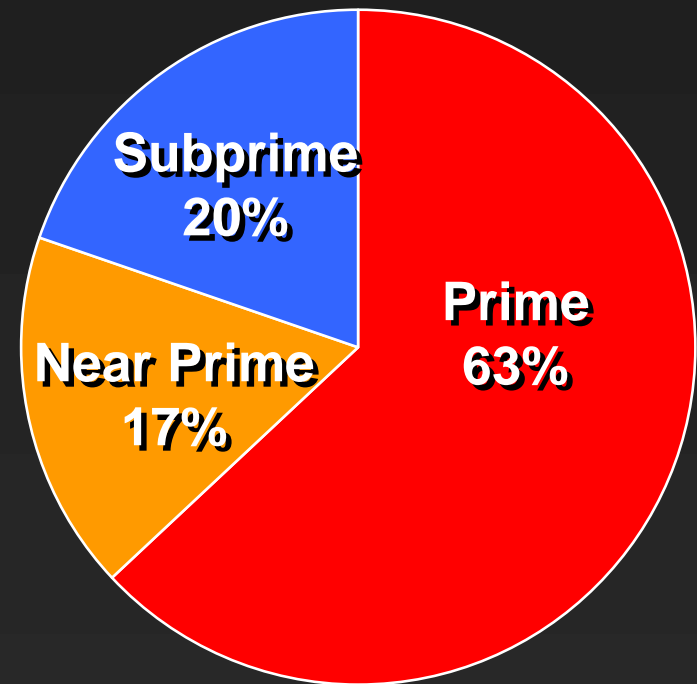


Note: As of 30 June 2002. Receivables are on a managed basis.

Household's Customer Base

Household's 53 million customers have the following characteristics:

- Average age between 40 – 50
- Average household income between US\$45,000 and US\$60,000
- Average home value* between US\$120,000 - US\$175,000
- Average auto value** between US\$12,000 - US\$15,000



Note: Based on outstanding managed receivables as of 30 June 2002.

* U.S. real estate secured loan customers

** Auto finance customers

Household's Core Customer is the Middle Income Market

Customers can be classified as **Prime**, **Near Prime** and **Subprime**

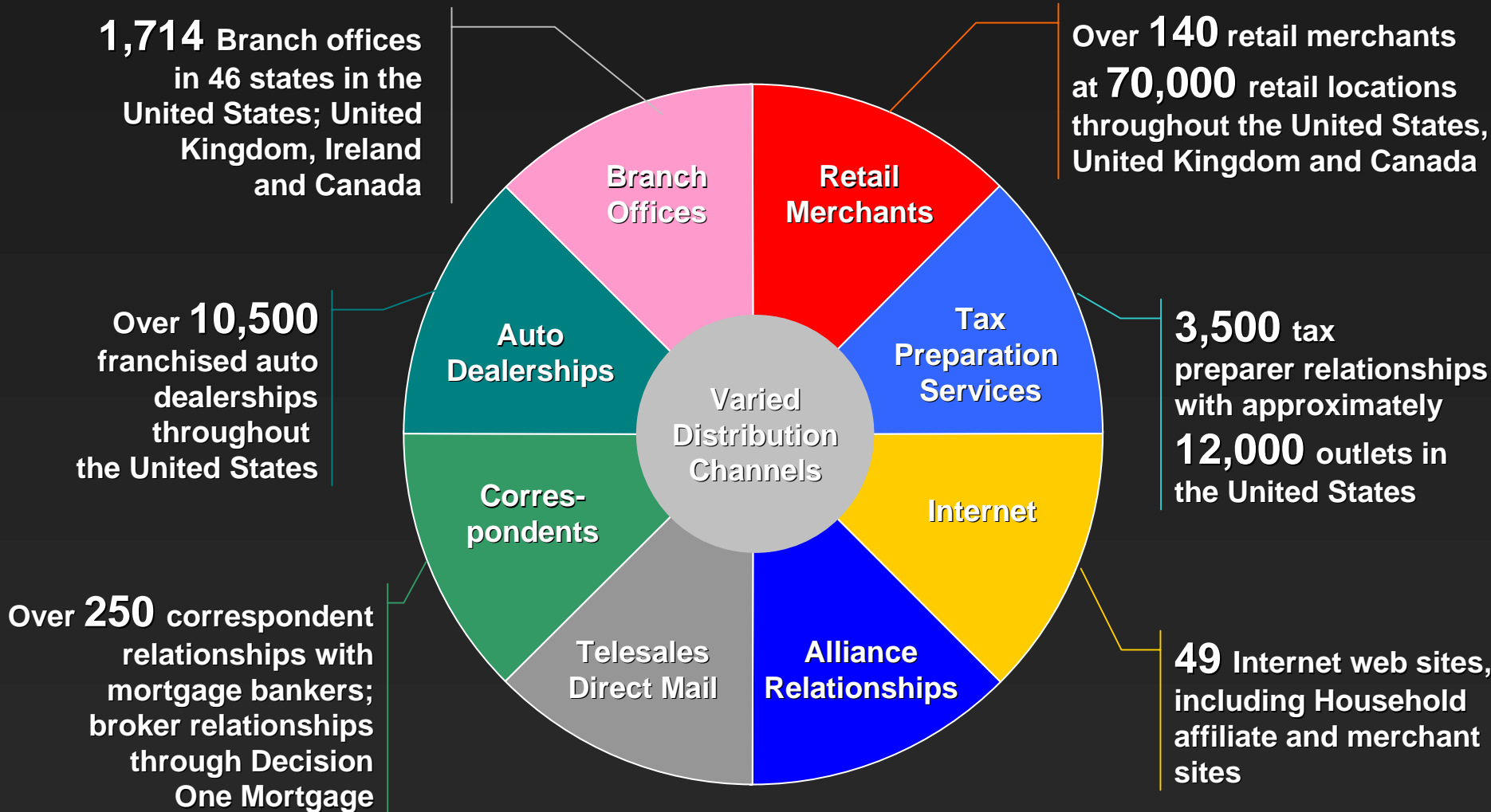
PROBABILITY OF DEFAULT

		PROBABILITY OF DEFAULT		
		Low	Medium	High
EXPECTED LOSS GIVEN DEFAULT	Low		Real Estate Secured – 1 st Lien	
	Medium		Real Estate Secured – 2 nd Lien	Auto
	High	Credit Card — GM Credit Card — UP Private Label	PHL; Credit Card – Household Bank	Subprime credit card Branch unsecured

Probability of Default: Determined by the credit score. General bands are as follows:
 Low: >660
 Medium: 580-660
 High: <580

Expected loss given default: What percent of the loan is at risk given default
 Low: <25%
 Medium: 25% to 75%
 High: >75%

Household's Distribution Channels



Household's Consumer Lending Franchise*

Nationwide Coverage and Well Diversified

West (U.S. Population 8%)

Mortgage**	10%
Consumer Finance	10%
Bank Card	7%
Private Label CC	6%
Auto	4%

Midwest (U.S. Population 23%)

Mortgage**	21%
Consumer Finance	22%
Bank Card	26%
Private Label CC	19%
Auto	17%

Northeast (U.S. Population 11%)

Mortgage**	7%
Consumer Finance	12%
Bank Card	16%
Private Label CC	9%
Auto	3%

California (U.S. Population 12%)

Mortgage**	17%
Consumer Finance	16%
Bank Card	14%
Private Label CC	13%
Auto	14%

Southwest (U.S. Population 14%)

Mortgage**	11%
Consumer Finance	8%
Bank Card	11%
Private Label CC	16%
Auto	18%

Mid Atlantic (U.S. Population 13%)

Mortgage**	10%
Consumer Finance	17%
Bank Card	14%
Private Label CC	12%
Auto	15%

Southeast (U.S. Population 19%)

Mortgage**	24%
Consumer Finance	15%
Bank Card	12%
Private Label CC	25%
Auto	29%

* Represents % distribution of managed receivables as of 31 December 2001.
 ** Mortgages originated through correspondent channels.

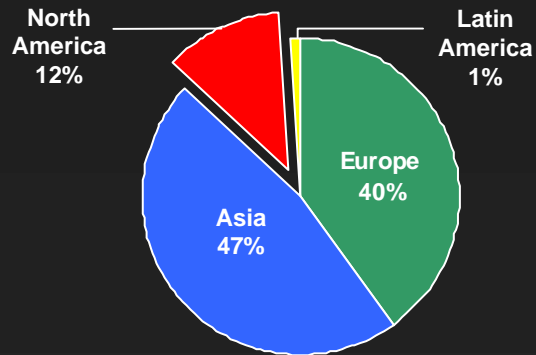
Characteristics of Household's Business Model

- Centralised approach to business
- Sales skills and culture
- Partnering skills and culture
- Low cost producer
- “Best in Class” technology
- Strong marketing and credit management analytics

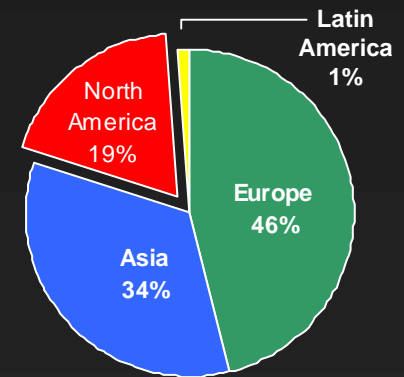
Opportunities

Creates a Balanced Worldwide Portfolio

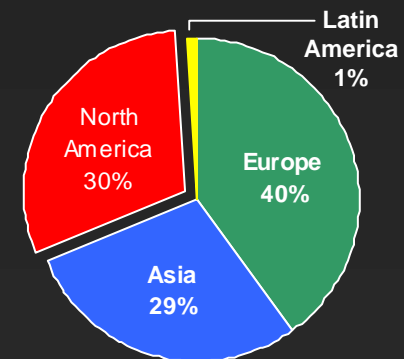
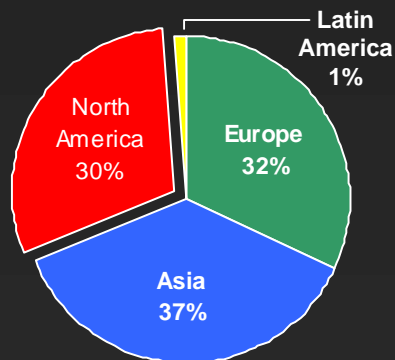
Cash Basis Pre-Tax Profits



Managed Assets



HSBC
with
Household

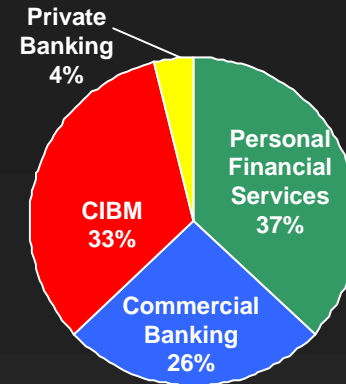
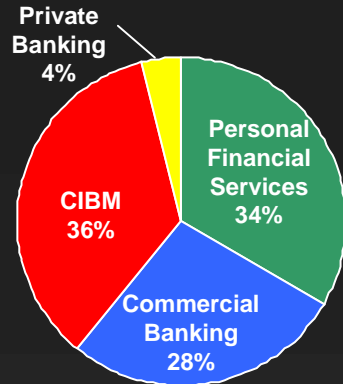


Note: As of or for the six months ended 30 June 2002.

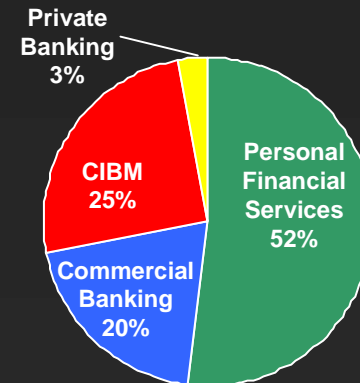
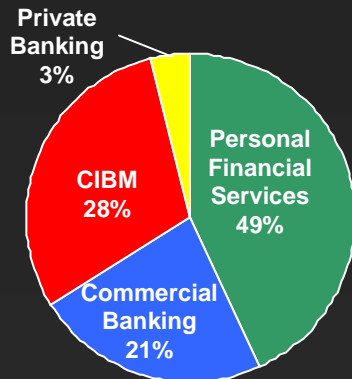
Significantly Expands Consumer Franchise

Cash Basis Pre-tax Profits

Managed Loans/Receivables



HSBC
with
Household



Note: As of or for the six months ended 30 June 2002.

Opportunities for Cost Synergies

- Lower cost funding
- Cost benefits from consolidating HSBC's NAFTA card processing requirements, currently outsourced, into Household Technology
- Administrative

Additional Business Opportunities

- Capture valuable customer business that falls below HSBC's or above Household's natural franchise
- Market prime products through Household origination channels and non-prime products to HSBC's deposit customers falling below HSBC's credit origination preferences
- Migrating customers into HSBC as their financial circumstance evolve
- Link Household's Hispanic customer base with HSBC's Mexican banking network for remittance services
- Link HSBC's Mexican banking network with Household's consumer finance capabilities to serve qualifying emigrants

Note: HSBC's Mexican network is dependent upon the successful completion of its acquisition of Grupo Financiero Bital SA de CV.

Transform Household's Store Card Business

- US\$13.5bn in Household receivables
- Capitalise on HSBC's stronger brand for B-to-B business capture
- Leverage Household's partnering skills in its private label card business with HSBC's merchant acquiring, trade finance and retailer lending business to maximise sales opportunities

Complementary Technology Platforms

- “Best in Class” technology in both organisations
- Compatible systems architectures allow for cost savings through consolidation and common purchasing
- Significant scalability in volume allows for low-cost expansion across wider geographic markets particularly in credit card
- Household’s marketing database management and credit scoring capability at the forefront of global practice to be rolled out through HSBC

Risks

Sales Practice Settlement

- In October Household reached a preliminary nationwide settlement with state agencies regarding its branch sales practices
 - Established US\$484 million fund to assist qualifying customers
- The settlement, which is on track to be finalized by year-end, will resolve regulatory concerns without significantly impacting Household's economic model
- The agreement should significantly reduce Household's risk of related civil litigation liability

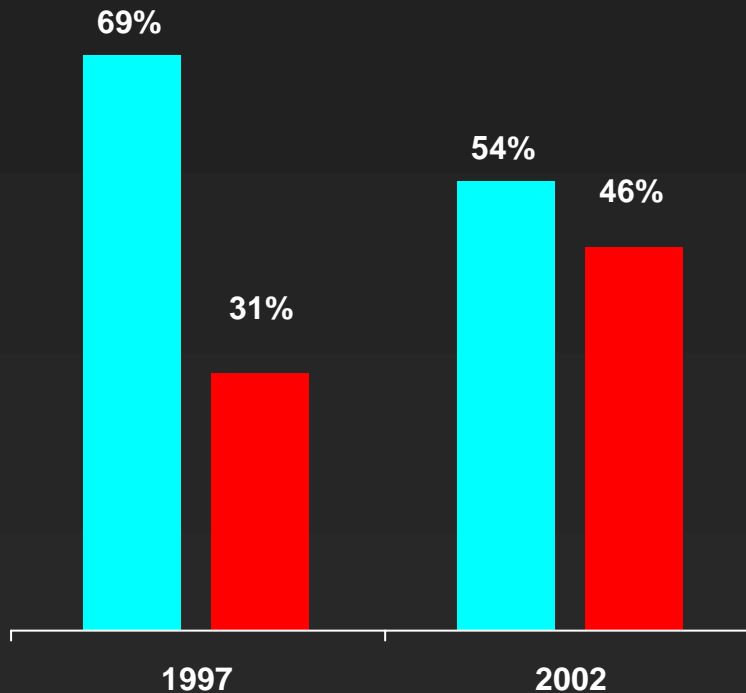
Setting the Standard for Consumer Lending

- Further refinement and implementation of “Best Practices”
 - Introduction of innovative monitoring and compliance program
 - Industry leading disclosures to customers
- We will continue to strengthen practices together
- Competitive advantage as industry evolves and consolidates

Credit Risk Mitigation

Managed Receivables

■ Unsecured ■ Real Estate Secured



Diversification

- Move towards lower risk secured business
- Increase in real-estate secured from 31% to 46% of total portfolio from 1997 to 2002 respectively
- 83% of the real estate secured portfolio is 1st lien versus 65% in 1997

Credit Risk Mitigation

- Tightened underwriting policy criteria
- Tightened lending authority and exception policies
- Strengthened portfolio management
- Dramatically increased the number of collectors

Transaction Overview

Transaction Overview

Fixed Exchange Ratio:	2.675 HSBC shares or 0.535 ADSs for each Household share
Structure:	Tax-free stock-for-stock exchange
Total Equity Value*:	US\$14.2 billion
Earnings Impact:	Accretive to 2003 EPS
Expected Close:	First quarter 2003
Required Approvals:	Regulatory Household and HSBC shareholders

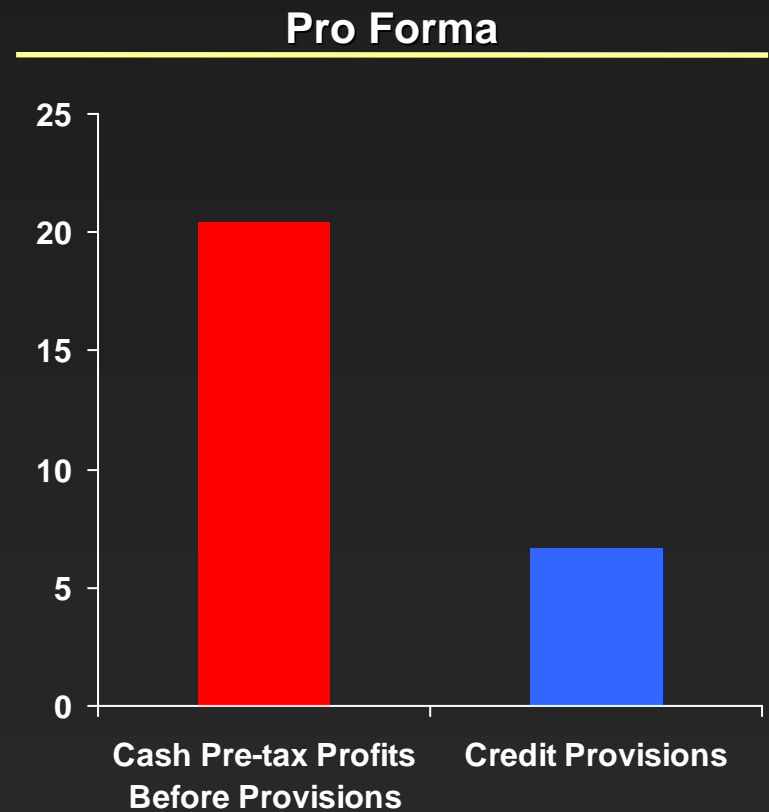
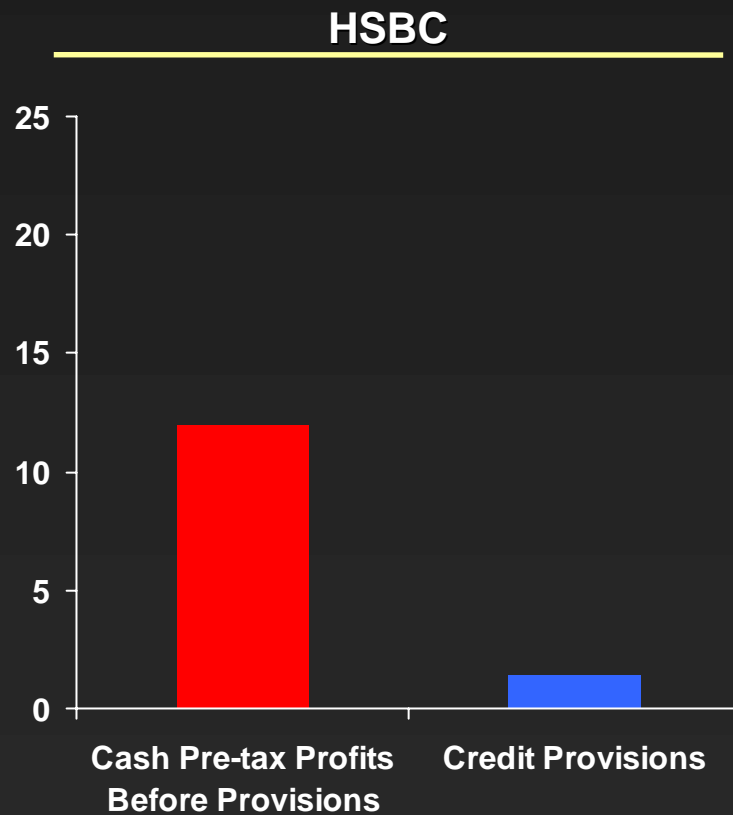
*Based on HSBC's closing price of £7.07 on 13 November 2002.

Pro Forma Impact

(US\$ in millions)	HSBC	Household	Pro Forma
Assets			
Cash	5,561	347	5,908
Items in course of collection	5,894	—	5,894
Treasury bills and debt securities	192,047	8,229	200,276
Loans & advances to banks	100,965	—	100,965
Liquid assets	304,467	8,576	313,043
Loans and advances to customers	342,057	104,456	446,513
<i>(includes receivables serviced with limited recourse</i>	—	22,323)	
Total assets (excl HK notes)	737,349	119,129	856,478
<i>(includes receivables serviced with limited recourse</i>	—	22,323)	
<i>(excludes Hong Kong certificates of indebtedness</i>	8,986	—)	
Deposits from banks	61,455	—	61,455
Customer accounts	470,778	5,612	476,390
Other funding and subordinated liabilities	44,399	99,191	143,590
<i>(includes funding relating to receivables serviced with limited recourse</i>	—	22,323)	
Total funding	576,632	104,803	681,435

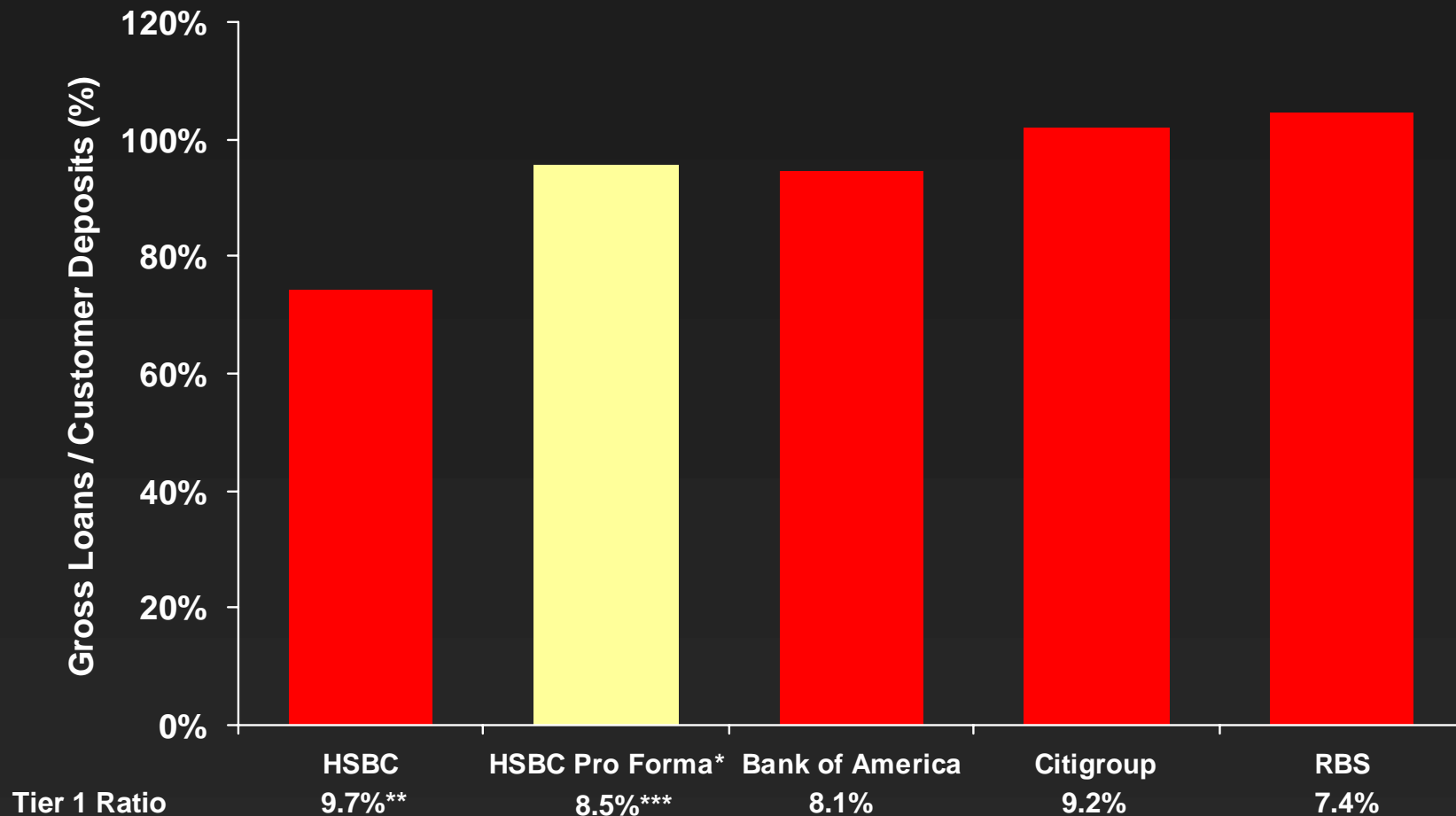
Maintain Substantial Loss Cushion

(US\$ in billions)



Note. First six months of 2002 annualised.

Liquidity and Capital Remain Strong



* Based on Household's managed receivables.

** As published by HSBC.

*** Assumes the successful completion of Household transaction and acquisition of Grupo Financiero Bital SA de CV.

Note: As of 30 June 2002.

Summary

- Bringing together one of the world's top asset generators with one of the world's top deposit gatherers
- Further balances HSBC's earnings, geographic profile, business and product mix
- Provides significant opportunities for cost, funding and revenue synergies
- Demonstrable technology and human capital fit
- Setting the standards in consumer lending
- Risks are understood and manageable
- Accretive to HSBC's 2003 EPS

Pro Forma Financial Figures

The pro forma financial figures in this presentation are presented for illustrative purposes only and have been prepared by aggregating financial information as at or for the six months ended 30 June 2002 of HSBC (prepared on a UK GAAP basis) with that of Household (prepared on a US GAAP basis). Financial information prepared in accordance with US GAAP may differ in certain significant respects from such information prepared in accordance with UK GAAP and the pro forma financial figures presented might therefore be materially different if Household's financial information had been presented in accordance with UK GAAP.

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