

29 April 2002

HSBC USA INC. 2002 FIRST QUARTER RESULTS

- Net income for the quarter ended 31 March 2002 increased by 16 per cent to US\$210 million compared to US\$181 million in the first quarter of 2001.
- Cash earnings[†] for the quarter ended 31 March 2002 were US\$210 million, a decrease of 5 per cent compared to US\$222 million in the first quarter of 2001.
- The cost:income ratio for the 2002 first quarter was 52.6 per cent compared to 58.8 per cent for the same period in 2001. The ratio for the first quarter of 2001, put on a comparable basis by excluding goodwill amortisation and restructuring costs, was 52.7 per cent.
- Tier 1 capital to risk-weighted assets was 8.4 per cent at 31 March 2002 compared to 8.1 per cent at 31 March 2001.
- Cash earnings[†] as a percentage of average common equity for the quarter ended 31 March 2002 were 12.8 per cent compared to 13.1 per cent during the quarter ended 31 March 2001.
- Client assets under administration at 31 March 2002 were US\$49.9 billion, of which US\$33.3 billion were funds under management and US\$16.6 billion were custody accounts.

[†] *Cash earnings are net income after preferred dividends and after adding back goodwill amortisation and expense associated with HSBC Group share option plans.*

HSBC USA Inc. reported net income of US\$210 million for the quarter ended 31 March 2002, an increase of 16 per cent from US\$181 million for the first quarter of 2001. Revenue growth and the implementation of SFAS 142 in January 2002 (which eliminated the amortisation of goodwill through operating expenses), more than offset lower levels of securities gains, increased provisions and a higher underlying tax rate. Cash earnings in the first quarter of 2002 decreased to US\$210 million from US\$222 million in the comparable period in 2001.

Commenting on the results, Youssef A Nasr, Chief Executive Officer of HSBC USA Inc., said: "Overall, we are pleased with the first quarter operating and financial results that we have reported today. Net interest income and most categories of fee income showed healthy growth from last year's levels while cash expenses were flat. However, more difficult conditions in the capital markets prevented a recurrence of the record gains reported last year from securities sales and FX trading."

In March, HSBC USA Inc. and HSBC Canada announced the alignment of their North American operations, with the primary goal of providing seamless North American services to their customers.

Mr. Nasr added: "The aligning of our American and Canadian operations will allow management to better leverage the strengths and practices of each bank. It will also enable us to increase economic profit in North America by improving HSBC's overall position in terms of brand awareness, cost efficiencies, revenue generation, distribution and risk management.

"HSBC is already known as both one of the world's largest financial services organizations and a local bank in the markets we serve. This new alignment presents us with the opportunity to become North America's premier cross-border bank."

Total assets of HSBC USA Inc. were US\$87.5 billion at 31 March 2002 compared to US\$84.5 billion at 31 March 2001. Total deposits were US\$59.7 billion at 31 March 2002, compared to US\$57.7 billion at 31 March 2001. Within deposits, personal demand, personal money market and commercial money market balances increased.

Total funds under management at 31 March 2002 were US\$33.3 billion, up US\$2.3 billion, or 7.5 per cent from 31 March 2001, largely due to the movement of new and existing deposits to investment products. Including custody balances, assets under administration at 31 March 2002 totalled US\$49.9 billion. Total loans at 31 March 2002 were US\$42.8 billion, compared to US\$41.0 billion at 31 March 2001. Residential mortgage loans originated and held in the portfolio increased, and lower margin corporate loans were reduced. HSBC Bank USA's residential mortgage business, with approximately 325,000 customers, originated US\$5.4 billion in mortgages in the first quarter of 2002, an increase of more than 90 per cent over the US\$2.8 billion originated in the first quarter of 2001.

For the quarter ended 31 March 2002, net interest income increased by US\$38 million, or 7.0 per cent, to US\$582 million. Total average earning assets increased by US\$2.0 billion or 2.6 per cent compared to 2001. In addition the benefits of lower costing personal and commercial deposits and cuts in short-term rates over the past twelve months have led to wider interest margins in certain commercial businesses, the residential mortgage business and treasury.

For the quarter, other operating income was US\$277 million, a decrease of US\$15 million, or 5.1 per cent compared to US\$292 million in the first quarter of 2001. Wealth management, insurance and bankcard fees all continued to show growth in the first quarter of 2002. Brokerage revenues were 60 per cent higher due in part to sales of annuity products and increased transaction volumes. Insurance revenues increased by 73 per cent over the comparable quarter of 2001. However, difficult conditions in the capital markets prevented a recurrence of last year's record results from Treasury trading and securities gains. Treasury trading revenues for the quarter ended 31 March 2002 were US\$43 million, a decrease of US\$14 million from the US\$57 million reported in the first quarter of 2001. Securities gains for the quarter ended 31 March 2002 were US\$38 million, a decrease of US\$31 million from the US\$69 million in the comparable period in 2001. The first quarter of 2002 included sales of mortgage-backed treasury securities and Latin American securities. Securities gains in the first quarter of 2001 were unusually high as the company sold securities to adjust to interest rate changes, to reconfigure exposure to residential mortgages and included a US\$19 million one-time gain on the sale of shares in Canary Wharf.

Operating expenses decreased 8.1 per cent to US\$452 million in the first quarter of 2002 compared to US\$492 million in the first quarter of 2001.

The decrease was primarily a result of the previously mentioned adoption of SFAS 142 with goodwill no longer being amortised through operating expenses. The impact of goodwill amortisation on net income in the first quarter of 2001 was US\$43 million. Allowing for this accounting change, operating expenses were essentially flat when compared to the first quarter of 2001 but were almost 4 per cent lower than the fourth quarter of 2001.

Overall credit quality in the first quarter was mixed. Non-accruing loans were lower and the reserve to non-accrual ratio improved to 138.2 per cent from 125.1 per cent. However, the provisions for credit losses of US\$73.5 million were US\$25.9 million higher than for the first quarter of 2001. Net charge-offs of US\$61 million for the first quarter of 2002 were US\$40 million higher than in the first quarter of 2001, largely related to a small number of problem loans.

As part of its strategy of providing customers with multiple choices for product and service delivery, HSBC Bank USA offers a comprehensive internet banking service. At 31 March 2002, more than 310,000 customers had registered for the service, up from approximately 275,000 at year-end 2001. The HSBC Bank USA web site, **us.hsbc.com**, where customers can apply for accounts, conduct financial planning and link to online services, receives over 31,000 visits daily.

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About HSBC Bank USA

HSBC Bank USA has more than 415 branches in New York State, giving it the most extensive branch network in New York. The bank also has eight branches in Florida, two in Pennsylvania, three in California and 17 in Panama.

HSBC Bank USA is the tenth largest US commercial bank ranked by assets and is a wholly-owned subsidiary of HSBC USA Inc, an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc (NYSE: HBC). Headquartered in London, and with over 7,000 offices in 81 countries and territories, the HSBC Group is one of the world's leading banking and financial services organisations.

For more information about HSBC Bank USA and its products and services visit www.us.hsbc.com.

<i>Figures in US\$ millions</i>	<i>Quarter ended 31 March 2002</i>	<i>Quarter ended 31 March 2001</i>
Net income	210	181
Cash earnings[‡]	210	222
Performance ratios (%)		
Cash earnings as a percentage of average common equity	12.8	13.1
Cost:income ratio	52.6	58.8
Staff numbers (full-time equivalents)	13,831	14,406
Average balances		
Loans	42,104	40,402
Earning assets	78,972	76,986
Total assets	88,214	85,046
Deposits	58,710	57,712
Common equity	6,651	6,867
Net yields on total assets (tax equivalent basis) (%)	2.7	2.6
Assets under administration		
Funds under management	33,269	30,945
Custody accounts	16,592	15,339
Total assets under administration	49,861	46,284
Credit information		
Non-accruing loans	375	442
Net charge offs	61	21
Allowance available for credit losses		
- Balance at end of period	518	553
- As a percentage of non-accruing loans	138.2%	125.1%
- As a percentage of loans outstanding	1.21%	1.35%
Capital (at end of period)		
Common equity	6,616	6,757
As a percentage of total assets	7.6%	8.0%
Capital ratios (%)		
Leverage ratio	5.6	5.6
Tier 1 capital to risk-weighted assets	8.4	8.1
Total capital to risk-weighted assets	13.3	13.2

[‡] Cash earnings are net income after preferred dividends, after adding back goodwill amortisation and expense associated with HSBC Group share option plans.

<i>Figures in US\$ thousands</i>	<i>Quarter ended 31 March 2002</i>	<i>Quarter ended 31 March 2001</i>
Interest income		
Loans	635,012	785,569
Securities	247,717	367,716
Trading assets	33,256	60,920
Short-term investments	45,143	115,423
Other interest income	5,430	7,946
Total interest income	<u>966,558</u>	<u>1,337,574</u>
Interest expense		
Deposits	261,532	582,840
Short-term borrowings	53,090	120,388
Long-term debt	69,923	90,568
Total interest expense	<u>384,545</u>	<u>793,796</u>
Net interest income	582,013	543,778
Provision for credit losses	73,500	47,550
Net interest income, after provision for credit losses	<u>508,513</u>	<u>496,228</u>
Other operating income		
Trust income	24,899	22,838
Service charges	47,421	43,903
Mortgage servicing fees and gains, net	17,280	12,197
Other fees and commissions	92,497	76,499
Trading revenues		
- Treasury business and other	43,254	57,117
- Residential mortgage business related ^{††}	(11,315)	(6,719)
Total trading revenues	<u>31,939</u>	<u>50,398</u>
Security gains, net	38,001	69,179
Other income	25,100	17,433
Total other operating income	<u>277,137</u>	<u>292,447</u>
Total income from operations	785,650	788,675
Other operating expenses		
Salaries and employee benefits	253,295	243,160
Occupancy expense, net	35,905	38,064
Other expenses	162,519	167,022
Operating expenses before goodwill amortisation	<u>451,719</u>	<u>448,246</u>
Goodwill amortisation	-	43,392
Total other operating expenses	<u>451,719</u>	<u>491,638</u>
Income before taxes and cumulative effect of accounting change	333,931	297,037
Applicable income tax expense	<u>123,600</u>	<u>115,800</u>
Income before cumulative effect of accounting change	210,331	181,237
Cumulative effect of accounting change-implementation of SFAS 133	-	(451)
Net income	<u>210,331</u>	<u>180,786</u>

^{††} Trading revenues include the mark-to-market on financial instruments providing economic protection on mortgage servicing rights values and interest rate and forward sales commitments in the residential mortgage business.

<i>Figures in US\$ thousands</i>	<i>At 31 March 2002</i>	<i>At 31 December 2001</i>	<i>At 31 March 2001</i>
Assets			
Cash and due from banks	1,917,635	2,102,756	1,987,039
Interest bearing deposits with banks	2,761,306	3,560,873	4,693,344
Federal funds sold and securities purchased under resale agreements	5,586,667	3,744,624	1,115,439
Trading assets	8,768,015	9,088,905	7,783,525
Securities available for sale	14,865,795	15,267,790	15,884,262
Securities held to maturity	4,280,314	4,651,329	5,170,467
Loans	42,778,874	40,923,298	41,042,167
Less – allowance for credit losses	518,451	506,366	552,664
Loans, net	<u>42,260,423</u>	<u>40,416,932</u>	<u>40,489,503</u>
Premises and equipment	748,701	750,041	794,579
Accrued interest receivable	410,007	416,545	575,546
Equity investments	274,984	271,402	56,835
Goodwill and other acquisition intangibles	2,885,794	2,895,714	3,183,334
Other assets	<u>2,733,048</u>	<u>3,946,665</u>	<u>2,752,212</u>
Total assets	<u>87,492,689</u>	<u>87,113,576</u>	<u>84,486,085</u>
Liabilities			
Deposits in domestic offices			
- Non-interest bearing	5,091,896	5,432,106	4,882,753
- Interest bearing	34,956,715	31,695,955	31,587,010
Deposits in foreign offices			
- Non-interest bearing	431,989	428,252	654,060
- Interest bearing	<u>19,191,646</u>	<u>18,951,096</u>	<u>20,618,917</u>
Total deposits	<u>59,672,246</u>	<u>56,507,409</u>	<u>57,742,740</u>
Trading account liabilities	3,569,528	3,799,817	3,501,281
Short-term borrowings	9,772,318	9,202,086	7,832,579
Interest, taxes and other liabilities	2,566,345	6,064,462	3,225,862
Subordinated long-term debt and perpetual capital notes	2,702,495	2,711,549	2,958,969
Guaranteed mandatorily redeemable securities	727,663	728,341	729,907
Other long-term debt	<u>1,365,837</u>	<u>1,050,882</u>	<u>1,237,512</u>
Total liabilities	<u>80,376,432</u>	<u>80,064,546</u>	<u>77,228,850</u>
Shareholders' equity			
Preferred stock	500,000	500,000	500,000
Common shareholder's equity			
- Common stock	4	4	4
- Capital surplus	6,038,457	6,034,598	6,022,018
- Retained earnings	510,402	415,821	611,886
- Accumulated other comprehensive income	67,394	98,607	123,327
Total common shareholder's equity	<u>6,616,257</u>	<u>6,549,030</u>	<u>6,757,235</u>
Total shareholders' equity	<u>7,116,257</u>	<u>7,049,030</u>	<u>7,257,235</u>
Total liabilities and shareholders' equity	<u>87,492,689</u>	<u>87,113,576</u>	<u>84,486,085</u>