

**Household International  
Investor Presentation  
HSBC Group WHQ, London  
September 19, 2003**

This presentation, including the accompanying slides and subsequent discussion, contains certain forward-looking information with respect to the financial condition, results of operations and business of HSBC Holdings plc and Household. This information represents expectations or beliefs concerning future events and is subject to unknown risks and uncertainties. This information speaks only as of the date on which it is provided. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the HSBC Holdings plc Annual Report and Household's Annual Report on Form 10-K for the year ended December 31, 2002 as well as Household's Form 10-Q for the quarter ended June 30, 2003. Please further be advised that Regulation FD prohibits Household representatives from answering certain, specific questions during the Q&A session.

# AGENDA

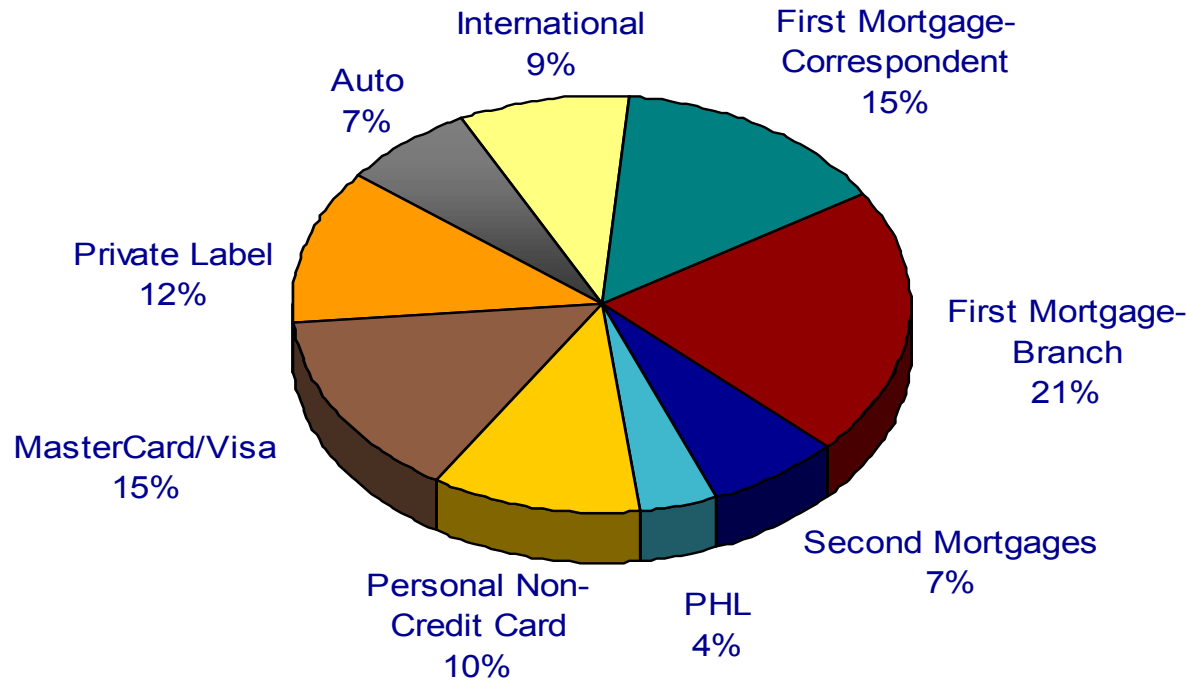
- **Background and Overview**
- Business Model Drivers
- Integration Update
- Managing Credit Risk
- Financial Review
- Summary
- Q&A

# HOUSEHOLD

- **Established in 1878**
- **Recognized 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**
  - Over 53 million customers
  - Nationwide branch network, direct mail and e-commerce
  - Significant distribution through alliances and business partnerships
- **Consistent financial performance**
  - \$1.6 billion of after-tax operating profits in 2002 after absorbing \$333 million AG Settlement and \$240 million loss on HB f.s.b. disposition
  - 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

June 30, 2003



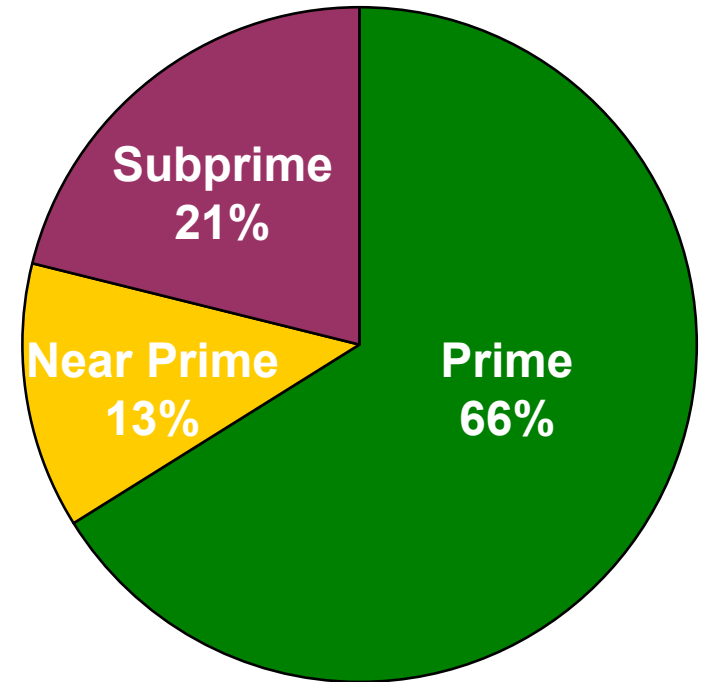
**\$112.1 Billion** <sup>(1)</sup>

<sup>(1)</sup> Excludes commercial and other receivables

# HOUSEHOLD'S CUSTOMER BASE

*Household's 53 million customers have the following characteristics:*

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



Note: Based on outstanding domestic managed receivables as of June 30, 2003.

\* U.S. real estate secured loan customers

\*\* Auto finance customers

# HOUSEHOLD'S CORE CUSTOMER IS THE MIDDLE INCOME

EXPECTED LOSS GIVEN DEFAULT

## PROBABILITY OF DEFAULT

	Low	Medium	High
Low		Real Estate Secured – 1 <sup>st</sup> Lien	
Medium		Real Estate Secured – 2 <sup>nd</sup> Lien	Auto
High	Credit Card – GM Credit Card – UP Private Label	PHL Credit Card – Household Bank	Credit Card – Subprime Personal Non-Credit Card

	Subprime
	Near Prime
	Prime

**Probability of Default:** Determined by internal scoring. General bands are as follows:

Low: >660

Medium: 580-660

High: <580

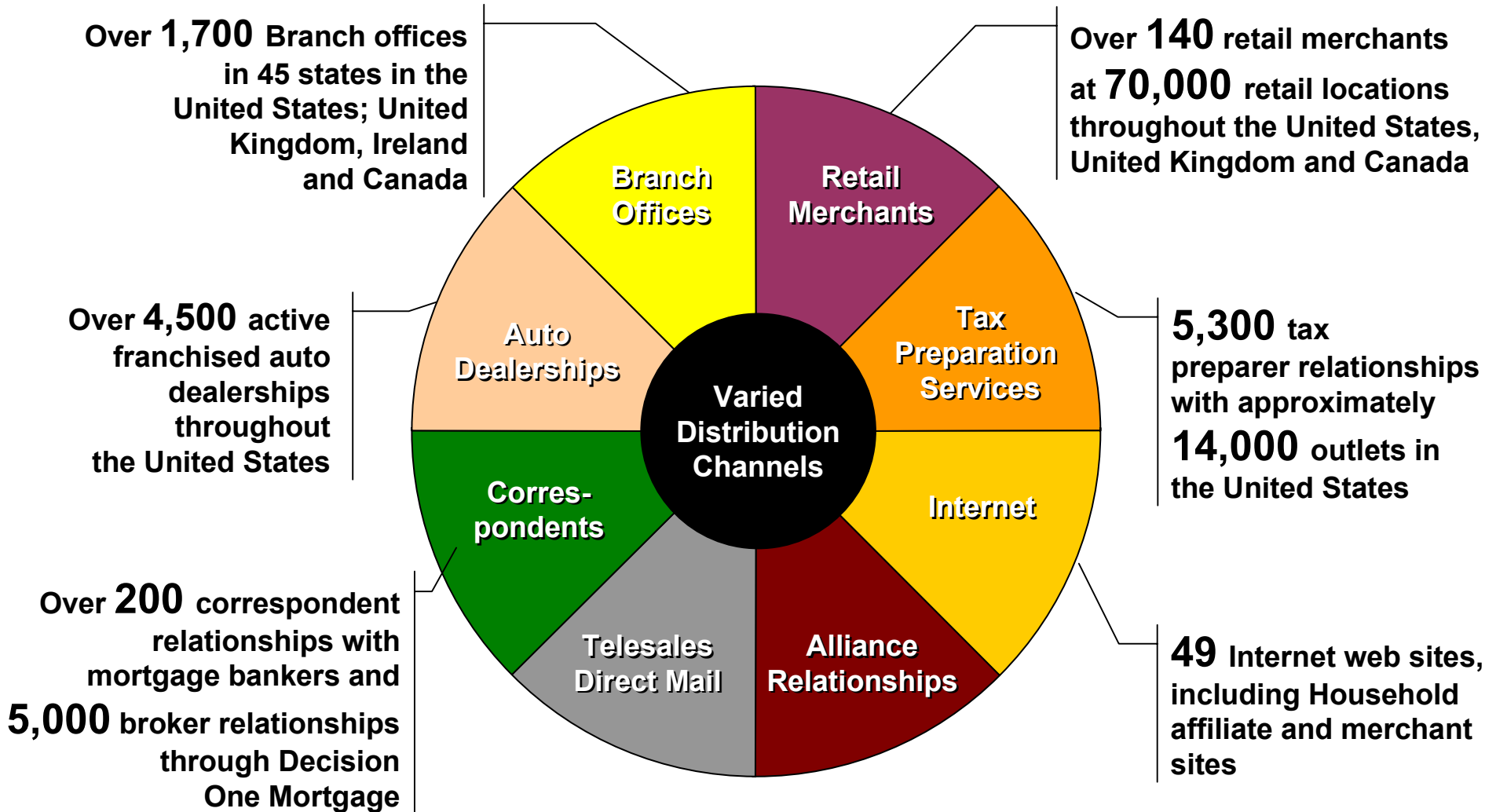
**Expected loss given default:** Charge-off severity

Low: <25%

Medium: 25% to 75%

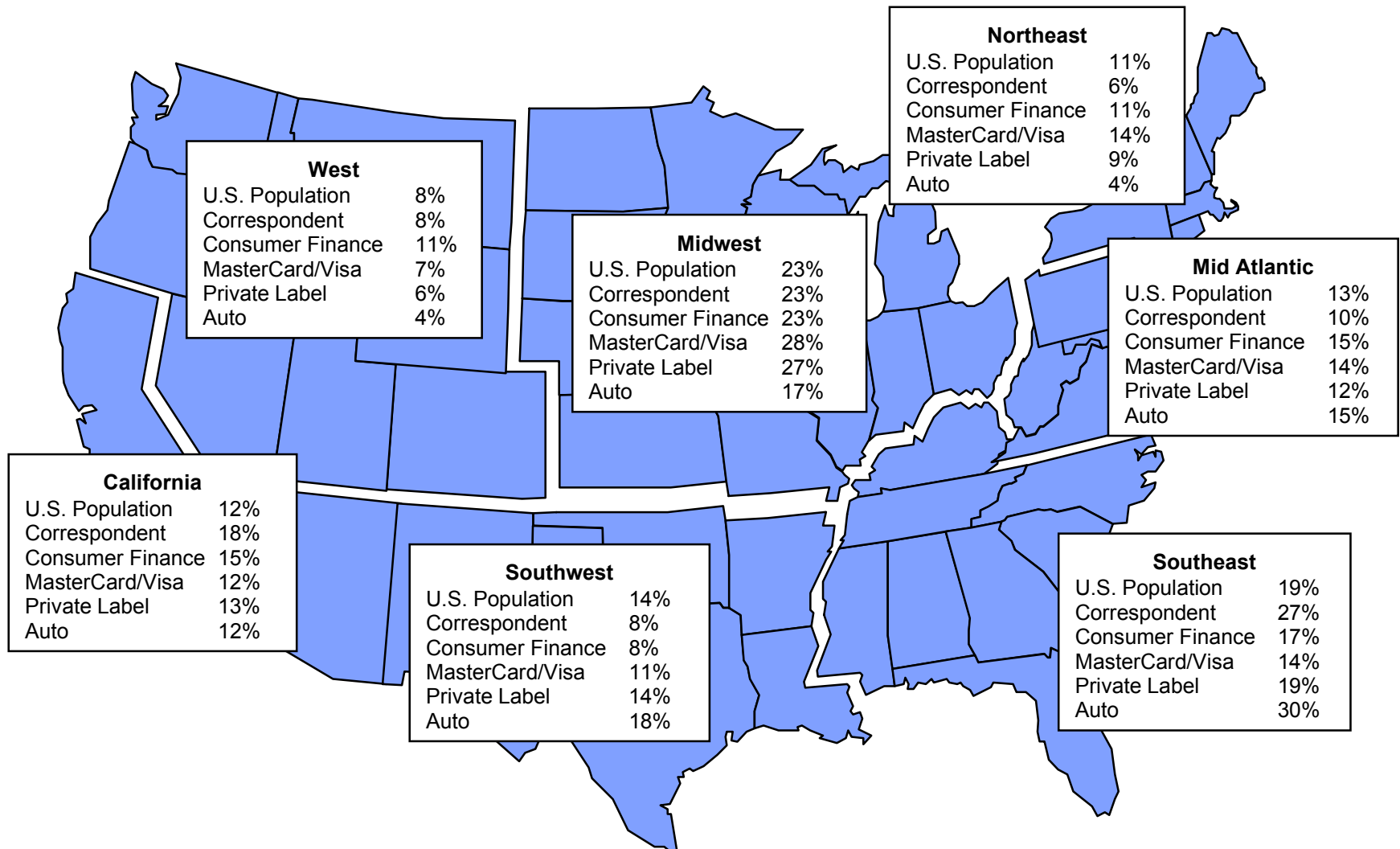
High: >75%

# HOUSEHOLD'S DISTRIBUTION CHANNELS



# HOUSEHOLD'S CONSUMER LENDING FRANCHISE

## Nationwide Coverage and Well Diversified



*\*Represents % distribution of managed consumer receivables as of December 31, 2002.*

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# CHARACTERISTICS OF HOUSEHOLD'S BUSINESS MODEL

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

# CONSUMER LENDING OPERATING MODEL

- 1,315 distributed retail branches
- Direct lending channel
- 7 centralized collection, underwriting and appraisal facilities
- Centralized support functions:
  - Marketing
  - Human resources
  - Credit risk
  - Policy and compliance
  - Financial control

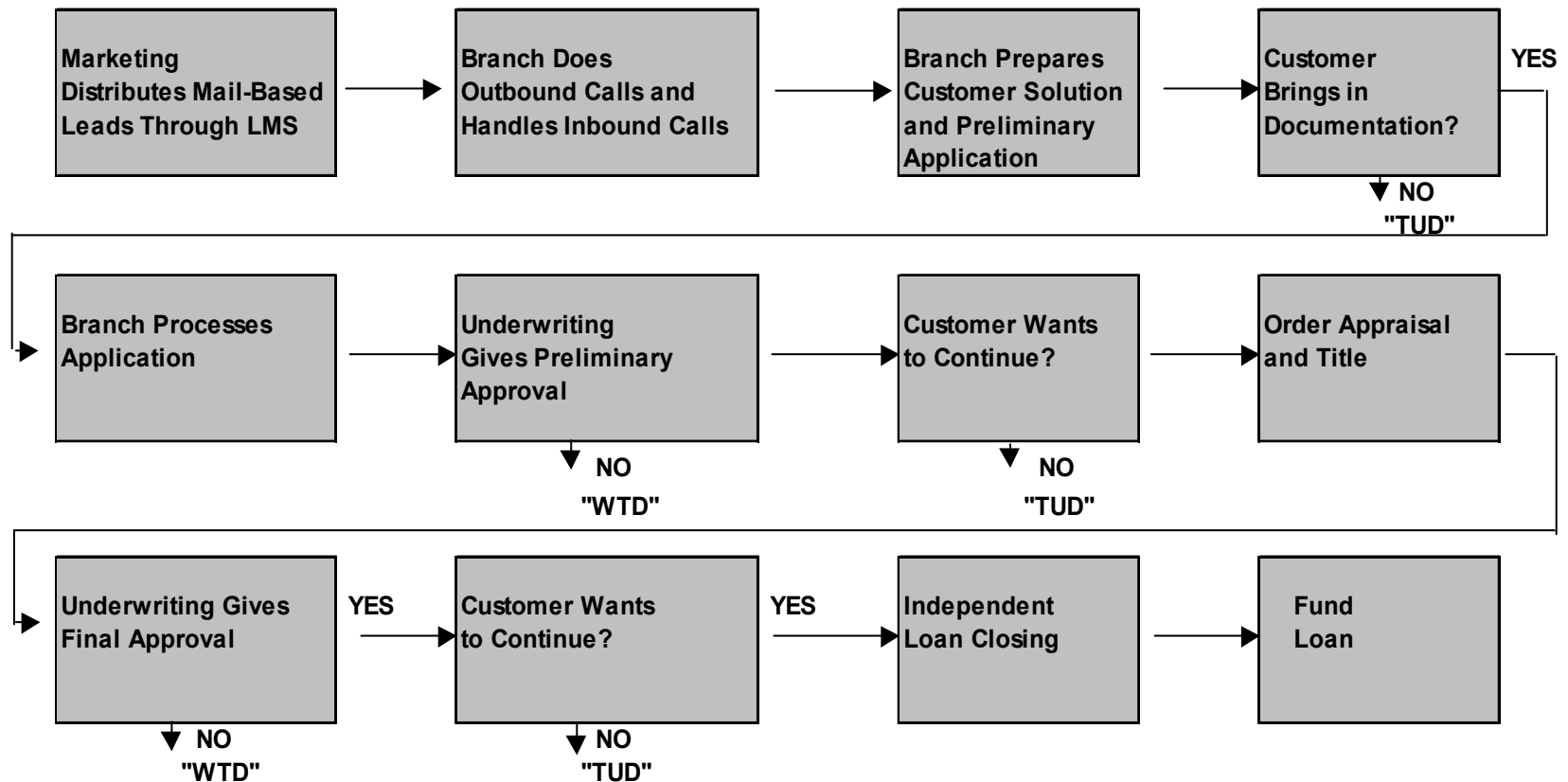
# CONSUMER LENDING BUSINESS MIX

	<b>6/30/03 Outstandings (\$ Billions)</b>	<b>Percent of Total Outstandings</b>
<b>Real Estate</b>		
<b>First Lien</b>	<b>\$24.1</b>	<b>56%</b>
<b>Second Lien</b>	<b>3.7</b>	<b>8%</b>
<b>Total Real Estate</b>	<b>27.8</b>	<b>64%</b>
<b>Personal Homeowner Loan (PHL)</b>	<b>4.7</b>	<b>11%</b>
<b>Unsecured Loans</b>	<b>10.7</b>	<b>25%</b>
<b>Product total</b>	<b>\$43.2</b>	<b>100%</b>

# CONSUMER LENDING KEY COMPETITIVE ADVANTAGES

- **Operating model**
  - Distributed branch network/Centralized support
  - Low cost producer
- **Credit risk and marketing approach**
  - Unique blend of both direct marketing and credit risk analytical talent: focus is optimization of profit
  - Proprietary data marts for customer acquisition, risk and relationship management
- **Proprietary front-end sales engine: Vision**
  - “Next best lead” segmentation
  - Centralized control of the sales efforts
- **Collection management**
  - Technology
  - Solution-based approach

# BRANCH CYCLE - REAL ESTATE



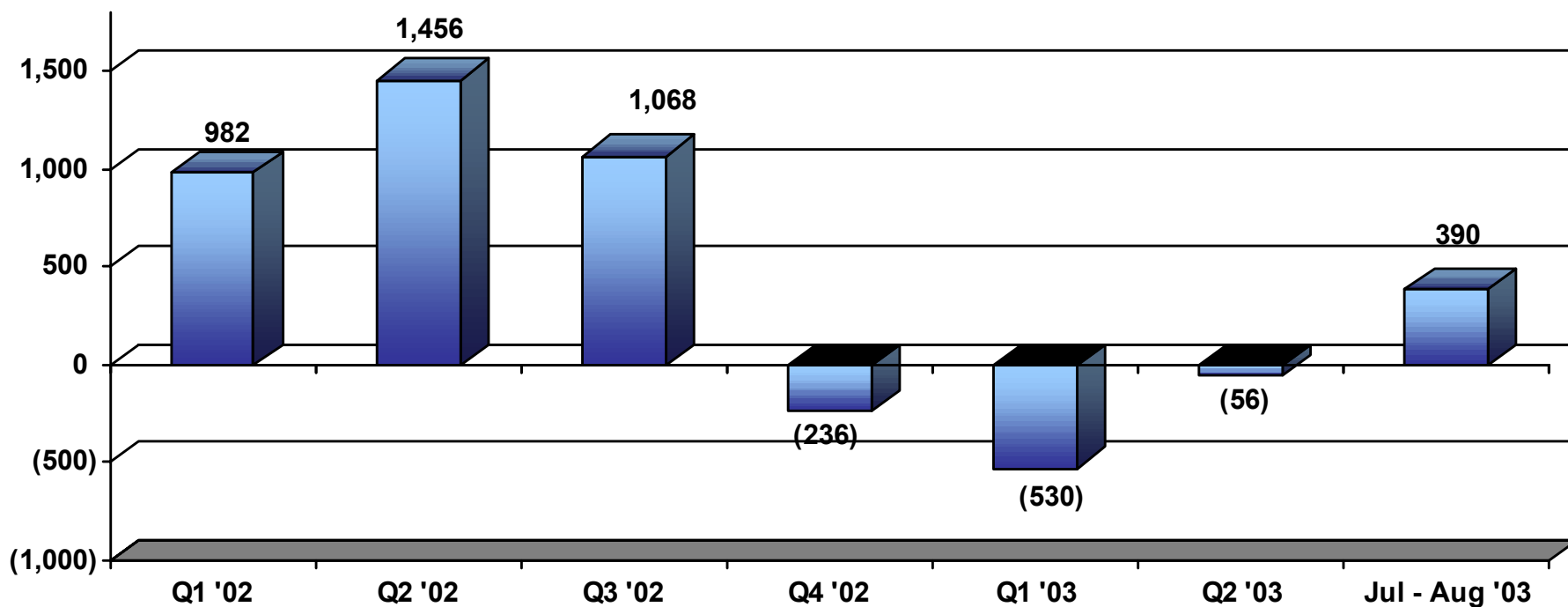
Elapsed Time - 20 days

Conversion - 10-15%

# CONSUMER LENDING

## Net Loan Account Growth

\$ in Millions



\*The net loan account gains for 2002 exclude loan sales

# CORRESPONDENT / WHOLESALE LENDING

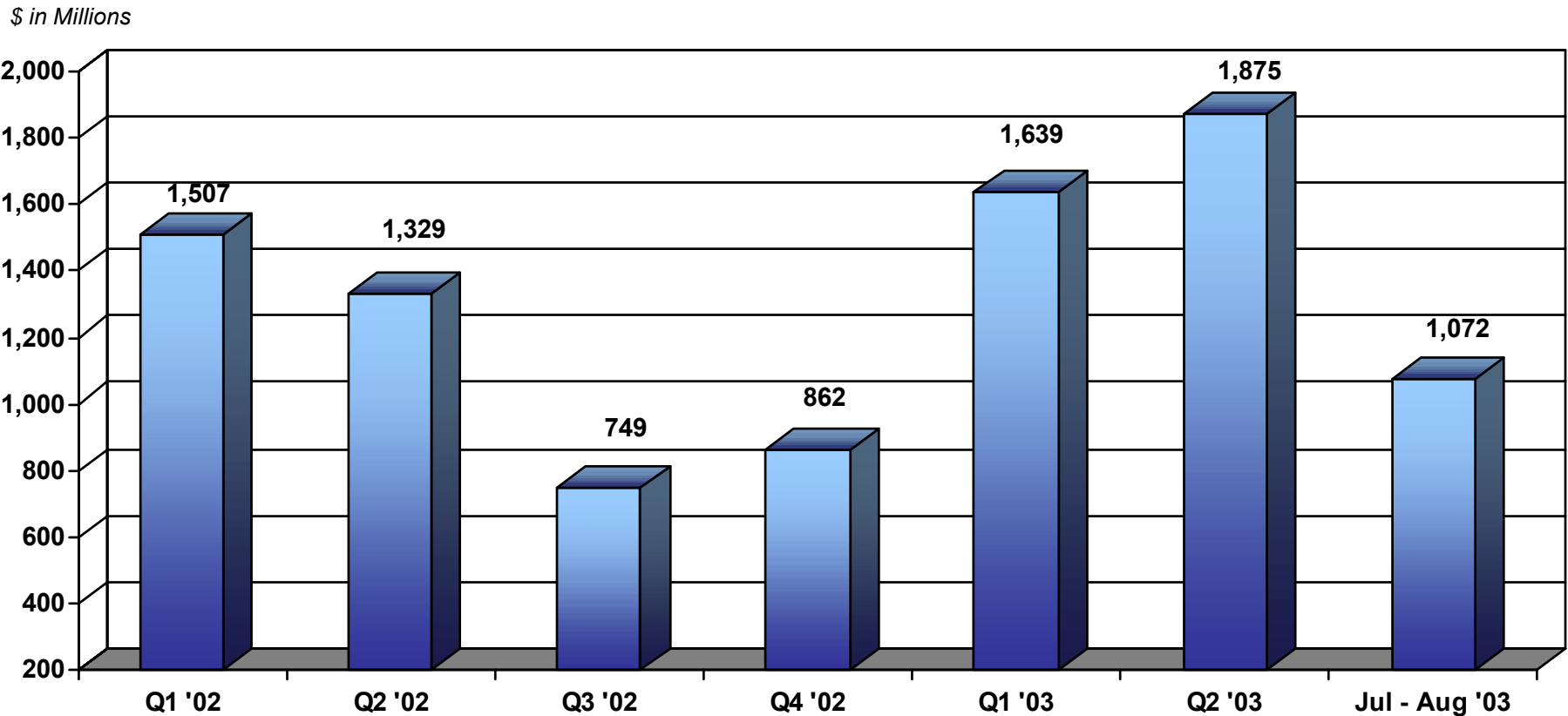
- Acquirer of non-conforming loans through correspondents and mortgage brokers
- Approximately 2/3 of U.S. non-conforming loans are originated through mortgage brokers or correspondents
- Channel provides additional opportunity for real estate secured growth and is complementary to branches
- Focus is on relationship management and creating a sustainable “wholesale” distribution channel
  - 78% of originations are from contractual forward flow agreements
- Focus is on borrower credit quality and disciplined valuation
  - Acquired using risk-based pricing methodology
  - 88% of current production has prepayment penalties
  - Stringent underwriting matrix based on proprietary models
  - Each loan is re-underwritten
  - 82% execution of initial screens

# CORRESPONDENT / WHOLESALE LENDING

<b>Business Mix</b> <i>(\$ in Billions)</i>		<b><u>6/30/03</u></b> <b><u>Outstandings</u></b>	<b><u>Percent of</u></b> <b><u>Total Outstandings</u></b>
<b>First Lien</b>	<b>Fixed</b>	<b>\$ 5.6</b>	<b>27%</b>
	<b>ARM</b>	<b><u>11.3</u></b>	<b><u>55%</u></b>
		<b>16.9</b>	<b>82%</b>
<b>Second Lien</b>		<b><u>3.6</u></b>	<b><u>18%</u></b>
		<b><u>\$20.5</u></b>	<b><u>100%</u></b>

# CORRESPONDENT / WHOLESALE LENDING

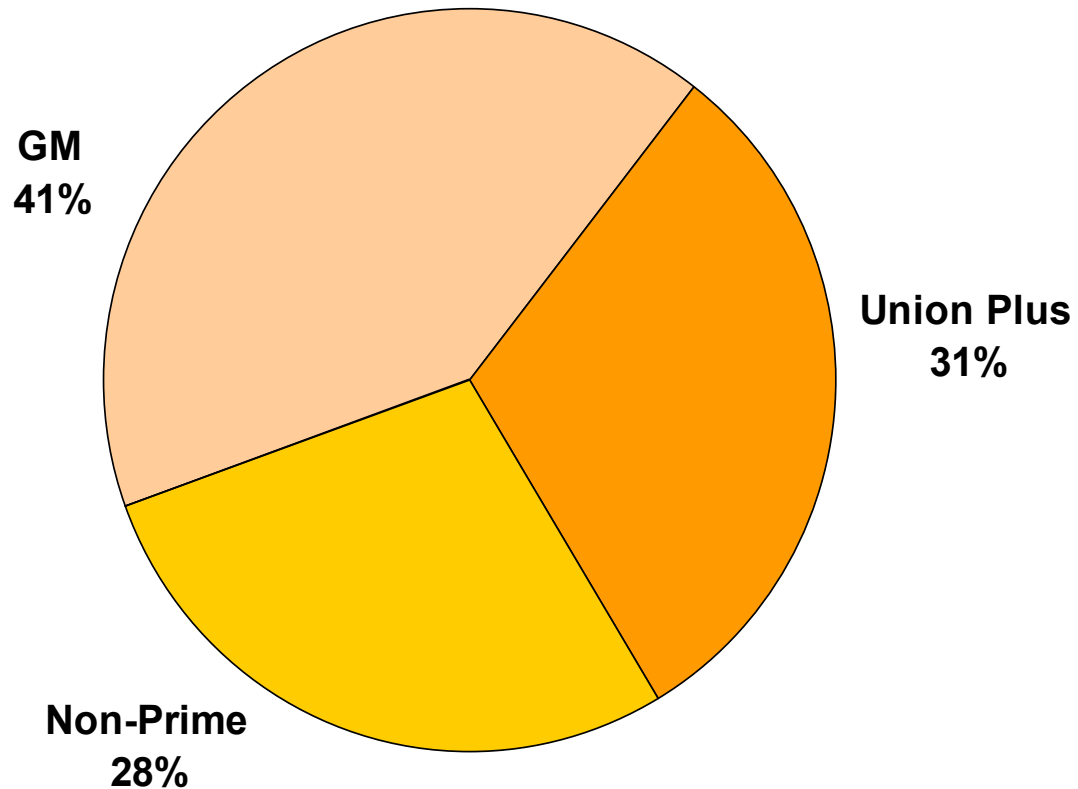
## Net Loan Account Growth



\*The net loan account gains for 2002 exclude loan sales

# CREDIT CARD SERVICES

*MasterCard/Visa Receivables as of 6/30/2003*



**Total outstandings \$16.5 billion**

**YOY growth of 7%**

# CREDIT CARD SERVICES STRATEGY FOR PROFITABLE GROWTH

- True partnership approach
- Full spectrum lending
- Leverage of Household franchise
- Customer care orientation (Sales and Service)
- Conservative line assignment and management
- Risk-based pricing
- Analytically driven decision making (Marketing, Risk, Collections)

# MODELS ARE CONTINUOUSLY VALIDATED WITH EXPERIENCE

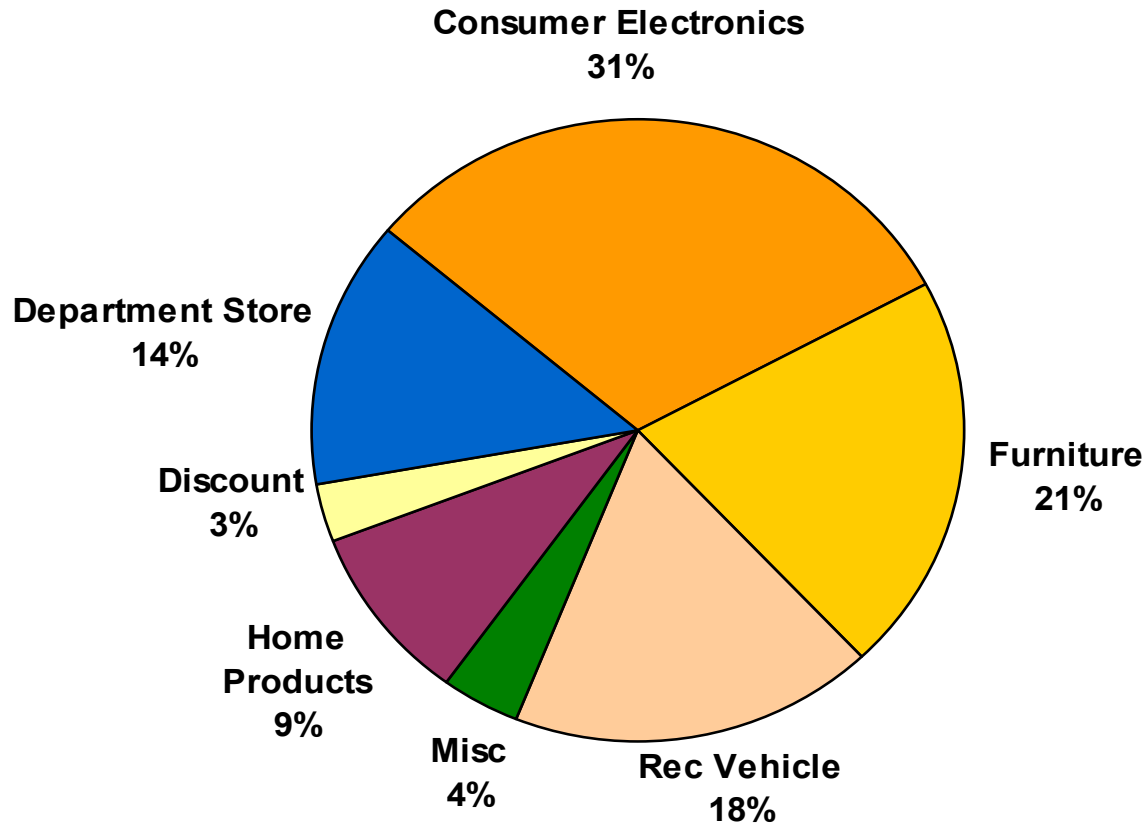
*Over 150 scorecards are in production today*

- Leverage a suite of custom models
  - Risk and response models
  - Bankruptcy prediction models
  - Behavior scores
  - Transaction-based models
  - “Purpose-built” models
- Strict, well-documented control process governs the model development/validation process
  - Ensures statistical validity and legal/regulatory compliance

# RETAIL SERVICES BUSINESS OVERVIEW

- Third largest third-party private label provider
- \$13.5 billion managed receivables
- YOY growth of 18%
- Over 13 million active cardholders
- Over 70 active merchant relationships

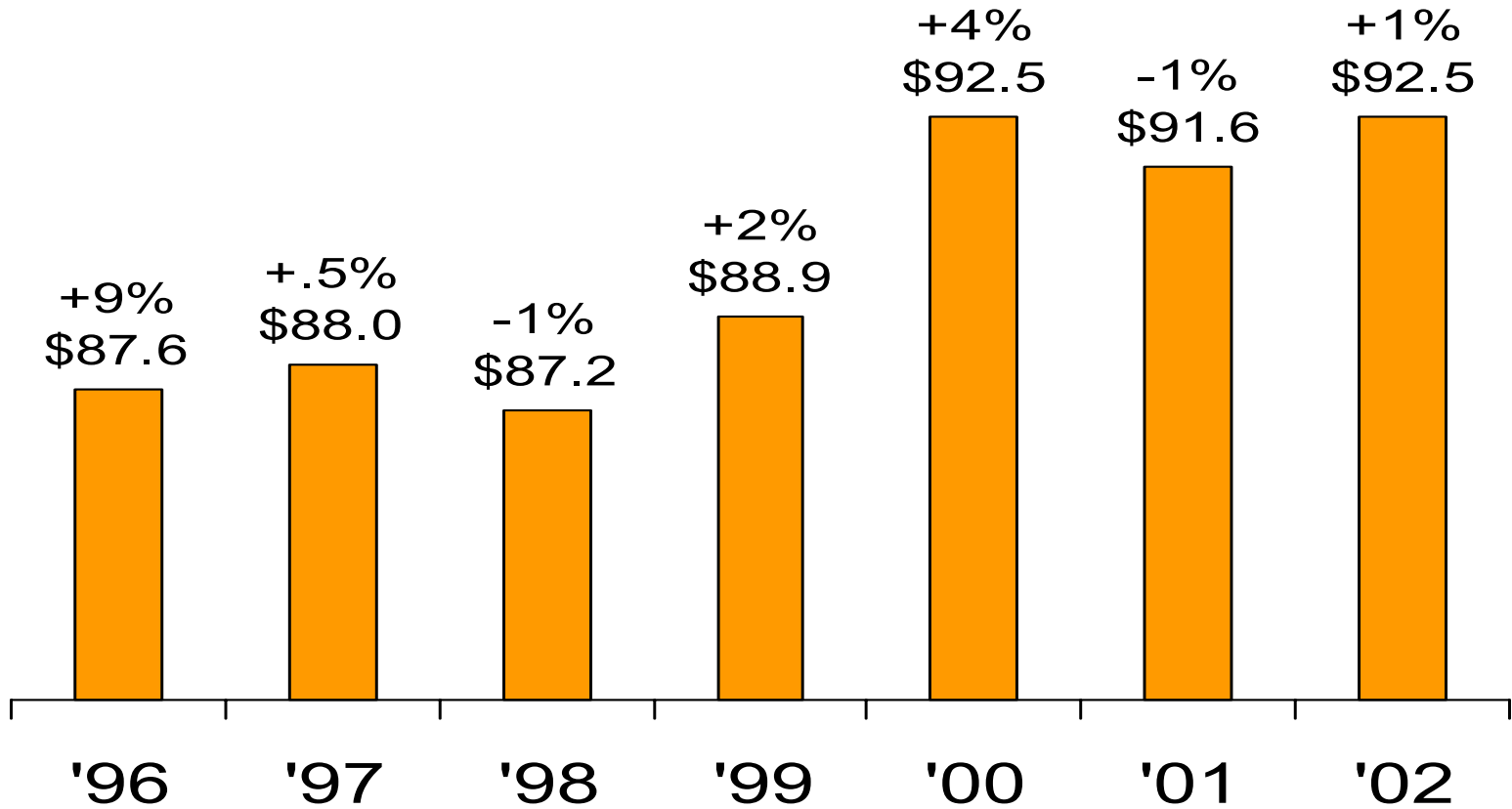
# OUR PORTFOLIO IS DIVERSIFIED



*June 30, 2003*

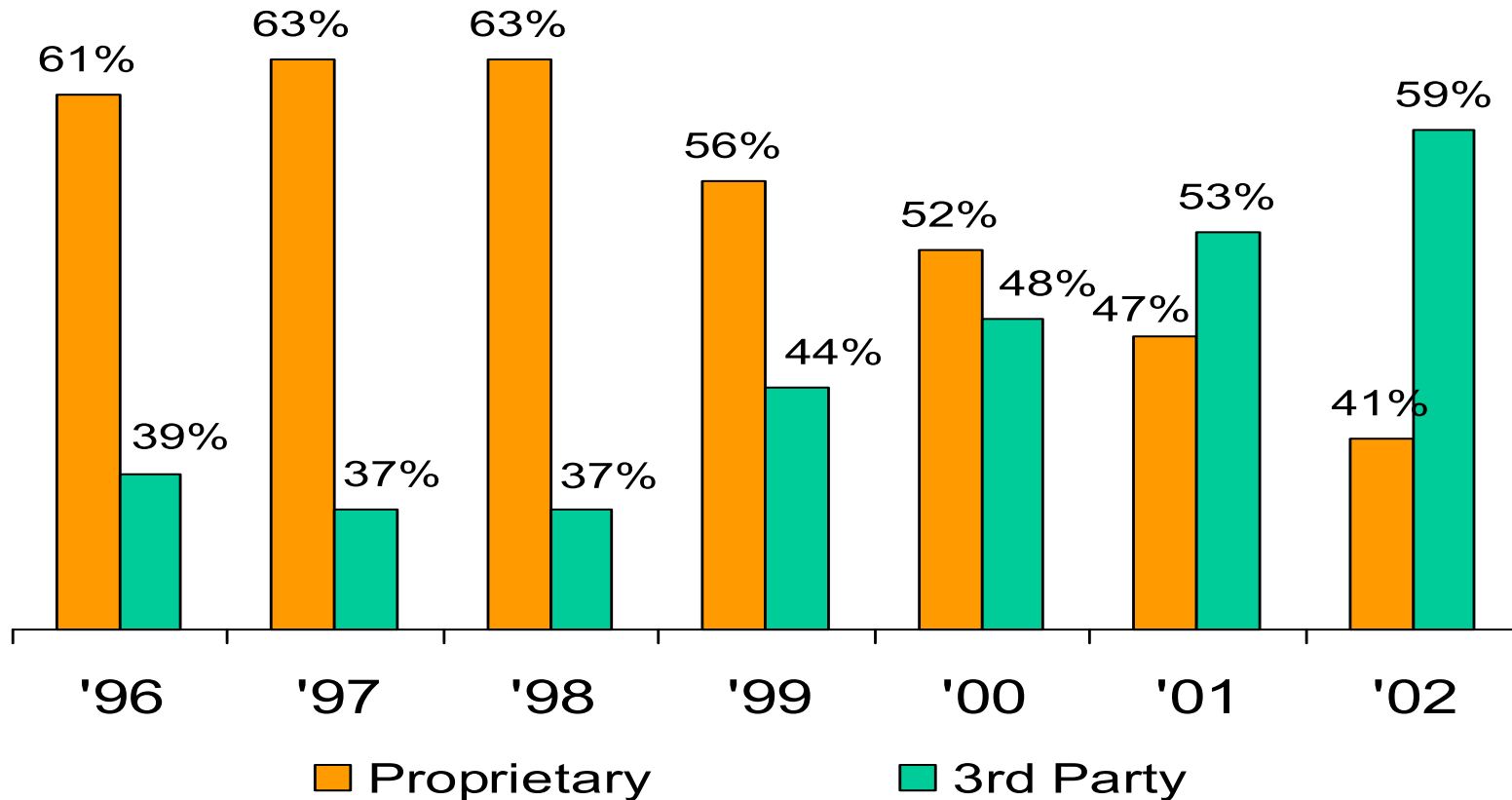
# PRIVATE LABEL CREDIT IS KEY TO RETAILERS THE MARKET IS SIGNIFICANT

(\$ Billions)



SOURCE: The Nilson Report

# MARKET SHARE IS SHIFTING TO THIRD PARTIES

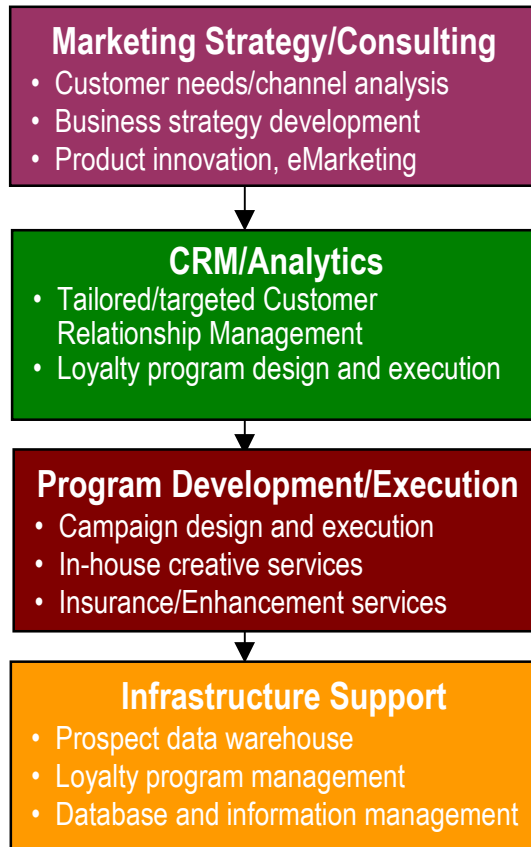


*Private Label Receivable Share*

SOURCE: The Nilson Report

# WE ARE MORE THAN JUST A CREDIT PARTNER

## Household's Marketing Capabilities



Maximizing Sales and Profitability by:

- **Retaining and growing the existing customer base**
- **Identifying and attracting new customers**
- **Driving value for all stakeholders**
- **Leveraging key marketing strengths of retailers and Household**

***Household complements retailers in-house marketing capabilities***

# AGENDA

- Background and Overview
- Business Model Drivers
- **Integration Update**
- Managing Credit Risk
- Financial Review
- Summary
- Q&A

# INTEGRATION OVERVIEW

- 32 integration projects and teams established
- New organizational structure announced
- Efforts underway to “export Household model” globally
- Regulatory, audit, and compliance management on track
- Detailed financial forecasts support integration benefit

# SUMMARY OF INTEGRATION BENEFITS

- Funding and liquidity benefits
- Technology cost savings and more effective, common platforms
- Full spectrum mortgage and consumer lending
- Credit card management
- Retail and insurance services
- UK operations
- Administrative cost savings

# FUNDING AND LIQUIDITY BENEFITS

- Funding benefits arise from many sources
- Credit spreads - HFC 5-year new issue credit spread has tightened to Treasuries +85bps compared to 2H '02 average T +335bps
- Asset transfer - Approximately \$25 billion of Household managed receivables available to transfer to HSBC Bank USA
- New funding - Received \$8.2 billion year-to-date in funding from HSBC and clients
- Short-term liquidity - Commercial paper borrowings are higher; costs are lower; liquidity portfolio is lower
- Cost savings potential relative to over \$160 million in fees paid in 2002

# TECHNOLOGY

- North American technology organization combined into one service corporation under Household management
- HSBC will adopt Household credit card and mortgage systems
- Cost savings will be achieved from credit card conversions currently scheduled for U.S., U.K., Mexico, and Canada
- Telecom contracts have been renegotiated
- Consolidating data centers while improving back-up capabilities
- Achieving application development cost savings

# FULL SPECTRUM MORTGAGE LENDING

- Access to HSBC funding allows Household to offer more price competitive products, improve conversion of loan applications and segment better credit quality customers
- Access to Household credit and marketing skills allows HSBC to expand its product range and improve profitability
- Management consolidated under Household
- Potential to be major industry player

	<b>Portfolio <u>6/30/03</u></b>	<b>2003 Projected <u>Origination</u></b>
<b>HSBC</b>	\$47 billion	\$32 billion
<b>Household</b>	\$50 billion	\$20 billion
<b>Estimated Market share:</b>	<u>1.4%</u>	

- Progress to-date
  - Introduced 'near-prime' product in Household branches and correspondents
  - Introduced Household 'core' product to HSBC brokers
  - Piloting referral of HSBC retail turndowns to Household
  - Started Household retention program with HSBC product
- Will pilot Household 'prime' product and solicitation of HSBC non-prime customers

# CREDIT CARD MANAGEMENT

- Global functional responsibility for credit cards assigned to Household
- HSBC Bank USA portfolio of \$900 million to be combined with Household managed portfolio of \$16.5 billion
- One common platform in 2004
- Integration will save HSBC outsourcing costs and can be absorbed with minimal Household cost
- Revenue and growth opportunities with Household expertise and HSBC brand

# RETAIL AND INSURANCE SERVICES

- Revenue opportunities to target retailers who were reluctant to partner with a non-bank
- Early success with John Lewis Partnership and eBay
- In discussion with 21 potential partners
- Offering HSBC commercial banking services to Household merchants
- Combined North American insurance operations under Household
- Insurance administrative cost savings by improving certain lending related products and reducing overlaps
- Insurance revenue opportunities from cross-selling a broader product line

# U.K. OPERATIONS

- Household to operate as a separate “monoline” brand but with close ties to HSBC
- Technology and treasury functions being integrated with HSBC with additional administrative consolidation in 2004
- Significant funding benefits
- Credit card management combined under Household
  - Improve marketing and risk management skills
  - Common platform in 2004 with related cost savings
- Substantial opportunity for cross-referral of customers between Household and HSBC
  - Cambridge branch pilot started in August

# ADMINISTRATIVE COST SAVINGS

- Combined North American purchasing organizations and began renegotiating strategic sourcing arrangements
- Eliminating redundant staffing and streamlining administrative organizations
- Evaluating call center consolidation

# “EXPORTING THE HOUSEHOLD MODEL”

- Initiative underway with HSBC Mexico
  - Remittance and cross-border pilot
  - Credit card marketing consultation
  - Substantial credit risk support and scorecard development
  - Technology and operation support and backup
- Initiatives underway with HSBC Brazil
  - Market evaluation
  - Credit risk personnel transfer
  - ‘Buddy’ system being implemented
- Coordinated expansion in Poland
- Process established to leverage “best practice” globally
- Discussions in early stages on other opportunities

# REGULATORY, AUDIT AND COMPLIANCE MANAGEMENT

- All regulatory commitments related to the A.G. Settlement have been delivered to date and process established for future compliance
- Community affairs department created and specific plans developed
- Compliance organization aligned with Group direction
- Audit plans are being successfully implemented
- Group Standard and Functional Implementation manuals are being adopted

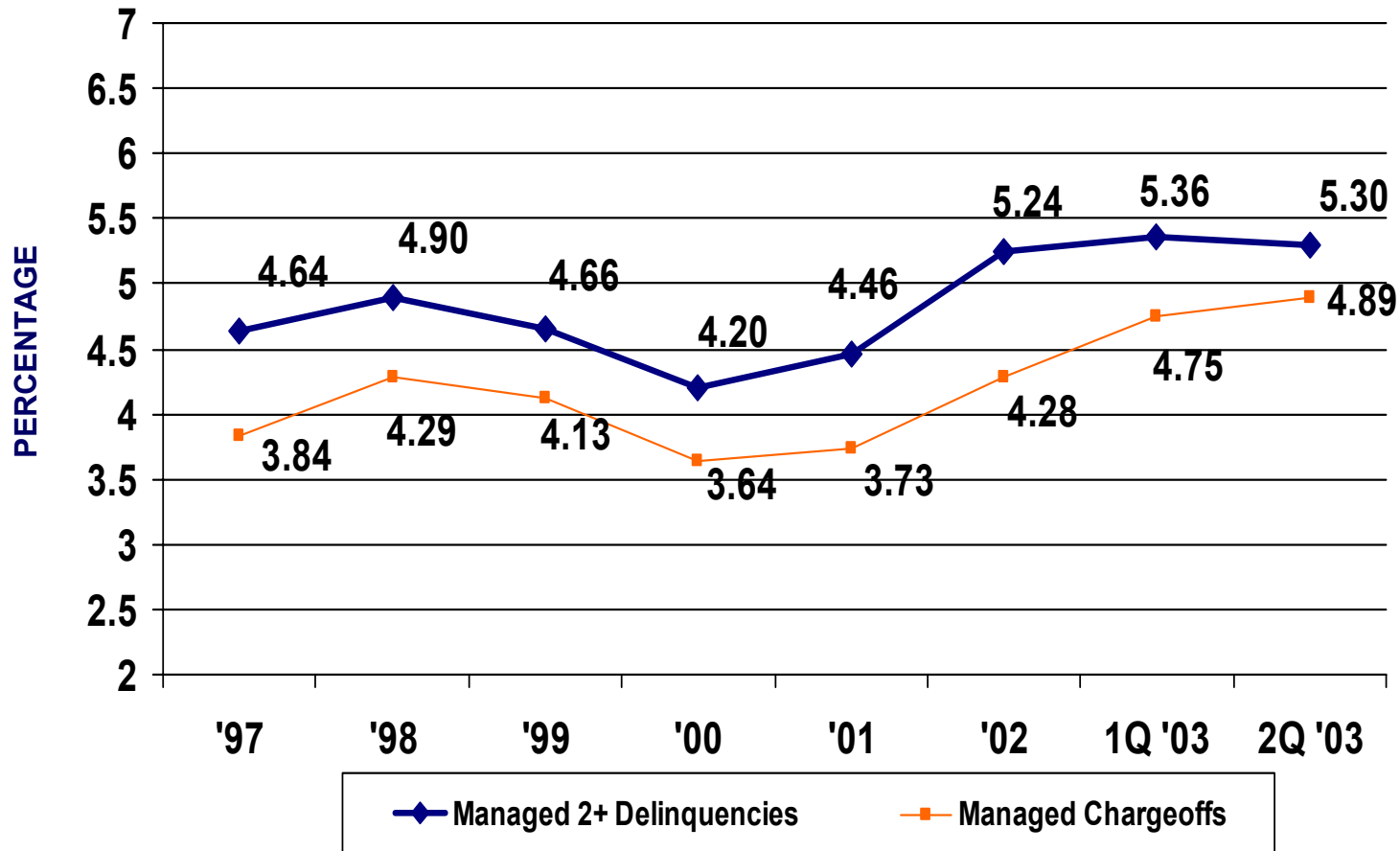
# INTEGRATION SUMMARY

- Integration efforts well under way
- Appropriate management structure and resources in place to ensure success
- Steps being taken to “export Household model”
- Economic benefits are being realized

# AGENDA

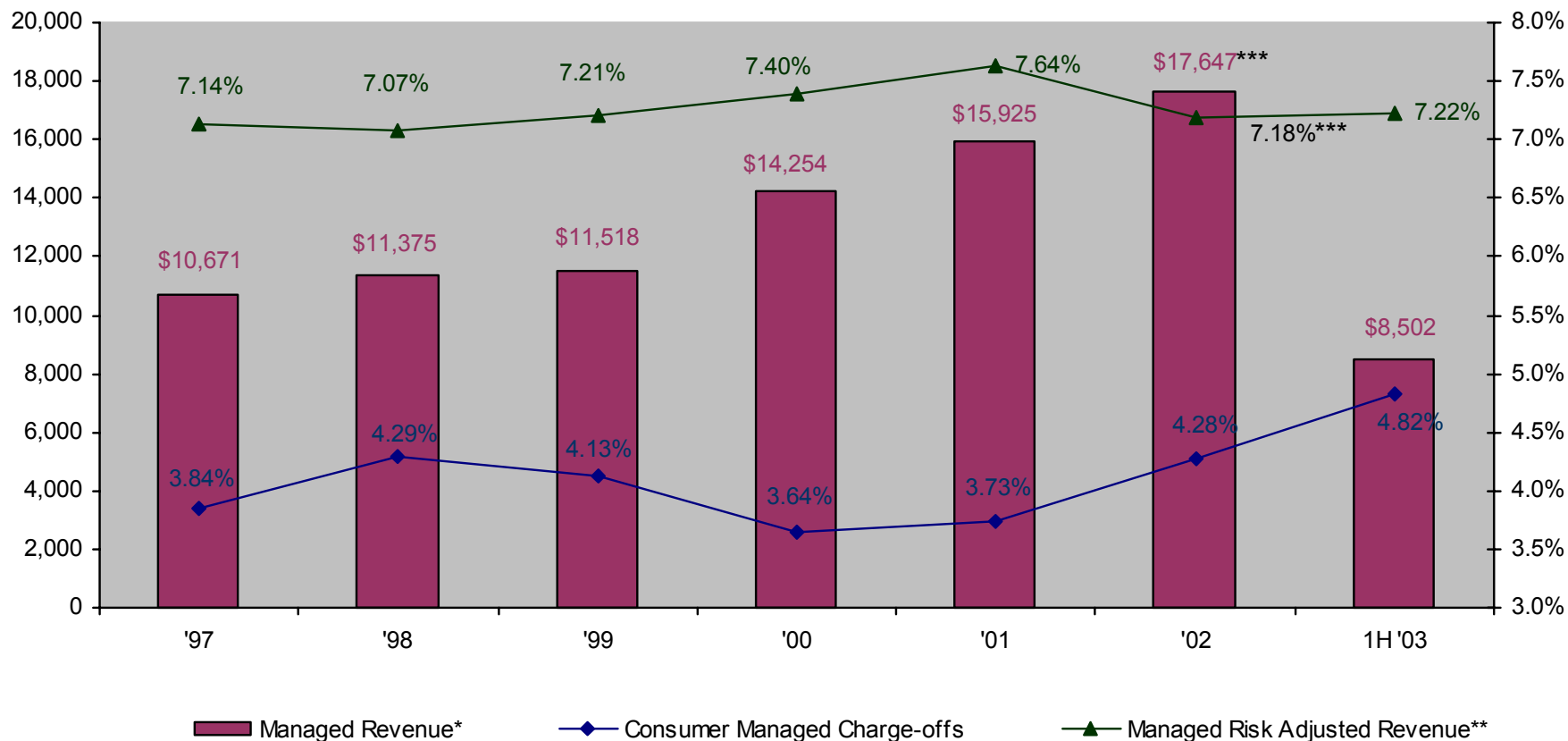
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# CREDIT QUALITY TREND



The above information includes non-GAAP financial measures and is provided for comparison of our operating trends only and should be read in conjunction with our owned basis GAAP financial information. Please refer to our Form 8-K dated August 4, 2003 and our Form 10-Q for the period ended June 30, 2003, including footnote 12 to the financial statements that describes the adjustments made for non-GAAP information.

# RISK ADJUSTED REVENUE



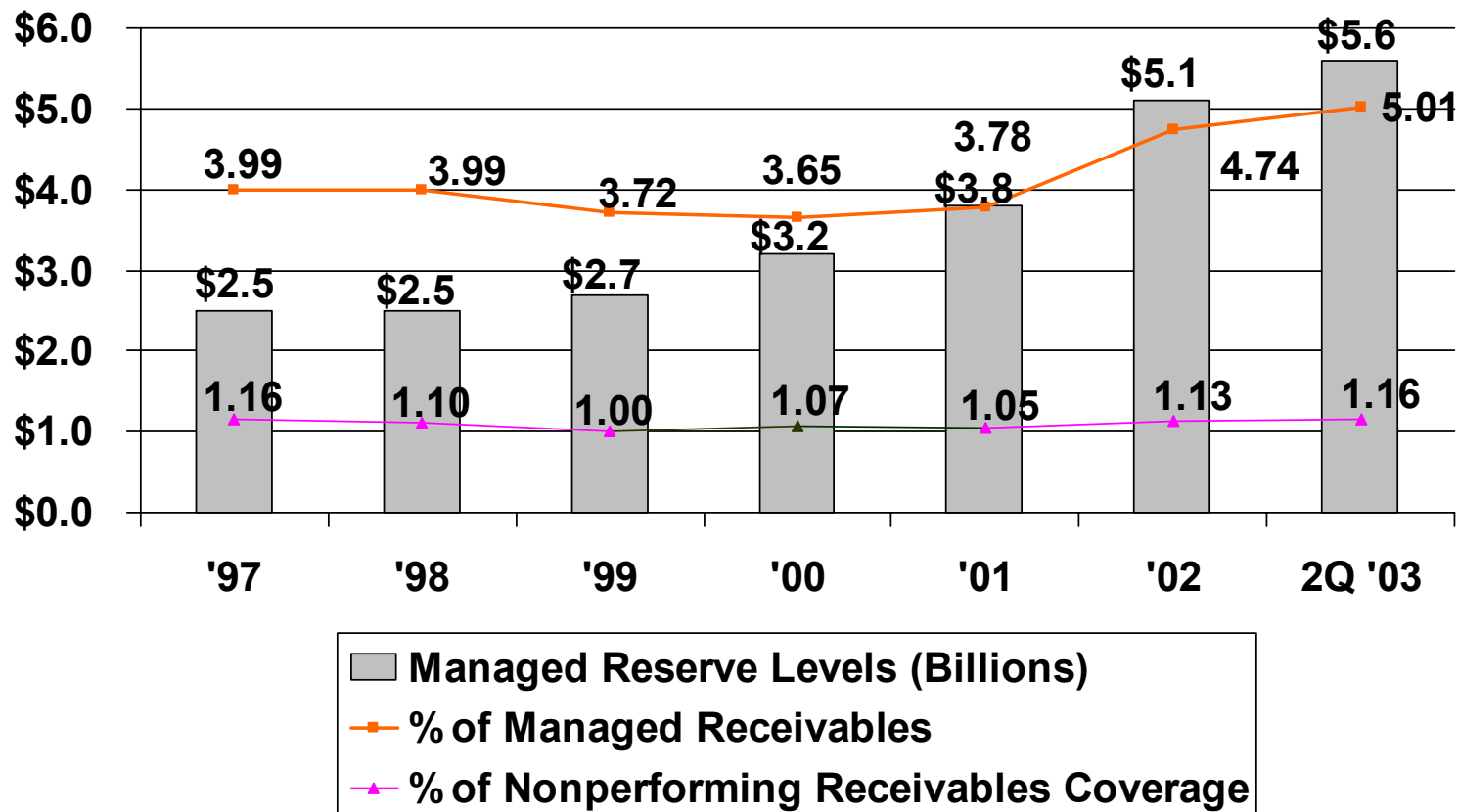
\*Managed Revenue = Finance and other interest income + total other revenues

\*\*Managed Risk Adjusted Revenue = Managed risk adjusted revenue / Avg. managed interest earning assets

\*\*\* Excludes \$378.2 million loss on disposition of Thrift assets and deposits

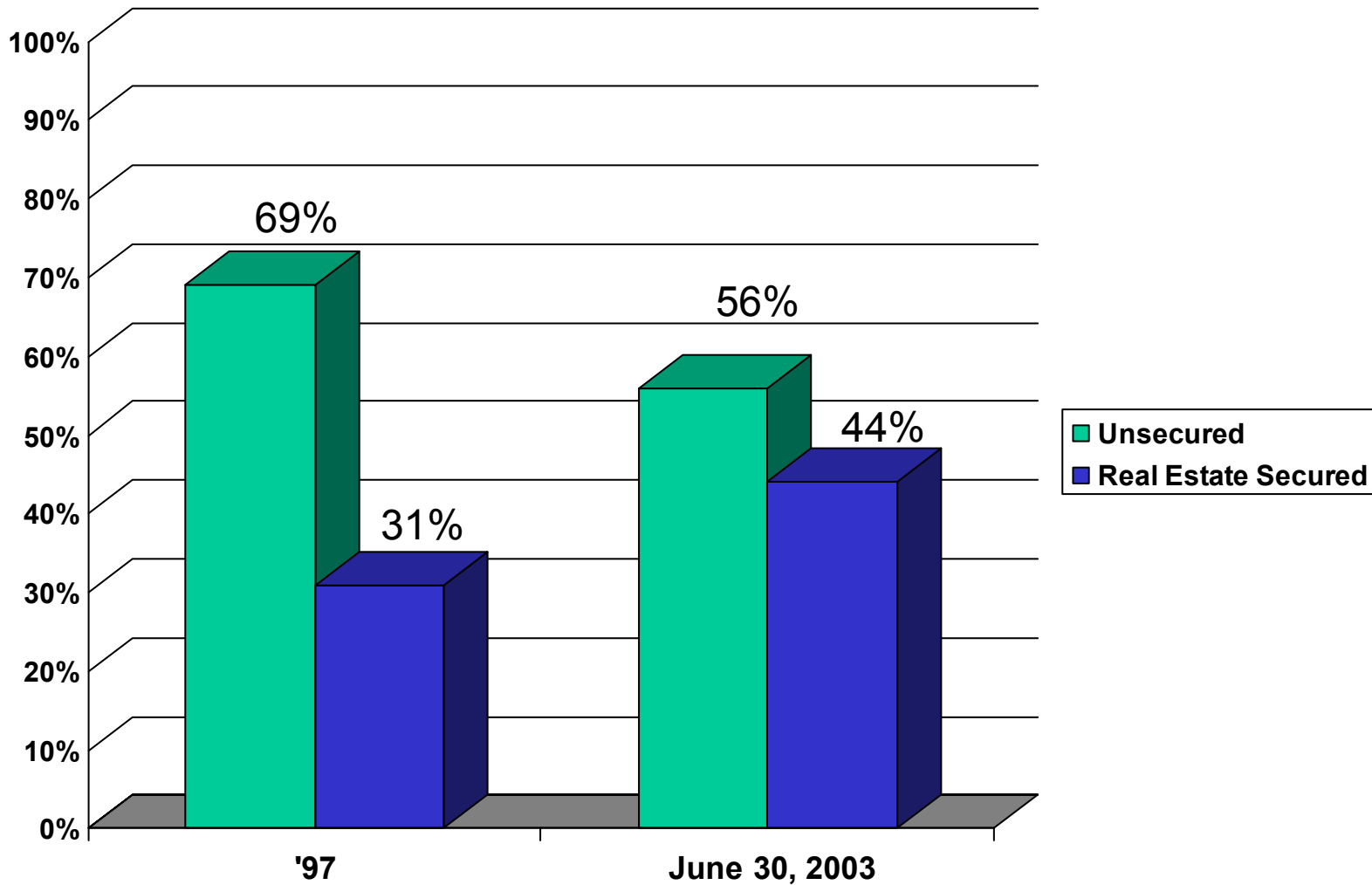
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# STRONG BALANCE SHEET



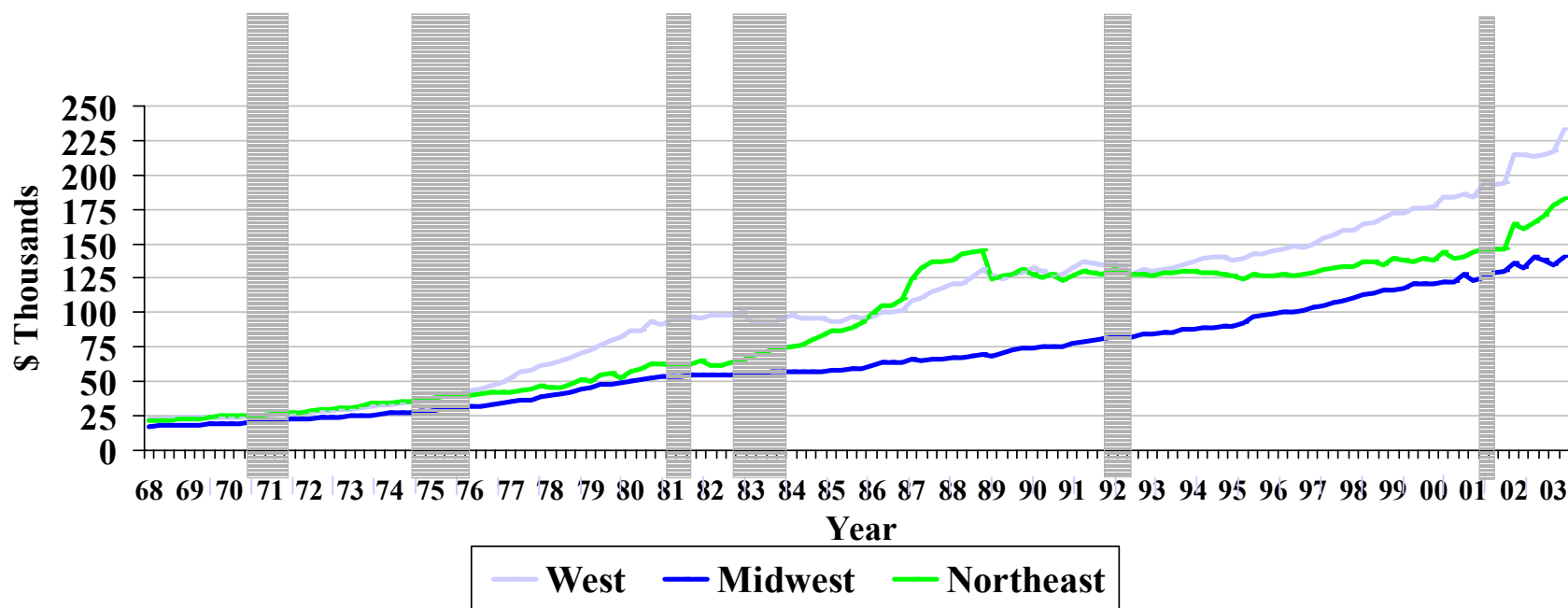
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# LOWERING THE RISK PROFILE



# MEDIAN HOUSING PRICES

## Median Housing Prices 1968 - Q2 2003 (1,2)



(1) Source: National Association of Realtors.

(2) Shaded areas represent recessionary periods as defined by the National Bureau of Economic Research.

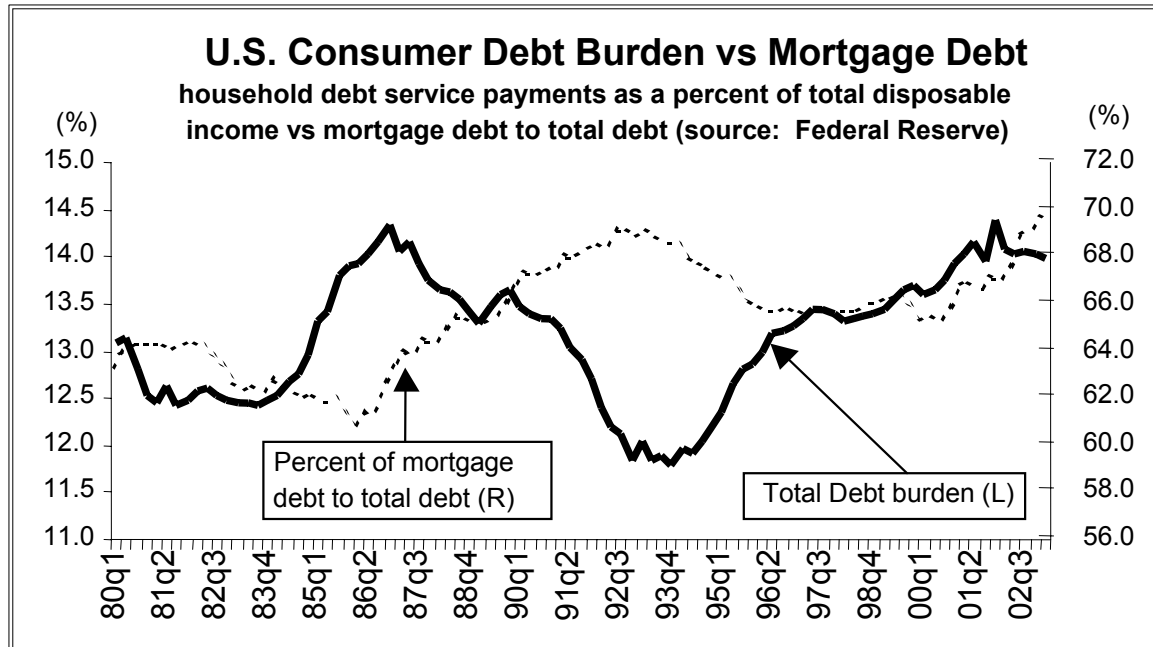
# HOUSEHOLD'S EXPOSURE TO THE HOUSING BUBBLE

Our view is that Household's exposure to a 'housing bubble' is reduced by several factors:

- Portfolio is geographically diverse, with approximately 20% in highly over-priced markets as defined by Economy.com Housing Monitor Q1 2003
- Median house value in our segment is below the national median of \$163,100, and appreciation has been less
- 98% of houses securing our debt are single-family owner-occupied
- The average U.S. household spends 3 1/2 times their salary for their home\*; Household customers are below this level

\* FORTUNE Magazine, October 28, 2002

# GROWTH IN CONSUMER DEBT



- The rise in US consumer debt burden is primarily due to the increase in mortgage debt associated with increased homeownership and refinancing

# FOCUS ON BANKRUPTCY

- Household bankruptcy unit filings are up 9.2% year-over-year, adjusted for receivables growth
- Average \$ per filing for unsecured product has been flat due to tightened underwriting and account management
- Percentage of \$ filings in real estate product has increased, leading to higher delinquency. Reaffirmation rates mitigate loss severity

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# FINANCIAL REVIEW

## KEY FINANCIALS - MANAGED BASIS

### *Six Months Ended*

	<u>6/30/03</u>	<u>6/30/02</u>	<u>% Change</u>
Net Operating Earnings (\$ Millions) <sup>(1)</sup>	\$696.1	\$998.4	-30%
Net Income (\$ Millions) <sup>(2)</sup>	\$619.4	\$998.4	-38%
Receivable Growth (end of period, annualized)	9.45%	9.20%	3%
Net Interest Margin	8.76%	8.64%	1%
Consumer Chargeoffs	4.82%	4.17%	16%
2+ Delinquency	5.30%	4.53%	17%
Risk Adjusted Revenue	7.22%	7.35%	-2%
Efficiency Ratio, excluding merger related items <sup>(1)</sup>	35.0%	32.0%	9%

<sup>(1)</sup> Excludes purchase accounting adjustments, discontinuation of shortcut method of accounting for interest rate swaps and HSBC acquisition costs and other merger related items

<sup>(2)</sup> U.S. GAAP

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# NET INCOME 2002 VS. 2003

(Managed basis, after-tax, \$ millions)

<b>June 30, 2002 Net Income</b>		<b>\$ 998</b>
Revenue	\$308	
Credit costs	<u>(296)</u>	<u>12</u>
Sub-total		1,010
Expenses		<u>(175)</u>
Sub-total		835
Securitization revenue		<u>(139)</u>
June 30, 2003 Net Operating Earnings		696
Purchase accounting adjustments	43	
Discontinuation of shortcut method of accounting for interest rate swaps	47	
Acquisition costs & other merger related items	<u>(167)</u>	<u>(77)</u>
<b>June 30, 2003 Net Income YTD</b>		<b><u><u>\$ 619</u></u></b>

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# SUMMARY

- Household is an established industry leader in consumer lending
- Household/HSBC integration is proceeding well and to deliver promised results
- Credit quality impacted by pace of U.S. recovery but portfolio and reserves are well-positioned
- Business fundamentals are improving after a difficult 2002