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HSBC USA INC. 2002 INTERIM RESULTS

- Net income for the first half of 2002 increased by 11 per cent to US\$408 million compared to US\$369 million in the first half of 2001.
- Cash earnings[‡] in the first half of 2002 were US\$407 million, a decrease of 10 per cent compared to US\$450 million for the same period in 2001.
- Cash earnings[‡] as a percentage of average common equity for the first half of 2002 were 12.3 per cent compared to 13.3 per cent during the first half of 2001.
- The cost:income ratio for the first half of 2002 was 54.4 per cent compared to 58.2 per cent in the first half of 2001. The ratio for the first half of 2001, put on a comparable basis by excluding goodwill amortization and restructuring costs, was 52.1 per cent.
- Tier 1 capital to risk-weighted assets was 8.6 per cent at June 30, 2002 compared to 8.5 per cent at June 30, 2001.
- Total assets under administration at June 30, 2002 were US\$48.1 billion, of which US\$32.6 billion were funds under management and US\$15.5 billion were custody accounts.

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

HSBC USA Inc. reported net income of US\$408 million for the six months ended June 30, 2002, an increase of 11 per cent from US\$369 million for the first six months of 2001. Cash earnings for the six months ended June 30, 2002 decreased to US\$407 million from US\$450 million for the 2001 comparable period. Higher fee income in many areas and the elimination of goodwill amortization (through the implementation of SFAS 142) were more than offset by higher credit costs, lower other operating income from the treasury and mortgage businesses, and a higher underlying tax rate.

For the quarter ended June 30, 2002, net income totaled US\$198 million, an increase of 5 per cent from US\$188 million for the second quarter of 2001. Cash earnings in the second quarter of 2002 decreased to US\$197 million from US\$229 million in the comparable period in 2001.

Commenting on the results, Youssef A Nasr, Chief Executive Officer of HSBC USA Inc., said: "The economic environment in which we have operated during the first six months of 2002 has been more difficult than the first half of 2001. While we have not had some of the same successes with market sensitive revenues, and have taken more provisions, the contribution made this year by our basic business has improved, especially in wealth management.

"During the second quarter we signed a memorandum of understanding with certain partners of Arthur Andersen LLP's Private Client Service Practice to join a new HSBC Private Client Services group in the US. Establishing this business within HSBC USA will allow us to provide value-added advisory services to our private banking clients and will help us with the continued expansion of our top-tier private banking operations, especially within the US.

"It has long been our strategy to develop our wealth management and private banking business to serve better the needs of our clients. This high value-added, fee generating business fits exactly within that strategy, allowing us to widen the scope of services that we provide to our existing and future clients."

Net interest income

For the six months ended June 30, 2002, net interest income increased by US\$40 million, or 4 per cent, to US\$1.2 billion. Total average-earning assets increased by US\$2 billion or 2 per cent compared to 2001. The benefits of lower cost personal and commercial deposits and cuts in short-term rates over the past twelve months have led to wider interest margins in the residential mortgage business and treasury investment operations.

Other operating income

Other operating income for the first six months of 2002 was US\$544 million, a decrease of US\$16 million, or 3 per cent compared to the first six months of 2001. Wealth management, insurance, and other fees and commissions all continued to show growth in the first six months of 2002. Brokerage revenues were 44 per cent higher due in part to sales of annuity products and increased transaction volumes. Insurance revenues increased by 55 per cent over the comparable period in 2001. Over 1,500 professionals are now licensed to sell insurance and certain annuity products through the bank's retail network.

Difficult conditions in the capital markets prevented a recurrence of last year's strong results in areas that are more market sensitive. Treasury trading revenues for the six months ended June 30, 2002 were US\$48 million, a decrease of US\$49 million from the first six months of 2001. Mortgage operating income, including servicing fees net of impairment, origination gains and related economic hedges, was down from the first six months of 2001; however, additional gains are set to be realized when sales are concluded in July. Securities gains for the six months ended June 30, 2002 were US\$104 million, a decrease of US\$22 million from US\$126 million in the comparable period in 2001. The first half of 2002 included sales of mortgage-backed, treasury, and Latin American securities. Securities gains in the first half of 2001 included a US\$19 million one-time gain on the sale of shares in Canary Wharf.

Operating expenses

Operating expenses decreased 5 per cent to US\$925 million in the first six months of 2002 compared to US\$975 million in the first half of 2001. The decrease was primarily a result of the previously mentioned adoption of SFAS 142 with goodwill no longer being amortized through operating expenses. The impact of goodwill amortization on net income in the first half of 2001 was US\$86 million. Allowing for this accounting change, operating expenses were up US\$36 million, or 4 per cent, primarily the result of higher reserves for letters of credit and for a leveraged lease which is fully reserved.

The cost:income ratio for the first six months of 2002 was 54.4 per cent compared to 58.2 per cent for the same period in 2001. The ratio for the 2001 period, put on a comparable basis by excluding goodwill amortization and restructuring costs, was 52.1 per cent.

Provision for Income Taxes

The provision for income taxes was US\$237 million for the six months ended June 30, 2002, compared to US\$236 million in the comparable period for 2001. The underlying tax rate, excluding goodwill amortization from last year's expenses, rose approximately 2.5 percentage points over the same time periods.

Credit Quality and Provisions for Credit Losses

Overall credit quality in the first six months of 2002 declined slightly. Non-accruing loans were higher and the provision for credit losses of US\$130 million was US\$34 million higher than for the first six months of 2001. Net charge-offs of US\$94 million for the first six months of 2002 were also higher, by US\$31 million, than in the 2001 comparable period, due to a small number of problem loans. The reserve to non-accrual ratio declined to 129.7 per cent at June 30, 2002 from 138.0 per cent at June 30, 2001.

Balance Sheet

Total assets of HSBC USA Inc. were US\$87.1 billion at June 30, 2002 compared to US\$85.4 billion at June 30, 2001. Total deposits were US\$55.6 billion at June 30, 2002, compared to US\$58.0 billion at June 30, 2001. The decrease in deposits was mainly attributable to a reduction in wholesale foreign deposits that was partially offset by increases in personal demand, personal money market and commercial money market balances. Total loans at June 30, 2002 were US\$41.7 billion, compared to US\$42.0 billion at June 30, 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 330,000 customers, originated US\$10.0 billion in mortgages in the six months ended June 30, 2002, an increase of more than 50 per cent over the US\$6.6 billion originated in the 2001 comparable period.

Total Assets Under Administration

Total funds under management at June 30, 2002 were US\$32.6 billion, up US\$1.4 billion, or 4 per cent from June 30, 2001, largely due to the movement of new and existing deposits to investment products. Including custody balances, assets under administration at June 30, 2002 totalled US\$48.1 billion.

Capital Ratios

HSBC USA Inc.'s tier 1 capital to risk-weighted assets ratio was 8.6 per cent at June 30, 2002 compared to 8.5 per cent at June 30, 2001. Total capital to risk-weighted assets was 13.7 per cent at June 30, 2002, compared to 13.4 per cent at June 30, 2001.

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 June 30, 2002, more than 335,000 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 approximately 30,000 visits daily.

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About HSBC Bank USA

HSBC Bank USA has more than 410 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 largest banking and financial services organizations.

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</i>		<i>Six months ended</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Earnings				
Net income	198	188	408	369
Cash earnings [†]	197	229	407	450
Performance ratios (%)				
Cash earnings as a percentage of average common equity	11.9	13.5	12.3	13.3
Net interest margin	2.7	2.7	2.7	2.7
Cost:income ratio	56.3	57.6	54.4	58.2
Other operating income to total income	31.7	31.9	32.0	33.5
Credit information				
Non-accruing loans at end of period			417	390
Net charge-offs	32	43	94	63
Allowance available for credit losses				
- Balance at end of period			540	538
- As a percentage of non-accruing loans			129.7%	138.0%
- As a percentage of loans outstanding			1.3%	1.3%
Average Balances				
Assets	87,293	85,677	87,751	85,363
Loans	41,684	41,191	41,893	40,799
Deposits	58,158	58,227	58,433	57,971
Common equity	6,650	6,807	6,651	6,837
Capital ratios (%) at end of period				
Leverage ratio			5.7	5.9
Tier 1 capital to risk-weighted assets			8.6	8.5
Total capital to risk-weighted assets			13.7	13.4
Assets under administration at end of period				
Funds under management			32,547	31,182
Custody accounts			15,535	15,723
Total assets under administration			48,082	46,905

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

<i>Figures in US\$ millions</i>	<i>Quarter ended</i>		<i>Six months ended</i>	
	<i>30 June 2002</i>	<i>30 June 2001</i>	<i>30 June 2002</i>	<i>30 June 2001</i>
Interest income				
Loans	631	752	1,266	1,538
Securities	235	333	483	701
Trading assets	41	62	74	123
Short-term investments	42	100	87	215
Other interest income	6	7	12	15
Total interest income	<u>955</u>	<u>1,254</u>	<u>1,922</u>	<u>2,592</u>
Interest expense				
Deposits	246	509	508	1,092
Short-term borrowings	66	88	119	209
Long-term debt	69	85	139	175
Total interest expense	<u>381</u>	<u>682</u>	<u>766</u>	<u>1,476</u>
Net interest income	<u>574</u>	<u>572</u>	<u>1,156</u>	<u>1,116</u>
Provision for credit losses	<u>56</u>	<u>48</u>	<u>130</u>	<u>96</u>
Net interest income, after provision for credit losses	<u>518</u>	<u>524</u>	<u>1,026</u>	<u>1,020</u>
Other operating income				
Trust income	23	22	48	45
Service charges	51	48	99	91
Mortgage servicing fees and gains, net	32	7	50	19
Other fees and commissions	99	82	191	159
Trading revenues				
- Treasury business and other	4	40	48	97
- Residential mortgage business related †	(34)	12	(46)	5
Total trading revenues	<u>(30)</u>	<u>52</u>	<u>2</u>	<u>102</u>
Security gains, net	66	57	104	126
Other income	25	- ††	50	18
Total other operating income	<u>266</u>	<u>268</u>	<u>544</u>	<u>560</u>
Total income from operations	<u>784</u>	<u>792</u>	<u>1,570</u>	<u>1,580</u>
Operating expenses				
Salaries and employee benefits	243	241	496	485
Occupancy expense, net	38	38	74	76
Other expenses	192	162	355	328
Operating expenses before goodwill amortization	<u>473</u>	<u>441</u>	<u>925</u>	<u>889</u>
Goodwill amortization	-	43	-	86
Total operating expenses	<u>473</u>	<u>484</u>	<u>925</u>	<u>975</u>
Income before taxes and cumulative effect of accounting change	311	308	645	605
Applicable income tax expense	<u>113</u>	<u>120</u>	<u>237</u>	<u>236</u>
Income before cumulative effect of accounting change	198	188	408	369
Cumulative effect of accounting change-implementation of SFAS 133	-	-	-	- ††
Net income	<u>198</u>	<u>188</u>	<u>408</u>	<u>369</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.

†† Less than \$500,000.

<i>Figures in US\$ millions</i>	<i>At 30 June 2002</i>	<i>At 31 December 2001</i>	<i>At 30 June 2001</i>
Assets			
Cash and due from banks	1,817	2,103	1,800
Interest bearing deposits with banks	1,792	3,561	4,464
Federal funds sold and securities purchased under resale agreements	5,979	3,745	3,339
Trading assets	11,517	9,089	8,830
Securities available for sale	13,738	15,268	13,467
Securities held to maturity	3,966	4,651	4,867
Loans	41,694	40,923	41,988
Less – allowance for credit losses	540	506	538
Loans, net	<u>41,154</u>	<u>40,417</u>	<u>41,450</u>
Premises and equipment	739	750	792
Accrued interest receivable	364	417	482
Equity investments	276	271	265
Goodwill	2,767	2,777	2,922
Other assets	3,039	4,065	2,745
Total assets	<u>87,148</u>	<u>87,114</u>	<u>85,423</u>
Liabilities			
Deposits in domestic offices			
- Non-interest bearing	5,043	5,432	5,189
- Interest bearing	33,512	31,696	32,584
Deposits in foreign offices			
- Non-interest bearing	427	428	361
- Interest bearing	16,652	18,951	19,904
Total deposits	<u>55,634</u>	<u>56,507</u>	<u>58,038</u>
Trading account liabilities	6,320	3,800	3,568
Short-term borrowings	10,782	9,202	8,575
Interest, taxes and other liabilities	2,596	6,065	3,067
Subordinated long-term debt and perpetual capital notes	2,569	2,712	2,946
Guaranteed mandatorily redeemable securities	735	728	723
Other long-term debt	1,311	1,051	1,149
Total liabilities	<u>79,947</u>	<u>80,065</u>	<u>78,066</u>
Shareholders' equity			
Preferred stock	500	500	500
Common shareholders' equity			
- Common stock [†]	-	-	-
- Capital surplus	6,042	6,034	6,025
- Retained earnings	552	416	794
- Accumulated other comprehensive income	107	99	38
Total common shareholders' equity	<u>6,701</u>	<u>6,549</u>	<u>6,857</u>
Total shareholders' equity	<u>7,201</u>	<u>7,049</u>	<u>7,357</u>
Total liabilities and shareholders' equity	<u>87,148</u>	<u>87,114</u>	<u>85,423</u>

[†] Less than \$500,000.