

3 March 2003

**HSBC USA INC.  
2002 RESULTS - HIGHLIGHTS**

- Full-year net income in 2002 increased to US\$855 million compared to US\$353 million in 2001. Net income in 2001 included a US\$351 million after tax provision for the settlement of the Princeton Note Matter (“Princeton”) and US\$176 million of goodwill amortization not included in 2002 earnings, under new US GAAP accounting rules. When 2001 is adjusted for these items, net income decreased by 3 percent to US\$855 million in 2002 from US\$880 million in 2001, although net income before taxes increased by 3 percent year on year.
- Fourth quarter net income in 2002 increased to US\$228 million compared to US\$152 million for the same period last year. Fourth quarter net income in 2001 included US\$43 million of goodwill amortization not included in the fourth quarter of 2002. When 2001 is adjusted for this, net income increased by 17 percent to US\$228 million in the 2002 fourth quarter from US\$195 million in the same period in 2001, while pre tax income increased 27 percent to US\$369 million from US\$291 million.
- Net income as a percentage of average common equity for the full-year 2002 was 12.8 percent compared to 5.2 percent in 2001. Adjusting 2001 for Princeton and goodwill amortization, net income as a percentage of average common equity was 12.9 percent.
- The cost:income ratio for 2002 was 54.6 percent compared to 75.7 percent in 2001. Excluding the provision for Princeton and goodwill amortization, the cost:income ratio was 53.3 percent in 2001.
- Tier 1 capital to risk-weighted assets was 9.4 percent at 31 December 2002 compared to 8.3 percent at 31 December 2001.
- Total assets under administration at 31 December 2002 were US\$47.8 billion, of which US\$33.3 billion were funds under management and US\$14.5 billion were custody accounts.

HSBC USA Inc. reported net income of US\$855 million for the year ended 31 December 2002, compared to US\$353 million for the year ended 31 December 2001. Net income in 2001 included a US\$351 million after tax provision for the settlement of Princeton, and US\$176 million of goodwill amortization, not included in 2002 earnings under new US GAAP accounting rules. When 2001 is adjusted for these items, net income decreased by 3 percent to US\$855 million for the year ended 31 December 2002 from US\$880 million for the year ended 31 December 2001, although net income before taxes increased by 3 percent year over year.

For the quarter ended 31 December 2002, net income totaled US\$228 million compared with US\$152 million for the same period last year. Fourth quarter net income in 2001 included US\$43 million of goodwill amortization not included in the fourth quarter of 2002. When 2001 is adjusted for this, net income increased by 17 percent to US\$228 million in the 2002 fourth quarter from US\$195 million in the same period last year, while pre tax income increased 27 percent to US\$369 million from US\$291 million.

Commenting on the results, Youssef A Nasr, Chief Executive Officer of HSBC USA Inc., said: "We are pleased with the results that we have reported today given the fact that they were achieved during a time of tough economic conditions and highly volatile securities markets. They reflect steady progress with our customer bases and we are optimistic about our continuing growth in brokerage, insurance, asset management, private banking and other fee generating businesses.

"We continue to improve the services that we provide our customers. In 2002, we aligned our US and Canadian operations to be able to provide seamless cross border banking services to our customers on either side of the border. The realignment has already provided us with a significant increase in new cross border business opportunities. During the fourth quarter, HSBC Holdings plc, our parent, acquired GFBital, one of Mexico's largest banks, and we are enthusiastic about the additional coverage this will enable us to provide to our customers across the NAFTA countries.

"In November, HSBC Holdings plc announced that it had signed an agreement to acquire Household International, Inc. Since then we have made progress with the necessary competition and regulatory filings. Subject to that process being concluded and to obtaining shareholder approvals the acquisition is expected to be completed by the end of the first quarter of this year, and should provide us with the opportunity to offer a broader range of products to customers of both HSBC and Household."

### **Net Interest Income**

For the year ended 31 December 2002, net interest income increased by US\$111 million, or almost 5 percent, to US\$2.4 billion. This increase reflects the impact of growth in the balance sheet, primarily residential mortgage loans, and wider interest margins in both residential mortgages and treasury investments.

### **Other Operating Income**

While other operating income of US\$1.1 billion was down slightly, US\$36 million or 3 percent, compared to 2001, driven by lower levels of market sensitive trading revenues, solid growth was achieved in most categories of fee based income.

Fees and commissions, including wealth management revenues, fees on deposit and cash management products, and bankcard fees, grew 16 percent from US\$607 million for the year ended 31 December 2001 to US\$705 million for the year ended 31 December 2002. Brokerage revenues increased 32 percent to US\$106 million in 2002 from US\$80 million in 2001 due in part to sales of annuity products and increased transaction volumes. Revenues related to the sale of annuity products increased by more than US\$22 million or 71 percent compared to 2001. Insurance revenues increased by 42 percent to US\$46 million for the year ended 31 December 2002, up from US\$33 million in 2001. Over 1,500 professionals are now licensed to sell insurance and certain annuity products through the bank's retail network. Service charges also increased by almost 10 percent to US\$207 million for the year ended 31 December 2002 from US\$189 million in 2001.

Difficult conditions in the capital markets prevented a recurrence of 2001's strong results in areas that are more market sensitive. Treasury trading revenues for the full-year 2002 were US\$130 million, a decrease of US\$136 million in 2001. Mortgage other operating income, including servicing fees net of impairment, origination gains and related hedge costs, was flat to 2001. Securities gains for the year ended 31 December 2002 were US\$118 million, a decrease of US\$31 million from US\$149 million in the comparable period in 2001.

### **Operating Expenses**

Operating expenses decreased by 26 percent to US\$1.9 billion for the year-ended 31 December 2002 compared to US\$2.5 billion in 2001. Excluding the effect of the goodwill change and Princeton, operating expenses increased by US\$84 million, or 5 percent. This included higher reserves for letters of credit and for a leveraged lease, the costs associated with the acquired Wealth and Tax Advisory Services business, and the costs of severance and certain volume driven incentive compensation programs.

The cost:income ratio for the year-ended 31 December 2002 was 54.6 percent compared to 75.7 percent in 2001. The ratio for 2001, put on a comparable basis by excluding the provision for Princeton and goodwill amortization, was 53.3 percent.

### **Provision for Income Taxes**

The provision for income taxes was US\$510 million for the full-year 2002, compared to US\$226 million in the comparable period for 2001. The effective tax rate was 37.4 percent in 2002 and 39.0 percent in 2001. Excluding the Princeton provision and goodwill amortization from last year's expenses, the 2001 effective tax rate was approximately 33.8 percent.

### **Credit Quality and Provisions for Credit Losses**

The provision for credit losses of US\$195 million was US\$43 million lower than in 2001, reflecting the improvement in credit quality during the latter part of 2002. Net charge-offs of US\$206 million for the year ended 31 December 2002 were US\$32 million lower than in 2001. The reserve to non-accrual ratio increased to 127.3 percent at 31 December 2002 from 121.5 percent at 31 December 2001.

## Balance Sheet

Total assets of HSBC USA Inc. grew approximately 3 percent to US\$89.4 billion at 31 December 2002 compared to US\$87.1 billion at 31 December 2001. Total deposits grew 5 percent to US\$59.3 billion at 31 December 2002, compared to US\$56.5 billion at 31 December 2001. Total loans grew almost 7 percent to US\$43.6 billion at 31 December 2002 from US\$40.9 billion at 31 December 2001.

Residential mortgage loans held in the portfolio increased, and lower margin corporate loans were reduced. HSBC Bank USA's residential mortgage business, with approximately 335,000 customers, originated US\$21.2 billion in mortgages in 2002, an increase of more than 41 percent over the US\$15.0 billion originated in 2001.

## Total Assets Under Administration

Total funds under management at 31 December 2002 were US\$33.3 billion, up US\$937 million, or almost 3 percent from 31 December 2001, largely due to the movement of new and existing deposits to investment products. Including custody balances, assets under administration at 31 December 2002 totaled US\$47.8 billion.

## Capital Ratios

HSBC USA Inc.'s tier 1 capital to risk-weighted assets ratio was 9.4 percent at 31 December 2002 compared to 8.3 percent at 31 December 2001. Total capital to risk-weighted assets was 14.2 percent at 31 December 2002, compared to 13.3 percent at 31 December 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 31 December 2002, more than 410,000 customers had registered for the service, up from approximately 275,000 at year-end 2001. The HSBC Bank USA web site, [us.hsbc.com](http://us.hsbc.com), where customers can apply for accounts, conduct financial planning and link to online services, receives approximately 49,000 visits daily. In addition, debit card usage has increased by more than 31 percent to approximately thirty three million transactions in 2002.

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## About HSBC Bank USA

HSBC Bank USA has more than 405 branches in New York State, giving it the most extensive branch network in New York State. The bank also has eight branches in Florida, two in Pennsylvania, four in California and 15 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 8,000 offices in 80 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](http://www.us.hsbc.com).

<i>Figures in US\$ millions</i>	<i>Quarter ended</i>		<i>Year ended</i>	
	<i>31</i>	<i>31</i>	<i>31</i>	<i>31</i>
	<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
<b>Earnings</b>				
Net income	<b>228</b>	152	<b>855</b>	353
Net income, excluding Princeton and goodwill amortization		195		880
<b>Performance ratios (%)</b>				
Net income as a percentage of average common equity	<b>13.3</b>	8.9	<b>12.8</b>	5.2
Net income as a percentage of average common equity, excluding Princeton and goodwill amortization		11.4		12.9
Net interest margin	<b>2.8</b>	2.7	<b>2.7</b>	2.7
Cost:income ratio	<b>55.7</b>	59.8	<b>54.6</b>	75.7
Cost:income ratio, excluding Princeton and goodwill amortization		54.8		53.3
Other operating income to total income	<b>29.9</b>	30.4	<b>30.8</b>	32.6
<b>Credit information</b>				
Non-accruing loans at end of period			<b>387</b>	417
Net charge-offs	<b>74</b>	129	<b>206</b>	238
Allowance available for credit losses				
- Balance at end of period			<b>493</b>	506
- As a percentage of non-accruing loans			<b>127.3 %</b>	121.5 %
- As a percentage of loans outstanding			<b>1.1 %</b>	1.2 %
<b>Average balances</b>				
Assets	<b>89,229</b>	87,883	<b>87,780</b>	86,276
Loans	<b>42,792</b>	41,935	<b>42,054</b>	41,441
Deposits	<b>56,758</b>	56,452	<b>57,576</b>	57,430
Common equity	<b>6,785</b>	6,765	<b>6,700</b>	6,834
<b>Capital ratios (%) at end of period</b>				
Leverage ratio			<b>6.0</b>	5.5
Tier 1 capital to risk-weighted assets			<b>9.4</b>	8.3
Total capital to risk-weighted assets			<b>14.2</b>	13.3
<b>Assets under administration at end of period</b>				
Funds under management			<b>33,287</b>	32,350
Custody accounts			<b>14,537</b>	16,328
Total assets under administration			<b>47,824</b>	48,678

<i>Figures in US\$ millions</i>	<i>Quarter ended</i>		<i>Year ended</i>	
	<i>31</i>	<i>31</i>	<i>31</i>	<i>31</i>
	<i>December</i>	<i>December</i>	<i>December</i>	<i>December</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
<b>Interest income</b>				
Loans	624	670	2,521	2,937
Securities	242	270	952	1,260
Trading assets	43	41	161	217
Short-term investments	27	57	150	345
Other interest income	7	6	23	28
Total interest income	<u>943</u>	<u>1,044</u>	<u>3,807</u>	<u>4,787</u>
<b>Interest expense</b>				
Deposits	201	324	936	1,857
Short-term borrowings	54	54	232	337
Long-term debt	63	71	263	328
Total interest expense	<u>318</u>	<u>449</u>	<u>1,431</u>	<u>2,522</u>
<b>Net interest income</b>	<b>625</b>	<b>595</b>	<b>2,376</b>	<b>2,265</b>
Provision for credit losses	<u>26</u>	<u>95</u>	<u>195</u>	<u>238</u>
Net interest income, after provision for credit losses	<u>599</u>	<u>500</u>	<u>2,181</u>	<u>2,027</u>
<b>Other operating income</b>				
Trust income	23	22	95	88
Service charges	54	50	207	189
Mortgage banking revenue †	62	56	110	79
Other fees and commissions	108	84	403	330
Trading revenues				
- Treasury business and other	73	75	130	266
- Residential mortgage business related ††	(63)	(52)	(97)	(67)
Total trading revenues	<u>10</u>	<u>23</u>	<u>33</u>	<u>199</u>
Security gains (losses), net	(2)	3	118	149
Other income	12	21	94	62
Total other operating income	<u>267</u>	<u>259</u>	<u>1,060</u>	<u>1,096</u>
<b>Total income from operations</b>	<b>866</b>	<b>759</b>	<b>3,241</b>	<b>3,123</b>
<b>Operating expenses</b>				
Salaries and employee benefits	279	272	1,029	1,000
Occupancy expense, net	42	39	156	156
Princeton note matter	-	-	-	575
Other expenses	176	157	691	636
Operating expenses before goodwill amortization	<u>497</u>	<u>468</u>	<u>1,876</u>	<u>2,367</u>
Goodwill amortization	-	43	-	176
Total operating expenses	<u>497</u>	<u>511</u>	<u>1,876</u>	<u>2,543</u>
Income before taxes and cumulative effect of accounting change	<u>369</u>	<u>248</u>	<u>1,365</u>	<u>580</u>
Applicable income tax expense	<u>141</u>	<u>96</u>	<u>510</u>	<u>226</u>
Income before cumulative effect of accounting change	<u>228</u>	<u>152</u>	<u>855</u>	<u>354</u>
Cumulative effect of accounting change-implementation of SFAS 133	-	-	-	(1)
<b>Net income</b>	<b><u>228</u></b>	<b><u>152</u></b>	<b><u>855</u></b>	<b><u>353</u></b>

† Mortgage banking revenue includes mortgage servicing fees, gains on sale of mortgages and fair value adjustments related to qualifying hedges (under FAS 133) of residential mortgages originated for sale.

†† Trading revenues include the mark-to-market on non-qualifying financial instruments (under FAS 133) providing economic protection on mortgage servicing rights values and interest rate and forward sales commitments in the residential mortgage business.

<i>Figures in US\$ millions</i>	<i>At 31 December 2002</i>	<i>At 31 December 2001</i>
<b>Assets</b>		
Cash and due from banks	2,081	2,103
Interest bearing deposits with banks	1,048	3,561
Federal funds sold and securities purchased under resale agreements	2,743	3,745
Trading assets	13,408	9,089
Securities available for sale	14,694	15,268
Securities held to maturity	4,629	4,651
Loans	43,636	40,923
Less – allowance for credit losses	493	506
Loans, net	<u>43,143</u>	<u>40,417</u>
Premises and equipment	726	750
Accrued interest receivable	329	417
Equity investments	278	271
Goodwill	2,829	2,842
Other assets	3,518	4,000
<b>Total assets</b>	<u><u>89,426</u></u>	<u><u>87,114</u></u>
<b>Liabilities</b>		
Deposits in domestic offices		
- Non-interest bearing	5,731	5,432
- Interest bearing	34,352	31,696
Deposits in foreign offices		
- Non-interest bearing	398	428
- Interest bearing	18,799	18,951
<b>Total deposits</b>	<u>59,280</u>	<u>56,507</u>
Trading account liabilities	7,710	3,800
Short-term borrowings	7,392	9,202
Interest, taxes and other liabilities	3,422	6,065
Subordinated long-term debt and perpetual capital notes	2,109	2,712
Guaranteed mandatorily redeemable securities	1,051	728
Other long-term debt	1,065	1,051
<b>Total liabilities</b>	<u>82,029</u>	<u>80,065</u>
<b>Shareholders' equity</b>		
Preferred stock	500	500
Total common shareholders' equity		
- Common stock <sup>†</sup>	-	-
- Capital surplus	6,057	6,034
- Retained earnings	578	416
- Accumulated other comprehensive income	262	99
Total common shareholders' equity	<u>6,897</u>	<u>6,549</u>
<b>Total shareholders' equity</b>	<u>7,397</u>	<u>7,049</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>89,426</u></u>	<u><u>87,114</u></u>

<sup>†</sup> Less than \$500,000.