

4 March 2002

**HSBC USA INC.
2001 RESULTS - HIGHLIGHTS**

- Full-year net income in 2001 increased by 24 per cent to US\$704 million compared to US\$569 million in 2000 before the effect of a provision for the Princeton Note Matter (“Princeton”). On a GAAP basis, after the provision for Princeton, HSBC USA Inc. reported net income of US\$353 million for the year ended 31 December 2001.
- Cash earnings[‡] in 2001 were US\$872 million before the provision for Princeton, an increase of 20 per cent compared to US\$725 million in 2000.
- The cost:income ratio (excluding goodwill amortization, restructuring costs and the provision for Princeton) for 2001 was 52.9 per cent, compared to 55.7 per cent in 2000.
- Tier 1 capital to risk-weighted assets was 8.3 per cent at 31 December 2001, compared to 8.4 per cent at 31 December 2000.
- Cash earnings[‡] as a percentage of average common equity for the full-year 2001 were 12.8 per cent before the provision for Princeton, compared to 11.0 per cent during 2000.
- Client assets under administration at 31 December 2001 were US\$48.7 billion, of which US\$32.4 billion were funds under management and US\$16.3 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.*

Note: Figures for 2000 have been restated to exclude an investment in an entity transferred to HSBC North America Inc. during 2001.

HSBC USA Inc. reported net income of US\$704 million for the year ended 31 December 2001 before a provision for Princeton, an increase of 24 per cent from US\$569 million for the full-year 2000. On the same basis, cash earnings for 2001 increased to US\$872 million from US\$725 million for 2000. On a GAAP basis in 2001, the company reported net income of US\$353 million, after the provision for Princeton.

Youssef A Nasr, Chief Executive Officer of HSBC USA Inc., said: "In 2001, we faced the task of having to respond to several unprecedented events. We had to deal with the tragic events of September 11th. We were also faced with a challenging business environment. In that light, we are pleased with our results. Our cash earnings, which remain our primary focus, increased 20 per cent before the provision taken for the resolution of the Princeton Note Matter."

Total assets were US\$87.1 billion compared to US\$83.0 billion at 31 December 2000. Total deposits were US\$56.5 billion at 31 December 2001, compared to US\$56.0 billion at 31 December 2000. Within deposits, personal and commercial demand deposits increased while higher cost CD's declined. Total loans at 31 December 2001 were US\$40.9 billion, compared to US\$40.4 billion at 31 December 2000. Residential mortgage loans originated and held in the portfolio increased, and lower margin corporate loans were reduced.

For the year ended 31 December 2001, net interest income increased by US\$147 million, or 7 per cent, to US\$2.3 billion. Total average earning assets increased US\$3.9 billion or 5.2 per cent compared to 2000. In addition to the benefit of more lower cost personal and commercial deposits, short-term rate cuts led to wider interest margins in certain commercial businesses, the residential mortgage business and treasury.

For the full-year, other operating income was US\$1.1 billion, an increase of US\$263 million, or 32 per cent from US\$832 million in 2000. Wealth management, insurance and bankcard fees all grew as former Republic National Bank of New York customers were introduced to new products. Brokerage revenues were up 26 per cent due in part to sales of annuities. Insurance revenues increased 44 per cent over the prior year. Mortgage origination and servicing income dropped 17 per cent compared to last year, after considering trading losses and securities gains in programs to protect mortgage origination and servicing fees against interest rate swings and prepayments.

Within the commercial segment, harmonization of HSBC and the former Republic product lines led to increases in deposit, cash management and loan related fees.

Treasury trading revenues were US\$266 million, or 90 per cent higher than in 2000. All major trading functions recorded higher revenues in 2001 including foreign exchange, derivatives, precious metals and banknotes. In addition, gains of US\$149 million were realised as securities were sold to mitigate interest rate and other risks.

Operating expenses, excluding the provision for Princeton, increased 3 per cent to US\$2.0 billion from US\$1.9 billion last year. Lower restructuring expenses in 2001 were offset by higher costs due to business expansion in treasury, wealth management and e-commerce, and increased marketing expenses. Incentive compensation tied to performance also increased. Caused by the weaker US economy as well as the response to 11 September, airlines have posted large losses, and the company wrote off US\$12 million of airline exposure.

During 2001, while the company's non-performing assets remained relatively stable, the business and credit environment has been volatile and weaker compared to 2000. It is still too early to determine the medium to longer-term effect that the events of 11 September and the general economic slowdown will have on the overall credit portfolio. Net charge-offs for the full year 2001 of US\$238 million were the same as in 2000. The company took more provisions in the fourth quarter of 2001 compared to prior quarters including an exposure to a single large corporate in the energy sector. The ratio of allowance available for loan losses to non-accruing loans was 121.5 per cent at the end of 2001 compared to 124.1 per cent at the end of 2000.

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 2001, more than 275,000 customers had registered for the service, up from approximately 80,000 at year-end 2000. 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 24,000 visits daily.

In the fourth quarter of 2001, HSBC USA Inc. announced that it had settled civil law suits brought by 51 of the 53 Japanese plaintiffs who have asserted claims against arising from the involvement of its subsidiary, Republic New York Securities Corporation (“RNYSC”) in the Princeton Note Matter (“Princeton”). Two of the noteholders, whose civil suits seek damages arising from unpaid Princeton Notes with face amounts totalling US\$125 million, are not included in the settlement and their civil suits will continue. The US Government excluded one of them because that noteholder is being criminally prosecuted in Japan for its conduct relating to its Princeton Notes, and excluded the other because the sum it is likely to recover from the Princeton Receiver exceeds its losses attributable to its fund transfers with RNYSC as calculated by the US Government. The company also announced that it had resolved all of the previously reported regulatory and criminal investigations arising from Princeton.

A charge of US\$575 million before tax was taken by the company in the third quarter of 2001 to reflect the anticipated resolution of Princeton which came to light prior to HSBC’s acquisition of Republic New York Corporation, RNYSC’s parent, in December, 1999. The after tax cost of Princeton to the company, including the US\$575 million pre tax charge taken in the 2001 third quarter and the US\$79 million pre tax charge taken in the fourth quarter of 2000, is within the range of the price reduction taken by companies controlled by the late Mr. Edmond Safra at the time of the acquisition by HSBC Holdings plc of Republic New York Corporation.

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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 principal subsidiary of HSBC USA Inc. which is the eleventh largest US holding company in the US in total assets, and 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 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>Twelve months ended</i>		
	<i>31 Dec 2001</i>	<i>31 Dec 2000</i> ††	<i>31 Dec 2001</i>	<i>31 Dec 2000</i> ††	
	As reported		As reported	Excluding Princeton	
Net income	152	135	353	704	569
Cash earnings †	195	176	521	872	725
Performance ratios (%)					
Cash earnings as a percentage of average common equity	11.4	10.5	7.6	12.8	11.0
Cost:income ratio (excluding goodwill amortization, restructuring costs, and Princeton Note Matter)	54.9	54.8	52.9		55.7
Staff numbers (full-time Equivalents)			14,378		14,639
Average balances					
Loans	41,935	39,942	41,441		38,966
Earning assets	79,548	74,511	78,206		74,313
Total assets	87,883	82,969	86,276		82,788
Deposits	56,452	55,922	57,430		55,032
Common equity	6,765	6,677	6,834		6,583
Net yields on total assets (tax equivalent basis) (%)	2.7	2.5	2.7		2.6
Assets under administration					
Funds under management			32,350		30,278
Custody accounts			16,328		15,616
Total assets under administration			48,678		45,894
Credit information					
Non-accruing loans			417		423
Net charge offs			238		239
Allowance available for credit losses					
- Balance at end of period			506		525
- As a percentage of non-accruing Loans			121.5 %		124.1 %
- As a percentage of loans outstanding			1.24 %		1.30 %
Capital (at end of period)					
Common equity			6,549		6,834
As a percentage of total assets			7.5 %		8.2 %
Capital ratios (%)					
Leverage ratio			5.5		5.7
Tier 1 capital to risk-weighted assets			8.3		8.4
Total capital to risk-weighted assets			13.3		13.6

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

†† Restated to exclude an investment in an entity transferred to HSBC North America Inc. during 2001.

<i>Figures in US\$ thousands</i>	<i>Quarter ended 31 December 2001</i>	<i>Quarter ended 31 December 2000^{††}</i>
Interest income		
Loans	669,935	800,558
Securities	276,148	392,228
Trading assets	41,211	50,661
Other short-term investments	57,036	120,903
Total interest income	<u>1,044,330</u>	<u>1,364,350</u>
Interest expense		
Deposits	323,896	622,778
Short-term borrowings	54,175	114,924
Long-term debt	71,186	102,946
Total interest expense	<u>449,257</u>	<u>840,648</u>
Net interest income	595,073	523,702
Provision for credit losses	<u>95,350</u>	<u>30,992</u>
Net interest income, after provision for credit losses	<u>499,723</u>	<u>492,710</u>
Other operating income		
Trust income	22,240	21,587
Service charges	49,848	42,741
Mortgage servicing fees and gains, net	56,462	9,581
Other fees and commissions	83,746	74,945
Trading revenues		
- Treasury business and other	74,772	25,559
- Residential mortgage business related ^{†††}	<u>(51,889)</u>	<u>-</u>
Total trading revenues	<u>22,883</u>	<u>25,559</u>
Security gains, net	2,596	18,396
Other income	21,473	19,587
Total other operating income	<u>259,248</u>	<u>212,396</u>
Total income from operations	758,971	705,106
Other operating expenses		
Salaries and employee benefits	272,356	237,123
Occupancy expense, net	38,572	40,198
Other expenses	156,808	166,622
Princeton Note Matter	-	-
Operating expenses before goodwill amortization	<u>467,736</u>	<u>443,943</u>
Goodwill amortization	43,420	44,284
Total other operating expenses	<u>511,156</u>	<u>488,227</u>
Income before taxes and cumulative effect of accounting change	247,815	216,879
Applicable income tax expense	<u>96,300</u>	<u>81,568</u>
Income before cumulative effect of accounting Change	151,515	135,311
Cumulative effect of accounting change-implementation of SFAS 133	<u>-</u>	<u>-</u>
Net income	<u>151,515</u>	<u>135,311</u>

^{††} Restated to exclude an investment in an entity transferred to HSBC North America Inc. during 2001.

^{†††} 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>Twelve months ended 31 December 2001</i>	<i>Twelve months ended 31 December 2000</i> ††
Interest income		
Loans	2,937,052	3,072,830
Securities	1,288,292	1,580,606
Trading assets	217,007	140,455
Other short-term investments	345,150	523,693
Total interest income	<u>4,787,501</u>	<u>5,317,584</u>
Interest expense		
Deposits	1,856,893	2,334,036
Short-term borrowings	337,205	444,718
Long-term debt	328,111	420,298
Total interest expense	<u>2,522,209</u>	<u>3,199,052</u>
Net interest income	2,265,292	2,118,532
Provision for credit losses	238,400	137,600
Net interest income, after provision for credit losses	<u>2,026,892</u>	<u>1,980,932</u>
Other operating income		
Trust income	87,600	84,906
Service charges	189,025	172,257
Mortgage servicing fees and gains, net	79,369	32,484
Other fees and commissions	329,509	300,388
Trading revenues		
- Treasury business and other	266,010	140,192
- Residential mortgage business related †††	(67,091)	-
Total trading revenues	<u>198,919</u>	<u>140,192</u>
Security gains, net	149,267	28,839
Other income	61,993	73,372
Total other operating income	<u>1,095,682</u>	<u>832,438</u>
Total income from operations	3,122,574	2,813,370
Other operating expenses		
Salaries and employee benefits	1,000,409	975,391
Occupancy expense, net	155,436	167,202
Other expenses	635,658	587,083
Princeton Note Matter	575,000	-
Operating expenses before goodwill amortization	<u>2,366,503</u>	<u>1,729,676</u>
Goodwill amortization	176,482	176,162
Total other operating expenses	<u>2,542,985</u>	<u>1,905,838</u>
Income before taxes and cumulative effect of accounting change	579,589	907,532
Applicable income tax expense	226,000	338,573
Income before cumulative effect of accounting change	353,589	568,959
Change	353,589	568,959
Cumulative effect of accounting change-implementation of SFAS 133	(451)	-
Net income	<u>353,138</u>	<u>568,959</u>

†† Restated to exclude an investment in an entity transferred to HSBC North America Inc. during 2001.

††† 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 December 2001</i>	<i>At 31 December 2000 ^{††}</i>
Assets		
Cash and due from banks	2,102,756	1,860,713
Interest bearing deposits with banks	3,560,873	5,129,490
Federal funds sold and securities purchased Under resale agreements	3,744,624	1,895,492
Trading assets	9,088,905	5,770,972
Securities available for sale	15,745,323	17,336,832
Securities held to maturity	4,651,329	4,260,492
Loans	40,923,298	40,417,847
Less – allowance for credit losses	506,366	524,984
Loans, net	<u>40,416,932</u>	<u>39,892,863</u>
Premises and equipment	750,041	777,610
Accrued interest receivable	416,545	785,286
Equity investments	271,402	55,596
Goodwill and other acquisition intangibles	2,895,714	3,229,479
Other assets	3,469,132	2,040,325
Total assets	<u><u>87,113,576</u></u>	<u><u>83,035,150</u></u>
Liabilities		
Deposits in domestic offices		
- Non-interest bearing	5,432,106	5,114,668
- Interest bearing	31,695,955	30,631,511
Deposits in foreign offices		
- Non-interest bearing	428,252	282,737
- Interest bearing	18,951,096	20,013,588
Total deposits	<u>56,507,409</u>	<u>56,042,504</u>
Trading account liabilities	3,799,817	2,766,825
Short-term borrowings	9,202,086	8,562,363
Interest, taxes and other liabilities	6,064,462	3,232,918
Subordinated long-term debt and perpetual capital notes	2,711,549	3,027,014
Guaranteed mandatorily redeemable securities	728,341	711,737
Other long-term debt	1,050,882	1,357,904
Total liabilities	<u>80,064,546</u>	<u>75,701,265</u>
Shareholders' equity		
Preferred stock	500,000	500,000
Common shareholders' equity		
- Common stock	4	4
- Capital surplus	6,034,598	6,104,264
- Retained earnings	415,821	612,798
- Accumulated other comprehensive income	98,607	116,819
Total common shareholders' equity	<u>6,549,030</u>	<u>6,833,885</u>
Total shareholders' equity	<u>7,049,030</u>	<u>7,333,885</u>
Total liabilities and shareholders' equity	<u><u>87,113,576</u></u>	<u><u>83,035,150</u></u>

††

Restated to exclude an investment in an entity transferred to HSBC North America Inc. during 2001.