

14 November 2001

HSBC USA INC. 2001 THIRD QUARTER RESULTS

- Net income in the third quarter of 2001 increased by 28 per cent to US\$184 million compared to US\$144 million in the third quarter of 2000 before the effect of a provision for the Princeton Note Matter ("Princeton"). On a GAAP basis, HSBC USA Inc. reported a loss of US\$167 million, after the provision for Princeton, for the third quarter.
- Cash earnings[‡] in the third quarter were US\$225 million before the provision for Princeton, compared to US\$183 million for the same period in 2000.
- The cost: income ratio (excluding goodwill amortization, restructuring costs and the provision for Princeton) for the third quarter of 2001 was 52.7 per cent, compared to 54.0 per cent in the third quarter of 2000.
- Tier 1 capital to risk-weighted assets was 7.9 per cent at 30 September 2001, compared to 8.3 per cent at 30 September 2000.
- Cash earnings[‡] as a percentage of average common equity for the third quarter of 2001 were 12.8 per cent before the provision for Princeton, compared to 11.2 per cent during the third quarter of 2000.
- Client assets under administration at 30 September 2001 were US\$48.0 billion, of which US\$30.8 billion were funds under management and US\$17.2 billion were custody accounts.

[‡] *Cash earnings are primarily net income after preferred dividends and after adding back goodwill amortization.*

Note: Figures for 2000 have been restated to exclude investments in entities transferred to HSBC North America Inc. during 2001 and 2000.

Note: Based on progress made in the previously-announced discussions to resolve many of the pending civil litigations and regulatory and criminal investigations involving Republic New York Securities Corporation (RNYSC), collectively referred to as the Princeton Note Matter, a charge of US\$575 million before tax was taken by the Company in the third quarter to reflect an anticipated resolution. Princeton came to light prior to HSBC's acquisition of Republic New York Corporation, RNYSC's parent, in December, 1999. Combining the provision taken in a prior period with that taken in the third quarter, the after tax cost to date of Princeton to the Company 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.

HSBC USA Inc. reported net income of US\$184 million for the quarter ended 30 September 2001 before a provision for Princeton, an increase of 28 per cent from US\$144 million for the quarter ended 30 September 2000; cash earnings for the quarter, on the same basis, increased to US\$225 million from US\$183 million for the 2000 third quarter. On a GAAP basis, the Company reported a loss of US\$167 million, after the provision for Princeton, for the quarter ended 30 September 2001.

For the nine months ended 30 September 2001, the company recorded net income of US\$553 million before a provision for Princeton, an increase of 27 per cent from US\$434 million in the first nine months of 2000. On the same basis, cash earnings for the first nine months of 2001 were US\$676 million, up from US\$550 million for the comparable period in 2000.

Youssef A Nasr, Chief Executive Officer of HSBC USA Inc., said "2001 has been a year of sad and sobering changes. On September 11, we experienced an unthinkable tragedy, one that few of us could ever have imagined. The banking industry was called on by the nation to be a model of stability and it was. We lost a branch at Five World Trade Center, but fortunately none of our employees was killed or injured.

"HSBC has always been an organization committed to providing superior customer service in the communities that we serve. Following the tragic events of September 11, we are helping to rebuild the New York community on a number of fronts.

"In the days following the tragedy, HSBC USA announced a matching gift program with the American Red Cross. At the HSBC Holdings level, significant contributions were made to certain charities and agencies. Our branch network assisted with the collection and processing of donations for various relief organizations that found themselves overwhelmed with the volume of contributions coming in. Other assistance included direct grants to employees in need, suspension of various fees for customers in the affected areas and the provision of temporary office space for 235 employees of one of our customers who had their offices in the World Trade Center.

"In addition, HSBC established a US\$200 million fund, available for loans to small businesses that were either directly or indirectly affected by the World Trade Center

tragedy. For the rest of this year, HSBC will offer these companies seeking loans of up to US\$2 million a choice of either a particularly attractive fixed rate loan or a variable rate loan at prime minus 2 per cent. The value of the various disaster relief benefits to potential program participants will probably approach US\$10 million.

"The Federal Reserve cut interest rates on ten separate occasions in an attempt to keep the country from entering a recession. Given this challenging environment, we are pleased with the results that we reported today. Our focus remains on cash earnings and for the nine months ended 30 September 2001, before the provision for the Princeton Note Matter, cash earnings of US\$676 million represented a 23 per cent increase from the 2000 comparable period. Our commercial business did well and our treasury business showed the results of previous investments."

Total assets were US\$87.6 billion compared to US\$84.7 billion at 30 September 2000 and US\$83.0 billion at 31 December 2000. Total deposits were US\$56.8 billion at 30 September 2001, up 2 per cent from US\$55.7 billion at 30 September 2000 and compared to US\$56.0 billion at 31 December 2000. Total loans at 30 September 2001 were US\$42.9 billion, up 8 per cent from US\$39.8 billion at 30 September 2000 and compared to US\$40.4 billion at 31 December 2000. Residential mortgage lending saw a significant increase in volume as a result of the high level of refinancing activity as interest rates steadily moved lower during the first nine months of 2001. HSBC Mortgage Corporation, a subsidiary of HSBC Bank USA, with more than 300,000 customers, originated US\$10.5 billion in mortgages through the first nine months of 2001, an increase of 128 per cent from US\$4.6 billion in mortgages funded during the first nine months of 2000. Approximately 40 per cent of this volume will be held in the bank's loan portfolio, with the remaining volume sold while retaining the servicing.

For the nine months ended 30 September 2001, net interest income showed growth of US\$75 million, or 5 per cent, to US\$1.7 billion. In addition to the benefit of loan and core deposit growth, the previously mentioned short-term rate cuts have led to wider interest margins in certain commercial businesses, the residential mortgage business and treasury.

For the first nine months of 2001, other operating income was US\$836 million, an increase of US\$216 million, or 35 per cent from US\$620 million for the first nine months of 2000.

Securities gains of US\$147 million were realized from securities sales to adjust to interest rate changes and to reconfigure exposure to residential mortgages. A one-time gain of US\$19 million was recorded in the first quarter from the sale of shares of the Canary Wharf development in London. Wealth management and insurance, loan and bankcard fees and service charges were all strong during the first nine months of 2001.

Fee income from domestic wealth management was US\$158 million during the first nine months of 2001, an increase of 14 per cent compared to the same period in 2000. Life insurance revenues for the first nine months of 2001 were US\$22 million, an increase of 47 per cent from US\$15 million for the first nine months of 2000. The World Trade Center disaster has had little direct effect so far on revenues and is estimated to be between US\$2 million and US\$3 million, including lower personal banking charges, bankcard fees and brokerage fees.

Operating expenses for the first nine months of 2001, excluding the provision for Princeton, increased slightly to US\$1.5 billion from US\$1.4 billion in the comparable period of last year. Excluding treasury and general incentive compensation tied to performance as well as the provision for Princeton, operating expenses were flat year to year. All restructuring relating to the acquisition of Republic New York Corporation from a customer perspective is complete. Certain back office systems conversions are in the final stages. During the third quarter, US\$3 million in specific charges for World Trade Center related expenses were recognized, including insurance policy deductibles and contributions. There will be additional costs in the fourth and later quarters; however, they are not expected to be material.

During the first nine months of 2001, credit quality remained relatively stable, notwithstanding a more volatile business and credit environment. However, it is still too early to determine clearly the effect which the events of 11 September and the general economic slowdown will have on the credit portfolio. Credit provisions for the first nine months of 2001 were US\$143 million which exceeded charge-offs of US\$108 million for the same period. The ratio of allowance available for credit losses to non-accruing loans strengthened from 124.1 per cent at 31 December 2000 to 137.1 per cent at 30 September 2001.

Common equity was US\$6.7 billion at 30 September 2001 compared to US\$6.6 billion at 30 September 2000. The ratio of tier 1 capital to risk-weighted assets was 7.9 per cent compared to 8.3 per cent at 30 September 2000. The ratio of total capital to risk-weighted assets was 12.6 per cent compared to 13.8 per cent at 30 September 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 30 September 2001, more than 239,000 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 22,000 visits daily.

Based on progress made in the previously-announced discussions to resolve many of the pending civil litigations and regulatory and criminal investigations involving Republic New York Securities Corporation (RNYSC), collectively referred to as the Princeton Note Matter, a charge of US \$575 million before tax was taken by the Company in the third quarter to reflect an anticipated resolution. There can be no assurance, however, that such a resolution will be reached. The Princeton Note Matter came to light prior to HSBC's acquisition of Republic New York Corporation, RNYSC's parent, in December, 1999. Combining the provision taken in a prior period with that taken in the third quarter, the after tax cost to date of the Princeton Note Matter to the Company 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.

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About HSBC Bank USA

HSBC Bank USA is a leading financial services organization with combined assets of the bank and its US holding company, HSBC USA Inc., of US\$87.6 billion. The organization is the third largest depository institution and has the most extensive branch network in New York State. In addition to having more than 420 branches throughout New York, the institution has eight branches in Florida, two in Pennsylvania, three in California and 17 in Panama. HSBC USA Inc. is the eleventh largest US holding company in total assets and is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc (NYSE: HBC), which is headquartered in London. The HSBC Group has some 6,500 offices in 78 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. 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>Nine months ended</i>		
	<i>30 September 2001</i>	<i>30 Sept 2000</i> ††		<i>30 September 2001</i>	<i>30 Sept 2000</i> ††	
	Excluding Princeton	As reported		Excluding Princeton	As reported	
Net income (loss)	184	(167)	144	553	202	434
Cash earnings †	225	(126)	183	676	325	550
Performance ratios (%)						
Cash earnings as a percentage of Average common equity	12.8	(7.2)	11.2	13.1	6.3	11.2
Cost:income ratio (excluding goodwill amortization, Restructuring costs, and Princeton Note Matter)		52.7	54.0		52.3	56.0
Staff numbers (full-time equivalents)				14,335		14,451
Average balances						
Loans		42,209	39,077		41,274	38,638
Earning assets		78,529	74,302		77,754	74,246
Total assets		86,464	82,690		85,734	82,727
Deposits		57,347	55,243		57,760	54,733
Common equity		6,898	6,512		6,858	6,551
Net yields on total assets (tax equivalent basis) (%)		2.6	2.6		2.6	2.6
Assets under administration						
Funds under management				30,842		30,932
Custody accounts				17,174		16,334
Total assets under administration				48,016		47,266
Credit information						
Non-accruing loans				394		299
Net charge offs				108		174
Allowance available for credit losses						
- Balance at end of period				540		558
- As a percentage of non-accruing loans				137.1 %		186.7 %
- As a percentage of loans outstanding				1.26 %		1.40 %
Capital (at end of period)						
Common equity				6,650		6,612
As a percentage of total assets				7.6 %		7.8 %
Capital ratios (%)						
Leverage ratio				5.7		5.6
Tier 1 capital to risk-weighted assets				7.9		8.3
Total capital to risk-weighted assets				12.6		13.8

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

†† Restated to exclude investments in entities transferred to HSBC North America Inc. during 2001 and 2000.

<i>Figures in US\$ thousands</i>	<i>Quarter ended 30 September 2001</i>	<i>Quarter ended 30 September 2000</i> ††
Interest income		
Loans	729,316	783,359
Securities	296,260	402,246
Trading assets	52,670	37,656
Other short-term investments	73,080	131,183
Total interest income	<u>1,151,326</u>	<u>1,354,444</u>
Interest expense		
Deposits	440,769	604,368
Short-term borrowings	74,156	109,591
Long-term debt	81,750	101,083
Total interest expense	<u>596,675</u>	<u>815,042</u>
Net interest income	554,651	539,402
Provision for credit losses	47,500	50,608
Net interest income, after provision for credit losses	<u>507,151</u>	<u>488,794</u>
Other operating income		
Trust income	20,517	20,776
Service charges	47,738	42,834
Mortgage banking revenue	3,293	7,739
Other fees and commissions	86,753	71,770
Trading revenues	73,793	30,103
Security gains	20,891	9,081
Other income	22,817	29,262
Total other operating income	<u>275,802</u>	<u>211,565</u>
Total income from operations	782,953	700,359
Other operating expenses		
Salaries and employee benefits	243,464	241,090
Occupancy expense, net	40,665	41,412
Other expenses	153,730	145,457
Provision for Princeton Note Matter	575,000	-
Operating expenses before goodwill amortization	<u>1,012,859</u>	<u>427,959</u>
Goodwill amortization	43,803	44,417
Total other operating expenses	<u>1,056,662</u>	<u>472,376</u>
Income (loss) before taxes and cumulative effect of accounting change	<u>(273,709)</u>	<u>227,983</u>
Applicable income tax expense (credit)	<u>(106,500)</u>	<u>84,406</u>
Income (loss) before cumulative effect of accounting change	<u>(167,209)</u>	<u>143,577</u>
Cumulative effect of accounting change- Implementation of FAS 133	-	-
Net income (loss)	<u><u>(167,209)</u></u>	<u><u>143,577</u></u>

††

Restated to exclude investments in entities transferred to HSBC North America Inc. during

<i>Figures in US\$ thousands</i>	<i>Nine months ended 30 September 2001</i>	<i>Nine months ended 30 September ^{††} 2000</i>
Interest income		
Loans	2,267,117	2,272,272
Securities	1,012,144	1,188,379
Trading assets	175,797	89,794
Other short-term investments	288,113	402,789
Total interest income	<u>3,743,171</u>	<u>3,953,234</u>
Interest expense		
Deposits	1,532,997	1,711,258
Short-term borrowings	283,029	329,794
Long-term debt	256,925	317,352
Total interest expense	<u>2,072,951</u>	<u>2,358,404</u>
Net interest income	1,670,220	1,594,830
Provision for credit losses	<u>143,050</u>	<u>106,607</u>
Net interest income, after provision for credit losses	<u>1,527,170</u>	<u>1,488,223</u>
Other operating income		
Trust income	65,360	63,319
Service charges	139,177	129,515
Mortgage banking revenue	22,907	22,903
Other fees and commissions	245,762	225,444
Trading revenues	176,036	114,633
Security gains	146,671	10,443
Other income	40,520	53,785
Total other operating income	<u>836,433</u>	<u>620,042</u>
Total income from operations	2,363,603	2,108,265
Other operating expenses		
Salaries and employee benefits	728,053	738,269
Occupancy expense, net	116,865	127,004
Other expenses	478,849	420,461
Provision for Princeton Note Matter	575,000	-
Operating expenses before goodwill amortization	<u>1,898,767</u>	<u>1,285,734</u>
Goodwill amortization	133,062	131,878
Total other operating expenses	<u>2,031,829</u>	<u>1,417,612</u>
Income before taxes and cumulative effect of accounting change	<u>331,774</u>	<u>690,653</u>
Applicable income tax expense	<u>129,700</u>	<u>257,005</u>
Income before cumulative effect of accounting Change	<u>202,074</u>	<u>433,648</u>
Cumulative effect of accounting change- Implementation of FAS 133	<u>(451)</u>	<u>-</u>
Net income	201,623	433,648

††

Restated to exclude investments in entities transferred to HSBC North America Inc. during 2001 and 2000.

<i>Figures in US\$ thousands</i>	<i>At 30 September 2001</i>	<i>At 31 December 2000^{††}</i>	<i>At 30 September 2000^{††}</i>
Assets			
Cash and due from banks	2,078,353	1,860,713	2,029,271
Interest bearing deposits with banks	4,148,466	5,129,490	6,503,416
Federal funds sold and securities purchased			
Under resale agreements	3,360,544	1,895,492	2,629,177
Trading assets	8,764,132	5,770,972	5,275,971
Securities available for sale	15,190,148	17,336,832	17,304,661
Securities held to maturity	4,596,627	4,260,492	4,365,820
Loans	42,930,129	40,417,847	39,783,583
Less - allowance for credit losses	540,252	524,984	558,337
Loans, net	<u>42,389,877</u>	<u>39,892,863</u>	<u>39,225,246</u>
Premises and equipment	791,674	777,610	742,236
Accrued interest receivable	488,912	785,286	811,531
Equity investments	268,377	55,596	52,825
Goodwill and other acquisition intangibles	2,972,439	3,229,479	3,254,459
Other assets	<u>2,567,567</u>	<u>2,040,325</u>	<u>2,485,011</u>
Total assets	<u>87,617,116</u>	<u>83,035,150</u>	<u>84,679,624</u>
Liabilities			
Deposits in domestic offices			
- Non-interest bearing	4,726,970	5,114,668	5,626,006
- Interest bearing	32,267,138	30,631,511	29,641,450
Deposits in foreign offices			
- Non-interest bearing	334,236	282,737	247,697
- Interest bearing	<u>19,482,903</u>	<u>20,013,588</u>	<u>20,229,871</u>
Total deposits	<u>56,811,247</u>	<u>56,042,504</u>	<u>55,745,024</u>
Trading account liabilities	4,056,443	2,766,825	2,271,855
Short-term borrowings	9,602,959	8,562,363	10,417,986
Interest, taxes and other liabilities	5,093,271	3,232,918	3,430,779
Subordinated long-term debt and perpetual capital notes	2,979,120	3,027,014	3,323,624
Guaranteed mandatorily redeemable securities	735,605	711,737	711,368
Other long-term debt	<u>1,188,194</u>	<u>1,357,904</u>	<u>1,666,760</u>
Total liabilities	<u>80,466,839</u>	<u>75,701,265</u>	<u>77,567,396</u>
Shareholders' equity			
Preferred stock	500,000	500,000	500,000
Common shareholder's equity			
- Common stock	4	4	4
- Capital surplus	6,028,804	6,104,264	6,101,130
- Retained earnings	570,248	612,798	484,406
- Accumulated other comprehensive income	<u>51,221</u>	<u>116,819</u>	<u>26,688</u>
Total common shareholder's equity	<u>6,650,277</u>	<u>6,833,885</u>	<u>6,612,228</u>
Total shareholders' equity	<u>7,150,277</u>	<u>7,333,885</u>	<u>7,112,228</u>
Total liabilities and shareholders' equity	<u>87,617,116</u>	<u>83,035,150</u>	<u>84,679,624</u>

††

Restated to exclude investments in entities transferred to HSBC North America Inc. during 2001 and 2000.