HSBC HOLDINGS PLC
Form 6-K
November 05, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of November

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ....).

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2010
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 1-7436

HSBC USA INC.
(Exact name of registrant as specified in its charter)

Maryland	13-2764867
(State of Incorporation)	(I.R.S. Employer Identification No.)
452 Fifth Avenue, New York	10018
(Address of principal executive offices)	(Zip Code)

(212) 525-5000
Registrant’s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer R (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 31, 2010, there were 712 shares of the registrant’s common stock outstanding, all of which are owned by HSBC North America Inc.

HSBC USA INC.

FORM 10-Q

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HSBC USA Inc.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in millions)			
Interest income:				
Loans	$ 1,023	$ 1,370	$ 3,343	$ 4,378
Securities	311	233	823	731
Trading assets	33	52	100	162
Short-term investments	26	22	83	68
Other	12	11	35	35
Total interest income	1,405	1,688	4,384	5,374
Interest expense:				
Deposits	139	224	454	804
Short-term borrowings	22	17	65	51
Long-term debt	153	187	441	634
Total interest expense	314	428	960	1,489
Net interest income	1,091	1,260	3,424	3,885
Provision for credit losses	245	1,006	912	3,247
Net interest income after provision for credit losses	846	254	2,512	638
Other revenues:				
Credit card fees	226	333	708	1,032
Other fees and commissions	211	188	703	635
Trust income	26	30	79	92
Trading revenue	166	353	498	351
Net other-than-temporary impairment losses(1)	(4)	(26)	(45)	(84)
Other securities gains, net	37	5	59	299
Servicing and other fees from HSBC affiliates	44	35	117	112
Residential mortgage banking revenue (loss)	11	15	(106)	139
Gain (loss) on instruments designated at fair value and related derivatives	89	44	317	(201)
Other income (expense)	10	(82)	177	(154)
Total other revenues	816	895	2,507	2,221
Operating expenses:				
Salaries and employee benefits	283	280	830	873
Support services from HSBC affiliates	479	386	1,455	1,228
Occupancy expense, net	66	60	202	211
Other expenses	194	193	594	668
Total operating expenses	1,022	919	3,081	2,980
Income (loss) before income tax expense	640	230	1,938	(121)
Income tax expense	223	69	667	56
Net income (loss)	$ 417	$ 161	$ 1,271	$ (177)

(1) During the three and nine months ended September 30, 2010, net other-than-temporary impairment ("OTTI") on securities available-for-sale and held to maturity totaling $13 million in losses and $90 million in recoveries, respectively, were recognized which included $9 million in losses and $135 million in recoveries, respectively, recognized in accumulated other comprehensive income ("AOCI"), net of tax and $4 million and $45 million, respectively, of OTTI losses recognized in other revenues. During the three and nine months ended September 30, 2009, $28 million and $188 million, respectively, of gross OTTI losses on securities available-for-sale were recognized, of which $2 million and $104 million, respectively, were recognized in AOCI, net of tax.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	September 30, 2010	December 31, 2009
	(in millions)	
Assets		
Cash and due from banks	$ 2,939	$ 3,159
Interest bearing deposits with banks(1)	15,709	20,109
Federal funds sold and securities purchased under agreements to resell	11,432	1,046
Trading assets	31,164	25,815
Securities available-for-sale (includes $659 million and $1.1 billion at September 30, 2010 and December 31, 2009, respectively, collateralizing long-term debt)(1)	41,332	27,806
Securities held to maturity (fair value of $3.6 billion and $2.9 billion at September 30, 2010 and December 31, 2009, respectively, and includes $871 million at September 30, 2010 collateralizing short-term borrowings)(1)	3,344	2,762
Loans (includes $2.3 billion at September 30, 2010 and $2.7 billion at December 31, 2009 collateralizing debt)(1)	72,214	79,489
Less – allowance for credit losses	2,512	3,861
Loans, net	69,702	75,628
Loans held for sale (includes $1.5 billion and $1.1 billion designated under fair value option at September 30, 2010 and December 31, 2009, respectively)	2,452	2,908
Properties and equipment, net	516	533
Intangible assets, net	330	484
Goodwill	2,626	2,647
Other assets(1)	10,628	8,182
Total assets(1)	$ 192,174	$ 171,079
Liabilities		
Debt:		
Deposits in domestic offices:		
Noninterest bearing	$ 21,018	$ 20,813
Interest bearing (includes $6.6 billion and $4.2 billion designated under fair value option at September 30, 2010 and December 31, 2009, respectively)	71,156	69,894
Deposits in foreign offices:		
Noninterest bearing	1,426	1,105
Interest bearing	25,346	26,525
Total deposits	118,946	118,337
Short-term borrowings(1)	20,046	6,512
Long-term debt (includes $5.5 billion and $4.6 billion designated under fair value option at September 30, 2010 and December 31, 2009, respectively, and $1.3 billion and $3.0 billion at September 30, 2010 and December 31, 2009, respectively, collateralized by loans and available-for-sale securities)(1)	18,559	18,008
Total debt	157,551	142,857
Trading liabilities	11,835	8,010
Interest, taxes and other liabilities(1)	5,655	5,035
Total liabilities(1)	175,041	155,902
Shareholders' equity		
Preferred stock	1,565	1,565
Common shareholder's equity:		

Common stock ($5 par; 150,000,000 shares authorized; 712 shares issued and outstanding at September 30, 2010 and December 31, 2009)	—	—
Additional paid-in capital	13,786	13,795
Retained earnings	1,262	45
Accumulated other comprehensive income (loss)	520	(228)
Total common shareholder's equity	15,568	13,612
Total shareholders' equity	17,133	15,177
Total liabilities and shareholders' equity	$ 192,174	$ 171,079

(1) The following table presents information on assets and liabilities related to variable interest entities ("VIEs") that are consolidated in the totals above at September 30, 2010 and December 31, 2009.

Assets:		
Interest bearing deposits with banks	$ 2	$ —
Securities available-for-sale	659	1,138
Securities held to maturity	871	—
Loans, net	13,869	15,953
Other assets	699	753
Total assets	$ 16,100	$ 17,844
Liabilities:		
Short-term borrowings	$ 3,006	$ —
Long-term debt	1,398	3,040
Interest, taxes and other liabilities	1,132	1,418
Total liabilities	$ 5,536	$ 4,458

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30,	2010	2009
	(in millions)	
Preferred stock		
Balance at beginning and end of period	$ 1,565	$ 1,565
Common stock		
Balance at beginning and end of period	—	—
Additional paid-in capital		
Balance at beginning of period	13,795	11,694
Capital contributions from parent	—	2,167
Return of capital on preferred shares issued to CT Financial Services, Inc.	(3)	(55)
Employee benefit plans and other	(6)	1
Balance at end of period	13,786	13,807
Retained earnings		
Balance at beginning of period	45	245
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	1	—
Adjustment to initially apply new guidance for other-than-temporary impairment on debt securities, net of tax	—	15
Balance at beginning of period, as adjusted	46	260
Net income (loss)	1,271	(177)
Cash dividends declared on preferred stock	(55)	(55)
Balance at end of period	1,262	28
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(228)	(787)
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	(246)	—
Adjustment to initially apply new guidance for other-than-temporary impairment on debt securities, net of tax	—	(15)
Balance at beginning of period, as adjusted	(474)	(802)
Net change in unrealized gains (losses), net of tax as applicable on:		
Securities available-for-sale, not other-than-temporarily impaired	881	502
Other-than-temporarily impaired securities available for sale(1)	56	(60)
Other-than-temporarily impaired securities held to maturity(1)	49	—
Derivatives classified as cash flow hedges	10	148
Unrecognized actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits, net of tax	(2)	8
Other comprehensive income, net of tax	994	598
Balance at end of period	520	(204)
Total shareholders' equity	$ 17,133	$ 15,196
Comprehensive income		
Net income (loss)	$ 1,271	$ (177)
Other comprehensive income, net of tax	994	598
Comprehensive income	$ 2,265	$ 421

(1) During the nine months ended September 30, 2010, net OTTI on securities available-for-sale and held to maturity totaling $90 million in recoveries were recognized which included OTTI losses of $45 million recognized in other revenues. During the nine months ended September 30, 2009, $188 million of gross OTTI losses on securities available-for-sale were recognized, of which

$84 million was recognized in other revenues.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30,	2010	2009
	(in millions)	
Cash flows from operating activities		
Net income (loss)	$ 1,271	$ (177)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	528	251
Provision for credit losses	912	3,247
Other-than-temporarily impaired available-for-sale and held to maturity securities	45	84
Realized gains on securities available for sale	(59)	(299)
Net change in other assets and liabilities	(657)	1,227
Net change in loans held for sale:		
Originations of loans	(2,885)	(4,355)
Sales and collection of loans held for sale	3,017	4,709
Tax refund anticipation loans:		
Originations of loans	(3,082)	(9,020)
Transfers of loans to HSBC Finance, including premium	3,086	9,031
Net change in trading assets and liabilities	(2,231)	1,142
LOCOM on loans held for sale	(65)	154
Mark-to-market on financial instruments designated at fair value and related derivatives	(317)	201
Net change in fair value of derivatives and hedged items	(29)	29
Net cash provided by (used in) operating activities	(466)	6,224
Cash flows from investing activities		
Net change in interest bearing deposits with banks	4,400	(2,564)
Net change in federal funds sold and securities purchased under agreements to resell	(10,386)	6,350
Securities available-for-sale:		
Purchases of securities available-for-sale	(34,637)	(32,300)
Proceeds from sales of securities available-for-sale	20,369	17,058
Proceeds from maturities of securities available-for-sale	2,081	11,215
Securities held to maturity:		
Purchases of securities held to maturity	(1,791)	(152)
Proceeds from maturities of securities held to maturity	934	235
Change in loans:		
Originations, net of collections	28,326	36,396
Recurring loans purchases from HSBC Finance	(25,298)	(27,625)
Cash paid on bulk purchase of loans from HSBC Finance	—	(8,821)
Auto loans sold to third party	1,559	—
Loans sold to third parties	495	3,997
Net cash used for acquisitions of properties and equipment	(43)	(24)
Other, net	85	173
Net cash provided by (used in) investing activities	(13,906)	3,938
Cash flows from financing activities		
Net change in deposits	297	(3,677)
Debt:		
Net change in short-term borrowings	13,534	(2,236)
Issuance of long-term debt	3,932	3,778
Repayment of long-term debt	(3,651)	(10,068)
Debt repayment by consolidated VIE	(189)	(418)

Debt issued related to the sale and leaseback of property	309	—
Repayment of debt related to the sale and leaseback of property	(16)	—
Capital contribution from parent	—	2,167
Return of capital on preferred shares issued to CT Financial Services, Inc.	(3)	(55)
Other increases in capital surplus	(6)	1
Dividends paid	(55)	(55)
Net cash provided by (used in) financing activities	14,152	(10,563)
Net change in cash and due from banks	(220)	(401)
Cash and due from banks at beginning of period	3,159	2,972
Cash and due from banks at end of period	$ 2,939	$ 2,571
Supplemental disclosure of non-cash flow investing activities		
Trading securities pending settlement	$ (707)	$ 511
Transfer of loans to held for sale	1,209	360
Transfer of Goodwill and Property to Assets held for sale	23	—
Assumption of indebtedness from HSBC Finance related to the bulk loan purchase	—	6,077

The accompanying notes are an integral part of the consolidated financial statement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC USA Inc. and its subsidiaries (collectively "HUSI") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominant practices within the banking industry. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC USA Inc. and its subsidiaries may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Interim results should not be considered indicative of results in future periods.

During the first quarter of 2010, we adopted new accounting guidance on the consolidation of variable interest entities ("VIEs") and new disclosure requirements relating to fair value measurements. See Note 20, "New Accounting Pronouncements" for further details and related impacts.

2. Exit of Wholesale Banknotes Business

In June 2010, we decided that the wholesale banknotes business ("Banknotes Business") within our Global Banking and Markets segment did not fit with our core strategy in the United States and, therefore, decided to discontinue this business. This business, which has been managed out of the United States with operations in key locations worldwide, arranged for the physical distribution of banknotes globally to central banks, large commercial banks and currency exchanges. The discontinuation of our Banknotes Business will allow us to focus strategic attention on our core businesses. As a result of this decision, during the second quarter of 2010 we recorded closure costs of $13 million, primarily related to termination and other employee benefits. During the third quarter of 2010, we released $4 million of closure costs as we adjusted a variety of previously estimated costs. No significant additional closure costs are expected. At September 30, 2010, the restructuring liability relating to this decision totaled $9 million.

As part of the decision to exit the Banknotes Business, in September 2010 we agreed to sell the assets of our Asian banknotes operations (“Asian Banknotes Operations”) to an unaffiliated third party for total consideration of approximately $11 million in cash. As a result, during the third quarter of 2010 we classified the assets of the Asian Banknotes Operations of $23 million, including an allocation of goodwill of $21 million, as held for sale which are included as a component of other assets. At September 30, 2010, the assets of our Asian Banknotes Operations held for sale totaled $11 million subsequent to the recording of a lower of cost or fair value adjustment of $12 million as the carrying value of the assets being sold exceeded the agreed upon sales price. The sale was completed in October 2010.

The exit of our Banknotes Business, including the sale of our Asian Banknotes Operations, is expected to be substantially completed in the fourth quarter of 2010. At that time, we will begin to report the results of our Banknotes Business as discontinued operations.

3. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

	September 30, 2010	December 31, 2009
	(in millions)	
Trading assets:		
U.S. Treasury	$ 2,280	$ 615
U.S. Government agency	101	34
U.S. Government sponsored enterprises(1)	5	16
Asset-backed securities	1,256	1,815
Corporate and foreign bonds	4,015	2,369
Other securities	70	491
Precious metals	14,736	12,256
Fair value of derivatives	8,701	8,219
	$ 31,164	$ 25,815
Trading liabilities:		
Securities sold, not yet purchased	$ 1,492	$ 131
Payables for precious metals	3,736	2,556
Fair value of derivatives	6,607	5,323
	$ 11,835	$ 8,010

(1) Includes mortgage-backed securities of $5 million and $13 million issued or guaranteed by the Federal National Mortgage Association (“FNMA”) and $0 million and $3 million issued or guaranteed by the Federal Home Loan Mortgage Corporation (“FHLMC”) at September 30, 2010 and December 31, 2009, respectively.

At September 30, 2010 and December 31, 2009, the fair value of derivatives included in trading assets has been reduced by $4.3 billion and $2.7 billion, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties.

At September 30, 2010 and December 31, 2009, the fair value of derivatives included in trading liabilities has been reduced by $6.9 billion and $7.2 billion, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties.

4. Securities

The amortized cost and fair value of the securities available-for-sale and securities held to maturity are summarized in the following tables.

September 30, 2010	Amortized Cost	Non-Credit Gain (Loss) Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
		(in millions)			
Securities available-for-sale:					
U.S. Treasury	$ 12,801	$ —	$ 697	$ (1)	$ 13,497
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	49	—	1	(1)	49
Direct agency obligations	2,081	—	231	—	2,312
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	11,361	—	394	—	11,755
Collateralized mortgage obligations	7,645	—	256	—	7,901
Direct agency obligations	63	—	3	—	66
Obligations of U.S. states and political subdivisions	573	—	30	(1)	602
Asset-backed securities collateralized by:					
Residential mortgages	38	—	—	(5)	33
Commercial mortgages	539	—	23	(5)	557
Home equity	497	—	—	(147)	350
Auto	10	—	—	—	10
Student loans	30	—	—	(2)	28
Other	120	—	—	(16)	104
Corporate and other domestic debt securities(2)	691	—	9	—	700
Foreign debt securities(2)	2,498	—	85	—	2,583
Equity securities(3)	781	—	4	—	785
Total available-for-sale securities	$ 39,777	$ —	$ 1,733	$ (178)	$ 41,332
Securities held to maturity:					
U.S. Government sponsored enterprises:(4)					
Mortgage-backed securities	$ 1,724	$ —	$ 162	$ —	$ 1,886
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	98	—	14	—	112
Collateralized mortgage obligations	331	—	37	—	368
Obligations of U.S. states and political subdivisions	126	—	5	(1)	130
Asset-backed securities collateralized by:					
Residential mortgages	194	—	5	(3)	196
Asset-backed securities (predominantly credit card) and other debt securities held by consolidated VIE(5)	1,068	(197)	—	—	871
Total held-to-maturity securities	$ 3,541	$ (197)	$ 223	$ (4)	$ 3,563

December 31, 2009	Amortized Cost	Non-Credit Gain (Loss) Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
		(in millions)			
Securities available-for-sale:					
U.S. Treasury	$ 7,448	$ —	$ 27	$ (73)	$ 7,402
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	59	—	—	(1)	58
Direct agency obligations	1,948	—	5	(65)	1,888
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	4,081	—	93	(13)	4,161
Collateralized mortgage obligations	6,324	—	107	(7)	6,424
Obligations of U.S. states and political subdivisions	741	—	13	(5)	749
Asset-backed securities collateralized by:					
Residential mortgages	1,041	(55)	1	(122)	865
Commercial mortgages	573	—	7	(14)	566
Home equity	620	(29)	—	(219)	372
Auto	65	—	—	(1)	64
Student loans	35	—	—	(5)	30
Other	23	—	1	—	24
Corporate and other domestic debt securities(2)	872	—	7	(15)	864
Foreign debt securities(2)	3,035	—	44	(3)	3,076
Equity securities(3)	1,260	—	3	—	1,263
Total available-for-sale securities	$ 28,125	$ (84)	$ 308	$ (543)	$ 27,806
Securities held to maturity:					
U.S. Government sponsored enterprises:(4)					
Mortgage-backed securities	$ 1,854	$ —	$ 103	$ (5)	$ 1,952
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	113	—	12	—	125
Collateralized mortgage obligations	341	—	25	(2)	364
Obligations of U.S. states and political subdivisions	161	—	6	(1)	166
Asset-backed securities collateralized by:					
Residential mortgages	192	—	1	(21)	172
Foreign debt securities	101	—	—	—	101
Total held-to-maturity securities	$ 2,762	$ —	$ 147	$ (29)	$ 2,880

(1) Includes securities at amortized cost of $31 million and $38 million issued or guaranteed by FNMA at September 30, 2010 and December 31, 2009, respectively, and $18 million and $21 million issued or guaranteed by FHLMC at September 30, 2010 and December 31, 2009, respectively.

(2) At September 30, 2010 and December 31, 2009, other domestic debt securities included $676 million and $677 million, respectively, of securities at amortized cost fully backed by the Federal Deposit Insurance Corporation ("FDIC") and foreign debt securities consisted of $2.1 billion and $2.7 billion of securities fully backed by foreign governments, respectively.

(3) Includes preferred equity securities at amortized cost issued by FNMA of $2 million at September 30, 2010 and December 31, 2009, respectively. Balances at September 30, 2010 and December 31, 2009 reflect cumulative other-than-temporary impairment charges of $204 million and $203 million, respectively.

(4) Includes securities at amortized cost of $646 million and $678 million issued or guaranteed by FNMA at September 30, 2010 and December 31, 2009, respectively, and $1.1 billion and $1.2 billion issued and guaranteed by FHLMC at September 30, 2010 and December 31, 2009, respectively.

(5) Relates to securities held by Bryant Park Funding LLC which are consolidated effective January 1, 2010. See Note 17, "Variable Interest Entities" for additional information.

A summary of gross unrealized losses and related fair values as of September 30, 2010 and December 31, 2009, classified as to the length of time the losses have existed follows:

	One Year or Less			Greater Than One Year		
September 30, 2010	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	4	$ (1)	$ 146	—	$ —	$ —
U.S. Government sponsored enterprises	7	—	11	13	(1)	10
U.S. Government agency issued or guaranteed	4	—	13	1	—	2
Obligations of U.S. states and political subdivisions	—	—	—	5	(1)	38
Asset-backed securities	1	(1)	3	56	(174)	506
Corporate and other domestic debt securities	—	—	—	—	—	—
Foreign debt securities	—	—	—	1	—	25
Equity securities	1	—	—	—	—	—
Securities available-for-sale	17	$ (2)	$ 173	76	$ (176)	$ 581
Securities held to maturity:						
U.S. Government sponsored enterprises	16	$ —	$ —	1	$ —	$ —
U.S. Government agency issued or guaranteed	553	—	1	1	—	—
Obligations of U.S. states and political subdivisions	20	(1)	7	11	—	17
Asset-backed securities	—	—	—	7	(3)	58
Securities held to maturity	589	$ (1)	$ 8	20	$ (3)	$ 75

December 31, 2009	One Year or Less			Greater Than One Year		
	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment
	(dollars are in millions)					
Securities available-for-sale:						
U.S. Treasury	16	$ (55)	$ 2,978	1	$ (18)	$ 94
U.S. Government sponsored enterprises	30	(50)	1,441	27	(16)	262
U.S. Government agency issued or guaranteed	85	(19)	1,509	18	(1)	43
Obligations of U.S. states and political subdivisions	26	(3)	166	11	(2)	79
Asset-backed securities	5	(1)	35	109	(360)	1,137
Corporate and other domestic debt securities	3	(8)	83	2	(7)	43
Foreign debt securities	5	(3)	384	1	—	25
Equity securities	2	—	—	—	—	—
Securities available-for-sale	172	$ (139)	$ 6,596	169	$ (404)	$ 1,683
Securities held to maturity:						
U.S. Government sponsored enterprises	10	$ (5)	$ 261	1	$ —	$ —
U.S. Government agency issued or guaranteed	7	(2)	39	6	—	—
Obligations of U.S. states and political subdivisions	22	(1)	12	12	—	19
Asset-backed securities	1	(1)	6	11	(20)	121
Securities held to maturity	40	$ (9)	$ 318	30	$ (20)	$ 140

Gross unrealized losses within the available-for-sale and held-to-maturity portfolios decreased overall in 2010 primarily due to a reduction in credit spreads for asset-backed securities during the first nine months of 2010 as overall market conditions improved. We have reviewed the securities for which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment. During the three and nine months ended September 30, 2010, five and 38 debt securities, respectively, were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates. We recorded net other-than-temporary impairment losses of $13 million and recoveries of $90 million during the three and nine months ended September 30, 2010 on these investments. The credit loss component of the applicable debt securities totaling $4 million and $45 million was recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income (loss) for the three and nine months ended September 30, 2010, respectively, while the remaining non-credit portion representing a net recovery during the nine month period of a portion of previously recorded impairment losses was recognized in other comprehensive income. During the three and nine months ended September 30, 2009, 14 and 18 debt securities were determined to be other-than-temporarily impaired. As a result, we recorded other-than-temporary impairment charges of $28 million and $188 million during the three and nine months ended September 30, 2009 on these investments. The credit loss component of the applicable debt securities totaling $26 million and $84 million was recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income (loss) for the three and nine months ended September 30, 2009, respectively, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income.

We do not consider any other securities to be other-than-temporarily impaired as we expect to recover the amortized cost basis of these securities and we neither intend nor expect to be required to sell these securities prior to recovery, even if that equates to holding securities until their individual maturities. However, additional other-than-temporary impairments may occur in future periods if the credit quality of the securities deteriorates.

On-going Assessment for Other-Than-Temporary Impairment On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if the fair value is less than its amortized cost at the reporting date. If impaired, we assess whether the unrealized loss is other-than-temporary.

An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided we do not intend to sell the underlying debt security and it is more-likely-than-not that we would not have to sell the debt security prior to recovery.

For all securities held in the available-for-sale or held-to-maturity portfolio for which unrealized losses have existed for a period of time, we do not have the intention to sell and believe we will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. As debt securities issued by U.S. Treasury, U.S. Government agencies and government sponsored entities accounted for 87 percent and 72 percent of total available-for-sale and held to maturity securities as of September 30, 2010 and December 31, 2009, respectively, our assessment for credit loss was concentrated on private label asset-backed securities. Substantially all of the private label asset-backed securities are supported by residential mortgages, home equity loans or commercial mortgages. Our assessment for credit loss was concentrated on this particular asset class because of the following inherent risk factors:

- The recovery of the U.S. economy remains sluggish;
- The continued weakness in the U.S. housing markets with high levels of delinquency and foreclosure;
- A lack of traction in government sponsored programs in loan modifications;
- A lack of refinancing activities within certain segments of the mortgage market, even at the current low interest rate environment, and the re-default rate for refinanced loans;
- The unemployment rate remains high despite recent modest improvement, and consumer confidence remains low;
- The decline in the occupancy rate in commercial properties; and
- The severity and duration of unrealized loss.

In determining whether a credit loss exists and the period over which the debt security is expected to recover, we considered the following factors:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;

• The level of credit enhancement provided by the structure, which includes but is not limited to credit subordination positions, over collateralization, protective triggers and financial guarantees provided by monoline wraps;

• Changes in the near term prospects of the issuer or underlying collateral of a security such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

• The level of excessive cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

• Any adverse change to the credit conditions of the issuer, the monoline insurer or the security such as credit downgrades by the rating agencies.

We use a standard valuation model to measure the credit loss for available-for-sale and held to maturity securities. The valuation model captures the composition of the underlying collateral and the cash flow structure of the security. Management develops inputs to the model based on external analyst reports and forecasts and internal credit assessments. Significant inputs to the model include delinquencies, collateral types and related contractual features, estimated rates of default, loss given default and prepayment assumptions. Using the inputs, the model estimates cash flows generated from the underlying collateral and distributes those cash flows to respective tranches of securities considering credit subordination and other credit enhancement features. The projected future cash flows attributable to the debt security held are discounted using the effective interest rates determined at the original acquisition date if the security bears a fixed rate of return. The discount rate is adjusted for the floating index rate for securities which bear a variable rate of return, such as LIBOR-based instruments.

As of September 30, 2010, available-for-sale debt securities with other-than-temporary impairment for which a portion of the impairment loss remains in accumulated other comprehensive income consisted entirely of asset-backed securities collateralized by residential mortgages or home equity loans. Specific market based assumptions were used to appropriately model and value the credit component of each individual prime, Alt-A and second lien/home equity mortgage-backed security due to the diversified geographical, FICO and vintage (2005-2007) characteristics of the underlying loans. This has resulted in a wide range of assumptions across the analyzed securities as presented in the table below. Prime mortgage collateral types comprise approximately 56 percent of the other-than-temporary impairments we have recognized during the first nine months of 2010. The assumptions were as follows:

September 30, 2010	Prime	Alt-A	Second liens/Home Equity Mortgages
Constant default rate	1-8%	1-6%	9-15%
Loss severity	17-60%	29-77%	100%
Prepayment speeds	2-30%	1-19%	4-10%

The dollar amounts of asset-backed securities for which other-than-temporary impairment losses were recognized in the nine months ended September 30, 2010 are as follows:

	Balance as of September 30, 2010			Impairment Loss Charged to Profit and Loss
	Amortized Cost	Unrealized Impairment Loss	Fair Value	in 2010
	(in millions)			
Available-for-sale:				
Asset-backed securities:				
Residential mortgages	$ 21	$ (3)	$ 18	$ 1
Home equity loans	15	—	15	5

Sub-total	36	(3)	33	6
Held-to-maturity:				
Asset backed securities (predominately Credit Card)	251	—	251	4
Total	$ 287	$ (3)	$ 284	$ 10

Additionally, there was $35 million of other-than-temporary impairment realized on securities sold in the nine months ended September 30, 2010.

The amortized cost and fair value of those asset-backed securities with unrealized loss of more than 12 months for which no other-than-temporary-impairment has been recognized at September 30, 2010 are as follows:

	Balance as of September 30, 2010		
	Amortized Cost	Unrealized Losses for More Than 12 Months	Fair Value
		(in millions)	
Available-for-sale:			
Asset-backed securities:			
Residential mortgages	$ 13	$ (3)	$ 10
Commercial mortgages	39	(5)	34
Home equity loans	482	(145)	337
Auto loans	—	—	—
Student loans	30	(2)	28
Other	103	(16)	87
Sub-total	667	(171)	496
Held-to-maturity classification:			
Asset-backed securities			
Residential mortgages	61	(3)	58
Total	$ 728	$ (174)	$ 554

Although the fair value of a particular security is below its amortized cost for more than 12 months, it does not necessarily result in a credit loss and hence other-than-temporary impairment. The decline in fair value may be caused by, among other things, illiquidity in the market. To the extent we do not intend to sell the debt security and it is more-likely-than-not we will not be required to sell the security before the recovery of the amortized cost basis, no other-than-temporary impairment is deemed to have occurred. The fair value of most of the asset-backed securities has recovered significantly as the economy recovers from the financial crisis.

The excess of amortized cost over the present value of expected future cash flows recognized during the nine months ended September 30, 2010 and 2009 on our other-than-temporarily impaired debt securities, which represents the credit loss associated with these securities, was $45 million and $84 million, respectively. The excess of the present value of expected future cash flows over fair value, representing the non-credit component of the unrealized loss associated with all other-than-temporarily impaired securities, was $197 million as of September 30, 2010. Since we do not have the intention to sell the securities and have sufficient capital and liquidity to hold these securities until a full recovery of the fair value occurs, only the credit loss component is reflected in the consolidated statement of income (loss). The non-credit component of the unrealized loss is recorded, net of taxes, in other comprehensive income.

The following table summarizes the roll-forward of credit losses on debt securities that were other-than-temporarily impaired which have been recognized in income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Credit losses at the beginning of the period	$ 33	$ 63	$ 81	$ 5
Credit losses related to securities for which an other-than-temporary impairment was not previously recognized	—	3	20	77
Increase in credit losses for which an other-than-temporary impairment was previously recognized	4	23	25	7
Reduction for credit losses previously recognized on sold securities	(34)	—	(97)	—
Reductions of credit losses for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(1)	—	(27)	—
Credit losses at the end of the period	$ 2	$ 89	$ 2	$ 89

At September 30, 2010, we held 91 individual asset-backed securities in the available-for-sale portfolio, of which 28 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $451 million of the total aggregate fair value of asset-backed securities of $1.1 billion at September 30, 2010. The gross unrealized losses on these securities were $162 million at September 30, 2010. We did not take into consideration the value of the monoline wrap of any non-investment grade monoline insurers as of September 30, 2010 and, therefore, we only considered the financial guarantee of monoline insurers on securities for purposes of evaluating other-than-temporary impairment with a fair value of $157 million. Four securities wrapped by below investment grade monoline insurance companies with an aggregate fair value of $20 million were deemed to be other-than-temporarily impaired at September 30, 2010.

At December 31, 2009, we held 159 individual asset-backed securities in the available-for-sale portfolio, of which 32 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $441 million of the total aggregate fair value of asset-backed securities of $1.9 billion at December 31, 2009. The gross unrealized losses on these securities were $219 million at December 31, 2009. During 2009, three monoline insurers were downgraded to below investment grade. As a result, we did not take into consideration the financial guarantee from two of those monoline insurers and placed only limited reliance on the financial guarantee of the third monoline insurer. As of December 31, 2009, we considered the financial guarantee of monoline insurers on securities with a fair value of $235 million. Four of the securities wrapped by the downgraded monoline insurance companies with an aggregate fair value of $35 million were deemed to be other-than-temporarily impaired at December 31, 2009.

As discussed above, certain asset-backed securities have an embedded financial guarantee provided by monoline insurers. Because the financial guarantee is not a separate and distinct contract from the asset-backed security, they are considered as a single unit of account for fair value measurement and impairment assessment purposes. The monoline insurers are regulated by the insurance commissioners of the relevant states and certain monoline insurers that write the financial guarantee contracts are public companies. In evaluating the extent of our reliance on investment grade monoline insurance companies, consideration is given to our assessment of the creditworthiness of the monoline and other market factors. We perform both a credit as well as a liquidity analysis on the monoline insurers each quarter. Our analysis also compares market-based credit default spreads, when available, to assess the appropriateness of our monoline insurer’s creditworthiness. Based on the public information available, including the regulatory reviews and actions undertaken by the state insurance commissions and the published financial results, we determine the degree of reliance to be placed on the financial guarantee policy in estimating the cash flows to be collected for the purpose of recognizing and measuring impairment loss.

A credit downgrade to non-investment grade is a key but not the only factor in determining the credit risk or the monoline insurer's ability to fulfill its contractual obligation under the financial guarantee arrangement. Although a monoline may have been down-graded by the credit rating agencies or have been ordered to commute its operations by the insurance commissioners, it may retain the ability and the obligation to continue to pay claims in the near term. We evaluate the short-term liquidity of and the ability to pay claims by the monoline insurers in estimating the amounts of cash flows expected to be collected from specific asset-backed securities for the purpose of assessing and measuring credit loss.

The following table summarizes realized gains and losses on investment securities transactions attributable to available-for-sale and held to maturity securities.

	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)
		(in millions)	
Three months ended September 30, 2010:			
Securities available-for-sale	$ 78	$ (44)	$ 34
Securities held to maturity	—	(1)	(1)
	$ 78	$ (45)	$ 33
Three months ended September 30, 2009:			
Securities available-for-sale	$ 9	$ (30)	$ (21)
Securities held to maturity	—	—	—
	$ 9	$ (30)	$ (21)
Nine months ended September 30, 2010:			
Securities available-for-sale	$ 148	$ (130)	$ 18
Securities held to maturity	—	(4)	(4)
	$ 148	$ (134)	$ 14
Nine months ended September 30, 2009:			
Securities available-for-sale	$ 345	$ (130)	$ 215
Securities held to maturity	—	—	—
	$ 345	$ (130)	$ 215

The amortized cost and fair values of securities available-for-sale and securities held to maturity at September 30, 2010, are summarized in the table below by contractual maturity. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. Securities available-for-sale amounts exclude equity securities as they do not have stated maturities. The table below also reflects the distribution of maturities of debt securities held at September 30, 2010, together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at September 30, 2010. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

Taxable Equivalent Basis as of September 30, 2010	Within One Year Amount	Within One Year Yield	After One But Within Five Years Amount	After One But Within Five Years Yield	After Five But Within Ten Years Amount	After Five But Within Ten Years Yield	After Ten Years Amount	After Ten Years Yield
	(dollars are in millions)							
Available-for-sale:								
U.S. Treasury	$ —	—%	$ 4,249	1.07%	$ 4,228	2.54%	$ 4,324	4.23%
U.S. Government sponsored enterprises	—	—	—	—	1,647	4.02	483	4.27
U.S. Government agency issued or guaranteed	4	4.46	1	4.99	239	4.80	18,825	3.92
Obligations of U.S. states and political subdivisions	—	—	—	—	252	4.25	321	4.47
Asset-backed securities	—	—	115	5.36	8	1.52	1,111	2.86
Corporate and other domestic debt securities	115	1.53	576	1.48	—	—	—	—
Foreign debt securities	250	1.79	2,238	2.57	10	5.36	—	—
Total amortized cost	$ 369	1.74%	$ 7,179	1.64%	$ 6,384	3.07%	$ 25,064	3.94%
Total fair value	$ 371		$ 7,321		$ 6,733		$ 26,122	
Held to maturity:								
U.S. Government sponsored enterprises	$ —	—%	$ 27	7.95%	$ 2	6.92%	$ 1,695	6.17%
U.S. Government agency issued or guaranteed	—	—	—	—	6	7.63	423	6.56
Obligations of U.S. states and political subdivisions	11	5.38	27	5.53	17	4.73	71	5.24
Asset-backed securities	—	—	—	—	—	—	194	6.08
Asset-backed securities issued by consolidated VIE	871	1.12	—	—	—	—	—	—
Total amortized cost	$ 882	1.17%	$ 54	6.73%	$ 25	5.58%	$ 2,383	6.20%
Total fair value	$ 882		$ 57		$ 27		$ 2,597	

Investments in Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") stock of $119 million and $476 million, respectively, were included in other assets at September 30, 2010. Investments in FHLB stock and FRB stock of $152 million and $476 million, respectively, were included in other assets at December 31, 2009.

5. Loans

Loans consisted of the following:

	September 30, 2010	December 31, 2009
	(in millions)	
Commercial loans:		
Construction and other real estate	$ 8,468	$ 8,858
Other commercial	21,670	21,446
Total commercial	30,138	30,304
Consumer loans:		
Home equity mortgages	3,892	4,164
Other residential mortgages	13,625	13,722
Private label cards	12,460	15,091
Credit cards	10,815	13,048
Auto finance	—	1,701
Other consumer	1,284	1,459
Total consumer	42,076	49,185
Total loans	$ 72,214	$ 79,489

Secured financings of $1.3 billion at September 30, 2010 are secured by $1.0 billion of credit cards and restricted available-for-sale securities of $659 million. Secured financings of $550 million and $2.5 billion at December 31, 2009 were secured by $180 million and $2.6 billion of private label cards and credit cards, respectively, and restricted available-for-sale securities of $417 million and $721 million, respectively.

In August 2010, we sold auto finance loans with an outstanding principal balance of $1.2 billion at date of sale and other related assets to Santander Consumer USA ("SC USA") for $1.2 billion in cash which resulted in a gain on sale of $9 million.

Purchased Loan Portfolios In January 2009, we purchased the General Motors MasterCard receivable portfolio ("GM Portfolio") and the AFL-CIO Union Plus MasterCard/Visa receivable portfolio ("UP Portfolio") with an aggregate outstanding principal balance of $6.3 billion and $6.1 billion, respectively, from HSBC Finance Corporation ("HSBC Finance").

Purchased loans for which at the time of acquisition there was evidence of deterioration in credit quality since origination and for which it was probable that all contractually required payments would not be collected and that the associated line of credit has been closed were recorded upon acquisition at an amount based upon the cash flows expected to be collected ("Purchased Credit-Impaired Loans"). The difference between these expected cash flows and the purchase price represents accretable yield which is amortized to interest income over the life of the loan. The accretable yield for the GM portfolio became fully amortized to interest income during the second quarter of 2010 and, as such, we no longer have any receivables from the purchased GM portfolio which are subject to these accounting requirements. The carrying amount of the Purchased Credit-Impaired Loans, net of credit loss reserves at September 30, 2010 totaled $29 million for the UP Portfolio, and is included in credit card loans. The outstanding contractual balance at September 30, 2010 for the UP Portfolio was $44 million. The carrying amount of the Purchased Credit-Impaired Loans, net of credit loss reserves at December 31, 2009 totaled $63 million and $52 million for the GM and UP Portfolios, respectively, and is included in credit card loans. The outstanding contractual balances at December 31, 2009 for these receivables were $73 million and $86 million for the GM and UP Portfolios, respectively. Credit loss reserves of $4 million and $18 million as of September 30, 2010 and

December 31, 2009, respectively, were held for the acquired receivables subject to the accounting requirements for

Purchased Credit-Impaired Loans due to a decrease in the expected future cash flows since the acquisition. The following summarizes the change in accretable yield associated with the Purchased Credit-Impaired Loans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Accretable yield at beginning of period	$ (12)	$ (50)	$ (29)	$ (95)
Accretable yield amortized to interest income during the period	2	10	13	39
Reclassification to non-accretable difference	—	—	6	16
Accretable yield at end of period(1)	$ (10)	$ (40)	$ (10)	$ (40)

(1) At September 30, 2010, the entire remaining accretable yield is related to the UP portfolio. The accretable yield related to the GM portfolio was fully amortized to interest income during the second quarter of 2010.

Troubled Debt Restructurings The following tables present information about our TDR Loans and the related credit loss reserves for TDR Loans:

	September 30, 2010	December 31, 2009
	(in millions)	
TDR Loans:		
Commercial loans:		
Construction and other real estate	$ 215	$ 100
Other commercial	129	68
Total commercial	344	168
Consumer loans:		
Residential mortgages	352	173
Private label cards	238	216
Credit cards	209	102
Auto finance(1)	—	52
Total consumer	799	543
Total TDR Loans(3)	$ 1,143	$ 711

	September 30, 2010	December 31, 2009
	(in millions)	
Allowance for credit losses for TDR Loans(2):		
Commercial loans:		
Construction and other real estate	$ 45	$ 14
Other commercial	10	2
Total commercial	55	16
Consumer loans:		
Residential mortgages	54	34
Private label cards	80	51
Credit cards	76	24
Auto finance	—	11

Total consumer	210	120
Total Allowance for credit losses for TDR Loans	$ 265	$ 136

(1) The TDR loan balances include $12 million of auto finance loans held for sale at December 31, 2009, for which there are no credit loss reserves as these loans are carried at the lower of cost or fair value.

(2) Included in the allowance for credit losses. The allowance for credit losses for TDR Loans is determined using a discounted cash flow impairment analysis.

(3) Includes balances of $261 million and $65 million at September 30, 2010 and December 31, 2009, respectively which are classified as non-accrual loans.

The following table presents information about average TDR Loan balances and interest income recognized on TDR loans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Average balance of TDR Loans	$ 1,140	$ 524	$ 969	$ 455
Interest income recognized on TDR Loans	18	8	48	22

Concentrations of Credit Risk Our loan portfolio includes the following types of loans:

- High loan-to-value ("LTV") loans – Certain residential mortgages on primary residences with LTV ratios equal to or exceeding 90 percent at the time of origination and no mortgage insurance, which could result in the potential inability to recover the entire investment in loans involving foreclosed or damaged properties.

- Interest-only loans – A loan which allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect the ability of customers to repay the loan in the future when the principal payments are required.

- Adjustable rate mortgage ("ARM") loans – A loan which allows us to adjust pricing on the loan in line with market movements. A customer's financial situation and the general interest rate environment at the time of the interest rate reset could affect the customer's ability to repay or refinance the loan after the adjustment.

The following table summarizes the balances of high LTV, interest-only and ARM loans in our loan portfolios, including certain loans held for sale, at September 30, 2010 and December 31, 2009, respectively.

	September 30, 2010	December 31, 2009
	(in billions)	
Residential mortgage loans with high LTV and no mortgage insurance(1)	$ 1.1	$ 1.2
Interest-only residential mortgage loans	2.7	3.3
ARM loans(2)	7.7	7.7

(1) Residential mortgage loans with high LTV and no mortgage insurance includes both fixed rate and adjustable rate mortgages. Excludes $133 million and $232 million of sub-prime residential mortgage

loans held for sale at September 30, 2010 and December 31, 2009, respectively.

(2) ARM loan balances above exclude $105 million and $209 million of sub-prime residential mortgage loans held for sale at September 30, 2010 and December 31, 2009, respectively. During the remainder of 2010 and during 2011, approximately $23 million and $410 million, respectively, of these ARM loans will experience their first interest rate reset.

Concentrations of first and second liens within the outstanding residential mortgage loan portfolio are summarized in the following table. Amounts in the table exclude closed end first lien loans held for sale of $1.0 billion and $1.4 billion at September 30, 2010 and December 31, 2009, respectively.

	September 30, 2010	December 31, 2009
	(in millions)	
Closed end:		
First lien	$ 13,625	$ 13,722
Second lien	469	570
Revolving:		
Second lien	3,423	3,594
Total	$ 17,517	$ 17,886

6. Allowance for Credit Losses

An analysis of the allowance for credit losses is presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Balance at beginning of period	$ 2,950	$ 3,740	$ 3,861	$ 2,397
Provision for credit losses	245	1,006	912	3,247
Charge-offs	(729)	(954)	(2,479)	(2,433)
Recoveries	79	78	243	230
Allowance on loans transferred to held for sale	(33)	(4)	(33)	(12)
Allowance related to bulk loan purchase from HSBC Finance	—	—	—	437
Other	—	1	8	1
Balance at end of period	$ 2,512	$ 3,867	$ 2,512	$ 3,867

7. Loans Held for Sale

Loans held for sale consisted of the following:

	September 30, 2010	December 31, 2009
	(in millions)	
Commercial loans	$ 1,536	$ 1,126
Consumer loans:		
Residential mortgages	888	1,386
Auto finance	—	353
Other consumer	28	43
Total consumer	916	1,782
Total loans held for sale	$ 2,452	$ 2,908

We originate certain commercial loans in connection with our participation in leveraged acquisition finance syndicates. A substantial majority of these loans were originated with the intent of selling them to unaffiliated third

parties and are classified as commercial loans held for sale at September 30, 2010 and December 31, 2009. The fair value of commercial loans held for sale under this program was $1.0 billion and $1.1 billion at September 30, 2010 and December 31, 2009, respectively, all of which are recorded at fair value as we have elected to designate these loans under fair value option. During the first nine months of 2010, the market value of these loans remained relatively flat. In 2010, we provided foreign currency denominated loans to third parties which are classified as commercial loans held for sale and for which we also elected to apply fair value option. The fair value of these commercial loans was $544 million at September 30, 2010. See Note 11, "Fair Value Option," for additional information.

Residential mortgage loans held for sale include sub-prime residential mortgage loans with a fair value of $410 million and $757 million at September 30, 2010 and December 31, 2009, respectively, which were acquired from unaffiliated third parties and from HSBC Finance with the intent of securitizing or selling the loans to third parties. Also included in residential mortgage loans held for sale are first mortgage loans originated and held for sale primarily to various government sponsored enterprises. During the second and third quarter of 2010, we sold subprime residential mortgage loans with a book value of $264 million to unaffiliated third parties.

During the first quarter of 2010, auto finance loans held for sale with a carrying value of $353 million were sold to HSBC Finance to facilitate completion of a loan sale to a third party. Also as discussed above, during the third quarter of 2010 auto finance loans with a carrying value of $1.2 billion were transferred to loans held for sale and subsequently sold to SC USA.

Other consumer loans held for sale consist of student loans.

Excluding the commercial loans designated under fair value option discussed above, loans held for sale are recorded at the lower of cost or fair value. While the initial book value of loans held for sale continued to exceed fair value at September 30, 2010, we experienced a decrease in the valuation allowance during the first nine months of 2010 due primarily to lower balances and sales. The valuation allowance on loans held for sale was $447 million and $910 million at September 30, 2010 and December 31, 2009, respectively.

Loans held for sale are subject to market risk, liquidity risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions, as well as the interest rate and credit environment. Interest rate risk for residential mortgage loans held for sale is partially mitigated through an economic hedging program to offset changes in the fair value of the mortgage loans held for sale. Trading related revenue associated with this economic hedging program, which is included in net interest income and trading revenue in the consolidated statement of income (loss), were gains of $21 million and $5 million during the three and nine months ended September 30, 2010, respectively compared to losses of $14 million and gains of $1 million during the three and nine months ended September 30, 2009, respectively.

8. Intangible Assets

Intangible assets consisted of the following:

	September 30, 2010	December 31, 2009
	(in millions)	
Mortgage servicing rights	$ 307	$ 457
Other	23	27
Intangible assets	$ 330	$ 484

Mortgage Servicing Rights ("MSRs") A servicing asset is a contract under which estimated future revenues from contractually specified cash flows, such as servicing fees and other ancillary revenues, are expected to exceed the obligation to service the financial assets. We recognize the right to service mortgage loans as a separate and distinct asset at the time they are acquired or when originated loans are sold.

MSRs are subject to credit, prepayment and interest rate risk, in that their value will fluctuate as a result of changes in these economic variables. Interest rate risk is mitigated through an economic hedging program that uses securities and derivatives to offset changes in the fair value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques, which are addressed in more detail in the 2009 Form 10-K.

Residential Mortgage Servicing Rights Residential MSRs are initially measured at fair value at the time that the related loans are sold and are remeasured at fair value at each reporting date (the fair value measurement method). Changes in fair value of the asset are reflected in residential mortgage banking revenue in the period in which the changes occur. Fair value is determined based upon the application of valuation models and other inputs. The valuation models incorporate assumptions market participants would use in estimating future cash flows. The reasonableness of these valuation models is periodically validated by reference to external independent broker valuations and industry surveys.

Fair value of residential MSRs is calculated using the following critical assumptions:

	September 30, 2010	December 31, 2009
Annualized constant prepayment rate (“CPR”)	21.6%	14.6%
Constant discount rate	12.7%	17.9%
Weighted average life	3.5 years	4.8 years

Residential MSRs activity is summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Fair value of MSRs:				
Beginning balance	$ 317	$ 434	$ 450	$ 333
Additions related to loan sales	10	22	36	87
Changes in fair value due to:				
Change in valuation inputs or assumptions used in the valuation models	1	(54)	(113)	6
Realization of cash flows	(30)	(8)	(75)	(32)
Ending balance	$ 298	$ 394	$ 298	$ 394

Information regarding residential mortgage loans serviced for others, which are not included in the consolidated balance sheet, is summarized in the following table:

	September 30, 2010	December 31, 2009
	(in millions)	
Outstanding principal balances at period end	$ 47,623	$ 50,390
Custodial balances maintained and included in noninterest bearing deposits at period end	$ 936	$ 923

Servicing fees collected are included in residential mortgage banking revenue and totaled $30 million and $92 million during the three and nine months ended September 30, 2010, respectively. Servicing fees totaled $33 million and

$99 million during the three and nine months ended September 30, 2009, respectively.

Commercial Mortgage Servicing Rights Commercial MSRs, which are accounted for using the lower of cost or fair value method, totaled $9 million and $7 million at September 30, 2010 and December 31, 2009.

Other Intangible Assets Other intangible assets, which result from purchase business combinations, are comprised of favorable lease arrangements of $18 million and $20 million at September 30, 2010 and December 31, 2009, respectively, and customer lists in the amount of $5 million and $7 million at September 30, 2010 and December 31, 2009, respectively.

9. Goodwill

Goodwill was $2.6 billion at September 30, 2010 and December 31, 2009, and includes accumulated impairment losses of $54 million and transfers to a disposal group held for sale at September 30, 2010 of $21 million. During the third quarter of 2010, goodwill totaling $21 million was allocated to our Asian Banknotes Operations and transferred to assets held for sale. See Note 2, "Exit from Wholesale Banknotes Business," for further discussion of this transaction.

As a result of the continued focus on economic and credit conditions in the United States, we performed interim impairment tests of the goodwill associated with our Global Banking and Markets and Private Banking reporting units as of September 30, 2010, June 30, 2010 and March 31, 2010. As a result of these tests, the fair value of our Global Banking and Markets and Private Banking reporting units continue to exceed their carrying value, including goodwill. Our goodwill impairment testing, however, is highly sensitive to certain assumptions and estimates used. If significant deterioration in the economic and credit conditions occur, or changes in the strategy or performance of our business or product offerings occur, an interim impairment test will again be required.

10. Derivative Financial Instruments

In the normal course of business, we enter into derivative contracts for trading, market making and risk management purposes. For financial reporting purposes, a derivative instrument is designated in one of the following categories: (a) financial instruments held for trading, (b) hedging instruments designated as a qualifying hedge under derivative accounting principles or (c) a non-qualifying economic hedge. The derivative instruments held are predominantly swaps, futures, options and forward contracts. All freestanding derivatives, including bifurcated embedded derivatives, are stated at fair value. Where we enter into enforceable master netting arrangements with counterparties, the master netting arrangements permit us to net those derivative asset and liability positions and to offset cash collateral held and posted with the same counterparty.

Derivatives Held for Risk Management Purposes Our risk management policy requires us to identify, analyze and manage risks arising from the activities conducted during the normal course of business. We use derivative instruments as an asset and liability management tool to manage our exposures in interest rate, foreign currency and credit risks in existing assets and liabilities, commitments and forecasted transactions. The accounting for changes in fair value of a derivative instrument will depend on whether the derivative has been designated and qualifies for hedge accounting under derivative accounting principles.

Accounting principles for qualifying hedges require detailed documentation that describes the relationship between the hedging instrument and the hedged item, including, but not limited to, the risk management objectives and hedging strategy and the methods to assess the effectiveness of the hedging relationship. We designate derivative instruments to offset the fair value risk and cash flow risk arising from fixed-rate and floating-rate assets and liabilities as well as forecasted transactions. We assess the hedging relationships, both at the inception of the hedge and on an ongoing basis, using a regression approach to determine whether the designated hedging instrument is highly effective in offsetting changes in the fair value or cash flows of the hedged item. We discontinue hedge accounting when we determine that a derivative is not expected to be effective going forward or has ceased to be highly effective as a hedge, the hedging instrument is terminated, or when the designation is removed by us.

In the tables that follow below, the fair value disclosed does not include swap collateral that we either receive or deposit with our interest rate swap counterparties. Such swap collateral is recorded on our balance sheet at an amount which approximates fair value and is netted on the balance sheet with the fair value amount recognized for derivative instruments.

Fair Value Hedges In the normal course of business, we hold fixed-rate loans and securities and issue fixed-rate senior and subordinated debt obligations. The fair value of fixed-rate (USD and non-USD denominated) assets and liabilities fluctuates in response to changes in interest rates or foreign currency exchange rates. We utilize interest rate swaps, interest rate forward and futures contracts and foreign currency swaps to minimize the effect on earnings caused by interest rate and foreign currency volatility.

For reporting purposes, changes in fair value of a derivative designated in a qualifying fair value hedge, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. We recognized net gains of $9 million and $30 million during the three and nine months ended September 30, 2010, respectively, compared to net losses of $9 million and $6 million during the three and nine months ended September 30, 2009, respectively, which are reported in other income (expense) in the consolidated statement of income (loss), which represents the ineffective portion of all fair value hedges. The interest accrual related to the derivative contract is recognized in interest income.

The changes in fair value of the hedged item designated in a qualifying hedge are captured as an adjustment to the carrying value of the hedged item (basis adjustment). If the hedging relationship is terminated and the hedged item continues to exist, the basis adjustment is amortized over the remaining term of the original hedge. We recorded basis adjustments for active fair value hedges which increased the carrying value of our debt by $34 million and decreased the carrying value of our debt by $189 million during the nine months ended September 30, 2010 and 2009, respectively. We amortized $2.8 million and $7.2 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three and nine months ended September 30, 2010, respectively. We amortized less than $1 million and $2 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three and nine months ended September 30, 2009, respectively. The total accumulated unamortized basis adjustment amounted to an increase in the carrying value of our debt of $84 million and $57 million as of September 30, 2010 and December 31, 2009, respectively.

The following table presents the fair value of derivative instruments that are designated and qualifying as fair value hedges and their location on the balance sheet.

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2010	December 31, 2009	Balance Sheet Location	September 30, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Other assets	$ 42	$ 133	Interest, taxes & other liabilities	$ 316	$ 15

(1) The derivative assets and derivative liabilities presented above may be eligible for netting and consequently may be shown net against a different line item on the consolidated balance sheet. The balance sheet categories in the above table represent the location of the assets and liabilities absent the netting of the balances.

The following table presents the gains and losses on derivative instruments designated and qualifying as hedging instruments in fair value hedges and their locations on the consolidated statement of income (loss).

Amount of Gain (Loss) Recognized in Income on Derivatives(1)

	Location of Gain or (Loss) Recognized in Income on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
		(in millions)			
		2010	2009	2010	2009
Interest rate contracts	Interest income	$ (19)	$ (37)	$ 18	$ (106)
Interest rate contracts	Other income (expense)	(142)	15	(628)	(71)
Total		$ (161)	$ (22)	$ (610)	$ (177)

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(1) The gains and losses associated with the contracts were presented in multiple lines on the consolidated statement of income (loss) as shown above.

The following table presents information on gains and losses on the hedged items in fair value hedges and their location on the consolidated statement of income (loss).

	Gain/(Loss) on Derivative		Gain (Loss) on Hedged Items		Gain (Loss) on Derivative		Gain (Loss) on Hedged Items	
	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)
	2010				2009			
	(in millions)							
Three Months Ended September 30,								
Interest rate contracts/AFS securities	$ (2)	$ (148)	$ 56	$ 150	$ (2)	$ (54)	$ 27	$ 59
Interest rate contracts/commercial loans	—	—	—	—	—	—	—	—
Interest rate contracts/subordinated debt	(17)	6	(18)	1	(35)	69	(71)	(83)
Total	$ (19)	$ (142)	$ 38	$ 151	$ (37)	$ 15	$ (44)	$ (24)
Nine Months Ended September 30,								
Interest rate contracts/AFS securities	$ (20)	$ (661)	$ 187	$ 673	$ (17)	$ 132	$ 65	$ (124)
Interest rate contracts/commercial loans	(1)	1	1	(1)	—	(1)	1	—
Interest rate contracts/subordinated debt	39	32	(81)	(14)	(89)	(202)	(212)	189
Total	$ 18	$ (628)	$ 107	$ 658	$ (106)	$ (71)	$ (146)	$ 65

Cash Flow Hedges We own or issue floating rate financial instruments and enter into forecasted transactions that give rise to variability in future cash flows. As a part of our risk management strategy, we use interest rate swaps, currency swaps and futures contracts to mitigate risk associated with variability in the cash flows. We also hedge the variability in interest cash flows arising from on-line savings deposits.

Changes in fair value associated with the effective portion of a derivative instrument designated as a qualifying cash flow hedge are recognized initially in accumulated other comprehensive income (loss). When the cash flows for which the derivative is hedging materialize and are recorded in income or expense, the associated gain or loss from the hedging derivative previously recorded in accumulated other comprehensive income (loss) is recognized in earnings. If a cash flow hedge of a forecasted transaction is de-designated because it is no longer highly effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative will continue to be reported in accumulated other comprehensive income (loss) unless the hedged forecasted transaction is no longer expected to occur, at which time the cumulative gain or loss is released into earnings. As of September 30, 2010, and December 31, 2009, active cash flow hedge relationships extend or mature through January 2012 and June 2010, respectively. During the three and nine months ended September 30, 2010, $3 million and $8 million, respectively, of losses related to terminated and/or re-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income (loss). During the next twelve months, we expect to amortize $9 million of remaining losses to earnings resulting from these terminated and/or re-designated cash flow hedges. During the three and nine months ended September 30, 2009, $10 million and $40 million, respectively, of losses related to terminated and/or re-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income (loss). The interest accrual related to the derivative contract is recognized in interest income.

The following table presents the fair value of derivative instruments that are designated and qualifying as cash flow hedges and their location on the consolidated balance sheet.

	Derivative Assets(1) Balance Sheet Location	Fair Value as of September 30, 2010	Fair Value as of December 31, 2009	Derivative Liabilities(1) Balance Sheet Location	Fair Value as of September 30, 2010	Fair Value as of December 31, 2009
			(in millions)			
Interest rate contracts	Other assets	$ —	$ —	Interest, taxes & other liabilities	$ 21	$ 33

(1) The derivative assets and derivative liabilities presented above may be eligible for netting and consequently may be shown net against a different line item on the consolidated balance sheet. Balance sheet categories in the above table represent the location of the assets and liabilities absent the netting of the balances.

The following table presents information on gains and losses on derivative instruments designated and qualifying as hedging instruments in cash flow hedges and their locations on the income statement.

	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) 2010	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) 2009	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion) 2010	Gain (Loss) Reclassified from AOCI into Income (Effective Portion) 2009	Location of Gain or (Loss) Recognized in Income on the Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassed from AOCI into Income (Ineffective Portion) 2010	Gain (Loss) Reclassed from AOCI into Income (Ineffective Portion) 2009
				(in millions)				
Three Months Ended September 30,								
Interest rate contracts	$ (7)	$ 50	Other income (expense)	$ (3)	$ (10)	Other income (expense)	$ —	$ (1)
Nine Months Ended September 30,								
Interest rate contracts	$ 8	$ 141	Other income (expense)	$ (8)	$ (40)	Other income (expense)	$ (1)	$ 6

Trading and Other Derivatives In addition to risk management, we enter into derivative instruments for trading and market making purposes, to repackage risks and structure trades to facilitate clients' needs for various risk taking and risk modification purposes. We manage our risk exposure by entering into offsetting derivatives with other financial institutions to mitigate the market risks, in part or in full, arising from our trading activities with our clients. In addition, we also enter into buy protection credit derivatives with other market participants to manage our counterparty credit risk exposure. Where we enter into derivatives for trading purposes, realized and unrealized gains and losses are recognized as trading revenue. Credit losses arising from counterparty risks on over-the-counter derivative instruments and offsetting buy protection credit derivative positions are recognized as an adjustment to the fair value of the derivatives and are recorded in trading revenue.

Derivative instruments designated as economic hedges that do not qualify for hedge accounting are recorded at fair value through profit and loss. Realized and unrealized gains and losses are recognized in other income (expense) while the derivative asset or liability positions are reflected as other assets or other liabilities. As of September 30, 2010, we have entered into credit default swaps which are designated as economic hedges against the credit risks within our loan portfolio. In the event of an impairment loss occurring in a loan that is economically hedged, the impairment loss is recognized as provision for credit losses while the gain on the credit default swap is recorded as other income (expense). In addition, we also from time to time have designated certain forward purchase or sale of to-be-announced ("TBA") securities to economically hedge mortgage servicing rights. Changes in the fair value of TBA positions, which are considered derivatives, are recorded in residential mortgage banking revenue.

The following table presents the fair value of derivative instruments held for trading purposes and their location on the consolidated balance sheet.

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2010	December 31, 2009	Balance Sheet Location	September 30, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Trading assets	$ 47,681	$ 27,085	Trading Liabilities	$ 48,235	$ 27,546
Foreign exchange contracts	Trading assets	17,466	12,920	Trading Liabilities	16,764	14,087
Equity contracts	Trading assets	1,181	2,281	Trading Liabilities	1,252	2,297
Precious Metals contracts	Trading assets	1,060	918	Trading Liabilities	1,830	897
Credit contracts	Trading assets	14,970	17,772	Trading Liabilities	14,890	17,687
Other	Trading assets	24	6	Trading Liabilities	3	23
Total		$ 82,382	$ 60,982		$ 82,974	$ 62,537

(1) The derivative assets and derivative liabilities presented above may be eligible for netting and consequently may be shown net against a different line item on the consolidated balance sheet. Balance sheet categories in the above table represent the location of the assets and liabilities absent the netting of the balances.

The following table presents the fair value of derivative instruments held for other purposes and their location on the balance sheet.

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2010	December 31, 2009	Balance Sheet Location	September 30, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Other assets	$ 673	$ 229	Interest, taxes & other liabilities	$ 12	$ 15
Foreign exchange contracts	Other assets	57	51	Interest, taxes & other liabilities	10	2
Equity contracts	Other assets	181	180	Interest, taxes & other liabilities	24	16
Credit contracts	Other assets	3	15	Interest, taxes & other liabilities	15	16
Total		$ 914	$ 475		$ 61	$ 49

(1) The derivative assets and derivative liabilities presented above may be eligible for netting and consequently may be shown net against a different line item on the consolidated balance sheet. Balance sheet categories in the above table represent the location of the assets and liabilities absent the netting of the balances.

The following table presents information on gains and losses on derivative instruments held for trading purposes and their locations on the statement of income (loss).

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
		(in millions)			
Interest rate contracts	Trading revenue (loss)	$ 96	$ (182)	$ 79	$ (321)
Foreign exchange contracts	Trading revenue (loss)	272	204	261	775
Equity contracts	Trading revenue (loss)	4	24	14	145
Precious Metals contracts	Trading revenue (loss)	(25)	21	279	49
Credit contracts	Trading revenue (loss)	(50)	(124)	(19)	(272)
Other	Trading revenue (loss)	(2)	79	36	37
Total		$ 295	$ 22	$ 650	$ 413

The following table presents information on gains and losses on derivative instruments held for other purposes and their locations on the statement of income (loss).

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
		(in millions)			
Interest rate contracts	Other income (expense)	$ 197	$ 140	$ 598	$ (281)
Foreign exchange contracts	Other income (expense)	16	(14)	(8)	21
Equity contracts	Other income (expense)	386	201	261	367
Credit contracts	Other income (expense)	(7)	(54)	(11)	(148)
Total		$ 592	$ 273	$ 840	$ (41)

Credit-Risk-Related Contingent Features We enter into total return swap, interest rate swap, cross-currency swap and credit default swap contracts, amongst others which contain provisions that require us to maintain a specific credit rating from each of the major credit rating agencies. Sometimes the derivative instrument transactions are a part of broader structured product transactions. As of September 30, 2010, HSBC Bank USA was given credit ratings of AA and Aa3 by S&P and Moody's, respectively, and was given a short-term debt rating of A-1+ and P-1 by S&P and Moody's, respectively. If HSBC Bank USA's credit ratings were to fall below the current ratings, the counterparties to our derivative instruments could demand additional collateral to be posted with them. The amount of additional collateral required to be posted will depend on whether HSBC Bank USA is downgraded by one or more notches as well as whether the downgrade is in relation to long-term or short-term ratings. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of September 30, 2010, is $10.0 billion for which we have posted collateral of $9.0 billion. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of December 31, 2009, is $9.3 billion for which we posted collateral of $8.6 billion. Substantially all of the collateral posted is in the form of cash which is reflected in either interest bearing deposits with banks or other assets. See Note 18, "Guarantee Arrangements, Contingencies and Pledged Assets" for further details.

In the event of a credit downgrade, we do not expect HSBC Bank USA's long-term ratings to go below A2 and A+ and the short-term ratings to go below P-2 and A-1 by Moody's and S&P, respectively. The following tables summarize our obligation to post additional collateral (from the current collateral level) in certain hypothetical commercially reasonable downgrade scenarios. It is not appropriate to accumulate or extrapolate information presented in the table below to determine our total obligation because the information presented to determine the obligation in hypothetical rating scenarios is not mutually exclusive.

Moody's

Short-Term Ratings	Long-Term Ratings Aa3	A1	A2
	(in millions)		
P-1	$ —	$ 5	$ 115
P-2	58	58	163

S&P

Short-Term Ratings	Long-Term Ratings AA	AA-	A+
	(in millions)		
A-1+	$ —	$ 216	$ 216
A-1	112	328	329

We would be required to post $129 million of additional collateral on total return swaps and certain other transactions if HSBC Bank USA is downgraded by S&P and Moody's by two notches on our long term rating accompanied by one notch downgrade in our short term rating.

Notional Value of Derivative Contracts The following table summarizes the notional values of derivative contracts.

	September 30, 2010	December 31, 2009
	(in billions)	
Interest rate:		
Futures and forwards	$ 486.5	$ 156.0
Swaps	1,748.4	1,221.5
Options written	84.1	59.5
Options purchased	83.3	66.0
	2,402.3	1,503.0
Foreign Exchange:		
Swaps, futures and forwards	604.1	486.2
Options written	28.0	43.0
Options purchased	28.6	43.1
Spot	86.4	39.4
	747.1	611.7
Commodities, equities and precious metals:		
Swaps, futures and forwards	43.1	26.4
Options written	8.7	10.3
Options purchased	15.8	15.3
	67.6	52.0
Credit derivatives	741.6	768.5
Total	$ 3,958.6	$ 2,935.2

11. Fair Value Option

We report our results to HSBC in accordance with its reporting basis, International Financial Reporting Standards ("IFRSs"). We have elected to apply fair value option accounting to selected financial instruments in most cases to align the measurement attributes of those instruments under U.S. GAAP and IFRSs and to simplify the accounting model applied to those financial instruments. We elected to apply fair value option ("FVO") reporting to certain commercial loans including commercial leveraged acquisition finance loans and related unfunded commitments, certain fixed rate long-term debt issuances and hybrid instruments which include all structured notes and structured deposits. Changes in fair value for these assets and liabilities are reported as gain (loss) on instruments designated at fair value and related derivatives in the consolidated statement of income (loss).

Loans We elected to apply FVO to all commercial leveraged acquisition finance loans held for sale and related unfunded commitments. The election allows us to account for these loans and commitments at fair value which is consistent with the manner in which the instruments are managed. As of September 30, 2010, commercial leveraged acquisition finance loans held for sale and related unfunded commitments of $1.0 billion carried at fair value had an aggregate unpaid principal balance of $1.1 billion. As of December 31, 2009, commercial leveraged acquisition finance loans held for sale and related unfunded commitments of $1.1 billion carried at fair value had an aggregate unpaid principal balance of $1.3 billion.

In 2010, we provided foreign currency denominated loans to a third party for which we simultaneously entered into a series of derivative transactions to hedge certain risks associated with these loans. We elected to apply fair value option to these loans which allows us to account for them in a manner which is consistent with how the instruments are managed. At September 30, 2010, these commercial foreign currency denominated loans for which we elected fair value option had a fair value of $544 million and an unpaid principal balance of $540 million.

These loans are included in loans held for sale in the consolidated balance sheet. Interest from these loans is recorded as interest income in the consolidated statement of income (loss). Because a substantial majority of the loans elected for the fair value option are floating rate assets, changes in their fair value are primarily attributable to changes in loan-specific credit risk factors. The components of gain (loss) related to loans designated at fair value are summarized in the table below. As of September 30, 2010 and December 31, 2009, no loans for which the fair value option has been elected are 90 days or more past due or on nonaccrual status.

Long-Term Debt (Own Debt Issuances) We elected to apply FVO for certain fixed-rate long-term debt for which we had applied or otherwise would elect to apply fair value hedge accounting. The election allows us to achieve a similar accounting effect without meeting the rigorous hedge accounting requirements. We measure the fair value of these debt issuances based on inputs observed in the secondary market. Changes in fair value of these instruments are attributable to changes of our own credit risk and interest rates.

Fixed-rate debt accounted for under FVO at September 30, 2010 totaled $1.8 billion and had an aggregate unpaid principal balance of $1.8 billion. Fixed-rate debt accounted for under FVO at December 31, 2009 totaled $1.7 billion and had an aggregate unpaid principal balance of $1.8 billion. Interest on the fixed-rate debt accounted for under FVO is recorded as interest expense in the consolidated statement of income (loss). The components of gain (loss) related to long-term debt designated at fair value are summarized in the table below.

Hybrid Instruments We elected to apply fair value option accounting principles to all of our hybrid instruments, inclusive of structured notes and structured deposits, issued after January 1, 2006. As of September 30, 2010, interest bearing deposits in domestic offices included $6.6 billion of structured deposits accounted for under FVO which had an unpaid principal balance of $6.5 billion. As of December 31, 2009, interest bearing deposits in domestic offices included $4.2 billion of structured deposits accounted for under FVO which had an unpaid principal balance of

$4.2 billion. Long-term debt at September 30, 2010 included structured notes of $3.7 billion accounted for under FVO which had an unpaid principal balance of $3.5 billion. Long-term debt at December 31, 2009 included structured notes of $2.9 billion accounted for under FVO which had an unpaid principal balance of $2.7 billion. Interest on this debt is recorded as interest expense in the consolidated statement of income (loss). The components of gain (loss) related to hybrid instruments designated at fair value which reflect the instruments described above are summarized in the table below.

Components of Gain on instruments at fair value and related derivatives Gain (loss) on instruments designated at fair value and related derivatives includes the changes in fair value related to both interest and credit risk as well as the mark-to-market adjustment on derivatives related to the debt designated at fair value and net realized gains or losses on these derivatives. The components of gain (loss) on instruments designated at fair value and related derivatives related to the changes in fair value of fixed rate debt accounted for under FVO are as follows:

	Three Months Ended September 30,							
	2010				2009			
	Loans	Long-Term Debt	Hybrid Instruments	Total	Loans	Long-Term Debt	Hybrid Instruments	Total
				(in millions)				
Interest rate component	$ 1	$ (89)	$ (443)	$ (531)	$ —	$ (57)	$ (265)	$ (322)
Credit risk component	44	(3)	2	43	128	(77)	(27)	24
Total mark-to-market on financial instruments designated at fair value	45	(92)	(441)	(488)	128	(134)	(292)	(298)
Mark-to-market on the related derivatives	(2)	126	433	557	—	71	251	322
Net realized gain (losses) on the related derivatives	—	20	—	20	—	20	—	20
Gain (loss) on instruments designated at fair value and related derivatives	$ 43	$ 54	$ (8)	$ 89	$ 128	$ (43)	$ (41)	$ 44

	Nine Months Ended September 30,							
	2010				2009			
	Loans	Long-Term Debt	Hybrid Instruments	Total	Loans	Long-Term Debt	Hybrid Instruments	Total
				(in millions)				
Interest rate component	$ 4	$ (276)	$ (426)	$ (698)	$ —	$ 198	$ (509)	$ (311)
Credit risk component	(7)	131	48	172	258	(291)	37	4
Total mark-to-market on financial instruments designated at fair value	(3)	(145)	(378)	(526)	258	(93)	(472)	(307)
Mark-to-market on the related derivatives	(3)	376	409	782	—	(395)	509	114
Net realized gain (losses) on the related derivatives	—	61	—	61	—	51	(59)	(8)
Gain (loss) on instruments designated at fair value and related derivatives	$ (6)	$ 292	$ 31	$ 317	$ 258	$ (437)	$ (22)	$ (201)

12. Income Taxes

The following table presents our effective tax rates.

	2010		2009	
	(dollars are in millions)			
Three Months Ended September 30,				
Statutory federal income tax rate	$ 224	35.0%	$ 80	35.0%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	(2)	(.3)	4	1.8
Sale of minority stock interest	—	—	—	—
Valuation allowance on deferred tax assets	(8)	(1.2)	16	6.9
Tax exempt income	(3)	(.5)	(4)	(1.7)
Low income housing and other tax credits	(21)	(3.3)	(23)	(10.3)
Effects of foreign operations	—	—	—	—
Non-deductible loss on sale of securities	14	2.2	—	—
Uncertain tax provision	13	2.0	(1)	(.2)
State rate change effect on net deferred tax assets	—	—	(1)	(.6)
Other	6	.9	(2)	(.9)
Effective tax rate	$ 223	34.8%	$ 69	30.0%
Nine Months Ended September 30,				
Statutory federal income tax rate	$ 678	35.0%	$ (42)	(35.0)%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	4	.2	14	11.2
Sale of minority stock interest	—	—	74	61.3
Valuation allowance on deferred tax assets	(7)	(.3)	93	76.7
Tax exempt income	(10)	(.5)	(12)	(9.5)
Low income housing and other tax credits	(65)	(3.4)	(54)	(45.1)
Effects of foreign operations	14	.7	(1)	(.4)
Non-deductible loss on sale of securities	14	.7	—	—
Uncertain tax provision	33	1.7	(1)	(1.2)
IRS Audit Effective Settlement	—	—	(8)	(6.8)
State rate change effect on net deferred tax assets	—	—	(1)	(.5)
Other	6	.3	(6)	(4.4)
Effective tax rate	$ 667	34.4%	$ 56	46.3%

The effective tax rate for the three and nine months ended September 30, 2010 reflects a substantially higher level of pre-tax income, an increased level of low income housing tax credits, the impact of a planned liquidation of a foreign subsidiary, an adjustment of uncertain tax positions and the non-deductible loss on the sale of securities. The effective tax rate for the three and nine months ended September 30, 2009 was significantly impacted by the relative level of pre-tax income, the sale of a minority stock interest that was treated as a dividend for tax purposes and the settlement of an Internal Revenue Service audit of our 2004 and 2005 federal income tax returns.

HSBC North America Consolidated Income Taxes We are included in HSBC North America's consolidated Federal income tax return and in various combined state income tax returns. As such, we have entered into a tax allocation agreement with HSBC North America and its subsidiary entities ("the HNAH Group") included in the consolidated returns which govern the current amount of taxes to be paid or received by the various entities included in the consolidated return filings. As a result, we have looked at the HNAH Group's consolidated deferred tax assets and various sources of taxable income, including the impact of HSBC and HNAH Group tax planning strategies, in

reaching conclusions on recoverability of deferred tax assets. Where a valuation allowance is determined to be necessary at the HSBC North America consolidated level, such allowance is allocated to principal subsidiaries within the HNAH Group as described below in a manner that is systematic, rational and consistent with the broad principles of accounting for income taxes.

The HNAH Group evaluates deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, tax planning strategies and any available carryback capacity.

In evaluating the need for a valuation allowance, the HNAH Group estimates future taxable income based on management approved business plans, future capital requirements and ongoing tax planning strategies, including capital support from HSBC necessary as part of such plans and strategies. The HNAH Group has continued to consider the impact of the economic environment on the North American businesses and the expected growth of the deferred tax assets. This evaluation process involves significant management judgment about assumptions that are subject to change from period to period.

In conjunction with the HNAH Group deferred tax evaluation process, based on our forecasts of future taxable income, which include assumptions about the depth and severity of home price depreciation and the U.S. economic downturn, including unemployment levels and their related impact on credit losses, we currently anticipate that our results of future operations will generate sufficient taxable income to allow us to realize our deferred tax assets. However, since these market conditions have created losses in the HNAH Group in recent periods and volatility on our pre-tax book income, our analysis of the realizability of the deferred tax assets significantly discounts any future taxable income expected from operations and relies to a greater extent on continued capital support from our parent, HSBC, including tax planning strategies implemented in relation to such support. HSBC has indicated they remain fully committed and have the capacity and willingness to provide capital as needed to run operations, maintain sufficient regulatory capital, and fund certain tax planning strategies.

Only those tax planning strategies that are both prudent and feasible, and which management has the ability and intent to implement, are incorporated into our analysis and assessment. The primary and most significant strategy is HSBC's commitment to reinvest excess HNAH Group capital to reduce debt funding or otherwise invest in assets to ensure that it is more likely than not that the deferred tax assets will be utilized.

Currently, it has been determined that the HNAH Group's primary tax planning strategy, in combination with other tax planning strategies, provides support for the realization of the net deferred tax assets recorded for the HNAH Group. Such determination is based on HSBC's business forecasts and assessment as to the most efficient and effective deployment of HSBC capital, most importantly including the length of time such capital will need to be maintained in the U.S. for purposes of the tax planning strategy.

Notwithstanding the above, the HNAH Group has valuation allowances against certain specific tax attributes such as foreign tax credits, certain state related deferred tax assets and certain tax loss carryforwards for which the aforementioned tax planning strategies do not provide appropriate support.

HNAH Group valuation allowances are allocated to the principal subsidiaries, including us. The methodology allocates the valuation allowance to the principal subsidiaries based primarily on the entity's relative contribution to the growth of the HSBC North America consolidated deferred tax asset against which the valuation allowance is being recorded.

If future results differ from the HNAH Group's current forecasts or the primary tax planning strategy were to change, a valuation allowance against the remaining net deferred tax assets may need to be established which could have a material adverse effect on our results of operations, financial condition and capital position. The HNAH Group will continue to update its assumptions and forecasts of future taxable income, including relevant tax planning strategies, and assess the need for such incremental valuation allowances.

Absent the capital support from HSBC and implementation of the related tax planning strategies, the HNAH Group, including us, would be required to record a valuation allowance against the remaining deferred tax assets.

HSBC USA Inc. Income Taxes We recognize deferred tax assets and liabilities for the future tax consequences related to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and state net operating losses. Our net deferred tax assets, net of both deferred tax liabilities and valuation allowances, totaled $878 million and $1.7 billion as of September 30, 2010 and December 31, 2009 respectively. The decrease in net deferred tax assets is primarily due to the reduction in the allowance for credit losses and a decrease in the overall net unrealized losses on available-for-sale securities.

The Internal Revenue Service began its audit of our 2006 and 2007 income tax returns in 2009, with an anticipated completion by the end of 2010. We are currently under audit by various state and local tax jurisdictions, and although one or more of these audits may be concluded within the next 12 months, it is not possible to reasonably estimate the impact on our uncertain tax positions at this time.

13. Pensions and Other Post Retirement Benefits

The components of pension expense for the defined benefit pension plan reflected in our consolidated statement of income (loss) are shown in the table below and reflect the portion of the pension expense of the combined HSBC North America Pension Plan (either the HSBC North America Pension Plan" or the "Plan") which has been allocated to HSBC USA Inc.:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost – benefits earned during the period	$ 6	$ 6	$ 16	$ 19
Interest cost on projected benefit obligation	17	18	50	55
Expected return on assets	(16)	(13)	(46)	(38)
Recognized losses	11	10	29	28
Partial plan termination(1)	—	5	—	5
Amortization of prior service cost	(1)	—	(4)	—
Net periodic pension cost	$ 17	$ 26	$ 45	$ 69

(1) Effective September 30, 2009, HSBC North America voluntarily chose to allow all plan participants whose employment was either terminated as a result of the strategic restructuring of its businesses between 2007 and 2009 to become fully vested in their accrued pension benefit, resulting in a partial termination of the plan. In accordance with interpretations of the Internal Revenue Service relating to partial plan terminations, plan participants who voluntarily left the employment of HSBC North America or its subsidiaries during this period were also deemed to have vested in their accrued pension benefit through the date their employment ended. As a result, incremental pension expense of $5 million, representing our share of the partial plan termination cost, was recognized during the three months ended September 30, 2009.

Pension expense declined in 2010 due to lower service cost and interest cost as a result of reduced headcount. Also contributing to lower pension expense was the recognition of higher returns on plan assets solely due to higher asset levels.

During the third quarter of 2010, HSBC North America made a contribution to the Plan of $187 million.

During the first quarter of 2010, we announced that the Board of Directors of HSBC North America had approved a plan to cease all future benefit accruals for legacy participants under the final average pay formula components of the HSBC North America Pension Plan (the "Plan") effective January 1, 2011. Future accruals to legacy participants under the Plan will thereafter be provided under the cash balance based formula which is now used to calculate benefits for employees hired after December 31, 1996. Furthermore, all future benefit accruals under the Supplemental Retirement Income Plan will also cease effective January 1, 2011.

The aforementioned changes to the Plan have been accounted for as a negative plan amendment and, therefore, the reduction in our share of HSBC North America's projected benefit obligation as a result of this decision will be amortized to net periodic pension cost over the future service periods of the affected employees. The changes to the

Supplemental Retirement Income Plan have been accounted for as a plan curtailment, which resulted in no significant immediate recognition of income or expense.

Components of the net periodic benefit cost for our postretirement benefits other than pensions are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost – benefits earned during the period	$ —	$ —	$ —	$ —
Interest cost	1	1	3	4
Recognized losses	1	1	2	2
Transition amount amortization	—	(1)	—	(2)
Net periodic postretirement benefit cost	$ 2	$ 1	$ 5	$ 4

On March 23, 2010, the Patient Protection and Affordable Care Act was enacted and subsequently amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the "Act"). The Act is intended to ensure that more Americans have access to quality, affordable health care insurance with the provisions of the Act being phased in beginning in 2010 and continuing for a number of years. Based on an analysis of the Act, there has been no impact on our consolidated financial statements for the period ended September 30, 2010 as it relates to either our ongoing active employee benefit plans or our postretirement retiree-only medical plans. We have also performed an analysis related to the provisions to be implemented in future periods and based on the Act as currently written, we currently do not believe there will be a material impact to our financial position or results of operation in future periods. Should the provisions of the Act be amended in future periods, the estimated impact to our financial position or results of operations in future periods could change.

14. Related Party Transactions

In the normal course of business, we conduct transactions with HSBC and its subsidiaries. These transactions occur at prevailing market rates and terms and include funding arrangements, derivative execution, purchases and sales of receivables, servicing arrangements, information technology and some centralized services, item and statement processing services, banking and other miscellaneous services. The following tables present related party balances and the income and expense generated by related party transactions:

	September 30, 2010	December 31, 2009
	(in millions)	
Assets:		
Cash and due from banks	$ 535	$ 362
Interest bearing deposits with banks	235	198
Federal funds sold and securities purchased under resale agreements	415	294
Trading assets(1)	20,115	12,811
Loans	1,229	1,476
Other	1,780	852
Total assets	$ 24,309	$ 15,993
Liabilities:		
Deposits	$ 9,414	$ 9,519
Trading liabilities(1)	23,741	16,848
Short-term borrowings	5,084	446

Other	3,611	1,677
Total liabilities	$ 41,850	$ 28,490

(1) Trading assets and liabilities exclude the impact of netting which allow the offsetting of amounts relating to certain contracts if certain conditions are met.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in millions)			
Income/(Expense):				
Interest income	$ 13	$ 44	$ 79	$ 141
Interest expense	(12)	(7)	(34)	(19)
Net interest income	$ 1	$ 37	$ 45	$ 122
HSBC affiliate income:				
Fees and commissions:				
HSBC Finance	$ 2	$ 3	$ 6	$ 9
HSBC Markets (USA) Inc. (“HMUS”)	3	7	13	16
Other HSBC affiliates	17	25	63	66
Fees on transfers of refund anticipation loans to HSBC Finance	—	—	4	11
Other HSBC affiliates income	22	—	31	10
Total affiliate income	$ 44	$ 35	$ 117	$ 112
Support services from HSBC affiliates:				
HSBC Finance	$ (164)	$ (175)	$ (553)	$ (548)
HMUS	(74)	(50)	(218)	(187)
HSBC Technology & Services (USA) Inc. (“HTSU”)	(195)	(106)	(558)	(353)
Other HSBC affiliates	(46)	(55)	(126)	(140)
Total support services from HSBC affiliates	$ (479)	$ (386)	$ (1,455)	$ (1,228)
Stock based compensation expense with HSBC	$ (11)	$ (15)	$ (33)	$ (48)

Transactions Conducted with HSBC Finance Corporation In connection with its acquisition of HSBC Finance, HSBC announced its expectation that funding costs for the HSBC Finance business would be lower as a result of the funding diversity of HSBC. As a result, we work with our affiliates under the oversight of HSBC North America to maximize opportunities and efficiencies in HSBC’s operations in the U.S., including funding efficiencies. The purchases of the private label portfolio, the GM and UP Portfolios and certain auto finance loans from HSBC Finance as discussed in more detail below are indicative of such efficiencies contemplated.

• In January 2009, we purchased the GM and UP Portfolios from HSBC Finance, with an outstanding principal balance of $12.4 billion at the time of sale, at a total net premium of $113 million. Premiums paid are amortized to interest income over the estimated life of the receivables purchased. HSBC Finance retained the customer account relationships associated with these credit card portfolios. On a daily basis we purchase all new credit card loan originations for the GM and UP Portfolios from HSBC Finance. HSBC Finance continues to service these credit card loans for us for a fee. Information regarding these loans is summarized in the table below.

• In January 2009, we also purchased certain auto finance loans with an outstanding principal balance of $3.0 billion from HSBC Finance at the time of sale, at a total net discount of $226 million. Discounts are amortized to interest income over the estimated life of the receivables purchased. In March 2010, we sold $379 million of auto finance receivables to HSBC Finance including $353 million previously classified as held for sale, a substantial majority of which were comprised of the loans previously purchased from HSBC Finance, who immediately sold them to a third party who also purchased HSBC Finance's auto finance servicing operations. These loans, which were previously serviced by HSBC Finance, were serviced by this third party provider until they were sold in August 2010. Information regarding these loans is summarized in the table below.

• In July 2004, we sold the account relationships associated with $970 million of credit card receivables to HSBC Finance and on a daily basis, we purchase new originations on these credit card receivables. HSBC Finance continues to service these loans for us for a fee. Information regarding these loans is summarized in the table below.

• In December 2004, we purchased the private label credit card receivable portfolio as well as private label commercial and closed end loans from HSBC Finance. HSBC Finance retained the customer account relationships and by agreement we purchase on a daily basis all new private label originations from HSBC Finance. HSBC Finance continues to service these loans for us for a fee. Information regarding these loans is summarized in the table below.

• In 2003 and 2004, we purchased approximately $3.7 billion of residential mortgage loans from HSBC Finance. HSBC Finance continues to service these loans for us for a fee. Information regarding these loans is summarized in the table below.

The following table summarizes the private label card, private label commercial and closed end loans, credit card (including the GM and UP credit card portfolios), auto finance and real estate secured loans serviced for us by HSBC Finance as well as the daily loans purchased during the three and nine months ended September 30, 2010 and 2009:

	Private Label		Credit Cards					
	Cards	Commercial and Closed End Loans(1)	General Motors	Union Privilege	Other	Auto Finance	Residential Mortgage	Total
			(in billions)					
Loans serviced by HSBC Finance:								
September 30, 2010	$ 12.3	$ .5	$ 4.3	$ 4.3	$ 1.9	$ —	$ 1.6	$ 24.9
December 31, 2009	15.0	.6	5.4	5.3	2.1	2.1	1.8	32.3
Total loans purchased on a daily basis from HSBC Finance during:								
Three months ended September 30, 2010	3.5	—	3.4	.8	1.1	—	—	8.8
Three months ended September 30, 2009	3.6	—	3.7	.9	1.1	—	—	9.3
Nine months ended September 30, 2010	9.9	—	10.0	2.3	3.1	—	—	25.3
Nine months ended September 30, 2009	11.0	—	10.8	2.7	3.2	—	—	27.7

(1) Private label commercial are included in other commercial loans and private label closed end loans are included in other consumer loans in Note 5, "Loans."

Fees paid for servicing these loan portfolios totaled $159 million and $482 million during the three and nine months ended September 30, 2010, respectively, compared to $170 million and $530 million during the three and nine months ended September 30, 2009, respectively.

- The GM and UP credit card receivables as well as the private label credit card receivables are purchased from HSBC Finance on a daily basis at a sales price for each type of portfolio determined using a fair value calculated semi-annually in April and October by an independent third party based on the projected future cash flows of the receivables. The projected future cash flows are developed using various assumptions reflecting the historical performance of the receivables and adjusting for key factors such as the anticipated economic and regulatory environment. The independent third party uses these projected future cash flows and a discount rate to determine a range of fair values. We use the mid-point of this range as the sales price.

• In the fourth quarter of 2009, an initiative was begun to streamline the servicing of real estate secured receivables across North America. As a result, certain functions that we had previously performed for our mortgage customers are now being performed by HSBC Finance for all North America mortgage customers, including our mortgage customers. Additionally, we are currently performing certain functions for all North America mortgage customers where these functions had been previously provided separately by each entity. During the three and nine months ended September 30, 2010, we paid $2 million and $4 million, respectively, for services we received from HSBC Finance and received $2 million and $6 million, respectively, for services we provided to HSBC Finance.

• In July 2010, certain employees in the real estate receivable default servicing department of HSBC Finance were transferred to the mortgage loan servicing department of a subsidiary of HSBC Bank USA. These employees continue to service defaulted real estate secured receivables for HSBC Finance and we receive a fee for providing these services. During the three months ended September 30, 2010, we received servicing revenue from HSBC Finance of $18 million.

• Support services from HSBC affiliates include charges by HSBC Finance under various service level agreements for loan origination and servicing, including the servicing of the portfolios previously discussed and beginning in 2010, the servicing of certain tax refund anticipation loans as more fully discussed below, as well as other operational and administrative support. Fees paid for these services totaled $164 million and $553 million during the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2009, fees paid for these services totaled $175 million and $548 million, respectively.

• Our wholly-owned subsidiaries, HSBC Bank USA and HSBC Trust Company (Delaware), N.A. (“HTCD”), are the originating lenders on behalf of HSBC Finance for a federal income tax refund anticipation loan program for clients of a single third party tax preparer which is managed by HSBC Finance. By agreement, HSBC Bank USA and HTCD process applications, fund and subsequently transfer a portion of these loans to HSBC Finance. Prior to 2010, all loans were transferred to HSBC Finance. Beginning in 2010, we began keeping a portion of these loans on our balance sheet and earn a fee. The loans we keep are transferred to HSBC Finance at par only upon reaching a defined delinquency status. We pay HSBC Finance a fee to service the loans we retain on our balance sheet and to assume the credit risk associated with these receivables. HSBC Bank USA and HTCD originated approximately $9.4 billion and $9.0 billion of loans during the nine months ended September 30, 2010 and 2009, respectively, of which $3.1 billion and $9.0 billion, respectively, were transferred to HSBC Finance during these periods. During the nine months ended September 30, 2010 and 2009, we received fees of $4 million and $11 million, respectively, for the loans we originated and sold to HSBC Finance. Fees earned on the loans retained on balance sheet and fees paid to HSBC Finance for servicing and assuming the credit risk for these loans totaled $65 million and $58 million, respectively, during the nine months ended September 30, 2010.

• Certain of our consolidated subsidiaries have revolving lines of credit totaling $1.0 billion with HSBC Finance. There were no balances outstanding under any of these lines of credit at September 30, 2010 and December 31, 2009.

• We extended a secured $1.5 billion uncommitted 364 day credit facility to certain subsidiaries of HSBC Finance in December 2009. There were no balances outstanding at September 30, 2010 and December 31, 2009.

• We extended a $1.0 billion committed unsecured 364 day credit facility to HSBC Bank Nevada, a subsidiary of HSBC Finance, in December 2009. There were no balances outstanding at September 30, 2010 and December 31, 2009.

• We service a portfolio of residential mortgage loans owned by HSBC Finance with an outstanding principal balance of $1.2 billion and $1.5 billion at September 30, 2010 and December 31, 2009, respectively. The related servicing fee income was $.3 million and $1.0 million during the three and nine months ended September 30, 2010, respectively, which is included in residential mortgage banking revenue in the consolidated statement of income (loss). During the three and nine months ended September 30, 2009, the related servicing fee income totaled $1 million and $6 million, respectively.

Transactions Conducted with HMUS

• We utilize HSBC Securities (USA) Inc. ("HSI"), a subsidiary of HMUS, for broker dealer, debt and preferred stock underwriting, customer referrals, loan syndication and other treasury and traded markets related services, pursuant to service level agreements. Fees charged by HSI for broker dealer, loan syndication services, treasury and traded markets related services are included in support services from HSBC affiliates. Debt underwriting fees charged by HSI are deferred as a reduction of long-term debt and amortized to interest expense over the life of the related debt. Preferred stock issuance costs charged by HSI are recorded as a reduction of capital surplus. Customer referral fees paid to HSI are netted against customer fee income, which is included in other fees and commissions.

• We have extended loans and lines, some of them uncommitted, to HMUS and its subsidiaries in the amount of $3.3 billion at September 30, 2010 and $4.1 billion at December 31, 2009, of which $762 million and $1.0 billion was outstanding at September 30, 2010 and December 31, 2009, respectively. Interest income on these loans and lines totaled $4 million and $13 million during the three and nine months ended September 30, 2010, respectively, compared to $8 million and $28 million during the three and nine months ended September 30, 2009, respectively.

Other Transactions with HSBC Affiliates

• In June 2010, we sold certain securities with a book value of $302 million to HSBC Bank plc and recognized a pre-tax loss of $40 million.

• HSBC North America extended a $1.0 billion senior note to us in August 2009. This is a five year floating rate note which matures on August 28, 2014 with interest due quarterly beginning in November 2009. Interest expense on this note totaled $5 million and $13 million during the three and nine months ended September 30, 2010, respectively. Interest expense totaled $2 million during both the three and nine months ended September 30, 2009.

• In March 2009, we sold an equity investment in HSBC Private Bank (Suisse) SA to another HSBC affiliate for cash, resulting in a gain of $33 million.

• We have an unused line of credit with HSBC Bank plc of $2.5 billion at September 30, 2010 and December 31, 2009.

• We have an unused line of credit with HSBC North America Inc. ("HNAI") of $150 million at September 30, 2010 and December 31, 2009.

• We have extended loans and lines of credit to various other HSBC affiliates totaling $460 million at September 30, 2010 and $1.7 billion at December 31, 2009, of which $0 million and $527 million was outstanding at September 30, 2010 and December 31, 2009, respectively. Interest income on these lines totaled $.1 million and $5 million during the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2009, interest income on these lines totaled $3 million and $9 million, respectively.

• Historically, we have provided support to several HSBC affiliate sponsored asset-backed commercial paper ("ABCP") conduits by purchasing A-1/P-1 rated commercial paper issued by them. At September 30, 2010 we held $70 million of commercial paper issued by an HSBC affiliate sponsored asset-backed commercial paper conduit. At December 31, 2009, no ABCP issued by such conduits was held.

• We routinely enter into derivative transactions with HSBC Finance and other HSBC affiliates as part of a global HSBC strategy to offset interest rate or other market risks associated with debt issues and derivative contracts with unaffiliated third parties. The notional value of derivative contracts related to these contracts was approximately

$772.0 billion and $673.3 billion at September 30, 2010 and December 31, 2009, respectively. The net credit exposure (defined as the recorded fair value of derivative receivables) related to the contracts was approximately $20.1 billion and $12.8 billion at September 30, 2010 and December 31, 2009, respectively. Our Global Banking and Markets business accounts for these transactions on a mark-to-market basis, with the change in value of contracts with HSBC affiliates substantially offset by the change in value of related contracts entered into with unaffiliated third parties.

• In December 2008, HSBC Bank USA entered into derivative transactions with another HSBC affiliate to offset the risk associated with the contingent "loss trigger" options embedded in certain leveraged super senior (LSS) tranched credit default swaps. These transactions are expected to significantly reduce income volatility for HSBC Bank USA by transferring the volatility to the affiliate. The recorded fair value of derivative assets related to these derivative transactions was approximately $50 million and $70 million at September 30, 2010 and December 31, 2009, respectively.

• Technology and some centralized operational services including human resources, finance, treasury, corporate affairs, compliance, legal, tax and other shared services in North America are centralized within HTSU. Technology related assets and software purchased are generally purchased and owned by HTSU. HTSU also provides certain item processing and statement processing activities which are included in Support services from HSBC affiliates in the consolidated statement of income (loss).

• Our domestic employees participate in a defined benefit pension plan sponsored by HSBC North America. Additional information regarding pensions is provided in Note 13, "Pension and Other Post-retirement Benefits."

• Employees participate in one or more stock compensation plans sponsored by HSBC. Our share of the expense of these plans on a pre-tax basis was $11 million and $33 million during the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2009, our share of the expense of these plans totaled $15 million and $48 million, respectively and is included in Salaries and employee benefits in the consolidated statement of income (loss).

• We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas customer service, systems, collection and accounting functions. The expenses related to these services of $7 million and $21 million during the three and nine months ended September 30, 2010, respectively, are included as a component of Support services from HSBC affiliates in the consolidated statement of income (loss). Billing for these services was processed by HTSU.

15. Regulatory Capital

Capital amounts and ratios of HSBC USA Inc. and HSBC Bank USA, calculated in accordance with current banking regulations, are summarized in the following table.

	September 30, 2010			December 31, 2009		
	Capital Amount	Well-Capitalized Minimum Ratio(1)	Actual Ratio	Capital Amount	Well-Capitalized Minimum Ratio(1)	Actual Ratio
	(dollars are in millions)					
Total capital ratio:						
HSBC USA Inc.	$ 21,792	10.00%	17.46%	$ 19,087	10.00%	14.19%
HSBC Bank USA	21,853	10.00	17.59	19,532	10.00	14.81
Tier 1 capital ratio:						
HSBC USA Inc.	14,032	6.00	11.24(3)	12,934	6.00	9.61
HSBC Bank USA	14,596	6.00	11.75(3)	13,354	6.00	10.13
Tier 1 leverage ratio:						
HSBC USA Inc.	14,032	3.00(2)	7.80	12,934	3.00(2)	7.59

HSBC Bank USA	14,596	5.00	8.22	13,354	5.00	8.07
Risk weighted assets:						
HSBC USA Inc.	124,840(3)			134,553		
HSBC Bank USA	124,260(3)			131,854		

(1) HSBC USA Inc. and HSBC Bank USA are categorized as "well-capitalized", as defined by their principal regulators. To be categorized as well-capitalized under regulatory guidelines, a banking institution must have the minimum ratios reflected in the above table, and must not be subject to a directive, order, or written agreement to meet and maintain specific capital levels.

(2) There is no Tier 1 leverage ratio component in the definition of a well-capitalized bank holding company. The ratio shown is the minimum required ratio.

(3) Effective January 1, 2010, we began consolidating a commercial paper conduit managed by HSBC Bank USA as a result of adopting new guidance related to the consolidation of variable interest entities as more fully discussed in Note 17, "Variable Interest Entities." We elected to adopt the transition mechanism for Risk Based Capital Requirements and, as a result, there was no change to the risk weighted assets or the Tier 1 capital ratios for the first half of 2010. As of September 30, 2010 we have begun the transition to the Risk Based Capital requirements for our Tier 1 capital ratio which will be complete at March 31, 2011. Had we fully transitioned to the Risk Based Capital requirements at September 30, 2010, our risk weighted assets would have been higher by approximately $2.2 billion which would not have had a significant impact on our Tier 1 capital ratios.

We did not receive any capital contributions from our immediate parent, HNAI, during the first nine months of 2010.

As part of the regulatory approvals with respect to the aforementioned receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become "low-quality assets," as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During the first half of 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. In 2009, the net book value of such sales totaled $455 million. These loans were subsequently sold to SC USA in August 2010. Capital ratios and amounts at September 30, 2010 and December 31, 2009 in the table above reflect this reporting.

Regulatory guidelines impose certain restrictions that may limit the inclusion of deferred tax assets in the computation of regulatory capital. We closely monitor the deferred tax assets for potential limitations or exclusions. At September 30, 2010 and December 31, 2009, deferred tax assets of $368 million and $331 million, respectively, were excluded in the computation of regulatory capital.

16. Business Segments

We have five distinct segments that we utilize for management reporting and analysis purposes, which are generally based upon customer groupings, as well as products and services offered.

Net interest income of each segment represents the difference between actual interest earned on assets and interest paid on liabilities of the segment, adjusted for a funding charge or credit. Segments are charged a cost to fund assets (e.g. customer loans) and receive a funding credit for funds provided (e.g. customer deposits) based on equivalent market rates. The objective of these charges/credits is to transfer interest rate risk from the segments to one centralized unit in Global Banking and Markets and more appropriately reflect the profitability of segments.

Certain other revenue and operating expense amounts are also apportioned among the business segments based upon the benefits derived from this activity or the relationship of this activity to other segment activity. These inter-segment transactions are accounted for as if they were with third parties.

There have been no changes in the basis of segmentation or measurement of segment profit as compared with the presentation in our 2009 Form 10-K.

Our segment results are presented under International Financial Reporting Standards ("IFRSs") (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources, such as employees are made almost exclusively on an IFRSs basis since we report results to our parent, HSBC in accordance with its reporting basis, IFRSs. We continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP legal entity basis.

Reconciliation of our IFRS Management Basis segment results to the U.S. GAAP consolidated totals are as follows:

	IFRSs Consolidated Amounts										
	PFS	CF	CMB	Global Banking and Markets	PB	Other	Adjustments/ Reconciling Items	Total	(2) IFRSs Adjustments	(3) IFRSs Reclassifications	U.S. GAAP Consolidated Totals
	(in millions)										
Three months ended September 30, 2010											
Net interest income	$ 252	$ 430	$ 172	$ 186	$ 47	$ (1)	$ (8)	$ 1,078	$ (14)	$ 27	$ 1,091
Other operating income	67	97	111	186	34	40	8	543	126	147	816
Total operating income (loss)	319	527	283	372	81	39	—	1,621	112	174	1,907
Loan impairment charges	(21)	221	50	(45)	(13)	—	—	192	35	18	245
	340	306	233	417	94	39	—	1,429	77	156	1,662
Operating expenses(1)	341	58	178	217	63	18	—	875	(9)	156	1,022
Profit (loss) before tax expense	$ (1)	$ 248	$ 55	$ 200	$ 31	$ 21	$ —	$ 554	$ 86	$ —	$ 640
Balances at end of period:											
Total assets	$ 20,752	$ 23,830	$ 16,329	$ 204,598	$ 4,866	$ 21	$ —	$ 270,396	$ (77,972)	$ (250)	$ 192,174
Total loans, net	16,486	22,283	14,632	28,554	4,040	—	—	85,995	(1,914)	(14,379)	69,702
Goodwill	876	—	368	480	326	—	—	2,050	576	—	2,626
Total deposits	47,554	44	23,547	36,945	11,529	—	—	119,619	(4,823)	4,150	118,946
Three months ended September 30, 2009											
Net interest income	$ 238	$ 539	$ 184	$ 201	$ 41	$ (6)	$ (4)	$ 1,193	$ (4)	$ 71	$ 1,260
Other operating	88	98	92	91	23	(63)	4	333	484	78	895

income											
Total operating income (loss)	326	637	276	292	64	(69)	—	1,526	480	149	2,155
Loan impairment charges	178	437	51	163	86	—	—	915	120	(29)	1,006
	148	200	225	129	(22)	(69)	—	611	360	178	1,149
Operating expenses(1)	306	18	159	180	58	13	—	734	7	178	919
Profit (loss) before tax expense	$ (158)	$ 182	$ 66	$ (51)	$ (80)	$ (82)	$ —	$ (123)	$ 353	$ —	$ 230
Balances at end of period:											
Total assets	$ 22,025	$ 30,227	$ 17,393	$ 175,845	$ 5,220	$ 115	$ —	$ 250,825	$ (72,378)	$ (2,938)	$ 175,509
Total loans, net	17,747	28,271	15,720	21,786	4,516	—	—	88,040	(3,330)	(6,011)	78,699
Goodwill	876	—	368	497	326	—	—	2,067	580	—	2,647
Total deposits	47,285	43	24,680	30,939	10,665	—	—	113,612	(3,173)	5,110	115,549
Nine months ended September 30, 2010											
Net interest income	$ 730	$ 1,437	$ 535	$ 471	$ 139	$ (9)	$ (21)	$ 3,282	$ 32	$ 110	$ 3,424
Other operating income	132	150	362	927	103	267	21	1,962	39	506	2,507
Total operating income (loss)	862	1,587	897	1,398	242	258	—	5,244	71	616	5,931
Loan impairment charges	6	786	98	(193)	(24)	(1)	—	672	213	27	912
	856	801	799	1,591	266	259	—	4,572	(142)	589	5,019
Operating expenses(1)	929	113	499	624	180	47	—	2,392	100	589	3,081
Profit (loss) before tax expense	$ (73)	$ 688	$ 300	$ 967	$ 86	$ 212	$ —	$ 2,180	$ (242)	$ —	$ 1,938
Nine months ended September 30, 2009											
Net interest income	$ 665	$ 1,588	$ 540	$ 655	$ 129	$ (6)	$ (18)	$ 3,553	$ 102	$ 230	$ 3,885
Other operating income	171	263	255	600	85	(406)	18	986	1,031	204	2,221

Total operating income (loss)	836	1,851	795	1,255	214	(412)	—	4,539	1,133	434	6,106
Loan impairment charges	550	1,468	222	589	90	—	—	2,919	502	(174)	3,247
	286	383	573	666	124	(412)	—	1,620	631	608	2,859
Operating expenses(1)	936	69	471	615	180	65	—	2,336	36	608	2,980
Profit (loss) before tax expense	$ (650)	$ 314	$ 102	$ 51	$ (56)	$ (477)	$ —	$ (716)	$ 595	$ —	$ (121)

(1) Expenses for the segments include fully apportioned corporate overhead expenses.

(2) IFRSs Adjustments consist of the accounting differences between U.S. GAAP and IFRSs which have been described more fully below.

(3) Represents differences in balance sheet and income statement presentation between IFRSs and U.S. GAAP.

A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

Net interest income

Effective interest rate – The calculation of effective interest rates under IFRS 39, "Financial Instruments: Recognition and Measurement ("IAS 39"), requires an estimate of "all fees and points paid or recovered between parties to the contract" that are an integral part of the effective interest rate be included. U.S. GAAP generally prohibits recognition of interest income to the extent the net interest in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Under U.S. GAAP, prepayment penalties are generally recognized as received. U.S. GAAP also includes interest income on loans originated as held for sale which is included in other revenues for IFRSs.

Deferred loan origination costs and fees – Certain loan fees and incremental direct loan costs, which would not have been incurred but for the origination of loans, are deferred and amortized to earnings over the estimated life of the loan under IFRSs. Certain loan fees and direct incremental loan origination costs, including internal costs directly attributable to the origination of loans in addition to direct salaries, are deferred and amortized to earnings under U.S. GAAP.

Loan origination deferrals under IFRSs are more stringent and result in lower costs being deferred than permitted under U.S. GAAP. In addition, all deferred loan origination fees, costs and loan premiums must be recognized based on the expected life of the receivables under IFRSs as part of the effective interest calculation while under U.S. GAAP they may be recognized on either a contractual or expected life basis.

Derivative interest expense Under IFRSs, net interest income includes the interest element for derivatives which corresponds to debt designated at fair value. For U.S. GAAP, this is included in gain on financial instruments designated at fair value and related derivatives which is a component of other revenues.

Other operating income (Total other revenues)

Derivatives – Effective January 1, 2008, U.S. GAAP removed the observability requirement of valuation inputs to recognize the difference between transaction price and fair value as profit at inception in the consolidated statement of (loss) income. Under IFRSs, recognition is permissible only if the inputs used in calculating fair value are based on observable inputs. If the inputs are not observable, profit and loss is deferred and is recognized: (1) over the period of contract, (2) when the data becomes observable, or (3) when the contract is settled. This causes the net income under U.S. GAAP to be different than under IFRSs.

Unquoted equity securities – Under IFRSs, equity securities which are not quoted on a recognized exchange, but for which fair value can be reliably measured, are required to be measured at fair value. Securities measured at fair value under IFRSs are classified as either available-for-sale securities, with changes in fair value recognized in shareholders' equity, or as trading securities, with changes in fair value recognized in income. Under U.S. GAAP, equity securities that are not quoted on a recognized exchange are not considered to have a readily determinable fair value and are required to be measured at cost, less any provisions for known impairment, and classified in other assets.

Loans held for sale – IFRSs requires loans originated with the intent to sell to be classified as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for sale are reflected as loans and recorded at the lower of amortized cost or fair value. Under IFRSs, the income related to loans held for sale are reported in net interest income or trading revenue. Under U.S. GAAP, the income related to loans held for sale are reported similarly to loans held for investment.

For loans transferred to held for sale subsequent to origination, IFRSs requires these receivables to be reported separately on the balance sheet but does not change the measurement criteria. Accordingly, for IFRSs purposes such loans continue to be accounted for in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), with any gain or loss recorded at the time of sale.

U.S. GAAP requires loans that management intends to sell to be transferred to a held for sale category at the lower of amortized cost or fair value. Under U.S. GAAP, the initial component of the lower of cost or fair value adjustment related to credit risk is recorded in the consolidated statement of income (loss) as provision for credit losses while the component related to interest rates and liquidity factors is reported in the consolidated statement of income (loss) in other revenues (losses).

Reclassification of financial assets – Certain securities were reclassified from "trading assets" to "loans and receivables" under IFRSs as of July 1, 2008 pursuant to an amendment to IAS 39 and are no longer marked to market. In November 2008, additional securities were similarly transferred to loans and receivables. These securities continue to be classified as "trading assets" under U.S. GAAP.

Additionally, certain Leverage Acquisition Finance ("LAF") loans were classified as "Trading Assets" for IFRSs and to be consistent, an irrevocable fair value option was elected on these loans under U.S. GAAP on January 1, 2008. These loans were reclassified to "loans and advances" as of July 1, 2008 pursuant to the IAS 39 amendment discussed above. Under U.S. GAAP, these loans are classified as "held for sale" and carried at fair value due to the irrevocable nature of the fair value option.

Servicing assets – Under IAS 38, servicing assets are initially recorded on the balance sheet at cost and amortized over the projected life of the assets. Servicing assets are periodically tested for impairment with impairment adjustments charged against current earnings. Under U.S. GAAP, servicing assets are initially recorded on the balance sheet at fair value. Subsequent adjustments to fair value are generally reflected in current period earnings.

Securities – Effective January 1, 2009 under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining portion of the impairment loss is recognized in accumulated other comprehensive income provided we have concluded we do not intend to sell the security and it is more-likely-than-not that we will not have to sell the security prior to recovery. Under IFRSs, there is no bifurcation of other-than temporary impairment and the entire decline in value is recognized in earnings. Also under IFRSs, recoveries in other-than-temporary impairment related to improvement in the underlying credit characteristics of the investment are recognized immediately in earnings while under U.S. GAAP, they are amortized to income over the remaining life of the security. There are also other less significant differences in measuring other-than-temporary impairment under IFRSs versus U.S. GAAP.

Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares held for stock plans are recorded at fair value through other comprehensive income. If it is determined these shares have become impaired, the fair value loss is recognized in profit and loss and any fair value loss recorded in other comprehensive income is reversed. There is no similar requirement under U.S. GAAP.

Loan impairment charges (Provision for credit losses)

IFRSs requires a discounted cash flow methodology for estimating impairment on pools of homogeneous customer loans which requires the incorporation of the time value of money relating to recovery estimates. Also under IFRSs, future recoveries on charged-off loans are accrued for on a discounted basis and a recovery asset is recorded. Subsequent recoveries are recorded to earnings under U.S. GAAP, but are adjusted against the recovery asset under IFRSs.

As discussed above, under U.S. GAAP, the credit risk component of the initial lower of cost or fair value adjustment related to the transfer of receivables to held for sale is recorded in the consolidated statement of income (loss) as provision for credit losses. There is no similar requirement under IFRSs.

Operating expenses

Pension costs – Costs under U.S. GAAP are higher than under IFRSs as a result of the amortization of the amount by which actuarial losses exceed gains beyond the 10 percent “corridor.” Furthermore, in 2010, changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under US GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition.

Property – Under IFRSs, the value of property held for own use reflects revaluation surpluses recorded prior to January 1, 2004. Consequently, the values of tangible fixed assets and shareholders' equity are lower under U.S. GAAP than under IFRSs. There is a correspondingly lower depreciation charge and higher net income as well as higher gains (or smaller losses) on the disposal of fixed assets under U.S. GAAP. For investment properties, net income under U.S. GAAP does not reflect the unrealized gain or loss recorded under IFRSs for the period.

Assets

Customer loans (Loans) – On an IFRSs basis loans designated as held for sale at the time of origination and accrued interest are classified as trading assets. However, the accounting requirements governing when receivables previously held for investment are transferred to a held for sale category are more stringent under IFRSs than under U.S. GAAP.

Derivatives – Under U.S. GAAP, derivative receivables and payables with the same counterparty may be reported on a net basis in the balance sheet when there is an executed International Swaps and Derivatives Association, Inc. (ISDA) Master Netting Arrangement. In addition, under U.S. GAAP, fair value amounts recognized for the obligation to return cash collateral received or the right to reclaim cash collateral paid are offset against the fair value of derivative instruments. Under IFRSs, these agreements do not necessarily meet the requirements for offset, and therefore such derivative receivables and payables are presented gross on the balance sheet.

Goodwill – IFRSs and U.S. GAAP require goodwill to be tested for impairment at least annually, or more frequently if circumstances indicate that goodwill may be impaired. For IFRSs, goodwill was amortized until 2005, however goodwill was amortized under U.S. GAAP until 2002, which resulted in a lower carrying amount of goodwill under IFRSs.

VIEs – The requirements for consolidation of variable interest entities under U.S. GAAP are based more on the power to control significant activities as opposed to the variability in cash flows. As a result, we have been determined to be the primary beneficiary and have consolidated the Bryant Park commercial paper conduit under U.S. GAAP, while under IFRSs this conduit is not consolidated.

17. Variable Interest Entities

On January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board in June 2009 which amends the accounting for the consolidation of variable interest entities ("VIEs"). The new guidance changed the approach for determining the primary beneficiary of a VIE from a quantitative approach focusing on risk and reward to a qualitative approach focusing on (a) the power to direct the activities of the VIE and (b) the obligation to absorb losses and/or the right to receive benefits that could be significant to the VIE. The adoption of the new guidance has resulted in the consolidation of one commercial paper conduit managed by HSBC Bank USA as discussed more fully below. The impact of consolidating this entity beginning on January 1, 2010 resulted in an increase to our assets and liabilities of $3.2 billion and $3.5 billion, respectively, which resulted in a $1 million increase to the opening balance of retained earnings in common shareholder's equity and a $246 million reduction to the opening balance of other comprehensive income in common shareholder's equity. Since we elected to adopt the transition mechanism for Risk Based Capital requirements, there was no change to the way we calculate risk weighted assets against this facility for the first half of 2010. As of September 30, 2010, we have begun the transition to the Risk Based Capital requirements which will be complete at March 31, 2011. Had we fully transitioned to the Risk Based Capital requirements at September 30, 2010, our risk weighted assets would have been higher by approximately $2.2 billion which would not have had a significant impact on our Tier 1 capital ratios. See the asset-backed commercial paper conduit portion of the table “Consolidated VIE’s” presented below for additional details of the assets and liabilities relating to this newly consolidated entity.

In the ordinary course of business, we have organized special purpose entities ("SPEs") primarily to structure financial products to meet our clients' investment needs and to securitize financial assets held to meet our own funding needs. For disclosure purposes, we aggregate SPEs based on the purpose, risk characteristics and business activities of the SPEs. Special purpose entities can be a VIE, which is an entity that lacks sufficient equity investment at risk to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack either a) the power to direct the activities of an entity that most significantly impacts the entity's economic performance; b) the obligation to absorb the expected losses of the entity, the right to receive the expected residual returns of the entity, or both.

Variable Interest Entities We consolidate VIEs in which we hold a controlling financial interest as evidenced by the power to direct the activities of a VIE that most significantly impact its economic performance and the obligation to absorb losses of, or the right to receive benefits from, the VIE that could be potentially significant to the VIE and therefore are deemed to be the primary beneficiary. We take into account our entire involvement in a VIE (explicit or implicit) in identifying variable interests that individually or in the aggregate could be significant enough to warrant our designation as the primary beneficiary and hence require us to consolidate the VIE or otherwise require us to make appropriate disclosures. We consider our involvement to be significant where we, among other things, (i) provide liquidity put options or other liquidity facilities to support the VIE's debt issuances; (ii) enter into derivative contracts to absorb the risks and benefits from the VIE or from the assets held by the VIE; (iii) provide a financial guarantee that covers assets held or liabilities issued; (iv) design, organize and structure the transaction; and (v) retain a financial or servicing interest in the VIE.

We are required to evaluate whether to consolidate a VIE when we first become involved and on an ongoing basis. In almost all cases, a qualitative analysis of our involvement in the entity provides sufficient evidence to determine whether we are the primary beneficiary. In rare cases, a more detailed analysis to quantify the extent of variability to be absorbed by each variable interest holder is required to determine the primary beneficiary.

Consolidated VIEs The following table summarizes the assets and liabilities of our consolidated VIEs as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Consolidated Assets	Consolidated Liabilities	Consolidated Assets	Consolidated Liabilities
	(in millions)			
Asset-backed commercial paper conduit:				
Interest bearing deposits with banks	$ 2	$ —	$ —	$ —
Held to maturity securities	871	—	—	—
Loans	1,307	—	—	—
Short-term borrowings	—	3,006	—	—
Other liabilities	—	2	—	—
Subtotal	2,180	3,008	—	—
Securitization vehicles:				
Loans	12,562	—	15,953	—
Available-for-sale securities	659	—	1,138	—
Other assets	182	—	168	—
Long-term debt	—	1,343	—	2,985
Other liabilities	—	1,028	—	1,283
Subtotal	13,403	2,371	17,259	4,268
Low income housing limited liability partnership:				
Other assets	517	—	585	—
Long term debt	—	55	—	55
Other liabilities	—	102	—	135
Subtotal	517	157	585	190
Total	$ 16,100	$ 5,536	$ 17,844	$ 4,458

Asset-Backed Commercial Paper Conduit As discussed in more detail below, we provide liquidity facilities to a number of multi-seller and single-seller asset-backed commercial paper conduits ("ABCP conduits") sponsored by HSBC affiliates and third parties. These conduits support the financing needs of customers by facilitating the customers' access to commercial paper markets.

One of these commercial paper conduits otherwise known as Bryant Park Funding LLC ("Bryant Park"), was sponsored, organized and managed to facilitate clients in securing asset-backed financing collateralized by diverse pools of loan and lease receivables or investment securities. Bryant Park funds the purchase of the eligible assets by issuing short-term commercial paper notes to third party investors. One of our affiliates provides a program wide letter of credit enhancement ("PWE") to support the creditworthiness of the commercial paper issued up to a certain amount. We also entered into a liquidity asset purchase agreement ("LAPA"), to provide liquidity support for the commercial paper notes issued to fund the asset purchases. Prior to the adoption of the new VIE consolidation guidance in 2010, determination of the primary beneficiary was predominantly based on a quantitative risk and reward analysis and, because our affiliate held the PWE that absorbs (receives) a majority of the expected losses (residual returns), the affiliate was considered to be the primary beneficiary. However, under the new guidance adopted January 1, 2010, we are considered to be the primary beneficiary because we have the power to direct the activities of the conduit that most significantly impact its economic performance including a) determining which eligible assets to acquire; b) risk managing the portfolio held; and c) managing the refinancing of commercial paper.

The liquidity facility we provide in the form of a LAPA can be drawn upon by the conduit in the event it cannot issue commercial paper notes or does not have sufficient funds available to pay maturing commercial paper. Under the

LAPA, we are obligated, subject to certain conditions, to purchase the eligible assets previously funded for an amount not to exceed the face value of the commercial paper in order to provide the conduit with funds to repay the maturing notes. As such, we are exposed to the market risk and the credit risk of the underlying assets held by Bryant Park only to the extent the liquidity facility is drawn.

Securitization Vehicles We utilize entities that are structured as trusts to securitize certain private label and other credit card receivables where securitization provides an attractive source of low cost funding. We transfer certain private label and other credit card receivables to these trusts which in turn issue debt instruments collateralized by the transferred receivables. As our affiliate is the servicer of the assets of these trusts we performed a detailed analysis and determined that we retain the benefits and risks and are the primary beneficiary of the trusts and, as a result, consolidate them.

At September 30, 2010 and December 31, 2009, the consolidated assets of these trusts were $13.4 billion and $17.3 billion, respectively. Debt securities issued by these VIEs are reported as secured financings in long-term debt. Certain assets of the consolidated VIEs serve as collateral for the obligations of the VIEs. The holders of the debt securities issued by these vehicles have no recourse to our general credit.

Low Income Housing Limited Liability Partnership During the third quarter of 2009, all low income housing investments held by us were transferred to a Limited Liability Partnership (“LLP”) in exchange for debt and equity while a non-affiliated third party invested cash for an equity interest that is mandatorily redeemable at a future date. The LLP was created in order to ensure the utilization of future tax benefits from these low income housing tax projects. The LLP was deemed to be a VIE as it does not have sufficient equity investment at risk to finance its activities. Upon entering into this transaction, we concluded that we are the primary beneficiary of the LLP due to the nature of our continuing involvement and, as a result, consolidate the LLP and report the equity interest issued to the third party investor as other liabilities and the consolidated assets of the LLP in other assets in our consolidated financial statements. The investments held by the LLP represent equity investments in the underlying low income housing partnerships for which the LLP applies equity-method accounting. The LLP does not consolidate the underlying partnerships because it does not have the power to direct the activities of the partnerships that most significantly impact the economic performance of the partnerships.

Unconsolidated VIEs We also have variable interests with other VIEs that were not consolidated at September 30, 2010 and December 31, 2009 because we were not the primary beneficiary. The following table provides additional information on those unconsolidated VIEs, the variable interests held by us and our maximum exposure to loss arising from our involvements in those VIEs as of September 30, 2010 and December 31, 2009:

	September 30, 2010				December 31, 2009	
	Variable Interests Held Classified as Assets	Variable Interests Held Classified as Liabilities	Total Assets in Unconsolidated VIEs	Maximum Exposure to Loss	Total Assets in Unconsolidated VIEs	Maximum Exposure to Loss
	(in millions)					
Asset-backed commercial paper conduits	$ —	$ —	$ 14,201	$ 1,308	$ 10,485	$ 5,050
Structured note vehicles	201	139	7,915	828	7,890	569
Total	$ 201	$ 139	$ 22,116	$ 2,136	$ 18,375	$ 5,619

Information on the types of variable interest entities with which we are involved, the nature of our involvement and the variable interests held in those entities is presented below.

Asset-Backed Commercial Paper Conduits Separately from the facility discussed above, we provide liquidity facilities to a number of multi-seller and single-seller asset-backed commercial paper conduits (“ABCP conduits”) sponsored by HSBC affiliates and by third parties. These conduits support the financing needs of customers by facilitating the customers’ access to commercial paper markets.

Customers sell financial assets, such as trade receivables, to ABCP conduits, which fund the purchases by issuing short-term highly-rated commercial paper collateralized by the assets acquired. In a multi-seller conduit, any number of companies may be originating and selling assets to the conduit whereas a single-seller conduit acquires assets from a single company. We, along with other financial institutions, provide liquidity facilities to ABCP conduits in the form of lines of credit or asset purchase commitments. Liquidity facilities provided to multi-seller conduits support transactions associated with a specific seller of assets to the conduit and we would only be required to provide support in the event of certain triggers associated with those transactions and assets. Liquidity facilities provided to single-seller conduits are not identified with specific transactions or assets and we would be required to provide support upon occurrence of certain triggers that generally affect the conduit as a whole. Our obligations are generally pari passu with those of other institutions that also provide liquidity support to the same conduit or for the same transactions. We do not provide any program-wide credit enhancements to ABCP conduits.

Each seller of assets to an ABCP conduit typically provides collateral in the form of excess assets and therefore bears the risk of first loss related to the specific assets transferred. We do not transfer our own assets to the conduits. We have no ownership interests in, perform no administrative duties for, and do not service any of the assets held by the conduits. We are not the primary beneficiary and do not consolidate any of the ABCP conduits to which we provide liquidity facilities, other than Bryant Park as discussed above. Credit risk related to the liquidity facilities provided is managed by subjecting them to our normal underwriting and risk management processes. The $1.3 billion maximum exposure to loss presented in the table above represents the maximum amount of loans and asset purchases we could be required to fund under the liquidity facilities. The maximum loss exposure is estimated assuming the facilities are fully drawn and the underlying collateralized assets are in default with zero recovery value. The reduction in amounts outstanding since December 31, 2009 reflects the consolidation of Bryant Park effective January 1, 2010, as more fully described above.

Structured Note Vehicles Our involvement in structured note vehicles includes entering into derivative transactions such as interest rate and currency swaps, and investing in their debt instruments. With respect to several of these VIEs, we hold variable interests in the form of total return swaps entered into in connection with the transfer of certain assets to the VIEs. In these transactions, we transferred financial assets from our trading portfolio to the VIEs and entered into total return swaps under which we receive the total return on the transferred assets and pay a market rate of return. The transfers of assets in these transactions do not qualify as sales under the applicable accounting literature and are accounted for as secured borrowings. Accordingly, the transferred assets continue to be recognized as trading assets on our balance sheet and the funds received are recorded as liabilities in long-term debt. As of September 30, 2010, we recorded approximately $160 million of trading assets and $185 million of long-term liabilities on our balance sheet as a result of "failed sale" accounting treatment for certain transfers of financial assets. As of December 31, 2009, we recorded approximately $169 million of trading assets and $205 million of long-term liabilities on our balance sheet as a result of "failed sale" accounting treatment. The financial assets and financial liabilities were not legally ours and we have no control over the financial assets which are restricted solely to satisfy the liability.

In addition to our variable interests, we also hold credit default swaps with these structured note VIEs under which we receive credit protection on specified reference assets in exchange for the payment of a premium. Through these derivatives, the VIEs assume the credit risk associated with the reference assets which are then passed on to the holders of the debt instruments they issue. Because they create rather than absorb variability, the credit default swaps we hold are not considered variable interests.

We record all investments in, and derivative contracts with, unconsolidated structured note vehicles at fair value on our consolidated balance sheet. Our maximum exposure to loss is limited to the recorded amounts of these instruments.

Beneficial Interests Issued by Third-party Sponsored Securitization Entities We hold certain beneficial interests issued by third-party sponsored securitization entities which may be considered as variable interest entities. The investments are transacted at arm's-length and decisions to invest are based on credit analysis on underlying collateral assets or the issuer. We are a passive investor in these issuers and do not have the power to direct the activities of these issuers. As such, we do not consolidate these securitization entities. Additionally, we do not have other involvements in servicing or managing the collateral assets or provide financial or liquidity support to these issuers that potentially give rise to risk of loss exposure. These investments are an integral part of the disclosure in

Note 4, "Securities" and Note 19, "Fair Value Measurements" and therefore, were not disclosed in this note to avoid redundancy.

18. Guarantee Arrangements, Contingencies and Pledged Assets

Guarantee Arrangements As part of our normal operations, we enter into credit derivatives and various off-balance sheet guarantee arrangements with affiliates and third parties. These arrangements arise principally in connection with our lending and client intermediation activities and include standby letters of credit and certain credit derivative transactions. The contractual amounts of these arrangements represent our maximum possible credit exposure in the event that we are required to fulfill the maximum obligation under a guarantee.

The following table presents total carrying value and contractual amounts of our sell protection credit derivatives and major off-balance sheet guarantee arrangements as of September 30, 2010 and December 31, 2009. Following the table is a description of the various arrangements.

	September 30, 2010		December 31, 2009	
	Carrying Value	Notional/Maximum Exposure to Loss	Carrying Value	Notional/Maximum Exposure to Loss
	(in millions)			
Credit derivatives(1)(2)	$ (4,174)	$ 375,144	$ (5,751)	$ 387,225
Financial standby letters of credit, net of participations(3)(4)	—	3,938	—	4,545
Performance (non-financial) guarantees(3)	—	2,988	—	3,100
Liquidity asset purchase agreements(4)	—	1,308	—	6,791
Total	$ (4,174)	$ 383,378	$ (5,751)	$ 401,661

(1) Includes $58.0 billion and $57.3 billion issued for the benefit of HSBC affiliates at September 30, 2010 and December 31, 2009, respectively.

(2) For credit derivatives, the maximum loss is represented by the notional amounts without consideration of mitigating effects from collateral or recourse arrangements.

(3) Includes $401 million and $774 million issued for the benefit of HSBC affiliates at September 30, 2010 and December 31, 2009, respectively.

(4) For standby letters of credit and liquidity asset purchase agreements, maximum loss represents losses to be recognized assuming the letter of credit and liquidity facilities have been fully drawn and the obligors have defaulted with zero recovery.

Credit-Risk Related Arrangements:

Credit Derivatives Credit derivatives are financial instruments that transfer the credit risk of a reference obligation from the credit protection buyer to the credit protection seller who is exposed to the credit risk without buying the reference obligation. We sell credit protection on underlying reference obligations (such as loans or securities) by entering into credit derivatives, primarily in the form of credit default swaps, with various institutions. We account for all credit derivatives at fair value. Where we sell credit protection to a counterparty that holds the reference obligation, the arrangement is effectively a financial guarantee on the reference obligation. Under a credit derivative contract, the credit protection seller will reimburse the credit protection buyer upon occurrence of a credit event (such as bankruptcy, insolvency, restructuring or failure to meet payment obligations when due) as defined in the derivative contract, in return for a periodic premium. Upon occurrence of a credit event, we will pay the counterparty the stated notional amount of the derivative contract and receive the underlying reference obligation. The recovery value of the reference obligation received could be significantly lower than its notional principal amount when a credit event occurs.

Certain derivative contracts are subject to master netting arrangements and related collateral agreements. A party to a derivative contract may demand that the counterparty post additional collateral in the event its net exposure exceeds certain predetermined limits and when the credit rating falls below a certain grade. We set the collateral requirements by counterparty such that the collateral covers various transactions and products, and is not allocated to specific individual contracts.

We manage our exposure to credit derivatives using a variety of risk mitigation strategies where we enter into offsetting hedge positions or transfer the economic risks, in part or in entirety, to investors through the issuance of structured credit products. We actively manage the credit and market risk exposure in the credit derivative portfolios on a net basis and, as such, retain no or a limited net sell protection position at any time. The following table summarizes our net credit derivative positions as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying (Fair) Value	Notional	Carrying (Fair) Value	Notional
	(in millions)			
Sell-protection credit derivative positions	$ (4,174)	$ (375,144)	$ (5,751)	$ (387,225)
Buy-protection credit derivative positions	4,872	366,444	6,693	381,258
Net position(1)	$ 698	$ (8,700)	$ 942	$ (5,967)

(1) Positions are presented net in the table above to provide a complete analysis of our risk exposure and depict the way we manage our credit derivative portfolio. The offset of the sell-protection credit derivatives against the buy-protection credit derivatives may not be legally binding in the absence of master netting agreements with the same counterparty.

Standby Letters of Credit A standby letter of credit is issued to a third party for the benefit of a customer and is a guarantee that the customer will perform or satisfy certain obligations under a contract. It irrevocably obligates us to pay a specified amount to the third party beneficiary if the customer fails to perform the contractual obligation. We issue two types of standby letters of credit: performance and financial. A performance standby letter of credit is issued where the customer is required to perform some nonfinancial contractual obligation, such as the performance of a specific act, whereas a financial standby letter of credit is issued where the customer's contractual obligation is of a financial nature, such as the repayment of a loan or debt instrument. As of September 30, 2010, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $3.9 billion and $3.0 billion, respectively. As of December 31, 2009, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $4.5 billion and $3.1 billion, respectively.

The issuance of a standby letter of credit is subject to our credit approval process and collateral requirements. We charge fees for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, which represent the fair value of the stand-ready obligation to perform under these guarantees, amounting to $51 million and $48 million at September 30, 2010 and December 31, 2009, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $24 million and $27 million at September 30, 2010 and December 31, 2009.

Below is a summary of the credit ratings of credit risk related guarantees including the credit ratings of counterparties against which we sold credit protection and financial standby letters of credit as of September 30, 2010 as an indicative proxy of payment risk:

	Average	Credit Ratings of the Obligors or the Transactions		
	Life	Investment	Non-Investment	
Notional/Contractual Amounts	(in years)	Grade	Grade	Total
		(dollars are in millions)		
Sell-protection Credit Derivatives(1)				
Single name CDS	3.1	$ 106,241	$ 47,717	$ 153,958
Structured CDS	2.7	65,177	3,910	69,087
Index credit derivatives	3.4	35,839	103,129	138,968
Total return swaps	8.0	11,232	1,899	13,131
Subtotal		218,489	156,655	375,144
Standby Letters of Credit(2)	1.1	6,807	119	6,926
Total		$ 225,296	$ 156,774	$ 382,070

(1) The credit ratings in the table represent external credit ratings for classification as investment grade and non-investment grade.

(2) External ratings for most of the obligors are not available. Presented above are the internal credit ratings which are developed using similar methodologies and rating scale equivalent to external credit ratings for purposes of classification as investment grade and non-investment grade.

Our internal groupings are determined based on HSBC's risk rating systems and processes which assign a credit grade based on a scale which ranks the risk of default of a customer. The groupings are determined and used for managing risk and determining level of credit exposure appetite based on the customer's operating performance, liquidity, capital structure and debt service ability. In addition, we also incorporate subjective judgments into the risk rating process concerning such things as industry trends, comparison of performance to industry peers and perceived quality of management. We compare our internal risk ratings to outside external rating agency benchmarks, where possible, at the time of formal review and regularly monitor whether our risk ratings are comparable to the external ratings benchmark data.

A non-investment grade rating of a referenced obligor has a negative impact to the fair value of the credit derivative and increases the likelihood that we will be required to perform under the credit derivative contract. We employ market-based parameters and, where possible, use the observable credit spreads of the referenced obligors as measurement inputs in determining the fair value of the credit derivatives. We believe that such market parameters are more indicative of the current status of payment/performance risk than external ratings by the rating agencies which may not be forward-looking in nature and, as a result, lag behind those market-based indicators.

Written Put Options, Non Credit-Risk Related and Indemnity Arrangements:

Liquidity Asset Purchase Agreements We provide liquidity facilities to a number of multi-seller and single-seller asset-backed commercial paper conduits sponsored by affiliates and third parties. The conduits finance the purchase of individual assets by issuing commercial paper to third party investors. Each liquidity facility is transaction specific and has a maximum limit. Pursuant to the liquidity agreements, we are obligated, subject to certain limitations, to purchase the eligible assets from the conduit at an amount not to exceed the face value of the commercial paper in the event the conduit is unable to refinance its commercial paper. A liquidity asset purchase agreement is essentially a conditional written put option issued to the conduit where the exercise price is the face value of the commercial paper. As of September 30, 2010 and December 31, 2009, we have issued $1.3 billion and $6.8 billion, respectively, of liquidity facilities to provide liquidity support to the commercial paper issued by various conduits. The decline since December 31, 2009 reflects our consolidation of the Bryant Park commercial paper conduit effective January 1, 2010. See Note 17, "Variable Interest Entities" for further information.

Principal Protected Products We structure and sell products that provide for the return of principal to investors on a future date. These structured products have various reference assets and we are obligated to cover any shortfall between the market value of the underlying reference portfolio and the principal amount at maturity. We manage such shortfall risk by, among other things, establishing structural and investment constraints. Additionally, the structures require liquidation of the underlying reference portfolio when certain pre-determined triggers are breached and the proceeds from liquidation are required to be invested in zero-coupon bonds that would generate sufficient funds to repay the principal amount upon maturity. We may be exposed to market (gap) risk at liquidation and, as such, may be required to make up the shortfall between the liquidation proceeds and the purchase price of the zero coupon bonds. These principal protected products are accounted for on a fair value basis. The notional amounts of these principal protected products were not material as of September 30, 2010 and December 31, 2009. We have not made any payments under the terms of these structured products and we consider the probability of such payments to be remote.

Sale of Mortgage Loans We originate and sell mortgage loans to government sponsored entities and provide various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance to the origination criteria established by the agencies. In the event of a breach of our representations and warranties, we may be obligated to repurchase the loans with identified defects or to indemnify the buyers. Our contractual obligation arises only when the representations and warranties are breached. Our estimated liability for obligations arising from the breach of representations and warranties was $264 million and $66 million as of September 30, 2010 and December 31, 2009, respectively. The September 30, 2010 obligation balance of $264 million represents an increase from December 31, 2009 based on $285 million of charges recorded through earnings during the year, partially offset by $87 million of payments to third parties which reduced the obligation. The increase from year-end was due to an increase in the reserve for potential repurchase liability exposures related primarily to previously originated mortgages through broker channels.

Visa Covered Litigations We are an equity member of Visa Inc. (“Visa”). Prior to its initial public offering (“IPO”) on March 19, 2008, Visa completed a series of transactions to reorganize and restructure its operations and to convert membership interests into equity interests. Pursuant to the restructuring, we, along with all the Class B shareholders, agreed to indemnify Visa for the claims and obligations arising from certain specific covered litigations. Class B shares are convertible into listed Class A shares upon (i) settlement of the covered litigations or (ii) the third anniversary of the IPO, whichever is earlier. The indemnification is subject to the accounting and disclosure requirements. Visa used a portion of the IPO proceeds to establish a $3.0 billion escrow account to fund future claims arising from those covered litigations (the escrow was subsequently increased to $4.1 billion). In July 2009, Visa exercised its rights to sell shares of existing Class B shareholders in order to increase the escrow account and announced that it had deposited an additional $700 million into the escrow account. As a result, we re-evaluated the contingent liability we have recorded relating to this litigation and reduced our liability by $9 million during 2009. In May 2010, Visa funded an additional $500 million into the escrow account and we reduced our liability by an additional $6 million in the second quarter of 2010. At September 30, 2010, the contingent liability recorded was $19 million. In October 2010, Visa announced that it had deposited an additional $800 million into the escrow account, which resulted in a decrease in the conversion rate at which our Visa Class B shares can be converted into Class A shares. The impact of this decrease will be recorded in the fourth quarter. We do not expect these changes to result in a material adverse effect on our results of operations.

Clearinghouses and Exchanges We are a member of various exchanges and clearinghouses that trade and clear securities and/or futures contracts. As a member, we may be required to pay a proportionate share of the financial obligations of another member who defaults on its obligations to the exchange or the clearinghouse. Our guarantee obligations would arise only if the exchange or clearinghouse had exhausted its resources. Any potential contingent liability under these membership agreements cannot be estimated. However, we believe that any potential requirement to make payments under these agreements is remote.

Contingencies In connection with the resolution of ongoing regulatory and governmental examinations and inquiries, in the first week of October 2010, HSBC Bank USA entered into a consent cease and desist order with the Office of the Comptroller of the Currency (“OCC”) and our indirect parent, HSBC North America Holdings Inc. (“HSBC North America”), entered into a consent cease and desist order with the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). These actions require improvements for an effective compliance risk management program across our U.S. businesses, including Bank Secrecy Act and Anti-Money Laundering compliance. The consent orders do not preclude additional enforcement actions against HSBC Bank USA or HSBC North America by bank regulatory or law enforcement agencies, including civil money penalties, fines and other financial penalties. We are unable at this time to determine the terms on which the ongoing inquiries will be resolved, including the timing or the amount of penalties or fines, if any, that may be imposed by the regulators or agencies in connection with such resolution and as a result, no accrual has been recorded at September 30, 2010.

Pledged Assets Pledged assets included in the consolidated balance sheet are summarized in the following table.

	September 30, 2010	December 31, 2009
	(in millions)	
Interest bearing deposits with banks	$ 1,313	$ 1,496
Trading assets(1)	596	708
Securities available-for-sale(2)	23,419	11,416
Securities held to maturity(3)	1,175	457
Loans(4)	3,668	3,933
Other assets(5)	7,046	6,459
Total	$ 37,217	$ 24,469

(1) Trading assets are primarily pledged against liabilities associated with consolidated variable interest entities.

(2) Securities available-for-sale are primarily pledged against state and municipal deposits, and various short-term and long-term borrowings, as well as providing capacity for potential secured borrowings from the Federal Home Loan Bank and the Federal Reserve Bank.

(3) Securities held to maturity include federal home loan bank collateral at September 30, 2010 and December 31, 2009, as well as the investment securities of a consolidated asset-backed commercial paper conduit at September 30, 2010 that collateralize the conduit's outstanding commercial paper.

(4) Loans are primarily private label card and other credit card receivables pledged against long-term secured borrowings and residential mortgage loans pledged against long-term borrowings from the Federal Home Loan Bank. At September 30, 2010 loans also include the loans of a consolidated asset-backed commercial paper conduit that collateralize the conduit's outstanding commercial paper.

(5) Other assets primarily represent cash on deposit with non-banks related to derivative collateral support agreements.

19. Fair Value Measurements

Accounting principles related to fair value measurements provide a framework for measuring fair value and focuses on an exit price in the principal (or alternatively, the most advantageous) market accessible in an orderly transaction between willing market participants (the "Fair Value Framework"). The Fair Value Framework establishes a three-tiered fair value hierarchy with Level 1 representing quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are inputs that are observable for the identical asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are inactive, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. Transfers between leveling categories are recognized at the end of each reporting period.

Fair Value of Financial Instruments The fair value estimates, methods and assumptions set forth below for our financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this quarterly report.

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Financial assets:				
Short-term financial assets	$ 19,472	$ 19,472	$ 24,094	$ 24,094
Federal funds sold and securities purchased under resale agreements	11,432	11,432	1,046	1,046
Non-derivative trading assets	22,463	22,463	17,596	17,596
Derivatives	9,657	9,657	8,831	8,831
Securities	44,676	44,895	30,568	30,686
Commercial loans, net of allowance for credit losses	29,492	29,816	29,366	29,298
Commercial loans designated under fair value option and held for sale	1,536	1,536	1,126	1,126
Consumer loans, net of allowance for credit losses	40,210	35,449	46,262	41,877
Consumer loans held for sale:				
Residential mortgages	888	902	1,386	1,389
Auto finance	—	—	353	353
Other consumer	28	28	43	43
Financial liabilities:				
Short-term financial liabilities	$ 25,025	$ 25,025	$ 11,121	$ 11,121
Deposits:				
Without fixed maturities	109,934	109,934	106,890	106,890
Fixed maturities	2,406	2,415	7,215	7,259
Deposits designated under fair value option	6,606	6,606	4,232	4,232
Non-derivative trading liabilities	5,228	5,228	2,687	2,687
Derivatives	7,005	7,005	5,419	5,419
Long-term debt	13,066	13,505	13,440	13,693
Long-term debt designated under fair value option	5,493	5,493	4,568	4,568

Loan values presented in the table above were determined using the Fair Value Framework for measuring fair value, which is based on our best estimate of the amount within a range of value we believe would be received in a sale as of the balance sheet date (i.e. exit price). The secondary market demand and estimated value for our loans has been heavily influenced by the deteriorating economic conditions during the past few years, including house price depreciation, rising unemployment, changes in consumer behavior, and changes in discount rates. Many investors are non-bank financial institutions or hedge funds with high equity levels and a high cost of debt. For certain consumer loans, investors incorporate numerous assumptions in predicting cash flows, such as higher charge-off levels and/or slower voluntary prepayment speeds than we, as the servicer of these loans, believe will ultimately be the case. The investor discount rates reflect this difference in overall cost of capital as well as the potential volatility in the underlying cash flow assumptions, the combination of which may yield a significant pricing discount from our intrinsic value. The estimated fair values at September 30, 2010 and December 31, 2009 reflect these market conditions.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Fair Value Measurements on a Recurring Basis as of September 30, 2010					
	Level 1	Level 2	Level 3	Gross Balance	Netting(1)	Net Balance
	(in millions)					
Assets:						
Trading Securities:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	$ 2,294	$ 92	$ —	$ 2,386	$ —	$ 2,386
Collateralized debt obligations	—	—	804	804	—	804
Asset-backed securities:						
Residential mortgages	—	34	385	419	—	419
Home equity	—	—	15	15	—	15
Student loans	—	5	—	5	—	5
Other	—	—	13	13	—	13
Corporate and other domestic debt securities	—	2,387	754	3,141	—	3,141
Debt Securities issued by foreign entities:						
Corporate	—	127	229	356	—	356
Government	—	430	—	430	—	430
Equity securities	—	140	18	158	—	158
Precious metals trading	—	14,736	—	14,736	—	14,736
Derivatives(2):						
Interest rate contracts	246	48,150	—	48,396	—	48,396
Foreign exchange contracts	15	17,305	203	17,523	—	17,523
Equity contracts	—	1,269	93	1,362	—	1,362
Precious metals contracts	—	1,014	46	1,060	—	1,060
Credit contracts	—	12,451	2,522	14,973	—	14,973
Other	—	4	20	24	—	24
Derivatives netting	—	—	—	—	(73,681)	(73,681)
Total derivatives	261	80,193	2,884	83,338	(73,681)	9,657
Securities available-for-sale:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	15,874	19,702	4	35,580	—	35,580
Obligations of U.S. states and political subdivisions	—	602	—	602	—	602
Asset-backed securities:						
Residential mortgages	—	21	12	33	—	33
Commercial mortgages	—	546	11	557	—	557
Home equity	—	157	193	350	—	350
Auto	—	10	—	10	—	10
Student loans	—	16	12	28	—	28
Other	—	17	87	104	—	104
Corporate and other domestic debt securities	—	700	—	700	—	700
Debt Securities issued by foreign entities:						
Corporate	—	—	—	—	—	—

Government	—	2,583	—	2,583	—	2,583
Equity securities	—	785	—	785	—	785
Loans(3)	—	1,501	11	1,512	—	1,512
Intangible(4)	—	—	298	298	—	298
Total assets	$ 18,429	$ 124,784	$ 5,730	$ 148,943	$ (73,681)	$ 75,262
Liabilities:						
Deposits in domestic offices(5)	$ —	$ 3,539	$ 3,067	$ 6,606	$ —	$ 6,606
Trading liabilities, excluding derivatives	1,378	3,850	—	5,228	—	5,228
Derivatives(2):						
Interest rate contracts	114	48,470	—	48,584	—	48,584
Foreign exchange contracts	26	16,543	205	16,774	—	16,774
Equity contracts	—	1,191	85	1,276	—	1,276
Precious metals contracts	46	1,738	46	1,830	—	1,830
Credit contracts	—	13,715	1,190	14,905	—	14,905
Other	—	1	2	3	—	3
Derivatives netting	—	—	—	—	(76,367)	(76,367)
Total derivatives	186	81,658	1,528	83,372	(76,367)	7,005
Long-term debt(6)	—	5,246	247	5,493	—	5,493
Total liabilities	$ 1,564	$ 94,293	$ 4,842	$ 100,699	$ (76,367)	$ 24,332

	Level 1	Level 2	Level 3	Gross Balance	Netting(1)	Net Balance
	Fair Value Measurements on a Recurring Basis as of December 31, 2009					
	(in millions)					
Assets:						
Trading Securities:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	$ 615	$ 50	$ —	$ 665	$ —	$ 665
Residential mortgage-backed securities	—	129	821	950	—	950
Collateralized debt obligations	—	—	831	831	—	831
Other asset-backed securities	—	9	25	34	—	34
Corporate and other domestic debt securities	—	792	1,202	1,994	—	1,994
Debt Securities issued by foreign entities	—	213	196	409	—	409
Equity securities	—	436	21	457	—	457
Precious metals trading	—	12,256	—	12,256	—	12,256
Derivatives(2)	129	58,391	3,074	61,594	(52,763)	8,831
Securities available-for-sale:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	9,291	10,639	3	19,933	—	19,933
Obligations of U.S. states and political subdivisions	—	749	—	749	—	749
Residential mortgage-backed securities	—	350	515	865	—	865
Commercial mortgage-backed securities	—	558	8	566	—	566
Other asset-backed securities	—	273	217	490	—	490
Corporate and other domestic debt securities	—	864	—	864	—	864
Debt Securities issued by foreign entities	—	3,076	—	3,076	—	3,076
Equity securities	—	1,263	—	1,263	—	1,263
Loans(3)	—	1,122	4	1,126	—	1,126
Intangible(4)	—	—	450	450	—	450
Total assets	$ 10,035	$ 91,170	$ 7,367	$ 108,572	$ (52,763)	$ 55,809
Liabilities:						
Deposits in domestic offices(5)	$ —	$ 2,589	$ 1,643	$ 4,232	$ —	$ 4,232
Trading liabilities, excluding derivatives	34	2,653	—	2,687	—	2,687
Derivatives(2)	213	60,639	1,781	62,633	(57,214)	5,419
Long-term debt(6)	—	4,149	419	4,568	—	4,568
Total liabilities	$ 247	$ 70,030	$ 3,843	$ 74,120	$ (57,214)	$ 16,906

(1) Represents counterparty and cash collateral netting which allow the offsetting of amounts relating to certain contracts if certain conditions are met.

(2) As of September 30, 2010 and December 31, 2009, includes trading derivative assets of $8.7 billion and $8.2 billion, respectively, and trading derivative liabilities of $6.6 billion and $5.3 billion, respectively, as well as derivatives held for hedging and commitments accounted for as derivatives.

(3) Includes leveraged acquisition finance and other commercial loans held for sale or risk-managed on a fair value basis for which we have elected to apply the fair value option. See Note 7, “Loans Held for

Sale," for further information.

(4) Represents residential mortgage servicing rights. See Note 8, "Intangible Assets," for further information on residential mortgage servicing rights.

(5) Represents structured deposits risk-managed on a fair value basis for which we have elected to apply the fair value option.

(6) Includes structured notes and own debt issuances which we have elected to measure on a fair value basis.

Significant Transfers into/out of Levels 1 and 2 There were no significant transfers between levels 1 and 2 for the three and nine months ended September 30, 2010.

Information on Level 3 Assets and Liabilities The following table summarizes additional information about changes in the fair value of Level 3 assets and liabilities during the three and nine months ended September 30, 2010 and 2009. As a risk management practice, we may risk manage the Level 3 assets and liabilities, in whole or in part, using securities and derivative positions that are classified as Level 1 or Level 2 measurements within the fair value hierarchy. Since those Level 1 and Level 2 risk management positions are not included in the table below, the information provided does not reflect the effect of such risk management activities related to the Level 3 assets and liabilities.

	July 1, 2010	Total Gains and (Losses) Included in(1) Trading Revenue (Loss)	Other Revenue	Other Comprehensive Income	Purchases	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Sep 20
				(in millions)						
Assets:										
Trading assets, excluding derivatives										
Collateralized debt obligations	$ 791	$ 11	$ —	$ —	$ 34	$ —	$ (32)	$ —	$ —	$
Asset-backed securities:										
Residential mortgages	560	27	—	—	1	—	(196)	—	(7)	
Commercial mortgages	—	—	—	—	—	—	—	—	—	
Home equity	32	(17)	—	—	12	—	(12)	—	—	
Other	13	—	—	—	—	—	—	—	—	
Corporate and other domestic debt securities	717	2	—	—	35	—	—	—	—	
Debt Securities issued by foreign entities:										
Corporate	197	32	—	—	—	—	—	—	—	
Equity securities	19	(1)	—	—	—	—	—	—	—	
Foreign exchange contracts	(3)	1	—	—	—	—	—	—	—	
Equity contracts	(141)	174	—	—	—	—	(25)	—	—	
Credit contracts	1,640	(264)	—	—	—	—	5	(46)	(3)	1
Other	12	—	6	—	—	—	—	—	—	
Securities available-for-sale:										
U.S. Treasury, U.S. Government agencies and sponsored enterprises	—	—	—	—	—	—	—	4	—	
Asset-backed securities:										
Residential mortgages	274	—	—	2	—	—	(255)	—	(9)	
Commercial mortgages	10	—	—	—	—	—	1	—	—	
Home equity	220	—	—	3	—	—	(29)	—	(1)	
Auto	7	—	—	—	—	—	(7)	—	—	
Student loans	13	—	—	—	—	—	(1)	—	—	
Other	87	—	—	—	—	—	—	—	—	
Loans(3)	11	—	—	—	—	—	—	—	—	
Other assets, excluding derivatives(4)	317	—	11	—	—	—	(30)	—	—	
Total assets	$ 4,776	$ (35)	$ 17	$ 5	$ 82	$ —	$ (581)	$ (42)	$ (20)	$ 4
Liabilities:										
Deposits in domestic offices		$ (164)	$ —	$ —	$ —	$ (576)	$ 54	$ —	$ —	(3,

	$ (2,381)									
Long-term debt	(201)	(16)	—	—	—	(36)	6	—	—	(
Total liabilities	$ (2,582)	$ (180)	$ —	$ —	$ —	$ (612)	$ 60	$ —	$ —	(3,

		Total Gains and (Losses) Included in(1)						
	July 1, 2009	Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Net Purchases Issuances and Settlements	Transfers Into or Out of Level 3	Sept. 30, 2009	Current Period Unrealized Gains (Losses)
	(in millions)							
Assets:								
Trading assets, excluding derivatives								
Residential mortgage-backed securities	$ 577	$ 46	$ —	$ —	$ (44)	$ 95	$ 674	$ 32
Collateralized debt obligations	678	(43)	—	—	182	—	817	(59)
Other asset-backed securities	32	14	—	—	(14)	—	32	6
Corporate and other domestic debt securities	1,009	188	—	—	21	—	1,218	179
Debt Securities issued by foreign entities	138	65	—	—	—	—	203	65
Equity securities	26	—	—	—	—	—	26	—
Derivatives, net(2)	3,109	(1,157)	9	—	(271)	27	1,717	(720)
Securities available-for-sale:								
U.S. Treasury, U.S. Government agencies and sponsored enterprises	3	—	—	—	—	—	3	—
Residential mortgage-backed securities	318	—	—	56	(39)	186	521	50
Commercial mortgage-backed securities	5	—	—	2	—	—	7	2
Other asset-backed securities	239		—	47	(60)	—	226	42
Loans(3)	128	—	1	—	—	—	129	1
Other assets, excluding derivatives(4)	434	—	(62)	—	22	—	394	(54)
Total Assets	$ 6,696	$ (887)	$ (52)	$ 105	$ (203)	$ 308	$ 5,967	$ (456)
Liabilities:								
Deposits in domestic offices	$ (720)	$ (36)	$ —	$ —	$ (462)	$ 7	$ (1,211)	$ (35)
Long term debt	(216)	(35)	—	—	(129)	13	(367)	(31)
Total liabilities	$ (936)	$ (71)	$ —	$ —	$ (591)	$ 20	$ (1,578)	$ (66)

	Jan. 1, 2010	Total Gains and (Losses) Included in(1) Trading Revenue (Loss)	Other Revenue	Other Comprehensive Income	Purchases	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Se 3 20
					(in millions)					
Assets:										
Trading assets, excluding derivatives										
Collateralized debt obligations	$ 832	$ (27)	$ —	$ —	$ 269	$ —	$ (270)	$ —	$ —	$
Asset-backed securities:										
Residential mortgages	817	106	—	—	55	—	(607)	21	(7)	
Commercial mortgages	4	(4)	—	—	—	—	—	—	—	
Home equity	24	(65)	—	—	228	—	(176)	7	(3)	
Other	—	—	—	—	—	—	—	13	—	
Corporate and other domestic debt securities	1,202	(23)	—	—	130	—	(371)	—	(184)	
Debt Securities issued by foreign entities:										
Corporate	195	33	—	—	—	—	1	—	—	
Equity securities	21	(2)	—	—	—	—	(1)	—	—	
Foreign exchange contracts	(95)	(33)	—	—	—	(3)	129	—	—	
Equity contracts	81	130	—	—	—	—	(137)	(75)	9	
Credit contracts	1,311	(112)	—	—	—	—	(85)	178	40	1
Other	(3)	—	22	—	—	—	(1)	—	—	
Securities available-for-sale:										
U.S. Treasury, U.S. Government agencies and sponsored enterprises	3	—	—	1	—	—	(1)	3	(2)	
Asset-backed securities:										
Residential mortgages	515	—	—	17	—	—	(592)	85	(13)	
Commercial mortgages	8	—	—	3	—	—	—	—	—	
Home equity	175	—	—	58	—	—	(39)	—	(1)	
Auto	43	—	—	—	—	—	(43)	—	—	
Student loans	—	—	—	1	—	—	(1)	12	—	
Other	—	—	—	—	—	—	—	87	—	
Loans(3)	4	—	—	—	—	—	(1)	11	(3)	
Other assets, excluding derivatives(4)	450	—	(76)	—	—	—	(76)	—	—	
Total assets	$ 5,587	$ 3	$ (54)	$ 80	$ 682	$ (3)	$ (2,271)	$ 342	$ (164)	$ 4
Liabilities:										
Deposits in domestic offices	$ (1,643)	$ (141)	$ —	$ —	$ —	$ (1,511)	$ 202	$ (164)	$ 190	(3,
Long-term debt	(419)	12	—	—	—	(257)	84	(37)	370	(
Total liabilities		$ (129)	$ —	$ —	$ —	$ (1,768)	$ 286	$ (201)	$ 560	

$ (2,062)	(3,:

	January 1, 2009	Total Gains and (Losses) Included in(1) Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Net Purchases Issuances and Settlements	Transfers Into or Out of Level 3	Sept. 30, 2009	Current Period Unrealized Gains (Losses)
				(in millions)				
Assets:								
Trading assets, excluding derivatives								
Residential mortgage-backed securities	$ 475	$ 2	$ —	$ —	$ (55)	$ 252	$ 674	$ 5
Collateralized debt obligations	668	(272)	—	—	421	—	817	(109)
Other asset-backed securities	36	8	—	—	(21)	9	32	4
Corporate and other domestic debt securities	480	358	—	—	35	345	1,218	345
Debt securities issued by foreign entities	87	116	—	—	—	—	203	116
Equity securities	147	(94)	—	—	(28)	1	26	(94)
Derivatives, net(2)	5,283	(3,256)	(4)	—	(286)	(20)	1,717	(2,468)
Securities available-for-sale:								
U.S. Treasury, U.S. Government agencies and sponsored enterprises	—	—	—	—	—	3	3	—
Residential mortgage-backed securities	164	—	—	71	(83)	369	521	63
Commercial mortgage-backed securities	—	—	—	2	—	5	7	2
Other asset-backed securities	307	—	—	64	(123)	(22)	226	26
Loans(3)	136	—	12	—	(19)	—	129	8
Other assets, excluding derivatives(4)	333	—	(26)	—	87	—	394	6
Total Assets	$ 8,116	$ (3,138)	$ (18)	$ 137	$ (72)	$ 942	$ 5,967	$ (2,106)
Liabilities:								
Deposits in domestic offices	$ (234)	$ (29)	$ —	$ —	$ (964)	$ 16	$ (1,211)	$ (28)
Long term debt	(57)	(46)	—	—	(281)	17	(367)	(44)
Total liabilities	$ (291)	$ (75)	$ —	$ —	$ (1,245)	$ 33	$ (1,578)	$ (72)

(1) Includes realized and unrealized gains and losses.

(2) At September 30, 2010 and 2009, Level 3 net derivatives included derivative assets of $2.9 billion and $3.5 billion, respectively, and derivative liabilities of $1.5 billion and $1.8 billion, respectively.

(3)

Includes Level 3 corporate lending activities risk-managed on a fair value basis for which we have elected the fair value option.

(4) Represents residential mortgage servicing activities. See Note 8, "Intangible Assets," for additional information.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis The following table presents information about our assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Non-Recurring Fair Value Measurements as of September 30, 2010				Total Gains (Losses) For the Three Months Ended September 30, 2010	Total Gains (Losses) For the Nine Months Ended September 30, 2010
	Level 1	Level 2	Level 3	Total		
	(in millions)					
Residential mortgage loans held for sale(1)	$ —	$ 10	$ 433	$ 443	$ (10)	$ (42)
Other consumer loans held for sale(1)	—	—	28	28	—	—
Impaired loans(2)	—	—	572	572	59	150
Real estate owned(3)	—	70	—	70	3	9
Repossessed vehicles(3)	—	—	—	—	—	—
Commercial loans held for sale	—	32	—	32	—	—
Held to maturity asset-backed securities held by consolidated VIE(4)	—	123	128	251	(1)	(4)
Building held for use	—	—	15	15	—	—
Total assets at fair value on a non-recurring basis	$ —	$ 235	$ 1,176	$ 1,411	$ 51	$ 113

	Non-Recurring Fair Value Measurements as of September 30, 2009				Total Gains (Losses) For the Three Months Ended September 30, 2009	Total Gains (Losses) For the Nine Months Ended September 30, 2009
	Level 1	Level 2	Level 3	Total		
	(in millions)					
Residential mortgage loans held for sale(1)	$ —	$ 36	$ 889	$ 925	$ (15)	$ (174)
Auto finance loans held for sale(1)	—	—	353	353	—	—
Other consumer loans held for sale(1)	—	—	32	32	(13)	(13)
Impaired loans(2)	—	—	371	371	46	136
Real estate owned(3)	—	77	—	77	1	3
Repossessed vehicles(3)	—	7	—	7	—	—
Building held for use	—	—	15	15	—	(20)
Total assets at fair value on a non-recurring basis	$ —	$ 120	$ 1,660	$ 1,780	$ 19	$ (68)

(1) As of September 30, 2010 and 2009, the fair value of the loans held for sale was below cost. Certain residential mortgage loans held for sale have been classified as a Level 3 fair value measurement within

the fair value hierarchy as the underlying real estate properties which determine fair value are illiquid assets as a result of market conditions and significant inputs in estimating fair value were unobservable. Additionally, the fair value of these properties is affected by, among other things, the location, the payment history and the completeness of the loan documentation.

(2) Represents impaired commercial loans. Certain commercial loans have undergone troubled debt restructurings and are considered impaired. As a matter of practical expedient, we measure the credit impairment of a collateral-dependent loan based on the fair value of the collateral asset. The collateral often involves real estate properties that are illiquid due to market conditions. As a result, these commercial loans are classified as a Level 3 fair value measurement within the fair value hierarchy.

(3) Real estate owned and repossessed vehicles are required to be reported on the balance sheet net of transaction costs. The real estate owned and repossessed vehicle amounts in the table above reflect the fair value of the underlying asset unadjusted for transaction costs.

(4) Represents held to maturity securities which were held at fair value at September 30, 2010. See Note 17, "Variable Interest Entities" for additional information.

Valuation Techniques Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for those financial instruments not recorded at fair value for which fair value disclosure is required.

Short-term financial assets and liabilities – The carrying value of certain financial assets and liabilities recorded at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk. These items include cash and due from banks, interest bearing deposits with banks, accrued interest receivable, customer acceptance assets and liabilities and short-term borrowings.

Federal funds sold and purchased and securities purchased and sold under resale and repurchase agreements – Federal funds sold and purchased and securities purchased and sold under resale and repurchase agreements are recorded at cost. A significant majority of these transactions are short-term in nature and, as such, the recorded amounts approximate fair value. For transactions with long-dated maturities, fair value is based on dealer quotes for instruments with similar terms and collateral.

Loans – Except for leveraged loans, selected residential mortgage loans and certain foreign currency denominated commercial loans, we do not record loans at fair value on a recurring basis. From time to time, we record on a non-recurring basis negative adjustment to loans. The write-downs can be based on observable market price of the loan or the underlying collateral value. In addition, fair value estimates are determined based on the product type, financial characteristics, pricing features and maturity. Where applicable, similar loans are grouped based on loan types and maturities and fair values are estimated on a portfolio basis.

- Mortgage Loans Held for Sale – Certain residential mortgage loans are classified as held for sale and are recorded at the lower of cost or fair value. As of September 30, 2010, the fair value of these loans is below their amortized cost. The fair value of these mortgage loans is determined based on the valuation information observed in alternative exit markets, such as the whole loan market, adjusted for portfolio specific factors. These factors include the location of the collateral, the loan-to-value ratio, the estimated rate and timing of default, the probability of default or foreclosure and loss severity if foreclosure does occur.

- Leveraged Loans – We record leveraged loans and revolvers held for sale at fair value. Where available, market consensus pricing obtained from independent sources is used to estimate the fair value of the leveraged loans and revolvers. In determining the fair value, we take into consideration the number of participants submitting pricing information, the range of pricing information and distribution, the methodology applied by the pricing services to cleanse the data and market liquidity. Where consensus pricing information is not available, fair value is estimated using observable market prices of similar instruments or inputs, including bonds, credit derivatives, and loans with similar characteristics. Where observable market parameters are not available, fair value is determined based on contractual cash flows, adjusted for the probability of default and estimated recoveries where applicable, discounted at the rate demanded by market participants under current market conditions. In those cases, we also consider the loan specific attributes and inherent credit risk and risk mitigating factors such as collateral arrangements in determining fair value.

- Commercial Loans – Commercial loans and commercial real estate loans are valued by discounting the contractual cash flows, adjusted for prepayments and the borrower's credit risk, using a discount rate that reflects the current rates offered to borrowers of similar credit standing for the remaining term to maturity and our own estimate of liquidity premium.

- Commercial impaired loans – Fair value is determined based on the pricing quotes obtained from an independent third party appraisal.

• Consumer Loans – The estimated fair value of our consumer loans were determined by developing an approximate range of value from a mix of various sources as appropriate for the respective pool of assets. These sources included, among other things, value estimates from an HSBC affiliate which reflect over-the-counter trading activity, forward looking discounted cash flow models using assumptions we believe are consistent with those which would be used by market participants in valuing such receivables; trading input from other market participants which includes observed primary and secondary trades; where appropriate, the impact of current estimated rating agency credit tranching levels with the associated benchmark credit spreads; and general discussions held directly with potential investors.

Model inputs include estimates of future interest rates, prepayment speeds, loss curves and market discount rates reflecting management's estimate of the rate that would be required by investors in the current market given the specific characteristics and inherent credit risk of the receivables. Some of these inputs are influenced by home price changes and unemployment rates. To the extent available, such inputs are derived principally from or corroborated by observable market data by correlation and other means. We perform periodic validations of our valuation methodologies and assumptions based on the results of actual sales of such receivables. In addition, from time to time, we may engage a third party valuation specialist to measure the fair value of a pool of receivables. Portfolio risk management personnel provide further validation through discussions with third party brokers and other market participants. Since an active market for these receivables does not exist, the fair value measurement process uses unobservable significant inputs specific to the performance characteristics of the various receivable portfolios.

Lending-related Commitments – The fair value of commitments to extend credit, standby letters of credit and financial guarantees are not included in the table. The majority of the lending related commitments are not carried at fair value on a recurring basis nor are they actively traded. These instruments generate fees, which approximate those currently charged to originate similar commitments, which are recognized over the term of the commitment period. Deferred fees on commitments and standby letters of credit totaled $51 million and $48 million at September 30, 2010 and December 31, 2009, respectively.

Precious Metals Trading – Precious metals trading primarily include physical inventory which are valued using spot prices.

Securities – Where available, debt and equity securities are valued based on quoted market prices. If a quoted market price for the identical security is not available, the security is valued based on quotes from similar securities, where possible. For certain securities, internally developed valuation models are used to determine fair values or validate quotes obtained from pricing services. The following summarizes the valuation methodology used for our major security classes:

• U.S. Treasury, U.S. Government agency issued or guaranteed and Obligations of U.S. state and political subdivisions – As these securities transact in an active market, fair value measurements are based on quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated.

• U.S. Government sponsored enterprises – For certain government sponsored mortgage-backed securities which transact in an active market, fair value measurements are based on quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated. For government sponsored mortgage-backed securities which do not transact in an active market, fair value is determined primarily based on pricing information obtained from pricing services and is verified by internal review processes.

• Asset-backed securities, including collateralized debt obligations – Fair value is primarily determined based on pricing information obtained from independent pricing services adjusted for the characteristics and the performance of the underlying collateral.

Additional information relating to asset-backed securities and collateralized debt obligations is presented in the following tables:

Trading asset-backed securities and related collateral:

		Prime		Alt-A		Sub-prime		
Rating of Securities:	Collateral Type:	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Total
		(in millions)						
AAA -A	Residential mortgages	$ 3	$ —	$ 31	$ 68	$ —	$ 272	$ 374
	Home equity	—	—	—	1	—	—	1
	Student loans	—	—	5	—	—	—	5
	Other	—	—	—	—	—	—	—
	Total AAA -A	3	—	36	69	—	272	380
BBB -B	Residential mortgages	—	—	—	26	—	—	26
	Home equity	—	—	—	1	—	1	2
	Total BBB -B	—	—	—	27	—	1	28
CCC-Unrated	Residential mortgages	—	—	—	19	—	—	19
	Home equity	—	—	—	12	—	—	12
	Other	—	—	—	13	—	—	13
	Total CCC -Unrated	—	—	—	44	—	—	44
		$ 3	$ —	$ 36	$ 140	$ —	$ 273	$ 452

Trading collateralized debt obligations and related collateral:

Rating of Securities:	Collateral Type:	Level 3
	(in millions)	
AAA -A	Commercial mortgages	$ —
	Corporate loans	—
	Other	—
	Total AAA -A	—
BBB -B	Commercial mortgages	180
	Corporate loans	334
	Other	158
	Total BBB -B	672
CCC -Unrated	Commercial mortgages	63
	Corporate loans	—
	Residential mortgages	6
	Other	63
	Total CCC -Unrated	132
		$ 804

Available-for-sale securities backed by collateral:

Rating of Securities:	Collateral Type:	Commercial Mortgages Level 2	Commercial Mortgages Level 3	Prime Level 2	Prime Level 3	Alt-A Level 2	Alt-A Level 3	Sub-prime Level 2	Sub-prime Level 3	Total
		(in millions)								
AAA -A	Residential mortgages	$ —	$ —	$ —	$ —	$ 17	$ 5	$ —	$ —	$ 22
	Commercial mortgages	546	11	—	—	—	—	—	—	557
	Home equity	—	—	—	—	157	—	—	2	159
	Student loans	—	—	—	—	16	12	—	—	28
	Auto	—	—	—	—	10	—	—	—	10
	Other	—	—	—	—	17	87	—	—	104
	Total AAA -A	546	11	—	—	217	104	—	2	880
BBB -B	Residential mortgages	—	—	—	—	—	6	—	—	6
	Home equity	—	—	—	—	—	107	—	1	108
	Auto	—	—	—	—	—	—	—	—	—
	Total BBB -B	—	—	—	—	—	113	—	1	114
CCC -Unrated	Residential mortgages	—	—	—	—	4	1	—	—	5
	Home equity	—	—	—	—	—	83	—	—	83
	Total CCC -Unrated	—	—	—	—	4	84	—	—	88
		$ 546	$ 11	$ —	$ —	$ 221	$ 301	$ —	$ 3	$ 1,082

• Other domestic debt and foreign debt securities (corporate and government) – For non-callable corporate securities, a credit spread scale is created for each issuer. These spreads are then added to the equivalent maturity U.S. Treasury yield to determine current pricing. Credit spreads are obtained from the new market, secondary trading levels and dealer quotes. For securities with early redemption features, an option adjusted spread ("OAS") model is incorporated to adjust the spreads determined above. Additionally, we survey the broker/dealer community to obtain relevant trade data including benchmark quotes and updated spreads.

• Equity securities – Since most of our securities are transacted in active markets, fair value measurements are determined based on quoted prices for the identical security. For mutual fund investments, we receive monthly statements from the investment manager with the estimated fair value.

We perform validations of the fair values obtained from independent pricing services. Such validations primarily include sourcing security prices from other independent pricing services or broker quotes. As the pricing for mortgage and other asset-backed securities became less transparent during the credit crisis, we further developed internal valuation techniques to validate the fair value. The internal validation techniques utilize inputs derived from observable market data, incorporate external analysts' estimates of probability of default, loss recovery and prepayments speeds and apply the discount rates that would be demanded by market participants under the current market conditions. Depending on the results of the validation, additional information may be gathered from other market participants to support the fair value measurements. A determination is made as to whether adjustments to the observable inputs are necessary after investigations and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing services.

Derivatives – Derivatives are recorded at fair value. Asset and liability positions in individual derivatives that are covered by legally enforceable master netting agreements, including cash collateral are offset and presented net in accordance with accounting principles which allow the offsetting of amounts relating to certain contracts.

Derivatives traded on an exchange are valued using quoted prices. OTC derivatives, which comprise a majority of derivative contract positions, are valued using valuation techniques. The fair value for the majority of our derivative instruments are determined based on internally developed models that utilize independently corroborated market parameters, including interest rate yield curves, option volatilities, and currency rates. For complex or long-dated derivative products where market data is not available, fair value may be affected by the choice of valuation model and the underlying assumptions about, among other things, the timing of cash flows and credit spreads. The fair values of certain structured derivative products are sensitive to unobservable inputs such as default correlations of the referenced credit and volatilities of embedded options. These estimates are susceptible to significant change in future periods as market conditions change.

Significant inputs related to derivative classes are broken down as follows:

- Credit Derivatives – Use credit default curves and recovery rates which are generally provided by broker quotes and various pricing services. Certain credit derivatives may also use correlation inputs in their model valuation. Correlation is derived using market quotes from brokers and various pricing services.

- Interest Rate Derivatives – Swaps use interest rate curves based on currency that are actively quoted by brokers and other pricing services. Options will also use volatility inputs which are also quoted in the broker market.

- Foreign Exchange ("FX") Derivatives – FX transactions use spot and forward FX rates which are quoted in the broker market.

- Equity Derivatives – Use listed equity security pricing and implied volatilities from equity traded options position.

- Precious Metal Derivative – Use spot and forward metal rates which are quoted in the broker market.

We may adjust valuations derived using the methods described above in order to ensure that those values represent appropriate estimates of fair value. These adjustments, which are applied consistently over time, are generally required to reflect factors such as bid-ask spreads and counterparty credit risk that can affect prices in arms-length transactions with unrelated third parties. Such adjustments are based on management judgment and may not be observable.

Real Estate Owned – Fair value is determined based on third party appraisals obtained at the time we take title to the property and, if less than the carrying value of the loan, the carrying value of the loan is adjusted to the fair value. The carrying value is further reduced, if necessary, on a quarterly basis to reflect observable local market data including local area sales data.

Repossessed Autos – Fair value is determined based on current Black Book values, which represent current observable prices in the wholesale auto auction market.

Mortgage Servicing Rights – We elected to measure residential mortgage servicing rights, which are classified as intangible assets, at fair value. The fair value for the residential mortgage servicing rights is determined based on an option adjusted approach which involves discounting servicing cash flows under various interest rate projections at risk-adjusted rates. The valuation model also incorporates our best estimate of the prepayment speed of the mortgage loans, cost to service and discount rates which are unobservable. As changes in interest rates is a key factor affecting the prepayment speed and hence the fair value of the mortgage servicing rights, we use various interest rate derivatives and forward purchase contracts of mortgage-backed securities to risk-manage the mortgage servicing rights.

Structured Notes – Certain structured notes were elected to be measured at fair value in their entirety under fair value option accounting principles. As a result, derivative features embedded in the structured notes are included in the valuation of fair value. The valuation of embedded derivatives may include significant unobservable inputs such as correlation of the referenced credit names or volatility of the embedded option. Other significant inputs include interest rates (yield curve), time to maturity, expected loss and loss severity.

Cash flows of the funded notes are discounted at the appropriate rate for the applicable duration of the instrument adjusted for our own credit spreads. The credit spreads applied to these instruments are derived from the spreads at which institutions of similar credit standing would offer for issuing similar structured instruments as of the measurement date. The market spreads for structured notes are generally lower than the credit spreads observed for plain vanilla debt or in the credit default swap market.

Long-term Debt – We elected to apply fair value option to certain own debt issuances for which fair value hedge accounting otherwise would have been applied. These own debt issuances elected under FVO are traded in secondary markets and, as such, the fair value is determined based on observed prices for the specific instrument. The observed market price of these instruments reflects the effect of our own credit spreads. The credit spreads applied to these instruments were derived from the spreads recognized in the secondary market for similar debt as of the measurement date.

For long-term debt recorded at cost, fair value is determined based on quoted market prices where available. If quoted market prices are not available, fair value is based on dealer quotes, quoted prices of similar instruments, or internally developed valuation models adjusted for own credit risks.

Deposits – For fair value disclosure purposes, the carrying amount of deposits with no stated maturity (e.g., demand, savings, and certain money market deposits), which represents the amount payable upon demand, is considered to approximate fair value. For deposits with fixed maturities, fair value is estimated by discounting cash flows using market interest rates currently offered on deposits with similar characteristics and maturities.

Valuation Adjustments – Where applicable, we make valuation adjustments to the measurements of financial instruments to ensure that they are recorded at fair value. Management judgment is required in determining the appropriate level of valuation adjustments. The level of valuation adjustments reflects the risks and the characteristics of a specific type of product, related contractual terms and the liquidity associated with the product and the market in which the product transacts. Valuation adjustments for complex instruments are unobservable. Such valuation adjustments, which have been consistently applied, include the following:

- Credit risk adjustment – an adjustment to reflect the creditworthiness of the counterparty for OTC products where the market parameters may not be indicative of the creditworthiness of the counterparty. For derivative instruments, the market price implies parties to the transaction have credit ratings equivalent to AA. Therefore, we will make an appropriate credit risk adjustment to reflect the counterparty credit risk if different from an AA credit rating.

- Market data/model uncertainty – an adjustment to reflect uncertainties in the fair value measurements determined based on unobservable market data inputs. Since one or more significant parameters may be unobservable and must be estimated, the resultant fair value estimates have inherent measurement risk. In addition, the values derived from valuation techniques are affected by the choice of valuation model. When different valuation techniques are available, the choice of valuation model can be subjective and in those cases, an additional valuation adjustment may be applied to mitigate the potential risk of measurement error. In most cases, we perform analysis on key unobservable inputs to determine the appropriate parameters to use in estimating the fair value adjustments.

- Liquidity adjustment – a type of bid-offer adjustment to reflect the difference between the mark-to-market valuation of all open positions in the portfolio and the close out cost. The liquidity adjustment is a portfolio level adjustment and is a function of the liquidity and volatility of the underlying risk positions.

20. New Accounting Pronouncements

Accounting for transfers of financial assets In June 2009, the FASB issued guidance which amends the accounting for transfers of financial assets by eliminating the concept of a qualifying special-purpose entity (“QSPE”) and provides additional guidance with regard to the accounting for transfers of financial assets. The guidance is effective for all interim and annual periods beginning after November 15, 2009. We adopted this guidance on January 1, 2010. The adoption of this guidance did not have a material impact on our financial position or results of operations.

Accounting for consolidation of variable interest entities In June 2009, the FASB issued guidance which amends the accounting rules related to the consolidation of variable interest entities (“VIEs”). The guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model based on control and economics. Effective January 1, 2010, certain VIEs which are not consolidated currently will be required to be consolidated. Under this new guidance, we consolidated one asset-backed commercial paper conduit where we provide substantially all of the liquidity facilities and have the ability to direct most significant activities. The impact of consolidating this entity on January 1, 2010 resulted in an increase to our assets and liabilities of approximately $3.2 billion and $3.5 billion, respectively, which resulted in a decrease to the opening balance of common shareholder's equity which was recorded as an increase to retained earnings of $1 million and a reduction to other comprehensive income of $246 million. Since we elected to adopt the transition mechanism for Risk Based Capital Requirements, there was no change to the way we calculate risk weighted assets against the liquidity facilities of the above mentioned asset-backed commercial paper conduit for the first half of 2010. There is also, therefore, no impact to our Tier 1 capital ratios for the first half of 2010. Had we fully transitioned to the Risk Based Capital requirements for the first two quarters of 2010, our risk weighted assets would have been higher by approximately $2.4 billion for both periods which would not have had a significant impact to our Tier 1 capital ratios. See Note 17, "Variable Interest Entities" in these consolidated financial statements for additional information.

Improving Disclosures about Fair Value Measurements In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair measurements and describe the reasons for those transfers. It also requires Level 3 reconciliation to be presented on a gross basis, while disclosing purchases, sales, issuances and settlements separately. The guidance is effective for interim and annual financial periods beginning after December 15, 2009, except for the requirement to present the Level 3 reconciliation on a gross basis, which is effective for interim and annual periods beginning after December 15, 2010. We adopted the new disclosure requirements in their entirety effective January 1, 2010. See Note 19, "Fair Value Measurements" in these consolidated financial statements.

Subsequent Events In February 2010, the FASB amended certain recognition and disclosure requirements for subsequent events. The guidance clarifies that an SEC filer is required to evaluate subsequent events through the date the financial statements are issued and in all other cases through the date the financial statements are available to be issued. The guidance eliminates the requirement to disclose the date through which subsequent events are evaluated for an SEC filer. The guidance was effective upon issuance. Adoption did not have an impact on our financial position or results of operations.

Consolidation In February 2010, the FASB issued an update that amends the guidance for consolidation of certain investment funds. The revised guidance deferred the consolidation requirements for a reporting entity that has an interest in an entity (1) that has all the attributes of an investment company, (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with that of investment company, or (3) which is a registered money market fund and is required to comply or operate in accordance with certain requirements of Investment Companies Act of 1940. An entity that qualifies for deferral will have to comply with disclosure requirements applicable to reporting entities with variable interests in variable interest entities. The guidance is effective for all interim and annual periods beginning after November 15, 2009. Adoption did not have an impact on our financial position or results of operations.

Derivatives and Hedging In March 2010, the FASB issued a clarification on the scope exception for embedded credit derivatives. The guidance eliminates the scope exception for bifurcation of credit derivatives embedded in interests in securitized financial assets, unless they are created solely by subordination of one financial debt instrument to another. The guidance is effective beginning in the first reporting period after June 15, 2010, with earlier adoption permitted for the quarter beginning after March 31, 2010. This clarification did not have a material impact to our financial position or results of operations.

Loan Modification In April 2010, the FASB issued an update affecting accounting for loan modifications for those loans that are acquired with deteriorated credit quality and are accounted for on a pool basis. It clarifies that the modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The new guidance is effective prospectively for modifications occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. This update did not have any impact on our financial position or results of operations.

Credit Quality and Allowance for Credit losses Disclosures In July 2010, the FASB issued an Accounting Standards Update to provide more transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The update amends the existing disclosure requirements by requiring an entity to provide a greater level of disaggregated information to assist financial statement users in assessing its credit risk exposures and evaluating the adequacy of its allowance for credit losses. Additionally, the update requires an entity to disclose credit quality indicators, past due information, and modification information of its financing receivables. The amendment is effective beginning in interim and annual reporting periods ending on or after December 15, 2010 with disclosures about activity that occurs during a reporting period effective for interim and annual reporting periods beginning on or after December 15, 2010.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts In October 2010, the FASB issued guidance which amends the accounting rules that define which costs associated with acquiring or renewing insurance contracts qualify as deferrable acquisition costs by insurance entities. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is permitted, but must be applied as of the beginning of an entity's annual reporting period. The adoption of this guidance is not expected to have a material impact on our financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC USA Inc. that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may," "will," "should," "would," "could," "appears," "be "intends," "expects," "estimates," "targeted," "plans," "anticipates," "goal" and similar expressions are intended to i forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, economic forecast, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. Forward-looking statements are based on our current views and assumptions and speak only as of the date they are made. HSBC USA Inc. undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Overview

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). HSBC USA Inc. may also be referred to in MD&A as "we", "us", or "our".

Current Environment During the first nine months of 2010, economic conditions in the United States generally continued to improve, although the pace of improvement began to slow during the second quarter and continued into the third quarter. Liquidity has returned to the financial markets for most sources of funding except for mortgage securitization and companies are generally able to issue debt with credit spreads approaching levels historically seen prior to the financial crisis, despite the expiration of some of the U.S. government's support programs. European sovereign debt fears triggered by Greece in May 2010, which translated into increased borrowing costs in the U.S. during the second quarter of 2010, have now subsided. However, the prolonged period of low Federal funds rates continues to put pressure on spreads earned on our deposit base. During the first half of 2010, housing prices stabilized in many markets and began to recover in others as the first-time homebuyer tax credit and low interest rates attributable to government monetary policy actions served as stabilizing forces improving home sales. However, in the third quarter of 2010, we again began to see home price declines in many markets as the homebuyer tax credit has now ended and housing prices remain under pressure due to elevated foreclosure levels. Improved market conditions have also resulted in recovery during the first nine months of 2010 of some of the valuation losses previously recorded on several asset classes during 2008 and into 2009. How sustainable these improvements will be in the absence of government actions remains to be seen.

Despite positive job creation overall in 2010, the economy began to lose jobs again in the third quarter as job creation in the private sector, while positive, slowed and was more than offset by reductions in government related jobs which has again raised fears as to how pronounced any economic recovery may be. U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained high at 9.6 percent in September 2010, an increase of 10 basis points during the quarter and a decrease of 40 basis points since December 2009. However, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in 14 states are greater than the U.S. national average and unemployment rates in 6 states are at or above 11 percent while in New York, where approximately 32 percent of our loan portfolio is concentrated, unemployment remained lower than the national average at 8.3 percent. High unemployment rates have generally been most pronounced in the markets which had previously experienced the highest appreciation in home values. Unemployment has continued to have an impact on the provision for credit losses in our loan portfolio and in loan portfolios across the industry.

Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, volatility in energy prices, credit market volatility and trends in corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates and a sustained recovery of the housing markets remain critical components of a broader U.S. economic recovery. Further weakening in these components as well as in already low consumer confidence may result in additional deterioration in consumer payment patterns and credit quality. Although consumer confidence has improved from the levels seen early in 2009, it remains relatively low on a historical basis with September levels consistent with that experienced early in 2010. Weak consumer fundamentals including declines in wage income, reduced consumer spending, declines in wealth and a difficult job market continue to depress consumer confidence. Additionally, there is uncertainty as to the future course of monetary policy and uncertainty as to the impact on the economy and consumer confidence when the remaining actions taken by the government to restore faith in the capital markets and stimulate consumer spending end. These conditions in combination with general economic weakness and the impact of recent regulatory changes will continue to impact our results in 2010, the degree of which is largely dependent upon the nature and extent of the economic recovery.

In October 2010, certain large mortgage servicers announced investigations into their internal servicing operations. As reported, these investigations centered around foreclosure processing and, shortly thereafter, these servicers also announced the temporary national suspension of foreclosure activity. The attorneys general of all states and various state and federal regulators and policymakers have since initiated inquiries concerning foreclosure procedures for single family mortgage loans. We, as well as many other servicers, are responding to applicable inquiries. In certain instances, the attorneys general and other regulators have requested that foreclosure proceedings be placed on hold pending review by each servicer of its practices. Based on our review to date, we have found no systemic concerns with our foreclosure processes, nor have we found instances of “robo-signing,” and as a result, we have not suspended foreclosures. Certain courts have issued new rules relating to foreclosures and we anticipate scrutiny of foreclosure documentation will increase. Also in some areas, officials are requiring additional verification of information filed prior to the foreclosure proceeding. If these trends continue there could be an extended delay in the processing of foreclosures, which could have an adverse impact upon housing prices.

As discussed in prior filings, on May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”) was signed into law. For a discussion of the CARD Act as well as the impact to our operations, see “Segment Results – IFRSs Basis.”

Financial Regulatory Reform On July 21, 2010, the “Dodd-Frank Wall Street Reform and Consumer Protection Act” was signed into law. This legislation is a sweeping overhaul of the financial regulatory system. The new law is comprehensive and includes many provisions specifically relevant to our business and the business of our affiliates. For instance, over a transition period from 2013 to 2015, the Federal Reserve Board will apply more stringent capital and risk management requirements on bank holding companies such as HSBC North America, which will require a minimum leverage ratio of five percent and a total capital ratio of ten percent. The legislation also phases out the use of trust preferred securities for Tier 1 capital treatment by bank holding companies, which may negatively impact our capital ratios.

In order to preserve financial stability in the industry, the legislation has created the Financial Stability Oversight Council which may take certain actions, including precluding mergers, restricting financial products offered, restricting or terminating activities or imposing conditions on activities or requiring the sale or transfer of assets, against any bank holding company with assets greater than $50 billion that is found to pose a grave threat to financial stability. Large bank holding companies such as HSBC North America Holdings Inc. (“HSBC North America”) will also be required to file resolution plans and identify how insured bank subsidiaries are adequately protected from risk of other affiliates. The Federal Reserve Board will also adopt a series of increased supervisory standards to be followed by large bank holding companies. Additionally, activities of bank holding companies, such as the ability to acquire U.S. banks or to engage in non-banking activities, will be more directly tied to examination ratings of "well-managed" and "well capitalized." There are also provisions in the Act which relate to executive compensation, including disclosures evidencing the relationship between compensation and performance and a requirement that some executive incentive compensation is forfeitable in the event of an accounting restatement.

In relation to requirements for bank transactions with affiliates, the legislation extends current quantitative limits on credit transactions to now additionally include credit exposure related to repurchase agreements, derivatives and securities lending transactions. This provision may limit the use of intercompany transactions between HSBC Bank USA and its affiliates which impacts our current funding strategies.

The legislation has numerous provisions addressing derivatives. There is the imposition of comprehensive regulation of over-the-counter ("OTC") derivatives markets, including credit default swaps, as well as limits on FDIC-insured banks' OTC derivatives activities. Most of the significant provisions are to be implemented within two to three years of the enactment of the legislation. There is also the requirement for the use of mandatory derivative clearing houses and exchanges, which will significantly change the overall derivatives market industry.

The "Volcker Rule" in the legislation restricts the extent to which a bank or bank holding company can engage in proprietary trading activities, including ownership of hedge funds and private equity funds. These provisions will have limited impact on us.

The legislation also provides for an increase in FDIC insurance assessments on FDIC insured banks such as HSBC Bank USA. The FDIC reserve ratio has been increased from 1.15 to 1.35, with the target of 1.35 to be reached by 2020. The assessment methodology will be revised to a methodology based on assets. This shift will have financial implications for all FDIC-insured banks.

The legislation has created the Bureau of Consumer Financial Protection (the "CFPB"). The CFPB will be a new independent bureau within the Federal Reserve Board and will act as a single primary Federal consumer protection supervisor to regulate credit, savings, payment and other consumer financial products and services and providers of those products and services. The CFPB has the authority to issue regulations to prevent unfair, deceptive or abusive practices in connection with consumer financial products or services and to ensure features of any consumer financial products or services are fully, accurately and effectively disclosed to consumers.

The legislation codifies the current standard of federal preemption with respect to national banks. However, federal preemption of state consumer finance laws will no longer extend to national banks' operating subsidiaries beginning July 21, 2011. The Office of the Comptroller of the Currency ("OCC") is limited in the extent to which it can make preemption decisions with respect to state consumer finance laws. When subject to judicial review, such OCC's preemptive decisions must be supported by "substantial evidence" that they comply with the preemptive standard. These limitations on federal preemption may elevate our costs of compliance, while increasing litigation expenses as a result of plaintiff challenges and the risk of courts not giving deference to the OCC, as well as increasing complexity due to the lack of uniformity in state regulations. It is too early to determine how far reaching and deeply the limitations on federal preemption will impact our business and our competitors' businesses.

The legislation contains many other consumer related provisions including provisions addressing mortgage reform. In the area of mortgage origination, there is a requirement to apply a net tangible benefit test for all refinancing transactions. There are also numerous revised servicing requirements for mortgage loans.

The legislation will have a significant impact on the operations of many financial institutions in the U.S., including HSBC USA Inc. and HSBC Bank USA. As the legislation calls for extensive regulations to be promulgated to interpret and implement the legislation, it is not possible to precisely determine the impact to our operations and financial results at this time.

Performance, Developments and Trends Our net income was $417 million and $1,271 million during the three and nine months ended September 30, 2010, respectively, compared to a net income of $161 million during the three months ended September 30, 2009 and a net loss of $177 million during the nine months ended September 30, 2009. Our results in both periods were impacted by the change in the fair value of our own debt and the related derivatives for which we have elected fair value option and other non-recurring items in certain periods which distort the ability of investors to compare the underlying performance trends of our business. The following table summarizes the collective impact of these items on our income (loss) before income tax for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Income (loss) before income tax, as reported	$ 640	$ 230	$ 1,938	$ (121)
Change in value of our own fair value option debt and related derivatives	(54)	43	(292)	437
Gain on sale of MasterCard Class B or Visa Class B Shares	—	—	—	(48)
Gain relating to resolution of lawsuit(1)	—	—	(5)	(85)
Gain on sale of equity interest in Wells Fargo HSBC Trade Bank	—	—	(66)	—
Release of VISA litigation accrual	—	(9)	(6)	(9)
Revenue associated with whole loan purchase settlement(2)	—	—	(89)	—
Gain on sale of equity interest in HSBC Private Bank (Suisse) S.A.	—	—	—	(33)
Income (loss) before income tax, excluding above items(3)	$ 586	$ 264	$ 1,480	$ 141

(1) The proceeds of the resolution of this lawsuit in 2009 were used to redeem 100 preferred shares held by CT Financial Services, Inc. as provided under the terms of the preferred shares. The proceeds received in 2010 represent the final judgment.

(2) Represents loans previously purchased for resale from a third party.

(3) Represents a non-U.S. GAAP financial measure.

Our overall results for the three and nine months ended September 30, 2010 improved significantly as lower provisions for credit losses and in the nine month period, higher other revenues were partially offset by lower net interest income, higher operating expenses and in the three month period, lower other revenues. During 2010, we continued to reduce legacy and other risk positions as opportunities arose, including the sale of $264 million in subprime residential mortgage loans previously held for sale and continued reductions in monoline counterparty exposures.

Other revenues improved during the nine months ended September 30, 2010, driven by significantly higher gains on instruments designated at fair value and related derivatives as well as higher trading revenue. During the nine months ended September 30, 2009, we experienced reductions in other revenues, largely lower trading revenue associated with credit derivative products due to the adverse financial market conditions which existed at that time. Improved market conditions in 2010 and reduced outstanding exposure have resulted in a reduction in some of these valuation losses. Other revenues declined, however, during the three month period ended September 30, 2010 as the impact on trading revenues from improved market conditions was more pronounced in the prior year quarter.

A summary of the significant valuation adjustments associated with market disruptions that impacted revenue for the three and nine months ended September 30, 2010 and 2009 are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Gains (Losses)				
Insurance monoline structured credit products	$ 16	$ 54	$ 89	$ (104)
Other structured credit products	43	38	89	(182)
Mortgage whole loans held for sale, including whole loan purchase settlement (predominantly subprime)	(5)	(28)	55	(182)
Other than temporary impairment on securities available-for-sale and held-to-maturity	(4)	(26)	(45)	(84)
Leverage acquisition finance loans held for sale	44	128	(7)	258
Total	$ 94	$ 166	$ 181	$ (294)

Other revenues during the three and nine months ended September 30, 2010 and 2009 also reflect several non-recurring items as presented in the table on the previous page including the impact of the changes in value of our own debt and related derivatives for which we elected fair value option. Excluding the impact of all these items, other revenue decreased $167 million and $434 million during the three and nine months ended September 30, 2010 due primarily to lower credit card fees, lower mortgage banking revenue and in the nine month period lower securities gains, partially offset in the nine month period by higher trading revenue. Lower credit card fees were due to lower levels of credit card and private label receivables, changes in customer behavior, and lower delinquency levels as well as the recent implementation of certain provisions of the CARD Act which resulted in lower over limit, late and payment processing fees. The lower mortgage banking revenue in both periods was driven by an increase in our estimated exposure on repurchase obligations associated with previously sold loans. Securities gains were lower in the year-to-date period as the prior year period reflects gains of $236 million on the sale of securities in the second quarter of 2009 as part of a strategy to reduce risk.

Net interest income was $1.1 billion and $3.4 billion during the three and nine months ended September 30, 2010, respectively, compared to $1.3 billion and $3.9 billion in the year-ago periods. The decrease in both periods reflects the impact of higher levels of lower yielding interest earning assets including higher levels of average interest bearing deposits with banks, lower average loan balances and rates earned on these balances as well as significantly lower rates earned on securities due to the aforementioned sales in 2009 to reduce prepayment risk and risk-weighted asset levels. These reductions were partially offset by commercial loan repricings and repricing initiatives on private label cards and credit cards as well as a lower cost of funds, including lower overall average rates on deposits.

Our provision for credit losses was $245 million and $1.0 billion during the three and nine months ended September 30, 2010, respectively, as compared to $1.0 billion and $3.2 billion in the year-ago periods. The decrease in both periods reflects declines in loan balances and improvements in economic and credit conditions, including lower dollars of delinquency and continued stabilization in the housing markets. These conditions have resulted in improved outlook on future loss estimates for our credit card and private label receivables as well as for our residential mortgage loan portfolio as compared with the prior year periods. Provision for credit losses in both periods also decreased for both loans and loan commitments in the commercial loan portfolio due to lower outstanding balances including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and lower levels of nonperforming loans and criticized assets. Also contributing to the decrease were fewer customer downgrades across all business lines compared to the prior year periods. The combination of all of these factors has led to an overall net recovery in provision for commercial loans during the nine months ended September 30, 2010. Given the nature of the factors driving the reduction in commercial loan provision during both periods, the provision levels recognized in the first nine months of 2010 should not be considered indicative of provision levels during the remainder of the year.

The market turmoil experienced over the past couple of years has created stress for certain counterparties with whom we conduct business as part of our lending and client intermediation activities. We assess, monitor and control credit risk with formal standards, policies and procedures that are designed to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively. Consequently, we believe any loss exposure related to counterparties with whom we conduct business has been adequately reflected in our financial statements at September 30, 2010.

Operating expenses totaled $1.0 billion and $3.1 billion during the three and nine months ended September 30, 2010, an increase of $103 million and $101 million, respectively compared to the corresponding prior year periods. The increases in both periods largely resulted from higher fees paid to HTSU and other affiliates due to the centralization of additional shared services across North America, the impact of the transfer of certain employees of HSBC Finance to the default mortgage loan servicing department (which cost is offset in other revenues), increased costs associated with branch expansion, a lower of cost or fair value adjustment relating to our Asian banknotes operations ("Asian Banknotes Operations") which were classified as held for sale in September 2010 and in the nine month period, higher fees paid to HSBC Finance related to a change in how the refund anticipation loan program is managed and costs associated with the closure of our banknotes business. These increases were partially offset by lower salaries and employee benefit expense exclusive of the default mortgage loan employee transfer discussed above which reflects the centralization of additional shared services in North America within HTSU as well as continued cost management efforts, lower marketing expenses and in the nine month period, significantly lower FDIC assessment fees, as the year-ago year-to-date period included a $82 million special assessment recorded in the second quarter of 2009.

Our efficiency ratio was 53.60 percent for the three months ended September 30, 2010 compared to 42.64 percent in the prior year quarter. Our efficiency ratio was 51.95 percent for the nine months ended September 30, 2010 compared to 48.80 percent in the year-ago period. The deterioration in both periods reflects higher operating expenses while the total of net interest income and other revenues declined.

Our effective tax rate was 34.8 percent for the three months ended September 30, 2010 compared to 30.0 percent in the prior year quarter. Our effective tax rate was 34.4 percent for the nine months ended September 30, 2010 compared to 46.3 percent in the year-ago period. The effective tax rate for the three and nine months ended September 30, 2010 reflects a substantially higher level of pre-tax income, an increased level of low income housing tax credits, an adjustment of uncertain tax positions and the non-deductible loss on the sale of securities. The effective tax rate for the three and nine months ended September 30, 2009 was significantly impacted by the relative level of pre-tax income, the sale of a minority stock interest that was treated as a dividend for tax purposes and the settlement of an Internal Revenue Service audit of our 2004 and 2005 federal income tax returns.

In August 2010, we announced to employees that we are considering strategic options for our mortgage operations, with the objective of recommending the future course of our prime mortgage lending and mortgage servicing platforms. Strategic options may include, but are not limited to, the sale or outsourcing of all, or part, of these platforms. Under all options being explored, we plan to continue offering mortgages to our customers. We expect to complete the review of strategic options by the end of the fourth quarter.

In June 2010, we decided that the wholesale banknotes business ("Banknotes Business") within our Global Banking and Markets segment did not fit with our core strategy in the U.S. and, therefore, decided to exit this business. The discontinuation of our Banknotes Business will allow us to focus strategic attention on our core businesses. As part of this decision, in September 2010 we agreed to sell the assets of our Asian Banknotes Operations to an unaffiliated third party and classified the assets of the Asian Banknotes Operations as held for sale. This resulted in the recording of a lower of cost or fair value adjustment of $12 million in the third quarter of 2010 as the carrying value of the assets being sold exceed the agreed upon sales price.

In April 2010, we completed the sale of our 452 Fifth Avenue property in New York City, including the 1 W. 39th Street building, for $330 million in cash. Under the terms of the sale, we will lease back the entire

452 Fifth Avenue building for one year and floors one to eleven for a total of 10 years. The sale resulted in a gain of approximately $155 million; however, it has been deferred and will be recognized over ten years due to our continuing involvement. The headquarters of HSBC Bank USA remains in New York.

The financial information set forth below summarizes selected financial highlights of HSBC USA Inc. as of September 30, 2010 and December 31, 2009 and for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	(dollars are in millions)			
	2010	2009	2010	2009
Net income (loss)	$ 417	$ 161	$ 1,271	$ (177)
Rate of return on average :				
Total assets	.90%	.37%	.91%	(.13)%
Total common shareholder's equity	10.39	4.25	11.25	(2.47)
Net interest margin to average earning assets	2.74	3.31	2.84	3.39
Efficiency ratio	53.60	42.64	51.95	48.80
Commercial loan net charge-off ratio(1)	.86	.72	1.08	.72
Consumer loan net charge-off ratio(1)	5.36	6.32	5.89	5.03

	September 30, 2010	December 31, 2009
	(dollars are in millions)	
Loans:		
Commercial loans	$ 30,138	$ 30,304
Consumer loans	42,076	49,185
Total loans	$ 72,214	$ 79,489
Loans held for sale	$ 2,452	$ 2,908
Commercial allowance as a percent of loans(1)	2.14%	3.10%
Commercial two-months-and-over contractual delinquency	3.03	3.04
Consumer allowance as a percent of loans(1)	4.43	5.94
Consumer two-months-and-over contractual delinquency	5.24	5.97
Loan-to-deposits ratio(2)	83.67	94.36
Total shareholders' equity to total assets	8.92	8.87
Total capital to risk weighted assets	17.46	14.19
Tier 1 capital to risk weighted assets	11.24	9.61

(1) Excludes loans held for sale.

(2) Represents period end loans, net of loss reserves, as a percentage of domestic deposits less certificate of deposits equal to or greater than $100 thousand.

Loans Loans excluding loans held for sale were $72.2 billion and $79.5 billion at September 30, 2010 and December 31, 2009, respectively. The decrease in loans as compared to December 31, 2009 was driven by run-off in all of our consumer portfolios, including the sale in August 2010 of auto finance loans as discussed more fully below. We continue to sell the majority of new residential mortgage loan originations to government sponsored enterprises and to allow the existing on-balance sheet portfolio to run-off. The decline in credit card and private label receivables reflects fewer active customer accounts, the continued impact from actions previously taken to reduce risk in these portfolios, seasonal paydowns in credit card balances since December 31, 2009 and an increased focus by customers to reduce outstanding credit card debt. Commercial loans also decreased compared to year-end due to increased paydowns and managed reductions in certain exposures, largely offset by the adoption of new accounting guidance on the consolidation of variable interest entities which resulted in the consolidation of an incremental $1.3 billion of commercial loans at September 30, 2010. See “Balance Sheet Review” for a more detailed discussion of the changes in loan balances.

In August 2010, we sold auto finance loans with a carrying value of $1.2 billion at date of sale, and other related assets to Santander Consumer USA (“SC USA”) for $1.2 billion in cash. As a result of this transaction, we recognized a gain of $9 million during the third quarter of 2010.

Credit Quality Our allowance for credit losses as a percentage of total loans decreased at September 30, 2010 as compared to December 31, 2009. The decrease in our allowance ratio reflects a lower allowance on all of our consumer loan portfolios due to lower outstanding balances and improved credit quality due to lower delinquency levels and improvement in economic conditions. Our commercial loan allowance for credit losses ratio also fell as economic conditions and related credit quality began to stabilize and our future loss estimates improved.

Consumer two-months-and-over contractual delinquency as a percentage of loans and loans held for sale (“delinquency ratio”) for consumer loans decreased to 5.24 percent at September 30, 2010 compared to 5.97 percent at December 31, 2009. Dollars of delinquency fell across all consumer portfolios during the nine months ended September 30, 2010, while outstanding loan balances also declined. The decrease in the consumer delinquency ratio since December 31, 2009 was driven largely by our residential mortgage, private label card and credit card portfolios, including the sale of $264 million of delinquent subprime mortgage whole loans during the second and third quarter of 2010. See “Credit Quality” in this MD&A for a more detailed discussion of the decrease in the delinquency ratios.

Net charge-offs as a percentage of average loans (“net charge-off ratio”) for the three months ended September 30, 2010 decreased compared to the prior year quarter. We experienced lower dollars of charge-off in all consumer loan categories during the third quarter of 2010 driven by lower receivable levels and improved credit quality. These favorable trends were partially offset by the impact from continued weakness in the U.S. economy including continued high unemployment levels. See “Credit Quality” in this MD&A for a more detailed discussion of the net charge-off ratio.

Funding and Capital Capital amounts and ratios are calculated in accordance with current banking regulations. Our Tier 1 capital ratio was 11.24 percent and 9.61 percent at September 30, 2010 and December 31, 2009, respectively. Our capital levels remain well above levels established by current banking regulations as “well capitalized.” We received no capital contributions from our immediate parent, HNAI during the first nine months of 2010 as compared to $2.2 billion during the first nine months of 2009.

As part of the regulatory approvals with respect to the affiliate receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become “low-quality assets,” as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each “low-quality asset” transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA’s risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During the first half of 2010, HSBC Bank USA sold low quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce this capital requirement. These loans were subsequently sold to SC USA in August 2010. At September 30, 2010 and December 31, 2009, we have exceeded the minimum ratios required.

Subject to regulatory approval, HSBC North America will be required to implement Basel II provisions no later than April 1, 2011 in accordance with current regulatory timelines. HSBC USA Inc. will not report separately under the new rules, but HSBC Bank USA will report under the new rules on a stand-alone basis. Increases in regulatory capital may be required prior to the Basel II adoption date, however, the exact amount will depend upon our prevailing risk profile. Adoption must be preceded by a parallel run period of at least four quarters, and requires the approval of U.S. regulators. This parallel run, which was initiated in January 2010, encompasses enhancements to a number of risk policies, processes and systems to align HSBC Bank USA with the Basel II final rule requirements. HSBC Bank USA will seek regulatory approval for adoption when the program enhancements have been completed which may extend beyond April 1, 2011.

During the third quarter of 2010, ten year subordinated debt of $1.3 billion and $750 million was issued by HSBC Bank USA and HSBC USA Inc., respectively, to support our capital position under Basel II and replace Tier 2 capital lost due to maturities of subordinated debt.

Income Before Income Tax Expense – Significant Trends Income before income tax expense, and various trends and activity affecting operations, are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Income (loss) before income tax for prior year	$ 230	$ (188)	$ (121)	$ (922)
Increase (decrease) in income before income tax attributable to:				
Balance sheet management activities(1)	117	152	(303)	682
Trading revenue(2)	(187)	475	147	1,298
Credit card fees(3)	(107)	118	(324)	379
Loans held for sale(4)	35	55	251	144
Residential mortgage banking related revenue(5)	(4)	2	(245)	75
Gain (loss) on own debt designated at fair value and related derivatives(6)	97	(242)	729	(726)
Gain (loss) on instruments at fair value and related derivatives, excluding own debt(6)	(52)	175	(211)	404
Provision for credit losses(7)	761	(348)	2,335	(1,485)
All other activity(8)	(250)	31	(320)	30
Income (loss) before income tax for current period	$ 640	$ 230	$ 1,938	$ (121)

(1) Balance sheet management activities are comprised primarily of net interest income and gains on sales of investments, resulting from management of interest rate risk associated with the repricing characteristics of balance sheet assets and liabilities. For additional discussion regarding Global Banking and Markets net interest income, trading revenues, and the Global Banking and Markets business segment see the caption "Business Segments" section of this MD&A.

(2) For additional discussion regarding trading revenue , see the caption "Results of Operations" in this MD&A.

(3) For additional discussion regarding credit card fees, see the caption "Results of Operations" in this MD&A.

(4) For additional discussion regarding loans held for sale, see the caption "Balance Sheet Revenue" in this MD&A.

(5) For additional discussion regarding residential mortgage banking revenue, see the caption "Results of Operations" in this MD&A.

(6) For additional discussion regarding fair value option and fair value measurement, see Note 11, “Fair Value Option,” in the accompanying consolidated financial statements.

(7) For additional discussion regarding provision for credit losses, see the caption “Results of Operations” in this MD&A.

(8) Represents other core banking activities.

Basis of Reporting

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In addition to the U.S. GAAP financial results reported in our consolidated financial statements, MD&A includes reference to the following information which is presented on a non-U.S. GAAP basis:

International Financial Reporting Standards ("IFRSs") Because HSBC reports results in accordance with IFRSs and IFRSs results are used in measuring and rewarding performance of employees, our management also separately monitors net income under IFRSs (a non-U.S. GAAP financial measure). The following table reconciles our net income on a U.S. GAAP basis to net income on an IFRS basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Net income (loss) – U.S. GAAP basis	$ 417	$ 161	$ 1,271	$ (177)
Adjustments, net of tax:				
Unquoted equity securities	—	—	—	(20)
Reclassification of financial assets	(63)	(244)	(42)	(390)
Securities	(11)	3	82	(101)
Derivatives	6	6	9	11
Loan impairment	4	2	13	9
Property	(4)	7	28	14
Pension costs	8	17	69	31
Purchased loan portfolios	(13)	—	(40)	73
Servicing assets	(2)	(13)	4	(3)
Return of capital	—	—	(3)	(55)
Interest recognition	—	(1)	—	(1)
Gain on sale of auto finance loans	26	—	26	—
Other	(5)	15	17	2
Net profit (loss) – IFRSs basis	363	(47)	1,434	(607)
Tax benefit (expense) – IFRSs basis	(191)	76	(746)	109
Profit (loss) before tax – IFRSs basis	$ 554	$ (123)	$ 2,180	$ (716)

A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

Unquoted equity securities – Under IFRSs, equity securities which are not quoted on a recognized exchange, but for which fair value can be reliably measured, are required to be measured at fair value. Securities measured at fair value under IFRSs are classified as either available-for-sale securities, with changes in fair value recognized in shareholders' equity, or as trading securities, with changes in fair value recognized in income. Under U.S. GAAP, equity securities that are not quoted on a recognized exchange are not considered to have a readily determinable fair value and are required to be measured at cost, less any provisions for known impairment, in other assets.

Reclassification of financial assets – Certain securities were reclassified from "trading assets" to "loans and receivables" under IFRSs as of July 1, 2008 pursuant to an amendment to IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), and are no longer marked to market under IFRSs. In November 2008, additional securities were similarly transferred to loans and receivables. These securities continue to be classified as "trading assets" under U.S. GAAP.

Additionally, certain Leverage Acquisition Finance ("LAF") loans were classified as "Trading Assets" for IFRSs and to be consistent, an irrevocable fair value option was elected on these loans under U.S. GAAP on January 1, 2008. These loans were reclassified to "loans and advances" as of July 1, 2008 pursuant to the IAS 39 amendment discussed above. Under U.S. GAAP, these loans are classified as "held for sale" and carried at fair value due to the irrevocable nature of the fair value option.

Securities – Effective January 1, 2009 under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining portion of the impairment loss is recognized in accumulated other comprehensive income provided we have concluded we do not intend to sell the security and it is more-likely-than-not that we will not have to sell the security prior to recovery. Under IFRSs, there is no bifurcation of other-than-temporary impairment and the entire decline in value is recognized in earnings. Also under IFRSs, recoveries in other-than-temporary impairment related to improvement in the underlying credit characteristics of the investment are recognized immediately in earnings while under U.S. GAAP, they are amortized to income over the remaining life of the security. There are also less significant differences in measuring other-than-temporary impairment under IFRSs versus U.S. GAAP.

Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares held for stock plans are recorded at fair value through other comprehensive income. If it is determined these shares have become impaired, the fair value loss is recognized in profit and loss and any fair value loss recorded in other comprehensive income is reversed. There is no similar requirement under U.S. GAAP. During the second quarter of 2009 under IFRSs, we recorded income for the value of additional shares attributed to HSBC shares held for stock plans as a result of HSBC's rights offering earlier in 2009. The additional shares are not recorded under U.S. GAAP.

Derivatives – Effective January 1, 2008, U.S. GAAP removed the observability requirement of valuation inputs to allow up-front recognition of the difference between transaction price and fair value in the consolidated statement of loss. Under IFRSs, recognition is permissible only if the inputs used in calculating fair value are based on observable inputs. If the inputs are not observable, profit and loss is deferred and is recognized 1) over the period of contract, 2) when the data becomes observable, or 3) when the contract is settled.

Loan impairment – IFRSs requires a discounted cash flow methodology for estimating impairment on pools of homogeneous consumer loans which requires the incorporation of the time value of money relating to recovery estimates. Also under IFRSs, future recoveries on charged-off loans are accounted for on a discounted basis and a recovery asset is recorded. Subsequent recoveries are recorded to earnings under U.S. GAAP, but are adjusted against the recovery asset under IFRSs.

Property – Under IFRSs, the value of property held for own use reflects revaluation surpluses recorded prior to January 1, 2004. Consequently, the values of certain tangible fixed assets and shareholders' equity are lower under U.S. GAAP than under IFRSs. There is a correspondingly lower depreciation charge and higher net income as well as higher gains (or smaller losses) on the disposal of fixed assets under U.S. GAAP. For investment properties, net income under U.S. GAAP does not reflect the unrealized gain or loss recorded under IFRSs for the period.

Additionally, the sale of our 452 Fifth Avenue property, including the 1 W. 39th Street building in April 2010 resulted in the recognition of a gain under IFRSs while under US GAAP, such gain is deferred and recognized over ten years due to our continuing involvement.

Pension costs – Net income under U.S. GAAP is lower than under IFRSs as a result of the amortization of the amount by which actuarial losses exceed gains beyond the 10 percent "corridor." Furthermore, in 2010, changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under US GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition.

Purchased Loan Portfolios – Under US GAAP, purchased loans for which there has been evidence of credit deterioration at the time of acquisition are recorded at an amount based on the net cash flows expected to be collected. This generally results in only a portion of the loans in the acquired portfolio being recorded at fair value. Under IFRSs, the entire purchased portfolio is recorded at fair value. When recording purchased loans at fair value, the difference between all estimated future cash collections and the purchase price paid is recognized into income using the effective interest method. An allowance for loan loss is not established unless the original estimate of expected future cash collections declines.

Servicing assets – Under IAS 38, servicing assets are initially recorded on the balance sheet at cost and amortized over the projected life of the assets. Servicing assets are periodically tested for impairment with impairment adjustments charged against current earnings. Under U.S. GAAP, we generally record servicing assets on the balance sheet at fair value. Subsequent adjustments to fair value are generally reflected in current period earnings.

Return of capital – In 2010 and 2009, this includes the recognition of $3 million and $55 million, respectively, relating to the payment to CT Financial Services, Inc. in connection with the resolution of a lawsuit which for IFRS was treated as the satisfaction of a liability and not as revenue and a subsequent capital transaction as was the case under U.S. GAAP.

Interest recognition – The calculation of effective interest rates under IAS 39 requires an estimate of "all fees and points paid or recovered between parties to the contract" that are an integral part of the effective interest rate be included. U.S. GAAP generally prohibits recognition of interest income to the extent the net interest in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Also under U.S. GAAP, prepayment penalties are generally recognized as received.

Gain on sale of auto finance loans – The differences in the gain on sale of the auto finance loans primarily reflects differences in the basis of the purchased loans sold between IFRSs and U.S. GAAP as well as differences in loan impairment provisioning as discussed above. The combination of these differences resulted in a higher gain under IFRSs.

Other — Other includes the net impact of certain adjustments which represent differences between U.S. GAAP and IFRSs that were not individually material, including deferred loan origination costs and fees, restructuring costs and loans held for sale.

Balance Sheet Review

We utilize deposits and borrowings from various sources to provide liquidity, fund balance sheet growth, meet cash and capital needs, and fund investments in subsidiaries. Balance sheet totals at September 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

		Increase (Decrease) from			
	September 30,	June 30, 2010		December 31, 2009	
	2010	Amount	%	Amount	%
	(dollars are in millions)				
Period end assets:					
Short-term investments	$ 30,080	$ (2,205)	(6.8)%	$ 5,766	23.7%
Loans, net	69,702	(1,009)	(1.4)	(5,926)	(7.8)
Loans held for sale	2,452	(115)	(4.5)	(456)	(15.7)
Trading assets	31,164	2,016	6.9	5,349	20.7
Securities	44,676	4,002	9.8	14,108	46.2
Other assets	14,100	3,044	27.5	2,254	19.0
	$ 192,174	$ 5,733	3.1%	$ 21,095	12.3%
Funding sources:					
Total deposits	$ 118,946	$ (2,617)	(2.2)%	$ 609	.5%

Trading liabilities	11,835	958	8.8	3,825	47.8
Short-term borrowings	20,046	4,013	25.0	13,534	100+
All other liabilities	5,655	1,838	48.2	620	12.3
Long-term debt	18,559	808	4.6	551	3.1
Shareholders' equity	17,133	733	4.5	1,956	12.9
	$ 192,174	$ 5,733	3.1%	$ 21,095	12.3%

Short-Term Investments Short-term investments include cash and due from banks, interest bearing deposits with banks, Federal funds sold and securities purchased under resale agreements. Balances will fluctuate from period to period depending upon our liquidity position at the time.

Loans, Net Loan balances at September 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

	September 30, 2010	Increase (Decrease) from June 30, 2010 Amount	%	December 31, 2009 Amount	%
	(dollars are in millions)				
Total commercial loans	$ 30,138	$ 636	2.2%	$ (166)	(.5)%
Consumer loans:					
Residential mortgages, excluding home equity mortgages	13,625	59	.4	(97)	(.7)
Home equity mortgages	3,892	(80)	(2.0)	(272)	(6.5)
Total residential mortgages	17,517	(21)	(.1)	(369)	(2.1)
Auto finance	—	(1,279)	(100.0)	(1,701)	(100.0)
Private label	12,460	(287)	(2.3)	(2,631)	(17.4)
Credit Card	10,815	(459)	(4.1)	(2,233)	(17.1)
Other consumer	1,284	(37)	(2.8)	(175)	(12.0)
Total consumer loans	42,076	(2,083)	(4.7)	(7,109)	(14.5)
Total loans	72,214	(1,447)	(2.0)	(7,275)	(9.2)
Allowance for credit losses	2,512	(438)	(14.8)	(1,349)	(34.9)
Loans, net	$ 69,702	$ (1,009)	(1.4)%	$ (5,926)	(7.8)%

Commercial loans increased as compared to June 30, 2010, but decreased compared to December 31, 2009. The increase in commercial loans since June 30, 2010 reflects a seasonal increase in apparel industry borrowings and increased overdraft levels. Commercial loan balances at September 30, 2010 and June 30, 2010 reflect the implementation of new accounting guidance relating to the consolidation of variable interest entities ("VIEs") which resulted in an incremental $1.3 billion and $1.6 billion of commercial loans being recorded on our balance sheet. Excluding this impact, commercial loan balances decreased $1.5 billion as compared to December 31, 2009 due to increased paydowns and managed reductions in certain exposures, including higher underwriting standards and lower overall demand from our core customer base.

Residential mortgage loans have decreased as compared to June 30, 2010 and December 31, 2009. As a result of balance sheet initiatives to manage interest rate risk and improve the structural liquidity of HSBC Bank USA, we sell a majority of our new residential loan originations through the secondary markets and have allowed the existing loan portfolio to run off, resulting in reductions in loan balances. The decreases were partially offset by increases to the portfolio associated with originations targeted at our Premier customer relationships.

As previously discussed, real estate markets in a large portion of the United States have been and continue to be affected by stagnation or declines in property values. As a result, the loan-to-value ("LTV") ratios for our mortgage loan portfolio have generally deteriorated since origination. Refreshed loan-to-value ratios for our mortgage loan portfolio, excluding subprime residential mortgage loans held for sale, are presented in the table below. The trend in these ratios reflects some element of stabilization in the housing markets.

	Refreshed LTVs(1)(2) at September 30, 2010		Refreshed LTVs(1)(2) at December 31, 2009	
	First Lien	Second Lien	First Lien	Second Lien
LTV<80%	74.5%	62.0%	71.5%	62.8%
80%<LTV<90%	13.1	15.6	14.3	14.9
90%<LTV<100%	7.0	10.8	7.7	9.5
LTV≥100%	5.4	11.7	6.5	12.8
Average LTV for portfolio	66.9	73.5	68.1	74.2

(1) Refreshed LTVs for first liens are calculated as the current estimated property value expressed as a percentage of the receivable balance as of the reporting date. Refreshed LTVs for second liens are calculated as the current estimated property value expressed as a percentage of the receivable balance as of the reporting date plus the senior lien amount at origination. Current estimated property values are derived from the property's appraised value at the time of receivable origination updated by the change in the Office of Federal Housing Enterprise Oversight's house pricing index ("HPI") at either a Core Based Statistical Area ("CBSA") or state level. The estimated value of the homes could vary from actual fair values due to changes in condition of the underlying property, variations in housing price changes within metropolitan statistical areas and other factors. As a result, actual property values associated with loans which end in foreclosure may be significantly lower than the estimates used for purposes of this disclosure.

(2) Current property values are calculated using the most current HPI's available and applied on an individual loan basis, which results in an approximately three month delay in the production of reportable statistics. Therefore, the information in the table above reflects current estimated property values using HPIs as of June 30, 2010 and September 30, 2009, respectively.

Credit card and private label receivable balances decreased compared to both the prior quarter and year end due to fewer active customer accounts, the continued impact from actions previously taken to mitigate risk including tighter underwriting criteria to lower the risk profile of the portfolio, an increased focus by customers to reduce outstanding credit card debt and, as it relates to the private label portfolio, the exit of certain merchant relationships. The decline in balances since December 31, 2009 also reflects seasonal paydowns in credit card balances earlier in the year. At September 30, 2010, private label receivables include $905 million associated with merchants for which we no longer finance new purchases.

Auto finance receivable balances decreased compared to both the prior quarter and year end. As previously discussed, in August 2010 we sold $1.2 billion of auto finance loans to SC USA.

Other consumer loans have decreased primarily due to the discontinuation of originations of student loans and run-off of our installment loan portfolio.

Loans Held for Sale Loans held for sale at September 30, 2010 and increases (decreases) over prior periods are summarized in the table below.

Increase (Decrease) from

	September 30, 2010	June 30, 2010 Amount	%	December 31, 2009 Amount	%
		(dollars are in millions)			
Total commercial loans	$ 1,536	$ (18)	(1.2)%	$ 410	36.4%
Consumer loans:					
Residential mortgages	888	(97)	(9.8)	(498)	(35.9)
Auto Finance	—	—	—	(353)	(100.0)
Other consumer	28	—	—	(15)	(34.9)
Total consumer loans	916	(97)	(9.6)	(866)	(48.6)
Total loans held for sale	$ 2,452	$ (115)	(4.5)%	$ (456)	(15.7)%

We originate commercial loans in connection with our participation in leveraged acquisition finance syndicates. A substantial majority of these loans were originated with the intent of selling them to unaffiliated third parties and are classified as commercial loans held for sale. Commercial loans held for sale under this program were $1.0 billion, $1.0 billion and $1.1 billion at September 30, 2010, June 30, 2010 and December 31, 2009, respectively, all of which are recorded at fair value. Commercial loan balances under this program decreased compared to June 30, 2010 and December 31, 2009 due to loan sales. In 2010, we provided foreign currency denominated loans to third parties which are classified as commercial loans held for sale and for which we elected to apply fair value option. The fair value of commercial loans held for sale under this program was $544 million and $543 million at September 30, 2010 and June 30, 2010, respectively. See Note 11, “Fair Value Option” for further information.

Residential mortgage loans held for sale include subprime residential mortgage loans of $410 million, $478 million and $757 million at September 30, 2010, June 30, 2010 and December 31, 2009, respectively, that were acquired from unaffiliated third parties and from HSBC Finance with the intent of securitizing or selling the loans to third parties. Also included in residential mortgage loans held for sale are first mortgage loans originated and held for sale primarily to various government sponsored enterprises. We retain the servicing rights in relation to these mortgages upon sale. Balances have declined throughout 2010 largely due to sales, partially offset by improved valuations as discussed below. During the second and third quarters of 2010, we sold subprime residential mortgage loans with a book value of $215 million and $49 million, respectively, to unaffiliated third parties.

Auto finance loans held for sale at December 31, 2009 were sold to HSBC Finance during the first quarter of 2010 to facilitate the completion of a loan sale by HSBC Finance to a third party.

Other consumer loans held for sale consist of student loans which we no longer originate. Balances at September 30, 2010 reflect the sale of a portion of these loans in the first quarter of 2010.

Loans held for sale are recorded at the lower of cost or market value. While the book value of loans held for sale continued to exceed fair value at September 30, 2010, we experienced a decrease in the valuation allowance during the nine months ended September 30, 2010 primarily due to lower balances including loan sales and reduced volatility in the U.S. residential mortgage markets.

Trading Assets and Liabilities Trading assets and liabilities balances at September 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

		Increase (Decrease) from			
	September 30,	June 30, 2010		December 31, 2009	
	2010	Amount	%	Amount	%
	(dollars are in millions)				
Trading assets:					
Securities(1)	$ 7,727	$ 2,971	62.5%	$ 2,387	44.7%
Precious metals	14,736	(1,652)	(10.1)	2,480	20.2
Fair value of derivatives	8,701	697	8.7	482	5.9
	$ 31,164	$ 2,016	6.9%	$ 5,349	20.7%
Trading liabilities:					
Securities sold, not yet purchased	$ 1,492	$ (27)	(1.8)%	$ 1,361	100+%
Payable for precious metals	3,736	596	19.0	1,180	46.2
Fair value of derivatives	6,607	389	6.3	1,284	24.1
	$ 11,835	$ 958	8.8%	$ 3,825	47.8%

(1) Includes U.S. Treasury securities, securities issued by U.S. Government agencies and U.S. Government sponsored enterprises, other asset-backed securities, corporate bonds and debt securities.

Securities balances at September 30, 2010 increased from both June 30, 2010 and December 31, 2009 due to an increase in Treasury positions related to hedges in the trading portfolio. Securities sold, not yet purchased remained flat compared to June 30, 2010 levels but increased compared to December 31, 2009 due to an increase in Treasury positions related to hedges in the trading portfolio.

Precious metals trading assets at September 30, 2010 decreased as compared to June 30, 2010 but increased compared to December 31, 2009. The decrease since June 30, 2010 reflects unwinding of specific transactions during the quarter, while the increase since December 2009 was primarily due to higher prices on most metals and higher gold inventory. The higher payable for precious metals as compared to both June 30, 2010 and December 31, 2009 was primarily due to higher gold balances.

Derivative assets and liabilities balances as compared to December 31, 2009 were impacted by market volatility as valuations of foreign exchange, interest rate and credit derivatives all increased from small spread widening in all sectors.

Deposits Deposit balances by major depositor categories at September 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

	September 30, 2010	Increase (Decrease) from June 30, 2010 Amount	%	December 31, 2009 Amount	%
	(dollars are in millions)				
Individuals, partnerships and corporations	$ 101,042	$ 272	.3%	$ 2,635	2.7%
Domestic and foreign banks	12,942	(601)	(4.4)	(607)	(4.5)
U.S. Government, states and political subdivisions	4,158	71	1.7	(256)	(5.8)
Foreign governments and official institutions	804	(2,359)	(74.6)	(1,163)	(59.1)
Total deposits	$ 118,946	$ (2,617)	(2.2)%	$ 609	.5%
Total core deposits(1)	$ 86,241	$ 147	.2%	$ 3,014	3.6%

(1) We monitor "core deposits" as a key measure for assessing results of our core banking network. Consistent with the regulatory definition, core deposits generally include all domestic demand, money market and other savings accounts, as well as time deposits with balances not exceeding $100,000.

Deposits continued to be a key source of funding during the first nine of 2010. Deposits at September 30, 2010 decreased compared to June 30, 2010, primarily due to reduced deposits from banks and affiliates. Deposits have remained relatively stable since December 31, 2009 as higher deposits from affiliates as well as growth in branch-based deposit products driven primarily by our Premier and branch expansion strategies and continued stability in the online savings product offset our efforts to manage down low margin wholesale deposits in order to maximize profitability. Our relative liquidity strength has also allowed us to lower rates to be in line with our competition on several low margin deposit products. Core domestic deposits, which are the substantial source of our core liquidity, increased during the first nine months of 2010 driven by continuing growth in our Premier balances, along with some seasonal increases in institutional transaction account balances.

We maintain a growth strategy for our core retail banking business, which includes building deposits and wealth management across multiple markets, channels and segments. This strategy includes various initiatives, such as:

• HSBC Premier, HSBC's global banking service that offers internationally minded mass affluent customers unique international services seamlessly delivered through HSBC's global network coupled with a premium local service with a dedicated premier relationship manager. Total Premier deposits have grown to $28.8 billion at September 30, 2010 as compared to $28.2 billion at June 30, 2010 and $23.6 billion at December 31, 2009;

• Retail branch expansion in existing and new geographic markets to largely support the needs of our internationally minded customers. During the first nine months of 2010, we opened five new branches in the states of California and Virginia; and

• Driving cross-sell through closer alignment across all lines of business.

Short-Term Borrowings Increased balances at September 30, 2010 as compared to December 31, 2009 reflect increased levels of securities sold under agreements to repurchase and higher precious metals borrowings. The increase as compared to December 31, 2009 also reflects higher commercial paper balances due to the consolidation of the Bryant Park commercial paper conduit as a result of adopting new VIE accounting guidance effective January 1, 2010.

Long-Term Debt Long-term debt increased at September 30, 2010 compared to both June 30, 2010 and December 31, 2009 driven by the collective issuance of $2.0 billion in subordinated debt by HSBC Bank USA and HSBC USA Inc. during the third quarter of 2010, partially offset by long-term debt retirements.

Incremental issuances from the $40 billion HSBC Bank USA Global Bank Note Program totaled $1.5 billion and $1.8 billion during the three and nine months ended September 30, 2010. Total debt outstanding under this program was $4.9 billion and $3.5 billion at September 30, 2010 and December 31, 2009, respectively.

Incremental long-term debt borrowings from our shelf registration statement with the Securities and Exchange Commission totaled $1.1 billion and $2.1 billion during the three and nine months ended September 30, 2010, respectively, compared to $923 million and $2.0 billion during the year-ago periods. Total long term debt outstanding under this shelf was $6.6 billion and $5.5 billion at September 30, 2010 and December 31, 2009, respectively.

Borrowings from the Federal Home Loan Bank ("FHLB") totaled $1.0 billion at both September 30, 2010 and December 31, 2009. At September 30, 2010, we had the ability to access further borrowings of up to $3.0 billion based on the amount pledged as collateral with the FHLB.

In January 2009 as part of the purchase of the GM and UP Portfolio from HSBC Finance, we assumed $6.1 billion of securities backed by credit card receivables which were accounted for as secured financings. Borrowings under these facilities totaled $1.2 billion and $2.5 billion at September 30, 2010 and December 31, 2009, respectively.

We have entered into a series of transactions with VIEs organized by HSBC affiliates and unrelated third parties. We are the primary beneficiary of certain of these VIEs under the applicable accounting literature and, accordingly, we have consolidated the assets and the debt of these VIEs. As mentioned above, on January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board which amends accounting rules relating to the consolidation of VIEs. Application of this new guidance has resulted in the consolidation of one additional VIE and, therefore, the consolidated debt of VIE's we now report is greater than that reported in previous periods. Debt obligations of VIEs totaling $3.0 billion and $1.4 billion were included in short-term borrowings and long-term debt, respectively, at September 30, 2010. Debt obligations of VIEs totaling $3.0 billion were included in long-term debt at December 31, 2009. See Note 17, "Variable Interest Entities" in the accompanying consolidated financial statements for additional information regarding VIE arrangements.

Results of Operations

Net Interest Income Net interest income is the total interest income on earning assets less the total interest expense on deposits and borrowed funds. In the discussion that follows, interest income and rates are presented and analyzed on a taxable equivalent basis to permit comparisons of yields on tax-exempt and taxable assets. An analysis of consolidated average balances and interest rates on a taxable equivalent basis is presented in this MD&A under the caption "Consolidated Average Balances and Interest Rates."

The significant components of net interest margin are summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Yield on total earning assets	3.53%	4.43%	3.64%	4.69%
Rate paid on interest bearing liabilities	.94	1.36	.95	1.56
Interest rate spread	2.59	3.07	2.69	3.13
Benefit from net non-interest earning or paying funds	.15	.24	.15	.26
Net interest margin to earning assets(1)	2.74%	3.31%	2.84%	3.39%

(1) Selected financial ratios are defined in the Glossary of Terms in our 2009 Form 10-K.

Significant trends affecting the comparability of 2010 and 2009 net interest income and interest rate spread are summarized in the following table. Net interest income in the table is presented on a taxable equivalent basis.

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Amount	Interest Rate Spread	Amount	Interest Rate Spread
	(dollars are in millions)			
Net interest income/interest rate spread from prior year	$ 1,266	3.07%	$ 3,903	3.13%
Increase (decrease) in net interest income associated with:				
Trading related activities	(36)		(94)	
Balance sheet management activities(1)	35		(89)	
Private label credit card portfolio	(66)		(103)	
Credit card portfolio	(82)		(145)	
Commercial loans	(59)		(160)	
Deposits	46		84	
Residential mortgage banking	(1)		(26)	
Other activity	(7)		69	
Net interest income/interest rate spread for current year	$ 1,096	2.59%	$ 3,439	2.69%

(1) Represents our activities to manage interest rate risk associated with the repricing characteristics of balance sheet assets and liabilities. Interest rate risk, and our approach to manage such risk, are described under the caption "Risk Management" in this Form 10-Q.

Trading Related Activities Net interest income for trading related activities decreased during the three and nine months ended September 30, 2010 due primarily to lower balances on interest earning trading assets, such as trading bonds, which was partially offset by lower cost of funds.

Balance Sheet Management Activities Higher net interest income from balance sheet management activities during the three month period ended September 30, 2010 reflects additional purchases of US Treasuries and Government National Mortgage Association mortgage-backed securities. Lower net interest income from balance sheet management activities during the nine months ended September 30, 2010 was due primarily to the sale of securities in the first half of 2009 and the re-investment of proceeds into lower margin securities, partially offset by positions taken in expectation of lower short-term rates.

Private Label Credit Card Portfolio Net interest income on private label credit card receivables was lower during the three and nine months ended September 30, 2010 as a result of higher premiums, lower average balances outstanding and lower receivable levels at penalty pricing, partially offset by lower funding costs and repricing initiatives.

Credit Card Portfolios Lower net interest income on credit card receivables during the current periods primarily reflects lower average balances outstanding and lower receivable levels at penalty pricing and for the nine month period higher premiums, partially offset by higher spreads driven by lower funding costs and repricing initiatives.

Commercial Loans Net interest income on commercial loans was lower during the three and nine months ended September 30, 2010 due primarily to lower loan balances, partially offset by loan repricing, lower levels of non-performing loans and lower funding costs.

Deposits Higher net interest income on deposits during both periods is due primarily to improved spreads in the Personal Financial Services and Commercial Banking business segments. Although these segments continue to be affected by falling interest rates and growth in customer deposits in higher yielding deposit products such as premier investor accounts, this has been offset by pricing initiatives, an overall slightly less competitive retail market, and higher funding credits.

Residential mortgage banking During the three and nine months ended September 30, 2010, lower net interest income resulted from lower average residential loan outstandings partially offset by lower funding costs. Lower average residential loans outstanding resulted in part from the sale of approximately $494 million of prime adjustable and fixed rate residential mortgages since September 30, 2009.

Other Activity Lower net interest income on other activity during the three month period ended September 30, 2010 was largely driven by lower net interest income on auto finance receivables. Higher net interest income from other activity during the nine month period ended September 30, 2010 was primarily due to lower interest expense related to long term debt and higher net interest income related to interest bearing deposits with banks. This was partially offset by lower net interest income on auto finance receivables.

Provision for Credit Losses The provision for credit losses associated with various loan portfolios is summarized in the following table.

			Increase (Decrease)	
Three Months Ended September 30,	2010	2009	Amount	%
	(dollars are in millions)			
Commercial	$ 12	$ 246	$ (234)	(95.1)%
Consumer:				
Residential mortgages, excluding home equity mortgages	(23)	92	(115)	(100+)
Home equity mortgages	8	79	(71)	(89.9)
Private label card receivables	134	272	(138)	(50.7)
Credit card receivables	108	275	(167)	(60.7)
Auto finance	—	20	(20)	(100.0)
Other consumer	6	22	(16)	(72.7)
Total consumer	233	760	(527)	(69.3)

Total provision for credit losses	$ 245	$ 1,006	$ (761)	(75.6)%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Commercial	$ (52)	$ 560	$ (612)	(100+)%
Consumer:				
Residential mortgages, excluding home equity mortgages	(32)	351	(383)	(100+)
Home equity mortgages	(7)	166	(173)	(100+)
Private label card receivables	441	981	(540)	(55.0)
Credit card receivables	513	1,034	(521)	(50.4)
Auto finance	35	85	(50)	(58.8)
Other consumer	14	70	(56)	(80.0)
Total consumer	964	2,687	(1,723)	(64.1)
Total provision for credit losses	$ 912	$ 3,247	$ (2,335)	(71.9)%

Our credit loss reserves decreased during the three months ended September 30, 2010 as the provision for credit losses was $405 million lower than net charge-offs compared to provision for credit losses greater than net charge-offs of $130 million in the prior year quarter. Credit loss reserves also decreased during the nine months ended September 30, 2010 as the provision for credit losses was $1,324 million lower than net charge-offs compared to provision for credit losses greater than net charge-offs of $1,044 million in the year-ago period. The provision as a percentage of average receivables was .34 percent and 1.21 percent for the three and nine months ended September 30, 2010 compared to 1.19 percent and 3.67 percent for the three and nine months ended September 30, 2009. The decrease in credit loss provision reflects lower loss estimates in our commercial and consumer loan portfolios as discussed in more detail below.

Commercial loan provision for credit losses decreased for both the current quarter and year-to-date period as a result of lower loss estimates in most commercial portfolios due to lower outstanding balances including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and lower levels of nonperforming loans and criticized assets. Also contributing to the decrease were fewer customer downgrades across all business lines compared to the year-ago periods. The combination of all of these factors has led to an overall net recovery in provision for commercial loans during the nine months ended September 30, 2010. These decreases were partially offset in both periods by a specific provision relating to a single commercial real estate lending relationship. Given the nature of the factors driving the reduction in commercial loan provision, the provision levels recognized in the first nine months of 2010 should not be considered indicative of provision levels during the remainder of 2010.

The provision for credit losses on residential mortgages including home equity mortgages decreased $186 million and $556 million during the three and nine months ended September 30, 2010 as compared to the year-ago periods. The decrease in provision for credit losses on residential mortgages in both periods was attributable to lower receivable levels and stabilization in residential mortgage loan credit quality as dollars of delinquency and charge-off continue to decline compared to the prior year periods as outstanding balances continue to fall and loss severities stabilize. These factors have resulted in an improved outlook on future loss estimates.

The provision for credit losses associated with credit card receivables decreased $167 million and $521 million during the three and nine months ended September 30, 2010 as compared to the year-ago periods due to lower receivable levels, improved economic and credit conditions, including lower dollars of delinquency, as well as an improved outlook on future loss estimates as the impact of the economic environment including high unemployment rates on losses has not been as severe as previously anticipated due in part to improved customer payment behavior, home price stability and the impact of tighter underwriting initiated in prior periods. Lower receivable levels reflect fewer active customer accounts, the impact of the actions previously taken to reduce risk as well as an increased focus by customers to pay down credit card debt.

Provision expense associated with our private label card portfolio decreased $138 million and $540 million during the three and nine months ended September 30, 2010 as compared to the year-ago periods due to lower receivable levels, improved economic and credit conditions including lower delinquency levels and an improved outlook on future loss estimates as the impact of the economic environment including high unemployment levels on losses has not been as severe as previously anticipated as discussed above. Lower receivable levels reflect fewer active customer accounts as well as the exit of certain merchant relationships.

Provision expense associated with our auto finance portfolio declined in both periods as the portfolio continued to liquidate and used car prices improved. The decrease also reflects the impact of the sale of $1.2 billion of auto finance loans in August 2010.

Our methodology and accounting policies related to the allowance for credit losses are presented in "Critical Accounting Policies and Estimates" in MD&A and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements" in our 2009 Form 10-K. See "Credit Quality" in this MD&A for additional commentary on the allowance for credit losses associated with our various loan portfolios.

Other Revenues The components of other revenues are summarized in the following tables.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	$ 226	$ 333	$ (107)	(32.1)%
Other fees and commissions	211	188	23	12.2
Trust income	26	30	(4)	(13.3)
Trading revenue	166	353	(187)	(53.0)
Net other-than-temporary impairment losses	(4)	(26)	22	84.6
Other securities gains, net	37	5	32	100+
HSBC affiliate income:				
Fees and commissions	22	35	(13)	(37.1)
Other affiliate income	22	—	22	100+
Total HSBC affiliate income	44	35	9	25.7
Residential mortgage banking revenue (loss)(1)	11	15	(4)	(26.7)
Gain (loss) on instruments at fair value and related derivatives(2)	89	44	45	100+
Other income:				
Valuation of loans held for sale	(5)	(40)	35	87.5
Insurance	4	6	(2)	(33.3)
Earnings from equity investments	15	4	11	100+
Miscellaneous income	(4)	(52)	48	92.3
Total other income	10	(82)	92	100+
Total other revenues	$ 816	$ 895	$ (79)	(8.8)%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	$ 708	$ 1,032	$ (324)	(31.4)%
Other fees and commissions	703	635	68	10.7
Trust income	79	92	(13)	(14.1)
Trading revenue (loss)	498	351	147	41.9
Net other-than-temporary impairment losses	(45)	(84)	39	46.4
Other securities gains, net	59	299	(240)	(80.3)
HSBC affiliate income:				
Fees and commissions	86	102	(16)	(15.7)
Other affiliate income	31	10	21	100+
Total HSBC affiliate income	117	112	5	4.5
Residential mortgage banking revenue (loss)(1)	(106)	139	(245)	(100+)
Gain (loss) on instruments at fair value and related derivatives(2)	317	(201)	518	100+
Other income :				
Valuation of loans held for sale	56	(195)	251	100+
Insurance	13	19	(6)	(31.6)
Earnings from equity investments	22	25	(3)	(12.0)
Miscellaneous income	86	(3)	89	100+
Total other income	177	(154)	331	100+
Total other revenues	$ 2,507	$ 2,221	$ 286	12.9%

(1) Includes servicing fees received from HBSC Finance of $2 million and $6 million during the three and nine months ended September 30, 2010, respectively, and $3 million and $10 million during the three and nine months ended September 30, 2009.

(2) Includes gains and losses associated with financial instruments elected to be measured at fair value and the related derivatives. See Note 11, "Fair Value Option," of the accompanying consolidated financial statements for additional information.

Credit Card Fees Lower credit card fees during both periods were due primarily to lower receivable levels as a result of fewer active customer accounts, changes in customer behavior, the continuing impact of efforts to manage risk initiated in prior periods, improved delinquency levels and the implementation of certain provisions of the CARD Act earlier in the year. The CARD Act has resulted in significant decreases in overlimit fees as customers must now opt-in for such fees, restrictions on fees charged to process on-line and telephone payments and in the third quarter of 2010, lower late fees due to limits on fee that can be assessed. Also contributing to the decrease were higher revenue share payments due to improved cash flows and in the nine month period, higher reversals of fee income stemming from reduced charge-off activity upon acquisition of the GM and UP Portfolios in the first nine months of 2009 due to purchase accounting.

Other Fees and Commissions Other fee-based income increased during both periods driven by higher commercial loan fee accruals, a $15 million reclassification of auto loan servicing fees paid to SC USA into operating expenses in August 2010 and in the year-to-date period, higher refund anticipation loan fees. Beginning in 2010, we began to keep a portion of originated refund anticipation loans, which is seasonal principally to the first quarter, on our balance sheet. As a result, we earn fee income on these loans. The loans we keep are transferred to HSBC Finance at par only if they reach a certain defined delinquency status.

Trust Income Trust income declined in both periods primarily due to lower domestic custody fees from lower assets under management and margin pressures as money market assets have shifted from higher fee asset classes to lower fee institutional class funds.

Trading Revenue (Loss) is generated by participation in the foreign exchange, rates, credit and precious metals markets. The following table presents trading related revenue (loss) by business. The data in the table includes net interest income earned on trading instruments, as well as an allocation of the funding benefit or cost associated with the trading positions. The trading related net interest income component is included in net interest income on the consolidated statement of income (loss). Trading revenues related to the mortgage banking business are included in residential mortgage banking revenue.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Trading revenue (loss)	$ 166	$ 353	$ (187)	(53.0)%
Net interest income	(2)	34	(36)	(100+)
Trading related revenue (loss)	$ 164	$ 387	$ (223)	(57.6)%
Business:				
Derivatives	$ 68	$ 58	$ 10	17.2%
Balance sheet management	4	28	(24)	(85.7)
Foreign exchange and banknotes	71	98	(27)	(27.6)
Precious metals	12	3	9	100+
Global banking	10	203	(193)	(95.1)
Other trading	(1)	(3)	2	66.7
Trading related revenue	$ 164	$ 387	$ (223)	(57.6)%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Trading revenue (loss)	$ 498	$ 351	$ 147	41.9%
Net interest income	18	112	(94)	(83.9)
Trading related revenue (loss)	$ 516	$ 463	$ 53	11.4%
Business:				
Derivatives	$ 202	$ (283)	$ 485	100+%
Balance sheet management	78	74	4	5.4
Foreign exchange and banknotes	200	307	(107)	(34.9)
Precious metals	46	36	10	27.8
Global banking	(7)	332	(339)	(100+)
Other trading	(3)	(3)	—	—
Trading related revenue	$ 516	$ 463	$ 53	11.4%

Trading revenue decreased in the three month period ended September 30, 2010 compared to the prior year quarter but improved significantly in the nine month period as the year-ago nine month period reflects reductions to revenue associated with credit derivative products due to the adverse market conditions which existed at that time. Improved market conditions in 2010 have resulted in a recovery of some of these valuation losses. During the three months ended September 30, 2010 and 2009, the value of credit derivatives remained fairly stable.

Trading revenue related to derivatives improved during the three months ended September 30, 2010 due to higher revenue from other credit related products which reported total gains of $4 million during the three ended

September 30, 2010, as compared to losses of $25 million during the year-ago period. This improvement resulted from favorable credit spread movements. Trading revenue related to derivatives improved during the nine months ended September 30, 2010 largely due to the performance of structured credit products which reported total gains of $178 million during the nine months ended September 30, 2010, as compared to losses of $286 million during the year-ago period. The performance of credit derivatives remained stable during the first nine months of 2010 as credit spread volatility and the outlook for corporate defaults improved and exposures to several counterparties, including monoline insurers, were reduced as a result of the early termination of transactions. Partly offsetting the improvement in credit derivatives revenue in both periods were reductions in other derivative products substantially due to lower deal activity.

Trading income related to balance sheet management activities declined in the three month period ended September 30, 2010 primarily due to losses on securities held for trading purposes but improved in the year-to-date period as the losses referred to above were more than offset by more favorable trends in credit spreads on asset-backed securities.

Foreign exchange and banknotes revenue declined in both periods primarily due to lower volumes and narrower trading spreads in foreign exchange.

Precious metals continued to deliver strong results in both periods as a result of continuing demand for metals as a perceived safe investment.

Global banking revenue decreased significantly during the three and nine months ended September 30, 2010 due to a reduction in corporate bond positions and lower price volatility as compared to the year ago periods.

Net Other-Than-Temporary Impairment (Losses) Recoveries During the three and nine months ended September 30, 2010, five debt securities and 38 debt securities, respectively, were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates compared to 14 and 18 debt securities which were determined to be other-than-temporarily impaired in the year-ago periods. The following table presents the various components of other-than-temporary impairment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Total other-than-temporary impairment recoveries (losses)	$ (13)	$ (28)	$ 90	$ (188)
Portion of loss (recovery) recognized in other comprehensive income, before taxes	9	2	(135)	104
Net other-than-temporary impairment losses recognized in the consolidated statement of income (loss)	$ (4)	$ (26)	$ (45)	$ (84)

Other Securities Gains, Net We maintain various securities portfolios as part of our balance sheet diversification and risk management strategies. The following table summarizes the net other securities gains (losses) resulting from various strategies.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Available-for-sale securities	$ 37	$ 5	$ 59	$ 251

Sale of MasterCard or Visa Class B Shares	—	—	—	48
Other securities gains, net	$ 37	$ 5	$ 59	$ 299

Gross realized gains and losses from sales of securities are summarized in Note 4, “Securities,” in the accompanying consolidated financial statements.

During the three and nine months ended September 30, 2010, we sold $3.2 billion and $14.0 billion, respectively, of US treasury, municipal, mortgage-backed and other asset-backed securities as part of a strategy to adjust portfolio risk duration as well as to reduce risk-weighted asset levels and recognized gains of $59 million and $142 million, respectively, and losses of $22 million and $83 million, respectively, during these periods which is included as a component of other security gains, net above.

During the three and nine months ended September 30, 2009, we sold $129 million and $12.8 billion of mortgage-backed and other asset-backed securities as part of a strategy to reduce prepayment risk as well as risk-weighted asset levels and recognized gains of $9 million and $293 million and losses of $4 million and $42 million, respectively, during these periods.

HSBC Affiliate Income Affiliate income was higher in both periods due to higher fees and commissions earned from HSBC Finance affiliates as compared to the year-ago periods driven by the transfer of certain real estate default servicing employees from HSBC Finance in July 2010, partially offset by lower fees and commissions earned from HSBC Markets USA and other HSBC affiliates and, in the nine month period, lower fees on tax refund anticipation loans as beginning in 2010, we now transfer only a portion of these loans to HSBC Finance upon origination as discussed above.

During the third quarter of 2010, the Internal Revenue Service (“IRS”) announced it would stop providing information regarding certain unpaid obligations of a taxpayer (the “Debt Indicator”), which has historically served as a significant part of our underwriting process for Taxpayer Financial Services (“TFS”) tax refund products. We determined that, without use of the Debt Indicator, we could no longer offer the product that has historically accounted for the substantial majority of our TFS loan production and that we might not be able to offer the remaining products available under the program in a safe and sound manner.

On October 15, 2010, H&R Block commenced an action in the United Stated District Court for The Eastern District of Missouri seeking injunctive relief compelling HSBC Finance and other HSBC North America subsidiaries, including HSBC Bank USA and HSBC Trust Company (Delaware), N.A., to continue to fund tax refund anticipation loans and refund anticipation checks for the 2011 tax season. We believe that the decision of the IRS to stop issuing the Debt Indicator, a recent Supervisory Letter from the Office of the Comptroller of the Currency, and certain contractual provision provide defenses to the claim and support the decision regarding the suspension of offering these tax refund products. H&R Block’s request for a temporary restraining order was denied on October 18, 2010. The Court scheduled a four-day evidentiary hearing on the preliminary injunction for November 15-18, 2010. While we cannot determine the manner in which this dispute will ultimately be resolved, there will likely be a significant decrease in, or elimination of, TFS volumes and related revenue in 2011, which, in either case, is not expected to have a material impact on our financial position or results of operations.

Residential Mortgage Banking Revenue (Loss) The following table presents the components of residential mortgage banking revenue. The net interest income component of the table is included in net interest income in the consolidated statement of income (loss) and reflects actual interest earned, net of interest expense and corporate transfer pricing.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 54	$ 55	$ (1)	(1.8)%
Servicing related income:				
Servicing fee income	30	33	(3)	(9.1)
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	1	(54)	55	100+
Realization of cash flows	(30)	(8)	(22)	(100+)
Trading – Derivative instruments used to offset changes in value of MSRs	71	59	12	20.3
Total servicing related income	72	30	42	100+
Originations and sales related income:				
Gains on sales of residential mortgages	5	14	(9)	(64.3)
Provision for repurchase obligations	(95)	(21)	(74)	(100+)
Trading and hedging activity	21	(13)	34	100+
Total originations and sales related income (loss)	(69)	(20)	(49)	(100+)
Other mortgage income	8	5	3	60.0
Total residential mortgage banking revenue included in other revenues	11	15	(4)	(26.7)
Total residential mortgage banking related revenue	$ 65	$ 70	$ (5)	(7.1)%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 164	$ 190	$ (26)	(13.7)%
Servicing related income:				
Servicing fee income	92	99	(7)	(7.1)
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	(113)	6	(119)	(100+)
Realization of cash flows	(75)	(32)	(43)	(100+)
Trading – Derivative instruments used to offset changes in value of MSRs	219	(4)	223	100+
Total servicing related income	123	69	54	78.3
Originations and sales related income:				
Gains on sales of residential mortgages	28	95	(67)	(70.5)
Provision for repurchase obligations	(285)	(42)	(243)	(100+)
Trading and hedging activity	6	3	3	100.0
Total originations and sales related income (loss)	(251)	56	(307)	(100+)
Other mortgage income	22	14	8	57.1
Total residential mortgage banking revenue included in other revenues	(106)	139	(245)	(100+)
Total residential mortgage banking related revenue	$ 58	$ 329	$ (271)	(82.4)%

Lower net interest income during both periods reflects lower loan balances, partially offset by lower funding costs as well as reduced deferred loan origination cost amortization on lower average outstandings. Lower loan balances reflect the sale of approximately $494 million of prime adjustable and fixed rate residential mortgages since September 30, 2009, for which we retained the servicing rights. We continue to sell the majority of new loan originations to government sponsored enterprises and private investors. Consistent with our Premier strategy, additions to the portfolio are comprised largely of Premier relationship products.

Total servicing related income increased in both periods driven by better net hedged MSR performance, partially offset by increased cash flows and lower servicing fee income as the average serviced loan portfolio declined as new originations sold were more than offset by prepayments.

Originations and sales related income decreased in both periods. Higher gains from normal loan sales (excluding held mortgage asset sales) were more than offset by higher estimates of exposure on repurchase obligations associated with previously sold loans. In addition, we recorded gains of $67 million in the nine months ended September 30, 2009 related to held mortgage asset sales. There were no held mortgage asset sales in the first nine months of 2010. During the three and nine months ended September 30, 2010, we recorded expense of $95 million and $285 million, respectively, due to an increase in our estimated exposure associated with repurchase obligations on loans previously sold.

Gain on Instruments Designated at Fair Value and Related Derivatives We have elected to apply fair value option accounting to commercial leveraged acquisition finance loans and unfunded commitments, certain other commercial loans, certain own fixed-rate debt issuances and all structured notes and structured deposits issued after January 1, 2006 that contain embedded derivatives. We also use derivatives to economically hedge the interest rate risk associated with certain financial instruments for which fair value has been elected. See Note 11, "Fair Value Option," in the accompanying consolidated financial statements for additional information, including a breakout of these amounts by individual component.

Valuation on Loans Held for Sale Valuation adjustments on loans held for sale improved during the three and nine months ended September 30, 2010, as there has been reduced volatility in the U.S. residential mortgage market driven by stabilization of home prices in the U.S. since September 30, 2009. Valuations on loans held for sale relate primarily to residential mortgage loans purchased from third parties and HSBC affiliates with the intent of securitization or sale. Included in this portfolio are sub-prime residential mortgage loans with a fair value of $410 million and $757 million as of September 30, 2010 and December 31, 2009, respectively. Loans held for sale are recorded at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. Valuations on residential mortgage loans we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of income (loss). Valuations on loans held for sale in the nine months ended September 30, 2010 also reflects an $89 million settlement relating to certain whole loans previously purchased for re-sale from a third party.

Other Income (Loss) Excluding the valuation of loans held for sale as discussed above, other income (loss) improved during the three and nine months ended September 30, 2010 due largely to higher miscellaneous income due to improved performance related to credit derivatives used to economically hedge certain commercial loans and a $9 million gain on the sale of auto finance loans to SC USA, partially offset by a $12 million lower of cost or fair value adjustment on the assets of our Asian Banknotes Operations which was classified as held for sale in the third quarter of 2010. For the nine months ended September 30, 2009, other income (loss) included a gain on the sale of our equity interest in HSBC Private Bank (Suisse) S.A. of $33 million as well as an $85 million gain related to a judgment whose proceeds were used to redeem 100 preferred shares issued to CT Financial Services, Inc., while the nine months ended September 30, 2010 other income (loss) reflects a $66 million gain relating to the sale of our equity investment in Wells Fargo HSBC Trade Bank.

The obligation to redeem the preferred shares upon our receipt of the proceeds from the judgment represented a contractual arrangement established in connection with our purchase of a community bank from CT Financial Services Inc. in 1997 at which time this litigation remained outstanding. The $85 million we received, net of applicable taxes, was remitted in April 2009 to Toronto Dominion, which now holds beneficial ownership interest in CT Financial Services Inc., and the preferred shares were redeemed. In the first quarter of 2010, we received a final payment of $5 million related to this judgment which was again remitted to Toronto Dominion, net of tax in March 2010.

Operating Expenses The components of operating expenses are summarized in the following tables.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	$ 156	$ 156	$ —	—%
Employee benefits	127	124	3	2.4
Total salaries and employee benefits	283	280	3	1.1
Occupancy expense, net	66	60	6	10.0
Support services from HSBC affiliates:				
Fees paid to HSBC Finance for loan servicing and other administrative support	164	175	(11)	(6.3)
Fees paid to HMUS	74	50	24	48.0
Fees paid to HTSU	195	106	89	84.0
Fees paid to other HSBC affiliates	46	55	(9)	(16.4)
Total support services from HSBC affiliates	479	386	93	24.1
Other expenses:				
Equipment and software	12	11	1	9.1
Marketing	28	28	—	—
Outside services	46	26	20	76.9
Professional fees	20	21	(1)	(4.8)
Telecommunications	3	4	(1)	(25.0)
Postage, printing and office supplies	4	3	1	33.3
Off-balance sheet credit reserves	(17)	1	(18)	(100+)
FDIC assessment fee	34	26	8	30.8
Insurance business	1	5	(4)	(80.0)
Miscellaneous	63	68	(5)	(7.4)
Total other expenses	194	193	1	.5
Total operating expenses	$ 1,022	$ 919	$ 103	11.2%
Personnel – average number	10,014	9,557		
Efficiency ratio	53.60%	42.64%		

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	$ 440	$ 464	$ (24)	(5.2)%
Employee benefits	390	409	(19)	(4.6)
Total salaries and employee benefits	830	873	(43)	(4.9)
Occupancy expense, net	202	211	(9)	(4.3)
Support services from HSBC affiliates:				
Fees paid to HSBC Finance for loan servicing and other administrative support	553	548	5	.9
Fees paid to HMUS	218	187	31	16.6
Fees paid to HTSU	558	353	205	58.1
Fees paid to other HSBC affiliates	126	140	(14)	(10.0)
Total support services from HSBC affiliates	1,455	1,228	227	18.5
Other expenses:				
Equipment and software	34	31	3	9.7
Marketing	81	95	(14)	(14.7)
Outside services	100	70	30	42.9
Professional fees	49	54	(5)	(9.3)
Telecommunications	10	12	(2)	(16.7)
Postage, printing and office supplies	11	11	—	—
Off-balance sheet credit reserves	(29)	(1)	(28)	(100+)
FDIC assessment fee	103	177	(74)	(41.8)
Insurance business	(2)	48	(50)	(100+)
Miscellaneous	237	171	66	38.6
Total other expenses	594	668	(74)	(11.1)
Total operating expenses	$ 3,081	$ 2,980	$ 101	3.4%
Personnel – average number	9,394	9,734		
Efficiency ratio	51.95%	48.80%		

Salaries and Employee Benefits Salaries and employee benefits expense increased during the three month period due to the transfer of certain employees from HSBC Finance to the default mortgage loan servicing department of a subsidiary of HSBC Bank USA in July 2010, partially offset by lower expense due to the transfer of additional support services employees to HTSU, as described below. In the nine month period, salaries and employee benefits expense was lower as the transfer of additional support services employees to HTSU more than offset the increase associated with the transfer of certain employees from HSBC Finance to the default mortgage loan servicing department as discussed above as well as exit costs associated with the closure of our banknotes business.

Occupancy Expense, Net Occupancy expense in the prior year-to-date period reflects a $20 million impairment of a data center building held for use. Excluding the impact of this impairment, occupancy expense increased in both periods due largely to the expansion of the core banking network within the PFS segment and in the nine month period, $8 million in lease abandonment costs associated with the closure of several non-strategic branches recorded during the first quarter of 2010, partially offset by the transfer of additional shared services employees and their related workspace expenses to an affiliate earlier in the year, as discussed below. Subsequent to September 30, 2009,

we opened 12 new branches resulting in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses.

Support services from HSBC affiliates includes technology and certain centralized support services, including human resources, corporate affairs and other shared services and beginning in January 2010, legal, compliance, tax and finance charged to us by HTSU. Support services from HSBC affiliates also includes services charged to us by an HSBC affiliate located outside of the United States which provides operational support to our businesses, including among other areas, customer service, systems, collection and accounting functions. Higher support services from HSBC affiliates in both periods reflects the increased level of services provided, including fees paid to HSBC Finance for servicing and assuming the credit risk associated with refund anticipation loans originated and held on our balance sheet as a result of the change in the management of the refund anticipation loan program between HSBC Bank USA and HSBC Finance beginning in 2010 which totaled $0 million and $58 million during the three and nine months ended September 30, 2010. These increases were partially offset by lower levels of receivables being serviced.

Marketing Expenses Lower marketing and promotional expenses during the nine months ended September 30, 2010 reflects continued optimization of marketing spend as a result of general cost saving initiatives, partially offset by a continuing investment in HSBC brand activities and marketing support for branch expansion initiatives, primarily within the PFS and CMB business segments. During the three months ended September 30, 2010, marketing expenses were flat.

Other Expenses Other expenses (excluding marketing expenses) increased during the three month period but decreased in the year-to-date period. During the three months ended September 30, 2010, higher other expenses reflect higher miscellaneous expenses including higher legal costs, higher collection agency costs and higher outside services costs, partially offset by improved estimates of off-balance sheet exposure. Other expenses decreased in the year-to-date period as the factors above were more than offset by lower FDIC assessment fees as the year-ago period included an $82 million special assessment recorded in the second quarter of 2009.

Efficiency Ratio Our efficiency ratio, which is the ratio of total operating expenses, reduced by minority interests, to the sum of net interest income and other revenues, was 53.60 percent and 51.95 percent for the three and nine months ended September 30, 2010 compared to 42.64 percent and 48.80 percent in the year-ago periods. The deterioration in both periods reflects higher operating expenses while the total of net interest income and other revenues declined.

Segment Results – IFRSs Basis

We have five distinct segments that are utilized for management reporting and analysis purposes. The segments, which are based upon customer groupings as well as products and services offered, are described under Item 1, “Business” in our 2009 Form 10-K. There have been no changes in the basis of segmentation or measurement of segment profit as compared with the presentation in our 2009 Form 10-K.

We report to our parent, HSBC, in accordance with its reporting basis, IFRSs. As a result, our segment results are presented on an IFRSs Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRSs basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis. The significant differences between U.S. GAAP and IFRSs as they impact our results are summarized in Note 16, “Business Segments,” in the accompanying consolidated financial statements and under the caption “Basis of Reporting” in the MD&A section of this Form 10-Q.

Personal Financial Services (“PFS”) During 2010, we continue to direct resources towards the expansion of the core retail banking business and in particular the growth of HSBC Premier, HSBC’s global banking service that offers customers a seamless international service. In addition, expansion of the branch network continued during 2010 with the opening of five new branches in geographic markets with international connectivity as well as continued investment in the HSBC brand. We intend to open additional new branches as the opportunity arises. Average personal deposits in the third quarter of 2010 increased approximately 4.8 percent compared to the level experienced in the third quarter of 2009. Premier customers increased to 461,600 at September 30, 2010, a 30 percent increase from December 31, 2009 and a 41 percent increase from the year-ago quarter. We remain focused on providing differentiated premium services to the internationally minded mass affluent and upwardly mobile customers.

We continue to sell the majority of new residential mortgage loan originations to government sponsored enterprises. Consistent with the Premier strategy, additions to our portfolio are primarily comprised of Premier relationship products. In addition to normal sale activity, we sold prime adjustable and fixed rate mortgage loan portfolios to third parties in prior years. For the nine months ended September 30, 2009, we sold approximately $4.0 billion of prime adjustable and fixed rate residential mortgage loans to third parties. No such sales occurred during the first nine months of 2010. We retained the servicing rights in relation to the mortgages upon sale. As a result, average residential mortgage loans outstanding have continued to decline during the third quarter of 2010, decreasing approximately 11 percent as compared to average residential mortgage loans outstanding during the third quarter of 2009.

The following table summarizes the IFRSs Basis results for our PFS segment:

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 252	$ 238	$ 14	5.9%
Other operating income	67	88	(21)	(23.9)
Total operating income	319	326	(7)	(2.1)
Loan impairment charges	(21)	178	(199)	(100+)
	340	148	192	100+
Operating expenses	341	306	35	11.4
Profit (loss) before tax	$ (1)	$ (158)	$ 157	99.4%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 730	$ 665	$ 65	9.8%
Other operating income	132	171	(39)	(22.8)
Total operating income	862	836	26	3.1
Loan impairment charges	6	550	(544)	(98.9)
	856	286	570	100+
Operating expenses	929	936	(7)	(.7)
Profit (loss) before tax	$ (73)	$ (650)	$ 577	88.8%

Our PFS segment reported a loss before tax during the three and nine months ended September 30, 2010 which was lower than the losses before tax during the year-ago periods. The improvement in both periods was driven primarily by lower loan impairment charges as well as higher net interest income which was partially offset by lower other operating income and in the three month period, higher operating expenses.

Net interest income increased during both periods, driven by a combination of customer rate cuts and additional funding credits on deposits. The higher net interest income was partially offset by lower levels of mortgage loans outstanding in part due to mortgage loan sales of approximately $494 million since September 30, 2009.

Other operating income decreased during both periods reflecting the impact of increases in our estimate of exposure on repurchase obligations associated with previously sold loans which reduced other operating income in 2010 by

$95 million and $285 million during the three and nine months ended September 30, 2010. In addition, changes to Regulation E implemented on July 1, 2010 reduced deposit fee income by almost $9 million in both periods. Other operating income in the prior year to date period includes intersegment charges from the Global Banking and Markets segment of $163 million relating to costs associated with early termination of the funding associated with residential mortgage loan sales in 2009. This was partially offset by net gains on the sales of these residential mortgage loans in 2009 of $70 million.

Loan impairment charges declined in the three and nine months ended September 30, 2010, driven largely by stabilization in residential mortgage loan credit quality as dollars of delinquency and loss severities in the first nine months of 2010 have moderated which, along with lower loan balances, has led to an improvement in our future loss estimates.

Operating expenses increased in the third quarter of 2010 driven by higher costs from shared services and from the expansion of our branch network. Operating expenses declined in the year-to-date period as the higher costs described above were more than offset by lower FDIC assessment fees largely driven by the special assessment in the second quarter of 2009. In addition, there was a $48 million pension curtailment gain recorded in the first quarter of 2010 as a result of the decision in February 2010 to cease all future benefit accruals for legacy participants under the final average pay formula components of the HSBC North America defined benefit pension plan. There was also a recovery of $6 million in the second quarter of 2010 related to the Visa legal accrual previously established in 2007.

Consumer Finance ("CF") The CF segment includes the private label and co-brand credit cards, as well as other loans acquired from HSBC Finance or its correspondents, including the GM and UP Portfolios and certain auto finance loans which were sold to SC USA in August 2010 as well as portfolios of nonconforming residential mortgage loans (the "HMS Portfolio") purchased in 2003 and 2004. HSBC Finance services the receivables purchased for a fee.

The following table summarizes the IFRSs Basis results for our CF segment:

			Increase (Decrease)	
Three Months Ended September 30,	2010	2009	Amount	%
	(dollars are in millions)			
Net interest income	$ 430	$ 539	$ (109)	(20.2)%
Other operating income	97	98	(1)	(1.0)
Total operating income	527	637	(110)	(17.3)
Loan impairment charges	221	437	(216)	(49.4)
	306	200	106	53.0
Operating expenses	58	18	40	100+
Profit (loss) before tax	$ 248	$ 182	$ 66	36.3%

			Increase (Decrease)	
Nine Months Ended September 30,	2010	2009	Amount	%
	(dollars are in millions)			
Net interest income	$ 1,437	$ 1,588	$ (151)	(9.5)%
Other operating income	150	263	(113)	(43.0)
Total operating income	1,587	1,851	(264)	(14.3)
Loan impairment charges	786	1,468	(682)	(46.5)
	801	383	418	100+
Operating expenses	113	69	44	63.8

Profit (loss) before tax	$ 688	$ 314	$ 374	100+%

Our CF segment reported a higher profit before tax during the three and nine months ended September 30, 2010 largely due to lower loan impairment charges which was partially offset by lower net interest income, higher operating expenses and lower other operating income.

Net interest income was lower in both periods driven by lower outstanding receivable levels, lower yield due to lower receivable levels at penalty pricing primarily due to the impact of the new credit card legislation, higher premiums and higher charge-offs of credit card interest as the GM and UP portfolios recorded at fair value upon purchase in January 2009 continue to decline and be replaced by new volume. This was partially offset by repricing initiatives, a lower cost of funds due to a lower short term interest rate environment and in the year-to-date period, a refinement to the assumptions used in allocating interest to the portion of the GM and UP portfolio previously recorded at fair value.

Other operating income decreased during both periods due to lower fee income resulting from lower levels of credit card receivables outstanding including lower late fees on these portfolios driven by changes in customer behavior, lower delinquency levels, the impact of the new credit card legislation, higher charge-off of credit card fees on the GM and UP portfolios due to the runoff of purchase accounting as discussed above and, in the year-to-date period, higher revenue share payments. These decreases were partially offset by lower servicing fees on portfolios serviced by our affiliate, HSBC Finance (which is recorded as a reduction to other operating income) due to lower outstanding receivable levels including the transfer of the servicing of the auto finance loans in March 2010 to SC USA and a $49 million gain in August 2010 on the sale of the auto finance loans to SC USA.

Loan impairment charges associated with credit card receivables, including private label credit card receivables, decreased during both periods due to lower receivable levels driven by fewer active customer accounts, higher customer payment rates and previous risk mitigation efforts. Also contributing to the decrease were improved economic and credit conditions including lower dollars of delinquency as well as an improved outlook on future loss estimates as the impact of the economic environment including high unemployment levels on losses has not been as severe as previously anticipated. In addition, the GM and UP Portfolios experienced increased loan impairment charges in the prior year periods as these portfolios were recorded at fair value when they were purchased in January 2009 which resulted in no allowance for loan losses being established upon acquisition, creating the need to establish loan loss reserves as new volume was originated.

Operating expenses increased in both periods due to higher collection costs on bad debt accounts which were previously reported in loan impairment charges, higher fraud expenses and increased servicing costs associated with the transfer of the servicing associated with our auto finance portfolio from HSBC Finance to SC USA. In the year-to-date period, this increase was partially offset by the impact of higher FDIC assessment fees in the prior year period due to a special FDIC assessment during the second quarter of 2009.

As discussed in previous filings, on May 22, 2009, the CARD Act was signed into law. We have implemented all provisions of the CARD Act. The CARD Act has required us to make changes to our business practices, and will likely require us and our competitors to manage risk differently than has historically been the case. Pricing, underwriting and product changes in response to the new legislation have either been implemented or are under analysis. We currently believe the implementation of these new rules will not have a material adverse impact to us as any impact would be limited to only a portion of the existing affected loan portfolio as the purchase price on sales volume paid to HSBC Finance has been adjusted to reflect the new requirements.

Commercial Banking (“CMB”) Our Commercial Banking segment serves three client groups, notably Commercial (Middle Market Enterprises), Business Banking and Commercial Real Estate. CMB’s business strategy is to be the leader in international banking in target markets. In the U.S., CMB strives to execute on that vision and strategy by proactively targeting the growing number of U.S. companies that are increasingly in need of international banking, financial products and services. The products and services provided to these client groups are offered through multiple delivery systems including the branch banking network.

In the three and nine months ended September 30, 2010, interest rate spreads, while improved from the prior year periods, continued to be pressured from a low interest rate environment while loan impairment charges improved. Customer deleveraging and higher rates of repayment have resulted in a 4 percent decrease in loans outstanding to middle-market customers at September 30, 2010 as compared to a year-ago. The business banking loan portfolio has seen a 7 percent decrease in loans outstanding since September 30, 2009 resulting from an increase in paydowns and a decline in the demand for new credit facilities, while business banking customer deposits at September 30, 2010 grew 1 percent compared to September 2009 levels. The commercial real estate business continues to focus on deal quality and portfolio management rather than volume, which resulted in a 6 percent decline in outstanding receivables for this portfolio since September 30, 2009. Average customer deposit balances across all CMB business lines during the nine months ended September 30, 2010 increased 7 percent as compared to the year-ago period and average loans during the nine months ended September 30, 2010 decreased 13 percent as compared to the year-ago period. In February 2010, we completed the sale of our interest in Wells Fargo HSBC Trade Bank ("WHTB") to Wells Fargo and recorded a gain of $66 million which is included in other operating income.

The following table summarizes the IFRSs Basis results for our CMB segment:

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 172	$ 184	$ (12)	(6.5)%
Other operating income	111	92	19	20.7
Total operating income	283	276	7	2.5
Loan impairment charges	50	51	(1)	(2.0)
	233	225	8	3.6
Operating expenses	178	159	19	11.9
Profit (loss) before tax	$ 55	$ 66	$ (11)	(16.7)%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 535	$ 540	$ (5)	(.9)%
Other operating income	362	255	107	42.0
Total operating income	897	795	102	12.8
Loan impairment charges	98	222	(124)	(55.9)
	799	573	226	39.4
Operating expenses	499	471	28	5.9
Profit (loss) before tax	$ 300	$ 102	$ 198	100+%

Our CMB segment reported a lower profit before tax during the three months ended September 30, 2010 as higher operating expenses and lower net interest income were partially offset by higher other operating income. For the nine months ended September 30, 2010, profit before tax was higher as higher other operating income and lower loan impairment charges were partially offset by lower net interest income and higher operating expenses.

Net interest income decreased in both periods as lower loan balances offset growth in deposit balances and improved loan spreads from re-pricing activities in late 2009.

Other operating income increased during both periods reflecting higher income on our low income housing investments. The increase in the nine months ended September 30, 2010 also reflects a $66 million gain on the sale of our equity investment in WHTB.

Loan impairment charges were flat during the three month period due to a specific provision on a single commercial real estate lending relationship. Excluding this item, loan impairment charges improved in both periods as economic conditions improved and credit quality began to stabilize resulting in improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and fewer customer downgrades across all business lines.

Operating expenses increased during both periods due to higher amortization of low income housing investment activity, which is offset in other operating income, higher retail network expenses and higher performance related compensation costs, which were partially offset in the year-to-date period by lower FDIC assessment fees due to a special FDIC assessment recorded during the second quarter of 2009. The increase during the nine months ended September 30, 2010 was also partially offset by a $16 million pension curtailment gain recorded in the first quarter of 2010 as previously discussed.

Global Banking and Markets Our Global Banking and Markets business segment supports HSBC's emerging markets-led and financing-focused global strategy by leveraging HSBC Group advantages and scale, strength in emerging markets and Global Markets products expertise in order to focus on delivering international products to U.S. clients and local products to international clients with New York as the hub for the Americas business.

There are four major lines of business within Global Banking and Markets: Global Banking, Global Markets, Transaction Banking and Asset Management. The Global Banking business line includes corporate lending and investment banking activities, and this unit also coordinates client relationships across all Global Markets and Banking products. The Global Markets business services the requirements of the world's central banks, corporations, institutional investors and financial institutions through our global trading platforms and distribution capabilities. Transaction banking provides payments and cash management, trade finance, supply chain and security services primarily to corporations and financial institutions. Asset Management provides investment solutions to institutions, financial intermediaries and individual investors.

The Global Banking and Markets segment results in the third quarter and first nine months of 2010 benefited from improved credit market conditions, which led to an increase in the credit quality of our corporate lending relationships, lower securities impairment charges, and reduced losses in legacy positions as compared to the year ago periods. As credit markets have stabilized, results from legacy positions including credit derivatives and subprime mortgage loans have contributed to higher other operating income. Substantial counterparty credit reserves for monoline exposure and significant valuation losses were taken in both the trading and available-for-sale securities portfolios throughout 2008 and into 2009 due to the market volatility.

Under the provisions of the IAS 39 amendment issued in October 2008, we elected to re-classify $1.8 billion in leveraged loans and high yield notes and $892 million in securities held for balance sheet management purposes from trading assets to loans and available-for-sale investment securities, effective July 1, 2008. In November 2008, $967 million in additional securities were also transferred from trading assets to available-for-sale investment securities. If these IFRS reclassifications had not been made, our profit before tax for the quarter ended September 30, 2010 and 2009 would have been higher by $94 million and $378 million, respectively, and our profit before tax for the nine months ended September 30, 2010 and 2009 would have been higher by $62 million and $616 million, respectively.

The following table summarizes IFRSs Basis results for the Global Banking and Markets segment.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 186	$ 201	$ (15)	(7.5)%
Other operating income	186	91	95	100+
Total operating income	372	292	80	27.4
Loan impairment charges	(45)	163	(208)	(100+)
	417	129	288	100+
Operating expenses	217	180	37	20.6
Profit (loss) before tax	$ 200	$ (51)	$ 251	100+%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 471	$ 655	$ (184)	(28.1)%
Other operating income	927	600	327	54.5
Total operating income	1,398	1,255	143	11.4
Loan impairment charges	(193)	589	(782)	(100+)
	1,591	666	925	100+
Operating expenses	624	615	9	1.5
Profit (loss) before tax	$ 967	$ 51	$ 916	100+%

Our Global Banking and Markets segment performance continued to improve during the three and nine months ended September 30, 2010 due primarily to higher other operating income and lower loan impairment charges, partially offset by lower net interest income and higher operating expenses.

Net interest income decreased during both periods as a result of sales of higher yielding assets in our available-for-sale securities portfolio since March 2009 which were made for risk management purposes and lower margins on deposit balances.

Other operating income increased in both periods due to improved performance of credit derivatives, sub-prime mortgage loans held for sale, precious metals trading and higher fees in transaction banking. Partially offsetting these improvements in both periods were reductions in foreign exchange trading as well as banknotes which incurred a lower of cost or fair value adjustment of $7 million relating to the reclassification of the Asian portion of this business as held for sale and, in the year-to-date period, lower intersegment income.

Other operating income reflects gains on structured credit products of $36 million and $90 million during the three and nine months ended September 30, 2010, respectively, as compared to gains of $35 million and losses of $286 million during the year-ago periods, as the credit markets stabilized beginning in the second half of 2009, resulting in fewer losses from hedging activity and counterparty exposures. Exposure to insurance monolines continued to impact revenues but deterioration abated in 2010, resulting in gains of $89 million during the nine months ended September 30, 2010, compared to losses of $104 million during the year-ago periods.

Valuation losses of $9 million and $50 million during the three and nine months ended September 30, 2010, respectively, were recorded against the fair values of sub-prime residential mortgage loans held for sale as compared to valuation losses of $28 million and $182 million during the year-ago periods. Other operating income for the nine months ended September 30, 2010 includes a gain of $89 million associated with a settlement relating to certain loans previously purchased for resale from a third party. During the nine months ended September 30, 2009, other operating income includes intersegment income of $163 million from PFS charged for the early termination of funding.

Loan impairment charges decreased in both periods due to reductions in higher risk rated loan balances and stabilization of credit downgrades which has led to an overall release in loss reserves in both periods. In addition, during the three and nine months ended September 30, 2009, impairments included a charge of $57 million and $374 million, respectively, on securities determined to be other-than-temporarily impaired compared to no similar impairments in the current year.

Operating expenses increased in both periods largely due to higher performance related compensation costs and, in the nine month period, closure costs relating to the banknotes business which was partially offset in the same period by lower FDIC assessment fees as the year-ago year-to-date period included a special FDIC assessment recorded in the second quarter of 2009. Additionally, expenses in the nine months ended September 30, 2010 were also partially offset by a $7 million pension curtailment gain.

Private Banking ("PB") As part of HSBC's global network, the PB segment offers integrated domestic and international services to high net worth individuals, their families and their businesses. These services address both resident and non-resident financial needs. During 2010, we continued to dedicate resources to strengthen product and service leadership in the wealth management market. Areas of focus are banking and cash management, investment advice including discretionary portfolio management, banking and cash management, residential mortgages, as well as wealth planning for trusts and estates.

Average client deposit levels increased 7 percent as compared to the prior year quarter as growth in deposits from core clients was partially offset by withdrawals from domestic institutional clients during early 2010. Total average loans (mostly domestic) in the third quarter of 2010 decreased 5 percent compared to the prior year quarter from runoff and reductions of commercial loan borrowings partially offset by growth in the tailored mortgage product. Overall client assets increased 1 percent compared to the prior year quarter to $34 billion at September 30, 2010, with net growth in both discretionary and non-discretionary assets.

The following table summarizes IFRSs Basis results for the PB segment.

			Increase (Decrease)	
Three Months Ended September 30,	2010	2009	Amount	%
	(dollars are in millions)			
Net interest income	$ 47	$ 41	$ 6	14.6%
Other operating income	34	23	11	47.8
Total operating income	81	64	17	26.6
Loan impairment charges	(13)	86	(99)	(100+)
	94	(22)	116	100+
Operating expenses	63	58	5	8.6
Profit (loss) before tax	$ 31	$ (80)	$ 111	100+%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 139	$ 129	$ 10	7.8%
Other operating income	103	85	18	21.2
Total operating income	242	214	28	13.1
Loan impairment charges	(24)	90	(114)	(100+)
	266	124	142	100+
Operating expenses	180	180	—	—
Profit (loss) before tax	$ 86	$ (56)	$ 142	100+%

Our PB segment reported a higher profit before tax for the three and nine months ended September 30, 2010 due primarily to lower loan impairment charges, higher net interest income and other operating income, partially offset in the three month period by higher operating expenses.

Net interest income increased in both periods primarily due to higher loan volume and improved interest spreads on loans and deposits.

Other operating income increased in both periods primarily due to higher fees on managed products, structured products and recurring fund fees.

Loan impairment charges were lower in both periods due to lower reserves required relating to certain exposures, reductions in loans outstanding and improvements in client credit ratings. In addition the prior year periods included a specific provision relating to a single client relationship.

Operating expenses increased during the three months ended September 30, 2010 but remained flat during the year-to-date period as higher technology costs and higher performance related pay in both periods was offset in the year-to-date period by lower FDIC assessment fees due to a special FDIC assessment recorded during the second quarter of 2009. Additionally, operating expense for the nine months ended September 30, 2010 reflect a $5 million pension curtailment gain as discussed above.

Other The other segment primarily includes adjustments made at the corporate level for fair value option accounting related to certain debt issued, as well as any adjustments to the fair value on HSBC shares held for stock plans. Results for the nine month period in 2010 includes a gain on the sale of our 452 Fifth Avenue property in New York City, including the 1 W. 39th Street building. Results for the nine months ended September 30, 2010 and 2009 also include the impact of the resolution of a lawsuit as discussed below and for the nine months ended September 30, 2009 include the earnings on an equity investment in HSBC Private Bank (Suisse) S.A which was sold in March 2009 for a gain.

The following table summarizes IFRSs Basis results for the Other segment.

Three Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ (1)	$ (6)	$ 5	83.3%
Other operating income	40	(63)	103	100+

Total operating income	39	(69)	108	100+
Loan impairment charges	—	—	—	—
	39	(69)	108	100+
Operating expenses	18	13	5	38.5
Profit (loss) before tax	$ 21	$ (82)	$ 103	100+%

Nine Months Ended September 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ (9)	$ (6)	$ (3)	(50.0)%
Other operating income	267	(406)	673	100+
Total operating income	258	(412)	670	100+
Loan impairment charges	(1)	—	(1)	(100.0)
	259	(412)	671	100+
Operating expenses	47	65	(18)	(27.7)
Profit (loss) before tax	$ 212	$ (477)	$ 689	100+%

Other operating income in both periods was impacted by credit and interest rate related changes in the fair value of certain debt instruments to which fair value option was elected. Along with the related fair value option derivatives, we recorded total gains relating to these instruments of $34 million and $231 million for the three and nine months ended September 30, 2010, respectively, compared to losses of $63 million and $488 million in the year-ago periods. Other operating income in the nine months ended September 30, 2010 and 2009 includes net gains of $3 million and $30 million, respectively, related to the resolution of a lawsuit whose proceeds in 2009 were used to redeem preferred stock issued to CTUS Inc. In addition, other operating income during the nine months ended September 30, 2010 includes a $56 million gain on sale of our 452 Fifth Avenue property in New York City, including the 1 W. 39th Street building and, for the nine months ended September 30, 2009, includes a $43 million gain on the sale of the equity investment referred to above.

Credit Quality

We enter into a variety of transactions in the normal course of business that involve both on and off-balance sheet credit risk. Principal among these activities is lending to various commercial, institutional, governmental and individual customers. We participate in lending activity throughout the U.S. and, under certain circumstances, internationally.

Allowance for Credit Losses For commercial and select consumer loans, we conduct a periodic assessment on a loan-by-loan basis of losses we believe to be inherent in the loan portfolio. When it is deemed probable based upon known facts and circumstances that full contractual interest and principal on an individual loan will not be collected in accordance with its contractual terms, the loan is considered impaired. An impairment reserve is established based on the present value of expected future cash flows, discounted at the loan’s original effective interest rate, or as a practical expedient, the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. Updated appraisals for collateral dependent loans are generally obtained only when such loans are considered troubled and the frequency of such updates are generally based on management judgment under the specific circumstances on a case-by-case basis. Problem commercial loans are assigned various obligor grades under the allowance for credit losses methodology. Each credit grade has a probability of default estimate.

Our grades align with U.S. regulatory risk ratings and are mapped to our probability of default master scale. These probability of default estimates are validated on an annual basis using back-testing of actual default rates and benchmarking of the internal ratings with external rating agency data like S&P ratings and default rates. Substantially, all appraisals in connection with commercial real estate loans are ordered by the independent real estate appraisal unit at HSBC. The appraisal must be reviewed and accepted by this unit. For loans greater than $250,000, an appraisal must be ordered when the loan is classified as Substandard in accordance to the definition provided by the Office of the Comptroller of the Currency. On average, it is approximately four weeks from the time the appraisal is ordered until it is completed and the values accepted by HSBC's independent appraisal review unit. Subsequent provisions or charge-off's are completed shortly thereafter, generally within the quarter of when the appraisal was received.

In situations where an external appraisal is not used to fair value the underlying collateral of impaired loans, current information such as rent rolls and operating statements of the subject property are reviewed and presented in a standardized format. Operating results such as net operating income and cash flows before and after debt service are established and reported with relevant ratios. Third-party market data is gathered and reviewed for relevance to the subject collateral. Data is also collected from similar properties within the portfolio. Actual sales levels of condominiums, operating income and expense figures and rental data on a square foot basis are derived from existing loans and, when appropriate, used as comparables for the subject property. Property specific data, augmented by market data research, is used to project a stabilized year of income and expense to create a 10-year cash flow model to be discounted at appropriate rates into present value. These valuations are then used to determine if any impairment on the underlying loans exists and an appropriate allowance is recorded when warranted.

Probable losses for pools of homogeneous consumer loans are generally estimated using a roll rate migration analysis that estimates the likelihood that a loan will progress through the various stages of delinquency, or buckets, and ultimately charge off. This analysis considers delinquency status, loss experience and severity and takes into account whether loans are in bankruptcy, have been restructured, rewritten, or are subject to forbearance, an external debt management plan, hardship, modification, extension or deferment. The allowance for credit losses on consumer receivables also takes into consideration the loss severity expected based on the underlying collateral, if any, for the loan in the event of default based on historical and recent trends.

The roll rate methodology is a migration analysis based on contractual delinquency and rolling average historical loss experience which captures the increased likelihood of an account migrating to charge-off as the past due status of such account increases. The roll rate models used were developed by tracking the movement of delinquencies by age of delinquency by month (bucket) over a specified time period. Each “bucket” represents a period of delinquency in 30-day increments. The roll from the last delinquency bucket results in charge-off. Delinquency is a method for determining aging of past due accounts based on the status of payments under the loan. The roll percentages are converted to reserve requirements for each delinquency period (i.e., 30 days, 60 days, etc.). Average roll rates are developed to avoid temporary aberrations caused by seasonal trends in delinquency experienced by some product types. We have determined that a 12-month average roll rate balances the desire to avoid temporary aberrations, while at the same time analyzing recent historical data. The calculations are performed monthly and are done consistently from period to period. In addition, loss reserves on consumer receivables including credit card receivables are maintained to reflect our judgment of portfolio risk factors which may not be fully reflected in the statistical roll rate calculation.

Our allowance for credit losses methodology and our accounting policies related to the allowance for credit losses are presented in further detail in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption “Critical Accounting Policies and Estimates” and in Note 2, “Summary of Significant Accounting Policies and New Accounting Pronouncements,” of the consolidated financial statements included in our 2009 Form 10-K. Our approach toward credit risk management is summarized in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption “Risk Management.” There have been no material revisions to our policies or methodologies during the first nine months of 2010, although we continue to monitor current market conditions and will adjust credit policies as deemed necessary.

The following table sets forth the allowance for credit losses for the periods indicated:

	September 30, 2010	June 30, 2010	December 31, 2009
	(dollars are in millions)		
Allowance for credit losses	$ 2,512	$ 2,950	$ 3,861
Ratio of Allowance for credit losses to:			
Loans:(1)			
Commercial	2.14%	2.37%	3.10%
Consumer:			
Residential mortgages, excluding home equity mortgages	1.29	1.80	2.53
Home equity mortgages	2.06	2.62	4.44
Private label card receivables	6.86	7.43	7.85
Credit card receivables	6.65	7.81	8.48
Auto finance	—	2.58	2.12
Other consumer loans	2.80	3.26	4.46
Total consumer loans	4.43	5.10	5.94
Total	3.48%	4.00%	4.86%
Net charge-offs(1)(2):			
Commercial	254.33%	220.19%	211.26%
Consumer	80.26	85.73	92.91
Total	97.40%	100.20%	107.55%
Nonperforming loans(1):			
Commercial	58.66%	70.41%	65.44%
Consumer	112.65	128.01	150.45
Total	91.09%	107.25%	114.36%

(1) Ratios exclude loans held for sale as these loans are carried at the lower of cost or market.

(2) Quarter-to-date net charge-offs, annualized.

Changes in the allowance for credit losses by general loan categories for the three and nine months ended September 30, 2010 and 2009 are summarized in the following table:

	Commercial	Residential Mortgages, Excluding Home Equity Mortgages	Home Equity Mortgages	Private Label Card Receivables	Credit Card Receivables	Auto Finance	Other Consumer	Total
				(in millions)				
Three months ended September 30, 2010:								
Balances at beginning of period	$ 698	$ 244	$ 104	$ 947	$ 881	$ 33	$ 43	$ 2,950
Provision for credit losses	12	(23)	8	134	108	—	6	245
Charge-offs	(69)	(46)	(32)	(269)	(298)	—	(15)	(729)
Recoveries	5	1	—	43	28	—	2	79
Net charge-offs	(64)	(45)	(32)	(226)	(270)	—	(13)	(650)
Allowance on loans transferred to held for sale	—	—	—	—	—	(33)	—	(33)
Other	—	—	—	—	—	—	—	—
Balance at end of period	$ 646	$ 176	$ 80	$ 855	$ 719	$ —	$ 36	$ 2,512
Three months ended September 30, 2009:								
Balances at beginning of period	$ 759	$ 357	$ 176	$ 1,238	$ 1,092	$ 51	$ 67	$ 3,740
Provision for credit losses	246	92	79	272	275	20	22	1,006
Charge-offs	(63)	(55)	(61)	(354)	(363)	(30)	(28)	(954)
Recoveries	3	—	—	41	20	6	8	78
Net charge-offs	(60)	(55)	(61)	(313)	(343)	(24)	(20)	(876)
Allowance on loans transferred to held for sale	—	—	—	—	—	(4)	—	(4)
Other	—	—	—	—	1	—	—	1
Balance at end of period	$ 945	$ 394	$ 194	$ 1,197	$ 1,025	$ 43	$ 69	$ 3,867
Nine months ended September 30, 2010:								
Balances at beginning of period	$ 938	$ 347	$ 185	$ 1,184	$ 1,106	$ 36	$ 65	$ 3,861
Provision for credit losses	(52)	(32)	(7)	441	513	35	14	912
Charge-offs	(268)	(141)	(98)	(893)	(989)	(37)	(53)	(2,479)
Recoveries	26	2	—	123	83	(1)	10	243
Net charge-offs	(242)	(139)	(98)	(770)	(906)	(38)	(43)	(2,236)
Allowance on loans transferred to held for sale	—	—	—	—	—	(33)	—	(33)
Other	2	—	—	—	6	—	—	8
Balance at end of period	$ 646	$ 176	$ 80	$ 855	$ 719	$ —	$ 36	$ 2,512
Nine months ended September 30, 2009:								
	$ 572	$ 207	$ 167	$ 1,171	$ 208	$ 5	$ 67	$ 2,397

Balances at beginning of period								
Provision for credit losses	560	351	166	981	1,034	85	70	3,247
Charge-offs	(206)	(175)	(151)	(1,079)	(678)	(61)	(83)	(2,433)
Recoveries	19	11	12	124	36	13	15	230
Net charge-offs	(187)	(164)	(139)	(955)	(642)	(48)	(68)	(2,203)
Allowance on loans transferred to held for sale	—	—	—	—	—	(12)	—	(12)
Allowance related to bulk loan purchases from HSBC Finance	—	—	—	—	424	13	—	437
Other	—	—	—	—	1	—	—	1
Balance at end of period	$ 945	$ 394	$ 194	$ 1,197	$ 1,025	$ 43	$ 69	$ 3,867

The allowance for credit losses at September 30, 2010 decreased $438 million, or 14.9 percent, as compared to June 30, 2010 and $1,349 million, or 34.9 percent, as compared to December 31, 2009 reflecting lower loss estimates on our private label credit card, credit card, residential mortgage and commercial loan portfolios. The lower allowance on our private label credit card and credit card portfolio was due to lower receivable levels including actions previously taken to reduce risk which has led to improved credit quality including lower delinquency levels as well as an increased focus by consumers to reduce outstanding credit card debt. The lower delinquency levels also resulted from continued improvement in delinquency including early stage delinquency roll rates as economic conditions improved. The decrease in the allowance for our residential mortgage loan portfolio and home equity line of credit ("HELOC") and home equity loan portfolios reflects lower receivable levels and dollars of delinquency, moderation in loss severities and, as it relates to December 31, 2009, an improved outlook for incurred future losses. The decline in the allowance for credit losses relating to auto finance loans reflects the sale of all remaining auto loans previously purchased from HSBC Finance to SC USA in August 2010. Reserve requirements in our commercial loan portfolio have also declined due to run-off, including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships. Reserve levels for all loan categories however remain elevated due to ongoing weakness in the U.S. economy, including elevated unemployment rates.

The allowance for credit losses as a percentage of total loans at September 30, 2010 decreased as compared to June 30, 2010 and December 31, 2009 for the reasons discussed above.

The allowance for credit losses as a percentage of net charge-offs at September 30, 2010 declined as compared to both June 30, 2010 and December 31, 2009 as the decline in reserve levels discussed above outpaced the decline in dollars of net charge-off. Net charge-off levels continued to decline while early stage delinquency roll rates continued to improve.

The allowance for credit losses by major loan categories, excluding loans held for sale, is presented in the following table:

	September 30, 2010		June 30, 2010		December 31, 2009	
	Amount	% of Loans to Total Loans(1)	Amount	% of Loans to Total Loans(1)	Amount	% of Loans to Total Loans(1)
	(dollars are in millions)					
Commercial(2)	$ 646	41.73%	$ 698	40.05%	$ 938	38.12%
Consumer:						
Residential mortgages, excluding home equity mortgages	176	18.87	244	18.42	347	17.26
Home equity mortgages	80	5.39	104	5.39	185	5.24
Private label card receivables	855	17.25	947	17.30	1,184	18.99
Credit card receivables	719	14.98	881	15.31	1,106	16.41
Auto finance	—	—	33	1.74	36	2.14
Other consumer	36	1.78	43	1.79	65	1.84
Total consumer	1,866	58.27	2,252	59.95	2,923	61.88
Total	$ 2,512	100.00%	$ 2,950	100.00%	$ 3,861	100.00%

(1) Excludes loans held for sale.

(2) Components of the commercial allowance for credit losses, including exposure relating to off-balance sheet credit risk, and the increases (decreases) in comparison with prior periods, are summarized in the following table:

	September 30, 2010	June 30, 2010	December 31, 2009
	(in millions)		
On-balance sheet allowance:			

Specific	$ 264	$ 239	$ 326
Collective	358	416	549
Unallocated	24	43	63
Total on-balance sheet allowance	646	698	938
Off-balance sheet allowance	94	111	188
Total commercial allowances	$ 740	$ 809	$ 1,126

While our allowance for credit loss is available to absorb losses in the entire portfolio, we specifically consider the credit quality and other risk factors for each of our products in establishing the allowance for credit losses.

Reserves for Off-Balance Sheet Credit Risk We also maintain a separate reserve for credit risk associated with certain off-balance sheet exposures, including letters of credit, unused commitments to extend credit and financial guarantees. This reserve, included in other liabilities, was $94 million, $111 million and $188 million at September 30, 2010, June 30, 2010 and December 31, 2009, respectively. The related provision is recorded as a miscellaneous expense and is a component of operating expenses. The decreases in off-balance sheet reserves at September 30, 2010 compared to both June 30, 2010 and December 31, 2009 reflect improved credit conditions and lower outstanding exposure and, as it relates to December 31, 2009, the consolidation of a previously unconsolidated commercial paper VIE as of January 1, 2010, which resulted in the reclassification of this reserve on our balance sheet. Off-balance sheet exposures are summarized under the caption "Off-Balance Sheet Arrangements" in this MD&A.

Delinquency The following table summarizes dollars of two-months-and-over contractual delinquency and two-months-and-over contractual delinquency as a percent of total loans and loans held for sale ("delinquency ratio"):

	September 30, 2010	June 30, 2010	December 31, 2009
	(dollars are in millions)		
Dollars of Delinquency:			
Commercial	$ 959	$ 656	$ 954
Consumer:			
Residential mortgage, excluding home equity mortgages	1,243	1,286	1,595
Home equity mortgages	170	174	173
Total residential mortgages(1)	1,413	1,460	1,768
Private label card receivables	445	478	622
Credit card receivables	383	449	587
Auto finance	—	27	48
Other consumer	13	13	18
Total consumer	2,254	2,427	3,043
Total	$ 3,213	$ 3,083	$ 3,997
Delinquency Ratio:			
Commercial	3.03%	2.11%	3.04%
Consumer:			
Residential mortgage, excluding home equity mortgages	8.56	8.84	10.56
Home equity mortgages	4.37	4.38	4.15
Total residential mortgages(1)	7.68	7.88	9.17
Private label card receivables	3.57	3.75	4.12
Credit card receivables	3.54	3.98	4.50
Auto finance	—	2.11	2.34
Other consumer	.99	.96	1.20
Total consumer	5.24	5.37	5.97
Total	4.30%	4.04%	4.85%

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(1) The following reflects dollars of contractual delinquency and delinquency ratios for interest-only loans and ARM loans:

	September 30,	June 30,	December 31,

	2010	2010	2009
	(dollars are in millions)		
Dollars of Delinquency:			
Interest-only loans	$ 153	$ 164	$ 236
ARM loans	486	535	802
Delinquency Ratio:			
Interest-only loans	5.48%	5.79%	6.94%
ARM loans	6.06	6.71	9.58

Our total two-months-and-over contractual delinquency ratio increased 26 basis points as compared to the prior quarter. Our two-months-and-over contractual delinquency ratio for consumer loans decreased to 5.24 percent at September 30, 2010 as compared to 5.37 percent at June 30, 2010. Dollars of delinquency fell across substantially all consumer portfolios, particularly in residential mortgage as well as private label card and credit card receivables while outstanding loan balances also declined. Dollars of delinquency in our private label card and credit card receivable portfolios fell reflecting lower outstanding balances due to the continued impact of actions previously taken to tighten underwriting and reduce risk in these portfolios and increased focus by consumers to paydown credit card debt. The lower dollars of delinquency also resulted from continued improvement in early stage delinquency roll rates. The decrease in our residential mortgage loan delinquency since June 30, 2010 reflects stabilization of the real estate markets and improving economic conditions. Overall delinquency levels however, continue to be impacted by elevated unemployment levels.

Our commercial two-months-and-over contractual delinquency ratio increased 92 basis points since June 30, 2010 driven by an increase in dollars of delinquency as delinquencies increased driven by higher commercial real estate delinquency levels largely relating to four specific lending relationships while average loans outstanding remained relatively flat.

Compared to December 31, 2009, our delinquency ratio decreased 55 basis points at September 30, 2010, largely due to lower dollars of delinquency and improved economic conditions as discussed above as well as the sale of $264 million of delinquent subprime mortgage whole loans during the second and third quarters of 2010.

Net Charge-offs of Loans The following table summarizes net charge-off dollars as well as the net charge-off of loans for the quarter, annualized, as a percent of average loans, excluding loans held for sale, ("net charge-off ratio"):

	September 30, 2010	June 30, 2010	September 30, 2009
	(dollars are in millions)		
Net Charge-off Dollars:			
Commercial	$ 64	$ 79	$ 60
Consumer:			
Residential mortgage, excluding home equity mortgages	45	46	55
Home equity mortgages	32	30	61
Total residential mortgages	77	76	116
Private label card receivables	226	251	313
Credit card receivables	270	301	343
Auto finance	—	14	24
Other consumer	13	13	20
Total consumer	586	655	816
Total	$ 650	$ 734	$ 876
Net Charge-off Ratio:			
Commercial	.86%	1.07%	.72%
Consumer:			
Residential mortgage, excluding home equity mortgages	1.32	1.36	1.49
Home equity mortgages	3.23	2.99	5.44
Total residential mortgages	1.74	1.74	2.41
Private label card receivables	7.11	7.68	8.38
Credit card receivables	9.63	10.38	9.98
Auto finance	—	4.10	4.53
Other consumer	4.01	3.88	4.94
Total consumer	5.36	5.83	6.32
Total	3.54%	3.94%	4.13%

Our net charge-off ratio as a percentage of average loans decreased 40 basis points compared to the prior quarter primarily due to lower private label card and credit card charge-offs driven by lower receivable levels and improved credit quality. These favorable trends were partially offset by the impact from continued high unemployment levels and portfolio seasoning.

Charge-off dollars and ratios in the residential mortgage loan portfolio remained flat compared to the prior quarter reflecting stability in outstanding loan balances and continued moderation in real estate loss severities. Charge-off dollars and ratios for private label card and credit card receivables declined compared to the prior quarter due to lower receivable balances, including increased focus by customers to paydown debt as well as improving credit quality resulting from actions previously taken to reduce risk in the portfolio. Charge-off dollars and ratios in the auto finance portfolio reflects the transfer of these loans to held for sale in July 2010.

Commercial charge-off dollars and ratios decreased compared to the second quarter of 2010 as charge-offs in middle market and business banking were lower, based on improving trends in portfolio quality. The decreases were partially offset by a charge-off associated with a single commercial real estate lending relationship.

Compared to the year-ago quarter, our charge-off ratio decreased 59 basis points, driven by lower charge-offs across all products. Our commercial charge-off ratio increased compared to the prior year period as charge-off levels remained relatively flat while average outstanding balances declined.

Nonperforming Assets Nonperforming assets are summarized in the following table.

	September 30, 2010	June 30, 2010	December 31, 2009
	(dollars are in millions)		
Nonaccrual loans:			
Commercial:			
Construction and land loans	$ 432	$ 401	$ 477
Other real estate	354	237	167
Other commercial	227	255	623
Total commercial	1,013	893	1,267
Consumer:			
Residential mortgages, excluding home equity mortgages	938	921	875
Home equity mortgages	86	92	107
Total residential mortgages	1,024	1,013	982
Credit card receivables	3	3	3
Auto finance	—	27	40
Others	9	9	9
Total consumer loans	1,036	1,052	1,034
Nonaccrual loans held for sale	170	224	446
Total nonaccruing loans	2,219	2,169	2,747
Accruing loans contractually past due 90 days or more:			
Total commercial	88	98	166
Consumer:			
Private label card receivables	314	348	449
Credit card receivables	279	332	429
Other consumer	28	27	31
Total consumer loans	621	707	909
Total accruing loans contractually past due 90 days or more	709	805	1,075
Total nonperforming loans	2,928	2,974	3,822
Other real estate and owned assets	188	138	72
Total nonperforming assets	$ 3,116	$ 3,112	$ 3,894
Allowance for credit losses as a percent of nonperforming loans:(1)			
Commercial	58.66%	70.41%	65.44%
Consumer	112.65	128.01	150.45

(1) Represents our commercial or consumer allowance for credit losses, as appropriate divided by the corresponding outstanding balance of total nonperforming loans held for investment. Nonperforming loans include accruing loans contractually past due 90 days or more. Ratio excludes nonperforming loans associated with loan portfolios which are considered held for sale as these loans are carried at the lower of cost or market.

Changes in nonperforming loans outstanding at September 30, 2010 as compared to June 30, 2010 and December 31, 2009 are related primarily to commercial loans. Commercial nonaccrual loans increased compared to June 30, 2010 driven largely by the deterioration of a single commercial real estate lending relationship for which a specific loss provision was established. Commercial nonaccrual loans decreased as compared to December 31, 2009 largely to managed reductions in certain exposures and stabilization of credit quality in certain components of the book. Decreases in accruing loans past due 90 days or more since June 30, 2010 and December 31, 2009 reflect lower outstanding balances and improvements in credit quality including lower dollars of delinquency in those periods. During the first nine months of 2010, we also experienced a significant decline in non-accrual loans held for sale largely due to the sale of $264 million of non-accrual subprime mortgage loans during the second and third quarter.

Accrued but unpaid interest on loans placed on nonaccrual status generally is reversed and reduces current income at the time loans are so categorized. Interest income on these loans may be recognized to the extent of cash payments received. In those instances where there is doubt as to collectability of principal, any cash interest payments received are applied as reductions of principal. Loans are not reclassified as accruing until interest and principal payments are brought current and future payments are reasonably assured.

Impaired Commercial Loans A commercial loan is considered to be impaired when it is deemed probable that all principal and interest amounts due, according to the contractual terms of the loan agreement, will not be collected. Probable losses from impaired loans are quantified and recorded as a component of the overall allowance for credit losses. Generally, impaired commercial loans include loans in nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially or wholly charged off and loans designated as troubled debt restructurings. Impaired commercial loan statistics are summarized in the following table:

	September 30, 2010	June 30, 2010	December 31, 2009
		(in millions)	
Impaired commercial loans:			
Balance at end of period	$ 1,076(1)	$ 970(1)	$ 1,458(1)
Amount with impairment reserve	781	638	1,127
Impairment reserve	322	298	336

(1) Includes TDR Loans of $119 million, $123 million and $88 million at September 30, 2010, June 30, 2010 and December 31, 2009, respectively.

Criticized Loans Criticized loan classifications are based on the risk rating standards of our primary regulator. Problem loans are assigned various criticized facility grades. We also assign obligor grades which are used under our allowance for credit losses methodology. The following facility grades are deemed to be criticized. Criticized loans are summarized in the following table.

		Increase (Decrease) from			
	September 30,	June 30, 2010		December 31, 2009	
	2010	Amount	%	Amount	%
		(dollars are in millions)			
Special mention:					
Commercial loans	$ 2,378	$ (447)	(15.8)%	$ (631)	(21.0)%
Substandard:					
Commercial loans	2,376	(411)	(14.7)	(1,147)	(32.6)
Consumer loans	1,844	(107)	(5.5)	(265)	(12.6)
Total substandard	4,220	(518)	(10.9)	(1,412)	(25.1)
Doubtful:					
Commercial loans	420	187	80.3	(84)	(16.7)

Total	$ 7,018	$ (778)	(10.0)%	$ (2,127)	(23.3)%

The overall decreases in criticized commercial loans in the first nine months of 2010 resulted primarily from changes in the financial condition of certain customers, some of which were upgraded during the period as well as paydowns related to certain exposures. Increases in doubtful commercial loans since June 30, 2010 largely relate to deterioration of a single commercial real estate lending relationship.

Geographic Concentrations Regional exposure at September 30, 2010 for certain loan portfolios is summarized in the following table.

	Commercial Construction and Other Real Estate Loans	Residential Mortgage Loans	Credit Card Receivables
New York State	46.1%	38.1%	11.0%
North Central United States	4.1	8.3	27.6
North Eastern United States	10.5	9.4	14.7
Southern United States	21.8	18.0	26.5
Western United States	17.5	26.2	19.8
Other	—	—	.4
Total	100.0%	100.0%	100.0%

Liquidity and Capital Resources

Effective liquidity management is defined as making sure we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under unpredictable circumstances of industry or market stress. To achieve this objective, we have guidelines that require sufficient liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. Guidelines are set for the consolidated balance sheet of HSBC USA Inc. to ensure that it is a source of strength for our regulated, deposit-taking banking subsidiary, as well as to address the more limited sources of liquidity available to it as a holding company. Similar guidelines are set for the balance sheet of HSBC Bank USA to ensure that it can meet its liquidity needs in various stress scenarios. Cash flow analysis, including stress testing scenarios, forms the basis for liquidity management and contingency funding plans. We continue to manage our overall balance sheet by reducing low margin investments and deposits while continuing to manage the overall balance sheet risk.

Interest bearing deposits with banks totaled $15.7 billion and $20.1 billion at September 30, 2010 and December 31, 2009, respectively.

Federal funds sold and securities purchased under agreements to resell totaled $11.4 billion and $1.0 billion at September 30, 2010 and December 31, 2009, respectively. The balances increased during the nine months ended September 30, 2010 as we redeployed surplus liquidity using repurchase agreements.

Short-term borrowings totaled $20.0 billion and $6.5 billion at September 30, 2010 and December 31, 2009, respectively. See “Balance Sheet Review” for further analysis and discussion on short-term borrowing trends.

Deposits totaled $118.9 billion and $118.3 billion at September 30, 2010 and December 31, 2009, respectively. See “Balance Sheet Review” for further analysis and discussion on deposit trends.

Long-term debt increased to $18.6 billion at September 30, 2010 from $18.0 billion at December 31, 2009. The following table summarizes issuances and retirements of long term debt during the nine months ended September 30, 2010 and 2009:

Nine Months Ended September 30,	2010	2009
	(in millions)	
Long-term debt issued	$ 3,932	$ 3,778
Repayment of long-term debt	(3,651)	(10,068)
Net long-term debt repayment	$ 281	$ (6,290)

Issuances of long-term debt during the first nine months of 2010 included $4.2 billion, of which $1.8 billion was issued by HSBC Bank USA. During the third quarter of 2010, ten year subordinated debt of $1.3 billion and $750 million was issued by HSBC Bank USA and HSBC USA Inc., respectively, to support our capital position under Basel II and replace Tier 2 capital lost due to maturities of subordinated debt.

Under our shelf registration statement on file with the Securities and Exchange Commission, we may issue debt securities or preferred stock. The shelf has no dollar limit, but the ability to issue debt is limited by the issuance authority granted by the Board of Directors. We are currently authorized to issue up to $15 billion, of which $3.5 billion is available at September 30, 2010. HSBC Bank USA also has a $40 billion Global Bank Note Program of which $18.0 billion is available at September 30, 2010.

As a member of the New York Federal Home Loan Bank (FHLB), we have a secured borrowing facility which is collateralized by residential and commercial mortgage loans and investment securities. At both September 30, 2010 and December 31, 2009, long-term debt included $1.0 billion under this facility. The facility also allows access to further borrowings of up to $3.0 billion based upon the amount pledged as collateral with the FHLB.

At September 30, 2010 and December 31, 2009, we had a $2.5 billion unused line of credit with HSBC Bank plc, a HSBC U.K.-based subsidiary, to support issuances of commercial paper.

At September 30 2010, credit card receivables and restricted available-for-sale investments totaling $1.7 billion secured $1.3 billion of outstanding public debt and conduit facilities. At December 31, 2009, private label card receivables, credit card receivables and restricted available-for-sale investments totaling $3.9 billion secured $3.0 billion of outstanding public debt and conduit facilities. Public debt associated with these transactions totaled $600 million and $1.8 billion at September 30, 2010 and December 31, 2009, respectively. The public debt is expected to be fully paid during the remainder of 2010.

At September 30, 2010, we had conduit credit facilities with commercial and investment banks under which our operations may issue securities up to $2.1 billion backed with private label card and credit card receivables. The facilities are annually renewable at the providers' option. At September 30, 2010, credit card receivables of $995 million were used to collateralize $725 million of funding transactions structured as secured financings under these funding programs. At December 31, 2009, private label card and credit card receivables of $1.7 billion were used to collateralize $1.2 billion of funding transactions structured as secured financings under these funding programs. For the conduit credit facilities that have renewed during the past nine months, pricing has declined compared to 2009 but is still elevated by historical standards. Available-for-sale investments included $659 million and $1.1 billion at September 30, 2010 and December 31, 2009, respectively, which were restricted for the sole purpose of paying down certain secured financings at the established payment date.

The securities issued in connection with collateralized funding transactions may pay off sooner than originally scheduled if certain events occur. Early payoff of securities may occur if established delinquency or loss levels are exceeded or if certain other events occur. For all other transactions, early payoff of the securities begins if the annualized portfolio yield drops below a base rate or if certain other events occur. Presently we do not anticipate that any early payoff will take place. If early payoff were to occur, our 2010 funding requirements would not increase significantly.

Preferred Equity Refer to Note 19, “Preferred Stock” of the consolidated financial statements included in our 2009 Form 10-K for information regarding all outstanding preferred share issues.

Common Equity During the nine months ended September 30, 2010, no capital contributions were made to us by HNAI, our immediate parent.

Selected Capital Ratios Capital amounts and ratios are calculated in accordance with current banking regulations. In managing capital, we develop targets for Tier 1 capital to risk weighted assets and Tier 1 capital to average assets. Our targets may change from time to time to accommodate changes in the operating environment or other considerations such as those listed above. Selected capital ratios are summarized in the following table:

	September 30, 2010	December 31, 2009
Tier 1 capital to risk weighted assets	11.24%(1)	9.61%
Tier 1 capital to average assets	7.80	7.59
Total equity to total assets	8.92	8.87

(1) Effective January 1, 2010, we began consolidating a commercial paper conduit managed by HSBC Bank USA as a result of adopting new guidance related to the consolidation of variable interest entities. Since we elected to adopt the transition mechanism for Risk Based Capital requirements, there was no change to the Tier 1 capital ratios for the first half of 2010. As of September 30, 2010, we have begun the transition to the Risk Based Capital requirements for our Tier 1 capital ratio. Had we fully transitioned to the Risk Based Capital requirements at September 30, 2010, our risk weighted assets would have been higher by approximately $2.2 billion which would not have had a significant impact on our Tier 1 capital ratios. See Note 17, “Variable Interest Entities,” in the accompanying consolidated financial statements for further discussion of the consolidation of this entity and related impacts.

We and HSBC Bank USA are required to meet minimum capital requirements established by the principal regulators. Risk-based capital amounts and ratios are presented in Note 15, “Regulatory Capital,” in the accompanying consolidated financial statements.

HSBC USA Inc. manages capital in accordance with the HSBC Group policy. HSBC North America and HSBC Bank USA have each approved an Internal Capital Adequacy Assessment Process (“ICAAP”) that works in conjunction with the HSBC Group’s ICAAP. The ICAAP evaluates regulatory capital adequacy, economic capital adequacy, rating agency requirements and capital adequacy under a stress scenario. Our initial approach is to meet our capital needs for this stress scenario locally through activities which reduce risk. To the extent that local alternatives are insufficient or unavailable, we will rely on capital support from our parent, in accordance with HSBC’s capital management policy. HSBC has indicated that they are fully committed and have the capacity to provide capital as needed to run operations, maintain sufficient regulatory capital ratios and fund certain tax planning strategies.

Subject to regulatory approval, HSBC North America will be required to implement Basel II provisions no later than April 1, 2011 in accordance with current regulatory timelines. HSBC USA Inc. will not report separately under the new rules, but HSBC Bank USA will report under the new rules on a stand-alone basis. Increases in regulatory capital may be required prior to the Basel II adoption date however, the exact amount will depend upon our prevailing risk profile. Adoption must be preceded by a parallel run period of at least four quarters, and requires the approval of U.S. regulators. This parallel run, which was initiated in January 2010, encompasses enhancements to a number of risk policies, processes and systems to align HSBC Bank USA with the Basel II final rule requirements. HSBC Bank USA will seek regulatory approval for adoption when the program enhancements have been completed which may extend beyond April 1, 2011.

HSBC Bank USA is subject to restrictions that limit the transfer of funds to HSBC USA Inc. and its nonbank subsidiaries (including affiliates) in so-called "covered transactions." In general, covered transactions include loans and other extensions of credit, investments and asset purchases, as well as certain other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. Unless an exemption applies, covered transactions by a subsidiary bank with a single affiliate are limited to 10% of the subsidiary bank's capital and surplus and, with respect to all covered transactions with affiliates in the aggregate, to 20% of the subsidiary bank's capital and surplus. Also, loans and extensions of credit to affiliates generally are required to be secured in specified amounts. A bank's transactions with its nonbank affiliates are also required to be on arm's length terms.

As part of the regulatory approvals with respect to the GM and UP receivable purchases completed in January 2009, we and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or become "low-quality assets," as defined by the Federal Reserve Act. During the first half of 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. These loans were subsequently sold to SC USA in August 2010. As discussed above, we have established an Internal Capital Adequacy Assessment Process ("ICAAP"). Under ICAAP, capital adequacy is evaluated through the examination of regulatory capital ratios (measured under current and Basel II rules), economic capital and stress testing. The results of the ICAAP are forwarded to HSBC and, to the extent that this evaluation identifies potential capital needs, incorporated into the HSBC capital management process. HSBC has provided capital support in the past and has indicated its commitment and capacity to fund the needs of the business in the future.

2010 Funding Strategy Our current range of estimates for funding needs and sources for 2010 are summarized in the following table.

	Actual January 1 through September 30, 2010	Estimated October 1 through December 31, 2010	Estimated Full Year 2010
		(in billions)	
Funding needs:			
Net loan growth (attrition), excluding asset transfers	$ —	$ 1	$ 1
Long-term debt maturities	3	—	3
Secured financings, including conduit facility maturities	1	—	1
Secured funding maturities	—	1	1
Total funding needs	$ 4	$ 2	$ 6
Funding sources:			
Cash from operations	$ 3	$ —	$ 3
Other deposit growth	1	(1)	—
Loan sales	5	—	5
Long-term debt issuance	3	—	3
Short-term funding/investments	(9)	3	(6)
Secured financings, including conduit facility renewals	1	—	1
Total funding sources	$ 4	$ 2	$ 6

The above table reflects our current funding strategy. Daily balances fluctuate as we accommodate customer needs and take advantage of market opportunities, while ensuring that we have liquidity in place to support the balance sheet maturity funding profile. Should market conditions deteriorate, we have contingency plans to generate additional liquidity through the sales of assets or financing transactions. Our prospects for growth are dependent upon access to the capital markets and our ability to attract and retain deposits. We remain confident in our ability to access the market for long-term debt funding needs in the current market environment. Deposits are expected to grow as we continue to expand our core domestic banking network. We continue to seek well-priced and stable customer deposits as customers move funds to larger, well-capitalized institutions due to a volatile market.

We will continue to sell a majority of new mortgage loan originations to government sponsored enterprises and private investors.

For further discussion relating to our sources of liquidity and contingency funding plan, see the caption "Risk Management" in this MD&A and in the 2009 Form 10-K.

Off-Balance Sheet Arrangements

As part of our normal operations, we enter into credit derivatives and various off-balance sheet arrangements with affiliates and third parties. These arrangements arise principally in connection with our lending and client intermediation activities and involve primarily extensions of credit and in certain cases guarantees.

As a financial services provider, we routinely extend credit through loan commitments and lines and letters of credit and provide financial guarantees, including derivative transactions that may meet the definition of a guarantee. The contractual amounts of these financial instruments represent our maximum possible credit exposure in the event that a counterparty draws down the full commitment amount or we are required to fulfill our maximum obligation under a guarantee.

The following table provides maturity information related to our credit derivatives and off-balance sheet arrangements. Many of these commitments and guarantees expire unused or without default. As a result, we believe that the contractual amount is not representative of the actual future credit exposure or funding requirements. Descriptions of these arrangements are found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2009 Form 10-K under the caption "Off-Balance Sheet Arrangements and Contractual Obligations."

	Balance at September 30, 2010				
	One Year or Less	Over One through Five Years	Over Five Years	Total	Balance at December 31, 2009
	(in billions)				
Standby letters of credit, net of participations(1)	$ 4.6	$ 2.3	$ —	$ 6.9	$ 7.6
Commercial letters of credit	1.0	—	—	1.0	.7
Credit derivatives(2)	46.5	278.9	49.8	375.2	387.2
Other commitments to extend credit:					
Commercial	16.6	29.8	2.0	48.4	48.9
Consumer	7.1	—	—	7.1	6.9
Total	$ 75.8	$ 311.0	$ 51.8	$ 438.6	$ 451.3

(1) Includes $401 million and $774 million issued for the benefit of HSBC affiliates at September 30, 2010 and December 31, 2009, respectively.

(2) Includes $58.0 billion and $57.3 billion issued for the benefit of HSBC affiliates at September 30, 2010 and December 31, 2009, respectively.

We provide liquidity support to a number of multi-seller and single seller asset-backed commercial paper conduits ("ABCP conduits"). The tables below present information on our liquidity facilities with ABCP conduits at September 30, 2010. The maximum exposure to loss presented in the first table represents the maximum contractual amount of loans and asset purchases we could be required to make under the liquidity agreements. This amount assumes that we suffer a total loss on all amounts advanced and all assets purchased from the ABCP conduits. As such, we believe that this measure significantly overstates our expected loss exposure. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2009 Form 10-K under the

caption “Off-Balance Sheet Arrangements and Contractual Obligations” for additional information on these ABCP conduits.

Conduit Type	Maximum Exposure to Loss	Conduit Assets(1) Total Assets	Conduit Assets(1) Weighted Average Life (Months)	Conduit Funding(1) Commercial Paper	Conduit Funding(1) Weighted Average Life (Days)
	(dollars are in millions)				
HSBC affiliate sponsored (multi-seller)	$ 754	$ 643	41	$ 630	14
Third-party sponsored:					
Single-seller	554	7,017	39	6,697	55
Total	$ 1,308	$ 7,660		$ 7,327	

(1) For multi-seller conduits, the amounts presented represent only the specific assets and related funding supported by our liquidity facilities. For single-seller conduits, the amounts presented above represent the total assets and funding of the conduit.

Asset Class	Average Asset Mix	Average Credit Quality(1) AAA	AA+/AA	A	A-	BB/BB-	B-
Multi-seller conduits							
Debt securities backed by:							
Auto loans and leases	8%	—%	100%	—%	—%	—%	—%
Trade receivables	14	100	—	—	—	—	—
Credit card receivables	78	30	—	70	—	—	—
Total	100%	37%	8%	54%	—%	—%	—%
Single-seller conduits							
Debt securities backed by:							
Auto loans and leases	100%	99%	1%	—%	—%	—%	—%
Total	100%	99%	1%	—%	—%	—%	—%

(1) Credit quality is based on external credit ratings, when available, at September 30, 2010. When not available, credit quality is based on our internal ratings. Our internal credit ratings were developed using similar methodologies and rating scales equivalent to the external credit ratings.

We receive fees for providing these liquidity facilities. Credit risk on these obligations is managed by subjecting them to our normal underwriting and risk management processes.

During the first nine months of 2010, U.S. asset-backed commercial paper volumes stabilized as there are signs that most major bank conduit sponsors are extending new financing to clients but at a slower pace. Credit spreads in the multi-seller conduit market have generally trended lower since the beginning of the year following a pattern that is prevalent across the U.S. credit markets. In the ABCP market, the success of the Term Asset-Backed Securities Loan Facility program revived the term ABS market. The lower supply of ABCP has led to greater investor demand for the ABCP issued by large bank-sponsored ABCP programs. The improved demand for higher quality ABCP programs has led to less volatility in issuance spreads.

The preceding tables do not include information on liquidity facilities that we previously provided to certain Canadian multi-seller ABCP conduits that have been subject to restructuring agreements. As a result of specific difficulties in the Canadian asset-backed commercial paper markets, we entered into various agreements during 2007 modifying obligations with respect to these facilities.

Under one of these agreements, known as the Montreal Accord, a restructuring proposal to convert outstanding commercial paper into longer term securities was approved by ABCP noteholders and endorsed by the Canadian justice system in 2008. The restructuring plan was formally executed during the first quarter of 2009. As part of the enhanced collateral pool established for the restructuring, we have provided a $388 million Margin Funding Facility to new Master Conduit Vehicles, which is currently undrawn. HSBC Bank USA derivatives transactions with the previous conduit vehicles have been assigned to new Master Conduit Vehicles. Under the restructuring, collateral provided to us to mitigate the derivatives exposures is significantly higher than it was prior to the restructuring.

Also in Canada but separately from the Montreal Accord, as part of an ABCP conduit restructuring executed in 2008, we agreed to hold long-term securities of $300 million (denominated in Canadian dollars) and provide a $97 million credit facility. As of September 30, 2010 this credit facility was undrawn and approximately $291 million (U.S. dollars) of long-term securities were held. At December 31, 2009, approximately $1 million of the credit facility was drawn and $285 million (U.S. dollars) of long term securities were held. The change in value of securities held from December 31, 2009 was due to exchange rate fluctuations between the U.S. dollar and the Canadian dollar.

As of September 30, 2010 and December 31, 2009, other than the facilities referred to above, we no longer have outstanding liquidity facilities to Canadian ABCP conduits subject to the Montreal Accord or other agreements. However, we hold $10 million of long-term securities that were converted from a liquidity drawing which fell under the Montreal Accord restructuring agreement.

We have established and manage a number of constant net asset value (“CNAV”) money market funds that invest in shorter-dated highly-rated money market securities to provide investors with a highly liquid and secure investment. These funds price the assets in their portfolio on an amortized cost basis, which enables them to create and liquidate shares at a constant price. The funds, however, are not permitted to price their portfolios at amortized cost if that amount varies by more than 50 basis points from the portfolio’s market value. In that case, the fund would be required to price its portfolio at market value and consequently would no longer be able to create or liquidate shares at a constant price. We do not consolidate the CNAV funds as they are not VIEs and we do not hold a majority voting interest.

Fair Value

Fair value measurement accounting principles require a reporting entity to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of our own credit risk accounted for a increase of $1 million and a decrease of $179 million in the fair value of financial liabilities during three and nine months ended September 30, 2010, respectively, compared to an increase of $104 million and $254 million in the prior year periods.

Net income volatility arising from changes in either interest rate or credit components of the mark-to-market on debt designated at fair value and related derivatives affects the comparability of reported results between periods. Accordingly, the loss on debt designated at fair value and related derivatives for the nine months ended September 30, 2010 should not be considered indicative of the results for any future period.

Control Over Valuation Process and Procedures A control framework has been established which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the determination of fair values rests with Finance. Finance establishes policies and procedures to ensure appropriate valuations. For fair values determined by reference to external quotations on the identical or similar assets or liabilities, an independent price validation process is utilized. For price validation purposes, quotations from at least two independent pricing sources are obtained for each financial instrument, where possible. We consider the following factors in determining fair values:

• similarities between the asset or the liability under consideration and the asset or liability for which quotation is received;

• consistency among different pricing sources;

• the valuation approach and the methodologies used by the independent pricing sources in determining fair value;

• the elapsed time between the date to which the market data relates and the measurement date; and

• the source of the fair value information.

Greater weight is given to quotations of instruments with recent market transactions, pricing quotes from dealers who stand ready to transact, quotations provided by market-makers who originally structured such instruments, and market consensus pricing based on inputs from a large number of participants. Any significant discrepancies among the external quotations are reviewed by management and adjustments to fair values are recorded where appropriate.

For fair values determined by using internal valuation techniques, valuation models and inputs are developed by the business and are reviewed, validated and approved by the Quantitative Risk and Valuation Group ("QRVG") or other independent valuation control teams within Finance. Any subsequent material changes are reviewed and approved by the Valuation Committee which is comprised of representatives from the business and various control groups. Where available, we also participate in pricing surveys administered by external pricing services to validate our valuation models and the model inputs. The fair values of the majority of financial assets and liabilities are determined using well developed valuation models based on observable market inputs. The fair value measurements of these assets and liabilities require less judgment. However, certain assets and liabilities are valued based on proprietary valuation models that use one or more significant unobservable inputs and judgment is required to determine the appropriate level of adjustments to the fair value to address, among other things, model and input uncertainty. Any material adjustments to the fair values are reported to management.

Fair Value Hierarchy Fair value measurement accounting principles establish a fair value hierarchy structure that prioritizes the inputs to determine the fair value of an asset or liability (the "Fair Vale Framework"). The Fair Value Framework distinguishes between inputs that are based on observed market data and unobservable inputs that reflect market participants' assumptions. It emphasizes the use of valuation methodologies that maximize observable market inputs. For financial instruments carried at fair value, the best evidence of fair value is a quoted price in an actively traded market (Level 1). Where the market for a financial instrument is not active, valuation techniques are used. The majority of our valuation techniques use market inputs that are either observable or indirectly derived from and corroborated by observable market data for substantially the full term of the financial instrument (Level 2). Because Level 1 and Level 2 instruments are determined by observable inputs, less judgment is applied in determining their fair values. In the absence of observable market inputs, the financial instrument is valued based on valuation techniques that feature one or more significant unobservable inputs (Level 3). The determination of the level of fair value hierarchy within which the fair value measurement of an asset or a liability is classified often requires judgment and may change over time as market conditions evolve. We consider the following factors in developing the fair value hierarchy:

• whether the asset or liability is transacted in an active market with a quoted market price;

• the level of bid-ask spreads;

• a lack of pricing transparency due to, among other things, complexity of the product and market liquidity;

• whether only a few transactions are observed over a significant period of time;

• whether the pricing quotations vary substantially among independent pricing services;

• whether inputs to the valuation techniques can be derived from or corroborated with market data; and

• whether significant adjustments are made to the observed pricing information or model output to determine the fair value.

Level 1 inputs are unadjusted quoted prices in active markets that the reporting entity has the ability to access for identical assets or liabilities. A financial instrument is classified as a Level 1 measurement if it is listed on an exchange or is an instrument actively traded in the over-the-counter ("OTC") market where transactions occur with sufficient frequency and volume. We regard financial instruments such as equity securities and derivative contracts listed on the primary exchanges of a country to be actively traded. Non-exchange-traded instruments classified as Level 1 assets include securities issued by the U.S. Treasury or by other foreign governments, to-be-announced ("TBA") securities and non-callable securities issued by U.S. government sponsored entities.

Level 2 inputs are inputs that are observable either directly or indirectly but do not qualify as Level 1 inputs. We classify mortgage pass-through securities, agency and certain non-agency mortgage collateralized obligations, certain derivative contracts, asset-backed securities, corporate debt, preferred securities and leveraged loans as Level 2 measurements. Where possible, at least two quotations from independent sources are obtained based on transactions involving comparable assets and liabilities to validate the fair value of these instruments. Where significant differences arise among the independent pricing quotes and the internally determined fair value, we investigate and reconcile the differences. If the investigation results in a significant adjustment to the fair value, the instrument will be classified as Level 3 within the fair value hierarchy. In general, we have observed that there is a correlation between the credit standing and the market liquidity of a non-derivative instrument.

Level 2 derivative instruments are generally valued based on discounted future cash flows or an option pricing model adjusted for counterparty credit risk and market liquidity. The fair value of certain structured derivative products is determined using valuation techniques based on inputs derived from observable benchmark index tranches traded in the OTC market. Appropriate control processes and procedures have been applied to ensure that the derived inputs are applied to value only those instruments that share similar risks to the relevant benchmark indices and therefore demonstrate a similar response to market factors. In addition, a validation process has been established, which includes participation in peer group consensus pricing surveys, to ensure that valuation inputs incorporate market participants' risk expectations and risk premium.

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants' assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances. As of September 30, 2010 and December 31, 2009, our Level 3 instruments included the following: collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs") for which there is a lack of pricing transparency due to market illiquidity, certain structured credit and structured equity derivatives where significant inputs (e.g., volatility or default correlations) are not observable, credit default swaps with certain monoline insurers where the deterioration in the creditworthiness of the counterparty has resulted in significant adjustments to fair value, U.S. subprime mortgage loans and subprime related asset-backed securities, mortgage servicing rights, and derivatives referenced to illiquid assets of less desirable credit quality.

Transfers between leveling categories are recognized at the end of each reporting period.

Material Transfers Into (Out of) Level 1 and Level 2 Measurements During the three and nine months ended September 30, 2010, there were no material transfers into or out of Level 1 and Level 2 measurements.

Level 3 Measurements The following table provides information about Level 3 assets/liabilities in relation to total assets/liabilities measured at fair value as of September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009

	(dollars are in millions)	
Level 3 assets(1)(2)	$ 6,906	$ 9,179
Total assets measured at fair value(3)	150,354	111,231
Level 3 liabilities	4,842	3,843
Total liabilities measured at fair value(1)	100,699	74,120
Level 3 assets as a percent of total assets measured at fair value	4.6%	8.3%
Level 3 liabilities as a percent of total liabilities measured at fair value	4.8%	5.2%

(1) Presented without netting which allows the offsetting of amounts relating to certain contracts if certain conditions are met.

(2) Includes $5.7 billion of recurring Level 3 assets and $1.2 billion of non-recurring Level 3 assets at September 30, 2010 and $7.4 billion of recurring Level 3 assets and $1.8 billion of non-recurring Level 3 assets at December 31, 2009.

(3) Includes $148.9 billion of assets measured on a recurring basis and $1.4 billion of assets measured on a non-recurring basis at September 30, 2010. Includes $108.6 billion of assets measured on a recurring basis and $2.7 billion of assets measured on a non-recurring basis at December 31, 2009.

Material Changes in Fair Value for Level 3 Assets and Liabilities

Derivative Assets and Counterparty Credit Risk We have entered into credit default swaps with monoline insurers to hedge our credit exposure in certain asset-backed securities and synthetic CDOs. Beginning in 2007 and continuing into 2009, the creditworthiness of the monoline insurers had deteriorated significantly. However, beginning in the second half of 2009 and continuing in the first nine months of 2010, the deterioration previously experienced began to ease. As a result, we made a $89 million positive credit risk adjustment and a $104 million negative credit risk adjustment to the fair value of our credit default swap contracts during the nine months ended September 30, 2010 and 2009, respectively, which is reflected in trading revenue (loss). We have recorded a cumulative credit adjustment reserve of $365 million against our monoline exposure at September 30, 2010 compared to a $1,007 million credit adjustment reserve at December 31, 2009. The decreases in 2010 reflect both reductions in our outstanding positions and improvements in exposure estimates.

Loans As of September 30, 2010 and December 31, 2009, we have classified $433 million and $793 million, respectively, of mortgage whole loans held for sale as a non-recurring Level 3 financial asset. These mortgage loans are accounted for on a lower of cost or fair value basis. Based on our assessment, we recorded a loss of $5 million and a gain of $55 million for such mortgage loans during the three and nine months ended September 30, 2010, respectively, compared to losses of $28 million and $182 million during the year-ago periods. The changes in fair value are recorded as other revenues in the consolidated statement of income (loss).

Material Additions to and Transfers Into (Out of) Level 3 Measurements During the nine months ended September 30, 2010, we transferred $225 million of mortgage and other asset-backed securities from Level 2 to Level 3 as the availability of observable inputs continued to decline and the discrepancy in valuation per independent pricing services increased. In addition, we transferred $178 million of credit derivatives from Level 2 to Level 3 as a result of a qualitative analysis of the foreign exchange and credit correlation attributes of our model used for certain credit default swaps.

During the nine months ended September 30, 2010, we transferred $184 million of corporate bonds from Level 3 to Level 2 due to the availability of observable inputs in the market including broker and independent pricing service valuations. In addition, we transferred $370 million of long-term debt from Level 3 to Level 2. The long-term debt relates to medium term debt issuances where the embedded equity derivative is no longer unobservable as the derivative option is closer to maturity and there is more observability in short term volatility.

See Note 19, "Fair Value Measurements," in the accompanying consolidated financial statements for information on additions to and transfers into (out of) Level 3 measurements during the three and nine months ended September 30, 2010 and 2009 as well as for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

Credit Quality of Assets Underlying Asset-backed Securities The following tables summarize the types and credit quality of the assets underlying our asset-backed securities as well as certain collateralized debt obligations and collateralized loan obligations held as of September 30, 2010:

Asset-backed securities backed by consumer finance collateral:

			Commercial Mortgages		Prime		Alt-A		Sub-prime	
Credit Quality of Collateral:			Prior to	2006 to	Prior to	2006 to	Prior to	2006 to	Prior to	2006 to
Year of Issuance:		Total	2006	Present	2006	Present	2006	Present	2006	Present
				(in millions)						
Rating of securities:	Collateral type:									
AAA	Home equity loans	$ 160	$ —	$ —	$ —	$ —	$ 1	$ 157	$ 2	$ —
	Auto loans	10	—	—	—	—	10	—	—	—
	Student loans	20	—	—	—	—	20	—	—	—
	Residential mortgages	570	—	—	4	—	298	—	268	—
	Commercial mortgages	546	54	492	—	—	—	—	—	—
	Other	18	—	—	—	—	18	—	—	—
	Total AAA	1,324	54	492	4	—	347	157	270	—
AA	Home equity loans	—	—	—	—	—	—	—	—	—
	Residential mortgages	—	—	—	—	—	—	—	—	—
	Student loans	12	—	—	—	—	12	—	—	—
	Other	38	—	—	—	—	38	—	—	—
	Total AA	50	—	—	—	—	50	—	—	—
A	Home equity loans	2	—	—	—	—	2	—	—	—
	Residential mortgages	15	—	—	—	—	2	9	—	4
	Commercial mortgages	11	—	11	—	—	—	—	—	—
	Other	48	—	—	—	—	48	—	—	—
	Total A	76	—	11	—	—	52	9	—	4
BBB	Home equity loans	100	—	—	—	—	2	98	—	—
	Residential mortgages	6	—	—	—	—	6	—	—	—
	Other	—	—	—	—	—	—	—	—	—
	Total BBB	106	—	—	—	—	8	98	—	—
BB	Home equity	10	—	—	—	—	—	8	2	—
	Residential mortgages	6	—	—	—	—	—	6	—	—
	Total BB	16	—	—	—	—	—	14	2	—
B	Auto loans	—	—	—	—	—	—	—	—	—
		19	—	—	—	—	—	19	—	—

	Residential mortgages									
	Total B	19	—	—	—	—	—	19	—	—
CCC	Home equity loans	86	—	—	—	—	—	86	—	—
	Residential mortgages	4	—	—	—	—	4	—	—	—
	Total CCC	90	—	—	—	—	4	86	—	—
CC	Residential mortgages	—	—	—	—	—	—	—	—	—
D	Home equity loans	9	—	—	—	—	1	8	—	—
	Residential mortgages	15	—	—	—	—	—	15	—	—
	Total D	24	—	—	—	—	1	23	—	—
Unrated	Home equity loans	—	—	—	—	—	—	—	—	—
	Residential mortgages	13	—	—	—	—	13	—	—	—
	Other	12	—	—	—	—	—	12	—	—
	Total Unrated	25	—	—	—	—	13	12	—	—
		$ 1,730	$ 54	$ 503	$ 4	$ —	$ 475	$ 418	$ 272	$ 4

Collateralized debt obligations (CDO) and collateralized loan obligations (CLO):

Credit Quality of Collateral:		Total	A or Higher	BBB	BB/B	CCC	Unrated
			(in millions)				
Rating of securities:	Collateral type:						
	Corporate loans	$ 334	$ —	$ —	$ 334	$ —	$ —
	Residential mortgages	6	—	—	—	—	6
	Commercial mortgages	243	—	—	180	63	—
	Trust preferred	158	—	158	—	—	—
	Aircraft leasing	63	—	—	—	—	63
	Other	—	—	—	—	—	—
		804	$ —	$ 158	$ 514	$ 63	$ 69
	Total asset-backed securities	$ 2,534					

Effect of Changes in Significant Unobservable Inputs The fair value of certain financial instruments is measured using valuation techniques that incorporate pricing assumptions not supported by, derived from or corroborated by observable market data. The resultant fair value measurements are dependent on unobservable input parameters which can be selected from a range of estimates and may be interdependent. Changes in one or more of the significant unobservable input parameters may change the fair value measurements of these financial instruments. For the purpose of preparing the financial statements, the final valuation inputs selected are based on management's best judgment that reflect the assumptions market participants would use in pricing similar assets or liabilities.

The unobservable input parameters selected are subject to the internal valuation control processes and procedures. When we perform a test of all the significant input parameters to the extreme values within the range at the same time, it could result in an increase of the overall fair value measurement of approximately $230 million or a decrease of the overall fair value measurement of approximately $267 million as of September 30, 2010. The effect of changes in significant unobservable input parameters are primarily driven by mortgage whole loans held for sale or securitization, certain asset-backed securities including CDOs, and the uncertainty in determining the fair value of credit derivatives executed against monoline insurers.

Risk Management

Overview Some degree of risk is inherent in virtually all of our activities. For the principal activities undertaken, the following are considered to be the most important types of risks:

- Credit risk is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default.

- Liquidity risk is the potential that an institution will be unable to meet its obligations as they become due or fund its customers because of inadequate cash flow or the inability to liquidate assets or obtain funding itself.

- Interest rate risk is the potential impairment of net interest income due to mismatched pricing between assets and liabilities as well as losses in value due to rate movements.

- Market risk is the potential for losses in daily mark-to-market positions (mostly trading) due to adverse movements in money, foreign exchange, equity or other markets and includes both interest rate risk and trading risk.

• Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events (including legal risk but excluding strategic and reputational risk).

• Compliance risk is the risk arising from failure to comply with relevant laws, regulations and regulatory requirements governing the conduct of specific businesses.

• Fiduciary risk is the risk associated with offering services honestly and properly to clients in a fiduciary capacity in accordance with Regulation 12 CFR 9, Fiduciary Activity of National Banks.

• Reputational risk involves the safeguarding of our reputation and can arise from social, ethical or environmental issues, or as a consequence of operational and other risk events.

• Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.

There have been no significant changes to the policies or approach for managing various types of risk as disclosed in our 2009 Form 10-K, although we continue to monitor current market conditions and will adjust risk management policies and procedures as deemed necessary. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of the objectives of our risk management system as well as our risk management policies and practices. Our risk management process involves the use of various simulation models. We believe that the assumptions used in these models are reasonable, but actual events may unfold differently than what is assumed in the models. Consequently, model results may be considered reasonable estimates, with the understanding that actual results may vary significantly from model projections.

Credit Risk Management Credit risk is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default.

Credit risk is inherent in various on- and off-balance sheet instruments and arrangements, such as:

• loan portfolios;

• investment portfolios;

• unfunded commitments such as letters of credit and lines of credit that customers can draw upon; and

• treasury instruments, such as interest rate swaps which, if more valuable today than when originally contracted, may represent an exposure to the counterparty to the contract.

While credit risk exists widely in our operations, diversification among various commercial and consumer portfolios helps to lessen risk exposure. Day-to-day management of credit and market risk is performed by the Chief Credit Officer, the HSBC North America Chief Retail Credit Officer and the Head of Market Risk, who report directly to the HSBC North America Chief Risk Officer and maintain independent risk functions. The credit risk associated with commercial and other non-retail portfolios is managed by the Chief Credit Officer, while credit risk associated with retail consumer loan portfolios, such as credit cards, installment loans and residential mortgages, is managed by the HSBC North America Chief Retail Credit Officer. Further discussion of credit risk can be found under the "Credit Quality" caption in this MD&A.

Credit risk associated with derivatives is measured as the net replacement cost in the event the counterparties with contracts in a gain position to us fail to perform under the terms of those contracts. In managing derivative credit risk, both the current exposure, which is the replacement cost of contracts on the measurement date, as well as an estimate of the potential change in value of contracts over their remaining lives are considered. Counterparties to our derivative activities include financial institutions, foreign and domestic government agencies, corporations, funds (mutual funds, hedge funds, etc.), insurance companies and private clients as well as other HSBC entities. These counterparties are subject to regular credit review by the credit risk management department. To minimize credit risk, we enter into legally enforceable master netting agreements which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon occurrence of certain events. In addition, we reduce credit risk by obtaining collateral from counterparties. The determination of the need for and the levels of collateral will vary based on an assessment of the credit risk of the counterparty.

The total risk in a derivative contract is a function of a number of variables, such as:

• volatility of interest rates, currencies, equity or corporate reference entity used as the basis for determining contract payments;

- current market events or trends;
- country risk;
- maturity and liquidity of contracts;
- credit worthiness of the counterparties in the transaction;
- the existence of a master netting agreement among the counterparties; and
- existence and value of collateral received from counterparties to secure exposures.

The table below presents total credit risk exposure measured using rules contained in the risk-based capital guidelines published by U.S. banking regulatory agencies. Risk-based capital guidelines recognize that bilateral netting agreements reduce credit risk and, therefore, allow for reductions of risk-weighted assets when netting requirements have been met. As a result, risk-weighted amounts for regulatory capital purposes are a portion of the original gross exposures.

The risk exposure calculated in accordance with the risk-based capital guidelines potentially overstates actual credit exposure because: the risk-based capital guidelines ignore collateral that may have been received from counterparties to secure exposures; and the risk-based capital guidelines compute exposures over the life of derivative contracts. However, many contracts contain provisions that allow us to close out the transaction if the counterparty fails to post required collateral. In addition, many contracts give us the right to break the transactions earlier than the final maturity date. As a result, these contracts have potential future exposures that are often much smaller than the future exposures derived from the risk-based capital guidelines.

	September 30, 2010	December 31, 2009
	(in millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	$ 41,747	$ 39,856
Less: collateral held against exposure	6,324	3,890
Net credit risk exposure	$ 35,423	$ 35,966

Liquidity Risk Management There have been no material changes to our approach towards liquidity risk management since December 31, 2009. See “Risk Management” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to liquidity risk. Although our overall approach to liquidity management has not changed, we continue to enhance our implementation of that approach to reflect best practices. The past few years have suggested that in a market crisis, traditional sources of crisis liquidity such as secured lending and deposits with other banks may not be available. Similarly, the current regulatory initiatives are suggesting banks need to retain a portfolio of extremely high quality liquid assets. Consistent with these items, we are expanding our portfolio of high quality sovereign and sovereign guaranteed securities.

We continuously monitor the impact of market events on our liquidity positions. In general terms, the strains due to the credit crisis have been concentrated in the wholesale market as opposed to the retail market (the latter being the market from which we source core demand and time deposit accounts). Financial institutions with less reliance on the wholesale markets were in many respects less affected by the recent conditions. Our limited dependence upon the wholesale markets for funding has been a significant competitive advantage through the most recent period of financial market turmoil.

Our liquidity management approach includes increased deposits, potential sales (e.g. residential mortgage loans), and securitizations/conduits (e.g. credit cards) in liquidity contingency plans. Total deposits increased $609 million during the nine months ended September 30, 2010.

Our ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. At September 30, 2010, we and HSBC Bank USA maintained the following long and short-term debt ratings:

	Moody's	S&P	Fitch	DBRS(1)
HSBC USA Inc.:				
Short-term borrowings	P-1	A-1+	F1+	R-1
Long-term debt	A1	AA-	AA	AA
HSBC Bank USA:				
Short-term borrowings	P-1	A-1+	F1+	R-1
Long-term debt	Aa3	AA	AA	AA

(1) Dominion Bond Rating Service.

In August 2010, Standard and Poor's changed their outlook on the long and short term debt ratings of both HSBC USA Inc. and HSBC Bank USA from "negative" to "stable" and in October 2010, re-affirmed the long and short term debt ratings of each entity. As of September 30, 2010, there were no pending actions in terms of changes to ratings on the debt of HSBC USA Inc. or HSBC Bank USA from any of the rating agencies.

Interest Rate Risk Management Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of our assets, liabilities and derivative contracts. Our approach to managing interest rate risk is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Risk Management." There have been no material changes to our approach towards interest rate risk management since December 31, 2009.

Present Value of a Basis Point ("PVBP") is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009
	(in millions)	
Institutional PVBP movement limit	$ 6.5	$ 6.5
PVBP position at period end	1.9	.5

Economic value of equity is the change in value of the assets and liabilities (excluding capital and goodwill) for either a 200 basis point immediate rate increase or decrease. The following table reflects the economic value of equity position at September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009
	(values as a percentage)	
Institutional economic value of equity limit	+/-15	+/-20
Projected change in value (reflects projected rate movements on January 1):		
Change resulting from an immediate 200 basis point increase in interest rates	(3)	(4)
Change resulting from an immediate 200 basis point decrease in interest rates	(4)	(3)

The loss in value for a 200 basis point increase or decrease in rates is a result of the negative convexity of the residential whole loan and mortgage-backed securities portfolios. If rates decrease, the projected prepayments related to these portfolios will accelerate, causing less appreciation than a comparable term, non-convex instrument. If rates increase, projected prepayments will slow, which will cause the average lives of these positions to extend and result in a greater loss in market value.

Dynamic simulation modeling techniques are utilized to monitor a number of interest rate scenarios for their impact on net interest income. These techniques include both rate shock scenarios, which assume immediate market rate movements by as much as 200 basis points, as well as scenarios in which rates rise or fall by as much as 200 basis points over a twelve month period. The following table reflects the impact on net interest income of the scenarios utilized by these modeling techniques.

	September 30, 2010		December 31, 2009	
	Amount	%	Amount	%
	(dollars are in millions)			
Projected change in net interest income (reflects projected rate movements on January 1):				
Institutional base earnings movement limit		(10)%		(10)%
Change resulting from a gradual 100 basis point increase in the yield curve	$ 175	4	$ 17	—
Change resulting from a gradual 100 basis point decrease in the yield curve	(310)	(7)	(65)	(1)
Change resulting from a gradual 200 basis point increase in the yield curve	251	5	5	—
Change resulting from a gradual 200 basis point decrease in the yield curve	(413)	(9)	(105)	(2)
Other significant scenarios monitored (reflects projected rate movements on January 1):				
Change resulting from an immediate 100 basis point increase in the yield curve	245	5	20	—
Change resulting from an immediate 100 basis point decrease in the yield curve	(387)	(8)	(95)	(2)
Change resulting from an immediate 200 basis point increase in the yield curve	258	6	(14)	—
Change resulting from an immediate 200 basis point decrease in the yield curve	(497)	(11)	(179)	(3)

The projections do not take into consideration possible complicating factors such as the effect of changes in interest rates on the credit quality, size and composition of the balance sheet. Therefore, although this provides a reasonable estimate of interest rate sensitivity, actual results will vary from these estimates, possibly by significant amounts.

Capital Risk/Sensitivity of Other Comprehensive Income Large movements of interest rates could directly affect some reported capital balances and ratios. The mark-to-market valuation of available-for-sale securities is credited on a tax effectived basis to accumulated other comprehensive income. Although this valuation mark is excluded from Tier 1 and Tier 2 capital ratios, it is included in two important accounting based capital ratios: the tangible common equity to tangible assets and the tangible common equity to risk weighted assets. As of September 30, 2010, we had an available-for-sale securities portfolio of approximately $40.0 billion with a net positive mark-to-market of $1.6 billion included in tangible common equity of $12.2 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark-to-market by approximately $285 million to a net gain of $1.3 billion with the following results on the tangible capital ratios. As of December 31, 2009, we had an available-for-sale securities portfolio of approximately $27.8 billion with a net negative mark-to-market of $235 million included in tangible common equity of $11.1 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark-to-market by approximately $248 million to a net loss of $483 million with the following results on the tangible capital ratios.

	September 30, 2010	December 31, 2009

	Actual	Proforma(1)	Actual	Proforma(1)
Tangible common equity to tangible assets	6.44%	6.35%	6.60%	6.40%
Tangible common equity to risk weighted assets	9.77	9.62	8.26	8.00

(1) Proforma percentages reflect a 25 basis point increase in interest rates.

Market Risk Management There have been no material changes to our approach towards market risk management since December 31, 2009. See “Risk Management” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to market risk.

Value at Risk (“VAR”) is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. VAR calculations are performed for all material trading activities and as a tool for managing interest rate risk inherent in non-trading activities. We calculate VAR daily for a one-day holding period to a 99 percent confidence level. At a 99 percent confidence level for a two-year observation period, we are setting as our limit the fifth worst loss performance in the last 500 business days.

VAR – Trading Activities Our management of market risk is based on a policy of restricting individual operations to trading within a list of permissible instruments authorized, enforcing rigorous new product approval procedures and restricting trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems. Market making and proprietary position-taking is undertaken within Global Banking and Markets.

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques, including VAR and various techniques for monitoring interest rate risk as discussed above. These techniques quantify the impact on capital of defined market movements.

Trading portfolios reside primarily within the Markets unit of the Global Banking and Markets business segment, which include warehoused residential mortgage loans purchased with the intent of selling them. Portfolios include foreign exchange, derivatives, precious metals (i.e., gold, silver, platinum), equities and money market instruments including “repos” and securities. Trading occurs as a result of customer facilitation, proprietary position taking, and economic hedging. In this context, economic hedging may include, for example, forward contracts to sell residential mortgages and derivative contracts which, while economically viable, may not satisfy the hedge requirements.

The trading portfolios have defined limits pertaining to items such as permissible investments, risk exposures, loss review, balance sheet size and product concentrations. “Loss review” refers to the maximum amount of loss that may be incurred before senior management intervention is required.

The following table summarizes trading VAR for the nine months ended September 30, 2010:

	September 30,	Nine Months Ended September 30, 2010			December 31,
	2010	Minimum	Maximum	Average	2009
			(in millions)		
Total trading	$ 31	$ 23	$ 60	$ 35	$ 38
Equities	—	—	2	—	—
Foreign exchange	3	1	9	4	2
Interest rate directional and credit spread	25	19	53	30	33

The following table summarizes the frequency distribution of daily market risk-related revenues for Treasury trading activities during the nine months ended September 30, 2010. Market risk-related Treasury trading revenues include realized and unrealized gains (losses) related to Treasury trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the nine months ended September 30, 2010 shows that the largest daily gain was $18 million and the largest daily loss was $9 million.

Ranges of Daily Treasury Trading Revenue Earned from Market Risk-Related Activities	Below $(5)	$(5) to $0	$0 to $5	$5 to $10	Over $10
Number of trading days market risk-related revenue was within the stated range	9	56	87	29	9

VAR – Non-trading Activities Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of mortgage repayments, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts. The prospective change in future net interest income from non-trading portfolios will be reflected in the current realizable value of these positions, should they be sold or closed prior to maturity. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the supervision of the local Asset and Liability Committee ("ALCO"). Once market risk has been consolidated in Global Markets or ALCO-managed books, the net exposure is typically managed through the use of interest rate swaps within agreed limits.

The following table summarizes non-trading VAR for the nine months ended September 30, 2010, assuming a 99% confidence level for a two-year observation period and a one-day "holding period".

	September 30, 2010	Nine Months Ended September 30, 2010 Minimum	Maximum	Average	December 31, 2009
		(in millions)			
Interest rate	$ 141	$ 101	$ 170	$ 130	$ 114

Trading Activities – HSBC Mortgage Corporation (USA) HSBC Mortgage Corporation (USA) is a mortgage banking subsidiary of HSBC Bank USA. Trading occurs in mortgage banking operations as a result of an economic hedging program intended to offset changes in value of mortgage servicing rights and the salable loan pipeline. Economic hedging may include, for example, forward contracts to sell residential mortgages and derivative instruments used to protect the value of MSRs.

MSRs are assets that represent the present value of net servicing income (servicing fees, ancillary income, escrow and deposit float, net of servicing costs). MSRs are separately recognized upon the sale of the underlying loans or at the time that servicing rights are purchased. MSRs are subject to interest rate risk, in that their value will decline as a result of actual and expected acceleration of prepayment of the underlying loans in a falling interest rate environment.

Interest rate risk is mitigated through an active hedging program that uses trading securities and derivative instruments to offset changes in value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques.

Modeling techniques, primarily rate shock analyses, are used to monitor certain interest rate scenarios for their impact on the economic value of net hedged residential MSRs, as reflected in the following table.

	September 30, 2010	December 31, 2009
	(in millions)	
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on October 1):		
Value of hedged MSRs portfolio	$ 298	$ 450
Change resulting from an immediate 50 basis point decrease in the yield curve:		
Change limit (no worse than)	(10)	(16)
Calculated change in net market value	(5)	(1)
Change resulting from an immediate 50 basis point increase in the yield curve:		
Change limit (no worse than)	(8)	(8)

Calculated change in net market value	25	2
Change resulting from an immediate 100 basis point increase in the yield curve:		
Change limit (no worse than)	(12)	(12)
Calculated change in net market value	47	4

The economic value of the net, hedged MSRs portfolio is monitored on a daily basis for interest rate sensitivity. If the economic value declines by more than established limits for one day or one month, various levels of management review, intervention and/or corrective actions are required.

The following table summarized the frequency distribution of the weekly economic value of the MSR asset during the nine months ended September 30, 2010. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the year.

Ranges of Mortgage Economic Value from Market Risk-Related Activities	Below $(2)	$(2) to $0	$0 to $2	$2 to $4	Over $4
Number of trading weeks market risk-related revenue was within the stated range	5	7	14	8	5

Operational Risk There have been no material changes to our approach toward operational risk since December 31, 2009.

Compliance Risk Due to the increasing scale and complexity of our regulatory environment, and consistent with the suggestion of our regulators and the organizational model of HSBC, in the second quarter of 2010, the Compliance and Legal functions in North America were divided into two separate functions, whereas before Compliance had reported to Legal. The Compliance function will continue to report to the CEO of HSBC North America as well as functionally to the HSBC Head of Group Compliance. The HSBC Head of Group Compliance has been appointed as the Acting Head of Compliance, North America Region until such time as a permanent Head of HSBC Compliance, North America Region is appointed. Additional steps have been taken to further strengthen our compliance risk management approach, including increased investment in people, systems and advisory services; strategic actions to streamline our business; and the strengthening of the Anti-Money Laundering (“AML”) Office with responsibility for the guidance and oversight of AML risk management activities within HSBC North America and its subsidiaries, including HSBC USA. In addition, a new officer overseeing AML functions was hired in early October. Efforts to strengthen the Compliance function will continue.

Fiduciary Risk There have been no material changes to our approach towards fiduciary risk management since December 31, 2009.

Reputational Risk There have been no material changes to our approach towards reputational risk management since December 31, 2009.

Strategic Risk There have been no material changes to our approach towards strategic risk management since December 31, 2009.

Consolidated Average Balances and Interest Rates

The following table shows the quarter-to-date average balances of the principal components of assets, liabilities and shareholders' equity together with their respective interest amounts and rates earned or paid, presented on a taxable equivalent basis.

	Three Months Ended September 30,					
	2010			2009		
	Balance	Interest	Rate(1)	Balance	Interest	Rate(1)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	$ 22,297	$ 15	.28%	$ 18,825	$ 14	.28%
Federal funds sold and securities purchased under resale agreements	6,824	11	.62	4,519	8	.68
Trading assets	5,775	33	2.27	4,576	52	4.46
Securities	41,691	316	3.00	29,313	239	3.23
Loans:						
Commercial	31,010	239	3.05	34,055	265	3.09
Consumer:						
Residential mortgages	14,525	165	4.51	16,175	201	4.94
HELOCs and home equity mortgages	3,934	32	3.23	4,446	36	3.22
Private label card receivables	12,619	308	9.68	14,826	411	11.00
Credit cards	11,125	229	8.18	13,639	300	8.73
Auto finance	762	26	13.39	2,395	110	18.10
Other consumer	1,326	24	7.34	1,644	47	11.33
Total consumer	44,291	784	7.03	53,125	1,105	8.25
Total loans	75,301	1,023	5.39	87,180	1,370	6.24
Other	6,602	12	.69	7,216	11	.63
Total earning assets	158,490	$ 1,410	3.53%	151,629	$ 1,694	4.43%
Allowance for credit losses	(2,893)			(3,897)		
Cash and due from banks	2,547			2,595		
Other assets	26,074			22,197		
Total assets	$ 184,218			$ 172,524		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	$ 53,983	$ 86	.63%	$ 48,450	$ 143	1.17%
Other time deposits	16,542	42	1.01	18,768	69	1.47
Deposits in foreign offices:						
Foreign banks deposits	6,633	5	.32	10,763	3	.14
Other interest bearing deposits	18,720	6	.13	14,568	9	.23
Total interest bearing deposits	95,878	139	.58	92,549	224	.96
Short-term borrowings	19,057	22	.47	9,233	17	.71
Long-term debt	17,231	153	3.52	23,313	187	3.18
Total interest bearing liabilities	132,166	314	.94	125,095	428	1.36
Net interest income/Interest rate spread		$ 1,096	2.59%		$ 1,266	3.07%
Noninterest bearing deposits	21,456			19,063		
Other liabilities	13,800			13,501		
Total shareholders' equity	16,796			14,865		
Total liabilities and shareholders' equity	$ 184,218			$ 172,524		

Net interest margin on average earning assets	2.74%	3.31%
Net interest margin on average total assets	2.36%	2.91%

(1) Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the three months ended September 30, 2010 and 2009 included fees of $18 million and $20 million, respectively.

The following table shows the year-to-date average balances of the principal components of assets, liabilities and shareholders' equity together with their respective interest amounts and rates earned or paid, presented on a taxable equivalent basis.

	Nine Months Ended September 30,					
	2010			2009		
	Balance	Interest	Rate(1)	Balance	Interest	Rate(1)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	$ 28,914	$ 58	.27%	$ 14,037	$ 30	.28%
Federal funds sold and securities purchased under resale agreements	4,578	25	.73	7,857	38	.65
Trading assets	5,854	100	2.29	4,709	162	4.59
Securities	38,218	838	2.93	26,570	749	3.77
Loans:						
Commercial	31,555	724	3.06	35,926	918	3.42
Consumer:						
Residential mortgages	14,657	513	4.68	18,219	693	5.09
HELOCs and home equity mortgages	4,016	98	3.26	4,508	112	3.31
Private label card receivables	13,346	1,001	10.03	15,535	1,236	10.64
Credit cards	11,722	763	8.71	13,650	969	9.49
Auto finance	1,327	169	17.03	2,537	344	18.10
Other consumer	1,379	75	7.32	1,719	106	8.27
Total consumer	46,447	2,619	7.54	56,168	3,460	8.24
Total loans	78,002	3,343	5.73	92,094	4,378	6.36
Other	6,219	35	.75	8,490	35	.56
Total earning assets	161,785	$ 4,399	3.64%	153,757	$ 5,392	4.69%
Allowance for credit losses	(3,277)			(3,542)		
Cash and due from banks	2,593			2,565		
Other assets	24,791			24,279		
Total assets	$ 185,892			$ 177,059		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	$ 53,708	$ 290	.72%	$ 47,371	$ 466	1.31%
Other time deposits	16,896	131	1.03	19,648	291	1.99
Deposits in foreign offices:						
Foreign banks deposits	8,518	16	.26	10,711	9	.12
Other interest bearing deposits	20,071	17	.11	15,300	38	.33
Total interest bearing deposits	99,193	454	.61	93,030	804	1.16
Short-term borrowings	18,216	65	.48	9,728	51	.70
Long-term debt	17,514	441	3.37	24,548	634	3.45
Total interest bearing liabilities	134,923	960	.95	127,306	1,489	1.56
Net interest income/Interest rate spread		$ 3,439	2.69%		$ 3,903	3.13%
Noninterest bearing deposits	21,401			20,065		
Other liabilities	13,543			15,609		
Total shareholders' equity	16,025			14,079		
Total liabilities and shareholders' equity	$ 185,892			$ 177,059		
Net interest margin on average earning assets			2.84%			3.39%
Net interest margin on average total assets			2.47%			2.95%

(1) Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the nine months ended September 30, 2010 and 2009 included fees of $48 million and $64 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the captions "Interest Rate Risk Management" and "Trading Activities" of this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures We maintain a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed by HSBC USA in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported on a timely basis. Our Board of Directors, operating through its audit committee, which is composed entirely of independent outside directors, provides oversight to our financial reporting process.

We conducted an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report so as to alert them in a timely fashion to material information required to be disclosed in reports we file under the Exchange Act.

Changes in Internal Control over Financial Reporting There has been no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General We are parties to various legal proceedings, including actions that are or purport to be class actions, resulting from ordinary business activities relating to our current and/or former operations. Due to uncertainties in litigation and other factors, we cannot be certain that we will ultimately prevail in each instance. We believe that our defenses to these actions have merit and any adverse decision should not materially affect our consolidated financial condition. However, losses may be material to our results of operations for any particular future period depending on our income level for that period.

Credit Card Litigation Since June 2005, HSBC Bank USA, HSBC Finance Corporation, HSBC North America and HSBC, as well as other banks and Visa Inc. and MasterCard Incorporated, were named as defendants in four class actions filed in Connecticut and the Eastern District of New York: Photos Etc. Corp. et al. v. Visa U.S.A., Inc., et al. (D. Conn. No. 3:05-CV-01007 (WWE)); National Association of Convenience Stores, et al. v. Visa U.S.A., Inc., et al. (E.D.N.Y. No. 05-CV 4520 (JG)); Jethro Holdings, Inc., et al. v. Visa U.S.A., Inc. et al. (E.D.N.Y. No. 05-CV-4521 (JG)); and American Booksellers Asps' v. Visa U.S.A., Inc. et al. (E.D.N.Y. No. 05-CV-5391 (JG)). Numerous other complaints containing similar allegations (in which no HSBC entity is named) were filed across the country against Visa Inc., MasterCard Incorporated and other banks. These actions principally allege that the imposition of a no-surcharge rule by the associations and/or the establishment of the interchange fee charged for credit card transactions causes the merchant discount fee paid by retailers to be set at supracompetitive levels in violation of the Federal antitrust laws. These suits have been consolidated and transferred to the Eastern District of New York. The consolidated case is: In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, MDL 1720, E.D.N.Y. A consolidated, amended complaint was filed by the plaintiffs on April 24, 2006 and a second consolidated amended complaint was filed on January 29, 2009. The parties are engaged in discovery, motion practice and mediation. At this time, we are unable to quantify the potential impact from this action, if any.

Governmental and Regulatory Matters HSBC USA Inc. and HSBC Bank USA are subject to formal and informal investigations by, and have received subpoenas and/or requests for information from, various governmental and regulatory agencies relating to our business activities. In all such cases, we are cooperating fully and engaging in efforts to resolve these matters.

In the first week of October, HSBC Bank USA entered into a consent cease and desist order with the Office of the Comptroller of the Currency and our indirect parent, HSBC North America, entered into a consent cease and desist order with the Federal Reserve Board. These actions require improvements for an effective compliance risk management program across our U.S. businesses, including Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance. We had already taken several initial steps to address the concerns of our regulators by enhancing risk management and strengthening processes and the supporting infrastructure in our BSA and AML functions. Actions initiated to date include, but are not limited to, those described under "Risk Management — Operational Risk" above. HSBC USA Inc. is committed to fully addressing the requirements of the consent orders, and to maintaining compliant and effective BSA and AML policies and procedures, and efforts to strengthen related functions will continue.

We remain the subject of ongoing inquiries, including grand jury subpoenas and other requests for information, by government agencies, including the U.S. Attorney's Office and the U.S. Department of Justice. These inquiries pertain to, among other matters, our prior Banknotes Business and our foreign correspondent banking business, and our compliance with BSA, AML and Office of Foreign Assets Control requirements.

The consent orders do not preclude additional enforcement actions against HSBC Bank USA or HSBC North America by bank regulatory or law enforcement agencies, including civil money penalties, fines and other financial penalties. We are unable at this time to determine the terms on which the ongoing inquiries will be resolved, the timing of such resolution, or the amount of penalties or fines, if any, that may be imposed by the regulators or agencies in connection with such resolution.

Item 6. Exhibits

Exhibits included in this Report:

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 5, 2010

HSBC USA Inc.
(Registrant)

/s/ JOHN T. MCGINNIS
John T. McGinnis
Executive Vice President and
Chief Financial Officer

Exhibit Index

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 12

HSBC USA INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Nine Months Ended September 30,	2010	2009
	(dollars are in millions)	
Ratios excluding interest on deposits:		
Net income (loss)	$ 1,271	$ (177)
Income tax expense	667	56
Less: Undistributed equity earnings	20	24
Fixed charges:		
Interest on:		
Borrowed funds	65	51
Long-term debt	441	634
One third of rents, net of income from subleases	21	18
Total fixed charges, excluding interest on deposits	527	703
Earnings before taxes and fixed charges, net of undistributed equity earnings	$ 2,445	$ 558
Ratio of earnings to fixed charges	4.64	.79
Total preferred stock dividend factor(1)	$ 83	$ 37
Fixed charges, including the preferred stock dividend factor	$ 610	$ 740
Ratio of earnings to combined fixed charges and preferred stock dividends	4.01	.75
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	$ 527	$ 703
Add: Interest on deposits	454	804
Total fixed charges, including interest on deposits	$ 981	$ 1,507
Earnings before taxes and fixed charges, net of undistributed equity earnings	$ 2,445	$ 558
Add: Interest on deposits	454	804
Total	$ 2,899	$ 1,362
Ratio of earnings to fixed charges	2.96	.90
Fixed charges, including the preferred stock dividend factor	$ 610	$ 740
Add: Interest on deposits	454	804
Fixed charges, including the preferred stock dividend factor and interest on deposits	$ 1,064	$ 1,544
Ratio of earnings to combined fixed charges and preferred stock dividends	2.72	.88

(1) Preferred stock dividends grossed up to their pretax equivalents.

EXHIBIT 31

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Certification of Chief Executive Officer

I, Irene M. Dorner, President and Chief Executive Officer of HSBC USA Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSBC USA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 5, 2010

/s/ IRENE M. DORNER
Irene M. Dorner
President and Chief Executive Officer

Certification of Chief Financial Officer

I, John T. McGinnis, Executive Vice President and Chief Financial Officer of HSBC USA Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSBC USA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2010

/s/ JOHN T. MCGINNIS

John T. McGinnis
Executive Vice President and
Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the “Company”) Quarterly Report on Form 10-Q for the period ending September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Irene M. Dorner, President and Chief Executive Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: November 5, 2010

/s/ IRENE M. DORNER
Irene M. Dorner
President and Chief Executive Officer

Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") Quarterly Report on Form 10-Q for the period ending September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, John T. McGinnis, Executive Vice President and Chief Financial Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: November 5, 2010

/s/ JOHN T. MCGINNIS
John T. McGinnis
Executive Vice President and
Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 5 November, 2010