HSBC HOLDINGS PLC
Form 6-K
March 02, 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 March

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-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Floating Rate Notes due August 13, 2010	New York Stock Exchange
Floating Rate Notes due June 17, 2011	New York Stock Exchange
3.125% Guaranteed Notes due December 16, 2011	New York Stock Exchange
Floating Rate Guaranteed Notes due December 19, 2011	New York Stock Exchange
Depositary Shares (each representing a one-fourth share of Adjustable Rate Cumulative Preferred Stock, Series D)	New York Stock Exchange
$2.8575 Cumulative Preferred Stock	New York Stock Exchange
Floating Rate Non-Cumulative Preferred Stock, Series F	New York Stock Exchange
Depositary Shares (each representing a one-fortieth share of Floating Rate Non-Cumulative Preferred Stock, Series G)	New York Stock Exchange
Depositary Shares (each representing a one-fortieth share of	

Floating Rate Non-Cumulative Preferred Stock, Series H)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x (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 February 26, 2010, there were 712 shares of the registrant s common stock outstanding, all of which are owned by HSBC North America Inc.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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HSBC USA Inc.

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PART I

Item 1. Business.

Organization History and Acquisition by HSBC

HSBC USA Inc. (HSBC USA and, together with its subsidiaries, HUSI), incorporated under the laws of the State of Maryland in 1973 as Republic New York Corporation, traces its origin to 1850 and The Marine Trust Company in Buffalo, New York, which later became Marine Midland Bank. In 1980, The Hongkong and Shanghai Banking Corporation Limited (now HSBC Holdings plc, hereinafter referred to as HSBC) acquired 51 percent of the common stock of Marine Midland Banks, Inc., the holding company for Marine Midland Bank, and the remaining 49% in 1987. In December 1999, HSBC acquired Republic New York Corporation through a merger with RNYC Merger Corporation, a wholly owned subsidiary of HSBC, with Republic New York Corporation surviving the merger and merged Marine Midland Banks, Inc., then known as HSBC USA Inc., with and into Republic New York Corporation. In January 2000, Republic New York Corporation changed its name to HSBC USA Inc.

HSBC North America Operations

HSBC North America Holdings Inc. (HSBC North America) was the holding company for HSBC s operations in the United States and Canada at December 31, 2009. The principal subsidiaries of HSBC North America at December 31, 2009 were HSBC USA, HSBC Markets (USA) Inc., a holding company for certain global banking and markets subsidiaries, HSBC Finance Corporation (HSBC Finance), a holding company for consumer finance businesses, HSBC Bank Canada, a Federal bank chartered under the laws of Canada (HBCA), and HSBC Technology & Services (USA) Inc. (HTSU), a provider of information technology and centralized operational and support services including human resources, corporate affairs and other services shared among the subsidiaries of HSBC North America which beginning in 2010, will also include tax, finance, compliance and legal. In late January 2010, HBCA was sold to an affiliate and is no longer a subsidiary of HSBC North America. Under the oversight of HSBC North America, HUSI works with its affiliates to maximize opportunities and efficiencies in HSBC s operations in the United States. These affiliates do so by providing each other with, among other things, alternative sources of liquidity to fund operations and expertise in specialized corporate functions and services. This has been demonstrated by purchases and sales of receivables between HSBC Bank USA, National Association (HSBC Bank USA) and HSBC Finance and a pooling of resources within HTSU to provide shared, allocated support functions to all HSBC North America subsidiaries. In addition, clients of HSBC Bank USA, HSBC USA s principal U.S. banking subsidiary, and other affiliates are investors in debt and preferred securities issued by HSBC USA and/or HSBC Bank USA, providing significant sources of liquidity and capital to both entities. HSBC Securities (USA) Inc., a Delaware corporation, a registered broker dealer and a subsidiary of HSBC Markets (USA) Inc., leads or participates as underwriter of all HUSI domestic issuances of term corporate and, historically, HSBC Finance term corporate and asset-backed securities. While neither HSBC USA nor HSBC Bank USA has received advantaged pricing, the underwriting fees and commissions payable to HSBC Securities (USA) Inc. benefit HSBC as a whole.

HSBC USA Inc. General

HSBC Bank USA, HSBC USA s principal U.S. banking subsidiary, is a national banking association with banking branch offices and/or representative offices in California, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Texas, Virginia, Washington and the District of Columbia. In addition to its domestic offices, HSBC Bank USA maintains foreign branch offices, subsidiaries and/or representative offices in the Caribbean, Europe, Asia, Latin America and Canada. In this Form 10-K, HSBC USA and its subsidiaries are referred to as we , us or our . Through HSBC Bank USA, we offer our customers a full range of commercial and consumer banking products and related financial services. Our customers include individuals, including high net worth individuals, small businesses, corporations, institutions and governments.

HSBC Bank USA also engages in mortgage banking, and is an international dealer in derivative instruments denominated in U.S. dollars and other currencies, focusing on structuring of transactions to meet clients needs, as well as for proprietary purposes. HSBC Bank USA s main office is in McLean, Virginia, and its principal executive offices are located at 452 Fifth Avenue, New York, New York. Its domestic operations are located primarily in New York State.

In 2005, HSBC USA incorporated a nationally chartered limited purpose bank subsidiary, HSBC Trust Company (Delaware), National Association (HTCD). HTCD s charter includes the following primary activities:

Custodian of investment securities for other HSBC affiliates;

Personal trust services; and

Originator of refund anticipation loans and checks in support of taxpayer financial services business lines.

The operations of HTCD had an immaterial impact on HSBC USA s consolidated balance sheets and results of operations for the years ended December 31, 2009 and 2008.

In 2006, HSBC USA formed HSBC National Bank USA (HBMD), a national banking association established to support HSBC USA s retail branch expansion strategy. HBMD was merged with and into HSBC Bank USA in December 2008, at which time HSBC Bank USA relocated its main office to McLean, Virginia. The operations of HBMD had an immaterial impact on HSBC USA s consolidated balance sheet and results of operations for the years ended December 31, 2008 and 2007.

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.

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Income (Loss) before income tax from prior year	**$ (2,608)**	$ 137	$ 1,566
Increase (decrease) in income before income tax expense attributable to:			
Balance sheet management activities(1)	**676**	127	(70)
Trading related activities(2)	**2,905**	(2,387)	(606)
Credit card fees(3)	**477**	62	237
Loans held for sale(4)	**263**	(9)	(512)
Residential mortgage banking related revenue(5)	**183**	(85)	(22)
Gain (loss) on own debt designated at fair value and related derivatives(6)	**(1,164)**	670	-
Gain (loss) on instruments designated at fair value and related derivatives, excluding own debt(6)	**625**	(384)	-
Provision for credit losses(7)	**(1,601)**	(1,021)	(699)
Goodwill impairment loss(8)	-	(54)	-
All other activity(9)	**18**	336	243
	2,382	(2,745)	(1,429)

Income (Loss) before income tax for current year	**$ (226)**	$ (2,608)	**$** 137

(1) Balance sheet management activities are comprised primarily of net interest income and, to a lesser extent, 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 in the Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of this Form 10-K.

(2) For additional discussion regarding trading revenue (loss), see the caption Results of Operations in the MD&A section of this Form 10-K.

(3) For additional discussion regarding credit card fees, see the caption Results of Operations in the MD&A section of this Form 10-K.

(4) For additional discussion regarding loans, see the caption Balance Sheet Review in the MD&A section of this Form 10-K.

(5) For additional discussion regarding residential mortgage banking revenue, see the caption Results of Operations in the MD&A section of this Form 10-K.

(6) For additional discussion regarding fair value option and fair value measurement, see Note 17 Fair Value Option, in the accompanying consolidated financial statements.

(7) For additional discussion regarding provision for credit losses, see the caption Results of Operation in the MD&A section of this Form 10-K.

(8) For additional discussion regarding goodwill impairment, see Note 12, Goodwill, in the accompanying consolidated financial statements.

(9) Represents other core banking activities.

Funding

We fund our operations using a combination of consumer and commercial deposits, issuing short-term and long-term debt, borrowing under secured financing facilities, issuing preferred equity, selling liquid assets and, as necessary, receiving capital contributions from our immediate parent, HSBC North America Inc. (HNAI). Our continued success is primarily dependent upon our ability to attract and retain deposits. Emphasis is placed on maintaining stability in core deposit balances. Numerous factors, both internal and external, may impact our access to, and the costs associated with, both retail and wholesale sources of funding. These factors may include our debt ratings, overall economic conditions, overall capital markets volatility, the counterparty credit limits of investors to the HSBC Group and the effectiveness of our management of the credit risks inherent in our business and customer base.

In 2009, our primary sources of funds were deposits, issuances of commercial paper and term debt, certain secured financings and receipt of capital contributions from our parent, HNAI. As a result of the systemic reduction in available liquidity in the market, we took steps to reduce our reliance on debt capital markets and increase deposits. While we raised $3.6 billion of new term funding at various points during 2009, after adjusting for paydowns associated with the $6.1 billion of debt acquired in connection with the credit card purchases from our affiliate in 2009, we retired long-term debt of $9.5 billion in 2009. In the latter part of 2008, we grew deposits in anticipation of asset purchases from our affiliates, and December 31, 2008 balances also benefited from customers moving funds to larger, well-capitalized institutions. As a result, both core and overall deposit balances increased in 2008, in both absolute terms and in proportion to total liabilities. In 2009, we managed our overall balance sheet downward and, as a result, deposits decreased slightly to $118.3 billion at December 31, 2009 from $119.0 billion at December 31, 2008. In 2009, we received capital contributions from HNAI totaling $2.2 billion which we used to support ongoing operations and to maintain capital at levels we believe are prudent in the current market conditions, including $1.1 billion to provide capital support for the receivables purchased from HSBC Finance in January 2009.

A detailed description of our sources and availability of funding are set forth in the Liquidity and Capital Resources and Off Balance Sheet Arrangements sections of the MD&A.

We use the cash generated by these financing activities to service our debt obligations, to originate and purchase new loans, to purchase investment securities and to pay dividends to our preferred shareholders and, as available and appropriate, to our parent.

Our long-term debt, preferred stock and commercial paper have been assigned investment grade ratings by all nationally recognized statistical rating organizations. For a detailed listing of the ratings that have been assigned to HSBC USA at December 31, 2009, see the Liquidity and Capital Resources section of the MD&A.

Employees and Customers

At December 31, 2009, we had approximately 12,000 employees. Effective as of January 1, 2010, we had approximately 11,000 employees as a result of the transfer of certain staff function employees to HTSU which provides shared, allocated support services to all HSBC North America subsidiaries, including HUSI.

At December 31, 2009, we had over 4 million customers, some of which are customers of more than one of our businesses. Customers in the state of New York accounted for 31 percent of our outstanding loans.

Operations

We have five reportable segments: Personal Financial Services (PFS), Consumer Finance (CF), Commercial Banking (CMB), Global Banking and Markets and Private Banking (PB). Our segments are managed separately and are based upon customer groupings as well as products and services offered. Adjustments made at the corporate level for fair value option accounting related to certain debt issued and, in prior years, an equity investment in HSBC Private Bank (Suisse) S.A. are included under the Other caption within our segment disclosure.

Corporate goals and individual goals of executives are currently calculated in accordance with International Financial Reporting Standards (IFRSs) under which HSBC prepares its consolidated financial statements. As a result, operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources, such as employees, are made almost exclusively on an IFRS basis (a non-U.S. GAAP financial measure). Accordingly, in accordance with applicable accounting standards, our segment reporting is on an IFRS basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis. For additional financial information relating to our businesses and operating segments and a summary of the significant differences between U.S. GAAP and IFRSs as they impact our results, see Note 24, Business Segments, in the accompanying consolidated financial statements.

Personal Financial Services Segment Through its 479 branches, on-line and phone services, PFS provides a broad range of financial products and services directed towards the expansion of our core retail banking business, including revolving term loans, MasterCard[1] and Visa[2] credit card loans, deposits, branch services and financial planning products and services such as mutual funds, investments and insurance. Our lead proposition is HSBC Premier, a premium relationship banking service designed for the internationally minded mass affluent consumer. Premier enables customers to access all their local and international accounts from a single on-line view and provides free international funds transfers between these accounts. The Premier service is delivered by a personal Premier relationship manager, supported by a 24-hour priority telephone and internet service. Through our on-line banking business, we offer higher-yield savings, payment accounts and CDs. PFS also provides residential mortgage lending through our branch network. In 2008, we decided to discontinue residential mortgage loan originations through wholesale origination channels. Servicing is performed on a contractual basis for residential mortgage loans owned by HSBC Bank USA and by third parties.

Consumer Finance Segment The CF segment includes point of sale and other lending activities primarily to meet the financial needs of individuals. Specifically, operating activity within the CF segment relates to nonconforming residential mortgage loans, other consumer loans and private label credit card receivables purchased from HSBC Finance. As described herein, in January 2009 we purchased portfolios of credit card receivables originated under HSBC Finance s General Motors MasterCard program and Union Plus MasterCard and Visa credit card program, as well as certain auto finance receivables, from HSBC Finance. We will also purchase additional receivable originations generated under existing and future General Motors and Union Plus accounts. The CF segment also includes activities within these portfolios.

Commercial Banking Segment In support of HSBC s strategy to be the leader in international banking in target markets, CMB serves the growing number of U.S. companies that are increasingly in need of international banking and financial products and services. CMB offers comprehensive domestic and international services and banking, insurance and investment products to companies, government entities and non-profit organizations, with a particular emphasis on geographical collaboration to meet the banking needs of its international business customers. CMB provide loan and deposit products, payments and cash management services, merchant services, trade and supply chain, corporate finance, global markets and risk advisory to small businesses and middle-market corporations, including specialized products such as real estate financing. CMB also offers various credit and trade

[1] MasterCard is a registered trademark of MasterCard International Incorporated (d/b/a MasterCard Worldwide).
[2] Visa is a registered trademark of Visa USA, Inc.

related products such as standby facilities, performance guarantees and acceptances. These products and services are offered through multiple delivery systems, including our branch banking network.

Global Banking and Markets Segment Global Banking and Markets is an emerging markets-led and financing-focused business that provides tailored financial solutions to major government, corporate and institutional clients worldwide. Managed as a global business, Global Banking and Markets clients are served by teams that bring together relationship managers and product specialists to develop financial solutions that meet individual client needs. To ensure that a comprehensive understanding of each client s financial requirements is developed, the Global Banking and Markets teams take a long-term relationship management approach.

Within client-focused business lines, Global Banking and Markets offers a full range of capabilities:

- Investment banking and financing solutions for corporate and institutional clients, including corporate banking, investment banking, trade services, payments and cash management, and leveraged acquisition finance;
- One of the largest markets businesses of its kind, with 24-hour coverage and knowledge of local markets and providing services in credit and rates, foreign exchange, money markets and securities services; and
- Global asset management solutions for institutions, financial intermediaries and private investors worldwide.

Private Banking Segment PB provides private banking and trustee services to high net worth individuals and families with local and international needs. Accessing the most suitable products from the marketplace, PB works with its clients to offer both traditional and innovative ways to manage and preserve wealth while optimizing returns. PB offers a wide range of wealth management and specialist advisory services, including banking, liquidity management, investment services, custody services, tailored lending, wealth planning, trust and fiduciary services, insurance, family wealth and philanthropy advisory services. PB also works to ensure that its clients have access to other products and services, capabilities, resources and expertise available throughout HSBC, such as credit cards, investment banking and commercial real estate and middle market lending, to deliver services and solutions for all aspects of their wealth management needs.

Regulation and Competition

Regulation The statutory and regulatory framework governing our operations and that of our significant subsidiaries is described below. Congress has established this framework, applicable to bank holding companies, for the purpose of protecting depositors, the federal deposit insurance fund, consumers and the banking system as a whole. Applicable statutes, regulations or resulting policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions or pay dividends on our capital stock. Banking rules and supervisors may also require us to provide financial support to one or more of our subsidiary banks, maintain capital balances in excess of those desired by management, and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of federally-insured depository institutions.

The U.S. Federal government and banking regulators continued their efforts to stabilize the U.S. economy in 2009. On June 17, 2009, the Administration unveiled its proposal for a sweeping overhaul of the financial regulatory system. The Financial Regulatory Reform proposals are comprehensive and include the creation of an inter-agency Financial Services Oversight Council to, among other things, identify emerging risks and advise the Board of Governors of the Federal Reserve System (the Federal Reserve Board) regarding institutions whose failure could pose a threat to financial stability; expand the Federal Reserve Board s powers to regulate these systemically-important institutions and impose more stringent capital and risk management requirements; create a Consumer Financial Protection Agency (the CFPA) as a single primary Federal consumer protection supervisor, which will regulate credit, savings, payment and other consumer financial products and services and providers of those products and services; and impose comprehensive regulation of over-the-counter (OTC) derivatives markets, including credit default swaps, and prudent supervision of OTC derivatives dealers. In December 2009, the U.S. House of Representatives passed The Wall Street Reform and Consumer Protection Act, which addresses many of the Administration s proposed reforms. Similar legislation is under consideration by the U.S. Senate Committee on Banking, Housing, and Urban Affairs. On January 14, 2010, the Administration announced its intention to propose a Financial Crisis Responsibility Fee to be assessed against financial institutions with more than $50 billion in consolidated assets for at least 10 years. On January 21, 2010, the Administration announced a proposal that would prohibit banks and financials institutions that own banks from owning, investing in or sponsoring a hedge fund or private equity fund and engaging in proprietary trading operations for their own account. The proposal would also place broader limits on growth in market share of liabilities at the largest financial institutions, which would supplement existing limits on market share of deposits. It is likely that some portion of the financial regulatory reform proposals will be adopted and enacted. The reforms may have a significant impact on the operations of financial institutions in the U.S., including us and our affiliates. However, it is not possible to assess the impact of financial regulatory reform until final legislation has been enacted and related regulations have been adopted.

Bank Holding Company Supervision As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended (BHC Act), and to inspection, examination and supervision by its primary regulator, the Federal Reserve Board. We are also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the Securities and Exchange Commission (the SEC).

We have registered as a financial holding company pursuant to the BHC Act and, accordingly, may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. Financial in nature activities include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the Federal Reserve Board, in consultation with the Secretary of the U.S. Treasury, determines from time to time to be financial in nature or incidental to such financial activity. Complementary activities are activities that the Federal Reserve determines upon application to be complementary to a financial activity and do not pose a safety and soundness risk.

Because we are a financial holding company, if any of our subsidiary banks receives a rating under the Community Reinvestment Act of 1977, as amended (CRA), of less than satisfactory, we will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities or acquiring companies other than bank holding companies, banks, or savings associations, except that we could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHC Act. In addition, should the Federal Reserve determine that any of our subsidiary banks are not well capitalized or well managed, we would be required to enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements (which may contain additional limitations or conditions). Until corrected, we would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHC Act without prior Federal Reserve Board approval. If we fail to correct any such condition within a prescribed period, the Federal Reserve Board could order us to divest our banking subsidiaries or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHC Act. As of December 31, 2009, no known deficiencies exist, and we are not subject to limitations or penalties relative to its status as a financial holding company.

We are generally prohibited under the BHC Act from acquiring, directly or indirectly, ownership or control of more than 5 percent of any class of voting shares of, or substantially all the assets of, or exercising control over, any U.S. bank, bank holding company or many other types of depository institutions and/or their holding companies without the prior approval of the Federal Reserve and potentially other U.S. banking regulatory agencies.

The Gramm-Leach-Bliley Act of 1999 (GLB Act) and the regulations issued thereunder contain a number of other provisions that affect our operations and those of our subsidiary banks. One such provision contained detailed requirements relating to the financial privacy of consumers. In addition, the so-called push-out provisions of the GLB Act removed the blanket exemption from registration for securities activities conducted in banks (including HSBC Bank USA) under the Exchange Act of 1934, as amended. New rules have been published to implement these changes and, when effective, will allow banks to continue to avoid registration as a broker or dealer only if they conduct securities activities that fall within a set of defined exceptions. A narrowed dealer definition took effect in September 2003, and a narrowed broker definition takes effect for each bank on the first day of its fiscal year following September 30, 2008. Pursuant to the new regulations, certain securities activities currently conducted by HSBC Bank USA were restructured or transferred to one or more U.S.-registered broker-dealer affiliates effective January 1, 2009.

Our consumer lending businesses operate in a highly regulated environment. These businesses are subject to laws relating to consumer protection including, without limitation, fair lending, use of credit reports, privacy matters, and disclosure of credit terms and correction of billing errors. Local, state and national regulatory agencies continue efforts to address perceived problems within the mortage lending and credit card industries through broad or targeted legislative or regulatory initiatives aimed at lenders operations in consumer lending markets. There continues to be a significant amount of legislative activity, nationally, locally and at the state level, aimed at curbing certain lending practices.

On May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act) was signed into law with likely significant impact on the credit card industry. The CARD Act, which through Federal Reserve Board rulemaking becomes effective in three stages (i.e., August 2009, February 2010 and August 2010), primarily amends the Truth in Lending Act by adding a number of new substantive and disclosure requirements building upon the Regulation AA and Regulation Z requirements adopted by the Federal Reserve Board in January 2009 (the January 2009 rules). The February 2010 rulemaking implemented the majority of the CARD Act provisions which, among other things, restrict application of interest rate increases on new and existing balances, prescribe the manner in which payments in excess of the minimum payment may be allocated to amounts due and when penalty rates may be charged on past due balances, and require customers to opt-in to over limit fee assessments. Because many of the requirements of the January 2009 Regulation AA and Regulation Z rules are included in the February 2010 CARD Act rule, the Federal Reserve Board has issued notices withdrawing the January 2009 rules. The Federal Reserve is expected in the near term to promulgate rules that will interpret and implement the provisions of the CARD Act which take effect in August 2010. The August 2010 CARD Act rules will address the reasonableness and proportionality of penalty fees and charges and require that accounts subjected to prior interest rate increases be periodically re-evaluated for interest rate decreases. The CARD Act also requires other government agencies to conduct studies on interchange, debt cancellation agreements and credit insurance products and present reports to Congress on these topics. We are compliant with the provisions of the CARD Act that took effect in August 2009 and February 2010 and continue to make changes to processes and systems in order to comply with the remaining provisions of the CARD Act by the applicable August 2010 effective date. 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 future sales volume paid to HSBC Finance would be adjusted to fully reflect the new requirements.

Due to the turmoil in the mortgage lending markets, there has also been a significant amount of federal and state legislative and regulatory focus on this industry. Several regulators, legislators and other government bodies have promoted particular views of appropriate or model loan modification programs, suitable loan products and foreclosure and loss mitigation practices. We have developed a modification program that employs procedures that we believe are most responsive to our customers needs and continue to enhance and refine these practices as other programs are announced, and we evaluate the results of our customer assistance efforts.

Supervision of Bank Subsidiaries Our subsidiary national banks, HSBC Bank USA and HTCD, are subject to regulation and examination primarily by the Office of the Comptroller of the Currency (OCC), secondarily by the FDIC, and by the Federal Reserve. HSBC Bank USA and HTCD are subject to banking laws and regulations that place various restrictions on and requirements regarding their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, payment of dividends and numerous other matters.

Federal law limits the extent to which HSBC Bank USA and HTCD may pay dividends to HSBC USA. The amount these banks may pay, without specific OCC approval, is limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year s net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. In addition, the OCC, the Federal Reserve Board, and the FDIC have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including HSBC USA and HSBC Bank USA, if they would consider payment of such dividend to constitute an unsafe or unsound practice in light of the financial condition of the banking organization. HSBC Bank USA is also required to maintain reserves in the form of vault cash and deposits with the Federal Reserve Bank.

The Federal Reserve Act limits the extent to which HSBC Bank USA and HTCD may transfer funds or other items of value to HSBC USA or other affiliates in so-called covered transactions. 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, or unless a specific waiver is granted by the Federal Reserve Board, covered transactions by a bank with a single affiliate are limited to 10 percent of the bank s capital and surplus and all covered transactions with affiliates in the aggregate, are limited to 20 percent of the bank s capital and surplus. Loans and extensions of credit to affiliates by a bank generally are required to be secured in specified amounts with specific types of collateral. All of a bank s transactions with its non-bank affiliates are also generally required to be on arm s length terms.

Federal Reserve Board policy states that a bank holding company such as HSBC USA, is expected to act as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank.

Regulatory Capital Requirements As a bank holding company, we are subject to regulatory capital requirements and guidelines imposed by the Federal Reserve Board, which are substantially similar to those imposed by the OCC and the FDIC on banks such as HSBC Bank USA and HTCD. A bank or bank holding company s failure to meet minimum capital requirements can result in certain mandatory actions and possibly additional discretionary actions by its regulators. Under current capital guidelines, a bank or a holding company s assets and certain specified off-balance sheet commitments and obligations are assigned to various risk categories. A bank or holding company s capital, in turn, is classified into one of three tiers. Tier 1 capital includes common equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock at the holding company level, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other deductions. Tier 2 capital includes, among other things, perpetual preferred stock not qualified as Tier 1 capital, subordinated debt, and allowances for loan and lease losses, subject to certain limitations. Tier 3 capital includes qualifying unsecured subordinated debt. At least one-half of a bank s total capital must qualify as Tier 1 capital. To be categorized as well capitalized, a banking institution must have the minimum ratios reflected in the table included in Note 25, Retained Earnings and Regulatory Capital Requirements of the consolidated financial statements and must not be subject to a directive, order or written agreement to meet and maintain specific capital levels. The federal bank regulatory agencies may, however, set higher capital requirements for an individual bank or when a bank s particular circumstances warrant. The Federal Reserve Board may also set higher capital requirements for holding companies whose circumstances warrant it. As part of the regulatory approvals with respect to the credit card and auto receivable portfolio purchases completed in January 2009 and described in the 2009 Events section of the MD&A, HSBC USA and its ultimate parent, HSBC, committed that HSBC Bank USA will maintain specified Tier 1 risk-based capital, total capital and Tier 1 leverage ratios for one year following the date of transfer, and that HSBC Bank USA will hold sufficient capital with respect to the purchased receivables that are or become low-quality assets, as defined by the Federal Reserve Act. See Note 25, Retained Earnings and Regulatory Capital Requirements in the consolidated financial statements for further discussion.

In December 2007, U.S. regulators published a final rule regarding Risk-Based Capital Standards: Advanced Capital Adequacy Framework Basel II. This final rule represents the U.S. adoption of the Basel II International

Capital Accord (Basel II). The final rule became effective April 1, 2008, and requires large bank holding companies, including HSBC North America, to adopt its provisions subject to regulatory approval no later than April 1, 2011. HSBC North America has established comprehensive Basel II implementation project teams comprised of finance and risk management specialists representing all risk disciplines. We anticipate that the implementation of Basel II may impact our product offerings, funding of products and regulatory capital. However, any impact will be based on our prevailing risk profile. Basel II also requires that HSBC North America precede its adoption of the Basel II provisions by initiating a parallel run period for at least four quarters which was initiated in January 2010 by HSBC North America. As a result, we will support the parallel run period by supplying data relating to risk to HSBC North America.

HSBC North America and HSBC USA continue to support the HSBC implementation of the Basel II framework, as adopted by the U.K. Financial Services Authority (FSA). We supply data regarding credit risk, operational risk and market risk to support HSBC s regulatory capital and risk weighted asset calculations. Revised FSA capital adequacy rules for HSBC became effective January 1, 2008.

In addition, U.S. bank regulatory agencies have maintained the leverage regulatory capital requirements that generally require United States banks and bank holding companies to maintain a minimum amount of capital in relation to their balance sheet assets (measured on a non-risk-weighted basis).

Our capital resources are summarized under Liquidity and Capital Resources in MD&A. Capital amounts and ratios for HSBC USA and HSBC Bank USA are summarized in Note 25, Retained Earnings and Regulatory Capital Requirements of the consolidated financial statements. From time to time, bank regulators propose amendments to or issue interpretations of risk-based capital guidelines. Such proposals or interpretations could, upon implementation, affect reported capital ratios and net risk weighted assets.

FDIC Programs HSBC Bank USA and HTCD are subject to risk-based assessments from the FDIC, which insures deposits generally to a maximum of $100,000 per depositor for domestic deposits. In October 2008, the FDIC raised the maximum amount of insured deposits to $250,000 per depositor and, on May 20, 2009, extended the increased limit until December 31, 2013. On January 1, 2014, the limit will return to $100,000 for all deposit accounts, except for certain retirement accounts which remain insured up to $250,000 per depositor. Depository institutions subject to assessment are categorized based on supervisory ratings, financial ratios and, in the case of larger institutions, long-term debt issuer ratings, with those in the highest rated categories paying lower assessments. While the assessments are generally payable quarterly, the FDIC also has the authority to impose special assessments to prevent the deposit insurance fund from declining to an unacceptable level. Pursuant to this authority, the FDIC imposed a 5 basis point special assessment on June 30, 2009. In September 2009, the FDIC increased annual assessment rates by three basis points beginning in 2011. In November 2009, the FDIC amended its regulations to require depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 on or before December 30, 2009.

The Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO), a Federal agency established to collect funds from FDIC-insured institutions, to pay interest on FICO bonds. The FICO assessment rate is adjusted quarterly. HSBC Bank USA and HTCD are subject to a quarterly FICO premium.

On October 14, 2008, the FDIC announced the TLGP, under which the FDIC guaranteed (i) newly-issued senior unsecured debt issued by eligible, participating institutions, and (ii) certain non-interest bearing transaction accounts. The Debt Guarantee Program applies to senior unsecured debt issued by eligible entities on or after October 14, 2008 and on or before October 31, 2009. The FDIC guarantee continues on qualifying debt until the earlier of maturity or

June 30, 2012. Eligible entities that participated in the debt guarantee component of the TLGP are assessed fees ranging from 50 to 100 basis points on the amount of FDIC-guaranteed debt issued on or after October 14, 2008 (excluding unsecured borrowings with maturities of 30 days or less issued after December 5, 2008), depending on the maturity of the FDIC-guaranteed debt. This fee is increased by 10 basis points for certain holding companies and participating affiliates of insured depository institutions that are not themselves insured depository institutions. We were not subject to the increased fee. In December 2008, we issued an aggregate of

$2.7 billion of guaranteed senior notes pursuant to the Debt Guarantee Program, all of which will mature in December 2011.

The Transaction Account Guarantee Program covers 100 percent of a bank s non-interest bearing transaction deposit accounts and, on August 26, 2009, the FDIC announced that the Transaction Account Guarantee Program would be extended to June 30, 2010. In connection with the extension, the fee payable to the FDIC under the Transaction Account Guarantee Program will be increased from 10 basis points on any deposit amounts exceeding the $250,000 deposit insurance limit to 15, 20 or 25 basis points depending on the risk category assigned to the institution under the FDIC s risk-based premium system. In November 2009, HSBC Bank USA and its affiliated banks advised the FDIC of their election to opt out of the six-month extension of the Transaction Account Guarantee Program and, accordingly, our participation ended as of December 31, 2009.

Bank Secrecy Act/Anti-Money Laundering The USA Patriot Act (the Patriot Act), effective October 26, 2001, imposed significant record keeping and customer identity requirements, expanded the government s powers to freeze or confiscate assets and increased the available penalties that may be assessed against financial institutions for violation of the requirements of the Patriot Act intended to detect and deter money laundering. The Patriot Act required the U.S. Treasury Secretary to develop and adopt final regulations with regard to the anti-money laundering compliance obligations of financial institutions (a term which includes insured U.S. depository institutions, U.S. branches and agencies of foreign banks, U.S. broker-dealers and numerous other entities). The U.S. Treasury Secretary delegated certain authority to a bureau of the U.S. Treasury Department known as the Financial Crimes Enforcement Network (FinCEN).

Many of the anti-money laundering compliance requirements of the Patriot Act, as implemented by FinCEN, are generally consistent with the anti-money laundering compliance obligations that applied to HSBC Bank USA under the Bank Secrecy Act and applicable Federal Reserve Board regulations before the Patriot Act was adopted. These include requirements to adopt and implement an anti-money laundering program, report suspicious transactions and implement due diligence procedures for certain correspondent and private banking accounts. Certain other specific requirements under the Patriot Act involve compliance obligations. The Patriot Act has improved communication between law enforcement agencies and financial institutions. The Patriot Act and other recent events have also resulted in heightened scrutiny of the Bank Secrecy Act and anti-money laundering compliance programs by bank regulators.

Competition Following the enactment of the GLB Act, HSBC USA elected to be treated as a financial holding company. The GLB Act also eliminated many of the regulatory restrictions on providing financial services. The GLB Act allows for financial institutions and other providers of financial products to enter into combinations that permit a single organization to offer a complete line of financial products and services. Therefore, we face intense competition in all of the markets we serve, competing with both other financial institutions and non-banking institutions such as insurance companies, major retailers, brokerage firms and investment companies. The financial services industry has experienced consolidation in recent years as financial institutions involved in a broad range of products and services have merged, been acquired or dispersed. This trend is expected to continue and has resulted in, among other things, greater concentrations of deposits and other resources. It is likely that competition will become more intense as our businesses compete with other financial institutions that have or may acquire access to greater liquidity or that may have a stronger presence in certain geographies.

Corporate Governance and Controls

We maintain a website at www.us.hsbc.com on which we make available, as soon as reasonably practicable after filing with or furnishing to the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports. Our website also contains our Corporate Governance Standards and committee charters for the Audit and Fiduciary Committees of our Board of Directors. We have a Statement of Business Principles and Code of Ethics that expresses the principles upon which we operate our businesses. Integrity is the foundation of all our business endeavors and is the result of continued dedication and commitment to the highest ethical standards in our relationships with each other, with other organizations and individuals who are our customers. You can find our Statement of Business Principles and Code of Ethics on our corporate website. We also have a Code of Ethics for Senior Financial Officers that applies to our finance and accounting professionals that supplements the Statement of Business Principles. That Code of Ethics is incorporated by reference in Exhibit 14 to this Form 10-K. You can request printed copies of this information at no charge. Requests should be made to HSBC USA Inc., 26525 North Riverwoods Boulevard, Mettawa, Illinois 60045, Attention: Corporate Secretary.

Certifications In addition to certifications from our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (attached to this report on Form 10-K as Exhibits 31 and 32), we also file a written affirmation of an authorized officer with the New York Stock Exchange (the NYSE) certifying that such officer is not aware of any violation by HSBC USA of the applicable NYSE corporate governance listing standards in effect as of March 2, 2009.

Cautionary Statement on Forward-Looking Statements

Certain matters discussed throughout this Form 10-K constitute forward-looking statements 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 that are not statements of historical fact and may also constitute forward-looking statements. Words such as may , will , should , would , could , appears , believe , intends , expects , estimates , targeted , plans , anticipates , goal ar are intended to identify 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. We undertake no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Item 1A. Risk Factors

The following discussion provides a description of some of the important risk factors that could affect our actual results and could cause our results to vary materially from those expressed in public statements or documents. However, other factors besides those discussed below or elsewhere in other of our reports filed or furnished with the SEC, could affect our business or results. The reader should not consider any description of such factors to be a complete set of all potential risks that we may face.

The unprecedented current market and economic conditions may continue to affect our business, results of operations and financial condition. Our business and earnings are affected by general business, economic and market conditions in the United States and abroad. Given our concentration of business activities in the United States, we are particularly exposed to the continued turmoil in the economy, housing downturns, high unemployment, tighter credit conditions and reduced economic growth that have occurred over the past two years and appear likely to continue in 2010. General business, economic and market conditions that could continue to affect us include:

short-term and long-term interest rates;

a continuing recessionary economy;

unemployment levels;

inflation;

monetary supply;

availability of liquidity;

fluctuations in both debt and equity capital markets in which we fund our operations;

market value of residential and commercial real estate throughout the United States;

tighter consumer credit conditions;

higher bankruptcy filings; and

new laws, regulations or regulatory initiatives.

During 2009, economic conditions in the U.S. continued to be challenged by continued declines in the housing market, rising unemployment, tight credit conditions and reduced economic growth. The problems in the housing markets in the United States in the last three years have been exacerbated by the significantly higher unemployment rates. Unemployment rates have been rising in most markets. If unemployment rates continue to increase, additional losses are likely to be significant in all types of our consumer loans, including credit cards. Additionally, with a continued loss in consumer confidence and high unemployment rates, we expect consumer loan originations, including credit card and private label credit card originations, to continue to decrease.

The dramatic decline in property values experienced throughout much of the United States continued through 2009, although housing prices experienced some stabilization in the second half of 2009. While we believe that the slowdown in the housing markets has started to stabilize, there is continuing concern that foreclosures may increase in 2010, which could result in further deterioration of property values and can be expected to result in increased delinquency and losses in our real estate portfolio. In addition, certain changes to the conditions described above could diminish demand for our products and services, or increase the cost to provide such products or services.

The overall deterioration in the economy in 2009 and the continued weak outlook for certain segments of the economy, such as commercial real estate and certain industrial sectors, have led to customer credit downgrades and higher levels of criticized loans across all commercial business lines. There is considerable uncertainty regarding the future recovery rate of the economy in general, particularly in these sectors, the pace of which will impact future trends in criticized asset levels. While we continue to actively manage our commercial portfolios, considerable uncertainty remains regarding the timing and pace of economic recovery in these segments and the associated impact on the commercial portfolios.

In a poor economic environment, such as is currently being experienced in the United States, more of our customers and counterparties are likely to, and have in fact, become delinquent or have defaulted on their loans or other obligations. This has resulted in higher levels of provisions for credit losses in our consumer portfolios as well as our commercial portfolio, which adversely affected our earnings. In the event economic conditions continue to be depressed and unemployment rates increase or do not decline, there would be a significant negative impact on delinquencies, charge-offs and losses in all loan portfolios.

The transition to Basel II in 2011 will continue to put significant pressure on earnings and capital. Subject to regulatory approval, HSBC North America will be required to adopt Basel II provisions no later than April 1, 2011. While HSBC USA will not report Basel II regulatory capital ratios on a standalone basis, HSBC Bank USA will report under the new rules. Whether any increase in capital will be required prior to the Basel II adoption date will depend on our prevailing risk profile. If current market conditions deteriorate further, the capital requirements of Basel II could grow prior to implementation in 2011, increasing HSBC Bank USA s capital requirements. The new rules could drive changes in our funding mix, reducing our return on capital and resulting in lower net income and/or continued shrinking of the balance sheet. HSBC has demonstrated its support of HUSI through significant capital contributions. Our parent contributed $4 million, $3.6 billion and $2.2 billion in 2007, 2008 and 2009, respectively.

Capital infusions from HSBC were crucial to our operations in 2008 and the first half of 2009, and could be crucial to our operations in the future if economic conditions worsen. 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. In the absence of HSBC support, our credit ratings would be downgraded and our cost of funding our operations would rise substantially, negatively impacting net interest income and net income or loss.

Newly-implemented Federal and state laws and regulations may significantly impact our operations. We operate in a highly regulated environment. Changes in federal, state and local laws and regulations affecting banking, consumer credit, bankruptcy, privacy, consumer protection or other matters could materially impact our performance. For example, anti-money laundering requirements under the Patriot Act are frequently revisited by the U.S. Congress and Executive Agencies and continue to be a key regulator focus. There has also been an increased focus on compliance with economic sanctions following the publication in September 2008 of Economic Enforcement Guidelines by the Office of Foreign Assets Control which were promulgated as a final rule in November 2009. Ensuring compliance with increasing regulatory requirements and initiatives could affect operational costs and negatively impact our overall results.

Similarly, attempts by local, state and national regulatory agencies to address perceived problems with the mortgage lending and credit card industries more recently to address problems in the financial services industry generally through broad or targeted legislative or regulatory initiatives aimed at lenders operations in consumer lending markets, could affect us in substantial and unpredictable ways, including limiting the types of consumer loan products we can offer, how those loan products may be originated, and the fees and charges that may be applied to accounts, which, ultimately, could negatively impact our results. There is also significant focus on loss mitigation and foreclosure activity for residential real estate loans. Although we believe our loan modification programs are most appropriate and responsive to our customers needs, we cannot anticipate the response by national agencies and certain legislators or if changes to our operations and practices will be required as a result.

Specifically and of utmost relevance to our ongoing credit card operations and business, the Credit Card Accountability Responsibility and Disclosure Act of 2009 was signed into law with likely significant impact on the credit card industry. The CARD Act, which through Federal Reserve Board rulemaking becomes effective in three stages (i.e., August 2009, February 2010 and August 2010), primarily amends the Truth in Lending Act by adding a number of new substantive and disclosure requirements building upon the Regulation AA and Regulation Z requirements adopted by the Federal Reserve Board in January 2009 (the January 2009 rules). The February 2010 rulemaking implemented the majority of the CARD Act provisions which, among other things, restrict application of interest rate increases on new and existing balances prescribe the manner in which payments in excess of the minimum payment may be allocated to amounts due and when penalty rates may be charged on past due balances, and require customers to opt-in to over limit fee assessments. Because many of the requirements of the January 2009 Regulation AA and Regulation Z rules are included in the February 2010 CARD Act rule, the Federal Reserve Board has issued notices withdrawing the January 2009 rules. The Federal Reserve is expected in the near term to promulgate rules that will interpret and implement the provisions of the CARD Act which take effect in August 2010. The August 2010 CARD Act rules will address the reasonableness and proportionality of penalty fees and charges and require that accounts subjected to prior interest rate increases be periodically re-evaluated for interest rate decreases. The CARD Act also requires other government agencies to conduct studies on interchange, debt cancellation agreements and credit insurance products and present reports to Congress on these topics. We are compliant with the provisions of the CARD Act that took effect in August 2009 and February 2010 and continue to make changes to processes and systems in order to comply with the remaining provisions of the CARD Act by the applicable August 2010 effective date. 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 future sales volume paid to HSBC Finance would be adjusted to fully reflect the new requirements.

In 2009, the Federal government and bank regulatory agencies continued their efforts to stabilize the U.S. economy and reform the financial services industry. See Regulation under the caption Regulatory and Competition in Item 1. Business of this Form 10-K. It is likely that some portion of the financial regulatory reform proposals will be adopted and enacted. The reforms may have a significant impact on the operations of financial institutions in the U.S., including us and our affiliates. However, it is not possible to assess the impact of financial regulatory reform until final legislation has been enacted and related regulations have been adopted.

Operational risks, such as systems disruptions or failures, breaches of security, human error, changes in operational practices or inadequate controls may adversely impact our business and reputation. Operational risk is inherent in virtually all of our activities. While we have established and maintain an overall risk framework

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that is designed to balance strong corporate oversight with well-defined independent risk management, we continue to be subject to some degree of operational risk. Our businesses are dependent on our ability to process a large number of complex transactions. If any of our financial, accounting, or other data processing and other recordkeeping systems and management controls fail or have other significant shortcomings, we could be materially adversely affected. HSBC North America will continue the implementation of several high priority systems improvements and enhancements and the centralization of corporate functions in 2010, each of which may present increased or additional operational risk that may not be known until their implementation is complete.

We may also be subject to disruptions of our operating systems infrastructure arising from events that are wholly or partially beyond our control, which may include:

- computer viruses or electrical or telecommunications outages;
- natural disasters, such as hurricanes and earthquakes;
- events arising from local or regional politics, including terrorist acts;
- unforeseen problems encountered while implementing major new computer systems; or
- global pandemics, which could have a significant effect on our business operations as well as on HSBC affiliates world-wide.

Such disruptions may give rise to losses in service to customers, an inability to collect our receivables in affected areas and other loss or liability to us.

We are similarly dependent on our employees. We could be materially adversely affected if an employee causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including risks relating to break-downs or failures of such parties own systems or employees. Any of these occurrences could result in diminished ability by us to operate one or more of our businesses, potential liability to clients, reputational damage and regulatory intervention, all of which could materially adversely affect us.

In a company as large and complex as ours, lapses or deficiencies in internal control over financial reporting are likely to occur from time to time.

In recent years, instances of identity theft and fraudulent attempts to obtain personal and financial information from individuals and from companies that maintain such information pertaining to their customers have become more prevalent. Use of the internet for these purposes has also increased. Such acts can have the following possible impacts:

- threaten the assets of our customers;
- negatively impact customer credit ratings;
- impact customers ability to repay loan balances;

- increase costs for us to respond to such threats and to enhance our processes and systems to ensure maximum security of data; or

- damage our reputation from public knowledge of intrusion into our systems and databases.

In addition, there is the risk that our controls and procedures as well as business continuity and data security systems could prove to be inadequate. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance.

Changes to operational practices from time to time could materially positively or negatively impact our performance and results. Such changes may include:

raising the minimum payment or fees to be charged on credit card accounts;

determinations to acquire or sell credit card receivables, residential mortgage loans and other loans;

changes to our customer account management and risk management/collection policies and practices;

increasing investment in technology, business infrastructure and specialized personnel; or

outsourcing of various operations.

Increasingly intense competition in the financial services industry may have a material adverse impact on our future results. We operate in a highly competitive environment. Competitive conditions are expected to continue to intensify as continued merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies. New products, customers and channels of distribution are constantly emerging. Such competition may impact the terms, rates, costs and/or profits historically included in the financial products we offer and purchase. The traditional segregation of commercial and investment banks has all but eroded. There is no assurance that the significant and increasing competition within the financial services industry will not materially adversely affect our future results.

Lawsuits and regulatory investigations and proceedings may continue and increase in the current economic and anticipated regulatory environment. HSBC USA or one of our subsidiaries is or may be named as a defendant in various legal actions, including class actions and other litigation or disputes with third parties, as well as investigations or proceedings brought by regulatory agencies. We saw an increase in litigation in 2009 resulting from the deterioration of customers financial condition, the mortgage market downturn and general economic conditions. Although we believe the number of new cases should stabilize or even decrease in 2010, there is no certainty that this will occur, especially in the event of increased unemployment rates or a resurgent recession. With the increased regulatory environment, particularly in the financial services industry, there may be additional regulatory investigations and reviews conducted by banking and other regulators and enforcement agencies. These or other future actions brought against us may result in judgments, settlements, fines, penalties or other results, including additional compliance requirements, adverse to us which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm.

Unanticipated risks may impact our results. We seek to monitor and manage our risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems, including models and programs that predict loan delinquency and loss. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques and prepare contingency plans in anticipation of developments, those techniques and plans and the judgments that accompany their application are complex and cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Accordingly, our ability to successfully identify and manage all significant risks we face is an important factor that can significantly impact our results.

Our inability to meet funding requirements could impact operations. Adequate liquidity is critical to our ability to operate our businesses. Restrictions on our liquidity could have a negative effect on our financial results and our operations. In first half of 2009, financial markets remained extremely volatile. While the on-going financial market disruptions continued to impact credit spreads and liquidity during 2009, we have seen some improvements in liquidity beginning in the second quarter and continuing through the second half of 2009. Additionally, credit spreads have continued to narrow due to increased market confidence stemming largely from the various government actions taken to restore faith in the capital markets. During 2008 and continuing through 2009, as we witnessed the systemic reduction in available liquidity in the market, we took steps to reduce our reliance on debt capital markets and to increase deposits. Despite the apparent improvements in liquidity and our liquidity position, potential conditions remain that would negatively affect our liquidity, including:

an inability to attract or retain deposits;

diminished access to capital markets;

unforeseen cash or capital requirements;

an inability to sell assets; and

an inability to obtain expected funding from HSBC subsidiaries and clients.

HSBC has provided capital support in the past and has indicated its commitment and capacity to fund the needs of the business (under most foreseeable circumstances) in the future.

Our credit ratings are an important part of maintaining our liquidity. Any downgrade in credit ratings could potentially increase borrowing costs, impact the ability to issue commercial paper and, depending on the severity of the downgrade, substantially limit access to capital markets, require cash payments or collateral posting, and permit termination of certain significant contracts. In January 2009, Fitch, Inc. affirmed our debt ratings, however our outlook was changed from stable to negative. In March 2009, Moody s Investors Services (Moody s) downgraded th long-term debt ratings of both HUSI and HSBC Bank USA by one level to A1 and Aa3, respectively and reaffirmed the short-term ratings for each entity at Prime-1. Moody s also changed their outlook for both entities from stable to negative. In April 2009, DBRS re-affirmed the long and short-term debt ratings of HUSI and HSBC Bank USA at AA and R-1, respectively, with a negative outlook. In August 2009, Standard and Poor s re-affirmed the long-term and short-term debt ratings of both HUSI and HSBC Bank USA at AA-/A-1+ (HUSI) and AA/A-1+ (HSBC Bank USA). Our capital levels remain well above levels established by current banking regulations as well capitalized and, at December 31, 2009, our Tier 1 capital ratio had increased to 9.62 percent from 7.60 percent at December 31, 2008.

Significant reductions in pension assets may require additional financial contributions from us Effective January 1, 2005, our previously separate qualified defined benefit pension plan was combined with that of HSBC Finance s into a single HSBC North America qualified defined benefit plan. We are responsible for providing approximately 60 percent of the financial support required by the plan. In 2008 and 2009, the plan had allocated assets between three primary strategies: domestic equities, international equities and fixed income. At December 31, 2009, plan assets were lower than projected liabilities resulting in an under-funded status. During this period, domestic and international equity indices increased between 20 and 30 percent while interest rates decreased. After expenses, the combination of positive equity and fixed income returns along with a $241 million contribution to the plan by HSBC North America in 2009 resulted in an overall increase in plan assets of eight percent in 2009. This increase, when combined with an increase in the projected benefit obligation continued to result in an under-funded status. At December 31, 2009, the projected benefit obligation exceeded the fair value of the plan assets by approximately $970 million and the accumulated benefit obligation exceeded the fair value of plan assets by approximately $775 million. As these obligations relates to the HSBC North America pension plan, only a portion of these deficits should be considered our responsibility. We and other HSBC North American affiliates with employees participating in this plan will be required to make up this shortfall over a number of years as specified under the Pension Protection Act. This can be accomplished through additional direct contributions, changes to the plan, appreciation in plan assets and/or increases in interest rates resulting in lower liability valuations. See Note 22, Pension and Other Postretirement Benefits in the accompanying consolidated financial statements for further information concerning the HSBC North

America defined benefit plan.

Management projections, estimates and judgments based on historical performance may not be indicative of our future performance. Our management is required to use certain estimates in preparing our financial statements, including accounting estimates to determine loan loss reserves, reserves related to litigation, deferred tax assets and the fair market value of certain assets and liabilities, including goodwill and intangibles, among other items. Loan loss reserve estimates and certain asset and liability valuations are judgmental and are influenced by factors outside our control. To the extent historical averages of the progression of loans into stages of delinquency and the amount of loss realized upon charge-off are not predictive of future losses and management is unable to accurately evaluate the portfolio risk factors not fully reflected in the historical model, unexpected additional losses could result. Similarly, to the extent assumptions employed in measuring fair value of assets and liabilities not supported by market prices or other observable parameters do not sufficiently capture their inherent risk, unexpected additional losses could result.

Another example in which management judgment is significant is in the evaluation of the recognition of deferred tax assets and in the determination of whether there is a need for a related valuation allowance. We are required to establish a valuation allowance for deferred tax assets and record a charge to income or shareholders equity if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved business plans, future capital requirements and ongoing tax planning strategies, including capital support from HSBC as a necessary part of such plans and strategies. This process involves significant management judgment about assumptions that are subject to change from period to period. The recognition of deferred tax assets requires management to make significant judgments about future earnings, the periods in which items will impact taxable income, and the application of inherently complex tax laws. Included in our forecasts are assumptions regarding our estimate of future expected credit losses. The use of different estimates can result in changes in the amounts of deferred tax items recognized, which can result in equity and earnings volatility because such changes are reported in current period earnings. See Note 18, Income Taxes in the accompanying consolidated financial statements for additional discussion of our deferred taxes/assets.

Changes in accounting standards are beyond our control and may have a material impact on how we report our financial results and condition. Our accounting policies and methods are fundamental to how we record and report our financial condition and the results of operations. From time to time, the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the SEC and our bank regulators, including the Office of Comptroller of the Currency and the Federal Reserve, change the financial accounting and reporting standards, or the interpretation thereof, and guidance that govern the preparation and disclosure of external financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report and disclose our financial results and condition, including our segment results. We could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts. We may, in certain instances, change a business practice in order to comply with new or revised standards.

Key employees may be difficult to retain due to contraction of the business and limits on promotional activities. Our employees are our most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. If we were unable to continue to attract and retain qualified key employees to support the various functions of our businesses, our performance, including our competitive position, could be materially adversely affected. The significant losses we have recognized, reductions in variable compensation and the expectation of continued weakness in the general economy could raise concerns about key employees future compensation and promotional opportunities. With the potential for an improved economic outlook, there will be increased risk to retain top performers and critical skill employees. If key personnel were to leave us and equally knowledgeable or skilled personnel are unavailable in HSBC or could not be retained in the market to fill these roles, our ability to manage through the difficult economy may be hindered or impaired.

Our reputation has a direct impact on our financial results and ongoing operations. Our ability to attract and retain customers and conduct business transactions with our counterparties could be adversely affected to the extent our reputation, or the reputation of affiliates operating under the HSBC brand, is damaged. Our failure to address, or to appear to fail to address, various issues that could give rise to reputational risk could cause harm to us and our business prospects. Reputational issues include, but are not limited to:

appropriately addressing potential conflicts of interest;

legal and regulatory requirements;

- ethical issues;
- anti-money laundering and economic sanctions programs;
- privacy issues;
- fraud issues;
- data security issues;
- recordkeeping;
- sales and trading practices;
- the proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and
- general company performance.

The failure to address these issues appropriately could make our customers unwilling to do business with us or give rise to increased regulatory action, which could adversely affect our results of operations.

The inability to integrate business and portfolio acquisitions successfully could undermine the realization of the anticipated benefits of the acquisition and have a material adverse impact on our results of operation. We have in the past, and may again in the future, seek to grow our business by acquiring other businesses or loan portfolios. There can be no assurance that acquisitions will have the anticipated positive results, including results relating to:

- the total cost of integration;
- the time required to complete the integration;
- the amount of longer-term cost savings; or
- the overall performance of the combined entity.

Integration of an acquired business can be complex and costly, and may sometimes include combining relevant accounting, data processing and other record keeping systems and management controls, as well as managing relevant relationships with clients, suppliers and other business partners, as well as with employees.

There is no assurance that any businesses or portfolios acquired in the future will be successfully integrated and will result in all of the positive benefits anticipated. If we are not able to successfully integrate acquisitions, there is the risk that its results of operations could be materially and adversely affected.

Item 1B. Unresolved Staff Comments.

We have no unresolved written comments from the Securities and Exchange Commission Staff that have been outstanding for more than 180 days at December 31, 2009.

Item 2. Properties.

The principal executive offices of HSBC USA and HSBC Bank USA are located at 452 Fifth Avenue, New York, New York 10018, which is currently owned by HSBC Bank USA. In October 2009, HSBC Bank USA agreed to a sale-leaseback transaction that is expected to close in the second quarter of 2010, pursuant to which HSBC Bank USA agreed to the sell the headquarters building at 452 Fifth Avenue and to lease the entire building for one year and eleven floors of the building for a total of 10 years. The main office of HSBC Bank USA is located at 1800 Tysons Blvd., Suite 50, McLean, Virginia 22102. HSBC Bank USA has 374 branches in New York, 33 branches in California, 20 branches in Florida, 22 branches in New Jersey, 11 branches in Connecticut, five branches in Virginia, six branches in Maryland and the District of Columbia, four branches in Washington, two branches in

Pennsylvania and one branch in each of Delaware, Illinois, and Oregon. Approximately 26 percent of these offices are located in buildings owned by HSBC Bank USA and the remaining are located in leased premises. In addition, there are offices and locations for other activities occupied under various types of ownership and leaseholds in New York and other states, none of which are materially important to our operations. HSBC Bank USA also owns properties in Montevideo, Uruguay and Punta del Este, Uruguay.

Item 3. 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 and motion practice. At this time, we are unable to quantify the potential impact from this action, if any.

Governmental and Regulatory Matters HSBC USA and certain of its affiliates and current and former employees are or may be subject to formal and informal investigations, as well as subpoenas and/or requests for information, from various governmental and self-regulatory agencies relating to our business activities. In all such cases, HSBC USA and its affiliates cooperate fully and engage in efforts to resolve these matters.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Not applicable.

Item 6. Selected Financial Data

Year Ended December 31	2009	2008	2007	2006	2005
		(dollars are in millions)			
Statement of Income (Loss) Data:					
Net interest income	**$ 5,134**	$ 4,326	$ 3,398	$ 3,081	$ 3,063
Provision for credit losses	**4,144**	2,543	1,522	823	674
Total other revenues (losses)	**2,714**	(787)	1,847	2,563	1,911
Total operating expenses	**3,930**	3,604	3,586	3,255	2,758
Income (loss) before income tax benefit (expense)	**(226)**	(2,608)	137	1,566	1,542
Income tax benefit (expense)	**84**	919	1	(530)	(566)
Net income (loss)	**$ (142)**	$ (1,689)	$ 138	$ 1,036	$ 976
Balance Sheet Data as of December 31:					
Loans:					
Commercial loans	**$ 30,304**	$ 37,429	$ 36,835	$ 29,380	$ 27,650
Consumer loans	**49,185**	43,684	53,721	56,134	58,127
Total loans	**79,489**	81,113	90,556	85,514	85,777
Loans held for sale	**2,908**	4,431	5,270	4,723	4,565
Total assets	**171,079**	185,569	187,965	164,817	151,584
Total tangible assets	**168,406**	182,889	185,225	162,054	148,845
Total deposits	**118,337**	119,038	116,170	102,146	90,292
Long-term debt	**18,008**	22,089	28,268	29,252	29,595
Preferred stock	**1,565**	1,565	1,565	1,690	1,316
Common shareholder s equity	**13,612**	11,152	9,672	10,571	10,278
Total shareholders equity	**15,177**	12,717	11,237	12,261	11,594
Tangible common shareholder s equity	**11,110**	9,258	7,297	8,034	7,562
Selected Financial Ratios:					
Total shareholders equity to total assets	**8.87%**	6.85%	5.98%	7.44%	7.65%
Tangible common shareholder s equity to total tangible assets	**6.60**	5.06	3.94	4.96	5.08
Total capital to risk weighted assets	**14.19**	12.04	11.29	12.58	12.53
Tier 1 capital to risk weighted assets	**9.61**	7.60	7.12	8.58	8.25
Rate of return on average :					
Total assets	**(.08)**	(.92)	.08	.64	.66
Total common shareholder s equity	**(1.68)**	(17.58)	.37	9.03	8.78
Net interest margin	**3.36**	2.92	2.36	2.26	2.49
Loans to deposits ratio[1]	**94.36**	120.89	147.25	155.33	199.40

Efficiency ratio	**50.08**	101.83	68.34	57.66	55.44
Commercial allowance as a percent of loans[2]	**3.10**	1.53	.81	.73	.64
Commercial net charge-off ratio[2]	**.88**	.42	.39	.35	.02
Consumer allowance as a percent of loans[2]	**5.94**	4.18	2.07	1.22	1.15
Consumer two-months-and-over contractual delinquency	**5.97**	4.57	2.56	1.33	1.05
Consumer net charge-off ratio[2]	**5.35**	2.83	1.65	1.19	1.01

(1) Represents period end loans, net of allowance for loan losses, as a percentage of domestic deposits equal to or greater than $100,000.

(2) Excludes loans held for sale.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Organization and Basis of Reporting HSBC USA Inc. (HSBC USA and, together with its subsidiaries, HUSI), 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). HUSI may also be referred to in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) as we , us or our .

Through our subsidiaries, we offer a comprehensive range of personal and commercial banking products and related financial services. HSBC Bank USA, National Association (HSBC Bank USA), our principal U.S. banking subsidiary, is a national banking association with banking branch offices and/or representative offices in 12 states and the District of Columbia. In addition to our domestic offices, we maintain foreign branch offices, subsidiaries and/or representative offices in the Caribbean, Europe, Asia, Latin America and Canada. Our customers include individuals, including high net worth individuals, small businesses, corporations, institutions and governments. We also engage in mortgage banking and serve as an international dealer in derivative instruments denominated in U.S. dollars and other currencies, focusing on structuring of transactions to meet clients needs as well as for proprietary purposes.

Current Environment During 2009, challenging economic conditions in the U.S. continued, marked by continued declines in the housing markets, rising unemployment, tight credit conditions and reduced economic growth. A prolonged period of low Federal funds rates has also put pressure on spreads earned on our deposit base. Although the economic recession continued to deepen into the first half of 2009, signs of stabilization and improvement began to appear in the second half of the year. While the on-going financial market disruptions continued to impact credit and liquidity during the year, marketplace improvements beginning in the second quarter and continuing through the end of the year strengthened liquidity and narrowed credit spreads due to increased market confidence stemming largely from various government actions taken to restore faith in the capital markets and stimulate consumer spending. The improving capital markets and a recovery in the stock market have enabled many businesses to issue debt and raise new capital, which is bolstering consumer and business sentiment. While the easing pace of job losses in the second half of 2009 is helping the housing markets, the first-time homebuyer tax credit as well as low interest rates resulting from government actions have been the main factors driving up home sales and shrinking home inventories, which has resulted in some signs of home price stabilization in the latter half of 2009, particularly in the middle and lower price sectors.

U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., increased to 10.0 percent in December 2009, an increase of 260 basis points since December 2008. Unemployment rates in 16 states are greater than the U.S. national average and unemployment rates in 10 states are at or above 11 percent while in New York, where approximately 31 percent of our loan portfolio is concentrated, unemployment remained lower than the national average at nine percent. In addition, a significant number of U.S. residents are no longer looking for work and are not included in the reported percentages. Personal bankruptcy filings in the U.S. have also increased throughout the year. This has continued to have an impact on our 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 timing and extent of any recovery from the current economic downturn, consumer confidence, volatility in energy prices, adverse developments in the credit markets and mixed corporate earnings continue to negatively impact the stability of both the U.S. economy and the capital markets. These adverse conditions also continued to impact the carrying value of several asset classes, although the dollar magnitude of the impact on these assets slowed considerably in 2009.

Improvement in unemployment rates and a sustained recovery of the housing market, including stabilization in home prices, continue to remain critical components for a broader U.S. economic recovery. Further weakening in these components as well as in consumer confidence may result in additional deterioration in consumer payment patterns and increased delinquencies and charge-off rates in loan portfolios across the industry, including our own.

Although consumer confidence has improved since early 2009, it remains low on a historical basis. Weak consumer fundamentals including declines in wage income, lower customer spending, declines in wealth and a difficult job market are depressing confidence. Additionally, there is uncertainty as to the impact to the economy and consumer confidence when the actions taken by the government to restore faith in the capital markets and stimulate consumer spending end. As a result, the above conditions, together with weakness in the overall economy and recent and proposed regulatory changes, will likely to continue to impact our results in 2010, the degree of which is largely dependent upon the nature and timing of an economic recovery and any further regulatory changes.

The U.S. Federal government and banking regulators continued their efforts to stabilize the U.S. economy and reform the financial markets in 2009. On June 17, 2009, the Administration unveiled its proposal for sweeping overhaul of the financial regulatory system. The Financial Regulatory Reform proposals are comprehensive and include the creation of an inter-agency Financial Services Oversight Council to, among other things, identify emerging risks and advise the Federal Reserve Board regarding institutions whose failure could pose a threat to financial stability; expand the Federal Reserve Board s powers to regulate these systemically-important institutions and impose more stringent capital and risk management requirements; create a Consumer Financial Protection Agency (the CFPA) as a single primary Federal consumer protection supervisor that will regulate credit, savings, payment and other consumer financial products and services and providers of those products and services; and impose comprehensive regulation of OTC derivatives markets, including credit default swaps, and prudent supervision of OTC derivatives dealers. In December 2009, the House of Representatives passed The Wall Street Reform and Consumer Protection Act, which addresses many of the Administration s proposed reforms. Similar legislation is under consideration by the U.S. Senate Committee on Banking, Housing and Urban Affairs. On January 14, 2010, the Administration announced its intention to propose a Financial Crisis Responsibility Fee to be assessed against financial institutions with more than $50 billion in consolidated assets for at least 10 years. Other proposals have also been announced in 2010. It is likely that some portion of the financial regulatory reform proposals will be adopted and enacted. The reforms may have a significant impact on the operations of financial institutions in the U.S., including us and our affiliates. However, it is not possible to assess the impact of financial regulatory reform until final legislation has been enacted and the related regulations have been adopted.

U.S. Treasury sponsored programs in the mortgage lending environment have been introduced, which are focused on reducing the number of foreclosures and potentially making it easier for some customers to refinance loans. One such program intends to help certain at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. This program provides certain incentives to lenders to modify all eligible loans that fall under the guidelines of the program. Another program focuses on homeowners who have a proven payment history on an existing mortgage owned by Fannie Mae or Freddie Mac and provides assistance to eligible homeowners to refinance their mortgage loans to take advantage of current lower mortgage rates or to refinance adjustable rate mortgages into more stable fixed rate mortgages. We have implemented such programs for mortgage loans we service for government sponsored enterprises. We continue to evaluate our consumer relief programs and account management practices to ensure our programs benefit both our customers in accordance with their financial needs and our stakeholders as the economy recovers. As a result, to date we have elected not to participate in the U.S. Treasury sponsored programs for our loan portfolios and continue to focus on expanding and improving our current programs.

2009 Events

The adverse conditions described above have continued to impact the carrying value of several asset classes, including asset-backed securities held for both trading purposes and as available-for-sale, subprime residential mortgage loans held for sale and credit derivative products including derivative products with monoline insurance companies during 2009, although the dollar magnitude of the impact on these assets has slowed considerably as compared to 2008 and, for leveraged acquisition finance loans held for sale, have actually begun to reverse. Despite this positive trend, however, we remain cautious as volatility with respect to certain capital markets activities remains elevated and we expect these conditions, together with continued weakness in the overall economy, to continue to impact our results into 2010.

A summary of the significant valuation adjustments associated with these market conditions that contributed to the decrease in revenues in 2009, 2008 and 2007 is presented in the following table:

Year Ended December 31,	2009	2008	2007
		(in millions)	
Losses (Gains)			
Insurance monoline structured credit products	**$ 152**	$ 1,020	$ 287
Other structured credit products	**219**	1,439	(22)
Mortgage whole loans held for sale (predominantly subprime)	**233**	556	422
Other-than-temporary impairment on securities available-for-sale	**124**	231	-
Leverage acquisition finance loans held for sale	**(284)**	431	85
Total losses	**$ 444**	$ 3,677	$ 772

The recent market events have 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 for all periods presented.

Deterioration in the U.S. economy continued to impact the credit quality of our consumer loan portfolio throughout 2009, which resulted in a significant increase in our provision for credit losses. Depreciating home prices, rising unemployment and tighter credit resulted in higher levels of bankruptcy filings as well as higher levels of delinquency and charge-off in our consumer loan portfolios. Higher provision for credit losses during 2009 also reflect higher levels of credit card receivables in 2009 as discussed below. Provision for credit losses on our commercial loan portfolio also increased due to higher levels of criticized loans, including higher levels of substandard loans, and overall deterioration in the U.S. economy which has led to customer credit downgrades across all commercial business lines.

As part of our initiative to reduce risk from our residential mortgage loan exposure, we sold approximately $4.5 billion of prime adjustable and fixed-rate residential mortgage loans to third parties in 2009 and recognized a net pre-tax gain of $70 million. We also continued to sell the majority of our new residential loan originations through the secondary markets and have allowed the existing loan portfolio to run-off, resulting in lower residential mortgage loan balances at December 31, 2009.

In January 2009, we purchased a $6.3 billion portfolio of General Motors (GM) MasterCard receivables, a $6.1 billion portfolio of Union Plus (UP) MasterCard/Visa credit card receivables (collectively the GM and UP Portfolios) and a $3 billion portfolio of auto finance receivables from HSBC Finance at fair market value in order to maximize the efficient use of liquidity at each entity. HSBC Finance retained the customer account relationships associated with the credit card portfolios. We purchase additional credit card loan originations generated under new and existing accounts on a daily basis at a sales price for each type of portfolio determined using a fair value which is calculated semi-annually. HSBC Finance continues to service the purchased portfolios for a fee. In connection with the purchases, we received capital contributions from our immediate parent, HSBC North America Inc. (HNAI), in an aggregate amount of approximately $1.1 billion in January 2009. This amount, along with an additional $0.6 billion received by us from HNAI in December 2008, was subsequently contributed to our subsidiary, HSBC Bank USA, to provide capital support for the receivables purchased. While the receivable purchases have resulted in increases to our net interest income and other revenues (losses), they have also contributed to higher credit loss provisions and higher operating expenses compared to the prior year periods.

In January 2009, Fitch, Inc. affirmed our debt ratings, however our outlook was changed from stable to negative. In March 2009, Moody s Investors Services (Moody s) downgraded the long-term debt ratings

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of both HUSI and HSBC Bank USA by one level to A1 and Aa3, respectively and reaffirmed the short-term ratings for each entity at Prime-1. Moody s also changed their outlook for both entities from stable to negative. In April 2009, Dominion Bond Rating Service (DBRS) re-affirmed the long and short-term debt ratings of HUSI and HSBC Bank USA at AA and R-1, respectively, with a negative outlook. In August 2009, Standard and Poor s re-affirmed the long-term and short-term debt ratings of both HUSI and HSBC Bank USA at AA-/A-1+ (HUSI) and AA/A-1+ (HSBC Bank USA).

In March 2009, we recognized an $85 million gain relating to the resolution of a lawsuit the proceeds of which were used to redeem the 100 preferred shares issued to CT Financial Services, Inc. The obligation to redeem the preferred shares upon receipt of the litigation settlement proceeds 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 received, net of applicable taxes, was remitted to Toronto Dominion, who held the beneficial ownership interest in CT Financial Services Inc., and the preferred shares were redeemed.

In October 2009, we announced that we had agreed to sell our 452 Fifth Avenue property in New York City, including the 1W. 39th Street building, for $330 million in cash. Under the terms of the deal, we will lease back the entire 452 Fifth Avenue building for one year and floors one to eleven for a total of 10 years along with the 1W 39th Street building. The decision to sell these buildings is consistent with HSBC s strategy to lease office buildings rather than own. The transaction is expected to close in the second quarter of 2010. We currently estimate the sale will result in a gain of approximately $150 million, which will be deferred and recognized over a number of years due to our continuing involvement. The headquarters of HSBC Bank USA will remain in New York.

In 2009, we received capital contributions from HSBC North America Inc. (HNAI) in an aggregate amount of $2.2 billion ($1.1 billion received in each of the first two quarters) in exchange for 3 shares of common stock. During 2009, we contributed $2.7 billion to our subsidiary, HSBC Bank USA, which was used to support ongoing operations and to maintain capital at levels we believe are prudent in the current market conditions, including $1.1 billion to provide capital support for the receivables purchased from HSBC Finance in January 2009. See Note 7, Loans, for additional information.

Performance, Developments and Trends Our net loss was $142 million in 2009 compared to a net loss of $1.7 billion in 2008 and net income of $138 million in 2007. Loss before income tax was $226 million in 2009 compared to a loss before income tax of $2.6 billion in 2008 and income before income tax of $137 million in 2007. Our results in certain years were significantly impacted by the change in the fair value of our own debt and the related derivatives for which we have elected fair value option due largely to changes in credit spreads and several other items 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 all periods presented:

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Income (loss) before income tax, as reported	**$ (226)**	$ (2,608)	$ 137
Change in value of own fair value option debt and related derivatives	**494**	(670)	-
Gain on sale of MasterCard Class B or Visa Class B shares	**(48)**	(83)	(45)

Gain relating to resolution of lawsuit[1]	**(85)**	-	-
Establishment (release) of VISA litigation accrual	**(9)**	(36)	70
Gain on sale of equity interest in HSBC Private Bank (Suisse) S.A.	**(33)**	-	-
Income (loss) before income tax, excluding above items[2]	**$ 93**	$ (3,397)	$ 162

[1] The proceeds of the resolution of this lawsuit were used to redeem 100 preferred shares held by CT Financial Services, Inc. as provided under the terms of the preferred shares.

[2] Represents a non-U.S. GAAP financial measure.

Although our overall results for 2009 improved compared to 2008, they continued to be impacted by reductions in other revenues (losses), largely trading revenue associated with credit derivative products due to the adverse financial market conditions described above, although the magnitude of such reductions declined significantly in 2009. Overall, our 2009 results improved compared to 2008, as higher net interest income and higher other revenues (losses) more than offset higher provisions for credit losses and higher operating expenses including higher FDIC insurance premiums. In 2008, our results declined markedly, largely relating to a significant decrease in trading revenue due to the adverse financial market conditions described above.

Net interest income was $5.1 billion in 2009, an increase of 19 percent over 2008. This increase primarily resulted from the impact of higher credit card receivable levels associated with the purchase of the GM and UP Portfolios in January 2009 discussed above, lower promotional balances on private label credit cards, a reduction in the amortization of private label credit card premiums due largely to lower premiums being paid and a lower cost of funds, all of which contributed to higher net interest margin. These increases were partially offset by a narrowing of interest rate spreads on deposit products primarily due to lower market interest rates and competitive pressures as customers migrated to higher yielding deposit products, higher amortization of credit card premium due to the purchase of the GM and UP portfolios and the runoff of the residential mortgage and other consumer loan portfolios, including the sale of $4.5 billion of residential mortgage loans in 2009 as discussed above.

The increase in other revenues (losses) during 2009 reflects increased credit card fees resulting from the purchase of the GM and UP Portfolios discussed above, higher gains on sales of mortgage backed and asset backed securities due to our efforts to reduce exposure to these investments, higher trading revenue, higher transaction fees in Global Banking and Markets and higher gains on leveraged acquisition finance loans held for sale for which we elected to apply fair value option. Although other revenues (losses) were overall higher during 2009, we continue to be impacted by reductions in other revenues (losses), largely trading revenue associated with credit derivative products due to the adverse financial market conditions discussed above, although the magnitude of such reductions declined significantly from 2008. Partially offsetting the increase in other revenues (losses) was $537 million in losses on the fair value of financial instruments and the related derivative contracts (excluding leveraged acquisition finance loans held for sale) for which fair value option was elected as compared to gains of $717 million in 2008.

Our provision for credit losses increased $1.6 billion in 2009 primarily due to a higher provision for credit card receivables due to significantly higher credit card balances as a result of the purchase of the GM and UP Portfolios from HSBC Finance, higher delinquency and credit loss estimates relating to prime residential mortgage loans as conditions in the housing markets worsened and the U.S. economy deteriorated and higher credit loss provision in our commercial loan portfolio. Partially offsetting these increases was the impact from stabilization in the credit performance of private label credit card loans in the second half of the year and an improved outlook on future loss estimates as the impact of higher unemployment levels on losses has not been as severe as previously anticipated. Provision for credit losses increased for both loans and loan commitments in the commercial loan portfolio due to higher delinquency and loss estimates and higher levels of criticized loans, including higher levels of substandard loans caused by customer credit downgrades and deteriorating economic conditions, particularly in real estate lending and corporate banking.

Operating expenses increased $326 million in 2009, an increase of nine percent over 2008. Lower salaries and employee benefit expense due to continued cost management efforts, including the impact of global resourcing initiatives, which have resulted in lower headcount were more than offset by higher FDIC insurance premiums which were $208 million in 2009, as compared to $58 million in 2008, an increase of $150 million (including $82 million relating to a special assessment), higher pension costs, higher servicing fees paid to HSBC Finance as a result of the purchase of the GM, UP and Auto finance portfolios, higher fees paid to HTSU and increased costs related to the expansion of the retail banking network. Additionally in 2009, operating expenses includes an impairment write down of a data center building as part of our ongoing strategy to consolidate operations and improve efficiencies. Operating expenses in the prior year reflects a goodwill impairment charge of $54 million relating to the residential mortgage reporting unit in PFS and, in both years, a release in the VISA litigation accrual that reduced operating expenses by $9 million in 2009 and $36 million in 2008.

Our efficiency ratio was 50.08 percent during 2009 as compared to 101.83 percent in 2008 and 68.34 percent in 2007. The improvement in the efficiency ratio in 2009 resulted primarily from the significant increase in revenues as discussed above. Deterioration in the efficiency ratio in 2008 resulted primarily from a decrease in other revenues (losses) due to the adverse financial market conditions, partially offset by higher net interest income as expenses remained relatively flat.

Our effective tax rate was (37.2) percent in 2009 as compared to (35.2) percent in 2008 and (.7) percent in 2007. The effective tax rate for 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, settlement of an IRS audit, increase in the state and local income tax valuation allowance and an increased level of low income housing credits. The effective tax rate for 2008 compared with 2007 was significantly impacted by the relative level of pre-tax income, a goodwill impairment recorded in 2008, an adjustment in 2007 for the validation of deferred tax balances, valuation allowances related to the realizability of excess tax credits and foreign losses, as well as a change in estimate in the state tax rate.

Loans excluding loans held for sale were $79.5 billion, $81.1 billion and $90.6 billion at December 31, 2009, 2008 and 2007, respectively. Loans decreased modestly at December 31, 2009 as higher receivable levels due to the purchase of the GM and UP Portfolios and the auto finance loans previously described were more than offset by decreases in residential mortgage loans, including the sale of approximately $4.5 billion of prime adjustable and fixed rate residential mortgage loans during 2009, reductions in private label credit card receivables driven by the tightening of underwriting criteria to lower the risk profile of the portfolio including the termination of certain unprofitable retail partners and reduced customer spending, as well as lower commercial loans. Lower commercial loan balances reflect increased paydowns on loans across all commercial businesses, managed reductions in certain exposures, including higher underwriting standards, as well as lower overall demand from our core customer base. See Balance Sheet Review for a more detailed discussion of the changes in loan balances.

2008 vs. 2007 Net interest income increased in 2008 primarily due to higher balance sheet management income due in large part to positions taken in expectation of decreased funding rates. The reduction in the amortization of private label credit card premiums paid also resulted in increased net interest income. These increases were partially offset by narrowing of interest rate spreads on deposit products primarily due to competitive pressures as customers migrated to higher yielding deposit products and the runoff of the residential mortgage and other consumer loan portfolios, including the sale of $7 billion of residential mortgage loans in 2008.

Other revenues (losses) were significantly lower in 2008, largely relating to a significant decrease in trading revenue due to adverse financial market conditions, including a loss of $130 million reflecting our exposure resulting from clients that were impacted by the fraud at Madoff Investment Securities and higher securities losses due to other-than-temporary impairment charges. The decreases to revenue were partially offset by increased payments and cash management revenues, increased foreign exchange trading revenue, increased fees from the credit card receivable portfolio and the sale of MasterCard B shares, including gains on the related economic hedge as well as a gain on the sale of a portion of our investment in Visa Class B shares, which collectively increased revenues $217 million. We also realized $286 million in gains relating to financial instruments for which we elected fair value option.

Our provision for credit losses increased significantly in 2008, primarily due to growing delinquencies and charge-offs within the private label credit card portfolio as well as higher delinquency and credit loss estimates relating to home equity lines of credit, home equity loans and prime residential mortgage loans for which provisions increased markedly as conditions in the housing markets worsened and the U.S. economy continued to deteriorate. Provisions for credit losses also increased for both loans and loan commitments in the commercial loan portfolio due to higher levels of criticized assets caused by customer credit downgrades and deteriorating economic conditions.

Operating expenses increased modestly in 2008 and, excluding one-time impacts described below, operating expenses decreased compared to 2007, largely due to lower headcount including the impact of global resourcing initiatives. During 2008, we experienced an increase in reserves related to off-balance sheet credit exposures including letters of credit, unused commitments to extend credit and financial guarantees as well as increased FDIC insurance premiums and higher debit card fraud expense. Operating expenses in 2008 also reflect the impact of several one-off items including a goodwill impairment charge, an increase in employee benefits expense resulting from a review of our employee benefit accruals and increased severance expense due to ongoing efficiency initiatives as discussed above.

Credit Quality Our allowance for credit losses as a percentage of total loans increased to 4.86 percent at December 31, 2009, as compared to 2.96 percent at December 31, 2008. The increase reflects a higher allowance on our residential mortgage loan and commercial loan portfolios and lower outstanding balances in these portfolios as discussed above, as well as a higher allowance on our private label card portfolio due in part to higher charge-off levels due to portfolio seasoning, continued deterioration in the U.S. economy including rising unemployment rates and lower balances outstanding as a result of the actions previously taken to lower the risk profile of the portfolio and lower customer spending. These increases were partially offset by a lower credit card allowance percentage reflecting the impact on credit card mix of the prime GM and UP Portfolios that were purchased in January 2009.

Our consumer two-months-and-over contractual delinquency as a percentage of loans and loans held for sale (delinquency ratio) for consumer loans increased to 5.97 percent at December 31, 2009 as compared to 4.57 percent at December 31, 2008 due largely to higher residential mortgage loan delinquency as a result of continued deterioration in the housing markets, as well as the overall continued deterioration in the U.S. economy including rising unemployment rates which impacted all of our consumer portfolios. Our delinquency ratio at December 31, 2009 was also impacted by lower levels of private label credit card and residential mortgage loans outstanding. Our two-months-and-over contractual delinquency ratio for commercial loans increased due to continued deterioration of economic conditions. Criticized commercial loan balances also increased $1.0 billion during 2009 to $7.0 billion largely due to deteriorating economic conditions. See Credit Quality for a more detailed discussion of the increase in our delinquency ratios.

Net charge-offs as a percentage of average loans (net charge-off ratio) increased to 3.59 percent in 2009, compared to 1.79 percent during 2008 due to continued deterioration in the U.S. economy including continued declines in the housing markets, rising unemployment rates, the impact from lower outstanding loan balances as discussed above and as it relates to the prior year, higher bankruptcy filings. The net charge-off ratio for our credit card portfolio in 2009 was positively impacted by the GM and UP portfolio acquired from HSBC Finance, a portion of which was subject to the application of accounting principles that require certain loans with evidence of credit deterioration since origination to be recorded at an amount based on the net cash flows expected to be collected which reduced the overall level of charge-off reported in the first half of 2009. The portion of the portfolio not subject to this accounting began to season resulting in increased charge-offs during the second half of 2009. See Credit Quality for a more detailed discussion of the increase in the net charge-off ratio and criticized asset balances.

Funding and Capital Capital amounts and ratios are calculated in accordance with current banking regulations. Our Tier 1 capital ratio was 9.61 percent and 7.60 percent at December 31, 2009 and 2008, respectively. Our capital levels remain well above levels established by current banking regulations as well capitalized. We received capital contributions from our immediate parent, HNAI of $2.2 billion during 2009 as compared to $3.6 billion during 2008.

As part of the regulatory approvals with respect to the aforementioned receivable purchases completed in January 2009, we and our ultimate parent HSBC committed that HSBC Bank USA will maintain a Tier 1 risk-based capital ratio of at least 7.62 percent, a total capital ratio of at least 11.55 percent and a Tier 1 leverage ratio of at least 6.45 percent for one year following the date of transfer. In addition, we and HSBC have made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to purchased receivables that are or may become low-quality assets, as defined by the Federal Reserve Act. In May 2009, we received further clarification from the Federal Reserve regarding HSBC Bank USA s regulatory reporting requirements with respect to these capital commitments in that the additional 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), should be applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC

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Bank USA s risk-based capital and related ratios. During 2009, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $455 million to a non-bank subsidiary of HSBC USA Inc. to reduce this capital requirement. Capital ratios at December 31, 2009 reflect this revised regulatory reporting. At December 31, 2009, we have exceeded our committed ratios and would have done so without the benefit associated with these low-quality asset sales.

Subject to regulatory approval, HSBC North America will be required to adopt Basel II provisions no later than April 1, 2011. HSBC USA will not report separately under the new rules, but HSBC Bank USA will report under the new rules on a stand-alone basis. Whether any increase in regulatory capital will be required prior to the Basel II adoption date 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 was initiated in January 2010.

Future Prospects Our operations are dependent upon access to the global capital markets and our ability to attract and retain deposits. Numerous factors, both internal and external, may impact our access to, and the costs associated with, both sources of funding. These factors may include our debt ratings, overall economic conditions, overall market volatility, the counterparty credit limits of investors to the HSBC Group and the effectiveness of our management of credit risks inherent in our customer base.

In 2008 and continuing into the early part of 2009, financial markets were extremely volatile. New issue term debt markets were extremely challenging with issues attracting higher rates of interest than had historically been experienced and credit spreads for all issuers continuing to trade at historically wide levels. While the on-going financial market disruptions continued to impact credit spreads and liquidity, we have seen significant improvements in liquidity beginning in the second quarter of 2009 which continued through the end of the year. Credit spreads have narrowed due to increased market confidence stemming largely from the various government actions taken to restore faith in the capital markets. Financial institutions are now able to issue longer term debt without government guarantees and the FDIC was able to allow the Debt Guarantee Program to expire. Similarly, many asset backed securitizations that were not eligible for the Federal Reserve Board s Term Asset Backed Securities Loan Facility Program have been issued at favorable rates since the second quarter of 2009.

Our results are also impacted by general economic conditions, including unemployment, weakness in the housing market and property valuations, as well as interest rates, all of which are beyond our control. When unemployment increases or changes in the rate of home value appreciation or depreciation occurs, a higher percentage of our customers default on their loans and our charge-offs increase. Changes in interest rates generally affect both the rates we charge to our customers and the rates we must pay on our borrowings. The primary risks to achieving our business goals in 2010 are largely dependent upon macro-economic conditions which include a weak housing market, high unemployment rates, the nature and timing of any economic recovery, reduced consumer spending, volatility in the capital and debt markets and our ability to attract and retain customers, loans and deposits, all of which could impact trading and other revenue, net interest income, loan volume, charge-offs and ultimately our results of operations.

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 IFRSs basis.

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Net income (loss) U.S. GAAP basis	**$ (142)**	$ (1,689)	$ 138
Adjustments, net of tax:			
Unquoted equity securities	**(19)**	(65)	58
Fair value option	**-**	-	124
Reclassification of financial assets	**(398)**	576	-
Securities	**(79)**	(61)	(1)
Derivatives	**17**	10	-
Loan impairment	**9**	1	3
Property	**14**	15	13
Pension costs	**38**	1	16
Purchased loan portfolios	**66**	-	-
Servicing assets	**2**	10	(1)
Return of capital	**(55)**	-	-
Interest recognition	**(2)**	3	6
Other	**(23)**	(9)	30
Net income (loss) IFRSs basis	**(572)**	(1,208)	386
Tax benefit (expense) IFRSs basis	**254**	648	(111)
Profit (loss) before tax IFRSs basis	**$ (826)**	**$** (1,856)	$ 497

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 (MasterCard Class B shares and Visa Class B shares), 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.

Fair value option Reflects the impact of applying the fair value option under IFRSs to certain debt instruments issued, and includes an adjustment of the initial valuation of the debt instruments. Prior to January 1, 2008, the debt was accounted for at amortized cost under U.S. GAAP. This difference was eliminated upon the adoption of fair value option under U.S. GAAP on January 1, 2008. Also 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 the gain (loss) on instruments at fair value and related derivatives, which is a component of other revenues.

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 portion is recognized in earnings. 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. Also 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 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.

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 .

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. All subsequent adjustments to fair value are reflected in current period earnings.

Return of capital In 2009, this includes the recognition of $55 million 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.

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, goodwill and loans held for sale. In 2008, other includes the impact of a difference in the write off amount of goodwill related to our residential mortgage banking business unit and a timing difference with respect to the adoption of fair value measurement accounting principles for U.S. GAAP which resulted in the recognition of $10 million of net income relating to structured products.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. We believe our policies are appropriate and fairly present the financial position of HSBC USA Inc.

The significant accounting policies used in the preparation of our consolidated financial statements are more fully described in Note 2, Summary of Significant Accounting Policies and New Accounting Pronouncements, to the accompanying consolidated financial statements. Certain critical accounting policies, which affect the reported amounts of assets, liabilities, revenues and expenses, are complex and involve significant judgment by our management, including the use of estimates and assumptions. We base and establish our accounting estimates on historical experience, observable market data, inputs derived from or corroborated by observable market data by correlation or other means and on various other assumptions including those based on unobservable inputs that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. In addition, to the extent we use certain modeling techniques to assist us in measuring the fair value of a particular asset or liability, we strive to use such techniques which are consistent with those used by other market participants. Actual results may differ from these estimates due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change. The impact of estimates and assumptions on the financial condition or operating performance may be material.

We believe that of the significant accounting policies used in the preparation of our consolidated financial statements, the items discussed below require critical accounting estimates involving a high degree of judgment and complexity. Our management has discussed these critical accounting policies with the Audit Committee of our Board of Directors, including the underlying estimates and assumptions, and the Audit Committee has reviewed our disclosure relating to these accounting policies and practices in this MD&A.

Allowance for Credit Losses Because we lend money to others, we are exposed to the risk that borrowers may not repay amounts owed when they become contractually due. Consequently, we maintain an allowance for credit losses at a level that we consider adequate, but not excessive, to cover our estimate of probable incurred losses in the existing loan portfolio. Allowance estimates are reviewed periodically and adjustments are reflected through the provision for credit losses in the period when they become known. The accounting estimate relating to the allowance for credit losses is a critical accounting estimate for the following reasons:

- Changes in such estimates could significantly impact our allowance and provision for credit losses and therefore could materially affect net income;

Estimates related to the allowance for credit losses require us to project future delinquency and charge off trends, which are uncertain and require a high degree of judgment; and

The allowance for credit losses is influenced by factors outside of our control such as customer payment patterns, economic conditions such as national and local trends in housing markets, interest rates, unemployment rates, bankruptcy trends and changes in laws and regulations all of which have an impact on our estimates.

Because our estimate of the allowance for credit losses involves judgment and is influenced by factors outside of our control, there is uncertainty inherent in these estimates, making it reasonably possible such estimates could change. Our estimate of probable incurred credit losses is inherently uncertain because it is highly sensitive to changes in economic conditions which influence growth, portfolio seasoning, bankruptcy trends, trends in housing markets, delinquency rates and the flow of loans through various stages of delinquency, the realizability of any collateral and actual loss exposure. Changes in such estimates could significantly impact our allowance and provision for credit losses. For example, a 10% change in our projection of probable net credit losses on our loans could have resulted in a change of approximately $386 million in our allowance for credit losses at December 31, 2009. The allowance for credit losses is a critical accounting estimate for our Consumer Finance, Personal Financial Services, Commercial Banking, Global Banking and Markets and Private Banking segments.

Our allowance for credit losses is based on estimates and is intended to be adequate but not excessive. The allowance for credit losses is regularly assessed for adequacy through a detailed review of the loan portfolio. The allowance is comprised of two balance sheet components:

The allowance for credit losses, which is carried as a reduction to loans on the balance sheet, includes reserves for inherent probable credit losses associated with all loans outstanding; and

The reserve for off-balance sheet risk, which is recorded in other liabilities, includes probable and reasonably estimable credit losses arising from off-balance sheet arrangements such as letters of credit and undrawn commitments to lend.

Both components include amounts calculated for specific individual loan balances and for collective loan portfolios depending on the nature of the exposure and the manner in which risks inherent in that exposure are managed.

All commercial loans that exceed $500,000 are evaluated individually for impairment. When a loan is found to be impaired, a specific reserve is calculated. Reserves against impaired loans are determined primarily by an analysis of discounted expected cash flows with reference to independent valuations of underlying loan collateral and considering secondary market prices for distressed debt where appropriate.

Loans which are not individually evaluated for impairment are pooled into homogeneous categories of loans and evaluated to determine if it is deemed probable, based on historical data and other environmental factors, that a loss has been realized even though it has not yet been manifested in a specific loan.

For consumer receivables and certain small business loans, we utilize a roll rate migration analysis that estimates the likelihood that a loan will progress through the various stages of delinquency and ultimately be charged-off based on recent historical experience. These estimates also take into consideration the loss severity expected based on the underlying collateral for the loan, if any, in the event of default. In addition, loss reserves are maintained on consumer receivables to reflect our judgment of portfolio risk factors which may not be fully reflected in the statistical roll rate calculation or when historical trends are not reflective of current inherent losses in the loan portfolio. Risk factors considered in establishing the allowance for credit losses on consumer receivables include recent growth, product mix and risk selection, unemployment rates, bankruptcy trends, geographic concentrations, loan product features such as adjustable rate loans, economic conditions such as national and local trends in unemployment, housing markets and interest rates, portfolio seasoning, changes in underwriting practices, current levels of charge-offs and delinquencies, changes in laws and regulations and other items which can affect consumer payment patterns on outstanding receivables such as natural disasters. We also consider key ratios such as number of months of loss coverage in developing our allowance estimates. The resulting loss coverage ratio varies by portfolio based on inherent risk and, where applicable, regulatory guidance. Roll rates are regularly updated and benchmarked against actual outcomes to ensure that they remain appropriate.

An advanced credit risk methodology is utilized to support the estimation of incurred losses inherent in pools of homogeneous commercial loans, leases and off-balance sheet risk. This methodology uses the probability of default from the customer rating assigned to each counterparty, the Loss Given Default rating assigned to each transaction or facility based on the collateral securing the transaction, and the measure of exposure based on the transaction. A suite of models, tools and templates is maintained using quantitative and statistical techniques,

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which are combined with management s judgment to support the assessment of each transaction. These were developed using internal data and supplemented with data from external sources which was judged to be consistent with our internal credit standards. These advanced measures are applied to the homogeneous credit pools to estimate the required allowance for credit losses.

The results from the commercial analysis, consumer roll rate analysis and the specific impairment reserving process are reviewed each quarter by the Credit Reserve Committee. This committee also considers other observable factors, both internal and external to us in the general economy, to ensure that the estimates provided by the various models adequately include all known information at each reporting period. Loss reserves are maintained to reflect the committee s judgment of portfolio risk factors which may not be fully reflected in statistical models or when historical trends are not reflective of current inherent incurred losses in the loan portfolio. The allowance for credit losses are reviewed with our Risk Management Committee and the Audit Committee of the Board of Directors each quarter.

Goodwill Impairment Goodwill is not subject to amortization but is tested for possible impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including the goodwill. Significant and long-term changes in industry and economic conditions are considered to be primary indicators of potential impairment due to their impact on expected future cash flows. In addition, shorter-term changes may impact the discount rate applied to such cash flows based on changes in investor requirements or market uncertainties.

The impairment testing of our goodwill is a critical accounting estimate due to the significant judgment required in the use of discounted cash flow models to determine fair value. Discounted cash flow models include such variables as revenue growth rates, expense trends, interest rates and terminal values. Based on an evaluation of key data and market factors, management s judgment is required to select the specific variables to be incorporated into the models. Additionally, the estimated fair value can be significantly impacted by the risk adjusted cost of capital used to discount future cash flows. The risk adjusted cost of capital percentage is generally derived from an appropriate capital asset pricing model, which itself depends on a number of financial and economic variables which are established on the basis of that used by market participants which involves management s judgment. Because our fair value estimate involves judgment and is influenced by factors outside our control, it is reasonably possible such estimate could change. When management s judgment is that the anticipated cash flows have decreased and/or the cost of capital has increased, the effect will be a lower estimate of fair value. If the fair value is determined to be lower than the carrying value, an impairment charge may be recorded and net income will be negatively impacted.

Impairment testing of goodwill requires that the fair value of each reporting unit be compared to its carrying amount. Reporting units were identified based upon an analysis of each of our individual operating segments. A reporting unit is defined as any distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Goodwill was allocated to the carrying value of each reporting unit based on its relative fair value.

We have established July 1 of each year as the date for conducting our annual goodwill impairment assessment. Fair value calculations used in goodwill impairment testing are also tested for sensitivity to reflect reasonable variations, including stress testing of certain attributes such as cost saves, terminal values and the discount rate. Results of these tests are taken into consideration by management during the review of the annual goodwill impairment test.

As a result of the continued deterioration in economic and credit conditions in the U.S., we performed interim impairment tests of the goodwill of our Global Banking and Markets reporting unit as of December 31, 2009, September 30, 2009, June 30, 2009 and March 31, 2009. We also performed interim impairment tests of the goodwill of our Private Banking reporting unit as of December 31, 2009 and September 30, 2009. 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 at each of these testing dates. At December 31, 2009, goodwill totaling $633 million and $415 million has been allocated to our Global Banking and Markets and Private Banking reporting units, respectively. As of the December 31, 2009 interim impairment testing date, the percentage by which fair value of our Global Banking and Markets and Private Banking reporting units exceeded their carrying value including goodwill was 81 percent and 53 percent, respectively. Our goodwill impairment testing is however, highly sensitive to certain assumptions and estimates used as discussed above. We continue to perform periodic analyses of the risks and strategies of our business and product offerings. In the event that further significant deterioration in the economic and credit conditions beyond the levels already reflected in our cash flow forecasts occur, or changes in the strategy or performance of our business or product offerings occur, additional interim impairment tests will again be required in 2010.

Valuation of Financial Instruments A substantial portion of our financial assets and liabilities are carried at fair value. These include trading assets and liabilities, including derivatives held for trading, derivatives used for hedging and securities available-for-sale. Certain loans held for sale, which are carried at the lower of amortized cost or fair value, are also reported at fair value when their amortized cost exceeds their current fair value.

Where available, we use quoted market prices to determine fair value. If quoted market prices are not available, fair value is determined using internally developed valuation models based on inputs that are either directly observable or derived from and corroborated by market data. These inputs include, but are not limited to, interest rate yield curves, option volatilities, option adjusted spreads and currency rates. Where neither quoted market prices nor observable market parameters are available, fair value is determined using valuation models that feature one or more significant unobservable inputs based on management s expectation that market participants would use in determining the fair value of the asset or liability. However, these unobservable inputs must incorporate market participants assumptions about risks in the asset or liability and the risk premium required by market participants in order to bear the risks. The determination of appropriate unobservable inputs requires exercise of management judgment. A significant majority of our assets and liabilities that are reported at fair value are measured based on quoted market prices and observable market-based or independently-sourced inputs.

We review and update our fair value hierarchy classifications at the end of each quarter. Quarterly changes related to the observability of the inputs to a fair value measurement may result in a reclassification between hierarchy levels. Level 3 assets (including assets measured at the lower of cost or fair value) were eight percent of total assets measured at fair value at December 31, 2009. Imprecision in estimating unobservable market inputs can impact the amount of revenue, loss or changes in common shareholder s equity recorded for a particular financial instrument. Furthermore, while we believe our valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial assets and liabilities could result in a different estimate of fair value at the reporting date. For a more detailed discussion of the determination of fair value for individual financial assets and liabilities carried at fair value see Fair Value under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following is a description of the significant estimates used in the valuation of financial assets and liabilities for which quoted market prices and observable market parameters are not available.

Complex Derivatives Held for Trading Fair value for the majority of our derivative instruments are based on internally developed models that utilize independently sourced market parameters. 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 the timing of cash flows and credit spreads. The fair values of certain structured credit and structured equity derivative products are sensitive to unobservable inputs such as default correlations and volatilities. These estimates are susceptible to significant changes in future periods as market conditions evolve.

We may adjust certain fair value estimates to ensure that those estimates appropriately represent fair value. These adjustments, which are applied consistently over time, are generally required to reflect factors such as market liquidity and counterparty credit risk. Where relevant, a liquidity adjustment is applied to determine the measurement of an asset or a liability that is required to be reported at fair value. Assessing the appropriate level of liquidity adjustment requires management judgment and is often affected by the product type, transaction-specific terms and the level of liquidity for the product in the market. For financial liabilities, including derivatives measured at fair value, we consider the effect of our own non-performance risk on fair values. In assessing the credit risk relating to derivative assets and liabilities, we take into account the impact of risk mitigants including, but not limited to, master netting and collateral arrangements. Finally, other transaction specific factors such as the selection of valuation models available, the range of unobservable model inputs and other model assumptions can affect fair value estimates. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

Derivatives Held for Hedging Derivatives designated as qualified hedges are tested for effectiveness of the hedge. For these transactions, assessments are made at the inception of the hedge and on a recurring basis, whether the derivative used in the hedging transaction has been and is expected to continue to be highly effective in offsetting changes in fair values or cash flows of the hedged item. This assessment is conducted using statistical regression analysis.

If we determine as a result of this assessment that a derivative is not expected to be a highly effective hedge or that it has ceased to be a highly effective hedge, hedge accounting is discontinued as of the quarter in which such determination was made. The assessment of the effectiveness of the derivatives used in hedging transactions is considered to be a critical accounting estimate due to the use of statistical regression analysis in making this determination. Similar to discounted cash flow modeling techniques, statistical regression analysis requires the use of estimates regarding the amount and timing of future cash flows which are susceptible to significant changes in future periods based on changes in market rates. Statistical regression analysis also involves the use of additional assumptions including the determination of the period over which the analysis should occur as well as selecting a convention for the treatment of credit spreads in the analysis.

The outcome of the statistical regression analysis serves as the foundation for determining whether or not a derivative is highly effective as a hedging instrument. This can result in earnings volatility as the mark-to-market on derivatives which do not qualify as effective hedges and the ineffectiveness associated with qualifying hedges are recorded in current period earnings.

Loans held for sale Certain residential mortgage whole loans are classified as held for sale and are accounted for at lower of cost or fair value. The fair value of certain of these loans is determined based on valuations of mortgage-backed securities that would be observed in a hypothetical securitization adjusted for dissimilarity in the underlying collateral, market liquidity, and direct transaction costs to convert mortgage loans into securities. During the recent market turmoil, pricing information on mortgage related assets became less available. In an inactive market where securitizations of mortgage whole loans may not regularly occur, we utilize alternative market information by reference to different exit markets to determine or validate the fair value of our mortgage whole loans. The determination of fair value for mortgage whole loans takes into account factors such as the location of the collateral, the loan-to-value ratio, the estimated rate and timing of delinquency, the probability of foreclosure and loss severity if foreclosure does occur.

Loans elected for the fair value option We elected to measure certain leveraged finance loans and commercial loans at fair value under the fair value option provided by U.S. GAAP. Where available, market-based consensus pricing obtained from independent sources is used to estimate the fair value of leveraged loans. Where consensus pricing information is not available, fair value is estimated using observable market prices of similar instruments, 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 estimates of prepayments, defaults, and recoveries, discounted at management s estimate of the rate that would be required by market participants in the current market conditions. We attempt to corroborate estimates of prepayments, defaults, and recoveries using observable data by correlation or other means. We also consider the specific loan characteristics and inherent credit risk and risk mitigating factors such as the nature and characteristics of the collateral arrangements in determining fair value. Continued lack of liquidity in credit markets has resulted in a significant decrease in the availability of observable market data, which has resulted in an increased level of management judgment required to estimate fair value for loans held for sale.

Structured Deposits and Structured Notes Certain hybrid instruments, primarily structured notes and structured certificates of deposit, were elected to be measured at fair value in their entirety under the fair value option provided by U.S. GAAP. As a result, derivative features embedded in those instruments are included in the fair value measurement of the instrument. Depending on the complexity of the embedded derivative, the same elements of valuation uncertainty and adjustments described in the derivative sections above would apply to hybrid instruments. Additionally, cash flows for the funded notes and deposits 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 be charged for issuing similar structured instruments as of the measurement date.

Own debt issuances for which the fair value option has been elected are traded in the OTC market. The fair value of our own debt issuances is determined based on the observed prices for the specific debt instrument transacted in the secondary market. To the extent the inputs are observable, less judgment is required in determining the fair value. In many cases, management can obtain quoted prices for identical or similar liabilities. However, the markets may become inactive at various times where prices are not current or price quotations vary over time or among market makers. In these situations, valuation estimates involve using inputs other than quoted prices to value both the interest rate component and the credit component of the debt. Changes in such estimates, and in particular the credit component of the valuation, can be volatile from period to period and may markedly impact the total mark-to-market on debt designated at fair value recorded in our consolidated statement of income (loss).

Asset-backed securities Mortgage-backed securities and other asset-backed securities including Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs) are classified as either available-for-sale or held for trading and are measured at fair value. The fair value measurements of these asset classes are primarily determined or validated by inputs obtained from independent pricing sources adjusted for the differences in the characteristics and performance of the underlying collateral, such as prepayments and defaults. During the recent credit crisis, the valuations of certain mortgage-backed and asset-backed securities have become less transparent. For these securities, internal valuation estimates are used to validate the pricing information obtained from independent pricing sources which measure fair value based on information derived from both observable and unobservable inputs.

We have established a control framework designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. Controls over the valuation process are summarized in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Fair Value.

Because the fair value of certain financial assets and liabilities are significantly impacted by the use of estimates, the use of different assumptions can result in changes in the estimated fair value of those assets and liabilities, which can result in equity and earnings volatility as follows:

- Changes in the fair value of trading assets and liabilities are recorded in current period earnings;
- Changes in the fair value of securities available-for-sale are recorded in other comprehensive income;
- Changes in the fair value of loans held for sale when their amortized cost exceeds fair value are recorded in current period earnings;
- Changes in the fair value of a derivative that has been designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are recorded in current period earnings; and

Changes in the fair value of a derivative that has been designated and qualifies as a cash flow hedge are recorded in other comprehensive income to the extent of its effectiveness, until earnings are impacted by the variability of cash flows from the hedged item.

Impairment of Securities Available-for-sale Securities available-for-sale are measured at fair value and changes in fair value, net of related income taxes, are recognized in equity in other comprehensive income until the securities are either sold or an other-than-temporary impairment loss is recognized. Where the amount recognized in other comprehensive income related to a security available-for-sale represents a loss, the security is deemed to be impaired. To the extent that the impairment is deemed to be other-than-temporary, an other-than-temporary impairment loss is recognized. However for financial statement presentation purposes,only the credit loss component of such difference is recognized in earnings for a debt security that we do not intend to sell and for which it is not more-likely-than-not that we will be required to sell prior to recovery of its amortized cost basis.

Total securities available-for-sale amounted to $27.8 billion and $24.9 billion at December 31, 2009 and 2008, respectively, of which $26.5 billion or 95.5 percent at December 31, 2009 and $24.9 billion or 99.8 percent at December 31, 2008 were debt securities. The amount recorded in other comprehensive income relating to debt securities available-for-sale amounted to an increase of $526 million and a reduction of $471 million at December 31, 2009 and 2008, respectively. A reduction in other comprehensive income relating to a debt security available-for-sale occurs when the fair value of the security is less than the security s acquisition cost (net of any principal repayments and amortization) less any other-than-temporary impairment loss recognized in earnings.

Management is required to exercise judgment in determining whether an impairment is other-than-temporary or reflects a credit loss that must be recognized in earnings. For debt securities available-for-sale, the objective evidence required to determine whether an impairment is other-than-temporary or reflects a credit loss comprises evidence of the occurrence of a loss event that results in a decrease in estimated future cash flows. Where cash flows are readily determinable, a low level of judgment may be involved. Where determination of estimated future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions, more significant judgment is required.

The most significant judgments concern more complex instruments, such as asset-backed securities (ABSs), where it is necessary to consider factors such as the estimated future cash flows on underlying pools of collateral, the extent and depth of market price declines and changes in credit ratings. The review of estimated future cash flows on underlying collateral is subject to estimation uncertainties where the assessment is based on historical information on pools of assets, and judgment is required to determine whether historical performance is likely to be representative of current economic and credit conditions.

There is no single factor to which our charge for other-than-temporary impairment of debt securities available-for-sale is particularly sensitive, because of the range of different types of securities held, the range of geographical areas in which those securities are held, and the wide range of factors which can affect the occurrence of loss events and cash flows of securities, including different types of collateral.

Management s current assessment of the holdings of available-for-sale ABSs with the most sensitivity to possible future impairment is focused on subprime and Alt-A residential mortgage-backed securities (MBSs). Our principal exposure to these securities is in the Global Banking and Markets business. Excluding holdings in certain special purpose entities where significant first loss risks are borne by external investors, the available-for-sale holdings in these categories within Global Banking and Markets amounted to $136 million at December 31, 2009 ($38 million at December 31, 2008). The available-for-sale fair value adjustment as at December 31, 2009 in relation to these securities was an unrealized gain of $7 million and at December 31, 2008, an unrealized loss of $23 million.

The main factors in the reduction in fair value of these securities over the period were the effects of reduced market liquidity and negative market sentiment. The level of actual credit losses experienced was relatively low in both 2009 and 2008, notwithstanding the deterioration in the performance of the underlying mortgages in the period as U.S. house prices fell and defaults increased. The absence of significant credit losses is judged to be attributable to the seniority of the tranches we held as well as the priority for cash flow held by these tranches. In 2009, we recognized other-than-temporary impairment of $208 million of which $124 million related to credit losses which was recorded through earnings. In 2008, we recognized other-than-temporary impairment of $231 million, all of which was recorded through earnings.

It is reasonably possible that outcomes in the future could be different from the assumptions and estimates used in identifying impairment on available-for-sale debt securities and, as a result, impairment may be identified in available-for-sale debt securities which had previously been determined not to be impaired. It is possible that this could result in the recognition of material impairment losses in future periods.

Mortgage Servicing Rights (MSRs) We recognize retained rights to service mortgage loans as a separate and distinct asset at the time the loans are sold. We initially value Mortgage Servicing Rights (MSRs) at fair value at the time the related loans are sold and subsequently measure MSRs at fair value at each reporting date with changes in fair value reflected in income in the period that the changes occur.

MSRs are subject to interest rate risk in that their fair value will fluctuate as a result of changes in the interest rate environment. 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. These assumptions include expected prepayments, default rates and market-based option adjusted spreads. The estimate of fair value is considered to be a critical accounting estimate because the assumptions used in the valuation models involve a high degree of subjectivity that is dependent upon future interest rate movements. The reasonableness of these pricing models is periodically validated by reference to external independent broker valuations and industry surveys.

Because the fair values of MSRs are significantly impacted by the use of estimates, the use of different estimates can result in changes in the estimated fair values of those MSRs, which can result in equity and earnings volatility because such changes are reported in current period earnings.

Deferred Tax Assets We recognize deferred tax assets and liabilities for the future tax consequences related to 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 deferred tax assets, net of valuation allowances, totaled $2.1 billion and $1.7 billion as of December 31, 2009 and 2008, respectively. We evaluate our deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including our historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences and any carryback availability. We are required to establish a valuation allowance for deferred tax assets and record a charge to income or shareholders equity if we determine, based on available evidence at the time the determination is made, that it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we estimate 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. This process involves significant management judgment about assumptions that are subject to change from period to period. Because the recognition of deferred tax assets requires management to make significant judgments about future earnings, the periods in which items will impact taxable income, and the application of inherently complex tax laws, we have included the assessment of deferred tax assets and the need for any related valuation allowance as a critical accounting estimate.

Since recent market conditions have created significant downward pressure and volatility on our near-term pretax book income, our analysis of the realizability of deferred tax assets significantly discounts any future taxable income expected from operations and relies to a greater extent on continued liquidity and capital support from our parent, HSBC, including tax planning strategies implemented in relation to such support. We are included in HSBC North America s consolidated Federal income tax return and in certain combined state returns. As we have entered into tax allocation agreements with HSBC North America and its subsidiary entities included in the consolidated return which govern the current amount of taxes to be paid or received by the various entities, we look at HSBC North America and its affiliates, together with the tax planning strategies identified, in reaching our conclusion on recoverability. Absent capital support from HSBC and implementation of the related tax planning strategies, we would be required to record a valuation allowance against our deferred tax assets.

The use of different estimates can result in changes in the amounts of deferred tax items recognized, which can result in equity and earnings volatility because such changes are reported in current period earnings. Furthermore, if future events differ from our current forecasts, valuation allowances may need to be established or adjusted, which could have a material adverse effect on our results of operations, financial condition and capital position. We will continue to update our assumptions and forecasts of future taxable income and assess the need and adequacy of any valuation allowance.

Additional detail on our assumptions with respect to the judgments made in evaluating the realizability of our deferred tax assets and on the components of our deferred tax assets and deferred tax liabilities as of December 31, 2009 and 2008 can be found in Note 18, Income Taxes, of this Form 10-K.

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 December 31, 2009, and movements in comparison with prior periods, are summarized in the table below.

		Increase (Decrease) From			
		December 31, 2008		December 31, 2007	
	December 31, 2009	Amount	%	Amount	%
		(dollars are in millions)			
Period end assets:					
Short-term investments	**$ 24,314**	$ (5,411)	(18.2)%	$ 2,329	10.6%
Loans, net	**75,628**	(3,088)	(3.9)	(13,514)	(15.2)
Loans held for sale	**2,908**	(1,523)	(34.4)	(2,362)	(44.8)
Trading assets	**25,815**	(5,477)	(17.5)	(10,813)	(29.5)
Securities	**30,568**	2,785	10.0	7,715	33.8
Other assets	**11,846**	(1,776)	(13.0)	(241)	(2.0)
	$ 171,079	$ (14,490)	(7.8)%	$ (16,886)	(9.0)%
Funding sources:					
Total deposits	**$ 118,337**	$ (701)	(.6)%	$ 2,167	1.9%
Trading liabilities	**8,010**	(8,313)	(50.9)	(8,243)	(50.7)
Short-term borrowings	**6,512**	(3,983)	(38.0)	(5,320)	(45.0)
Interest, taxes and other liabilities	**5,035**	128	2.6	830	19.7
Long-term debt	**18,008**	(4,081)	(18.5)	(10,260)	(36.3)
Shareholders equity	**15,177**	2,460	19.3	3,940	35.1
	$ 171,079	$ (14,490)	(7.8)%	$ (16,886)	(9.0)%

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 year to year depending upon our liquidity position at the time. Overall balances decreased in 2009 as 2008 balances reflect our positioning for the anticipated purchase of the credit card and auto finance receivable portfolios from HSBC Finance which was completed in January 2009.

Loans, Net Loan balances at December 31, 2009, and increases (decreases) over prior periods, are summarized in the following table.

		Increase (Decrease) From			
		December 31, 2008		December 31, 2007	
	December 31, 2009	Amount	%	Amount	%
		(dollars are in millions)			
Total commercial loans	**$ 30,304**	$ (7,125)	(19.0)%	$ (6,531)	(17.7)%
Consumer loans:					
Residential mortgages excluding home equity mortgages	**13,722**	(4,226)	(23.5)	(14,377)	(51.2)
Home equity mortgages	**4,164**	(385)	(8.5)	(230)	(5.2)
Total residential mortgages	**17,886**	(4,611)	(20.5)	(14,607)	(45.0)
Auto finance	**1,701**	1,547	100+	1,377	100+
Private label	**15,091**	(1,983)	(11.6)	(2,336)	(13.4)
Credit Card	**13,048**	10,911	100+	11,232	100+
Other consumer	**1,459**	(363)	(19.9)	(202)	(12.2)
Total consumer loans	**49,185**	5,501	12.6	(4,536)	(8.4)
Total loans	**79,489**	(1,624)	(2.0)	(11,067)	(12.2)
Allowance for credit losses	**3,861**	1,464	61.1	2,447	100+
Loans, net	**$ 75,628**	$ (3,088)	(3.9)%	$ (13,514)	(15.2)%

Commercial loans have decreased compared to 2008 and 2007 due to increased paydowns on loans across all commercial businesses, managed reductions in certain exposures, including higher underwriting standards, as well as lower overall demand from our core customer base.

Residential mortgage loans have decreased since December 31, 2008 and 2007. As a result of balance sheet initiatives to more effectively 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. Additionally, lower residential mortgage loan balances reflect the sale of approximately $4.5 billion of prime adjustable and fixed rate residential mortgage loans during 2009 and approximately $7.0 billion of prime adjustable and fixed rate residential mortgage loans during 2008.

As previously discussed, real estate markets in a large portion of the United States have been and continues to be affected by stagnation or declines in property values. As such, 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.

	Refreshed LTVs(1)(2) at December 31, 2009		Refreshed LTVs(1)(2) at December 31, 2008	
	First Lien	**Second Lien**	**First Lien**	**Second Lien**
LTV<80%	**71.5%**	**62.8%**	80.7%	63.7%
80%£LTV<90%	**14.3**	**14.9**	10.8	15.3
90%£LTV<100%	**7.7**	**9.5**	5.7	10.0
LTV³100%	**6.5**	**12.8**	2.8	11.0
Average LTV for portfolio	**68.1%**	**74.2%**	62.2%	73.4%

(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.

(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 September 30, 2009. For 2008, the information in the table above reflects estimated property values using HPI s as of December 31, 2008.

Credit card receivable balances increased from 2008 and 2007 largely due to the purchase of the GM and UP Portfolios, with an outstanding principal balance of $12.4 billion at the time of purchase in January 2009 from HSBC Finance as discussed above. Lower balances related to private label credit cards from 2008 and 2007 are due primarily to the tightening of underwriting criteria to lower the risk profile of the portfolio, the exit of certain merchant relationships and lower customer spending.

Auto finance loans have increased from both 2008 and 2007 as a result of the purchase of $3.0 billion of auto finance loans in January 2009 from HSBC Finance as discussed above, partially offset by run-off, the transfer of $353 million to loans held for sale in 2009 and the continued run-off of our indirect auto financing loans which we no longer originate.

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 December 31, 2009 and increases (decreases) over prior periods are summarized in the following table.

		Increase (Decrease) From			
		December 31, 2008		December 31, 2007	
	December 31, 2009	**Amount**	**%**	**Amount**	**%**
		(dollars are in millions)			
Total commercial loans	**$ 1,126**	$ 252	28.8%	$ (839)	(42.7)%
Consumer loans:					
Residential mortgages	**1,386**	(2,126)	(60.5)	(1,501)	(52.0)
Auto finance	**353**	353	100.0	353	100.0
Other consumer	**43**	(2)	(4.4)	(375)	(89.7)
Total consumer loans	**1,782**	(1,775)	(49.9)	(1,523)	(46.1)
Total loans held for sale	**$ 2,908**	$ (1,523)	(34.4)%	$ (2,362)	(44.8)%

We originate commercial loans in connection with our participation in a number of 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 $1,126 million, $874 million and $1,939 million at December 31, 2009, 2008 and 2007, respectively, all of which are recorded at fair value. Commercial loan balances increased compared to December 31, 2008 primarily due to an increase in the fair value of the loans. Commercial loan balances decreased from December 31, 2007 primarily due to $648 million of leveraged acquisition finance loans being converted to corporate bonds in 2008 and an overall decrease in the market value of these loans since 2007 due to the adverse conditions in the corporate credit markets.

Residential mortgage loans held for sale include subprime residential mortgage loans of $757 million, $1,182 million and $1,869 million at December 31, 2009, 2008 and 2007, 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. In addition to normal sale activity, during 2009 and 2008, we sold approximately $4.5 billion and $7.0 billion, respectively, of prime adjustable and fixed rate residential mortgage loans. We retained the servicing rights in relation to the mortgages upon sale.

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Auto finance loans held for sale at December 31, 2009 reflect the transfer of $353 million of auto finance loans to loans held for sale during 2009.

Other consumer loans held for sale consist of student loans which we no longer originate.

Residential mortgage, auto finance and other consumer loans held for sale are recorded at the lower of cost or market value. The cost of loans held for sale exceeded market value at December 31, 2009 and 2008, resulting in increases to the related valuation allowance during 2009 and 2008. This was primarily a result of adverse conditions in the U.S. residential mortgage markets in 2009 and 2008, although the dollar magnitude of the increases to the valuation allowance was lower during 2009 as compared to the prior year.

Trading Assets and Liabilities Trading assets and liabilities balances at December 31, 2009, and increases (decreases) over prior periods, are summarized in the following table.

		Increase (Decrease) From			
		December 31, 2008		December 31, 2007	
	December 31, 2009	**Amount**	**%**	**Amount**	**%**
		(dollars are in millions)			
Trading assets:					
Securities[1]	**$ 5,340**	$ 227	4.4%	$ (7,785)	(59.3)%
Precious metals	**12,256**	7,351	100+	3,468	39.5
Derivatives	**8,219**	(13,055)	(61.4)	(6,496)	(44.1)
	$ 25,815	$ (5,477)	(17.5)%	$ (10,813)	(29.5)%
Trading liabilities:					
Securities sold, not yet purchased	**$ 131**	$ (275)	(67.7)%	$ (1,313)	(90.9)%
Payables for precious metals	**2,556**	957	59.8	1,033	67.8
Derivatives	**5,323**	(8,995)	(62.8)	(7,963)	(59.9)
	$ 8,010	$ (8,313)	(50.9)%	$ (8,243)	(50.7)%

(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 December 31, 2009 increased slightly from 2008 as the impact of sales of mortgage backed and asset backed securities held for trading purposes in 2009 was more than offset by increased market values as the market rallied for asset backed securities. Securities balances decreased from 2007 reflecting lower outstandings due to sales and lower overall market values due to the adverse conditions experienced by the U.S. residential mortgage markets since 2007.

Higher precious metals balances at December 31, 2009 as compared to 2008 and 2007 were primarily due to higher prices on most metals and, compared to 2007, partially offset by lower inventory levels.

Derivative assets and liabilities balances from December 31, 2008 were impacted by market volatilities as valuations of foreign exchange, interest rate and credit derivatives all reduced from significant spreads tightening in all sectors. In addition, credit derivatives had a large decrease as a number of transaction unwinds and commutations reduced the outstanding market value as management sought to actively reduce exposure. Changes in derivative assets and liabilities balances from 2007 were impacted by increased values on derivative products including credit default swaps, foreign currency forward contracts and total return swaps as a result of movements in credit spreads and currency curves.

Deposits Deposit balances by major depositor categories at December 31, 2009, and increases (decreases) over prior periods, are summarized in the following table.

	December 31, 2009	Increase (Decrease) From December 31, 2008 Amount	%	December 31, 2007 Amount	%
		(dollars are in millions)			
Individuals, partnerships and corporations	**$ 98,407**	$ (226)	(.2)%	$ 6,996	7.7%
Domestic and foreign banks	**13,549**	(2,927)	(17.8)	(6,199)	(31.4)
U.S. government and states and political subdivisions	**4,414**	1,464	49.6	1,953	79.4
Foreign governments and official institutions	**1,967**	988	100+	(583)	(22.9)
Total deposits	**$ 118,337**	$ (701)	(.6)%	$ 2,167	1.9%
Total core deposits(1)	**$ 83,227**	$ 14,447	21.0%	$ 18,148	27.9%

(1) We monitor core deposits as a key measure for assessing results of our core banking network. 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 were a significant source of funding during 2009, 2008 and 2007. Total deposits at December 31, 2009 decreased slightly as compared to 2008 as a result of the maturing of several large time deposits that were not renewed, which was largely offset by growth in branch-based deposit products primarily driven by our Premier and branch expansion strategies and continued growth in the online savings product. Given our overall liquidity position, we continue 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. Deposits from foreign and domestic banks and financial institutions as well as foreign government and official institution deposits, which had decreased during the first half of 2009, collectively returned to more normalized levels during the second half of 2009. Core domestic deposits, which are the substantial source of our core liquidity, are significantly higher from December 31, 2008 and 2007.

Increased deposit balances from 2007 are a result of general growth across a range of our deposit products including in the online savings account, Premier Investor and certificates of deposits in both the core PFS and commercial banking businesses. Partially offsetting this were decreased deposits by foreign and domestic banks and foreign government and official institution deposits.

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. In 2009, Premier Investor savings has grown to $7.4 billion at December 31, 2009 from $5.5 billion at December 31, 2008 and Premier Checking has grown to almost $4.2 billion at December 31, 2009 from $2.6 billion at December 31, 2008;

Internet based products, including Online Savings, Online Payment and Online Certificate of Deposit accounts. Since their introduction in 2005, Online Savings balances have grown to $15.6 billion at December 31, 2009 as compared to $14.5 billion at December 31, 2008. Online certificates of deposit have decreased during 2009 to $741 million at December 31, 2009 from $1.0 billion at December 31, 2008;

Retail branch expansion in existing and new geographic markets to largely support the needs of our internationally minded customers. During 2009, we opened 18 new branches in the states of New Jersey, California, Washington, New York and in the District of Columbia; and

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

On August 26, 2009, the FDIC announced that the Transaction Account Guarantee (the TAG) portion of the Temporary Liquidity Guarantee Program would be extended to June 30, 2010. In connection with the extension, the fee payable to the FDIC under the TAG will be increased from 10 basis points on any deposit amounts exceeding the $250,000 deposit insurance limit to 15, 20 or 25 basis points depending on the risk category assigned to the institution under the FDIC s risk-based premium system. On November 2, 2009, HSBC Bank USA and its affiliated banks advised the FDIC of their election to opt out of the six-month extension of the TAG. Our participation in the TAG ended on December 31, 2009.

Short-Term Borrowings Increased retail deposits and transaction banking sweeps reduced the need for short-term borrowings in 2009 compared to 2008. In addition, balances for securities sold under repurchase agreements and precious metals borrowings continued to decrease. Short-term borrowings were higher in 2007 due to an increase in federal funds purchased and an increase in precious metals borrowings in response to favorable precious metals market conditions.

Long-Term Debt Long-term debt has continued to decline compared to 2008 and 2007 as our overall asset levels have decreased and we continue to focus on deposit gathering activities. Incremental issuances from the $40.0 billion HSBC Bank USA Global Bank Note Program totaled $552 million during 2009 and $1.0 billion during 2008. Total debt outstanding under this program was $3.5 billion and $7.3 billion at December 31, 2009 and 2008, respectively.

Incremental long-term debt issuances from our shelf registration statement with the Securities and Exchange Commission totaled $2.0 billion during 2009, none of which were issued as part of the FDIC s Debt Guarantee Program. Incremental long-term debt issuances in 2008 from our shelf registration statement with the Securities and Exchange Commission totaled $5.8 billion, which included $2.7 billion of guaranteed senior notes issued in December 2008 as part of the FDIC s Debt Guarantee Program. Total long-term debt outstanding under this shelf were $5.5 billion and $6.0 billion at December 31, 2009 and 2008, respectively.

We had borrowings from the Federal Home Loan Bank of New York (FHLB) of $1.0 billion and $2.0 billion at December 31, 2009 and 2008, respectively. At December 31, 2009, we had the ability to access further borrowings of up to $2.3 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 that were accounted for as secured financings. Borrowings under these facilities totaled $2.4 billion at December 31, 2009.

We have entered into a series of transactions with Variable Interest Entities (VIEs) organized by HSBC affiliates and unrelated third parties. We are the primary beneficiary of these VIEs under the applicable accounting literature and, accordingly, we have consolidated the assets and debt of the VIEs. Debt obligations of the VIEs, which totaled $3.0 billion and $1.2 billion at December 31, 2009 and 2008, respectively, were included in long-term debt. See Note 26, Special Purpose Entities, in the accompanying consolidated financial statements for additional information regarding VIE arrangements.

HSBC USA Inc.

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 following table presents changes in the components of net interest income according to volume and rate .

Year Ended December 31	2009	2009 Compared to 2008 Increase (Decrease) Volume	Rate	2008	2008 Compared to 2007 Increase (Decrease) Volume	Rate	2007
				(in millions)			
Interest income:							
Interest bearing deposits with banks	**$ 44**	**$ 132**	**$ (270)**	$ 182	$ (10)	$ (99)	$ 291
Federal funds sold and securities purchased under resale agreements	**45**	**(52)**	**(132)**	229	(95)	(286)	610
Trading assets	**219**	**(226)**	**(90)**	535	(111)	13	633
Securities	**997**	**152**	**(422)**	1,267	73	(18)	1,212
Loans:							
Commercial	**1,160**	**(188)**	**(567)**	1,915	449	(603)	2,069
Consumer:							
Residential mortgages	**884**	**(470)**	**(56)**	1,410	(334)	15	1,729
Home equity mortgages	**147**	**(4)**	**(71)**	222	13	(102)	311
Private label cards	**1,635**	**(78)**	**-**	1,713	10	73	1,630
Credit cards	**1,250**	**1,064**	**29**	157	41	11	105
Auto finance	**442**	**347**	**82**	13	(13)	-	26
Other consumer	**134**	**(29)**	**(25)**	188	(17)	(14)	219
Total consumer	**4,492**	**830**	**(41)**	3,703	(300)	(17)	4,020
Other interest	**46**	**(16)**	**(157)**	219	176	(187)	230
Total interest income	**7,003**	**632**	**(1,679)**	8,050	182	(1,197)	9,065
Interest expense:							
Deposits in domestic offices:							
Savings deposits	**583**	**63**	**(484)**	1,004	52	(481)	1,433
Other time deposits	**350**	**(175)**	**(344)**	869	151	(507)	1,225
Deposits in foreign offices:							

Foreign banks deposits	**13**	**(41)**	**(164)**	218	172	(479)	525
Other time and savings	**45**	**9**	**(299)**	335	(32)	(290)	657
Short-term borrowings	**74**	**(34)**	**(175)**	283	114	(188)	357
Long-term debt	**782**	**(31)**	**(172)**	985	(204)	(254)	1,443
Total interest expense	**1,847**	**(209)**	**(1,638)**	3,694	253	(2,199)	5,640
Net interest income - taxable equivalent basis	**5,156**	**$ 841**	**$ (41)**	4,356	$ (71)	$ 1,002	3,425
Tax equivalent adjustment	**22**			30			27
Net interest income - non taxable equivalent basis	**$ 5,134**			$ 4,326			$ 3,398

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HSBC USA Inc.

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

Year Ended December 31	2009	2008	2007
Yield on total earning assets	**4.57%**	5.39%	6.24%
Rate paid on interest bearing liabilities	**1.46**	2.72	4.35
Interest rate spread	**3.11**	2.67	1.89
Benefit from net non-interest or paying funds	**.25**	.25	.47
Net interest margin	**3.36%**	2.92%	2.36%

Significant trends affecting the comparability of 2009 and 2008 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.

	2009		2008		2007	
Year Ended December 31	Amount	Interest Rate Spread	Amount	Interest Rate Spread	Amount	Interest Rate Spread
			(dollars are in millions)			
Net interest income/interest rate spread from prior year	**$ 4,356**	**2.67%**	$ 3,425	1.89%	$ 3,107	1.76%
Increase (decrease) in net interest income associated with:						
Trading related activities	**(78)**		300		20	
Balance sheet management activities[1]	**(219)**		634		(21)	
Private label receivable portfolio	**237**		260		285	
Credit card portfolio	**1,068**		77		(13)	
Commercial loans	**143**		317		48	
Deposits	**(211)**		(627)		(66)	
Residential mortgage banking	**(6)**		(5)		(70)	
Other activity	**(134)**		(25)		135	
Net interest income/interest rate spread for current year	**$ 5,156**	**3.11%**	$ 4,356	2.67%	$ 3,425	1.89%

(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-K.

Trading related activities Net interest income for trading related activities decreased during 2009 due primarily to lower average balances of trading assets which was partially offset by lower cost of funds. Net interest income for trading related activities increased during 2008 and 2007, due primarily to decreased funding costs.

Balance sheet management activities Lower net interest income from balance sheet management activities during 2009 was due primarily to the sale of securities and the re-investment into lower margin securities, partially offset by positions taken in expectation of decreasing short-term rates. During 2008, higher net interest income from balance sheet management activities was due primarily to positions taken in expectation of decreasing short-term rates. We experienced lower net interest income in 2007 as a relatively flat yield curve and elevated short-term interest rates continued to limit opportunities to generate additional net funds income.

Private label credit card portfolio Net interest income on private label credit card receivables was higher during both 2009 and 2008 as a result of lower funding costs and lower amortization of premiums on the initial purchase as well as lower daily premiums. Net interest income was higher in 2007 due to increased balances due to the addition of new merchants, higher accrued income as a result of a more refined income recognition methodology on private label card promotional balances, repricing initiatives and lower premium amortization on the initial portfolio purchased.

Credit card portfolio Higher net interest income on credit card receivables during 2009 primarily reflects the impact of the purchase of the GM and UP Portfolios from HSBC Finance. Net interest income was higher in 2008 primarily due to the growing co-brand portfolio receivable balance and lower funding costs. Net interest income was lower in 2007 as a result of higher daily premiums and higher funding costs, partly mitigated by increased co-brand portfolio receivable balances.

Commercial loans Net interest income on commercial loans was higher during 2009 due primarily to loan repricing and lower funding costs, partially offset by lower balances. Net interest income was higher in 2008 and 2007 due to higher levels of commercial loans, particularly to middle-market customers.

Deposits Lower net interest income during 2009, 2008 and 2007 related to deposits is primarily due to spread compression on core banking activities in the PFS and CMB business segments. These segments have been affected by falling interest rates, growth in customer deposits in higher yielding deposit products, such as online savings and premier investor accounts, and an overall more competitive retail market.

Residential mortgage banking During 2009 and 2008, 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 $4.5 billion of prime adjustable and fixed rate residential mortgages during 2009 and approximately $7 billion of prime residential mortgage loans in 2008.

Lower net interest income in 2007 primarily resulted from continuing narrowing of interest rate spreads and contraction of the residential mortgage loan portfolio as we continued to sell a majority of residential mortgage loan originations and allow the portfolio to run off as part of our strategy to reduce prepayment risk and improve liquidity.

Other activity Net interest income was lower in 2009 due to lower break funding charges charged back to specific loan portfolios which was partially offset by higher net interest income related to a portfolio of Auto finance loans purchased in January 2009 and lower funding costs on non-earning assets. Lower net interest income in 2008 was the result of lower interest income on consumer closed end loans, such as student loans and several run-off portfolios of direct and indirect consumer loans, as balances declined from 2007, which was partially offset but lower funding costs on non-earning assets. In 2007 lower funding costs on non-earning assets more than offset lower net interest income related to the above mentioned consumer closed end loans

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

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Commercial	**$ 665**	$ 428	$ 205
Consumer:			
Residential mortgages, excluding home equity mortgages	**364**	286	77

Home equity mortgages	**195**	219	49
Private label card receivables	**1,280**	1,282	972
Credit card receivables	**1,450**	223	123
Auto finance	**104**	4	8
Other consumer	**86**	101	88
Total consumer	**3,479**	2,115	1,317
Total provision for credit losses	**$ 4,144**	$ 2,543	$ 1,522

We increased our credit loss reserves in both 2009 and 2008 as the provision for credit losses was $1,036 million greater than net charge-offs in 2009 and $983 million greater than net charge-offs in 2008. The provision as a percentage of average receivables was 4.79 percent in 2009, 2.92 percent in 2008 and 1.80 percent in 2007. The increase in both 2009 and 2008 reflects higher loss estimates in our commercial and consumer loan portfolios as discussed in more detail below.

Commercial loan provision for credit losses increased during 2009 as a result of higher loss estimates on our commercial real estate, business banking and corporate banking portfolios due to higher criticized loan levels reflecting customer downgrades in certain counterparties largely due to deteriorating economic conditions. Increased provision in our commercial real estate portfolio was largely due to condominium loans and land loans in the condominium construction market in South Florida and California, as well as in hotel and office construction in all markets, especially in the large metropolitan markets where construction projects have been delayed. Our business banking portfolio experienced weakness particularly in small balance relationships. Although our corporate banking portfolio has deteriorated in most industry segments and geographies, consistent with the overall deterioration in the U.S. economy, customers in those areas of the economy that have experienced above average weakness such as apparel, auto related suppliers and construction related businesses have been particularly affected. Commercial loan provision also increased as a result of a specific provision relating to a single private banking client relationship recorded in the third quarter of 2009. These increases were partially offset by lower overall provisions in our middle market portfolio due to fewer downgrades in 2009. During 2008, our provision for credit losses on commercial loans also increased as increased provisions for our commercial real estate, middle market and corporate banking portfolios resulted from higher criticized asset levels reflecting customer downgrades due to deteriorating economic conditions.

The provision for credit losses on residential mortgages including home equity mortgages increased $54 million and $379 million during 2009 and 2008, respectively. The increase in provision for credit losses on residential mortgages during both years was attributable to increased delinquencies within the prime residential first mortgage loan portfolio and in 2008, higher loss estimates in our home equity mortgage loan portfolio due primarily to the continued deterioration in real estate values in certain markets. In 2008, the increase in provision for credit losses on residential mortgages also reflects, to a lesser extent, the impact of a portfolio of nonconforming residential mortgage loans which we purchased from HSBC Finance (the HMS Portfolio) in 2003 and 2004.

The provision for credit losses associated with credit card receivables in 2009 was significantly impacted by the purchase of the GM and UP Portfolios as previously discussed. Excluding these portfolios in 2009, provision remained higher in both years, primarily from higher delinquencies and charge offs within the co-brand credit card portfolios due to higher levels of personal bankruptcy filings, the impact from a weakened U.S. economy and lower recovery rates.

Provision expense associated with our private label card portfolio was relatively flat in 2009 as the impact of higher charge-off levels was largely offset by lower receivable levels, stable delinquency trends and an improved outlook on future loss estimates as the impact of higher unemployment levels on losses has not been as severe as previously anticipated due to signs of home price stability in the second half of the year and tighter underwriting. In 2008, provision expense increased in our private label card portfolio due to higher delinquency and charge-off levels as well as increased levels of personal bankruptcy filings, lower recovery rates on previously charged-off accounts and the impact from continued weakening in the U.S. economy also contributed to the increase.

Provision expense associated with our auto finance portfolio during 2009 increased primarily due to the purchase of $3.0 billion in auto finance loans from HSBC Finance in January 2009. In 2008, provision expense associated with our auto finance portfolio declined due to run-off.

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

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

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Credit card fees	**$ 1,356**	$ 879	$ 817
Other fees and commissions	**837**	733	762
Trust income	**125**	150	101
Trading revenue (loss)	**347**	(2,558)	129
Net other-than-temporary impairment losses	**(124)**	(231)	-
Other securities gains (losses), net	**304**	82	112
HSBC affiliate income:			
Fees and commissions	**136**	117	130
Other affiliate income	**11**	20	34
Total HSBC affiliate income	**147**	137	164
Residential mortgage banking revenue[1]	**172**	(11)	74
Gain (loss) on instruments designated at fair value and related derivatives[2]	**(253)**	286	-
Other income (loss):			
Valuation of loans held for sale	**(250)**	(513)	(504)
Insurance	**24**	37	36
Earnings from equity investments	**30**	61	78
Miscellaneous income	**(1)**	161	78
Total other income (loss)	**(197)**	(254)	(312)
Total other revenues (losses)	**$ 2,714**	$ (787)	$ 1,847

(1) Includes servicing fees received from HSBC Finance of $12 million and $14 million during 2009 and 2008, respectively.

(2) Includes gains and losses associated with financial instruments elected to be measured at fair value and the associated economically hedging derivatives. See Note 17, Fair Value Option, in the accompanying consolidated financial statements for additional information.

Credit Card Fees Higher credit card fees during 2009 were due primarily to substantially higher outstanding credit card balances due to the purchase of the GM and UP Portfolios as previously discussed. Also contributing to the increase are higher late fees on private label cards due to increased average delinquency levels throughout 2009 partially offset by higher fee charge-offs due to increased loan defaults. Higher credit card fees in 2008 reflect higher late fees on private label cards due to increased delinquency levels and growth of the co-brand portfolio. These increases were partially offset by higher fee charge-offs due to increased loan defaults and the impact of changes in our credit card fee practices implemented in the fourth quarter of 2007.

Other Fees and Commissions Other fee-based income increased during 2009 due to higher customer referral fees, commercial loan commitment fees, loan syndication fees and fees generated by the Payments and Cash Management business. These same factors also drove the increase in 2008, excluding the impact of the sale of our Wealth and Tax Advisory Services (WTAS) subsidiary in 2007, which contributed $104 million of fee based income during 2007.

Trust Income Trust income declined in 2009 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. In 2008, higher trust income was due primarily to an increase in advisor fees related to HSBC money market investor funds from increased activity in the Asset Management business within the Global Banking and Markets segment. This activity increased significantly in 2008 due to the success of selling and retaining assets within domestic money market funds as customers have migrated to deposit products and larger, well-capitalized institutions.

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.

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Trading revenue (loss)	**$ 347**	$ (2,558)	$ 129
Net interest income (loss)	**186**	264	(36)
Trading related revenue (loss)	**$ 533**	$ (2,294)	$ 93
Business:			
Derivatives	**$ (364)**	$ (2,368)	$ (179)
Balance sheet management	**139**	(460)	(82)
Foreign exchange and banknotes	**328**	496	245
Precious metals	**67**	96	77
Global banking	**367**	(78)	29
Other trading	**(4)**	20	3
Trading related revenue (loss)	**$ 533**	$ (2,294)	$ 93

2009 Compared to 2008 Trading revenue (loss) during 2009 continued to be affected by reduced liquidity and volatility in the credit markets although the magnitude of such impacts was not as severe when compared to the year-ago period. While liquidity has improved in 2009, it continues to be lower than experienced before the financial crisis. Trading revenue (loss) for 2008 was significantly affected by reduced liquidity, widening spreads and higher volatility in the credit markets.

Trading revenue related to derivatives improved significantly during 2009 due to the performance of structured credit products which reported total losses of $371 million during 2009 as compared to total losses of $2.5 billion during 2008. The performance of credit derivatives improved in 2009 as credit spread volatility and the outlook for corporate defaults stabilized, and exposures to several counterparties, including monoline insurers, were reduced as a result of the early termination of transactions. As a result we recorded losses for monolines of $152 million during 2009 compared to losses of $1,020 million in 2008.

Trading income related to balance sheet management activities improved in 2009 primarily due to more favorable trends in credit spreads on asset backed securities held for trading purposes and increased sales of mortgage backed and other asset backed securities held for trading purposes.

Foreign exchange and Banknotes revenue declined in 2009 primarily due to lower volumes and narrower trading spreads in Foreign Exchange and a reduction in demand for physical currency in Banknotes.

Precious metals continued to deliver strong results in 2009, however revenue declined from 2008 levels which benefitted from a higher demand for metals due to economic instability, which eased somewhat in 2009.

Global banking revenue increased during 2009 primarily due to increased values on corporate bonds as credit spreads narrowed on these securities compared to 2008.

2008 Compared to 2007 Trading losses related to derivatives increased substantially during 2008. Structured credit products sustained losses of approximately $2.5 billion during 2008, as compared to $264 million in 2007, as credit spreads continued to widen and corporate defaults increased causing losses related to hedging the portfolio as well as related to counterparty exposures. Structured funds suffered losses of $130 million from clients that were impacted by the fraud at Madoff Securities. Partially offsetting these reductions were improved results in Emerging

Markets and Credit Flow trading, as well as gains in equity derivatives on the sale of MasterCard B shares during the second quarter of 2008, which resulted in trading revenue of $134 million.

Trading losses related to balance sheet management activities increased primarily due to credit spreads widening on asset backed securities held for trading purposes.

The foreign exchange business contributed increased revenues in 2008 as a result of ongoing market volatility and increased customer activity. Banknotes revenues were also higher in 2008 due to wider margins and increased demand for physical currency driven by a volatile economic climate.

Precious metals trading benefitted from higher trading volumes in 2008 as customer demand for metals as an alternative investment increased in reaction to a weaker U.S. dollar.

Losses from Global Banking in 2008 primarily relate to losses on corporate bonds which is attributable to widening credit spreads on these bonds.

Net Other-Than-Temporary Impairment Losses During 2009, 28 debt securities were determined to be other-than-temporarily impaired. In accordance with the recently issued accounting guidance related to the recognition and presentation of other-than-temporary impairments on debt securities, only the credit loss component is shown in earnings. Prior to 2009, all other-than-temporary impairment losses were recorded in earnings. The following table presents the various components of other-than-temporary impairment.

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	
Total other-than-temporary impairment losses[1]	**$ (208)**	$ (231)	$ -
Portion of loss recognized in other comprehensive income (loss), before taxes	**84**	-	-
Net other-than-temporary impairment losses recognized in consolidated statement of income (loss)	**$ (124)**	$ (231)	$ -

(1) During the year ended December 31, 2008, three asset backed securities and the preferred securities of FNMA were determined to be other-than-temporarily impaired.

Other Securities Gains (Losses), 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.

Year Ended December 31,	**2009**	**2008**	**2007**
		(in millions)	

Sale of MasterCard or Visa Class B Shares	**$ 48**	$ 83	$ 55
Securities available-for-sale	**256**	-	-
Reduction of Latin and South American exposure	-	-	26
Sale of an equity investment to an HSBC affiliate[1]	-	-	9
Other	-	(1)	22
Total securities gains (losses), net	**$ 304**	$ 82	$ 112

[1] Represents net gains realized from transfers of various available-for-sale securities, other non-marketable securities and equity investments as part of a strategy to consolidate certain investments into common HSBC entities.

During 2009, we sold $11.2 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 a gain of $234 million, which is included as a component of other security gains, net above. Gross realized gains and losses from sales of securities are summarized in Note 6, Securities. In the accompanying consolidated financial statements.

HSBC Affiliate Income Affiliate income was higher during 2009 due largely to higher fees and commissions earned from HSBC Markets, USA (HMUS) and HSBC Securities, USA. These increases were partially offset by lower net sales credits received from affiliates for customer referrals and lower gains on tax refund anticipation loans due to lower origination volumes as there was an on-going relationship with only one third party provider during the 2009 tax season, as well as a shift in mix to lower revenue, lower risk products. During 2008, lower HSBC affiliate income reflects lower gains on the sale of mortgages to HMUS due to decreased activity under the programs driven by illiquidity in the credit and subprime markets causing a decrease in loans sold. Additionally lower HSBC affiliate income in 2008 reflects a decrease in gains related to lower volumes of tax refund anticipation loan originations, partially offset by higher customer referral and other fees.

Residential Mortgage Banking Revenue 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.

Year Ended December 31	**2009**	**2008**	**2007**
		(in millions)	
Net interest income	**$ 249**	$ 255	$ 260
Servicing related income:			
Servicing fee income	**129**	130	116
Changes in fair value of MSRs due to:			
Changes in valuation inputs or assumptions used in valuation model	**60**	(213)	(18)
Realization of cash flows	**(56)**	(96)	(85)
Trading Derivative instruments used to offset changes in value of MSRs	**(31)**	160	10
Total servicing related income	**102**	(19)	23
Originations and sales related income:			
Gains (losses) on sales of residential mortgages	**30**	(17)	26
Trading and hedging activity	**18**	3	-
Total originations and sales related income	**48**	(14)	26
Other mortgage income	**22**	22	25
Total residential mortgage banking revenue included in other revenues (losses)	**172**	(11)	74
Total residential mortgage banking related revenue	**$ 421**	$ 244	$ 334
Average owned residential mortgage loans	**$ 18,859**	$ 28,271	$ 33,632

Lower net interest income during 2009 and 2008 reflects lower loan balances, partially offset by lower funding costs as well as reduced deferred cost amortization on lower average outstandings. Lower loan balances in each period reflect the sale of approximately $4.5 billion of prime adjustable and fixed rate residential mortgages during 2009 and approximately $7.0 billion of prime residential mortgage loans in 2008, for which we retained the servicing rights. We continue to sell the majority of new loan originations to government sponsored enterprises and private investors and allow existing loans to runoff.

Total servicing related income increased in 2009 due to a better net hedged MSR performance following a very volatile mortgage market in 2008. Servicing fee income was flat to 2008 levels as payments owed to government sponsored enterprises increased significantly during 2009 as prepayments increased. The average serviced loans portfolio increased approximately 11 percent and 14 percent during 2009 and 2008 respectively. Servicing related income decreased in 2008 compared to 2007 largely due to unfavorable net hedged MSR performance primarily from increased market volatility in the mortgage market.

Originations and sales related income increased in 2009 primarily due to gains from loan sales, partially offset by an increase in our reserve for potential repurchase liability exposures. In 2009, we recorded gains of $70 million on sales of approximately $4.5 billion in residential mortgage loans, compared to gains of $17 million on sales of approximately $7.0 billion in 2008. In 2008, originations and sales related income decreased compared to 2007 due to a negative mark on a pool of Alt-A loans classified as held for sale at year end as well as a lower basis point gain on recurring individual loan sales. The negative mark was driven by volatile market conditions. The decrease was partially offset by the gains on non-recurring loan sales described above.

Gain (loss) on instruments designated at fair value and related derivatives We have elected to apply fair value option accounting to commercial leveraged acquisition finance loans, unfunded commitments, 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 17, Fair Value Option, in the accompanying consolidated financial statements for additional information including a breakout of these amounts by individual component.

Valuation of Loans Held for Sale Continued deterioration in the U.S. mortgage markets have resulted in negative valuation adjustments on loans held for sale during 2009 and 2008 although the valuation adjustments recorded in 2009 were not as severe as market conditions began to improve in the second half of 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 $757 million and $1.2 billion as of December 31, 2009 and 2008, 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. Overall weakness and illiquidity in the U.S. residential mortgage market and continued delinquencies, particularly in the sub-prime market, resulted in valuation adjustments totaling $233 million and $505 million being recorded on these loans during 2009 and 2008, respectively. Valuations on residential mortgage loans we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of income (loss).

In addition, we recorded valuation adjustments on education loans held for sale of $17 million and $8 million during 2009 and 2008, respectively.

Other Income (Loss) Excluding the valuation of loans held for sale as discussed above, other income (loss) decreased during 2009 due to lower valuations on credit default swaps used to economically hedge credit exposures, combined with lower equity investment income driven by the sale of our equity interest in HSBC Private Bank (Suisse) S.A. in the first quarter of 2009. These decreases were partially offset by an $85 million gain related to a judgment whose proceeds were used to redeem 100 preferred shares issued to CT Financial Services, Inc. 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 to Toronto Dominion, who now holds beneficial ownership interest in CT Financial Services Inc., and the preferred shares were redeemed. The increase in other income (loss) during 2008 is primarily due to higher miscellaneous income, primarily due to increased valuations on credit default swaps used to economically hedge credit exposures.

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

Year Ended December 31	**2009**	2008	2007
	(dollars are in millions)		
Salaries and employee benefits			
Salaries	**$ 624**	$ 720	$ 763
Employee benefits	**501**	508	589
Total salary and employee benefits	**1,125**	1,228	1,352
Occupancy expense, net	**281**	278	243
Support services from HSBC affiliates:			
Fees paid to HSBC Finance for loan servicing and other administrative support	**725**	473	468
Fees paid to HMUS	**250**	213	246
Fees paid to HTSU	**471**	255	260
Fees paid to other HSBC affiliates	**172**	243	188
Total support services from HSBC affiliates	**1,618**	1,184	1,162
Other expenses:			
Equipment and software	**41**	43	54
Marketing	**116**	137	140
Outside services	**99**	120	137
Professional fees	**89**	82	83
Telecommunications	**14**	20	20
Postage, printing and office supplies	**16**	36	39
Off-balance sheet credit reserves	**20**	81	6
FDIC assessment fee	**208**	58	9
Goodwill impairment[1]	**-**	54	-
Insurance business	**51**	42	24
Miscellaneous	**252**	241	317
Total other expenses	**906**	914	829
Total operating expenses	**$ 3,930**	$ 3,604	$ 3,586
Personnel average number	**9,710**	11,731	12,336
Efficiency ratio	**50.08%**	101.83%	68.34%

(1) Represents the entire amount of goodwill allocated to the residential mortgage banking reporting unit.

Salaries and employee benefits Salaries and employee benefits expense were collectively lower during 2009 and 2008 due to the transfer of support services employees to an affiliate, as described below, as well as continued cost management efforts, including the impact of global resourcing initiatives undertaken by management, which have resulted in lower headcount. The decrease in 2009 was partially offset by higher pension expense stemming from reduced plan asset values due to the volatile capital markets. During 2008, these decreases were partially offset by higher fringe benefits expense approximately $21 million resulting from a review of our employee benefit accruals and severance expense of $26 million due to ongoing efficiency initiatives.

Occupancy expense, net In 2009, occupancy expenses includes an impairment charge of $20 million related to a data center building held for use as part of our ongoing strategy to consolidate operations and improve efficiencies. Excluding this impairment charge in 2009, occupancy expense declined due to the transfer of shared services employees and their related workspace expenses to an affiliate as discussed below, partially offset by higher occupancy expense due to the continued expansion of the core banking and commercial lending networks within the PFS and CMB business segments, a key component of recent business expansion initiatives. Higher occupancy expenses in 2008 relate to the expansion of the core banking and commercial lending networks discussed above. As a result of these expansion efforts in 2009 and 2008, we opened 18 and 14 new branches, respectively, which resulted in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses. Expenses in 2008 also reflect $14 million of costs associated with branch optimization in select areas.

Support services from HSBC affiliates includes technology and some centralized operational services and beginning in January 2009, human resources, corporate affairs and certain other shared services charged to us by HTSU, as well as servicing fees paid to HSBC Finance for servicing nonconforming residential mortgage loans, private label card receivables, credit card receivables and, during 2009, auto finance receivables.

Support services from HSBC affiliates increased in 2009 as a result of a significant increase in fees paid to HSBC Finance for servicing largely as a result of the purchase of the GM and UP Portfolios as well as certain auto finance loans from HSBC Finance in early January 2009 as well as higher fees paid to HTSU due to increased services being provided as previously discussed. Support services from HSBC affiliates also increased in 2009 and 2008 as a result from higher utilization of other HSBC affiliates in support of global resourcing initiatives, which has resulted in a corresponding reduction in salary and employee benefit expense. Higher support services from HSBC affiliates in 2008 reflects higher utilization of other HSBC affiliates in support of global resourcing initiatives which was partially offset by a decrease in fees paid to HMUS for treasury and traded markets services.

Marketing Expenses Lower marketing and promotional expenses in 2009 resulted from optimizing marketing spend as a result of general cost saving initiatives. This was partially offset by a continuing investment in HSBC brand activities and marketing support for branch expansion initiatives, primarily within the PFS business segment. Higher marketing expenses in 2008 resulted from continuing investment in HSBC brand activities, promotion of the internet savings account and marketing support for branch expansion initiatives, primarily within the PFS business segment and increased marketing for CMB products and services.

Other Expenses Other expenses (excluding marketing expenses) increased during 2009 primarily due to higher FDIC assessment fees, including a $82 million special assessment recorded in the second quarter of 2009 and higher corporate insurance costs, partially offset by lower outside services fees, a release of off balance sheet credit reserves related to an advance by a large corporate customer and the impact of goodwill impairment charges recorded during 2008 with no similar charge being recorded in 2009.

Other expenses increased in 2008, primarily as a result of higher reserves on off-balance sheet credit exposures including letters of credit, unused commitments to extend credit and financial guarantees, a goodwill impairment charge of approximately $54 million, higher FDIC assessment fees, higher corporate insurance costs and higher debit card fraud expenses. Additionally, we recognized expenses of $6 million in 2008 relating to the purchase of Auction Rate Securities from customers and $5 million relating to a systems outage in August that impacted several of our customer deposit and electronic payment systems, which were brought back on line within days. Other expenses in 2008 also reflect a $36 million release of litigation expense accrual related to Visa that had originally been recorded during 2007, as compared to a $9 million release in 2009.

Efficiency Ratio Our efficiency ratio was 50.08 percent in 2009 compared to 101.83 in 2008 and 68.34 percent in 2007. The improvement in the efficiency ratio in 2009 resulted primarily from an increase in other revenues (losses) and net interest income. The deterioration of the efficiency ratio in 2008 resulted primarily from a decrease in other revenues (losses), partially offset by higher net interest income as expenses remained relatively flat.

Segment Results   IFRS 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 this Form 10-K. There have been no changes in the basis of segmentation or measurement of segment profit (loss) as compared with the presentation in our 2008 Form 10-K.

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 since we report to our parent, HSBC, who prepares its consolidated financial statements in accordance with IFRSs. 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 24, Business Segments, in the accompanying consolidated financial statements and under the caption Basis of Reporting in the MD&A section of this Form 10-K.

Personal Financial Services (PFS)

Overview During 2009, resources continued to be directed towards expansion of the core retail banking business, in particular, the growth of HSBC Premier, HSBC s global banking service that offers customers a seamless international service. In addition there was expansion of the branch network in existing and new geographic markets with international connectivity as well as investment in the HSBC brand. As a result, average personal deposits increased 12 percent during 2009 and Premier customers increased to 355,399 at December 31, 2009, a 37 percent increase from a year-ago. 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 and to allow the existing on balance sheet portfolio to run-off. In addition to normal sale activity, during 2009, we sold approximately $4.5 billion of prime adjustable and fixed rate residential mortgage loans. We retained the servicing rights in relation to the mortgages upon sale. As a result, average residential mortgage loans in 2009 decreased approximately 35 percent as compared to 2008.

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

Year Ended December 31	**2009**	**2008**	**2007**
		(in millions)	
Net interest income	**$ 916**	$ 849	$ 1,102
Other operating income	**262**	327	559
Total operating income	**1,178**	1,176	1,661
Loan impairment charges	**616**	520	139
	562	656	1,522
Operating expenses	**1,255**	1,353	1,302
Profit (loss) before tax	**$ (693)**	$ (697)	$ 220

2009 Profit (loss) before tax compared to 2008 Our PFS segment reported a decreased loss before tax in 2009 due to higher net interest income and lower operating expenses partially offset by lower other operating income and higher loan impairment charges.

Net interest income increased compared to prior year driven by a combination of customer rate cuts and additional funding credits on deposits as well as widening interest rate spreads on credit card balances due to reduced funding costs in the lower short term rate environment. This was partially offset by lower levels of mortgage loans outstanding driven by mortgage loan sales of approximately $4.5 billion during 2009.

Other operating income decreased during 2009 primarily due to lower personal service charges, ATM and other fees, and, beginning in 2009, a reclassification of loyalty program expenses for cards as a reduction to revenue. Additionally, 2008 benefited from an $83 million gain on the sale of Visa Class B shares. Also contributing to lower other operating income in 2009 was higher mortgage reinsurance costs and break funding charges from the Global Banking and Markets segment of $170 million relating to costs associated with early termination of the funding associated with residential mortgage loan sales compared with a similar charge of $142 million during 2008. These charges were partially offset by net gains on the sales of these same residential mortgage loans of $73 million and

$22 million during 2009 and 2008, respectively, as well as better net hedged MSR performance following a very volatile mortgage market in 2008.

Deterioration in credit quality, particularly on prime residential mortgage loans and credit cards has negatively impacted results. Higher loan impairment charges in 2009 were driven by an increase in delinquencies, which resulted in significantly increased charge offs within the home equity mortgage loan and residential first mortgage loan portfolios due to increased loss severities as real estate values continued to deteriorate in certain markets. Loan impairment charges on credit card receivables and other consumer loans have also risen. The increase in charge offs within the prime residential mortgage loan portfolio was partially offset by a lower increase in overall reserve levels in 2009 compared to that experienced in 2008. Increased levels of personal bankruptcy filings and deterioration in the U.S. economy, including rising unemployment rates, have resulted in a deterioration in credit quality across all products as compared to the prior year.

Operating expenses decreased in 2009 as a result of efficiency programs in the branch network and a reclassification of customer loyalty expenses for credit cards to revenue, which more than offset growth in costs from branch expansion initiatives and higher FDIC assessment fees, including the special assessment in the second quarter of 2009. Operating expenses in 2009 also benefited from a $9 million release related to the VISA litigation accrual set up in 2007. The prior year period was also impacted by a $54 million goodwill impairment charge taken relating to the residential mortgage reporting unit, partially offset by a benefit from a release of $36 million related to the Visa legal accrual set up in 2007. In addition, customer loyalty program expenses for credit cards of $19 million were included in operating expense in the year-ago periods but were reclassified as reduction to revenue beginning in the first quarter of 2009 as discussed above.

2008 Profit (loss) before tax compared to 2007 Our PFS segment reported a loss before tax in 2008 due to significantly higher loan impairment charges, lower net interest income and lower other operating income as well as slightly higher operating expenses.

Net interest income decreased during 2008 due primarily to narrowing of interest rate spreads driven by the declining rate environment and competitive pricing pressures on savings and certificate of deposit products, which drove promotional rate offers for online savings and online certificate of deposit accounts in the second half of the year. Net interest income was also impacted by lower interest income on residential mortgage loan products due to residential mortgage loan sales and loan portfolio runoff. This was partially offset by widening interest rate spreads on MasterCard/Visa credit card balances.

Other operating income decreased during 2008 due primarily to a $142 million intersegment charge from the Global Banking and Markets segment relating to the cost associated with early termination of the funding associated with mortgage loan sales throughout 2008, which was partially offset by a net gain on the sale of these residential mortgage loans of $22 million. Additionally, other operating income was lower due to higher losses on instruments used to economically hedge MSR s and lower revenues of $9 million resulting from lower volumes of federal income tax refund anticipation loans originated by HSBC Bank USA and HSBC Trust Company (Delaware) (HTCD) and sold to HSBC Finance. Partially offsetting these lower revenues was an $83 million gain on the sale of Visa Class B shares recorded in the first quarter of 2008 and higher service charges and fee income for core banking and MasterCard/Visa credit card products. Additionally, 2007 revenue included a gain on the sale of MasterCard B shares of $45 million and a gain on the sale of branch properties of $21 million.

Higher loan impairment charges were driven by an increase in delinquencies, which resulted in significantly increased loan loss reserves as well as increased charge offs within the home equity mortgage loan and the residential first mortgage loan portfolios due to increased loss severities as real estate values continued to deteriorate in certain markets. Provisions on MasterCard/Visa receivables and other consumer loans have also risen. Increased levels of personal bankruptcy filings and a deteriorating U.S. economy, including rising unemployment rates and lower recovery rates, have driven higher delinquencies across all products.

Increased operating expenses in 2008 were primarily related to a goodwill impairment charge associated with the Residential Mortgage reporting unit, higher mortgage reinsurance costs and higher FDIC assessment fees. Additionally, there were higher staff, marketing and occupancy costs reflecting investment in branch expansion as well as costs associated with branch optimization initiatives, which reduced branches in certain select areas, higher customer loyalty program expenses for credit cards, higher debit card fraud expense, an increase in employee benefit costs and unexpected costs reflecting estimated exposure associated with a systems outage in August 2008. Partially offsetting these cost increases was the release of a legal provision of $36 million, representing a portion of the $70 million Visa indemnification reserve that was recorded in the fourth quarter of 2007.

Consumer Finance (CF)

Overview 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 auto finance loans purchased in January 2009 and portfolios of nonconforming residential mortgage loans (the HMS Portfolio) purchased in 2003 and 2004.

On January 6, 2009 we received regulatory approval to purchase the General Motors MasterCard receivables portfolio, the Union Plus MasterCard/Visa portfolio and certain auto finance receivables from HSBC Finance. As a result, the following transactions occurred:

GM Portfolio and UP Portfolio. On January 8, 2009, we purchased the GM Portfolio from HSBC Finance for aggregate consideration of approximately $6.2 billion, which included the assumption of approximately $2.7 billion of indebtedness. The GM Portfolio purchased consisted of receivables with an aggregate balance of approximately $6.3 billion. On January 9, 2009, we purchased the UP Portfolio from HSBC Finance for aggregate consideration of approximately $6.0 billion, which included the assumption of approximately $3.4 billion of indebtedness. The UP Portfolio consisted of receivables with an aggregate balance of approximately $6.1 billion. HSBC Finance retained the customer account relationships and now sells additional receivable originations generated under existing and future GM and UP accounts to us daily at fair value.

Auto Finance Receivables. On January 9, 2009, we purchased auto finance receivables with an aggregate balance of approximately $3.0 billion from HSBC Finance for an aggregate purchase price of approximately $2.8 billion.

HSBC Finance services the receivables purchased for a fee. While the receivable purchases in 2009 have resulted in increases to our net interest income and other operating income, they have also contributed to higher loan impairment charges and, to a lesser extent, higher operating expenses which overall has resulted in higher profit before tax in 2009.

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

Year Ended December 31	**2009**	**2008**	**2007**
		(in millions)	
Net interest income	**$ 2,101**	$ 1,250	$ 951
Other operating income	**353**	325	294
Total operating income	**2,454**	1,575	1,245
Loan impairment charges	**2,073**	1,650	1,187

		381		(75)		58
Operating expenses		**88**		46		33
Profit (loss) before tax	**$**	**293**	$	(121)	$	25

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2009 Profit (loss) before tax compared to 2008 Our CF segment reported a higher profit before tax during 2009 due to higher net interest income and higher other operating income, partially offset by higher loan impairment charges and higher operating expenses. The higher profit was driven by the impact of the GM and UP credit card portfolios as well as auto finance receivables purchased from HSBC Finance in early 2009 which collectively contributed profit before tax of $284 million in 2009.

Net interest income increased during 2009 due to higher levels of receivables primarily due to the purchase of the GM and UP Portfolios and the auto finance receivables in January 2009, as well as lower amortization of premiums paid on the initial bulk and subsequent purchases of receivables associated with the private label portfolio, partially offset by higher charge offs of interest as a result of higher levels of credit card receivables outstanding and deterioration in credit quality. The original bulk purchase premium on the private label portfolio was fully amortized during 2008. Net interest income was also higher during 2009 due to higher yields as a result of repricing initiatives on the private label credit card portfolio and a lower cost of funds due to a declining interest rate environment.

Other operating income increased during 2009 primarily due to higher credit card fees associated with the purchase of the GM and UP credit card portfolios. This was partially offset by increased servicing fees on portfolios serviced by our affiliate, HSBC Finance (which are recorded as a reduction to other operating income), higher charge off of fees relating to private label cards due to deterioration in credit quality and credit cards due to higher levels of credit card receivables outstanding as well as lower late fees on co-brand credit card portfolios due to change in customer behavior.

Loan impairment charges associated with credit card receivables, including private label credit card receivables, increased substantially during 2009 due to higher receivable balances driven by our purchase of the GM and UP Portfolios from HSBC Finance as previously discussed, increased delinquencies and higher net charge-offs due to the impact of deterioration in the U.S. economy, including higher levels of personal bankruptcy filings and lower recovery rates on previously charged-off balances. Higher loan impairment charges were partially offset by an improved outlook on future loss estimates on private label credit card receivables as the impact of higher unemployment levels on losses has not been as severe as previously anticipated due to signs of home price stability in the second half of the year, tighter underwriting and as it relates to private label credit cards, the impact of lower receivable balances.

Operating expenses increased due to higher FDIC insurance premiums, including the special assessment recorded in the second quarter of 2009 and higher expenses related to the higher receivable levels and increased collection costs on late stage delinquent accounts.

As discussed under Regulation and Competition in Item 1., Business of this Form 10-K, on May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act) was signed into law. Although we are already compliant with some provisions, other provisions, such as those addressing limitations on interest rate increases, over limit fees and payment allocation will require us to make changes to our business practices. This will likely require us and our competitors to manage risk differently than has historically been the case. We are compliant with the provisions of the CARD Act that took effect in August 2009 and February 2010 and continue to make changes to processes and systems in order to comply with the remaining provisions of the CARD Act by the applicable August 2010 effective date. 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 future sales volume paid to HSBC Finance would be adjusted to fully reflect the new requirements.

2008 Profit (loss) before tax compared to 2007 Our CF segment reported a loss before tax during 2008 primarily due to higher loan impairment charges, partially offset by higher net interest income and higher other operating income.

Net interest income increased in 2008, due primarily to lower amortization of premiums paid for daily purchases of receivables and lower amortization of the original bulk purchase premium included within the private label portfolio as well as lower funding costs due to a declining interest rate environment. The original bulk purchase premium was fully amortized by the end of 2008.

Other operating income increased during 2008, primarily due to increased late fees on higher delinquencies in the private label and co-brand credit card portfolios and higher credit card fees associated with the growing co-brand credit card portfolio. This was partially offset by higher servicing costs associated with the growing co-brand credit card portfolio and a $10 million write down of deferred costs associated with a retail partner due to the retailer filing Chapter 11 bankruptcy in August 2008.

Loan impairment charges associated with credit card receivables, including private label credit card receivables increased during 2008, primarily due to increased delinquencies and higher net charge-offs including lower recoveries of previously charged-off balances, and higher levels of personal bankruptcy filings and the impact of a weakening U.S. economy. Provisions relating to the HMS portfolio also increased due to deterioration in the U.S. housing markets. This was partially offset by a refinement in the methodology used to estimate inherent losses on private label loans less than 30 days delinquent, which resulted in incremental impairment charges of $107 million in 2007.

Operating expenses increased primarily due to the increased collection costs on late stage delinquent accounts.

Commercial Banking (CMB)

Overview 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 2009, interest rate spreads continued to be pressured from a declining rate environment and loan impairment charges continued to increase due to overall deterioration in the credit environment. Tightened credit standards and increased paydowns have resulted in an eight percent decrease in loans outstanding to middle-market customers during 2009 while average deposits from middle-market customers have grown 18 percent during 2009. The business banking loan portfolio has seen a small decrease in loans outstanding due to tightened credit standards and the competitive environment while business banking customer deposits grew 13 percent during 2009 following successful spring and fall marketing campaigns. The commercial real estate business continues to focus on deal quality and portfolio management rather than volume, which resulted in an overall decline in outstanding receivables for this portfolio in 2009. Average customer deposit balances across all CMB business lines increased 12 percent during 2009 and average loans decreased four percent during 2009. In December 2009, we tentatively agreed to sell our interest in Wells Fargo HSBC Trade Bank (WHTB) to Wells Fargo which closed in the first quarter of 2010. In 2009, we recorded after-tax earnings from this equity investment of $12 million.

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

Year Ended December 31	2009	2008	2007
		(in millions)	
Net interest income	**$ 725**	$ 753	$ 814
Other operating income	**353**	322	259
Total operating income	**1,078**	1,075	1,073
Loan impairment charges	**309**	288	126
	769	787	947
Operating expenses	**634**	594	558
Profit before tax	**$ 135**	$ 193	$ 389

2009 Profit before tax compared to 2008 Our CMB segment reported a lower profit before tax during 2009 due to lower net interest income, higher loan impairment charges and higher operating expenses, partially offset by higher other operating income.

Net interest income decreased in 2009 due primarily to narrower spreads on deposits and lower loan balances, partially offset by growth in deposit balances and improved loan spreads from repricing. Loan impairment charges increased in 2009 as worsening economic conditions resulted in higher levels of criticized assets due to downward credit migration and specific credit reserves on impaired loans. Net charge-offs, although relatively low, were higher across all commercial business lines. Operating expenses increased due to higher FDIC insurance premiums, including the special assessment recorded in the second quarter of 2009, partially offset by reduced staff costs and efficiency savings, including lower marketing spend. Other operating income increased in 2009 largely due to higher fee income, partially offset by fewer syndications which resulted in lower fees and lower gains on sale of real estate loans.

2008 Profit before tax compared to 2007 Our CMB segment reported a lower profit before tax during 2008 primarily due to lower net interest income, higher loan impairment charges and higher operating expenses, partially offset by higher other operating income.

Net interest income decreased due primarily to narrower spreads on deposits as the declining interest rate environment impacted income growth, partially offset by higher average balance growth in loans and deposits. Loan impairment charges increased, due mainly to worsening economic conditions, leading to customer credit downgrades across all commercial business lines. Although net charge-offs increased moderately in the middle market business, there were no net charge-offs in the commercial real estate business. In small business, charge-offs were flat compared to 2007. Operating expenses increased due primarily to higher FDIC assessment fees, increased community investment activities and higher branch network costs. Other operating income increased mainly due to a combination of increased community investment activities, higher syndications business, higher gains on sales of commercial real estate loans, increased cross-sales of global markets products and higher investment management and service fees.

Global Banking and Markets

Overview Our Global Banking and Markets business segment supports HSBC s emerging markets-led and financing-focused global strategy by continuing to leverage 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

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HSBC USA Inc.

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, security services and banknotes 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 2009 continued to be affected by reduced market liquidity and volatility in spreads in the corporate credit and residential mortgage lending markets, however the impact to other operating income has declined significantly as compared to the prior year as the credit market began to stabilize. This impacted trading revenue in the credit derivatives business and subprime mortgage loans in particular, and has led to substantial counterparty credit reserves for monoline exposure and significant valuation losses being taken in both the Trading and Available-for-sale securities portfolios, particularly in 2008. Additionally, the Global Banking and Markets segment benefited in 2009 from balance sheet management actions taken to reposition our interest rate risk profile. This included sales in the available-for-sale portfolio resulting in gains in 2009 and higher intersegment income from internal break funding fees on mortgage loan sales.

On October 11, 2008, the International Accounting Standards Board (IASB) issued an amendment to IAS 39 which permits entities to transfer financial assets from the Trading classification into the Available-for-sale or Loans and Receivables classifications if the entity has the intention and ability to hold the assets for the foreseeable future or until maturity. Temporary changes in the market value of re-classified assets will no longer impact current period earnings. Instead, these assets will only be marked-to-market (through other comprehensive income) if classified as Available-for-sale Securities and will be subject to on-going impairment tests.

Following careful analysis of the implications and with consideration given to industry and peer practices, 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 would have been $617 million higher during 2009 and our loss before tax would have been greater by $893 million in 2008.

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

Year Ended December 31	**2009**	**2008**	**2007**
		(in millions)	
Net interest income	**$ 810**	$ 998	$ 321
Other operating income	**651**	(1,895)	46
Total operating income	**1,461**	(897)	367
Loan impairment charges	**591**	165	35
	870	(1,062)	332
Operating expenses	**794**	774	803
Profit (loss) before tax	**$ 76**	$ (1,836)	$ (471)

2009 Profit (loss) before tax compared to 2008 Our Global Banking and Markets segment performance improved considerably in 2009 due primarily to significantly higher other operating income, partially offset by lower net interest income, higher loan impairment charges and a slightly higher increase in operating expenses as a result of the business environment discussed above.

Net interest income declined during 2009 as a result of sales of higher yielding assets in our available-for-sale securities portfolio which were made for risk management purposes, and lower margins on deposit balances. Partially offsetting these declines was higher margin due to loan repricing in our commercial loan portfolio driven by wider credit spreads.

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Other operating income (loss) improved $2.5 billion during 2009 due to lower valuation losses on credit derivatives and sub-prime mortgage loans held for sale, lower other-than-temporary impairments and valuation losses in the securities portfolio, gains on sales of available-for-sale securities, higher break funding fees from PFS as discussed more fully below and higher transaction fees in Corporate Banking and Transaction Banking. Other operating income overall continued to be affected by adverse market conditions but to a lesser extent than in the prior year period. Other operating income in 2009 would have been higher in 2009 had we not reclassified assets from trading to available-for-sale assets and to loans and receivables under the IAS 39 amendment as previously discussed.

Other operating income (loss) reflects losses on structured credit products of $395 million during 2009 compared to total net losses of $2.5 billion during 2008, as the credit markets began to stabilize resulting in lower losses from hedging activity and counterparty exposures. Exposure to insurance monoline continued to adversely impact revenues as deterioration in creditworthiness persisted, although the pace of such deterioration slowed significantly, resulting in losses of $204 million during 2009 compared to losses of $1 billion during 2008.

Valuation losses of $233 million during 2009 were recorded against the fair values of sub-prime residential mortgage loans held for sale as compared to valuation losses of $505 million during 2008. Fair value adjustments on our leveraged loan portfolio of $2 million in 2009 reflects the classification of substantially all leveraged loans and notes as loans and receivables compared to losses of $102 million during 2008 when these assets were subject to fair value accounting. Other operating income also benefited from gains of $254 million on sales of securities, primarily during the second quarter of 2009 and from intersegment income of $170 million from PFS in 2009 relating to the break funding fee charged for the early termination of funding associated with the sale of the residential mortgage loans compared to a similar benefit of $142 million during 2008.

Other operating losses in 2008 included a reduction of $203 million related to the other-than-temporary impairment of FNMA equity securities. There were no similar charges in 2009.

Loan impairment charges increased during 2009 due to a number of credit downgrades in Global Banking on our exposure to the financial services industry and other downgrades on specific accruing loans. In addition, impairments included a charge of $208 million on securities determined to be other-than-temporarily impaired compared to $28 million in the prior year.

Operating expenses increased modestly during 2009 as higher FDIC assessment charges, including the special assessment recorded during the second quarter of 2009 and higher performance related compensation costs due to improved results were offset by lower salary and other staff costs resulting from a decreased overall number of employees.

2008 Profit (loss) before tax compared to 2007 Our Global Banking and Markets segment reported a higher loss before tax during 2008 primarily due to significantly lower other operating income, higher loan impairment charges, partially offset by higher net interest income and lower operating expenses.

Increased net interest income was due primarily to balance sheet management initiatives to position for lower rates and also reflects higher held for sale leveraged commercial loan balances as loan syndication activities were negatively impacted by the decline in market liquidity.

Other operating income (loss) was affected by adverse market conditions. Specifically, other income (loss) reflects total losses on structured credit products of approximately $2.5 billion during 2008 as compared to $264 million in 2007, as credit spreads continued to widen and corporate defaults increased causing losses on net purchase positions and greater costs related to hedging the portfolio as well as related to counterparty exposures. Exposure to insurance monoline structured credit products increased as asset levels continued to fall and creditworthiness continued to deteriorate resulting in a loss of approximately $1 billion for 2008, as compared to $287 million for 2007. Losses in correlation trading, including a portfolio of Leverage Super Senior Tranche Credit Default Swaps, resulted in losses of $1.3 billion in 2008. Structured funds suffered losses related to the fraud at Madoff Investment Securities LLC of $130 million on transactions with counterparties who were looking to gain leveraged exposure to reference funds that invested with Madoff as the investment manager.

Valuation losses of $505 million and $418 million in 2008 and 2007, respectively, were also recorded against the fair values of subprime residential mortgage loans held for sale. Fair value adjustments on our leveraged loan portfolio resulted in losses of $102 million in 2008, compared to losses of $85 million in 2007. The losses in 2008 were mitigated somewhat due to the reclassification of $1.8 billion in leveraged loans and high yield notes from trading assets to loans and receivables under the IAS 39 amendment.

During 2008, our FNMA preferred equity securities were determined to be other-than-temporarily impaired. This reduced other income by a further $203 million during the year ended December 31, 2008. Also, three asset backed securities were determined to be other-than-temporarily impaired. As a result, we recorded an impairment charge of $28 million during 2008 on these securities.

Partially offsetting the above mentioned declines, revenue from credit default swaps used to hedge commercial loan exposure generated $297 million in gains during 2008, an increase of $268 million from 2007. Revenues from the payments and cash management business were higher in 2008 due to higher deposit balances and higher transaction fee revenues. Foreign exchange, interest rate trading, emerging markets trading and precious metals trading revenues were all up as a result of ongoing market volatility and increased customer flow during 2008. Additionally, revenues benefited from higher fees related to the asset management business as well as intersegment charges to the PFS segment of $142 million in 2008 relating to the cost associated with the early termination of the funding associated with the sale of residential mortgage loans previously discussed.

Increased loan impairment charges in 2008 reflect weaker credit fundamentals.

Operating expenses were lower in 2008 primarily resulting from lower salary and other staff costs due to a decreased overall number of employees from our ongoing efficiency initiatives, as well as decreased performance related compensation. Partially offsetting this are increased costs to support the growth in the payments and cash management and asset management businesses. Technology costs were also higher in 2008.

Private Banking (PB)

Overview As part of HSBC s global network, the PB segment offers an integrated/combined onshore and offshore service to clients, their families and their businesses through their resident and non-resident life cycles. Resources continue to be dedicated to expanding products and services provided to high net worth customers served by the PB business segment.

Client deposit levels decreased 11 percent during 2009 as domestic institutional clients began to invest their liquidity in investment products with low risk. Similarly, total average loans (mostly domestic consumer) decreased 11 percent during 2009 reflecting reduced client demand. Substantial reductions from a challenging economic environment and outflows from domestic custody clients affected market value of client assets under management, which decreased 7 percent during 2009. Assets under management declined to $37 billion at December 31, 2009 as compared to $40 billion at December 31, 2008, reflecting the loss of certain domestic custody clients.

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

Year Ended December 31	**2009**	**2008**	**2007**
		(in millions)	

Net interest income	**$ 172**	$ 192	$ 198
Other operating income	**106**	156	291
Total operating income	**278**	348	489
Loan impairment charges	**98**	17	10
	180	331	479
Operating expenses	**232**	268	345
Profit (loss) before tax	**$ (52)**	$ 63	$ 134

2009 Profit (loss) before tax compared to 2008 Our PB segment reported a loss before tax during 2009 due largely to lower net interest income, higher loan impairment charges and lower other operating income, partially offset by lower operating expenses.

Net interest income was lower during 2009 primarily as a result of narrowing interest rate spreads due to declining market rates and lower outstanding loan and deposit balances.

Other operating income was lower primarily due to lower performance fees from equity investments, and lower fee income from credit derivatives, managed products, structured products and recurring fund fees and insurance commissions.

Loan impairment charges increased during 2009 largely to a specific provision relating to a single client relationship recorded in the third quarter of 2009 and higher reserve levels associated with the downgrade of a separate specific domestic client relationship.

Operating expenses decreased as a result of lower staff costs due to lower headcount resulting from efficiency initiatives. Travel and entertainment, marketing and communications costs were also lower, partially offset by higher FDIC assessment fees, including the special assessment recorded during the second quarter of 2009.

2008 Profit (loss) before tax compared to 2007 Other operating income was lower by $135 million and operating expenses were lower by $77 million in 2008, which includes the impact of lower other operating income of $123 million and lower operating expenses of $96 million due to the sale of the WTAS business in December 2007.

Net interest income was lower in 2008 primarily as a result of narrowing interest rate spreads due to declining market rates. This was partially offset by average balance growth in loans and deposits.

Excluding the impact of the WTAS business, other revenues (losses) in 2008 remained lower due primarily to lower income from an equity investment in a non-consolidated foreign HSBC affiliate sold during 2007 and losses of approximately $6 million related to the repurchase of Auction Rate Securities from customers. Partially offsetting these items were higher commission and fee revenues from domestic custody fees, commissions from affiliates due to increased customer referral fees and asset management revenue share.

Loan impairment charges in 2008 were higher than the prior year. Higher economic cycle related loan impairment provisions in the second half of 2008 as well as a specific charge associated with cross border risk more than offset a provision on a specific client relationship in the first quarter of 2007.

Excluding the impact of the WTAS business, operating expenses increased as a result of higher staff costs to expand the services provided to high net worth domestic and foreign clients, an operational loss of approximately $6 million related to a specific domestic client relationship, higher FDIC assessment fees and higher occupancy costs.

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. The results also include earnings on an equity investment in HSBC Private Bank (Suisse) S.A, through the first quarter of 2009. This investment was sold in March 2009 for a gain.

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

Year Ended December 31	2009	2008	2007
		(in millions)	
Net interest income	**$ 17**	$ (5)	$ (12)
Other operating income	**(515)**	547	216
Total operating income	**(498)**	542	204
Loan impairment charges	**-**	-	-
	(498)	542	204
Operating expenses	**87**	-	4
Profit (loss) before tax	**$ (585)**	$ 542	$ 200

2009 Profit (loss) before tax compared to 2008 We reported lower profit before tax during 2009 largely due to lower other operating income and higher operating expenses.

Other operating income was negatively impacted in 2009 by an increase in the fair value of certain of our own debt instruments outstanding to which fair value option accounting is applied for which we recorded a loss in 2009 of $565 million due to narrowing credit spreads. Additionally, 2009 was impacted by an impairment charge related to a building held for use. Partially offsetting this, we recorded a net gain of $30 million relating to the resolution of a lawsuit whose proceeds were used in April to redeem a nominal amount of preferred stock issued to CT Financial Services, Inc. A gain of $43 million was also recognized in 2009 on the sale of an equity interest, which was offset partially by lower equity earnings in HSBC Private Bank (Suisse) S.A. referred to above.

Operating expenses in 2009 largely reflect a funding credit provided to certain segments for holding certain low yielding assets.

2008 Profit (loss) before tax compared to 2007 The increase in other operating income during 2008 resulted from decreases in the fair value of certain debt instruments due to widening credit spreads to which fair value option accounting is applied.

Credit Quality

In the normal course of business, we enter into a variety of transactions 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, on a limited basis, internationally.

See Credit Risk Management in this MD&A for a detailed discussion of our approach toward credit risk management. Our methodology and accounting policies relating to our allowance for credit losses are presented in Critical Accounting Policies within this MD&A and in Note 2, Summary of Significant Accounting Policies and New Accounting Pronouncements in the accompanying consolidated financial statements.

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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):

	2009				2008			
	Dec. 31	**Sept. 30**	**June 30**	**March 31**	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**
	(dollars are in millions)							
Dollars of delinquency:								
Commercial	**$ 954**	$ 938	$ 709	$ 360	$ 385	$ 290	$ 220	$ 217
Consumer:								
Residential mortgages, excluding home equity mortgages	**1,595**	1,445	1,335	1,259	1,189	1,028	945	783
Home equity mortgages	**173**	185	194	185	161	132	121	117
Total residential mortgages(1)	**1,768**	1,630	1,529	1,444	1,350	1,160	1,066	900
Private label card receivables	**622**	639	634	657	663	589	555	550
Credit card receivables	**587**	591	583	488	118	96	86	90
Auto finance	**48**	47	37	24	3	4	4	4
Other consumer	**18**	18	19	22	27	24	22	23
Total consumer	**3,043**	2,925	2,802	2,635	2,161	1,873	1,733	1,567
Total	**$ 3,997**	$ 3,863	$ 3,511	$ 2,995	$ 2,546	$ 2,163	$ 1,953	$ 1,784
Delinquency ratio:								
Commercial	**3.04%**	2.80%	2.03%	1.02%	1.01%	.69%	.55%	.58%
Consumer:								
Residential mortgages, excluding home equity mortgages	**10.56**	9.20	8.14	6.57	5.54	4.22	3.70	2.57
Home equity mortgages	**4.15**	4.24	4.35	4.07	3.54	2.88	2.66	2.63
Total residential mortgages(1)	**9.17**	8.12	7.33	8.10	5.19	4.01	3.54	2.58
Private label card receivables	**4.12**	4.37	4.21	4.21	3.88	3.61	3.43	3.40

Credit card receivables	**4.50**	4.43	4.23	3.48	5.52	4.82	4.55	5.02
Auto finance	**2.34**	2.06	1.48	.88	1.95	2.14	1.76	1.48
Other consumer	**1.20**	1.14	1.15	1.26	1.45	1.23	1.10	1.12
Total consumer	**5.97**	5.64	5.20	4.56	4.57	3.79	3.44	2.84
Total	**4.85%**	4.53%	3.95%	3.21%	2.98%	2.36%	2.16%	1.93%

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

	2009				**2008**			
	Dec. 31	**Sept. 30**	**June 30**	**March 31**	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**
	(dollars are in millions)							
Dollars of delinquency:								
Interest-only loans	**$ 236**	$ 269	$ 277	$ 281	$ 250	$ 205	$ 185	$ 165
ARM loans	**802**	781	733	690	667	600	574	470
Delinquency ratio:								
Interest-only loans	**6.94%**	6.78%	6.44%	5.58%	4.53%	3.54%	3.09%	2.28%
ARM loans	**9.58**	8.99	8.22	6.32	5.39	4.61	4.06	2.50

Our total delinquency ratio increased 32 basis points compared to September 30, 2009. The overall increase in delinquency was impacted by the continued weakness in the U.S. economy and continued high unemployment rates. In addition, our residential mortgage portfolio, which includes our subprime mortgage whole loans held for sale for purposes of delinquency reporting, has continued to experience higher delinquency as a result of continued weakness in the housing markets. Lower loan balances for residential mortgage loans, credit card and auto finance loans compared to September 30, 2009 also contributed to the higher delinquency ratios in these portfolios. Increased delinquency in the auto finance loans purchased from HSBC Finance reflects the previously current loans beginning to season.

The increases in delinquency during the fourth quarter of 2009 were partially offset by lower delinquency levels in our private label card portfolio as credit quality remained stable, benefitting from the actions previously taken to tighten underwriting and reduce the risk profile of the portfolio, as well as higher levels of personal bankruptcy filings in the first half of 2009 which resulted in accounts migrating to charge-off more quickly, partially offset by the impact of continued increases in unemployment levels. Additionally, our private label card delinquency ratio in the fourth quarter benefitted from a higher level of outstanding receivables reflecting normal seasonal trends.

Our commercial portfolio experienced higher delinquency dollars and ratios during the fourth quarter of 2009 due to continued deterioration of economic conditions, as previously discussed.

Compared to December 31, 2008, our overall delinquency ratio increased 187 basis points largely due to higher residential mortgage delinquencies due to the factors described above. While dollars of delinquency increased in our credit card portfolio due to the impact of the GM and UP portfolios purchased in January 2009, our credit card delinquency ratio declined reflecting the impact of our prime GM and UP portfolios on overall credit card mix while overall credit quality remained relatively stable. In our private label card portfolio, dollars of delinquency declined due to lower receivable levels including actions previously taken to tighten underwriting and reduce the risk profile of the portfolio and lower customer spending. This was partially offset by the impact of continued economic pressure including rising unemployment rates and higher levels of personal bankruptcy in the first half of 2009 which resulted in accounts migrating to charge-off more quickly. Our private label card delinquency ratio increased however, as receivables declined at a faster pace than delinquency. The increase in our auto finance delinquency reflects seasoning of the portfolio purchased from HSBC Finance in January 2009. Increased delinquency in our commercial portfolio reflects continued deterioration of economic conditions.

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HSBC USA Inc.

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

	2009 Full Year	2009 Quarter Ended Dec. 31	2009 Quarter Ended Sept. 30	2009 Quarter Ended June 30	2009 Quarter Ended Mar. 31	2008 Full Year	2008 Quarter Ended Dec. 31	2008 Quarter Ended Sept. 30	2008 Quarter Ended June 30	2008 Quarter Ended Mar. 31	
	(dollars are in millions)										
ge-off											
ial	**$ 299**	**$ 112**	**$ 60**	**$ 76**	**$ 51**	$ 156	$ 54	$ 52	$ 25	$ 25	$
r:											
al s, home s	**224**	**60**	**55**	**50**	**59**	132	37	37	30	28	
ity s	**177**	**38**	**61**	**50**	**28**	87	26	26	24	11	
dential s	**401**	**98**	**116**	**100**	**87**	219	63	63	54	39	
bel vables	**1,267**	**312**	**313**	**328**	**314**	955	258	244	239	214	
rd es	**979**	**337**	**343**	**238**	**61**	134	41	33	34	26	
nce	**74**	**26**	**24**	**20**	**4**	7	1	3	1	2	
sumer	**88**	**20**	**20**	**22**	**26**	89	26	21	19	23	
sumer	**2,809**	**793**	**816**	**708**	**492**	1,404	389	364	347	304	
	$ 3,108	**$ 905**	**$ 876**	**$ 784**	**$ 543**	$ 1,560	$ 443	$ 416	$ 372	$ 329	$
ge-off											
ial	**.88%**	**1.42%**	**.72%**	**.87%**	**.56%**	.42%	.53%	.54%	.27%	.29%	
r:											
al s, home s	**1.46**	**1.70**	**1.49**	**1.34**	**1.36**	.54	.69	.63	.47	.41	
ity s	**3.98**	**3.52**	**5.47**	**4.44**	**2.50**	1.92	2.25	2.25	2.15	.99	

dential s	**2.03**	**2.12**	**2.42**	**2.06**	**1.59**	.76	.97	.90	.72	.49
bel vables	**8.07**	**8.20**	**8.13**	**8.31**	**7.77**	5.81	6.22	5.96	5.93	5.14
rd es	**7.45**	**10.52**	**10.33**	**7.05**	**1.85**	6.99	7.95	6.69	7.37	5.83
nce	**3.04**	**4.79**	**4.00**	**3.05**	**.62**	3.02	2.35	5.80	1.59	2.66
nsumer	**5.99**	**6.88**	**5.99**	**5.33**	**5.93**	4.54	5.50	4.31	3.84	4.55
sumer	**5.35**	**6.37**	**6.32**	**5.34**	**3.55**	2.83	3.34	3.01	2.76	2.30
	3.59%	**4.45%**	**4.13%**	**3.56%**	**2.37%**	1.79%	2.03%	1.91%	1.71%	1.51%

Our net charge-off ratio as a percentage of average loans increased 180 basis points for the full year of 2009 as compared to the full year of 2008 primarily due to higher residential mortgage, private label card, credit card and auto finance charge-offs. Higher net charge-off levels are a result of the following:

Higher delinquency levels migrating to charge-off due to:

Continued weakness in the U.S economy and housing markets;

Significantly higher unemployment rates;

Portfolio seasoning; and

Higher loss severities for secured loans.

Charge-off dollars and ratios increased in the residential mortgage portfolio reflecting continued weakness in the housing and mortgage industry, including marked decreases in home values in certain markets and, as it relates to the increase in the charge-off ratio, lower average receivables outstanding. Charge-off dollars and ratios for our private label card portfolio also increased due to higher bankruptcy levels, higher average delinquency levels and, as it relates to the charge-off ratio, lower average receivables outstanding.

Charge-off levels in our credit card portfolio in 2009 were favorably impacted by the GM and UP Portfolio purchased from HSBC Finance, a portion of which were subject to the application of accounting principles that require that purchased loans with evidence of credit deterioration since origination be recorded at an amount based on the net cash flows expected to be collected which reduced the overall level of credit card charge-off reported in the first half of 2009. This resulted in lower levels of credit card receivable charge-offs being reported in the first half of 2009. The portion of the portfolio not subject to this accounting is now seasoning resulting in increased charge-offs during the second half of 2009. Overall credit card charge-off levels in 2009 also reflect higher levels of personal bankruptcy filings.

Our auto finance net charge-off ratio was relatively flat as the purchase of $3.0 billion of the auto loans purchased from HSBC Finance in January 2009 on charge-off was favorably impacted by the non-delinquent status of the loans purchased, which began to season and migrate to charge-off later in the year.

Commercial charge-off dollars and ratios increased largely due to a higher level of losses in the small business portfolio and an increase in losses in our commercial real estate portfolio.

Our net charge-off ratio as a percentage of average loans increased 60 basis points for the full year of 2008 as compared to the full year of 2007. We experienced higher charge-offs across all categories as listed above, particularly in private label card and in residential mortgage loans due to deterioration in the U.S. economy, rising unemployment rates, lower recovery rates on previously charged-off balances and deteriorating conditions in the housing markets.

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Nonperforming Assets Nonperforming assets are summarized in the following table.

At December 31,	**2009**	**2008**	**2007**
		(dollars are in millions)	
Nonaccrual loans:			
Commercial:			
Construction and other real estate	**$ 644**	$ 74	$ 35
Other commercial	**623**	167	88
Total commercial	**1,267**	241	123
Consumer:			
Residential mortgages, excluding home equity mortgages	**875**	444	277
Home equity mortgages	**107**	122	58
Total residential mortgages	**982**	566	335
Credit card receivables	**3**	2	1
Auto finance	**40**	3	-
Others	**9**	-	-
Total consumer loans	**1,034**	571	336
Nonaccrual loans held for sale	**446**	441	305
Total nonaccruing loans	**2,747**	1,253	764
Accruing loans contractually past due 90 days or more:			
Total commercial	**166**	150	26
Consumer:			
Residential mortgages, excluding home equity mortgages	**-**	-	-
Home equity mortgages	**-**	-	-
Total residential mortgages	**-**	-	-
Private label card receivables	**449**	462	377
Credit card receivables	**429**	82	47
Auto finance	**-**	-	-
Other consumer	**31**	27	22
Total consumer loans	**909**	571	446
Accruing loans contractually past due 90 days or more held for sale	**-**	-	-
Total accruing loans contractually past due 90 days or more	**1,075**	721	472
Total nonperforming loans	**3,822**	1,974	1,236
Other real estate owned	**72**	80	69
Total nonperforming assets	**$ 3,894**	$ 2,054	$ 1,305

Allowance for credit losses as a percent of nonperforming loans[1]:			
Commercial	**65.44%**	146.29%	201.43%
Consumer	**150.45**	159.81	142.41

(1) 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.

Increases in nonperforming loans at December 31, 2009 are related primarily to commercial loans, residential mortgages, and credit card receivables 90 days or more past due and still accruing. Deterioration in the U.S. economy, including rising unemployment rates, contributed to the overall increase in nonperforming loans.

Commercial nonaccrual loans increased due largely to continued deterioration of economic conditions and changes in the financial condition of specific customers, mainly financial institution counterparties and real estate customers as the increases in delinquencies and criticized loans reported in the prior year are migrating to non-accrual. Residential mortgage nonperforming loans increased largely due to deterioration in the housing markets. Increases in accruing loans past due 90 days or more reflect a significantly higher portfolio of credit card receivables. Our allowance for credit losses as a percentage of nonperforming commercial loans was significantly lower at December 31, 2009 as compared to the prior year due to loans which had previously been identified as an increased risk for loss and reserved for in accordance with our credit loss policies now beginning to migrate to nonaccrual.

The increase in nonperforming loans in 2008 was driven by higher consumer nonperforming loans, primarily residential mortgages due largely to deterioration in the housing markets.

Our policies and practices for problem loan management and placing loans on nonaccrual status are summarized in Note 2, Summary of Significant Accounting Policies and New Accounting Pronouncements, in the accompanying consolidated financial statements.

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:

At December 31,	**2009**	**2008**	**2007**
		(in millions)	
Impaired commercial loans:			
Balance at end of period	**$ 1,458**	$ 241	$ 123
Amount with impairment reserve	**1,127**	150	41
Impairment reserve	**336**	43	15

Criticized Loan Criticized loan classifications are based on the risk rating standards of our primary regulator. Problem loans are assigned various criticized facility grades under our allowance for credit losses methodology. The following facility grades are deemed to be criticized.

Special Mention generally includes loans that are protected by collateral and/or the credit worthiness of the customer, but are potentially weak based upon economic or market circumstances which, if not checked or corrected, could weaken our credit position at some future date.

Substandard includes loans that are inadequately protected by the underlying collateral and/or general credit worthiness of the customer. These loans present a distinct possibility that we will sustain some loss if the deficiencies are not corrected. This category also includes certain non-investment grade securities, as required by our principal regulator.

Doubtful includes loans that have all the weaknesses exhibited by substandard loans, with the added characteristic that the weaknesses make collection or liquidation in full of the recorded loan highly improbable. However, although the possibility of loss is extremely high, certain factors exist which may strengthen the credit at some future date, and therefore the decision to charge off the loan is deferred. Loans graded as doubtful are required to be placed in nonaccruing status.

Criticized loans are summarized in the following table.

At December 31,	2009	2008	2007
		(in millions)	
Special mention:			
Commercial loans	**$ 3,009**	$ 4,066	$ 2,402
Substandard:			
Commercial loans	**3,523**	1,874	625
Consumer loans	**2,109**	1,231	862
Total substandard	**5,632**	3,105	1,487
Doubtful:			
Commercial loans	**504**	60	26
Total	**$ 9,145**	$ 7,231	$ 3,915

The increase in criticized commercial loans in 2009 resulted primarily from further customer credit downgrades in financial institution counterparties and real estate customers. As previously mentioned, downgrades in our commercial real estate portfolio are continuing, particularly for condominium and land loans, as well as hotel and office construction where many construction projects have been delayed. Although our corporate banking portfolio has deteriorated in most industry segments and geographies, consistent with the overall deterioration in the U.S. economy, customers in those areas of the economy that have experienced above average weakness such as apparel, auto related suppliers and construction related businesses have been particularly affected. Higher substandard consumer loans since December 31, 2008 were largely driven by our purchase of the GM and UP Portfolios in January 2009 and to a lesser extent, residential mortgage loans.

The increase in criticized commercial loans in 2008 was driven by downgrades in financial institution counterparties as well as real estate and middle market customers. The downgrades resulted in part from continued deterioration of economic conditions and changes in financial conditions of specific customers within these portfolios. Higher criticized consumer loans in 2008 primarily relate to private label credit card receivables and, to a lesser extent, residential mortgage loans.

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 criticized facility grades under the allowance for credit losses methodology. Each credit grade has a probability of default estimate.

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.

Our allowance for credit losses methodology and our accounting policies related to the allowance for credit losses are presented in further detail under the caption Critical Accounting Policies and Estimates in this MD&A and in Note 2, Summary of Significant Accounting Policies and New Accounting Pronouncements, in the accompanying consolidated financial statements. Our approach toward credit risk management is summarized under the caption Risk Management in this MD&A. There have been no material revisions to our policies or methodologies during 2009, 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:

At December 31,	**2009**	**2008**	**2007**	**2006**	**2005**
			(dollars are in millions)		
Allowance for credit losses	**$ 3,861**	$ 2,397	$ 1,414	$ 897	$ 846
Ratio of Allowance for credit losses to:					
Loans:(1)					
Commercial	**3.10%**	1.53%	.81%	.73%	.64%
Consumer:					
Residential mortgages, excluding home equity mortgages	**2.53**	1.15	.19	.08	.09
Home equity mortgages	**4.44**	3.67	.80	.16	.06
Private label card receivables	**7.85**	6.86	4.84	3.21	3.44
Credit card receivables	**8.48**	9.73	6.55	4.12	4.92
Auto finance	**2.12**	3.25	2.47	1.72	2.03
Other consumer loans	**4.46**	3.68	3.31	2.57	3.67
Total consumer loans	**5.94**	4.18	2.07	1.22	1.15
Total	**4.86%**	2.96%	1.56%	1.05%	0.99%
Net charge-offs(1):					
Commercial	**313.71%**	366.67%	252.10%	218.37%	4,400.00%
Consumer	**104.06**	129.99	125.73	102.55	109.48
Total	**124.23%**	153.65%	140.70%	117.41%	137.34%
Nonperforming loans(1):					
Commercial	**65.44%**	146.29%	201.43%	153.20%	132.91%
Consumer	**150.45**	159.81	142.41	108.47	133.44
Total	**114.36%**	156.36%	151.85%	116.59%	133.33%

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

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Changes in the allowance for credit losses by general loan categories for the years ended December 31, 2009, 2008 and 2007 are summarized in the following table:

	Commercial	Residential Mortgage, Excl Home Equity Mortgages	Home Equity Mortgages	Private Label Card Receivables	Credit Card Receivables	Auto Finance	Other Consumer	Total
Year ended December 31, 2009:								
Balances at beginning of period	**$ 572**	**$ 207**	**$ 167**	**$ 1,171**	**$ 208**	**$ 5**	**$ 67**	**$ 2,397**
Charge offs	**327**	**235**	**189**	**1,431**	**1,033**	**92**	**107**	**3,414**
Recoveries	**28**	**11**	**12**	**164**	**54**	**18**	**19**	**306**
Net charge offs	**299**	**224**	**177**	**1,267**	**979**	**74**	**88**	**3,108**
Provision charged to income	**665**	**364**	**195**	**1,280**	**1,450**	**104**	**86**	**4,144**
Allowance on loans transferred to held for sale	**-**	**-**	**-**	**-**	**-**	**12**	**-**	**12**
Allowance related to bulk loan purchases from HSBC Finance	**-**	**-**	**-**	**-**	**424**	**13**	**-**	**437**
Other	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Balance at end of period	**$ 938**	**$ 347**	**$ 185**	**$ 1,184**	**$ 1,106**	**$ 36**	**$ 65**	**$ 3,861**
Year ended December 31, 2008:								
Balance at beginning of period	$ 300	$ 53	$ 35	$ 844	$ 119	$ 8	$ 55	$ 1,414
Charge offs	190	133	87	1,148	154	9	116	1,837
Recoveries	34	1	-	193	20	2	27	277
Net charge offs	156	132	87	955	134	7	89	1,560
Allowance on loans transferred to held for sale	-	-	-	-	-	-	-	-
Provision charged to income	428	286	219	1,282	223	4	101	2,543

Balance at end of period	$ 572	$ 207	$ 167	$ 1,171	$ 208	$ 5	$ 67	$ 2,397
Year ended December 31, 2007:								
Balances at beginning of period	$ 214	$ 24	$ 7	$ 545	$ 53	$ 10	$ 44	$ 897
Charge offs	147	49	21	860	67	20	105	1,269
Recoveries	28	1	-	187	10	10	28	264
Net charge offs	119	48	21	673	57	10	77	1,005
Provision charged to income	205	77	49	972	123	8	88	1,522
Other	-	-	-	-	-	-	-	-
Balance at end of period	$ 300	$ 53	$ 35	$ 844	$ 119	$ 8	$ 55	$ 1,414

The allowance for credit losses at December 31, 2009 increased $1,464 million, or 61 percent as compared to December 31, 2008 reflecting higher loss estimates on our residential mortgage portfolio driven largely by increased charge-off and delinquency in our prime residential mortgage loan portfolio due to deterioration in the housing markets, higher reserve requirements in our commercial loan portfolio as well as a significantly higher allowance on our credit card receivable portfolio due to the purchase of the GM and UP Portfolios in January 2009. Reserve levels for all loan categories were impacted by continued weakness in the U.S. economy, including rising unemployment rates, and for consumer loans, higher levels of personal bankruptcy filings.

The increase in the allowance for credit losses in our residential mortgage portfolios since December 31, 2008 was driven largely by increased charge-offs and higher loss estimates in our prime residential mortgage and home equity mortgage loan portfolios due to continued deterioration in the housing markets. Higher reserve levels in our private label and credit card receivable portfolios is largely due to the purchase of the GM and UP Portfolio in January 2009, partially offset by an improved outlook for future losses as the impact of higher unemployment levels on losses has not been as severe as previously anticipated.

Loan loss allowances for commercial loans were higher at December 31, 2009 due to higher loss estimates associated with higher criticized loan balances caused by further downgrades in financial institution and certain other counterparties, as well as real estate customers. The downgrades resulted from continued deterioration of economic conditions and changes in financial conditions of specific customers within these portfolios. As previously mentioned, downgrades in our commercial real estate portfolio to substandard and doubtful are continuing, particularly for condominium loans and land loans, as well as in hotel and office construction in all markets, especially in the large metropolitan markets where construction projects have been delayed. Condominium projects in Florida and California have been negatively impacted by sharply declining prices and reduced availability for condominium mortgages. As such, many buyers are either walking away from purchase contracts and deposits, or cannot arrange mortgages or advance additional equity required to close purchases. Although our corporate banking portfolio has deteriorated in most industry segments and geographies consistent with the overall deterioration in the U.S. economy, customers in those areas of the economy that have expressed above average weakness, such as apparel, auto related suppliers and construction related businesses have been particularly affected. Also contributing to the increase was a specific provision relating to a single significant private banking relationship.

The allowance for credit losses at December 31, 2008 increased $983 million, or 70 percent as compared to December 31, 2007, reflecting a higher allowance on all products, particularly in our private label card and residential mortgage loan portfolios. The higher allowance in our private label card portfolio was due in part to higher delinquency and charge-off levels as a result of portfolio seasoning, increased levels of personal bankruptcy filings, continued deterioration in the U.S. economy including rising unemployment levels and lower recovery rates on defaulted loans. The higher allowance in our residential mortgage loan portfolio reflects continued deterioration of the housing market.

The allowance for credit losses as a percentage of total loans at December 31, 2009 increased as compared to December 31, 2008 reflecting a higher allowance percentage on our residential mortgage loan and commercial loan portfolios and lower outstanding balances in these portfolios as discussed above, partially offset by a lower credit card ratio reflecting the impact of our prime GM and UP Portfolios on credit card mix. The allowance for credit losses as a percentage of total loans for our private label receivable portfolio also increased as compared to December 31, 2008 due in part to higher charge-off levels as a result of portfolio seasoning, continued deterioration in the U.S. economy including rising unemployment levels and lower receivable levels, including the actions previously taken to tighten underwriting and reduce the risk profile of the portfolio and lower customer spending. The allowance for credit losses as a percentage of total loans at December 31, 2008 increased as compared to December 31, 2007 due to the factors which led to the increase in the allowance for credit losses in 2008 as explained above.

The allowance for credit losses as a percentage of net charge-offs decreased in 2009 as compared to 2008 as the increase in the net charge-offs outpaced the increase in the allowance for credit losses due largely to credit card receivables, private label card receivables and commercial loans. The allowance for credit losses as a percentage of net charge-offs increased in 2008 as compared to 2007 due largely to private label card receivable allowance outpacing the increase in the private label card receivable charge-offs.

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

At December 31,	2009 Amount	2009 % of Loans to Total Loans[1]	2008 Amount	2008 % of Loans to Total Loans[1]	2007 Amount	2007 % of Loans to Total Loans[1]
	(dollars are in millions)					
Commercial[2]	**$ 938**	**38.12%**	$ 572	46.14%	$ 300	40.68%
Consumer:						
Residential mortgages, excluding home equity mortgages	**347**	**17.26**	207	22.13	53	31.03
Home equity mortgages	**185**	**5.24**	167	5.61	35	4.85
Private label card receivables	**1,184**	**18.99**	1,171	21.05	844	19.24
Credit card receivables	**1,106**	**16.41**	208	2.63	119	2.01
Auto finance	**36**	**2.14**	5	.19	8	.36
Other consumer	**65**	**1.84**	67	2.25	55	1.83
Total consumer	**2,923**	**61.88**	1,825	53.86	1,114	59.32
Total	**$ 3,861**	**100.00%**	$ 2,397	100.00%	$ 1,414	100.00%

(1) Excluding loans held for sale.

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

At December 31,	2009	2008	2007
	(in millions)		
On-balance sheet allowance:			
Specific	**$ 326**	$ 43	$ 15
Collective	**549**	476	265
Transfer risk	**-**	5	-
Unallocated	**63**	48	20
Total on-balance sheet allowance	**938**	572	300

Off-balance sheet allowance	**188**	168	103
Total commercial allowances	**$ 1,126**	$ 740	$ 403

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 loss.

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 $188 million, $180 million and $105 million at December 31, 2009, 2008 and 2007, respectively. The related provision is recorded as a miscellaneous expense and is a component of operating expenses. Off-balance sheet exposures are summarized under the caption Off-Balance Sheet Arrangements and Contractual Obligations in this MD&A.

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HSBC USA Inc.

Our commercial credit exposure is diversified across a broad range of industries. Commercial loans outstanding and unused commercial commitments by industry are presented in the table below.

At December 31,	Commercial Utilized 2009	Commercial Utilized 2008	Unused Commercial Commitments 2009	Unused Commercial Commitments 2008
	(in millions)			
Real estate and related	**$ 8,076**	$ 8,526	**$ 1,772**	$ 2,393
Non bank holding companies	**2,884**	3,554	**1,477**	4,713
Recreational industry	**1,561**	1,796	**1,287**	1,241
Banks and depository institutions	**1,402**	2,858	**1,217**	931
Security brokers and dealers	**1,283**	2,105	**2,706**	1,968
Chemicals, plastics and rubber	**1,224**	1,203	**1,495**	2,758
Health, child care and education	**1,036**	1,350	**3,024**	2,477
Ferrous and non ferrous mining	**1,016**	1,598	**1,745**	1,442
Business and professional services	**914**	1,104	**1,853**	1,696
Non depository credit institutions	**885**	1,265	**8,988**	13,402
Food and kindred products	**758**	1,054	**4,745**	2,423
Petro/gas and related	**705**	959	**1,527**	1,528
Insurance business	**671**	803	**2,562**	2,703
Electronic and electrical equipment	**660**	865	**3,497**	3,570
Textile, apparel and leather goods	**621**	1,015	**841**	760
Automobiles and automotive products	**609**	423	**290**	1,026
Industrial machinery and equipment	**582**	814	**676**	816
Retail stores	**562**	1,256	**1,784**	2,320
Natural resources, precious metals and jewelry	**421**	617	**107**	143
Transportation services	**332**	486	**711**	598
Utilities	**316**	455	**1,170**	978
Durable consumer/household products	**295**	385	**770**	727
Telecommunications	**227**	519	**211**	245
Non-durable consumer products	**222**	290	**1,433**	1,450
Miscellaneous consumer services	**202**	271	**222**	158
Print, publishing and broadcasting	**169**	362	**1,067**	998
Container, packaging and glass	**165**	234	**219**	174
Government	**164**	232	**328**	152
Aerospace, aircraft and defense	**153**	80	**326**	407
Farming and agriculture	**123**	174	**825**	831
Manufacturing	**83**	80	**86**	120
Ecological	**74**	18	**30**	24
Foreign government	**-**	17	**-**	-
Total commercial credit exposure by industry classifiable	**28,395**	36,768	**48,991**	55,172
All other non classifiable	**1,909**	661	**-**	887

Total commercial credit exposure by industry	**$ 30,304**	$ 37,429	**$ 48,991**	$ 56,059

Cross-Border Net Outstandings Cross-border net outstandings are amounts payable by residents of foreign countries regardless of the currency of claim and local country claims in excess of local country obligations. Cross-border net outstandings, as calculated in accordance with Federal Financial Institutions Examination Council (FFIEC) guidelines, include deposits placed with other banks, loans, acceptances, securities available-for-sale, trading securities, revaluation gains on foreign exchange and derivative contracts and accrued interest receivable. Excluded from cross-border net outstandings are, among other things, the following: local country claims funded by non-local country obligations (U.S. dollar or other non-local currencies), principally certificates of deposit issued by a foreign branch, where the providers of funds agree that, in the event of the occurrence of a sovereign default or the imposition of currency exchange restrictions in a given country, they will not be paid until such default is cured or currency restrictions lifted or, in certain circumstances, they may accept payment in local currency or assets denominated in local currency (hereinafter referred to as constraint certificates of deposit); and cross-border claims that are guaranteed by cash or other external liquid collateral. Cross-border net outstandings that exceed .75% of total assets at year-end are summarized in the following table.

	Banks and Other Financial Institutions	Commercial and Industrial	Total
		(in millions)	
December 31, 2009:			
France	**$ 303**	**$ 1,189**	**$ 1,492**
Canada	**892**	**494**	**1,386**
United Kingdom	**2,874**	**803**	**3,677**
Brazil	**1,275**	**12**	**1,287**
Total	**$ 5,344**	**$ 2,498**	**$ 7,842**
December 31, 2008:			
France	$ 1,617	$ 104	$ 1,721
Canada	2,287	1,619	3,906
United Kingdom	3,387	651	4,038
Cayman Islands	21	2,068	2,089
Venezuela	-	2,426	2,426
Brazil	1,425	682	2,107
Total	$ 8,737	$ 7,550	$ 16,287
December 31, 2007:			
France	$ 1,562	$ 21	$ 1,583
Canada	833	1,011	1,844
United Kingdom	2,697	1,204	3,901
Germany	2,017	60	2,077
Brazil	1,741	715	2,456
Total	$ 8,850	$ 3,011	$ 11,861

Credit and Market Risks Associated with Derivative Contracts 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.

At December 31,	**2009**	**2008**
	(in millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	**$ 39,856**	$ 102,342
Less: collateral held against exposure	**3,890**	8,228
Net credit risk exposure	**$ 35,966**	$ 94,114

The table below summarizes the risk profile of the counterparties of off-balance sheet exposure to derivative contracts, net of cash and other highly liquid collateral. The exposures in the unrated category are exposures to counterparties that have not been rated by an external rating agency. These counterparties are, however, rated according to our Internal Credit Rating System, as discussed above, and exposure is mostly equivalent to investment grade.

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HSBC USA Inc.

Rating equivalent at December 31	Percent of Current Credit Risk Exposure, Net of Collateral 2009	2008
AAA to AA−	**37%**	49%
A+ to A−	**35**	29
BBB+ to BBB−	**17**	13
BB+ to B-	**8**	5
CCC+ and below	**2**	2
Unrated	**1**	2
Total	**100%**	100%

Our principal exposure to monoline insurance companies is through a number of OTC derivative transactions, primarily credit default swaps (CDS). We have entered into CDS to purchase credit protection against securities held within the trading portfolio. Due to downgrades in the internal credit ratings of monoline insurers, fair value adjustments have been recorded due to counterparty credit exposures. The table below sets out the mark-to-market value of the derivative contracts at December 31, 2009 and 2008. The Credit Risk Adjustment column indicates the valuation adjustment taken against the mark-to-market exposures, and reflects the deterioration in creditworthiness of the monoline insurers during 2009. The exposure relating to monoline insurance companies that are rated CCC+ and below has been fully written down as of December 31, 2009. These adjustments have been charged to the consolidated statement of income (loss).

December 31, 2009	Net Exposure before Credit Risk Adjustment(1)	Credit Risk Adjustment(2)	Net Exposure After Credit Risk Adjustment
		(in millions)	
Derivative contracts with monoline counterparties:			
Monoline investment grade	**$ 721**	**$ (72)**	**$ 649**
Monoline below investment grade	**1,031**	**(641)**	**390**
Total	**$ 1,752**	**$ (713)**	**$ 1,039**
December 31, 2008			