HSBC HOLDINGS PLC
Form 6-K
May 07, 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 May 2010

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from ________ to ________

Commission file number 1-7436

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
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 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	Accelerated filer	Non-accelerated filer	Smaller reporting company
o	o	x	o
	(Do not check if a smaller reporting company)		

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 April 30, 2010, there were 712 shares of the registrant's common stock outstanding, all of which are owned by HSBC North America Inc.

HSBC USA Inc.

FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED)

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Interest income:		
Loans	**$1,211**	$1,546
Securities	**242**	277
Trading assets	**32**	59
Short-term investments	**28**	24
Other	**11**	11
Total interest income	**1,524**	1,917
Interest expense:		
Deposits	**163**	313
Short-term borrowings	**21**	19
Long-term debt	**140**	237
Total interest expense	**324**	569
Net interest income	**1,200**	1,348
Provision for credit losses	**211**	1,174
Net interest income after provision for credit losses	**989**	174
Other revenues:		
Credit card fees	**233**	357
Other fees and commissions	**292**	231
Trust income	**26**	32
Trading revenue (loss)	**204**	(154)
Net other-than-temporary impairment losses(1)	**(28)**	(38)
Other securities gains, net	**21**	47
Servicing and other fees from HSBC affiliates	**36**	32
Residential mortgage banking revenue (loss)	**(37)**	65
Gain on instruments designated at fair value and related derivatives	**46**	112
Other income	**158**	66
Total other revenues	**951**	750
Operating expenses:		
Salaries and employee benefits	**267**	291
Support services from HSBC affiliates	**518**	423
Occupancy expense, net	**71**	63
Other expenses	**210**	195
Total operating expenses	**1,066**	972
Income (loss) before income tax expense	**874**	(48)
Income tax expense	**320**	41
Net income (loss)	**$554**	$(89)

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(1) During the three months ended March 31, 2010, net other-than-temporary impairment ("OTTI") recoveries on securities available-for-sale and held to maturity totaling $33 million were recognized,

which included $61 million in recoveries recognized in accumulated other comprehensive income, partially offset by $28 million of OTTI losses recognized in other revenues. During the three months ended March 31, 2009, $116 million of gross other-than-temporary impairment losses on securities available-for-sale were recognized, of which $78 million was recognized in accumulated other comprehensive income.

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2010	December 31, 2009
	(in millions)	
Assets		
Cash and due from banks	**$2,291**	$3,159
Interest bearing deposits with banks (includes $1 million at March 31, 2010 relating to consolidated variable interest entities (VIEs))	**32,463**	20,109
Federal funds sold and securities purchased under agreements to resell	**2,898**	1,046
Trading assets	**24,215**	25,815
Securities available-for-sale (includes $1.0 billion and $1.1 billion at March 31, 2010 and December 31, 2009, respectively, relating to consolidated VIEs that collateralize long-term debt)	**33,820**	27,806
Securities held to maturity (fair value of $4.0 billion and $2.9 billion at March 31, 2010 and December 31, 2009, respectively and includes $1.2 billion at March 31, 2010 relating to consolidated VIEs, all of which were collateralizing short-term borrowings)	**3,867**	2,762
Loans (includes $16.0 billion at March 31, 2010 and $16.3 billion at December 31, 2009 relating to consolidated VIEs of which $3.3 billion and $2.7 billion at March 31, 2010 and December 31, 2009, respectively, were collateralizing debt)	**75,298**	79,489
Less - allowance for credit losses	**3,224**	3,861
Loans, net	**72,074**	75,628
Loans held for sale (includes $1.5 billion and $1.1 billion designated under fair value option at March 31, 2010 and December 31, 2009, respectively)	**2,608**	2,908
Properties and equipment, net	**529**	533
Intangible assets, net	**476**	484
Goodwill	**2,647**	2,647
Other assets (includes $564 million and $585 million at March 31, 2010 and December 31, 2009, respectively, relating to consolidated VIEs)	**9,160**	8,182
Total assets	**$187,048**	$171,079
Liabilities		
Debt:		
Deposits in domestic offices:		
Noninterest bearing	**$18,513**	$20,813
Interest bearing (includes $5.1 billion and $4.2 billion designated under fair value option at March 31, 2010 and December 31, 2009, respectively)	**71,805**	69,894
Deposits in foreign offices:		
Noninterest bearing	**1,361**	1,105
Interest bearing	**33,132**	26,525
Total deposits	**124,811**	118,337
Short-term borrowings (includes $3.2 billion at March 31, 2010 relating to consolidated VIEs)	**11,541**	6,512
Long-term debt (includes $4.8 billion and $4.6 billion designated under fair value option at March 31, 2010 and December 31, 2009, respectively, and $2.2 billion and $3.0 billion at March 31, 2010 and December 31, 2009, respectively, relating to consolidated VIEs of which $2.2 billion and $3.0 billion, respectively, relate to long-term debt collateralized by receivables and available-for-sale securities)	**17,334**	18,008
Total debt	**153,686**	142,857
Trading liabilities	**10,104**	8,010

Interest, taxes and other liabilities (includes $1.0 billion and $1.4 billion at March 31, 2010 and December 31, 2009, respectively, relating to consolidated VIEs)	**7,628**	5,035
Total liabilities	**171,418**	155,902
Shareholders' equity		
Preferred stock	**1,565**	1,565
Common shareholder's equity:		
	-	-

Common stock ($5 par; 150,000,000 shares authorized; 712 shares issued and outstanding at March 31, 2010 and December 31, 2009)		
Additional paid-in capital	**13,794**	13,795
Retained earnings	**581**	45
Accumulated other comprehensive loss	(310)	(228)
Total common shareholder's equity	**14,065**	13,612
Total shareholders' equity	**15,630**	15,177
Total liabilities and shareholders' equity	**$187,048**	$171,079

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31,	2010	2009
	(in millions)	
Preferred stock		
Balance at beginning and end of period	**$1,565**	$1,565
Common stock		
Balance at beginning and end of period	**-**	-
Additional paid-in capital		
Balance at beginning of period	**13,795**	11,694
Capital contributions from parent	**-**	1,067
Return of capital on preferred shares issued to CT Financial Services, Inc.	**(3)**	-
Employee benefit plans and other	**2**	-
Balance at end of period	**13,794**	12,761
Retained earnings		
Balance at beginning of period	**45**	245
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	**1**	-
Adjustment to initially apply new guidance for other-than-temporarily impairment on debt securities, net of tax	**-**	15
Balance at beginning of period, as adjusted	**46**	260
Net income (loss)	**554**	(89)
Cash dividends declared on preferred stock	**(19)**	(19)
Balance at end of period	**581**	152
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**(228)**	(787)
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	**(246)**	-
Adjustment to initially apply new guidance for other-than-temporarily impairment on debt securities, net of tax	**-**	(15)
Balance at beginning of period, as adjusted	**(474)**	(802)
Net change in unrealized gains (losses), net of tax on:		
Securities available-for-sale, not other-than-temporarily impaired	**104**	127
Other-than-temporarily impaired securities available for sale(1)	**25**	(50)
Other-than-temporarily impaired securities held to maturity(1)	**26**	-
Derivatives classified as cash flow hedges	**6**	28
Unrecognized actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits, net of tax	**3**	6
Other comprehensive income, net of tax	**164**	111
Balance at end of period	**(310)**	(691)
Total shareholders' equity	**$15,630**	$13,787
Comprehensive income		
Net income (loss)	**$554**	$(89)
Other comprehensive income, net of tax	**164**	111
Comprehensive income	**$718**	$22

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(1) During the three months ended March 31, 2010, net OTTI recoveries on securities available-for-sale and held to maturity totaling $33 million were recognized, which included OTTI losses of $28 million recognized in other revenues. During the three months ended March 31, 2009, $116 million of gross other-than-temporary impairment losses on securities available-for-sale were recognized, of which $38

million was recognized in other revenues (losses).

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31	2010	2009
	(in millions)	
Cash flows from operating activities		
Net income (loss)	**$554**	$(89)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**154**	55
Provision for credit losses	**211**	1,174
Deferred income tax provision (benefit)	**273**	(280)
Other-than-temporarily impaired available-for-sale and held to maturity securities	**28**	38
Realized losses (gains) on securities available for sale	**(21)**	(47)
Net change in other assets and liabilities	**2,161**	1,124
Net change in loans held for sale:-		
Originations of loans	**(947)**	(1,952)
Sales and collection of loans held for sale	**1,516**	1,955
Tax refund anticipation loans transferred:		
Originations of loans	**(3,068)**	(9,000)
Transfers of loans to HSBC Finance, including premium	**3,072**	9,010
Net change in trading assets and liabilities	**2,937**	(1,507)
LOCOM on receivables held for sale	**(85)**	76
Mark-to-market on financial instruments designated at fair value and related derivatives	**(46)**	(112)
Net change in fair value of derivatives and hedged items	**(111)**	(424)
Net cash provided by operating activities	**6,628**	21
Cash flows from investing activities		
Net change in interest bearing deposits with banks	**(12,354)**	9,603
Net change in federal funds sold and securities purchased under agreements to resell	**(1,852)**	(4,847)
Securities available-for-sale:		
Purchases of securities available-for-sale	**(12,721)**	(4,444)
	6,076	3,103

Proceeds from sales of securities available-for-sale		
Proceeds from maturities of securities available-for-sale	**699**	3,454
Securities held to maturity:		
Purchases of securities held to maturity	**(1,434)**	(59)
Proceeds from maturities of securities held to maturity	**104**	66
Change in loans:		
Originations, net of collections	**10,944**	9,579
Recurring loans purchases from HSBC Finance	**(7,834)**	(4,599)
Cash paid on bulk purchase of loans from HSBC Finance	**-**	(8,821)
Loans sold to third parties	**(41)**	1,824
Net cash used for acquisitions of properties and equipment	**(14)**	(17)
Other, net	**98**	333
Net cash provided by (used in) investing activities	(18,329)	5,175
Cash flows from financing activities		
Net change in deposits	**6,377**	(3,727)
Net change in short-term borrowings	**5,029**	(689)
Change in long-term debt:		
Issuance of long-term debt	**577**	303
Repayment of long-term debt	**(980)**	(2,486)
Debt repayment by consolidated VIE	**(150)**	(139)
Capital contribution from parent	**-**	1,067
Return of capital on preferred shares issued to CT Financial Services, Inc.	**(3)**	-
Other increases in capital surplus	**2**	-
Dividends paid	(19)	(19)
Net cash provided by (used in) financing activities	**10,833**	(5,690)
Net change in cash and due from banks	**(868)**	(494)
Cash and due from banks at beginning of period	**3,159**	2,972
Cash and due from banks at end of period	**$2,291**	$2,478
Supplemental disclosure of non-cash flow investing activities		
Trading securities pending settlement	**$(757)**	$(368)
Assumption of indebtedness from HSBC Finance related to the bulk loan purchase	**$-**	$6,077

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note

1 Organization and Basis of Presentation
2 Trading Assets and Liabilities
3 Securities
4 Loans
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6 Loans Held for Sale
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1. Organization and Basis of Presentation

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

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

During the first quarter of 2010, we adopted new accounting guidance on the consolidation of variable interest entities ("VIEs") and new disclosure requirements relating to fair value measurements. See Note 19, "New Accounting Pronouncements" for further details and related impacts.

2. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

	March 31, 2010	**December 31, 2009**
	(in millions)	
Trading assets:		
U.S. Treasury	**$733**	$615
U.S. Government agency	**44**	34
U.S. Government sponsored enterprises(1)	**90**	16
Asset-backed securities	**1,720**	1,815
Corporate and foreign bonds	**2,329**	2,369
Other securities	**76**	491
Precious metals	**11,827**	12,256
Fair value of derivatives	**7,396**	8,219
	$24,215	$25,815
Trading liabilities:		
Securities sold, not yet purchased	**$1,102**	$131
Payables for precious metals	**3,758**	2,556
Fair value of derivatives	**5,244**	5,323
	$10,104	$8,010

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(1) Includes mortgage-backed securities of $61 million and $13 million issued or guaranteed by the Federal National Mortgage Association ("FNMA") and $29 million and $3 million issued or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") at March 31, 2010 and December 31, 2009, respectively.

At March 31, 2010 and December 31, 2009, the fair value of derivatives included in trading assets have been reduced by $2.3 billion and $2.7 billion, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties.

At March 31, 2010 and December 31, 2009, the fair value of derivatives included in trading liabilities have been reduced by $5.7 billion and $7.2 billion, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties.

3. Securities

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

March 31, 2010	Amortized Cost	Non-Credit Gain (Loss) Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
		(in millions)			
Securities available-for-sale:					
U.S. Treasury	**$11,340**	**$-**	**$32**	**$(64)**	**$11,308**
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	**56**	**-**	**-**	**(1)**	**55**
Direct agency obligations	**1,938**	**-**	**2**	**(49)**	**1,891**
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	**6,531**	**-**	**116**	**(12)**	**6,635**
Collateralized mortgage obligations	**6,268**	**-**	**137**	**-**	**6,405**
Obligations of U.S. states and political subdivisions	**611**	**-**	**13**	**(3)**	**621**
Asset backed securities collateralized by:					
Residential mortgages	**914**	**(36)**	**1**	**(93)**	**786**
Commercial mortgages	**573**	**-**	**16**	**(9)**	**580**
Home equity	**581**	**(13)**	**-**	**(161)**	**407**
Auto	**46**	**-**	**-**	**-**	**46**
Student loans	**34**	**-**	**-**	**(4)**	**30**
Other	**123**	**-**	**1**	**(15)**	**109**
Corporate and other domestic debt securities(2)	**702**	**-**	**8**	**-**	**710**
Foreign debt securities(2)	**3,047**	**-**	**60**	**-**	**3,107**
Equity securities(3)	**1,126**	**-**	**4**	**-**	**1,130**
Total available-for-sale securities	**$33,890**	$(49)	**$390**	$(411)	**$33,820**
Securities held to maturity:					
U.S. Government sponsored enterprises:(4)					
Mortgage-backed securities	**$1,825**	**$-**	**$107**	**$(5)**	**$1,927**
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	**108**	**-**	**15**	**-**	**123**
Collateralized mortgage obligations	**336**	**-**	**26**	**(1)**	**361**
Obligations of U.S. states and political subdivisions	**152**	**-**	**5**	**(1)**	**156**
Asset backed securities collateralized by:					
Residential mortgages	**192**	**-**	**-**	**(18)**	**174**
Asset backed securities (predominantly credit card) and other debt securities held by consolidated VIE(5)	**1,400**	**(220)**	**-**	**-**	**1,180**
Foreign debt securities	**74**	**-**	**-**	**-**	**74**

Total held-to-maturity securities	**$4,087**	$(220)	**$153**	$(25)	**$3,995**

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

(1) Includes securities at amortized cost of $36 million and $38 million issued or guaranteed by FNMA at March 31, 2010 and December 31, 2009, respectively, and $20 million and $21 million issued or guaranteed by FHLMC at March 31, 2010 and December 31, 2009, respectively.

(2)

At March 31, 2010 and December 31, 2009, other domestic debt securities included $677 million of securities at amortized cost fully backed by the Federal Deposit Insurance Corporation ("FDIC") and foreign debt securities consisted of $2.2 billion and $2.7 billion of securities fully backed by foreign governments, respectively.

(3) Includes preferred equity securities at amortized cost issued by FNMA of $2.0 million at March 31, 2010 and December 31, 2009. Balances at March 31, 2010 and December 31, 2009 reflect cumulative other-than-temporary impairment charges of $203 million.

(4) Includes securities at amortized cost of $673 million and $678 million issued or guaranteed by FNMA at March 31, 2010 and December 31, 2009, respectively, and $1.2 billion issued and guaranteed by FHLMC at March 31, 2010 and December 31, 2009.

(5) Relates to securities held by Bryant Park Funding LLC which is consolidated effective January 1, 2010. See Note 16, "Variable Interest Entities" for additional information.

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

	One Year or Less			**Greater Than One Year**		
March 31, 2010	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	**27**	**$(47)**	**$5,935**	**2**	**$(17)**	**$114**
U.S. Government sponsored enterprises	**27**	**(28)**	**1,233**	**25**	**(22)**	**503**
U.S. Government agency issued or guaranteed	**20**	**(6)**	**3,968**	**30**	**(6)**	**557**
Obligations of U.S. states and political subdivisions	**18**	**(1)**	**87**	**8**	**(2)**	**67**
Asset-backed securities	**12**	**(26)**	**100**	**88**	**(256)**	**966**
Corporate and other domestic debt securities	**4**	**-**	**225**	**-**	**-**	**-**
Foreign debt securities	**3**	**-**	**55**	**1**	**-**	**25**
Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
Securities available-for-sale	**111**	$(108)	**$11,603**	**154**	$(303)	**$2,232**
Securities held to maturity:						
U.S. Government sponsored enterprises	**8**	**$(5)**	**$178**	**1**	**$-**	**$-**
U.S. Government agency issued or guaranteed	**12**	**(1)**	**40**	**5**	**-**	**-**
Obligations of U.S. states and political subdivisions	**25**	**(1)**	**9**	**13**	**-**	**21**
Asset-backed securities	**1**	(1)	**7**	**11**	(17)	**122**
Securities held to maturity	**46**	$(8)	**$234**	**30**	$(17)	**$143**

	One Year or Less			**Greater Than One Year**		
December 31, 2009	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	16	$(55)	$2,978	1	$(18)	$94
U.S. Government sponsored enterprises	30	(50)	1,441	27	(16)	262
U.S. Government agency issued or guaranteed	85	(19)	1,509	18	(1)	43
Obligations of U.S. states and political subdivisions	26	(3)	166	11	(2)	79
Asset-backed securities	5	(1)	35	109	(360)	1,137

Corporate and other domestic debt securities	3	(8)	83	2	(7)	43
Foreign debt securities	5	(3)	384	1	-	25
Equity securities	2	-	-	-	-	-
Securities available-for-sale	172	$(139)	$6,596	169	$(404)	$1,683
Securities held to maturity:						
U.S. Government sponsored enterprises	10	$(5)	$261	1	$-	$-
U.S. Government agency issued or guaranteed	7	(2)	39	6	-	-
Obligations of U.S. states and political subdivisions	22	(1)	12	12	-	19
Asset-backed securities	1	(1)	6	11	(20)	121
Securities held to maturity	40	$(9)	$318	30	$(20)	$140

Gross unrealized losses within the available-for-sale and held-to-maturity portfolios decreased overall primarily due to a reduction in credit spreads for asset backed securities during the three months ended March 31, 2010 as market conditions continue to improve. We have reviewed the securities for which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment described below. During the three months ended March 31, 2010, 19 debt securities were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates. We recorded net other-than-temporary impairment recoveries of $33 million during the three months ended March 31, 2010 on these investments. The credit loss component of the applicable debt securities totaling $28 million was recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income (loss), while the remaining non-credit portion representing a net recovery of a portion of previously recorded impairment losses was recognized in other comprehensive income. During the three months ended March 31, 2009, nine debt securities were determined to be other-than-temporarily impaired. As a result, we recorded other-than-temporary impairment charges of $116 million during the three months ended March 31, 2009 on these investments. The credit loss component of the applicable debt securities totaling $38 million was recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income (loss), while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income.

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

On-going Assessment for Other-Than-Temporary Impairment

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

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

For all securities held in the available-for-sale or held-to-maturity portfolio for which unrealized losses have existed for a period of time, we do not have the intention to sell and believe we will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. As debt securities issued by U.S. Treasury, U.S. Government agencies and government sponsored entities accounted for 75 percent and 72 percent of total available-for-sale and held to maturity securities as of March 31, 2010 and December 31, 2009, respectively, our assessment for credit loss was concentrated on private label asset backed securities. We considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

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

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

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

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

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

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

As of March 31, 2010, available-for-sale debt securities with other-than-temporary impairment for which a portion of the impairment loss remains in accumulated other comprehensive income consisted entirely of asset-backed securities collateralized by residential mortgages or home equity loans. Specific market based assumptions were used to appropriately model and value the credit component of each individual prime, Alt-A and second lien/home equity mortgage backed security due to the diversified geographical, FICO and vintage (2005-2007) characteristics of the underlying loans. This has resulted in a wide range of assumptions across the analyzed securities as presented in the table below. Prime mortgage collateral types comprise approximately 84 percent of the other-than-temporary impairments we have recognized

during the three months ended March 31, 2010. The assumptions were as follows:

March 31, 2010	Prime	Alt-A	Second liens/Home equity mortgages
Cumulative default rate	5-14%	7-14%	9-19%
Loss severity	32-60%	33-74%	100%
Prepayment speeds	4-20%	1-8%	6-9%

The excess of amortized cost over the present value of expected future cash flows on our other-than-temporarily impaired debt securities, which represents the credit loss associated with these securities, was $28 million and $38 million for the three months ended March 31, 2010 and 2009, respectively. The excess of the present value of expected future cash flows over fair value, representing the non-credit component of the unrealized loss associated with all other-than-temporarily impaired securities, was $269 million as of March 31, 2010. Since we do not have the intention to sell the securities and have sufficient capital and liquidity to hold these securities until a full recovery of the fair value occurs, only the credit loss component is reflected in the consolidated statement of income (loss). The non-credit component of the unrealized loss is recorded, net of taxes, in other comprehensive income.

The following table summarizes the roll-forward of credit losses on debt securities held by us for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

Three Months Ended March 31,	2010	2009
	(in millions)	
Credit losses at the beginning of the period	**$129**	$5
Credit losses related to securities for which an other-than-temporary impairment was not previously recognized	**19**	38
Increase in credit losses for which an other-than-temporary impairment was previously recognized	**9**	-
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	**$157**	$43

At March 31, 2010, we held 157 individual asset-backed securities in the available-for-sale portfolio, of which 34 were also wrapped by a monoline insurance company. The asset backed securities backed by a monoline wrap comprised $547 million of the total aggregate fair value of asset-backed securities of $2.0 billion at March 31, 2010. The gross unrealized losses on these securities were $176 million at March 31, 2010. We do not consider the monoline wrap of any non-investment grade monoline insurers and therefore as of March 31, 2010, we considered the financial guarantee of monoline insurers on securities for purposes of evaluating other-than-temporary impairment with a fair value of $241 million. Four of the securities wrapped by the downgraded monoline insurance companies with an aggregate fair value of $38 million were deemed to be other-than-temporarily impaired at March 31, 2010. In evaluating the extent of our reliance on investment grade monoline insurance companies, consideration is given to our assessment of the creditworthiness of the monoline and other market factors.

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

2009, we considered the financial guarantee of monoline insurers on securities with a fair value of $235 million. Four of the securities wrapped by the downgraded monoline insurance companies with an aggregate fair value of $35 million were deemed to be other-than-temporarily impaired at December 31, 2009. In evaluating the extent of our reliance on investment grade monoline insurance companies, consideration is given to our assessment of the creditworthiness of the monoline and other market factors.

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

	Gross Realized Gains	Gross Realized (Losses)	Net Realized (Losses) Gains
	(in millions)		
Three months ended March 31, 2010:			
Securities available-for-sale	**$32**	**$(34)**	**$(2)**
Securities held to maturity	-	(5)	(5)
	$32	$(39)	$(7)
Three months ended March 31, 2009:			
Securities available-for-sale	$61	$(52)	$9
Securities held to maturity	-	-	-
	$61	$(52)	$9

The amortized cost and fair values of securities available-for-sale and securities held to maturity at March 31, 2010, are summarized in the table below by contractual maturity. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. Securities available-for-sale amounts exclude equity securities as they do not have stated maturities. The table below also reflects the distribution of maturities of debt securities held at March 31, 2010, together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at March 31, 2010. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

March 31, 2010	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
Taxable Equivalent Basis	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars are in millions)							
Available-for-sale:								
U.S. Treasury	**$599**	**.97%**	**$6,882**	**1.08%**	**$1,619**	**3.51%**	**$2,240**	**4.54%**
U.S. Government sponsored enterprises	**-**	**-**	**8**	**3.78**	**1,405**	**3.89**	**581**	**4.56**
U.S. Government agency issued or guaranteed	**4**	**4.45**	**-**	**4.99**	**266**	**4.78**	**12,529**	**3.45**
Obligations of U.S. states and political subdivisions	**-**	**-**	**-**	**-**	**254**	**4.23**	**357**	**4.46**
Asset-backed securities	**29**	**2.14**	**126**	**5.28**	**162**	**3.85**	**1,905**	**3.72**
Corporate and other domestic debt securities	**115**	**1.53**	**587**	**1.53**	**-**	**-**	**-**	**-**
Foreign debt securities	**-**	**-**	**3,012**	**2.56**	**35**	**3.22**	**-**	**-**
Total amortized cost	**$747**	**1.12%**	**$10,615**	**1.58%**	**$3,741**	**3.80%**	**$17,612**	**3.67%**
Total fair value	**$751**		**$10,691**		**$3,719**		**$17,529**	
Held to maturity:								
U.S. Government sponsored enterprises	**$-**	**7.39%**	**$32**	**7.95%**	**$2**	**6.79%**	**$1,791**	**6.20%**

U.S. Government agency issued or guaranteed	**-**	**7.74**	**-**	**7.39**	**5**	**7.59**	**439**	**6.62**
Obligations of U.S. states and political subdivisions	**10**	**5.28**	**31**	**6.15**	**17**	**6.70**	**94**	**5.78**
Asset-backed securities	**-**	**-**	**-**	**-**	**-**	**-**	**192**	**6.10**
Asset backed securities issued by consolidated VIE	**327**	**1.60**	**600**	**-**	**253**	**.35**	**-**	**-**
Foreign debt securities	**74**	**2.64**	**-**	**-**	**-**	**-**	**-**	**-**
Total amortized cost	**$411**	**1.89%**	**$663**	**2.11%**	**$277**	**.93%**	**$2,516**	**6.25%**
Total fair value	**$411**		**$669**		**$280**		**$2,635**	

Investments in FHLB stock and FRB stock of $152 million and $475 million, respectively, were included in other assets at March 31, 2010. Investments in FHLB stock and FRB stock of $152 million and $476 million, respectively, were included in other assets at December 31, 2009.

4. Loans

Loans consisted of the following:

	March 31, 2010	December 31, 2009
	(in millions)	
Commercial loans:		
Construction and other real estate	**$8,794**	$8,858
Other commercial	**20,840**	21,446
Total commercial	**29,634**	30,304
Consumer loans:		
Home equity mortgages	**4,046**	4,164
Other residential mortgages	**13,512**	13,722
Private label cards	**13,466**	15,091
Credit cards	**11,816**	13,048
Auto finance	**1,453**	1,701
Other consumer	**1,371**	1,459
Total consumer	**45,664**	49,185
Total loans	**$75,298**	$79,489

Secured financings of $2.2 billion at March 31, 2010 are secured by $1.8 billion of credit cards, as well as restricted available-for-sale securities of $1.0 billion. Secured financings of $550 million and $2.5 billion at December 31, 2009 were secured by $180 million and $2.6 billion of private label cards and credit cards, respectively, as well as restricted available-for-sale securities of $417 million and $721 million, respectively.

Purchased Loan Portfolios

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

Purchased loans for which at the time of acquisition there was evidence of deterioration in credit quality since origination and for which it was probable that all contractually required payments would not be collected and that the associated line of credit has been closed were recorded upon acquisition at an amount based upon the cash flows expected to be collected. The difference between these expected cash flows and the purchase price represents accretable yield which is amortized to interest income over the life of the loan. The carrying amount of the Purchased Credit-Impaired Loans, net of credit loss reserves at March 31, 2010 totaled $55 million and $43 million for the GM and UP Portfolios, respectively, and is included in credit card loans. The outstanding contractual balances at March 31, 2010 for these receivables were $58 million and $68 million for the GM and UP Portfolios, respectively. The carrying amount of the Purchased Credit-Impaired Loans, net of credit loss reserves at December 31, 2009 totaled $63 million and $52 million for the GM and UP Portfolios, respectively, and is included in credit card loans. The outstanding contractual balances at December 31, 2009 for these receivables were $73 million and $86 million for the GM and UP Portfolios, respectively. Credit loss reserves of $11 million and $18 million as of March 31, 2010 and December 31, 2009, respectively, were held for the acquired GM and UP receivables subject to the accounting requirements for Purchased Credit-Impaired Loans due to a decrease in the expected future cash flows since the acquisition. The following summarizes the change in accretable yield associated with the Purchased Credit-Impaired Loans:

Three Months Ended March 31,	**2010**	**2009**

	(in millions)	
Accretable yield at beginning of period	**$(29)**	$(95)
Accretable yield amortized to interest income during the period	**7**	15
Reclassification to non-accretable difference	**-**	-
Accretable yield at end of period	$(22)	$(80)

Troubled Debt Restructurings

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

	March 31, 2010	December 31, 2009
	(in millions)	
TDR Loans:		
Commercial loans:		
Construction and other real estate	**$139**	$100
Other commercial	**91**	68
Total commercial	**230**	168
Consumer loans:		
Residential mortgages	**229**	173
Private label cards	**230**	216
Credit cards	**130**	102
Auto finance(1)	**44**	52
Other consumer	**-**	-
Total consumer	**633**	543
Total TDR Loans	**$863**	$711

	March 31, 2010	December 31, 2009
	(in millions)	
Allowance for credit losses for TDR Loans(2):		
Commercial loans:		
Construction and other real estate	**$18**	$14
Other commercial	**5**	2
Total commercial	**23**	16
Consumer loans:		
Residential mortgages	**53**	34
Private label cards	**56**	51
Credit cards	**32**	24
Auto finance	**12**	11
Other consumer	**-**	-
Total consumer	**153**	120
Total Allowance for credit losses for TDR Loans	**$176**	$136

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

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

Three Months Ended March 31,	2010	2009
	(in millions)	
Average balance of TDR Loans	**$770**	$341
Interest income recognized on TDR Loans	**13**	6

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

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

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

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

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

	March 31, 2010	December 31, 2009
	(in billions)	
Residential mortgage loans with high LTV and no mortgage insurance(1)	**$1.2**	$1.2
Interest-only residential mortgage loans	**2.8**	3.3
ARM loans(2)	**7.6**	7.7

(1) Residential mortgage loans with high LTV and no mortgage insurance includes both fixed rate and adjustable rate mortgages. Excludes $223 million and $232 million of sub-prime residential mortgage loans held for sale at March 31, 2010 and December 31, 2009, respectively.

(2) ARM loan balances above exclude $200 million and $209 million of sub-prime residential mortgage loans held for sale at March 31, 2010 and December 31, 2009, respectively. During the remainder of 2010 and during 2011, approximately $.2 billion and $.5 billion, respectively, of these ARM loans will experience their first interest rate reset.

Concentrations of first and second liens within the outstanding residential mortgage loan portfolio are summarized in the following table. Amounts in the table exclude closed end first lien loans held for sale of $1.1 billion and $1.4 billion at March 31, 2010 and December 31, 2009, respectively.

	March 31, 2010	December 31, 2009
	(in millions)	
Closed end:		
First lien	**$13,512**	$13,722
Second lien	**536**	570
Revolving:		
Second lien	**3,510**	3,594
Total	**$17,558**	$17,886

5. Allowance for Credit Losses

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

	Three Months Ended March 31	
	2010	**2009**
	(in millions)	
Balance at beginning of period	**$3,861**	$2,397
Provision for credit losses	**211**	1,174
Charge-offs	**(934)**	(614)
Recoveries	**82**	71
Allowance related to bulk loan purchase from HSBC Finance	**-**	437
Other	**4**	-
Balance at end of period	**$3,224**	$3,465

6. Loans Held for Sale

Loans held for sale consisted of the following:

	March 31, 2010	**December 31, 2009**
	(in millions)	
Commercial loans	**$1,451**	$1,126
Consumer loans:		
Residential mortgages	**1,129**	1,386
Auto finance	**-**	353
Other consumer	**28**	43
Total consumer	**1,157**	1,782
Total loans held for sale	**$2,608**	$2,908

We originate commercial loans largely 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 at March 31, 2010 and December 31, 2009. The fair value of commercial loans held for sale under this program were $1.0 billion and $1.1 billion at March 31, 2010 and December 31, 2009, respectively, all of which are recorded at fair value as we have elected to designate these loans under fair value option. During the three months ended March 31, 2010, the market value of these loans increased due to narrowing credit spreads. In the first quarter of 2010, we provided foreign currency denominated loans to a third party which are classified as commercial loans held for sale and for which we elected to apply fair value option. The fair value of commercial loans held for sale under this program was $419 million at March 31, 2010. See Note 10, "Fair Value Option," for additional information.

Residential mortgage loans held for sale include sub-prime residential mortgage loans with a fair value of $734 million and $757 million at March 31, 2010 and December 31, 2009, respectively, which were acquired from unaffiliated third parties and from HSBC Finance with the intent of securitizing or selling the loans to third parties. Also included in residential mortgage loans held for sale are first mortgage loans originated and held for sale primarily to various government sponsored enterprises.

During the three months ended March 31, 2010, auto finance loans held for sale with a carrying value of $353 million were sold to HSBC Finance to facilitate completion of their loan sale to a third party.

Other consumer loans held for sale consist of student loans.

Excluding the commercial loans designated under fair value option discussed above, loans held for sale are recorded at the lower of cost or fair value. While the initial book value of loans held for sale continued to exceed fair value at March 31, 2010, we experienced a decrease in the valuation allowance during the first quarter of 2010 due primarily to lower balances. The valuation allowance on loans held for sale was $884 million and $910 million at March 31, 2010 and December 31, 2009, respectively.

Loans held for sale are subject to market risk, liquidity risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions, as well as the interest rate and credit environment. Interest rate risk for residential mortgage loans held for sale is partially mitigated through an economic hedging program to offset changes in the fair value of the mortgage loans held for sale. Trading related revenue associated with this economic hedging program, which are included in net interest income and trading revenue (loss) in the consolidated statement of income (loss), were loss of $6 million and gain of $28 million during the three months ended March 31, 2010 and 2009, respectively.

7. Intangible Assets

Intangible assets consisted of the following:

	March 31, 2010	December 31, 2009
	(in millions)	
Mortgage servicing rights	**$451**	$457
Other	**25**	27
Intangible assets	**$476**	$484

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

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

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

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

	March 31, 2010	**December 31, 2009**
Annualized constant prepayment rate ("CPR")	**15.2%**	14.6%
Constant discount rate	**16.1%**	17.9%
Weighted average life	**4.8 years**	4.8 years

Residential MSRs activity is summarized in the following table:

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Fair value of MSRs:		
Beginning balance	**$450**	$333
Additions related to loan sales	**16**	28
Changes in fair value due to:		
Change in valuation inputs or assumptions used in the valuation models	**5**	(25)
Realization of cash flows	(27)	(23)
Ending balance	**$444**	$313

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

	March 31, 2010	**December 31, 2009**
	(in millions)	
Outstanding principal balances at period end	**$49,800**	$50,390
	$1,126	$923

Custodial balances maintained and included in noninterest bearing deposits at period end

Servicing fees collected are included in residential mortgage banking revenue and totaled $32 million and $34 million during the three months ended March 31, 2010 and 2009, respectively.

Commercial Mortgage Servicing Rights

Commercial MSRs, which are accounted for using the lower of cost or fair value method, totaled $7 million at March 31, 2010 and December 31, 2009.

Other Intangible Assets

Other intangible assets, which result from purchase business combinations, are comprised of favorable lease arrangements of $19 million and $20 million at March 31, 2010 and December 31, 2009, respectively, and customer lists in the amount of $6 million and $7 million at March 31, 2010 and December 31, 2009, respectively.

8. Goodwill

Goodwill was $2.6 billion at March 31, 2010 and December 31, 2009 and includes accumulated impairment losses of $54 million. As a result of the continued focus on economic and credit conditions in the U.S., we performed interim impairment tests of the goodwill associated with our Global Banking and Markets and Private Banking reporting units during the first quarter of 2010. As a result of these tests, the fair value of our Global Banking and Markets and Private Banking reporting units continue to exceed their carrying value, including goodwill. Our goodwill impairment testing however is highly sensitive to certain assumptions and estimates used. In the event of 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, an interim impairment test will again be required.

9. Derivative Financial Instruments

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

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

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

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

Fair Value Hedges
In the normal course of business, we hold fixed-rate loans and securities and issue fixed-rate senior and subordinated debt obligations. The fair value of fixed-rate (USD and non-USD denominated) assets and

liabilities fluctuates in response to changes in interest rates or foreign currency exchange rates. We utilize interest rate swaps, interest rate forward and futures contracts and foreign currency swaps to minimize the effect on earnings caused by interest rate and foreign currency volatility.

For reporting purposes, changes in fair value of a derivative designated in a qualifying fair value hedge, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. We recognized net gains of $5 million during the three months ended March 31, 2010 and net gains of $4 million during the three months ended March 31, 2009 which are reported as other income (loss) in the consolidated statement of income (loss), which represents the ineffective portion of all fair value hedges. The interest accrual related to the derivative contract is recognized in interest income.

The changes in fair value of the hedged item designated in a qualifying hedge are captured as an adjustment to the carrying value of the hedged item (basis adjustment). If the hedging relationship is terminated and the hedged item continues to exist, the basis adjustment is amortized over the remaining term of the original hedge. We recorded basis adjustments for active fair value hedges which increased the carrying value of our debt by $27 million and decreased the carrying value of our debt by $75 million during the three months ended March 31, 2010 and 2009, respectively. We amortized less than $2 million and $1 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three months ended March 31, 2010 and 2009, respectively. The total accumulated unamortized basis adjustment amounted to an increase in the carrying value of our debt of $82 million and $57 million as of March 31, 2010 and December 31, 2009, respectively.

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

	Derivative Assets(1)			**Derivative Liabilities(1)**		
		Fair Value as of			**Fair Value as of**	
	Balance Sheet Location	**March 31, 2010**	**December 31, 2009**	**Balance Sheet Location**	**March 31, 2010**	**December 31, 2009**
			(in millions)			
Interest rate contracts	Other assets	**$128**	$133	Interest, taxes & other liabilities	**$24**	$15

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

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

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

	Recognized in Income on Derivatives	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(in millions)		
Interest rate contracts	Other income (loss)	**$(13)**	$(12)
Interest rate contracts	Interest income	**18**	16
Total		**$5**	$4

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

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

Three Months Ended March 31,	2010 Gain/(Loss) on Derivative Interest Income (Expense)	2010 Gain/(Loss) on Derivative Other Income (Expense)	2010 Gain (Loss) on Hedged Items Interest Income (Expense)	2010 Gain (Loss) on Hedged Items Other Income (Expense)	2009 Gain (Loss) on Derivative Interest Income (Expense)	2009 Gain (Loss) on Derivative Other Income (Expense)	2009 Gain (Loss) on Hedged Items Interest Income (Expense)	2009 Gain (Loss) on Hedged Items Other Incom[e] (Expens[e])
	(in millions)							
Interest rate contracts/AFS securities	**$(2)**	**$(39)**	**$43**	**$38**	$(7)	$64	$18	$(
Interest rate contracts/commercial loans	**-**	**-**	**1**	**(1)**	-	(2)	-	
Interest rate contracts/subordinated debt	**20**	**26**	**(40)**	**(19)**	23	(74)	(82)	
Total	**$18**	**$(13)**	**$4**	**$18**	$16	$(12)	$(64)	$

Cash Flow Hedges

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

Changes in fair value associated with the effective portion of a derivative instrument designated as a qualifying cash flow hedge are recognized initially in accumulated other comprehensive income. When the cash flows for which the derivative is hedging materialize and are recorded in income or expense, the associated gain or loss from the hedging derivative previously recorded in accumulated other comprehensive income is released into the corresponding income or expense account. If a cash flow hedge of a forecasted transaction is de-designated because it is no longer highly effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative will continue to be reported in accumulated other comprehensive income unless the hedged forecasted transaction is no longer

expected to occur, at which time the cumulative gain or loss is released into earnings. As of March 31, 2010, and December 31, 2009, active cash flow hedge relationships extend or mature through January 2012 and June 2010, respectively. During the three months ended March 31, 2010 and 2009, $3 million of losses and $17 million of gains, respectively, of losses related to terminated and/or re-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income. During the next twelve months, we expect to amortize $9 million of remaining losses to earnings resulting from these terminated and/or re-designated cash flow hedges. The interest accrual related to the derivative contract is recognized in interest income.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	March 31, 2010	December 31, 2009	Balance Sheet Location	March 31, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Other assets	$-	$-	Interest, taxes & other liabilities	$22	$33

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

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

Three Months Ended March 31,	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on the Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassed from AOCI into Income (Ineffective Portion)	
	2010	2009		2010	2009		2010	2009
				(in millions)				
Interest rate contracts	$7	$26	Other income (loss)	$(3)	$(17)	Other income (loss)	$-	$7

Trading and Other Derivatives

We enter into derivative instruments for short-term profit taking purposes, to repackage risks and structure trades to facilitate clients' needs for various risk taking and risk modification purposes. We manage our risk exposure by entering into offsetting derivatives with other financial institutions to mitigate the market risks,

in part or in full, arising from our trading activities with our clients. In addition, we also enter into buy protection credit derivatives with other market participants to manage our counterparty credit risk exposure. Where we enter into derivatives for trading purposes, realized and unrealized gains and losses are recognized as trading revenue (loss). Credit losses arising from counterparty risks on over-the-counter derivative instruments and offsetting buy protection credit derivative positions are recognized as an adjustment to the fair value of the derivatives and are recorded in trading revenue (loss).

Derivative instruments designated as economic hedges that do not qualify for hedge accounting are recorded at fair value through profit and loss. Realized and unrealized gains and losses are recognized in other income (loss) while the derivative asset or liability positions are reflected as other assets or other liabilities. As of March 31, 2010, we have entered into credit default swaps which are designated as economic hedges against the credit risks within our loan portfolio and certain own debt issuances. In the event of an impairment loss occurring in a loan that is economically hedged, the impairment loss is recognized as provision for credit losses while the gain on the credit default swap is recorded as other income (loss). In addition, we also from time to time have designated certain forward purchase or sale of to-be-announced ("TBA") securities to economically hedge mortgage servicing rights. Changes in the fair value of TBA positions, which are considered derivatives, are recorded in residential mortgage banking revenue.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	March 31, 2010	December 31, 2009	Balance Sheet Location	March 31, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Trading assets	**$27,016**	$27,085	Trading Liabilities	**$27,503**	$27,546
Foreign exchange contracts	Trading assets	**12,758**	12,920	Trading Liabilities	**13,416**	14,087
Equity contracts	Trading assets	**1,159**	2,281	Trading Liabilities	**1,160**	2,297
Precious Metals contracts	Trading assets	**486**	918	Trading Liabilities	**657**	897
Credit contracts	Trading assets	**15,793**	17,772	Trading Liabilities	**15,701**	17,687
Other	Trading assets	**22**	6	Trading Liabilities	**3**	23
Total		**$57,234**	$60,982		**$58,440**	$62,537

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

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	March 31, 2010	December 31, 2009	Balance Sheet Location	March 31, 2010	December 31, 2009
			(in millions)			
Interest rate contracts	Other assets	**$234**	$229	Interest, taxes & other liabilities	**$38**	$15
Foreign exchange contracts	Other assets	**48**	51	Interest, taxes & other liabilities	**2**	2
Equity contracts	Other assets	**183**	180	Interest, taxes & other liabilities	**16**	16
Credit contracts	Other assets	**5**	15	Interest, taxes & other liabilities	**28**	16

Total	**$470**	$475	**$84**	$49

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

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

	Location of Gain (Loss) Recognized in Income on Derivatives	**Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2010**	**2009**
	(in millions)		
Interest rate contracts	Trading revenue (loss)	**$(53)**	$96
Foreign exchange contracts	Trading revenue (loss)	**(78)**	81
Equity contracts	Trading revenue (loss)	**14**	(10)
Precious Metals contracts	Trading revenue (loss)	**165**	24
Credit contracts	Trading revenue (loss)	**(33)**	(638)
Other	Trading revenue (loss)	**21**	42
Total		**$36**	$(405)

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

	Location of Gain (Loss) Recognized in Income on Derivatives	**Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2010**	**2009**
	(in millions)		
Interest rate contracts	Other income (loss)	**$57**	$(138)
Foreign exchange contracts	Other income (loss)	**(10)**	6
Equity contracts	Other income (loss)	**142**	(1)
Credit contracts	Other income (loss)	(9	(9

Total	**$180**	$(142)

Credit-Risk-Related Contingent Features

We enter into total return swap, interest rate swap, cross-currency swap and credit default swap contracts, amongst others which contain provisions that require us to maintain a specific credit rating from each of the major credit rating agencies. Sometimes the derivative instrument transactions are a part of broader structured products transaction. As of March 31, 2010, HSBC Bank USA was given credit ratings of AA and Aa3 by S&P and Moody's, respectively, and was given a short-term debt rating of A-1+ and P-1 by S&P and Moody's, respectively. If HSBC Bank USA's credit ratings were to fall below the current ratings, the counterparties to our derivative instruments could demand additional collateral to be posted with them. The amount of additional collateral required to be posted will depend on whether HSBC Bank USA is downgraded by one or more notches as well as whether the downgrade is in relation to long-term or short-term ratings. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of March 31, 2010, is $8.1 billion for which we have posted collateral of $4.9 billion. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of December 31, 2009, is $9.3 billion for which we have posted collateral of $8.1 billion.

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

Moody's

	Long-Term Ratings		
Short-Term Ratings	**Aa3**	**A1**	**A2**
	(in millions)		
P-1	$-	$157	$248
P-2	124	260	345

S&P

	Long-Term Ratings		
Short-Term Ratings	**AA**	**AA-**	**A+**
	(in millions)		
A-1+	$-	$-	$49
A-1	143	143	192

We would be required to post $250 million of additional collateral on total return swaps and certain other transactions if HSBC Bank USA is downgraded by S&P and Moody's by two notches on our long term rating accompanied by one notch downgrade in our short term rating.

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

	March 31, 2010	December 31, 2009
	(in billions)	
Interest rate:		
Futures and forwards	**$283.6**	$156.0
Swaps	**1,368.6**	1,221.5
Options written	**53.4**	59.5
Options purchased	**59.9**	66.0
	1,765.5	1,503.0
Foreign Exchange:		
Swaps, futures and forwards	**549.5**	486.2
Options written	**27.0**	43.0
Options purchased	**27.7**	43.1
Spot	**77.2**	39.4
	681.4	611.7
Commodities, equities and precious metals:		
Swaps, futures and forwards	**30.1**	26.4
Options written	**7.8**	10.3
Options purchased	**13.6**	15.3
	51.5	52.0
Credit derivatives	**779.9**	768.5
Total	**$3,278.3**	$2,935.2

10. Fair Value Option

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

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

In the first quarter of 2010, we provided foreign currency denominated loans to a third party for which we simultaneously entered into a series of derivative transactions to hedge certain risks associated with these loans. We elected to apply fair value option to these loans which allows us to account for them in a manner which is consistent with the manner in which the instruments are managed. At March 31, 2010, these commercial foreign currency denominated loans for which we elected fair value option had a fair value of $419 million and an unpaid principal balance of $423 million.

These loans are included in loans held for sale in the consolidated balance sheet. Interest from these loans is recorded as interest income in the consolidated statement of income (loss). Because a substantial majority of the loans elected for the fair value option are floating rate assets, changes in their fair value are primarily attributable to changes in loan-specific credit risk factors. The components of gain (loss) related to loans designated at fair value are summarized in the table below.

As of March 31, 2010 and December 31, 2009, no loans for which the fair value option has been elected are 90 days or more past due or on nonaccrual status.

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

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

Hybrid Instruments
We elected to apply fair value option accounting principles to all of our hybrid instruments, inclusive of structured notes and structured deposits, issued after January 1, 2006. As of March 31, 2010, interest bearing deposits in domestic offices included $5.1 billion of structured deposits accounted for under FVO which had an unpaid principal balance of $5.0 billion. As of December 31, 2009, interest bearing deposits in domestic offices included $4.2 billion of structured deposits accounted for under FVO which had an unpaid principal balance of $4.2 billion. Long-term debt at March 31, 2010 included structured notes of $3.2 billion accounted for under FVO which had an unpaid principal balance of $3.0 billion. Long-term debt at December 31, 2009 included structured notes of $2.9 billion accounted for under FVO which had an unpaid principal balance of $2.7 billion. Interest incurred was recorded as interest expense in the consolidated statement of income (loss). The components of gain (loss) related to hybrid instruments designated at fair value which reflect the instruments described above are summarized in the table below.

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

	Loans	Long -Term Debt	Hybrid Instruments	Total
		(in millions)		
Three months ended March 31, 2010:				
Interest rate component	$1	$(9)	$(174)	$(183)
Credit risk component	(6)	11	23	29

Total mark-to-market on financial instruments designated at fair value	**(5)**	**2**	**(151)**	**(154)**
Mark-to-market on the related derivatives	**5**	**10**	**164**	**179**
Net realized gain (losses) on the related derivatives	**-**	**21**	**-**	**21**
Gain (loss) on instruments designated at fair value and related derivatives	**$-**	**$33**	**$13**	**$46**
Three months ended March 31, 2009:				
Interest rate component	$-	$91	$(12)	$79
Credit risk component	35	111	28	174
Total mark-to-market on financial instruments designated at fair value	35	202	16	253
Mark-to-market on the related derivatives	-	(167)	77	(90)
Net realized gain (losses) on the related derivatives	-	14	(65)	(51)
Gain (loss) on instruments designated at fair value and related derivatives	$35	$49	$28	$112

11. Income Taxes

The following table presents our effective tax rates.

Three months ended March 31,	2010		2009	
	(dollars are in millions)			
Statutory federal income tax rate	**$306**	**35.0%**	$(17)	(35.0)%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	**4**	**.5**	5	11.5
Sale of minority stock interest	**-**	**-**	74	154.6
Tax exempt income	**(3)**	**(.3)**	(4)	(8.0)
Low income housing and other tax credits	**(22)**	**(2.5)**	(15)	(32.2)
Effects of foreign operations	**13**	**1.5**	6	12.3
Uncertain tax provision	**23**	**2.6**	(2)	(4.7)
IRS Audit Effective Settlement	**-**	**-**	(8)	(17.1)
State rate change effect on net deferred tax assets	**(1)**	**(.1)**	2	4.7
Other	-	(.1)	-	(.7)
Effective tax rate	$320	36.6%	$41	85.4%

The effective tax rate in 2010 reflects a substantially higher level of pre-tax income, an increased level of low income housing tax credits and an adjustment of uncertain tax positions. 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 and the settlement of an IRS audit of our 2004 and 2005 federal income tax returns.

HSBC North America Consolidated Income Taxes

We are included in HSBC North America's consolidated Federal income tax return and in various combined state income tax returns. As such, we have entered into a tax allocation agreement with HSBC North America and its subsidiary entities ("the HNAH Group") included in the consolidated returns which govern the current amount of taxes to be paid or received by the various entities included in the consolidated return filings. As a result, we have looked at the HNAH Group's consolidated deferred tax assets and various sources of taxable income, including the impact of HSBC and HNAH Group tax planning strategies, in reaching conclusions on recoverability of deferred tax assets. Where a valuation allowance is determined to be necessary at the HSBC North America consolidated level, such allowance is allocated to principal subsidiaries within the HNAH Group as described below in a manner that is systematic, rational and consistent with the broad principles of accounting for income taxes.

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

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

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

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

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

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

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

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

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

HSBC USA Inc. Income Taxes
We recognize deferred tax assets and liabilities for the future tax consequences related to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and state net operating losses. Our net deferred tax assets, net of both deferred tax liabilities and valuation allowances, totaled $1.4 billion and $1.7 billion as of March 31, 2010 and December 31, 2009 respectively. The decrease in net deferred tax assets is primarily due to the reduction in the allowance for credit losses and a decrease in the overall net unrealized losses on available-for-sale securities.

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

12. Pensions and Other Post Retirement Benefits

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

Three Months Ended March 31,	2010	2009
	(in millions)	
Service cost - benefits earned during the period	**$5**	$7
Interest cost on projected benefit obligation	**17**	18
Expected return on assets	**(15)**	(13)
Recognized losses	**9**	9
Amortization of prior service cost	(1)	-
Net periodic pension cost	**$15**	$21

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

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

The aforementioned changes to the Plan have been accounted for as a negative plan amendment and, therefore, the reduction in our share of HSBC North America's projected benefit obligation as a result of this decision will be amortized to net periodic pension cost over future service periods of the affected employees. The changes to the Supplemental Retirement Income Plan have been accounted for as a plan curtailment, which resulted in no significant immediate recognition of income or expense.

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

Three Months Ended March 31,	2010	2009
	(in millions)	
Service cost - benefits earned during the period	**$-**	$-
Interest cost	**1**	1
Recognized losses	**-**	1
Transition amount amortization	**-**	(1)
Net periodic postretirement benefit cost	**$1**	$1

13. Related Party Transactions

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

	March 31, 2010	December 31, 2009
	(in millions)	
Assets:		
Cash and due from banks	**$441**	$362
Interest bearing deposits with banks	**196**	198
Federal funds sold and securities purchased under resale agreements	**459**	294
Trading assets(1)	**13,288**	12,811
Loans	**1,552**	1,476
Other	**593**	852
Total assets	**$16,529**	$15,993
Liabilities:		
Deposits	**$16,581**	$9,519
Trading liabilities(1)	**16,026**	16,848
Short-term borrowings	**1,440**	446
Other	**1,415**	1,677
Total liabilities	**$35,462**	$28,490

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

Three Months Ended March 31	2010	2009
	(in millions)	
Income/(Expense):		
Interest income	**$36**	$47
Interest expense	**10**	7
Net interest income (loss)	**$26**	$40
HSBC affiliate income:		
Fees and commissions:		
HSBC Finance	**$1**	$3
HSBC Markets (USA) Inc. ("HMUS")	**3**	2
Other HSBC affiliates	**22**	11
Fees on transfers of refund anticipation loans to HSBC Finance	**4**	10
Other HSBC affiliates income	**6**	6
Total affiliate income	**$36**	$32
Support services from HSBC affiliates:		
HSBC Finance	**$224**	$189
HMUS	**75**	71
HSBC Technology & Services (USA) Inc. ("HTSU")	**172**	111
Other HSBC affiliates	**47**	52
Total support services from HSBC affiliates	**$518**	$423
Stock based compensation expense with HSBC	**$11**	$18

Transactions Conducted with HSBC Finance Corporation

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

• In January 2009, we also purchased certain auto finance loans, with an outstanding principal balance of $3.0 billion from HSBC Finance at the time of sale, at a total net discount of $226 million. Discounts are amortized to interest income over the estimated life of the receivables purchased. In March 2010, we sold $379 million of auto finance receivables to HSBC Finance including $353 million previously classified as held for sale, a substantial majority of which were comprised of the loans previously purchased from HSBC Finance, who immediately sold them to a third party who also purchased HSBC Finance's auto finance servicing operations. These loans, which were previously serviced by HSBC Finance, are now serviced by this third party provider. Information regarding the loans purchased from HSBC Finance which remain on our balance sheet at March 31, 2010 is summarized in the table below.

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

• In December 2004, we purchased the private label credit card receivable portfolio as well as private label commercial and closed end loans from HSBC Finance. HSBC Finance retained the customer account

relationships and by agreement we purchase on a daily basis substantially all new private label originations from HSBC Finance. HSBC Finance continues to service these loans for us for a fee. Information regarding these loans is summarized in the table below.

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

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

	Private Label		Credit Cards					
	Cards	Commercial and Closed End Loans(1)	General Motors	Union Privilege	Other	Auto Finance	Residential Mortgage	Total
			(in billions)					
Loans serviced by HSBC Finance:								
March 31, 2010	**$13.4**	**$.5**	**$4.7**	**$4.9**	**$1.9**	**$-**	**$1.7**	**$27.1**
December 31, 2009	15.0	.6	5.4	5.3	2.1	2.1	1.8	32.3
Total receivables purchased on a daily basis from HSBC Finance during:								
Three months ended March 31, 2010	**3.0**	**-**	**3.1**	**.7**	**1.0**	**-**	**-**	**7.8**
Three months ended March 31, 2009	3.6	-	3.4	.8	1.0	-	-	8.8

(1) Private label commercial are included in other commercial loans and private label closed end loans are included in other consumer loans in Note 4, "Loans."

Fees paid for servicing these loan portfolios totaled $164 million and $182 million during the three months ended March 31, 2010 and 2009, respectively.

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

• In the fourth quarter of 2009, an initiative was begun to streamline the servicing of real estate secured receivables across North America. As a result, certain functions that we had previously performed for our mortgage customers are now being performed by HSBC Finance for all North America mortgage

customers, including our mortgage customers. Additionally, we are currently performing certain functions for all North America mortgage customers where these functions had been previously provided separately by each entity. During the three months ended March 31, 2010, we paid $1 million for services we received from HSBC Finance and received $2 million for services we had provided.

• In the second quarter of 2008, HSBC Finance launched a new program with HSBC Bank USA to sell loans originated in accordance with the Federal Home Loan Mortgage Corporation's ("Freddie Mac") underwriting criteria to HSBC Bank USA who then sells them to Freddie Mac under its existing Freddie Mac program. During the three months ended 2009, $51 million of real estate secured loans were purchased by HSBC Bank USA under this program. This program was discontinued in February 2009 as a result of the decision to discontinue new receivable originations in HSBC Finance's Consumer Lending business.

• Support services from HSBC affiliates include charges by HSBC Finance under various service level agreements for loan origination and servicing, including the servicing of the portfolios previously discussed and beginning in 2010, the servicing of certain tax refund anticipation loans, as well as other operational and administrative support. Fees paid for these services totaled $224 million and $189 million during the three months ended March 31, 2010 and 2009, respectively.

• Our wholly-owned subsidiaries, HSBC Bank USA and HSBC Trust Company (Delaware), N.A. ("HTCD"), are the originating lenders on behalf of HSBC Finance for a federal income tax refund anticipation loan program for clients of third party tax preparers which are managed by HSBC Finance. By agreement, HSBC Bank USA and HTCD process applications, fund and subsequently transfer a portion of these loans to HSBC Finance. Prior to 2010, all loans were transferred to HSBC Finance. Beginning in 2010, we began keeping a portion of these loans on our balance sheet and earn a fee. The loans we keep are transferred to HSBC Finance at par only upon reaching a defined delinquency status. We pay HSBC Finance a fee to service the loans we retain on our balance sheet and to assume the credit risk associated with these receivables. HSBC Bank USA and HTCD originated approximately $9.3 billion and $9.0 billion of loans during the three months ended March 31, 2010 and 2009, respectively, of which $3.1 billion and $9.0 billion, respectively, were transferred to HSBC Finance during these periods. This resulted in fees of $4 million and $10 million during the three months ended March 31, 2010 and 2009, respectively. Fees earned on the loans retained on balance sheet and fees paid to HSBC Finance totaled $62 million and $56 million, respectively, during the three months ended March 31, 2010.

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

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

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

• We service a portfolio of residential mortgage loans owned by HSBC Finance with an outstanding principal balance of $1.4 billion and $1.5 billion at March 31, 2010 and December 31, 2009, respectively. The related servicing fee income was $.3 million and $2 million during the three months ended March 31, 2010 and 2009, respectively, which is included in residential mortgage banking revenue in the consolidated statement of income (loss).

Transactions Conducted with HMUS

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

• We have extended loans and lines, some of them uncommitted, to HMUS and its subsidiaries in the amount of $4.1 billion, of which $1.0 billion was outstanding at March 31, 2010 and December 31, 2009. Interest income on these loans and lines totaled $5 million and $11 million during the three months ended March 31, 2010 and 2009, respectively.

Other Transactions with HSBC Affiliates

• HSBC North America extended a $1.0 billion senior note to us in August 2009. This is a five year floating rate note which matures on August 28, 2014 with interest due quarterly beginning in November 2009.

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

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

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

• We have extended loans and lines of credit to various other HSBC affiliates totaling $1.4 billion, of which $376 million and $527 million was outstanding at March 31, 2010 and December 31, 2009, respectively. Interest income on these lines totaled $3 million during the three months ended March 31, 2010 and 2009.

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

• We routinely enter into derivative transactions with HSBC Finance and other HSBC affiliates as part of a global HSBC strategy to offset interest rate or other market risks associated with debt issues and derivative contracts with unaffiliated third parties. The notional value of derivative contracts related to these contracts was approximately $705.6 billion and $673.3 billion at March 31, 2010 and December 31, 2009, respectively. The net credit exposure (defined as the recorded fair value of derivative receivables) related to the contracts was approximately $13.3 billion and $12.8 billion at March 31, 2010 and December 31, 2009, respectively. Our Global Banking and Markets business accounts for these transactions on a mark to market basis, with the change in value of contracts with HSBC affiliates substantially offset by the change in value of related contracts entered into with unaffiliated third parties.

• In December 2008, HSBC Bank USA entered into derivative transactions with another HSBC affiliate to offset the risk associated with the contingent "loss trigger" options embedded in certain leveraged super senior (LSS) tranched credit default swaps. These transactions are expected to significantly reduce income volatility for HSBC Bank USA by transferring the volatility to the affiliate. The recorded fair value of derivative assets related to these derivative transactions was approximately $43 million and $70 million at March 31, 2010 and December 31, 2009, respectively.

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

• Our domestic employees participate in a defined benefit pension plan sponsored by HSBC North America. Additional information regarding pensions is provided in Note 12, "Pension and Other Post-retirement Benefits."

• Employees participate in one or more stock compensation plans sponsored by HSBC. Our share of the expense of these plans on a pre-tax basis was $11 million and $18 million during the three months ended March 31, 2010 and 2009, respectively.

• We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas customer service, systems, collection and accounting functions. The expenses related to these services of $7 million during the three months ended March 31, 2010 are included as a component of Support services from HSBC affiliates in the table above. Billing for these services was processed by HTSU.

14. Business Segments

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

Net interest income of each segment represents the difference between actual interest earned on assets and interest paid on liabilities of the segment, adjusted for a funding charge or credit. Segments are charged a cost to fund assets (e.g. customer loans) and receive a funding credit for funds provided (e.g. customer deposits) based on equivalent market rates. The objective of these charges/credits is to transfer

interest rate risk from the segments to one centralized unit in Global Banking and Markets and more appropriately reflect the profitability of segments.

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

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

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

	IFRSs Consolidated Amounts									
	PFS	CF	CMB	Global Banking and Markets	PB	Other	Adjustments/ Reconciling Items	Total	(3) IFRSs Adjustments	(IF Reclass
							(In millions)			
Three months ended March 31, 2010										
Net interest income	**$241**	**$523**	**$188**	**$142**	**$46**	**$(9)**	**$(8)**	**$1,123**	**$59**	
Other operating income	**48**	**18**	**154**	**437**	**35**	**12**	**8**	**712**	**27**	
Total operating income (loss)	**289**	**541**	**342**	**579**	**81**	**3**	**-**	**1,835**	**86**	
Loan impairment charges(2)	(3)	**210**	**1**	(76)	(11)	**2**	**-**	**123**	**100**	
	292	**331**	**341**	**655**	**92**	**1**	**-**	**1,712**	**(14)**	
Operating expenses(1)	**272**	**28**	**150**	**209**	**55**	**15**	**-**	**729**	**95**	
Profit (loss) before tax expense	**$20**	**$303**	**$191**	**$446**	**$37**	$(14)	**$-**	**$983**	$(109)	
Balances at end of period:										
Total assets	**$21,442**	**$27,150**	**$15,958**	**$170,338**	**$4,859**	**$15**	**$-**	**$239,762**	**$(52,674)**	
Total loans, net	**16,506**	**25,240**	**14,312**	**18,538**	**4,162**	**-**	**-**	**78,758**	**(2,175)**	
Goodwill	**876**	**-**	**368**	**497**	**326**	**-**	**-**	**2,067**	**580**	
Total deposits	**49,182**	**91**	**23,097**	**30,719**	**10,990**	**-**	**-**	**114,079**	**(2,581)**	
Three months ended March 31, 2009										
Net interest income	$187	$529	$176	$232	$42	$1	$(11)	$1,156	$102	
Other operating income	40	81	81	221	33	156	11	623	99	

Total operating income (loss)	227	610	257	453	75	157	-	1,779	201
Loan impairment charges(2)	200	554	81	229	(3)	-	-	1,061	214
	27	56	176	224	78	157	-	718	(13)
Operating expenses(1)	296	14	154	199	59	13	-	735	18
Profit (loss) before tax expense	$(269)	$42	$22	$25	$19	$144	$-	$(17)	$(31)
Balances at end of period:									
Total assets	$25,747	$32,897	$18,830	$230,214	$4,890	$111	$-	$312,689	$(129,683)
Total loans, net	20,674	31,240	17,331	39,171	4,080	-	-	112,496	(5,523)
Goodwill	876	-	368	497	326	-	-	2,067	580
Total deposits	47,525	36	21,018	35,247	11,486	2	-	115,314	(5,343)

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

(2) The provision assigned to the segments is based on the segments' net charge-offs and the change in allowance for credit losses.

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

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

Further discussion of the differences between IFRSs and U.S. GAAP are presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the caption "Basis of Reporting." A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

Net interest income

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

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

calculation while under U.S. GAAP they may be recognized on either a contractual or expected life basis.

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

Other operating income (Total other revenues (losses))

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

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

Loans held for sale
- IFRSs requires loans designated as held for sale at the time of origination to be treated as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for sale are reflected as loans and recorded at the lower of amortized cost or fair value. Under IFRSs, the income and expenses related to receivables held for sale are reported in net interest income on trading. Under U.S. GAAP, the income and expenses related to receivables held for sale are reported similarly to loans held for investment.

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

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

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

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

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

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

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

Loan impairment charges (Provision for credit losses)

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

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

Operating expenses

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

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

Assets

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

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

15. Regulatory Capital

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

	March 31, 2010			December 31, 2009		
	Capital Amount	**Well-Capitalized Minimum Ratio(1)**	**Actual Ratio**	**Capital Amount**	**Well-Capitalized Minimum Ratio(1)**	**Actual Ratio**
	(dollars are in millions)					
Total capital ratio:						
HSBC USA Inc.	**$19,695**	**10.00%**	**15.49%**	$19,087	10.00%	14.19%
HSBC Bank USA	**20,158**	**10.00**	**16.11**	19,532	10.00	14.81
Tier 1 capital ratio:						
HSBC USA Inc.	**13,662**	**6.00**	**10.75(3)**	12,934	6.00	9.61
HSBC Bank USA	**14,091**	**6.00**	**11.26(3)**	13,354	6.00	10.13
Tier 1 leverage ratio:						
HSBC USA Inc.	**13,662**	**3.00(2)**	**7.56**	12,934	3.00(2)	7.59
HSBC Bank USA	**14,091**	**5.00**	**7.96**	13,354	5.00	8.07
Risk weighted assets:						
HSBC USA Inc.	**127,126(3)**			134,553		
HSBC Bank USA	**125,101(3)**			131,854		

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

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

(3) Effective January 1, 2010, we began consolidating a commercial paper conduit managed by HSBC Bank USA as a result of adopting new guidance related to the consolidation of variable interest entities as more fully discussed in Note 16, "Variable Interest Entities." Since we elected to adopt the transition mechanism for Risk Based Capital Requirements, there is no change to the risk weighted assets or the Tier 1 capital ratios for the first two quarters of 2010. Had we fully transitioned to the Risk Based Capital requirements at March 31, 2010, our risk weighted assets would have been higher by approximately $2 billion which would not have had a significant impact to our Tier 1 capital ratio.

In the first quarter of 2010, we received no capital contributions from our immediate parent, HNAI.

As part of the regulatory approvals with respect to the aforementioned receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become "low-quality assets," as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During the first quarter of 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $103

million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. Capital ratios and amounts at March 31, 2010 and December 31, 2009 in the table above reflect this reporting.

Regulatory guidelines impose certain restrictions that may limit the inclusion of deferred tax assets in the computation of regulatory capital. Continued losses, including losses associated with FVO elections, coupled with bad debt provisions that exceed charge-offs are creating additional deferred tax assets, which could, from time to time, result in such exclusion. We closely monitor the deferred tax assets for potential limitations or exclusions. At March 31, 2010, deferred tax assets of $119 million were excluded in the computation of regulatory capital.

16. Variable Interest Entities

On January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board in June 2009 which amends the accounting for the consolidation of variable interest entities ("VIEs"). The new guidance changed the approach for determining the primary beneficiary of a VIE from a quantitative approach focusing on risk and reward to a qualitative approach focusing on (a) the power to direct the activities of the VIE and (b) the obligation to absorb losses and/or the right to receive benefits that could be significant to the VIE. The adoption of the new guidance has resulted in the consolidation of one commercial paper conduit managed by HSBC Bank USA as discussed more fully below. The impact of consolidating this entity beginning on January 1, 2010 resulted in an increase to our assets and liabilities of $3.5 billion and $3.8 billion, respectively, which resulted in a $1 million increase to the opening balance of retained earnings in common shareholder's equity and a $246 million reduction to the opening balance of other comprehensive income in common shareholder's equity. Since we elected to adopt the transition mechanism for Risk Based Capital requirements, there will be no change to the way we calculate risk weighted assets against the Bryant Park facilities for the first two quarters of 2010 and as a result, there is also no change to Tier 1 capital ratios for the first two quarters of 2010. Had we fully transitioned to the Risk Based Capital requirements at March 31, 2010, our risk weighted assets would have been higher by approximately $2 billion which would not have had a significant impact to our Tier 1 capital ratios. See asset-backed commercial paper conduit portion of the table "Consolidated VIE's" presented below for additional details of the assets and liabilities relating to this newly consolidated entity.

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

Variable Interest Entities

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

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

Consolidated VIEs

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

	March 31, 2010		December 31, 2009	
	Consolidated Assets	**Consolidated Liabilities**	**Consolidated Assets**	**Consolidated Liabilities**
		(in Millions)		
Asset-backed commercial paper conduit:				
Interest bearing deposits with banks	**$1**	**$-**	$-	$-
Held to maturity securities	**1,247**	**-**	-	-
Loans	**1,523**	**-**	-	-
Other assets	**2**	**-**	-	-
Short-term borrowings	**-**	**3,240**	-	-
Other liabilities	**-**	**1**	-	-
Subtotal	**2,773**	**3,241**	-	-
Securitization vehicles:				
Loans	**14,427**	**-**	16,292	-
Available for sale investments	**1,004**	**-**	1,138	-
Long-term debt	**-**	**2,171**	-	2,985
Other liabilities	**-**	**796**	-	1,283
Subtotal	**15,431**	**2,967**	17,430	4,268
Low income housing limited liability partnership:				
Other assets	**562**	**-**	585	-
Long term debt	**-**	**55**	-	55
Other liabilities	**-**	**126**	-	135
Subtotal	**562**	**181**	585	190
Total	**$18,766**	**$6,389**	$18,015	$4,458

Asset-Backed Commercial Paper Conduit

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

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

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

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

Securitization Vehicles

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

At March 31, 2010 and December 31, 2009, the consolidated assets of these trusts were $15.4 billion and $17.4 billion, respectively and were reported in loans and securities available-for-sale. Debt securities issued by these VIEs are reported as secured financings in long-term debt. The assets of the consolidated VIEs serve as collateral for the obligations of the VIEs. The holders of the debt securities issued by these vehicles have no recourse to our general credit.

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

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

	March 31, 2010				**December 31, 2009**	
	Variable Interests Held Classified as Assets	**Variable Interests Held Classified as Liabilities**	**Total Assets in Unconsolidated VIEs**	**Maximum Exposure to Loss**	**Total Assets in Unconsolidated VIEs**	**Maximum Exposure to Loss**
			(in millions)			
Asset-backed commercial paper conduits	**$-**	**$-**	**$13,366**	**$2,011**	$10,485	$5,050
Structured note vehicles	**161**	**112**	**7,213**	**453**	7,890	569
Total	**$161**	**$112**	**$20,579**	**$2,464**	$18,375	$5,619

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

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

Customers sell financial assets, such as trade receivables, to ABCP conduits, which fund the purchases by issuing short-term highly-rated commercial paper collateralized by the assets acquired. In a multi-seller

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

Each seller of assets to an ABCP conduit typically provides collateral in the form of excess assets and therefore bears the risk of first loss related to the specific assets transferred. We do not transfer our own assets to the conduits. We have no ownership interests in, perform no administrative duties for, and do not service any of the assets held by the conduits. We are not the primary beneficiary and do not consolidate any of the ABCP conduits to which we provide liquidity facilities, other than Bryant Park as discussed above. Credit risk related to the liquidity facilities provided is managed by subjecting them to our normal underwriting and risk management processes. The $2.0 billion maximum exposure to loss presented in the table above represents the maximum amount of loans and asset purchases we could be required to fund under the liquidity facilities. The maximum loss exposure is estimated assuming the facilities are fully drawn and the underlying collateralized assets are in default with zero recovery value. The reduction in amounts outstanding since December 31, 2009 reflects the consolidation of a previously unconsolidated commercial paper conduit as a result of adopting new accounting guidance relating to the consolidation of VIE's effective January 1, 2010, as more fully described above.

Structured Note Vehicles

Our involvement in structured note vehicles includes entering into derivative transactions such as interest rate and currency swaps, and investing in their debt instruments. With respect to several of these VIEs, we hold variable interests in the form of total return swaps entered into in connection with the transfer of certain assets to the VIEs. In these transactions, we transferred financial assets from our trading portfolio to the VIEs and entered into total return swaps under which we receive the total return on the transferred assets and pay a market rate of return. The transfers of assets in these transactions do not qualify as sales under the applicable accounting literature and are accounted for as secured borrowings. Accordingly, the transferred assets continue to be recognized as trading assets on our balance sheet and the funds received are recorded as liabilities in long-term debt. As of March 31, 2010, we recorded approximately $146 million of trading assets and $174 million of long-term liabilities on our balance sheet as a result of "failed sale" accounting treatment for certain transfers of financial assets. As of December 31, 2009, we recorded approximately $169 million of trading assets and $205 million of long-term liabilities on our balance sheet as a result of "failed sale" accounting treatment. The financial assets and financial liabilities were not legally ours and we have no control over the financial assets which are restricted solely to satisfy the liability.

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

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

Beneficial Interests Issued by Third-party Sponsored Securitization Entities
We hold certain beneficial interests issued by third-party sponsored securitization entities which may be considered as variable interest entities. The investments are transacted at arm's-length and decisions to invest are based on credit analysis on underlying collateral assets or the issuer. We are a passive investor in these issuers and do not have the power to direct the activities of these issuers. As such, we do not consolidate these securitization entities. Additionally, we do not have other involvements in servicing or managing the collateral assets or provide financial or liquidity support to these issuers that potentially give rise to risk of loss exposure. These investments are an integral part of the disclosure in Note 3, "Securities" and Note 18, "Fair Value Measurements" and therefore, were not disclosed in this Note to avoid redundancy.

17. Guarantee Arrangements and Pledged Assets

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

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

	March 31, 2010		**December 31, 2009**	
	Carrying Value	**Notional/Maximum Exposure to Loss**	**Carrying Value**	**Notional/Maximum Exposure to Loss**
		(in millions)		
Credit derivatives(1),(2)	**$(3,845)**	**$394,459**	$(5,751)	$387,225
Financial standby letters of credit, net of participations(3),(4)	**-**	**4,638**	-	4,545
Performance (non-financial) guarantees	**-**	**3,059**	-	3,100
Liquidity asset purchase agreements(4)	**-**	**2,011**	-	5,050
Total	$(3,845)	**$404,167**	$(5,751)	$399,920

(1) Includes $56.9 billion and $57.3 billion issued for the benefit of HSBC affiliates at March 31, 2010 and December 31, 2009, respectively.
(2) For credit derivatives, the maximum loss is represented by the notional amounts without consideration of mitigating effects from collateral or recourse arrangements.
(3) Includes $741 million and $774 million issued for the benefit of HSBC affiliates at March 31, 2010 and December 31, 2009, respectively.
(4) For standby letters of credit and liquidity asset purchase agreements, maximum loss represents losses to be recognized assuming the letter of credit and liquidity facilities have been fully drawn and the obligors have defaulted with zero recovery.

Credit-Risk Related Guarantees:

Credit Derivatives

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

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

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

	March 31, 2010		**December 31, 2009**	
	Carrying (Fair) Value	**Notional**	**Carrying (Fair) Value**	**Notional**
	(in millions)			
Sell-protection credit derivative positions	**$(3,845)**	**$394,459**	$(5,751)	$387,225
Buy-protection credit derivative positions	**4,672**	**385,393**	6,693	381,258
Net position	**$827**	**$9,066**	$942	$5,967

Standby Letters of Credit

A standby letter of credit is issued to a third party for the benefit of a customer and is a guarantee that the customer will perform or satisfy certain obligations under a contract. It irrevocably obligates us to pay a specified amount to the third party beneficiary if the customer fails to perform the contractual obligation. We issue two types of standby letters of credit: performance and financial. A performance standby letter of credit is issued where the customer is required to perform some nonfinancial contractual obligation, such as the performance of a specific act, whereas a financial standby letter of credit is issued where the customer's contractual obligation is of a financial nature, such as the repayment of a loan or debt instrument. As of March 31, 2010, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $4.6 billion and $3.1 billion, respectively. As of December 31, 2009, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $4.5 billion and $3.1 billion, respectively.

The issuance of a standby letter of credit is subject to our credit approval process and collateral requirements. We charge fees for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, which represent the fair value of the stand-ready obligation to perform under these guarantees, amounting to $55 million and $48 million at March 31, 2010 and December 31, 2009, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $27 million at March 31, 2010 and December 31, 2009.

Below is a summary of the credit ratings of credit risk related guarantees including the credit ratings of counterparties against which we sold credit protection and financial standby letters of credit as of March 31, 2010 as an indicative proxy of payment risk:

Notional/Contractual Amounts	Average Life (in years)	Credit Ratings of the Obligors or the Transactions: Investment Grade	Non-Investment Grade	Total
		(dollars are in millions)		
Sell-protection Credit Derivatives(1)				
Single name CDS	**3.29**	**$154,769**	**$67,399**	**$222,168**
Structured CDS	**2.96**	**47,454**	**2,754**	**50,208**
Index credit derivatives	**3.41**	**105,674**	**3,632**	**109,306**
Total return swaps	**8.50**	**11,960**	**817**	**12,777**
Subtotal		**319,857**	**74,602**	**394,459**
Standby Letters of Credit(2)	**1.2**	**7,351**	**346**	**7,697**
Total		**$327,208**	**$74,948**	**$402,156**

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

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

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

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

Liquidity Asset Purchase Agreements
We provide liquidity facilities to a number of multi-seller and single-seller asset-backed commercial paper conduits sponsored by affiliates and third parties. The conduits finance the purchase of individual assets by issuing commercial paper to third party investors. Each liquidity facility is transaction specific and has a maximum limit. Pursuant to the liquidity agreements, we are obligated, subject to certain limitations, to purchase the eligible assets from the conduit at an amount not to exceed the face value of the commercial paper in the event the conduit is unable to refinance its commercial paper. A liquidity asset purchase agreement is essentially a conditional written put option issued to the conduit where the exercise price is the face value of the commercial paper. As of March 31, 2010 and December 31, 2009, we have issued $2.0 billion and $5.1 billion, respectively, of liquidity facilities to provide liquidity support to the commercial paper issued by various conduits. The decline since December 31, 2009 reflects our consolidation of the Bryant Park commercial paper conduit effective January 1, 2010. See Note 16, "Variable Interest Entities" for further information.

Principal Protected Products

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

Sale of Mortgage Loans

We originate and sell mortgage loans to government sponsored entities and provide various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance to the origination criteria established by the agencies. In the event of a breach of our representations and warranties, we may be obligated to repurchase the loans with identified defects or to indemnify the buyers. Our contractual obligation arises only when the representations and warranties are breached. Our estimated liability for obligations arising from the breach of representations and warranties was $116 million and $66 million as of March 31, 2010 and December 31, 2009, respectively. The increase from year-end was due to an increase of $50 million in the reserve for potential repurchase liability exposures related primarily to previously originated mortgages through broker channels.

Visa Covered Litigations

We are an equity member of Visa Inc. ("Visa"). Prior to its initial public offering ("IPO") on March 19, 2008, Visa completed a series of transactions to reorganize and restructure its operations and to convert membership interests into equity interests. Pursuant to the restructuring, we, along with all the Class B shareholders, agreed to indemnify Visa for the claims and obligations arising from certain specific covered litigations. Class B shares are convertible into listed Class A shares upon (i) settlement of the covered litigations or (ii) the third anniversary of the IPO, whichever is earlier. The indemnification is subject to the accounting and disclosure requirements. Visa used a portion of the IPO proceeds to establish a $3.0 billion escrow account to fund future claims arising from those covered litigations (the escrow was subsequently increased to $4.1 billion). In July 2009, Visa exercised its rights to sell shares of existing Class B shareholders in order to increase the escrow account and announced that it had deposited an additional $700 million into the escrow account. As a result, we re-evaluated the contingent liability we have recorded relating to this litigation and reduced our liability by $8.6 million during 2009. At March 31, 2010, the contingent liability recorded was $25 million.

Clearinghouses and Exchanges

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

Pledged Assets

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

	March 31, 2010	December 31, 2009
	(in millions)	
Interest bearing deposits with banks	**$1,359**	$1,496
Trading assets(1)	**532**	708
Securities available- for-sale(2)	**13,568**	11,416
Securities held to maturity(3)	**1,667**	457
Loans(4)	**4,507**	3,933
Other assets(5)	**4,945**	6,459
Total	**$26,578**	$24,469

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

(2) Securities available-for-sale are primarily pledged against various short-term and long-term borrowings.

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

(4) Loans are primarily private label card and other credit card receivables pledged against long-term secured borrowings and residential mortgage loans pledged against long-term borrowings from the Federal Home Loan Bank. At March 31, 2010 loans also include the loans of a consolidated asset backed commercial paper conduit that collateralize the conduit's outstanding commercial paper.

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

18. Fair Value Measurements

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Fair Value Measurements on a Recurring Basis as of March 31, 2010					
	Level 1	Level 2	Level 3	Gross Balance	Netting(1)	Net Balance
	(in millions)					
Assets:						
Trading Securities:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	$733	$134	$-	$867	$-	$867
Collateralized debt obligations	-	-	755	755	-	755
Asset-backed securities:						
Residential mortgages	-	114	826	940	-	940
Home equity	-	-	25	25	-	25
Corporate and other domestic debt securities	-	936	644	1,580	-	1,580
Debt Securities issued by foreign entities:						
Corporate	-	128	222	350	-	350
Government	-	430	-	430	-	430
Equity securities	-	26	19	45	-	45
Precious metals trading	-	11,827	-	11,827	-	11,827
Derivatives(2):						
Interest rate contracts	144	27,234	-	27,378	-	27,378
Foreign exchange contracts	1	12,558	247	12,806	-	12,806
Equity contracts	-	1,163	179	1,342	-	1,342
Precious metals contracts	2	484	-	486	-	486
Credit contracts	-	13,202	2,596	15,798	-	15,798
Other	9	9	4	22	-	22
Derivatives netting	-	-	-	-	(49,838)	(49,838)
Total derivatives	156	54,650	3,026	57,832	(49,838)	7,994
Securities available-for-sale:						

U.S. Treasury. U.S. Government agencies and sponsored enterprises	**13,202**	**13,092**	**-**	**26,294**	**-**	**26,294**
Obligations of U.S. states and political subdivisions	**-**	**621**	**-**	**621**	**-**	**621**
Asset-backed securities:						
Residential mortgages	**-**	**257**	**529**	**786**	**-**	**786**
Commercial mortgages	**-**	**572**	**8**	**580**	**-**	**580**
Home equity	**-**	**192**	**215**	**407**	**-**	**407**
Auto	**-**	**17**	**29**	**46**	**-**	**46**
Student loans	**-**	**18**	**12**	**30**	**-**	**30**
Other	**-**	**109**	**-**	**109**	**-**	**109**
Corporate and other domestic debt securities	**-**	**710**	**-**	**710**	**-**	**710**
Debt Securities issued by foreign entities:						
Corporate	**-**	**539**	**-**	**539**	**-**	**539**
Government	**-**	**2,568**	**-**	**2,568**	**-**	**2,568**
Equity securities	**-**	**1,130**	**-**	**1,130**	**-**	**1,130**
Loans(3)	**-**	**1,436**	**12**	**1,448**	**-**	**1,448**
Intangible(4)	**-**	**-**	**444**	**444**	**-**	**444**
Total assets	**$14,091**	**$89,506**	**$6,766**	**$110,363**	$(49,838)	**$60,525**
Liabilities:						
Deposits in domestic offices(5)	**$-**	**$3,117**	**$1,940**	**$5,057**	**$-**	**$5,057**
Trading liabilities, excluding derivatives	**966**	**3,894**	**-**	**4,860**	**-**	**4,860**
Derivatives(2):						
Interest rate contracts	**85**	**27,502**	**-**	**27,587**	**-**	**27,587**
Foreign exchange contracts	**48**	**13,003**	**367**	**13,418**	**-**	**13,418**
Equity contracts	**2**	**1,044**	**130**	**1,176**	**-**	**1,176**
Precious metals contracts	**38**	**619**	**-**	**657**	**-**	**657**
Credit contracts	**-**	**14,477**	**1,252**	**15,729**	**-**	**15,729**
Other	**1**	**1**	**1**	**3**	**-**	**3**
Derivatives netting	**-**	**-**	**-**	**-**	(53,196)	(53,196)
Total derivatives	**174**	**56,646**	**1,750**	**58,570**	**(53,196)**	**5,374**
Long-term debt(6)	**-**	**4,215**	**604**	**4,819**	**-**	**4,819**
Total liabilities	**$1,140**	**$67,872**	**$4,294**	**$73,306**	$(53,196)	**$20,110**

	Fair Value Measurements on a Recurring Basis as of December 31, 2009					
	Level 1	**Level 2**	**Level 3**	**Gross Balance**	**Netting(1)**	**Net Balance**
				(in millions)		
Assets:						
Trading Securities:						
U.S. Treasury. U.S. Government agencies and sponsored enterprises	$615	$50	$-	$665	$-	$665
Residential mortgage-backed securities	-	129	821	950	-	950
Collateralized debt obligations	-	-	831	831	-	831
Other asset-backed securities	-	9	25	34	-	34
	-	792	1,202	1,994	-	1,994

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

(1) Represents counterparty and cash collateral netting which allow the offsetting of amounts relating to certain contracts if certain conditions are met.
(2) Includes trading derivative assets of $7.4 billion and $8.2 billion and trading derivative liabilities of $5.2 billion and $5.3 billion as of March 31, 2010 and December 31, 2009, respectively, as well as derivatives held for hedging and commitments accounted for as derivatives.
(3) Includes leveraged acquisition finance and other commercial loans held for sale or risk-managed on a fair value basis for which we have elected to apply the fair value option. See Note 6, "Loans Held for Sale," for further information.
(4) Represents residential mortgage servicing rights. See Note 7, "Intangible Assets," for further information on residential mortgage servicing rights.
(5) Represents structured deposits risk-managed on a fair value basis for which we have elected to apply the fair value option.
(6) Includes structured notes and own debt issuances which we have elected to measure on a fair value basis.

Significant Transfers into/out of Levels 1 and 2

There were no significant transfers between levels 1 and 2 for the three months ended March 31, 2010.

Information on Level 3 Assets and Liabilities

The following table summarizes additional information about changes in the fair value of Level 3 assets and liabilities during the three months ended March 31, 2010 and 2009. As a risk management practice, we may risk manage the Level 3 assets and liabilities, in whole or in part, using securities and derivative positions that are classified as Level 1 or Level 2 measurements within the fair value hierarchy. Since those Level 1 and Level 2 risk management positions are not included in the table below, the information provided does not reflect the effect of such risk management activities related to the Level 3 assets and liabilities.

		Total Gains and (Losses) Included in(1)						
	Jan. 1, 2010	Trading Revenue (Loss)	Other Revenue	Other Comprehensive Income	Purchases	Issuances	Settlements	Transfers Into Level 3
					(in millions)			
Assets:								
Trading assets, excluding derivatives								
Collateralized debt obligations	**$832**	**$25**	**$-**	**$-**	**$222**	**$-**	**$(324)**	**$**
Asset-backed securities:								
Residential mortgages	**817**	**13**	**-**	**-**	**94**	**-**	**(119)**	**2**
Commercial mortgages	**4**	**-**	**-**	**-**	**-**	**-**	**(1)**	
Home equity	**24**	**-**	**-**	**-**	**-**	**-**	**(2)**	
Corporate and other domestic debt securities	**1,202**	**(31)**	**-**	**-**	**25**	**-**	**(368)**	
Debt Securities issued by foreign entities:								
Corporate	**195**	**27**	**-**	**-**	**-**	**-**	**-**	
Equity securities	**21**	**(1)**	**-**	**-**	**-**	**-**	**(1)**	
Foreign exchange contracts	**(95)**	**(25)**	**-**	**-**	**-**	**-**	**1**	
Equity contracts	**81**	**83**	**-**	**-**	**-**	**-**	**(57)**	**(58**
Credit contracts	**1,311**	**(181)**	**-**	**-**	**-**	**-**	**(70)**	**21**
Other	**(3)**	**-**	**6**	**-**	**-**	**-**	**(1)**	
Securities available-for-sale:								
U.S. Treasury, U.S. Government agencies and sponsored enterprises	**3**	**-**	**-**	**-**	**-**	**-**	**-**	
Asset-backed securities:								

Residential mortgages	**515**	**-**	**-**	**16**	**-**	**-**	**(71)**	**7**
Commercial mortgages	**8**	**-**	**-**	**-**	**-**	**-**	**-**	
Home equity	**175**	**-**	**-**	**45**	**-**	**-**	**(5)**	
Auto	**43**	**-**	**-**	**-**	**-**	**-**	**(14)**	
Student loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Loans(3)	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Other assets, excluding derivatives(4)	**450**	**-**	**21**	**-**	**-**	**-**	(27)	
Total assets	**$5,587**	$(90)	**$27**	**$61**	**$341**	**$-**	$(1,059)	**$28**
Liabilities:								
Deposits in domestic offices	**$(1,643)**	**$(71)**	**$-**	**$-**	**$-**	**$(310)**	**$74**	**$(7**
Long-term debt	(419)	(12)	**-**	**-**	**-**	(209)	**29**	
Total liabilities	$(2,062)	$(83)	**$-**	**$-**	**$-**	$(519)	**$103**	$(

		Total Gains and (Losses) Included in(1)			Net	Transfers		
	January 1, 2009	Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Purchases Issuances and Settlements	Into or Out of Level 3	March 31, 2009	Current Periods Unrealized Gains (Losses)
				(in millions)				
Assets:								
Trading assets, excluding derivatives								
Residential mortgage-backed securities	$475	$(40)	$-	$-	$20	$55	$510	$(41)
Collateralized debt obligations	668	(59)	-	-	(15)	-	594	(59)
Other asset-backed securities	36	(8)	-	-	-	-	28	(8)
Corporate and other domestic debt securities	480	5	-	-	15	27	527	5
Debt Securities issued by foreign entities	87	(10)	-	-	-	-	77	(10)
Equity securities	147	19	-	-	(22)	-	144	19
Precious metals	-	-	-	-	-	-	-	-
Derivatives, net(2)	5,283	(561)	(1)	-	21	(55)	4,687	(421)

Securities available-for-sale								
Obligations of U.S. states and political subdivisions	-	-	-	-	-	2	2	-
Residential mortgage-backed securities	164	-	-	(9)	(14)	192	333	(9)
Commercial mortgage-backed securities	-	-	-	-	-	5	5	-
Collateralized debt obligations	-	-	-	-	-	-	-	-
Other asset-backed securities	307	-	-	(36)	(25)	10	256	(36)
Loans(3)	136	-	-	-	19	-	155	-
Other assets, excluding derivatives(4)	333	-	(48)	-	28	-	313	(28)
Total Assets	$8,116	$(654)	$(49)	$(45)	$27	$236	$7,631	$(588)
Liabilities:								
Deposits in domestic offices	(234)	-	12	-	(188)	6	(404)	9
Long term debt	(57)	-	-	-	(27)	2	(82)	(1)
Total liabilities	$(291)	$-	$12	$-	$(215)	$8	$(486)	$8

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(1) Includes realized and unrealized gains and losses.
(2) Level 3 net derivatives included derivative assets of $3.0 billion and $7.3 billion and derivative liabilities of $1.8 billion and $2.6 billion at March 31, 2010 and 2009, respectively.
(3) Includes Level 3 corporate lending activities risk-managed on a fair value basis for which we have elected the fair value option.
(4) Represents residential mortgage servicing activities. See Note 7, "Intangible Assets," for additional information.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis

The following table presents information about our assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2010 and March 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Non-Recurring Fair Value Measurements as of March 31, 2010				Total Gains (Losses) For the Three Months Ended March 31, 2010
	Level 1	Level 2	Level 3	Total	
			(in millions)		
Residential mortgage loans held for sale(1)	**$-**	**$150**	**$761**	**$911**	**$(5)**
Other consumer loans held for sale(1)	**-**	**-**	**28**	**28**	**-**
Impaired loans(2)	**-**	**-**	**718**	**718**	**5**
Real estate owned(3)	**-**	**63**	**-**	**63**	**1**
Repossessed vehicles(3)	**-**	**5**	**-**	**5**	**-**
Commercial loans held for sale	**-**	**3**	**-**	**3**	**-**
Held to maturity asset-backed securities held by consolidated VIE(4)	**-**	**-**	**254**	**254**	**(5)**
Building held for use	**-**	**-**	**15**	**15**	**-**
Total assets at fair value on a non-recurring basis	**$-**	**$221**	**$1,776**	**$1,997**	**$(4)**

	Non-Recurring Fair Value Measurements as of March 31, 2009				Total Gains (Losses) For the Three Months Ended March 31, 2009
	Level 1	Level 2	Level 3	Total	
			(in millions)		
Residential mortgage loans held for sale(1)	$-	$723	$1,109	$1,832	$(93)
Other consumer loans held for sale(1)	-	-	45	45	-
Impaired loans(2)	-	-	97	97	8
Real estate owned(3)	-	65	-	65	(2)
Repossessed vehicles(3)	-	1	-	1	-
Total assets at fair value on a non-recurring basis	$-	$789	$1,251	$2,040	$(87)

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(1) As of March 31, 2010 and March 31, 2009, the fair value of the loans held for sale was below cost.
(2)

Represents impaired commercial loans. We use the fair value estimate of the underlying collateral to approximate the fair value of the commercial loans.

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

(4) Represents held to maturity securities which were held at fair value at March 31, 2010. See Note 16, "Variable Interest Entities" for additional information.

Fair Value of Financial Instruments

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

	March 31, 2010		**December 31, 2009**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	(in millions)			
Financial assets:				
Short-term financial assets	**$35,532**	**$35,532**	$24,094	$24,094
Federal funds sold and securities purchased under resale agreements	**2,898**	**2,898**	1,046	1,046
Non-derivative trading assets	**16,819**	**16,819**	17,596	17,596
Derivatives	**7,994**	**7,994**	8,831	8,831
Securities	**37,687**	**37,815**	30,568	30,686
Commercial loans, net of allowance for credit losses	**28,867**	**29,205**	29,366	29,298
Commercial loans designated under fair value option and held for sale	**1,451**	**1,451**	1,126	1,126
Consumer loans, net of allowance for credit losses	**43,207**	**38,552**	46,262	41,877
Consumer loans held for sale:				
Residential mortgages	**1,129**	**1,132**	1,386	1,389
Auto finance	**-**	**-**	353	353
Other consumer	**28**	**28**	43	43
Financial liabilities:				
Short-term financial liabilities	**$18,669**	**$18,669**	$11,121	$11,121
Deposits:				
Without fixed maturities	**114,632**	**114,632**	106,890	106,890
Fixed maturities	**5,122**	**5,156**	7,215	7,259
Deposits designated under fair value option	**5,057**	**5,057**	4,232	4,232
Non-derivative trading liabilities	**4,860**	**4,860**	2,687	2,687
Derivatives	**5,374**	**5,374**	5,419	5,419
Long-term debt	**12,515**	**12,765**	13,440	13,693
Long-term debt designated under fair value option	**4,819**	**4,819**	4,568	4,568

Loan values presented in the table above were determined using the Fair Value Framework for measuring fair value, which is based on our best estimate of the amount within a range of value we believe would be received in a sale as of the balance sheet date (i.e. exit price). The secondary market demand and estimated value for our loans has been heavily influenced by the deteriorating economic conditions during the past few years, including house price depreciation, rising unemployment, changes in consumer

behavior, and changes in discount rates. Many investors are non-bank financial institutions or hedge funds with high equity levels and a high cost of debt. For certain consumer loans, investors incorporate numerous assumptions in predicting cash flows, such as higher charge-off levels and/or slower voluntary prepayment speeds than we, as the servicer of these loans, believe will ultimately be the case. The investor discount rates reflect this difference in overall cost of capital as well as the potential volatility in the underlying cash flow assumptions, the combination of which may yield a significant pricing discount from our intrinsic value. The estimated fair values at March 31, 2010 and December 31, 2009 reflect these market conditions.

Valuation Techniques

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

Short-term financial assets and liabilities

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

Federal funds sold and purchased and securities purchased and sold under resale and repurchase agreements

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

Loans

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

• Mortgage Loans Held for Sale - Certain residential mortgage loans are classified as held for sale and are recorded at the lower of cost or fair value. As of March 31, 2010, the fair value of these loans is below their amortized cost. The fair value of these mortgage loans is determined based on the valuation information observed in alternative exit markets, such as the whole loan market, adjusted for portfolio specific factors. These factors include the location of the collateral, the loan-to-value ratio, the estimated rate and timing of default, the probability of default or foreclosure and loss severity if foreclosure does occur.

• Leveraged Loans - We record leveraged loans and revolvers held for sale at fair value. Where available, market consensus pricing obtained from independent sources are used to estimate the fair value of the leveraged loans and revolvers. In determining the fair value, we take into consideration the number of participants submitting pricing information, the range of pricing information and distribution, the methodology applied by the pricing services to cleanse the data and market liquidity. Where consensus pricing information is not available, fair value is estimated using observable market prices of similar instruments or inputs, including bonds, credit derivatives, and loans with similar characteristics. Where observable market parameters are not available, fair value is determined based on contractual cash flows, adjusted for the probability of default and estimated recoveries where applicable, discounted at the rate

demanded by market participants under current market conditions. In those cases, we also consider the loan specific attributes and inherent credit risk and risk mitigating factors such as collateral arrangements in determining fair value.

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

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

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

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

Lending-related Commitments
- The fair value of commitments to extend credit, standby letters of credit and financial guarantees are not included in the table. The majority of the lending related commitments are not carried at fair value on a recurring basis nor are they actively traded. These instruments generate fees, which approximate those currently charged to originate similar commitments, which are recognized over the term of the commitment period. Deferred fees on commitments and standby letters of credit totaled $55 million and $48 million at March 31, 2010 and December 31, 2009, respectively.

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

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

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

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

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

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

Trading asset-backed securities and related collateral:

Credit quality of collateral:		Prime		Alt-A		Sub-prime		
Rating of securities:	Collateral type:	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Total
				(in millions)				
AAA - A	Residential mortgages	$4	$-	$103	$131	$-	$381	$619
	Home equity	-	-	-	12	-	-	12
	Other	-	-	7	-	-	-	7
	Total AAA - A	4	-	110	143	-	381	638
BBB-B	Residential mortgages	-	15	-	75	-	-	90
	Home equity	-	-	-	3	-	-	3
	Total BBB -B	-	15	-	78	-	-	93
CCC-Unrated	Residential mortgages	-	-	-	224	-	-	224
	Home equity	-	-	-	10	-	-	10
	Total CCC - Unrated	-	-	-	234	-	-	234
		$4	$15	$110	$455	$-	$381	$965

Trading collateralized debt obligations and related collateral:

Credit quality of collateral:		
Rating of securities:	Collateral type:	Level 3
		(in millions)
AAA - A	Commercial mortgages	$-
	Corporate loans	-
	Other	-
	Total AAA - A	-
BBB-B	Commercial mortgages	72
	Corporate loans	357
	Other	204
	Total BBB - B	633
CCC-Unrated	Commercial mortgages	50
	Corporate loans	-

Other	72
Total CCC - Unrated	122
	$755

Available-for-sale securities backed by collateral:

Credit quality of collateral:		Prime		Alt-A		Sub-prime		
Rating of securities:	Collateral type:	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Total
		(in millions)						
AAA - A	Residential mortgages	$-	$-	$255	$98	$-	$-	$353
	Commercial mortgages	-	-	572	8	-	-	580
	Home equity	-	-	192	-	-	2	194
	Student loans	-	-	18	12	-	-	30
	Other	-	-	109	-	-	-	109
	Total AAA - A	-	-	1,146	118	-	2	1,266
BBB-B	Residential mortgages	-	30	-	155	-	-	185
	Home equity	-	-	-	205	-	1	206
	Auto	-	-	17	29	-	-	46
	Total BBB -B	-	30	17	389	-	1	437
CCC-Unrated	Residential mortgages	-	-	2	246	-	-	248
	Home equity	-	-	-	7	-	-	7
	Total CCC - Unrated	-	-	2	253	-	-	255
		$-	$30	$1,165	$760	$-	$3	$1,958

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

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

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

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

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

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

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

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

• FX Derivatives - FX transactions use spot and forward fx rates which are quoted in the broker market.

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

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

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

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

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

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

rights, we use various interest rate derivatives and forward purchase contracts of mortgage-backed securities to risk-manage the mortgage servicing rights.

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

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

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

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

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

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

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

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

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

19. New Accounting Pronouncements

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

Accounting for consolidation of variable interest entities
In June 2009, the FASB issued guidance which amends the accounting rules related to the consolidation of variable interest entities ("VIEs"). The guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model based on control and economics. Effective January 1, 2010, certain VIEs which are not consolidated currently will be required to be consolidated. Under this new guidance, we consolidated one asset-backed commercial paper conduit where we provide substantially all of the liquidity facilities and have the ability to direct most significant activities. The impact of consolidating this entity on January 1, 2010 resulted in an increase to our assets

and liabilities of approximately $3.5 billion and $3.8 billion, respectively, which resulted in a decrease to the opening balance of common shareholder's equity which was recorded as an increase to retained earnings of $1 million and a reduction to other comprehensive income of $246 million. Since we elected to adopt the transition mechanism for Risk Based Capital Requirements, there will be no change to the way we calculate risk weighted assets against the liquidity facilities of the above mentioned asset-backed commercial paper conduit for the first two quarters of 2010. There is therefore also no change to the Tier 1 capital ratios for the first two quarters of 2010. Had we fully transitioned to the Risk Based Capital requirements at March 31, 2010, our risk weighted assets would have been higher by approximately $2 billion which would not have had a significant impact to our Tier 1 capital ratios. See Note 16, "Variable Interest Entities" in these consolidated financial statements for additional information.

Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair measurements and describe the reasons for the same. It also requires Level 3 reconciliation to be presented on a gross basis, while disclosing purchases, sales, issuances and settlements separately. The guidance is effective for interim and annual financial periods beginning after December 15, 2009, except for gross basis presentation for Level 3 reconciliation, which is effective for interim and annual periods beginning after December 15, 2010. We adopted the new disclosure requirements in their entirety effective January 1, 2010. See Note 18, "Fair Value Measurements" in these consolidated financial statements.

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

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

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

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

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC USA Inc. that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may," "will," "should," "would," "could," "appears," "believe," "intends," "expects," "estimates," "targeted," "plans," "anticipates," "goal" and similar expressions 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. HSBC USA Inc. undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Overview

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

Current Environment
During the first quarter of 2010, economic conditions in the United States continued to improve. Liquidity has returned to the financial markets for most sources of funding except for mortgage securitization and companies are able to issue debt with credit spreads now approaching levels historically seen prior to the crisis, despite the U.S. government's exit from some of its support programs. However, the prolonged period of low Federal funds rates continues to put pressure on spreads earned on our deposit base. While the slowing pace of job losses is helping the housing markets, the first-time homebuyer tax credit as well as low interest rates resulting from government monetary policy actions have been the main forces driving up home sales and shrinking home inventories, which has resulted in home price stabilization, particularly in the middle and lower price sectors. Improved market conditions have also resulted in recovery during the first quarter of 2010 of some of the valuation losses previously recorded on several asset classes during 2008 and into 2009. How sustainable these improvements will be in the absence of these government actions remains to be seen.

Deterioration in the job market continued to ease in the first quarter of 2010 as job losses slowed in the first two months of the year and job gains of over 150,000 were reported in March, the biggest monthly gain in the last three years. Despite the improving job picture, U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained stubbornly high at 9.7 percent in March 2010, a decrease of only 30 basis points since December 2009. In addition, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in 17 states are greater than the U.S. national average and unemployment rates in 11 states are at or above 11 percent while in New York, where approximately 32 percent of our loan portfolio is concentrated, unemployment remained lower than the national average at 8.6 percent. The increases in unemployment rates have been most pronounced in the markets which had previously experienced the highest appreciation in home values. Unemployment has continued to have an impact on the provision for credit losses in our loan portfolio and in loan portfolios across the industry.

Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, volatility in energy prices, previous volatility experienced by the credit markets and corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates and a sustained recovery of the housing markets continue to remain critical components of 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 credit quality. Although consumer confidence has improved from the levels seen early in 2009, it remains low on a historical basis. Weak consumer fundamentals including declines in wage income, reduced consumer spending, declines in wealth and a difficult job market continue to depress consumer confidence. Additionally, there is uncertainty as to the future course of monetary policy and uncertainty as to the impact to the economy and consumer confidence when the remaining actions taken by the government to restore faith in the capital markets and stimulate consumer spending end. These conditions in combination with general economic weakness and recent and proposed regulatory changes will likely continue to impact our results in 2010, the degree of which is largely dependent upon the nature and timing of an economic recovery and the impact of 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 throughout 2009 and into 2010. In June 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 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 House of Representatives passed The Wall Street Reform and Consumer Protection Act, which addresses many of the Administration's proposed reforms. Similar legislation was approved in March 2010 by the U.S. Senate Committee on Banking, Housing and Urban Affairs. In addition, 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. 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.

Performance, Developments and Trends

Our net income was $554 million during the three months ended March 31, 2010 compared to a net loss of $89 million in the prior year quarter. Our income before income tax was $874 million during the three months ended March 31, 2010 compared to a loss before income tax of $48 million during the prior year quarter. Our results in both periods were impacted by the change in the fair value of our own debt and the related derivatives for which we have elected fair value option and other non-recurring items 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 loss before income tax for the three months ended March 31, 2010 and 2009:

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Income (loss) before income tax, as reported	**$874**	$(48)
Change in value of our own fair value option debt and related derivatives	**(33)**	(49)
Gain relating to resolution of lawsuit(1)	**(5)**	(85)
Gain on sale of equity interest in Wells Fargo HSBC Trade Bank	**(66)**	-
Revenue associated with whole loan purchase settlement(2)	**(89)**	-
Gain on sale of equity interest in HSBC Private Bank (Suisse) S.A.	**-**	(33)
Income (loss) from continuing operations before income tax, excluding above items(3)	**$681**	$(215)

(1) The proceeds of the resolution of this lawsuit in 2009 were used to redeem 100 preferred shares held by CT Financial Services, Inc. as provided under the terms of the preferred shares. The proceeds received in 2010 represent the final judgment.
(2) Represents loans previously purchased for resale from a third party.
(3) Represents a non-U.S. GAAP financial measure.

Our overall results for the three months ended March 31, 2010 improved significantly compared to the prior year quarter as higher other revenues (losses) and lower provisions for credit losses were partially offset by lower net interest income and higher operating expenses.

Other revenues (losses) improved significantly compared to the prior year quarter due primarily to the prior year quarter reflecting reductions in other revenues (losses), largely trading revenue associated with credit derivative products due to the adverse financial market conditions which existed at that time. Improved market conditions in 2010 have resulted in a recovery of some of these valuation losses. A summary of the significant valuation adjustments associated with market disruptions that impacted revenue for the three month periods ended March 31, 2010 and 2009 are presented in the following table.

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Gains (Losses)		
Insurance monoline structured credit products	**$56**	$(164)
Other structured credit products	**37**	(193)
Mortgage whole loans held for sale, including whole loan purchase settlement (predominantly subprime)	**77**	(86)
Other than temporary impairment on securities available-for-sale and held-to-maturity	**(28)**	(38)
Leverage acquisition finance loans held for sale	(1)	35
Total	**$141**	$(446)

Other revenues (losses) also improved during the quarter due to higher gains on sales of equity investments and a gain associated with a settlement related to certain whole loans previously purchased for re-sale from a third party. These increases were partially offset by lower credit card fees due to lower levels of credit card and private label receivables, changes in customer behavior, and lower delinquency levels as well as the recent implementation of certain provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act") which resulted in lower over limit and payment processing fees.

The market turmoil experienced over the past couple of years has created stress for certain counterparties with whom we conduct business as part of our lending and client intermediation activities. We assess, monitor and control credit risk with formal standards, policies and procedures that are designed to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively. Consequently, we believe any loss exposure related to counterparties with whom we conduct business has been adequately reflected in our financial statements at March 31, 2010.

Net interest income was $1,200 million during the three months ended March 31, 2010 compared to $1,348 million in the prior year quarter. The decrease reflects the impact of a higher mix of lower yielding interest earning assets including higher levels of interest bearing deposits with banks, lower average loan balances and rates earned on these balances and significantly lower rates earned on securities due to sales in 2009 to reduce prepayment risk and risk-weighted asset levels. These reductions were partially offset by commercial loan repricings and lower promotional balances on private label credit cards as well as a lower cost of funds.

Our provision for credit losses decreased $963 million during the first quarter of 2010 as compared to the year-ago quarter as loan balances declined, economic and credit conditions improved, including lower dollars of delinquency since year-end in part due to seasonality and continued stabilization in the housing markets. These conditions have resulted in improved outlook on future loss estimates for our credit card, and private label receivables as well as for our residential mortgage loan portfolio. Provision for credit losses also decreased for both loans and loan commitments in the commercial loan portfolio due to lower outstanding balances including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and lower levels of nonperforming loans and criticized assets. Also contributing to the decrease were fewer customer downgrades across all business lines compared to the prior year period. The combination of all of these factors has led to a net recovery in provision for commercial loans during the three months ended March 31, 2010. Given the nature of the factors driving the reduction in commercial loan provision during the quarter, the provision levels recognized in the first quarter of 2010 should not be considered indicative of provision levels in future quarters.

Operating expenses totaled $1,066 million in the first quarter of 2010, an increase of 9.67 percent from the year-ago quarter. Lower salaries and employee benefit expense reflecting the centralization of additional shared services in North America in HTSU as well as continued cost management efforts and lower marketing expenses were offset by higher fees paid to HTSU and other affiliates than the prior year quarter due to the centralization of additional shared services across North America and a change to how the refund anticipation loan program is managed, which resulted in higher fees paid to HSBC Finance.

Our efficiency ratio was 49.58 percent for the three months ended March 31, 2010 as compared to 46.33 in the year-ago period. The deterioration in the efficiency ratio in the first quarter of 2010 resulted primarily from decreased net interest income and higher operating expenses which were partially offset by higher other revenues.

Our effective tax rate was 36.6 percent during the three months ended March 31, 2010 as compared to 85.4 percent in the year-ago quarter. The effective tax rate in 2010 reflects a substantially higher level of pre-tax income, an increased level of low income housing tax credits and an adjustment of uncertain tax positions. 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 and the settlement of an IRS audit.

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. The transaction closed in April 2010. The sale will result in a gain of approximately $150 million; however, it will be deferred and recognized over ten years due to our continuing involvement. The headquarters of HSBC Bank USA remains in New York.

The financial information set forth below summarizes selected financial highlights of HSBC USA Inc. as of March 31, 2010 and December 31, 2009 and for the three month periods ended March 31, 2010 and 2009.

Three Months Ended March 31,	**2010**	**2009**
	(dollars are in millions)	
Net Income (loss)	**$554**	$(89)
Rate of return on average :		
Total assets	**1.22%**	(.20)%
Total common shareholder's equity	**15.79**	(3.60)
Net interest margin to average earning assets	**3.01**	3.46
Efficiency ratio	**49.58**	46.33
Commercial loan net charge-off ratio(1)	**1.29**	.56
Consumer loan net charge-off ratio(1)	**6.43**	3.55

	March 31, 2010	**December 31, 2009**
	(dollars are in millions)	
Loans:		
Commercial loans	**$29,634**	$30,304
Consumer loans	**45,664**	49,185
Total loans	**$75,298**	$79,489
Loans held for sale	**$2,608**	$2,908
Commercial allowance as a percent of loans(1)	**2.59%**	3.10%
Commercial two-months-and-over contractual delinquency	**2.33**	3.04
Consumer allowance as a percent of loans(1)	**5.38**	5.94
Consumer two-months-and-over contractual delinquency	**6.00**	5.97
Loan-to-deposits ratio(2)	**89.49**	94.36
Total shareholders' equity to total assets	**8.36**	8.87
Total capital to risk weighted assets	**15.49**	14.19
Tier 1 capital to risk weighted assets	**10.75**	9.61

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

Loans excluding loans held for sale were $75.3 billion at March 31, 2010 and $79.5 billion at December 31, 2009. Loans declined compared to December 31, 2009 driven by run-off in all of our consumer portfolios. We continue to sell the majority of new residential mortgage loan originations to government sponsored enterprises and to allow the existing on-balance sheet portfolio to run-off. The decline in credit card and private label receivables reflects lower customer spending, the continued impact from actions previously taken to reduce risk in these portfolios, seasonal paydowns in credit card balances and an increased focus

by customers to reduce outstanding credit card debt. Commercial loans also decreased compared to year-end due to increased paydowns and managed reductions in certain exposures, partially offset by the adoption of new accounting guidance on the consolidation of variable interest entities which resulted in the consolidation of an incremental $1.5 billion of commercial loans in the quarter. See "Balance Sheet Review" for a more detailed discussion of the changes in loan balances.

Credit Quality

Our allowance for credit losses as a percentage of total loans decreased during the three months ended March 31, 2010 as compared to December 31, 2009. The decrease in our allowance ratio reflects a lower allowance on our residential mortgage, credit card and private label receivable portfolios due to lower outstanding balances and improved credit quality, in part due to seasonality and improvement in economic conditions. Our commercial loan allowance for credit losses ratio also fell as economic conditions and related credit quality began to stabilize and our future loss estimates improved.

Consumer two-months-and-over contractual delinquency as a percentage of loans and loans held for sale ("delinquency ratio") for consumer loans increased to 6.00 percent at March 31, 2010 as compared to 5.97 percent at December 31, 2009. Dollars of delinquency fell across all consumer portfolios during the quarter while outstanding loan balances also declined. The slight increase in the delinquency ratio since December 31, 2009 was driven by our residential mortgage loan portfolio as loan balances in this portfolio declined at a faster rate than delinquency. See "Credit Quality" in this MD&A for a more detailed discussion of the decrease in the delinquency ratios.

Net charge-offs as a percentage of average loans ("net charge-off ratio") decreased 5 basis points as compared to December 31, 2009 primarily due to lower residential mortgage and private label card charge-offs. We experienced lower dollars of charge-off in all loan categories during the first quarter of 2010 driven by lower receivable levels and improved credit quality, in part due to seasonality. These favorable trends were partially offset by the impact from continued weakness in the U.S. economy including continued high unemployment levels and portfolio seasoning, as the higher levels of delinquency reported in prior periods continue to migrate to charge-off. Lower average outstanding loan balances as discussed above have also contributed to the increase in our charge-off ratio. See "Credit Quality" in this MD&A for a more detailed discussion of 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 10.75 percent and 9.61 percent at March 31, 2010 and December 31, 2009, respectively. Our capital levels remain well above levels established by current banking regulations as "well capitalized." We received no capital contributions from our immediate parent, HNAI during the first quarter of 2010 as compared to $1.1 billion during the year-ago quarter which was used to support the credit card and auto finance receivable purchases from HSBC Finance in January 2009.

As part of the regulatory approvals with respect to the affiliate receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become "low-quality assets," as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During the three months ended March 31, 2010, HSBC Bank USA sold low quality auto finance loans with a net book value of approximately $103 million to a non-bank subsidiary of HSBC USA Inc. to reduce this capital requirement. Capital ratios and

amounts at March 31, 2010 and December 31, 2009 in the table above reflect this revised regulatory reporting. At March 31, 2010 and December 31, 2009, we have exceeded the minimum ratios required.

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.

As of March 31, 2010, there are no pending actions in terms of changes to ratings on the debt of HSBC USA Inc. or HSBC Bank USA from any of the rating agencies.

Income Before Income Tax Expense - Significant Trends

Income before income tax expense, and various trends and activity affecting operations, are summarized in the following table.

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Income (loss) before income tax from prior year	**$(48)**	$(442)
Increase (decrease) in income before income tax attributable to:		
Balance sheet management activities(1)	**(192)**	361
Trading related activities(2)	**358**	590
Credit card fees(3)	**(124)**	128
Loans held for sale(4)	**163**	31
Residential mortgage banking related revenue(5)	**(102)**	32
Gain (loss) on own debt designated at fair value and related derivatives(6)	**(16)**	49
Gain (loss) on instruments at fair value and related derivatives, excluding own debt(6)	**(50)**	63
Provision for credit losses(7)	**963**	(676)
All other activity(8)	(78)	(184)
Income (loss) before income tax for current period	**$874**	$(48)

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(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" section of this MD&A.

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

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

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

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

(6) For additional discussion regarding fair value option and fair value measurement, see Note 10, "Fair Value Option," in the accompanying consolidated financial statements.

(7)

For additional discussion regarding provision for credit losses, see the caption "Results of Operations" in this MD&A.

(8) Represents other core banking activities.

Basis of Reporting

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

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

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

Three Months Ended March 31	**2010**	**2009**
	(in millions)	
Net income (loss) - U.S. GAAP basis	**$554**	$(89)
Adjustments, net of tax:		
Unquoted equity securities	**-**	7
Reclassification of financial assets	**(10)**	13
Securities	**34**	(94)
Derivatives	**2**	1
Loan impairment	**7**	5
Property	**1**	2
Pension costs	**57**	7
Purchased loan portfolios	**(26)**	29
Servicing assets	**1**	9
Return of capital	**(3)**	-
Interest recognition	**-**	(1)
Other	**10**	1
Net profit (loss) - IFRSs basis	**627**	(110)
Tax benefit (expense) - IFRSs basis	**356**	93
Profit (loss) before tax - IFRSs basis	**$983**	$(17)

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

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

Reclassification of financial assets

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

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

Securities

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

Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares held for stock plans are recorded at fair value through other comprehensive income and subsequently recognized in profit and loss as the shares vest. 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.

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." Furthermore, in 2010, changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under US GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition.

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

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

Return of capital
- In 2010, this includes the recognition of $3 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, restructuring costs and loans held for sale.

Balance Sheet Review

We utilize deposits and borrowings from various sources to provide liquidity, fund balance sheet growth, meet cash and capital needs, and fund investments in subsidiaries. Balance sheet totals at March 31, 2010 and increases (decreases) over December 31, 2009, are summarized in the table below.

	March 31, 2010	Increase (Decrease) from December 31, 2009 Amount	%
	(dollars are in millions)		
Period end assets:			
Short-term investments	**$37,652**	$13,338	54.9%
Loans, net	**72,074**	(3,554)	(4.7)
Loans held for sale	**2,608**	(300)	(10.3)
Trading assets	**24,215**	(1,600)	(6.2)
Securities	**37,687**	7,119	23.3
Other assets	**12,812**	966	8.2
	$187,048	$15,969	9.3%
Funding sources:			
Total deposits	**$124,811**	$6,474	5.5%
Trading liabilities	**10,104**	2,094	26.1
Short-term borrowings	**11,541**	5,029	77.2
All other liabilities	**7,628**	2,593	51.5
Long-term debt	**17,334**	(674)	(3.7)
Shareholders' equity	**15,630**	453	3.0
	$187,048	$15,969	9.3%

Short-Term Investments

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

Loans, Net

Loan balances at March 31, 2010 and increases (decreases) over December 31, 2009, are summarized in the table below.

	March 31, 2010	Increase (Decrease) from December 31, 2009 Amount	%
	(dollars are in millions)		
Total commercial loans	**$29,634**	$(670)	(2.2)%
Consumer loans:			
Residential mortgages, excluding home equity mortgages	**13,512**	(210)	(1.5)

Home equity mortgages	**4,046**	(118)	(2.8)
Total residential mortgages	**17,558**	(328)	(1.8)
Auto finance	**1,453**	(248)	(14.6)
Private label	**13,466**	(1,625)	(10.8)
Credit Card	**11,816**	(1,232)	(9.4)
Other consumer	**1,371**	(88)	(6.0)
Total consumer loans	**45,664**	(3,521)	(7.2)
Total loans	**75,298**	(4,191)	(5.3)
Allowance for credit losses	**3,224**	(637)	(16.5)
Loans, net	**$72,074**	$(3,554)	(4.7)%

Commercial loans decreased compared to December 31, 2009. Commercial loan balances at March 31, 2010 reflect the implementation of new accounting guidance relating to the consolidation of variable interest entities ("VIEs") which resulted in an incremental $1.5 billion of commercial loans being recorded on our balance sheet. Excluding this impact, commercial loan balances decreased $2.1 billion in the quarter due to increased paydowns and managed reductions in certain exposures, including higher underwriting standards and lower overall demand from our core customer base.

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

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

	Refreshed LTVs(1)(2) at March 31, 2010		**Refreshed LTVs(1)(2) at December 31, 2009**	
	First Lien	**Second Lien**	**First Lien**	**Second Lien**
LTV<80%	**71.6%**	**62.4%**	71.5%	62.8%
80%≤LTV<90%	**14.0**	**14.3**	14.3	14.9
90%≤LTV<100%	**7.5**	**10.0**	7.7	9.5
LTV≥100%	**6.9**	**13.3**	6.5	12.8
Average LTV for portfolio	**68.1**	**74.4**	68.1	74.2

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(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 December 31, 2009 and September 30, 2009, respectively.

Credit card and private label receivable balances decreased due to lower consumer spending, the continued impact from actions previously taken to mitigate risk including tighter underwriting criteria to lower the risk profile of the portfolio, seasonal paydowns in credit card balances and an increased focus by customers to reduce outstanding credit card debt and, as it relates to the private label portfolio, the exit of certain merchant relationships.

Auto finance loans have decreased due to run-off of the portfolio purchased from HSBC Finance 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 March 31, 2010 and increases (decreases) over December 31, 2009, are summarized in the table below.

	March 31,	Increase (Decrease) from December 31, 2009	
	2010	Amount	%
	(dollars are in millions)		
Total commercial loans	**$1,451**	$325	28.9%
Consumer loans:			
Residential mortgages	**1,129**	(257)	(18.5)
Auto Finance	**-**	(353)	(100.0)
Other consumer	**28**	(15)	(34.9)
Total consumer loans	**1,157**	(625)	(35.1)
Total loans held for sale	**$2,608**	$(300)	(10.3)%

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 $1.0 billion and $1.1 billion at March 31, 2010 and December 31, 2009, respectively, all of which are recorded at fair value. Commercial loan balances under this program decreased compared to December 31, 2009 due to loan sales. In the first quarter of 2010, we provided foreign currency denominated loans to a third party which are classified as commercial loans held for sale and for which we elected to apply fair value option. The fair value of commercial loans held for sale under this program was $419 million at March 31, 2010. See Note 10, "Fair Value Option" for further information.

Residential mortgage loans held for sale include subprime residential mortgage loans of $734 million and $757 million at March 31, 2010 and December 31, 2009, respectively, that were acquired from unaffiliated third parties and from HSBC Finance with the intent of securitizing or selling the loans to third parties. Also included in residential mortgage loans held for sale are first mortgage loans originated and held for sale primarily to various government sponsored enterprises. We retain the servicing rights in relation to these mortgages upon sale. Balances declined in the first quarter due to sales, partially offset by improved valuations as discussed below.

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

Other consumer loans held for sale consist of student loans which we no longer originate. The decrease since December 31, 2009 reflects the sale of a portion of these loans in the first quarter of 2010.

Loans held for sale are recorded at the lower of cost or market value. While the book value of loans held for sale continued to exceed fair value at March 31, 2010, we experienced a decrease in the valuation allowance during the first quarter of 2010 due to improved conditions and reduced volatility in the U.S. residential mortgage markets.

Trading Assets and Liabilities

Trading assets and liabilities balances at March 31, 2010 and increases (decreases) over December 31, 2009, are summarized in the table below.

	March 31, 2010	Increase (Decrease) from December 31, 2009 Amount	%
	(dollars are in millions)		
Trading assets:			
Securities(1)	**$4,992**	$(348)	(6.5)%
Precious metals	**11,827**	(429)	(3.5)
Fair value of derivatives	**7,396**	(823)	(10.0)
	$24,215	$(1,600)	(6.2)%
Trading liabilities:			
Securities sold, not yet purchased	**$1,102**	$971	100+%
Payable for precious metals	**3,758**	1,202	47.0
Fair value of derivatives	**5,244**	(79)	(1.5)
	$10,104	$2,094	26.1%

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(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 March 31, 2010 decreased slightly from year-end as increased market values for asset-backed securities were offset by lower security levels.

Lower precious metals trading assets at March 31, 2010 as compared to December 31, 2009 were primarily due to lower gold inventory. Higher payables for precious metals from year-end were due to increased balances in gold and silver.

Derivative assets and liabilities balances as compared to year-end 2009 were impacted by market volatility as valuations of foreign exchange, interest rate and credit derivatives all reduced from spread tightening in all sectors. Also, credit derivative levels continued to decrease as we actively sought to reduce exposure.

Deposits
Deposit balances by major depositor categories at March 31, 2010 and increases (decreases) over December 31, 2009, are summarized in the table below.

	March 31, 2010	Increase (Decrease) from December 31, 2009 Amount	%
	(dollars are in millions)		
Individuals, partnerships and corporations	**$102,437**	$4,030	4.1%
Domestic and foreign banks	**15,709**	2,160	15.9
U.S. Government, states and political subdivisions	**4,290**	(124)	(2.8)
Foreign governments and official institutions	**2,375**	408	20.7
Total deposits	**$124,811**	$6,474	5.5 %
Total core deposits(1)	**$83,451**	$224	.3 %

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

Deposits continued to be a key source of funding during the first quarter of 2010. Total deposits at March 31, 2010 increased 5.5 percent compared to year-end due largely to higher deposits from affiliates as well as growth in branch-based deposit products driven primarily 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. Core domestic deposits, which are the substantial source of our core liquidity, increased modestly during the quarter as a significant portion of the growth in deposits was driven by an increase in affiliate deposits which are not eligible for inclusion in the regulatory definition of core deposits referred to in

the table above.

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 2010, Premier Investor savings has grown to $8.1 billion at March 31, 2010 as compared to $7.4 billion at December 31, 2009 and Premier Checking has grown to $4.4 billion at March 31, 2010 compared to $4.2 billion at December 31, 2009;

• Internet based products, including Online Savings, Online Payment and Online Certificate of Deposit accounts. Online Savings balances have grown to $16.2 billion at March 31, 2010 as compared to $15.6 billion at December 31, 2009. Online certificates of deposit have declined to $630 million at March 31, 2010 compared to $741 million at December 31, 2009. In January 2010, HSBC Direct was rebranded to HSBC Advance, which is consistent with our global focus;

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

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

Short-Term Borrowings
Increased balances at March 31, 2010 from December 31, 2009 levels were driven by increased commercial paper balances due to the consolidation of the Bryant Park commercial paper conduit as a result of adopting new VIE accounting guidance effective January 1, 2010 and higher precious metals borrowings.

Long-Term Debt
Long-term debt has continued to decline as our overall asset levels have decreased and we continue to focus on deposit gathering activities. Incremental issuances from the $40 billion HSBC Bank USA Global Bank Note Program totaled $147 million during the three months ended March 31, 2010. Total debt outstanding under this program was $3.6 billion and $3.5 billion at March 31, 2010 and December 31, 2009.

Incremental long-term debt borrowings from our shelf registration statement with the Securities and Exchange Commission totaled $430 million and $282 million during the three months ended March 31, 2010 and 2009, respectively. Total long term debt outstanding under this shelf was $5.7 billion and $5.5 billion at March 31, 2010 and December 31, 2009.

We had borrowings from the Federal Home Loan Bank ("FHLB") of $1.0 billion at both March 31, 2010 and December 31, 2009. At March 31, 2010, we had the ability to access further borrowings of up to $2.0 billion based on the amount pledged as collateral with the FHLB.

In January 2009 as part of the purchase of the GM and UP Portfolio from HSBC Finance, we assumed $6.1 billion of securities backed by credit card receivables which were accounted for as secured financings. Borrowings under these facilities totaled $2.2 billion and $2.4 billion at March 31, 2010 and December 31, 2009, respectively.

We have entered into a series of transactions with VIEs organized by HSBC affiliates and unrelated third parties. We are the primary beneficiary of certain of these VIEs under the applicable accounting literature and, accordingly, we have consolidated the assets and the debt of these VIEs. As mentioned above, on January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board which amends accounting rules relating to the consolidation of VIEs. Application of this new guidance has resulted in the consolidation of one additional VIE and, therefore, the consolidated debt of VIE's we now report is greater than that reported in previous periods. Debt obligations of VIEs totaling $5.4 billion were included in short-term borrowings and long-term debt at March 31, 2010. Debt obligations of VIEs totaling $3.1 billion were included in long-term debt at December 31, 2009. See Note 16, "Variable Interest Entities" in the accompanying consolidated financial statements for additional information regarding VIE arrangements.

Results of Operations

Net Interest Income

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

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

	Three Months Ended March 31,	
	2010	**2009**
Yield on total earning assets	**3.82%**	4.92%
Rate paid on interest bearing liabilities	**0.97**	1.74
Interest rate spread	**2.85**	3.18
Benefit from net non-interest earning or paying funds	**0.16**	0.28
Net interest margin to earning assets(1)	3.01 %	3.46 %

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

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

	Three Months Ended March 31,	
	Amount	Interest Rate Spread
	(dollars are in millions)	
Net interest income/interest rate spread from prior year	**$1,354**	3.18 %
Increase (decrease) in net interest income associated with:		
Trading related activities	**(61)**	
Balance sheet management activities(1)	**(105)**	
Private label credit card portfolio	**(6)**	
Credit card portfolio	**(16)**	
Commercial loans	**(35)**	
Deposits	**14**	
Residential mortgage banking	**(10)**	
Other activity	**70**	
Net interest income/interest rate spread for current year	**$1,205**	2.85 %

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

Trading Related Activities
Net interest income for trading related activities decreased during the three months ended March 31, 2010 due primarily to lower average balances of trading assets which was partially offset by lower cost of funds.

Balance Sheet Management Activities
Lower net interest income from balance sheet management activities during the three months ended March 31, 2010 was due primarily to the sale of securities in 2009 and the re-investment of proceeds into lower margin securities, partially offset by positions taken in expectation of decreasing short-term rates.

Private Label Credit Card Portfolio
Net interest income on private label credit card receivables was lower during the first quarter of 2010 as a result of lower average balances outstanding, partially offset by lower funding costs.

Credit Card Portfolios
Lower net interest income on credit card receivables during the first quarter of 2010 primarily reflects lower average balances outstanding, partially offset by higher spreads driven by lower funding costs.

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

Deposits
Higher net interest income during the first quarter of 2010 on deposits is due primarily to spread expansion on core banking activities in the Personal Financial Services and Commercial Banking business segments. These segments continue to be affected by falling interest rates and growth in customer deposits in higher yielding deposit products, such as online savings and premier investor accounts, but this has been offset by pricing initiatives and an overall slightly less competitive retail market.

Residential mortgage banking
During the first quarter of 2010, lower net interest income resulted from lower average residential loan outstandings partially offset by lower funding costs. Lower average residential loans outstanding resulted in part from the sale of approximately $2.6 billion of prime adjustable and fixed rate residential mortgages since March 31, 2009.

Other Activity
Higher net interest income from other activity was primarily due to lower interest expense related to long term debt and higher net interest income related to interest bearing deposits with banks. This was partially offset by lower net interest income on auto finance receivables.

Provision for Credit Losses

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Commercial	$(73)	$148	$(221)	(100+)%
Consumer:				
Residential mortgages, excluding and home equity	**(19)**	162	**(181)**	**(100+)**
Home equity mortgages	**(21)**	21	**(42)**	**(100+)**
Private label card receivables	**109**	399	**(290)**	**(72.7)**
Credit card receivables	**190**	393	**(203)**	**(51.7)**
Auto finance	**25**	25	**-**	**-**
Other consumer	**-**	26	(26)	(100.0)
Total consumer	**284**	1,026	(742)	(72.3)
Total provision for credit losses	**$211**	$1,174	$(963)	(82.0)%

We decreased our credit loss reserves during the three months ended March 31, 2010 as the provision for credit losses was $641 million lower than net charge-offs compared to provision for credit losses greater than net charge-offs of $631 million in the prior year quarter. The provision as a percentage of average receivables was .26 percent at March 31, 2010 compared to 1.26 percent at March 31, 2009. The decrease in credit loss provision reflects lower loss estimates in our commercial and consumer loan portfolios as discussed in more detail below.

Commercial loan provision for credit losses decreased for the three months ended March 31, 2010 as a result of lower loss estimates in most commercial portfolios since year-end due to lower outstanding balances including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and lower levels of nonperforming loans and criticized assets. Also contributing to the decrease were fewer customer downgrades across all business lines compared to the prior year period. The combination of all of these factors has led to a net recovery in provision for commercial loans during the three months ended March 31, 2010. Given the nature of the factors driving the reduction in commercial loan provision during the quarter, the provision levels recognized in the first quarter of 2010 should not be considered indicative of provision levels in future quarters.

The provision for credit losses on residential mortgages including home equity mortgages decreased $223 million during the first quarter of 2010 as compared to the prior year quarter. The decrease in provision for credit losses on residential mortgages was attributable to lower receivable levels and stabilization in residential mortgage loan credit quality as dollars of delinquency in the first quarter of 2010 have remained relatively flat since year-end and charge-off dollars continue to decline compared to the prior year period as outstanding balances continue to fall and loss severities stabilize. These factors have resulted in an improved outlook on future loss estimates.

The provision for credit losses associated with credit card receivables decreased $203 million in the first quarter of 2010 due to lower receivable levels, improved economic and credit conditions, including lower dollars of delinquency since year-end in part due to seasonality, portfolio seasoning, as well as an

improved outlook on future loss estimates as the impact of higher unemployment rates on losses has not been as severe as previously anticipated due in part to improved cash flow from government stimulus activities, home price stability and the impact of tighter underwriting initiated in prior periods. Lower receivable levels reflect lower consumer spending, the impact of the actions previously taken to reduce risk and increased seasonality as customers focus on paying down credit card debt. These decreases were partially offset by portfolio.

Provision expense associated with our private label card portfolio decreased $290 million during the first quarter of 2010, due to lower receivable levels, improved economic and credit conditions 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 as discussed above.

Provision expense associated with our auto finance portfolio remained flat during the first quarter of 2010 as the impact of lower receivable levels was offset by portfolio seasoning.

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

Other Revenues

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$233**	$357	**$(124)**	**(34.7)%**
Other fees and commissions	**292**	231	**61**	**26.4**
Trust income	**26**	32	**(6)**	**(18.8)**
Trading revenue (loss)	**204**	(154)	**358**	**100+**
Net other-than-temporary impairment losses	**(28)**	(38)	**10**	**26.3**
Other securities gains, net	**21**	47	**(26)**	**(55.3)**
HSBC affiliate income:				
Fees and commissions	**30**	26	**4**	**15.4**
Other affiliate income	**6**	6	**-**	**-**
Total HSBC affiliate income	**36**	32	**4**	**12.5**
Residential mortgage banking revenue(1)	**(37)**	65	**(102)**	**(100+)**
Gain on instruments at fair value and related derivatives(2)	**46**	112	**(66)**	**(58.9)**
Other income :				
Valuation of loans held for sale	**77**	(86)	**163**	**100+**
Insurance	**5**	7	**(2)**	**(28.6)**
Earnings from equity investments	**3**	15	**(12)**	**(80.0)**
Miscellaneous income	**73**	130	(57)	(43.8)
Total other income	**158**	66	**92**	**100+**
Total other revenues	**$951**	$750	**$201**	26.8%

(1) Includes servicing fees received from HBSC Finance of $2 million and $4 million during the three months ended March 31, 2010 and 2009, respectively.
(2) Includes gains and losses associated with financial instruments elected to be measured at fair value and the related derivatives. See Note 10, "Fair Value Option," of the accompanying consolidated financial statements for additional information.

Credit Card Fees

Lower credit card fees during the three months ended March 31, 2010 were due primarily to lower receivable levels as a result of lower consumer spending, changes in customer behavior, increased seasonality in the quarter, the continuing impact of efforts to manage risk initiated in prior periods, improved delinquency levels, as well as the implementation of certain provisions of the CARD Act earlier in the year which has resulted in lower overlimit and payment processing fees. Higher reversals of fee income stemming from reduced charge-off activity upon acquisition of the GM and UP Portfolios in the first quarter of 2009 due to purchase accounting also contributed to the decrease.

Other Fees and Commissions

Other fee-based income increased during the first quarter of 2010 largely due to higher refund anticipation loan fees. Beginning in 2010, we began to keep a portion of originated refund anticipation loans on our balance sheet. As a result, we earn fee income on these loans. The loans we keep are transferred to HSBC Finance at par only if they reach a certain defined delinquency status.

Trust Income

Trust income declined in the first quarter of 2010 primarily due to lower domestic custody fees from lower assets under management and margin pressures as money market assets have shifted from higher fee asset classes to lower fee institutional class funds.

Trading Revenue (Loss)

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Trading revenue (loss)	**$204**	$(154)	**$358**	**100+%**
Net interest income	**(8)**	53	**(61)**	**(100+)**
Trading related revenue (loss)	**$196**	$(101)	**$297**	**100+%**
Business:				
Derivatives	**107**	(268)	**375**	**100+**
Balance sheet management	**21**	12	**9**	**75.0**
Foreign exchange and banknotes	**56**	131	**(75)**	**(57.3)**
Precious metals	**20**	21	**(1)**	**(4.8)**
Global banking	**(5)**	3	**(8)**	**(100+)**
Other trading	**(3)**	-	**(3)**	**(100+)**
Trading related revenue (loss)	**$196**	$(101)	**$297**	**100+%**

Trading revenue (loss) improved significantly compared to the prior year quarter as the prior year quarter reflects reductions to revenue associated with credit derivative products due to the adverse market conditions which existed at that time. Improved market conditions in 2010 have resulted in a recovery of some of these valuation losses.

Trading revenue related to derivatives improved during the three months ended March 31, 2010 due to the performance of structured credit products which reported total gains of $93 million during the first quarter of 2010 as compared to total losses of $357 million during the prior year quarter. The performance of credit derivatives remained stable during the first quarter of 2010 as credit spread volatility and, the outlook for corporate defaults improved and exposures to several counterparties, including monoline insurers, were reduced as a result of the early termination of transactions. Partly offsetting the improvement in structured credit revenue were reductions in other derivative products substantially due to lower deal activity.

Trading income related to balance sheet management activities improved in the three months ended March 31, 2010 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 the first quarter 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 the first quarter of 2010 as a result of continuing demand for metals due to economic conditions.

Global banking revenue decreased during the three months ended March 31, 2010 due to a decline in corporate bond values compared to a gain in the year ago period.

Net Other-Than-Temporary Impairment (Losses) Recoveries

During the three months ended March 31, 2010, 19 debt securities were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates compared to nine debt securities which were determined to be other-than-temporarily impaired in the year-ago quarter. The following table presents the various components of other-than-temporary impairment.

Three Months Ended March 31	**2010**	**2009**
	(in millions)	
Total other-than-temporary impairment recoveries (losses)	**$33**	$(116)
Portion of loss (recovery) recognized in other comprehensive income, before taxes	(61)	78
Net other-than-temporary impairment losses recognized in the consolidated statement of income (loss)	$(28)	$(38)

Other Securities Gains, Net

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

Three Months Ended March 31	2010	2009
	(in millions)	
Securities available-for-sale	**$-**	$-
Balance sheet diversity and reduction of risk	**21**	47
Other securities gains, net	**$21**	$47

Gross realized gains and losses from sales of securities are summarized in Note 6, "Securities," in the accompanying consolidated financial statements.

During the first quarter of 2010, we sold $4.0 billion of US treasury, municipal, mortgage-backed and other asset-backed securities as part of a strategy to adjust portfolio risk duration as well as to reduce risk-weighted asset levels and recognized a gain of $18 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 the first quarter of 2010 due to higher fees and commissions earned from HSBC Markets USA ("HMUS") and other HSBC affiliates as compared to the year-ago quarter including higher account analysis servicing charges. These increases were partially offset by lower fees on tax refund anticipation loans as beginning in 2010, as we now transfer only a portion of these loans to HSBC Finance upon origination as discussed above.

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.

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$56**	$66	**$(10)**	**(15.2)%**
Servicing related income:				
Servicing fee income	**32**	34	**(2)**	**(5.9)**
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**5**	(25)	**30**	**100+**
Realization of cash flows	**(27)**	(23)	**(4)**	**(17.4)**
Trading - Derivative instruments used to offset changes in value of MSRs	**11**	36	(25)	(69.4)
Total servicing related income	**21**	22	(1)	(4.5)
Originations and sales related income:				
Gains (losses) on sales of residential mortgages	**(60)**	34	**(94)**	**(100+)**
Trading and hedging activity	(5)	5	(10)	(100+)
Total originations and sales related income (loss)	(65)	39	(104)	(100+)
Other mortgage income	**7**	4	**3**	**75.0**
	(37	65	(102	(100+

Total residential mortgage banking revenue included in other revenues (losses)	)		)	)
Total residential mortgage banking related revenue	**$19**	$131	$(112)	(85.5)%
Average residential mortgage loans	**$15,730**	$21,580	$(5,850)	(27.1)%

Lower net interest income during the three months ended March 31, 2010 reflects lower loan balances, partially offset by lower funding costs as well as reduced deferred cost amortization on lower average outstandings. Lower loan balances reflect the sale of approximately $2.6 billion of prime adjustable and fixed rate residential mortgages since March 31, 2009, for which we retained the servicing rights. We continue to sell the majority of new loan originations to government sponsored enterprises and private investors. Consistent with our Premier strategy, additions to the portfolio are comprised largely of premier relationship products.

Total servicing related income remained relatively flat in the first quarter of 2010, as the average serviced loan portfolio remained consistent with the year-ago quarter as new originations sold were offset by prepayments.

Originations and sales related income decreased in the current quarter primarily due to lower gains from loan sales and an increase in our reserve for potential repurchase liability exposures. We recorded gains of $37 million in the first quarter of 2009. There were no asset sales in the first quarter of 2010.

Gain on Instruments Designated at Fair Value and Related Derivatives
We have elected to apply fair value option accounting to commercial leveraged acquisition finance loans and certain other commercial 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 10, "Fair Value Option," in the accompanying consolidated financial statements for additional information, including a breakout of these amounts by individual component.

Valuation on Loans Held for Sale
Valuation adjustments on loans held for sale improved during the first quarter of 2010, as there has been reduced volatility in the U.S. residential mortgage market driven by stabilization of home prices in the U.S. as compared to the year-ago quarter. 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 $734 million and $757 million as of March 31, 2010 and December 31, 2009, respectively. Loans held for sale are recorded at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. Valuations on residential mortgage loans we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of income (loss). Valuation on loans held for sale in the first quarter of 2010 also reflects an $89 million settlement relating to certain whole loans previously purchased for re-sale from a third party.

In addition, we recorded valuation adjustments on education loans held for sale of $8 million during the three months ended March 31, 2009.

Other Income (Loss)
Excluding the valuation of loans held for sale as discussed above, other income (loss) decreased during the first quarter of 2010 due largely to lower miscellaneous income as the year-ago quarter included a gain

on the sale of our equity interest in HSBC Private Bank (Suisse) S.A. of $33 million as well as an $85 million gain related to a judgment whose proceeds were used to redeem 100 preferred shares issued to CT Financial Services, Inc., while the current period reflects a $66 million gain relating to the sale of our equity investment in Wells Fargo HSBC Trade Bank.

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

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

Three Months Ended March 31	**2010**	**2009**	**Increase (Decrease) Amount**	**%**
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	**$139**	$153	**$(14)**	**(9.2)%**
Employee benefits	**128**	138	**(10)**	**(7.2)**
Total salaries and employee benefits	**267**	291	**(24)**	**(8.2)**
Occupancy expense, net	**71**	63	**8**	**12.7**
Support services from HSBC affiliates:				
Fees paid to HSBC Finance for loan servicing and other administrative support	**224**	189	**35**	**18.5**
Fees paid to HMUS	**75**	71	**4**	**5.6**
Fees paid to HTSU	**172**	111	**61**	**55.0**
Fees paid to other HSBC affiliates	**47**	52	**(5)**	**(9.6)**
Total support services from HSBC affiliates	**518**	423	**95**	**22.5**
Other expenses:				
Equipment and software	**11**	10	**1**	**10.0**
Marketing	**28**	37	**(9)**	**(24.3)**
Outside services	**22**	27	**(5)**	**(18.5)**
Professional fees	**12**	17	**(5)**	**(29.4)**
Telecommunications	**3**	4	**(1)**	**(25.0)**
Postage, printing and office supplies	**4**	3	**1**	**33.3**
Off-balance sheet credit reserves	**(8)**	(4)	**(4)**	**(100.0)**
FDIC assessment fee	**36**	34	**2**	**5.9**
Insurance business	**(1)**	22	**(23)**	**(100+)**
Miscellaneous	**103**	45	**58**	**100+**
Total other expenses	**210**	195	**15**	**7.7**
Total operating expenses	**$1,066**	$972	**$94**	9.7%
Personnel - average number	**9,162**	10,047		
Efficiency ratio	**49.58%**	46.33%		

Salaries and Employee Benefits
Salaries and employee benefits expense decreased during the three months ended March 31, 2010 due to the transfer of additional support services employees to HTSU, as described below, as well as lower bonus accruals.

Occupancy Expense, Net
Occupancy expense in the first quarter of 2010 increased as the transfer of additional shared services employees and their related workspace expenses to an affiliate, as discussed below, was more than offset offset by higher occupancy expense associated with the expansion of the core banking network within the PFS segment and $8 million in lease abandonment costs associated with the closure of several non-strategic branches recorded during the first quarter of 2010. Subsequent to March 31, 2009, we opened 20 new branches resulting in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses.

Support services from HSBC affiliates
includes technology and certain centralized support services, including human resources, corporate affairs and other shared services and beginning in January 2010, legal, compliance, tax and finance charged to us by HTSU. Support services from HSBC affiliates also includes services charged to us by an HSBC affiliate located outside of the United States which provides operational support to our businesses, including among other areas, customer service, systems, collection and accounting functions. Higher support services from HSBC affiliates during the three months ended March 31, 2010 reflect the increased level of services provided during the quarter, including $56 million of fees paid to HSBC Finance for servicing and assuming the credit risk associated with refund anticipation loans originated and held on our balance sheet as a result of the change in the management of the refund anticipation loan program between HSBC Bank USA and HSBC Finance beginning in 2010. These increases were partially offset by lower levels of receivables being serviced.

Marketing Expenses
Lower marketing and promotional expenses during the three months ended March 31, 2010 reflect continued optimization of marketing spend as a result of general cost saving initiatives, partially offset by a continuing investment in HSBC brand activities and marketing support for branch expansion initiatives, primarily within the PFS business segment.

Other Expenses
Other expenses (excluding marketing expenses) increased during the first quarter of 2010 reflecting higher miscellaneous expenses due to higher legal costs, higher interest accruals for state tax exposures, and higher collection agency costs and higher corporate insurance costs as compared to the year-ago quarter, partially offset by lower outside and professional services fees.

Efficiency Ratio
Our efficiency ratio, which is the ratio of total operating expenses, reduced by minority interests, to the sum of net interest income and other revenues, was 49.58 percent and 46.33 percent for the three months ended March 31, 2010 and 2009, respectively. The deterioration in the efficiency ratio in the first quarter of 2010 resulted primarily from decreased net interest income and higher operating expenses which were partially offset by higher other revenues.

Segment Results - IFRSs Basis

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

segmentation or measurement of segment profit (loss) as compared with the presentation in our 2009 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 14, "Business Segments," in the accompanying consolidated financial statements and under the caption "Basis of Reporting" in the MD&A section of this Form 10-Q.

Personal Financial Services ("PFS")
During the first quarter of 2010, we continue to direct resources towards the 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, expansion of the branch network continued during the first quarter of 2010 with the opening of four new branches in geographic markets with international connectivity as well as continued investment in the HSBC brand. We currently plan to open an additional 2 branches in 2010. As a result, average personal deposits increased 1.9 percent during the three months ended March 31, 2010 and Premier customers increased to 384,500 at March 31, 2010, a 38 percent increase from the year-ago quarter. We remain focused on providing differentiated premium services to the internationally minded mass affluent and upwardly mobile customers. In January 2010, HSBC Direct was rebranded to HSBC Advance, which is consistent with our global focus.

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. Consistent with the Premier strategy, additions to our portfolio are primarily comprised of Premier relationship products. In addition to normal sale activity, we periodically sell prime adjustable and fixed rate mortgage loan portfolios to third parties. No such sales occurred during the three months ended March 31, 2010. For the three months ended March 31, 2009, we sold approximately $1.8 billion of prime adjustable and fixed rate residential mortgage loans to third parties. We retained the servicing rights in relation to the mortgages upon sale. Average residential mortgage loans outstanding have continued to decline during the first quarter of 2010, decreasing approximately 30 percent as compared to average residential mortgage loans outstanding during the first quarter of 2009.

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

			Increase (Decrease)	
Three Months Ended March 31	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$241**	$187	**$54**	**29%**
Other operating income	**48**	40	**8**	**20**
Total operating income	**289**	227	**62**	**27**
Loan impairment charges (recoveries)	(3)	200	(203)	(100+)
	292	27	**265**	**100+**
Operating expenses	**272**	296	(24)	(8)
Profit (loss) before tax	**$20**	$(269)	**$289**	100+%

Our PFS segment reported a profit before tax during the first quarter of 2010 compared to a loss before tax during the first quarter of 2009, driven by higher net interest income, higher other operating income, lower loan impairment charges and lower operating expenses.

Net interest income increased during the three months ended March 31, 2010, driven by a combination of customer rate cuts and additional funding credits on deposits as well as wider 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 increased during the three months ended March 31, 2010 as other operating income for the first three months of 2009 reflects a $102 million intersegment charge from the Global Banking and Markets segment relating to the cost associated with early termination of the funding associated with the mortgage loan sales, which was partially offset by a net gain on the sale of these mortgage loans of $39 million. Excluding the impact of these items in 2009, other operating income decreased in 2010 due primarily to an increase in the reserve for potential repurchase liability exposures in mortgage loans.

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

Operating expenses decreased in the first quarter of 2010, reflecting the benefit of a $48 million pension curtailment gain as a result of the decision in February 2010 to cease all future benefit accruals for legacy participants under the final average pay formula components of the HSBC North America defined benefit pension plan. Excluding the impact of the pension curtailment, operating expenses were modestly higher in the first quarter of 2010 driven by allocated costs from shared services and from the expansion of our branch network. These increases were partially offset by cost reductions in legacy branches and marketing expenses.

Consumer Finance ("CF")
The CF segment includes the private label and co-brand credit cards, as well as other loans acquired from HSBC Finance or its correspondents, including the GM and UP Portfolios and auto finance loans purchased in January 2009 and portfolios of nonconforming residential mortgage loans (the "HMS Portfolio") purchased in 2003 and 2004. HSBC Finance services the receivables purchased for a fee.

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$523**	$529	**$(6)**	**(1)%**
Other operating income	**18**	81	(63)	(78)
Total operating income	**541**	610	**(69)**	**(11)**
Loan impairment charges	**210**	554	(344)	(62)
	331	56	**275**	**100+**
Operating expenses	**28**	14	**14**	**100**
Profit (loss) before tax	**$303**	$42	**$261**	100+%

Our CF segment reported a higher profit before tax during the first quarter of 2010 due to lower loan impairment charges, which was partially offset by lower other operating income and higher operating expenses while net interest income remained relatively flat.

Net interest income remained relatively flat in the three months ended March 31, 2010 as higher credit card and private label card yields as a result of pricing initiatives and a lower cost of funds due to a lower short term interest rate environment, which were offset by lower outstanding receivable levels and higher charge-offs of credit card interest as the GM and UP portfolios recorded at fair value upon purchase in January 2009, continue to season and be replaced by new volume.

Other operating income decreased during the three months ended March 31, 2010 due to lower fee income resulting from lower levels of credit card receivables outstanding including lower late fees on these portfolios driven by changes in customer behavior and lower delinquency levels, higher revenue share payments and the impact of the new credit card legislation. These decreases were partially offset by lower servicing fees on portfolios serviced by our affiliate, HSBC Finance (which is recorded as a reduction to other operating income) due to lower outstanding receivable levels.

Loan impairment charges associated with credit card receivables, including private label credit card receivables, decreased during the three months ended March 31, 2010 due to lower receivable levels driven by lower customer spending, higher customer payment rates and previous risk mitigation efforts. Also contributing to the decrease were improved economic and credit conditions including lower dollars of delinquency since year-end in part due to seasonality as well as an improved outlook on future loss estimates as the impact of higher unemployment levels on losses has not been as severe as previously anticipated. In addition, the GM and UP Portfolios experienced increased loan impairment charges in the prior year quarter as these portfolios were recorded at fair value when they were purchased in January 2009 which resulted in no allowance for loan losses being established upon acquisition, creating the need to establish loan loss reserves as new volume was originated.

Operating expenses increased in the first quarter of 2010 due to higher collection costs on bad debt accounts which were previously reported in loan impairment charges and higher fraud expenses, partially offset by lower receivable levels.

As discussed in previous filings, on May 22, 2009, the CARD Act was signed into law. We have implemented 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. The full impact of the CARD Act continues to be uncertain at this time as it will ultimately depend upon the Federal Reserve and other government agencies' final interpretations of some of the provisions discussed above, including the proposed limits on late fees charged by card issuers, which are not expected to be published until June 2010, successful implementation of our strategies, consumer behavior and the actions of our competitors. However, we currently believe the implementation of these new rules will not have a material adverse impact to us as any impact would be limited to only a portion of the existing affected loan portfolio as the purchase price on sales volume paid to HSBC Finance has been adjusted to reflect the new requirements.

Commercial Banking ("CMB")

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

In the first quarter of 2010, interest rate spreads continued to be pressured from a low interest rate environment, while loan impairment charges improved. Customer deleveraging and higher rates of repayment have resulted in an 28 percent decrease in loans outstanding to middle-market customers during the three months ended March 31, 2010 as compared to the same 2009 period, while average deposits from middle-market customers grew 24 percent during the three months ended March 31, 2010 as compared to the same 2009 period. The business banking loan portfolio has seen a nine percent decrease in loans outstanding due to tightened credit standards and the competitive environment while business banking customer deposits at March 31, 2010 grew nine percent compared to March 2009 levels. 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 since March 2009. Average customer deposit balances across all CMB business lines during the three months ended March 31, 2010 increased 12 percent as compared to the same 2009 period and average loans in the first quarter of 2010 decreased 16 percent as compared to the same 2009 period. In February 2010, we completed the sale of our interest in Wells Fargo HSBC Trade Bank ("WHTB") to Wells Fargo and recorded a gain of $66 million during the current quarter included in other operating income.

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$188**	$176	**$12**	**7%**
Other operating income	**154**	81	**73**	**90**
Total operating income	**342**	257	**85**	**33**
Loan impairment charges	**1**	81	(80)	(99)
	341	176	**165**	**94**
Operating expenses	**150**	154	(4)	(3)
Profit (loss) before tax	**$191**	$22	**$169**	100+%

Our CMB segment reported a higher profit before tax during the first quarter of 2010 due to higher net interest income, higher other operating income, lower loan impairment charges, and lower operating expenses.

Net interest income increased compared to the prior year quarter due to growth in deposit balances and improved loan spreads from repricing activities in 2009, partially offset by lower loan balances.

Other operating income increased during the three months ended March 31, 2010 largely due to a $66 million gain on the sale of our equity investment in WHTB. Also contributing to the increase was higher income on our low income housing investments.

Loan impairment charges improved in the first quarter of 2010 as economic conditions began to improve and credit quality began to stabilize resulting in lower charge-offs and fewer customer downgrades across all business lines.

Operating expenses decreased in the first quarter of 2010 compared to the prior year quarter due to the benefit of a $16 million pension curtailment gain as previously discussed. Excluding the impact of the pension curtailment, operating expenses rose in 2010, driven by higher amortization of low income housing investment activity, which is offset in other operating income, and higher legal costs.

Global Banking and Markets

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

There are four major lines of business within Global Banking and Markets: Global Banking, Global Markets, Transaction Banking and Asset Management. The Global Banking business line includes corporate lending and investment banking activities, and this unit also coordinates client relationships across all Global Markets and Banking products. The Global Markets business services the requirements of the world's central banks, corporations, institutional investors and financial institutions through our global trading platforms and distribution capabilities. Transaction banking provides payments and cash management, trade finance, supply chain, 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 the first quarter of 2010 benefited from reduced loses in non-core positions, strong event driven business and improved credit performance as compared to the year-ago quarter. As credit markets have stabilized, the impact to other operating income from credit derivatives and subprime mortgage loans has improved, which has led to a considerable improvement in results for the segment. Substantial counterparty credit reserves for monoline exposure and significant valuation losses were taken in both the trading and available-for-sale securities portfolios throughout 2008 and into 2009 due to the market volatility.

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 no longer impact current period earnings. Instead, these assets are marked-to-market (through other comprehensive income) if classified as Available-for-sale Securities and are 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 for the quarter ended March 31, 2010 and 2009 would have been higher by $15 million and lower by $19 million respectively.

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

			Increase (Decrease)	
Three Months Ended March 31	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$142**	$232	**$(90)**	**(39)%**
Other operating income	**437**	221	**216**	**98**
Total operating income	**579**	453	**126**	**28**
Loan impairment charges (recoveries)	(76)	229	(305)	(100+)
	655	224	**431**	**100+**
Operating expenses	**209**	199	**10**	**5**
Profit (loss) before tax	**$446**	$25	**$421**	100+%

Our Global Banking and Markets segment performance continued to improve during the first quarter of 2010 due primarily to higher other operating income and lower loan impairment charges, partially offset by lower net interest income and higher operating expenses.

Net interest income decreased during the first quarter of 2010 as a result of sales of higher yielding assets in our available-for-sale securities portfolio since March 2009 which were made for risk management purposes, and lower margins on deposit balances.

Other operating income increased $216 million during the first quarter of 2010 as compared to the year-ago quarter due to improved performance of credit derivatives and sub-prime mortgage loans held for sale as well as higher fees in Transaction Banking. Partially offsetting these improvements were reductions in intersegment income, foreign exchange trading and other derivative products.

Other operating income reflects gains on structured credit products of $59 million during the three months ended March 31, 2010 as compared to losses of $256 million during the year-ago quarter, as the credit markets stabilized resulting in fewer losses from hedging activity and counterparty exposures. Exposure to insurance monolines continued to impact revenues as deterioration abated in the first quarter of 2010, resulting in gains of $56 million during the three months ended March 31, 2010 as compared to losses of $164 million during the year-ago quarter.

Valuation losses of $11 million during the first quarter of 2010 were recorded against the fair values of sub-prime residential mortgage loans held for sale as compared to valuation losses of $86 million during the year-ago quarter. Other operating income in 2010 also reflects a gain of $89 million associated with a settlement relating to certain loans previously purchased for resale from a third party. Other operating income during the first quarter of 2010 also reflects intersegment income of $2 million from PFS relating fees charged for the early termination of funding compared to $103 million during the year-ago quarter.

Loan impairment charges decreased during the first quarter of 2010 due to reductions in higher risk rated loan balances and stabilization of credit downgrades. In addition, impairments included a charge of $143 million on securities determined to be other-than-temporarily impaired during the three months ended March 31, 2009 compared to no similar impairments in the current year.

Operating expenses increased during the first quarter of 2010, largely due to legal settlement costs and higher performance related compensation, partially offset by a $7 million pension curtailment gain.

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

Average client deposit levels during the first three months of 2010 decreased four percent as compared to the same 2009 period as domestic institutional clients began in the second quarter of 2009 to invest their liquidity in investment products with low risk. Distinctively, total average loans (mostly domestic) in the first quarter of 2010 increased five percent compared to the same 2009 period from large and short term loans and increased tailored mortgage product. Substantial reductions from a challenging economic environment and outflows from domestic custody clients affected market value of client assets under management, which decreased 11 percent compared to a year ago to $34 billion at March 31, 2010, and 9 percent since December 31, 2009, reflecting the loss of certain domestic custody clients.

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$46**	$42	**$4**	**10%**
Other operating income	**35**	33	**2**	**6**
Total operating income	**81**	75	**6**	**8**
Loan impairment recoveries	**(11)**	(3)	(8)	(100+)
	92	78	**14**	**18**
Operating expenses	**55**	59	(4)	(7)
Profit (loss) before tax	**$37**	$19	**$18**	95%

Our PB segment reported a higher profit before tax for the three months ended March 31, 2010 as compared to the prior year period due primarily to lower loan impairment charges, higher net interest income and lower operating expenses.

Net interest income increased during the three months ended March 31, 2010 compared to the year ago period primarily due to higher loan volume and improved interest spreads on loans and deposits.

Other operating income increased in 2010 primarily due to higher fees on managed products, structured products and recurring fund fees.

Loan impairment recoveries were higher compared to the prior year quarter due to lower reserves required relating to exposure on a specific relationship, several paydowns and other improvements in client credit ratings.

Operating expenses decreased for the three months ended March 31, 2010, driven by a $5 million reduction to expense related to a pension curtailment gain as previously discussed. Excluding this item, operating expenses remained modestly lower as a result of lower staff 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 for the first quarter of 2009 also include the earnings on an equity investment in HSBC Private Bank (Suisse) S.A which was sold in March 2009 for a gain.

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

Three Months Ended March 31	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$(9)**	$1	**$(10)**	**(100+)%**
Other operating income	**12**	156	(144)	(92)

Total operating income	**3**	157	**(154)**	**(98)**
Loan impairment charges	**2**	-	**2**	**-**
	1	157	**(156)**	**(99)**
Operating expenses	**15**	13	**2**	**15**
Profit (loss) before tax	$(14)	$144	$(158)	(100+)%

Other operating income in both periods reflects decreases in the fair value of certain debt instruments to which fair value option was elected. Along with the related fair value option derivatives, we recorded total gains of $12 million and $35 million for the three months ended March 31, 2010 and 2009, respectively relating to these instruments. Other operating income in the three months ended March 31, 2010 and 2009 includes gains of $5 million and $85 million, respectively, related to the resolution of a lawsuit whose proceeds in 2009 were used to redeem preferred stock issued to CTUS Inc. Other operating income in 2009 also includes a $43 million gain on the sale of the equity investment referred to above.

Credit Quality

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

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

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 in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Critical Accounting Policies and Estimates" and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," of the consolidated financial statements included in our 2009 Form 10-K. Our approach toward credit risk management is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Risk

Management." There have been no material revisions to our policies or methodologies during the first three months of 2010, although we continue to monitor current market conditions and will adjust credit policies as deemed necessary.

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

	March 31, 2010	December 31, 2009
	(dollars are in millions)	
Allowance for credit losses	**$3,224**	$3,861
Ratio of Allowance for credit losses to:		
Loans:(1)		
Commercial	**2.59%**	3.10%
Consumer:		
Residential mortgages, excluding home equity mortgages	**2.07**	2.53
Home equity mortgages	**3.16**	4.44
Private label card receivables	**7.43**	7.85
Credit card receivables	**8.16**	8.48
Auto finance	**2.55**	2.12
Other consumer loans	**3.50**	4.46
Total consumer loans	**5.38**	5.94
Total	4.28 %	4.86 %
Net charge-offs(1)(2):		
Commercial	**190.80%**	313.71%
Consumer	**80.45**	104.06
Total	93.31 %	124.23 %
Nonperforming loans(1):		
Commercial	**69.34%**	65.44%
Consumer	**131.87**	150.45
Total	108.58 %	114.36 %

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(1) Ratios exclude loans held for sale as these loans are carried at the lower of cost or market.
(2) Quarter-to-date net charge-offs, annualized.

Changes in the allowance for credit losses by general loan categories for the three months ended March 31, 2010 and 2009 are summarized in the following table:

	Commercial(1)	Residential Mortgage, excluding HELOCs and Home Equity	HELOCs and Home Equity Mortgages	Private Label Card Receivables	Credit Card Receivables	Auto Finance	Other Consumer	Total
				(In millions)				
2010								
Balances at beginning of period	**$938**	**$347**	**$185**	**$1,184**	**$1,106**	**$36**	**$65**	**$3,861**
Charge-offs	**109**	**49**	**36**	**335**	**360**	**24**	**21**	**934**
Recoveries	**10**	**1**	**-**	**42**	**25**	**-**	**4**	**82**
Net charge-offs	**99**	**48**	**36**	**293**	**335**	**24**	**17**	**852**
Provision for credit losses	**(73)**	**(19)**	**(21)**	**109**	**190**	**25**	**-**	**211**
Allowance related to bulk loan purchases from HSBC Finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other	**1**	**-**	**-**	**-**	**3**	**-**	**-**	**4**
Balance at end of period	**$767**	**$280**	**$128**	**$1,000**	**$964**	**$37**	**$48**	**$3,224**
2009								
Balances at beginning of period	$572	$207	$167	$1,171	$208	$5	$67	$2,397
Charge-offs	56	65	37	352	67	5	32	614
Recoveries	5	6	9	38	6	1	6	71
Net charge-offs	51	59	28	314	61	4	26	543
Provision for credit losses	148	162	21	399	393	25	26	1,174
Allowance related to bulk loan purchases from HSBC Finance	-	-	-	-	424	13	-	437
Balance at end of period	$669	$310	$160	$1,256	$964	$39	$67	$3,465

The allowance for credit losses at March 31, 2010 decreased $637 million, or 16.50 percent as compared to December 31, 2009 reflecting lower loss estimates on our private label credit card, credit card and residential mortgage loan portfolios. The lower allowance on our private label credit card and credit card portfolio was due to lower receivable levels including actions previously taken to reduce risk which has led to improved credit quality including lower delinquency levels as well as an increased focus by consumers to reduce outstanding credit card debt. The lower delinquency levels also resulted from improved early stage delinquency roll rates as economic conditions improved and seasonal improvements in our collection activities. The decrease in the allowance for our residential mortgage loan portfolio and HELOC and Home Equity loan portfolios is due to stabilization in dollars of delinquency and in loss severities and an improved outlook for incurred future losses. Reserve requirements in our commercial loan portfolio also declined due to run-off, including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships. Reserve levels for all loan categories remain elevated due to continued weakness in the U.S. economy, including elevated unemployment rates.

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

The allowance for credit losses as a percentage of net charge-offs at March 31, 2010 declined compared to December 31, 2009 as the decline in reserve levels as discussed above outpaced the decline in dollars of net charge-off.

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

	March 31, 2010		December 31, 2009	
	Amount	% of Loans to Total Loans(1)	Amount	% of Loans to Total Loans(1)
	(dollars are in millions)			
Commercial(2)	**$767**	**39.36%**	$938	38.12%
Consumer:				
Residential mortgages, excluding home equity mortgages	**280**	**17.94**	347	17.26
Home equity mortgages	**128**	**5.37**	185	5.24
Private label card receivables	**1,000**	**17.88**	1,184	18.99
Credit card receivables	**964**	**15.69**	1,106	16.41
Auto finance	**37**	**1.93**	36	2.14
Other consumer	**48**	**1.83**	65	1.84
Total consumer	**2,457**	**60.64**	2,923	61.88
Total	**$3,224**	100.00%	$3,861	100.00%

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

	March 31, 2010	December 31, 2009
	(In millions)	
On-balance sheet allowance:		
Specific	**$237**	$326
Collective	**485**	549
Transfer risk	**-**	-
Unallocated	**45**	63
Total on-balance sheet allowance	**767**	938
Off-balance sheet allowance	**114**	188
Total commercial allowances	**$881**	$1,126

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

Reserves for Off-Balance Sheet Credit Risk
We also maintain a separate reserve for credit risk associated with certain off-balance sheet exposures, including letters of credit, unused commitments to extend credit and financial guarantees. This reserve, included in other liabilities, was $114 million and $188 million at March 31, 2010 and December 31, 2009, respectively. The related provision is recorded as a miscellaneous expense and is a component of operating expenses. The decrease in off-balance sheet reserves relates in part to the consolidation of a previously unconsolidated commercial paper VIE as of January 1, 2010, which resulted in the elimination of

this exposure requirement. Off-balance sheet exposures are summarized under the caption "Off-Balance Sheet Arrangements and Contractual Obligations" in this MD&A.

Delinquency

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

	March 31, 2010	December 31, 2009
	(dollars are in millions)	
Dollars of Delinquency:		
Commercial	**$723**	$954
Consumer:		
Residential mortgage, excluding home equity mortgages	**1,551**	1,595
Home equity mortgages	**184**	173
Total residential mortgages(1)	**1,735**	1,768
Private label card receivables	**510**	622
Credit card receivables	**515**	587
Auto finance	**33**	48
Other consumer	**16**	18
Total consumer	**2,809**	3,043
Total	**$3,532**	$3,997
Delinquency Ratio:		
Commercial	**2.33%**	3.04%
Consumer:		
Residential mortgage, excluding home equity mortgages	**10.59**	10.56
Home equity mortgages	**4.55**	4.15
Total residential mortgages(1)	**9.28**	9.17
Private label card receivables	**3.79**	4.12
Credit card receivables	**4.36**	4.50
Auto finance	**2.27**	2.34
Other consumer	**1.14**	1.20
Total consumer	**6.00**	5.97
Total	4.53%	4.85%

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

	March 31, 2010	December 31, 2009
	(dollars are in millions)	
Dollars of Delinquency:		
Interest-only loans	**$214**	$236
ARM loans	**634**	802
Delinquency Ratio:		
Interest-only loans	**7.26%**	6.94%
ARM loans	**7.94**	9.58

Our total two-months-and-over contractual delinquency ratio decreased 32 basis points since December 31, 2009. Our two-months-and-over contractual delinquency ratio for consumer loans increased to 6.00 percent at March 31, 2010 as compared to 5.97 percent at December 31, 2009. Dollars of delinquency fell across all consumer portfolios during the quarter particularly in private label card and credit card receivables while outstanding loan balances also declined. Dollars of delinquency in our private label card and credit card receivable portfolios fell during the quarter reflecting lower outstanding balances due to the continued impact of actions previously taken to tighten underwriting and reduce risk in these portfolios,

increased focus by consumers to paydown credit card debt and lower purchase volumes. The lower dollars of delinquency also resulted from improved early stage delinquency roll rates and seasonal improvements in our collection activities as some customers use tax refunds to make payments. The slight increase in the delinquency ratio since December 31, 2009 was driven by our residential mortgage loan portfolio as loans in this portfolio declined at a faster rate than delinquency, which stabilized in the quarter as economic conditions improved, real estate markets and loss severities continued to stabilize and collection activity benefited from seasonal improvements.

In addition, overall delinquency levels continue to be impacted by elevated unemployment levels.

Our commercial two-months-and-over contractual delinquency ratio improved 71 basis points since December 31, 2009, driven by a significant decline in dollars of delinquency as balances related to certain problem loans were reduced.

Net Charge-offs of Loans

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

	March 31, 2010	**December 31, 2009**	**March 31, 2009**
	(dollars are in millions)		
Net Charge-off Dollars:			
Commercial	**$99**	$112	$51
Consumer:			
Residential mortgage, excluding home equity mortgages	**48**	60	59
Home equity mortgages	**36**	38	28
Total residential mortgages	**84**	98	87
Private label card receivables	**293**	312	314
Credit card receivables	**335**	337	61
Auto finance	**24**	26	4
Other consumer	**17**	20	26
Total consumer	**753**	793	492
Total	**$852**	$905	$543
Net Charge-off Ratio:			
Commercial	**1.29%**	1.42%	.56%
Consumer:			
Residential mortgage, excluding home equity mortgages	**1.43**	1.70	1.36
Home equity mortgages	**3.56**	3.52	2.50
Total residential mortgages	**1.92**	2.12	1.59
Private label card receivables	**8.29**	8.44	7.77
Credit card receivables	**10.95**	10.18	1.85
Auto finance	**6.18**	5.73	.62
Other consumer	**4.83**	5.26	5.93
Total consumer	**6.43**	6.37	3.55
Total	4.40 %	4.45 %	2.37 %

Our net charge-off ratio as a percentage of average loans decreased 5 basis points compared to the prior quarter primarily due to lower residential mortgage and private label card charge-offs. We experienced lower dollars of charge-off in all loan categories during the first quarter of 2010 driven by lower receivable levels and improved credit quality, in part due to seasonality. These favorable trends were partially offset by

the impact from continued weakness in the U.S. economy including continued high unemployment levels and portfolio seasoning.

Charge-off dollars and ratios decreased in the residential mortgage loan portfolio compared to the prior quarter reflecting lower outstanding balances, moderation in loss severities as the real estate markets have stabilized in most areas and seasonal improvements in collections. Charge-off dollars and ratios for private label card receivables also declined compared to the prior quarter due to lower receivable balances, including increased focus by customers to paydown debt as well as improving credit quality resulting from actions previously taken to reduce risk in the portfolio and seasonal improvements in collection activities. While charge-off dollars in our credit card portfolio fell in the quarter, charge-off ratios for our credit card portfolio increased as average credit card receivables declined at a faster pace than charge-off.

Commercial charge-off dollars and ratios also declined compared to the prior quarter as the first quarter of 2010 reflects recoveries on certain problem credits which were sold during the quarter. Additionally charge-offs in middle market and business banking were lower, based on improving trends in portfolio quality.

Compared to the year-ago quarter, our charge-off ratio increased 203 basis points, driven largely by higher credit card charge-offs as charge-off levels in this book during the first quarter of 2009 were positively impacted by the purchase of the GM and UP portfolio, a portion of which was recorded at fair value, net of anticipated future losses at the time of acquisition. This resulted in a substantial increase in average credit card receivables outstanding during the first quarter of 2009 without a corresponding increase in credit card charge-offs. The portion of the portfolio not subject to this accounting and newly generated receivables are now seasoning, resulting in increased charge-offs during first quarter of 2010 compared to 2009 levels. Our auto finance net charge-off ratio increased as compared to the year-ago quarter as the receivables purchased from HSBC Finance in January 2009 continue to season. Auto finance charge-offs during the first quarter of 2009 was favorably impacted by the non-delinquent status of the loans purchased which are now seasoning and are migrating to charge-off.

Nonperforming Assets

Nonperforming assets are summarized in the following table.

	March 31, 2010	December 31, 2009
	(dollars are in millions)	
Nonaccrual loans:		
Commercial:		
Construction and other real estate	**$638**	$644
Other commercial	**372**	623
Total commercial	**1,010**	1,267
Consumer:		
Residential mortgages, excluding home equity mortgages	**934**	875
Home equity mortgages	**105**	107
Total residential mortgages	**1,039**	982
Credit card receivables	**3**	3
Auto finance	**32**	40
Others	**9**	9
Total consumer loans	**1,083**	1,034
Nonaccrual loans held for sale	**432**	446
Total nonaccruing loans	**2,525**	2,747
Accruing loans contractually past due 90 days or more:		
Total commercial	**96**	166
Consumer:		
Private label card receivables	**375**	449
Credit card receivables	**376**	429
Auto finance	**-**	-
Other consumer	**29**	31
Total consumer loans	**780**	909
Accruing loans contractually past due 90 days or more held for sale	**-**	-
Total accruing loans contractually past due 90 days or more	**876**	1,075
Total nonperforming loans	**3,401**	3,822
Other real estate and owned assets	**79**	72
Total nonperforming assets	**$3,480**	$3,894
Allowance for credit losses as a percent of nonperforming loans(1)		
Commercial	**69.34%**	65.44%
Consumer	**131.87**	150.45

(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.

Decreases in nonperforming loans at March 31, 2010 as compared to December 31, 2009 are related primarily to commercial loans. Commercial nonaccrual loans decreased due largely to managed reductions in certain exposures and stabilization of credit quality in certain components of the book. Decreases in accruing loans past due 90 days or more since December 31, 2009 reflect lower outstanding balances and improvements in credit quality including lower dollars of delinquency.

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:

	March 31, 2010	**December 31, 2009**
	(in millions)	
Impaired commercial loans:		
Balance at end of period	**$1,146**	$1,458
Amount with impairment reserve	**835**	1,127
Impairment reserve	**305**	336

Criticized Assets

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

	March 31,	**Increase (Decrease) from December 31, 2009**	
	2010	**Amount**	**%**
	(dollars are in millions)		
Special mention:			
Commercial loans	**$2,769**	$(240)	(8.0)
Substandard:			
Commercial loans	**3,246**	(277)	(7.9)
Consumer loans	**2,048**	(61)	(2.9)
Total substandard	**5,294**	(338)	(6.0)
Doubtful:			
Commercial loans	**324**	(180)	(35.7)
Total	**$8,387**	$(758)	(8.3)

The decrease in criticized commercial loans in the first quarter of 2010 resulted primarily from changes in the financial condition of certain customers, some of which were upgraded during the quarter as well as paydowns related to certain exposures.

Geographic Concentrations

Regional exposure at March 31, 2010 for certain loan portfolios is summarized in the following table.

	Commercial Construction and Other Real Estate Loans	Residential Mortgage Loans	Credit Card Receivables
New York State	45.66%	37.41%	10.69%
North Central United States	4.05	8.90	27.25
North Eastern United States	10.39	9.69	14.63
Southern United States	21.97	18.74	26.57
Western United States	17.44	25.24	20.50
Other	.49	.02	.36
Total	100.00%	100.00%	100.00%

Liquidity and Capital Resources

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

As a result of the economic turmoil, beginning in 2008 and continuing through the first quarter of 2010, we continue to reduce our reliance on debt capital markets and to increase deposits. During the first quarter of 2010, we retired long-term debt of $980 million and deposits have increased 5 percent. We continue to manage our overall balance sheet downward by reducing low margin investments and deposits while continuing to manage the overall balance sheet risk.

Interest bearing deposits with banks
totaled $32.5 billion and $20.1 billion at March 31, 2010 and December 31, 2009, respectively.

Federal funds sold and securities purchased under agreements to resell
totaled $2.9 billion and $1.0 billion at March 31, 2010 and December 31, 2009, respectively. Balances increased during the three months ended March 31, 2010 as we redeployed surplus liquidity using repurchase agreements.

Short-term borrowings
totaled $11.5 billion and $6.5 billion at March 31, 2010 and December 31, 2009, respectively. See "Balance Sheet Review" for further analysis and discussion on short-term borrowing trends.

Deposits
totaled $124.8 billion and $118.3 billion at March 31, 2010 and December 31, 2009, respectively. See "Balance Sheet Review" for further analysis and discussion on deposit trends.

Long-term debt
decreased to $17.3 billion at March 31, 2010 from $18.0 billion at December 31, 2009. The following table summarizes issuances and retirements of long term debt during the three months ended March 31, 2010 and 2009:

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Long-term debt issued	**$577**	$303
Long-term debt retired	(980)	(2,486)
Net long-term debt retired	$(403)	$(2,183)

Issuances of long-term debt during the first quarter of 2010 included $577 million, $147 million of which was issued by HSBC Bank USA.

Under our shelf registration statement on file with the Securities and Exchange Commission, we may issue debt securities or preferred stock. The shelf has no dollar limit, but the ability to issue debt is limited by the issuance authority granted by the Board of Directors. We are currently authorized to issue up to $15 billion, of which $6.5 billion is available at March 31, 2010. HSBC Bank USA also has a $40 billion Global Bank Note Program of which $3.6 billion is available at March 31, 2010.

As a member of the New York Federal Home Loan Bank (FHLB), we have a secured borrowing facility which is collateralized by residential and commercial mortgage loans and investment securities. At March 31, 2010 and December 31, 2009, long-term debt included $1.0 billion under this facility. The facility also allows access to further borrowings of up to $2.0 billion based upon the amount pledged as collateral with the FHLB.

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

At March 31, 2010, credit card receivables and restricted available-for-sale investments totaling $2.8 billion secured $2.2 billion of outstanding public debt and conduit facilities. At December 31, 2009, private label card receivables, credit card receivables and restricted available-for-sale investments totaling $3.9 billion secured $3.0 billion of outstanding public debt and conduit facilities.

At March 31, 2010, we had conduit credit facilities with commercial and investment banks under which our operations may issue securities up to $2.1 billion backed with private label card and credit card receivables. The facilities are annually renewable at the providers' option. At March 31, 2010, credit card receivables of $1.2 billion were used to collateralize $900 million of funding transactions structured as secured financings under these funding programs. At December 31, 2009, private label card and credit card receivables of $1.7 billion were used to collateralize $1.2 billion of funding transactions structured as secured financings under these funding programs. For the conduit credit facilities that have renewed during the past three months, pricing has declined compared to 2009 but is still elevated. Available-for-sale investments included $1.0 billion and $1.1 billion at March 31, 2010 and December 31, 2009, respectively, which were restricted for the sole purpose of paying down certain secured financings at the established payment date.

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

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

Common Equity
During the three months ended March 31, 2010, no capital contributions were made by HNAI, our immediate parent, to us.

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

	March 31, 2010	December 31, 2009
Tier 1 capital to risk weighted assets	**10.75%(1)**	9.61%
Tier 1 capital to average assets	**7.56**	7.59
Total equity to total assets	**8.36**	8.87

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(1) Effective January 1, 2010, we began consolidating a commercial paper conduit managed by HSBC Bank USA as a result of adopting new guidance related to the consolidation of variable interest entities. Since we elected to adopt the transition mechanism for Risk Based Capital requirements, there is no change to the Tier 1 capital ratios for the first two quarters of 2010. Had we fully transitioned to the Risk

Based Capital requirements at March 31, 2010, our Tier 1 capital ratios would not have been significantly impacted. See Note 16, "Variable Interest Entities," in the accompanying consolidated financial statements for further discussion of the consolidation of this entity and related impacts.

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

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

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.

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

As part of the regulatory approvals with respect to the GM and UP receivable purchases completed in January 2009, we and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or become "low-quality assets," as defined by the Federal Reserve Act. During the first quarter of 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $103 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. As discussed above, we have established an Internal Capital Adequacy Assessment Process ("ICAAP"). Under ICAAP, capital adequacy is evaluated through the examination of regulatory capital ratios (measured under current and Basel II rules), economic capital and stress testing. The results of the ICAAP are forwarded to HSBC and, to the extent that this evaluation identifies potential capital needs, incorporated into the HSBC capital management process. HSBC has provided capital support in the past and has indicated its commitment and capacity to fund the needs of the business in the future.

2010 Funding Strategy

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

	Actual January 1 through March 31, 2010	Estimated April 1 through December 31, 2010	Estimated Full Year 2010
		(in billions)	
Funding needs:			
Net loan growth (attrition), excluding asset transfers	**$(2)**	$3	$1
Net asset transfers	**-**	-	-
Long-term debt maturities	**-**	1	1
Secured financings, including conduit facility maturities	**1**	2	3
Total funding needs	$(1)	$6	$5
Funding sources:			
Cash from operations	**$1**	$-	$1
Core deposit growth	**-**	1	1
Other deposit growth	**6**	(5)	1
Loan sales	**2**	-	2
Long-term debt issuance	**1**	1	2
Short-term funding/investments	**(11)**	8	(3)
Secured financings, including conduit facility renewals	**-**	1	1
Other, including capital infusions	**-**	-	-
Total funding sources	$(1)	$6	$5

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

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

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

Off-Balance Sheet Arrangements

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

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

fulfill our maximum obligation under a guarantee.

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

	Balance at March 31, 2010				
	One Year or Less	Over One through Five Years	Over Five Years	Total	Balance at December 31, 2009
	(in billions)				
Standby letters of credit, net of participations(1)	**$5.3**	**$2.3**	**$.1**	**$7.7**	$7.6
Commercial letters of credit	**.8**	**-**	**-**	**.8**	.7
Credit derivatives considered guarantees(2)	**52.7**	**286.7**	**55.0**	**394.4**	387.2
Other commitments to extend credit:					
Commercial	**15.6**	**25.0**	**3.0**	**43.6**	48.9
Consumer	**7.1**	**-**	**-**	**7.1**	6.9
Total	**$81.5**	**$314.0**	**$58.1**	**$453.6**	$451.3

(1) Includes $741 million and $774 million issued for the benefit of HSBC affiliates at March 31, 2010 and December 31, 2009, respectively.
(2) Includes $56.9 billion and $57.3 billion issued for the benefit of HSBC affiliates at March 31, 2010 and December 31, 2009, respectively.

We provide liquidity support to a number of multi-seller and single seller asset backed commercial paper conduits ("ABCP conduits"). The tables below present information on our liquidity facilities with ABCP conduits at March 31, 2010. The maximum exposure to loss presented in the first table represents the maximum contractual amount of loans and asset purchases we could be required to make under the liquidity agreements. This amount does not reflect the funding limits discussed above and also assumes that we suffer a total loss on all amounts advanced and all assets purchased from the ABCP conduits. As such, we believe that this measure significantly overstates our expected loss exposure. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2009 Form 10-K under the caption "Off-Balance Sheet Arrangements and Contractual Obligations" for additional information on these ABCP conduits.

Conduit Type	Maximum Exposure to Loss	Conduit Assets(1) Total Assets	Weighted Average Life (Months)	Conduit Funding(1) Commercial Paper	Weighted Average Life (Days)
	(dollars are in millions)				
HSBC affiliate sponsored (multi-seller)	**$1,457**	**$967**	**19**	**$954**	**38**
Third-party sponsored:					
Single-seller	**554**	**6,783**	**36**	**6,783**	**55**
Total	**$2,011**	**$7,750**		**$7,737**	

(1)

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

Asset Class	Average Asset Mix	Average Credit Quality(1)					
		AAA	AA+/AA	A	A-	BB/BB-	B-
Multi-seller conduits							
Debt securities backed by:							
Auto loans and leases	32%	42%	-%	-%	58%	-%	-%
Trade receivables	9	100	-	-	-	-	-
Credit card receivables	56	35	-	65	-	-	-
Other securities	-	-	-	-	-	-	-
Capital calls	-	-	-	-	-	-	-
Equipment loans	-	-	-	-	-	-	-
Auto dealer floor plan loans	3	-	-	100	-	-	-
Total	100%	42%	-%	39%	19%	-%	-%
Single-seller conduits							
Debt securities backed by:							
Auto loans and leases	100%	99%	1%	-%	-%	-%	-%
Loans and trade receivables:							
Auto loans and leases	-	-	-	-	-	-	-
Total	100%	99%	1%	-%	-%	-%	-%

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(1) Credit quality is based on Standard and Poor's ratings at March 31, 2010 except for loans and trade receivables held by single-seller conduits, which are based on our internal ratings. For the single-seller conduits, external ratings are not available; however, our internal credit ratings were developed using similar methodologies and rating scales equivalent to the external credit ratings.

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

During the first quarter of 2010, U.S. asset backed commercial paper volumes improved as there are signs that most major bank conduit sponsors are extending new financing but at a slower pace. Credit spreads in the multi-seller conduit market have trended lower since the beginning of the year following a pattern that is prevalent across the U.S. credit markets. In the ABCP market, the success of the TALF program revived the term ABS market and has been the primary catalyst for the lowering of spreads in the ABCP market. The lower supply of ABCP has led to greater investor liquidity for the large bank sponsors that are attracting demand from money fund investors. The improved demand for higher quality ABCP programs has led to an improved market sentiment and less volatility in issuance spreads.

The preceding tables do not include information on liquidity facilities that we previously provided to certain Canadian multi-seller ABCP conduits that have been subject to restructuring agreements. As a result of specific difficulties in the Canadian asset backed commercial paper markets, we entered into various agreements during the second half of 2007 modifying obligations with respect to these facilities.

Under one of these agreements, known as the Montreal Accord, a restructuring proposal to convert outstanding commercial paper into longer term securities was approved by ABCP noteholders and endorsed by the Canadian justice system in 2008. The restructuring plan was formally executed during the first quarter of 2009. As part of the enhanced collateral pool established for the restructuring, we have provided a $394 million Margin Funding Facility to new Master Conduit Vehicles, which is currently

undrawn. HSBC Bank USA derivatives transactions with the previous conduit vehicles have been assigned to new Master Conduit Vehicles. Under the restructuring, collateral provided to us to mitigate the derivatives exposures is significantly higher than it was prior to the restructuring.

Also in Canada but separately from the Montreal Accord, as part of an ABCP conduit restructuring executed in the second quarter of 2008, we agreed to hold long-term securities of $300 million (denominated in Canadian dollars) and provide a $95 million credit facility. At of March 31, 2010 this credit facility was undrawn and approximately $295 million (U.S. dollars) of long-term securities were held. At December 31, 2009, approximately $1 million of the credit facility was drawn and $285 million (U.S. dollars) of long term securities were held. The change in value of securities held from December 31, 2009 was due to weaker U.S. dollar versus the Canadian dollar.

As of March 31, 2010 and December 31, 2009, other than the Margin Funding Facilities referred to above, we no longer have outstanding liquidity facilities to Canadian ABCP conduits subject to the Montreal Accord or other agreements. However, we hold $10 million of long-term securities that were converted from a liquidity drawing which fell under the Montreal Accord restructuring agreement.

We have established and manage a number of constant net asset value ("CNAV") money market funds that invest in shorter-dated highly-rated money market securities to provide investors with a highly liquid and secure investment. These funds price the assets in their portfolio on an amortized cost basis, which enables them to create and liquidate shares at a constant price. The funds, however, are not permitted to price their portfolios at amortized cost if that amount varies by more than 50 basis points from the portfolio's market value. In that case, the fund would be required to price its portfolio at market value and consequently would no longer be able to create or liquidate shares at a constant price. We do not consolidate the CNAV funds as they are not VIEs and we do not hold a majority voting interest.

Fair Value

Fair value measurement accounting principles require a reporting entity to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of our own credit risk accounted for a decrease of $34 million and $139 million in the fair value of financial liabilities during three months ended March 31, 2010 and 2009, respectively.

Net income volatility arising from changes in either interest rate or credit components of the mark-to-market on debt designated at fair value and related derivatives affects the comparability of reported results between periods. Accordingly, the loss on debt designated at fair value and related derivatives during the first quarter of 2010 should not be considered indicative of the results for any future period.

Control Over Valuation Process and Procedures
A control framework has been established which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the determination of fair values rests with Finance. Finance establishes policies and procedures to ensure appropriate valuations. For fair values determined by reference to external quotations on the identical or similar assets or liabilities, an independent price validation process is utilized. For price validation purposes, quotations from at least two independent pricing sources are obtained for each financial instrument, where possible. We consider the following factors in determining fair values:

• similarities between the asset or the liability under consideration and the asset or liability for which quotation is received;

• consistency among different pricing sources;

• the valuation approach and the methodologies used by the independent pricing sources in determining fair value;

• the elapsed time between the date to which the market data relates and the measurement date; and

• the source of the fair value information.

Greater weight is given to quotations of instruments with recent market transactions, pricing quotes from dealers who stand ready to transact, quotations provided by market-makers who originally structured such instruments, and market consensus pricing based on inputs from a large number of participants. Any significant discrepancies among the external quotations are reviewed by management and adjustments to fair values are recorded where appropriate.

For fair values determined by using internal valuation techniques, valuation models and inputs are developed by the business and are reviewed, validated and approved by the Quantitative Risk and Valuation Group ("QRVG") or other independent valuation control teams within Finance. Any subsequent material changes are reviewed and approved by the Valuation Committee which is comprised of representatives from the business and various control groups. Where available, we also participate in pricing surveys administered by external pricing services to validate our valuation models and the model inputs. The fair values of the majority of financial assets and liabilities are determined using well developed valuation models based on observable market inputs. The fair value measurements of these assets and liabilities require less judgment. However, certain assets and liabilities are valued based on proprietary valuation models that use one or more significant unobservable inputs and judgment is required to determine the appropriate level of adjustments to the fair value to address, among other things, model and input uncertainty. Any material adjustments to the fair values are reported to management.

Fair Value Hierarchy
Fair value measurement accounting principles establish a fair value hierarchy structure that prioritizes the inputs to determine the fair value of an asset or liability (the "Fair Vale Framework"). The Fair Value Framework distinguishes between inputs that are based on observed market data and unobservable inputs that reflect market participants' assumptions. It emphasizes the use of valuation methodologies that maximize observable market inputs. For financial instruments carried at fair value, the best evidence of fair value is a quoted price in an actively traded market (Level 1). Where the market for a financial instrument is not active, valuation techniques are used. The majority of our valuation techniques use market inputs that are either observable or indirectly derived from and corroborated by observable market data for substantially the full term of the financial instrument (Level 2). Because Level 1 and Level 2 instruments are determined by observable inputs, less judgment is applied in determining their fair values. In the absence of observable market inputs, the financial instrument is valued based on valuation techniques that feature one or more significant unobservable inputs (Level 3). The determination of the level of fair value hierarchy within which the fair value measurement of an asset or a liability is classified often requires judgment and may change over time as market conditions evolve. We consider the following factors in developing the fair value hierarchy:

• whether the asset or liability is transacted in an active market with a quoted market price;

• the level of bid-ask spreads;

• a lack of pricing transparency due to, among other things, complexity of the product and market liquidity;

• whether only a few transactions are observed over a significant period of time;

• whether the pricing quotations vary substantially among independent pricing services;

• whether inputs to the valuation techniques can be derived from or corroborated with market data; and

• whether significant adjustments are made to the observed pricing information or model output to determine the fair value.

Level 1 inputs are unadjusted quoted prices in active markets that the reporting entity has the ability to access for identical assets or liabilities. A financial instrument is classified as a Level 1 measurement if it is listed on an exchange or is an instrument actively traded in the over-the-counter ("OTC") market where transactions occur with sufficient frequency and volume. We regard financial instruments such as equity securities and derivative contracts listed on the primary exchanges of a country to be actively traded. Non-exchange-traded instruments classified as Level 1 assets include securities issued by the U.S. Treasury or by other foreign governments, to-be-announced ("TBA") securities and non-callable securities issued by U.S. government sponsored entities.

Level 2 inputs are inputs that are observable either directly or indirectly but do not qualify as Level 1 inputs. We classify mortgage pass-through securities, agency and certain non-agency mortgage collateralized obligations, certain derivative contracts, asset-backed securities, corporate debt, preferred securities and leveraged loans as Level 2 measurements. Where possible, at least two quotations from independent sources are obtained based on transactions involving comparable assets and liabilities to validate the fair value of these instruments. Where significant differences arise among the independent pricing quotes and the internally determined fair value, we investigate and reconcile the differences. If the investigation results in a significant adjustment to the fair value, the instrument will be classified as Level 3 within the fair value hierarchy. In general, we have observed that there is a correlation between the credit standing and the market liquidity of a non-derivative instrument.

Level 2 derivative instruments are generally valued based on discounted future cash flows or an option pricing model adjusted for counterparty credit risk and market liquidity. The fair value of certain structured derivative products is determined using valuation techniques based on inputs derived from observable benchmark index tranches traded in the OTC market. Appropriate control processes and procedures have been applied to ensure that the derived inputs are applied to value only those instruments that share similar risks to the relevant benchmark indices and therefore demonstrate a similar response to market factors. In addition, a validation process has been established, which includes participation in peer group consensus pricing surveys, to ensure that valuation inputs incorporate market participants' risk expectations and risk premium.

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants' assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances. As of March 31, 2010 and December 31, 2009, our Level 3 instruments included the following: collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs") for which there is a lack of pricing transparency due to market illiquidity, certain structured credit and structured equity derivatives where significant inputs (e.g., volatility or default correlations) are not observable, credit default swaps with certain monoline insurers where the deterioration in the creditworthiness of the counterparty has resulted in significant adjustments to fair value, U.S. subprime mortgage loans and subprime related asset-backed securities, mortgage servicing rights, and derivatives referenced to illiquid assets of less desirable credit quality.

Transfers between leveling categories, when determined to be appropriate, are recognized at the end of each reporting period.

Material Transfers Into (Out of) Level 1 and Level 2 Measurements
During the three months ended March 31, 2010, there were no material transfers into or out of Level 1 and Level 2 measurements.

Level 3 Measurements
The following table provides information about Level 3 assets/liabilities in relation to total assets/liabilities measured at fair value as of March 31, 2010 and December 31, 2009.

	March 31, 2010	December 31, 2009
	(dollars are in millions)	
Level 3 assets(1)(2)	**$8,542**	$9,179
Total assets measured at fair value(3)	**112,360**	111,231
Level 3 liabilities	**4,294**	3,843
Total liabilities measured at fair value(1)	**73,306**	74,120
Level 3 assets as a percent of total assets measured at fair value	**7.6%**	8.3%
Level 3 liabilities as a percent of total liabilities measured at fair value	**5.9%**	5.2%

(1) Presented without netting which allows the offsetting of amounts relating to certain contracts if certain conditions are met.
(2) Includes $6.8 billion of recurring Level 3 assets and $1.8 billion of non-recurring Level 3 assets at March 31, 2010 and $7.4 billion of recurring Level 3 assets and $1.8 billion of non-recurring Level 3 assets at December 31, 2009.
(3) Includes $110.4 billion of assets measured on a recurring basis and $2.0 billion of assets measured on a non-recurring basis at March 31, 2010 and $108.6 billion of non-recurring Level 3 assets and $2.7 billion of non-recurring Level 3 assets at December 31, 2009.

Material Changes in Fair Value for Level 3 Assets and Liabilities

Derivative Assets and Counterparty Credit Risk
We have entered into credit default swaps with monoline insurers to hedge our credit exposure in certain asset-backed securities and synthetic CDOs. Beginning in 2007 and continuing into 2009, the creditworthiness of the monoline insurers had deteriorated significantly. However, beginning in the second half of 2009 and continuing in the first quarter of 2010, the deterioration previously experienced began to ease. As a result, we made a $56 million positive credit risk adjustment and a $164 million negative credit risk adjustment to the fair value of our credit default swap contracts, which is reflected in trading revenue (loss) during the three months ended March 31, 2010 and 2009, respectively. We have recorded a cumulative credit loss adjustment of $531 million against our monoline exposure as of March 31, 2010.

Loans
As of March 31, 2010 and December 31, 2009, we have classified $761 million and $793 million, respectively, of mortgage whole loans held for sale as a non-recurring Level 3 financial asset. These mortgage loans are accounted for on a lower of cost or fair value basis. Based on our assessment, we recorded a gain of $77 million and a loss of $86 million for such mortgage loans during the three months ended March 31, 2010 and 2009, respectively. The changes in fair value are recorded as other revenues (losses) in the consolidated statement of income (loss).

Material Additions to and Transfers Into (Out of) Level 3 Measurements

During the three months ended March 31, 2010, we transferred $109 million of mortgage and other asset-backed securities from Level 2 to Level 3 as the availability of observable inputs continued to decline. In addition, we transferred $218 million of credit derivatives from Level 2 to Level 3.

During the three months ended March 31, 2009, we transferred $264 million of mortgage and other asset-backed securities and $27 million of corporate bonds from Level 2 to Level 3 as the availability of observable inputs continued to decline. In addition, we transferred $55 million of credit derivatives from Level 2 to Level 3.

See Note 18, "Fair Value Measurements," in the accompanying consolidated financial statements for information on additions to and transfers into (out of) Level 3 measurements during the three months ended March 31, 2010 and 2009 as well as for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

Credit Quality of Assets Underlying Asset-backed Securities

The following tables summarize the types and credit quality of the assets underlying our asset-backed securities as well as certain collateralized debt obligations and collateralized loan obligations held as of March 31, 2010:

Asset-backed securities backed by consumer finance collateral:

Credit quality of collateral:

			Prime		Alt-A		Sub-prime	
Credit quality of collateral:			**Prior to**	**2006-**	**Prior to**	**2006-**	**Prior to**	**2006-**
Year of issuance:		**Total**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
			(in millions)					
Rating of securities:	Collateral type:							
AAA	Home equity loans	$12	$-	$-	$12	$-	$-	$-
	Auto loans	-	-	-	-	-	-	-
	Student loans	30	-	-	12	18	-	-
	Residential mortgages	942	4	-	560	-	378	-
	Commercial mortgages	580	-	-	105	475	-	-
	Other	116	-	-	-	116	-	-
	Total AAA	1,680	4	-	689	609	378	-
AA	Home equity loans	-	-	-	-	-	-	-
	Residential mortgages	27	-	-	27	-	-	-
	Total AA	27	-	-	27	-	-	-
A	Home equity loans	194	-	-	1	191	2	-
	Auto loans	-	-	-	-	-	-	-
	Residential mortgages	3	-	-	-	-	-	3
	Total A	197	-	-	1	191	2	3
BBB	Home equity loans	209	-	-	208	-	1	-
	Residential mortgages	36	-	-	-	36	-	-
	Other	-	-	-	-	-	-	-
	Total BBB	245	-	-	208	36	1	-
BB	Residential mortgages	209	15	-	155	39	-	-
	Other	-	-	-	-	-	-	-
	Total BB	209	15	-	155	39	-	-
B	Auto loans	46	-	-	46	-	-	-
	Residential mortgages	30	30	-	-	-	-	-

	Total B	76	30	-	46	-	-	-
CCC	Home equity loans	17	-	-	-	17	-	-
	Residential mortgages	472	-	-	2	470	-	-
	Total CCC	489	-	-	2	487	-	-
Unrated	Residential mortgages	-	-	-	-	-	-	-
		$2,923	$49	$-	$1,128	$1,362	$381	$3

Collateralized debt obligations (CDO) and collateralized loan obligations (CLO):

Credit quality of collateral:			**A or Higher**	**BBB**	**BB/B**	**CCC**	**Unrated**
Rating of securities:	Collateral type:						
AAA	Corporate loans	$357	$-	$-	$357	$-	$-
	Commercial mortgages	122	-	-	72	50	-
	Trust preferred	204	-	204	-	-	-
	Aircraft leasing	72	-	-	-	-	72
	Other	-	-	-	-	-	-
		755	$-	$204	$429	$50	$72
	Total asset-backed securities	$3,678					

Effect of Changes in Significant Unobservable Inputs

The fair value of certain financial instruments is measured using valuation techniques that incorporate pricing assumptions not supported by, derived from or corroborated by observable market data. The resultant fair value measurements are dependent on unobservable input parameters which can be selected from a range of estimates and may be interdependent. Changes in one or more of the significant unobservable input parameters may change the fair value measurements of these financial instruments. For the purpose of preparing the financial statements, the final valuation inputs selected are based on management's best judgment that reflect the assumptions market participants would use in pricing similar assets or liabilities.

The unobservable input parameters selected are subject to the internal valuation control processes and procedures. When we perform a test of all the significant input parameters to the extreme values within the range at the same time, it could result in an increase of the overall fair value measurement of approximately $278 million or a decrease of the overall fair value measurement of approximately $278 million as of March 31, 2010. The effect of changes in significant unobservable input parameters are primarily driven by mortgage whole loans held for sale or securitization, certain asset-backed securities including CDOs, and the uncertainty in determining the fair value of credit derivatives executed against monoline insurers.

Risk Management

Overview

Some degree of risk is inherent in virtually all of our activities. For the principal activities undertaken, the following are considered to be the most important types of risks:

- Credit risk
is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default.

- Liquidity risk
is the potential that an institution will be unable to meet its obligations as they become due or fund its customers because of inadequate cash flow or the inability to liquidate assets or obtain funding itself.

- Interest rate risk
is the potential impairment of net interest income due to mismatched pricing between assets and liabilities.

-

Market risk
is the potential for losses in daily mark to market positions (mostly trading) due to adverse movements in money, foreign exchange, equity or other markets and includes both interest rate risk and trading risk.

•
Operational risk
is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events (including legal and compliance risk but excluding strategic and reputational risk)

•
Fiduciary risk
is the risk associated with offering services honestly and properly to clients in a fiduciary capacity in accordance with Regulation 12 CFR 9, Fiduciary Activity of National Banks.

•
Reputational risk
involves the safeguarding of our reputation and can arise from social, ethical or environmental issues, or as a consequence of operational and other risk events.

•
Strategic risk
is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.

There have been no significant changes to the policies or approach for managing various types of risk as disclosed in our 2009 Form 10-K, although we continue to monitor current market conditions and will adjust risk management policies and procedures as deemed necessary. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of the objectives of our risk management system as well as our risk management policies and practices. Our risk management process involves the use of various simulation models. We believe that the assumptions used in these models are reasonable, but actual events may unfold differently than what is assumed in the models. Consequently, model results may be considered reasonable estimates, with the understanding that actual results may vary significantly from model projections.

Credit Risk Management
Credit risk is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default.

Credit risk is inherent in various on- and off-balance sheet instruments and arrangements, such as:

• loan portfolios;

• investment portfolios;

• unfunded commitments such as letters of credit and lines of credit that customers can draw upon; and

• treasury instruments, such as interest rate swaps which, if more valuable today than when originally contracted, may represent an exposure to the counterparty to the contract.

While credit risk exists widely in our operations, diversification among various commercial and consumer portfolios helps to lessen risk exposure. Day-to-day management of credit and market risk is performed by the Chief Credit Officer, the HSBC North America Chief Retail Credit Officer and the Head of Market Risk, who report directly to the HSBC North America Chief Risk Officer and maintain independent risk functions. The credit risk associated with commercial portfolios is managed by the Chief Credit Officer, while credit risk associated with retail consumer loan portfolios, such as credit cards, installment loans and residential mortgages, is managed by the HSBC North America Chief Retail Credit Officer. Further discussion of credit risk can be found under the "Credit Quality" caption in this MD&A.

Credit risk associated with derivatives is measured as the net replacement cost in the event the counterparties with contracts in a gain position to us fail to perform under the terms of those contracts. In managing derivative credit risk, both the current exposure, which is the replacement cost of contracts on the measurement date, as well as an estimate of the potential change in value of contracts over their remaining lives are considered. Counterparties to our derivative activities include financial institutions, foreign and domestic government agencies, corporations, funds (mutual funds, hedge funds, etc.), insurance companies and private clients as well as other HSBC entities. These counterparties are subject to regular credit review by the credit risk management department. To minimize credit risk, we enter into legally enforceable master netting agreements which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon occurrence of certain events. In addition, we reduce credit risk by obtaining collateral from counterparties. The determination of the need for and the levels of collateral will vary based on an assessment of the credit risk of the counterparty.

The total risk in a derivative contract is a function of a number of variables, such as:

• volatility of interest rates, currencies, equity or corporate reference entity used as the basis for determining contract payments;

• current market events or trends;

• country risk;

• maturity and liquidity of contracts;

• credit worthiness of the counterparties in the transaction;

• the existence of a master netting agreement among the counterparties; and

• existence and value of collateral received from counterparties to secure exposures.

The table below presents total credit risk exposure measured using rules contained in the risk-based capital guidelines published by U.S. banking regulatory agencies. Risk-based capital guidelines recognize that bilateral netting agreements reduce credit risk and, therefore, allow for reductions of risk-weighted assets when netting requirements have been met. As a result, risk-weighted amounts for regulatory capital purposes are a portion of the original gross exposures.

The risk exposure calculated in accordance with the risk-based capital guidelines potentially overstates actual credit exposure because: the risk-based capital guidelines ignore collateral that may have been received from counterparties to secure exposures; and the risk-based capital guidelines compute exposures over the life of derivative contracts. However, many contracts contain provisions that allow us to close out the transaction if the counterparty fails to post required collateral. In addition, many contracts give us the right to break the transactions earlier than the final maturity date. As a result, these contracts have

potential future exposures that are often much smaller than the future exposures derived from the risk-based capital guidelines.

	March 31, 2010	December 31, 2009
	(in millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	**$39,502**	$39,856
Less: collateral held against exposure	**3,604**	3,890
Net credit risk exposure	**$35,898**	$35,966

Liquidity Risk Management

There have been no material changes to our approach towards liquidity risk management during the first quarter of 2010. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to liquidity risk. Although our overall approach to liquidity management has not changed, we continue to enhance our implementation of that approach to reflect best practices. The past few years have suggested that in a market crisis, traditional sources of crisis liquidity such as secured lending and deposits with other banks may not be available. Similarly, the current regulatory initiatives are suggesting banks needs to retain a portfolio of extremely high quality liquid assets. Consistent with these items, we are expanding our portfolio of high quality sovereign and sovereign guaranteed securities.

We continuously monitor the impact of market events on our liquidity positions. In general terms, the strains due to the credit crisis have been concentrated in the wholesale market as opposed to the retail market (the latter being the market from which we source core demand and time deposit accounts). Financial institutions with less reliance on the wholesale markets were in many respects less affected by the recent conditions. Our limited dependence upon the wholesale markets for funding has been a significant competitive advantage through the most recent period of financial market turmoil.

Our liquidity management approach includes increased deposits, potential sales (e.g. residential mortgage loans), and securitizations/conduits (e.g. credit cards) in liquidity contingency plans. Total deposits increased $6.5 million during the three months ended March 31, 2010 as compared to a decrease of $3.7 billion during the year-ago quarter. Online savings account growth was $588 million and $1.1 billion during the three months ended March 31, 2010 and 2009, respectively. Online certificates of deposit decreased $112 million compared to an increase of $121 million during the three months ended March 31, 2010 and 2009, respectively.

Our ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. At March 31, 2010, we and HSBC Bank USA maintained the following long and short-term debt ratings:

	Moody's	S&P	Fitch	DBRS(*)
HSBC USA Inc.:				
Short-term borrowings	**P-1**	**A-1+**	**F1+**	**R-1**
Long-term debt	**A1**	**AA-**	**AA**	**AA**
HSBC Bank USA:				
Short-term borrowings	**P-1**	**A-1+**	**F1+**	**R-1**
Long-term debt	**Aa3**	**AA**	**AA**	**AA**

* Dominion Bond Rating Service.

As of March 31, 2010, there are no pending actions in terms of changes to ratings on the debt of HSBC USA Inc. or HSBC Bank USA from any of the rating agencies.

Interest Rate Risk Management
Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of our assets, liabilities and derivative contracts. Our approach to managing interest rate risk is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Risk Management." There have been no material changes to our approach towards liquidity risk management during the first quarter of 2010.

Present Value of a Basis Point
("PVBP") is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at March 31, 2010 and December 31, 2009.

	March 31, 2010	**December 31, 2009**
	(in millions)	
Institutional PVBP movement limit	**$6.5**	$6.5
PVBP position at period end	**1.7**	.5

Economic value of equity
is the change in value of the assets and liabilities (excluding capital and goodwill) for either a 200 basis point immediate rate increase or decrease. The following table reflects the economic value of equity position at March 31, 2010 and December 31, 2009.

	March 31, 2010	**December 31, 2009**
	(values as a percentage)	
Institutional economic value of equity limit	**+/-15**	+/-20
Projected change in value (reflects projected rate movements on January 1):		
Change resulting from an immediate 200 basis point increase in interest rates	**(5)**	(4)
Change resulting from an immediate 200 basis point decrease in interest rates	**(4)**	(3)

The loss in value for a 200 basis point increase or decrease in rates is a result of the negative convexity of the residential whole loan and mortgage backed securities portfolios. If rates decrease, the projected prepayments related to these portfolios will accelerate, causing less appreciation than a comparable term, non-convex instrument. If rates increase, projected prepayments will slow, which will cause the average lives of these positions to extend and result in a greater loss in market value.

Dynamic simulation modeling techniques
are utilized to monitor a number of interest rate scenarios for their impact on net interest income. These techniques include both rate shock scenarios, which assume immediate market rate movements by as much as 200 basis points, as well as scenarios in which rates rise or fall by as much as 200 basis points over a twelve month period. The following table reflects the impact on net interest income of the scenarios utilized by these modeling techniques.

	March 31, 2010		**December 31, 2009**	
	Amount	**%**	**Amount**	**%**
	(dollars are in millions)			

Projected change in net interest income (reflects projected rate movements on January 1):				
Institutional base earnings movement limit		**(10)%**		(10)%
Change resulting from a gradual 100 basis point increase in the yield curve	**$25**	**1**	$(17)	-
Change resulting from a gradual 100 basis point decrease in the yield curve	**(120)**	**(2)**	(65)	(1)
Change resulting from a gradual 200 basis point increase in the yield curve	**20**	**-**	5	-
Change resulting from a gradual 200 basis point decrease in the yield curve	**(193)**	**(4)**	(105)	(2)
Other significant scenarios monitored (reflects projected rate movements on January 1):				
Change resulting from an immediate 100 basis point increase in the yield curve	**17**	**-**	20	-
Change resulting from an immediate 100 basis point decrease in the yield curve	**(173)**	**(3)**	(95)	(2)
Change resulting from an immediate 200 basis point increase in the yield curve	**(21)**	**-**	(14)	-
Change resulting from an immediate 200 basis point decrease in the yield curve	**(275)**	**(6)**	(179)	(3)

The projections do not take into consideration possible complicating factors such as the effect of changes in interest rates on the credit quality, size and composition of the balance sheet. Therefore, although this provides a reasonable estimate of interest rate sensitivity, actual results will vary from these estimates, possibly by significant amounts.

Capital Risk/Sensitivity of Other Comprehensive Income

Large movements of interest rates could directly affect some reported capital balances and ratios. The mark-to-market valuation of available-for-sale securities is credited on a tax effective basis to accumulated other comprehensive income. Although this valuation mark is excluded from Tier 1 and Tier 2 capital ratios, it is included in two important accounting based capital ratios: the tangible common equity to tangible assets and the tangible common equity to risk weighted assets. As of March 31, 2010, we had an available-for-sale securities portfolio of approximately $33.8 billion with a net negative mark-to-market of $21 million included in tangible common equity of $11.4 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $243 million to a net loss of $264 million with the following results on the tangible capital ratios. As of December 31, 2009, we had an available-for-sale securities portfolio of approximately $27.8 billion with a net negative mark-to-market of $235 million included in tangible common equity of $11.1 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $248 million to a net loss of $483 million with the following results on the tangible capital ratios.

	March 31, 2010		December 31, 2009	
	Actual	Proforma(1)	Actual	Proforma(1)
Tangible common equity to tangible assets	**6.21%**	**6.14%**	6.60%	6.40%
Tangible common equity to risk weighted assets	**9.01**	**8.89**	8.26	8.00

(1) Proforma percentages reflect a 25 basis point increase in interest rates.

Market Risk Management

There have been no material changes to our approach towards market risk management during the first quarter of 2010. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to market risk.

Value at Risk ("VAR") is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. VAR calculations are performed for all material trading activities and as a tool for managing interest rate risk inherent in non-trading activities. We calculate VAR daily for a one-day holding period to a 99 percent confidence level. At a 99 percent confidence level for a two-year observation period, we are setting as our limit the fifth worst loss performance in the last 500 business days.

VAR - Trading Activities

Our management of market risk is based on a policy of restricting individual operations to trading within a list of permissible instruments authorized, enforcing rigorous new product approval procedures and restricting trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems. Market making and proprietary position-taking is undertaken within Global Banking and Markets.

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques, including VAR and various techniques for monitoring interest rate risk as discussed above. These techniques quantify the impact on capital of defined market movements.

Trading portfolios reside primarily within the Markets unit of the Global Banking and Markets business segment, which include warehoused residential mortgage loans purchased with the intent of selling them. Portfolios include foreign exchange, derivatives, precious metals (i.e., gold, silver, platinum), equities and money market instruments including "repos" and securities. Trading occurs as a result of customer facilitation, proprietary position taking, and economic hedging. In this context, economic hedging may include, for example, forward contracts to sell residential mortgages and derivative contracts which, while economically viable, may not satisfy the hedge requirements.

The trading portfolios have defined limits pertaining to items such as permissible investments, risk exposures, loss review, balance sheet size and product concentrations. "Loss review" refers to the maximum amount of loss that may be incurred before senior management intervention is required.

The following table summarizes trading VAR for the first quarter of 2010:

	March 31,	**Three Months Ended March 31, 2010**			**December 31,**
	2010	**Minimum**	**Maximum**	**Average**	**2009**
			(in millions)		
Total trading	**$32**	**$30**	**$52**	**$37**	$38
Equities	**-**	**-**	**1**	**1**	-
Foreign exchange	**4**	**1**	**7**	**4**	2
Interest rate directional and credit spread	**25**	**25**	**44**	**31**	33

The following table summarizes the frequency distribution of daily market risk-related revenues for Treasury trading activities during the three months ended March 31, 2010. Market risk-related Treasury trading revenues include realized and unrealized gains (losses) related to Treasury trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the three months ended March 31, 2010 shows that the largest daily gain was $11 million and the largest daily loss was $9 million.

Ranges of Daily Treasury Trading Revenue Earned from Market Risk-Related Activities	**Below $(5)**	**$(5) to $0**	**$0 to $5**	**$5 to $10**	**Over $10**
			(in millions)		
Number of trading days market risk-related revenue was within the stated range	**$3**	**$18**	**$29**	**$10**	**$1**

VAR - Non-trading Activities

Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of mortgage repayments, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts. The prospective change in future net interest income from non-trading portfolios will be reflected in the current realizable value of these positions, should they be sold or closed prior to maturity. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the supervision of the local Asset and Liability Committee ("ALCO"). Once market risk has been consolidated in Global Markets or ALCO-managed books, the net exposure is typically managed through the use of interest rate swaps within agreed limits.

The following table summarizes non-trading VAR for the first quarter of 2010, assuming a 99% confidence level for a two-year observation period and a one-day "holding period".

	March 31,	**Three Months Ended March 31, 2010**			**December 31,**
	2010	**Minimum**	**Maximum**	**Average**	**2009**
			(in millions)		
Interest rate	**$123**	**$101**	**$125**	**$114**	$114

Trading Activities

- HSBC Mortgage Corporation (USA) HSBC Mortgage Corporation (USA) is a mortgage banking subsidiary of HSBC Bank USA. Trading occurs in mortgage banking operations as a result of an economic hedging program intended to offset changes in value of mortgage servicing rights and the salable loan pipeline. Economic hedging may include, for example, forward contracts to sell residential mortgages and derivative

instruments used to protect the value of MSRs.

MSRs are assets that represent the present value of net servicing income (servicing fees, ancillary income, escrow and deposit float, net of servicing costs). MSRs are separately recognized upon the sale of the underlying loans or at the time that servicing rights are purchased. MSRs are subject to interest rate risk, in that their value will decline as a result of actual and expected acceleration of prepayment of the underlying loans in a falling interest rate environment.

Interest rate risk is mitigated through an active hedging program that uses trading securities and derivative instruments to offset changes in value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques.

Modeling techniques, primarily rate shock analyses, are used to monitor certain interest rate scenarios for their impact on the economic value of net hedged MSRs, as reflected in the following table.

	March 31, 2010	December 31, 2009
	(in millions)	
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on April 1):		
Value of hedged MSRs portfolio	**$444**	$450
Change resulting from an immediate 50 basis point decrease in the yield curve:		
Change limit (no worse than)	**(10)**	(16)
Calculated change in net market value	**2**	(1)
Change resulting from an immediate 50 basis point increase in the yield curve:		
Change limit (no worse than)	**(8)**	(8)
Calculated change in net market value	**1**	2
Change resulting from an immediate 100 basis point increase in the yield curve:		
Change limit (no worse than)	**(12)**	(12)
Calculated change in net market value	**-**	4

The economic value of the net, hedged MSRs portfolio is monitored on a daily basis for interest rate sensitivity. If the economic value declines by more than established limits for one day or one month, various levels of management review, intervention and/or corrective actions are required.

The following table summarized the frequency distribution of the weekly economic value of the MSR asset during the three months ended March 31, 2010. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the year.

Ranges of Mortgage Economic Value from Market Risk-Related Activities	**Below $(2)**	**$(2) to $0**	**$0 to $2**	**$2 to $4**	**Over $4**
		(in millions)			
Number of trading weeks market risk-related revenue was within the stated range	**1**	**1**	**6**	**4**	**1**

Operational Risk
There have been no material changes to our approach towards operational risk management during the first quarter of 2010.

Compliance Risk
There have been no material changes to our approach towards compliance risk management during the first quarter of 2010.

Fiduciary Risk
There have been no material changes to our approach towards fiduciary risk management during the first quarter of 2010.

Reputational Risk

There have been no material changes to our approach towards reputational risk management during the first quarter of 2010.

Strategic Risk

There have been no material changes to our approach towards strategic risk management during the first quarter of 2010.

CONSOLIDATED AVERAGE BALANCES AND INTEREST RATES

The following table shows the quarter to date average balances of the principal components of assets, liabilities and shareholders' equity together with their respective interest amounts and rates earned or paid, presented on a taxable equivalent basis.

	Three Months Ended March 31,					
	2010			2009		
	Balance	Interest	Rate(1)	Balance	Interest	Rate(1)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$33,867**	**$22**	**0.26%**	$11,943	$7	0.24%
Federal funds sold and securities purchased under resale agreements	**2,495**	**6**	**1.01**	9,990	17	0.67
Trading assets	**5,399**	**32**	**2.37**	4,948	59	4.86
Securities	**32,569**	**247**	**3.08**	25,848	283	4.44
Loans:						
Commercial	**32,414**	**245**	**3.06**	37,587	326	3.52
Consumer:						
Residential mortgages	**14,820**	**176**	**4.82**	20,086	260	5.24
HELOCs and home equity mortgages	**4,103**	**33**	**3.29**	4,553	38	3.43
Private label card receivables	**14,326**	**362**	**10.24**	16,382	414	10.26
Credit cards	**12,412**	**288**	**9.40**	13,347	352	10.70
Auto finance	**1,847**	**82**	**18.13**	2,594	115	18.00
Other consumer	**1,468**	**25**	**7.07**	1,818	41	9.20
Total consumer	**48,976**	**966**	**8.01**	58,780	1,220	8.42
Total loans	**81,390**	**1,211**	**6.04**	96,367	1,546	6.51
Other	**6,802**	**11**	**0.68**	9,416	11	0.47
Total earning assets	**162,522**	**$1,529**	3.82 %	158,512	$1,923	4.92 %
Allowance for credit losses	**(3,776)**			(3,054)		
Cash and due from banks	**2,655**			2,623		
Other assets	**22,228**			27,623		
Total assets	**$183,629**			$185,704		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$52,961**	**$84**	**0.65%**	$46,636	$174	1.51%
Other time deposits	**17,625**	**68**	**1.57**	20,726	119	2.34
Deposits in foreign offices:						
Foreign banks deposits	**9,500**	**5**	**0.20**	11,671	3	0.10
Other interest bearing deposits	**20,519**	**6**	**0.12**	16,290	17	0.42
Total interest bearing deposits	**100,605**	**163**	**0.66**	95,323	313	1.33
Short-term borrowings	**16,847**	**21**	**0.51**	10,770	19	0.71
Long-term debt	**17,627**	**140**	**3.21**	26,539	237	3.63
Total interest bearing liabilities	**135,079**	**324**	**0.97**	132,632	569	1.74
Net interest income/Interest rate spread		**$1,205**	2.85 %		$1,354	3.18 %
Noninterest bearing deposits	**21,285**			20,959		
Other liabilities	**11,937**			18,444		
Total shareholders' equity	**15,328**			13,669		
Total liabilities and shareholders' equity	**$183,629**			$185,704		

Net interest margin on average earning assets	**3.01%**	3.46%
Net interest margin on average total assets	2.66 %	2.96 %

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(1) Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the three months ended March 31, 2010 and 2009 included fees of $14 million and $12 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the captions "Interest Rate Risk Management" and "Trading Activities" of this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures
We maintain a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed by HSBC USA in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported on a timely basis. Our Board of Directors, operating through its audit committee, which is composed entirely of independent outside directors, provides oversight to our financial reporting process.

We conducted an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report so as to alert them in a timely fashion to material information required to be disclosed in reports we file under the Exchange Act.

Changes in Internal Control over Financial Reporting
There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General
We are parties to various legal proceedings, including actions that are or purport to be class actions, resulting from ordinary business activities relating to our current and/or former operations. Due to uncertainties in litigation and other factors, we cannot be certain that we will ultimately prevail in each instance. We believe that our defenses to these actions have merit and any adverse decision should not materially affect our consolidated financial condition. However, losses may be material to our results of operations for any particular future period depending on our income level for that period.

Credit Card Litigation
Since June 2005, HSBC Bank USA, HSBC Finance Corporation, HSBC North America and HSBC, as well as other banks and Visa Inc. and MasterCard Incorporated, were named as defendants in four class actions filed in Connecticut and the Eastern District of New York:
Photos Etc.
Corp. et al. v. Visa U.S.A., Inc.,
et al.
(D. Conn. No. 3:05-CV-01007 (WWE));
National Association of
Convenience Stores, et al. v. Visa U.S.A., Inc., et al.
(E.D.N.Y. No. 05-CV 4520 (JG));
Jethro Holdings, Inc., et al. v. Visa U.S.A.,
Inc. et al.

(E.D.N.Y. No. 05-CV-4521 (JG)); and
American Booksellers
Asps' v. Visa U.S.A., Inc. et al.
(E.D.N.Y. No. 05-CV-5391 (JG)). Numerous other complaints containing similar allegations (in which no HSBC entity is named) were filed across the country against Visa Inc., MasterCard Incorporated and other banks. These actions principally allege that the imposition of a no-surcharge rule by the associations and/or the establishment of the interchange fee charged for credit card transactions causes the merchant discount fee paid by retailers to be set at supracompetitive levels in violation of the Federal antitrust laws. These suits have been consolidated and transferred to the Eastern District of New York. The consolidated case is:
In re Payment Card Interchange Fee and Merchant
Discount Antitrust Litigation
, MDL 1720, E.D.N.Y. A consolidated, amended complaint was filed by the plaintiffs on April 24, 2006 and a second consolidated amended complaint was filed on January 29, 2009. The parties are engaged in discovery 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 6. Exhibits

Exhibits included in this Report:

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HSBC USA Inc.
(Registrant)

/s/ Gerard Mattia
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

Date: May 7, 2010

Exhibit Index

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 12

HSBC USA INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Three Months Ended March 31	2010	2009
	(dollars are in millions)	
Ratios excluding interest on deposits:		
Net income (loss)	**$554**	$(89)
Income tax expense	**320**	41
Less: Undistributed equity earnings	**-**	-
Fixed charges:		
Interest on:		
Borrowed funds	**21**	19
Long-term debt	**140**	237
One third of rents, net of income from subleases	**7**	5
Total fixed charges, excluding interest on deposits	**168**	261
Earnings before taxes and fixed charges, net of undistributed equity earnings	**$1,042**	$213
Ratio of earnings to fixed charges	**6.20**	0.82
Total preferred stock dividend factor(1)	**$29**	$10
Fixed charges, including the preferred stock dividend factor	**$197**	$271
Ratio of earnings to combined fixed charges and preferred stock dividends	**5.29**	0.79
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	**$168**	$261
Add: Interest on deposits	**163**	313
Total fixed charges, including interest on deposits	**$331**	$574
Earnings before taxes and fixed charges, net of undistributed equity earnings	**$1,042**	$213
Add: Interest on deposits	**163**	313
Total	**$1,205**	$526
Ratio of earnings to fixed charges	**3.64**	0.92
Fixed charges, including the preferred stock dividend factor	**$197**	$271
Add: Interest on deposits	**163**	313
Fixed charges, including the preferred stock dividend factor and interest on deposits	**$360**	$584
Ratio of earnings to combined fixed charges and preferred stock dividends	**3.35**	0.90

(1) Preferred stock dividends grossed up to their pretax equivalents.

EXHIBIT 31

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Certification of Chief Executive Officer

I, Irene M. Dorner, President and Chief Executive Officer of HSBC USA Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSBC USA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 7, 2010

/s/
IRENE M. DORNER

____

Irene M. Dorner
President and Chief Executive Officer

Certification of Chief Financial Officer

I, Gerard Mattia, Senior Executive Vice President and Chief Financial Officer of HSBC USA Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSBC USA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2010

/s/
GERARD MATTIA

____

Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") Annual Report on Form 10-Q for the period ending March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Irene M. Dorner, President and Chief Executive Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: May 7, 2010

/s/
IRENE M. DORNER

Irene M. Dorner
President and Chief Executive Officer

Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") Annual Report on Form 10-Q for the period ending March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Gerard Mattia, Senior Executive Vice President and Chief Financial Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: May 7, 2010

/s/
GERARD MATTIA

Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 07 May 2010