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Residential mortgage-backed securities

$510
$(10)
$-
$-
$(25)
$102
$577
$(49)

Collateralized debt obligations

594
(279)
-
-
363
-
678
(81)

Other asset-backed securities

28
1
-
-
(6)
9
32
1

Corporate and other domestic debt securities

527
165
-
-
(1)
318
1,009
162

Debt Securities issued by foreign entities

77
61
-
-
-

1

	-
	138
	61
Equity securities	
	144
	(113)
	-
	-
	(6)
	1
	26
	(113)
Precious metals	
	-
	-
	-
	-
	-
	-
	-
	-
Derivatives, net(2)	
	4,687
	(1,538)
	(12)
	-
	(37)
	9
	3,109
	(2,265)
Securities available-for-sale	
U.S. Treasury, U.S. Government agencies and sponsored enterprises	
	-
	-
	-
	-
	-
	3
	3
	-
Obligations of U.S. states and political subdivisions	
	2
	-
	2

-
-
-
(2)
-
-

Residential mortgage-backed securities

333
-
-
19
(28)
(6)
318
3

Commercial mortgage-backed securities

5
-
-
-
-
-
5
-

Collateralized debt obligations

-
-
-
-
-
-
-
-

Other asset-backed securities

256
-
-
53
(38)
(32)
239
45

Loans(3)

155
-
11
-
(38)
-
128
8

3

Other assets, excluding derivatives(4)

313
-
84
-
37
-
434
89

Total Assets

$7,631
$(1,713
)
$83
$72
$221
$402
$6,696
$(2,139
)

Liabilities:

Deposits in domestic offices

$(404)
$-
$(4)
$-
$(314)
$2
$(720)
$(3)

Long term debt

(82
)
-
(11
)
-
(125
)
2
(216
)
(10

	)
Total liabilities	$(486) $- $(15) $- $(439) $4 $(936) $(13)

		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	**$832**	**$(38)**	**$-**	**$-**	**$235**	**$-**	**$(238)**	**$**
Asset-backed securities:								
Residential mortgages	**817**	**79**	**-**	**-**	**54**	**-**	**(411)**	**2**
Commercial mortgages	**4**	**(4)**	**-**	**-**	**-**	**-**	**-**	
Home equity	**24**	**(48)**	**-**	**-**	**215**	**-**	**(163)**	
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Corporate and other domestic debt securities	**1,202**	**(26)**	**-**	**-**	**96**	**-**	**(371)**	
Debt Securities issued by foreign entities:								
Corporate	**195**	**1**	**-**	**-**	**-**	**-**	**1**	
Equity securities	**21**	**(1)**	**-**	**-**	**-**	**-**	**(1)**	
Foreign exchange contracts	**(95)**	**(34)**	**-**	**-**	**-**	**(3)**	**129**	
Equity contracts	**81**	**(44)**	**-**	**-**	**-**	**-**	**(112)**	**(75**
Credit contracts	**1,311**	**150**	**-**	**-**	**-**	**-**	**(90)**	**21**
Other	**(3)**	**-**	**16**	**-**	**-**	**-**	**(1)**	

Securities available-for-sale:								
U.S. Treasury, U.S. Government agencies and sponsored enterprises	**3**	**-**	**-**	**-**	**-**	**-**	**-**	
Asset-backed securities:								
Residential mortgages	**515**	**-**	**-**	**15**	**-**	**-**	**(337)**	**8**
Commercial mortgages	**8**	**-**	**-**	**3**	**-**	**-**	**(1)**	
Home equity	**175**	**-**	**-**	**56**	**-**	**-**	**(11)**	
Auto	**43**	**-**	**-**	**-**	**-**	**-**	**(36)**	
Student loans	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**
Loans(3)	**4**	**-**	**-**	**-**	**-**	**-**	**(1)**	**1**
Other assets, excluding derivatives(4)	**450**	**-**	**(87)**	**-**	**-**	**-**	**(46)**	
Total assets	**$5,587**	**$35**	**$(71)**	**$75**	**$600**	**$(3)**	**$(1,689)**	**$37**
Liabilities:								
Deposits in domestic offices	**$(1,643)**	**$22**	**$-**	**$-**	**$-**	**$(934)**	**$148**	**$(164**
Long-term debt	**(419)**	**28**	**-**	**-**	**-**	**(221)**	**79**	**(3**
Total liabilities	**$(2,062)**	**$50**	**$-**	**$-**	**$-**	**$(1,155)**	**$227**	**$(20**

	January 1, 2009	Total Gains and (Losses) Included in(1) Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Net Purchases Issuances and Settlements	Transfers Into or Out of Level 3	June 30, 2009	Current Period Unrealized Gains (Losses)
				(in millions)				
Assets:								
Trading assets, excluding derivatives								
Residential mortgage-backed securities	$475	$(51)	$-	$-	$(5)	$158	$577	$(88)
Collateralized debt obligations	668	(338)	-	-	348	-	678	(133)
	36	(6)	-	-	(7)	9	32	(5)

Other asset-backed securities								
Corporate and other domestic debt securities	480	170	-	-	14	345	1,009	166
Debt Securities issued by foreign entities	87	52	-	-	(1)	-	138	52
Equity securities	147	(94)	-	-	(28)	1	26	(94)
Precious metals	-	-	-	-	-	-	-	-
Derivatives, net(2)	5,283	(2,098)	(13)	-	(17)	(46)	3,109	(2,471)
Securities available-for-sale								
U.S. Treasury, U.S. Government agencies and sponsored enterprises	-	-	-	-	-	3	3	-
Obligations of U.S. states and political subdivisions	-	-	-	-	-	-	-	-
Residential mortgage-backed securities	164	-	-	9	(40)	185	318	(6)
Commercial mortgage-backed securities	-	-	-	-	-	5	5	-
Collateralized debt obligations	-	-	-	-	-	-	-	-
Other asset-backed securities	307	-	-	17	(63)	(22)	239	7
Loans(3)	136	-	11	-	(19)	-	128	8
Other assets, excluding derivatives(4)	333	-	36	-	65	-	434	61
Total Assets	$8,116	$(2,365)	$34	$26	$247	$638	$6,696	$(2,503)
Liabilities:								
Deposits in domestic offices	$(234)	$-	$6	$(500)	$8	$-	$(720)	$7
Long term debt	(57)	-	(12)	(151)	4	-	(216)	(14)
Total liabilities	$(291)	$-	$(6)	$(651)	$12	$-	$(936)	$(7)

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(1) Includes realized and unrealized gains and losses.

(2) Level 3 net derivatives included derivative assets of $3.2 billion and $5.1 billion and derivative liabilities of $1.7 billion and $2.0 billion at June 30, 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 June 30, 2010 and June 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Non-Recurring Fair Value Measurements as of June 30, 2010				Total Gains (Losses) For the Three Months Ended	Total Gains (Losses) For the Six Months Ended
	Level 1	**Level 2**	**Level 3**	**Total**	**June 30, 2010**	**June 30, 2010**
				(in millions)		
Residential mortgage loans held for sale(1)	**$-**	**$16**	**$501**	**$517**	**$(27)**	**$(32)**
Other consumer loans held for sale(1)	**-**	**-**	**28**	**28**	**-**	**-**
Impaired loans(2)	**-**	**-**	**377**	**377**	**19**	**32**
Real estate owned(3)	**-**	**82**	**-**	**82**	**2**	**6**
Repossessed vehicles(3)	**-**	**4**	**-**	**4**	**-**	**-**
Commercial loans held for sale	**-**	**23**	**-**	**23**	**-**	**-**
Held to maturity asset-backed securities held by consolidated VIE(4)	**-**	**127**	**128**	**255**	**2**	**(3)**
Building held for use	**-**	**-**	**15**	**15**	**-**	**-**
Total assets at fair value on a non-recurring basis	**$-**	**$252**	**$1,049**	**$1,301**	**$(4)**	**$3**

	Non-Recurring Fair Value Measurements as of June 30, 2009				Total Gains (Losses) For the Three Months Ended	Total Gains (Losses) For the Six Months Ended
	Level 1	**Level 2**	**Level 3**	**Total**	**June 30, 2009**	**June 30, 2009**
				(in millions)		
Residential mortgage loans held for sale(1)	$ -	$290	$990	$1,280	$(66)	$(159)
Auto finance loans held for sale(1)	-	-	288	288	-	-
Other consumer loans held for sale(1)	-	-	45	45	-	-
Impaired loans(2)	-	-	198	198	10	27
Real estate owned(3)	-	75	-	75	1	2
Repossessed vehicles(3)	-	5	-	5	-	-
Building held for use	-	-	15	15	(20)	(20)
	$	$370	$1,536	$1,906	$(75	$(150

Total assets at fair value on a non-recurring basis	-	)	)

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(1) As of June 30, 2010 and 2009, the fair value of the loans held for sale was below cost. Certain residential mortgage loans held for sale have been classified as a Level 3 fair value measurement within the fair value hierarchy as the underlying real estate properties which determine fair value are illiquid assets as a result of market conditions and significant inputs in estimating fair value were unobservable. Additionally, the fair value of these properties is affected by, among other things, the location, the payment history and the completeness of the loan documentation.

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

(3)

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

(4) Represents held to maturity securities which were held at fair value at June 30, 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.

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in millions)		
Financial assets:				
Short-term financial assets	**$17,706**	**$17,706**	$24,094	$24,094
Federal funds sold and securities purchased under resale agreements	**15,490**	**15,490**	1,046	1,046
Non-derivative trading assets	**21,144**	**21,144**	17,596	17,596
Derivatives	**8,595**	**8,595**	8,831	8,831
Securities	**40,674**	**40,874**	30,568	30,686
Commercial loans, net of allowance for credit losses	**28,804**	**29,135**	29,366	29,298
Commercial loans designated under fair value option and held for sale	**1,554**	**1,554**	1,126	1,126
Consumer loans, net of allowance for credit losses	**41,907**	**36,834**	46,262	41,877
Consumer loans held for sale:				
Residential mortgages	**985**	**1,001**	1,386	1,389
Auto finance	-	-	353	353
Other consumer	**28**	**28**	43	43
Financial liabilities:				
Short-term financial liabilities	**$18,954**	**$18,954**	$11,121	$11,121
Deposits:				
Without fixed maturities	**112,064**	**112,064**	106,890	106,890
Fixed maturities	**3,720**	**3,730**	7,215	7,259
Deposits designated under fair value option	**5,779**	**5,779**	4,232	4,232
Non-derivative trading liabilities	**4,659**	**4,659**	2,687	2,687
Derivatives	**6,780**	**6,780**	5,419	5,419
Long-term debt	**12,868**	**13,133**	13,440	13,693
Long-term debt designated under fair value option	**4,883**	**4,883**	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 June 30, 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 June 30, 2010, the fair value of these loans is below their amortized cost. The fair value of these mortgage loans is determined based on the valuation information observed in alternative exit markets, such as the whole loan market, adjusted for portfolio specific factors. These factors include the location of the collateral, the loan-to-value ratio, the estimated rate and timing of default, the probability of default or foreclosure and loss severity if foreclosure does occur.

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

•

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

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

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

  Model inputs include estimates of future interest rates, prepayment speeds, loss curves and market discount rates reflecting management's estimate of the rate that would be required by investors in the current market given the specific characteristics and inherent credit risk of the receivables. Some of these inputs are influenced by home price changes and unemployment rates. To the extent available, such inputs are derived principally from or corroborated by observable market data by correlation and other means. We perform periodic validations of our valuation methodologies and assumptions based on the results of actual sales of such receivables. In addition, from time to time, we may engage a third party valuation specialist to measure the fair value of a pool of receivables. Portfolio risk management personnel provide further validation through discussions with third party brokers and other market participants. Since an active market for these receivables does not exist, the fair value measurement process uses unobservable significant inputs 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 $53 million and $48 million at June 30, 2010 and December 31, 2009, respectively.

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

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

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

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

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

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

Trading asset-backed securities and related collateral:

		Prime		Alt-A		Sub-prime		
Rating of Securities:	**Collateral Type:**	**Level 2**	**Level 3**	**Level 2**	**Level 3**	**Level 2**	**Level 3**	**Total**
		(in millions)						
AAA -A	Residential mortgages	$4	$-	$41	$80	$-	$339	$464
	Home equity	-	-	-	13	-	-	13
	Student loans	-	-	5	-	-	-	5
	Other	-	-	-	-	-	-	-
	Total AAA -A	4	-	46	93	-	339	482
BBB -B	Residential mortgages	-	-	-	65	-	-	65
	Home equity	-	-	-	3	-	2	5
	Total BBB -B	-	-	-	68	-	2	70
CCC-Unrated	Residential mortgages	-	-	-	76	-	-	76
	Home equity	-	-	-	14	-	-	14
	Other	-	-	4	13	-	-	17
	Total CCC -Unrated	-	-	4	103	-	-	107
		$4	$-	$50	$264	$-	$341	$659

Trading collateralized debt obligations and related collateral:

Rating of Securities:	**Collateral Type:**	**Level 3**
		(in millions)
AAA -A	Commercial mortgages	$-
	Corporate loans	-
	Other	-
	Total AAA -A	-
BBB -B	Commercial mortgages	167
	Corporate loans	342
	Other	160
	Total BBB -B	669
CCC -Unrated	Commercial mortgages	52
	Corporate loans	-
	Residential mortgages	7

Other	63
Total CCC -Unrated	122
	$791

Available-for-sale securities backed by collateral:

Rating of Securities:	Collateral Type:	Prime Level 2	Prime Level 3	Alt-A Level 2	Alt-A Level 3	Sub-prime Level 2	Sub-prime Level 3	Total
				(in millions)				
AAA -A	Residential mortgages	$-	$-	$23	$66	$-	$-	$89
	Commercial mortgages	-	-	575	10	-	-	585
	Home equity	-	-	172	1	-	3	176
	Student loans	-	-	17	13	-	-	30
	Auto	-	-	14	-	-	-	14
	Other	-	-	20	87	-	-	107
	Total AAA -A	-	-	821	177	-	3	1,001
BBB -B	Residential mortgages	-	30	-	124	-	-	154
	Home equity	-	-	-	129	-	-	129
	Auto	-	-	-	7	-	-	7
	Total BBB -B	-	30	-	260	-	-	290
CCC -Unrated	Residential mortgages	-	-	-	54	-	-	54
	Home equity	-	-	-	87	-	-	87
	Total CCC -Unrated	-	-	-	141	-	-	141
		$-	$30	$821	$578	$-	$3	$1,432

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

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

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

Mortgage Servicing Rights

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

Structured Notes

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

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

Long-term Debt

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

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

Deposits

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

Valuation Adjustments

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

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

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

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

19. Restructuring Activities

In June 2010, we decided that the wholesale banknotes business within our Global Banking and Markets segment does not fit with our core strategy in the U.S. and, therefore, made the decision to exit this business. This business, which has been managed out of the United States with operations in key locations worldwide, arranges for the physical distribution of banknotes globally to central banks, large commercial banks and currency exchanges. The discontinuation of this business will allow us to focus strategic attention on our core businesses. As a result of this decision, we currently estimate that our revenues would be reduced by approximately $110 million and our operating expenses would be reduced by approximately $40 million on an annualized basis. We expect to incur closure costs of approximately $17 million, primarily related to termination and other employee benefit costs, of which $13 million was recorded in the second quarter of 2010.

20. New Accounting Pronouncements

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

Accounting for consolidation of variable interest entities
In June 2009, the FASB issued guidance which amends the accounting rules related to the consolidation of variable interest entities ("VIEs"). The guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model based on control and economics. Effective January 1, 2010, certain VIEs which are not consolidated currently will be required to be consolidated. Under this new guidance, we consolidated one asset-backed commercial paper conduit where we provide substantially all of the liquidity facilities and have the ability to direct most significant activities. The impact of consolidating this entity on January 1, 2010 resulted in an increase to our assets and liabilities of approximately $3.2 billion and $3.5 billion, respectively, which resulted in a decrease to the opening balance of common shareholder's equity which was recorded as an increase to retained earnings of $1 million and a reduction to other comprehensive income of $246 million. Since we elected to adopt the transition mechanism for Risk Based Capital Requirements, there was no change to the way we calculate

risk weighted assets against the liquidity facilities of the above mentioned asset-backed commercial paper conduit for the first half of 2010. There is also, therefore, no impact to our Tier 1 capital ratios for the first half of 2010. Had we fully transitioned to the Risk Based Capital requirements at June 30, 2010, our risk weighted assets would have been higher by approximately $2.4 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 is an SEC filer is required to evaluate subsequent events through the date the financial statements are issued and in all other cases through the date the financial statements are available to be issued. The guidance eliminates the requirement to disclose the date through which subsequent events are evaluated for an SEC filer. The guidance was effective upon issuance. Adoption did not have an impact on our financial position or results of operations.

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

Derivatives and Hedging
In March 2010, the FASB issued a clarification on the scope exception for embedded credit derivatives. The guidance eliminates the scope exception for bifurcation of 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 did not have a material impact to our financial position or results of operations.

Insurance
In April 2010, the FASB issued an update to clarify that any separate account interests held for the benefit of policy holders should not be considered to be insurer's interest for assessing the investment for consolidation. It also clarifies a separate account arrangement should be considered a subsidiary for the purpose of evaluating whether the retention of specialized accounting for investments in consolidation is

appropriate. Further, an insurer is not required to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the stand-alone financial statements of the separate account. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption is permitted with retrospective application to all prior periods upon the date of adoption.

Loan Modification

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

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

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC USA Inc. that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may," "will," "should," "would," "could," "appears," "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 half of 2010, economic conditions in the United States continued to improve, although the pace of improvement began to show signs of slowing during the second quarter. Liquidity has returned to the financial markets for most sources of funding except for mortgage securitization and earlier in the year companies were able to issue debt with credit spreads approaching levels historically seen prior to the crisis, despite the expiration of some of the U.S. government's support programs. However, European sovereign debt fears triggered by Greece in May 2010 have translated into increased borrowing costs in the U.S. during the second quarter of 2010. In addition, the prolonged period of low Federal funds rates continues to put pressure on spreads earned on our deposit base. While housing prices have stabilized in many markets and have begun to recover in others, the first-time homebuyer tax credit as well as low interest rates attributable to government monetary policy actions have been the main stabilizing forces improving home sales and reducing home inventories. Improved market conditions have also resulted in recovery during the first half 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.

The job market also continued to improve in the first half of 2010, as the economy began to add jobs in March which continued into the second quarter. Despite improving job creation, U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained high at 9.5 percent in June 2010, a decrease of 20 basis points during the quarter and 50 basis points since December 2009. However, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in 18 states are greater than the U.S. national average and unemployment rates in 6 states are at or above 11 percent while in New York, where approximately 32 percent of our loan portfolio is concentrated, unemployment remained lower than the national average at 8.2 percent. High unemployment rates have generally been most pronounced in the markets which had previously experienced the highest appreciation in home values. Unemployment has continued to have an impact on the provision for credit losses in our loan portfolio and in loan portfolios across the industry.

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

Financial Regulatory Reform

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

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

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

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

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

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

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

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

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

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

Performance, Developments and Trends
Our net income was $300 million and $854 million during the three and six months ended June 30, 2010, respectively, compared to a net loss of $249 million and $338 million during the three and six months ended June 30, 2009, respectively. Income before taxes was $424 million and $1.3 billion during the three

and six months ended June 30, 2010, respectively, compared to a loss before taxes of $302 million and $350 million during the corresponding three and six months ended June 30, 2009, respectively. Our results in both periods were impacted by the change in the fair value of our own debt and the related derivatives for which we have elected fair value option and other non-recurring items in certain periods which distort the ability of investors to compare the underlying performance trends of our business. The following table summarizes the collective impact of these items on our income (loss) before income tax for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Income (loss) before income tax, as reported	**$424**	$(302)	**$1,298**	$(350)
Change in value of our own fair value option debt and related derivatives	**(204)**	443	**(238)**	395
Gain on sale of MasterCard Class B or Visa Class B Shares	**-**	(48)	**-**	(48)
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) before income tax, excluding above items(3)	**$220**	$93	**$900**	$(121)

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

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

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

Our overall results for the three and six months ended June 30, 2010 improved significantly as higher other revenues, lower provisions for credit losses and lower operating expenses were partially offset by lower net interest income. During 2010, we continued to reduce legacy and other risk positions as opportunities arose, including the sale of $537 million in subprime residential mortgage loans previously held for sale and continued reductions in monoline counterparty exposures.

Other revenues improved during the three and six months ended June 30, 2010, driven by significantly higher gains on instruments designated at fair value and related derivatives and, in the six month period, higher trading revenue. During the six months ended June 30, 2009, we experienced significant reductions in other revenues, largely lower trading revenue associated with credit derivative products due to the adverse financial market conditions which existed at that time. Improved market conditions in 2010 and reduced outstanding exposure have resulted in a reduction in some of these valuation losses. A summary of the significant valuation adjustments associated with market disruptions that impacted revenue for the three and six months ended June 30, 2010 and 2009 are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30	
	2010	2009	2010	2009
	(in millions)			
Gains (Losses)				
Insurance monoline structured credit products	**$17**	$6	**$73**	$(158)
Other structured credit products	**9**	(15)	**46**	(220)
Mortgage whole loans held for sale, including whole loan purchase settlement (predominantly subprime)	**(17)**	(68)	**60**	(154)
Other than temporary impairment on securities available-for-sale and held-to-maturity	**(13)**	(20)	**(41)**	(58)
Leverage acquisition finance loans held for sale	**(50)**	95	**(51)**	130
Total	**$(54)**	$(2)	**$87**	$(460)

Other revenues during the three and six months ended June 30, 2010 and 2009 also reflect several non-recurring items as presented in the table on the previous page as well as the impact of the changes in value of our own debt and related derivatives for which we elected fair value option. Excluding the impact of all these items, other revenue decreased $435 million and $262 million during the three and six month periods ended June 30, 2010 due primarily to lower credit card fees, lower mortgage banking revenue and lower securities gains, partially offset in the six month period by higher trading revenue. Lower credit card fees were due to lower levels of credit card and private label receivables, changes in customer behavior, and lower delinquency levels as well as the recent implementation of certain provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act") which resulted in lower over limit and payment processing fees. The lower mortgage banking revenue in both periods was driven by an increase in our estimated exposure on repurchase obligations associated with previously sold loans. Securities gains were lower as the prior year periods reflect gains of $236 million on the sale of securities in the second quarter of 2009 as part of a strategy to reduce risk.

Net interest income was $1.1 billion and $2.3 billion during the three and six months ended June 30, 2010, respectively, compared to $1.3 billion and $2.6 billion in the year-ago periods. The decrease in both periods reflects the impact of a higher mix of lower yielding interest earning assets including higher levels of average interest bearing deposits with banks as well as Fed funds sold and securities purchased under agreements to resell, lower average loan balances and rates earned on these balances as well as significantly lower rates earned on securities due to the aforementioned sales in 2009 to reduce prepayment risk and risk-weighted asset levels. These reductions were partially offset by commercial loan repricings and repricing initiatives on private label cards and credit cards as well as a lower cost of funds.

Our provision for credit losses decreased $611 million and $1.6 billion during the three and six months ended June 30, 2010, respectively, as compared to the year-ago periods 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 as compared with the prior year periods. Provision for credit losses in both periods also decreased for both loans and loan commitments in the commercial loan portfolio due to lower outstanding balances including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits and lower levels of nonperforming loans and criticized assets. Also contributing to the decrease were fewer customer downgrades across all business lines compared to the prior year periods. The combination of all of these factors has led to an overall net recovery in provision for commercial loans during the six months ended June 30, 2010. Given the nature of the factors driving the reduction in commercial loan provision during both periods, the provision levels recognized in the first half of 2010 should not be considered indicative of provision levels during the remainder of the year.

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

Operating expenses totaled $993 million and $2.1 billion during the three and six months ended June 30, 2010, a decrease of $95 million and $1 million, respectively compared to the corresponding prior year periods. The decreases in both periods resulted from lower salaries and employee benefit expense which reflect the centralization of additional shared services in North America within HTSU as well as continued cost management efforts, lower marketing expenses and significantly lower FDIC assessment fees, as the year-ago periods included a $82 million special assessment recorded in the second quarter of 2009. These decreases were partially offset by higher fees paid to HTSU and other affiliates due to the centralization of additional shared services across North America. In the six month period, these decreases were largely offset by higher fees paid to HSBC Finance related to a change in how the refund anticipation loan program is managed.

Our efficiency ratio was 52.99 percent for the three months ended June 30, 2010 compared to 58.75 percent in the prior year quarter. Our efficiency ratio was 51.17 percent for the six months ended June 30, 2010 compared to 52.16 percent in the year-ago period. The improvement in both periods in the efficiency ratio resulted primarily from higher other revenues and lower operating expenses, partially offset by decreased net interest income.

Our effective tax rate was 29.2 percent for the three months ended June 30, 2010 compared to 17.9 percent in the prior year quarter. Our effective tax rate was 34.2 percent for the six months ended June 30, 2010 compared to 3.4 percent in the year-ago period. The effective tax rate for the three and six months ended June 30, 2010 reflects a substantially higher level of pre-tax income, an increased level of low income housing tax credits, the impact of a planned liquidation of a foreign subsidiary and an adjustment of uncertain tax positions. The effective tax rate for the three and six months ended June 30, 2009 was significantly impacted by the relative level of pre-tax income, the sale of a minority stock interest that was treated as a dividend for tax purposes and the settlement of an IRS audit of our 2004 and 2005 federal income tax returns.

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 $155 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 June 30, 2010 and December 31, 2009 and for the three and six month periods ended June 30, 2010 and 2009.

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	(dollars are in millions)			
Net income (loss)	**$300**	$(249)	**$854**	$(338)
Rate of return on average :				
Total assets	**.63%**	(.58)%	**.92%**	(.38)%
Total common shareholder's equity	**7.87**	(8.83)	**11.72**	(6.23)
Net interest margin to average earning assets	**2.78**	3.40	**2.89**	3.43
Efficiency ratio	**52.99**	58.75	**51.17**	52.16
Commercial loan net charge-off ratio(1)	**1.07**	.87	**1.18**	.71
Consumer loan net charge-off ratio(1)	**5.83**	5.34	**6.14**	4.42

	June 30, 2010	December 31, 2009
	(dollars are in millions)	
Loans:		
Commercial loans	**$29,502**	$30,304
Consumer loans	**44,159**	49,185
Total loans	**$73,661**	$79,489
Loans held for sale	**$2,567**	$2,908
Commercial allowance as a percent of loans(1)	**2.37%**	3.10%
Commercial two-months-and-over contractual delinquency	**2.11**	3.04
Consumer allowance as a percent of loans(1)	**5.10**	5.94
Consumer two-months-and-over contractual delinquency	**5.37**	5.97
Loan-to-deposits ratio(2)	**85.11**	94.36
Total shareholders' equity to total assets	**8.80**	8.87
Total capital to risk weighted assets	**15.35**	14.19
Tier 1 capital to risk weighted assets	**10.79**	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 $73.7 billion and $79.5 billion at June 30, 2010 and December 31, 2009, respectively. The decrease in loans as compared to December 31, 2009 was driven by run-off in all of our consumer portfolios. We continue to sell the majority of new residential mortgage loan originations to government sponsored enterprises and to allow the existing on-balance sheet portfolio to run-off. The decline in credit card and private label receivables reflects fewer active customer accounts, the continued impact from actions previously taken to reduce risk in these portfolios, seasonal paydowns in credit card balances since December 31, 2009 and an increased focus by customers to reduce outstanding credit card debt. Commercial loans also decreased compared to year-end due to increased paydowns and managed reductions in certain exposures, partially offset by the adoption of new accounting guidance on the consolidation of variable interest entities which resulted in the consolidation of an incremental $1.6 billion of commercial loans at June 30, 2010. See "Balance Sheet Review" for a more detailed discussion of the changes in loan balances.

In July 2010, we agreed in principle to sell our auto finance loan portfolio, with an outstanding principal balance of $1.3 billion at June 30, 2010, and other related assets to an unaffiliated third party for approximately $1.3 billion in cash. As a result of this transaction, we anticipate that we will recognize a small gain during the third quarter of 2010.

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

Consumer two-months-and-over contractual delinquency as a percentage of loans and loans held for sale ("delinquency ratio") for consumer loans decreased to 5.37 percent at June 30, 2010 compared to 5.97 percent at December 31, 2009. Dollars of delinquency fell across all consumer portfolios during the six months ended June 30, 2010, while outstanding loan balances also declined. The decrease in the delinquency ratio since December 31, 2009 was driven largely by our residential mortgage, private label card and credit card portfolios, including the sale of $215 million of delinquent subprime mortgage whole loans during the second quarter of 2010. See "Credit Quality" in this MD&A for a more detailed discussion of the decrease in the delinquency ratios.

Net charge-offs as a percentage of average loans ("net charge-off ratio") for the three months ended June 30, 2010 increased compared to the prior year quarter driven largely by higher credit card charge-offs as charge-off levels in 2009 were positively impacted by the purchase of the GM and UP portfolios, a portion of which was recorded at fair value, net of anticipated future losses at the time of acquisition. Excluding credit card receivables, we experienced lower dollars of charge-off in all loan categories during the second quarter of 2010 driven by lower receivable levels and improved credit quality. These favorable trends were partially offset by the impact from continued weakness in the U.S. economy including continued high unemployment levels 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.

Funding and Capital

Capital amounts and ratios are calculated in accordance with current banking regulations. Our Tier 1 capital ratio was 10.79 percent and 9.61 percent at June 30, 2010 and December 31, 2009, respectively. Our capital levels remain well above levels established by current banking regulations as "well capitalized." We received no capital contributions from our immediate parent, HNAI during the first half of 2010 as compared to $2.2 billion during the first half of 2009.

As part of the regulatory approvals with respect to the affiliate receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become "low-quality assets," as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During the first half of 2010, HSBC Bank USA sold low quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce this capital requirement. Capital ratios and amounts at June 30, 2010 and December 31, 2009 in the table above reflect this revised regulatory reporting. At June 30, 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, which was initiated in January 2010, encompasses enhancements to a number of risk policies, processes and systems to align HSBC Bank USA with the Basel II final rule requirements. HSBC Bank USA will seek regulatory approval for adoption when the program enhancements have been completed which may extend beyond April 1, 2011.

As of June 30, 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 June 30,		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Income (loss) before income tax from prior year	**$(302)**	$(292)	**$(350)**	$(734)
Increase (decrease) in income before income tax attributable to:				
Balance sheet management activities(1)	**(207)**	169	**(419)**	530
Trading revenue (loss)(2)	**(25)**	268	**333**	824
Credit card fees(3)	**(93)**	134	**(217)**	261

Loans held for sale(4)	**52**	59	**215**	90
Residential mortgage banking related revenue(5)	**(139)**	50	**(241)**	82
Gain (loss) on own debt designated at fair value and related derivatives(6)	**647**	(372)	**633**	(485)
Gain (loss) on instruments at fair value and related derivatives, excluding own debt(6)	**(108)**	63	**(159)**	230
Provision for credit losses(7)	**611**	(461)	**1,574**	(1,137)
All other activity(8)	**(12)**	80	**(71)**	(11)
Income (loss) before income tax for current period	**$424**	$(302)	**$1,298**	$(350)

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

(2) For additional discussion regarding trading revenue (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 June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Net income (loss) - U.S. GAAP basis	**$300**	$(249)	**$854**	$(338)
Adjustments, net of tax:				
Unquoted equity securities	**-**	(27)	**-**	(20)
Reclassification of financial assets	**31**	(159)	**21**	(146)
Securities	**59**	(14)	**93**	(108)
Derivatives	**1**	4	**3**	5
Loan impairment	**2**	2	**9**	7
Property	**31**	3	**32**	5
Pension costs	**4**	7	**61**	14
Purchased loan portfolios	**(1)**	44	**(27)**	73
Servicing assets	**5**	1	**6**	10
Return of capital	**-**	(55)	**(3)**	(55)
Interest recognition	**-**	1	**-**	-
Other	**12**	(8)	**23**	(7)
Net profit (loss) - IFRSs basis	**444**	(450)	**1,072**	(560)
Tax benefit (expense) - IFRSs basis	**(199)**	126	**(554)**	33
Profit (loss) before tax - IFRSs basis	**$643**	$(576)	**$1,626**	$(593)

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

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

in other assets.

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

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

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

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

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

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

Property

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

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

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

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

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

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

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

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 June 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

	June 30,	Increase (Decrease) from			
		March 31, 2010		December 31, 2009	
	2010	Amount	%	Amount	%
	(dollars are in millions)				
Period end assets:					
Short-term investments	**$32,285**	$(5,367)	(14.3)%	$7,971	32.8%
Loans, net	**70,711**	(1,363)	(1.9)	(4,917)	(6.5)
Loans held for sale	**2,567**	(41)	(1.6)	(341)	(11.7)
Trading assets	**29,148**	4,933	20.4	3,333	12.9
Securities	**40,674**	2,987	7.9	10,106	33.1
Other assets	**11,056**	(1,756)	(13.7)	(790)	(6.7)
	$186,441	$(607)	(.3)%	$15,362	9.0%
Funding sources:					
Total deposits	**$121,563**	$(3,248)	(2.6)%	$3,226	2.7%
Trading liabilities	**10,877**	773	7.7	2,867	35.8
Short-term borrowings	**16,033**	4,492	38.9	9,521	100+
All other liabilities	**3,817**	(3,811)	(50.0)	(1,218)	(24.2)
Long-term debt	**17,751**	417	2.4	(257)	(1.4)
Shareholders' equity	**16,400**	770	4.9	1,223	8.1
	$186,441	$(607)	(.3)%	$15,362	9.0%

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

Loans, Net

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

		Increase (Decrease) from			
		March 31, 2010		December 31, 2009	
	June 30, 2010	Amount	%	Amount	%
		(dollars are in millions)			
Total commercial loans	**$29,502**	$(132)	(.4)%	$(802)	(2.6)%
Consumer loans:					
Residential mortgages, excluding home equity mortgages	**13,566**	54	.4	(156)	(1.1)
Home equity mortgages	**3,972**	(74)	(1.8)	(192)	(4.6)
Total residential mortgages	**17,538**	(20)	(.1)	(348)	(1.9)
Auto finance	**1,279**	(174)	(12.0)	(422)	(24.8)
Private label	**12,747**	(719)	(5.3)	(2,344)	(15.5)
Credit Card	**11,274**	(542)	(4.6)	(1,774)	(13.6)
Other consumer	**1,321**	(50)	(3.6)	(138)	(9.5)
Total consumer loans	**44,159**	(1,505)	(3.3)	(5,026)	(10.2)
Total loans	**73,661**	(1,637)	(2.2)	(5,828)	(7.3)
Allowance for credit losses	**2,950**	(274)	(8.5)	(911)	(23.6)
Loans, net	**$70,711**	$(1,363)	(1.9)%	$(4,917)	(6.5)%

Commercial loans decreased as compared to March 31, 2010 and December 31, 2009. Commercial loan balances at June 30, 2010 and March 31, 2010 reflect the implementation of new accounting guidance relating to the consolidation of variable interest entities ("VIEs") which resulted in an incremental $1.6 billion and $1.5 billion of commercial loans being recorded on our balance sheet. Excluding this impact, commercial loan balances decreased $207 million and $2.4 billion as compared to March 31, 2010 and December 31, 2009 due to increased paydowns and managed reductions in certain exposures, including higher underwriting standards and lower overall demand from our core customer base.

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

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

	Refreshed LTVs(1)(2) at June 30, 2010		Refreshed LTVs(1)(2) at December 31, 2009	
	First Lien	Second Lien	First Lien	Second Lien
LTV<80%	**71.4%**	**62.2%**	71.5%	62.8%
80% ≤ LTV<90%	**13.7**	**14.0**	14.3	14.9
90% ≤ LTV<100%	**7.8**	**10.3**	7.7	9.5
LTV ≤ 100%	**7.1**	**13.5**	6.5	12.8
Average LTV for portfolio	**68.4**	**74.5**	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. As a result, actual property values associated with loans which end in foreclosure may be significantly lower than the estimates used for purposes of this disclosure.

(2) Current property values are calculated using the most current HPI's available and applied on an individual loan basis, which results in an approximately three month delay in the production of reportable statistics. Therefore, the information in the table above reflects current estimated property values using HPIs as of March 31, 2010 and September 30, 2009, respectively.

Credit card and private label receivable balances decreased compared to both the prior quarter and year end due to fewer active customer accounts, the continued impact from actions previously taken to mitigate risk including tighter underwriting criteria to lower the risk profile of the portfolio, an increased focus by customers to reduce outstanding credit card debt and, as it relates to the private label portfolio, the exit of certain merchant relationships. The decline in balances since December 31, 2009 also reflects seasonal paydowns in credit card balances.

Auto finance loans continue to decrease 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 June 30, 2010 and increases (decreases) over prior periods, are summarized in the table below.

	June 30,	Increase (Decrease) from March 31, 2010		Increase (Decrease) from December 31, 2009	
	2010	**Amount**	**%**	**Amount**	**%**
	(dollars are in millions)				
Total commercial loans	**$1,554**	$103	7.1%	$428	38.0%
Consumer loans:					
Residential mortgages	**985**	(144)	(12.8)	(401)	(28.9)
Auto Finance	-	-	-	(353)	(100.0)
Other consumer	**28**	-	-	(15)	(34.9)
Total consumer loans	**1,013**	(144)	(12.5)	(769)	(43.1)
Total loans held for sale	**$2,567**	$(41)	(1.6)%	$(341)	(11.7)%

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, $1.0 billion and $1.1 billion at June 30, 2010, 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 March 31, 2010 and December 31, 2009 due to loan sales. In 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 $543 million and $419 million at June 30, 2010 and March 31, 2010, respectively. See Note 10, "Fair Value Option" for further information.

Residential mortgage loans held for sale include subprime residential mortgage loans of $478 million, $734 million and $757 million at June 30, 2010, 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 have declined throughout 2010 largely due to sales, partially offset by improved valuations as discussed below. During the second quarter of 2010, we sold subprime residential mortgage loans with a book value of $215 million to unaffiliated third parties.

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

Other consumer loans held for sale consist of student loans which we no longer originate. Balances at June 30, 2010 and March 31, 2010 reflect the sale of a portion of these loans in the first quarter of 2010.

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

Trading Assets and Liabilities

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

	June 30,	Increase (Decrease) from March 31, 2010		December 31, 2009	
	2010	**Amount**	**%**	**Amount**	**%**
	(dollars are in millions)				
Trading assets:					
Securities(1)	**$4,756**	$(236)	(4.7)%	$(584)	(10.9)%
Precious metals	**16,388**	4,561	38.6	4,132	33.7
Fair value of derivatives	**8,004**	608	8.2	(215)	(2.6)
	$29,148	$4,933	20.4%	$3,333	12.9%
Trading liabilities:					
Securities sold, not yet purchased	**$1,519**	$417	37.8%	$1,388	100+%
Payable for precious metals	**3,140**	(618)	(16.4)	584	22.8
Fair value of derivatives	**6,218**	974	18.6	895	16.8
	$10,877	$773	7.7%	$2,867	35.8%

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

Securities balances at June 30, 2010 decreased from both March 31, 2010 and December 31, 2009 due to lower security levels primarily from security sales. Securities sold, not yet purchased increased in both periods due to an increase in Treasury positions related to hedges in the trading portfolio.

Higher precious metals trading assets at June 30, 2010 as compared to both March 31, 2010 and December 31, 2009 were primarily due to higher prices on most metals and higher gold inventory. Increased payables for precious metals from December 31, 2009 was due to higher gold balances while the decline from March 31, 2010 was largely due to a decline in both silver and gold balances.

Derivative assets and liabilities balances as compared to December 31, 2009 were impacted by market volatility as valuations of foreign exchange, interest rate and credit derivatives all reduced from spread tightening in all sectors. Also, credit derivative levels continued to decrease as we actively sought to reduce exposure. These trends were partially offset since March 31, 2010 as spreads widened.

Deposits

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

	June 30,	Increase (Decrease) from March 31, 2010		December 31, 2009	
	2010	**Amount**	**%**	**Amount**	**%**

	(dollars are in millions)				
Individuals, partnerships and corporations	**$100,770**	$(1,667)	(1.6)%	$2,363	2.4%
Domestic and foreign banks	**13,543**	(2,166)	(13.8)	(6)	-
U.S. Government, states and political subdivisions	**4,087**	(203)	(4.7)	(327)	(7.4)
Foreign governments and official institutions	**3,163**	788	33.2	1,196	60.8
Total deposits	**$121,563**	$(3,248)	(2.6)%	$3,226	2.7%
Total core deposits(1)	**$86,094**	$2,643	3.2%	$2,867	3.4%

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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 half of 2010. Deposits at June 30, 2010 decreased compared to March 31, 2010, primarily due to reduced deposits from banks and affiliates. Deposits increased 2.7 percent since December 31, 2009 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 during the first half of 2010 driven by continuing growth in our Premier balances, along with some seasonal increases in institutional transaction account balances.

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

- HSBC Premier, HSBC's global banking service that offers internationally minded mass affluent customers unique international services seamlessly delivered through HSBC's global network coupled with a premium local service with a dedicated premier relationship manager. Total Premier deposits have grown to $28.2 billion at June 30, 2010 as compared to $25.1 billion at March 31, 2010 and $23.6 billion at December 31, 2009;

- Retail branch expansion in existing and new geographic markets to largely support the needs of our internationally minded customers. During the first half 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 June 30, 2010 as compared to December 31, 2009 reflect increased levels of securities sold under agreements to repurchase and higher precious metals borrowings. The increase as compared to December 31, 2009 also reflects higher commercial paper balances due to the consolidation of the Bryant Park commercial paper conduit as a result of adopting new VIE accounting guidance effective January 1, 2010.

Long-Term Debt

Long-term debt has continued to trend lower in 2010 as we continue to focus on deposit gathering activities. Incremental issuances from the $40 billion HSBC Bank USA Global Bank Note Program totaled $77 million and $253 million during the three and six months ended June 30, 2010. Total debt outstanding under this program was $3.6 billion and $3.5 billion at June 30, 2010 and December 31, 2009, respectively.

Incremental long-term debt borrowings from our shelf registration statement with the Securities and Exchange Commission totaled $454 million and $957 million during the three and six months ended June 30, 2010, respectively, compared to $733 million and $1,368 million during the year-ago periods. Total long term debt outstanding under this shelf was $6.0 billion and $5.5 billion at June 30, 2010 and December 31, 2009, respectively.

Borrowings from the Federal Home Loan Bank ("FHLB") totaled $1.0 billion at both June 30, 2010 and December 31, 2009. At June 30, 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 $2.5 billion at June 30, 2010 and December 31, 2009, respectively.

We have entered into a series of transactions with VIEs organized by HSBC affiliates and unrelated third parties. We are the primary beneficiary of certain of these VIEs under the applicable accounting literature and, accordingly, we have consolidated the assets and the debt of these VIEs. As mentioned above, on January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board which amends accounting rules relating to the consolidation of VIEs. Application of this new guidance has resulted in the consolidation of one additional VIE and, therefore, the consolidated debt of VIE's we now report is greater than that reported in previous periods. Debt obligations of VIEs totaling $3.2 billion and $2.2 billion were included in short-term borrowings and long-term debt at June 30, 2010. Debt obligations of VIEs totaling $3.0 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 June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Yield on total earning assets	**3.56%**	4.71%	**3.69%**	4.82%
Rate paid on interest bearing liabilities	**.94**	1.59	**.96**	1.67

Interest rate spread	**2.62**	3.12	**2.73**	3.15
Benefit from net non-interest earning or paying funds	**.16**	.28	**.16**	.28
Net interest margin to earning assets(1)	**2.78 %**	3.40 %	**2.89 %**	3.43 %

(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 June 30, 2010		**Six Months Ended June 30, 2010**	
	Amount	**Interest Rate Spread**	**Amount**	**Interest Rate Spread**
	(dollars are in millions)			
Net interest income/interest rate spread from prior year	$1,283	3.12%	$2,637	3.15%
Increase (decrease) in net interest income associated with:				
Trading related activities	(34)		(58)	
Balance sheet management activities(1)	(19)		(124)	
Private label credit card portfolio	(35)		(37)	
Credit card portfolio	(43)		(63)	
Commercial loans	(66)		(101)	
Deposits	24		38	
Residential mortgage banking	(15)		(25)	
Other activity	43		76	
Net interest income/interest rate spread for current year	$1,138	2.62 %	$2,343	2.73 %

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

Trading Related Activities

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

Balance Sheet Management Activities

Lower net interest income from balance sheet management activities during the three and six months ended June 30, 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 lower short-term rates.

Private Label Credit Card Portfolio

Net interest income on private label credit card receivables was lower during the three and six months ended June 30, 2010 as a result of higher premium amortization, lower average balances outstanding and lower receivable levels at penalty pricing, partially offset by lower funding costs and repricing initiatives.

Credit Card Portfolios

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

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

Deposits
Higher Higher net interest income on deposits during both periods 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 three and six months ended June 30, 2010, lower net interest income resulted from lower average residential loan outstandings partially offset by lower funding costs. Lower average residential loans outstanding resulted in part from the sale of approximately $.5 billion of prime adjustable and fixed rate residential mortgages since June 30, 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.

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Commercial	**$9**	$166	$(157)	(94.6)%
Consumer:				
Residential mortgages, excluding home equity mortgages	**10**	97	(87)	(89.7)
Home equity mortgages	**6**	66	(60)	(90.9)
Private label card receivables	**198**	310	(112)	(36.1)
Credit card receivables	**215**	366	(151)	(41.3)
Auto finance	**10**	40	(30)	(75.0)
Other consumer	**8**	22	(14)	(63.6)
Total consumer	**447**	901	(454)	(50.4)
Total provision for credit losses	**$456**	$1,067	$(611)	(57.3)%

Increase

Six Months Ended June 30,	2010	2009	(Decrease) Amount	%
	(dollars are in millions)			
Commercial	**$(64)**	$314	$(378)	(100+)%
Consumer:				
Residential mortgages, excluding home equity mortgages	**(9)**	259	(268)	(100+)
Home equity mortgages	**(15)**	87	(102)	(100+)
Private label card receivables	**307**	709	(402)	(56.7)
Credit card receivables	**405**	759	(354)	(46.6)
Auto finance	**35**	65	(30)	(46.2)
Other consumer	**8**	48	(40)	(83.3)
Total consumer	**731**	1,927	(1,196)	(62.1)
Total provision for credit losses	**$667**	$2,241	$(1,574)	(70.2)%

Our credit loss reserves decreased during the three months ended June 30, 2010 as the provision for credit losses was $278 million lower than net charge-offs compared to provision for credit losses greater than net charge-offs of $283 million in the prior year quarter. Credit loss reserves also decreased during the six months ended June 30, 2010 as the provision for credit losses was $919 million lower than net charge-offs compared to provision for credit losses greater than net charge-offs of $914 million in the year-ago period. The provision as a percentage of average receivables was .61 percent and .87 percent for the three and six months ended June 30, 2010 compared to 1.21 percent and 2.47 percent for the three and six months ended June 30, 2009. The decrease in credit loss provision reflects lower loss estimates in our commercial and consumer loan portfolios as discussed in more detail below.

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

The provision for credit losses on residential mortgages including home equity mortgages decreased $147 million and $370 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in provision for credit losses on residential mortgages in both periods was attributable to lower receivable levels and stabilization in residential mortgage loan credit quality as dollars of delinquency and charge-off continue to decline compared to the prior year periods as outstanding balances continue to fall and loss severities stabilize. These factors have resulted in an improved outlook on future loss estimates.

The provision for credit losses associated with credit card receivables decreased $151 million and $354 million during the three and six months ended June 30, 2010 as compared to the year-ago periods due to lower receivable levels, improved economic and credit conditions, including lower dollars of delinquency, as well as an improved outlook on future loss estimates as the impact of the economic environment including high unemployment rates on losses has not been as severe as previously anticipated due in part to improved cash flow from government stimulus activities, home price stability and the impact of tighter underwriting initiated in prior periods. Lower receivable levels reflect fewer active customer accounts, the impact of the actions previously taken to reduce risk as well as an increased focus by customers to pay down credit card debt.

Provision expense associated with our private label card portfolio decreased $112 million and $402 million during the three and six months ended June 30, 2010 as compared to the year-ago periods due to lower receivable levels, improved economic and credit conditions including lower delinquency levels and an improved outlook on future loss estimates as the impact of the economic environment including high unemployment levels on losses has not been as severe as previously anticipated as discussed above. Lower receivable levels reflect fewer active customer accounts as well as the exit of certain merchant relationships.

Provision expense associated with our auto finance portfolio declined in both periods, as the portfolio continues to liquidate and used car prices have improved.

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

Other Revenues

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

Three Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$249**	$342	$(93)	(27.2)%
Other fees and commissions	**200**	216	(16)	(7.4)
Trust income	**27**	30	(3)	(10.0)
Trading revenue	**128**	153	(25)	(16.3)
Net other-than-temporary impairment losses	**(13)**	(20)	7	35.0
Other securities gains, net	**1**	246	(245)	(99.6)
HSBC affiliate income:				
Fees and commissions	**34**	41	(7)	(17.1)
Other affiliate income	**3**	4	(1)	(25.0)
Total HSBC affiliate income	**37**	45	(8)	(17.8)
Residential mortgage banking revenue (loss)(1)	**(80)**	59	(139)	(100+)
Gain (loss) on instruments at fair value and related derivatives(2)	**182**	(357)	539	100+
Other income:				
Valuation of loans held for sale	**(16)**	(68)	52	76.5
Insurance	**4**	6	(2)	(33.3)
Earnings from equity investments	**4**	5	(1)	(20.0)
Miscellaneous income	**17**	(81)	98	100+
Total other income	**9**	(138)	147	100+
Total other revenues	**$740**	$576	$164	28.5%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$482**	$699	$(217)	(31.0)%
Other fees and commissions	**492**	447	45	10.1
Trust income	**53**	62	(9)	(14.5)
Trading revenue (loss)	**332**	(1)	333	100+
Net other-than-temporary impairment losses	**(41)**	(58)	17	29.3
Other securities gains, net	**22**	293	(271)	(92.5)
HSBC affiliate income:				
Fees and commissions	**64**	67	(3)	(4.5)
Other affiliate income	**9**	10	(1)	(10.0)

Total HSBC affiliate income	**73**	77	(4)	(5.2)
Residential mortgage banking revenue (loss)(1)	**(117)**	124	(241)	(100+)
Gain (loss) on instruments at fair value and related derivatives(2)	**228**	(246)	474	100+
Other income :				
Valuation of loans held for sale	**61**	(154)	215	100+
Insurance	**9**	13	(4)	(30.8)
Earnings from equity investments	**7**	21	(14)	(66.7)
Miscellaneous income	**90**	49	41	83.7
Total other income	**167**	(71)	238	100+
Total other revenues	**$1,691**	$1,326	$365	27.5 %

(1) Includes servicing fees received from HBSC Finance of $2 million and $4 million during the three and six months ended June 30, 2010, respectively, and $3 million and $6 million during the three and six months ended June 30, 2009.

(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 both periods were due primarily to lower receivable levels as a result of fewer active customer accounts, changes in customer behavior, increased seasonality in the first quarter of 2010, the continuing impact of efforts to manage risk initiated in prior periods, improved delinquency levels and the implementation of certain provisions of the CARD Act earlier in the year which has resulted in lower overlimit and payment processing fees. Also contributing to the decrease were higher revenue share payments due to improved cash flows and higher reversals of fee income stemming from reduced charge-off activity upon acquisition of the GM and UP Portfolios in the first half of 2009 due to purchase accounting.

Other Fees and Commissions
Other fee-based income decreased during the three month period ended June 30, 2010, but increased in the year-to-date period. During both the three and six month periods, we experienced lower commitment and facility fees on commercial loans. In the year-to-date period, these decreases were more than offset by higher refund anticipation loan fees. Beginning in 2010, we began to keep a portion of originated refund anticipation loans, which is seasonal principally to the first quarter, on our balance sheet. As a result, we earn fee income on these loans. The loans we keep are transferred to HSBC Finance at par only if they reach a certain defined delinquency status.

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

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

interest income on the consolidated statement of income (loss). Trading revenues related to the mortgage banking business are included in residential mortgage banking revenue.

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Trading revenue (loss)	**$128**	$153	$(25)	(16.3)%
Net interest income	**16**	50	(34)	(68.0)
Trading related revenue (loss)	**$144**	$203	$(59)	(29.1)%
Business:				
Derivatives	**$28**	$(43)	$71	100+%
Balance sheet management	**41**	33	8	24.2
Foreign exchange and banknotes	**72**	89	(17)	(19.1)
Precious metals	**14**	14	-	-
Global banking	**(12)**	110	(122)	(100+)
Other trading	**1**	-	1	100+
Trading related revenue (loss)	**$144**	$203	$(59)	(29.1)%

			Increase (Decrease)	
Six Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Trading revenue (loss)	**$332**	$(1)	$333	100+%
Net interest income	**19**	77	(58)	(75.3)
Trading related revenue (loss)	**$351**	$76	$275	100+%
Business:				
Derivatives	**$135**	$(340)	$475	100+%
Balance sheet management	**73**	44	29	65.9
Foreign exchange and banknotes	**128**	210	(82)	(39.0)
Precious metals	**34**	34	-	-
Global banking	**(17)**	128	(145)	(100+)
Other trading	**(2)**	-	(2)	(100+)
Trading related revenue (loss)	**$351**	$76	$275	100+%

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

Trading revenue related to derivatives improved during the three and six months ended June 30, 2010 due to the performance of structured credit products which reported total gains of $26 million and $119 million during the three and six months ended June 30, 2010, respectively, as compared to total losses of $21 million and $378 million during the year-ago periods. The performance of credit derivatives remained stable during the first half 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 and six months ended June 30, 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 both periods 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 both periods as a result of continuing demand for metals due to economic conditions.

Global banking revenue decreased during the three and six months ended June 30, 2010 due to a decline in corporate bond values compared to gains in the year ago periods.

Net Other-Than-Temporary Impairment (Losses) Recoveries

During the three and six months ended June 30, 2010, 24 debt securities and 37 debt securities, respectively, were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates compared to 8 and 17 debt securities, respectively, which were determined to be other-than-temporarily impaired in the year-ago periods. The following table presents the various components of other-than-temporary impairment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Total other-than-temporary impairment recoveries (losses)	**$70**	$(43)	**$103**	$(159)
Portion of loss (recovery) recognized in other comprehensive income, before taxes	**(83)**	23	**(144)**	101
Net other-than-temporary impairment losses recognized in the consolidated statement of income (loss)	**$(13)**	$(20)	**$(41)**	$(58)

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Available-for-sale securities	**$1**	$198	**$22**	$245

Sale of MasterCard or Visa Class B Shares	**-**	48	**-**	48
Other securities gains, net	**$1**	$246	**$22**	$293

Gross realized gains and losses from sales of securities are summarized in Note 3, "Securities," in the accompanying consolidated financial statements.

During the second quarter and first six months of 2010, we sold $6.7 billion and $10.6 billion, respectively, of US treasury, municipal, mortgage-backed and other asset-backed securities as part of a strategy to adjust portfolio risk duration as well as to reduce risk-weighted asset levels and recognized gains of $51 million and $82 million and losses of $50 million and $60 million, respectively, during these periods which is included as a component of other security gains, net above.

During the second quarter and first six months of 2009, we sold $9.4 billion and $12.8 billion of mortgage backed and other asset backed securities as part of a strategy to reduce prepayment risk as well as risk-weighted asset levels and recognized gains of $224 million and $283 million and losses of $26 million and $38 million, respectively, during these periods which is included as a component of other securities gains, net above.

HSBC Affiliate Income

Affiliate income was lower in both periods due to lower fees and commissions earned from HSBC Markets USA ("HMUS") and other HSBC affiliates as compared to the year-ago periods and, in the six month period, lower fees on tax refund anticipation loans as beginning in 2010, we now transfer only a portion of these loans to HSBC Finance upon origination as discussed above.

Residential Mortgage Banking Revenue (Loss)

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

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$54**	$69	$(15)	(21.7)%
Servicing related income:				
Servicing fee income	**30**	32	(2)	(6.3)
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**(119)**	88	(207)	(100+)
Realization of cash flows	**(18)**	(4)	(14)	(100+)
Trading - Derivative instruments used to offset changes in value of MSRs	**137**	(99)	236	100+
Total servicing related income	**30**	17	13	76.5
Originations and sales related income:				
Gains (losses) on sales of residential mortgages	**(108)**	26	(134)	(100+)
Trading and hedging activity	**(10)**	11	(21)	(100+)
Total originations and sales related income (loss)	**(118)**	37	(155)	(100+)
Other mortgage income	**8**	5	3	60.0
Total residential mortgage banking revenue included in other revenues (losses)	**(80)**	59	(139)	(100+)

Total residential mortgage banking related revenue (loss)	**$(26)**	$128	$(154)	(100+)%

Six Months Ended June 30,	**2010**	**2009**	**Increase (Decrease) Amount**	**%**
	(dollars are in millions)			
Net interest income	**$110**	$135	$(25)	(18.5)%
Servicing related income:				
Servicing fee income	**62**	66	(4)	(6.1)
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**(114)**	60	(174)	(100+)
Realization of cash flows	**(45)**	(24)	(21)	(87.5)
Trading - Derivative instruments used to offset changes in value of MSRs	**148**	(63)	211	100+
Total servicing related income	**51**	39	12	30.8
Originations and sales related income:				
Gains (losses) on sales of residential mortgages	**(167)**	59	(226)	(100+)
Trading and hedging activity	**(15)**	17	(32)	(100+)
Total originations and sales related income (loss)	**(182)**	76	(258)	(100+)
Other mortgage income	**14**	9	5	55.6
Total residential mortgage banking revenue included in other revenues (losses)	**(117)**	124	(241)	(100+)
Total residential mortgage banking related revenue	**$(7)**	$259	$(266)	(100+)%

Lower net interest income during both periods reflects lower loan balances, partially offset by lower funding costs as well as reduced deferred loan origination cost amortization on lower average outstandings. Lower loan balances reflect the sale of approximately $0.5 billion of prime adjustable and fixed rate residential mortgages since June 30, 2009, for which we retained the servicing rights. We continue to sell the majority of new loan originations to government sponsored enterprises and private investors. Consistent with our Premier strategy, additions to the portfolio are comprised largely of premier relationship products.

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

Originations and sales related income decreased in both periods primarily due to lower gains from loan sales and a higher estimate of exposure on repurchase obligations associated with previously sold loans. We recorded gains of $30 million and $67 million in the three and six months ended June 30, 2009 related to held mortgage asset sales. There were no held mortgage asset sales in the first half of 2010. During the three and six month periods ended June 30, 2010, we recorded expense of $117 million and $190 million, respectively, due to an increase in our estimated exposure associated with repurchase obligations on loans previously sold.

Gain on Instruments Designated at Fair Value and Related Derivatives

We have elected to apply fair value option accounting to commercial leveraged acquisition finance loans and unfunded commitments, certain other commercial loans, certain own fixed-rate debt issuances and all structured notes and structured deposits issued after January 1, 2006 that contain embedded derivatives.

We also use derivatives to economically hedge the interest rate risk associated with certain financial instruments for which fair value has been elected. See Note 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 three and six months ended June 30, 2010, as there has been reduced volatility in the U.S. residential mortgage market driven by stabilization of home prices in the U.S. since June 30, 2009. Valuations on loans held for sale relate primarily to residential mortgage loans purchased from third parties and HSBC affiliates with the intent of securitization or sale. Included in this portfolio are sub-prime residential mortgage loans with a fair value of $478 million and $757 million as of June 30, 2010 and December 31, 2009, respectively. Loans held for sale are recorded at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. Valuations on residential mortgage loans we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of income (loss). Valuations on loans held for sale in the six months ended June 30, 2010 also reflects an $89 million settlement relating to certain whole loans previously purchased for re-sale from a third party.

Other Income (Loss)

Excluding the valuation of loans held for sale as discussed above, other income (loss) improved during the three and six months ended June 30, 2010 due largely to higher miscellaneous income due to gains related to credit derivatives used to economically hedge certain commercial loans. For the six month period ended June 30, 2009, other income (loss) included a gain on the sale of our equity interest in HSBC Private Bank (Suisse) S.A. of $33 million as well as an $85 million gain related to a judgment whose proceeds were used to redeem 100 preferred shares issued to CT Financial Services, Inc., while the six months ended June 30, 2010 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 June 30,	**2010**	**2009**	**Increase (Decrease) Amount**	**%**
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	**$145**	$155	$(10)	(6.5)%
Employee benefits	**135**	147	(12)	(8.2)
Total salaries and employee benefits	**280**	302	(22)	(7.3)
Occupancy expense, net	**65**	88	(23)	(26.1)
Support services from HSBC affiliates:				
	165	184	(19)	(10.3)

Fees paid to HSBC Finance for loan servicing and other administrative support				
Fees paid to HMUS	**57**	66	(9)	(13.6)
Fees paid to HTSU	**191**	136	55	40.4
Fees paid to other HSBC affiliates	**45**	33	12	36.4
Total support services from HSBC affiliates	**458**	419	39	9.3
Other expenses:				
Equipment and software	**11**	10	1	10.0
Marketing	**25**	30	(5)	(16.7)
Outside services	**32**	17	15	88.2
Professional fees	**17**	16	1	6.3
Telecommunications	**4**	3	1	33.3
Postage, printing and office supplies	**3**	5	(2)	(44.2)
Off-balance sheet credit reserves	**(4)**	2	(6)	(100+)
FDIC assessment fee	**33**	117	(84)	(71.8)
Insurance business	**(2)**	21	(23)	(100+)
Miscellaneous	**71**	58	13	22.4
Total other expenses	**190**	279	(89)	(32.0)
Total operating expenses	**$993**	$1,088	$(95)	(8.7)%
Personnel - average number	**9,007**	9,598		
Efficiency ratio	**52.99%**	58.75%		

Six Months Ended June 30,	**2010**	**2009**	**Increase (Decrease) Amount**	**%**
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	**$284**	$308	$(24)	(7.8)%
Employee benefits	**263**	285	(22)	(7.7)
Total salaries and employee benefits	**547**	593	(46)	(7.8)
Occupancy expense, net	**136**	151	(15)	(9.9)
Support services from HSBC affiliates:				
Fees paid to HSBC Finance for loan servicing and other administrative support	**389**	373	16	4.3
Fees paid to HMUS	**144**	137	7	5.1
Fees paid to HTSU	**363**	247	116	47.0
Fees paid to other HSBC affiliates	**80**	85	(5)	(5.9)
Total support services from HSBC affiliates	**976**	842	134	15.9
Other expenses:				
Equipment and software	**22**	20	2	10.0
Marketing	**53**	67	(14)	(20.9)
Outside services	**54**	44	10	22.7
Professional fees	**29**	33	(4)	(12.1)
Telecommunications	**7**	7	-	-
Postage, printing and office supplies	**7**	8	(1)	(12.5)
Off-balance sheet credit reserves	**(12)**	(2)	(10)	(100+)
FDIC assessment fee	**69**	151	(82)	(54.3)

Insurance business	**(3)**	43	(46)	(100+)
Miscellaneous	**174**	103	71	68.9
Total other expenses	**400**	474	(74)	(15.6)
Total operating expenses	**$2,059**	$2,060	$(1)	-%
Personnel - average number	**9,085**	9,823		
Efficiency ratio	**51.17%**	52.16%		

Salaries and Employee Benefits
Salaries and employee benefits expense decreased during both periods 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 decreased in both periods due largely to the transfer of additional shared services employees and their related workspace expenses to an affiliate, as discussed below, which was partially offset by higher occupancy expense associated with the expansion of the core banking network within the PFS segment and in the six month period, $8 million in lease abandonment costs associated with the closure of several non-strategic branches recorded during the first quarter of 2010. Subsequent to June 30, 2009, we opened 16 new branches resulting in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses.

Support services from HSBC affiliates
includes technology and certain centralized support services, including human resources, corporate affairs and other shared services and beginning in January 2010, legal, compliance, tax and finance charged to us by HTSU. Support services from HSBC affiliates also includes services charged to us by an HSBC affiliate located outside of the United States which provides operational support to our businesses, including among other areas, customer service, systems, collection and accounting functions. Higher support services from HSBC affiliates in both periods reflects the increased level of services provided, including fees paid to HSBC Finance for servicing and assuming the credit risk associated with refund anticipation loans originated and held on our balance sheet as a result of the change in the management of the refund anticipation loan program between HSBC Bank USA and HSBC Finance beginning in 2010 which totaled $2 million and $58 million during the three and six months ended June 30, 2010. These increases were partially offset by lower levels of receivables being serviced.

Marketing Expenses
Lower marketing and promotional expenses in both periods 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 and CMB business segments.

Other Expenses
Other expenses (excluding marketing expenses) decreased in both periods driven by lower FDIC assessment fees as the year-ago period included a $82 million special assessment recorded in the second quarter of 2009. This was partially offset by higher miscellaneous expenses including higher legal costs, higher collection agency costs, higher outside services costs and in the six month period, higher interest accruals for state tax exposures.

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 52.99 percent and 51.17 percent for the three and six

months ended June 30, 2010 compared to 58.75 percent and 52.16 percent in the year-ago periods. The improvement in the efficiency ratio in both periods resulted primarily from higher other revenues and lower operating expenses, partially offset by decreased net interest income.

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.

We report to our parent, HSBC, in accordance with its reporting basis, IFRSs. As a result, our segment results are presented on an IFRSs Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRSs basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis. The significant differences between U.S. GAAP and IFRSs as they impact our results are summarized in Note 15, "Business Segments," in the accompanying consolidated financial statements and under the caption "Basis of Reporting" in the MD&A section of this Form 10-Q.

Personal Financial Services ("PFS")
During 2010, we continue to direct resources towards the expansion of the core retail banking business and in particular the growth of HSBC Premier, HSBC's global banking service that offers customers a seamless international service. In addition, expansion of the branch network continued during 2010 with the opening of four new branches (all of which occurred in the first quarter) in geographic markets with international connectivity as well as continued investment in the HSBC brand. We intend to open additional new branches as the opportunity arises. Average personal deposits in the second quarter of 2010 increased approximately 1.5 percent compared to the level experienced in the second quarter of 2009. Online savings balances have grown to $16.1 billion at June 30, 2010 as compared to $15.6 billion at December 31, 2009. Premier customers increased to 429,179 at June 30, 2010, a 21 percent increase from December 31, 2009 and a 41 percent increase from the year-ago quarter. We remain focused on providing differentiated premium services to the internationally minded mass affluent and upwardly mobile customers. 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 sold prime adjustable and fixed rate mortgage loan portfolios to third parties in prior years. No such sales occurred during the first half of 2010. For the three and six months ended June 30, 2009, we sold approximately $2.1 billion and $4.0 billion, respectively, of prime adjustable and fixed rate residential mortgage loans to third parties. We retained the servicing rights in relation to the mortgages upon sale. As a result, average residential mortgage loans outstanding have continued to decline during the second quarter of 2010, decreasing approximately 25 percent as compared to average residential mortgage loans outstanding during the second quarter of 2009.

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

Three Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$238**	$240	$(2)	(.8)%
Other operating income	**17**	43	(26)	(60.5)
Total operating income	**255**	283	(28)	(9.9)
Loan impairment charges	**29**	172	(143)	(83.1)
	226	111	115	100+
Operating expenses	**316**	335	(19)	(5.7)
Profit (loss) before tax	**$(90)**	$(224)	$134	59.8%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$479**	$427	$52	12.2%
Other operating income	**63**	83	(20)	(24.1)
Total operating income	**542**	510	32	6.3
Loan impairment charges	**26**	372	(346)	(93.0)
	516	138	378	100+
Operating expenses	**587**	630	(43)	(6.8)
Profit (loss) before tax	**$(71)**	$(492)	$421	85.6%

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

Net interest income increased during the six month period compared to the prior year period, driven by a combination of customer rate cuts and additional funding credits on deposits. The higher net interest income was partially offset by lower levels of mortgage loans outstanding in part due to mortgage loan sales of approximately $0.5 billion since June 30, 2009. For the three month period, interest income remained flat.

Other operating income decreased during both periods reflecting the impact of increases in our estimate of exposure on repurchase obligations associated with previously sold loans which reduced other operating income in 2010 by $117 million in the second quarter and $190 million in the six month period. Additionally, other operating income in both prior year periods include intersegment charges from the Global Banking and Markets segment of $61 million in the second quarter and $163 million year-to-date relating to costs associated with early termination of the funding associated with residential mortgage loan sales in the first and second quarters of 2009. This was partially offset by net gains on the sales of these residential mortgage loans in 2009 of $31 million in the second quarter and $70 million in the year-to-date period.

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

Operating expenses decreased in both periods as lower FDIC assessment fees largely driven by the special assessment in the second quarter of 2009 were partially offset by higher costs from shared support services and higher costs from the expansion of our branch network. Also contributing to the decrease during the six months ended June 30, 2010 was 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 and a recovery of $6 million in the second quarter of 2010 related to the Visa legal accrual previously established in 2007.

Consumer Finance ("CF")
The CF segment includes the private label and co-brand credit cards, as well as other loans acquired from HSBC Finance or its correspondents, including the GM and UP Portfolios and 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 June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$484**	$520	$(36)	(6.9)%
Other operating income	**36**	84	(48)	(57.1)
Total operating income	**520**	604	(84)	(13.9)
Loan impairment charges	**355**	477	(122)	(25.6)
	165	127	38	29.9
Operating expenses	**28**	37	(9)	(24.3)
Profit (loss) before tax	**$137**	$90	$47	52.2%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$1,007**	$1,049	$(42)	(4.0)%
Other operating income	**53**	165	(112)	(67.9)
Total operating income	**1,060**	1,214	(154)	(12.7)
Loan impairment charges	**565**	1,031	(466)	(45.2)
	495	183	312	100+

Operating expenses	**55**	51	4	7.8
Profit (loss) before tax	**$440**	$132	$308	100+ %

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

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

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

Operating expenses decreased during the second quarter due to lower FDIC assessment fees as the second quarter of 2009 included a special FDIC assessment. This was partially offset by higher collection costs on bad debt accounts which were previously reported in loan impairment charges and higher fraud expenses. For the year-to date period, the higher collection and fraud expenses more than offset the impact of lower FDIC assessment fees.

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 which take effect on August 22, 2010. The CARD Act has required us to make changes to our business practices, and will likely require us and our competitors to manage risk differently than has historically been the case. Pricing, underwriting and product changes in response to the new legislation have either been implemented or are under analysis. We currently believe the implementation of these new rules will not have a material adverse impact to us as any impact would be limited to only a portion of the existing affected loan portfolio as the purchase price on sales volume paid to HSBC Finance has been adjusted to reflect the new requirements.

Commercial Banking ("CMB")

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

In the second quarter and first half of 2010, interest rate spreads, while improved from the prior year periods, continued to be pressured from a low interest rate environment, while loan impairment charges improved. Customer deleveraging and higher rates of repayment have resulted in a 16 percent decrease in loans outstanding to middle-market customers at June 30, 2010 as compared to a year-ago, while deposits from middle-market customers at June 30, 2010 grew 18 percent since June 30, 2009. The business banking loan portfolio has seen an 8 percent decrease in loans outstanding since June 30, 2009 resulting from an increase in paydowns and a decline in the demand for new credit facilities, while business banking customer deposits at June 30, 2010 grew 4 percent compared to June 2009 levels. The commercial real estate business continues to focus on deal quality and portfolio management rather than volume, which resulted in a 7 percent decline in outstanding receivables for this portfolio since June 2009. Average customer deposit balances across all CMB business lines during the six months ended June 30, 2010 increased 9 percent as compared to the year-ago period and average loans during the six months ended June 30, 2010 decreased 15 percent as compared to the year-ago period. In February 2010, we completed the sale of our interest in Wells Fargo HSBC Trade Bank ("WHTB") to Wells Fargo and recorded a gain of $66 million which is included in other operating income.

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

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$176**	$180	$(4)	(2.2)%
Other operating income	**96**	82	14	17.1
Total operating income	**272**	262	10	3.8
Loan impairment charges	**47**	90	(43)	(47.8)
	225	172	53	30.8
Operating expenses	**171**	158	13	8.2
Profit (loss) before tax	**$54**	$14	$40	100+%

			Increase (Decrease)	
Six Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$364**	$356	$8	2.2%
Other operating income	**249**	163	86	52.8
Total operating income	**613**	519	94	18.1
Loan impairment charges	**48**	171	(123)	(71.9)
	565	348	217	62.4
Operating expenses	**321**	312	9	2.9

Profit (loss) before tax	**$244**	$36	$208	100+ %

Our CMB segment reported a higher profit before tax during the three and six months ended June 30, 2010 due to higher other operating income, lower loan impairment charges and in the year-to-date period, higher net interest income, partially offset by higher operating expenses.

Net interest income decreased modestly in the second quarter of 2010 as lower loan balances offset growth in deposit balances and improved loan spreads from re-pricing activities in the second half of 2009. Net interest income increased in the year-to-date period due to growth in deposit balances and improved loan spreads, partially offset by lower loan balances.

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

Loan impairment charges improved in both periods as economic conditions began to improve and credit quality began to stabilize resulting in improvements in the financial circumstances of several customer relationships which led to credit upgrades on certain problem credits, lower charge-offs and fewer customer downgrades across all business lines.

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

Global Banking and Markets

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

There are four major lines of business within Global Banking and Markets: Global Banking, Global Markets, Transaction Banking and Asset Management. The Global Banking business line includes corporate lending and investment banking activities, and this unit also coordinates client relationships across all Global Markets and Banking products. The Global Markets business services the requirements of the world's central banks, corporations, institutional investors and financial institutions through our global trading platforms and distribution capabilities. Transaction banking provides payments and cash management, trade finance, supply chain, 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 second quarter and first half of 2010 benefited from improved credit market conditions, which led to an increase in the credit quality of our corporate lending relationships, lower securities impairment charges, and reduced losses in legacy positions as compared to the year ago periods. As credit markets have stabilized, results from legacy positions including credit derivatives and subprime mortgage loans have contributed to higher Other Operating Income. Substantial counterparty credit reserves for monoline exposure and significant valuation losses were taken in both the trading and available-for-sale securities portfolios throughout 2008 and into 2009 due to the market volatility.

Under the provisions of the IAS 39 amendment issued in October 2008, we elected to re-classify $1.8 billion in leveraged loans and high yield notes and $892 million in securities held for balance sheet management purposes from trading assets to loans and available-for-sale investment securities, effective July 1, 2008. In November 2008, $967 million in additional securities were also transferred from trading assets to available-for-sale investment securities. If these IFRS reclassifications had not been made, our profit before tax for the quarter ended June 30, 2010 and 2009 would have been higher by $118 million and $257 million, respectively, and our profit before tax for the six months ended June 30, 2010 and 2009 would have been higher by $188 million and $238 million, respectively.

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

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$143**	$222	$(79)	(35.6)%
Other operating income	**303**	288	15	5.2
Total operating income	**446**	510	(64)	(12.5)
Loan impairment charges	**(72)**	197	(269)	(100+)
	518	313	205	65.5
Operating expenses	**198**	236	(38)	(16.1)
Profit (loss) before tax	**$320**	$77	$243	100+%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$285**	$454	$(169)	(37.2)%
Other operating income	**741**	509	232	45.6
Total operating income	**1,026**	963	63	6.5
Loan impairment charges	**(148)**	426	(574)	(100+)
	1,174	537	637	100+
Operating expenses	**407**	435	(28)	(6.4)
Profit (loss) before tax	**$767**	$102	$665	100+%

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

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

Other operating income increased in both periods due to improved performance of credit derivatives 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 $23 million and 114 million during the three and six months ended June 30, 2010, respectively, as compared to losses of $21 million and $378 million during the year-ago periods, 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 2010, resulting in gains of $17 million and $73 million during the three and six months ended June 30, 2010, respectively, as compared to gains of $6 million and losses of $158 million during the year-ago periods.

Valuation losses of $29 million and $41 million during the three and six months ended June 30, 2010, respectively, were recorded against the fair values of sub-prime residential mortgage loans held for sale as compared to valuation losses of $68 million and $154 million during the year-ago periods. During the six months ended June 30, 2010, other operating income includes intersegment income of $2 million from PFS relating fees charged for the early termination of funding compared to $163 million during the year-ago period. Additionally, other operating income for the six months ended June 30, 2010 includes a gain of $89 million associated with a settlement relating to certain loans previously purchased for resale from a third party.

Loan impairment charges decreased in both periods due to reductions in higher risk rated loan balances and stabilization of credit downgrades. In addition, during the three and six months ended June 30, 2009, impairments included a charge of $140 million and $317 million, respectively, on securities determined to be other-than-temporarily impaired compared to no similar impairments in the current year.

Operating expenses decreased in both periods largely due to lower FDIC assessment fees as the year-ago periods included a special FDIC assessment recorded in the second quarter of 2009. Additionally, expenses in the six month period ended June 30, 2010 include a $7 million pension curtailment gain. The decreases in both periods were partially offset by higher performance related compensation.

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 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 increased 4 percent as compared to the prior year quarter as growth in deposits from core clients was partially offset by withdrawals from domestic institutional clients during 2009. Total average loans (mostly domestic) in the second quarter of 2010 decreased 3 percent compared to the prior year quarter from runoff and reductions of commercial loan borrowings partially offset by growth in the 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 7 percent compared to the prior year quarter to $33 billion at June 30, 2010, and 12 percent since December 31, 2009, primarily reflecting the loss of certain domestic institutional custody clients.

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

Three Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$45**	$46	$(1)	(2.2)%
Other operating income	**35**	29	6	20.7
Total operating income	**80**	75	5	6.7
Loan impairment charges	**-**	7	(7)	(100+)
	80	68	12	17.6
Operating expenses	**62**	63	(1)	(1.6)
Profit (loss) before tax	**$18**	$5	$13	100+%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$91**	$88	$3	3.4%
Other operating income	**69**	62	7	11.3
Total operating income	**160**	150	10	6.7
Loan impairment charges	**(11)**	4	(15)	(100+)
	171	146	25	17.1
Operating expenses	**117**	122	(5)	(4.1)

Profit (loss) before tax	**$54**	$24	$30	100+ %

Our PB segment reported a higher profit before tax for the three and six months ended June 30, 2010 due primarily to lower loan impairment charges, higher other operating income and lower operating expenses.

Net interest income was three percent higher in the second quarter of 2010 compared to the first quarter of 2010 reflecting increased deposit balances and better overall spreads. Net interest income increased modestly in the year-to-date period primarily due to higher loan volume and improved interest spreads on loans and deposits.

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

Loan impairment charges were lower in both periods due to lower reserves required relating to certain exposure, several paydowns and other improvements in client credit ratings.

Operating expenses decreased in both periods due to lower staff costs and lower FDIC assessment fees as the year-ago periods included a special FDIC assessment recorded during the second quarter of 2009. Additionally, operating expense for the six months ended June 30, 2010 includes a $5 million pension curtailment gain as discussed above.

Other

The other segment primarily includes adjustments made at the corporate level for fair value option accounting related to certain debt issued, as well as any adjustments to the fair value on HSBC shares held for stock plans. Results in the six month period in 2010 and both 2009 periods also include the impact of the resolution of a lawsuit as discussed below. Results for both 2010 periods include a gain on the sale of our 452 Fifth Avenue property in New York City, including the 1 W. 39th Street building The results for six months ended June 30, 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 June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$(1)**	$(2)	$1	50.0%
Other operating income	**216**	(498)	714	100+
Total operating income	**215**	(500)	715	100+
Loan impairment charges	**(2)**	-	(2)	(100+)
	217	(500)	717	100+
Operating expenses	**13**	38	(25)	(65.8)
Profit (loss) before tax	**$204**	$(538)	$742	100+%

Six Months Ended June 30,	2010	2009	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$(10)**	$-	$(10)	(100+)%
Other operating income	**232**	(343)	575	100+
Total operating income	**222**	(343)	565	100+
Loan impairment charges	**-**	-	-	-
	222	(343)	565	100+
Operating expenses	**30**	52	(22)	(42.3)
Profit (loss) before tax	**$192**	$(395)	$587	100+%

Other operating income in both periods was impacted by changes in the fair value of certain debt instruments to which fair value option was elected. Along with the related fair value option derivatives, we recorded total gains relating to these instruments of $184 million and $197 million for the three and six months ended June 30, 2010, respectively, compared to losses of $460 million and $426 million in the year-ago periods. Other operating income in the six months ended June 30, 2010 and 2009 includes gains of $5 million and $85 million which were partially offset by expenses of $3 million and $55 million, respectively, all related to the resolution of a lawsuit whose proceeds in 2009 were used to redeem preferred stock issued to CTUS Inc. In addition, other operating income during the three and six month periods ended June 30, 2010 includes a $56 million gain on sale of our 452 Fifth Avenue property in New York City, including the 1 W. 39th Street building and, for the six months ended June 30, 2009, includes a $43 million gain on the sale of the equity investment referred to above.

Credit Quality

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

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

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

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

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

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

Our allowance for credit losses methodology and our accounting policies related to the allowance for credit losses are presented in further detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Critical Accounting Policies and Estimates" and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," of the consolidated financial statements included in our 2009 Form 10-K. Our approach toward credit risk management is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K under the caption "Risk Management." There have been no material revisions to our policies or methodologies during the first half 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:

	June 30, 2010	March 31, 2010	December 31, 2009
	(dollars are in millions)		
Allowance for credit losses	**$2,950**	$3,224	$3,861
Ratio of Allowance for credit losses to:			
Loans:(1)			
Commercial	**2.37%**	2.59%	3.10%
Consumer:			
Residential mortgages, excluding home equity mortgages	**1.80**	2.07	2.53
Home equity mortgages	**2.62**	3.16	4.44
Private label card receivables	**7.43**	7.43	7.85
Credit card receivables	**7.81**	8.16	8.48
Auto finance	**2.58**	2.55	2.12
Other consumer loans	**3.26**	3.50	4.46
Total consumer loans	**5.10**	5.38	5.94
Total	**4.00%**	4.28%	4.86%
Net charge-offs(1)(2):			
Commercial	**220.19%**	190.80%	211.26%
Consumer	**85.73**	80.45	92.91
Total	**100.20%**	93.31%	107.55%
Nonperforming loans(1):			
Commercial	**70.41%**	69.34%	65.44%
Consumer	**128.01**	131.87	150.45
Total	**107.25%**	108.58%	114.36%

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

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

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

	Commercial	Residential Mortgages, Excluding Home Equity Mortgages	Home Equity Mortgages	Private Label Card Receivables	Credit Card Receivables	Auto Finance	Other Consumer	Total
				(in millions)				
Three months ended June 30, 2010:								
Balances at beginning of period	**$767**	**$280**	**$128**	**$1,000**	**$964**	**$37**	**$48**	**$3,224**
Charge-offs	**90**	**46**	**30**	**289**	**331**	**13**	**17**	**816**
Recoveries	**11**	**-**	**-**	**38**	**30**	**(1)**	**4**	**82**
Net charge-offs	**79**	**46**	**30**	**251**	**301**	**14**	**13**	**734**
Provision for credit losses	**9**	**10**	**6**	**198**	**215**	**10**	**8**	**456**
Allowance related to bulk loan purchases from HSBC Finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other	**1**	**-**	**-**	**-**	**3**	**-**	**-**	**4**
Balance at end of period	**$698**	**$244**	**$104**	**$947**	**$881**	**$33**	**$43**	**$2,950**
Three months ended June 30, 2009:								
Balances at beginning of period	$669	$310	$160	$1,256	$964	$39	$67	$3,465
Charge-offs	87	55	53	373	248	26	23	865
Recoveries	11	5	3	45	10	6	1	81
	76	50	50	328	238	20	22	784

Net charge-offs								
Provision for credit losses	166	97	66	310	366	40	22	1,067
Allowance on loans transferred to held for sale	-	-	-	-	-	(8)	-	(8)
Balance at end of period	$759	$357	$176	$1,238	$1,092	$51	$67	$3,740
Six months ended June 30, 2010: :								
Balances at beginning of period	**$938**	**$347**	**$185**	**$1,184**	**$1,106**	**$36**	**$65**	**$3,861**
Charge-offs	**199**	**95**	**66**	**624**	**691**	**37**	**38**	**1,750**
Recoveries	**21**	**1**	-	**80**	**55**	**(1)**	**8**	**164**
Net charge-offs	**178**	**94**	**66**	**544**	**636**	**38**	**30**	**1,586**
Provision for credit losses	**(64)**	**(9)**	**(15)**	**307**	**405**	**35**	**8**	**667**
Allowance related to bulk loan purchases from HSBC Finance	-	-	-	-	-	-	-	-
Other	**2**	-	-	-	**6**	-	-	**8**
Balance at end of period	**$698**	**$244**	**$104**	**$947**	**$881**	**$33**	**$43**	**$2,950**
Six months ended June 30, 2009:								
Balances at beginning of period	$572	$207	$167	$1,171	$208	$5	$67	$2,397
Charge-offs	143	120	90	725	315	31	55	1,479
Recoveries	16	11	12	83	16	7	7	152
Net charge-offs	127	109	78	642	299	24	48	1,327
Provision for credit losses	314	259	87	709	759	65	48	2,241
	-	-	-	-	-	(8)	-	(8)

Allowance on loans transferred to held for sale								
Allowance related to bulk loan purchases from HSBC Finance	-	-	-	-	424	13	-	437
Balance at end of period	$759	$357	$176	$1,238	$1,092	$51	$67	$3,740

The allowance for credit losses at June 30, 2010 decreased $274 million, or 8.50 percent as compared to March 31, 2010 and $911 million, or 23.59 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 continued improvement in delinquency including early stage delinquency roll rates as economic conditions improved. The decrease in the allowance for our residential mortgage loan portfolio and HELOC and Home Equity loan portfolios reflects lower receivable levels and dollars of delinquency, stabilization in loss severities and, as it relates to December 31, 2009, an improved outlook for incurred future losses. Reserve requirements in our commercial loan portfolio have also declined due to run-off, including managed reductions in certain exposures and improvements in the financial circumstances of several customer relationships. Reserve levels for all loan categories remain elevated due to ongoing weakness in the U.S. economy, including elevated unemployment rates.

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

The allowance for credit losses as a percentage of net charge-offs at June 30, 2010 declined as compared to December 31, 2009 as the decline in reserve levels discussed above outpaced the decline in dollars of net charge-off as the higher delinquency levels reported in prior periods migrated to charge-off. Compared to March 31, 2010, the allowance for credit losses as a percentage of net charge-offs increased driven by lower private label card and credit card charge-offs which declined at a faster pace than the corresponding allowance for credit losses.

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

	June 30, 2010		**March 31, 2010**		**December 31, 2009**	
	Amount	**% of Loans to Total Loans(1)**	**Amount**	**% of Loans to Total Loans(1)**	**Amount**	**% of Loans to Total Loans(1)**
	(dollars are in millions)					
Commercial(2)	**$698**	**40.05%**	$767	39.36%	$938	38.12%

Consumer:						
Residential mortgages, excluding home equity mortgages	**244**	**18.42**	280	17.94	347	17.26
Home equity mortgages	**104**	**5.39**	128	5.37	185	5.24
Private label card receivables	**947**	**17.30**	1,000	17.88	1,184	18.99
Credit card receivables	**881**	**15.31**	964	15.69	1,106	16.41
Auto finance	**33**	**1.74**	37	1.93	36	2.14
Other consumer	**43**	**1.79**	48	1.83	65	1.84
Total consumer	**2,252**	**59.95**	2,457	60.64	2,923	61.88
Total	**$2,950**	**100.00%**	$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:

	June 30, 2010	March 31, 2010	December 31, 2009
		(in millions)	
On-balance sheet allowance:			
Specific	**$239**	$237	$326
Collective	**416**	485	549
Unallocated	**43**	45	63
Total on-balance sheet allowance	**698**	767	938
Off-balance sheet allowance	**111**	114	188
Total commercial allowances	**$809**	$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 $111 million, $114 million and $188 million at June 30, 2010, 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 since December 31, 2009 relates in part to the consolidation of a previously unconsolidated commercial paper VIE as of January 1, 2010, which resulted in the reclassification of this reserve on our balance sheet. Off-balance sheet exposures are summarized under the caption "Off-Balance Sheet Arrangements" in this MD&A.

Delinquency

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

	June 30, 2010	March 31, 2010	December 31, 2009
	(dollars are in millions)		
Dollars of Delinquency:			
Commercial	**$656**	$723	$954
Consumer:			
Residential mortgage, excluding home equity mortgages	**1,286**	1,551	1,595
Home equity mortgages	**174**	184	173
Total residential mortgages(1)	**1,460**	1,735	1,768
Private label card receivables	**478**	510	622
Credit card receivables	**449**	515	587
Auto finance	**27**	33	48
Other consumer	**13**	16	18
Total consumer	**2,427**	2,809	3,043
Total	**$3,083**	$3,532	$3,997
Delinquency Ratio:			
Commercial	**2.11%**	2.33%	3.04%
Consumer:			
Residential mortgage, excluding home equity mortgages	**8.84**	10.59	10.56
Home equity mortgages	**4.38**	4.55	4.15
Total residential mortgages(1)	**7.88**	9.28	9.17
Private label card receivables	**3.75**	3.79	4.12
Credit card receivables	**3.98**	4.36	4.50
Auto finance	**2.11**	2.27	2.34
Other consumer	**.96**	1.14	1.20
Total consumer	**5.37**	6.00	5.97
Total	**4.04 %**	4.53 %	4.85 %

(1)

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

	June 30, 2010	March 31, 2010	December 31, 2009
	(dollars are in millions)		
Dollars of Delinquency:			
Interest-only loans	**$164**	$214	$236
ARM loans	**535**	634	802
Delinquency Ratio:			
Interest-only loans	**5.79%**	7.26%	6.94%
ARM loans	**6.71**	7.94	9.58

Our total two-months-and-over contractual delinquency ratio decreased 49 basis points as compared to the prior quarter. Our two-months-and-over contractual delinquency ratio for consumer loans decreased to 5.37 percent at June 30, 2010 as compared to 6.00 percent at March 31, 2010. Dollars of delinquency fell across all consumer portfolios, particularly in residential mortgage as well as private label card and credit card receivables while outstanding loan balances also declined. Dollars of delinquency in our private label card and credit card receivable portfolios fell reflecting lower outstanding balances due to the continued impact of actions previously taken to tighten underwriting and reduce risk in these portfolios, increased focus by consumers to paydown credit card debt. The lower dollars of delinquency also resulted from continued improvement in early stage delinquency roll rates. The decrease in our residential mortgage loan delinquency since March 31, 2010 reflects continued stabilization of the real estate markets including loss severities and improving economic conditions, as well as the sale of $215 million of delinquent subprime mortgage whole loans during the quarter. Overall delinquency levels however, continue to be impacted by elevated unemployment levels.

Our commercial two-months-and-over contractual delinquency ratio improved 22 basis points since March 31, 2010 driven by a decline in dollars of delinquency as balances related to certain problem loans were reduced.

Compared to December 31, 2009, our delinquency ratio decreased 81 basis points at June 30, 2010, largely due to lower dollars of delinquency and improved economic conditions as discussed above.

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"):

	June 30, 2010	March 31, 2010	June 30, 2009
	(dollars are in millions)		
Net Charge-off Dollars:			
Commercial	**$79**	$99	$76
Consumer:			
Residential mortgage, excluding home equity mortgages	**46**	48	50
Home equity mortgages	**30**	36	50
Total residential mortgages	**76**	84	100
Private label card receivables	**251**	293	328
Credit card receivables	**301**	335	238
Auto finance	**14**	24	20
Other consumer	**13**	17	22

Total consumer	**655**	753	708
Total	**$734**	$852	$784
Net Charge-off Ratio:			
Commercial	**1.07%**	1.29%	.87%
Consumer:			
Residential mortgage, excluding home equity mortgages	**1.36**	1.43	1.34
Home equity mortgages	**2.99**	3.56	4.44
Total residential mortgages	**1.74**	1.92	2.06
Private label card receivables	**7.68**	8.29	8.54
Credit card receivables	**10.38**	10.93	6.84
Auto finance	**4.10**	6.11	3.05
Other consumer	**3.88**	4.93	5.32
Total consumer	**5.83**	6.43	5.34
Total	**3.94%**	4.40%	3.56%

Our net charge-off ratio as a percentage of average loans decreased 46 basis points compared to the prior quarter primarily due to lower residential mortgage and private label card and credit card charge-offs. We experienced lower dollars of charge-off in all loan categories as compared to the prior quarter, driven by lower receivable levels and improved credit quality. These favorable trends were partially offset by the impact from continued high unemployment levels and portfolio seasoning.

Charge-off dollars and ratios decreased in the residential mortgage loan portfolio compared to the prior quarter reflecting lower outstanding balances and continued moderation in loss severities as the real estate markets have stabilized in most areas. Charge-off dollars and ratios for private label card and credit 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.

Commercial charge-off dollars and ratios decreased compared to the first quarter of 2010 as 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 38 basis points, driven largely by higher credit card charge-offs as charge-off levels in this book during the second 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 amount of average credit card receivables outstanding during the second quarter of 2009 without a proportional amount of 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 the second quarter of 2010 compared to 2009 levels. Our auto finance net charge-off ratio increased as compared to the year-ago quarter as the non-delinquent receivables purchased from HSBC Finance in January 2009 continue to season and migrate to charge-off. Our commercial charge-off ratio increased compared to the prior year period as charge-off levels remained flat while average outstanding balances declined.

Nonperforming Assets

Nonperforming assets are summarized in the following table.

	June 30, 2010	March 31, 2010	December 31, 2009
	(dollars are in millions)		
Nonaccrual loans:			

Commercial:			
Construction and land loans	**$401**	$453	$477
Other real estate	**237**	185	167
Other commercial	**255**	372	623
Total commercial	**893**	1,010	1,267
Consumer:			
Residential mortgages, excluding home equity mortgages	**921**	934	875
Home equity mortgages	**92**	105	107
Total residential mortgages	**1,013**	1,039	982
Credit card receivables	**3**	3	3
Auto finance	**27**	32	40
Others	**9**	9	9
Total consumer loans	**1,052**	1,083	1,034
Nonaccrual loans held for sale	**224**	432	446
Total nonaccruing loans	**2,169**	2,525	2,747
Accruing loans contractually past due 90 days or more:			
Total commercial	**98**	96	166
Consumer:			
Private label card receivables	**348**	375	449
Credit card receivables	**332**	376	429
Auto finance	**-**	-	-
Other consumer	**27**	29	31
Total consumer loans	**707**	780	909
Total accruing loans contractually past due 90 days or more	**805**	876	1,075
Total nonperforming loans	**2,974**	3,401	3,822
Other real estate and owned assets	**138**	79	72
Total nonperforming assets	**$3,112**	$3,480	$3,894
Allowance for credit losses as a percent of nonperforming loans(1)			
Commercial	**70.41%**	69.34%	65.44%
Consumer	**128.01**	131.87	150.45

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

Decreases in nonperforming loans at June 30, 2010 as compared to March 31 2010 and December 31, 2009 are related primarily to commercial loans. Commercial nonaccrual loans decreased as compared to both periods 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 March 31, 2010 and December 31, 2009 reflect lower outstanding balances and improvements in credit quality including lower dollars of delinquency in those periods. During the second quarter of 2010, we also experienced a significant decline in non-accrual loans held for sale largely due to the sale of $215 million of non-accrual subprime mortgage loans during the quarter.

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

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

	June 30, 2010	March 31, 2010	December 31, 2009
	(in millions)		
Impaired commercial loans:			
Balance at end of period	$970 (1)	$1,146(1)	$1,458(1)
Amount with impairment reserve	**638**	835	1,127
Impairment reserve	**298**	305	336

(1) Includes TDR Loans of $123 million, $103 million and $88 million at June 30, 2010, March 31, 2010 and December 31, 2009, respectively.

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.

	June 30,	Increase (Decrease) from March 31, 2010		Increase (Decrease) from December 31, 2009	
	2010	Amount	%	Amount	%
	(dollars are in millions)				
Special mention:					
Commercial loans	**$2,825**	$56	2.0%	$(184)	(6.1)%
Substandard:					
Commercial loans	**2,787**	(459)	(14.1)	(736)	(20.9)
Consumer loans	**1,951**	(97)	(4.7)	(158)	(7.5)
Total substandard	**4,738**	(556)	(10.5)	(894)	(15.9)
Doubtful:					
Commercial loans	**233**	(91)	(28.1)	(271)	(53.8)
Total	**$7,796**	$(591)	(7.0)%	$(1,349)	(14.8)%

The decreases in criticized commercial loans in the first and second quarters 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 June 30, 2010 for certain loan portfolios is summarized in the following table.

	Commercial Construction and Other Real Estate Loans	Residential Mortgage Loans	Credit Card Receivables
New York State	46.5%	37.9%	10.9%
North Central United States	4.0	8.6	27.4
North Eastern United States	10.4	9.5	14.7
Southern United States	21.7	18.4	26.4
Western United States	16.9	25.6	20.2
Other	.5	-	.4
Total	100.0 %	100.0 %	100.0 %

Liquidity and Capital Resources

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

As a result of the recent economic turmoil, we continue to reduce our reliance on debt capital markets and to increase deposits. During the first half of 2010, we retired long-term debt totaling $1.5 billion and deposits increased 3 percent. We continue to manage our overall balance sheet by reducing low margin investments and deposits while continuing to manage the overall balance sheet risk.

Interest bearing deposits with banks
totaled $14.1 billion and $20.1 billion at June 30, 2010 and December 31, 2009, respectively.

Federal funds sold and securities purchased under agreements to resell
totaled $15.5 billion and $1.0 billion at June 30, 2010 and December 31, 2009, respectively. Balances increased during the six months ended June 30, 2010 as we redeployed surplus liquidity using repurchase agreements.

Short-term borrowings
totaled $16.0 billion and $6.5 billion at June 30, 2010 and December 31, 2009, respectively. See "Balance Sheet Review" for further analysis and discussion on short-term borrowing trends.

Deposits
totaled $121.6 billion and $118.3 billion at June 30, 2010 and December 31, 2009, respectively. See "Balance Sheet Review" for further analysis and discussion on deposit trends.

Long-term debt
decreased to $17.8 billion at June 30, 2010 from $18.0 billion at December 31, 2009. The following table summarizes issuances and retirements of long term debt during the six months ended June 30, 2010 and 2009:

Six Months Ended June 30,	2010	2009
	(in millions)	
Long-term debt issued	**$1,210**	$1,554
Long-term debt retired	**(1,499)**	(5,481)
Net long-term debt (retired)	**$(289)**	$(3,927)

Issuances of long-term debt during the first half of 2010 included $1,210 million, of which $253 million 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 $5.4 billion is available at June 30, 2010. HSBC Bank USA also has a $40 billion Global Bank Note Program of which $19.7 billion is available at June 30, 2010.

As a member of the New York Federal Home Loan Bank (FHLB), we have a secured borrowing facility which is collateralized by residential and commercial mortgage loans and investment securities. At June 30, 2010 and at 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 June 30, 2010 and December 31, 2009, we had a $2.5 billion unused line of credit with HSBC Bank plc, a HSBC U.K.-based subsidiary, to support issuances of commercial paper.

At June 30 2010, credit card receivables and restricted available-for-sale investments totaling $2.7 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. Public debt associated with these transactions totaled $1.3 billion and $1.8 billion at June 30, 2010 and December 31, 2009, respectively. The public debt is expected to be fully paid in the second half of 2010.

At June 30, 2010, we had conduit credit facilities with commercial and investment banks under which our operations may issue securities up to $2.2 billion backed with private label card and credit card receivables. The facilities are annually renewable at the providers' option. At June 30, 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 six months, pricing has declined compared to 2009 but is still elevated by historical standards. Available-for-sale investments included $1.3 billion and $1.1 billion at June 30, 2010 and December 31, 2009, respectively, which were restricted for the sole purpose of paying down certain secured financings at the established payment date.

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

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

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

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

	June 30, 2010	**December 31, 2009**
Tier 1 capital to risk weighted assets	**10.79%(1)**	9.61%
Tier 1 capital to average assets	**7.34**	7.59
Total equity to total assets	**8.80**	8.87

(1) Effective January 1, 2010, we began consolidating a commercial paper conduit managed by HSBC Bank USA as a result of adopting new guidance related to the consolidation of variable interest entities. Since we elected to adopt the transition mechanism for Risk Based Capital requirements, there was no change to the Tier 1 capital ratios for the first half of 2010. Had we fully transitioned to the Risk Based Capital requirements at June 30, 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.

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 14, "Regulatory Capital," in the accompanying consolidated financial statements

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

Subject to regulatory approval, HSBC North America will be required to 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, which was initiated in January 2010, encompasses enhancements to a number of risk policies, processes and systems to align HSBC Bank USA with the Basel II final rule requirements. HSBC Bank USA will seek regulatory approval for adoption when the program enhancements have been completed which may extend beyond April 1, 2011.

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

As part of the regulatory approvals with respect to the GM and UP receivable purchases completed in January 2009, we and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or become "low-quality assets," as defined by the Federal Reserve Act. During the first half of 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. 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	Estimated July 1 through	Estimated

	June 30, 2010	December 31, 2010	Full Year 2010
		(in billions)	
Funding needs:			
Net loan growth (attrition), excluding asset transfers	**$(2)**	$3	$1
Long-term debt maturities	**-**	1	1
Secured financings, including conduit facility maturities	**2**	1	3
Total funding needs	**$-**	$5	$5
Funding sources:			
Cash from operations	**$-**	$-	$-
Core deposit growth	**2**	1	3
Other deposit growth	**8**	(5)	3
Long-term debt issuance	**-**	2	2
Short-term funding/investments	**(11)**	6	(5)
Secured financings, including conduit facility renewals	**1**	1	2
Total funding sources	**$-**	$5	$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 and in the 2009 Form 10-K.

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 June 30, 2010				
	One Year or Less	Over One through Five Years	Over Five Years	Total	Balance at December 31, 2009
			(in billions)		
Standby letters of credit, net of participations(1)	**$5.0**	**$2.4**	**$-**	**$7.4**	$7.6
Commercial letters of credit	**1.0**	**-**	**-**	**1.0**	.7
Credit derivatives considered guarantees(2)	**47.2**	**283.4**	**51.1**	**381.7**	387.2
Other commitments to extend credit:					
Commercial	**17.5**	**28.3**	**1.5**	**47.3**	48.9
Consumer	**7.0**	**-**	**-**	**7.0**	6.9
Total	**$77.7**	**$314.1**	**$52.6**	**$444.4**	$451.3

(1) Includes $745 million and $774 million issued for the benefit of HSBC affiliates at June 30, 2010 and December 31, 2009, respectively.

(2) Includes $48.7 billion and $57.3 billion issued for the benefit of HSBC affiliates at June 30, 2010 and December 31, 2009, respectively.

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

	Maximum	Conduit Assets(1)	Weighted	Conduit Funding(1)	Weighted

Conduit Type	Exposure to Loss	Total Assets	Average Life (Months)	Commercial Paper	Average Life (Days)
		(dollars are in millions)			
HSBC affiliate sponsored (multi-seller)	**$870**	**$754**	**40**	**$741**	**14**
Third-party sponsored:					
Single-seller	**554**	**6,963**	**38**	**6,643**	**45**
Total	**$1,424**	**$7,717**		**$7,384**	

(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	AAA	AA+/AA	A	A-	BB/BB-	B-
		Average Credit Quality(1)					
Multi-seller conduits							
Debt securities backed by:							
Auto loans and leases	22%	35%	-%	-%	65%	-%	-%
Trade receivables	12	100	-	-	-	-	-
Credit card receivables	66	30	-	70	-	-	-
Total	100 %	40 %	-%	46 %	14 %	-%	-%
Single-seller conduits							
Debt securities backed by:							
Auto loans and leases	100 %	97 %	3 %	-%	-%	-%	-%
Total	100 %	97 %	3 %	-%	-%	-%	-%

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

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

During the first half of 2010, U.S. asset backed commercial paper volumes stabilized as there are signs that most major bank conduit sponsors are extending new financing to clients but at a slower pace. Credit spreads in the multi-seller conduit market have generally trended lower since the beginning of the year following a pattern that is prevalent across the U.S. credit markets. In the ABCP market, the success of the Term Asset-Backed Securities Loan Facility program revived the term ABS market 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 demand for the ABCP issued by large bank-sponsored ABCP programs. The improved demand for higher quality ABCP programs has led to less volatility in issuance spreads.

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

Under one of these agreements, known as the Montreal Accord, a restructuring proposal to convert outstanding commercial paper into longer term securities was approved by ABCP noteholders and endorsed by the Canadian justice system in 2008. The restructuring plan was formally executed during the first quarter of 2009. As part of the enhanced collateral pool established for the restructuring, we have provided a $375 million Margin Funding Facility to new Master Conduit Vehicles, which is currently undrawn. HSBC Bank USA derivatives transactions with the previous conduit vehicles have been assigned to new Master Conduit Vehicles. Under the restructuring, collateral provided to us to mitigate the derivatives exposures is significantly higher than it was prior to the restructuring.

Also in Canada but separately from the Montreal Accord, as part of an ABCP conduit restructuring executed in 2008, we agreed to hold long-term securities of $300 million (denominated in Canadian dollars) and provide a $94 million credit facility. As of June 30, 2010 this credit facility was undrawn and approximately $282 million (U.S. dollars) of long-term securities were held. At December 31, 2009, approximately $1 million of the credit facility was drawn and $285 million (U.S. dollars) of long term securities were held. The change in value of securities held from December 31, 2009 was due to exchange rate fluctuations between the U.S. dollar and the Canadian dollar.

As of June 30, 2010 and December 31, 2009, other than the facilities referred to above, we no longer have outstanding liquidity facilities to Canadian ABCP conduits subject to the Montreal Accord or other agreements. However, we hold $10 million of long-term securities that were converted from a liquidity drawing which fell under the Montreal Accord restructuring agreement.

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

Fair Value

Fair value measurement accounting principles require a reporting entity to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of our own credit risk accounted for a decrease of $146 million and $180 million in the fair value of financial liabilities during three and six months ended June 30, 2010, respectively, compared to an increase of $289 million and $150 million in the prior year periods.

Net income volatility arising from changes in either interest rate or credit components of the mark-to-market on debt designated at fair value and related derivatives affects the comparability of reported results between periods. Accordingly, the loss on debt designated at fair value and related derivatives for the six months ended June 30, 2010 should not be considered indicative of the results for any future period.

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

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

- consistency among different pricing sources;

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

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

• the source of the fair value information.

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

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

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

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

• the level of bid-ask spreads;

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

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

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

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

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

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

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

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

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants' assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances. As of June 30, 2010 and December 31, 2009, our Level 3 instruments included the following: collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs") for which there is a lack of pricing transparency due to market illiquidity, certain structured credit and structured equity derivatives where significant inputs (e.g., volatility or default correlations) are not observable, credit default swaps with certain monoline insurers where the deterioration in the creditworthiness of the counterparty has resulted in significant adjustments to fair value, U.S. subprime mortgage loans and subprime related asset-backed securities, mortgage servicing rights, and derivatives referenced to illiquid assets of less desirable credit quality.

Transfers between leveling categories are recognized at the end of each reporting period.

Material Transfers Into (Out of) Level 1 and Level 2 Measurements

During the three and six months ended June 30, 2010, there were no material transfers into or out of Level 1 and Level 2 measurements.

Level 3 Measurements

The following table provides information about Level 3 assets/liabilities in relation to total assets/liabilities measured at fair value as of June 30, 2010 and December 31, 2009.

	June 30, 2010	December 31, 2009
	(dollars are in millions)	
Level 3 assets(1)(2)	**$7,525**	$9,179
Total assets measured at fair value(3)	**130,451**	111,231
Level 3 liabilities	**4,282**	3,843
Total liabilities measured at fair value(1)	**86,293**	74,120
Level 3 assets as a percent of total assets measured at fair value	**5.8%**	8.3%
Level 3 liabilities as a percent of total liabilities measured at fair value	**5.0%**	5.2%

(1) Presented without netting which allows the offsetting of amounts relating to certain contracts if certain conditions are met.

(2) Includes $6.5 billion of recurring Level 3 assets and $1.0 billion of non-recurring Level 3 assets at June 30, 2010 and $7.4 billion of recurring Level 3 assets and $1.8 billion of non-recurring Level 3 assets at December 31, 2009.

(3) Includes $130.5 billion of assets measured on a recurring basis and $1.3 billion of assets measured on a non-recurring basis at June 30, 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 half of 2010, the deterioration previously experienced began to ease. As a result, we made a $73 million positive credit risk adjustment and a $158 million negative credit risk adjustment to the fair value of our credit default swap contracts during the six months ended June 30, 2010 and 2009, respectively, which is reflected in trading revenue (loss). We have recorded a cumulative credit adjustment reserve of $398 million against our monoline exposure at June 30, 2010 compared to a $1,007 million credit adjustment reserve at December 31, 2009.

Loans

As of June 30, 2010 and December 31, 2009, we have classified $501 million and $793 million, respectively, of mortgage whole loans held for sale as a non-recurring Level 3 financial asset. These mortgage loans are accounted for on a lower of cost or fair value basis. Based on our assessment, we recorded a loss of $17 million and a gain of $60 million for such mortgage loans during the three and six months ended June 30, 2010, respectively, compared to losses of $68 million and $154 million during the year-ago periods. The changes in fair value are recorded as other revenues in the consolidated statement of income (loss).

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

During the six months ended June 30, 2010, we transferred $225 million of mortgage and other asset-backed securities from Level 2 to Level 3 as the availability of observable inputs continued to decline and the discrepancy in valuation per independent pricing services increased. In addition, we transferred $218 million of credit derivatives from Level 2 to Level 3 as a result of a qualitative analysis of the foreign exchange and credit correlation attributes of our model used for certain credit default swaps.

During the six months ended June 30, 2010, we transferred $184 million of corporate bonds from Level 3 to Level 2 due to the availability of observable inputs in the market including broker and independent pricing service valuations. In addition, we transferred $369 million of long-term debt from Level 3 to Level 2. The long-term debt relates to medium term debt issuances where the embedded equity derivative is no longer unobservable as the derivative option is closer to maturity and there is more observability in short term volatility.

See Note 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 and six months ended June 30, 2010 and 2009 as well as for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

Credit Quality of Assets Underlying Asset-backed Securities

The following tables summarize the types and credit quality of the assets underlying our asset-backed securities as well as certain collateralized debt obligations and collateralized loan obligations held as of June 30, 2010:

Asset-backed securities backed by consumer finance collateral:

Credit Quality of Collateral:			**Prime**		**Alt-A**		**Sub-prime**	
Year of Issuance:		**Total**	**Prior to 2006**	**2006 to Present**	**Prior to 2006**	**2006 to Present**	**Prior to 2006**	**2006 to Present**
					(in millions)			
Rating of securities:	Collateral type:							
AAA	Home equity loans	$178	$-	$-	$3	$172	$3	$-
	Auto loans	14	-	-	14	-	-	-
	Student loans	22	-	-	22	-	-	-
	Residential mortgages	494	4	-	154	-	336	-
	Commercial mortgages	575	-	-	88	487	-	-
	Other	21	-	-	21	-	-	-
	Total AAA	1,304	4	-	302	659	339	-
AA	Home equity loans	9	-	-	-	9	-	-
	Residential mortgages	35	-	-	35	-	-	-
	Student loans	13	-	-	13	-	-	-
	Other	38	-	-	38	-	-	-
	Total AA	95	-	-	86	9	-	-
A	Home equity loans	2	-	-	2	-	-	-
	Residential mortgages	24	-	-	12	9	-	3
	Commercial mortgages	10	-	-	-	10	-	-
	Other	48	-	-	48	-	-	-
	Total A	84	-	-	62	19	-	3
BBB	Home equity loans	105	-	-	5	100	-	-
	Residential mortgages	135	30	-	61	44	-	-
	Other	-	-	-	-	-	-	-
	Total BBB	240	30	-	66	144	-	-
BB	Home equity	29	-	-	-	27	2	-
	Residential mortgages	40	-	-	13	27	-	-

	Total BB	69	-	-	13	54	2	-
B	Auto loans	7	-	-	7	-	-	-
	Residential mortgages	44	-	-	-	44	-	-
	Total B	51	-	-	7	44	-	-
CCC	Home equity loans	80	-	-	-	80	-	-
	Residential mortgages	101	-	-	20	81	-	-
	Total CCC	181	-	-	20	161	-	-
CC	Residential mortgages	9	-	-	-	9	-	-
D	Home equity loans	16	-	-	1	15	-	-
	Residential mortgages	16	-	-	-	16	-	-
	Total D	32	-	-	1	31	-	-
Unrated	Home equity loans	5	-	-	-	5	-	-
	Residential mortgages	4	-	-	4	-	-	-
	Other	17	-	-	-	17	-	-
		$2,091	$34	$-	$561	$1,152	$341	$3

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

Credit Quality of Collateral:		Total	A or Higher	BBB	BB/B	CCC	Unrated
				(in millions)			
Rating of securities:	Collateral type:						
	Corporate loans	$342	$-	$-	$342	$-	$-
	Residential mortgages	7	-	-	-	-	7
	Commercial mortgages	219	-	-	167	52	-
	Trust preferred	160	-	160	-	-	-
	Aircraft leasing	63	-	-	-	-	63
	Other	-	-	-	-	-	-
		791	$-	$160	$509	$52	$70
	Total asset-backed securities	$2,883					

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 $274 million or a decrease of the overall fair value measurement of approximately $286 million as of June 30, 2010. The effect of changes in significant unobservable input parameters are primarily driven by mortgage whole loans held for sale or securitization, certain asset-backed securities including CDOs, and the uncertainty in determining the fair value of credit derivatives executed against monoline insurers.

Risk Management

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

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

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

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

• 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.

June 30, December 31,

	2010	2009
	(in millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	**$39,143**	$39,856
Less: collateral held against exposure	**3,954**	3,890
Net credit risk exposure	**$35,189**	$35,966

Liquidity Risk Management

There have been no material changes to our approach towards liquidity risk management since December 31, 2009. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to liquidity risk. Although our overall approach to liquidity management has not changed, we continue to enhance our implementation of that approach to reflect best practices. The past few years have suggested that in a market crisis, traditional sources of crisis liquidity such as secured lending and deposits with other banks may not be available. Similarly, the current regulatory initiatives are suggesting banks need to retain a portfolio of extremely high quality liquid assets. Consistent with these items, we are expanding our portfolio of high quality sovereign and sovereign guaranteed securities.

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

Our liquidity management approach includes increased deposits, potential sales (e.g. residential mortgage loans), and securitizations/conduits (e.g. credit cards) in liquidity contingency plans. Total deposits increased $3.2 billion during the six months ended June 30, 2010. Online savings account growth was $464 million during the six months ended June 30, 2010.

Our ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. At June 30, 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 June 30, 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 interest rate risk management since December 31, 2009.

Present Value of a Basis Point
("PVBP") is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at June 30, 2010 and December 31, 2009.

	June 30, 2010	**December 31, 2009**
	(in millions)	
Institutional PVBP movement limit	**$6.5**	$6.5
PVBP position at period end	**3.5**	.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 June 30, 2010 and December 31, 2009.

	June 30, 2010	**December 31, 2009**
	(values as a percentage)	
Institutional economic value of equity limit	**+/-15**	+/-20
Projected change in value (reflects projected rate movements on January 1):		
Change resulting from an immediate 200 basis point increase in interest rates	**(4)**	(4)
Change resulting from an immediate 200 basis point decrease in interest rates	**(6)**	(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.

	June 30, 2010		**December 31, 2009**	
	Amount	**%**	**Amount**	**%**
	(dollars are in millions)			
Projected change in net interest income (reflects projected rate movements on January 1):				
Institutional base earnings movement limit		**(10)%**		(10)%
Change resulting from a gradual 100 basis point increase in the yield curve	**$111**	**2**	$(17)	-
	(245)	**(5)**	(65)	(1)

Change resulting from a gradual 100 basis point decrease in the yield curve				
Change resulting from a gradual 200 basis point increase in the yield curve	**159**	**3**	5	-
Change resulting from a gradual 200 basis point decrease in the yield curve	**(433)**	**(9)**	(105)	(2)
Other significant scenarios monitored (reflects projected rate movements on January 1):				
Change resulting from an immediate 100 basis point increase in the yield curve	**149**	**3**	20	-
Change resulting from an immediate 100 basis point decrease in the yield curve	**(342)**	**(7)**	(95)	(2)
Change resulting from an immediate 200 basis point increase in the yield curve	**159**	**3**	(14)	-
Change resulting from an immediate 200 basis point decrease in the yield curve	**(353)**	**(7)**	(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 June 30, 2010, we had an available-for-sale securities portfolio of approximately $36.0 billion with a net positive mark-to-market of $1.0 billion included in tangible common equity of $11.8 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $216 million to a net gain of $784 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.

	June 30, 2010		**December 31, 2009**	
	Actual	**Proforma(1)**	**Actual**	**Proforma(1)**
Tangible common equity to tangible assets	**6.41%**	**6.34%**	6.60%	6.40%
Tangible common equity to risk weighted assets	**9.29**	**9.18**	8.26	8.00

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

Market Risk Management

There have been no material changes to our approach towards market risk management since December 31, 2009. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Form 10-K for a more complete discussion of our approach to market risk.

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

VAR - Trading Activities

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

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

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

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

The following table summarizes trading VAR for the six months ended June 30, 2010:

	June 30,	Six Months Ended June 30, 2010			December 31,
	2010	Minimum	Maximum	Average	2009
	(in millions)				
Total trading	**$33**	**$25**	**$60**	**$37**	$38
Equities	**1**	**-**	**1**	**-**	-
Foreign exchange	**4**	**1**	**9**	**4**	2
Interest rate directional and credit spread	**28**	**23**	**53**	**32**	33

The following table summarizes the frequency distribution of daily market risk-related revenues for Treasury trading activities during the six months ended June 30, 2010. Market risk-related Treasury trading revenues include realized and unrealized gains (losses) related to Treasury trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the six months ended June 30, 2010 shows that the largest daily gain was $18 million and the largest daily loss was $9 million.

Ranges of Daily Treasury Trading Revenue Earned from Market Risk-Related Activities	Below $(5)	$(5) to $0	$0 to $5	$5 to $10	Over $10
Number of trading days market risk-related revenue was within the stated range	**7**	**39**	**53**	**20**	**6**

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 six months ended June 30, 2010, assuming a 99% confidence level for a two-year observation period and a one-day "holding period".

	June 30,	Six Months Ended June 30, 2010			December 31,
	2010	Minimum	Maximum	Average	2009
	(in millions)				
Interest rate	**$125**	**$101**	**$142**	**$124**	$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.

	June 30, 2010	December 31, 2009
	(in millions)	
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on July 1):		
Value of hedged MSRs portfolio	**$317**	$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	**12**	(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	**7**	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	**11**	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 six months ended June 30, 2010. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the year.

Ranges of Mortgage Economic Value from Market Risk-Related Activities	**Below $(2)**	**$(2) to $0**	**$0 to $2**	**$2 to $4**	**Over $4**
Number of trading weeks market risk-related revenue was within the stated range	**3**	**4**	**11**	**6**	**2**

Operational Risk

Operational risk is inherent in all of our business activities. Management of operational risks includes the ongoing review of our businesses in an effort to identify opportunities to mitigate certain inherent risks in existing operations.

Operational risk includes both legal risk and compliance risk. Due to the increasing scale and complexity of our regulatory environment, and consistent with the suggestion of our regulators and the organizational model of HSBC, in the second quarter of 2010, the Compliance and Legal functions in North America were divided into two separate functions, whereas before Compliance had reported to Legal. The Compliance function will continue to report to the HSBC Head of Group Compliance as well as functionally to the CEO of HSBC North America. The HSBC Head of Group Compliance has been appointed as the Acting Head of Compliance, North America Region until such time as a permanent Head of HSBC Compliance, North America Region is appointed. Additional steps have been taken to further strengthen our compliance risk management approach, including the strengthening of the Anti-Money Laundering ("AML") Office with responsibility for the guidance and oversight of AML risk management activities within HSBC North America and its subsidiaries, including HSBC USA. Efforts to strengthen the Compliance function will continue.

Fiduciary Risk
There have been no material changes to our approach towards fiduciary risk management since December 31, 2009.

Reputational Risk
There have been no material changes to our approach towards reputational risk management since December 31, 2009.

Strategic Risk
There have been no material changes to our approach towards strategic risk management since December 31, 2009.

Consolidated Average Balances and Interest Rates

The following table shows the quarter-to-date average balances of the principal components of assets, liabilities and shareholders' equity together with their respective interest amounts and rates earned or paid, presented on a taxable equivalent basis.

	Three Months Ended June 30, 2009			2010		
	Balance	Interest	Rate(1)	Balance	Interest	Rate(1)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	$30,705	$21	0.28%	$11,269	$9	0.31%
Federal funds sold and securities purchased under resale agreements	4,368	8	0.75	9,120	13	0.61
Trading assets	6,384	35	2.23	4,608	51	4.45
Securities	40,292	275	2.73	24,511	227	3.71
Loans:						
Commercial	31,265	240	3.08	36,172	327	3.64
Consumer:						
Residential mortgages	14,628	172	4.71	18,439	232	5.06
HELOCs and home equity mortgages	4,012	33	3.26	4,524	38	3.28
Private label card receivables	13,113	331	10.14	15,415	411	10.69
Credit cards	11,629	246	8.50	13,963	317	9.10
Auto finance	1,365	61	17.83	2,624	119	18.21
Other consumer	1,369	26	7.42	1,699	18	4.29
Total consumer	46,116	869	7.55	56,664	1,135	8.03
Total loans	77,381	1,109	5.74	92,836	1,462	6.32
Other	5,256	12	0.90	8,862	13	0.55
Total earning assets	164,386	$1,460	3.56%	151,206	$1,775	4.71%
Allowance for credit losses	(3,171)			(3,666)		
Cash and due from banks	2,577			2,478		
Other assets	26,031			23,074		
Total assets	$189,823			$173,092		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	$54,170	$100	0.73%	$47,006	$149	1.27%
Other time deposits	16,532	41	0.99	19,472	103	2.11
Deposits in foreign offices:						
Foreign banks deposits	9,453	6	0.27	9,709	3	0.12
Other interest bearing deposits	20,993	5	0.10	15,061	12	0.33
Total interest bearing deposits	101,148	152	0.60	91,248	267	1.17
Short-term borrowings	18,718	22	0.47	9,198	15	0.69
Long-term debt	17,688	148	3.36	23,826	210	3.53
Total interest bearing liabilities	137,554	322	0.94	124,272	492	1.59
Net interest income/Interest rate spread		$1,138	2.62%		$1,283	3.12%
Noninterest bearing deposits	21,460			20,193		
Other liabilities	14,875			14,938		
Total shareholders' equity	15,934			13,689		
Total liabilities and shareholders' equity	$189,823			$173,092		
Net interest margin on average earning assets			2.78%			3.40%
Net interest margin on average total assets			2.40%			2.97%

(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 June 30, 2010 and 2009 included fees of $16 million and $32 million, respectively.

The following table shows the year-to-date average balances of the principal components of assets, liabilities and shareholders' equity together with their respective interest amounts and rates earned or paid, presented on a taxable equivalent basis.

	Six Months Ended June 30,					
	2010			2009		
	Balance	Interest	Rate(1)	Balance	Interest	Rate(1)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$32,277**	**$43**	**0.27%**	$11,604	$16	0.28%
Federal funds sold and securities purchased under resale agreements	**3,436**	**14**	**0.84**	9,553	30	0.64
Trading assets	**5,894**	**67**	**2.30**	4,777	110	4.66
Securities	**36,452**	**522**	**2.89**	25,176	510	4.09
Loans:						
Commercial	**31,835**	**485**	**3.07**	36,876	653	3.57
Consumer:						
Residential mortgages	**14,724**	**348**	**4.77**	19,258	492	5.15
HELOCs and home equity mortgages	**4,057**	**66**	**3.28**	4,539	76	3.36
Private label card receivables	**13,716**	**693**	**10.19**	15,896	825	10.47
Credit cards	**12,026**	**534**	**8.95**	13,656	669	9.87
Auto finance	**1,614**	**143**	**17.90**	2,609	234	18.11
Other consumer	**1,403**	**51**	**7.32**	1,758	59	6.81
Total consumer	**47,540**	**1,835**	**7.79**	57,716	2,355	8.23
Total loans	**79,375**	**2,320**	**5.89**	94,592	3,008	6.41
Other	**6,025**	**23**	**0.78**	9,138	24	0.51
Total earning assets	**163,459**	**$2,989**	**3.69%**	154,840	$3,698	4.82%
Allowance for credit losses	**(3,472)**			(3,362)		
Cash and due from banks	**2,616**			2,550		
Other assets	**24,140**			25,336		
Total assets	**$186,743**			$179,364		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$53,569**	**$204**	**0.77%**	$46,822	$323	1.39%
Other time deposits	**17,075**	**89**	**1.04**	20,096	222	2.23
Deposits in foreign offices:						
Foreign banks deposits	**9,476**	**11**	**0.23**	10,684	6	0.11
Other interest bearing deposits	**20,758**	**11**	**0.11**	15,673	29	0.37
Total interest bearing deposits	**100,878**	**315**	**0.63**	93,275	580	1.25
Short-term borrowings	**17,787**	**43**	**0.49**	9,979	34	0.70
Long-term debt	**17,658**	**288**	**3.29**	25,175	447	3.58
Total interest bearing liabilities	**136,323**	**646**	**0.96**	128,429	1,061	1.67
Net interest income/Interest rate spread		**$2,343**	**2.73%**		$2,637	3.15%
Noninterest bearing deposits	**21,373**			20,574		
Other liabilities	**13,414**			16,682		
Total shareholders' equity	**15,633**			13,679		
Total liabilities and shareholders' equity	**$186,743**			$179,364		
Net interest margin on average earning assets			**2.89%**			3.43%
Net interest margin on average total assets			**2.53%**			2.96%

(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 six months ended June 30, 2010 and 2009 included fees of $30 million and $44 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 June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General
We are parties to various legal proceedings, including actions that are or purport to be class actions, resulting from ordinary business activities relating to our current and/or former operations. Due to uncertainties in litigation and other factors, we cannot be certain that we will ultimately prevail in each instance. We believe that our defenses to these actions have merit and any adverse decision should not materially affect our consolidated financial condition. However, losses may be material to our results of operations for any particular future period depending on our income level for that period.

Credit Card Litigation
Since June 2005, HSBC Bank USA, HSBC Finance Corporation, HSBC North America and HSBC, as well as other banks and Visa Inc. and MasterCard Incorporated, were named as defendants in four class actions filed in Connecticut and the Eastern District of New York:
Photos Etc.
Corp. et al. v. Visa U.S.A., Inc.,
et al.
(D. Conn. No. 3:05-CV-01007 (WWE));
National Association of
Convenience Stores, et al. v. Visa U.S.A., Inc., et al.
(E.D.N.Y. No. 05-CV 4520 (JG));
Jethro Holdings, Inc., et al. v. Visa U.S.A.,
Inc. et al.

(E.D.N.Y. No. 05-CV-4521 (JG)); and
American Booksellers
Asps' v. Visa U.S.A., Inc. et al.
(E.D.N.Y. No. 05-CV-5391 (JG)). Numerous other complaints containing similar allegations (in which no HSBC entity is named) were filed across the country against Visa Inc., MasterCard Incorporated and other banks. These actions principally allege that the imposition of a no-surcharge rule by the associations and/or the establishment of the interchange fee charged for credit card transactions causes the merchant discount fee paid by retailers to be set at supracompetitive levels in violation of the Federal antitrust laws. These suits have been consolidated and transferred to the Eastern District of New York. The consolidated case is:
In re Payment Card Interchange Fee and Merchant
Discount Antitrust Litigation
, MDL 1720, E.D.N.Y. A consolidated, amended complaint was filed by the plaintiffs on April 24, 2006 and a second consolidated amended complaint was filed on January 29, 2009. The parties are engaged in discovery 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 HSBC Bank USA are subject to formal and informal investigations by, and have received subpoenas and/or requests for information from, various governmental and regulatory agencies relating to our business activities. In all such cases, we are cooperating fully and engaging in efforts to resolve these matters.

We are the subject of ongoing examinations by the Office of the Comptroller of the Currency and the Federal Reserve Bank of Chicago, and inquiries, including grand jury subpoenas and other requests for information, by government agencies, including the U.S. Attorney's Office and the U.S. Department of Justice. These examinations and inquiries pertain to, among other matters, our Global Banknotes business and our foreign correspondent banking business, and our compliance with Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and Office of Foreign Assets Control requirements. In response to these matters, we have taken several initial steps to address the concerns of our regulators by enhancing risk management and strengthening processes and the supporting infrastructure in our BSA and AML functions. Actions initiated to date include, but are not limited to, those described under "
Risk
Management - Operational Risk
" above. HSBC USA is committed to maintaining compliant and effective BSA and AML policies and procedures, and efforts to strengthen related functions will continue.

In connection with the resolution of these matters, it is likely we will be subject to some form of formal enforcement action concerning processes or governance relating to the subject areas, which may include a written agreement or a cease and desist order requiring additional remedial measures and further enhancements to our BSA and AML policies and procedures. If we are found to have violated the law, relevant authorities have the power to impose civil money penalties, fines and other financial penalties. We are unable at this time to determine the terms on which these matters will be resolved, the timing of any formal enforcement action, or the amount of fines or penalties, if any, that may be imposed by the regulators or agencies.

Item 6. Exhibits

Exhibits included in this Report:

12 Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 2, 2010

HSBC USA Inc.
(Registrant)

/s/
JOHN T. MCGINNIS
John T. McGinnis
Executive Vice President and
Chief Financial Officer

Exhibit Index

12 Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

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EXHIBIT 12

HSBC USA INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Six Months Ended June 30,	2010	2009
	(dollars are in millions)	
Ratios excluding interest on deposits:		
Net income (loss)	**$854**	$(338)
Income tax expense (benefit)	**444**	(12)
Less: Undistributed equity earnings	**6**	-
Fixed charges:		
Interest on:		
Borrowed funds	**43**	34
Long-term debt	**288**	447
One third of rents, net of income from subleases	**14**	11
Total fixed charges, excluding interest on deposits	**345**	492
Earnings before taxes and fixed charges, net of undistributed equity earnings	**$1,637**	$142
Ratio of earnings to fixed charges	**4.74**	0.29
Total preferred stock dividend factor(1)	**$55**	$38
Fixed charges, including the preferred stock dividend factor	**$400**	$530
Ratio of earnings to combined fixed charges and preferred stock dividends	**4.09**	0.27
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	**$345**	$492
Add: Interest on deposits	**315**	580
Total fixed charges, including interest on deposits	**$660**	$1,072
Earnings before taxes and fixed charges, net of undistributed equity earnings	**$1,637**	$142
Add: Interest on deposits	**315**	580
Total	**$1,952**	$722
Ratio of earnings to fixed charges	**2.96**	0.67
Fixed charges, including the preferred stock dividend factor	**$400**	$530
Add: Interest on deposits	**315**	580
Fixed charges, including the preferred stock dividend factor and interest on deposits	**$715**	$1,110
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.73**	0.65

(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: August 2, 2010

/s/ IRENE M. DORNER
Irene M. Dorner
President and Chief Executive Officer

Certification of Chief Financial Officer

I, John T. McGinnis, Executive Vice President and Chief Financial Officer of HSBC USA Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSBC USA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2010

/s/ JOHN T. MCGINNIS
John T. McGinnis
Executive Vice President and
Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") Quarterly Report on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Irene M. Dorner, President and Chief Executive Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: August 2, 2010

/s/ IRENE M. DORNER
Irene M. Dorner
President and Chief Executive Officer

Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") Quarterly Report on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, John T. McGinnis, Executive Vice President and Chief Financial Officer of the Company, certify that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSBC USA Inc.

Date: August 2, 2010

/s/ JOHN T. MCGINNIS
John T. McGinnis
Executive Vice President and
Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc