HSBC HOLDINGS PLC
Form 6-K
November 10, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of November, 2008

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

CONFORMED

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from ______ to ______

Commission file number 1-7436

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

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

(716) 841-2424
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No ____

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ___ No _X_

At October 31, 2008, there were 708 shares of the registrant's Common Stock outstanding, all of which are owned by HSBC North America Inc.

HSBC USA Inc.
Form 10-Q

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HSBC USA Inc.
CONSOLIDATED STATEMENT OF (LOSS) INCOME (UNAUDITED)

	Three months ended September 30,		**Nine months ended September 30,**	
	2008	**2007**	**2008**	**2007**
(in millions)				
Interest income:				
Loans	**$ 1,423**	$ 1,586	**$ 4,270**	$ 4,505
Securities	**313**	317	**943**	870
Trading assets	**139**	167	**435**	476
Short-term investments	**100**	241	**323**	719
Other	**54**	60	**198**	144
Total interest income	**2,029**	2,371	**6,169**	6,714
Interest expense:				
Deposits	**575**	993	**1,956**	2,841
Short-term borrowings	**60**	90	**227**	266
Long-term debt	**225**	365	**766**	1,087
Total interest expense	**860**	1,448	**2,949**	4,194
Net interest income	**1,169**	923	**3,220**	2,520
Provision for credit losses	**658**	402	**1,762**	871
Net interest income after provision for credit losses	**511**	521	**1,458**	1,649
Other revenues:				
Credit card fees	**215**	220	**653**	580
Other fees and commissions	**189**	203	**529**	542
Trust income	**44**	26	**114**	73
Trading (loss) revenue	**(122)**	28	**(947)**	477
Securities (loss) gain, net	**(178)**	59	**(128)**	96
HSBC affiliate income	**33**	46	**119**	136
Residential mortgage banking revenue	**13**	6	**64**	69
Gain on instruments at fair value and related derivatives	**111**	-	**121**	-
Other loss	**(30)**	(214)	**(177)**	(188)
Total other revenues	**275**	374	**348**	1,785
Operating expenses:				
Salaries and employee benefits	**329**	337	**971**	1,016
Support services from HSBC affiliates	**300**	290	**891**	858
Occupancy expense, net	**72**	63	**201**	181
Other expenses	**273**	201	**665**	557
Total operating expenses	**974**	891	**2,728**	2,612
(Loss) income before income tax expense	**(188)**	4	**(922)**	822
Income tax (benefit) expense	**(52)**	(17)	**(334)**	237

Net (loss) income	**$ (136)**	$ 21	**$ (588)**	$ 585

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

HSBC USA Inc.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	September 30 , 2008	December 31, 2007
(in millions)		
Assets		
Cash and due from banks	**$ 5,237**	$ 3,567
Interest bearing deposits with banks	**3,893**	4,741
Federal funds sold and securities purchased under agreements to resell	**15,605**	13,677
Trading assets	**34,838**	37,036
Securities available for sale	**20,225**	19,962
Securities held to maturity (fair value of $2,827 million and $2,945 million at September 30 , 2008 and December 31, 2007, respectively)	**2,841**	2,891
Loans (includes $1,257 million recorded under fair value option at September 30 , 2008)	**91,660**	95,826
Less - allowance for credit losses	**2,059**	1,414
Loans, net	**89,601**	94,412
Properties and equipment, net	**568**	568
Intangible assets	**564**	534
Goodwill	**2,646**	2,701
Other assets	**10,565**	8,284
Total assets	**$ 186,583**	$ 188,373
Liabilities		
Deposits in domestic offices:		
Noninterest bearing	**$17,301**	$ 13,831
Interest bearing (includes $2,244 million recorded under fair value option at September 30, 2008)	**67,854**	68,237
Deposits in foreign offices:		
Noninterest bearing	**1,347**	1,030
Interest bearing	**35,284**	33,072
Total deposits	**121,786**	116,170
Trading liabilities	**16,347**	16,253
Short-term borrowings	**8,784**	11,832
Interest, taxes and other liabilities	**6,400**	4,613
Long-term debt (includes $2,748 million recorded under fair value option at September 30 , 2008)	**21,458**	28,268
Total liabilities	**174,775**	177,136
Shareholders' equity		
Preferred stock	**1,565**	1,565
Common shareholder's equity:		
	-	-

Common stock ($5 par; 150,000,000 shares authorized; 708 and 706 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively)		
Additional paid-in capital	**9,594**	8,123
Retained earnings	**1,366**	1,901
Accumulated other comprehensive loss	**(717)**	(352)
Total common shareholder's equity	**10,243**	9,672
Total shareholders' equity	**11,808**	11,237
Total liabilities and shareholders' equity	**$86,583**	$ 188,373

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

HSBC USA Inc.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Nine months ended September 30, 2008	2007
(in millions)		
Preferred stock		
Balance, January 1 and September 30,	**$ 1,565**	$ 1,690
Common stock		
Balance, January 1 and September 30,	**-**	-
Additional paid-in capital		
Balance, January 1,	**8,123**	8,124
Capital contribution from parent	**1,460**	-
Employee benefit plans and other	**11**	(1)
Balance, September 30,	**9,594**	8,123
Retained earnings		
Balance, January 1,	**1,901**	2,661
Adjustment to initially apply fair value measurement and fair value option accounting, under FASB Statement Nos. 157 and 159, net of tax	**113**	-
Net (loss) income	**(588)**	585
Cash dividends declared on preferred stock	**(60)**	(75)
Cash dividends declared on common stock	**-**	(635)
Balance, September 30,	**1,366**	2,536
Accumulated other comprehensive loss		
Balance, January 1,	**(352)**	(214)
Net change in unrealized (losses) gains, net of tax on:		
Securities available for sale	**(355)**	(45)
Derivatives classified as cash flow hedges	**(14)**	(90)
Unrecognized actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits, net of tax	**6**	10
Foreign currency translation adjustments, net of tax	**(2)**	3
Other comprehensive loss, net of tax	**(365)**	(122)
Balance, September 30,	**(717)**	(336)
Total shareholders' equity, September 30,	**$ 11,808**	$ 12,013

Comprehensive (loss) income				
Net (loss) income	**$**	**(588)**	$	585
Other comprehensive loss, net of tax		**(365)**		(122)
Comprehensive (loss) income	**$**	**(953)**	$	463

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

HSBC USA Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine months ended September 30, 2008	2007
(in millions)		
Cash flows from operating activities		
Net (loss) income	**$ (588)**	$ 585
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and deferred taxes	**(290)**	69
Provision for credit losses	**1,762**	871
Other-than-temporarily impaired available for sale securities	**204**	-
Net change in other assets and liabilities	**(508)**	(4,529)
Net change in loans held for sale	**1,736**	(1,700)
Net change in loans attributable to tax refund anticipation loans program:		
Originations of loans	**(12,628)**	(17,433)
Sales of loans to HSBC Finance Corporation, including premium	**12,627**	17,645
Net change in trading assets and liabilities	**2,991**	(52)
Mark-to-market on financial instruments designated at fair value and related derivatives	**(507)**	-
Net change in fair value of derivatives and hedged items	**6**	642
Net cash provided by (used in) operating activities	**4,805**	(3,902)
Cash flows from investing activities		
Net change in interest bearing deposits with banks	**848**	(6,205)
Net change in federal funds sold and securities purchased under resale agreements	**(1,928)**	2,705
Net change in securities available for sale:		
Purchases of securities available for sale	**(8,273)**	(12,947)
Proceeds from sales of securities available for sale	**2,828**	3,736
Proceeds from maturities of securities available for sale	**4,415**	7,332
Net change in securities held to maturity:		
Purchases of securities held to maturity	**(383)**	(187)
Proceeds from maturities of securities held to maturity	**433**	213
Net change in loans:		
Originations, net of collections	**13,864**	15,491
Loans purchased from HSBC Finance Corporation	**(17,804)**	(17,136)
Loans sold to third parties	**4,959**	-

Net cash used for acquisitions of properties and equipment	**(53)**	(71)
Other, net	**(7)**	(123)
Net cash used in investing activities	**(1,101)**	(7,192)
Cash flows from financing activities		
Net change in deposits	**5,633**	8,662
Net change in short-term borrowings	**(3,048)**	4,331
Net change in long-term debt:		
Issuance of long-term debt	**3,463**	5,019
Repayment of long-term debt	**(9,493)**	(6,981)
Capital contribution from parent	**1,460**	-
Other increases (decreases) in capital surplus	**11**	(1)
Dividends paid	**(60)**	(710)
Net cash (used in) provided by financing activities	**(2,034)**	10,320
Net change in cash and due from banks	**1,670**	(774)
Cash and due from banks at beginning of period	**3,567**	3,359
Cash and due from banks at end of period	**$ 5,237**	$ 2,585
Supplemental disclosure of cash flow information		
Interest paid during the period	**3,157**	4,220
Income taxes (refunded) paid during the period	**(84)**	196
Supplemental disclosure of non-cash investing activities		
Transfer of receivables to real estate owned	**87**	63

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Organization and Basis of Presentation

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. (HNAH), which is an indirect wholly owned subsidiary of HSBC Holdings plc (HSBC). The accompanying unaudited interim consolidated financial statements of HSBC USA Inc. and its subsidiaries (collectively, HUSI), including its principal subsidiary, HSBC Bank USA, National Association (HBUS), have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominant practices within the banking industry. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. These unaudited interim consolidated financial statements should be read in conjunction with HUSI's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K). Certain reclassifications have been made to prior period amounts to conform to the current period presentation. The accounting and reporting policies of HUSI are consistent, in all material respects, with those used to prepare the 2007 Form 10-K, except for the impact of new accounting pronouncements summarized in Note 18, “New Accounting Pronouncements” of the consolidated financial statements.

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

Note 2. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

			September 30, 2008		**December 31, 2007**
(in millions)					
Trading assets:					
	U.S. Treasury	**$**	**127**	$	460
	U.S. Government agency		**194**		201
	U.S. Government sponsored enterprises (1)		**3,082**		2,808
	Asset backed securities		**2,186**		4,162
	Corporate and foreign bonds		**4,330**		2,483
	Other securities		**3,212**		3,423
	Precious metals		**5,923**		8,788
	Fair value of derivatives		**15,784**		14,711
	Total	**$**	**34,838**	$	37,036
Trading liabilities:					
	Securities sold, not yet purchased	**$**	**1,912**	$	1,444
	Payables for precious metals		**1,593**		1,523
	Fair value of derivatives		**12,842**		13,286
	Total	**$**	**16,347**	$	16,253

(1) Includes mortgage backed securities of $320 million and $1,121 million issued or guaranteed by the Federal National Mortgage Association (FNMA) and $2,762 million and $1,687 million issued or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC) at September 30, 2008 and December 31, 2007, respectively.

At September 30, 2008 and December 31, 2007, the fair value of derivatives included in trading assets have been reduced by $2.7 billion and $3.6 billion, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties, consistent with the reporting requirements of FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FSP FIN 39-1).

At September 30, 2008 and December 31, 2007, the fair value of derivatives included in trading liabilities have been reduced by $6.3 billion and $5.6 billion, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties, consistent with the reporting requirements of FSP FIN 39-1.

Note 3. Securities

At September 30, 2008 and December 31, 2007, HUSI held no securities of any single issuer (excluding the U.S. Treasury, U.S. Government agencies and U.S. Government sponsored enterprises) with a book value that exceeded 10% of shareholders' equity. The amortized cost and fair value of the securities available for sale and securities held to maturity portfolios are summarized in the following tables.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2008				
(in millions)				
Securities available for sale:				
U.S. Treasury	**$ 1**	**$ -**	**$ -**	**$ 1**
U.S. Government sponsored enterprises (1)	**11,576**	**68**	**(288)**	**11,356**
U.S. Government agency issued or guaranteed	**3,891**	**15**	**(47)**	**3,859**
Obligations of U.S. states and political subdivisions	**696**	**1**	**(43)**	**654**
Asset backed securities	**3,603**	**-**	**(560)**	**3,043**
Other domestic debt securities	**144**	**-**	**(14)**	**130**
Foreign debt securities	**1,126**	**1**	**(5)**	**1,122**
Equity securities (2)	**61**	**-**	**(1)**	**60**
Total	**$ 21,098**	**$ 85**	**$ (958)**	**$ 20,225**
Securities held to maturity:				
U.S. Government sponsored enterprises (3)	**$ 1,882**	**$ 36**	**$ (46)**	**$ 1,872**
U.S. Government agency issued or guaranteed	**502**	**19**	**(3)**	**518**
Obligations of U.S. states and political subdivisions	**223**	**7**	**(4)**	**226**
Asset backed securities	**183**	**-**	**(23)**	**160**
Foreign debt securities	**51**	**-**	**-**	**51**
Total	**$ 2,841**	**$ 62**	**$ (76)**	**$ 2,827**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2007				
(in millions)				
Securities available for sale:				
U.S. Treasury	$ 1	$ -	$ -	$ 1
U.S. Government sponsored enterprises (1)	10,931	60	(251)	10,740
U.S. Government agency issued or guaranteed	3,193	13	(34)	3,172
Obligations of U.S. states and political subdivisions	668	3	(3)	668
Asset backed securities	4,069	13	(97)	3,985
Other domestic debt securities	143	4	-	147
Foreign debt securities	1,036	1	(3)	1,034
Equity securities (2)	235	-	(20)	215
Total	$ 20,276	$ 94	$ (408)	$ 19,962
Securities held to maturity:				
U.S. Government sponsored enterprises (3)	$ 1,862	$ 42	$ (22)	$ 1,882
U.S. Government agency issued or guaranteed	528	24	(1)	551
Obligations of U.S. states and political subdivisions	255	14	-	269
Asset backed securities	176	1	(4)	173
Foreign debt securities	70	-	-	70
Total	$ 2,891	$ 81	$ (27)	$ 2,945

(1) Includes securities of $5.2 billion and $4.3 billion (see table below) issued or guaranteed by the Federal National Mortgage Association (FNMA) and $6.1 billion and $6.4 billion (see table below) issued or guaranteed by Federal Home Loan Mortgage Corporation (FHLMC) at September 30, 2008 and December 31, 2007, respectively. The amounts reported for U.S. Government sponsored enterprises in the Securities tables in the June 30, 2008 Quarterly Report on Form 10-Q (the "Second Quarter Form 10-Q") at June 30, 2008 and December 31, 2007 were correct. However, as a result of an error in sorting system codes, the amounts reported in the footnote to those tables for securities issued or guaranteed by FNMA and FHLMC at June 30, 2008 and December 31, 2007, were incorrect. The impact of this error was not material. The corrected amounts are presented in the following table:

	June 30, 2008		December 31, 2007	
	As Reported	Corrected Amount	As Reported	Corrected Amount
(in billions)				
Securities available for sale:				

FNMA	$ 2.3	$ 6.4	$ 2.1	$ 4.3
FHLMC	2.1	6.2	2.0	6.4

(2) Includes securities issued by FNMA of $11 million and $210 million at September 30, 2008 (balances at September 30, 2008 reflect other than temporary impairment of $197 million) and December 31, 2007, respectively.

(3) Includes securities of $.7 billion issued or guaranteed by FNMA at both September 30, 2008 and December 31, 2007 (see table below) and $1.2 billion issued and guaranteed by FHLMC at both September 30, 2008 and December 31, 2007 (see table below). The amounts reported for U.S. Government sponsored enterprises in the Securities tables in the Second Quarter Form 10-Q were correct. However, as a result of an error in sorting system codes, the amounts reported in the footnote to those tables for securities issued or guaranteed by FNMA and FHLMC at June 30, 2008 and December 31, 2007, were incorrect. The impact of this error was not material. The corrected amounts are presented in the following table:

	June 30, 2008		**December 31, 2007**	
	As Reported	**Corrected Amount**	**As Reported**	**Corrected Amount**
(in billions)				
Securities held to maturity:				
FNMA	$ .6	$ .7	$ .6	$ .7
FHLMC	1.2	1.2	1.1	1.2

Gross unrealized losses and related fair values, classified as to the length of time the losses have existed, are summarized in the following tables.

	One Year or Less			Greater Than One Year		
September 30, 2008	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
($ in millions)						
Securities available for sale:						
U.S. Government sponsored enterprises (1)	**937**	**$ (99)**	**$ 4,136**	**148**	**$ (189)**	**$ 3,147**
U.S. Government agency issued or guaranteed	**431**	**(19)**	**1,907**	**184**	**(28)**	**684**
Obligations of U.S. states and political subdivisions	**52**	**(15)**	**305**	**53**	**(28)**	**331**
Asset backed securities	**60**	**(243)**	**1,510**	**105**	**(317)**	**1,504**
Other domestic debt securities	**4**	**(14)**	**120**	**1**	**-**	**4**
Foreign debt securities	**2**	**-**	**505**	**5**	**(5)**	**101**
Equity securities	**2**	**(1)**	**-**	**-**	**-**	**-**
Total	**1,488**	**$ (391)**	**$ 8,483**	**496**	**$ (567)**	**$ 5,771**
Securities held to maturity:						
U.S. Government sponsored enterprises (1)	**26**	**$ (24)**	**$ 705**	**13**	**$ (22)**	**$ 251**
U.S. Government agency issued or guaranteed	**6**	**(3)**	**88**	**-**	**-**	**-**
Obligations of U.S. states and political subdivisions	**44**	**(4)**	**54**	**3**	**-**	**2**
Asset backed securities	**2**	**(6)**	**55**	**10**	**(17)**	**99**
Total	**78**	**$ (37)**	**$ 902**	**26**	**$ (39)**	**$ 352**

	One Year or Less			Greater Than One Year		
December 31, 2007	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**

($ in millions)						
Securities available for sale:						
U.S. Government sponsored enterprises (1)	48	$ (57)	$ 1,581	564	$ (194)	$ 5,628
U.S. Government agency issued or guaranteed	9	-	13	440	(34)	1,607
Obligations of U.S. states and political subdivisions	43	(2)	256	13	(1)	106
Asset backed securities	63	(83)	1,607	63	(14)	841
Other domestic debt securities	1	-	4	2	-	21
Foreign debt securities	5	(1)	71	6	(2)	158
Equity securities	-	-	-	1	(20)	190
Total	169	$ (143)	$ 3,532	1,089	$ (265)	$ 8,551
Securities held to maturity:						
U.S. Government sponsored enterprises (1)	11	$ (3)	$ 87	20	$ (19)	$ 377
U.S. Government agency issued or guaranteed	1	-	15	82	(1)	42
Obligations of U.S. states and political subdivisions	7	-	4	-	-	-
Asset backed securities	3	(1)	41	7	(3)	66
Total	22	$ (4)	$ 147	109	$ (23)	$ 485

(1) Included primarily mortgaged backed securities issued or guaranteed by FNMA and FHLMC.

Gross unrealized losses within the available for sale and held to maturity securities portfolios increased during the nine months ended September 30, 2008 due to the impact of continued widening of credit spreads on asset backed securities (ABS), particularly private label collateralized mortgage obligations (CMOs). These are primarily fixed rate securities and a majority of these securities are highly-rated (i.e., AAA or AA). HUSI has the ability and intent to hold these securities until maturity or a market price recovery. As a result, other than the securities described below, they are not considered to be other-than-temporarily impaired.

During the three months and nine months ended September 30, 2008, a single asset backed security and the preferred equity securities of FNMA were determined to be other-than-temporarily impaired pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". As a result, HUSI recorded an other-than-temporary impairment charge of $180 million during the three months ended September 30, 2008 and $204 million during the year to date period on these investments, which is recorded as a component of securities (loss) gain in the accompanying consolidated statement of (loss) income.

Note 4. Loans

A distribution of the loan portfolio, including loans held for sale, is summarized in the following table.

	September 30, 2008			**December 31, 2007**		
(in millions)	**Loans Held for Sale**	**All Other Loans**	**Total Loans**	**Loans Held for Sale**	**All Other Loans**	**Total Loans**
Commercial loans:						
Construction and other real estate	**$ 6**	**$ 8,724**	**$ 8,730**	$ 26	$ 8,428	$ 8,454
Other commercial	**1,257**	**32,286**	**33,543**	1,939	28,407	30,346
	1,263	**41,010**	**42,273**	1,965	36,835	38,800
Consumer loans:						
Sub-prime residential mortgages	**1,401**	**-**	**1,401**	1,869	-	1,869
Other residential mortgages	**664**	**26,878**	**27,542**	1,018	32,493	33,511
Credit card receivables	**-**	**18,311**	**18,311**	-	19,243	19,243
Other consumer	**46**	**2,087**	**2,133**	418	1,985	2,403
	2,111	**47,276**	**49,387**	3,305	53,721	57,026
Total loans	**$ 3,374**	**$ 88,286**	**$ 91,660**	$ 5,270	$ 90,556	$ 95,826

Loans pledged as collateral are summarized in Note 14, "Financial Guarantee Arrangements and Pledged Assets" of the consolidated financial statements.

In September 2008, HUSI sold approximately $1 billion of prime adjustable and fixed rate residential mortgage loans which resulted in a $4.5 million loss. In May 2008, HUSI sold approximately $4 billion of prime adjustable rate residential mortgage loans which resulted in a $13.5 million gain on sale. The gains and losses from the sale of residential mortgage loans is reflected as a component of residential mortgage banking revenue in the accompanying consolidated statement of (loss) income. HUSI retained the servicing rights in relation to the mortgages upon sale.

Loans Held for Sale

HUSI originates commercial loans in connection with its 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 other commercial loans held for sale at September 30, 2008. Commercial loans held for sale under this program were approximately $1.3 billion at September 30, 2008, all of which are recorded at fair value. Refer to Note 15, “Fair Value Measurements” of the consolidated financial statements for additional information. During the nine month period ended September 30, 2008, the market value of these loans decreased due to adverse conditions in the corporate credit markets.

Residential mortgage loans held for sale include sub-prime residential mortgage loans acquired from unaffiliated third parties and from HSBC Finance Corporation, 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 governmental agencies.

Other consumer loans held for sale consist of student loans.

Residential mortgage and other consumer loans held for sale are recorded at the lower of cost or market value. The cost of loans held for sale exceeded market value at September 30, 2008, resulting in an increase to the related valuation allowance. This was primarily a result of adverse conditions in the U.S. residential mortgage markets. The valuation allowance related to loans held for sale is presented in the following table.

	Three months ended September 30		Nine months ended September 30	
	2008	**2007**	**2008**	**2007**
(in millions)				
Balance at beginning of period	**$ (610)**	$ (58)	**$ (475)**	$ (29)
Increase in allowance for net reductions in market value	**(86)**	(218)	**(342)**	(299)
Releases of valuation allowance for loans sold	**8**	5	**129**	57
Balance at end of period	**$ (688)**	$ (271)	**$ (688)**	$ (271)

Loans held for sale are subject to credit risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions as well as in the interest rate and credit environment. Interest rate risk for the residential mortgage loans held for sale is partially mitigated through an economic hedging program to offset changes in the fair value of the loans held for sale. Trading related revenues associated with this economic hedging program, which are included in net interest income and trading revenues, were $4 million and $34 million for the three and nine month periods ended September 30, 2008, respectively. For the three and nine month periods ended September 30, 2007 there were $46 million of trading related losses and $21 million of trading related revenues, respectively, associated with this economic hedging program, which are included in net interest income and trading revenues.

Note 5. Allowance for Credit Losses and Credit Quality Statistics

Changes in the allowance for credit losses are summarized in the following table.

	Three months ended September 30		Nine months ended September 30	
	2008	**2007**	**2008**	**2007**
(in millions)				
Balance at beginning of period	**$ 1,796**	$ 902	**$ 1,414**	$ 897
Provision charged to income	**658**	402	**1,762**	871
Charge offs	**(479)**	(305)	**(1,324)**	(903)
Recoveries	**63**	59	**207**	193
Transferred reserve	**21**	-	**-**	-
Balance at end of period	**$ 2,059**	$ 1,058	**$ 2,059**	$ 1,058

Credit Quality Statistics

Nonaccruing loans are summarized in the following table.

(in millions)	September 30, 2008	December 31, 2007
Nonaccruing loans		
Commercial:		
Construction and other real estate	**$ 87**	$ 34
Other commercial	**139**	89
Total commercial	**226**	123
Consumer:		
Residential mortgages	**920**	640
Credit card receivables	**1**	1
Total consumer loans	**921**	641
Total nonaccruing loans	**$ 1,147**	$ 764

Interest income on nonaccruing loans is summarized in the following table.

Nine months ended September 30 (in millions)	2008	2007
Interest income on nonaccruing loans:		
Amount which would have been recorded had the associated loans been current in accordance with their original terms	**$ 57**	$ 29
Amount actually recorded	**3**	6

Additional credit quality statistics are summarized in the following table.

(in millions)	September 30, 2008	December 31, 2007
Accruing loans contractually past due 90 days or more as to principal or interest:		
Total commercial	**$ 33**	$ 8
Consumer:		
Residential mortgages	**-**	-
Credit card receivables	**480**	432
Other consumer loans	**16**	16
Total consumer loans	**496**	448
Total accruing loans contractually past due 90 days or more	**$ 529**	$ 456

Impaired commercial loans:

Balance at end of period	**$ 226**	$ 123
Amount with impairment reserve	**145**	41
Impairment reserve	**44**	15
Other real estate owned:		
Balance at end of period	**$ 87**	$ 71

Further analysis of credit quality and credit loss reserves are presented in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)” of this Form 10-Q under the caption “Credit Quality.”

Note 6. Intangible Assets

The composition of intangible assets is summarized in the following table.

(in millions)		September 30, 2008		December 31, 2007
Mortgage servicing rights	**$**	**529**	$	494
Other		**35**		40
Intangible assets	**$**	**564**	$	534

Mortgage Servicing Rights (MSRs)

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

MSRs are subject to credit, prepayment and interest rate risk, in that their value will fluctuate as a result of changes in these economic variables. Interest rate risk is mitigated through an economic hedging program that uses securities and derivatives to offset changes in the fair value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques, which are addressed in more detail in HUSI's 2007 Form 10-K.

Residential Mortgage Servicing Rights

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

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

	September 30, 2008	December 31, 2007
Annualized constant prepayment rate (CPR)	**23.40 %**	21.40 %
Constant discount rate	**16.38 %**	10.44 %
Weighted average life	**5.1 years**	4.9 years

Residential MSRs activity is summarized in the following table.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
(in millions)				
Fair value of MSRs:				
Beginning balance	**$ 546**	$ 548	**$ 489**	$ 470
Additions related to loan sales	**31**	28	**113**	89
Changes in fair value due to:				
Change in valuation inputs or assumptions used in the valuation models	**(39)**	(28)	**(14)**	35
Realization of cash flows	**(16)**	(14)	**(66)**	(60)
Ending balance	**$ 522**	$ 534	**$ 522**	$ 534

Servicing fees collected by HUSI are included in residential mortgage banking revenue and were $34 million and $29 million for the three months ended September 30, 2008 and 2007, respectively, and $96 million and $85 million for the first nine months of 2008 and 2007, respectively.

Commercial Mortgage Servicing Rights

Commercial MSRs, which are accounted for using the lower of cost or market method, totaled $7 million and $3 million for the first nine months of 2008 and 2007, respectively.

Other

Other intangible assets are comprised of favorable lease arrangements of $25 million and $28 million at September 30, 2008 and December 31, 2007, respectively, and customer lists in the amount of $10 million and $12 million at September 30, 2008 and December 31, 2007, respectively.

Note 7. Goodwill

Goodwill is tested for impairment at least annually at the reporting unit level in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets". Goodwill may be tested more frequently if certain conditions are met. During the third quarter of 2008, HUSI completed its annual impairment test of goodwill. At the testing date, HUSI determined that the fair value of each of its reporting units exceeded its carrying value. As a result, no impairment loss was required to be recognized.

As a result of difficult business conditions and the volatility currently prevailing in the market which impacts future cash flows, HUSI performed an interim goodwill impairment test for the Global Banking and Markets business segment and the Residential Mortgage reporting unit within the Personal Financial Services (PFS) business segment as of September 30, 2008. The results of this test showed that the carrying value of the Residential Mortgage reporting unit exceeded its fair value and therefore the goodwill allocated to this reporting unit was considered to be impaired. As a result, HUSI recorded a goodwill impairment charge of approximately $54 million in the consolidated statement of (loss) income in the third quarter of 2008 representing all of the goodwill allocated to this reporting unit. The fair value of the Global Banking and Markets business segment exceeded the carrying value as of September 30, 2008 and, therefore, no impairment was recorded for this business segment.

Note 8. Income Taxes

The following table presents HUSI's effective tax rates.

	Three months ended September 30		**Nine months ended September 30**	
	2008	**2007**	**2008**	**2007**
Statutory federal income tax rate	**(35.0)%**	35.0 %	**(35.0)%**	35.0 %
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	**1.4**	66.1	**1.4**	2.0
Tax exempt income	**(2.0)**	(129.6)	**(1.2)**	(1.9)
Validation of deferred tax balances	**-**	-	**(.4)**	(3.4)
Tax credits	**(5.8)**	(256.5)	**(4.0)**	(3.7)
Effects of foreign operations	**4.8**	(71.8)	**2.3**	(.2)
Uncertain tax provision	**(.2)**	(49.6)	**(.4)**	1.0

Goodwill impairment charge	**10.1**	-	**2.1**	-
Other	**(1.0)**	(18.6)	**(1.0)**	-
Effective tax rate	**(27.7)%**	(425.0)%	**(36.2)%**	28.8 %

The change in the effective tax rate for the three and nine months ended September 30, 2008 compared to the same prior year periods is a result of non-deductible goodwill impairment charges and tax benefit adjustments such as tax credits, tax exempt income and deferred tax adjustments applied to pretax loss in 2008 as compared to similar tax benefits, with no goodwill impairment, applied to pretax income in 2007. The effective tax rate for the three months ended September 30, 2007 was significantly impacted by a relatively constant level of tax exempt income and tax credits in relation to lower pre-tax income.

HUSI is currently under audit by the Internal Revenue Service as well as various state and local tax jurisdictions. Although one or more of these audits may be concluded within the next 12 months, it is not possible to reasonably estimate the impact of the results from the audits on HUSI's uncertain tax positions at this time.

Note 9. Long-Term Debt

Long-term debt is summarized in the following table.

	September 30, 2008	**December 31, 2007**
(in millions)		
Senior debt	**$ 12,637**	$ 18,233
Subordinated debt	**6,082**	5,693
Structured notes	**1,853**	3,284
All other	**886**	1,058
Total long-term debt	**$ 21,458**	$ 28,268

The decline in Senior debt from December 31, 2007 is principally the result of the maturity of $3 billion of Floating Rate FHLB advances, $1,575 million of Floating Rate Non USD Senior Global Bank Notes, $1,440 million of Floating Rate Extendible Notes, the early maturity of $1,360 million of other senior notes, the repayment of $700 million in private label credit card secured financings and a $30 million partial redemption of the $1,950 million 3.875% Fixed Rate Senior Notes due September 15, 2009.

Partially offsetting the decline in Senior debt was the issuance of the following senior notes:

HUSI issued $1,500 million of Floating Rate Extendible Notes in April 2008. These notes require the holders to decide quarterly whether to extend the maturity date of their notes by three months beyond the initial maturity date of May 15, 2009. The final maturity date cannot go beyond April 15, 2013. On the October 14, 2008 election date, all of the noteholders elected not to extend the maturity date of their notes past October 15, 2009. Interest on these notes is paid quarterly commencing July 14, 2008 and is based on three-month LIBOR, plus the applicable spread for each interest period. The spread for each period ranges from forty basis points for the interest period ending April 14, 2009 to forty eight basis points for the interest period ending April 15, 2013.

In June 2008, HUSI announced the launch of $250 million of ELEMENTS(SM) exchange-traded notes due June 16, 2023. These securities are senior unsecured obligations of HUSI, whose return is linked to the performance of the S&P Commodity Trends Indicator – Total Return (the "Index"). At September 30, 2008, approximately $13 million of these securities were outstanding. The Index is a diversified composite of sixteen physical commodity futures, grouped into six sectors. The securities are not principal protected and, consequently, the return of principal at maturity is not guaranteed. The securities do not pay any interest during their term. Instead, investors will receive a cash payment on the June 16, 2023 maturity date, or upon repurchase by HUSI, that is based on the performance of the Index, less an investor fee.

In August 2008 HUSI issued $700 million of Floating Rate Notes due August 14, 2009. Interest on these notes will be paid quarterly in February, May, August and November, commencing November 14, 2008 at a floating rate equal to three-month LIBOR plus 0.40%. The notes are not subject to redemption by HUSI prior to maturity.

Also in August 2008 HUSI issued $250 million of Floating Rate Notes due August 13, 2010. Interest on these notes will be paid quarterly in February, May, August and November of each year, commencing November 13, 2008 at a floating rate equal to three-month LIBOR plus 1.00%. The notes are not subject to redemption by HUSI prior to maturity.

The increase in Subordinated debt from December 31, 2007 reflects the June issuance by HBUS of $700 million 7% Subordinated Bank Notes due January 15, 2039. These non-callable notes were issued under the $40 billion Global Bank Note Program. Interest will be paid semi-annually each January 15 and July 15, commencing January 15, 2009.

The decline in structured notes from December 31, 2007 reflects the maturity of approximately $1 billion of medium term notes.

Subordinated debt includes $1,420 million and $1,683 million of debt instruments recorded at fair value at September 30, 2008 and December 31, 2007, respectively. Structured notes include $1,328 million and $1,760 million of debt instruments recorded at fair value at September 30, 2008 and December 31, 2007, respectively. Refer to Note 16, "Fair Value Option" of the consolidated financial statements for further details.

Note 10. Related Party Transactions

In the normal course of business, HUSI conducts transactions with HSBC and its subsidiaries (HSBC affiliates). These transactions occur at prevailing market rates and terms. All extensions of credit by HBUS to HSBC affiliates (other than FDIC-insured banks) are legally required to be secured by eligible collateral. Related party balances and the income and expense generated by related party transactions are summarized in the following tables.

(in millions)		September 30, 2008	December 31, 2007
Assets:			
	Cash and due from banks	**$ 84**	$ 97
	Interest bearing deposits with banks	**186**	134
	Federal funds sold and securities purchased under resale agreements	**411**	356
	Trading assets (1)	**16,707**	11,640
	Loans	**3,787**	2,007
	Other	**1,987**	398
	Total assets	**$ 23,162**	$ 14,632
Liabilities:			
	Deposits	**$ 11,711**	$ 13,050
	Trading liabilities (1)	**20,151**	14,552
	Short-term borrowings	**522**	982
	Other	**480**	876
	Total liabilities	**$ 32,864**	$ 29,460

(1) Trading assets and liabilities exclude the impact of netting in accordance with FASB Interpretation No. 39 and FSP FIN 39-1.

	Three months ended September 30		Nine months ended September 30	
(in millions)	2008	2007	2008	2007
Interest income	**$ 51**	$ 44	**$ 159**	$ 109
Interest expense	**43**	108	**169**	317
Net interest income	**$ 8**	$ (64)	**$ (10)**	$ (208)
HSBC affiliate income:				
Fees and commissions:				
HSBC	**$ 16**	$ 19	**$ 60**	$ 49
HSBC Finance Corporation	**5**	6	**18**	17
HSBC Markets (USA) Inc. (HMUS)	**4**	2	**9**	8
Other HSBC affiliates	**3**	2	**5**	6
Gains on sales of refund anticipation loans to HSBC Finance Corporation	**-**	-	**13**	23
Other HSBC affiliates income	**5**	17	**14**	33

Total affiliate income	**$ 33**	$ 46	**$ 119**	$ 136
Support services expense from HSBC affiliates:				
HSBC Finance Corporation	**$ 116**	$ 115	**$ 353**	$ 347
HSBC Markets (USA) Inc. (HMUS)	**54**	61	**166**	192
HSBC Technology & Services (USA) Inc. (HTSU) for technology services	**61**	63	**187**	185
Other HSBC affiliates	**69**	51	**185**	134
Total support services from HSBC affiliates	**$ 300**	$ 290	**$ 891**	$ 858

Transactions Conducted with HSBC Finance Corporation

- Support services from HSBC affiliates includes charges by HSBC Finance Corporation under various service level agreements for loan origination and servicing as well as other operational and administrative support.

- In the second quarter of 2008, HSBC Finance Corporation launched a new program with HBUS to sell loans originated in accordance with the Federal Home Loan Mortgage Corporation's ("Freddie Mac") underwriting criteria to HBUS who then sells them to Freddie Mac under its existing Freddie Mac program. During the three months and nine months ended September 30, 2008, $68 million and $82 million of real estate secured loans were purchased by HBUS under this program, with a total premium of $2 million and $2 million, respectively.

- HUSI purchases receivables generated by private label credit card relationships daily at fair market value, as determined by an independent third party. HUSI purchased $4,701 million and $5,000 million for the three months ended September 30, 2008 and 2007, respectively, and $14,239 million and $15,090 million for the nine months ended September 30, 2008 and 2007, respectively, of private label credit card receivables. Premiums paid are amortized to interest income over the estimated life of the receivables purchased. HSBC Finance Corporation continues to service the customer receivables and charge HUSI a servicing fee. Fees paid relating to the servicing of private label credit card receivables for the three months ended September 30, 2008 and 2007 totaled $91 million and $94 million, respectively and for the nine months ended September 30, 2008 and 2007 totaled $278 million and $284 million, respectively. HSBC Finance Corporation was servicing $16,320 million and $16,339 million for the nine months ended September 30, 2008 and 2007, respectively, of private label credit card receivables.

HUSI purchases receivables generated by MasterCard[1]

/Visa [2] credit card relationships daily at fair market value, as determined by an independent third party. HUSI purchased $1,996 million and $1,115 million for the three months ended September 30, 2008 and 2007, respectively, and $3,565 million and $2,848 million for the nine months ended September 30, 2008 and 2007, respectively, of MasterCard/Visa receivables. Premiums paid are amortized to interest income over the estimated life of the receivables purchased. HSBC Finance Corporation continues to service the customer receivables and charge HUSI a servicing fee. Fees paid relating to the servicing of MasterCard/Visa receivables for the three months ended September 30, 2008 and 2007 totaled $12 million and $7 million, respectively and for the nine months ended September 30, 2008 and 2007 totaled $35 million and $16 million, respectively. HSBC Finance Corporation was servicing $1,991 million and $1,539 million for the nine months ended September 30, 2008 and 2007, respectively of MasterCard/Visa receivables.

- HSBC Finance Corporation services a portfolio of private label consumer loans and charges HUSI a service fee. Fees paid relating to the servicing of private label consumer loan receivables for the three months ended September 30, 2008 and 2007 totaled $4 million and $4 million, respectively, and for the nine months ended September 30, 2008 and 2007 totaled $11 million and $11 million, respectively. For the nine months ended September 30, 2008 and 2007, HSBC Finance Corporation was servicing $993 million and $1,241 million of private label consumer loan receivables, respectively.

- HUSI services a portfolio of residential mortgage loans owned by HSBC Finance Corporation and receives a servicing fee. Servicing fee income received by HUSI during the three months ended September 30, 2008 and 2007 was $3 million. Servicing fee income received by HUSI during the nine months ended September 30, 2008 and 2007 was $10 million and $8 million, respectively.

- In 2005, HUSI purchased a portfolio of higher quality nonconforming residential mortgage loans (the HMS portfolio) from HSBC Finance Corporation with the intent of holding these loans. HSBC Finance Corporation continues to service these loans, and charges HUSI a servicing fee. Servicing fees paid by HUSI during the three months ended September 30, 2008 and 2007 were $1.5 million and $2.0 million, respectively. Servicing fees paid by HUSI during the nine months ended September 30, 2008 and 2007 were $4.9 million and $6.6 million, respectively.

- HUSI's wholly-owned subsidiaries HBUS and HSBC Trust Company (Delaware), N.A. (HTCD) are the originating lenders for a federal income tax refund anticipation loan program for clients of various third party tax preparers, which are managed by HSBC Finance Corporation. By agreement, HBUS and HTCD process applications, fund and subsequently sell these loans to HSBC Finance Corporation. For the nine months ended September 30, 2008 and 2007, HBUS and HTCD originated loans of approximately $13 billion and $17 billion, respectively, that were sold to HSBC Finance Corporation. This resulted in gains of $13 million and $23 million for the nine months ended September 30, 2008 and 2007, respectively.

- In 2007, HUSI acquired residential mortgage loans at fair value from HSBC Finance Corporation for the purpose of selling these loans. During the nine months ended September 30, 2007, HUSI acquired $645 million of loans from HSBC Finance Corporation for a net discount of $12 million.

- Certain of HUSI's consolidated subsidiaries have secured lines of credit totaling $1 billion with HSBC Finance Corporation. There were no balances outstanding under any of these lines of credit at September 30, 2008 or December 31, 2007.

Transactions Conducted with HMUS and Subsidiaries

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

HUSI has extended subordinated loans to HSI in the amount of $1.6 billion, of which $1.2 billion and $350 million was outstanding at September 30, 2008 and December 31, 2007, respectively. HUSI has also extended affiliate lending to HSBC Capital (USA) Inc. in the amount of $270 million, of which $181 million was outstanding at September 30, 2008.

By agreement, HUSI and HBUS have uncommitted lines of credit to HMUS and HSI, the aggregate amount outstanding under which cannot exceed $1 billion. At September 30, 2008, an aggregate amount of $198 million was outstanding under these facilities.

Other Transactions with HSBC Affiliates

HUSI had an unused line of credit with HSBC Bank plc, a U.K. based subsidiary (HBEU), of $2.5 billion at September 30, 2008 and December 31, 2007.

HUSI has extended loans and lines of credit to various other HSBC affiliates totaling $1.7 billion, of which $701 million and $225 million was outstanding at September 30, 2008 and December 31, 2007, respectively.

In 2007, HUSI also provided support to several HSBC affiliate sponsored asset backed commercial paper (ABCP) conduits by purchasing up to $1.16 billion of A-1/P-1 rated commercial paper issued by them. During the third quarter of 2008, HUSI has continued to provide support to these conduits by purchasing ABCP. As of September 30, 2008 and December 31, 2007, approximately $1.7 billion and $306 million, respectively of ABCP was held by HUSI.

HUSI utilizes other HSBC affiliates primarily for treasury and traded markets services and, to a lesser extent, for global resourcing initiatives. Fees billed to HUSI for these services are included in support services from HSBC affiliates and totaled $63 million and $69 million for the three months ended September 30, 2008 and 2007, respectively, and $192 million and $212 million for the nine months ended September 30, 2008 and 2007, respectively.

HUSI routinely enters into derivative transactions with HSBC Finance Corporation and other HSBC affiliates as part of a global HSBC strategy to offset interest rate or other market risks associated with debt issues and derivative contracts with unaffiliated third parties. The notional value of derivative receivables related to these contracts was approximately $1,022 billion and $996 billion at September 30, 2008 and December 31, 2007, respectively. The net credit exposure (defined as the recorded fair value of derivative receivables) related to the contracts was approximately $17 billion and $12 billion at September 30, 2008 and December 31, 2007, respectively. HUSI, within its Global Banking and Markets business, accounts for these transactions on a mark to market basis, with the change in value of contracts with HSBC affiliates substantially offset by the change in value of related contracts entered into with unaffiliated third parties.

Employees of HUSI participate in a defined benefit pension plan sponsored by HNAH. Additional information regarding pensions is provided in Note 11, “Pensions and Other Postretirement Benefits of HUSI and HSBC Finance Corporation” of the consolidated financial statements.

Employees of HUSI participate in one or more stock compensation plans sponsored by HSBC. HUSI’s share of the expense of these plans on a pre-tax basis during the three months ended September 30, 2008 and 2007 was approximately $16 million and $20 million, respectively. During the nine months ended September 30, 2008 and 2007, HUSI’s share of the expense of these plans on a pre-tax basis was approximately $54 million and $50 million, respectively. As of September 30, 2008, HUSI’s share of compensation cost related to nonvested stock compensation plans was approximately $87 million, which is expected to be recognized over a weighted-average period of 1.5 years. A description of these stock compensation plans begins on page 142 of the 2007 Form 10-K.

For the nine months ended September 30, 2008, there were no common stock dividends declared and paid by HUSI in comparison to $635 million at the end of the same 2007 period.

Note 11. Pensions and Other Postretirement Benefits

The components of net periodic benefit cost reflected in HUSI’s Consolidated Statement of (Loss) Income are shown in the table below and reflect the portion of net periodic benefit cost of the HNAH defined benefit pension and postretirement benefits other than pension plans which has been allocated to HUSI.

	Pension Benefits		**Other Postretirement Benefits**	
	2008	**2007**	**2008**	**2007**
(in millions)				
Three months ended September 30				
Net periodic benefit cost:				
Service cost – benefits earned during the period	**$ 7**	$ 7	**$ -**	$ -
Interest cost	**20**	18	**1**	1
Expected return on plan assets	**(22)**	(23)	**-**	-
Recognized losses	**-**	2	**-**	-
Transition amount amortization	**-**	-	**1**	1
Net periodic benefit cost	**$ 5**	$ 4	**$ 2**	$ 2
Nine months ended September 30				
Net periodic benefit cost:				
Service cost – benefits earned during the period	**$ 23**	$ 23	**$ 1**	$ 1
Interest cost	**58**	53	**4**	4
Expected return on plan assets	**(67)**	(68)	**-**	-
Recognized losses	**1**	5	**-**	-
Transition amount amortization	**-**	-	**2**	2
Net periodic benefit cost	**$ 15**	$ 13	**$ 7**	$ 7

Note 12. Regulatory Capital

Capital amounts and ratios of HUSI and HBUS, calculated in accordance with banking regulations, are summarized in the following table.

	September 30, 2008			December 31, 2007		
($ in millions)	Capital Amount	Well-Capitalized(1) Minimum Ratio	Actual Ratio	Capital Amount	Well-Capitalized(1) Minimum Ratio	Actual Ratio
Total capital ratio:						
HUSI	**$ 16,723**	**10.0%**	**11.89%**	$ 15,276	10.00%	11.29%
HBUS	**16,945**	**10.0**	**12.25**	15,330	10.00	11.40
Tier 1 capital ratio:						
HUSI	**10,269**	**6.0**	**7.30**	9,639	6.00	7.12
HBUS	**10,453**	**6.0**	**7.55**	9,696	6.00	7.21
Tier 1 leverage ratio:						
HUSI	**10,269**	**3.0(2)**	**5.89**	9,639	3.00(2)	5.34
HBUS	**10,453**	**5.0**	**6.13**	9,696	5.00	5.46
Risk weighted assets:						
HUSI	**140,649**			135,339		
HBUS	**138,361**			134,501		

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

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

During the first nine months of 2008, HSBC effected capital contributions to HUSI totaling $1,460 m illion. In the first quarter of 2008, HSBC North America Inc. (HNAI) contributed $1 billion to HUSI in exchange for one share of HUSI common stock. In the second quarter of 2008, HNAI contributed $460 million to HUSI in exchange for one share of HUSI common stock. Each contribution to HUSI was contributed subsequently to HBUS in exchange for one share of HBUS common stock.

On May 1, 2008, an implementation plan related to the final rule regarding Risk-Based Capital Standards, which represents the U.S. adoption of the Basel II Capital Accord, was approved by the HNAH Board of Directors. On September 11, 2008, the HBUS Board of Directors also approved the implementation plan.

Note 13. Variable Interest Entities (VIEs)

In the ordinary course of business, HUSI is involved with entities that are deemed to be VIEs and may hold variable interests in those entities. HUSI consolidates VIEs where it is deemed to be the primary beneficiary.

At September 30, 2008 and December 31, 2007, HUSI held all or the majority of the debt securities issued by several VIE trusts that were organized by an affiliate of HUSI and third parties to issue structured notes. The consolidated assets of these VIEs were $181 million and $213 million at September 30, 2008 and December 31, 2007, respectively and are reported in trading assets. Debt instruments issued by these VIEs and held by third parties were not material to HUSI.

HUSI was also the primary beneficiary of and consolidated certain VIE trusts organized to securitize private label credit cards. At September 30, 2008 and December 31, 2007, the consolidated assets of these trusts were $1,951 million and $2,822 million, respectively and were reported in loans. Debt securities issued by these VIEs are reported as secured financings in long-term debt.

The assets of consolidated VIEs serve as collateral for the obligations of the VIEs. The holders of debt instruments issued by consolidated VIEs have no recourse to the general credit of HUSI.

HUSI also had significant involvement with other VIEs that were not consolidated at September 30, 2008 or December 31, 2007 because HUSI was not the primary beneficiary. The following table presents information on these VIEs.

	September 30, 2008		December 31, 2007	
	Total Assets	**Maximum Exposure to Loss**	**Total Assets**	**Maximum Exposure to Loss**
(in millions)				
Asset backed commercial paper conduits	**$ 30,627**	**$ 7,983**	$ 32,886	$ 9,507
Structured investment vehicles	**5,109**	**50**	6,337	50
Structured note vehicles	**7,512**	**1,407**	8,350	1,488
Low income housing tax partnerships	**277**	**58**	705	115
Total	**$ 43,525**	**$ 9,498**	$ 48,278	$ 11,160

HUSI is involved with VIEs primarily to facilitate client needs. Information on the types of VIEs with which HUSI is involved and the nature of its involvement and variable interests in those entities is presented below.

Asset Backed Commercial Paper Conduits

HUSI provides liquidity facilities to a number of multi-seller and single-seller asset backed commercial paper conduits (ABCP conduits) sponsored by HSBC affiliates and by third parties. These conduits support the financing needs of customers by facilitating their access to commercial paper markets.

Customers sell financial assets, typically consumer and corporate receivables, to the ABCP conduits, which fund the purchases by issuing short-term highly-rated commercial paper collateralized by the assets acquired. In a multi-seller conduit, any number of companies may be originating and selling assets to the conduit whereas a single-seller conduit acquires assets from a single company. HUSI, along with other financial institutions, provides liquidity facilities to ABCP conduits in the form of lines of credit or asset purchase commitments. Liquidity facilities provided to multi-seller conduits support transactions associated with a specific seller of assets to the conduit and HUSI would only be expected to provide support in the event the multi-seller conduit is unable to issue or rollover maturing commercial paper because of a commercial paper market disruption, or the supported transaction has breached certain triggers. Liquidity facilities provided to single-seller conduits are not identified with specific transactions or assets and HUSI would be required to provide support upon the occurrence of a commercial paper market disruption or the breach of certain triggers that affect the single-seller conduit's ability to issue or rollover maturing commercial paper. HUSI's obligations are generally pari passu with that of other institutions that also provide liquidity support to the same conduit or for the same transactions. HUSI does not provide any program-wide credit enhancements to ABCP conduits.

Each seller of assets to an ABCP conduit typically provides collateral in the form of excess assets and therefore bears the risk of first loss related to the specific assets transferred. HUSI does not transfer its own assets to the conduits. It has no ownership interests in, performs no administrative duties for, and does not service any of the assets held by the conduits. HUSI is not the primary beneficiary and does not consolidate any of the ABCP conduits to which it provides liquidity facilities. Credit risk related to the liquidity facilities provided is managed by subjecting them to HUSI's normal underwriting and risk management processes. The maximum exposure to loss presented in the preceding table represents the maximum amount of loans and asset purchases HUSI could be required to make under the liquidity facilities it provides.

Structured Investment Vehicles

HUSI provides a liquidity facility to a single structured investment vehicle (SIV) sponsored by a third party. This entity, which is deemed to be a VIE, seeks to earn a profit by investing in mostly highly rated longer-dated fixed income instruments and funding those investments by issuing lower cost short-term, highly rated commercial paper and medium term notes. HUSI does not transfer its own assets to the SIV. It has no ownership interests in, performs no administrative duties for, and does not service any of the assets the SIV holds. HUSI is not the primary beneficiary of the SIV and therefore does not consolidate the SIV. Credit risk related to the liquidity facility provided is managed through HUSI's normal underwriting and risk management processes. The maximum exposure to loss presented in the preceding table represents a $50 million liquidity facility which was fully funded, and is recorded as a loan, as of September 30, 2008. This loan was considered in the determination of HUSI's allowance for loan losses and a specific reserve has been established against this facility in accordance with HUSI's credit policies.

Structured Note Vehicles

In the normal course of business, HUSI enters into derivative transactions with entities organized by HSBC affiliates and by third parties to issue structured notes. These entities, which are deemed to be VIEs, are organized as trusts and issue fixed or floating rate debt instruments backed by the financial assets they hold. They were established to create investments with specific risk profiles for investors.

HUSI's variable interests in these entities include derivative transactions, such as interest rate and currency swaps, and investments in their debt instruments. With respect to several of these VIEs, HUSI also holds variable interests in the form of total return swaps entered into in connection with the transfer of certain assets to the VIEs. In these transactions, HUSI transferred financial assets from its trading portfolio to the VIEs and entered into total return swaps under which it receives the total return on the transferred assets and pays a market rate of return. The transfers of assets in these transactions do not qualify as sales under the applicable accounting literature and are accounted for as secured borrowings. Accordingly, the transferred assets continue to be recognized as trading assets on HUSI's balance sheet and the funds received are recorded as liabilities in long-term debt.

In addition to its variable interests, HUSI holds credit default swaps with these structured note VIEs under which it receives credit protection on specified reference assets in exchange for the payment of a premium. Through these derivatives, the VIEs assume the credit risk associated with the reference assets, which is then passed on to the holders of the debt instruments they issue. Because they create rather than absorb variability, the credit default swaps held by HUSI are not considered variable interests in the entities.

HUSI records all investments in, and derivative contracts with, unconsolidated structured note vehicles at fair value on its balance sheet. HUSI's maximum exposure to loss is limited to the recorded amounts of these instruments.

Securitization Vehicles

HUSI utilizes entities structured as trusts to securitize certain private label credit card receivables where securitization provides an attractive source of funding. HUSI transfers the credit card receivables to the trusts which in turn issue debt instruments collateralized by the transferred receivables. These trusts are considered VIEs and are consolidated by HUSI as the primary beneficiary at September 30, 2008 and December 31, 2007.

Low- Income Housing Partnerships

HUSI invests as a limited partner in a number of low-income housing partnerships that operate qualified affordable housing projects and generate tax benefits, including federal low-income housing tax credits, for investors. Some of the partnerships are deemed to be VIEs because they do not have sufficient equity investment at risk or are structured with non-substantive voting rights. HUSI is not the primary beneficiary of these VIEs and does not consolidate them.

HUSI's investments in low-income housing partnerships are recorded using the equity method of accounting and are included in other assets on HUSI's balance sheet. The maximum exposure to loss shown in the table represents the recorded investment net of estimated expected reductions in future tax liabilities and potential recapture of tax credits allowed in prior years.

Note 14. Financial Guarantee Arrangements and Pledged Assets

Financial Guarantee Arrangements

The maximum potential amounts of future payments required by financial guarantee arrangements are summarized in the following table.

(in millions)		September 30, 2008		December 31, 2007
Standby letters of credit, net of participations (1)	**$**	**9,049**	$	9,021
Credit derivatives considered guarantees (2)		**593,137**		650,243
Total	**$**	**602,186**	$	659,264

(1) Includes $766 million and $598 million issued for the benefit of HSBC affiliates at September 30, 2008 and December 31, 2007, respectively.

(2) Includes $116,697 million and $98,250 million issued for the benefit of HSBC affiliates at September 30, 2008 and December 31, 2007, respectively.

Standby Letters of Credit

A standby letter of credit is issued to a third party for the benefit of a customer and is essentially a guarantee that the customer will perform, or satisfy some obligation, under a contract. It irrevocably obligates HUSI to pay a specified amount to the third party beneficiary when the customer fails to perform some contractual obligation. Two types of standby letters of credit are issued by HUSI: performance and financial. A performance standby letter of credit is issued where the customer is required to perform some nonfinancial contractual obligation, such as the performance of a specific act, whereas a financial standby letter of credit is issued where the customer's contractual obligation is of a financial nature, such as the repayment of a loan or debt instrument. The amount presented in the above table represents the total contractual amount of outstanding standby letters of credit, net of participations of $9 billion at both September 30, 2008 and December 31, 2007, respectively.

The issuance of a standby letter of credit is subject to HUSI's credit approval process and collateral requirements. Fees are charged for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, representing the fair value of the "stand ready obligation to perform" under these guarantees, amounting to $28 million and $25 million at September 30, 2008 and December 31, 2007, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $33 million and $27 million at September 30, 2008 and December 31, 2007, respectively.

Credit Derivatives

Some derivative transactions to which HUSI is a party meet the definition of a guarantee under FIN 45. These consist primarily of certain credit derivative contracts, including credit default swaps, total return swaps and credit options, which HUSI enters into to satisfy the needs of its customers and, in certain cases, for its own benefit. Credit derivatives are arrangements that provide for one party (the "protection seller") to pay another party (the "protection buyer") an agreed upon amount if a specified credit event related to a "reference asset" occurs during the term of the contract. In exchange for the credit protection provided, the protection buyer agrees to pay a fee to the protection seller. Credit derivatives effectively transfer the credit risk of the reference asset to the protection seller, which is able to assume that risk without directly purchasing the asset. Where HUSI sells credit protection to a counterparty that holds the subject reference asset, it effectively provides a guarantee with respect to that asset.

HUSI records all derivative contracts at fair value. HUSI's credit derivative agreements do not specify whether or not the counterparty holds the reference asset. The amounts disclosed in the table represent the total notional amount of all credit derivatives in which HUSI is the protection seller, which is the maximum amount that HUSI could be required to pay under those contracts. In accordance with established policies, HUSI offsets most of the risk it assumes in selling credit protection through credit derivatives by entering into offsetting contracts with other counterparties. Because they do not reflect the approximately equal amounts due from third parties under offsetting contracts, HUSI believes the contractual amounts presented are not representative of actual future credit exposure.

Pledged Assets

Pledged assets included in the Consolidated Balance Sheet are summarized in the following table.

		September 30, 2008		December 31, 2007
(in millions)				
Interest bearing deposits with banks	**$**	**1,164**	$	264
Trading assets (1)		**1,305**		2,834
Securities available for sale (2)		**7,188**		7,060
Securities held to maturity		**630**		172
Loans (3)		**5,160**		8,416
Other assets (4)		**3,840**		2,889
Total	**$**	**19,287**	$	21,635

(1) Trading assets are primarily pledged against liabilities associated with consolidated variable interest entities (refer to Note 13, "Variable Interest Entities (VIEs)" of the consolidated financial statements for further information regarding variable interest entities).

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

(3) Loans are primarily private label credit card receivables pledged against long-term secured borrowings and residential mortgage loans pledged against long-term borrowings from the Federal Home Loan Bank.

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

Note 15. Fair Value Measurements

HUSI adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), on January 1, 2008. SFAS 157 clarifies the definition of fair value as the exit price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, establishes a framework for measuring fair value and enhances fair value disclosures. The standard establishes a three-level fair value hierarchy based on the transparency of inputs to the fair value measurement of an asset or liability. SFAS 157 nullifies certain guidance in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management" (EITF 02-3), which prohibited the recognition of gains or losses at the inception of a derivative contract unless the fair value of the derivative contract was determined based on a quoted market price, or other valuation technique that incorporates observable market data. In addition, SFAS 157 eliminates large position discounts for financial instruments held and requires HUSI to consider its own credit risk when measuring the fair value of liabilities. HUSI has delayed the implementation of SFAS 157 for non-financial assets and non-financial liabilities except for items that are recognized or disclosed at fair value on a recurring basis (at least annually) in accordance with FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157."

Transition

Prior to the adoption of SFAS 157, HUSI applied the relevant provisions in EITF 02-3 to its derivative portfolio. EITF 02-3 prohibited the recognition of trading gains or losses at the inception of a derivative contract unless the fair value of the derivative contract was determined based on a quoted market price or other valuation technique that incorporated observable market data. HUSI previously recognized deferred profit into earnings over the life of the instruments or when the unobservable significant input became observable. In accordance with the transition provisions of SFAS 157 related to EITF 02-3, HUSI recorded an after-tax cumulative-effect adjustment of approximately $36 million as an increase to the opening balance of retained earnings as of January 1, 2008 reflecting the release of deferred profit.

Fair Value Hierarchy

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability. HUSI categorizes assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that HUSI has the ability to access at the measurement date. Level 1 measurements include active exchange-traded equity securities, listed derivatives, most U.S. government and certain government agency securities.

Level 2: Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 measurements include corporate and municipal bonds, trading commodities, most over-the-counter derivatives and debt issuances elected to be measured at fair value.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. Level 3 measurements include mortgage servicing rights, long-dated and exotic derivatives and certain loans, including funded leveraged loans and unfunded commitments, and mortgage whole loans.

In determining the appropriate measurement levels, HUSI performs analyses on the assets and liabilities subject to SFAS 157 at the end of each reporting period. Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy. Reclassifications that affect Level 3 measurements are reported as transfers into or out of Level 3 in the disclosure relating to changes in fair value of Level 3 assets and liabilities at the end of the reporting period when the reclassification occurs.

The following table summarizes each of HUSI's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2008.

	Fair Value Measurements on a Recurring Basis as of September 30, 2008					
	Level 1	**Level 2**	**Level 3**	**Gross Balance**	**Netting (1)**	**Net Balance**
(in millions)						
Assets:						
Trading assets, excluding derivatives (2)	**$ 2,691**	**$ 14,648**	**$ 1,715**	**$ 19,054**	**$ -**	**$ 19,054**
Derivatives (3)	**370**	**92,751**	**4,375**	**97,496**	**(81,399)**	**16,097**
Securities available for sale	**271**	**19,878**	**76**	**20,225**	**-**	**20,225**
Loans (4)	**-**	**989**	**268**	**1,257**	**-**	**1,257**
Intangible assets (5)	**-**	**-**	**522**	**522**	**-**	**522**
Total assets	**$ 3,332**	**$ 128,266**	**$ 6,956**	**$ 138,554**	**$ (81,399)**	**$ 57,155**
Liabilities:						
Deposits in domestic offices (6)	**$ -**	**$ 2,107**	**$ 137**	**$ 2,244**	**$ -**	**$ 2,244**
Trading liabilities, excluding derivatives (2)	**1,677**	**1,828**	**-**	**3,505**	**-**	**3,505**
Derivatives (3)	**415**	**96,079**	**1,803**	**98,297**	**(85,028)**	**13,269**
Long-term debt (7)	**-**	**2,688**	**60**	**2,748**	**-**	**2,748**
Total liabilities	**$ 2,092**	**$ 102,702**	**$ 2,000**	**$ 106,794**	**$ (85,028)**	**$ 21,766**

(1) Represents counterparty and cash collateral netting permitted under FIN 39, "Offsetting of Amounts Relating to Certain Contracts," as amended by FSP-FIN 39-1.

(2) Refer to Note 2, "Trading Assets and Liabilities" of the consolidated financial statements for the composition and discussion of trading assets and liabilities.

(3) Includes derivatives held as trading assets ($15,784 million) and trading liabilities ($12,842 million) as well as derivatives held for hedging and certain commitments accounted for as derivatives.

(4) Includes leveraged acquisition finance and other commercial loans held for sale or risk-managed on a fair value basis for which HUSI has elected to apply the fair value option. Refer to Note 4, "Loans" of the consolidated financial statements for further information on HUSI's loan portfolio.

(5) Represents residential mortgage servicing rights. Refer to Note 6, "Intangible Assets" of the consolidated financial statements for further information on residential mortgage servicing rights.

(6) Represents structured deposits risk-managed on a fair value basis for which HUSI has elected to apply the fair value option.

(7) Includes structured notes and own debt issuances for which HUSI has elected to measure on a fair value basis. Refer to Note 9, "Long- Term Debt" of the consolidated financial statements for additional information on structured notes.

Rollforward of Level 3 Measurements

The following tables summarize additional information about changes in fair value of Level 3 assets and liabilities for the three month and nine month periods ended September 30, 2008. The fair value measurement of a Level 3 asset or liability and related changes in fair value may be determined based on observable and unobservable inputs. As a risk management practice, HUSI may risk manage the Level 3 assets and liabilities, in whole or in part, using securities and derivative positions that are classified as Level 1 or Level 2 measurements within the fair value hierarchy. Since those Level 1 and Level 2 risk management positions are not included in the table below, the information provided does not reflect the effect of the risk management activities related to the Level 3 assets and liabilities.

		Total Gains and (Losses) Included in (1)						
	July 1, 2008	Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Net Purchases, Issuances and Settlements	Transfers Into or Out of Level 3	September 30, 2008	Unrealized Gains or (Losses) Still Held
(in millions)								
Assets:								
Trading assets, excluding derivatives	$ 1,738	$ (540)	$ -	$ -	$ 517	$ -	$ 1,715	$ (389)
Derivatives, net (2)	1,962	477	(3)	-	94	42	2,572	327
Securities available for sale	97	-	-	3	(24)	-	76	4
Loans (3)	810	-	(11)	-	(531)	-	268	-
Other assets, excluding derivatives (4)	546	-	(55)	-	31	-	522	(29)
Total	$ 5,153	$ (63)	$ (69)	$ 3	$ 87	$ 42	$ 5,153	$ (87)
Liabilities:								
Deposits in domestic offices	$ (131)	$ 6	$ -	$ -	$ (53)	$ 41	$ (137)	$ 7
Long-term debt	(340)	9	-	-	209	62	(60)	9
Total	$ (471)	$ 15	$ -	$ -	$ 156	$ 103	$ (197)	$ 16

		Total Gains and (Losses) Included in (1)						
	January 1, 2008	Trading (Loss) Revenue	Other Revenue	Other Comprehensive Income	Net Purchases, Issuances and Settlements	Transfers Into or Out of Level 3	September 30, 2008	Unrealized Gains or (Losses) Still Held
(in millions)								
Assets:								
Trading assets, excluding derivatives	$ 77	$ (728)	$ -	$ -	$ 994	$ 1,372	$ 1,715	$ (602)

Derivatives, net (2)	**709**	**(34)**	**2**	**-**	**157**	**1,738**	**2,572**	**(423)**
Securities available for sale	**1**	**-**	**-**	**9**	**(58)**	**124**	**76**	**10**
Loans (3)	**829**	**-**	**(75)**	**-**	**(484)**	**(2)**	**268**	**(3)**
Other assets, excluding derivatives (4)	**489**	**-**	**(80)**	**-**	**113**	**-**	**522**	**(4)**
Total	**$ 2,105**	**$ (762)**	**$ (153)**	**$ 9**	**$ 722**	**$ 3,232**	**$ 5,153**	**$ (1,022)**
Liabilities:								
Deposits in domestic offices	**$ (192)**	**$ 18**	**$ -**	**$ -**	**$ (82)**	**$ 119**	**$ (137)**	**$ 8**
Long-term debt	**(63)**	**26**	**-**	**-**	**42**	**(65)**	**(60)**	**10**
Total	**$ (255)**	**$ 44**	**$ -**	**$ -**	**$ (40)**	**$ 54**	**$ (197)**	**$ 18**

(1) Includes realized and unrealized gains and losses.

(2) Level 3 net derivatives at September 30, 2008 included derivative assets of $4,375 million and derivative liabilities of $1,803 million.

(3) Includes Level 3 corporate lending activities risk-managed on a fair value basis for which HUSI has elected the fair value option.

(4) Represents residential mortgage servicing activities. Refer to Note 6, "Intangible Assets" of the consolidated financial statements for further information on residential mortgage servicing rights.

Non-recurring Fair Value Measurements

Certain assets are measured at fair value on a non-recurring basis and therefore, are not included in the tables above. These assets include (a) mortgage loans and loan commitments classified as held for sale reported at the lower of cost or fair value and (b) impaired assets that are written down to fair value based on the valuation of underlying collateral during the period. These instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustment in certain circumstances (e.g., impairment). The following table presents the fair value hierarchy level within which the fair value of the financial assets has been recorded as of September 30, 2008. The gains (losses) for the three months and nine months ended September 30, 2008 are also included.

	Non-recurring Fair Value Measurements as of September 30, 2008				Total Gains (Losses) for the 3 months ended September 30, 2008	Total Gains (Losses) for the 9 months ended September 30, 2008
	Level 1	**Level 2**	**Level 3**	**Total**		
(in millions)						
Assets:						
Loans						
Residential mortgage loans held for sale (1)	$ -	$ 182	$ 1,505	$ 1,687	$ (84)	$ (340)
Impaired loans (2)	-	-	89	89	(7)	(25)
Total assets at fair value on a non-recurring basis	$ -	$ 182	$ 1,594	$ 1,776	$ (91)	$ (365)

(1) As of September 30, 2008, the fair value of the mortgage loans was below cost.

(2) Represents impaired commercial loans. HUSI uses the fair value estimate of the underlying collateral to approximate the fair value of the commercial loans.

Note 16. Fair Value Option

HUSI adopted Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), on January 1, 2008. SFAS 159 provides a fair value option that allows HUSI to irrevocably elect fair value, on an instrument-by-instrument basis, as the initial and subsequent measurement attribute for most financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recognized at fair value. The new standard permits HUSI to elect the fair value option at the initial recognition of the asset or liability or upon occurrence of an event that gives rise to a new basis of accounting for that asset or liability. Changes in fair value for assets and liabilities for which elections are made are reported in earnings as incurred.

Transition

In accordance with the transition provisions of SFAS 159, HUSI recorded an after-tax cumulative-effect adjustment of approximately $77 million as an increase to the opening balance of retained earnings as of January 1, 2008.

(in millions)	**Carrying Value at January 1, 2008 Prior to Adoption**	**Transition Gains/ (Losses) to Opening Retained E arnings**	**Carrying Value at January 1, 2008 After Adoption**
Loans (1)	$ 1,939	$ -	$ 1,939
Long-term debt			
Own debt issuances (2)	1,721	(120)	1,601
Pre-tax cumulative-effect adjustment		(120)	
Tax effect		43	
Cumulative effect, after tax		$ (77)	

(1) Represents commercial leveraged acquisition finance loans designated as held for sale. No transition adjustment was recorded as the loans were already recorded at fair value pursuant to lower of cost or fair value accounting and the fair values of the loans were below cost at January 1, 2008.

(2) Changes in fair value of own debt issuances resulting from interest rate exposure had been hedged by interest rate derivatives and were qualified fair value hedges in accordance with SFAS 133. As a result, there was no transition adjustment relating to the interest rate exposure. The transition adjustment primarily reflects: (a) the release of deferred costs and (b) the impact of HUSI's own credit risk on the fair value measurement of own debt issuances for which HUSI elected the fair value option.

HSBC complies with International Financial Reporting Standards (IFRSs) for financial reporting purposes. HUSI has elected to apply the fair value option to selected financial instruments under SFAS 159 to achieve the following objectives: (a) to eliminate the accounting effect that arises from the difference between U.S. GAAP and IFRSs, (b) to reduce income volatility caused by the differences in the measurement attributes of selected financial instruments and (c) to simplify the accounting applied to those financial instruments. HUSI has applied the fair value option primarily to leveraged loans, certain hybrid instruments and own debt issuances.

Loans

HUSI has elected to apply the fair value option to commercial leveraged acquisition finance loans and unfunded commitments. HUSI plans to make the same election to such financial instruments going forward. The election allows HUSI to account for those loans and commitments at fair value, which is consistent with the manner in which the instruments are managed.

As of September 30, 2008, leveraged acquisition finance loans and certain commercial loans for which the fair value option was elected had an aggregate unpaid principal balance of $1,445 million and an aggregate fair value of $1,257 million which were recorded as loans in the Consolidated Balance Sheet. Interest income on these loans is recorded in interest income in the Consolidated Statement of (Loss) Income. During the three months and nine months ended September 30, 2008, HUSI recorded in other revenue losses of $94 million and $197 million respectively, resulting from changes in the fair value of these loans. Because substantially all of the loans elected for the fair value option are floating rate assets, changes in their fair value are primarily attributable to changes in loan-specific credit risk.

As of September 30, 2008, no loans for which the fair value option has been elected are 90 days or more past due or are on non-accrual status.

Long-Term Debt (Own Debt Issuances)

HUSI elected the fair value option for certain fixed rate debt issuances which had been hedged by derivatives that qualified for fair value hedge accounting in accordance with SFAS 133. This election allows HUSI to achieve a similar hedge accounting effect without meeting the rigorous SFAS 133 hedging requirements. HUSI measures the fair value of the debt issuances based on inputs observed in the secondary market. Changes in fair value of these instruments are attributed to changes in HUSI's own credit risk as well as changes in interest rates.

The debt issuances for which HUSI elected the fair value option had an aggregate principal balance of $1,750 million and an aggregate fair value of $1,420 million as of September 30, 2008. Interest paid on these instruments was recorded as interest expense in the Consolidated Statement of (Loss) Income. During the three month and nine month periods ended September 30, 2008, HUSI recorded in other revenue, a gain of $118 million and $181 million, respectively, resulting from changes in the fair value of these instruments. The credit risk of HUSI accounted for a decrease of $176 million and $256 million in the fair value of the debt issuances for the three month and nine month periods ended September 30, 2008, respectively. The credit risk effect was partially offset by an increase of $58 million and $75 million in change in fair value attributable to changes in the interest rate benchmark for the three month and nine month periods ended September 30, 2008, respectively.

Hybrid Instruments

HUSI adopted Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS 155), effective January 1, 2006. HUSI elected to measure all structured notes and structured deposits which contained embedded derivatives and were issued after January 1, 2006 at fair value. Such election has eliminated the differences in measurement attributes between IFRSs and U.S. GAAP. SFAS 159 has incorporated accounting requirements similar to SFAS 155 and because SFAS 159 has a broader application than SFAS 155, HUSI decided to elect the fair value option available under SFAS 159 to all hybrid financial instruments issued after January 1, 2008. Consequently, there was no cumulative effect adjustment for this item reflected in the preceding table.

As of September 30, 2008, the structured deposits for which HUSI elected fair value treatment under SFAS 155 or SFAS 159 had an aggregate fair value of $2,244 million and an aggregate unpaid principal of $2,285 million. HUSI also recorded an aggregate fair value of $1,328 million and an aggregate unpaid principal of $1,539 million for the structured notes that were chosen for the fair value option as of September 30, 2008. The structured deposits for which the fair value option was elected were classified as interest bearing deposits in domestic offices in the Consolidated Balance Sheet while the structured notes elected for the fair value option were classified in long-term debt. Interest paid was recorded as interest expense. During the three months and nine months ended September 30, 2008, HUSI recorded in other revenue a gain of $124 million and $335 million, respectively, as a result of remeasuring structured deposits and structured notes at fair value. Changes in HUSI's credit risk accounted for a $1 million increase and a $26 million decrease in the fair value of the hybrid instruments for the three month and nine month periods ended September 30, 2008, respectively.

Differences Between Aggregate Fair Value and Aggregate Unpaid Principal Balances

The following table summarizes the differences between the aggregate fair value and the aggregate unpaid balances of loans, interest bearing deposits in domestic offices and long-term debt instruments for which HUSI elected the fair value option as of September 30, 2008. These differences are as of a point in time and do not reflect the total net impact on profit or loss associated with HUSI's fair value elections for either the three or nine month periods ended September 30, 2008.

	September 30, 2008		
(in millions)	**Aggregate Unpaid Principal Balance**	**Fair Value**	**Fair Value Above (Below) Unpaid Principal Balance**
Loans elected for the fair value option	**$ 1,445**	**$ 1,257**	**$ (188)**
Interest bearing deposits in domestic offices elected for the fair value option (1)	**$ 2,285**	**$ 2,244**	**$ (41)**
Long-term debt			
Own debt issuances	**$ 1,750**	**$ 1,420**	**$ (330)**
Structured notes (1)	**1,539**	**1,328**	**(211)**
Total long-term debt elected for the fair value option	**$ 3,289**	**$ 2,748**	**$ (541)**

(1) Includes structured deposits and structured notes elected for fair value treatment pursuant to SFAS 155.

Note 17. Business Segments

HUSI has five distinct segments that it utilizes for management reporting and analysis purposes, which are generally based upon customer groupings, as well as products and services offered. There have been no changes in the basis of segmentation or measurement of segment profits as compared with the presentation in the 2007 Form 10-K.

HUSI reports results to HSBC in accordance with its reporting basis, International Financial Reporting Standards, "IFRSs". 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, HUSI continues to monitor capital adequacy, establish dividend policy, and report to regulatory agencies on a U.S. GAAP basis.

Further information related to the below financial results are presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)" of this Form 10-Q under the caption "Segment Results".

Reconciliation of IFRSs basis segment results to the U.S. GAAP consolidated totals are as follows:

	IFRS s Consolidated Amounts								(4)	(5)	GA
				Global Banking and Markets			Intersegmental		IFRS s	IFRS s	Consolid
(in millions)	PFS	CF	CMB		PB	Other	Revenue	Total	Adjustments	Reclassifications	Tot
Three months ended September 30 , 2008											
Net interest income (loss) (1)	$ 201	$ 327	$ 195	$ 334	$ 48	$ -	$ (43)	$ 1,062	$ (56)	$ 163	$ 1,
Other operating income (loss) (Total other revenues)	105	80	94	(72)	36	181	43	467	(146)	(46)	
Total revenues (loss)	306	407	289	262	84	181	-	1,529	(202)	117	1,
Loan impairment charges (Provision for credit losses) (3)	104	439	71	30	4	-	-	648	6	4	
	202	(32)	218	232	80	181	-	881	(208)	113	
Operating expenses (Total operating expenses) (2)	417	11	155	201	70	-	-	854	7	113	
Profit (loss) before income tax expense	(215)	(43)	63	31	10	181	-	27	(215)	-	(
	(57)	(16)	28	7	5	57	-	24	(76)	-	

Income tax expense (benefit)											
Net income (loss)	**$ (158)**	**$ (27)**	**$ 35**	**$ 24**	**$ 5**	**$ 124**	**$ -**	**$ 3**	**$ (139)**	**$ -**	**$ (**
Balances at end of period:											
Total assets	**$ 34,310**	**$ 19,695**	**$ 22,380**	**$ 193,243**	**$ 6,284**	**$ 403**	**$ -**	**$ 276,315**	**$ (87,634)**	**$ (2,098)**	**$ 186,**
Total loans	**25,817**	**19,103**	**19,221**	**38,662**	**5,089**	**-**	**-**	**107,892**	**(743)**	**(15,489)**	**91,**
Goodwill	**876**	**-**	**368**	**497**	**326**	**-**					