WASHINGTON REAL ESTATE INVESTMENT TRUST
Form PRE 14A
March 27, 2017

SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by Registrant x
Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Washington Real Estate Investment Trust
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)
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3) Filing Party:

4) Date Filed:

1775 Eye Street, N.W.
Suite 1000
Washington, D.C. 20006
202-774-3200
www.washreit.com

April __, 2017

Dear Shareholder,

You are cordially invited to attend the Annual Meeting of Shareholders of Washington Real Estate Investment Trust ("Washington REIT," "we" or "us") to be held on Thursday, June 1, 2017 at 8:30 a.m., Eastern Time, at 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006 (the "Annual Meeting"). A formal Notice of the meeting and a Proxy Statement describing the proposals to be considered and voted upon are enclosed.

The Board of Trustees (the "Board") has nominated three individuals for election as trustees at the Annual Meeting and recommends that shareholders vote in favor of their election. In addition to the election of the trustees, we are recommending your approval of an amendment to the Articles of Amendment and Restatement to declassify our Board, an amendment to the Articles of Amendment and Restatement to enable our shareholders to vote to amend our bylaws, our executive compensation program in a non-binding, advisory vote and the one-year frequency of the vote on the executive compensation program in a non-binding, advisory vote. We are also recommending your ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2017. The accompanying Notice of 2017 Annual Meeting of Shareholders describes these matters.

Regardless of the number of shares you own, your vote is important. Please read the Proxy Statement carefully, then complete, sign and return your Proxy Card in the enclosed envelope. You may also authorize a proxy to vote via telephone or the Internet if you prefer by following instructions on the Proxy Card.

The Board appreciates your continued support of Washington REIT and encourages your participation in the Annual Meeting. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented. Accordingly, please vote your shares as soon as possible.

Sincerely,

/s/ Charles T. Nason
Charles T. Nason
Chairman of the Board

Important Notice Regarding the Availability of Proxy Materials for
the Annual Meeting of Shareholders to be held on Thursday, June 1, 2017
This Proxy Statement and our 2016 Annual Report to Shareholders
are available at http://www.edocumentview.com/wre.

WASHINGTON REAL ESTATE INVESTMENT TRUST
NOTICE OF 2017 ANNUAL MEETING OF SHAREHOLDERS
To the Shareholders of Washington Real Estate Investment Trust:
Notice is hereby given that the Annual Meeting of Shareholders of Washington Real Estate Investment Trust, a Maryland real estate investment trust ("Washington REIT," "we" or "us"), will be held at the time and place below and for the following purposes:

Date:	Thursday, June 1, 2017
Time:	8:30 a.m., Eastern Time
Place:	1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006
Record Date:	The trustees have fixed the close of business on March 15, 2017, as the record date for determining holders of shares entitled to notice of and to vote at the Annual Meeting or at any postponement or adjournment thereof.
Items of Business:	1. To consider and vote upon an amendment to the Articles of Amendment and Restatement to declassify the Board of Trustees (the "Board"); 2. To consider and vote upon an amendment to the Articles of Amendment and Restatement to enable our shareholders to amend the bylaws; 3. To elect three trustees to serve until the annual meeting of shareholders in 2020 and until their successors have been duly elected and qualify; 4. To consider and vote on a non-binding, advisory basis upon the compensation of the named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K; 5. To consider and vote on a non-binding, advisory basis upon whether the shareholder advisory vote to approve the compensation of the named executive officers should occur every one, two or three years; 6. To consider and vote upon ratification of the appointment of Ernst & Young LLP as the our independent registered public accounting firm for 2017; and 7. To transact such other business as may properly come before the meeting.
Proxy Voting:	You are requested, whether or not you plan to be present at the Annual Meeting, to vote, sign and promptly return the Proxy Card. Alternatively, you may authorize a proxy to vote by telephone or the Internet, if you prefer. To do so, you should follow the instructions on the Proxy Card.

Regardless of the number of shares you hold, as a shareholder your role is very important, and the Board strongly encourages you to exercise your right to vote. Pursuant to the U.S. Securities and Exchange Commission's "notice and access" rules, our Proxy Statement and 2016 Annual Report to Shareholders are available online at www.edocumentview.com/wre.

By order of the Board of Trustees:

/s/ Kelly N. Shiflett
Kelly N. Shiflett
Corporate Secretary
Washington, D.C.
April __, 2017

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1775 Eye Street, N.W.
Suite 1000
Washington, D.C. 20006
202-774-3200 www.washreit.com

April __, 2017

PROXY STATEMENT
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING
Why am I receiving this Proxy Statement?

This Proxy Statement is furnished by the Board of Trustees (the “Board”) of Washington Real Estate Investment Trust, a Maryland real estate investment trust (“Washington REIT,” “we” or “us”), in connection with its solicitation of proxies for exercise at the 2017 Annual Meeting of Shareholders to be held on Thursday, June 1, 2017, at 8:30 a.m., Eastern Time, at 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006, and at any and all postponements or adjournments thereof (the "Annual Meeting"). On or about , 2017, we mailed a Shareholder Meeting Notice together with an Important Notice Regarding the Availability of Proxy Materials (the "Proxy Availability Notice") to shareholders of record as of the close of business on March 15, 2017 (the “Record Date”). This Proxy Statement, the form of Proxy Card and our 2016 Annual Report (the “Annual Report”) are first being furnished to shareholders on or about , 2017.

The mailing address of our principal executive offices is 1775 Eye Street N.W., Suite 1000, Washington, D.C. 20006. We maintain a website at www.washreit.com. Information on or accessible through our website is not and should not be considered part of this Proxy Statement.

You should rely only on the information provided in this Proxy Statement. No person is authorized to give any information or to make any representation not contained in this Proxy Statement, and, if given or made, you should not rely on that information or representation as having been authorized by us. You should not assume that the information in this Proxy Statement is accurate as of any date other than the date of this Proxy Statement or, where information relates to another date set forth in this Proxy Statement, then as of that date.

Why didn't I automatically receive a paper copy of the Proxy Card and Annual Report?

Pursuant to rules adopted by the U.S. Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials via the Internet. Accordingly, rather than paper copies of all of our proxy materials, we sent the Shareholder Meeting Notice and Proxy Availability Notice to our shareholders.

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will be asked to vote upon the matters set forth in the accompanying notice of annual meeting, including amendments to Washington REIT’s Articles of Amendment and Restatement to declassify the board and to enable shareholders to vote to amend the bylaws, the election of trustees, an advisory resolution on named executive officer compensation, an advisory vote on the frequency of the advisory resolution on named executive officer compensation, the ratification of the appointment of our independent registered public accounting firm and such other business as may properly come before the meeting and at any postponement or adjournment thereof.

May I attend the meeting?

All shareholders of record of common shares at the close of business on the Record Date, or their designated proxies, are authorized to attend the Annual Meeting. Each shareholder and proxy will be asked to present a valid government-issued photo identification, such as a driver’s license or passport, before being admitted. If you are not a shareholder of record but you hold your shares in “street name” (i.e., your shares are held in an account maintained by a bank, broker or other nominee), then you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership.

Who is entitled to vote at the Annual Meeting?

The close of business on March 15, 2017 has been fixed as the Record Date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting. Our voting securities consist of common shares of beneficial interest, $0.01 par value per share (“common shares”), of which 75,053,128 common shares were outstanding at the close of business on the Record Date. Washington REIT has no other outstanding voting security. Each common share outstanding as of the close of business on the Record Date will be entitled to one vote on each matter properly submitted at the Annual Meeting.

What constitutes a quorum?

The presence, in person or by proxy, of shareholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting on any matter will constitute a quorum at the Annual Meeting. Shareholders do not have cumulative voting rights. Abstentions and broker non-votes, if any, are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting. A broker non-vote occurs when a broker holding shares for a beneficial owner does not authorize a proxy to cast a vote with respect to a particular proposal because the broker does not have discretionary voting power with respect to that matter and has not received voting instructions from the beneficial owner. If that happens, the broker may vote those shares only on matters deemed "routine" by the New York Stock Exchange (the "NYSE"), the exchange on which our common shares are listed. On non-routine matters, nominees holding shares for a beneficial owner cannot vote without instructions from the beneficial owner, resulting in a so-called "broker non-vote."

Proposal 6 (Ratification of Ernst & Young LLP) is the only proposal that is considered "routine" under the NYSE rules. Accordingly, no broker non-votes will arise in the context of voting for the ratification of the appointment of Ernst & Young

LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017, and the broker is permitted to vote your shares on such ratification even if the broker does not receive voting instructions from you. The treatment of abstentions and broker non-votes and the vote required to approve each proposal are set forth under the caption "Voting Matters" under each proposal below.

How do I vote?

Voting by Proxy for Shares Registered Directly in the Name of the Shareholder

If you are a "registered shareholder" and hold your common shares in your own name as a holder of record with our transfer agent, Computershare Trust Company, N.A., you may instruct the proxy holders named in the Proxy Card how to vote your common shares in one of the following ways:

- Vote by Internet. You may vote via the Internet by following the instructions provided on your Proxy Card. The website for Internet voting is printed on your Proxy Card. Internet voting is available 24 hours per day until 11:59 p.m., Eastern Time on May 31, 2017. To vote online, you will be asked to enter your control number(s) to ensure the security of your vote. You will find your control number on your Proxy Card received with your Proxy Statement. If you vote by Internet, you do not need to return your Proxy Card.
- Vote by Telephone. You also have the option to vote by telephone by calling the toll-free number listed on your Proxy Card. Telephone voting is available 24 hours per day until 11:59 p.m., Eastern Time, on May 31, 2017. When you call, please have your Proxy Card in hand. You will receive a series of voice instructions that will allow you to vote your common shares. You will also be given the opportunity to confirm that your instructions have been properly recorded. If you vote by telephone, you do not need to return your Proxy Card.
- Vote by Mail. If you received printed materials, and would like to vote by mail, then please mark, sign and date your Proxy Card and return it promptly to our transfer agent, Computershare Trust Company, N.A., in the postage-paid envelope provided. If you did not receive printed materials and would like to vote by mail, you must request printed copies of the proxy materials by following the instructions on the Proxy Availability Notice.

Voting by Proxy for Shares held in "Street Name"

If your common shares are held in "street name" (i.e., through a broker, bank or other nominee), then you will receive instructions from your broker, bank or other nominee that you must follow in order to have your common shares voted. The materials from your broker, bank or other nominee will include a Voting Instruction Form or other document by which you can instruct your broker, bank or other nominee how to vote your common shares.

What am I being asked to vote on?

You are being asked to consider and vote on the following proposals:

- Proposal 1 - Amendment to the Articles of Amendment and Restatement to Declassify the Board of Trustees and Provide for Annual Election of Trustees - page 6 below: To consider and vote on an amendment to our Articles of Amendment and Restatement to declassify the Board and provide for annual elections of our trustees (the "Declassification Amendment").
- Proposal 2 - Amendment to the Articles of Amendment and Restatement to Enable Shareholders to Vote to Amend the Bylaws - page 8 below: To consider and vote on an amendment to our Articles of Amendment and Restatement to enable our shareholders to vote to amend our bylaws (the "Shareholder Voting Amendment").
- Proposal 3 - Election of Trustees) - page 9 below: To elect three trustees to the Board to serve until the annual meeting of shareholders in 2020 and until their successors have been duly elected and qualify. If the Declassification Amendment is approved at the Annual Meeting, the trustees nominated at the Annual Meeting, and all future annual meetings, will each be elected for a one year term and, beginning with the 2019 annual meeting of shareholders when the last term in the currently classified board is scheduled to expire, all members of the Board will be elected annually and, in each case, until his or her respective successor is duly elected and qualifies.
- Proposal 4 (Advisory Vote on Named Executive Officer Compensation) - page 28 below: To consider and vote on a non-binding, advisory basis upon the compensation of the named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K ("Say-on-Pay vote").
- Proposal 5 (Advisory Vote on Frequency of Advisory Vote on Named Executive Officer Compensation) - page 60 below: To consider and vote, on a non-binding, advisory basis upon whether the shareholder advisory vote to approve the compensation of the named executive officers should occur every one, two or three years.
- Proposal 6 (Ratification of Appointment of Ernst & Young LLP) - page 62 below: The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017.

We are not currently aware of any other matter to be presented at the Annual Meeting other than those described in this Proxy Statement. If any other matter not described in the Proxy Statement is properly presented at the Annual Meeting, any proxies received by us will be voted in the discretion of the proxy holders.

What are the Board's voting recommendations?

The Board recommends that you vote as follows: FOR the Declassification Amendment, FOR the Shareholder Voting Amendment, FOR the election of the trustee nominees listed on the Proxy Card, FOR approval of the compensation of our named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, for holding the Say-on-Pay vote every 1 YEAR, and FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017. All properly executed proxies will be voted in accordance with the instructions contained therein. If no instructions are specified, proxies will be voted in accordance with the Board's recommendations above. All proxies will be voted in the discretion of the proxy holders on any other matter to come before the meeting, unless otherwise instructed on the Proxy Card.

What is householding?

If you and other residents at your mailing address own common shares in street name, your broker, bank or other nominee may have sent you a notice that your household will receive only one Annual Report, Notice of Annual Meeting and/or Proxy Statement, unless you have instructed otherwise. This procedure, known as “householding,” is intended to reduce the volume of duplicate information shareholders receive and also reduce our printing and postage costs. If you wish to request extra copies, we will promptly deliver a separate copy of such documents to shareholders who write or call us at the following address or telephone number: Washington Real Estate Investment Trust, 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006, Attention: Investor Relations; telephone 202-774-3200. Shareholders wishing to receive separate copies of our Proxy Statement and Annual Report in the future, or shareholders currently receiving multiple copies of the Proxy Statement and Annual Report at their address who would prefer that only a single copy of each be delivered there, should contact their bank, broker or other nominee record holder.

Can I change my vote after I have voted?

You may revoke your proxy at any time prior to its exercise at the Annual Meeting by (1) submitting a duly executed Proxy Card bearing a later date to the Corporate Secretary, (2) attending the Annual Meeting and voting in person, or (3) delivering a signed notice of revocation of the Proxy Card to our Corporate Secretary at the following address: c/o Corporate Secretary, Washington Real Estate Investment Trust, 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006. If your common shares are held by a broker, bank or any other persons holding common shares on your behalf, you must contact that institution to revoke a previously authorized proxy.

Whom should I call if I have questions or need assistance voting my shares?

Please call (800) 565-9748 or email info@washreit.com if you have any questions in connection with voting your shares.

PROPOSAL 1: AMENDMENT TO THE ARTICLES OF AMENDMENT AND RESTATEMENT TO DECLASSIFY THE BOARD OF TRUSTEES AND PROVIDE FOR ANNUAL ELECTION OF TRUSTEES

Description of Proposal

Our Articles of Amendment and Restatement currently provide that our Board is classified into three groups of trustees, with each class of trustees serving staggered, three-year terms so that the term of office of a single class expires each year.

The Board has proposed that Section 5.2 of the Articles of Amendment and Restatement be revised to declassify the Board. The full text of the Declassification Amendment is set forth as Appendix A to this proxy statement. The purpose of this amendment is to declassify the Board and provide that each trustee serves for a one year term in order to bring Washington REIT's governance structure into line with more shareholder-favorable market practice, thereby enhancing the rights of shareholders and improving Washington REIT's corporate governance to maximize accountability to shareholders. Specifically, under the proposed amendment to the Articles of Amendment and Restatement:

- all directors elected or appointed at or after the Annual Meeting will serve for terms expiring at the next annual meeting of shareholders, so that, beginning at the 2019 annual meeting of shareholders, the Board will no longer be divided into classes and all trustees will be elected to serve for one-year terms expiring at the next annual meeting of shareholders;
- all trustees currently in office whose terms are scheduled to expire at the 2018 and 2019 annual meetings of shareholders will continue to serve their remaining terms; and
- any trustee chosen as a result of a newly-created trusteeship or to fill a vacancy on the Board after the Annual Meeting will hold office for a term expiring at the next annual meeting of shareholders.

The Board considered the benefits of classified boards, which include that classified boards may foster stability and continuity with respect to long-term planning and in the overall business of a company and that classified boards provide non-management directors with longer terms of office that may enhance their independence from management. Additionally, classified boards may encourage potential acquirors to initiate arms-length discussions with a board, instead of engaging in takeover attempts, as classified boards limit an acquiror's ability to replace an entire board in one election, thereby enabling the board to maximize shareholder value or strive to prevent a takeover that the board believes is not in the shareholder's best interest However, the election of trustees is the primary means for shareholders to exercise influence over Washington REIT and its policies and to hold trustees accountable. A classified board limits the ability of shareholders to elect all trustees on an annual basis and may discourage proxy contests in which shareholders have an opportunity to vote for a competing slate of nominees.

While classified boards may increase the long-term stability and continuity of a board, the Board believes that long-term stability and continuity should result from the annual election of directors, which provides shareholders with the opportunity to evaluate the trustees' performance, both individually and collectively, on an annual basis.

The Corporate Governance/Nominating Committee recommended to the Board, and the Board is submitting, the Declassification Amendment for approval at the Annual Meeting. If this proposal is approved by the shareholders, the Declassification Amendment will be filed with the Maryland Department of Assessments and Taxation.

Voting Matters

Under our Articles of Amendment and Restatement, an amendment to the Articles of Amendment and Restatement requires the affirmative vote of a majority of all the votes entitled to be cast on the matter. A majority of all votes entitled to be cast means that the number of votes "FOR" a proposal must exceed 50% of all the votes entitled to be cast on the matter. Abstentions and other shares not voted (whether broker non-votes, if any, or otherwise) will have the same effect as votes against the proposal.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE DECLASSIFICATION AMENDMENT, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 2: AMENDMENT TO THE ARTICLES OF AMENDMENT AND RESTATEMENT TO ENABLE SHAREHOLDERS TO VOTE TO AMEND THE BYLAWS

Description of Proposal

We are also asking our shareholders to approve the Shareholder Voting Amendment to our Articles of Amendment and Restatement to enable shareholders to have a concurrent right, along with the right of the Board, to vote to amend our bylaws. On February 8, 2017, the Board approved, subject to approval of the Shareholder Voting Amendment by the shareholders, an amendment to Article XIV of our bylaws that will allow for the bylaws to be altered, amended or repealed by the shareholders, by the affirmative vote of a majority of all the votes entitled to be cast on the matter. The Board's existing right to amend the bylaws was not modified by this bylaw amendment. Prior to this bylaw amendment, as permitted under the Maryland General Corporate Law, our bylaws did not provide shareholders with the ability to amend the bylaws. This bylaw amendment is not required to be approved by our shareholders, but as described below, our existing Articles of Amendment and Restatement also contain a limitation on the ability of our shareholders to vote on bylaw amendments that needs to be amended to enable this bylaw amendment to become operative. As a result, the bylaw amendment will not take effect unless the Shareholder Voting Amendment is approved at the Annual Meeting.

In order for the above-referenced bylaw amendment to become operative, Section 8.2 of our Articles of Amendment and Restatement needs to be amended to enable shareholders to have the right to vote on amendments to the bylaws. The full text of the Shareholder Voting Amendment is set forth as Appendix B to this proxy statement. As described further below, the Shareholder Voting Amendment to our Articles of Amendment and Restatement requires approval of our shareholders. The Corporate Governance/Nominating Committee recommended to the Board, and the Board is submitting, the Shareholder Voting Amendment for approval at the Annual Meeting. If this proposal is approved by the shareholders, the above-referenced bylaw amendment will become effective and the Shareholder Voting Amendment will be filed with the Maryland Department of Assessments and Taxation.

Voting Matters

Under our Articles of Amendment and Restatement, an amendment to the Articles of Amendment and Restatement requires the affirmative vote of a majority of all the votes entitled to be cast on the matter. A majority of all votes entitled to be cast means that the number of votes "FOR" a proposal must exceed 50% of all the votes entitled to be cast on the matter. Abstentions and other shares not voted (whether broker non-votes, if any, or otherwise) will have the same effect as votes against the proposal.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE SHAREHOLDER VOTING AMENDMENT, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 3: ELECTION OF TRUSTEES

Description of Proposal

Our Board currently consists of eight trustees (which includes one vacancy resulting from the resignation of Wendelin A. White in August 2016) and, pursuant to our Articles of Amendment and Restatement, is divided into three classes with staggered terms. At each annual meeting, pursuant to our Articles of Amendment and Restatement, our shareholders elect one class of trustees to serve until the expiration of the term associated with such class. Each trustee holds office until his or her successor has been elected and qualifies or the trustee's earlier resignation, death or removal. Benjamin S. Butcher, Edward S. Civera and Ellen M. Goitia (collectively, the "Trustee Nominees") have been nominated for election as trustees at the Annual Meeting. If Proposal 1, "Amendment to the Articles of Amendment and Restatement to Declassify the Board of Trustees and Provide for Annual Election of Trustees" is approved by our shareholders at the Annual Meeting, the Trustee Nominees will be elected to serve a one-year term and until his or her successor has been elected and qualifies. When the trustees in the other classes conclude their current term, those trustees (or their successors) will also be elected to serve one-year terms. However, if shareholders do not approve Proposal 1, the Board will remain classified and the terms of the Trustee Nominees will expire at the annual meeting of shareholders in 2020.

Messrs. Butcher and Civera are currently serving as trustees and were recommended for nomination for re-election by the members of the Corporate Governance/Nominating Committee. Ms. Goitia was recommended for nomination for election to the Board for the first time by the members of the Corporate Governance/Nominating Committee. For biographical information with respect to Messrs. Butcher and Civera and Ms. Goitia, please refer to "Corporate Governance and Board Matters - Trustees - Trustee Nominees" commencing on page 11 below.

Voting Matters

Under our bylaws, the uncontested election of the trustees requires the affirmative vote of a majority of the total votes cast for and against such trustee. A majority of votes cast means that the number of votes "FOR" a nominee must exceed the number of votes "AGAINST" that nominee. Abstentions and other shares not voted (whether broker non-votes, if any, or otherwise) will not be counted as votes cast and will have no effect on the result of this vote.

If any of Messrs. Butcher, Civera or Ms. Goitia were to become unable or unwilling to stand for election for any reason not presently known or contemplated, the persons named in the enclosed Proxy Card will have discretionary authority to vote pursuant to the Proxy Card for a substitute nominee nominated by the Board, or the Board, on the recommendation of the Corporate Governance/Nominating Committee, may reduce the size of the Board and number of nominees.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF MESSRS. BUTCHER AND CIVERA AND MS. GOITIA.

CORPORATE GOVERNANCE AND BOARD MATTERS

Board Composition

The Board currently consists of eight trustees (which includes one vacancy resulting from the resignation of Wendelin A. White in August 2016), divided into three classes. The current members of our Board are Benjamin S. Butcher, William G. Byrnes, Edward S. Civera, Paul T. McDermott, Charles T. Nason, Thomas H. Nolan, Jr., and Vice Adm. Anthony L. Winns (RET.). Mr. Nason serves as Chairman of the Board. This vacancy resulting from the resignation of Ms. White will be filled by the election of Ms. Goitia if she is elected at the Annual Meeting. The terms of the continuing trustees continue until the annual meetings to be held in 2018 and 2019 and until their successors are duly elected and qualify.

Trustees

The following table sets forth the names and biographical information concerning each of our trustee nominees and our continuing trustees.

NAME	PRINCIPAL OCCUPATION	SERVED AS TRUSTEE SINCE	AGE	TERM EXPIRES (1)
Trustee Nominees				
Benjamin S. Butcher	Chief Executive Officer, President and Chairman of the Board of Directors of STAG Industrial, Inc.	2014	63	2017
Edward S. Civera	Retired Chairman, Catalyst Health Solutions, Inc.	2006	66	2017
Ellen M. Goitia (2)	Retired Partner, KPMG	—	57	—
Continuing Trustees				
Charles T. Nason	Chairman, Washington REIT; Retired Chairman, President and Chief Executive Officer, The Acacia Group	2000	70	2018
Thomas H. Nolan, Jr.	Chairman of the Board and Chief Executive Officer of Spirit Realty Capital Inc.	2015	59	2018
Vice Adm. Anthony L. Winns (RET.)	President, Middle East-Africa Region, Lockheed Martin Corporation	2011	61	2018
William G. Byrnes	Retired Managing Director, Alex Brown & Sons	2010	66	2019
Paul T. McDermott	President and Chief Executive Officer, Washington REIT	2013	55	2019

(1) If the Declassification Amendment is approved, the Trustee Nominees’ terms will expire in 2018. If the Declassification Amendment is not approved, the Trustee Nominees’ terms will expire in 2020.
(2) Ms. Goitia was nominated to serve on the Board of Trustees on March 16, 2017 but is not yet serving as a Trustee.

Trustee Nominees

The biographical description below for each nominee includes the specific experience, qualifications, attributes and skills that led to the conclusion by the Board that such person should serve as a trustee of Washington REIT.

Benjamin S. Butcher

Served as Trustee Since 2014

Benjamin S. Butcher serves as the Chief Executive Officer, President and Chairman of the Board of Directors of STAG Industrial, Inc., a position he has held since July 2010. Prior to the formation of STAG Industrial, Inc., Mr. Butcher oversaw the growth of STAG Capital Partners, LLC and its affiliates, serving as a member of their Board of Managers and Management Committees, from 2003 to 2011. From 1999 to 2003, Mr. Butcher was engaged as a private equity investor in real estate and technology. From 1997 to 1998, Mr. Butcher served as a Director at Credit Suisse First Boston, where he sourced and executed transactions for the Principal Transactions Group (real estate debt and equity). From ____ 1993 to 1997, he served as a Director at Nomura Asset Capital, where he focused on marketing and business development for its commercial mortgage-backed securities group. Mr. Butcher brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from his service as chief executive of STAG Industrial, Inc. and his previous service with STAG Capital Partners, LLC and its affiliates;
- REIT industry experience from his service as chief executive of STAG Industrial, Inc. since July 2010;
- Real estate investment banking and capital markets experience from his five years as an investment banker with Credit Suisse First Boston and Nomura Asset Capital; and
-

Financial and accounting acumen from his five years in investment banking, his experience as a private equity investor and with STAG Capital Partners, LLC, and his service as a public company executive with STAG Industrial, Inc.

Edward S. Civera

Served as Trustee Since 2006

Edward S. Civera served as the Chairman of the Board of Catalyst Health Solutions, Inc., a publicly traded pharmacy benefit management company (formerly known as HealthExtras, Inc.), from 2005 until his retirement in December 2011. In 2012, he served as a senior advisor to management and the Board of Directors of Catalyst Health Solutions in connection with the sale of the company. Mr. Civera also served as Chairman of the MedStar Health System, a multi-institutional healthcare organization until his retirement from the board in November 2013. From 1997 to 2001, Mr. Civera was the Chief Operating Officer and Co-Chief Executive Officer of United Payors & United Providers, Inc. __________ (UP&UP), a publicly-traded healthcare company that was sold in 2000. Prior to that, Mr. Civera spent 25 years with Coopers & Lybrand (now PricewaterhouseCoopers LLP), most recently as Managing Partner, focused on financial advisory and auditing services. Mr. Civera is a Certified Public Accountant. Mr. Civera has also served as a director of The Mills Corporation, MCG Capital Corporation and Notre Dame of Maryland University. Mr. Civera brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from his ten years as a public company chief executive or chairman at UP&UP and Catalyst Health Solutions;

- REIT industry experience from his involvement as an independent director of The Mills Corporation from 2005 to 2006 leading its reorganization and sale as Chairman of the Special Committee and Executive Committee;
- Office real estate industry experience from his involvement in real estate matters as Chairman of MedStar Health;
- Financial and accounting acumen from his 26 years in public accounting and his service as a public company chief executive; and
- General familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C./Baltimore corridor for 28 years.

Ellen M. Goitia

Nominated in March of 2017

Ellen M. Goitia is a Certified Public Accountant and served as the partner-in-charge for KPMG LLP's (KPMG) Chesapeake Business Unit Audit practice and a member of the firm's audit leadership team from October 2011 until her retirement in May 2016. As the partner-in-charge of the Chesapeake Business Unit Audit Practice, Ms. Goitia had ultimate operational oversight for five offices in Maryland, DC and Virginia, with responsibilities including business unit financial performance, resource management, human resources, quality client service, and risk management. Ms. Goitia was admitted to the KPMG partnership in 1993 and had more than 30 years of experience as a professional with the_firm, including experience as lead audit partner for a variety of publicly traded and private companies. She has served clients on a wide range of accounting and operational issues, public security issuances and strategic corporate transactions. Ms. Goitia was a speaker, panelist and moderator for KPMG's Audit Committee Institute as well as for other governance programs external to KPMG. In addition, Ms. Goitia served as an independent member of the Nominating Committee of KPMG's Board of Directors from 2009 until 2011, and has served on several nonprofit organizations' boards. Ms. Goitia brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from her 5 years as the partner-in-charge of the Chesapeake Business Unit Audit Practice of KPMG and over 30 years as a professional at KPMG;
- Understanding of and familiarity with public companies and public company boards from her service as lead audit engagement partner at a major accounting firm;
- Public company accounting, financial statements and corporate finance expertise from over 20 years of service as lead audit engagement partner at a major accounting firm; and
- General familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C. region for over 35 years.

Continuing Trustees

The biographical description below for each continuing trustee includes the specific experience, qualifications, attributes and skills that led to the conclusion by the Board that such person should serve as a trustee of Washington REIT.

William G. Byrnes

Served as Trustee since 2010

William G. Byrnes has been a private investor since 2001. He was on the Board of Directors of CapitalSource Inc., a commercial lender operating principally through its subsidiary CapitalSource Bank from 2003 until its sale in April 2014, serving in various capacities including Presiding Independent Director and, most recently, Chairman of the Board. He founded, and was Managing Member of, Wolverine Partners, LLC, that operated MUTUALdecision, a mutual fund research business, from September 2006 to October 2012. Mr. Byrnes was co-founder of Pulpfree d/b/a BuzzMetrics, a consumer-generated media research and marketing firm, and served as its Chairman

from June 1999 until its sale in September 2005. He was on the Board of Directors and chairman of the Audit

Committee of LoopNet, Inc., an information services provider to the commercial real estate industry, from September 2006 until its sale in April 2012. Mr. Byrnes spent 17 years with Alex Brown & Sons, most recently as a Managing Director and head of the investment banking financial institutions group. He has been a full-time and adjunct professor and member of the Board of Regents at Georgetown University and currently sits on its Entrepreneurship Advisory Group. Mr. Byrnes brings the following experience, qualifications, attributes and skills to the Board:

- Real estate investment banking and capital markets experience from his 17 years as an investment banker with Alex Brown & Sons;

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- REIT industry experience from his involvement over the last 16 years as an independent director of three publicly-traded REITs and an institutional fund focused on investing in REITs;
- Retail and residential real estate industry experience from his involvement as an independent director of Sizeler Property Investors from 2002 to 2006;
- Financial and accounting acumen from his 17 years in investment banking and his service as a public company director; and
- General familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C./Baltimore corridor for 41 years.

Paul T. McDermott Served as Trustee Since 2013

Paul T. McDermott was elected to the Board of Trustees and named President and Chief Executive Officer of Washington REIT in October 2013. Prior to joining Washington REIT, he was Senior Vice President and Managing Director for Rockefeller Group Investment Management Corp., a wholly owned subsidiary of Mitsubishi Estate Co., Ltd. from June 2010 to September 2013. Prior to joining The Rockefeller Group, he served from 2006 to 2010 as Principal and Chief Transaction Officer at PNC Realty Investors. Between 2002 and 2006, Mr. McDermott held two primary officer roles at Freddie Mac -- Chief Credit Officer of the Multifamily Division and Head of Multifamily Structured Finance and Affordable Housing. From 1997 to 2002, he served as Head of the Washington, D.C. Region for Lend Lease Real Estate Investments. Mr. McDermott brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from his service as chief executive of Washington REIT and his previous service as Senior Vice President of Rockefeller Group;
- Office, retail and residential real estate industry operating and investment experience from his experience as Senior Vice President of Rockefeller Group, Principal and Chief Transaction Officer at PNC Realty Investors and Chief Credit Officer of the Multifamily Division of Freddie Mac;
- Office and residential development experience from his experience as Head of Washington, D.C. Region for Lend Lease Real Estate Investments; and
- Extensive familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C. region for 55 years.

Charles T. Nason Served as Trustee Since 2000

Charles T. Nason is retired Chairman and Chief Executive Officer of The Acacia Group of Washington, D.C. (including Acacia Life, Acacia Federal Savings Bank and the Calvert Group LTD.), now a member company of the Ameritas Group as a result of the merger of the two organizations in 1999. He served Acacia from 1977 to 2005, including as Chief Executive Officer from 1988 to 2003. Mr. Nason is a past Chairman and director of The Greater Washington Board of Trade and the Federal City Council. He served as a director of MedStar Health from 2001 to 2010 and was a member of the Economic Club of Washington. He is also a member of the Board of Trustees of Washington and Jefferson College,

and served as its Chairman from 2007 to 2010. In addition, he is a past director of The American Council of Life Insurers and past Chairman of the Insurance Marketplace Standards Association. Mr. Nason brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from his 15 years as a chief executive of The Acacia Group;

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- Real estate investment and lending experience from his roles in supervising as chief executive The Acacia Group's real estate purchase and sale decisions, and in supervising as Chairman Acacia Federal Savings Bank's real estate construction and acquisition lending;
- Financial and accounting acumen from his 15 years of service as a chief executive of an insurance holding company;
- Involvement in the D.C. business community, including past service as Chairman of the Greater Washington Board of Trade; and
- General familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C. region for 28 years.

Thomas H. Nolan, Jr.

Served as Trustee Since 2015

Thomas H. Nolan, Jr., serves as Chairman of the Board of Directors and Chief Executive Officer of Spirit Realty Capital, Inc. (NYSE: SRC), positions he has held since September 2011. Mr. Nolan previously worked for General Growth Properties, Inc. ("GGP"), serving as Chief Operating Officer from March 2009 to December 2010 and as President from October 2008 to December 2010. He also served as a member of the board of directors of GGP from 2005 to 2010. GGP filed for protection under Chapter 11 of the U.S. Bankruptcy Code in April 2009 and emerged from bankruptcy in November 2010. Mr. Nolan was a member of the senior management team that led GGP's ____________

reorganization and emergence from bankruptcy, which included the restructuring of $15.0 billion in project-level debt, payment in full of all of GGP's pre-petition creditors and the securing of $6.8 billion in equity commitments. From July 2004 to February 2008, Mr. Nolan served as a Principal and Chief Financial

Officer of Loreto Bay Company, the developer of the Loreto Bay master planned community in Baja, California. From October 1984 to July 2004, Mr. Nolan held various financial positions with AEW Capital Management, L.P., a national real estate investment advisor, and from 1998 to 2004, he served as Head of Equity Investing and as President and Senior Portfolio Manager of The AEW Partners Funds. Mr. Nolan brings the following experience, qualifications, attributes and skills to the Board:

- General business management and strategic planning experience from his service as chief executive of Spirit Realty Capital, Inc. and his previous service with GGP;
- REIT industry experience from his service as chief executive of Spirit Realty Capital, Inc. and his previous service with GGP;
- Real estate asset management experience in multiple asset classes from his 20 years with AEW Capital Management, L.P.; and
- Financial and accounting acumen from his 20 years with AEW Capital Management, L.P., his service as chief executive of Spirit Realty Capital, Inc. and his previous service with GGP.

Vice Adm. Anthony L. Winns (RET.)

Served as Trustee Since 2011

Vice Adm. Anthony L. Winns (RET.) is President, Middle East-Africa Region, Lockheed Martin Corporation ("Lockheed"), a position he has held since January 2013. Between October 2011 and January 2013, Mr. Winns was Vice President, International Maritime Programs, at Lockheed. Between July 2011 and October 2011, Mr. Winns was a defense industry consultant. Mr. Winns retired in June 2011 after 32 years of service in the United States Navy. He served as Naval Inspector General from 2007 to his retirement. From 2005 to 2007, Mr. Winns served as Deputy Director, Air Warfare Division for the Chief of Naval Operations. Prior to 2003, Mr. Winns served in other staff and leadership positions

in Washington, D.C., including at the Bureau of Naval Personnel. He also served as commanding officer of several major commands, including the Pacific Patrol/Reconnaissance task force, the USS Essex, an amphibious assault carrier, and a naval aircraft squadron. Mr. Winns also serves as a director on the board of the Navy Mutual Aid Association.

Mr. Winns brings the following experience, qualifications, attributes and skills to the Board:

- General enterprise management and strategic planning experience from his 10 years of service as a commanding officer of various military units (including a naval vessel) and 11 years of service in senior staff positions in the Pentagon;
- Government contracting experience from his three years of service managing U.S. Navy procurement programs as Deputy Director, Air Warfare Division for the Chief of Naval Operations (Washington REIT is a federal contractor and many of Washington REIT's largest tenants and potential future tenants are federal contractors);
- Washington, D.C. area defense industry experience from his 16 years of service in staff positions in the Pentagon and current service as President, Middle East-Africa Region, Lockheed Martin Corporation; and
- General familiarity with D.C. area real estate by virtue of living and working in the Washington, D.C. region for 22 years.

Board Governance

Leadership Structure

Our President and Chief Executive Officer is Paul T. McDermott. Charles T. Nason serves as our Chairman of the Board of Trustees and is independent under NYSE rules. The Board has concluded that Washington REIT should maintain a Board leadership structure in which either the Chairman or a lead trustee is independent under the rules of the NYSE. As a result, the Board adopted a Corporate Governance Guideline setting forth this policy. The Corporate Governance Guideline is set forth below:

The Board annually elects one of its trustees as Chairman of the Board. The current Chairman of the Board is independent under the rules of the NYSE. In the future, the Chairman of the Board may or may not be an individual who is independent under the rules of the NYSE (and may or may not be the same individual as the Chief Executive Officer). At any time that the Chairman of the Board is not an individual who is independent under the rules of the New York Stock Exchange, the Board will appoint a Lead Independent Trustee elected by the independent trustees. The Lead Independent Trustee has authority to: (i) preside at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent trustees; (ii) serve as a liaison between the Chairman of the Board and the independent trustees; (iii) approve information sent to the Board; (iv) approve meeting agendas for the Board; (v) approve meeting schedules to assure that there is sufficient time for discussion of all agenda items; (vi) call meetings of the independent trustees; and (vii) if requested by major shareholders, consult and directly communicate with such shareholders.

The Board believes the leadership structure described in this Corporate Governance Guideline is appropriate because it ensures significant independent Board leadership regardless of whether, in the future, the Chairman is independent under the rules of the NYSE.

Independence

Under NYSE rules, a majority of the Board must qualify as “independent.” To qualify as “independent,” the Board must affirmatively determine that the trustee has no material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us).

The Board has determined that all trustees and trustee nominees, with the exception of Mr. McDermott, are “independent,” as that term is defined in the applicable NYSE listing standards.

Washington REIT notes that Lockheed Martin Corporation was a tenant under a commercial lease with Washington REIT entered into in the ordinary course of business through June 2016 (at which time the underlying property was sold by Washington REIT). Mr. Winns serves as an employee of Lockheed Martin but is not an executive officer, board member or 1% shareholder of such company. In addition, payments from Lockheed Martin to Washington REIT under the leasing arrangements were significantly less than 1% of either Washington REIT’s or Lockheed Martin’s 2016 gross revenues. Based on the foregoing, the Board determined no material relationship exists. For the specific reasons set forth above, we believe Mr. Winns is independent under applicable NYSE standards and constitutes an “independent outsider” under applicable Institutional Shareholder Services (ISS) guidance.

Risk Oversight

One of the key functions of the Board is informed oversight of our risk management process. As an initial matter, the Board considers actual risk monitoring and management to be a function appropriately delegated to Washington REIT management, with the Board and its committees functioning in only an oversight role. Our Board will administer this oversight function directly, with support from its three standing committees, the Audit Committee, Compensation Committee and the Corporate Governance/Nominating Committee, each of which addresses risks specific to their respective areas of oversight. The Board has adopted a policy delineating the roles of the Board and its various committees in an ongoing risk oversight program for Washington REIT, providing that:

- the Board will coordinate all risk oversight activities of the Board and its committees, including appropriate coordination with Washington REIT's business strategy;
- the Audit Committee will oversee material financial reporting risk and risk relating to REIT non-compliance;
- the Compensation Committee will oversee financial risk, financial reporting risk and operational risk, in each case arising from Washington REIT's compensation plans;

- the Corporate Governance/Nominating Committee will oversee executive succession risk and Board function risk; and
- the Board will oversee all other material risks applicable to Washington REIT, including operational, catastrophic and financial risks that may be relevant to Washington REIT's business.

Under its policy, the Board also involves the Audit Committee in its risk oversight functions as required by applicable NYSE rules.

Meetings

The Board held ten meetings in 2016. During 2016, each incumbent trustee attended at least 75% of the aggregate of the total number of meetings of the Board (held during the period for which he has been a trustee) and the total number of meetings of all committees of the Board on which he served (during the periods that he or she served). All members of the Board attended the Annual Meeting in person in 2016. The Board does not have a formal written policy requiring trustees to attend the Annual Meeting, although trustees have traditionally attended.

Washington REIT's trustees who qualify as "non-management" within the meaning of the NYSE rules meet at regularly scheduled executive sessions without management participation. The sessions are presided over by Mr. Nason in his capacity as Chairman. In 2016, the Board met in executive session without the Chief Executive Officer five times.

Committee Governance

Our Board has three standing committees, an Audit Committee, a Compensation Committee and a Corporate Governance/Nominating Committee. The membership and the function of each of these committees are described below.

	Audit	Compensation	Corporate Governance/Nominating
Benjamin S. Butcher			
William G. Byrnes	Chair		
Edward S. Civera		Chair	
Thomas H. Nolan, Jr.			
Vice Adm. Anthony L. Winns			Chair
Number of meetings held during 2016	8	5	3

Audit Committee

All members of the Audit Committee are, and were during 2016, "independent," under NYSE rules. The Board has determined that each member of the Audit Committee qualifies as an audit committee financial expert, as that term is defined in the rules of the SEC.

The Audit Committee operates pursuant to a charter that was approved by the Board and that is reviewed and reassessed at least annually. The Audit Committee's oversight responsibility includes oversight relating to: (i) the integrity of Washington REIT's consolidated financial statements and financial reporting process; (ii) Washington REIT's systems of disclosure controls and procedures, internal control over financial reporting and other financial information provided by Washington REIT; (iii) Washington REIT's compliance with financial, legal and regulatory requirements; (iv) the annual independent audit of Washington REIT's financial statements, the engagement and retention of the registered independent public accounting firm and the evaluation of the qualifications, independence and performance of such independent public accounting firm; (v) the performance of Washington REIT's internal audit function; and (vi) the fulfillment of the other responsibilities set forth in its charter.

The Audit Committee assists the Board in oversight of financial reporting, but the existence of the Audit Committee does not alter the responsibilities of Washington REIT's management and the independent accountant with respect to the accounting and control functions and financial statement presentation. For a more detailed description of the Audit Committee's duties and responsibilities, please refer to the "Audit Committee Report" below in this Proxy Statement.

The Audit Committee's charter is available on our website, www.washreit.com, under the heading "Investor" and subheading "Corporate Overview - Corporate Governance," and upon written request.

Compensation Committee

All members of the Compensation Committee are "independent," under NYSE rules. The Compensation Committee operates pursuant to a charter that was approved by the Board and that is reviewed and reassessed at least annually. The Compensation Committee's responsibilities include, among other duties: (i) discharging responsibilities relating to compensation of Washington REIT's Chief Executive Officer, other executive officers and trustees, taking into consideration, among other factors, any shareholder vote on compensation; (ii) implementing and administering Washington REIT's compensation plans applicable to executive officers; (iii) overseeing and assisting Washington REIT in preparing the Compensation Discussion & Analysis for inclusion in Washington REIT's proxy statement and/or annual report on Form 10-K; (iv) providing for inclusion in Washington REIT's proxy statement a description of the processes and procedures for the consideration and determination of executive officer and trustee compensation; and (v) preparing and submitting for inclusion in Washington REIT's proxy statement and/or annual report on Form 10-K a Compensation Committee Report.

The Compensation Committee's charter is available on our website, www.washreit.com, under the heading "Investor" and subheading "Corporate Overview - Corporate Governance," and upon written request.

Corporate Governance/Nominating Committee

All members of the Corporate Governance/Nominating Committee are "independent," under NYSE rules. The Corporate Governance/Nominating Committee operates pursuant to a charter that was approved by the Board and that is reviewed and reassessed at least annually. The Corporate Governance/Nominating Committee's responsibilities include, among other duties: (i) to identify and recommend to the full Board qualified candidates for election as trustees and recommend nominees for election as trustees at the annual meeting of shareholders consistent with criteria approved by the Board; (ii) to develop and recommend to the Board a set of corporate governance guidelines applicable to Washington REIT, and implement and monitor such guidelines as adopted by the Board; (iii) to oversee the Board's compliance with financial, legal and regulatory requirements and its ethics program as set forth in Washington REIT's Code of Business Conduct and Ethics; (iv) to review and make recommendations to the Board on matters involving the general operation of the Board, including the size and composition of the Board and the structure and composition of Board committees; (v) to recommend to the Board nominees for each Board committee; (vi) to annually facilitate the assessment of the Board's performance, as required by applicable law, regulations and NYSE corporate governance listing standards; (vii) to oversee the Board's evaluation of management; and (viii) to consider corporate governance issues that may arise from time to time and make recommendations to the Board with respect thereto.

The Corporate Governance/Nominating Committee's charter is available on our website, www.washreit.com, under the heading "Investor" and subheading "Corporate Overview - Corporate Governance," and upon written request.

Trustee Nominee Consideration

Selection Process

The Corporate Governance/Nominating Committee's process for the recommendation of trustee candidates, as it exists from time to time, is described in our Corporate Governance Guidelines. Set forth below is a general summary of the process that the Corporate Governance/Nominating Committee currently utilizes for the consideration of trustee candidates. The Corporate Governance/Nominating Committee may, in the future, modify or deviate from this process in connection with the selection of a particular trustee candidate.

- The Corporate Governance/Nominating Committee develops and maintains a list of potential candidates for Board membership on an ongoing basis. Corporate Governance/Nominating Committee members and other Board members may recommend potential candidates for inclusion on such list. In addition, the Corporate Governance/Nominating Committee, in its discretion, may seek potential candidates from organizations, such as the National Association of Corporate Directors, that maintain databases of potential candidates. Shareholders may also put forward potential candidates for the Corporate Governance/Nominating Committee's consideration by submitting candidates to the attention of the Corporate Governance/Nominating Committee at our executive offices in Washington, D.C. The Corporate Governance/Nominating Committee screens all potential candidates in the same manner regardless of the source of the recommendation.
- The Corporate Governance/Nominating Committee reviews the attributes, skill sets and other qualifications for potential candidates (see current attributes, skill sets and other qualifications below) from time to time and may modify them based upon the Corporate Governance/Nominating Committee's assessment of the needs of the Board and the skill sets required to meet those needs.
- When the Corporate Governance/Nominating Committee is required to recommend a candidate for nomination for election to the Board at an annual or special meeting of shareholders, or otherwise expects a vacancy on the Board to occur, it commences a candidate selection process by reviewing all potential candidates against

the current attributes, skill sets and other qualifications to determine whether a candidate is suitable for Board membership. This review may also include an examination of publicly available information and consideration of the NYSE independence requirements, the number of boards on which the candidate serves, the possibility of interlocks, other requirements or prohibitions imposed by applicable laws, regulations or Washington REIT policies and practices, and any actual or potential conflicts of interest. The Corporate Governance/Nominating Committee then determines whether to remove any candidate from consideration as a result of the foregoing review. Thereafter, the Corporate Governance/Nominating Committee determines a proposed interview list from among the remaining candidates and recommends such interview list to the Board.

- Following the Board's approval of the interview list, the Chairman of the Corporate Governance/Nominating Committee or, at his or her discretion, other trustees interview the potential candidates on such list. After the completion of candidate interviews, the Corporate Governance/Nominating Committee determines a priority ranking of the potential candidates on the interview list and recommends such priority ranking to the Board.
- Following the Board's approval of the priority ranking, the Chairman of the Corporate Governance/Nominating Committee or, at his or her discretion, other trustees contact the potential candidates based on their order in the priority ranking. When a potential candidate indicates his or her willingness to accept nomination to the Board, the recommendation process is substantially complete. Subject to a final review of eligibility under Washington REIT policies and applicable laws and regulations using information supplied directly by the candidate, the Corporate Governance/Nominating Committee then recommends the candidate for nomination.

The Corporate Governance/Nominating Committee's minimum qualifications and specific qualities and skills required for trustees, as they exist from time to time, are also set forth in our Corporate Governance Guidelines. Our Corporate Governance Guidelines currently provide that each trustee candidate, at a minimum, should possess the following attributes: integrity, trustworthiness, business judgment, credibility, collegiality, professional achievement, constructiveness and public awareness. Our Corporate Governance Guidelines also provide that, as a group, the independent trustees should possess the following skill sets and characteristics: financial acumen equivalent to the level of a public company chief financial officer or senior executive of a capital market, investment or financial services firm; operational or strategic acumen germane to the real estate industry; public and/or government affairs acumen; corporate governance acumen, gained through service as a senior officer or director of a publicly-owned corporation or comparable academic or other experience; and diversity in terms of gender, ethnicity, experience and expertise.

Ms. Goitia was nominated to the Board as a Class III Director on March 16, 2017, to fill Ms. White’s open position. Potential nominees were solicited from the Board. The candidates were evaluated based on the criteria established for potential trustees, as listed above. The Board believes Ms. Goitia meets the established criteria and is the best qualified candidate for election to the Board. Ms. Goitia is a new nominee for election to the Board this year, and her nomination was recommended by the Corporate Governance/Nominating Committee and approved by the Board.

Diversity Policy

The Board maintains a policy with regard to consideration of diversity in identifying trustee nominees. Consistent with this policy, the Corporate Governance/Nominating Committee specifically considers diversity as a factor in the selection of trustee nominees. As noted above, the Board defines diversity in our Corporate Governance Guidelines in terms of gender, ethnicity, experience and expertise.

The Board and the Corporate Governance/Nominating Committee both assess the policy to be effective insofar as it has been actively incorporated into discussions of the Corporate Governance/Nominating Committee with respect to Board membership occurring since the policy was adopted.

Other Governance Matters

Related Party Transactions Policy

When a reportable related party transaction arises, Washington REIT requires the review and approval of the Audit Committee. The Audit Committee will approve the transaction only if the Audit Committee believes that the transaction is in the best interest of Washington REIT.

Communications with the Board

The Board provides a process for shareholders and other interested parties to send communications to the entire Board or to any of the trustees. Shareholders and interested parties may send these written communications c/o Corporate Secretary, Washington Real Estate Investment Trust, 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006. All communications will be compiled by the Corporate Secretary and submitted to the Board or the trustees on a periodic basis.

Corporate Governance Guidelines

Washington REIT has adopted Corporate Governance Guidelines. Our Corporate Governance Guidelines, as well as the Committee Charters, are available on our website, www.washreit.com, under the heading “Investor” and subheading “Corporate Overview - Corporate Governance,” and upon written request.

Code of Ethics and Business Conduct

Washington REIT has adopted a Code of Ethics and Business Conduct that applies to all of its trustees, officers and employees. The Code of Ethics is available on our website, www.washreit.com, under the heading “Investor” and subheading “Corporate Overview - Corporate Governance,” and available upon written request. Washington REIT intends to post on our website any amendments to, or waivers from, the Code of Ethics and Business Conduct promptly following the date of such amendment or waiver.

Trustee Compensation

General

For 2016, our non-employee trustees (other than our Chairman) received an annual retainer of $35,000 plus an additional $1,500 per committee meeting attended. Our Chairman received an annual retainer of $110,000, with no additional compensation for committee meetings attended. Our Chairman does not sit on any of our committees, but routinely attends committee meetings in the course of exercising his duties as Chairman. Our Committee Chairs also received additional retainers as follows: Audit Committee, $15,000; Corporate Governance/Nominating Committee, $11,000; and Compensation Committee, $11,000. Audit Committee members were also paid an additional annual retainer of $3,750.

Each of our non-employee trustees also receives an annual $100,000 common share grant, awarded 50% on the earlier of the annual shareholder meeting date or May 15, and the remaining 50% on December 15 of each calendar year. The number of common shares is determined by the closing price of the common shares on the date of grant.

Washington REIT has adopted a non-qualified deferred compensation plan for non-employee trustees which was amended and restated effective October 21, 2015. The plan allows any non-employee trustee to defer a percentage or dollar amount of his or her cash compensation and/or all of his or her share compensation. Cash compensation deferred is credited with interest equivalent to the weighted average interest rate on Washington REIT's fixed-rate bonds as of December 31 of each calendar year. A non-employee trustee may alternatively elect to designate that all of his or her annual board retainer and/or all of his or her share compensation be converted into restricted share units at the market price of common shares as of the end of the applicable quarter. The restricted share units are credited with an amount equal to the corresponding dividends paid on Washington REIT's common shares. Following a trustee's separation from service, the deferred compensation plus earnings can be paid in either a lump sum or, in the case of deferred cash compensation only, in installments pursuant to a prior election of the trustee. Compensation deferred into restricted share units is paid in the form of shares. Upon a trustee's death, the trustee's beneficiary will receive a lump sum payout of any restricted share units in the form of shares, and any deferred cash compensation will be paid in accordance with the trustee’s prior election either as a lump sum or in installments. The plan is unfunded and payments are to be made from general assets of Washington REIT.

Trustee Ownership Policy

The Board has adopted a trustee share ownership policy for non-employee trustees. Under the policy, each trustee is required to retain an aggregate number of common shares the value of which must at least equal five times the annual cash retainer.

In order to calculate the required number of shares, the annual cash retainer at the time of a trustee’s election (or, if later, the policy implementation date of July 23, 2014) is multiplied by five, with the resulting product then being divided by the average closing price for the 60 days prior to the date of election (or, if later, the policy implementation date). Each non-employee trustee is required to meet the threshold within five years after their initial election to the Board. Trustees whose initial election was more than five years before the policy implementation date were required to have met their ownership goal on the policy implementation date (and Washington REIT believes all such trustees did, in fact, meet their ownership goal on the policy implementation date).

In order to effectuate the foregoing policy, common shares received by trustees as compensation vest immediately but are restricted in transfer so long as the trustee serves on the Board pursuant to an additional Board-adopted policy. As a result of the foregoing, our Board members may only sell their common shares received as compensation for Board service after the conclusion of their service on the Board. We believe this transfer restriction strongly promotes the alignment of our Board members' interests with the interests of our shareholders.

Trustee Compensation Table

The following table summarizes the compensation paid by Washington REIT to our non-employee trustees who served on the Board for the fiscal year ended December 31, 2016. All share awards are fully vested (but subject to the transfer restriction noted above). See "Principal and Management Shareholders - Trustee and Executive Officer Ownership" on page 25. Mr. McDermott does not receive any compensation for his service as a member of the Board.

(a) Name	(b) Fees Earned or Paid in Cash ($)	(c) Stock Awards (1) ($)	(f) Change in Pension Value and Deferred Compensation Earnings (2) ($)	(j) Total ($)
Benjamin S. Butcher	$ 58,250	$99,968	$ 57	$158,275
William G. Byrnes	66,500	99,968	—	166,468
Edward S. Civera	69,250	99,968	—	169,218
John P. McDaniel (3)	23,646	49,996	13,263	86,905
Charles T. Nason	110,000	99,968	27,540	237,508
Thomas H. Nolan, Jr.	55,250	99,968	—	155,218
Wendelin A. White (4)	38,167	49,996	6,726	94,889
Vice Adm. Anthony L. Winns (RET.)	49,750	99,968	—	149,718

(1) Column (c) represents the total grant date fair value of all equity awards computed in accordance with FASB ASC Topic 718.
(2) Represents above market earnings on deferred compensation pursuant to the deferred compensation plan.
(3) Mr. McDaniel resigned from the Board effective May 12, 2016.
(4) Ms. White resigned from the Board effective August 19, 2016.

Executive Officers

The following table contains information regarding our executive officers (other than our President and Chief Executive Officer, Mr. McDermott, who is listed above).

NAME OF EXECUTIVE OFFICER	AGE	POSITION
Thomas Q. Bakke	62	Executive Vice President and Chief Operating Officer
Stephen E. Riffee	59	Executive Vice President and Chief Financial Officer
Thomas C. Morey (1)	45	Senior Vice President, General Counsel and Corporate Secretary
Taryn D. Fielder (2)	39	Senior Vice President, General Counsel and Corporate Secretary, effective March 29, 2017

(1) Mr. Morey resigned on July 26, 2016.
(2) Ms. Fielder joined Washington REIT as Senior Vice President, General Counsel and Corporate Secretary on March 29, 2017.

As of January 1, 2017, Washington REIT has three named executive officers, Mr. McDermott, Mr. Bakke and Mr. Riffee. Washington REIT has no other executive officers.

There are no family relationships between any trustee and/or executive officer. There are no reportable related-party transactions.

Thomas Q. Bakke

Executive Vice President and Chief Operating Officer

Thomas Q. Bakke was named Executive Vice President and Chief Operating Officer of Washington REIT in April 2014. Prior to joining Washington REIT, he was Senior Managing Director at Cushman & Wakefield where he was the Market Leader for Northern Virginia since April 2013. From January 2012 to April 2013, Mr. Bakke was a consultant and operated a non-profit organization. From February 2007 to January 2012, Mr. Bakke held the position of Market Managing Director for Boston at Equity Office Properties, a national commercial real estate owner and a subsidiary of The Blackstone Group. Over his 20 plus years at Equity Office Properties, Mr. Bakke held positions with The Staubach ________

Company and Coldwell Banker Commercial Real Estate Services (predecessor of CBRE Group, Inc.). Mr. Bakke served in the U.S. Naval Reserve for 14 years and was a former F-14 aviator, attaining more than 1000 flight hours with direct involvement in such world crisis situations as the Iranian hostage rescue effort and the Iran-Iraq war.

Stephen E. Riffee

Executive Vice President and Chief Financial Officer

Stephen E. Riffee joined Washington REIT as Executive Vice President and Chief Financial Officer-elect on February 17, 2015. Mr. Riffee then was elected Chief Financial Officer on March 4, 2015. Prior to joining Washington REIT, Mr. Riffee served as Executive Vice President and Chief Financial Officer for Corporate Office Properties Trust (COPT), an NYSE office REIT, from 2006 to February 2015. In this role he oversaw all financial functions, including accounting, financial planning and analysis, tax, treasury, capital markets and investor relations. Additionally, Mr. Riffee oversaw the legal department and information technology at COPT. Between 2002 and 2006, he served as Executive

Vice President and Chief Financial Officer for CarrAmerica Realty Corporation, a national NYSE public office REIT.

Taryn D. Fielder

Senior Vice President, General Counsel and Corporate Secretary

Taryn D. Fielder joined Washington REIT as Senior Vice President, General Counsel and Corporate Secretary on March 29, 2017. Prior to joining Washington REIT, Ms. Fielder served as Senior Vice President and General Counsel of ASB Real Estate Investments (“ASB”), a division of ASB Capital Management, LLC, a U.S. real estate investment management firm, from June 2013 until March 2017. As Senior Vice President and General Counsel, Ms. Fielder served as the principal legal advisor to ASB's management team. Prior to joining ASB, Ms. Fielder served as Assistant General Counsel of DiamondRock Hospitality Company, an NYSE-traded REIT, from February 2011 until June 2013. Ms.

Fielder was an associate in the Real Estate Group at Hogan & Hartson (now Hogan Lovells) from 2004 until 2011. Prior to joining Hogan & Hartson, Ms. Fielder spent two years with Simpson, Thacher and Bartlett LLP, from 2002 until 2004.

PRINCIPAL AND MANAGEMENT SHAREHOLDERS

Trustee and Executive Officer Ownership

The following table sets forth certain information concerning all common shares beneficially owned as of March 15, 2017 by each trustee, by each of the NEOs (as defined in “Compensation Discussion and Analysis” below on page 30 and by all current trustees and executive officers as a group. Unless otherwise indicated, the voting and investment powers for the common shares listed are held solely by the named holder and/or the holder's spouse.

NAME	SHARES OWNED (1)	PERCENTAGE OF TOTAL
Thomas Q. Bakke	72,091	*
Benjamin S. Butcher	11,526	*
William G. Byrnes	50,746	*
Edward S. Civera	38,541	*
Ellen M. Goitia (2)	—	*
Paul T. McDermott	140,145	*
Thomas C. Morey (3)	35,939	*
Charles T. Nason	53,706	*
Thomas H. Nolan, Jr.	7,221	*
Stephen E. Riffee	32,317	*
Vice Adm. Anthony L. Winns (RET.)	15,913	*
All Current Trustees and Executive Officers as a group (9 persons) (4)	422,206	*

* Less than 1%.

(1) Includes common shares issuable, pursuant to vested restricted share units, upon the person's volitional departure from Washington REIT, as follows: Mr. Bakke, 4,151; Mr. Butcher, 11,526; Mr. Byrnes, 26,124; Mr. Nason, 17,441; Mr. Nolan, 5,278; Mr. Riffee, 3,525; Mr. Winns, 15,913; and all trustees and executive officers as a group, 83,958.

(2) Ms. Goitia is a new nominee for the Board.

(3) Mr. Morey resigned on July 26, 2016. The shares reflected in the table are as of his Section 16 exit filing.

(4) As a former Executive Officer, Mr. Morey is not included. As a trustee nominee, Ms. Goitia is also not included. As her employment did not begin until after the Record Date, Ms. Fielder is also not included.

5% Shareholder Ownership

Washington REIT, based upon Schedules 13G filed with the SEC, believes that the following persons currently beneficially own more than 5% of the outstanding common shares.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP		PERCENTAGE OF CLASS
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	11,403,495	(1)	15.2%
Invesco Ltd. 1555 Peachtree Street, NE, Suite 1800 Atlanta, GA 30309	6,983,209	(2)	9.3%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	6,502,680	(3)	8.7%
Vanguard Specialized Funds - Vanguard REIT Index Fund 100 Vanguard Blvd. Malvern, PA 19355	5,591,350	(4)	7.4%
Thornburg Investment Management Inc. 2300 North Ridgetop Road Santa Fe, NM 87506	4,646,845	(5)	6.2%

(1) Based upon Schedule 13G/A filed February 10, 2017. The Vanguard Group, Inc. has sole voting power with respect to 203,960 of these shares, shared voting power with respect to 87,824 of these shares, sole dispositive power with respect to 11,211,001 of these shares and shared dispositive power with respect to 192,494 of these shares. The Schedule 13G/A further indicated that Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, as a result of serving as investment manager of collective trust accounts, beneficially owned 104,670 shares of Washington REIT, and Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, as a result of its serving as investment manager of Australian investment offerings, is the beneficial owner of 187,114 shares of Washington REIT.

(2) Based upon Schedule 13G/A filed February 8, 2017. Invesco Ltd. has sole voting power with respect to 3,324,141 of these shares, shared voting power with respect to none of these shares, and sole dispositive power with respect to 6,983,209 of these shares. The Schedule 13G/A further indicated that the following subsidiaries of Invesco acquired the shares report of the Schedule 13G/A: Invesco Advisers, Inc., Invesco Investment Advisers, LLC and Invesco PowerShares Capital Management LLC.

(3) Based upon Schedule 13G/A filed January 27, 2017. BlackRock, Inc. has sole voting power with respect to 6,310,117 of these shares, shared voting power with respect to none of these shares, and sole dispositive power with respect to 6,502,680 of these shares. The Schedule 13G further indicated that the following subsidiaries of Blackrock acquired the shares reported on the Schedule 13G: BlackRock (Netherlands) B.V., BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Schweiz AG, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Fund Managers Ltd, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, BlackRock Japan Co Ltd and BlackRock Life Limited.

(4) Based upon Schedule 13G/A filed February 14, 2017. Vanguard Specialized Funds - Vanguard REIT Index Fund has sole voting power with respect to 5,591,350 of these shares and sole and shared dispositive power with respect to none of these shares.

(5) Based upon Schedule 13G/A filed February 8, 2017. Thornburg Investment Management Inc. has sole voting power with respect to 4,646,845, and sole dispositive power with respect to 4,646,845 of these shares.

PROPOSAL 4: ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

Description of Proposal

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and Section 14A of the Securities Exchange Act, we provide our shareholders, annually, with the opportunity to vote, on an advisory basis, on the compensation of our named executive officers, or NEOs, as disclosed in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. This proposal is commonly known as a say-on-pay proposal.

Please review the sections of this Proxy Statement entitled “Compensation Discussion and Analysis” for additional details regarding our executive compensation program. Please note, in particular the portion entitled “CD&A Executive Summary” on page 30 which describes significant components of our executive compensation program and actions taken by the Compensation Committee during and with respect to the 2016 compensation year.

We are asking our shareholders to indicate their support for our NEO compensation as described in this Proxy Statement. This proposal gives our shareholders the opportunity to express their views on our NEO compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we will ask our shareholders to vote FOR the following resolution at the Annual Meeting:

“RESOLVED, that Washington REIT's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in Washington REIT's Proxy Statement for the 2017 Annual Meeting of Shareholders, pursuant to the compensation disclosure rules of the Securities and Exchange Commission (Item 402 of Regulation S-K), including the Compensation Discussion and Analysis, the 2016 Summary Compensation Table and narrative discussions and the other related tables and disclosure.”

As provided by the Dodd-Frank Act, this vote is advisory, and therefore not binding on Washington REIT, the Board or the Compensation Committee. However, the Board and Compensation Committee value the views of our shareholders and to the extent there is any significant vote against the NEO compensation as disclosed in this Proxy Statement, we will consider our shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Voting Matters

Under our bylaws, approval of the say-on-pay proposal requires the affirmative vote of a majority of the votes cast. A majority of votes cast means that the number of votes "FOR" a proposal must exceed the number of votes "AGAINST" that proposal. Abstentions and other shares not voted (whether broker non-votes, if any, or otherwise) will not be counted as votes cast and will have no effect on the result of this vote.

Notwithstanding the approval requirements set forth in the previous paragraph, the vote remains advisory, and the Board and Compensation Committee value the opinions of our shareholders regardless of whether approval (as defined in the previous paragraph) is actually obtained.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

COMPENSATION DISCUSSION AND ANALYSIS

CD&A Executive Summary

The primary goals of our executive compensation program are to attract and retain the best executive talent and to align the interests of our executives with those of our shareholders. In 2014, we enhanced our executive compensation program to further align our executives' and shareholders' interests. These enhancements, as well as a summary of some of the key attributes - what we do and what we don't do - that define our program, are set forth below.

Key Components: The following are key components of our executive compensation program:

WHAT WE DO	WHAT WE DON'T DO
We pay for performance, with the vast majority of any executive officer's total compensation being based on performance	Our STIP and LTIP do not provide awards that are solely based on time served (we eliminated this practice from our STIP in 2014)
We use multiple performance metrics in our STIP – core FFO per share, core FAD per share and same-store NOI growth	We do not provide tax gross ups with respect to payments made in connection with a change in control
We use TSR – and only TSR – in our LTIP (we started this practice in 2014)	We do not allow hedging or pledging of our shares
We have implemented a clawback policy applicable to our executives	We do not guarantee minimum STIP or LTIP payouts or annual salary increases
We have robust share ownership guidelines (which apply to officers and Board members)	We do not pay dividends on performance-based restricted shares until the performance period ends

STIP/LTIP Enhancements: We made several important modifications to our STIP and LTIP in 2014, as follows -

- We converted a 15% portion of our annual STIP award that was purely service-based to be performance-based, with the result that 100% of the STIP is now performance-based;
- We eliminated a 20% subjective goal in our STIP tied to acquisition/disposition activity, with the result that 75% of our STIP awards are now financial goals based on core FFO, core FAD and same-store NOI growth performance metrics (up from 60%), and
- We eliminated a 60% subjective goal in our LTIP tied to strategic plan fulfillment activity, with the result that 100% of our LTIP awards are now based on absolute and relative TSR.

Say-On-Pay Results and Consideration

Because the 2016 say-on-pay proposal received the approval of more than 97% of our shareholders who cast a vote, the Compensation Committee considered such results but did not implement changes to our executive compensation program motivated by the shareholder advisory vote. As noted above, the Compensation Committee made significant changes to our STIP and LTIP in 2014 motivated by its desire to continually enhance the alignment of our executives to our shareholders.

After the Annual Meeting, and after reviewing the results of the advisory vote discussed in Proposal 5 below, the Board will decide how often, until the next required vote regarding the frequency of “say on pay” votes is conducted, Washington REIT will hold future “say on pay” votes.

Compensation Objectives and Components

We believe that the primary goal of executive compensation is to attract and retain the best executive talent and align the interests of our executive officers with those of our shareholders. We think attracting and retaining executive talent is imperative to creating long-term value for our shareholders. We believe providing salaries that fairly reward executives for their value to the organization is a critical base element of compensation. We view performance-based compensation as a means to further motivate and reward our executives for achievement of our financial objectives. As a result, a substantial portion of our executive compensation program is performance-based.

Our executive compensation program primarily consists of base salary, our short-term incentive plan (the "STIP") and our long-term incentive plan (the "LTIP"). The STIP consists of annual cash and restricted share awards. The LTIP consists of awards of unrestricted shares and restricted shares. The additional components of our executive compensation program are described below under “- Other Executive Compensation Components.”

The Compensation Committee makes compensation decisions after careful analysis of performance information and market compensation data. In developing our executive compensation program, the Compensation Committee established the following compensation guidelines:

- executive base salaries should generally approximate the median, but there should also be flexibility to address particular individual circumstances that might require a different result, and
- total direct compensation should approximate the 75th percentile of the peer group only in circumstances where management has achieved “top level performance” in operational performance and strategic initiatives.

An executive’s salary and total direct compensation are not mechanically set to be a particular percentage of the peer group average. Instead, the Compensation Committee reviews the executive’s compensation relative to the peer group to help the Compensation Committee perform its overall analysis of the compensation opportunity for each executive. Peer group data is not used as the determining factor in setting compensation because (1) the executive’s role and experience within the company may be different from the officers at the peer companies, (2) the compensation for officers at the peer companies may be the result of over- or under-performance and (3) the Compensation Committee believes that ultimately the decision as to appropriate target compensation for a particular executive should be based on its own business judgment with respect to the compensation opportunity for each executive, taking into account advice from FPL Associates L.P., as noted below.

2016 Omnibus Incentive Plan

At our annual meeting of shareholders in 2016, our shareholders approved our 2016 Omnibus Incentive Plan, pursuant to which we may grant equity awards in respect of up to 2,400,000 of our common shares. Effective as of the approval of our 2016 Omnibus Incentive Plan, no new awards may be granted under our 2007 Omnibus Incentive Plan, our legacy equity incentive plan.

Role of Compensation Consultant and Peer Group Analysis

The Compensation Committee engaged the services of FPL Associates L.P., as an independent executive compensation consultant, to provide advice and counsel in carrying out its duties. FPL Associates L.P. provided the Compensation Committee with market data on executive pay practices and levels and provided recommendations regarding the structure of the STIP and LTIP.

The Compensation Committee worked with FPL Associates L.P. to develop a comparative group of companies and conduct a market analysis of executive compensation practices and pay levels based on this group. The Compensation Committee used the 13-company peer group set forth below for this purpose. Due to Washington REIT's unique property-type diversification and geographic focus, it is difficult to build a peer group that matches Washington REIT's exact business model. FPL Associates L.P. compared the compensation of Washington REIT's NEOs listed in the Summary Compensation Table on page 53 to the compensation of similarly situated executives employed by companies in the NAREIT compensation survey and the 13-company peer group. The companies in the selected group vary in size, both smaller and larger than Washington REIT, but were recommended by FPL Associates L.P. as appropriate comparable companies based on their approximate size and the complexity of their real estate businesses. The 13-company peer group set forth below will also be utilized for the relative total shareholder return component of the LTIP for periods that commenced on January 1, 2017, as described below on page 38.

Brandywine Realty Trust	Equity One, Inc.	Lexington Realty Trust
Cedar Realty Trust	First Potomac Realty Trust	Liberty Property Trust
Columbia Property Trust	First Industrial Realty Trust, Inc.	Mack-Cali Realty Corporation
Corporate Office Properties Trust	Highwoods Properties, Inc.	Piedmont Office Realty Trust, Inc.
Cousins Properties Incorporated		

FPL Associates L.P.'s data compared the compensation of Washington REIT officers based on base salary and total direct compensation, which included base salary, annual incentive compensation and an annualized present value of long-term incentive compensation. The Compensation Committee considers the amount and mix of base and variable compensation by referencing, for each executive level and position, the prevalence of each element and the level of compensation that are provided in the market based on the FPL Associates L.P. comparison analysis.

The Compensation Committee takes into account current financial performance in its evaluation of executive compensation. In particular, the Compensation Committee takes into account current financial performance, represented by core FFO per share, core FAD per share and same-store NOI growth, in determining payouts under the STIP. The Compensation Committee does not delegate any of its principal functions or responsibilities.

Role of Executives

The Compensation Committee believes management input is important to the overall effectiveness of Washington REIT's executive compensation program. The Compensation Committee believes the advice of an independent consultant should be combined with management input and the business judgment of the Compensation Committee members to arrive at a proper alignment of compensation philosophy, programs and practices.

The Chief Executive Officer and the Executive Vice President and Chief Financial Officer are the management members who interact most closely with the Compensation Committee. These individuals work with the Compensation Committee to provide their perspective on aligning compensation strategies with our business strategy and on how well our compensation programs appear to be working.

Base Salary

During 2016, the Compensation Committee, with assistance from FPL, undertook an extensive review of the pay levels of our NEOs and noted that, in general, the levels of base salary ranked materially below the market median of our peers. Although the base salary levels did not change between 2014 and 2015, the Compensation Committee felt that an adjustment was appropriate for 2016 in order to better align with Washington REIT's compensation philosophy in which we seek to approximate the market median across the collective NEO group. In addition, the Compensation Committee also took into account the broader risk-reward profile of the compensation program in which the majority of compensation is tied to incentive pay that may be considered to be "at-risk". The base salaries for our NEOs, as determined by our Compensation Committee for our Chief Executive Officer and our Chief Executive Officer for our Executive Vice Presidents, were as follows.

Position (1)	Name	2016 Base Salary (2)	2015 Base Salary	2014 Base Salary	2016 % Change from 2015	2015 % Change from 2014
Chief Executive Officer	Paul T. McDermott	$ 650,000	$ 500,000	$ 500,000	30 %	0 %
Executive Vice President	Thomas Q. Bakke	425,000	350,000	350,000	21 %	0 %
Executive Vice President	Stephen E. Riffee	425,000	400,000	N/A	6 %	N/A

(1) As described below, Thomas C. Morey served as Senior Vice President during a portion of 2016 at a base salary of $288,000 per annum. Mr. Morey resigned on July 26, 2016.

(2) Base salaries of our NEOs were increased on July 1, 2016.

The Compensation Committee, acting in consultation with FPL Associates L.P., reviews and approves salary recommendations annually based on the considerations described above. The 2016 compensation for each of our NEOs was determined based on a review of publicly disclosed compensation packages of executives of other public real estate companies and were intended to ensure that executive salaries generally approximate the median of the peer group.

Based on the fair value of equity awards granted to the NEOs in 2016 and the base salary of the NEOs, salary accounted for approximately 24%.

Short-Term Incentive Plan (STIP)

Plan Summary

Under the STIP, executives are provided the opportunity to earn awards, payable 50% in cash and 50% in restricted shares, based on achieving various performance objectives within a one-year performance period. The cash component of the award is paid following completion of the one-year performance period. The restricted shares are subject to a ratable vesting schedule that runs for three years from the January 1 following completion of the one-year performance period. Each executive's total award opportunity under the STIP, stated as a percentage of base salary, for the achievement of threshold, target and high performance requirements is set forth in the table below:

	Cash Component (50%)			Restricted Share Component (50%)		
	Threshold	Target	High	Threshold	Target	High
President and Chief Executive Officer	58%	113%	195%	58%	113%	195%
Executive Vice President (1)	48%	93%	160%	48%	93%	160%
Senior Vice President	35%	65%	115%	35%	65%	115%

(1) Effective January 1, 2017, the separate award opportunities for Mr. Riffee under the STIP and LTIP were eliminated so that all Executive Vice Presidents now have the same LTIP and STIP opportunities.

Overall STIP performance is evaluated on the following performance goals and weightings:

Financial Goals (75%)

The financial goals component of the STIP is comprised of the following three metrics:

- Core funds from operations (FFO) per share;
- Core funds available for distribution (FAD) per share; and
- Same-store net operating income (NOI) growth.

Our performance under these metrics is judged by the Compensation Committee in the aggregate and their aggregate weighting equals 75%. The Compensation Committee establishes guideline expectations for each performance metric but does not establish specific target, threshold or high performance levels underlying the aggregate financial performance goals. These guidelines were set by the Compensation Committee within the first 90 days of the one-year performance period (taking into account input from the Board and the Chief Executive Officer).

At the completion of the one-year performance period, fulfillment of our financial performance goals is evaluated in the aggregate by the Compensation Committee in its discretion (taking into account absolute performance, performance relative to other companies in the industry, challenges faced by Washington REIT and/or positive external circumstances that may have beneficially impacted Washington REIT's performance, input from the Board and a written presentation on satisfaction of such financial performance goals provided by the Chief Executive Officer). At the conclusion of the performance period, the Compensation Committee evaluates aggregate financial goal performance on a scale of below 1 (below threshold), 1 (threshold), 2 (target) or 3 (high). If the Compensation Committee determines that achievement of the aggregate financial goal performance fell between threshold and high, the portion of the award dependent on the aggregated financial performance goal would be determined by linear interpolation (with an associated payout level in between threshold and target performance levels, or target and high performance levels, as applicable). If achievement of the aggregate financial goal performance falls below threshold level (i.e., rated by the Compensation Committee below a level of 1), the portion of the award that is dependent on aggregate financial goal performance will not be paid.

"Core FFO" is calculated by adjusting NAREIT FFO (as defined below) for the following items (which we believe are not indicative of the performance of Washington REIT's operating portfolio and affect the comparative measurement of Washington REIT's operating performance over time): (1) gains or losses on extinguishment of debt, (2) expenses related to acquisition and structuring activities, (3) executive transition costs and severance expense related to corporate reorganization and related to executive retirements or resignations, (4) property impairments, casualty gains or losses, and gains or losses on sale not already excluded from NAREIT FFO, as appropriate, and (5) relocation expense. "NAREIT FFO" is defined by The National Association of Real Estate Investment Trusts, Inc. ("NAREIT") in an April 2002 White Paper as net income (computed in accordance with generally accepted accounting principles ("GAAP")) excluding gains (or losses) associated with sales of property, impairment of depreciable real estate and real estate depreciation and amortization.

"Core FAD" is calculated by adjusting FAD (as defined below) for the following items (which we believe are not indicative of the performance of Washington REIT's operating portfolio and affect the comparative measurement of Washington REIT's operating performance over time): (1) gains or losses on extinguishment of debt, (2) costs related to the acquisition of properties, (3) non-share-based severance expense related to corporate reorganization and related to executive retirements or resignations, (4) property impairments, casualty gains and losses, and gains or losses on sale, not already excluded from FAD, as appropriate, and (5) relocation expense. "FAD" is calculated by subtracting from NAREIT FFO (1) recurring expenditures, tenant improvements and leasing costs, that are capitalized and amortized and are necessary to maintain our properties and revenue stream (excluding items contemplated prior to acquisition or associated with development / redevelopment of a property) and (2) straight line rents, then adding (3) non-real estate depreciation and amortization, (4) non-cash fair value interest expense and (5) amortization of restricted share compensation, then adding or subtracting the (6) amortization of lease intangibles, (7) real estate impairment and (8) non-cash gain/loss on extinguishment of debt, as appropriate. Core FFO per share and core FAD per share under the STIP are interpreted to exclude the impact of the two-class method as defined in generally accepted accounting principles when computing earnings per share.

"Same-store NOI growth" is the change in the NOI (as defined below) of the same-store (also as defined below) portfolio properties from the prior reporting period to the current reporting period. "NOI" is a non-GAAP measure defined as real estate rental revenue less real estate expenses. NOI is calculated as net income, less non-real estate revenue and the results of discontinued operations (including the gain on sale, if any), plus interest expense, depreciation and amortization, general and administrative expenses, acquisition costs, real estate impairment, and gain or loss on extinguishment of debt. "Same-store" portfolio properties include all stabilized properties that were owned for the entirety of the current and prior reporting periods, and exclude properties under redevelopment or development and properties purchased or sold at any time during the periods being compared. We define "redevelopment" properties as those for which we expect to spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan which has a current impact on operating results, occupancy and the ability to lease space with the intended result of a higher economic return on the property. Redevelopment and development properties are included in the same-store pool upon completion of the redevelopment or development, and the earlier of achieving 90% occupancy or two years after completion.

Individual Goals (25%)

At the completion of the one-year performance period, fulfillment of individual goals is evaluated by the Compensation Committee in its discretion with respect to the Chief Executive Officer and by the Chief Executive Officer in his discretion with respect to all other executives (this carries a 25% weighting). At the conclusion of the one-year performance period, the Compensation Committee or Chief Executive Officer, as applicable, evaluates performance on a scale of 1 (threshold), 2 (target) or 3 (high). If achievement of individual goals falls below threshold level, the portion of the award that is dependent on individual goals will not be paid.

The financial and individual performance goals are re-evaluated on an annual basis as to their appropriateness for use with respect to the 2016 performance period and in subsequent annual programs under the STIP based on any potential future changes in Washington REIT business goals and strategy.

Vesting and Payment

With respect to the 50% of the STIP award payable in restricted shares, the restricted shares (1) vest one-third of the shares on each of the first three anniversaries of the last day of the performance period, over a three-year period commencing on the January 1 following the end of the one-year performance period, (2) consist of a number of shares determined by dividing the dollar amount payable in restricted shares by the closing price per share on January 1 following the performance period (or, if not a trading day, the first trading day thereafter), and (3) are issued within 2 1/2 months of the end of the one-year performance period. The restricted shares are awarded out of and in accordance with Washington REIT's 2016 Omnibus Incentive Plan. Washington REIT pays dividends currently on the restricted shares described in this paragraph. Because the restricted shares under the STIP will only be issued after the one-year performance period has ended, no dividends will be paid on restricted shares until the actual performance has been achieved.

If, during the three-year vesting period for the restricted shares described in the previous paragraph, the executive's employment is terminated by Washington REIT without Cause, or the executive resigns for Good Reason, Retires, dies or becomes subject to a Disability while employed by Washington REIT, or a Change in Control occurs, the restricted shares awarded under the STIP will immediately vest. “Cause,” “Good Reason,” “Retire”, “Disability” and “Change in Control” have the meanings set forth in the STIP. With respect to the 50% of the award payable in cash under the STIP, 100% of such cash portion is payable within 2 1/2 months of the end of the performance period. The executive can elect to defer 100% of the cash portion pursuant to Washington REIT's Deferred Compensation Plan for Officers. If the executive made such election, the cash is converted to restricted share units and Washington REIT will match 25% of deferred amounts in restricted share units. The executive is required to be employed on the last day of the performance period to receive an STIP award, subject to the following exceptions. If during the performance year, the executive's employment is terminated by Washington REIT without Cause, or the executive resigns for Good Reason, Retires, dies or becomes subject to a Disability while employed by Washington REIT, the executive will receive an award under the STIP calculated based upon actual results for the full one-year performance period, but the award will be prorated based on the period of employment during the one-year performance period through the date of such event and the portion of the award paid in restricted shares will immediately vest. If a Change in Control occurs during the one-year performance period, the performance goals under the STIP will be prorated based on the period of time during the one-year performance period through the date of the Change in Control, the executive will receive an award under the STIP that is prorated based on the period of employment during the one-year performance period through the date of the Change in Control and the portion of the award paid in restricted shares will immediately vest.

STIP Determinations by Compensation Committee

In the case of core FFO per share, core FAD per share and same-store NOI growth objectives, management proposed guidelines for measuring threshold, target and high performance levels based on Washington REIT's business projection and budget materials. These guidelines were then extensively reviewed by the Compensation Committee (together with the Board) and subsequently approved. The resulting approved guidelines for each of the financial goals across threshold, target, and high performance levels under the STIP are presented in the table below, along with the 2016 actual results recognized by the Compensation Committee:

	Threshold	Target	High	Final Results Recognized by the Committee
Core FFO per share	$1.70	$1.73	$1.77	$1.76
Core FAD per share	$1.38	$1.41	$1.45	$1.41
Same-store NOI growth	(0.50)%	0.25%	1.25%	1.22%

In making its assessment of the performance of financial goals, the Compensation Committee noted that actual performance with respect to core FFO per share was almost at the guideline high performance level, actual performance with respect to core FAD per share was at the guideline target performance level, and actual performance with respect to same-store NOI growth was slightly below the guideline high performance level. In recognition of this overall performance, the Compensation Committee determined a combined score of 2.57 for the financial goals (75% weighting) portion of the STIP (on a scale of 1 to 3, with 3 being the highest level of achievement). In determining such combined score, the Compensation Committee made no subjective adjustments to its scoring of core FFO per share, core FAD per share and same-store NOI growth.

In the case of the individual objectives (25% weighting) portion of the STIP, the Compensation Committee reviewed and determined the performance of Mr. McDermott and Mr. McDermott reviewed and determined the performance of each of the other executives. With respect to the Compensation Committee's determination of Mr. McDermott's performance, the Compensation Committee took into account Mr. McDermott's successful execution of the sale of the Maryland office portfolio, recycling part of the proceeds into the acquisition of Riverside Apartments (a 1,222 unit multifamily asset located in Alexandria, Virginia with potential onsite density to develop additional units), strengthening the balance sheet by raising equity and paying down $270 million of secured debt and continuing operational improvements within Washington REIT. With respect to Mr. McDermott's determination of the performance of the other executives, Mr. McDermott took into account the performance in 2016 of each executive in leading his or her respective department and Washington REIT as a whole and in contributing to the financial and operational accomplishments of Washington REIT. The final determinations of the Compensation Committee and Mr. McDermott with respect to individual performance are reflected in the actual payout amounts for 2016 under the STIP as presented in the Summary Compensation Table and related footnotes within this Proxy Statement.

At the request of the Compensation Committee, an internal audit was performed to review management's calculations for the STIP to confirm that they comply with the STIP. This internal audit was then presented to the Compensation Committee for its review and acceptance.

Long-Term Incentive Plan (LTIP)

Plan Summary

Under the LTIP, executives are provided the opportunity to earn awards, payable 75% in unrestricted shares and 25% in restricted shares, based on achieving TSR performance objectives within a three-year performance period. The LTIP is a "rolling" plan, with a new three-year performance period commencing on January 1 of each year. Each executive's total award opportunity under the LTIP, stated as a percentage of base salary, for the achievement of threshold, target and high performance requirements is set forth in the table below:

	Threshold	Target	High
President and Chief Executive Officer	80%	150%	270%
Executive Vice President (1)	50%	95%	170%
Senior Vice President	40%	80%	140%

(1) Effective January 1, 2017, the separate award opportunities for Mr. Riffee under the STIP and LTIP were eliminated so that all Executive Vice Presidents now have the same LTIP and STIP opportunities.

For purposes of calculating award payouts at the conclusion of each three-year performance period, the level of salary is determined for each executive as of the beginning of the applicable performance period. Each TSR goal is measured over a three-year performance period based on a share price determination made at the beginning and end of the performance period and dividends paid with respect to the common shares during the performance period. For purposes of calculating total shareholder return metrics, the “starting price” equals the average closing price for the 20-trading day period beginning on the first trading day of the performance period. The “ending price” equals the average closing price for the 20-trading day period beginning on the first trading day after the end of the performance period for performance periods that commenced before January 1, 2016, and the average closing price for the last 20 trading days of the performance period for performance periods commencing on or after January 1, 2016. Overall LTIP performance is evaluated on both of the following TSR performance goals and weightings:

Absolute TSR (50%)

For absolute TSR, threshold, target and high performance levels are 6%, 8% and 10%, respectively, total shareholder return over the performance period (calculated on a compounded, annualized basis). If absolute TSR falls between 6% and 8% or between 8% and 10%, absolute TSR will be rounded to the closest TSR percentage in increments of 0.5% (e.g., 8.3% will be rounded to 8.5%) and the portion of the LTIP award that is dependent upon TSR will be determined by linear interpolation. If absolute TSR falls below the applicable threshold level, the portion of the award that is dependent on such goal will not be paid.

Relative TSR (50%)

For relative TSR, Washington REIT’s TSR performance will be measured over the applicable performance period against a peer group of companies selected by the Compensation Committee at the beginning of the performance period. Prior to determining performance for an applicable period, the Compensation Committee will remove companies from the peer group for such period that cease to be peer group companies as a result of acquisitions, divestitures and other similar actions.

For the performance period that commenced on January 1, 2016, Washington REIT's relative TSR performance will be measured over the performance period against the 13-company peer group set forth below.

American Assets Trust, Inc.	Equity One, Inc.	Piedmont Office Realty Trust, Inc.
Brandywine Realty Trust	First Potomac Realty Trust	Post Properties, Inc.
Columbia Property Trust	Highwoods Properties, Inc.	Saul Centers, Inc.
Corporate Office Properties Trust	Liberty Property Trust	Weingarten Realty Investors
Cousins Properties Incorporated		

For the performance periods that commenced before January 1, 2016, Washington REIT's relative TSR performance will be measured over the performance period against the 15-company peer group set forth below.

American Assets Trust, Inc.	Cousins Properties Incorporated	Mack-Cali Realty Corporation
Brandywine Realty Trust	Federal Realty Investment Trust	Post Properties, Inc.
Corporate Office Properties Trust	First Potomac Realty Trust	Regency Centers Corporation
Camden Property Trust	Home Properties, Inc.	Saul Centers, Inc.
Columbia Property Trust	Liberty Property Trust	Weingarten Realty Investors

For performance periods that commenced on or after January 1, 2017, the peer group set forth above under “Role of Compensation Consultant and Peer Group Analysis” will be utilized to measure Washington REIT’s relative TSR performance.

Threshold, target and high performance levels for relative TSR are the 33^{rd}, the 51^{st} and the 76^{th} percentiles, respectively. If relative TSR falls between the these percentiles, the actual relative TSR performance level is to be determined by linear interpolation (with an associated payout level in between threshold and target performance levels, or target and high performance levels, as applicable). If relative TSR falls below the applicable threshold level, the portion of the award that is dependent on such goal will not be paid.

Vesting and Payment

The LTIP awards are payable 75% in unrestricted shares and 25% in restricted shares, and are awarded out of and in accordance with Washington REIT's 2016 Omnibus Incentive Plan. These unrestricted shares and restricted shares are to (1) in the case of the restricted shares only, vest over a one-year period commencing on the January 1 following the end of the three-year performance period, (2) consist of an aggregate number of shares determined by dividing the dollar amount payable in unrestricted shares and restricted shares by the closing price per share on such January 1 and (3) be issued within 2 $^{1}/2$ months of the end of the three-year performance period. Washington REIT must pay dividends currently on the restricted shares described above in this paragraph. Because restricted shares under the LTIP will only be issued after the three-year performance period has ended, no dividends will be paid on restricted shares until the actual performance has been achieved.

If, during the one-year vesting period for the restricted shares described in the previous paragraph, the executive's employment is terminated by Washington REIT without Cause, or the executive resigns for Good Reason, Retires, dies or becomes subject to a Disability while employed by Washington REIT, or a Change in Control occurs, the restricted shares awarded under the LTIP will immediately vest. “Cause,” “Good Reason,” “Retire,” “Disability” and “Change in Control” have the meanings set forth in the LTIP. The executive is required to be employed on the last day of the performance period to receive an LTIP award, subject to the following exceptions. If during the three-year performance period, the executive's employment is terminated by Washington REIT without Cause, or the executive resigns with Good Reason, Retires, dies or becomes subject to a Disability while employed by Washington REIT, the executive will receive an award under the LTIP calculated based on actual levels of achievement as of the date of such event, but the award will be prorated based on the period of employment during the three-year performance period through the date of such event and the award will immediately vest. If a Change in Control occurs while the executive was employed by Washington REIT during the three-year performance period, the executive will receive an award calculated in a similar manner as described in the immediately preceding sentence (provided, however, that the award would not be prorated based on the period of employment during the performance period through the date of such event) and the award would immediately vest. In all of the foregoing cases, payment of the award would be accelerated.

The grant date fair values for the LTIP awards for 2016 are presented in the Summary Compensation Table and related footnotes within this Proxy Statement.

Transition Awards

As a result of the change in 2014 from an “end-over-end” structure under the prior long-term incentive plan to the “rolling” structure under the LTIP, a transition program was initiated in 2014 in order to ensure that executives maintained an appropriate level of overall long-term compensation during the “phasing in” period for the new structure. The transition program provided for a one-time transition award opportunity (in the amounts described in the table under "Long-Term Incentive Plan (LTIP) - Plan Summary" above) commencing in 2014. This transition award opportunity was divided into two separate tranches with different performance periods and vesting schedules, as follows:

- 33.34% of the award opportunity had a TSR performance period of one year (commencing on January 1, 2014), vesting 50% at the one-year anniversary of the end of such performance period and 50% on the two-year anniversary thereof, and
- 66.66% of the award opportunity had a TSR performance period of two years (commencing on January 1, 2014), vesting 65% at the end of such two-year performance period and 35% on the one-year anniversary thereof.

The overall effect of the above transition program was to ensure consistent award opportunity during the LTIP “phase in” period. Each portion of the transition program noted above, consistent with the overall LTIP, was based 50% on absolute TSR and 50% on relative TSR for the relevant performance period. The transition program was designed based on advice from FPL Associates L.P., the independent consultant to the Compensation Committee.

LTIP Determinations by Compensation Committee

With respect to TSR goals under the LTIP, the Compensation Committee reviewed the total shareholder return calculations against LTIP metrics with respect to the award opportunity, which had a three-year performance period ending on December 31, 2016. As noted above, for the absolute TSR goal, the threshold, target and high performance levels were 6%, 8% and 10% total shareholder return over the performance period (calculated on a per annum basis). As of the end of the performance period, Washington REIT’s absolute total shareholder return for the period was calculated to be 16.9%. As a result, pursuant to the terms of the LTIP, the Compensation Committee made awards with respect to the absolute TSR goal calculated based on such achievement.

For the relative TSR goal for the three-year period ending on December 31, 2016, Washington REIT's TSR performance was measured over the performance period against the company peer group utilized by the Compensation Committee as of the beginning of such period, with peer companies that were no longer in existence being removed from the peer group when performance was measured. Threshold, target and high performance levels for relative TSR were the 33rd, the 51st and the 76th percentiles, respectively. As of the end of the performance period, Washington REIT’s relative TSR ranked at the 85th percentile. As a result, pursuant to the terms of the LTIP, the Compensation Committee made awards with respect to the relative TSR goal calculated based on such achievement.

Other Executive Compensation Components

CEO Employment Letter

On August 20, 2013, Washington REIT announced that it had selected Mr. McDermott to be its new President and Chief Executive Officer and had entered into an employment letter specifying the terms of his employment. The employment letter specified that Mr. McDermott's annual base salary would initially be $500,000. After December 31, 2014, the Board agreed to review his base salary on an annual basis and may increase it in its discretion. In connection with entering into the employment letter, Mr. McDermott was awarded 21,000 restricted common shares on his start date, which was October 1, 2013. These shares were agreed to vest in equal installments of 7,000 shares each over a three year period while he remains employed, on the first, second and third anniversary dates of his start date. As of October 1, 2016, all of these shares had vested. Had he been terminated without Cause (as defined below) prior to the vesting of any of these shares, all of the then remaining unvested shares would have become vested on the termination date. Under the employment letter, effective January 1, 2014, Mr. McDermott became eligible to participate in the STIP and LTIP at the Chief Executive Officer level, in accordance with the terms of the STIP and the LTIP, as they may be amended by the Board for all participating employees generally from time to time.

The employment letter provided that Mr. McDermott is entitled to an automobile allowance of $14,000 per year and reimbursement of up to $15,000 for legal expenses for reviewing the employment letter. The employment letter also entitles Mr. McDermott to a 401(k) match and participation in our SERP. The employment letter requires Mr. McDermott to protect the confidentiality of Washington REIT confidential information and comply with Washington REIT's stock ownership guidelines described below in this Proxy Statement. It further provided that he would enter into the form of indemnification agreement entered into by and between Washington REIT and its other officers and Board members.

The employment letter provides that either Mr. McDermott or Washington REIT may terminate the employment relationship at any time for any lawful reason, with or without Cause, Good Reason (as defined below) or notice. If Mr. McDermott's employment is terminated without Cause or he terminates for Good Reason, he would receive the following severance benefits, payable in installments according to Washington REIT's payroll cycle and pro-rata portions of any STIP and LTIP values as determined by the applicable plans, provided that he signs Washington REIT's standard separation agreement and general release. If termination without Cause or for Good Reason had occurred between October 1, 2013 and September 30, 2015, he would have received 24 months base salary, and if termination without Cause or for Good Reason occurs on October 1, 2015 or thereafter, he would receive 12 months of base salary.

Under the employment letter, "Cause" means commission of a felony or crime of moral turpitude; conduct in the performance of duties which is illegal, dishonest, fraudulent or disloyal; breach of any fiduciary duty owed to Washington REIT; any action or inaction that constitutes a material breach of the employment letter which is not cured to Washington REIT's reasonable satisfaction within 30 days of receipt of written notice advising of such material breach; or gross neglect of duty which is not cured to Washington REIT's reasonable satisfaction within 30 days of receipt of written notice advising of such gross neglect. "Good Reason" means a material diminution in base salary or a material diminution in overall base compensation earning potential that is not agreed to by the employee (other than due to failure to achieve performance-based measures), a material diminution in authority, duties or responsibilities, a material change in geographic location at which the employee is employed, or any action or inaction by Washington REIT that constitutes a material breach of the employment letter, provided the employee gives written notice within 90 days after the condition providing the basis for such Good Reason first exists and such Good Reason has not been corrected or cured within 30 days after Washington REIT has received written notice of the employee's intent to terminate his employment for Good Reason and specifying in detail the basis for such termination.

CFO Employment Letter and STIP/LTIP Matters

On January 18, 2015, Washington REIT entered into an employment letter with Mr. Riffee specifying the terms of his employment. Pursuant to Mr. Riffee’s employment letter, Mr. Riffee participates in Washington REIT’s executive compensation program, including the STIP and LTIP, at the Executive Vice President level, with the following modifications (1) Mr. Riffee’s base annual salary is $400,000 per annum (rather than $350,000), (2) his participation in the STIP and LTIP takes effect as of January 1, 2015, and (3) his STIP target is 175% (rather than 186%), split evenly between the cash component of 87.5% and the restricted share component of 87.5%. Mr. Riffee was also awarded 5,287 restricted share units (RSUs) valued at $150,000, granted under Washington REIT’s 2007 Omnibus Long-term Incentive Plan, on his first date of employment. These RSUs vest in three equal installments over a three-year period, on the first, second and third anniversaries of such date.

For 2015 and 2016, Mr. Riffee’s threshold, target and high award opportunities under the STIP for each of the cash component and the restricted share component were determined by the Compensation Committee to be 42%, 87.5% (as noted above) and 140%, respectively. Mr. Riffee’s threshold, target and high award opportunities under the LTIP were determined by the Compensation Committee to be 44%, 95% and 149%, respectively. Effective January 1, 2017, the separate award opportunities for Mr. Riffee under the STIP and LTIP were eliminated so that all Executive Vice Presidents now have the same LTIP and STIP opportunities.

COO Employment Letter

On April 5, 2014, Washington REIT entered into an employment letter with Mr. Bakke specifying the terms of his employment. Pursuant to Mr. Bakke's employment letter, Mr. Bakke was awarded $100,000 in RSUs, granted under Washington REIT’s 2007 Omnibus Long-term Incentive Plan, on his first date of employment. These 4,151 RSUs vest in three equal installments over a three-year period, on the first, second and third anniversaries of such date.

Supplemental Executive Retirement Plan

Because the Internal Revenue Code of 1986 (the "Code") limits the benefits that would otherwise be provided by our qualified retirement programs, Washington REIT provides a supplemental executive retirement plan (“SERP”) for the benefit of the NEOs. This plan was established in November 2005 and is a defined contribution plan under which, upon a participant's termination of employment from Washington REIT for any reason other than cause, the participant will be entitled to receive a benefit equal to the participant's accrued benefit times the participant's vested interest. A participant's benefit accrues over years of service. Washington REIT makes contributions to the plan on behalf of the participant ranging from 9.5% to 19% of base salary. The exact contribution percentage is based on the participant's current age and service such that, at age 65, the participant could be expected to have an accumulation (under assumptions made under the plan) that is approximately equal to the present value of a life annuity sufficient to replace 40% of his or her final three year average salary. Vesting generally occurs based on a minimum of 10 years of service or upon death, total and permanent disability, involuntary discharge other than for cause, or retirement or voluntary termination if the participant does not engage in prohibited competitive activities during the two-year period after such retirement or voluntary termination.

Washington REIT accounts for this plan in accordance with Accounting Standards Codification ("ASC") 710, Compensation - General and ASC 320, Investments - Debt and Equity Securities, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. For the years ended December 31, 2016, 2015 and 2014, Washington REIT recognized current service cost of $225,000, $262,000 and $306,000, respectively.

Severance Plan

On August 4, 2014, the Board and Compensation Committee adopted an Executive Officer Severance Pay Plan to provide specified benefits to executive officers in the event of their termination of employment from Washington REIT. Under the severance plan, in the event of a qualifying termination of employment of an executive officer, the executive officer will be entitled to receive severance pay in accordance with the following matrix:

Weeks of Severance Pay

	Base Salary	
Years of Service	$170K but less than $225K	$225K or more
Less than 1	12	14
1-4	16	18
5	18	20
6	20	22
7	22	24
8	24	26
9	26	28
10	28	30
11	30	32
12	32	34
13	34	36
14	36	38
15	38	40
16	40	42
17	42	44
18	44	46
19	46	48
20	48	50
21	50	52
22 or more	52	52

In addition to the severance pay set forth above, under the severance plan each executive officer will also be entitled to receive a severance benefit comprised of an ongoing payment from Washington REIT equal to the employer portion of current medical, dental and vision elections for the period of severance (or, if less, the applicable COBRA payment). Any severance pay and severance benefits described above will be subject to applicable payroll and tax withholding.

Under the severance plan, for an executive officer to be eligible for severance pay and severance benefits, the termination of such executive officer must be by Washington REIT without “Cause” (as defined in the severance plan) or by resignation of the executive officer for “Good Reason” (as defined in the severance plan). Washington REIT also has the discretion under the severance plan to pay severance pay and benefits in other involuntary termination scenarios and to pay supplemental severance pay. In all cases, the executive officer must execute and not revoke Washington REIT’s standard form of separation agreement applicable to executive officers in order to receive severance pay and benefits. Washington REIT will be required to make the severance payment in a lump-sum on or before March 15 of the calendar year following the calendar year in which the executive officer is terminated, but such portion of the payments (if any) that would constitute deferred compensation under Section 409A of the Code will not be paid until at least six months after the executive officer’s termination if the executive officer is also a "specified employee" under the provisions of the Code. The severance pay and severance benefits under the severance plan are in addition to, and not in lieu of, any applicable equity vesting, acceleration of payment or other benefits that may exist under the LTIP, the STIP, the SERP and other compensation plans. If the executive officer is entitled to severance payments under a change in control agreement with Washington REIT, then the executive officer will not also receive payment under the severance plan. In addition, for the President and Chief Executive Officer, he will be entitled to the severance payments under the severance plan or his employment letter with Washington REIT, whichever is greater. The severance plan defines participating executive officers to be officers at the level of President and Chief Executive Officer, Executive Vice President or Senior Vice President.

Deferred Compensation Plan

Beginning in 2007, Washington REIT adopted a plan that allows officers to voluntarily defer salary and STIP awards. The plan allows any officer to defer a percentage or dollar amount of his or her salary and/or his or her STIP awards. The amounts deferred are not included in the officer’s current taxable income and, therefore, are not currently deductible by us. Salary deferrals are credited during the year with earnings based on the weighted average interest rate on Washington REIT's fixed rate bonds as of December 31 of each calendar year. STIP awards are deferred as restricted share units, with a 25% match of restricted share units on the deferred amount. The 25% match cliff vests after three years. The restricted share units are credited with an amount equal to the corresponding dividend paid on Washington REIT's common shares. Participants may elect to defer receipt of payments to a specified distribution date that is at least three years from first day of the year to which the salary deferred related or, if applicable, at least five years from any previously designated distribution date. If a participant has not elected to further defer a distribution beyond the original designated distribution date, then payment will commence upon the earliest of (1) the original specified distribution date, (2) the date the participant terminates employment from Washington REIT, (3) the participant's death, (4) the date the participant sustains a total and permanent disability, or (5) a change in control. Amounts deferred into restricted share units will be paid in the form of shares. The plan is unfunded and payments are to be made from general assets of Washington REIT.

Change in Control Termination Agreements

The change in control agreements with the NEOs discussed below provide for continuation of payments and benefits by Washington REIT in the event of termination due to a “change in control” (as defined in these agreements). The basic rationale for these change in control protections is to diminish the potential distractions due to personal uncertainties and risks that inevitably arise when a change in control is threatened or pending.

The termination benefits payable in connection with a change in control require a “double trigger,” which means that (1) there is a “change in control” (as that term is defined in the agreement) and (2) after the change in control, the covered NEO's employment is “involuntarily terminated” by Washington REIT or its successor not for “cause” (as both terms are defined in the agreement), but including a termination by the executive because his duties, responsibilities or compensation are materially diminished, within 24 to 36 months of the change in control (as such period is specified in the covered NEO's agreement). In addition, if one of the foregoing terminations of employment occurs in the 90 day period before the change in control, the termination will be presumed to be due to the change in control unless Washington REIT can demonstrate to the contrary. A double trigger was selected to enhance the likelihood that an executive would remain with Washington REIT after a change in control because the executive would not receive the continuation of payments and benefits if he or she voluntarily resigned after the change in control. Thus, the executive is protected from actual or constructive dismissal after a change in control and any new controlling party or group is better able to retain the services of a key executive.

The formula to calculate the change in control benefit is similar for each of the NEOs, with the variable being whether the benefit will be paid for 24 or 36 months. The formula is as follows:

A. A continuation of base salary at the rate in effect as of the termination date for a period based on the levels below:

Executive Position	Period
Chief Executive Officer	36 months
Executive Vice Presidents	24 months
Senior Vice Presidents	24 months

B. Payment of an annual bonus for each calendar year or partial calendar in which the NEO receives salary continuation as described above, in an amount equal to the average annual short-term incentive plan compensation received during the three years prior to the involuntary termination.

C. Payment of the full cost to continue coverage under Washington REIT's group health insurance plan pursuant to the Consolidated Omnibus Budget Reconciliation Act (“COBRA”) for the period of time the NEO receives salary continuation up to a maximum of 18 months or until the NEO obtains other comparable coverage, whichever is sooner.

D. Immediate vesting in all unvested common share grants, restricted share units, performance share units and dividend equivalent units granted to the NEO under Washington REIT's 2007 Omnibus Long-Term Incentive Plan or Washington REIT’s 2016 Omnibus Incentive Plan and immediate vesting in the deferred compensation plans.

Each of our change of control agreements then in effect was amended effective November 5, 2012 to eliminate the executive's right to receive a tax “gross-up” payment based on Section 4999 of the Code. As a result, we have no tax “gross-up” payment requirements to our executives with respect to amounts owed under Section 4999 of the Code.

In addition to our change in control agreements, our STIP and LTIP each provide for particular awards to be made in the event of a change in control that occurs during the performance period under each such plan. These awards are described in further detail under the headings “Short-Term Incentive Plan (STIP)” and “Long-Term Incentive Plan (LTIP)” above. For further information on Change of Control payments, see “Potential Payments upon Change in Control” on page 59.

Separation Agreements

In July 2016, Washington REIT announced the resignation of Thomas C. Morey. In connection with his departure, Washington REIT entered into separation agreement with Mr. Morey. Pursuant to the separation agreement, Mr. Morey received all of his earned but unpaid salary and vacation, as of his resignation date. In addition, because he complied with and fulfilled his obligations under the separation agreement, Mr. Morey received an additional $200,000, less required withholdings and deductions, on February 28, 2017. Mr. Morey’s separation agreement also contains releases by both Mr. Morey and Washington REIT, confidentiality and non-solicitation obligations and other customary provisions.

Perquisites

NEOs participate in other employee benefit plans generally available to all employees on the same terms. In addition, the NEOs are provided with supplemental life insurance and in some cases granted an automobile allowance and/or provided an executive physical. The Compensation Committee believes that these benefits are reasonable and consistent with its overall compensation program to better enable Washington REIT to attract and retain key employees. For more information on specific benefits and perquisites, see the footnotes to the Summary Compensation Table.

Policies Applicable to Executives

Clawback Policy

Washington REIT has adopted a clawback policy with respect to the return (clawback) from executive officers of incentive compensation. The policy states that, with respect to any incentive awards granted after March 20, 2013, the Board will have the right to seek to recoup all or any portion of the value of such awards in the event of a material restatement of Washington REIT's financial statements covering any of the three fiscal years preceding the payment of an award which results from fraud or misconduct committed by a recipient of such award. The Board may seek recoupment from any award recipient whose fraud or misconduct gave rise or contributed to the restatement. The value with respect to which recoupment may be sought will be determined by the Board. Further, it is the intention of the Board that, to the extent that the final clawback provisions adopted by the SEC and the NYSE differ from the foregoing policy, the foregoing policy will be amended to conform to the final provisions.

Hedging Prohibition Policy

To prevent speculation or hedging in our shares by trustees, officers or employees, Washington REIT has adopted a policy prohibiting hedging. The policy states that Washington REIT considers it inappropriate for any trustee, officer or employee to hedge or monetize transactions to lock in the value of his or her Washington REIT share holdings. Such transactions, while allowing the holder to own Washington REIT shares without the full risks and rewards of ownership, potentially separate the holder's interest from those of the other Washington REIT shareholders. Therefore, no Washington REIT trustee, officer or employee is permitted to purchase or sell derivative securities relating to Washington REIT shares, such as exchange-traded options to purchase or sell Washington REIT shares, or other financial instruments that are designed to hedge or offset any decrease in the market value of Washington REIT shares (including but not limited to prepaid variable forward contracts, equity swaps, collars and exchange funds).

Margin Loan Prohibition Policy

Washington REIT maintains a policy that no executive officer may take a margin loan where Washington REIT's shares are used, directly or indirectly, as collateral for the loan. Such persons are also prohibited from otherwise pledging Washington REIT securities as collateral for a loan agreement.

Executive Ownership Policy

The Compensation Committee believes that common share ownership allows our executives to better understand the viewpoint of shareholders and incentivizes them to enhance shareholder value by aligning their interests with shareholders' interests. To that end, in 2010, the Compensation Committee and Board adopted a formal stock ownership policy. The stock ownership policy requires each executive to retain an aggregate number of common shares having a market value at least equal to a specified multiple of such executive's annual base salary (determined based on 2010 base salary for any executive in office on the February 18, 2010 plan commencement date, or as of the date of hire for executives hired after such date). The applicable multiples of base salary required to be held are as follows:

Title	Multiple of Base Salary
Chief Executive Officer and President	3.0x
Executive Vice Presidents	2.0x
Senior Vice Presidents	1.0x

The policy requires that each executive attain the level set forth above within five years after his or her date of employment with Washington REIT. The aggregate number of common shares required to be held by each executive in office on February 18, 2010 (the plan commencement date), was determined based on the market value of common shares for the 60 trading days prior to such date. For executives hired or promoted thereafter, the aggregate number of common shares or additional common shares required to be held by such executive is determined based on the market value of common shares on the 60 trading days prior to the date of such hiring or promotion, as applicable. Once established, an executive's common share ownership goal will not change because of changes in his or her base salary or fluctuations in Washington REIT's common share price. The policy also contains additional terms and conditions, including an interim ownership requirement for executives during the transition period to the full requirements.

The multiples of base salary reflected in the stock ownership guidelines above were determined by the Compensation Committee based on the recommendation of the Hay Group (the Compensation Committee's consultant at the time the stock ownership guidelines were adopted), which had presented the Compensation Committee with a survey of stock ownership requirements in the peer group utilized by the Compensation Committee for 2010 compensation and a survey of stock ownership practices of large public companies.

Tax Deductibility of Executive Compensation

Section 162(m) of the Code generally disallows a tax deduction to public companies for individual compensation in excess of $1 million paid to its chief executive officer and each of its three other most highly compensated executive officers, other than its chief financial officer, in any taxable year. Certain compensation is specifically exempt from the deduction limit to the extent that it does not exceed $1 million during any fiscal year or is “performance based” as defined in Section 162(m). For the calendar year following shareholder approval of our 2016 Omnibus Incentive Plan, the benefits under our short-term incentive and long-term incentive plans are able to qualify as “performance based” under Section 162(m). To the extent that compensation paid to Washington REIT’s executive officers is subject to and does not qualify for deduction under Section 162(m), Washington REIT is prepared to exceed the limit on deductibility under Section 162(m) to the extent necessary to establish compensation programs that we believe provide appropriate incentives and reward our executives relative to their performance. Washington REIT believes that it must maintain the flexibility to take actions that may not qualify for tax deductibility under Section 162(m) if it is deemed to be in the best interests of Washington REIT.

Compensation Committee Matters

The Compensation Committee is responsible for approving executive compensation decisions and making recommendations to the Board. The Compensation Committee is also responsible for approving and making recommendations to the Board with respect to other employee compensation and benefit plan matters. In addition, the Compensation Committee is required to produce an annual report on executive compensation for inclusion in our proxy statement, in accordance with applicable SEC rules and regulations.

The Compensation Committee is comprised of at least three and no more than six independent members of the Board (as the term “independent” is defined in the applicable listing standards of the New York Stock Exchange). The current Compensation Committee charter was adopted on October 21, 2015. A copy of the Compensation Committee Charter can be found on our website at www.washreit.com, under the heading “Investor” and subheading “Corporate Overview - Corporate Governance.” Among other matters, the Compensation Committee charter provides the Compensation Committee with the independent authority to retain and terminate any compensation consulting firms or other advisors to assist in the evaluation of trustee, Chief Executive Officer and other executive compensation.

The Compensation Committee meets at least once annually or more frequently as circumstances require. Each meeting allows time for an executive session in which the Compensation Committee and outside advisors, if requested, have an opportunity to discuss all executive compensation issues without members of management being present.

Compensation Consultant Matters

Pursuant to the Compensation Committee charter, the decision to retain an independent consultant (as well as other advisors) is at the sole discretion of the Compensation Committee, and any such independent consultant works at the direction of the Compensation Committee. In establishing 2016 executive compensation levels, the Compensation Committee Chairman worked with FPL Associates L.P. to determine the scope of work to be performed to assist the Compensation Committee in its decision making processes. In conducting its work on 2016 executive compensation levels for the Compensation Committee, FPL Associates L.P. also interacted with other members of the Compensation Committee, the Chief Executive Officer, the Executive Vice President and Chief Financial Officer and the Senior Vice President and General Counsel.

As noted above, FPL Associates L.P. provided the Compensation Committee with competitive pay analysis regarding both the broader market (including the NAREIT survey) and a group of public REITs. FPL Associates L.P. attended Compensation Committee meetings and, upon request by the Compensation Committee, executive sessions to provide advice and counsel regarding decisions facing the Compensation Committee.

The Compensation Committee has reviewed its relationship with FPL Associates L.P. to ensure that FPL Associates L.P. is independent from management. This review process includes a review of the services FPL Associates L.P. provides, the quality of those services, and fees associated with the services during the fiscal year, as well as consideration of the factors impacting independence that are set forth in NYSE rules.

Compensation Policies and Risk Management

The Compensation Committee members evaluate the principal elements of executive and non-executive compensation to determine whether they encourage excessive risk-taking. While the Compensation Committee members focus primarily on the compensation of the executive officers because risk-related decisions depend predominantly on their judgment, they also consider other Washington REIT employees operating in decision-making capacities. The Compensation Committee believes that because of the following there is a low likelihood that our compensation policies and practices would encourage excessive risk-taking:

RISK MITIGATION FACTORS

- A significant percentage of compensation is equity-based, long-term compensation under the STIP and LTIP, both of which provide for equity-based compensation. Awards made under the STIP are payable 50% in restricted shares that vest over a three-year period. Awards made under the LTIP are made after a three-year performance period. At the conclusion of such three-year performance period, the LTIP awards are payable 75% in unrestricted shares and 25% in restricted shares that vest over a one-year period commencing at the conclusion of the three-year performance period. This significant use of restricted shares encourages our executives to focus on sustaining our long-term performance because unvested awards could significantly decrease in value if our business were not managed with long-term interests in mind.

- The STIP and LTIP utilize a balanced variety of performance goals. The STIP utilizes aggregate financial performance (comprised of core FFO per share, core FAD per share and same-store NOI growth) at a 75% weighting and the executive's individual performance compared to individual goals at a 25% weighting. The LTIP utilizes absolute TSR (50% weighting) and relative TSR (50% weighting). As a result, the benefit plan design contains several performance goals intentionally selected by the Compensation Committee with the goal of aligning executive compensation with long-term creation of shareholder value.
- The STIP and LTIP contain reasonable award opportunities that are capped at appropriate maximum levels. For each executive, the target incentive award is based on a percentage of base salary ranging from 130% to 226% for the STIP and 80% to 150% for the LTIP. For the STIP, the actual award to be paid to the executive could range from a 51% to 54% of the target incentive award for threshold performance and 172% to 177% of the target incentive award for high performance. For the LTIP, the actual award to be paid to the executive could range from a 50% to 53% of the target incentive award for threshold performance and 175% to 180% of the target incentive award for high performance. The preceding values take into consideration the elimination of the separate award opportunities under the STIP and LTIP for Mr. Riffee, as described above. Mr. Riffee’s award opportunities are now governed by the original terms of the plans.
- The Compensation Committee retains discretion under the STIP with respect to total awards. Under the STIP, aggregate financial performance and the participant's performance compared to individual objectives represent all of the performance goals under the STIP (i.e., 100% of the performance goals are determined in the Compensation Committee's (or Chief Executive Officer's) discretion), and each is subject to the discretion of the Compensation Committee.
- Washington REIT adopted a stock ownership policy by which each executive is required to maintain a multiple of his or her base salary in common shares. The multiples are 3x (for the Chief Executive Officer), 2x (for Executive Vice Presidents) and 1x (for Senior Vice Presidents). This ownership policy requires each executive to maintain a meaningful equity interest that could significantly decrease in value if our business were not managed with long-term interests in mind.
- Washington REIT adopted a “clawback” policy by which the Board has the right to seek or recoup all or any portion of the value of incentive awards. The Board’s clawback right will apply in the event of a material restatement of Washington REIT's financial statements covering any of the three fiscal years preceding the payment of an award which results from fraud or misconduct committed by a recipient of such award.

We believe this combination of factors encourages prudent management of Washington REIT. In particular, by structuring our compensation programs to ensure that a considerable amount of the wealth of our executives is tied to our long-term health, we believe we discourage executives from taking risks that are not in our long-term interests.

Compensation Committee Interlocks and Insider Participation

During the last completed fiscal year, the Compensation Committee was comprised of Chairman Civera, Messrs. Butcher and Winns, and Ms. White. The Compensation Committee was responsible for making decisions and recommendations to the Board with respect to compensation matters. Ms. White resigned from the board effective August 19, 2016, and, therefore, no longer serves as a member of the Compensation Committee. There are no Compensation Committee interlocks and no Washington REIT employee serves on the Compensation Committee.

Compensation Committee Report

The Compensation Committee of Washington REIT has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

SUBMITTED BY THE COMPENSATION COMMITTEE:

Edward S. Civera, Compensation Committee Chairman

Benjamin S. Butcher, Compensation Committee Member

Vice Adm. Anthony L. Winns (RET.), Compensation Committee Member

COMPENSATION TABLES

Summary Compensation Table

The Summary Compensation Table has been prepared to comply with the disclosure requirements of the SEC. The Summary Compensation Table sets forth the compensation paid for 2016, 2015 and 2014 to each of our "NEOs" (who are the executive officers set forth in the Summary Compensation Table) and includes as compensation for the indicated year all incentive compensation awards granted in that year (although the awards were made with respect to performance in other years). For an alternative view that we believe more accurately reflects incentive compensation received for a given year, we urge you to refer to the Total Direct Compensation Table on page 55.

(a)	(b)	(c)	(e)	(g)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Stock Awards (4) (5) ($)	Non-Equity Incentive Plan Compensation (6) ($)	All Other Compensation (7) ($)	Total ($)
Paul T. McDermott	2016	$575,000	$1,093,866	$ 969,191	$ 127,591	$2,765,648
President and Chief	2015	500,000	1,216,978	652,125	113,648	2,482,751
Executive Officer	2014	500,000	1,093,150	706,250	113,166	2,412,566
Thomas Q. Bakke (1)	2016	387,500	564,926	536,271	72,364	1,561,061
Executive Vice President and	2015	350,000	604,924	375,331	68,607	1,398,862
Chief Operating Officer	2014	244,102	582,088	378,000	37,059	1,241,249
Stephen E. Riffee (2)	2016	412,500	589,536	507,659	83,297	1,592,992
Executive Vice President and	2015	347,179	364,392	394,625	68,981	1,175,177
Chief Financial Officer						
Thomas C. Morey (3)	2016	191,093	204,720	—	222,384	618,197
Senior Vice President, General	2015	288,000	372,877	217,800	35,882	914,559
Counsel and Corporate Secretary	2014	288,000	404,074	219,600	35,732	947,406

(1) Mr. Bakke became Executive Vice President and Chief Operating Officer on April 21, 2014.

(2) Mr. Riffee became Executive Vice President and Chief Financial Officer-elect on February 17, 2015 and became Chief Financial Officer on March 4, 2015.

(3) Mr. Morey resigned on July 26, 2016. The amount in column (g) for 2016 was calculated pursuant to Mr. Morey's separation agreement.

(4) Column (e) represents the total grant date fair value of all equity awards computed in accordance with FASB ASC Topic 718.

(5) Mr. Morey forfeited 19,423 shares in connection with his resignation on July 26, 2016. No common share awards granted to the NEOs listed above were forfeited during 2015 or 2014.

(6) The NEOs' non-equity incentive plan compensation for 2016, 2015 and 2014, which is reported in this table, was determined by the Compensation Committee at its February 8, 2017 (subject to the Audit Committee's ratification of Washington REIT's final financial performance for the applicable period), February 17, 2016 and February 18, 2015

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meetings, respectively. For 2016, 2015 and 2014, the cash award was paid in February of 2017, 2016 and 2015, respectively. The payments were recorded as expenses for the year to which they relate.

(7) For 2016, the amounts shown in column (i) include the life insurance premiums paid by us for group term life insurance, our match for each individual who made 401(k) contributions, auto allowances, SERP contributions and membership dues. The table below shows the components of "All Other Compensation" for 2016:

Name	Life Insurance ($)	401(k) Company Match ($)	Auto Allowances ($)	SERP Contributions ($)	Membership Dues ($)	Severance ($)	Total ($)
Mr. McDermott	$ 5,106	$ 9,275	$ 14,000	$ 97,747	$ 1,463	$ —	$ 127,591
Mr. Bakke	5,261	7,138	10,000	48,557	1,408	—	72,364
Mr. Riffee	5,018	9,275	6,100	62,904	—	—	83,297
Mr. Morey	—	6,424	—	15,960	—	200,000	222,384

Total Direct Compensation Table

The SEC's calculation of total compensation, as shown in the 2016 Summary Compensation Table set forth on page 53, includes several items that are driven by accounting and actuarial assumptions, which are not necessarily reflective of compensation actually realized by the NEOs in a particular year. To supplement the SEC-required disclosure, we have included the additional table below, which shows the equity incentive compensation awards that were actually received with respect to the applicable year, not the year the award was made.

(a)	(b)	(c)	(e)	(g)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Stock Awards (1) ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total Direct Compensation ($)
Paul T. McDermott	2016	$575,000	$2,295,783	$ 969,191	$ 127,591	$ 3,967,565
President and Chief Executive	2015	500,000	1,317,104	652,125	113,648	2,582,877
Officer	2014	500,000	1,083,678	706,250	113,166	2,403,094
Thomas Q. Bakke	2016	387,500	1,125,878	536,271	72,364	2,122,013
Executive Vice President and	2015	350,000	663,592	375,331	68,607	1,457,530
Chief Operating Officer	2014	244,102	546,366	378,000	37,059	1,205,527
Stephen E. Riffee	2016	412,500	502,525	507,659	83,297	1,505,981
Executive Vice President and	2015	347,179	520,928	394,625	68,981	1,331,713
Chief Financial Officer						
Thomas C. Morey (2)	2016	191,093	—	—	222,384	413,477
Senior Vice President, General	2015	288,000	416,534	217,800	35,882	958,216
Counsel and Corporate Secretary	2014	288,000	333,526	219,600	35,732	876,858

(1) These amounts differ substantially from the amounts reported as Stock Awards in column (e) in the Summary Compensation Table required under SEC rules and are not a substitute for the amounts reported in the Summary Compensation Table. Total Direct Compensation in this table represents: (1) total compensation, as determined under applicable SEC rules and as set forth in column (j) in the Summary Compensation Table on page 53, minus (2) the aggregate fair value of equity awards as reflected in the Stock Awards column (e) in the Summary Compensation Table, plus (3) incentive compensation awards that were actually received with respect to the applicable performance year.

(2) Mr. Morey resigned on July 26, 2016.

Grants of Plan-Based Awards

The following table presents information regarding grants made to the NEOs during 2016 under Washington REIT's STIP and LTIP.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(l)
		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ($)
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)		
Paul T. McDermott	1/1/2016				$400,000	$750,000	$1,350,000		$480,900 (2)
	2/17/2016							24,627 (3)	612,966
	2/17/2016	$333,500	$649,750	$1,121,250					
Thomas Q. Bakke	1/1/2016				175,000	332,500	595,000		212,135 (2)
	2/17/2016							14,174 (3)	352,791
	2/17/2016	186,000	360,375	620,000					
Stephen E. Riffee	1/1/2016				176,000	380,000	596,000		218,600 (2)
	2/17/2016							14,903 (3)	370,936
	2/17/2016	173,250	360,938	577,500					
Thomas C. Morey (4)	1/1/2016				115,200	230,400	403,200		144,230 (2)
	2/17/2016							8,225 (3)	204,720
	2/17/2016	100,800	187,200	331,200					

(1) The amounts shown in columns (c), (d) and (e) reflect the threshold, target and maximum payment levels for 2016 under the 50% cash STIP component which were established on February 17, 2016. The actual cash bonuses received by each of the named executive officers for performance in 2016, paid in 2017, are set out in column (g) of the Summary Compensation Table.

(2) Amounts represent LTIP awards based on achievement of performance objectives over a three-year performance period (commencing January 1, 2016 and concluding December 31, 2018). For performance below threshold levels, no incentives will be paid pursuant to the program, and the maximum award will only be paid if actual performance meets or exceeds the high level of performance. The award will be paid out in a number of unrestricted shares and restricted shares that vest over a one-year period commencing on January 1 following the end of the performance period, with the total number of restricted and unrestricted shares issued determined by dividing the dollar amount payable by the closing price per share on January 1 or if such January 1 is not a trading day, the first trading day following such January 1.

(3) Amounts represent performance-based restricted share awards pursuant to the STIP for the performance period commencing January 1, 2015 and concluding December 31, 2015 that vest over three years, with one-third vesting on December 31, 2016, 2017 and 2018.

(4) Mr. Morey resigned on July 26, 2016.

For unvested and vested restricted shares, an amount equal to the dividends granted on the shares is paid at the same time dividends on common shares are paid.

Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding the outstanding equity awards held by each of the NEOs as of December 31, 2016, including the vesting dates for the portion of these awards that had not vested as of that date.

(a)	(g)	(h)	(i)	(j)
		Stock Awards		
Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Paul T. McDermott (1)	35,140	$ 1,148,727	—	—
Thomas Q. Bakke (2)	19,923	651,283	—	—
Stephen E. Riffee (3)	13,459	439,975	—	—
Thomas C. Morey (4)	—	—	—	—

(1) Mr. McDermott's share awards listed in column (g) vest according to the following schedule: 26,931 shares will vest on December 31, 2017 and 8,209 shares will vest on December 31, 2018.

(2) Mr. Bakke's share awards listed in column (g) vest according to the following schedule: 1,383 shares will vest on April 21, 2017; 13,816 shares will vest on December 31, 2017 and 4,724 shares will vest on December 31, 2018.

(3) Mr. Riffee's share awards listed in column (g) vest according to the following schedule: 1,762 shares vested on February 17, 2017; 4,968 shares will vest on December 31, 2017; 1,762 shares will vest on February 17, 2018 and 4,967 shares will vest on December 31, 2018.

(4) Mr. Morey's unvested shares were forfeited upon his resignation. Mr. Morey resigned on July 26, 2016.

2016 Option Exercises and Stock Vested

The following table sets forth the value realized by our NEOs in 2016 upon the vesting of common share awards in 2016. None of our NEOs had outstanding options or exercises of options in 2016.

	Stock Awards	
Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Paul T. McDermott	70,986	$ 2,296,066

Thomas Q. Bakke	31,597	1,022,569
Stephen E. Riffee	6,731	206,285
Thomas C. Morey (1)	—	—

(1) Mr. Morey resigned on July 26, 2016.

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Non-Qualified Deferred Compensation

The following table presents information regarding the contributions to and earnings on the NEOs' deferred compensation balances during 2016 and also shows the total deferred amounts for the NEOs as of December 31, 2016.

(a) Name	(b) Executive Contributions in Last FY ($)(1)	(c) Registrant Contribution in Last FY ($)(2)	(d) Aggregate Earnings in Last FY ($)(3)	(e) Aggregate Withdrawals/ Distributions ($)	(f) Aggregate Balance at Last FYE ($)(4)
Paul T. McDermott	$ —	$ —	$ —	$ —	$ —
Thomas Q. Bakke	—	—	—	—	—
Stephen E. Riffee	—	—	—	—	—
Thomas C. Morey (5)	—	—	—	—	—

(1) The amounts reflected in this column are reported as compensation for the last completed fiscal year in the Summary Compensation Table.

(2) The amounts reflected in this column were reported as compensation in prior fiscal years and are included in this table due to vesting during the last completed fiscal year.

(3) The amounts reflected in this column are not included in the Summary Compensation Table because they do not constitute "above-market" or "preferential" earnings, as those terms are defined in SEC Regulation S-K 402(c)(2)(viii)(B).

(4) The amounts reflected in this column include contributions reported as compensation for the last fiscal year, as set forth in columns (b) and (c), amounts reported as compensation in prior fiscal years and earnings (which were not required to be reported as compensation), less aggregate withdrawals/distributions currently and previously reported in this table.

(5) Mr. Morey resigned on July 26, 2016.

Supplemental Executive Retirement Plan

The following table presents information regarding the contributions to and earnings on the NEOs' SERP balances during 2016 as of December 31, 2016.

(a) Name	(b) Executive Contributions in Last FY ($)	(c) Registrant Contribution in Last FY ($) (1)	(d) Aggregate Earnings in Last FY ($) (2)	(e) Aggregate Withdrawals/ Distributions ($)	(f) Aggregate Balance at Last FYE ($)
Paul T. McDermott	$ —	$ 97,747	$ 15,973	$ —	$ 311,324
Thomas Q. Bakke	—	48,557	7,389	—	128,349
Stephen E. Riffee	—	62,904	7,451	—	120,193
Thomas C. Morey (3)	—	15,960	18,327	—	—

(1) The amounts reflected in this column are reported as compensation for the last completed fiscal year in the Summary Compensation Table.

(2) The amounts reflected in this column are not included in the Summary Compensation Table because they do not constitute "above-market" or "preferential" earnings, as those terms are defined in SEC Regulation S-K 402(c)(2)(viii)(B).

(3) Mr. Morey resigned on July 26, 2016 and his unvested balance of $316,817 was forfeited.

Potential Payments upon Change in Control

Washington REIT has entered into change in control agreements with the NEOs which entitle them to continuation of compensation and other benefits if Washington REIT is subject to a change in control, the NEO's employment with Washington REIT or its successor is terminated by Washington REIT or its successor, other than for “cause,” or by the NEO for “good reason” and such termination occurs within 24 or 36 months of the change in control. The formula to calculate the change in control benefit is similar for each of the NEO's, with the variable being whether the benefit will be paid for 24 or 36 months. The formula is as follows:

1. Continuation of base salary at the rate in effect as of the termination date for a period of 24 or 36 months from the date of termination.
2. Payment of an annual bonus for each calendar year or partial calendar in which the NEO receives salary continuation as described above, in an amount equal to the average annual short-term incentive plan compensation received during the three years prior to the involuntary termination.
3. Payment of the full cost of COBRA continuation coverage for the period of time in which salary continuation pursuant to the change in control agreement is paid, up to a maximum of 18 months or until the NEO obtains other comparable coverage, whichever is sooner.
4. Immediate vesting in all unvested common share grants and restricted share units granted to the NEO under Washington REIT's long-term incentive plan and immediate vesting in the SERP and deferred compensation plans.

The following table lists the estimated amounts each of the NEOs would have become entitled to under their change in control agreements had their employment with Washington REIT terminated on December 31, 2016, under the circumstances described above.

Name	2016 Base Salary ($)	Average 3 Year Bonus ($)	Annual Change in Control Benefit Amount ($)	Change in Control Benefit Formula (# of months)	Vesting of all unvested Share Grants, SERP and Deferred Compensation ($)	Total Change in Control Benefit Amount (1)(2) ($)
Paul T. McDermott	$650,000	$1,551,711	$ 2,201,711	36	$ 4,048,090	$ 10,653,223
Thomas Q. Bakke	425,000	859,735	1,284,735	24	1,920,649	4,490,119
Stephen E. Riffee	425,000	902,284	1,327,284	24	1,711,862	4,366,430

(1) The cost of COBRA continuation benefits has not been included in the total change in control benefit amount, as the value would not be material.

(2) If the NEO is subject to an excise tax pursuant to Section 4999 of the Code, the NEO will not receive a tax gross-up payment. Each of our change of control agreements was amended effective November 5, 2012 to eliminate the executive's right to receive a tax “gross-up” payment based on Section 4999 of the Code. As a result, we no longer have the obligation to provide tax “gross-up” payments to our executives with respect to amounts owed under Section 4999 of the Code.

PROPOSAL 5: ADVISORY VOTE ON FREQUENCY OF ADVISORY VOTE ON SAY-ON-PAY VOTE

Description of Proposal

Pursuant to the Dodd-Frank Act, in 2011 and Section 14A of the Securities Exchange Act, every six years we provided our shareholders with the opportunity to vote, on an advisory basis, regarding whether the say-on-pay vote (as described in Proposal 4) should occur every one, two or three years. This proposal is commonly known as a “say-on-frequency” proposal. This say-on-frequency proposal must be submitted to shareholders at least once every six calendar years. We are, therefore, once again providing our shareholders with the opportunity to vote on this say-on-frequency proposal. Shareholders have the option to abstain from voting on the matter. The next say-on-frequency vote will occur in 2023.

The Board has determined that an annual executive compensation advisory vote is the best approach for Washington REIT and its shareholders for several reasons, including the following:

- We believe that furnishing our shareholders with an annual executive compensation advisory vote will provide valuable feedback to the Compensation Committee and the Board on our compensation philosophy, policies and practices as disclosed in the proxy statement each year. We believe this voting frequency provides the highest level of communication between shareholders, on the one hand, and the Board and Compensation Committee, on the other hand.
- We believe an annual executive compensation advisory vote is consistent with our goal to regularly receive input from our shareholders on corporate governance matters and executive compensation philosophy, policies and practices. We understand that our shareholders may from time to time have different views as to what is the best approach for Washington REIT, and we look forward to hearing from them in annual executive compensation advisory votes.
- We believe that providing the executive compensation advisory vote every two or three years may prevent shareholders from communicating in a meaningful and coherent way. For example, we may not know whether the shareholder vote approves or disapproves of compensation for the reporting period or compensation for the previous reporting periods, or both. As a result, it could be difficult to discern the implications of the executive compensation advisory vote.

Pursuant to the Dodd-Frank Act, this vote is advisory and not binding on Washington REIT or the Board in any way, and the Board or the Compensation Committee may determine that it is in the best interests of Washington REIT to hold an advisory vote on executive compensation more or less frequently than the option recommended by our shareholders. Nevertheless, the Compensation Committee and the Board value the opinions of the shareholders and will consider the outcome of the vote when determining the frequency of the executive compensation advisory vote.

Voting Matters

The form of Proxy Card enables shareholders to vote, by checking the appropriate box, to recommend that a vote on executive compensation take place every one year, every two years or every three years, or to abstain from voting. Although the Board is making a recommendation with respect to this proposal, shareholders are being asked to vote on the choices specified above, and not whether they agree or disagree with the Board’s recommendation. Under our bylaws, the affirmative vote of a majority of the votes cast is required for approval, on a non-binding, advisory basis, of the frequency of the Say-on-Pay vote.

Abstentions and other shares not voted (whether broker non-votes, if any, or otherwise) will not be counted as votes cast and will have no effect on the result of this vote.

Notwithstanding the approval requirements set forth in the previous paragraph, the vote remains advisory, and the Board and Compensation Committee value the opinions of our shareholders regardless of whether approval (as defined in the previous paragraph) is actually obtained. Because shareholders have several voting choices, it is possible that no single choice will receive a majority of the votes cast. If that occurs, we will consider the option receiving the most votes to be the option selected by shareholders.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE “1 YEAR” ALTERNATIVE SET FORTH IN THE PROXY CARD.

PROPOSAL 6: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Description of Proposal

The firm of Ernst & Young LLP served as Washington REIT's independent registered public accounting firm for 2016. The Audit Committee has appointed Ernst & Young LLP as Washington REIT's independent registered public accounting firm for 2017.

If this appointment is not ratified by our shareholders, the Audit Committee may re-consider the appointment. Even if the selection is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if it determines that such change would be in the best interests of Washington REIT.

Representatives of Ernst & Young LLP are expected to attend the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions.

Voting Matters

Under our bylaws, ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2017 requires the affirmative vote of a majority of the votes cast. A majority of votes cast means that the number of votes "FOR" a proposal must exceed the number of votes "AGAINST" that proposal. Abstentions and other shares not voted will not be counted as votes cast and will have no effect on the result of this vote.

Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS WASHINGTON REIT'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017.

ACCOUNTING/AUDIT COMMITTEE MATTERS

Principal Accounting Firm Fees

The following table sets forth the aggregate fees billed to Washington REIT for the years ended December 31, 2016 and 2015 by Washington REIT's independent registered public accounting firm, Ernst & Young LLP. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the public accountant's independence.

	2016	2015
Audit Fees (a)(b)	$1,422,775	$1,305,315
Audit-Related Fees (c)	15,000	73,000
Tax Fees (d)	184,430	319,585
All Other Fees	—	—
Total Fees	$1,622,205	$1,697,900

(a) Includes fees and expenses related to the fiscal year audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services were rendered.

(b) Audit fees include the annual audit fee and fees for reviews of offering memorandums and other filings, performance of comfort procedures and issuance of comfort and bring down letters.

(c) Audit-related fees consist of the annual audit fees of certain subsidiaries, notwithstanding when the fees were billed or when the services were rendered.

(d) Includes fees and expenses for tax services, including tax compliance, tax advice and tax planning, rendered from January through the end of the fiscal year, notwithstanding when the fees and expenses were billed.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services provided that the Chairman reports any decisions to the Committee at its next scheduled meeting. All services performed by Ernst & Young LLP for the fiscal year ending December 31, 2016 were preapproved by the Audit Committee or the Chairman of the Audit Committee.

Audit Committee Report

The Board maintains an Audit Committee, currently comprised of four of Washington REIT's independent trustees. The Board and the Audit Committee believe that the Audit Committee's current member composition satisfies Section 303A of the New York Stock Exchange's listed company manual. The Audit Committee oversees Washington REIT's financial process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The independent registered public accounting firm Ernst & Young LLP is responsible for expressing an opinion on the conformity of those financial statements with generally accepted accounting principles and the effectiveness of Washington REIT's internal controls over financial reporting in accordance with the standards of the Public

Company Accounting Oversight Board. The members of the Audit Committee of the Board of Washington REIT submit this report in connection with the committee's review of the financial reports for the fiscal year ended December 31, 2016 as follows:

1. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2016, with management, including a discussion of the quality, and not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements and management's assessment of the effectiveness of Washington REIT's internal controls over financial reporting.
2. The Audit Committee discussed with Washington REIT's independent registered public accounting firm the overall scope and plans for their audit. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examination, their evaluation of Washington REIT's internal controls and the overall quality of Washington REIT's financial reporting.
3. The Audit Committee reviewed with the independent registered public accounting firm their judgments as to the quality, and not just the acceptability, of Washington REIT's accounting principles and such other matters as are required to be discussed with the Audit Committee by Public Company Accounting Oversight Board Auditing Standards No. 61, Communications with Audit Committees.
4. In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and has discussed with the independent registered public accounting firm their independence from management and Washington REIT.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in Washington REIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and for filing with the SEC.

SUBMITTED BY THE AUDIT COMMITTEE
William G. Byrnes, Audit Committee Chairman
Benjamin S. Butcher, Audit Committee Member
Edward S. Civera, Audit Committee Member
Thomas H. Nolan, Jr., Audit Committee Member

OTHER MATTERS

Solicitation of Proxies

Solicitation of proxies may be made by mail, personal interview, telephone or other means by officers, trustees and employees of Washington REIT for which they will receive no compensation in addition to their normal compensation. Washington REIT may also request banking institutions, brokerage firms, custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of common shares that those companies or persons hold of record. Washington REIT will reimburse these forwarding expenses. The cost of the solicitation of proxies will be paid by Washington REIT.

Washington REIT has also hired MacKenzie Partners, Inc. to assist in distributing and soliciting proxies and will pay approximately $8,000 plus expenses for these services.

Shareholder Proposals for Our 2018 Annual Meeting of Shareholders

The Board will provide for presentation of proposals by shareholders at the 2018 Annual Meeting of Shareholders, provided that these proposals are submitted by eligible shareholders who have complied with the relevant regulations of the SEC and our bylaws regarding shareholder proposals.

Any shareholder proposal pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 intended to be presented at the 2018 Annual Meeting must be received at our executive offices on or before December 11, 2017 to be considered for inclusion in our 2018 proxy statement materials.

Shareholders wishing to submit proposals or trustee nominations to be presented at the 2018 Annual Meeting that are not to be included in our proxy statement materials must deliver notice to us at our executive offices not less than 120 and no more than 150 days before the first anniversary of the date of Proxy Statement for the preceding year's Annual Meeting (i.e., between November 11, 2017 and 5:00 p.m. Eastern Time, on December 11, 2017. Shareholders are advised to review our bylaws, which contain additional requirements with respect to advance notice of shareholder proposals and trustee nominations. Any shareholder desiring a copy of our bylaws will be furnished one without charge upon written request to the Secretary.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that trustees, officers and persons who own more than 10% of the common shares file initial reports of ownership of the common shares and changes in such ownership with the SEC. Based solely upon review of Forms 3 and 4 and amendments thereto and written representations furnished to us during the most recent fiscal year, no person who at any time during the fiscal year was a director, officer, or beneficial owner or more than 10% of any class of our equity securities failed to file on a timely basis, as disclosed in the above forms, reports required by Section 16(a) of the Exchange Act during the most recent fiscal year, except that the following Form 4 was filed late:

- The Form 4 reporting the forfeiture of shares in order to satisfy withholding tax obligations related to the vesting on October 1, 2015 of restricted stock grant made to our Chief Executive Officer, Paul T. McDermott

Annual Report

Washington REIT's 2016 Annual Report to Shareholders is being mailed or made available electronically to shareholders concurrently with this Proxy Statement and does not form part of proxy solicitation material. Shareholders may also request a free copy of our 2016 Annual Report on Form 10-K, including applicable financial statements, schedules and exhibits by sending a written request to: Washington Real Estate Investment Trust, 1775 Eye Street, N.W., Suite 1000, Washington, D.C. 20006, Attention Investor Relations. Alternatively, shareholders can access the 2016 Form 10-K and other financial information on our website at: www.washreit.com.

/s/ Kelly N. Shiflett
Kelly N. Shiflett
Corporate Secretary

April __, 2017

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APPENDIX A
DECLASSIFICATION AMENDMENT

If Proposal 1 is approved by the shareholders, Section 5.2 of Washington Real Estate Investment Trust's Articles of Amendment and Restatement would be amended as set forth below. Proposed additions are indicated by underline and proposed deletions are indicated by strike-through.

Section 5.2 Number, Classification and Vacancies. The number of Trustees of the Corporation shall be nineeight (8), which number may be increased or decreased only by the Board pursuant to the Bylaws. The Trustees shall be classified, with respect to the terms for which they severally hold office, into three classes, Class I, Class II and Class III, as nearly equal in number as possible. Initially, the Class I Trustees shall be John M. Derrick, Jr., Charles T. Nason and Thomas Edgie Russell, III; the Class II Trustees shall be William G. Byrnes, John P. McDaniel and George F. McKenzie; and the Class III Trustees shall be Edward S. Civera, Terence C. Golden and Wendelin A. White. The Class I Trustees shall serve Until the 2019 annual meeting of shareholders, the trustees of the Trust shall be divided into more than one class, reflecting the classified board structure that was in existence prior to the 2017 annual meeting of shareholders, with the Trustees of each class serving for a term expiring at the annual meeting of shareholders to be held in 2012; the Class II Trustees shall serve for a term expiring at the annual meeting of shareholders to be held in 2013; and the Class III Trustees shall serve for a term expiring at the annual meeting of shareholders to be held in 2014. At each annual meeting of shareholders, the successor or successors of the class of Trustees whose term expires at that meeting shall be elected in accordance with the Bylaws, and shall hold office for a term expiring at the annual meeting of shareholders held induring the third (3rd) year following the year of theirafter election. The Trustees elected to each class shall hold office (except as set forth in this Section 5.2) and until their successors aresuccessor shall have been duly elected and qualify,shall have qualified or until their earlier removal or resignation. It shall not be necessary to list in the Declaration of Trust the names and addresses of any Trustees hereinafter elected. At the 2017 annual meeting of shareholders, the Trustees who shall be elected at the 2017 annual meeting to fill the trusteeships held by Trustees whose terms expire at the 2017 annual meeting shall be elected for one-year terms expiring at the 2018 annual meeting of shareholders; at the 2018 annual meeting of shareholders, the Trustees who shall be elected at the 2018 annual meeting to fill the trusteeships held by Trustees whose terms expire at the 2018 annual meeting shall be elected for one-year terms expiring at the 2019 annual meeting of shareholders; at the 2019 annual meeting of shareholders, the terms of all Trustees shall expire and at such annual meeting, and at each annual meeting thereafter, all Trustees shall be elected for one-year terms expiring at the next annual meeting. Each Trustee elected at the 2017 annual meeting of shareholders shall serve a one-year term as provided in this Section 5.2 notwithstanding that the Articles effecting these amendments to declassify the Board of Trustees as provided herein may be filed with the Department after the 2017 annual meeting of shareholders at which such Trustee was elected and these amendments were adopted by the shareholders. The names of the seven (7) current Trustees who shall serve until the expiration of their respective terms for which they were elected, and until their successors are duly elected and qualified or until their earlier removal or resignation, and the year in which the current term of each such trustee shall expire are:

Edward S. Civera (Term to expire in 2017)
Benjamin S. Butcher (Term to expire in 2017)

Charles T. Nason (Term to expire in 2018)
Thomas H. Nolan, Jr. (Term to expire in 2018)
Anthony L. Winns (Term to expire in 2018)

William G. Byrnes (Term to expire in 2019)
Paul T. McDermott (Term to expire in 2019)

Except as may be provided by the Board of Trustees in setting the terms of any class or series of Shares, any and all vacancies on the Board of Trustees may be filled by the affirmative vote of a majority of the remaining Trustees in office, even if the remaining Trustees do not constitute a quorum, unless the vacancy occurring through removal has already been filled by the shareholders acting pursuant to the provisions of Section 8.2. Any Trustee elected to fill a vacancy shall serve for the remainder of the full term of the trusteeship in which such vacancy occurred.

APPENDIX B

SHAREHOLDER VOTING AMENDMENT

If Proposal 2 is approved by the shareholders, Section 8.2 of Washington Real Estate Investment Trust's Articles of Amendment and Restatement would be amended as set forth below. Proposed additions are indicated by underline and proposed deletions are indicated by strike-through.

Section 8.2 Voting Rights. Subject to the provisions of any class or series of Shares then outstanding, the shareholders shall be entitled to vote only on the following matters: (a) election of Trustees as provided in Section 5.2 and the removal of Trustees as provided in Section 5.3; (b) amendment of the Declaration of Trust as provided in Article X; (c) termination of the Trust as provided in Section 12.2; (d) merger or consolidation of the Trust, or the sale or disposition of all or substantially all of the Trust property, as provided in Article XI; and (e) amendment of the Bylaws in accordance with terms thereof; and (f) such other matters with respect to which the Board of Trustees has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the shareholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the shareholders at any meeting shall in any way bind the Board of Trustees.

	5
	12
Total consumer	
	1,927
	963
	964
	100
Total provision for credit losses	
	$ 2,241
	$ 1,104
	$ 1,137
	103

* Not meaningful

Commercial loan provision for credit losses increased for the three and six months ended June 30, 2009 as compared with the year-ago periods. Provisions on commercial real estate, middle market and corporate banking portfolios increased as a result of higher charge-offs and higher criticized asset levels reflecting customer downgrades in financial institutions and certain other counterparties due to deteriorating economic conditions. Increased provision in our commercial real estate portfolio was largely due to condominium loans and land loans in the condominium construction market in South Florida and California, as well as in hotel and office construction in all markets, especially in the large metropolitan markets where many construction projects have been delayed. Although our middle market portfolio has deteriorated in most industry segments and geographies, we have experienced particular weakness in apparel, auto suppliers and construction.

Provision for credit losses on residential mortgages increased $36 million during the three months ended June 30, 2009 and $166 million during the six months ended June 30, 2009 as compared with the year-ago periods. The increase in both periods was attributable to increased delinquencies within the prime residential first mortgage loan portfolio, due primarily to the continued deterioration in real estate values in certain markets. Also contributing to this increase to a lesser extent is a portfolio of nonconforming residential mortgage loans which we purchased from HSBC

Finance in 2003 and 2004.

Provision for credit losses associated with private label and other credit card receivables collectively increased $326 million during the three months ended June 30, 2009 and $789 million during the six months ended June 30, 2009 as compared with the year-ago periods. Provisions associated with credit card receivables was significantly impacted by the purchase of the GM and UP Portfolios as previously discussed. Excluding these portfolios, provision expense remained higher during both periods, primarily from higher delinquencies and charge offs within the private label and co-brand credit card portfolios due to higher levels of personal bankruptcy filings, lower recovery rates and the impact from a continued weakening of the U.S. economy, partially offset by lower receivable levels.

Provision expense associated with our auto finance portfolio increased mainly due to the acquisition of the $3 billion auto finance loan portfolio from HSBC Finance in January 2009.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$ 342**	$ 208	**$ 134**	**64**
Other fees and commissions	**215**	177	**38**	**21**
Trust income	**30**	36	**(6)**	**(17)**
Trading revenue (loss)	**152**	(116)	**268**	*****
Net other-than-temporary impairment losses	**(20)**	(24)	**4**	**17**
Other securities gain, net	**247**	(10)	**257**	*****
HSBC affiliate income:				
Fees and commissions	**42**	28	**14**	**50**
Other affiliate income	**2**	5	**(3)**	**(60)**
	44	33	**11**	**33**
Residential mortgage banking revenue	**59**	14	**45**	*****
Gain (loss) on instruments at fair value and related derivatives(1)	**(357)**	(48)	**(309)**	*****
Other income (loss):				
Valuation of loans held for sale	**(68)**	(127)	**59**	**46**
Insurance	**6**	9	**(3)**	**(33)**
Earnings from equity investments	**5**	18	**(13)**	**(72)**
Miscellaneous income	**(78)**	(21)	**(57)**	*****
	(135)	(121)	**(14)**	**(12)**
Total other revenues	**$ 577**	$ 149	**$ 428**	*****

(1) Includes gains and losses associated with financial instruments elected to be measured at fair value under FAS 159, and the associated economically hedging derivatives. Refer to Note 11, "Fair Value Option," in the accompanying consolidated financial statements for additional information.

* Not meaningful

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$ 699**	$ 438	**$ 261**	**60**
Other fees and commissions	**444**	339	**105**	**31**
Trust income	**62**	70	**(8)**	**(11)**
Trading revenue (loss)	**(1)**	(825)	**824**	**100**
Net other-than-temporary impairment losses	**(58)**	(24)	**(34)**	**(142)**
Other securities gain, net	**293**	74	**219**	*
HSBC affiliate income:				
Fees and commissions	**70**	77	**(7)**	**(9)**
Other affiliate income	**7**	10	**(3)**	**(30)**
	77	87	**(10)**	**(11)**
Residential mortgage banking revenue	**124**	51	**73**	**143**
Gain (loss) on instruments at fair value and related derivatives(1)	**(246)**	9	**(255)**	*
Other income (loss):				
Valuation of loans held for sale	**(154)**	(244)	**90**	**37**
Insurance	**13**	18	**(5)**	**(28)**
Earnings from equity investments	**21**	38	**(17)**	**(45)**
Miscellaneous income	**52**	33	**19**	**58**
	(68)	(155)	**87**	**56**
Total other revenues	**$ 1,326**	$ 64	**$ 1,262**	*

(1) Includes gains and losses associated with financial instruments elected to be measured at fair value under FAS 159, and the associated economically hedging derivatives. Refer to Note 11, "Fair Value Option," in the accompanying consolidated financial statements for additional information.

* Not meaningful

Credit Card Fees Higher credit card fees during the three and six months ended June 30, 2009 were due primarily to substantially higher outstanding credit card balances due to the purchase of the GM and UP Portfolios as previously discussed. Also contributing to the increase are higher late fees on private label cards due to increased delinquency levels partially offset by higher fee charge-offs due to increased loan defaults.

Other Fees and Commissions Other fee-based income increased during the three and six months ended June 30, 2009 due to higher customer referral fees, commercial loan commitment fees, loan syndication fees and fees generated by the Payments and Cash Management business.

Trust Income Trust income declined in both periods primarily due to margin pressure as money market assets have shifted from higher fee asset classes to lower fee institutional class funds.

Trading Revenue (Loss) is generated by participation in the foreign exchange, rates, credit and precious metals markets.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Trading revenue (loss)	**$ 152**	$ (116)	**$ 268**	*
Net interest income	**(8)**	69	**(77)**	**(112)**
Trading related revenue (loss)	**$ 144**	$ (47)	**$ 191**	*
Business:				
Derivatives	**$ (43)**	$ (158)	**$ 115**	**73**
Balance sheet management	**3**	(21)	**24**	**114**
Foreign exchange and banknotes	**78**	117	**(39)**	**(33)**
Precious metals	**13**	9	**4**	**44**
Other trading	**93**	6	**87**	*
Trading related (loss) revenue	**$ 144**	$ (47)	**$ 191**	*

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Trading revenue (loss)	**$ (1)**	$ (825)	**$ 824**	**100**
Net interest income	**45**	87	**(42)**	**(48)**
Trading related revenue (loss)	**$ 44**	$ (738)	**$ 782**	**106**
Business:				
Derivatives	**$ (310)**	$ (863)	**$ 553**	**64**
Balance sheet management	**15**	(129)	**144**	**112**
Foreign exchange and banknotes	**210**	207	**3**	**1**
Precious metals	**34**	43	**(9)**	**(21)**
Other trading	**95**	4	**91**	*
Trading related (loss) revenue	**$ 44**	$ (738)	**$ 782**	**106**

* Not meaningful

Trading revenue (loss) during the three and six months ended June 30, 2009 continued to be affected by reduced liquidity and volatility in the credit markets although the magnitude of such impacts was not as severe when compared to the year-ago periods. While liquidity has improved, it continues to be lower than in previous years.

Trading revenue related to derivatives improved significantly during the three and six months ended June 30, 2009. Structured credit products sustained total losses of $21 million and $378 million during the three and six months ended June 30, 2009, respectively, as compared to losses of $530 million and $1,080 million in the year-ago periods. The value of credit derivatives with monolines remained fairly stable in the second quarter of 2009 resulting in a positive valuation adjustment of $6 million, compared to an increase in provisions of $314 in the year ago period. Provisions recorded for monolines were $158 million and $802 million during the six months ended June 30, 2009 and 2008, respectively. Partially offsetting the above noted losses were gains related to Emerging Markets and Interest Rate derivatives.

Trading income related to balance sheet management activities improved to $3 million and $15 million during the three and six months ended June 30, 2009, respectively, as compared to losses of $21 million and $129 million in the year-ago periods, primarily due to improved trends in credit spreads on asset backed securities held for trading purposes in 2009 and, in the second quarter of 2009, increased sales of mortgage backed and other asset backed securities held for trading purposes.

Other trading gains in the three and six months ended June 30, 2009 primarily relate to increased values on corporate bonds.

Net Other-Than-Temporary Impairment Losses During the first and second quarters of 2009, nine and three debt securities were determined to be other-than-temporarily impaired pursuant to FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Consistent with FSP FAS 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," only the credit loss component is shown in earnings effective January 1, 2009. The following table presents the various components of other-than-temporary impairment.

Three Months Ended June 30,	**2009**	**2008**
	(in millions)	
Total other-than-temporary impairment losses	**$ (43)**	$ (24)
Portion of loss recognized in other comprehensive income (loss), before taxes	**(23)**	-
Net other-than-temporary impairment losses recognized in earnings	**$ (20)**	$ (24)

Six Months Ended June 30,	**2009**	**2008**
	(in millions)	
Total other-than-temporary impairment losses	**$ (159)**	$ (24)
Portion of loss recognized in other comprehensive income (loss), before taxes	**(101)**	-
Net other-than-temporary impairment losses recognized in earnings	**$ (58)**	$ (24)

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

Three Months Ended June 30,	**2009**	**2008**
	(in millions)	
Sale of MasterCard or Visa Class B Shares	**$ 48**	$ -
Balance sheet diversity and reduction of risk	**199**	(10)
Other securities gains, net	**$ 247**	$ (10)

Six Months Ended June 30,	2009	2008
	(in millions)	
Sale of MasterCard or Visa Class B Shares	$ 48	$ 83
Balance sheet diversity and reduction of risk	245	(9)
Other securities gains, net	$ 293	$ 74

During the second quarter of 2009, we sold $10.8 billion of mortgage backed and other asset backed securities as part of a strategy to reduce prepayment risk as well as risk-weighted asset levels and recognized a gain of $236 million, which is included as a component of other security gains, net above.

HSBC Affiliate Income Affiliate fees and commissions were lower during the six months ended June 30, 2009 due to lower gains on tax refund anticipation loans due to lower origination volumes. Affiliate fees were higher during the three months ended June 30, 2009 compared to the year-ago period due to higher customer referral fees and other fees received from other HSBC affiliates.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 69	$ 64	$ 5	8
Servicing related income:				
Servicing fee income	32	31	1	3
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	89	46	43	93
Realization of cash flows	(4)	(20)	16	80
Trading - Derivative instruments used to offset changes in value of MSRs	(100)	(70)	(30)	(43)
	17	(13)	30	*
Originations and sales related income:				
Gains on sales of residential mortgages	26	15	11	73
Trading and hedging activity	11	8	3	38
	37	23	14	61
Other mortgage income	5	4	1	25
Total residential mortgage banking revenue included in other revenues	59	14	45	*
Total residential mortgage banking related revenue	$ 128	$ 78	$ 50	64
Average residential mortgage loans	$ 19,743	$ 29,395	$ (9,652)	(33)

	2009	2008

Six Months Ended June 30,			Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 135**	$ 126	**$ 9**	**7**
Servicing related income:				
Servicing fee income	**66**	62	**4**	**6**
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**61**	25	**36**	**144**
Realization of cash flows	**(24)**	(50)	**26**	**52**
Trading - Derivative instruments used to offset changes in value of MSRs	**(64)**	(30)	**(34)**	**(113)**
	39	7	**32**	*****
Originations and sales related income:				
Gains on sales of residential mortgages	**59**	13	**46**	*
Trading and hedging activity	**17**	22	**(5)**	**(23)**
	76	35	**41**	**117**
Other mortgage income	**9**	9	**-**	**-**
Total residential mortgage banking revenue included in other revenues	**124**	51	**73**	**143**
Total residential mortgage banking related revenue	**$ 259**	$ 177	**$ 82**	**46**
Average residential mortgage loans	**$ 20,656**	$ 30,627	**$ (9,971)**	**(33)**

* Not meaningful

Increased net interest income during the three and six months ended June 30, 2009 resulted from lower amortization of deferred expenses (lower prepayment levels on lower outstandings) as well as reduced funding costs due to lower short term rates. We have continued to sell the majority of new loan originations to government sponsored enterprises and private investors and allow existing loans to runoff.

Higher servicing fee income in both periods resulted from a rising volume of our average serviced loans portfolio, as we have continued to sell the majority of new loan originations to government sponsored enterprises as discussed above, but continue to retain servicing rights for the loans sold. The average serviced loans portfolio increased approximately 17 percent since June 30, 2008. The increased serviced loans portfolio, and its positive impact on service fee income, was partially offset by unfavorable net hedged MSR performance during the three and six months ended June 30, 2009 primarily from increased market volatility in the mortgage market.

Originations and sales related income increased during the three and six months ended June 30, 2009 as compared to the year-ago periods. Loan sales in the three and six months ended June 30, 2009 of $2.1 billion and $4.0 billion, respectively, resulted in gains of $30 million and $67 million during these periods as compared with loan sales in both the three and six months ended June 30, 2008 of $4 billion which resulted in gains of $14 million.

Gain (loss) on Instruments Designated at Fair Value and Related Derivatives We have elected to apply the fair value option to commercial leveraged acquisition finance loans, unfunded commitments, certain fixed-rate debt issuances and all structured notes and structured deposits issued after January 1, 2006 that contain embedded derivatives. We also use derivatives to economically hedge the interest rate risk associated with certain financial instruments for which fair value has been elected. For the three months ended June 30, 2009, we recognized a loss of $262 million representing a net change in fair value of all instruments indicated above and a loss of $95 million on the related derivatives. For the six months ended June 30, 2009, we recognized a loss of $8 million representing a net change in fair value of all instruments indicated above and a loss of $238 million on the related derivatives. For the three months ended June 30, 2008, we recognized a gain of $140 million representing a net change in fair value of all instruments offset by a loss of $188 million on the related derivatives. For the six months ended June 30, 2008, we recognized a gain of $172 million representing a net change in fair value of all instruments indicated above partially offset by a loss of $163 million on the related derivatives. Refer to Note 11, "Fair Value Option," in the accompanying consolidated financial statements for additional information.

Valuation of Loans Held for Sale Continued deterioration in the U.S. mortgage markets have resulted in negative valuation adjustments on loans held for sale during the three and six months ended June 30, 2009 although the severity of the valuation adjustments has improved as compared to the year-ago periods. Valuations on loans held for sale relate primarily to residential mortgage loans purchased from third parties and HSBC affiliates with the intent of securitization or sale. Included in this portfolio are sub-prime residential mortgage loans with a fair value of approximately $0.9 billion as of June 30, 2009. Loans held for sale are recorded at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. Overall weakness and illiquidity in the U.S. residential mortgage market and continued delinquencies, particularly in the sub-prime market, resulted in valuation adjustments totaling $68 million and $154 million being recorded on these loans during the three and six months ended June 30, 2009, respectively, as compared with $127 million and $244 million during the year-ago periods. Valuations on residential mortgage loans we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of loss.

Other Income (Loss) The increase in other income (loss) during the three months ended June 30, 2009 as compared to the year-ago period is primarily due to lower valuations on credit default swaps used to economically hedge credit exposures, combined with lower equity investment income. These were partially offset by lower write-downs on loans held for sale. The decrease in other income (loss) for the year to date period primarily reflects lower write downs on loans held for sale and an $85 million gain related to a judgment whose proceeds were used to redeem 100 preferred shares issued to CT Financial Services, Inc.

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

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	**$ 155**	$ 181	**$ (26)**	**(14)**
Employee benefits	**147**	151	**(4)**	**(3)**
Total salaries and employee benefits	**302**	332	**(30)**	**(9)**
Occupancy expense, net	**89**	65	**24**	**37**
Support services from HSBC affiliates:				
	184	116	**68**	**59**

Fees paid to HSBC Finance for loan servicing and other administrative support				
Fees paid to HMUS	**66**	59	**7**	**12**
Fees paid to HTSU	**136**	63	**73**	**116**
Fees paid to other HSBC affiliates	**32**	63	**(31)**	**(49)**
Total support services from HSBC affiliates	**418**	301	**117**	**39**
Other expenses:				
Equipment and software	**10**	11	**(1)**	**(9)**
Marketing	**30**	35	**(5)**	**(14)**
Outside services	**17**	24	**(7)**	**(29)**
Professional fees	**17**	19	**(2)**	**(11)**
Telecommunications	**4**	5	**(1)**	**(20)**
Postage, printing and office supplies	**4**	8	**(4)**	**(50)**
Off-balance sheet credit reserves	**2**	43	**(41)**	**(95)**
FDIC assessment fee	**117**	7	**110**	*****
Insurance business	**21**	8	**13**	**163**
Miscellaneous	**58**	67	**(9)**	**(13)**
Total other expenses	**280**	227	**53**	**23**
Total operating expenses	**$ 1,089**	$ 925	**164**	**18**
Personnel - average number	**9,598**	11,728	**(2,130)**	**(18)**
Efficiency ratio	**58.12%**	74.65%		

Six Months Ended June 30,	**2009**	**2008**	**Increase (Decrease) Amount**	**%**
	(dollars are in millions)			
Salaries and employee benefits:				
Salaries	**$ 308**	$ 358	**$ (50)**	**(14)**
Employee benefits	**285**	283	**2**	**1**
Total salaries and employee benefits	**593**	641	**(48)**	**(7)**
Occupancy expense, net	**151**	130	**21**	**16**
Support services from HSBC affiliates:				
Fees paid to HSBC Finance for loan servicing and other administrative support	**373**	237	**136**	**57**
Fees paid to HMUS	**137**	112	**25**	**22**
Fees paid to HTSU	**247**	126	**121**	**96**
Fees paid to other HSBC affiliates	**85**	116	**(31)**	**(27)**
Total support services from HSBC affiliates	**842**	591	**251**	**42**
Other expenses:				
Equipment and software	**20**	22	**(2)**	**(9)**
Marketing	**67**	73	**(6)**	**(8)**
Outside services	**44**	54	**(10)**	**(19)**
Professional fees	**33**	37	**(4)**	**(11)**
Telecommunications	**7**	10	**(3)**	**(30)**
Postage, printing and office supplies	**8**	18	**(10)**	**(56)**
Off-balance sheet credit reserves	**(2)**	54	**(56)**	**(104)**
FDIC assessment fee	**151**	14	**137**	*****
Insurance business	**43**	7	**36**	*****
Miscellaneous	**103**	94	**9**	**10**

Total other expenses	**474**	383	**91**	**24**
Total operating expenses	**$ 2,060**	$ 1,745	**315**	**18**
Personnel - average number	**9,823**	11,837	**(2,014)**	**(17)**
Efficiency ratio	**52.16%**	82.49%		

* Not meaningful

Salaries and Employee Benefits Lower salaries and employee benefits expense during the three and six months ended June 30, 2009 as compared to the year-ago periods is mainly due to the transfer of support services employees, as described below, to an affiliate as well as continued cost management efforts which have resulted in lower headcount including the impact of global resourcing initiatives undertaken by management.

Occupancy Expense, Net Higher occupancy expense in both periods is due to impairment of a data center building held for use of approximately $20 million as part of our ongoing strategy to consolidate operations and improve efficiencies where economically appropriate. Also contributing to the increase was the expansion of the core banking and commercial lending networks within the PFS and CMB business segments, a key component of recent business expansion initiatives. Subsequent to June 30, 2008, we opened 13 new branches resulting in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses. This increase was partially offset by the transfer of shared services employees and their related workspace expenses to an affiliate as discussed below.

Support services from HSBC affiliates includes technology and some centralized operational services and beginning in January 2009, human resources, corporate affairs and other shared services charged to us by HTSU, which has resulted in a significant increase in fees paid to HTSU in 2009. Support services from HSBC affiliates also includes services charged to us by an HSBC affiliate located outside of the United States which provides operational support to our businesses, including among other areas, customer service, systems, collection and accounting functions.

Higher expenses in both periods is also due to higher servicing fees paid to HSBC Finance largely as a result of the purchase of the GM and UP Portfolios as well as certain auto finance loans purchased from HSBC Finance in early January 2009 and higher fees paid to HTSU. Support services from HSBC affiliates also includes servicing fees paid to HSBC Finance for servicing private label credit card receivables and certain other credit card and nonconforming residential mortgage loans.

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

Other Expenses Other expenses increased during the three and six months ended June 30, 2009 primarily due to higher FDIC assessment fees, including $82 million relating to a special assessment recorded in the second quarter of 2009, as well as higher corporate insurance costs. Additionally, expenses in first half of 2008 were lower due to the release of $37 million of Visa indemnification reserves. The increases in 2009 expenses were partially offset by a release in the first half of 2009 of off balance sheet credit reserves related to an advance by a large corporate customer.

Efficiency Ratio Our efficiency ratio, which is the ratio of total operating expenses, reduced by minority interests, to the sum of net interest income and other revenues, was 58.12 percent and 52.16 percent for the three and six months ended June 30, 2009, respectively, as compared to 74.65 percent and 82.49 percent in the year-ago periods. The improvement in the efficiency ratio in both periods resulted primarily from an increase in other revenues and net interest income.

Segment Results - IFRSs Basis

We have five distinct segments that are utilized for management reporting and analysis purposes. The segments, which are based upon customer groupings as well as products and services offered, are described under Item 1, "Business" in our 2008 Form 10-K. There have been no changes in the basis of segmentation or measurement of segment profit (loss) as compared with the presentation in our 2008 Form 10-K.

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

Personal Financial Services ("PFS")

Resources continued to be directed towards expansion of the core retail banking business, including investment in the HSBC brand and expansion of the branch network in existing and new geographic markets, as well as growth of HSBC Premier, HSBC's global banking service which offers customers a seamless international service and HSBC Direct, the online deposit gathering channel. As a result, at June 30, 2009, total personal deposits increased 16 percent, including an 18 percent increase in online savings account balances, as compared to the year-ago period. Some of the increase in deposits was likely the result of customers moving funds to larger, well-capitalized institutions as a result of the volatile market conditions experienced in 2008 and early 2009. Net interest income, however, declined during the three and six months ended June 30, 2009 compared with the year-ago periods due to narrowing of deposit spreads driven by competitive pricing pressures and declines in market rates. Additionally, deterioration in credit quality, particularly on prime residential mortgage loans and credit cards has negatively impacted results.

We continue to sell the majority of new residential mortgage loan originations to government sponsored enterprises and to allow the existing balance sheet to run-off. In addition to normal sale activity, during the three and six months ended June 30, 2009, we sold approximately $2.1 billion and $4.0 billion, respectively, of prime adjustable and fixed rate residential mortgage loans which resulted in gains of $31 million and $70 million during the periods. We retained the servicing rights in relation to the mortgages upon sale. As a result, average residential mortgage loans at June 30, 2009 decreased approximately 33 percent as compared to June 30, 2008.

In November 2008, we announced that we would exit the wholesale/correspondent and time-share origination channels of our mortgage business and focus attention, resources and investment on our retail sales channel. In the second quarter of 2008, we discontinued originations of education loans and, accordingly, the portfolio of loans has continued to runoff.

Government sponsored programs in the mortgage lending environment have recently been introduced which are focused on reducing the number of foreclosures and making it easier for customers to refinance loans. One such program intends to help certain at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. This program provides certain incentives to lenders to modify all eligible loans that fall under the guidelines of the program. Another program focuses on homeowners who have a proven payment history on an existing mortgage owned by Fannie Mae or Freddie Mac and provides assistance to eligible homeowners to refinance their mortgage loans to take advantage of current lower mortgage rates or to refinance adjustable rate mortgages into more stable fixed rate mortgages. We have implemented such programs for mortgage loans we service for government sponsored enterprises. For loans we hold in portfolio, we continue to evaluate whether we will help our customers address financial challenges through these government programs or through our own home preservation programs.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 240	$ 237	$ 3	1
Other operating income	43	74	(31)	(42)
Total operating income	283	311	(28)	(9)
Loan impairment charges	172	186	(14)	(8)
	111	125	(14)	(11)
Operating expenses	335	323	12	4
Loss before tax	$ (224)	$ (198)	$ (26)	(13)

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 427	$ 484	$ (57)	(12)
Other operating income	83	300	(217)	(72)
Total operating income	510	784	(274)	(35)
Loan impairment charges	372	245	127	52
	138	539	(401)	(74)
Operating expenses	630	603	27	4
Loss before tax	$ (492)	$ (64)	$ (428)	*

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* Not meaningful

Net interest income improved during the three months ended June 30, 2009 as compared to the year-ago period due to intersegment credits relating to funding. Excluding these credits, net interest income decreased during the three and six months ended June 30, 2009 primarily due to narrowing of interest rate spreads driven by the declining rate environment and competitive pricing pressures on savings and certificate of deposit products. This was partially offset by widening interest rate spreads on credit card balances due to reduced funding costs in the lower short term rate environment. Interest income from first and second mortgages was largely unchanged in both periods as compared to the year-ago periods. The impact of lower interest income related to mortgage sales of approximately $7 billion since June 30, 2008 was largely offset by lower funding costs on the loans available-for-sale, widening spreads on the remaining adjustable rate portfolio and lower amortization of deferred origination costs.

Other operating income decreased in both periods primarily due to intersegment charges from the Global Banking and Markets segment of $61 million in the second quarter and $163 million year-to-date relating to cost associated with early termination of the funding associated with residential mortgage loan sales in the first and second quarters of 2009 compared with a similar charge of $31 million in the 2008 second quarter and year-to-date period. This was partially offset by net gains on the sales of these residential mortgage loans in 2009 of $31 million in the second quarter and $70 million in the year-to-date period and in 2008, a net gain of $16 million in both the second quarter and year-to-date period. There were also lower revenues in both periods due to higher mortgage reinsurance costs and lower personal service charges, ATM and other fees, as well as a reclassification of loyalty program expenses for cards as a reduction to revenue beginning in 2009. Additionally, the year-ago period benefited from an $83 million gain on the sale of Visa Class B shares recorded in the first quarter of 2008.

Higher loan impairment charges in the six months ended June 30, 2009 were driven by an increase in delinquencies which resulted in significantly increased loan loss reserves as well as increased charge offs within the home equity line of credit (HELOC), home equity loan and the residential first mortgage loan portfolios due to increased loss severities as real estate values continued to deteriorate in certain markets. Loan impairment charges on credit card receivables and other consumer loans have also risen. Increased levels of personal bankruptcy filings and a deteriorating U.S. economy, including rising unemployment rates, have driven higher delinquencies across all products.

Increased operating expenses in both periods were primarily related to higher FDIC assessment fees, including the impact of the special assessment in the second quarter of 2009. Additionally, the year-ago period benefited from a recovery of $37 million related to the Visa legal accrual set up in 2007. Customer loyalty program expenses for credit cards were included in operating expense in the year-ago periods but were reclassified as reduction to revenue beginning in the first quarter of 2009. Excluding these two items and the impact of higher FDIC assessment fees, expenses have improved since the year-ago periods as a result of efficiency programs in the branch network that more than offset growth in costs from branch expansion initiatives and higher pension costs.

Consumer Finance ("CF")

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

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

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

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

The consideration for each purchase was determined on the basis of an independent valuation opinion. HSBC Finance services the receivables purchased for a fee.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 520**	$ 305	**$ 215**	**70**
Other operating income	**84**	69	**15**	**22**
Total operating income	**604**	374	**230**	**61**
Loan impairment charges	**477**	381	**96**	**25**
	127	(7)	**134**	*
Operating expenses	**37**	5	**32**	*
Profit (loss) before tax	**$ 90**	$ (12)	**$ 102**	*

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 1,049**	$ 599	**$ 450**	**75**
Other operating income	**165**	162	**3**	**2**
Total operating income	**1,214**	761	**453**	**60**
Loan impairment charges	**1,031**	749	**282**	**38**
	183	12	**171**	*
Operating expenses	**51**	22	**29**	**132**
Profit (loss) before tax	**$ 132**	$ (10)	**$ 142**	*

* Not meaningful

Net interest income increased during the three and six months ended June 30, 2009 due to higher levels of receivables and lower amortization of premiums paid on the initial bulk and subsequent purchases of receivables associated with the private label portfolio. The original bulk purchase premium was fully amortized during 2008. Net interest income was also higher during both periods due to a declining interest rate environment. The higher levels of receivables was a result of the credit card and auto finance receivable purchases described more fully below.

Other operating income increased during the three and six months ended June 30, 2009 primarily due to higher late fees on higher delinquencies in the private label and co-brand credit card portfolios, as well as higher credit card fees associated with the purchase of the GM and UP credit card portfolios and the growing co-brand credit card portfolio. This was partially offset by increased servicing fees on portfolios purchased from and serviced by our affiliate, HSBC Finance (which are recorded as a reduction to other operating income) as well as higher charge off of fees relating to private label credit cards which have been deemed uncollectible.

Loan impairment charges associated with credit card receivables increased during the three and six months ended June 30, 2009 due to higher receivable balances driven largely by our purchase of the GM and UP Portfolios from HSBC Finance as previously discussed, increased delinquencies and higher net charge-offs including lower recoveries of previously charged-off balances, and the impact of a deteriorating U.S. economy, including higher levels of personal bankruptcy filings. Loan impairment charges relating to mortgage loans purchased from HSBC Finance Corporation also increased due to deterioration in the U.S. housing markets.

Operating expenses increased in both periods primarily due to higher FDIC insurance premiums and higher expenses related to the higher receivable levels and increased collection costs on late stage delinquent accounts.

On June 1, 2009, General Motors announced its plan to restructure, filing for bankruptcy protection under the Chapter 11 reorganization provisions. While we provide credit under the GM Card Program, GM owns and operates the Earnings/Rewards Program. Concurrently with its bankruptcy filing, GM filed a motion with the bankruptcy court requesting authority to honor the GM Card Program in the ordinary course of business, including allowing the continued redemption of earned rewards points as well as authorizing the continued performance by GM under the card agreements. The court approved this motion on June 2, 2009. We have been advised that GM intends to continue the GM Card program and have asked the court to approve the assignment and assumption of the GM Card Agreement to the New GM. In July 2009, the bankruptcy court approved GM's plan to transfer substantially all of GM's assets, to the New GM and GM was granted permission to exit bankruptcy.

On May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act") was signed into law. The CARD Act modifies and expands upon the amendments to Regulation AA (Unfair or Deceptive Acts or Practices) ("UDAP") and Regulation Z (Truth in Lending) adopted by the Federal Reserve in December 2008, which among other things, place restrictions on applying interest rate increases on new and existing balances, require changes to deferred interest plans, prescribe the manner in which payments may be allocated to amounts due and penalty rates may be charged on past due balances, and limit certain fees. Most of the requirements of the CARD Act become effective in February 2010, however some provisions will become effective in August 2009. New restrictions introduced by the CARD Act include requiring customers to opt-in to over limit fee assessments and requiring re-priced accounts be evaluated for interest rate decreases every six months. The CARD Act also requires the Federal Reserve to conduct rulemaking to ensure penalty fees are reasonable and requires other government agencies to conduct studies on interchange, debt cancellation agreements and credit insurance products and present reports to Congress on these topics. Although we are already compliant with some provisions, other provisions, such as those addressing limitations on interest rate increases, over limit fees and payment allocation will require us to make changes to our business practices. This may require us and our competitors to manage risk differently than has historically been the case. Potential pricing, underwriting and product changes in response to the new legislation are under analysis. We are currently in the process of making changes to processes and systems to comply with the new rules and will be fully compliant by the applicable effective dates. The full impact of the CARD Act on us at this time is uncertain as it ultimately depends upon Federal Reserve and other government agency interpretation of some provisions as discussed above, successful implementation of our strategies, consumer behavior and the actions of our competitors. Although we currently believe the implementation of these new rules could ultimately have a material impact to us, the impact would be limited to the existing affected loan portfolio as the purchase price on future sales volume paid to HSBC Finance would be adjusted to take into consideration the new requirements.

Commercial Banking ("CMB")

Despite the declining interest rate environment negatively impacting income growth as liability spreads have narrowed significantly, operating income driven by increased income from loans and fees is in line with 2008. Loan impairment charges have increased due to higher levels of criticized assets and overall deterioration in the credit environment which has led to higher charge-offs across all commercial business lines.

Despite tightened credit standards and increased paydowns, balanced growth between the established footprint in New York State and expansion markets in the West Coast, Midwest and the Southeast has led to a 10 percent increase in lending and a 13 percent increase in customer deposits from middle market customers at June 30, 2009 as compared to the same 2008 period. The business banking loan portfolio has seen moderate growth due to tightened credit standards and the competitive environment while business banking customer deposits grew 14 percent at June 30, 2009 compared to the same 2008 period, following successful fall and spring marketing campaigns. The commercial real estate business continues to focus on deal quality and portfolio management rather than volume.

Average customer deposit balances across all CMB business lines increased 11 percent during the first half of 2009 as compared to the same 2008 period and average loans increased 6 percent during the first half of 2009 as compared to the same 2008 period.

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

Three Months Ended June 30	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 180	$ 196	$ (16)	(8)
Other operating income	82	71	11	15
Total operating income	262	267	(5)	(2)
Loan impairment charges	90	60	30	50
	172	207	(35)	(17)
Operating expenses	158	147	11	7
Profit before tax	$ 14	$ 60	$ (46)	(77)

Six Months Ended June 30	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 356	$ 380	$ (24)	(6)
Other operating income	163	142	21	15
Total operating income	519	522	(3)	(1)
Loan impairment charges	171	107	64	60
	348	415	(67)	(16)
Operating expenses	312	291	21	7
Profit before tax	$ 36	$ 124	$ (88)	(71)

Net interest income decreased in the three and six months ended June 30, 2009 primarily due to narrower spreads on deposits partially offset by growth in loan balances and improved loan spreads from repricing.

Other operating income increased during both periods, due mainly to a combination of higher syndications business, increased cross-sales of capital markets products and higher service fees.

Loan impairment charges increased during the three and six months ended June 30, 2009 due to worsening economic conditions, leading to higher net charge-offs across all commercial business lines.

Operating expenses increased during both periods due primarily to higher FDIC insurance premiums, including the special assessment recorded in the second quarter of 2009 and allocated infrastructure costs, partially offset by reduced staff costs and efficiency savings.

Global Banking and Markets

During the second quarter and first half of 2009, the Global Banking and Markets segment benefitted from the interest rate positioning and high market volatility in currencies which contributed to higher revenues in balance sheet management and foreign exchange trading. Results continued to be affected by reduced market liquidity, and volatility in spreads and in the corporate credit and residential mortgage lending markets, which has resulted in reductions to other operating income although the magnitude of such reductions declined as compared with the year-ago periods. This impacted trading revenue in mortgage backed securities, and credit derivatives in particular, and has led to substantial counterparty credit reserves for monoline exposure and significant valuation losses being taken in both the Trading and Available-for-sale securities portfolios.

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

Following careful analysis of the implications and with consideration given to industry and peer practices, we elected to re-classify $1.8 billion in leveraged loans and high yield notes and $892 million in securities held for balance sheet management purposes from Trading Assets to Loans and Available-for-sale Investment Securities, effective July 1, 2008. In November 2008, $967 million in additional securities were also transferred from Trading Assets to Available-for-sale Investment Securities. If these IFRS reclassifications had not been made, our profit before tax would have been $257 million and $238 million higher during the three and six months ended June 30, 2009, respectively.

We have previously reported our continuing review of the strategies and scope of our Global Banking and Markets businesses. In the first quarter of 2009, we shifted the focus of this review towards more robust management of our client database in order to concentrate on our more strategic customer relationships. Accordingly, the review of potential transfers of businesses and activities to affiliates within the HSBC Group has been deemphasized at present.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ 222	$ 194	$ 28	14
Other operating income (loss)	288	(73)	361	*
Total operating income (loss)	510	121	389	*
Loan impairment charges	197	15	182	*
	313	106	207	195
Operating expenses	236	203	33	16
Profit (loss) before tax	$ 77	$ (97)	$ 174	179

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 454**	$ 316	**$ 138**	**44**
Other operating income (loss)	**509**	(790)	**1,299**	**164**
Total operating income (loss)	**963**	(474)	**1,437**	*
Loan impairment charges	**426**	57	**369**	*
	537	(531)	**1,068**	*
Operating expenses	**435**	406	**29**	**7**
Profit (loss) before tax	**$ 102**	$ (937)	**$ 1,039**	**111**

* Not meaningful

Increased net interest income during the three and six months ended June 30, 2009 was due mainly to and wider credit spreads on our commercial loan portfolio.

Other operating income (loss) increased in both periods due to higher realized gains on available for sale securities and higher transaction fees in Corporate Banking. Other operating income overall continued to be affected by adverse market conditions in both periods, but to a lesser extent than in the prior year periods. Additionally, revenues in the first half of 2009 were higher than the year-ago period due to the reclassification of assets from trading to available-for-sale assets and to loans and receivables under the IAS 39 amendment as was previously discussed.

Other operating income (loss) reflects losses on structured credit products of $21 million and $378 million during the three and six months ended June 30, 2009, respectively, as compared to $530 million and $1,080 million in the year-ago periods, as the widening of credit spreads slowed resulting in lower losses from hedging activity and counterparty exposures. Exposure to monolines continued as deterioration in creditworthiness persisted, although the pace of such deterioration slowed significantly, resulting in gains of $6 million and losses of $158 million during the three and six months ended June 30, 2009, respectively, as compared to $314 million and $802 million in the year-ago periods. Correlation trading resulted in gains of $17 million and losses of $161 million during the three and six months ended June 30, 2009, as compared to gains of $51 million and losses of $208 million in the year-ago periods.

Valuation losses of $68 million and $154 million during the three and six months ended June 30, 2009, respectively, were also recorded against the fair values of sub-prime residential mortgage loans held for sale as compared to valuation losses of $127 million and $244 million in the year-ago periods. There were no fair value adjustments on the leveraged loan portfolio in the first half of 2009, which reflects the classification of substantially all leveraged loans and notes as loans and receivables and available for sale securities, compared to gains of $39 million and losses of $102 million during the three and six months ended June 30, 2008, respectively, when these assets were subject to fair value accounting. Other operating income also benefited from intersegment income from PFS of $61 million in the second quarter and $163 million during the six months ended June 30, 2009 relating to the fee charged for the early termination of funding associated with the sale of the residential mortgage loans as compared to a similar benefit of $31 million in the second quarter and first six months of 2008.

Loan impairment charges increased primarily due to a charge of $140 million and $317 million during the three and six months ended June 30, 2009 on securities determined to be other-than-temporarily impaired as compared to no other-than-temporary impairment charges in the prior year quarter and year-to date periods. Loan impairment charges also increased from exposure to the financial services industry and other downgrades on specific accruing loans.

Operating expenses were higher during both periods as FDIC special assessment charges and higher performance related compensation costs due to improved revenues more than offset the lower salary and other staff costs resulting from a decreased overall number of employees due to our ongoing efficiency initiatives.

Private Banking ("PB")

Resources continue to be dedicated to expand products and services provided to high net worth customers served by the PB business segment.

The level of client deposits declined 13 percent compared to the prior year period as domestic institutional clients deleveraged and began to invest their liquidity in investment products with lower risk. Similarly, total average loans (mostly domestic consumer) were 11 percent lower at June 30, 2009 as compared with year-ago period, reflective of lower client demand. Substantial reductions from a challenging economic environment and outflows from domestic custody clients affected market value of client securities under management which declined 12 percent compared to the prior year period.

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

Three Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 46**	$ 47	**$ (1)**	**(2)**
Other operating income	**29**	47	**(18)**	**(38)**
Total operating income	**75**	94	**(19)**	**(20)**
Loan impairment charges	**7**	4	**3**	**75**
	68	90	**(22)**	**(24)**
Operating expenses	**63**	75	**(12)**	**(16)**
Profit before tax	**$ 5**	$ 15	**$ (10)**	**(67)**

Six Months Ended June 30,	2009	2008	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 88**	$ 96	**$ (8)**	**(8)**
Other operating income	**62**	90	**(28)**	**(31)**
Total operating income	**150**	186	**(36)**	**(19)**
Loan impairment charges	**4**	1	**3**	*****
	146	185	**(39)**	**(21)**
Operating expenses	**122**	136	**(14)**	**(10)**
Profit before tax	**$ 24**	$ 49	**$ (25)**	**(51)**

* Not meaningful

Net interest income was lower during the three and six months ended June 30, 2009 primarily as a result of narrowing interest rate spreads due to declining market rates and lower outstanding loan and deposit balances.

Other operating income was lower in both periods primarily due to lower performance fees from equity investments, lower managed products, recurring fund fees and insurance commissions.

Loan impairment charges during the three and six months ended June 30, 2009 were higher as compared to the year-ago periods due to a specific domestic relationship, partially offset by net reversals of credit reserves in both periods resulting from a portfolio upgrade and for the year-to-date period, a reversal of a cross border exposure provision.

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

Other

The Other segment primarily includes adjustments made at the corporate level for fair value option accounting related to certain debt issued, as well as any adjustments to the fair value on HSBC shares held for stock plans. The results also include earnings on an equity investment in HSBC Private Bank (Suisse) S.A, through the first quarter of 2009. This investment was sold in March 2009 to another HSBC affiliate for a gain.

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

Three Months Ended June 30,	**2009**	**2008**	**Increase Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ (2)**	$ (5)	**$ 3**	**60**
Other operating income	**(498)**	(84)	**(414)**	*
Total operating income	**(500)**	(89)	**(411)**	*
Loan impairment charges	**-**	-	**-**	-
	(500)	(89)	**(411)**	*
Operating expenses	**38**	-	**38**	-
Loss before tax	**$ (538)**	$ (89)	**$ (449)**	*

Six Months Ended June 30,	**2009**	**2008**	**Increase Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ -**	$ (3)	**$ 3**	**100**
Other operating income	**(343)**	80	**(423)**	*
Total operating income	**(343)**	77	**(420)**	*
Loan impairment charges	**-**	-	**-**	-

	(343)	77	**(420)**	*
Operating expenses	**52**	-	**52**	-
Profit (loss) before tax	**$ (395)**	$ 77	**$ (472)**	*

* Not meaningful

Other operating income was negatively impacted in the second quarter and first six months of 2009 by a significant increase in the fair value of certain debt instruments to which fair value option accounting is applied due to narrowing credit spreads, and in the quarter, by the establishment of a liability to offset an $85 million gain relating to the resolution of a lawsuit recorded in March 2009, whose proceeds were used in April to redeem a nominal amount of preferred stock issued to CT Financial Services, Inc. The year-to-date period also included a $43 million gain on the sale of the equity interest referred to above and the increase in the fair value of certain debt instruments was not as pronounced.

Credit Quality

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

Our allowance for credit losses methodology and our accounting policies related to the allowance for credit losses are presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K under the caption "Critical Accounting Policies and Estimates" and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," of the consolidated financial statements included in our 2008 Form 10-K. Our approach toward credit risk management is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K under the caption "Risk Management." There have been no material revisions to policies or methodologies during the first half of 2009, although we continue to monitor current market conditions and will adjust credit policies as deemed necessary.

Allowance for Credit Losses

Changes in the allowance for credit losses by general loan categories are summarized in the following table:

	June 30, 2009	**March 31, 2009**	**June 30, 2008**
	(dollars are in millions)		
Allowance balance at beginning of quarter	**$ 3,465**	$ 2,397	$ 1,583
Charge offs:			
Commercial	**87**	56	37
Consumer:			
Residential mortgages, excluding HELOCs and home equity	**55**	65	30

HELOCs and home equity mortgages	**53**	37	24
Private label card receivables	**373**	352	285
Credit card receivables	**248**	67	40
Auto finance	**26**	5	1
Other consumer loans	**23**	32	26
Total consumer loans	**778**	558	406
Total charge offs	**865**	614	443
Recoveries:			
Commercial	**11**	5	12
Consumer:			
Residential mortgages, excluding HELOCs and home equity	**5**	6	-
HELOCs and home equity mortgages	**3**	9	-
Private label card receivables	**45**	38	46
Credit card receivables	**10**	6	6
Auto finance	**6**	1	-
Other consumer loans	**1**	6	7
Total consumer loans	**70**	66	59
Total recoveries	**81**	71	71
Total net charge offs	**784**	543	372
Allowance related to bulk loan purchase from HSBC Finance	**-**	437	-
Allowance on loans transferred to held for sale	**(8)**	-	(21)
Provision charged to income	**1,067**	1,174	606
Allowance balance at end of quarter	**$ 3,740**	$ 3,465	$ 1,796
Ratio of Allowance for Credit Losses to:			
Loans:(2)			
Commercial	**2.23%**	1.94%	1.02%
Consumer			
Residential mortgages, excluding HELOCs and home equity	**2.42**	2.01	.38
HELOCs and home equity mortgages	**3.94**	3.52	3.25
Private label card receivables	**8.22**	8.04	5.97
Credit card receivables	**7.93**	6.87	8.14
Auto finance	**2.30**	1.43	2.20
Other consumer loans	**4.16**	3.94	2.88
Total consumer loans	**5.75**	5.17	2.93
Total	**4.36 %**	3.91%	2.09%
Net charge-offs(1)(2):			
Commercial	**248.85%**	323.19%	387.13%
Consumer	**104.96**	140.15	100.64
Total	**118.92 %**	157.36%	120.05%
Nonperforming loans(2):			
Commercial	**94.5%**	134.6%	137.2%
Consumer	**168.8**	175.5	152.9
Total	**145.6 %**	165.8%	149.2%

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

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

Changes in the allowance for credit losses by general loan categories for the three and six months ended June 30, 2009 and 2008 are summarized in the following table:

	Commercial(1)	Residential Mortgage, excluding HELOCs and Home Equity	HELOCs and Home Equity Mortgages	Private Label Card Receivables	Credit Card Receivables	Auto Finance	Other Consumer	Total
	(In millions)							
Three months ended June 30, 2009:								
Balances at beginning of period	**$ 669**	**$ 310**	**$ 160**	**$ 1,256**	**$ 964**	**$ 39**	**$ 67**	**$ 3,465**
Charge offs	**87**	**55**	**53**	**373**	**248**	**26**	**23**	**865**
Recoveries	**11**	**5**	**3**	**45**	**10**	**6**	**1**	**81**
Net charge offs	**76**	**50**	**50**	**328**	**238**	**20**	**22**	**784**
Provision charged to income	**166**	**97**	**66**	**310**	**366**	**40**	**22**	**1,067**
Allowance on loans transferred to held for sale	**-**	**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**
Balance at end of period	**$ 759**	**$ 357**	**$ 176**	**$ 1,238**	**$ 1,092**	**$ 51**	**$ 67**	**$ 3,740**
Three months ended June 30, 2008:								
Balance at beginning of period	$ 366	$ 57	$ 50	$ 901	$ 151	$ 6	$ 52	$ 1,583
Charge offs	37	30	24	285	40	1	26	443
Recoveries	12	-	-	46	6	-	7	71
Net charge offs	25	30	24	239	34	1	19	372
Allowance on loans transferred to held for sale	-	-	-	(21)	-	-	-	(21)
Provision charged to income	50	61	122	313	37	-	23	606
Balance at end of period	$ 391	$ 88	$ 148	$ 954	$ 154	$ 5	$ 56	$ 1,796

Six months ended June 30, 2009:								
Balances at beginning of period	**$ 572**	**$ 207**	**$ 167**	**$ 1,171**	**$ 208**	**$ 5**	**$ 67**	**$ 2,397**
Charge offs	**143**	**120**	**90**	**725**	**315**	**31**	**55**	**1,479**
Recoveries	**16**	**11**	**12**	**83**	**16**	**7**	**7**	**152**
Net charge offs	**127**	**109**	**78**	**642**	**299**	**24**	**48**	**1,327**
Provision charged to income	**314**	**259**	**87**	**709**	**759**	**65**	**48**	**2,241**
Allowance on loans transferred to held for sale	**-**	**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**
Allowance related to bulk loan purchases from HSBC Finance	**-**	**-**	**-**	**-**	**424**	**13**	**-**	**437**
Balance at end of period	**$ 759**	**$ 357**	**$ 176**	**$ 1,238**	**$ 1,092**	**$ 51**	**$ 67**	**$ 3,740**
Six months ended June 30, 2008:								
Balance at beginning of period	$ 300	$ 53	$ 35	$ 844	$ 119	$ 8	$ 55	$ 1,414
Charge offs	68	59	35	551	70	5	57	845
Recoveries	18	1	-	98	10	2	15	144
Net charge offs	50	58	35	453	60	3	42	701
Allowance on loans transferred to held for sale	-	-	-	(21)	-	-	-	(21)
Provision charged to income	141	93	148	584	95	-	43	1,104
Balance at end of period	$ 391	$ 88	$ 148	$ 954	$ 154	$ 5	$ 56	$ 1,796

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

	June 30, 2009	March 31, 2009	June 30, 2008
		(in millions)	
On-balance sheet allowance:			
Specific	**$ 86**	$ 51	$ 46

Collective	**608**	548	312
Transfer risk	**-**	-	-
Unallocated	**65**	70	33
Total on-balance sheet allowance	**759**	669	391
Off-balance sheet allowance	**166**	164	152
Total commercial allowances	**$ 925**	$ 833	$ 543

An allocation of the allowance for credit losses by major loan categories is presented in the following table:

	June 30, 2009		**March 31, 2009**		**June 30, 2008**	
	Amount	**% of Loans to Total Loans(1)**	**Amount**	**% of Loans to Total Loans(1)**	**Amount**	**% of Loans to Total Loans(1)**
	(dollars are in millions)					
Commercial	**$ 759**	**40%**	$ 669	39%	$ 391	44%
Consumer:						
Residential mortgages, excluding HELOCs and home equity mortgages	**357**	**17**	310	17	88	27
HELOCs and home equity mortgages	**176**	**5**	160	5	148	5
Private label card receivables	**1,238**	**17**	1,256	18	954	20
Credit card receivables	**1,092**	**16**	964	16	154	2
Auto finance	**51**	**3**	39	3	5	-
Other consumer	**67**	**2**	67	2	56	2
Total consumer	**2,981**	**60**	2,796	61	1,405	56
Total	**$ 3,740**	**100 %**	$ 3,465	100%	$ 1,796	100%

(1) Excludes loans held for sale.

The allowance for credit losses at June 30, 2009 increased $275 million, or 7.9 percent as compared to March 31, 2009, and $1,944 million, or 108.2 percent, as compared to June 30, 2008. Reserve levels for all loan categories were impacted by the following:

• Continued deterioration in the U.S. economy, including rising unemployment rates;

• For consumer loans, higher levels of personal bankruptcy filings; and

• Lower recovery rates on previously charged-off private label card and credit card balances.

The increase in the allowance for credit losses associated with our credit card portfolio since June 2008 reflects the purchase of the GM and UP Portfolio in January 2009. The increase in the allowance associated with this portfolio since March 2009 also reflects the impact of applying the requirements of SOP 03-3 to certain delinquent loans upon acquisition which resulted in no allowance for loan losses being established for these loans as our investment in these loans was recorded at fair value based on the net cash flows expected to be collected. A significant portion of these loans have now migrated to charge-off at June 30, 2009 and the GM and UP credit card receivables we acquired which did not show any evidence of credit deterioration at the time of the acquisition, and as such were not subject to the requirements of SOP 03-3, have begun to season, requiring an allowance for credit losses to be established.

The increase in the allowance for credit losses associated with residential mortgages was driven largely by increased delinquencies and higher loss estimates in our prime residential first mortgage loan portfolio due to deteriorating conditions in the housing markets and rising unemployment levels.

Loan allowances for commercial loans were higher at June 30, 2009 due to higher charge-off levels and higher criticized loan balances caused by further downgrades in financial institution and certain other counterparties, as well as real estate and middle market customers. The downgrades resulted from continued deterioration of economic conditions and changes in financial conditions of specific customers within these portfolios. As previously mentioned, downgrades in our commercial real estate portfolio to substandard and doubtful are continuing, particularly for condominium loans and land loans, as well as in hotel and office construction in all markets, especially in the large metropolitan markets where many construction projects have been delayed. Condominium projects in Florida and California have been negatively impacted by sharply declining prices and reduced availability for condominium mortgages. As such, many buyers are either walking away from purchase contracts and deposits, or cannot arrange mortgages or advance additional equity required to close purchases. Although our middle market portfolio has deteriorated in most industry segments and geographies, we have experienced particular weakness in apparel, auto suppliers and construction.

The allowance for credit losses as a percentage of total loans increased to 4.36 percent at June 30, 2009 as compared to 3.91 percent at March 31, 2009 and 2.09 percent at June 30, 2008. The increase in our allowance since the prior year reflects higher levels of credit card receivables due to the purchase of the GM and UP Portfolios and since the prior quarter, a reduction in the credit card balances subject to the requirements of SOP 03-3 as previously discussed. Our allowance for credit losses on residential mortgage loans also increased due to the continued deterioration of the housing market, particularly as it relates to our prime residential mortgage loans, as did our allowance on commercial loans, including our commercial real estate portfolio due to customer credit downgrades and economic pressures. While the allowance on our private label receivable portfolio increased from the prior year, due in part to higher delinquency and charge-off levels as a result of portfolio seasoning, continued deterioration in the U.S. economy including rising unemployment levels and lower recovery rates on defaulted loans, it declined since March 31, 2009. The decline reflects lower dollars of delinquency due in part to lower receivable levels, including the actions previously taken to tighten underwriting and reduce the risk profile of the portfolio. These declines were also the result of an extended seasonal benefit of increased cash available to consumers as a result of various government economic stimulus actions and lower energy costs. This was only partially offset by the impact of continued economic pressures including rising unemployment levels. Excluding the impact of applying SOP 03-3, we experienced a similar trend in the underlying credit trend during the quarter for the GM and UP Portfolios.

The allowance for credit losses as a percentage of net charge-offs (quarter-to-date, annualized) declined to 118.92 percent at June 30, 2009 as compared to 157.36 percent at March 31, 2009 and 120.05 percent at June 30, 2008, as the increase in the net charge-offs outpaced the increase in the allowance for credit losses due largely to credit card receivables and lower reserve requirements on private label receivables.

Reserves for Off-Balance Sheet Credit Risk

We also maintain a separate reserve for credit risk associated with certain off-balance sheet exposures, including letters of credit, unused commitments to extend credit and financial guarantees. This reserve, included in other liabilities, was $166 million, $164 million and $152 million at June 30, 2009, March 31, 2009 and June 30, 2008, respectively. The related provision is recorded as a miscellaneous expense and is a component of operating expenses. Off-balance sheet exposures are summarized in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2008 Form 10-K under the caption "Off-Balance Sheet Arrangements and Contractual Obligations."

Delinquency

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

	June 30, 2009	**March 31, 2009**	**June 30, 2008**
	(dollars are in millions)		
Dollars of Delinquency:			
Commercial	**$ 681**	$ 328	$ 193
Consumer:			
Residential mortgage	**2,230**	1,920	1,464
Private label card receivables	**634**	657	555
Credit card receivables	**583**	483	86
Auto finance	**37**	24	4
Other consumer	**19**	22	22
Total consumer	**3,503**	3,106	2,131
Total	**$ 4,184**	$ 3,434	$ 2,324
Delinquency Ratio:			
Commercial	**1.95%**	0.93%	0.48%
Consumer:			
Residential mortgage	**10.69**	8.10	4.86
Private label card receivables	**4.21**	4.21	3.43
Credit card receivables	**4.23**	3.44	4.55
Auto finance	**1.48**	.88	1.76
Other consumer	**1.15**	1.26	1.10
Total consumer	**6.51**	5.37	4.23
Total	**4.71 %**	3.68%	2.57%

Our total delinquency ratio increased 103 basis points compared to the prior quarter. The overall increase in delinquency was due to the following:

• Continued deterioration in the U.S. economy;

• Significantly higher unemployment rates during the quarter; and

• Increased delinquency in the credit card and auto finance loans purchased from HSBC Finance as the previously current auto and credit card balances begin to season and the SOP 03-3 balances for credit cards run-off

In addition to the above, our residential mortgage portfolio, which includes our subprime mortgage whole loans held for sale for purposes of delinquency reporting, has continued to experience higher delinquency ratios as a result of continued weakening in the housing industry. Also, lower loan balances for residential mortgage loans, private label cards and credit card receivables as compared to the prior quarter also contributed to the higher delinquency ratios.

During the second quarter of 2009, we experienced a decline in dollars of two-months-and-over contractual delinquency compared to the prior quarter relating to our private label credit card portfolio, due in part to lower receivable levels, including the actions previously taken to tighten underwriting and reduce the risk profile of the portfolio. These declines were also the result of extended seasonal benefit of increased cash available to consumers as a result of various government economic stimulus actions and lower energy costs as well as higher levels of personal bankruptcy filings which results in accounts migrating to charge-off more quickly. This was only partially offset by the impact of continued economic pressures including rising unemployment levels. Excluding the impact of applying SOP 03-3, we experienced a similar trend in the underlying credit trend during the quarter for the GM and UP Portfolios.

Our commercial portfolio experienced higher delinquency ratios due to continued deterioration of economic conditions, as previously discussed.

Compared to June 30, 2008, our delinquency ratio increased 214 basis points at June 30, 2009, largely due to higher residential mortgage, private label card and credit card delinquencies due to the factors described above. A significant factor contributing to the increased dollars of delinquency associated with our credit card portfolios is the impact of the GM and UP Portfolios purchased in January 2009.

Net Charge-offs of Loans

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

	June 30, 2009	**March 31, 2009**	**June 30, 2008**
	(dollars are in millions)		
Net Charge-off Dollars:			
Commercial	**$ 76**	$ 51	$ 25
Consumer:			
Residential mortgage	**100**	87	54
Private label card receivables	**328**	314	239
Credit card receivables	**238**	61	34
Auto finance	**20**	4	1
Other consumer	**22**	26	19
Total consumer	**708**	492	347
Total	**$ 784**	$ 543	$ 372
Net Charge-off Ratio:			
Commercial	**0.87%**	0.56%	0.27%
Consumer:			
Residential mortgage	**2.06**	1.59	.72
Private label card receivables	**8.31**	7.77	5.93
Credit card receivables	**7.05**	1.85	7.37
Auto finance	**3.05**	0.62	1.59
Other consumer	**5.33**	5.93	3.84

Total consumer	**5.34**	3.55	2.76
Total	**3.56** %	2.37%	1.71%

Our net charge-off ratio as a percentage of average loans increased 119 basis points compared to the prior quarter primarily due to higher credit card, private label credit card and residential mortgage charge-offs. Higher net charge-off levels are a result of the following:

• Higher delinquency levels migrating to charge-off due to:

- Continued deterioration in the U.S economy and housing markets;

- Significantly higher unemployment rates; and

- Portfolio seasoning;

• Higher levels of bankruptcy filings;

• Higher loss severities for secured loans; and

• Lower recovery rates on private label card receivables.

Charge-off dollars and ratios increased in the residential mortgage portfolio reflecting continued weakening in the housing and mortgage industry, including marked decreases in home values in certain markets as well as lower average loans outstanding.

Charge-off levels in our credit card portfolio were positively impacted by the GM and UP Portfolio purchased from HSBC Finance a portion of which were subject to the requirements of SOP 03-3 and recorded at fair value, net of anticipated future losses at the time of acquisition. This resulted in a substantial increase in average credit card receivables outstanding without a corresponding increase in credit card charge-offs. As a result, we anticipate higher levels of net charge-offs in this portfolio in future periods as the GM and UP credit card receivables we purchased in January 2009 which were not subject to the requirements of SOP 03-3 season.

Our auto finance net charge-off ratio benefited from the purchase of $3.0 billion of non-delinquent auto finance receivables from HSBC Finance.

Our net charge-off ratio increased 185 basis points compared to the prior year quarter primarily due to higher charge-offs in our residential mortgage and private label credit card receivables which was partially offset by the impact of higher average credit card and auto finance loans without a correspondingly higher level of charge-off as discussed above. Commercial charge-off dollars and ratios increased due to a higher level of losses in the small business portfolio and an increase in losses in the middle market and commercial real estate portfolios.

Nonperforming Assets

Nonperforming assets are summarized in the following table.

	June 30, 2009	March 31, 2009	June 30, 2008

	(dollars are in millions)		
Nonaccrual loans:			
Commercial:			
Construction and other real estate	**$ 288**	$ 198	$ 52
Other commercial	**301**	171	171
Total commercial	**589**	369	223
Consumer:			
Residential mortgages	**818**	754	441
Credit card receivables	**3**	2	1
Auto finance	**37**	24	4
Total consumer loans	**858**	780	446
Nonaccrual loans held for sale	**433**	445	418
Total nonaccruing loans	**1,880**	1,594	1,087
Accruing loans contractually past due 90 days or more:			
Total commercial	**214**	128	62
Consumer:			
Residential mortgages	**-**	-	-
Private label card receivables	**456**	473	392
Credit card receivables	**423**	314	62
Auto finance	**1**	1	1
Other consumer	**28**	25	18
Total consumer loans	**908**	813	473
Accruing loans contractually past due 90 days or more held for sale	**-**	-	-
Total accruing loans contractually past due 90 days or more	**1,122**	941	535
Total nonperforming loans	**3,002**	2,535	1,622
Other real estate owned	**91**	91	73
Total nonperforming assets	**$ 3,093**	$ 2,626	$ 1,695
Allowance for credit losses as a percent of nonperforming loans(1)			
Commercial	**94.5%**	134.6%	137.2%
Consumer	**168.8**	175.5	152.9

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(1) Ratio excludes nonperforming loans associated with loan portfolios which are considered held for sale as these loans are carried at the lower of cost or market.

Increases in nonperforming loans at June 30, 2009 as compared to the prior quarter are primarily related to commercial loans, residential mortgages, and credit card receivables 90 days or more past due and still accruing. Commercial non-accrual loans increased as compared to both the prior quarter and prior year quarter largely due to increases in commercial real estate due to continued deterioration of economic conditions and changes in the financial condition of specific customers. Residential mortgage nonperforming loans increased largely due to deterioration in the housing markets. This increase also relates to a portfolio of higher quality nonconforming residential mortgage loans that we purchased from HSBC Finance in 2003 and 2004 in order to hold in the residential mortgage loan portfolio. Increases in accruing loans past due 90 days or more increased during the quarter primarily relating to the run-off of the SOP 03-3 credit card balances and, as compared to the prior year quarter, a significantly higher portfolio of credit card receivables. Deterioration in the U.S. economy, including rising unemployment rates, also contributed to the increase in nonperforming loans. Our policies and practices for problem loan management and placing loans on nonaccrual status are summarized in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," in our 2008 Form 10-K.

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

Impaired Commercial Loans

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

	June 30, 2009	March 31, 2009	June 30, 2008
	(dollars are in millions)		
Impaired commercial loans:			
Balance at end of period	**$ 589**	$ 369	$ 223
Amount with impairment reserve	**304**	260	142
Impairment reserve	**65**	53	44

Criticized Assets

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

		Increase/(Decrease) from			
	June 30, 2009	March 31, 2009		June 30, 2008	
		Amount	%	Amount	%
	(dollars are in millions)				
Special mention:					
Commercial loans	**$ 3,857**	$ (259)	(6)	1,234	47
Substandard:					
Commercial loans	**3,491**	955	38	2,759	*
Consumer loans	**1,856**	213	13	889	92
	5,347	1,168	28	3,648	*
Doubtful:					

Commercial loans	**132**	(17)	(11)	81	*
Total	**$ 9,336**	$ 892	11	$ 4,963	*

* Not meaningful

The increase in criticized commercial loans resulted mainly from further customer credit downgrades in financial institution counterparties as well as real estate and middle market customers. As previously mentioned, downgrades in our commercial real estate portfolio are continuing, particularly for condominium and land loans, as well as hotel and office construction where many construction projects have been delayed. Additionally, middle market has deteriorated across most industry segments and geographies with particular weakness in apparel, auto suppliers and construction. Higher substandard consumer loans were largely driven by our acquisition of the GM and UP Portfolios.

Geographic Concentrations

Regional exposure at June 30, 2009 for certain loan portfolios is summarized in the following table.

	Commercial Construction and Other Real Estate Loans	**Residential Mortgage Loans**	**Credit Card Receivables**
New York State	47%	38%	10%
North Central United States	4	9	27
North Eastern United States	11	10	14
Southern United States	21	19	27
Western United States	16	24	22
Other	1	-	-
Total	100%	100%	100%

Liquidity and Capital Resources

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

During 2008 and continuing into 2009, financial markets were extremely volatile. New issue term debt markets were extremely challenging with issues attracting substantially higher rates of interest than had historically been experienced. Credit spreads for all issuers continued to trade at historically wide levels with the most pressure on financial sector spreads. Liquidity for asset backed securities remained tight as spreads remained high, negatively impacting the ability to securitize credit card receivables. The Federal Reserve Board introduced the Term Asset Backed Securities Loan Facility Program ("TALF") in late 2008 to improve liquidity in asset backed securities. While the on-going financial market disruptions continued to impact credit spreads and liquidity during the first half of 2009, we have seen a significant improvement in liquidity during the second quarter of 2009 and credit spreads have narrowed considerably due to increased market confidence stemming largely from the various government actions taken to restore faith in the capital markets. Large financial institutions are now able to issue longer term debt without government guarantees. Similarly, many non-TALF eligible asset backed securitizations have been issued at favorable rates in the second quarter of 2009.

During 2008 and continuing into 2009, we witnessed the systemic reduction in available liquidity in the market and took steps to reduce our reliance on debt capital markets and to increase deposits. After adjusting for the $6.1 billion of debt acquired with the credit card transfers, we reduced our long term debt by $4.8 billion during the six months ended June 30, 2009. In the latter part of 2008, we had grown deposits in anticipation of the asset transfers and December 31, 2008 balances also benefitted from clients choosing to place their surplus liquidity into banks. Subsequent to December 31, we managed our overall balance sheet downward by reducing low margin investments and deposits, and continuing to manage the overall balance sheet risk.

Interest bearing deposits with banks totaled $10 billion and $16 billion at June 30, 2009 and December 31, 2008, respectively. Balances decreased during the six months ended June 30, 2009 as this excess liquidity was utilized in part to fund the asset purchases from HSBC Finance.

Federal funds sold and securities purchased under agreements to resell totaled $5.2 billion and $10.8 billion at June 30, 2009 and December 31, 2008, respectively. Balances decreased during the six months ended June 30, 2009 as we redeployed surplus liquidity out of repurchase agreements into purchases of short term treasury bills.

Short-term borrowings totaled $8.0 billion and $10.5 billion at June 30, 2009 and December 31, 2008, respectively. See "Balance Sheet Review" in this MD&A for further analysis and discussion on short-term borrowing trends.

Deposits decreased to $108.6 billion at June 30, 2009 from $119.0 billion at December 31, 2008. See "Balance Sheet Review" in this MD&A for further analysis and discussion on deposit trends.

Long-term debt increased to $23.4 billion at June 30, 2009 from $22.1 billion at December 31, 2008. The increase in long-term debt during the first half of 2009 was due to the assumption of debt from HSBC Finance relating to the credit card receivable purchases. The following table summarizes issuances and retirements of long term debt during the six months ended June 30, 2009 and 2008:

Six Months Ended June 30,	**2009**	**2008**
	(in millions)	
Long-term debt issued	**$ 1,275**	$ 2,579
Long-term debt retired	**(5,118)**	(4,592)
Net long-term debt retired	**$ (3,843)**	$ (2,013)

Issuances of long-term debt during the first half of 2009 were $1,275 million and included $1,025 million of medium term notes, $79 million of which was issued by HSBC Bank USA and $250 million of two-year Senior Floating Rate Notes. None of the debt issued in 2009 was guaranteed by the FDIC.

Additionally as part of the purchase of the UP and GM Portfolio from HSBC Finance in January 2009, we assumed $6.1 billion of indebtedness accounted for as secured financings. At June 30, 2009, $3.9 billion was outstanding.

Under our shelf registration statement on file with the Securities and Exchange Commission, we may issue debt securities or preferred stock. The shelf has no dollar limit, but the ability to issue debt is limited by the issuance authority granted by the Board of Directors. We are currently authorized to issue up to $12.0 billion, of which $4.1 billion is available. HSBC Bank USA also has a $40.0 billion Global Bank Note Program of which $20.3 billion is available.

As a member of the New York Federal Home Loan Bank (FHLB), we have a secured borrowing facility which is collateralized by residential mortgage loans and investment securities. At June 30, 2009 and December 31, 2008, the facility included $1.0 billion and $2.0 billion, respectively, of borrowings included in long-term debt. The facility also allows access to further borrowings of up to $2.2 billion based upon the amount pledged as collateral with the FHLB.

At June 30, 2009 and December 31, 2008 we had a $2.5 billion unused line of credit with HSBC Bank, plc, an U.K. based HSBC subsidiary to support issuances of commercial paper.

Preferred Equity In April 2009, the preferred stock issued to CT Financial Services Inc. in 1997 was redeemed. See Note 20, "Preferred Stock," in the consolidated financial statements included in our 2008 Form 10-K for information regarding all outstanding preferred share issues.

Common Equity During the six months ended June 30, 2009, HNAI made 3 capital contributions to us totaling $2.2 billion in exchange for 3 shares of our common stock. Subsequently, we contributed $2.7 billion to HSBC Bank USA in exchange for 3 shares of HSBC Bank USA's common stock. These capital contributions were to support ongoing operations, including the credit card receivables purchased from HSBC Finance and to maintain capital at levels we believe are prudent in current market conditions.

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

	June 30,	**December 31,**
	2009	**2008**
Tier 1 capital to risk weighted assets	**8.37%**	7.60%
Tier 1 capital to average assets	**7.60**	5.96
Total equity to total assets	**8.62**	6.85

We maintain rolling 12 month capital forecasts on a consolidated basis, and for our banking subsidiary. Target capital ratios approved by the board of directors are set above levels established by regulators as "well capitalized", and are partly based on a review of peer banks. Dividends are generally paid to our parent company, HNAI when available capital exceeds target levels. To the extent that our forecasts indicate that capital will not exceed target levels, we will generally seek a capital infusion from our parent, in accordance with HSBC capital management policy. HUSI's target capital ratios and capital forecasting are integrated into the capital management process of HSBC.

HSBC USA Inc. and HSBC Bank USA, National Association are required to meet minimum capital requirements by their principal regulators. Risk-based capital amounts and ratios are presented in Note 16, "Regulatory Capital," in the accompanying consolidated financial statements.

As part of the regulatory approvals with respect to the aforementioned receivable purchases completed in January 2009. we and our ultimate parent, HSBC, committed that HSBC Bank USA will maintain a Tier 1 risk-based capital ratio of at least 7.62 percent, a total capital ratio of at least 11.55 percent and a Tier 1 leverage ratio of at least 6.45 percent for one year following the date of transfer. In addition, we and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or become "low-quality assets," as defined by the Federal Reserve Act. In May 2009, we received further clarification from the Federal Reserve regarding HSBC Bank USA's regulatory reporting requirements with respect to these capital commitments in that the additional capital requirements, (which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios), should be applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. Capital ratios and amounts reported above at June 30, 2009 reflect this revised regulatory reporting. At June 30, 2009, we have exceeded our committed ratios. In addition to the target capital ratios, we have established an Internal Capital Adequacy Assessment Process (ICAAP). Under ICAAP, capital adequacy is evaluated through the examination of regulatory capital ratios (measured under current and Basel II rules), economic capital and stress testing. The results of the ICAAP are forwarded to HSBC and, to the extent that this evaluation identifies potential capital needs, incorporated into the HSBC capital management process. HSBC has indicated that they are fully committed and have the capacity to provide capital as needed to run operations, maintain sufficient regulatory capital ratios, and fund certain tax planning strategies.

We assumed $6.1 billion of securities backed by credit card receivables in the first quarter of 2009 as part of the credit card receivables purchase from HSBC Finance. For accounting purposes, these transactions were structured as secured financings. Therefore, the receivables and the related debt remain on our balance sheet. At June 30, 2009, private label, other credit card receivables and restricted available for sale investments totaling $5.9 billion secured $4.6 billion of outstanding public debt and conduit facilities. At December 31, 2008, private label receivables totaling $1.6 billion secured $1.2 billion of outstanding debt. At June 30, 2009, we had conduit credit facilities with commercial and investment banks under which our operations may issue securities backed with up to $3.6 billion of private label and credit card receivables. The facilities are renewable at the providers' option. Our total conduit capacity increased by $2.4 billion during the six months ended June 30, 2009. The increase is primarily the result of the GM and UP credit card receivable purchase and related secured financing conduit facilities completed in the first quarter of 2009. At June 30, 2009, private label and credit card receivables of $2.3 billion were used to collateralize $1.8 billion of funding transactions structured as secured financings under these funding programs. We plan on reducing these facilities during the second half of 2009 due to our strong liquidity position. For the conduit credit facilities that have renewed, credit performance requirements have generally been more restrictive and pricing has increased to reflect the perceived quality of the underlying assets although in the second quarter, we began to witness an easing of such terms. Available for sale investments at June 30, 2009 included $1.2 billion which were restricted for the sole purpose of paying down certain secured financings at the established payment date. There were no restricted available for sale investments at December 31, 2008.

The securities issued in connection with collateralized funding transactions may pay off sooner than originally scheduled if certain events occur. Early payoff of securities may occur if established delinquency or loss levels are exceeded or if certain other events occur. For all other transactions, early payoff of the securities begins if the annualized portfolio yield drops below a base rate or if certain other events occur. Presently we do not anticipate that any early payoff will take place. If early payoff were to occur, our funding requirements would increase. These additional requirements could be met through issuance of various types of debt or borrowings under existing back-up lines of credit. We believe we would continue to have adequate sources of funds if an early payoff event were to occur. Further, we have significantly reduced our overall dependence on these sources as we shift to more stable sources while reducing our overall cost of funding.

In 2008 and continuing into 2009, the market for new securities backed by receivables essentially disappeared as spreads rose to historic highs. Factors affecting our ability to structure collateralized funding transactions as secured financings going forward or to do so at cost-effective rates, include the overall credit quality of our securitized loans, the stability of the securitization markets, the securitization market's view of our desirability as an investment and the legal, regulatory, accounting and tax environments governing collateralized funding transactions.

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

2009 Funding Strategy Our current range of estimates for funding needs and sources for 2009 are summarized in the following table.

	Actual January 1 through June 30, 2009	Estimated July 1 through December 31, 2009	Estimated Full Year 2009
		(in billions)	
Funding needs:			
Net loan growth (attrition), excluding asset transfers	**$ (9)**	$(2) - 2	$(11) - (7)
Net asset transfers	**9**	-	9
Long-term debt maturities	**1**	5	6
Investment portfolio	**4**	(2) - 4	2 - 8
Secured financings, including conduit facility maturities	**1**	1 - 2	2 - 3
Total funding needs	**$ 6**	$2 - 13	$8 - 19
Funding sources:			
Core deposit growth (attrition)	**$ 6**	$1 - 3	$7 - 9
Loan sales	**4**	- - 2	4 - 6
Long-term debt issuance	**1**	1 - 3	2 - 4
Short-term funding/investments	**(7)**	(1) - 3	(8) - (4)
Secured financings, including conduit facility renewals	**1**	1	2
Other, including capital infusions	**1**	- - 1	1 - 2
Total funding sources	**$ 6**	$2 - 13	$8 - 19

The above table reflects a long-term funding strategy. Should market conditions worsen, we have contingency plans to generate additional liquidity through the sales of assets or financing transactions. Our prospects for growth are dependent upon access to the global capital markets and our ability to attract and retain deposits. Although we issued debt in 2008 under the FDIC's Debt Guarantee Program, we anticipate any future long-term debt issuance to occur without such guarantee. Deposits are expected to grow as we continue to expand our core domestic banking network. We continue to seek well-priced and stable customer deposits as customers move funds to larger, well-capitalized institutions due to a volatile market.

In January 2009, we purchased a $6.3 billion portfolio of General Motors MasterCard receivables, a $6.1 billion portfolio of AFL-CIO Union Plus MasterCard/Visa receivables and a $3.0 billion auto loan portfolio from HSBC Finance. Related funding of $6.1 billion and equity of $1.1 billion was also transferred as part of the purchase.

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

The 2009 Full Year Estimate in the table above reflects current market conditions. The 2009 Full Year Estimate in our 2008 10-K reflected market conditions existing at the time of its publication. For further discussion relating to our sources of liquidity and contingency funding plan, see the caption "Risk Management" in the MD&A of this Form 10-Q.

Off-Balance Sheet Arrangements

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

As a financial services provider, we routinely extend credit through loan commitments and lines and letters of credit and provide financial guarantees, including derivative transactions that meet the definition of a guarantee under FIN 45. The contractual amounts of these financial instruments represent our maximum possible credit exposure in the event that a counterparty draws down the full commitment amount or we are required to fulfill our maximum obligation under a guarantee.

The following table provides maturity information related to our off-balance sheet arrangements. Many of these commitments and guarantees expire unused or without default. As a result, we believe that the contractual amount is not representative of the actual future credit exposure or funding requirements. Descriptions of these arrangements are found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2008 Form 10-K under the caption "Off-Balance Sheet Arrangements and Contractual Obligations."

	Balance at June 30, 2009				
	One Year or Less	Over One through Five Years	Over Five Years	Total	Balance at December 31, 2008
			(In millions)		
Standby letters of credit, net of participations(1)	$ 5,535	$ 2,232	$ 103	$ 7,870	$ 8,244
Commercial letters of credit	566	100	-	666	634
Credit derivatives considered guarantees(2)	51,165	289,431	73,044	413,640	493,583
Other commitments to extend credit:					
Commercial(3)	48,852	2,990	59	51,901	56,059
Consumer	7,425	-	-	7,425	9,306

Total	$ 110,416	$ 293,237	$ 75,986	$ 481,502	$ 567,826

(1) Includes $741 million and $732 million issued for the benefit of HSBC affiliates at June 30, 2009 and December 31, 2008, respectively.

(2) Includes $72,348 million and $103,409 million issued for the benefit of HSBC affiliates at June 30, 2009 and December 31, 2008, respectively.

We provide liquidity support to a number of multi-seller and single seller asset backed commercial paper conduits ("ABCP conduits"). The tables below present information on our liquidity facilities with ABCP conduits at June 30, 2009. The maximum exposure to loss presented in the first table represents the maximum contractual amount of loans and asset purchases we could be required to make under the liquidity agreements. This amount does not reflect the funding limits discussed above and also assumes that we suffer a total loss on all amounts advanced and all assets purchased from the ABCP conduits. As such, we believe that this measure significantly overstates its expected loss exposure. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2008 Form 10-K under the caption "Off-Balance Sheet Arrangements and Contractual Obligations" for additional information on these ABCP conduits.

Conduit Type	Maximum Exposure to Loss	Conduit Assets(1) Total Assets	Weighted Average Life (Months)	Conduit Funding(1) Commercial Paper	Weighted Average Life (Days)
	(dollars are in millions)				
HSBC affiliate sponsored (multi-seller)	$ 9,598	$ 6,725	38	$ 5,613	25
Third-party sponsored:					
Single-seller	462	10,398	44	1,808	35
Total	$ 10,060	$ 17,123		$ 7,421	

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

Asset Class	Average Asset	Average Credit Quality(1) AAA	AA+/AA	A	A-	BBB-	BB/BB-

	Mix						
Multi-seller conduits							
Debt securities backed by:							
Auto loans and leases	52%	41%	12%	27%	13%	2%	5%
Trade receivables	12	35	21	38	6	-	-
Credit card receivables	17	43	-	57	-	-	-
Other securities	9	-	-	-	-	-	100
Capital calls	2	-	-	100	-	-	-
Equipment loans	3	100	-	-	-	-	-
Auto dealer floor plan loans	5	-	-	21	-	79	-
Total	100%	36%	8%	32%	7%	5%	12%
Single-seller conduits							
Debt securities backed by:							
Auto loans and leases	87%	95%	5%	-%	-%	-%	-%
Loans and trade receivables:							
Auto loans and leases	13	-	-	-	100	-	-
Total	100%	82%	5%	-%	13%	-%	-%

(1) Credit quality is based on Standard and Poor's ratings at June 30, 2009 except for loans and trade receivables held by single-seller conduits, which are based on our internal ratings. For the single-seller conduits, external ratings are not available; however, our internal credit ratings were developed using similar methodologies and rating scales equivalent to the external credit ratings.

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

During the first half of 2009, U.S. asset backed commercial paper volumes declined as large bank multi-seller conduit sponsors rationed available liquidity and some smaller banks and non-bank sponsors exited the market. The decline in ABCP outstandings coupled with the government provided support programs like the Asset-Backed Commercial Paper Money Market Fund Liquidity Facility ("AMLF") and the Commercial Paper Funding Facility ("CPFF") have led to greater investor liquidity for the large bank sponsors that are attracting demand from active money fund investors. The improved demand for higher quality ABCP program has led to an improved tone in the market and less volatility in issuance spreads.

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

Under one of these agreements, known as the Montreal Accord, a restructuring proposal to convert outstanding commercial paper into longer term securities was approved by ABCP noteholders during the second quarter of 2008 and endorsed by the Canadian justice system during the third quarter of 2008. The restructuring plan was formally executed during the first quarter of 2009. As part of the enhanced collateral pool established for the restructuring, we are providing a $329 million Margin Funding Facility to new Master Conduit Vehicles, which is currently undrawn. HBUS derivatives transactions with the previous conduit vehicles have been assigned to new Master Conduit

Vehicles. Under the restructuring, collateral provided to us to mitigate the derivatives exposures is significantly higher than it was previously.

Also in Canada but separately from the Montreal Accord, as part of an ABCP conduit restructuring executed in the second quarter of 2008, we hold $246 million of long term securities and provide an $82 million Margin Funding Facility. As of June 30, 2009, approximately $22 million of the Margin Funding Facility was drawn and the $246 million of securities were still held. As of December 31, 2008, approximately $77 million of the Margin Funding Facility was drawn and the $246 million of securities were held.

As of June 30, 2009 and December 31, 2008, other than the Margin Funding Facilities referenced above, we no longer have outstanding liquidity facilities to Canadian ABCP conduits subject to the Montreal Accord or other agreements referenced. However, we hold $10 million of long term securities that were converted from a liquidity drawing which fell under the Montreal Accord restructuring agreement.

In addition to the facilities provided to ABCP conduits, we also provide a $29 million liquidity facility to a third-party sponsored multi-seller structured investment vehicle (SIV). This SIV and our involvement with it is more fully described in Note 17, "Special Purpose Entities," of the accompanying consolidated financial statements. At June 30, 2009 and December 31, 2008, this facility was fully funded and is recorded in loans on our balance sheet. The funded amount related to this liquidity facility was considered in the determination of our allowance for loan losses and a specific reserve has been established against this facility in accordance with our credit policies.

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

Fair Value

FAS 157 requires a reporting entity to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of own credit risk accounted for an increase of $398 million and $259 million in the fair value of financial liabilities for the three and six month periods ended June 30, 2009, respectively, as compared with an increase of $67 million and a decrease of $107 million in the fair value of financial liabilities for the corresponding prior year periods.

Net income volatility arising from changes in either interest rate or credit components of the mark-to-market on debt designated at fair value and related derivatives affects the comparability of reported results between periods. Accordingly, gain on debt designated at fair value and related derivatives for the six months ended June 30, 2009 should not be considered indicative of the results for any future period.

Control Over Valuation Process and Procedures

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

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

• consistency among different pricing sources;

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

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

• the source of the fair value information.

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

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

Fair Value Hierarchy

FAS 157 establishes a fair value hierarchy structure that prioritizes the inputs to determine the fair value of an asset or liability. FAS 157 distinguishes between inputs that are based on observed market data and unobservable inputs that reflect market participants' assumptions. It emphasizes the use of valuation methodologies that maximize observable market inputs. For financial instruments carried at fair value, the best evidence of fair value is a quoted price in an actively traded market (Level 1). Where the market for a financial instrument is not active, valuation techniques are used. The majority of our valuation techniques use market inputs that are either observable or indirectly derived from and corroborated by observable market data for substantially the full term of the financial instrument (Level 2). Because Level 1 and Level 2 instruments are determined by observable inputs, less judgment is applied in determining their fair values. In the absence of observable market inputs, the financial instrument is valued based on valuation techniques that feature one or more significant unobservable inputs (Level 3). The determination of the level of fair value hierarchy within which the fair value measurement of an asset or a liability is classified often requires judgment and may change over time as market conditions evolve. We consider the following factors in developing the fair value hierarchy:

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

• the level of bid-ask spreads;

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

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

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

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

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

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

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

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

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants' assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances. As of June 30, 2009 and December 31, 2008, our Level 3 instruments included the following: collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs") for which there is a lack of pricing transparency due to market illiquidity, certain structured credit and structured equity derivatives where significant inputs (e.g., volatility or default correlations) are not observable, credit default swaps with certain monoline insurers where the deterioration in the creditworthiness of the counterparty has resulted in significant adjustments to fair value, U.S. subprime mortgage whole loans and subprime related asset-backed securities, mortgage servicing rights, and derivatives referenced to illiquid assets of less desirable credit quality.

Level 3 Measurements

The following table provides information about Level 3 assets/liabilities in relation to total assets/liabilities measured at fair value as of June 30, 2009 and December 31, 2008.

	June 30, 2009	December 31, 2008
	(dollars are in millions)	
Level 3 assets(1),(2)	**$ 10,266**	$ 12,081
Total assets measured at fair value(3)	**127,821**	192,222
Level 3 liabilities	**2,970**	2,845
Total liabilities measured at fair value(1)	**92,812**	158,710
Level 3 assets as a percent of total assets measured at fair value	**8.0%**	6.3%
Level 3 liabilities as a percent of total liabilities measured at fair value	**3.2%**	1.8%

(1) Presented without FIN 39, "Offsetting of Amounts Relating to Certain Contracts," netting.

(2) Includes $8,730 million of recurring Level 3 assets and $1,536 million of non-recurring Level 3 assets at June 30, 2009 and $10,670 million of recurring Level 3 assets and $1,411 million of non-recurring Level 3 assets at December 31, 2008.

(3) Includes $125,905 million of assets measured on a recurring basis and $1,916 million of assets measured on a non-recurring basis at June 30, 2009 and $189,756 million of non-recurring Level 3 assets and $2,466 million of non-recurring Level 3 assets at December 31, 2008.

Material Changes in Fair Value for Level 3 Assets and Liabilities

Derivative Assets and Counterparty Credit Risk We have entered into credit default swaps with monoline insurers to hedge our credit exposure in certain asset-backed securities and synthetic CDOs. Beginning in 2007 and continuing into 2009, the creditworthiness of the monoline insurers has deteriorated significantly. As a result, we made a $158 million and $802 million negative credit risk adjustment to the fair value of our credit default swap contracts which is reflected in trading (losses) revenues for the six months ended June 30, 2009 and 2008, respectively. We have recorded a cumulative credit adjustment reserve of $1,007 million against our monoline exposure as of June 30, 2009.

Loans As of June 30, 2009 and December 31, 2008, we have classified $990 million and $1,278 million, respectively, of mortgage whole loans held for sale as a non-recurring Level 3 financial asset. These mortgage loans are accounted for on a lower of cost or fair value basis. Based on our assessment, we recorded a loss of $66 million and $155 million for such mortgage loans during the three and six months ended June 30, 2009 as compared to $125 million and $241 million in the year-ago periods. The changes in fair value are recorded as other revenues (losses) in the consolidated statement of (loss) income.

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

During the six months ended June 30, 2009, we transferred $335 million of mortgage and other asset backed securities and $345 million of corporate bonds from Level 2 to Level 3 as the availability of observable inputs continued to decline. In addition, we transferred $40 million of credit derivatives from Level 2 to Level 3. See Note 19, "Fair Value Measurements," in the accompanying consolidated financial statements for information on additions to and transfers into (out of) Level 3 measurements during the six months ended June 30, 2008 as well as for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

In the second quarter of 2009, we transferred $288 million of auto finance loans to held for sale. As of June 30, 2009 these auto finance loans held for sale are classified as non-recurring Level 3 financial assets, and are accounted for on a lower of cost or fair value basis.

Credit Quality of Assets Underlying Asset-backed Securities

The following tables summarize the types and credit quality of the assets underlying our asset-backed securities as well as certain collateralized debt obligations and collateralized loan obligations held as of June 30, 2009:

Asset-backed securities backed by consumer finance collateral:

Credit quality of collateral:		Total	Prime		Alt-A		Sub-prime	
Year of issuance:			Prior to 2006	After 2006	Prior to 2006	After 2006	Prior to 2006	After 2006
					(in millions)			
Rating of securities:	Collateral type:							
AAA	Home equity loans	$ 197	$ -	$ -	$ 1	$ 193	$ 3	$ -
	Auto loans	33	-	-	33	-	-	-
	Student loans	39	-	-	39	-	-	-
	Residential mortgages	1,289	53	-	798	142	296	-
	Commercial mortgages	878	-	-	80	798	-	-
	Not specified	27	-	-	27	-	-	-
	Total AAA	2,463	53	-	978	1,133	299	-
AA	Home equity loans	10	-	-	1	9	-	-
	Residential mortgages	28	-	-	28	-	-	-
	Total AA	38	-	-	29	9	-	-
A	Home equity loans	119	-	-	-	119	-	-
	Auto loans	40	-	-	40	-	-	-
	Residential mortgages	45	-	-	-	41	-	4
	Total A	204	-	-	40	160	-	4
BBB	Home equity loans	33	-	-	5	27	1	-
	Residential mortgages	72	-	-	-	72	-	-
	Not specified	-	-	-	-	-	-	-

	Total BBB	105	-	-	5	99	1	-
BB	Residential mortgages	103	-	-	-	103	-	-
	Not specified	35	-	-	35	-	-	-
	Total BB	138	-	-	35	103	-	-
B	Home equity loans	-	-	-	-	-	-	-
	Residential mortgages	103	-	-	24	68	-	11
	Total B	103	-	-	24	68	-	11
CCC	Home equity loans	-	-	-	-	-	-	-
	Residential mortgages	112	-	-	8	100	4	-
	Total CCC	112	-	-	8	100	4	-
CC	Home equity loans	28	-	-	-	28	-	-
D	Home equity loans	4	-	-	-	4	-	-
Unrated	Residential mortgages	4	-	-	4	-	-	-
		$ 3,199	$ 53	$ -	$ 1,123	$ 1,704	$ 304	$ 15

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

Credit quality of collateral:			**A or Higher**	**BBB**	**BB/B**	**CCC**	**Unrated**
Rating of securities:	Collateral type:						
AAA	Corporate loans	$ 220	$ -	$ -	$ 220	$ -	$ -
	Commercial mortgages	198	-	-	140	58	-
	Trust preferred	205	-	205	-	-	-
	Aircraft leasing	43	-	-	-	-	43
	Others	-	-	-	-	-	-
		666	$ -	$ 205	$ 360	$ 58	$ 43
	Total asset-backed securities	$ 3,865					

Effect of Changes in Significant Unobservable Inputs

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

The unobservable input parameters selected are subject to the internal valuation control processes and procedures. When we perform a test of all the significant input parameters to the extreme values within the range at the same time, it could result in an increase of the overall fair value measurement of approximately $479 million or a decrease of the overall fair value measurement of approximately $477 million as of June 30, 2009. The effect of changes in significant unobservable input parameters are primarily driven by mortgage whole loans held for sale or securitization, certain asset-backed securities including CDOs, and the uncertainty in determining the fair value of credit derivatives executed against monoline insurers.

Risk Management

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

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

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

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

• *Operational risk* technically includes legal and compliance risk.

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

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

In the first quarter of 2009, significant steps were undertaken to further strengthen our risk management organization, including the appointment of an HSBC North America Holdings Inc. Chief Risk Officer and the creation of a distinct, cross-disciplinary risk organization and integrated risk function. Otherwise, there were no significant changes to the policies or approach for managing various types of risk as disclosed in our 2008 Form 10-K, although we continue to monitor current market conditions and will adjust risk management policies and procedures as deemed necessary. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K for a more complete discussion of the objectives of our risk management system as well as our risk management policies and practices. Our risk management process involves the use of various simulation models. We believe that the assumptions used in these models are reasonable, but actual events may unfold differently than what is assumed in the models. Consequently, model results may be considered reasonable estimates, with the understanding that actual results may vary significantly from model projections.

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

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

• in loan portfolios;

• in investment portfolios;

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

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

While credit risk exists widely in our operations, diversification among various commercial and consumer portfolios helps to lessen risk exposure. Day to day management of credit risk is administered by the Co-Chief Credit Officers who report to the HSBC North America Holdings Inc. Chief Risk Officer. Further discussion of credit risk can be found under the "Credit Quality" caption in this Form 10-Q.

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

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

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

• current market events or trends;

• country risk;

• maturity and liquidity of contracts;

• credit worthiness of the counterparties in the transaction;

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

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

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

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

	June 30, 2009	December 31, 2008
	(In millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	**$ 62,601**	$ 102,342
Less: collateral held against exposure	**3,586**	8,228
Net credit risk exposure	**$ 59,015**	$ 94,114

Liquidity Risk Management There have been no material changes to our approach towards liquidity risk management during the first half of 2009. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K for a more complete discussion of our approach to liquidity risk.

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

Our liquidity management approach includes increased deposits, potential sales (e.g. residential mortgage loans), and securitizations/conduits (e.g. credit cards) in liquidity contingency plans. Total deposits decreased $10,443 million during the six months ended June 30, 2009. Online savings account balances increased $1,018 million and $1,674 million during the six months ended June 30, 2009 and 2008, respectively. Online certificate of deposit decreased $356 million and $5 million during the six months ended June 30, 2009 and 2008, respectively. Online certificate of deposit is a new product introduced in September of 2007. Given our overall liquidity position, in the first half of 2009, we have managed down low margin commercial and institutional deposits in order to maximize profitability.

Our ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. At June 30, 2009, we and HSBC Bank USA maintained the following long and short-term debt ratings:

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

* Dominion Bond Rating Service.

In March 2009, Moody's Investors Services ("Moody's) downgraded the long-term debt ratings of both HUSI and HSBC Bank USA by one level to A1 and Aa3, respectively and reaffirmed the short-term ratings for each entity at Prime-1. Moody's also changed their outlook for both entities from "stable" to "negative." In April 2009, DBRS re-affirmed the long and short-term debt ratings of HUSI and HSBC Bank USA at AA and R-1, respectively, with a "negative" outlook.

Interest Rate Risk Management Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of our assets, liabilities and derivative contracts. Our approach to managing interest rate risk is summarized in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K under the caption "Risk Management." There have been no material changes to our approach towards interest rate risk management during the first half of 2009.

Present Value of a Basis Point ("PVBP") is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at June 30, 2009 and December 31, 2008.

	June 30,	**December 31,**
	2009	**2008**
	(in millions)	
Institutional PVBP movement limit	**$ 6.5**	$ 6.5
PVBP position at period end	**1.1**	4.3

Economic value of equity is the change in value of the assets and liabilities (excluding capital and goodwill) for either a 200 basis point immediate rate increase or decrease. The following table reflects the economic value of equity position at June 30, 2009 and December 31, 2008.

	June 30,	**December 31,**
	2009	**2008**
	(values as a percentage)	
Institutional economic value of equity limit	**+/-20**	+/-20
Projected change in value (reflects projected rate movements on January 1, 2009):		
Change resulting from an immediate 200 basis point increase in interest rates	**(4)**	(2)
Change resulting from an immediate 200 basis point decrease in interest rates	**(4)**	(18)

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

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

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
	(dollars are in millions)			
Projected change in net interest income (reflects projected rate movements on January 1, 2009):				
Institutional base earnings movement limit		**(10)**		(10)
Change resulting from a gradual 100 basis point increase in the yield curve	**(45)**	**(1)**	$ (56)	(1)
Change resulting from a gradual 100 basis point decrease in the yield curve	**14**	**-**	(3)	-
Change resulting from a gradual 200 basis point increase in the yield curve	**(106)**	**(2)**	(146)	(3)
Change resulting from a gradual 200 basis point decrease in the yield curve	**35**	**1**	(18)	-
Other significant scenarios monitored (reflects projected rate movements on January 1, 2009):				
Change resulting from an immediate 100 basis point increase in the yield curve	**(78)**	**(2)**	(102)	(2)
Change resulting from an immediate 100 basis point decrease in the yield curve	**27**	**1**	(16)	-
Change resulting from an immediate 200 basis point increase in the yield curve	**(165)**	**(3)**	(322)	(6)
Change resulting from an immediate 200 basis point decrease in the yield curve	**(20)**	**-**	(101)	(2)

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

Capital Risk/Sensitivity of Other Comprehensive Income Large movements of interest rates could directly affect some reported capital balances and ratios. The mark-to-market valuation of available-for-sale securities is credited on a tax effective basis to accumulated other comprehensive income. Although this valuation mark is excluded from Tier 1 and Tier 2 capital ratios, it is included in two important accounting based capital ratios: the tangible common equity to tangible assets and the tangible common equity to risk weighted assets. As of June 30, 2009, we had an available-for-sale securities portfolio of approximately $29 billion with a net negative mark-to-market of $641 million included in tangible common equity of $11 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $199 million to a net loss of $840 million with the following results on the tangible capital ratios. As of December 31, 2008, we had an available-for-sale securities portfolio of approximately $25 billion with a net negative mark-to-market of $651 million included in tangible common equity of $9 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $137 million to a net loss of $788 million with the following results on the tangible capital ratios.

	June 30, 2009	December 31, 2008

	Actual	Proforma(1)	Actual	Proforma(1)
Tangible common equity to tangible assets	**6.58%**	**6.47%**	5.06%	4.96%
Tangible common equity to risk weighted assets	**7.07**	**6.94**	6.58	6.45

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

Market Risk Management There have been no material changes to our approach towards market risk management during the first half of 2009. See "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K for a more complete discussion of our approach to market risk.

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

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

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

Trading portfolios reside primarily within the Markets unit of the Global Banking and Markets business segment, which include warehoused residential mortgage loans purchased with the intent of selling them, and within the mortgage banking subsidiary included within the PFS business segment. Portfolios include foreign exchange, derivatives, precious metals (i.e., gold, silver, platinum), equities and money market instruments including "repos" and securities. Trading occurs as a result of customer facilitation, proprietary position taking, and economic hedging. In this context, economic hedging may include, for example, forward contracts to sell residential mortgages and derivative contracts which, while economically viable, may not satisfy the hedge requirements of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133").

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

The following table summarizes trading VAR for the three months ended June 30, 2009:

June 30,	Six Months Ended June 30, 2009	December 31,

	2009	Minimum	Maximum	Average	2008
		(in millions)			
Total trading	**$ 73**	**$ 46**	**$ 120**	**$ 79**	$ 52
Equities	**1**	**-**	**2**	**1**	1
Foreign exchange	**2**	**1**	**10**	**3**	2
Interest rate directional and credit spread	**53**	**35**	**82**	**52**	44

The following table summarizes the frequency distribution of daily market risk-related revenues for Treasury trading activities during calendar year 2008. Market risk-related Treasury trading revenues include realized and unrealized gains (losses) related to Treasury trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the six months ended June 30, 2009 shows that the largest daily gain was $83 million and the largest daily loss was $48 million.

Ranges of Daily Treasury Trading Revenue Earned from Market Risk-Related Activities	Below $(10) -	$(10) to $0	$0 to $10 -	$10 to $20 -	Over $20
	(in millions)				
Three months ended June 30, 2009:					
Number of trading days market risk-related revenue was within the stated range	**16**	**20**	**18**	**6**	**3**
Six months ended June 30, 2009:					
Number of trading days market risk-related revenue was within the stated range	**23**	**36**	**35**	**21**	**9**

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

The following table summarizes non-trading VAR for the three months ended June 30, 2009, assuming a 99% confidence level for a two-year observation period and a one-day "holding period".

	June 30, 2009	Three Months Ended June 30, 2009			December 31, 2008
		Minimum	Maximum	Average	
		(in millions)			
Interest rate	**$ 137**	**$ 76**	**$ 154**	**$ 113**	$ 92

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

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

Interest rate risk is mitigated through an active hedging program that uses trading securities and derivative instruments to offset changes in value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques.

Modeling techniques, primarily rate shock analyses, are used to monitor certain interest rate scenarios for their impact on the economic value of net hedged MSRs, as reflected in the following table.

	June 30, 2009	**December 31, 2008**
	(in millions)	
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on April 1):		
Value of hedged MSRs portfolio	**$ 434**	$ 333
Change resulting from an immediate 50 basis point decrease in the yield curve:		
Change limit (no worse than)	**(16)**	(16)
Calculated change in net market value	**(6)**	(6)
Change resulting from an immediate 50 basis point increase in the yield curve:		
Change limit (no worse than)	**(8)**	(8)
Calculated change in net market value	**(6)**	-
Change resulting from an immediate 100 basis point increase in the yield curve:		
Change limit (no worse than)	**(12)**	(12)
Calculated change in net market value	**(18)**	(10)

The economic value of the net, hedged MSRs portfolio is monitored on a daily basis for interest rate sensitivity. If the economic value declines by more than established limits for one day or one month, various levels of management review, intervention and/or corrective actions are required.

The following table summarized the frequency distribution of the weekly economic value of the MSR asset during calendar year 2008. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the six months ended June 30, 2009.

Ranges of Mortgage Economic Value from Market Risk-Related Activities	Below $(2)	$(2) to $0	$0 to $2	$2 to $4	Over $4
	(in millions)				
Number of trading weeks market risk-related revenue was within the stated range	**10**	**3**	**2**	**3**	**8**

Operational Risk There have been no material changes to our approach towards operational risk management during the first half of 2009.

Fiduciary Risk There have been no material changes to our approach towards fiduciary risk management during the first half of 2009.

Reputational Risk There have been no material changes to our approach towards reputational risk management during the first half of 2009.

CONSOLIDATED AVERAGE BALANCES AND INTEREST RATES

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

	Three Months Ended June 30,					
	2009			2008		
	Balance	Interest	Rate(*)	Balance	Interest	Rate(*)
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$ 11,269**	**$ 9**	**0.31%**	$ 5,870	$ 41	2.80%
Federal funds sold and securities purchased under resale agreements	**9,120**	**14**	**0.61**	8,665	51	2.36
Trading assets	**4,608**	**51**	**4.45**	10,112	138	5.49
Securities	**24,511**	**227**	**3.71**	25,540	334	5.27
Loans:						
Commercial	**36,172**	**328**	**3.63**	38,608	433	4.53
Consumer:						
Residential mortgages	**18,439**	**232**	**5.06**	28,111	364	5.19
HELOCs and home equity mortgages	**4,524**	**36**	**3.28**	4,518	54	4.84
Private label card receivables	**15,840**	**411**	**10.40**	16,211	419	10.39
Credit cards	**13,538**	**317**	**9.38**	1,858	38	8.21
Auto finance	**2,624**	**119**	**18.21**	251	4	5.82
Other consumer	**1,699**	**17**	**4.11**	2,034	47	9.38
Total consumer	**56,664**	**1,132**	**7.82**	52,983	926	7.02
Total loans	**92,836**	**1,460**	**6.32**	91,591	1,359	5.97
Other	**8,862**	**12**	**0.55**	9,673	62	2.56
Total earning assets	**151,206**	**$ 1,773**	**4.71%**	151,451	$ 1,985	5.27%
Allowance for credit losses	**(3,666)**			(1,679)		
Cash and due from banks	**2,478**			2,596		

Other assets	**23,074**			27,584		
Total assets	**$ 173,092**			$ 179,952		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$ 47,006**	**$ 148**	**1.27%**	$ 46,034	$ 232	2.02%
Other time deposits	**19,472**	**103**	**2.11**	25,704	213	3.34
Deposits in foreign offices:						
Foreign banks deposits	**9,709**	**3**	**0.11**	13,061	62	1.92
Other interest bearing deposits	**15,061**	**13**	**0.33**	13,679	74	2.17
Total interest bearing deposits	**91,248**	**267**	**1.17**	98,478	581	2.37
Short-term borrowings	**9,198**	**16**	**0.69**	11,352	68	2.41
Long-term debt	**23,826**	**209**	**3.53**	25,666	239	3.74
Total interest bearing liabilities	**124,272**	**492**	**1.59**	135,496	888	2.64
Net interest income/Interest rate spread		**$ 1,281**	**3.12%**		$ 1,097	2.64%
Noninterest bearing deposits	**20,193**			13,702		
Other liabilities	**14,938**			18,940		
Total shareholders' equity	**13,689**			11,814		
Total liabilities and shareholders' equity	**$ 173,092**			$ 179,952		
Net interest margin on average earning assets			**3.40%**			2.91%
Net interest margin on average total assets			**2.97%**			2.45%

* Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the three months ended June 30, 2009 and 2008 included fees of $32 million and $8 million, respectively.

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

	Six Months Ended June 30,					
	2009			**2008**		
	Balance	**Interest**	**Rate(*)**	**Balance**	**Interest**	**Rate(*)**
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$ 11,604**	**$ 16**	**0.28%**	$ 5,962	$ 86	2.91%
Federal funds sold and securities purchased under resale agreements	**9,553**	**30**	**0.64**	9,345	137	2.95
Trading assets	**4,777**	**110**	**4.66**	11,044	296	5.38
Securities	**25,176**	**510**	**4.08**	25,179	645	5.14
Loans:						
Commercial	**36,876**	**653**	**3.57**	37,603	943	5.04
Consumer:						
Residential mortgages	**19,258**	**492**	**5.15**	29,440	758	5.17
HELOCs and home equity mortgages	**4,539**	**76**	**3.36**	4,472	119	5.39

Private label card receivables	**16,214**	**825**	**10.26**	16,487	847	10.34
Credit cards	**13,338**	**669**	**10.11**	1,830	74	8.17
Auto finance	**2,609**	**234**	**18.11**	276	8	5.74
Other consumer	**1,758**	**59**	**6.72**	2,066	98	9.62
Total consumer	**57,716**	**2,355**	**8.03**	54,571	1,904	7.02
Total loans	**94,592**	**3,008**	**6.41**	92,174	2,847	6.21
Other	**9,138**	**24**	**0.51**	9,323	144	3.11
Total earning assets	**154,840**	**$ 3,698**	**4.82%**	153,027	$ 4,155	5.46%
Allowance for credit losses	**(3,362)**			(1,600)		
Cash and due from banks	**2,550**			2,653		
Other assets	**25,336**			30,203		
Total assets	**$ 179,364**			$ 184,283		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$ 46,822**	**$ 323**	**1.39%**	$ 44,783	$ 519	2.33%
Other time deposits	**20,096**	**222**	**2.23**	25,904	499	3.87
Deposits in foreign offices:						
Foreign banks deposits	**10,684**	**6**	**0.11**	14,300	185	2.60
Other interest bearing deposits	**15,673**	**29**	**0.38**	13,675	178	2.62
Total interest bearing deposits	**93,275**	**580**	**1.25**	98,662	1,381	2.81
Short-term borrowings	**9,979**	**34**	**0.70**	12,382	167	2.71
Long-term debt	**25,175**	**447**	**3.58**	26,511	541	4.10
Total interest bearing liabilities	**128,429**	**1,061**	**1.67**	137,555	2,089	3.05
Net interest income/Interest rate spread		**$ 2,637**	**3.15%**		$ 2,066	2.41%
Noninterest bearing deposits	**20,574**			14,171		
Other liabilities	**16,682**			20,965		
Total shareholders' equity	**13,679**			11,592		
Total liabilities and shareholders' equity	**$ 179,364**			$ 184,283		
Net interest margin on average earning assets			**3.43%**			2.72%
Net interest margin on average total assets			**2.96%**			2.25%

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* Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the six months ended June 30, 2009 and 2008 included fees of $44 million and $16 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the captions "Interest Rate Risk Management" and "Trading Activities" of this Form 10-Q.

Item 4. Controls and Procedures

We maintain a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed by HSBC USA Inc. in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), is recorded, processed, summarized and reported on a timely basis. Our Board of Directors, operating through its audit committee, which is composed entirely of independent outside directors, provides oversight to our financial reporting process.

We conducted an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report so as to alert them in a timely fashion to material information required to be disclosed in reports we file under the Exchange Act.

There has been no significant change in our internal control over financial reporting that occurred during the six months ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General

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

Credit Card Litigation

Since June 2005, HSBC Bank USA, HSBC Finance, HSBC North America and HSBC, as well as other banks and Visa Inc. and MasterCard Incorporated, were named as defendants in four class actions filed in Connecticut and the Eastern District of New York: *Photos Etc. Corp. et al. v. Visa U.S.A., Inc., et al.* (D. Conn. No. 3:05-CV-01007 (WWE)); *National Association of Convenience Stores, et al. v. Visa U.S.A., Inc., et al.* (E.D.N.Y. No. 05-CV 4520 (JG)); *Jethro Holdings, Inc., et al. v. Visa U.S.A., Inc. et al.* (E.D.N.Y. No. 05-CV-4521 (JG)); and *American Booksellers Ass'n v. Visa U.S.A., Inc. et al.* (E.D.N.Y. No. 05-CV-5391 (JG)). Numerous other complaints containing similar allegations (in which no HSBC entity is named) were filed across the country against Visa Inc., MasterCard Incorporated and other banks. These actions principally allege that the imposition of a no-surcharge rule by the associations and/or the establishment of the interchange fee charged for credit card transactions causes the merchant discount fee paid by retailers to be set at supracompetitive levels in violation of the Federal antitrust laws. These suits have been consolidated and transferred to the Eastern District of New York. The consolidated case is: *In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation*, MDL 1720, E.D.N.Y. A consolidated, amended complaint was filed by the plaintiffs on April 24, 2006 and a second consolidated amended complaint was filed on January 29, 2009. The parties are engaged in discovery and motion practice. At this time, we are unable to quantify the potential impact from this action, if any.

Item 6. Exhibits

Exhibits included in this Report:

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signature

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

HSBC USA Inc.
(Registrant)

/s/ Gerard Mattia
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

Date: August 3, 2009

Exhibit Index

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
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32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 12

HSBC USA INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND TO

COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Six Months Ended June 30	2009	2008
	(dollars are in millions)	
Ratios excluding interest on deposits:		
Net loss	**$ (338)**	$ (452)
Income tax benefit	**12**	282
Loss before income tax benefit	**(350)**	(734)
Less: Undistributed equity earnings	**-**	13
Fixed charges:		
Interest on:		
Borrowed funds	**34**	167
Long-term debt	**447**	541
One third of rents, net of income from subleases	**11**	12
Total fixed charges, excluding interest on deposits	**492**	720
Earnings (loss) before taxes and fixed charges, net of undistributed equity earnings	**$ 142**	$ (27)
Ratio of earnings (loss) to fixed charges	**0.29**	(0.04)
Total preferred stock dividend factor(1)	**$ 38**	$ 65
Fixed charges, including the preferred stock dividend factor	**$ 530**	$ 785
Ratio of earnings (loss) to combined fixed charges and preferred stock dividends	**0.27**	(0.03)
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	**$ 492**	$ 720
Add: Interest on deposits	**580**	1,381
Total fixed charges, including interest on deposits	**$ 1,072**	$ 2,101
Earnings (loss) before taxes and fixed charges, net of undistributed equity earnings	**$ 142**	$ (27)
Add: Interest on deposits	**580**	1,381
Total	**$ 722**	$ 1,354
Ratio of earnings to fixed charges	**0.67**	0.64
Fixed charges, including the preferred stock dividend factor	**$ 530**	$ 785
Add: Interest on deposits	**580**	1,381
Fixed charges, including the preferred stock dividend factor and interest on deposits	**$ 1,110**	$ 2,166
Ratio of earnings to combined fixed charges and preferred stock dividends	**0.65**	0.63

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(1) Preferred stock dividends grossed up to their pretax equivalents.

EXHIBIT 31.1

Certification of Chief Executive Officer and Chief Financial Officer

pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

I, Paul J. Lawrence, President and Chief Executive Officer of HSBC USA Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2009

/s/ PAUL J. LAWRENCE
Paul J. Lawrence
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer

I, Gerard Mattia, Senior Executive Vice President and Chief Financial Officer of HSBC USA Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2009

/s/ GERARD MATTIA
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. Quarterly Report on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Paul J. Lawrence, President and Chief Executive Officer of HSBC USA Inc., certify that:

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

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

Date: August 3, 2009

/s/ PAUL J. LAWRENCE
Paul J. Lawrence
President and Chief Executive Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. Quarterly Report on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Gerard Mattia, Senior Executive Vice President and Chief Financial Officer of HSBC USA Inc., certify that:

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

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

Date: August 3, 2009

/s/ GERARD MATTIA
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by HSBC USA Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Signed originals of these written statements required by Section 906 of the Sarbanes-Oxley Act of 2002 have been provided to HSBC USA Inc. and will be retained by HSBC USA Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

SIGNATURE

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

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 3 August 2009