HSBC HOLDINGS PLC
Form 6-K
November 09, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of November

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number 1-7436

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 31, 2011, there were 712 shares of the registrant's common stock outstanding, all of which are owned by HSBC North America Inc.

HSBC USA Inc.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Interest income:				
Loans	$456	$490	$1,346	$1,593
Securities	306	311	929	822
Trading assets	52	33	156	100
Short-term investments	35	26	104	83
Other	10	12	32	35
Total interest income	859	872	2,567	2,633
Interest expense:				
Deposits	58	62	171	202
Short-term borrowings	10	22	31	62
Long-term debt	151	124	445	336
Other	12	-	97	-
Total interest expense	231	208	744	600
Net interest income	628	664	1,823	2,033
Provision for credit losses	78	10	171	(7)
Net interest income after provision for credit losses	550	654	1,652	2,040
Other revenues:				
Credit card fees	31	33	95	93
Other fees and commissions	223	209	608	693
Trust income	26	26	82	79
Trading revenue	(107)	126	243	419
Net other-than-temporary impairment losses(1)	-	(4)	-	(45)
Other securities gains, net	49	37	105	59
Servicing and other fees from HSBC affiliates	50	42	152	111
Residential mortgage banking revenue	34	11	48	(106)
Gain on instruments designated at fair value and related derivatives	379	89	440	317
Other income	(18)	29	19	201
Total other revenues	667	598	1,792	1,821
Operating expenses:				
Salaries and employee benefits	265	285	852	813
Support services from HSBC affiliates	413	306	1,094	960
Occupancy expense, net	73	65	208	201
Other expenses	170	167	590	511
Total operating expenses	921	823	2,744	2,485
Income from continuing operations before income tax expense	296	429	700	1,376

Income tax expense	120	144	249	464
Income from continuing operations	176	285	451	912
Discontinued Operations (Note 2):				
Income from discontinued operations before income tax expense	211	211	653	562
Income tax expense	76	79	231	203
Income from discontinued operations	135	132	422	359
Net income	$311	$417	$873	$1,271

(1) During the three and nine months ended September 30, 2011 there were no other-than-temporary impairment ("OTTI") losses on securities recognized in other revenues and no OTTI losses in the non-credit component on securities were recognized in accumulated other comprehensive income (loss). During the three and nine months ended September 30, 2010, OTTI losses on securities available-for-sale and held-to-maturity totaling $4 million and $45 million, respectively, were recognized in other revenues and losses in the non-credit component recognized in accumulated other comprehensive income (loss) were not significant.

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	September 30, 2011	December 31, 2010
	(in millions)	
Assets(1)		
Cash and due from banks	$1,585	$1,576
Interest bearing deposits with banks	21,291	8,202
Federal funds sold and securities purchased under agreements to resell	5,095	8,236
Trading assets	40,443	32,402
Securities available-for-sale	52,758	45,523
Securities held-to-maturity (fair value of $2.4 billion and $3.4 billion at September 30, 2011 and December 31, 2010, respectively, and includes $881 million at December 31, 2010 collateralizing short-term borrowings)	2,123	3,190
Loans	49,600	49,809
Less - allowance for credit losses	749	852
Loans, net	48,851	48,957
Loans held for sale (includes $364 million and $1.3 billion designated under fair value option at September 30, 2011 and December 31, 2010, respectively)	3,602	2,390
Properties and equipment, net	460	549
Intangible assets, net	261	424
Goodwill	2,228	2,626
Other assets	9,305	7,099
Other branch related assets held for sale	440	-
Assets of discontinued operations	20,824	22,639
Total assets	$209,266	$183,813
Liabilities(1)		
Debt:		
Deposits in domestic offices:		
Noninterest bearing	$15,823	$23,045
Interest bearing (includes $9.6 billion and $7.4 billion designated under fair value option at September 30, 2011 and December 31, 2010, respectively)	73,675	72,808
Deposits in foreign offices:		
Noninterest bearing	1,759	1,263
Interest bearing	26,632	23,502
Deposits held for sale	14,952	-
Total deposits	132,841	120,618
Short-term borrowings	19,131	15,187
Long-term debt (includes $4.2 billion and $5.4 billion designated under fair value option at September 30, 2011 and December 31, 2010, respectively, collateralized by available-for-sale securities)	18,585	17,080
Total debt	170,557	152,885
Trading liabilities	13,024	10,528
Interest, taxes and other liabilities	5,864	3,007
Other branch related liabilities held for sale	11	-
Liabilities of discontinued operations	1,408	660
Total liabilities	190,864	167,080

Shareholders' equity		
Preferred stock	1,565	1,565
Common shareholder's equity:		
Common stock ($5 par; 150,000,000 shares authorized; 712 shares issued and outstanding at September 30, 2011 and December 31, 2010)	-	-
Additional paid-in capital	13,824	13,785
Retained earnings	2,354	1,536
Accumulated other comprehensive income (loss)	659	(153)
Total common shareholder's equity	16,837	15,168
Total shareholders' equity	18,402	16,733
Total liabilities and shareholders' equity	$209,266	$183,813

(1) The following table summarizes assets and liabilities related to variable interest entities ("VIEs") as of September 30, 2011 and December 31, 2010 which are consolidated on our balance sheet. Assets and liabilities exclude intercompany balances that eliminate in consolidation.

	September 30, 2011	December 31, 2010
	(in millions)	
Assets		
Interest bearing deposits with banks	$106	$759
Securities held-to-maturity	-	881
Loans, net	-	1,220
Other assets	523	512
Assets of discontinued operations	7,801	11,908
Total assets	$8,430	$15,280
Liabilities		
Short-term borrowings	$-	$3,022
Long-term debt	55	55
Interest, taxes and other liabilities	159	112
Liabilities of discontinued operations	1,090	431
Total liabilities	$1,304	$3,620

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30,	2011	2010
	(in millions)	
Preferred stock		
Balance at beginning and end of period	$1,565	$1,565
Common stock		
Balance at beginning and end of period	-	-
Additional paid-in capital		
Balance at beginning of period	13,785	13,795
Capital contributions from parent	21	-
Return of capital on preferred shares issued to CT Financial Services, Inc.	-	(3)
Employee benefit plans and other	18	(6)
Balance at end of period	13,824	13,786
Retained earnings		
Balance at beginning of period	1,536	45
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	-	1
Balance at beginning of period, as adjusted	1,536	46
Net income	873	1,271
Cash dividends declared on preferred stock	(55)	(55)
Balance at end of period	2,354	1,262
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(153)	(228)
Adjustment to initially apply new guidance for consolidation of VIEs, net of tax	-	(246)
Balance at beginning of period, as adjusted	(153)	(474)
Net change in unrealized gains (losses), net of tax as applicable on:		
Securities available-for-sale, not other-than-temporarily impaired	797	881
Other-than-temporarily impaired securities available for sale(1)	1	56
Other-than-temporarily impaired securities held to maturity(1)	11	49
Adjustment to reverse other-than-temporary impairment on securities held-to-maturity due to deconsolidation of VIE	142	-
Derivatives designated as cash flow hedges	(141)	10
Unrecognized actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits, net of tax	2	(2)
Other comprehensive income, net of tax	812	994
Balance at end of period	659	520
Total shareholders' equity	$18,402	$17,133
Comprehensive income		
Net income	$873	$1,271
Other comprehensive income, net of tax	812	994
Comprehensive income	$1,685	$2,265

(1)

During the three and nine months ended September 30, 2011 there were no OTTI losses on securities recognized in other revenues and no OTTI losses in the non-credit component on securities were recognized in accumulated other comprehensive income (loss). During the three and nine months ended September 30, 2010, OTTI losses on securities available-for-sale and held-to-maturity totaling $4 million and $45 million, respectively, were recognized in other revenues and losses in the non-credit component recognized in accumulated other comprehensive income (loss) were not significant.

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30,	2011	2010
	(in millions)	
Cash flows from operating activities		
Net income	$873	$1,271
Income from discontinued operations	422	359
Income from continuing operations	451	912
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	220	215
Impairment of internally developed software	94	-
Provision for credit losses	171	(7)
Other-than-temporary impairment losses relating to credit	-	45
Realized gains on securities available for sale	(104)	(59)
Net change in other assets and liabilities	(920)	(770)
Net change in loans held for sale:		
Originations of loans	(2,280)	(2,885)
Sales and collection of loans held for sale	3,106	3,017
Tax refund anticipation loans:		
Originations of loans	-	(3,082)
Transfers of loans to HSBC Finance, including premium	-	3,086
Net change in trading assets and liabilities	(5,446)	(2,246)
Lower of cost or fair value adjustments on loans held for sale	44	(65)
Mark-to-market on financial instruments designated at fair value and related derivatives	(441)	(317)
Net change in fair value of derivatives and hedged items	(898)	(29)
Cash used in operating activities - continuing operations	(6,003)	(2,185)
Cash provided by operating activities - discontinued operations	1,056	1,724
Net cash used in operating activities	(4,947)	(461)
Cash flows from investing activities		
Net change in interest bearing deposits with banks	(13,089)	4,400
Net change in federal funds sold and securities purchased under agreements to resell	3,141	(10,386)
Securities available-for-sale:		
Purchases of securities available-for-sale	(23,820)	(27,829)
Proceeds from sales of securities available-for-sale	17,423	13,083
Proceeds from maturities of securities available-for-sale	2,475	2,081
Securities held-to-maturity:		
Purchases of securities held-to-maturity	-	(1,791)
Proceeds from maturities of securities held-to-maturity	470	934
Change in loans:		
Originations, net of collections	(4,308)	72
Loans sold to third parties	304	2,054
Net cash used for acquisitions of properties and equipment	(18)	(41)
Other, net	(83)	78
Cash used in investing activities - continuing operations	(17,505)	(17,345)
Cash provided by investing activities - discontinued operations	1,960	3,434

Net cash used in investing activities	(15,545)	(13,911)

Nine Months Ended September 30,	2011	2010
	(in millions)	
Cash flows from financing activities		
Net change in deposits	11,966	282
Debt:		
Net change in short-term borrowings	6,571	13,534
Issuance of long-term debt	5,152	3,842
Repayment of long-term debt	(3,099)	(1,920)
Debt repayment related to structured note vehicle VIEs	-	(189)
Debt issued related to the sale and leaseback of 452 Fifth Avenue property	-	309
Repayment of debt issued related to the sale and leaseback of 452 Fifth Avenue property	(21)	(16)
Return of capital on preferred shares issued to CT Financial Services, Inc.	-	(3)
Other increases in capital surplus	18	(6)
Dividends paid	(55)	(55)
Cash provided by financing activities - continuing operations	20,532	15,778
Cash used in financing activities - discontinued operations	(148)	(1,626)
Net cash provided by financing activities	20,384	14,152
Net change in cash and due from banks	(108)	(220)
Cash and due from banks at beginning of period(1)	1,693	3,159
Cash and due from banks at end of period(2)	$1,585	$2,939
Supplemental disclosure of non-cash flow investing activities		
Trading securities pending settlement	$99	$(707)
Transfer of loans to held for sale	$2,619	$1,209

(1) Cash at beginning of period includes $117 million and $1,246 million for discontinued operations as of January 1, 2011 and 2010, respectively.

(2) Cash at end of period does not include any amounts related to discontinued operations as of September 30, 2011 and 2010.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Organization and Basis of Presentation

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America" or "HNAH"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC USA Inc. and its subsidiaries (collectively "HUSI") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominant practices within the banking industry. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC USA Inc. and its subsidiaries may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Interim results should not be considered indicative of results in future periods. Unless otherwise noted, information included in these notes to the consolidated financial statements relates to continuing operations for all periods presented. See Note 2, "Discontinued Operations" for further details.

As of March 31, 2011, we no longer had a controlling financial interest in Bryant Park Funding LLC ("Bryant Park") and as a result, we no longer consolidated this variable interest entity. See Note 18, "Variable Interest Entities," for further details and related impact.

During the third quarter of 2011, we adopted a new Accounting Standards Update which provided additional guidance to determine whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring for purposes of the identification and reporting of troubled debt restructurings as well as for recording impairment. This new Accounting Standards Updated also made effective new disclosure requirements for troubled debt restructurings. See Note 22, "New Accounting Pronouncements," for further details and related impacts and Note 6, "Loans" for additional disclosures regarding troubled debt restructurings.

2. Discontinued Operations

Sale of Certain Credit Card Operations to Capital One On August 10, 2011 HSBC, through its wholly-owned subsidiaries HSBC Finance, HSBC USA Inc. and other wholly-owned affiliates entered into an agreement to sell its Card and Retail Services business, which includes both its U.S. credit card and private label operations, to Capital One Financial Group ("Capital One"). This sale includes our GM and UP credit card receivables as well as our private label credit card and closed-end receivables, all of which were purchased from HSBC Finance. At September 30, 2011, we have classified these receivables as held for sale as a component of Assets of discontinued operations on our balance sheet. The total consideration paid to HSBC may be paid in cash or a combination of cash and common stock to a maximum of $750 million of common stock (to be priced at $39.23 per share) at the option of Capital One. Based on balances at September 30, 2011, the total consideration for these receivables that would be allocated to us is approximately $20.0 billion. We recorded a lower of amortized cost or fair value adjustment of $159 million on these receivables in the third quarter of 2011 which is reflected in other revenues in the table below. This fair value adjustment was largely offset by held for sale accounting adjustments in which loan impairment charges and premium amortization are no longer recorded. The sale to Capital One does not include credit card receivables associated with HSBC Bank USA's legacy credit card program and, therefore, are excluded from the table below, however a portion of these receivables are being sold to First Niagara Bank N.A. and HSBC Bank USA will continue to offer credit cards to HSBC Bank USA's customers. We anticipate this transaction will close during the first half of 2012. No significant closure costs are expected to be incurred as a result of exiting these portfolios.

Because the credit card and private label receivables being sold have been classified as held for sale and the operations and cash flows from these receivables will be eliminated from our ongoing operations upon disposition without any significant continuing involvement, we have determined we have met the requirements to report the results of these credit card and private label card receivables being sold as discontinued operations and have included these receivables in Assets of discontinued operations on our balance sheet for all periods presented. The results for these receivables were previously reported in the Retail Banking and Wealth Management segment.

The following summarizes the results of our discontinued credit card operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Interest income	$519	$533	$1,437	$1,751
Interest expense(1)	61	106	199	359
Net interest income	458	427	1,238	1,392
Provision for credit losses(2)	106	235	404	919
Net interest income after provision for credit losses	352	192	834	473
Other revenues(3)	28	188	331	601
Operating expenses	169	183	511	540
Income from discontinued operations before income tax	$211	$197	$654	$534

(1) Interest expense was allocated to discontinued operations in accordance with our existing internal transfer pricing policy. This policy uses match funding based on the

expected lives of the assets and liabilities of the business at the time of origination, subject to periodic review, as demonstrated by the expected cash flows and re-pricing characteristics of the underlying assets.

(2) For periods following the transfer of the receivables to held for sale, the receivables are carried at the lower of amortized cost or fair value. As a result, we no longer record provisions for credit losses, including charge-offs, for these receivables.

(3) Included in other revenues in the three and nine months ended September 30, 2011 was a $159 million lower of amortized cost or fair value adjustment.

The following summarizes the assets and liabilities of our discontinued credit card operations at September 30, 2011 and December 31, 2010 which are reported as a component of Assets of discontinued operations and Liabilities of discontinued operations in our consolidated balance sheet. The assets and liabilities of discontinued operations are considered held for sale at September 30, 2011.

	September 30, 2011	December 31, 2010
	(in millions)	
Loans, net(1)(2)	$19,982	$21,942
Other assets	842	578
Assets of discontinued operations	$20,824	$22,520
Deposits in domestic offices - noninterest bearing	$35	$33
Long-term debt(1)	-	150
Other liabilities	1,369	463
Liabilities of discontinued operations	$1,404	$646

(1) At September 30, 2011 we did not have any outstanding securities backed with private label credit card or credit card receivables issued under conduit credit facilities with commercial and investment banks. At December 31, 2010, credit card and private label credit card receivables of $233 million were used to collateralize $150 million of funding transactions structured as secured financing under these funding programs. The facilities were terminated in April 2011 as such facilities were no longer considered to be a cost-effective source of funding.

(2) At September 30, 2011, the receivables are carried at the lower of amortized cost or fair value. At December 31, 2010, loans were carried at amortized cost net of credit loss reserves which totaled $1,318 million.

Troubled debt restructurings represent receivables for which the original contract terms have been modified to provide for terms that are less than what we would be willing to accept for new receivables with comparable risk because of deterioration in the borrower's financial status. At September 30, 2011, our discontinued credit card and private label operations had loans which qualified as troubled debt restructurings ("TDR Loans") with an outstanding principal balance of $392 million. The additional credit card and private label card TDR Loans reported in the third quarter of 2011 as a result of the adoption of the new Accounting Standards Update was not significant. At December 31, 2010, our discontinued credit card and private label operations had TDR Loans with an outstanding principal balance of $477 million. During the three and nine months ended September 30, 2011, credit card and private label credit card and closed-end TDR Loans of $11 million and $54 million, respectively, which were classified as TDR Loans during the previous 12 months became sixty days or greater contractually delinquent.

Banknotes Business In June 2010, we decided that the wholesale banknotes business ("Banknotes Business") within our Global Banking and Markets segment did not fit with our core strategy in the U.S. and, therefore, made the decision to exit this business. This business, which was managed out of the United States with operations in key locations worldwide, arranged for the physical distribution of banknotes globally to central banks, large commercial banks and currency exchanges. As a result of this decision, we recorded closure costs of $14 million during 2010, primarily relating to termination and other employee benefits. No significant additional closure costs are expected to be incurred. At June 30, 2011, the liability associated with these costs had been substantially utilized.

As part of the decision to exit the Banknotes Business, in October 2010 we sold the assets of our Asian banknotes operations ("Asian Banknotes Operations") to an unaffiliated third party for total consideration of approximately $11 million in cash. As a result, during the third quarter of 2010 we classified the assets of the Asian Banknotes Operations of $23 million, including an allocation of goodwill of $21 million, as held for sale. Because the carrying amount of the assets being sold exceeded the agreed-upon sales price, we recorded a lower of amortized cost or fair value adjustment of $12 million in the third quarter of 2010. As the exit of our Banknotes Business, including the sale of our Asian Banknotes Operations, was substantially completed in the fourth quarter of 2010, we began to report the results of our Banknotes Business as discontinued operations at that time.

The exit of our Banknotes Business was completed in the second quarter of 2011 with the sale of our European Banknotes Business to HSBC Bank plc in April. The table below summarizes the operating results of our Banknotes Business for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net interest income and other revenues	$-	$28	$19	$84
Income (loss) from discontinued operations before income tax (benefit) expense	-	14	(1)	28

The following summarizes the assets and liabilities of our Banknotes Business which are reported as a component of Assets of discontinued operations and Liabilities of discontinued operations in our consolidated balance sheet.

	September 30, 2011	December 31, 2010
	(in millions)	
Cash	$-	$117
Other assets	-	2
Assets of discontinued operations	$-	$119
Other liabilities	$4	$14
Liabilities of discontinued operations	$4	$14

3. Branch Assets and Liabilities Held for Sale

On July 31, 2011, we announced that we had reached an agreement with First Niagara Bank, N.A. ("First Niagara") to sell 195 retail branches, including certain loans, deposits and related branch premises, primarily located in upstate New York. The agreement includes the transfer of approximately $15.0 billion in deposits and $2.6 billion in loans as of September 30, 2011, as well as related branch premises, for a premium of 6.67 percent of the deposits, representing $1.0 billion based on current deposit levels which will result in a gain upon closing of the transaction, net of allocated goodwill. Branch premises will be sold for fair value and loans and other transferred assets will be sold at their book values. The all-cash transaction is expected to close in early 2012, subject to regulatory approvals, including approval by the acquirer's regulator. As a result of this transaction, the assets and liabilities related to the branches being sold have been classified as held for sale in our consolidated balance sheet at September 30, 2011.

The following summarizes the assets and liabilities classified as held for sale at September 30, 2011 in our consolidated balance sheet related to the announced agreement to sale certain retail branches.

At September 30,	2011
	(in millions)
Loans held for sale(1)	$2,619
Other branch assets held for sale:	

Properties and equipment, net	42
Goodwill allocated to retail branch disposal group	398
Total other branch assets held for sale	440
Total branch assets held for sale	$3,059
Deposits held for sale	$14,952
Other branch liabilities held for sale	11
Total branch liabilities held for sale	$14,963

(1) Loans held for sale includes $539 million of commercial loans, $1.5 billion of residential mortgages, $415 million of credit card loans and $170 million in other consumer loans.

4. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

	September 30, 2011	December 31, 2010
	(in millions)	
Trading assets:		
U.S. Treasury	$1,035	$1,874
U.S. Government agency	140	62
U.S. Government sponsored enterprises(1)	4	632
Asset-backed securities	997	1,148
Corporate and foreign bonds(2)	12,495	5,897
Other securities	40	52
Precious metals	17,035	16,725
Fair value of derivatives	8,697	6,012
	$40,443	$32,402
Trading liabilities:		
Securities sold, not yet purchased	$487	$212
Payables for precious metals	6,704	5,326
Fair value of derivatives	5,833	4,990
	$13,024	$10,528

(1) Includes mortgage-backed securities of $4 million and $598 million issued or guaranteed by the Federal National Mortgage Association ("FNMA") at September 30, 2011 and December 31, 2010, respectively, and $34 million issued or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") at December 31, 2010.

(2) There were no foreign bonds issued by the governments of Portugal, Ireland, Italy, Greece or Spain at either September 30, 2011 or December 31, 2010.

At September 30, 2011 and December 31, 2010, the fair value of derivatives included in trading assets has been reduced by $5 billion and $3.1 billion, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties.

At September 30, 2011 and December 31, 2010, the fair value of derivatives included in trading liabilities has been reduced by $8.1 billion and $5.8 billion, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties.

5. Securities

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

Non-Credit

September 30, 2011	Amortized Cost	Loss Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
		(in millions)			
Securities available-for-sale:					
U.S. Treasury	$17,664	$-	$530	$(178)	$18,016
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	41	-	1	-	42
Direct agency obligations	2,465	-	359	(1)	2,823
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	15,096	-	719	(1)	15,814
Collateralized mortgage obligations	6,670	-	193	-	6,863
Direct agency obligations	2	-	-	-	2
Obligations of U.S. states and political subdivisions	568	-	29	(1)	596
Asset backed securities collateralized by:					
Residential mortgages	13	-	1	(3)	11
Commercial mortgages	472	-	7	(1)	478
Home equity	397	-	-	(104)	293
Student loans	24	-	-	(1)	23
Other	116	-	-	(21)	95
Corporate and other domestic debt securities(2)	600	-	4	-	604
Foreign debt securities(2)(6)	6,992	-	42	(79)	6,955
Equity securities(3)	130	-	13	-	143
Total available-for-sale securities	$51,250	$-	$1,898	$(390)	$52,758
Securities held-to-maturity:					
U.S. Government sponsored enterprises:(4)					
Mortgage-backed securities	$1,485	$-	$205	$-	$1,690
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	83	-	14	-	97
Collateralized mortgage obligations	313	-	46	-	359
Obligations of U.S. states and political subdivisions	68	-	3	-	71
Asset backed securities collateralized by:					
Residential mortgages	174	-	10	(1)	183
Total held-to-maturity securities	$2,123	$-	$278	$(1)	$2,400

December 31, 2010	Amortized Cost	Non-Credit Loss Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
		(in millions)			
Securities available-for-sale:					

U.S. Treasury	$19,336	$-	$139	$(378)	$19,097
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	47	-	-	(1)	46
Direct agency obligations	2,115	-	79	(9)	2,185
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	11,237	-	252	(27)	11,462
Collateralized mortgage obligations	7,566	-	160	(52)	7,674
Direct agency obligations	19	-	-	(1)	18
Obligations of U.S. states and political subdivisions	571	-	13	(5)	579
Asset backed securities collateralized by:					
Residential mortgages	13	-	-	(2)	11
Commercial mortgages	537	-	17	(2)	552
Home equity	464	(1)	-	(111)	352
Student loans	29	-	-	(2)	27
Other	120	-	1	(17)	104
Corporate and other domestic debt securities(2)	676	-	7	-	683
Foreign debt securities(2)(6)	2,552	-	53	-	2,605
Equity securities(3)	126	-	2	-	128
Total available-for-sale securities	$45,408	$(1)	$723	$(607)	$45,523
Securities held-to-maturity:					
U.S. Government sponsored enterprises:(4)					
Mortgage-backed securities	$1,586	$-	$151	$-	$1,737
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	94	-	15	-	109
Collateralized mortgage obligations	327	-	36	-	363
Obligations of U.S. states and political subdivisions	111	-	4	(1)	114
Asset backed securities collateralized by:					
Residential mortgages	191	-	8	(3)	196
Asset-backed securities (predominantly credit card) and other debt securities held by consolidated VIE(5)	1,034	(153)	-	-	881
Total held-to-maturity securities	$3,343	$(153)	$214	$(4)	$3,400

(1) Includes securities at amortized cost of $26 million and $30 million issued or guaranteed by the FNMA at September 30, 2011 and December 31, 2010, respectively, and $15 million and $17 million issued or guaranteed by FHLMC at September 30, 2011 and December 31, 2010, respectively.

(2) At September 30, 2011, other domestic debt securities included $575 million of securities at amortized cost fully backed by the Federal Deposit Insurance Corporation ("FDIC") and foreign debt securities consisted of $2.4 billion of securities fully backed by foreign governments. The remainder of foreign debt securities represents foreign bank or corporate debt. At December 31, 2010, other domestic debt securities included $676 million of securities at amortized cost fully backed by the FDIC and foreign debt securities consisted of $2.2 billion of securities fully backed by foreign

governments. The remainder of foreign debt securities represents foreign bank or corporate debt.

(3) Includes preferred equity securities at amortized cost issued by FNMA of $2 million at September 30, 2011 and December 31, 2010. Balances at September 30, 2011 and December 31, 2010 reflect cumulative other-than-temporary impairment charges of $203 million.

(4) Includes securities at amortized cost of $610 million and $622 million issued or guaranteed by FNMA at September 30, 2011 and December 31, 2010, respectively, and $875 million and $964 million issued and guaranteed by FHLMC at September 30, 2011 and December 31, 2010, respectively.

(5) Relates to securities held by Bryant Park Funding LLC, a variable interest entity which was consolidated at December 31, 2010. See Note 18, "Variable Interest Entities" for additional information.

(6) There were no foreign debt securities issued by the governments of Portugal, Ireland, Italy, Greece or Spain at September 30, 2011 and December 31, 2010.

A summary of gross unrealized losses and related fair values as of September 30, 2011 and December 31, 2010, classified as to the length of time the losses have existed follows:

September 30, 2011	One Year or Less			Greater Than One Year		
	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment
	(dollars are in millions)					
Securities available-for-sale:						
U.S. Treasury	20	$(178)	$6,628	-	$-	$-
U.S. Government sponsored enterprises	6	-	76	17	(1)	9
U.S. Government agency issued or guaranteed	36	(1)	489	2	-	4
Obligations of U.S. states and political subdivisions	5	(1)	28	2	-	19
Asset backed securities	-	-	-	50	(130)	428
Foreign debt securities	11	(79)	4,245	-	-	-
Equity securities	1	-	-	-	-	-
Securities available-for-sale	79	$(259)	$11,466	71	$(131)	$460
Securities held-to-maturity:						
U.S. Government sponsored enterprises	20	$-	$-	3	$-	$-
U.S. Government agency issued or guaranteed	681	-	2	5	-	-
Obligations of U.S. states and political subdivisions	10	-	4	7	-	3
Asset backed securities	-	-	-	4	(1)	14
Securities held-to-maturity	711	$-	$6	19	$(1)	$17

	One Year or Less			Greater Than One Year		
	Number	Gross	Aggregate	Number	Gross	Aggregate

December 31, 2010	of Securities	Unrealized Losses	Fair Value of Investment	of Securities	Unrealized Losses	Fair Value of Investment
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	43	$(378)	$10,034	-	$-	$-
U.S. Government sponsored enterprises	14	(9)	131	13	(1)	10
U.S. Government agency issued or guaranteed	70	(80)	4,409	2	-	2
Obligations of U.S. states and political subdivisions	27	(3)	127	5	(2)	36
Asset backed securities	3	-	-	51	(133)	506
Corporate and other domestic debt securities	3	-	200	-	-	-
Foreign debt securities	1	-	84	1	-	25
Securities available-for-sale	161	$(470)	$14,985	72	$(136)	$579
Securities held-to-maturity:						
U.S. Government sponsored enterprises	21	$-	$-	1	$-	$-
U.S. Government agency issued or guaranteed	570	-	2	2	-	-
Obligations of U.S. states and political subdivisions	14	-	7	12	(1)	14
Asset backed securities	-	-	-	6	(3)	44
Securities held-to-maturity	605	$-	$9	21	$(4)	$58

Gross unrealized losses decreased and gross unrealized gains increased within the available-for-sale portfolio overall in the first nine months of 2011 primarily due to decreases in interest rates since December 31, 2010, particularly during the third quarter due to market conditions. In addition, rates rose significantly toward the end of 2010 driven by inflationary fears and uncertainty about the quantity and timing of the Federal Reserve's bond buying program. We have reviewed the securities for which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment. During the three and nine months ended September 30, 2011, none of our debt securities were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates relating to the credit component and changes in the non-credit portion for the nine month period ended September 30, 2011 represent a reversal of a portion of previously recorded impairment losses that were recognized in other comprehensive income. During the three and nine months ended September 30, 2010, 5 and 38 debt securities were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates. The credit loss component of the applicable debt securities totaling $4 million and $45 million was recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income for the three and nine months ended September 30, 2010, respectively, while there was no significant losses in the non-credit component of such impaired securities reflected in accumulated other comprehensive income (loss) and changes in the non-credit portion for the nine month period ended September 30, 2010 primarily represent a net reversal of a portion of previously recorded impairment losses recognized in other comprehensive income.

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

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

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

For all securities held in the available-for-sale or held-to-maturity portfolio for which unrealized losses have existed for a period of time, we do not have the intention to sell and believe we will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. As debt securities issued by U.S. Treasury, U.S. Government agencies and government sponsored entities accounted for 83 percent and 89 percent of total available-for-sale and held-to-maturity securities as of September 30, 2011 and December 31, 2010, respectively, our assessment for credit loss was concentrated on private label asset-backed securities. Substantially all of the private label asset-backed securities are supported by residential mortgages, home equity loans or commercial mortgages. Our assessment for credit loss was concentrated on this particular asset class because of the following inherent risk factors:

- The recovery of the U.S. economy remains sluggish;
- The continued weakness in the U.S. housing markets with high levels of delinquency and foreclosure;
- A lack of significant traction in government sponsored programs in loan modifications;
- A lack of refinancing activities within certain segments of the mortgage market, even at the current low interest rate environment, and the re-default rate for refinanced loans;
- The unemployment rate remains high and consumer confidence remains low compared to historical levels;
- The decline in the occupancy rate in commercial properties; and
- The severity and duration of unrealized loss.

In determining whether a credit loss exists and the period over which the debt security is expected to recover, we considered the following factors:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure, which includes but is not limited to credit subordination positions, over collateralization, protective triggers and financial guarantees provided by monoline wraps;
- Changes in the near term prospects of the issuer or underlying collateral of a security such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

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

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

The amortized cost and fair value of those asset-backed securities with unrealized loss of more than 12 months for which no other-than-temporary-impairment has been recognized at September 30, 2011 and December 31, 2010 are as follows:

	Balance as of September 30, 2011		
	Amortized Cost	Unrealized Losses for More Than 12 Months	Fair Value
	(in millions)		
Available-for-sale:			
Asset-backed securities:			
Residential mortgages	$10	$(3)	$7
Commercial mortgages	24	(1)	23
Home equity loans	397	(104)	293
Student loans	24	(1)	23
Other	103	(21)	82
Subtotal	558	(130)	428
Held-to-maturity classification:			
Asset-backed securities:			
Residential mortgages	15	(1)	14
Total	$573	$(131)	$442

	Balance as of December 31, 2010		
	Amortized Cost	Unrealized Losses for More Than 12 Months	Fair Value
	(in millions)		
Available-for-sale:			
Asset-backed securities:			
Residential mortgages	$3	$(1)	$2
Commercial mortgages	39	(2)	37
Home equity loans	457	(112)	345
Student loans	29	(2)	27

Other	103	(16)	87
Subtotal	631	(133)	498
Held-to-maturity classification:			
Asset-backed securities:			
Residential mortgages	47	(3)	44
Total	$678	$(136)	$542

Although the fair value of a particular security is below its amortized cost for more than 12 months, it does not necessarily result in a credit loss and hence other-than-temporary impairment. The decline in fair value may be caused by, among other things, the illiquidity of the market. To the extent we do not intend to sell the debt security and it is more-likely-than-not we will not be required to sell the security before the recovery of the amortized cost basis, no other-than-temporary impairment is deemed to have occurred.

For the nine months ended September 30, 2011 there were no other-than-temporary impairment losses recognized related to credit loss. At September 30, 2011, there are no remaining non-credit component unrealized loss amounts recognized. The excess of amortized cost over the present value of expected future cash flows recognized during the nine months ended September 30, 2010 on our other-than-temporarily impaired debt securities, which represents the credit loss associated with these securities, was $45 million. The excess of the present value of expected future cash flows over fair value, representing the non-credit component of the unrealized loss associated with all other-than-temporarily impaired securities, was $154 million at December 31, 2010. Since we did not have the intention to sell the securities and had sufficient capital and liquidity to hold these securities until a full recovery of the fair value occurs, only the credit loss component was reflected in the consolidated statement of income. The non-credit component of the unrealized loss was recorded, net of taxes, in other comprehensive income (loss).

The following table summarizes the roll-forward of credit losses on debt securities that were other-than-temporarily impaired which were recognized in income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Credit losses at the beginning of the period	$1	$47	$36	$81
Credit losses related to securities for which an other-than-temporary impairment was not previously recognized	-	-	-	20
Increase in credit losses for which an other-than-temporary impairment was previously recognized	-	4	-	25
Reduction of credit losses previously recognized on sold securities	-	(25)	(4)	(75)
Reduction of credit losses previously recognized on held to maturity securities due to deconsolidation of VIE	-	-	(31)	-
Reductions of credit losses for increases in cash flows expected to be collected that are recognized over the remaining life of the security	-	(1)	-	(26)
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment may have been recognized in other	$1	$25	$1	$25

comprehensive income (loss)

At September 30, 2011, we held 76 individual asset-backed securities in the available-for-sale portfolio, of which 23 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $373 million of the total aggregate fair value of asset-backed securities of $900 million at September 30, 2011. The gross unrealized losses on these monoline securities were $124 million at September 30, 2011. We did not take into consideration the value of the monoline wrap of any non-investment grade monoline insurers as of September 30, 2011 and, therefore, we only considered the financial guarantee of monoline insurers on securities for purposes of evaluating other-than-temporary impairment with a fair value of $126 million. One security wrapped by a below investment grade monoline insurance company with an aggregate fair value of $1 million was deemed to be other-than-temporarily impaired at September 30, 2011.

At December 31, 2010, we held 78 individual asset-backed securities in the available-for-sale portfolio, of which 24 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $437 million of the total aggregate fair value of asset-backed securities of $1.0 billion at December 31, 2010. The gross unrealized losses on these securities were $127 million at December 31, 2010. We did not take into consideration the value of the monoline wrap of any non-investment grade monoline insurers as of December 31, 2010 and, therefore, we only considered the financial guarantee of monoline insurers on securities for purposes of evaluating other-than-temporary impairment with a fair value of $156 million. Two securities wrapped by below investment grade monoline insurance companies with an aggregate fair value of $5 million were deemed to be other-than-temporarily impaired at December 31, 2010.

As discussed above, certain asset-backed securities have an embedded financial guarantee provided by monoline insurers. Because the financial guarantee is not a separate and distinct contract from the asset-backed security, they are considered as a single unit of account for fair value measurement and impairment assessment purposes. The monoline insurers are regulated by the insurance commissioners of the relevant states and certain monoline insurers that write the financial guarantee contracts are public companies. In evaluating the extent of our reliance on investment grade monoline insurance companies, consideration is given to our assessment of the creditworthiness of the monoline and other market factors. We perform both a credit as well as a liquidity analysis on the monoline insurers each quarter. Our analysis also compares market-based credit default spreads, when available, to assess the appropriateness of our monoline insurer's creditworthiness. Based on the public information available, including the regulatory reviews and actions undertaken by the state insurance commissions and the published financial results, we determine the degree of reliance to be placed on the financial guarantee policy in estimating the cash flows to be collected for the purpose of recognizing and measuring impairment loss.

A credit downgrade to non-investment grade is a key but not the only factor in determining the credit risk or the monoline insurer's ability to fulfill its contractual obligation under the financial guarantee arrangement. Although a monoline may have been down-graded by the credit rating agencies or have been ordered to commute its operations by the insurance commissioners, it may retain the ability and the obligation to continue to pay claims in the near term. We evaluate the short-term liquidity of and the ability to pay claims by the monoline insurers in estimating the amounts of cash flows expected to be collected from specific asset-backed securities for the purpose of assessing and measuring credit loss.

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

	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)

	(in millions)		
Three months ended September 30, 2011:			
Securities available-for-sale	$73	$(24)	$49
Securities held to maturity	-	-	-
	$73	$(24)	$49
Three months ended September 30, 2010:			
Securities available-for-sale	$78	$(44)	$34
Securities held to maturity	-	(1)	(1)
	$78	$(45)	$33
Nine months ended September 30, 2011:			
Securities available-for-sale	$213	$(108)	$105
Securities held to maturity	-	-	-
	$213	$(108)	$105
Nine months ended September 30, 2010:			
Securities available-for-sale	$148	$(130)	$18
Securities held to maturity	-	(4)	(4)
	$148	$(134)	$14

The amortized cost and fair values of securities available-for-sale and securities held-to-maturity at September 30, 2011, are summarized in the table below by contractual maturity. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. Securities available-for-sale amounts exclude equity securities as they do not have stated maturities. The table below also reflects the distribution of maturities of debt securities held at September 30, 2011, together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at September 30, 2011. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

Taxable Equivalent Basis as of September 30, 2011	Within One Year Amount	Yield	After One But Within Five Years Amount	Yield	After Five But Within Ten Years Amount	Yield	After Ten Years Amount	Yield
	(dollars are in millions)							
Available-for-sale:								
U.S. Treasury	$503	1.55%	$6,443	1.00%	$6,226	2.04%	$4,492	3.49%
U.S. Government sponsored enterprises	-	-	-	-	2,029	3.92	477	3.58
U.S. Government agency issued or guaranteed	-	-	1	5.13	36	4.26	21,731	3.65
Obligations of U.S. states and political subdivisions	-	-	1	4.60	309	4.24	258	4.52
Asset backed securities	38	5.79	15	4.18	5	1.46	964	3.16
Corporate and other domestic debt securities	559	1.53	16	0.61	-	-	25	3.90
Foreign debt securities	2,126	2.78	4,855	2.01	11	4.93	-	-
Total amortized cost	$3,226	2.41%	$11,331	1.44%	$8,616	2.57%	$27,947	3.62%
Total fair value	$3,249		$11,327		$8,953		$29,086	
Held-to-maturity:								
U.S. Government sponsored enterprises	$-	-%	$15	7.95%	$2	7.00%	$1,468	6.15%
U.S. Government agency issued or guaranteed	-	-	-	-	5	7.66	391	6.52
Obligations of U.S. states and political subdivisions	8	5.00	18	5.66	15	4.48	27	4.96
Asset backed securities	-	-	-	-	-	-	174	6.19
Total amortized cost	$8	5.00%	$33	6.72%	$22	5.64%	$2,060	6.20%
Total fair value	$8		$37		$23		$2,332	

Investments in Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") stock of $133 million and $483 million, respectively, were included in other assets at September 30, 2011. Investments in FHLB stock and FRB stock of $119 million and $477 million, respectively, were included in other assets at December 31, 2010.

6. Loans

Loans consisted of the following:

	September 30, 2011	December 31, 2010
	(in millions)	
Commercial loans:		
Construction and other real estate	$7,773	$8,228
Business banking and middle markets enterprises	9,752	7,945
Large corporate(1)	11,164	10,745

Other commercial	2,923	3,085
Total commercial	31,612	30,003
Consumer loans:		
Home equity mortgages	2,618	3,820
Other residential mortgages	13,842	13,697
Credit cards	788	1,250
Other consumer	740	1,039
Total consumer	17,988	19,806
Total loans	$49,600	$49,809

(1) Includes $1.2 billion of commercial loans at December 31, 2010 related to a VIE which was consolidated.

Net deferred origination costs, excluding credit card annual fees net of direct lending costs, totaled $54 million and $66 million at September 30, 2011 and December 31, 2010, respectively. Credit card annual fees are netted with direct lending costs, deferred and amortized on a straight-line basis over one year.

At September 30, 2011 and December 31, 2010, we had net unamortized premium on our loans of $63 million and $75 million, respectively. We amortized $10 million and $38 million of net premiums on our loans for the three and nine months ended September 30, 2011, respectively compared to $14 million and $4 million for the three and nine months ended September 30, 2010, respectively.

Age Analysis of Past Due Loans The following table summarizes the past due status of our loans at September 30, 2011 and December 31, 2010 for continuing and discontinued operations. The aging of past due amounts is determined based on the contractual delinquency status of payments under the loan. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms. Delinquency status may be affected by customer account management policies and practices such as re-age or modification.

	Days Past Due					
At September 30, 2011	1 - 29 days	30 - 89 days	90+ days	Total Past Due	Current	Total Loans
			(in millions)			
Continuing operations:						
Commercial loans:						
Construction and other real estate	$46	$80	$254	$380	$7,393	$7,773
Business banking and middle market enterprises	494	69	83	646	9,106	9,752
Large corporate	353	20	74	447	10,717	11,164
Other commercial	70	116	20	206	2,717	2,923
Total commercial	963	285	431	1,679	29,933	31,612
Consumer loans:						
HELOC and home equity mortgages	190	50	92	332	2,286	2,618
Other residential mortgages	120	515	774	1,409	12,433	13,842
Credit cards	40	20	17	77	711	788
Other consumer	13	7	32	52	688	740
Total consumer	363	592	915	1,870	16,118	17,988

Total loans - continuing operations	$1,326	$877	$1,346	$3,549	$46,051	$49,600
Discontinued credit card and private label operations(1)	$775	$391	$355	$1,521	$18,461	$19,982

	Days Past Due					
At December 31, 2010	1 - 29 days	30 - 89 days	90+ days	Total Past Due	Current	Total Loans
			(in millions)			
Continuing operations:						
Commercial loans:						
Construction and other real estate	$72	$200	$433	$705	$7,523	$8,228
Business banking and middle market enterprises	367	84	66	517	7,428	7,945
Large corporate	902	90	74	1,066	9,679	10,745
Other commercial	63	77	14	154	2,931	3,085
Total commercial	1,404	451	587	2,442	27,561	30,003
Consumer loans:						
HELOC and home equity mortgages	327	83	93	503	3,317	3,820
Other residential mortgages	123	538	900	1,561	12,136	13,697
Credit cards	37	23	24	84	1,166	1,250
Other consumer	12	6	32	50	989	1,039
Total consumer	499	650	1,049	2,198	17,608	19,806
Total loans - continuing operations	$1,903	$1,101	$1,636	$4,640	$45,169	$49,809
Discontinued credit card and private label operations(1)	$767	$466	$533	$1,766	$21,494	$23,260

(1) At September 30, 2011, discontinued credit card and private label credit card operations represent our GM and UP credit card loans as well as our private label credit card and closed-end loans which are included as held for sale and carried at the lower of amortized cost or fair value. At December 31, 2010, these discontinued credit card and private label credit card loans were carried at amortized cost and as such, are not directly comparable to the current period balances.

Nonaccrual Loans Nonaccrual loans totaled $1.8 billion and $2.0 billion at September 30, 2011 and December 31, 2010, respectively. Interest income that would have been recorded if such nonaccrual loans had been current and in accordance with contractual terms was approximately $30 million and $89 million for the three and nine months ended September 30, 2011, respectively, compared to $29 million and $111 million for the three and nine months ended September 30, 2010, respectively. Interest income that was included in interest income on these loans was approximately $7 million and $16 million for the three and nine months ended September 30, 2011 compared to approximately $3 million and $17 million for the three and nine months ended September 30, 2010, respectively. For an analysis of reserves for credit losses, see Note 7, "Allowance for Credit Losses."

Nonaccrual loans and accruing receivables 90 days or more delinquent for continuing and discontinued operations are summarized in the following table:

	September 30, 2011	December 31, 2010
	(in millions)	
Nonaccrual loans:		
Continuing operations:		
Commercial:		
Real Estate:		
Construction and land loans	$152	$70
Other real estate	441	529
Business banking and middle markets enterprises	69	116
Large corporate	147	74
Other commercial	35	12
Total commercial	844	801
Consumer:		
Residential mortgages, excluding home equity mortgages	774	900
Home equity mortgages	92	93
Total residential mortgages	866	993
Other consumer loans	8	9
Total consumer loans	874	1,002
Nonaccrual loans held for sale	122	186
Total nonaccruing loans - continuing operations	1,840	1,989
Discontinued credit card and private label operations(1)	-	-
Total nonaccruing loans	1,840	1,989
Accruing loans contractually past due 90 days or more:		
Continuing operations:		
Commercial:		
Real Estate:		
Construction and land loans	-	-
Other real estate	10	137
Business banking and middle market enterprises	22	47
Large corporate	-	-
Other commercial	1	2
Total commercial	33	186
Consumer:		
Credit card receivables	17	24
Other consumer	24	23
Total consumer loans	41	47
Total accruing loans contractually past due 90 days or more - continuing operations	74	233
Discontinued credit card and private label operations(1)	355	533
Total accruing loans contractually past due 90 days or more	429	766
Total nonperforming loans	$2,269	$2,755

(1) At September 30, 2011, discontinued credit card and private label credit card operations represent our GM and UP credit card loans and our private label credit card and closed-end loans which are included as held for sale and carried at the lower of amortized cost or fair value. At December 31, 2010, these discontinued credit card and private label credit card loans were carried at amortized cost and as such, are not directly comparable to the current period balances.

Impaired Loans A loan is considered to be impaired when it is deemed probable that not all principal and interest amounts due according to the contractual terms of the loan agreement will be collected. Probable losses from impaired loans are quantified and recorded as a component of the overall allowance for credit losses. Commercial and consumer loans for which we have modified the loan terms as part of a troubled debt restructuring are considered to be impaired loans. Additionally, commercial loans in nonaccrual status, or that have been partially charged-off or assigned a specific allowance for credit losses are also considered impaired loans.

Troubled debt restructurings Troubled debt restructurings represent loans for which the original contractual terms have been modified to provide for terms that are less than what we would be willing to accept for new loans with comparable risk because of deterioration in the borrower's financial condition.

During the third quarter of 2011 we adopted a new Accounting Standards Update which provided additional guidance for determining whether a restructuring of a receivable meets the criteria to be reported as a troubled debt restructuring ("TDR Loan"). Under this new guidance, we have determined that all consumer loans modified as a result of a financial difficulty for periods greater than three months, including all modifications with trial periods regardless of whether the modification was permanent or temporary should be reported as TDR Loans. Additionally, we have determined that for residential mortgage loans purchased from HSBC Finance, all re-ages except first-time early stage delinquency re-ages where the customer has not been granted a prior re-age since the first quarter of 2007 should be considered a TDR Loan. Exclusion of these first-time early stage delinquency re-ages from our reported TDR Loans was not material. As required, the new guidance was applied retrospectively to restructurings occurring on or after January 1, 2011 and has resulted in the reporting of an additional $51 million of residential mortgage loans as TDR Loans at September 30, 2011 with credit loss reserves of $10 million associated with these loans. The incremental loan loss provision recorded for these loans using a discounted cash flow analysis was $7 million which also includes the impact of changes in market conditions during the quarter. For our HSBC Bank USA credit card portfolio, we have reported an additional $1 million of credit card loans as TDR Loans at September 30, 2011 with credit loss reserves of less than $1 million associated with these loans. The incremental loan loss provision recorded for these loans using a discounted cash flow analysis was not material. The TDR Loan balances and related credit loss reserves for consumer loans reported as of December 31, 2010 use our previous definition of TDR Loans as described in our 2010 Form 10-K and, as such, are not comparable to the current period balances. The new guidance did not impact our reporting of TDR Loans for commercial loans. See Note 2, "Discontinued Operations," for a discussion of TDR Loans included in our discontinued credit card and private label operations.

Modifications for consumer and commercial loans may include changes to one or more terms of the loan, including, but not limited to, a change in interest rate, extension of the amortization period, reduction in payment amount and partial forgiveness or deferment of principal. A substantial amount of our modifications involve interest rate reductions which lower the amount of finance income we are contractually entitled to receive in future periods. Through lowering the interest rate and other loan term changes, we believe we are able to increase the amount of cash flow that will ultimately be collected from the loan, given the borrower's financial condition. TDR Loans are reserved for either based on the present value of expected future cash flows discounted at the loans' original effective interest rate which generally results in a higher reserve requirement for these loans or in the case of certain secured commercial loans, the estimated fair value of the underlying collateral. Once a consumer loan is classified as a TDR Loan, it continues to be reported as such until it is paid off or charged-off.

The following table presents information about receivables which were modified during the three and nine months ended September 30, 2011 and as a result of this action became classified as TDR Loans.

	Three Months Ended	Nine Months Ended

	September 30, 2011	September 30, 2011
	(in millions)	
Commercial loans:		
Construction and other real estate	$27	$40
Business banking and middle market enterprises	-	6
Large corporate	-	-
Other commercial	-	-
Total commercial	27	46
Consumer loans:		
Residential mortgages	56	189
Credit cards	2	5
Total consumer	58	194
Total	$85	$240

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

	September 30, 2011	December 31, 2010
	(in millions)	
TDR Loans(1)(2):		
Commercial loans:		
Construction and other real estate	$328	$397
Business banking and middle market enterprises	96	88
Large corporate	-	-
Other commercial	38	49
Total commercial	462	534
Consumer loans:		
Residential mortgages	571	402
Credit cards	22	27
Total consumer	593	429
Total TDR Loans(3)	$1,055	$963

	September 30, 2011	December 31, 2010
	(in millions)	
Allowance for credit losses for TDR Loans(4):		
Commercial loans:		
Construction and other real estate	$18	$44
Business banking and middle market enterprises	5	8
Large corporate	-	-
Other commercial	-	1
Total commercial	23	53
Consumer loans:		
Residential mortgages	93	53
Credit cards	7	9
Total consumer	100	62
Total allowance for credit losses for TDR Loans	$123	$115

(1) TDR Loans are considered to be impaired loans. For consumer loans, all such loans are considered impaired loans regardless of accrual status. For commercial loans, impaired loans include other loans in addition to TDRs which totaled $691 million and $593 million at September 30, 2011 and December 31, 2010, respectively.

(2) The TDR Loan balances included in the table above reflect the current carrying amount of TDR Loans and includes all basis adjustments on the loan, such as unearned income, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans. The following table reflects the unpaid principal balance of TDR Loans:

	September 30, 2011	December 31, 2010
	(in millions)	
Commercial loans:		
Construction and other real estate	$372	$429
Business banking and middle market enterprises	150	120
Large corporate	-	-
Other commercial	41	52
Total commercial	563	601
Consumer loans:		
Residential mortgages	636	443
Credit cards	22	26
Total consumer	658	469
Total - continuing operations	$1,221	$1,070

(3) Includes balances of $322 million and $255 million at September 30, 2011 and December 31, 2010, respectively, which are classified as nonaccrual loans.
(4) Included in the allowance for credit losses.

The following table presents commercial loans which were classified as TDR Loans during the previous 12 months which became 90 days or greater contractually delinquent (for consumer loans 60 days or greater contractually delinquent) during the three and nine months ended September 30, 2011:

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Commercial loans:		
Construction and other real estate	$-	$48
Business banking and middle market enterprises	-	-
Large corporate	-	-
Other commercial	-	-
Total commercial	-	48
Consumer loans:		
Residential mortgages	4	9
Credit cards	1	3
Auto finance(1)	-	-
Total consumer	5	12
Total	$5	$60

Additional information relating to TDR Loans is presented in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Average balance of TDR Loans				
Commercial loans:				
Construction and other real estate	$330	$315	$360	$242
Business banking and middle market enterprises	87	104	88	67
Large corporate	-	-	-	-
Other commercial	44	52	47	52
Total commercial	461	471	495	361
Consumer loans:				
Residential mortgages	550	328	529	264
Credit cards	23	25	24	22
Auto finance(1)	-	16	-	38
Total consumer	573	369	553	324
Total average balance of TDR Loans	$1,034	$840	$1,048	$685
Interest income recognized on TDR Loans				
Commercial loans:				
Construction and other real estate	$2	$1	$7	$2
Business banking and middle market enterprises	-	-	-	-
Large corporate	-	-	-	-
Other commercial	1	1	4	4
Total commercial	3	2	11	6
Consumer loans:				
Residential mortgages	5	3	15	8
Credit cards	-	1	1	1
Auto finance(1)	-	-	-	2
Total consumer	5	4	16	11
Total interest income recognized on TDR Loans	$8	$6	$27	$17

(1) In August 2010, we sold auto finance loans with an outstanding principal balance of $1.2 billion at date of sale, and other related assets to Santander Consumer USA ("SC USA").

Impaired commercial loans Impaired commercial loan statistics are summarized in the following table:

	Amount with Impairment Reserves	Amount without Impairment Reserves	Total Impaired Commercial Loans(1)(2)	Impairment Reserve
	(in millions)			
At September 30, 2011				
Construction and other real estate	$337	$370	$707	$103
Business banking and middle market enterprises	102	53	155	15
Large corporate	147	-	147	107
Other commercial	18	126	144	4
Total	$604	$549	$1,153	$229
At December 31, 2010				
Construction and other real estate	$378	$377	$755	$84
Business banking and middle market enterprises	113	39	152	26
Large corporate	103	2	105	72
Other commercial	26	89	115	6
Total	$620	$507	$1,127	$188

(1) Includes impaired commercial loans which are also considered TDR Loans as follows:

	September 30, 2011	December 31, 2010
	(in millions)	
Construction and other real estate	$328	$397
Business banking and middle market enterprises	96	88
Large corporate	-	-
Other commercial	38	49
Total	$462	$534

(2) The impaired commercial loan balances included in the table above reflect the current carrying amount of the loan and includes all basis adjustments, such as unamortized deferred fees and costs on originated loans and any premiums or discounts. The unpaid principal balance of impaired commercial loans included in the table above are as follows:

	September 30, 2011	December 31, 2010

	(in millions)	
Construction and other real estate	$751	$782
Business banking and middle market enterprises	209	184
Large corporate	147	105
Other commercial	147	118
Total	$1,254	$1,189

The following table presents information about average impaired commercial loan balances and interest income recognized on the impaired commercial loans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Average balance of impaired commercial loans:				
Construction and other real estate	$703	$732	$745	$721
Business banking and middle market enterprises	156	143	157	145
Large corporate	111	93	100	216
Other commercial	123	146	116	172
Total average balance of impaired commercial loans	$1,093	$1,114	$1,118	$1,254
Interest income recognized on impaired commercial loans:				
Construction and other real estate	$1	$-	$5	$2
Business banking and middle market enterprises	1	1	3	4
Large corporate	-	-	-	6
Other commercial	1	1	2	2
Total interest income recognized on impaired commercial loans	$3	$2	$10	$14

Commercial Loan Credit Quality Indicators The following credit quality indicators are monitored for our commercial loan portfolio:

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

	Special Mention	Substandard	Doubtful	Total
	(in millions)			
At September 30, 2011				
Construction and other real estate	$1,180	$1,131	$162	$2,473
Business banking and middle market enterprises	411	341	-	752
Large corporate	103	375	123	601
Other commercial	48	133	4	185
Total	$1,742	$1,980	$289	$4,011
At December 31, 2010				
Construction and other real estate	$1,324	$1,230	$115	$2,669
Business banking and middle market enterprises	465	504	5	974
Large corporate	260	386	74	720
Other commercial	235	140	8	383
Total	$2,284	$2,260	$202	$4,746

Nonperforming The status of our commercial loan portfolio is summarized in the following table:

	Performing Loans	Nonaccrual Loans	Accruing Loans Contractually Past Due 90 days or More	Total
		(in millions)		
At September 30, 2011				
Commercial:				
Construction and other real estate	$7,170	$593	$10	$7,773
Business banking and middle market enterprise	9,661	69	22	9,752
Large corporate	11,017	147	-	11,164
Other commercial	2,887	35	1	2,923
Total commercial - continuing operations	$30,735	$844	$33	$31,612
At December 31, 2010				
Commercial:				
Construction and other real estate	$7,492	$599	$137	$8,228
Business banking and middle market enterprise	7,782	116	47	7,945
Large corporate	10,671	74	-	10,745
Other commercial	3,071	12	2	3,085
Total commercial - continuing operations	$29,016	$801	$186	$30,003

Credit risk profile The following table shows the credit risk profile of our commercial loan portfolio:

	Investment Grade(1)	Non-Investment Grade	Total
		(in millions)	
At September 30, 2011			
Construction and other real estate	$2,745	$5,028	$7,773
Business banking and middle market enterprises	4,458	5,294	9,752
Large corporate	7,134	4,030	11,164
Other commercial	1,098	1,825	2,923
Total commercial	$15,435	$16,177	$31,612
At December 31, 2010			
Construction and other real estate	$1,900	$6,328	$8,228
Business banking and middle market enterprises	2,866	5,079	7,945
Large corporate	6,808	3,937	10,745
Other commercial	787	2,298	3,085
Total commercial	$12,361	$17,642	$30,003

(1) Investment grade includes commercial loans with credit ratings of at least BBB- or above or the equivalent based on our internal credit rating system.

Consumer Loan Credit Quality Indicators The following credit quality indicators are monitored for our consumer loan portfolio:

Delinquency The following table summarizes dollars of two-months-and-over contractual delinquency and as a percent of total loans and loans held for sale ("delinquency ratio") for our consumer loan portfolio for both continuing and discontinued operations:

	September 30, 2011		December 31, 2010	
	Dollars of Delinquency	Delinquency Ratio	Dollars of Delinquency	Delinquency Ratio
	(dollars are in millions)			
Continuing operations:				
Consumer:				
Residential mortgage, excluding home equity mortgages(1)	$1,205	8.06%	$1,272	8.68%
Home equity mortgages	175	4.98	183	4.79
Total residential mortgages	1,380	7.47	1,455	7.88
Credit card receivables	25	2.08	34	2.70
Other consumer	33	3.36	32	2.86
Total consumer - continuing operations	1,438	6.96	1,521	7.30
Discontinued credit card and private label operations(2)	510	2.55	726	3.31
Total consumer	$1,948	4.79%	$2,247	5.25%

(1) At September 30, 2011 and December 31, 2010, residential mortgage loan delinquency includes $720 million and $852 million, respectively, of loans that are carried at the lower of amortized cost or fair value less cost to sell.

(2) At September 30, 2011, discontinued credit card and private label credit card operations include our GM and UP credit card loans and our private label credit card and closed-end loans which are included as held for sale and carried at the lower of amortized cost or fair value. At December 31, 2010, these discontinued credit card and private label credit card loans were carried at amortized cost and as such, are not directly comparable to the current period balances.

Nonperforming The status of our consumer loan portfolio for both continuing and discontinued operations is summarized in the following table:

	Performing Loans	Nonaccrual Loans	Accruing Loans Contractually Past Due 90 days or More	Total
		(in millions)		
At September 30, 2011				
Continuing operations:				
Consumer:				
Residential mortgage, excluding home equity mortgages	$13,068	$774	$-	$13,842
Home equity mortgages	2,526	92	-	2,618
Total residential mortgages	15,594	866	-	16,460
Credit card receivables	771	-	17	788
Other consumer	708	8	24	740
Total consumer - continuing operations	17,073	874	41	17,988
Discontinued credit card and private label operations(1)	19,393	-	345	19,738
Total consumer	$36,466	$874	$386	$37,726
At December 31, 2010				
Continuing operations:				
Consumer:				
Residential mortgage, excluding home equity mortgages	$12,797	$900	$-	$13,697
Home equity mortgages	3,727	93	-	3,820
Total residential mortgages	16,524	993	-	17,517
Credit card receivables	1,226	-	24	1,250
Other consumer	1,007	9	23	1,039
Total consumer - continuing operations	18,757	1,002	47	19,806
Discontinued credit card and private label operations(1)	22,466	-	523	22,989
Total consumer	$41,223	$1,002	$570	$42,795

(1) At September 30, 2011, discontinued credit card and private label credit card operations include our GM and UP credit card loans and our private label credit card and closed-end loans which are included as held for sale and carried at the lower of amortized cost or fair value. At December 31, 2010, these discontinued credit card and private label credit card loans were carried at amortized cost and as such, are not directly comparable to the current period balances.

Troubled debt restructurings See discussion of impaired loans above for further details on this credit quality indicator.

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

- High loan-to-value ("LTV") loans - Certain residential mortgages on primary residences with LTV ratios equal to or exceeding 90 percent at the time of origination and no mortgage insurance, which could result in the potential inability to recover the entire investment in loans involving foreclosed or damaged properties.
- Interest-only loans - A loan which allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect the ability of customers to repay the loan in the future when the principal payments are required.
- Adjustable rate mortgage ("ARM") loans - A loan which allows us to adjust pricing on the loan in line with market movements. A customer's financial situation and the general interest rate environment at the time of the interest rate reset could affect the customer's ability to repay or refinance the loan after the adjustment.

The following table summarizes the balances of high LTV, interest-only and ARM loans in our loan portfolios, including certain loans held for sale, at September 30, 2011 and December 31, 2010, respectively.

	September 30, 2011	December 31, 2010
	(in billions)	
Residential mortgage loans with high LTV and no mortgage insurance(1)	$1.1	$1.2
Interest-only residential mortgage loans	4.1	3.6
ARM loans(2)	8.7	8.0

(1) Residential mortgage loans with high LTV and no mortgage insurance includes both fixed rate and adjustable rate mortgages. Excludes $83 million and $125 million of sub-prime residential mortgage loans held for sale at September 30, 2011 and December 31, 2010, respectively.
(2) ARM loan balances above exclude $32 million and $99 million of sub-prime residential mortgage loans held for sale at September 30, 2011 and December 31, 2010, respectively. During the remainder of 2011 and during 2012, approximately $77 million and $340 million, respectively, of the ARM loans will experience their first interest rate reset.

Concentrations of first and second liens within the outstanding residential mortgage loan portfolio are summarized in the following table. Amounts in the table exclude residential mortgage loans held for sale of $2.0 billion and $1.0 billion at September 30, 2011 and December 31, 2010, respectively.

	September 30, 2011	December 31, 2010
	(in millions)	
Closed end:		
First lien	$13,842	$13,697
Second lien	242	437
Revolving:		
Second lien	2,376	3,383
Total	$16,460	$17,517

7. Allowance for Credit Losses

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

	Three Months Ended September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
	(in millions)			
Balance at beginning of period	$746	$1,166	$852	$1,602
Provision for credit losses	78	10	171	(7)
Charge-offs	(74)	(172)	(300)	(620)
Recoveries	29	8	56	35
Allowance on loans transferred to held for sale	(30)	(33)	(30)	(33)
Other	-	-	-	2
Balance at end of period	$749	$979	$749	$979

The following tables summarize the changes in the allowance for credit losses by product during the three and nine months ended September 30, 2011 and 2010 and the related loan balance by product at September 30, 2011 and December 31, 2010:

	Commercial				Consumer					
	Construction and Other Real Estate	Business Banking and Middle Market Enterprises	Large Corporate	Other Comm'l	Residential Mortgage, Excl Home Equity Mortgages	Home Equity Mortgages	Credit Card	Auto Finance	Other Consumer	Total
					(in millions)					
Three Months Ended September 30, 2011:										
Allowance for credit losses - beginning of period	$229	$96	$110	$21	$162	$62	$44	$-	$22	$746
Provision charged to income	(9)	(6)	28	(15)	53	8	12	-	7	78
Charge offs	(3)	(9)	-	-	(24)	(15)	(16)	-	(7)	(74)
Recoveries	-	2	-	22	1	-	3	-	1	29
Net charge offs	(3)	(7)	-	22	(23)	(15)	(13)	-	(6)	(45)
Allowance on loans transferred to held for sale	-	-	-	(10)	(4)	(6)	(6)	-	(4)	(30)
Other	-	-	-	-	-	-	-	-	-	-
Allowance for credit losses - end of period	$217	$83	$138	$18	$188	$49	$37	$-	$19	$749
Ending balance: collectively evaluated for impairment	$114	$68	$31	$14	$102	$45	$30	$-	$19	$423
Ending balance: individually evaluated for impairment(1)	103	15	107	4	86	4	7	-	-	326
Total allowance for credit losses	$217	$83	$138	$18	$188	$49	$37	$-	$19	$749
Loans:										
Collectively evaluated for impairment	$7,066	$9,597	$11,017	$2,779	$12,653	$2,604	$766	$-	$740	$47,222
Individually evaluated for impairment	707	155	147	144	506	14	22	-	-	1,695
	-	-	-	-	683	-	-	-	-	683

Loans carried at fair value less cost to sell										
Total loans	$7,773	$9,752	$11,164	$2,923	$13,842	$2,618	$788	$-	$740	$49,600
Three Months Ended September 30, 2010:										
Allowance for credit losses - beginning of period	$292	$151	$168	$66	$244	$104	$73	$33	$35	$1,166
Provision charged to income	47	6	(31)	(14)	(23)	9	14	-	2	10
Charge offs	(29)	(22)	(6)	(2)	(46)	(32)	(26)	-	(9)	(172)
Recoveries	-	3	-	1	1	-	2	-	1	8
Net charge offs	(29)	(19)	(6)	(1)	(45)	(32)	(24)	-	(8)	(164)
Allowance on loans transferred to held for sale	-	-	-	-	-	-	-	(33)	-	(33)
Other	-	-	-	-	-	-	-	-	-	-
Allowance for credit losses - end of period	$310	$138	$131	$51	$176	$81	$63	$-	$29	$979
Ending balance: collectively evaluated for impairment	$165	$119	$60	$17	$125	$78	$54	$-	$29	$647
Ending balance: individually evaluated for impairment(1)	145	19	71	34	51	3	9	-	-	332
Total allowance for credit losses	$310	$138	$131	$51	$176	$81	$63	$-	$29	$979
Loans:										
Collectively evaluated for impairment	$7,647	$7,551	$11,139	$2,333	$12,528	$3,884	$1,188	$-	$1,125	$47,395
Individually evaluated for impairment	821	124	89	140	344	8	25	-	-	1,551
Loans carried at fair value less cost to sell	-	-	-	-	753	-	-	-	-	753
Total loans	$8,468	$7,675	$11,228	$2,473	$13,625	$3,892	$1,213	$-	$1,125	$49,699

	Commercial				Consumer				
	Construction and Other	Business Banking and Middle Market	Large	Other	Residential Mortgage, Excl Home Equity	Home Equity	Credit	Auto	Other

	Real Estate	Enterprises	Corporate	Comm'l	Mortgages	Mortgages	Card	Finance	Consumer	Total
					(In millions)					
Nine Months Ended September 30, 2011:										
Allowance for credit losses - beginning of period	$243	$132	$116	$32	$167	$77	$58	$-	$27	$852
Provision charged to income	13	(15)	22	(25)	99	31	31	-	15	171
Charge offs	(46)	(42)	-	(2)	(78)	(53)	(56)	-	(23)	(300)
Recoveries	7	8	-	23	4	-	10	-	4	56
Net charge offs	(39)	(34)	-	21	(74)	(53)	(46)	-	(19)	(244)
Allowance on loans transferred to held for sale	-	-	-	(10)	(4)	(6)	(6)	-	(4)	(30)
Other	-	-	-		-	-	-	-	-	-
Allowance for credit losses - end of period	$217	$83	$138	$18	$188	$49	$37	$-	$19	$749
Nine Months Ended September 30, 2010:										
Allowance for credit losses - beginning of period	$303	$184	$301	$119	$347	$185	$80	$36	$47	$1,602
Provision charged to income	92	12	(148)	(19)	(32)	(6)	52	35	7	(7)
Charge offs	(91)	(72)	(24)	(52)	(141)	(98)	(76)	(37)	(29)	(620)
Recoveries	6	14	2	1	2	-	7	(1)	4	35
Net charge offs	(85)	(58)	(22)	(51)	(139)	(98)	(69)	(38)	(25)	(585)
Allowance on loans transferred to held for sale	-	-	-	-	-	-	-	(33)	-	(33)
Other	-	-	-	2	-	-	-	-	-	2
Allowance for credit losses - end of period	$310	$138	$131	$51	$176	$81	$63	$-	$29	$979

(1) For consumer loans, these amounts represent TDR Loans for which we evaluate reserves using a discounted cash flow methodology. Each loan is individually identified as a TDR Loan and then grouped together with other TDR Loans with similar characteristics. The discounted cash flow analysis is then applied to these groups of TDR Loans.

8. Loans Held for Sale

Loans held for sale consisted of the following:

	September 30, 2011	December 31, 2010
	(in millions)	
Commercial loans	$934	$1,356
Consumer loans:		
Residential mortgages	2,012	954
Credit cards receivables	415	-
Other consumer	241	80
Total consumer	2,668	1,034
Total loans held for sale	$3,602	$2,390

Included in loans held for sale at September 30, 2011 are $2.6 billion of loans that are being sold as part of our agreement to sell certain branches to First Niagara. Included in this amount are $539 million of commercial loans, $1.5 billion of residential mortgages, $415 million of credit card receivables and $170 million of other consumer loans. Credit card, private label credit card and closed-end loans being sold to Capital One are included in Assets of discontinued operations on our balance sheet.

We originate and syndicate commercial loans in connection with our participation in a number of leveraged acquisition finance transactions. A substantial majority of these loans are originated with the intent of selling them to unaffiliated third parties and are classified as commercial loans held for sale at September 30, 2011 and December 31, 2010. The fair value of commercial loans held for sale under this program was $364 million and $1.0 billion at September 30, 2011 and December 31, 2010, respectively, all of which are recorded at fair value as we have elected to designate these loans under fair value option. We also have provided loans to third parties which are classified as commercial loans held for sale and for which we also elected to apply fair value option. The fair value of these commercial loans under this program was $3 million and $273 million at September 30, 2011 and December 31, 2010, respectively. See Note 12, "Fair Value Option," for additional information.

In addition to the residential mortgage loans being sold to First Niagara discussed above, residential mortgage loans held for sale also include sub-prime residential mortgage loans with a fair value of $212 million and $391 million at September 30, 2011 and December 31, 2010, respectively, which were acquired from unaffiliated third parties and from HSBC Finance with the intent of securitizing or selling the loans to third parties. Also included in residential mortgage loans held for sale are first mortgage loans originated and held for sale primarily to various government sponsored enterprises. During the third quarter and first nine months of 2011, we sold subprime residential mortgage loans with a carrying amount of $17 million and $179 million, respectively.

Other consumer loans held for sale also include student loans, which we no longer originate, of $71 million and $74 million at September 30, 2011 and December 31, 2010, respectively.

Excluding the commercial loans designated under fair value option discussed above, loans held for sale are recorded at the lower of amortized cost or fair value. While the initial carrying amount of loans held for sale continued to exceed fair value at September 30, 2011, we experienced a decrease in the valuation allowance during 2011 due primarily to loan sales. The valuation allowance on loans held for sale was $288 million and $435 million at September 30, 2011 and December 31, 2010, respectively.

Loans held for sale are subject to market risk, liquidity risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions, as well as the interest rate and credit environment. Interest rate risk for residential mortgage loans held for sale is partially mitigated through an economic hedging program to offset changes in the fair value of the mortgage loans held for sale. Trading related revenue associated with this economic hedging program, which is included in net interest income and residential mortgage banking revenue (loss) in the consolidated statement of income, were gains of $3 million and losses of $8 million during the three and nine months ended September 30, 2011, respectively compared to gains of $21 million and $5 million during the three and nine months ended September 30, 2010, respectively.

9. Intangible Assets

Intangible assets consisted of the following:

	September 30,	December 31,

	2011	2010
	(in millions)	
Mortgage servicing rights	$245	$403
Other	16	21
Intangible assets	$261	$424

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

MSRs are subject to credit, prepayment and interest rate risk, in that their value will fluctuate as a result of changes in these economic variables. Interest rate risk is mitigated through an economic hedging program that uses securities and derivatives to offset changes in the fair value of MSRs. Since the hedging program involves trading activity, risk is quantified and managed using a number of risk assessment techniques, which are addressed in more detail in the 2010 Form 10-K.

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

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

	September 30, 2011	December 31, 2010
Annualized constant prepayment rate ("CPR")	22.9%	14.1%
Constant discount rate	11.4%	13.6%
Weighted average life	3.2 years	4.9 years

Residential MSRs activity is summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Fair value of MSRs:				
Beginning balance	$363	$317	$394	$450
Additions related to loan sales	7	10	32	36
Changes in fair value due to:				
Change in valuation inputs or assumptions used in the valuation models	(110)	1	(132)	(113)
Realization of cash flows	(23)	(30)	(57)	(75)
Ending balance	$237	$298	$237	$298

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

	September 30, 2011	December 31, 2010
	(in millions)	

Outstanding principal balances at period end	$41,442	$44,407
Custodial balances maintained and included in noninterest bearing deposits at period end	$859	$960

Servicing fees collected are included in residential mortgage banking revenue and totaled $27 million and $83 million during the three and nine months ended September 30, 2011, respectively. Servicing fees totaled $30 million and $92 million during the three and nine months ended September 30, 2010, respectively.

Commercial Mortgage Servicing Rights Commercial MSRs, which are accounted for using the lower of amortized cost or fair value method, totaled $8 and $9 million at September 30, 2011 and December 31, 2010, respectively.

Other Intangible Assets Other intangible assets, which result from business combinations, are comprised of favorable lease arrangements of $12 million and $16 million at September 30, 2011 and December 31, 2010, respectively, and customer lists in the amount of $4 million and $5 million at September 30, 2011 and December 31, 2010, respectively.

10. Goodwill

Goodwill was $2.2 billion and $2.6 billion at September 30, 2011 and December 31, 2010, respectively, which reflects accumulated impairment losses of $54 million. At September 30, 2011, $398 million of goodwill has been allocated to the branch operations being sold to First Niagara and is classified within other branch assets held for sale.

During the third quarter of 2011, we completed our annual impairment test of goodwill and determined that the fair value of all our reporting units exceeded their carrying amounts, including goodwill. Our goodwill impairment testing is, however, highly sensitive to certain assumptions and estimates used. In the event that significant deterioration in the economic and credit conditions beyond the levels already reflected in our cash flow forecasts occur, or changes in the strategy or performance of our business or product offering occur, particularly as it relates to our Global Banking and Markets reporting unit, an interim impairment test will be required. At July 1, 2011, the book value including goodwill of our Global Banking and Markets reporting unit was 81 percent of its fair value.

11. Derivative Financial Instruments

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

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

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

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

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

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

For reporting purposes, changes in fair value of a derivative designated in a qualifying fair value hedge, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. We recognized net losses of $45 million and $46 million during the three and nine months ended September 30, 2011, respectively compared to net gains of $8 million and $30 million during the three and nine months ended September 30, 2010, respectively, which are reported in other income in the consolidated statement of income which represents the ineffective portion of all fair value hedges. The interest accrual related to the derivative contract is recognized in interest income.

The changes in fair value of the hedged item designated in a qualifying hedge are captured as an adjustment to the carrying amount of the hedged item (basis adjustment). If the hedging relationship is terminated and the hedged item continues to exist, the basis adjustment is amortized over the remaining life of the hedged item. We recorded basis adjustments for active fair value hedges which increased the carrying amount of our debt by $6 million and $34 million during the nine months ended September 30, 2011 and 2010, respectively. We amortized $3 million and $8 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three and nine months ended September 30, 2011, respectively. We amortized $3 million and $7 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three and nine months ended September 30, 2010, respectively. The total accumulated unamortized basis adjustment amounted to an increase in the carrying amount of our debt of $72 million and $73 million as of September 30, 2011 and December 31, 2010, respectively. Basis adjustments for active fair value hedges of available-for-sale securities increased the carrying amount of the securities by $1.2 billion and $1.3 billion during the three and nine months ended September 30, 2011 compared to an increase in the carrying amount of the securities by $12 million and $377 million during the three and nine months ended September 30, 2010, respectively. Total accumulated unamortized basis adjustments for active fair value hedges of available-for-sale securities amounted to an increase in carrying amount of $1.3 billion and an increase in carrying amount of $71 million as of September 30, 2011 and December 31, 2010, respectively.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
			(in millions)			
Interest rate contracts	Other assets	$15	$140	Interest, taxes & other liabilities	$1,339	$164

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

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

	Amount of Gain (Loss) Recognized in Income on Derivatives			
Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			

Interest rate contracts	Other income	$(1,311)	$(142)	$(1,635)	$(628)
Interest rate contracts	Interest income	12	(19)	3	18
Total		$(1,299)	$(161)	$(1,632)	$(610)

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

	Gain (Loss) on Derivative		Gain (Loss) on Hedged Items		Gain (Loss) on Derivative		Gain (Loss) on Hedged Items	
	Interest Income (Expense)	Other Income	Interest Income (Expense)	Other Income	Interest Income (Expense)	Other Income	Interest Income (Expense)	Other Income
Three Months Ended September 30,	2011				2010			
	(in millions)							
Interest rate contracts/AFS securities	$4	$(1,322)	$187	$1,278	$(2)	$(148)	$56	$149
Interest rate contracts/commercial loans	(6)	1	-	(1)	-	-	-	-
Interest rate contracts/subordinated debt	14	10	(32)	(11)	(17)	6	(18)	1
Total	$12	$(1,311)	$155	$1,266	$(19)	$(142)	$38	$150
Nine Months Ended September 30,								
Interest rate contracts/AFS securities	$(18)	$(1,640)	$506	$1,598	$(20)	$(661)	$187	$673
Interest rate contracts/commercial loans	(17)	1	-	(3)	(1)	1	1	(1)
Interest rate contracts/subordinated debt	38	4	(70)	(6)	39	32	(81)	(14)
Total	$3	$(1,635)	$436	$1,589	$18	$(628)	$107	$658

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

Changes in fair value associated with the effective portion of a derivative instrument designated as a qualifying cash flow hedge are recognized initially in other comprehensive income (loss). When the cash flows for which the derivative is hedging materialize and are recorded in income or expense, the associated gain or loss from the hedging derivative previously recorded in accumulated other comprehensive income (loss) is recognized in earnings. If a cash flow hedge of a forecasted transaction is de-designated because it is no longer highly effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative to that date will continue to be reported in accumulated other comprehensive income (loss) unless the hedged forecasted transaction is no longer expected to occur, at which time the cumulative gain or loss is released into earnings. As of September 30, 2011 and December 31, 2010, active cash flow hedge relationships extend or mature through June 2031 and December 2012, respectively. During the three and nine months ended September 30, 2011, $4 million and $9 million, respectively, of losses related to terminated and/or re-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income (loss). During the next twelve months, we expect to amortize $16 million of remaining losses to earnings resulting from these terminated and/or re-designated cash flow hedges. During the three and nine months ended September 30, 2010, $3 million and $8 million, respectively, of losses related to terminated and/or re-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income (loss). The interest accrual related to the derivative contract is recognized in interest income.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
			(In millions)			
Interest rate contracts	Other assets	$21	$-	Interest, taxes & other liabilities	$243	$18
Foreign exchange contracts	Other assets	$41	$-	Interest, taxes & other liabilities	$-	$-

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

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

Gain (Loss)	Gain (Loss)	Location of Gain	Gain (Loss)

	Recognized in Accumulated Other Comprehensive Income (Loss) on on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	Reclassified From Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)		(Loss) Recognized in Income on the Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Recognized in Income on the Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	2010		2011	2010		2011	2010
				(in millions)				
Three Months Ended September 30,								
Interest rate contracts	$(205)	$(7)	Other income	$(4)	$(2)	Other income	$(6)	$(1)
Nine Months Ended September 30,								
Interest rate contracts	$(219)	$8	Other income	$(8)	$(8)	Other income	$(7)	$(1)

Trading and Other Derivatives In addition to risk management, we enter into derivative instruments for trading and market making purposes, to repackage risks and structure trades to facilitate clients' needs for various risk taking and risk modification purposes. We manage our risk exposure by entering into offsetting derivatives with other financial institutions to mitigate the market risks, in part or in full, arising from our trading activities with our clients. In addition, we also enter into buy protection credit derivatives with other market participants to manage our counterparty credit risk exposure. Where we enter into derivatives for trading purposes, realized and unrealized gains and losses are recognized in trading revenue or residential mortgage banking revenue (loss). Credit losses arising from counterparty risk on over-the-counter derivative instruments and offsetting buy protection credit derivative positions are recognized as an adjustment to the fair value of the derivatives and are recorded in trading revenue.

Derivative instruments designated as economic hedges that do not qualify for hedge accounting are recorded at fair value through profit and loss. Realized and unrealized gains and losses are recognized in other income or residential mortgage banking revenue (loss) while the derivative asset or liability positions are reflected as other assets or other liabilities. As of September 30, 2011, we have entered into credit default swaps which are designated as economic hedges against the credit risks within our loan portfolio. In the event of an impairment loss occurring in a loan that is economically hedged, the impairment loss is recognized as provision for credit losses while the gain on the credit default swap is recorded as other income (expense). In addition, we also from time to time have designated certain forward purchase or sale of to-be-announced ("TBA") securities to economically hedge mortgage servicing rights. Changes in the fair value of TBA positions, which are considered derivatives, are recorded in residential mortgage banking revenue.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
		(in millions)				
Interest rate contracts	Trading assets	$59,882	$32,047	Trading liabilities	$60,727	$32,526
Foreign exchange contracts	Trading assets	24,737	16,367	Trading liabilities	25,332	16,742
Equity contracts	Trading assets	1,101	950	Trading liabilities	1,106	986
Precious Metals contracts	Trading assets	2,295	1,004	Trading liabilities	1,330	2,073
Credit contracts	Trading assets	17,898	12,766	Trading liabilities	17,630	12,506
Other	Trading assets	3	4	Trading liabilities	-	23
Total		$105,916	$63,138		$106,125	$64,856

(1) The derivative assets and derivative liabilities presented above may be eligible for netting and consequently may be shown net against a different line item on the

consolidated balance sheet. Balance sheet categories in the above table represent the location of the assets and liabilities absent the netting of the balances.

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

	Derivative Assets(1)			Derivative Liabilities(1)		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
			(in millions)			
Interest rate contracts	Other assets	$938	$420	Interest, taxes & other liabilities	$93	$82
Foreign exchange contracts	Other assets	54	96	Interest, taxes & other liabilities	23	4
Equity contracts	Other assets	-	221	Interest, taxes & other liabilities	377	10
Credit contracts	Other assets	4	2	Interest, taxes & other liabilities	9	17
Total		$996	$739		$502	$113

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

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

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
		(in millions)			
Interest rate contracts	Trading revenue	$(78)	$20	$(193)	$(73)
Interest rate contracts	Residential mortgage banking revenue	120	75	118	175
Foreign exchange contracts	Trading revenue	278	(179)	655	(249)
Equity contracts	Trading revenue	101	4	105	14
Precious Metals contracts	Trading revenue	(349)	380	(427)	684
Credit contracts	Trading revenue	(176)	(50)	(86)	(19)
Other	Trading revenue	(9)	-	(13)	12
Total		$(113)	$250	$159	$544

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

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
		(in millions)			
Interest rate contracts	Other income	$494	$191	$628	$576
Interest rate contracts	Residential mortgage banking revenue	3	21	(8)	6
Foreign exchange contracts	Other income	23	1	22	7
Equity contracts	Other income	(508)	386	(316)	261
Credit contracts	Other income	5	(7)	2	(10)
Total		$17	$592	$328	$840

Credit-Risk Related Contingent Features We enter into total return swap, interest rate swap, cross-currency swap and credit default swap contracts, amongst others which contain provisions that require us to maintain a specific credit rating from each of the major credit rating agencies. Sometimes the derivative instrument transactions are a part of broader structured product transactions. If HSBC Bank USA's credit ratings were to fall below the current ratings, the counterparties to our derivative instruments could demand additional collateral to be posted with them. The amount of additional collateral required to be posted will depend on whether HSBC Bank USA is downgraded by one or more

notches as well as whether the downgrade is in relation to long-term or short-term ratings. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in an asset position as of September 30, 2011, is $10.7 billion for which we have posted collateral of $11.1 billion. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of December 31, 2010, is $5.1 billion for which we have posted collateral of $7.3 billion. Substantially all of the collateral posted is in the form of cash which is reflected in either interest bearing deposits with banks or other assets. See Note 19, "Guarantee Arrangements and Pledged Assets," for further details.

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

Moody's	Long-Term Ratings		
Short-Term Ratings	Aa3	A1	A2
	(in millions)		
P-1	$-	$4	$72
P-2	50	53	120

S&P	Long-Term Ratings		
Short-Term Ratings	AA	AA-	A+
	(in millions)		
A-1+	$-	$191	$194
A-1	69	260	262

We would be required to post $71 million of additional collateral on total return swaps and certain other transactions if HSBC Bank USA is downgraded by S&P and Moody's by two notches on our long term rating accompanied by one notch downgrade in our short term rating.

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

	September 30, 2011	December 31, 2010
	(in billions)	
Interest rate:		
Futures and forwards	$356.4	$356.9
Swaps	2,247.4	1,773.0
Options written	80.4	62.9
Options purchased	84.8	63.9
	2,769.0	2,256.7
Foreign Exchange:		
Swaps, futures and forwards	807.2	603.3
Options written	46.0	22.0
Options purchased	46.5	22.3

Spot	74.9	56.5
	974.6	704.1
Commodities, equities and precious metals:		
Swaps, futures and forwards	43.8	36.1
Options written	8.3	9.1
Options purchased	17.1	16.4
	69.2	61.6
Credit derivatives	704.1	701.0
Total	$4,516.9	$3,723.4

12. Fair Value Option

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

Loans We elected to apply FVO to all commercial leveraged acquisition finance loans held for sale and related unfunded commitments. The election allows us to account for these loans and commitments at fair value which is consistent with the manner in which the instruments are managed. As of September 30, 2011, commercial leveraged acquisition finance loans held for sale and related unfunded commitments of $364 million carried at fair value had an aggregate unpaid principal balance of $450 million. As of December 31, 2010, commercial leveraged acquisition finance loans held for sale and related unfunded commitments of $1.0 billion carried at fair value had an aggregate unpaid principal balance of $1.1 billion.

We have provided loans to a third party for which we simultaneously entered into a series of derivative transactions to hedge certain risks associated with these loans. We elected to apply fair value option to these loans which allows us to account for them in a manner which is consistent with how the instruments are managed. The fair value of these commercial loans was $3 million and $273 million at September 30, 2011 and December 31, 2010, respectively. The unpaid principal balance of these loans was $3 million and $270 million at September 30, 2011 and December 31, 2010, respectively.

These loans are included in loans held for sale in the consolidated balance sheet. Interest from these loans is recorded as interest income in the consolidated statement of income. Because a substantial majority of the loans elected for the fair value option are floating rate assets, changes in their fair value are primarily attributable to changes in loan-specific credit risk factors. The components of gain (loss) related to loans designated at fair value are summarized in the table below. As of September 30, 2011 and December 31, 2010, no loans for which the fair value option has been elected are 90 days or more past due or on nonaccrual status.

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

Fixed-rate debt accounted for under FVO at September 30, 2011 totaled $1.6 billion and had an aggregate unpaid principal balance of $1.8 billion. Fixed-rate debt accounted for under FVO at December 31, 2010 totaled $1.7 billion

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

Hybrid Instruments We elected to apply fair value option accounting principles to all of our hybrid instruments, inclusive of structured notes and structured deposits, issued after January 1, 2006. As of September 30, 2011, interest bearing deposits in domestic offices included $9.6 billion of structured deposits accounted for under FVO which had an unpaid principal balance of $9.6 billion. As of December 31, 2010, interest bearing deposits in domestic offices included $7.4 billion of structured deposits accounted for under FVO which had an unpaid principal balance of $7.4 billion. Long-term debt at September 30, 2011 included structured notes of $2.6 billion accounted for under FVO which had an unpaid principal balance of $2.9 billion. Long-term debt at December 31, 2010 included structured notes of $3.7 billion accounted for under FVO which had an unpaid principal balance of $3.4 billion. Interest on this debt is recorded as interest expense in the consolidated statement of income. The components of gain (loss) related to hybrid instruments designated at fair value which reflect the instruments described above are summarized in the table below.

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

	Three Months Ended September 30,							
	2011				2010			
	Loans	Long-Term Debt	Hybrid Instruments	Total	Loans	Long-Term Debt	Hybrid Instruments	Total
	(in millions)							
Interest rate component	$(5)	$(296)	$300	$(1)	$1	$(89)	$(443)	$(531)
Credit risk component	(41)	368	48	375	44	(3)	2	43
Total mark-to-market on financial instruments designated at fair value	(46)	72	348	374	45	(92)	(441)	(488)
Net realized loss on the financial instrument	(3)	-	-	(3)	-	-	-	-
Mark-to-market on the related derivatives	1	328	(338)	(9)	(2)	126	433	557
Net realized gain (loss) on the related long-term debt derivatives	-	17	-	17	-	20	-	20
Gain (loss) on instruments designated at fair value and related derivatives	$(48)	$417	$10	$379	$43	$54	$(8)	$89

	Nine Months Ended September 30,							
	2011				2010			
	Loans	Long-Term Debt	Hybrid Instruments	Total	Loans	Long-Term Debt	Hybrid Instruments	Total
	(in millions)							
Interest rate component	$(7)	$(312)	$(11)	$(330)	$4	$(276)	$(426)	$(698)
Credit risk component	(25)	375	86	436	(7)	131	48	172
Total mark-to-market on financial instruments designated at fair value	(32)	63	75	106	(3)	(145)	(378)	(526)
Net realized gain on the financial instrument	(1)	-	-	(1)	-	-	-	-
Mark-to-market on the related derivatives	-	344	(58)	286	(3)	376	409	782
Net realized gain (loss) on the related long-term debt derivatives	-	49	-	49	-	61	-	61
Gain (loss) on instruments designated at fair value and related derivatives	$(33)	$456	$17	$440	$(6)	$292	$31	$317

13. Income Taxes

The following table presents our effective tax rates.

	2011		2010	
	(dollars are in millions)			
Three Months Ended September 30,				
Tax expense (benefit) at the U.S. federal statutory income tax rate	$106	35.0%	$150	35.0%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	5	1.8	(2)	(.5)
Valuation allowance on deferred tax assets	8	2.7	(8)	(1.9)
Tax exempt interest income	(3)	(1.0)	(3)	(.7)
Low income housing and other tax credits	(21)	(7.0)	(21)	(4.9)
Uncertain tax provision	6	1.9	13	3.0
Effects of foreign operations	23	7.8	-	-
Non-deductible loss on securities	-	-	14	3.3
Other	(4)	(1.4)	1	.3
Effective tax rate	$120	39.8%	$14433	.6%
Nine Months Ended September 30,				
Tax expense (benefit) at the U.S. federal statutory income tax rate	$246	35.0%	$481	35.0%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	42	6.0	4	.3

Valuation allowance on deferred tax assets	(135)	(19.3)	(7)	(.5)
Tax exempt interest income	(8)	(1.1)	(10)	(.7)
Low income housing and other tax credits	(63)	(9.0)	(65)	(4.7)
Uncertain tax provision	151	21.5	33	2.4
Effects of foreign operations	23	3.3	14	1.2
Non-deductible loss on securities	-	-	14	1.2
Other	(7)	(1.0)	-	-
Effective tax rate	$249	35.4%	$464	34.2%

The effective tax rate for the three and nine months ended September 30, 2011 primarily reflects expense from foreign operations, the utilization of low income housing and other tax credits, the impact of state taxes and, as it relates to the nine month period, an adjustment in uncertain tax positions and the release of valuation allowance previously established on foreign tax credits. The effective tax rate for the three and nine months ended September 30, 2010 reflects an increased level of low income housing tax credits, an adjustment of uncertain tax positions and the non-deductible loss on the sale of securities.

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

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

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

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

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

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

During the first quarter of 2011, the HNAH Group identified an additional tax planning strategy that provides support for the realization of the deferred tax assets recorded for its foreign tax credits and certain state related deferred tax assets. The use of foreign tax credits is limited by the HNAH Group's U.S. tax liability and the availability of foreign source income. The tax planning strategy included the purchase of foreign bonds and REMIC residual interests. These

purchases are expected to generate sufficient foreign source taxable income to allow for the utilization of the foreign tax credits before the credits expire and recognition of certain state deferred tax assets.

Notwithstanding the above, the HNAH Group has valuation allowances against certain state deferred tax assets and certain Federal tax loss carryforwards for which the aforementioned tax planning strategies do not provide appropriate support.

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

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

We do not anticipate that the proposed sale of our GM and UP credit card and private label operations or certain retail branches will have a material impact on the recognition of our deferred tax assets because the recognition of the deferred tax assets currently relies on tax planning strategies implemented in relation to capital support from HSBC. These strategies remain unaffected by the proposed sales.

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

HSBC USA Inc. Income Taxes We recognize deferred tax assets and liabilities for the future tax consequences related to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and state net operating losses. Our net deferred tax assets, net of both deferred tax liabilities and valuation allowances, totaled $0.8 billion and $0.9 billion as of September 30, 2011 and December 31, 2010, respectively.

During the second quarter of 2011, we reached a pending resolution of an issue with the Internal Revenue Service ("IRS") Appeals Office covering the tax periods 2004 and 2005. We anticipate finalizing the resolution of this matter within the next twelve months. There is no resulting impact to our uncertain tax reserves.

The IRS began its audit of our 2006 and 2007 income tax returns in 2009, with an anticipated completion in 2012. The IRS began their examination of 2008 and 2009 during the third quarter of 2011. We are currently under audit by various state and local tax jurisdictions. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law and the closing of statute of limitations. Such adjustments are reflected in the tax provision. As a result of a recent state court decision related to a state tax uncertainty, we no longer believe that we can uphold the more likely than not conclusion taken on one of these uncertain tax positions. Therefore, tax reserves of approximately $158 million and related accrued interest expense of $77 million were recorded through the third quarter of 2011 to recognize the estimated tax exposure on this matter.

It is our policy to recognize accrued interest related to unrecognized tax positions in interest expense in the consolidated statement of income and to recognize penalties, if any, related to unrecognized tax positions as a component of other operating expenses in the consolidated statement of income. We had accruals for the payment of interest associated with uncertain tax positions of $128 million and $40 million at September 30, 2011 and December 31, 2010.

We remain subject to state and local income tax examinations for years 2000 and forward. It is reasonably possible that there could be a change in the amount of our unrecognized tax benefits within the next 12 months due to settlements or statutory expirations in various state and local tax jurisdictions. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $270 million and $113 million at September 30, 2011 and December 31, 2010.

14. Pensions and Other Postretirement Benefits

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Service cost - benefits earned during the period	$4	$6	$12	$16
Interest cost on projected benefit obligation	20	17	57	50
Expected return on assets	(22)	(16)	(63)	(46)
Recognized losses	9	11	27	29
Amortization of prior service cost	(2)	(1)	(4)	(4)
Net periodic pension cost	$9	$17	$29	$45

Pension expense declined in 2011 primarily due to expected higher returns on plan assets due to higher asset levels including additional contributions to the plan as well as lower service cost as a result of a decrease in the number of active participants in the Plan and the impact of the decision to cease future benefit accruals for legacy participants under the final average pay formula components of the Plan effective January 1, 2011.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Interest cost	$1	$1	$3	$3
Amortization of transition obligation	1	1	2	2
Net periodic postretirement benefit cost	$2	$2	$5	$5

15. Related Party Transactions

In the normal course of business, we conduct transactions with HSBC and its subsidiaries. These transactions occur at prevailing market rates and terms and include funding arrangements, derivative execution, purchases and sales of receivables, servicing arrangements, information technology and some centralized services, item and statement processing services, banking and other miscellaneous services. All extensions of credit by HSBC Bank USA to other HSBC affiliates (other than FDIC-insured banks) are legally required to be secured by eligible collateral. The following table presents related party balances and the income and expense generated by related party transactions:

	September 30, 2011	December 31, 2010
	(in millions)	
Assets:		
Cash and due from banks	$279	$137

Interest bearing deposits with banks	2,519	1,287
Federal funds sold and securities purchased under resale agreements	398	534
Trading assets(1)	24,466	16,575
Loans	605	664
Other	554	537
Total assets	$28,821	$19,734
Liabilities:		
Deposits	$12,361	$10,337
Trading liabilities(1)	28,736	19,211
Short-term borrowings	4,496	3,326
Long-term debt	3,987	984
Other	1,158	569
Total liabilities	$50,738	$34,427

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Income/(Expense):				
Interest income	$16	$13	$46	$79
Interest expense	(23)	(12)	(57)	(33)
Net interest income	$(7)	$1	$(11)	$46
HSBC affiliate income:				
Fees and commissions:				
HSBC Finance	$18	$20	$54	$24
HSBC Markets (USA) Inc. ("HMUS")	8	3	19	13
Other HSBC affiliates	15	15	54	57
Fees on transfers of refund anticipation loans to HSBC Finance	-	-	-	4
Other HSBC affiliates income	9	4	25	13
Total affiliate income	$50	$42	$152	$111
Support services from HSBC affiliates:				
HSBC Finance	$8	$8	$27	$93
HMUS	71	72	192	215
HSBC Technology & Services (USA) Inc. ("HTSU")	279	194	725	557
Other HSBC affiliates	55	32	150	95
Total support services from HSBC affiliates	$413	$306	$1,094	$960
Stock based compensation expense with HSBC	$14	$11	$38	$33

Transactions Conducted with HSBC Finance Corporation In connection with its acquisition of HSBC Finance, HSBC announced its expectation that funding costs for the HSBC Finance business would be lower as a result of the funding diversity of HSBC. As a result, we work with our affiliates under the oversight of HSBC North America to maximize opportunities and efficiencies in HSBC's operations in the U.S., including funding efficiencies. The purchases of the

private label portfolio as well as the GM and UP Portfolios from HSBC Finance as discussed in more detail below are indicative of such efficiencies contemplated.

- In July 2004, we sold the account relationships associated with $970 million of credit card receivables to HSBC Finance and on a daily basis, we purchase new originations on these credit card receivables. HSBC Finance continues to service these loans for us for a fee. We purchased $582 million and $1.7 billion of credit card receivables from HSBC Finance during the three and nine months ended September 30, 2011, respectively, compared to $617 million and $1.8 billion during the year-ago periods. Premiums paid are amortized to interest income over the estimated life of the receivables purchased. At September 30, 2011 and December 31, 2010, HSBC Finance was servicing $1.2 billion of credit card receivables. We paid HSBC Finance fees for servicing these loans of $4 million and $11 million during the three and nine months ended September 30, 2011 and 2010.
- In 2003 and 2004, we purchased approximately $3.7 billion of residential mortgage loans from HSBC Finance. HSBC Finance continues to service these loans for us for a fee. At September 30, 2011 and December 31, 2010, HSBC Finance was servicing $1.4 billion and $1.5 billion of residential mortgage loans for us. We paid HSBC Finance fees for servicing these loans of less than $1 million and $3 million during the three and nine months ended September 30, 2011, respectively, compared to $2 million and $4 million during the year-ago periods.
- In the fourth quarter of 2009, an initiative was begun to streamline the servicing of real estate secured receivables across North America. As a result, certain functions that we had previously performed for our mortgage customers are now being performed by HSBC Finance for all North America mortgage customers, including our mortgage customers. Additionally, we are currently performing certain functions for all North America mortgage customers where these functions had been previously provided separately by each entity. During the three and nine months ended September 30, 2011 we paid $2 million and $5 million, respectively, for services we received from HSBC Finance and received $3 million and $7 million, respectively, for services we provided to HSBC Finance. During the three and nine months ended September 30, 2010 we paid $2 million and $5 million, respectively, for services we received from HSBC Finance and received $2 million and $6 million, respectively for services we provided to HSBC Finance.
- In July 2010, certain employees in the real estate receivable default servicing department of HSBC Finance were transferred to the mortgage loan servicing department of HSBC Bank USA. These employees continue to service defaulted real estate secured receivables for HSBC Finance and we receive a fee for providing these services. During the three and nine months ended September 30, 2011, we received servicing revenue from HSBC Finance of $15 million and $47 million, respectively.
- Prior to 2011, our wholly-owned subsidiaries, HSBC Bank USA and HSBC Trust Company (Delaware), N.A. ("HTCD"), historically have been the originating lenders on behalf of HSBC Finance for a federal income tax refund anticipation loan program for clients of a single third party tax preparer which was managed by HSBC Finance. By agreement, HSBC Bank USA and HTCD historically processed applications, funded and subsequently transferred a portion of these loans to HSBC Finance. Prior to 2010, all loans were transferred to HSBC Finance. In 2010, we kept a portion of these loans on our balance sheet and earned a fee. The loans kept were transferred to HSBC Finance at par only upon reaching a defined delinquency status. We paid HSBC Finance a fee to service the loans we retained on our balance sheet and to

assume the credit risk associated with these receivables. HSBC Bank USA and HTCD originated approximately $9.4 billion of loans during the nine months ended September 30, 2010, of which $3.1 billion was transferred to HSBC Finance. During the nine months ended September 30, 2010, we received fees of $4 million for the loans we originated and sold to HSBC Finance. Fees earned on the loans retained on balance sheet and fees paid to HSBC Finance for servicing and assuming the credit risk for these loans totaled $65 million and $58 million, respectively, during the nine months ended September 30, 2010.

In December 2010, as a result of Internal Revenue Service decisions to stop providing information regarding certain unpaid taxpayer obligations which historically served as a significant part of the underwriting process, it was determined that tax refund anticipation loans could no longer be offered in a safe and sound manner and, therefore, we would no longer offer these loans and other related products going forward. These products have historically had an insignificant impact to our results of operations.

- During the third quarter of 2011, we purchased $5 million of commercial paper from HSBC Finance as part of our North America funding strategy. No balances were outstanding at September 30, 2011.
- We extended a secured $1.5 billion uncommitted 364 day credit facility to certain subsidiaries of HSBC Finance in December 2009. This facility was renewed for an additional 364 days in December 2010. There were no balances outstanding at September 30, 2011 and December 31, 2010.
- We serviced a portfolio of residential mortgage loans owned by HSBC Finance with an outstanding principal balance of $1.5 billion at December 31, 2009. During 2010, we transferred servicing of this portfolio back to HSBC Finance and, as a result, no longer service any loans for HSBC Finance. The servicing fee income for servicing this portfolio was less than $1 million and $1 million during the three and nine months ended September 30, 2010, respectively, which is included in residential mortgage banking revenue in the consolidated statement of income.
- In the third quarter of 2009, we purchased $106 million of Low Income Housing Tax Credit Investment Funds from HSBC Finance.

Transactions Conducted with HSBC Finance Corporation Involving Discontinued Operations As it relates to our discontinued credit card and private label operations, in January 2009, we purchased the GM and UP Portfolios from HSBC Finance, with an outstanding principal balance of $12.4 billion at the time of sale, at a total net premium of $113 million. Additionally, in December 2004, we purchased the private label credit card receivable portfolio as well as private label commercial and closed end loans from HSBC Finance. HSBC Finance retained the customer account relationships for both the GM and UP receivables and the private label credit card receivables and by agreement we purchase on a daily basis substantially all new originations from these account relationships from HSBC Finance. Premiums paid for these receivables are amortized to interest income over the estimated life of the receivables purchased and are included as a component of Income from discontinued operations. HSBC Finance continues to service these credit card loans for us for a fee. Information regarding these loans is summarized in the table below.

	Private Label		Credit Card			
	Cards	Commercial and Closed End Loans(1)	General Motors	Union Privilege	Other	Total
			(in billions)			

Loans serviced by HSBC Finance:							
September 30, 2011	$11.5	$.3		$4.0	$3.6	$.7	$20.1
December 31, 2010	13.1	.4		4.5	4.1	.8	22.9
Total loans purchased on a daily basis from HSBC Finance during:							
Three months ended September 30, 2011	3.7	-		3.2	.8	.4	8.1
Three months ended September 30, 2010	3.5	-		3.4	.8	.4	8.1
Nine months ended September 30, 2011	10.5	-		9.6	2.3	1.3	23.7
Nine months ended September 30, 2010	9.9	-		10.0	2.3	1.2	23.4

(1) Private label commercial loans were previously included in other commercial loans and private label closed end loans were included in other consumer loans.

Fees paid for servicing these loan portfolios, which are included as a component of Income from discontinued operations, totaled $149 million and $447 million during the three and nine months ended September 30, 2011, respectively, compared to $154 million and $457 million during the year-ago periods.

The GM and UP credit card receivables as well as the private label credit card receivables that are purchased from HSBC Finance on a daily basis at a sales price for each type of portfolio determined using a fair value calculated semi-annually in April and October by an independent third party based on the projected future cash flows of the receivables. The projected future cash flows are developed using various assumptions reflecting the historical performance of the receivables and adjusting for key factors such as the anticipated economic and regulatory environment. The independent third party uses these projected future cash flows and a discount rate to determine a range of fair values. We use the mid-point of this range as the sales price. If significant information becomes available that would alter the projected future cash flows, an analysis would be performed to determine if fair value rates needed to be updated prior to the normal semi-annual cycles. With the announcement of the Capital One transaction, an analysis was performed and an adjustment to the fair value rates was made effective August 10, 2011 to reflect the sale of the receivables to a third party during the first half of 2012. The rates will continue to be updated as part of our normal semi-annual process until the time the transaction is completed.

- Certain of our consolidated subsidiaries have revolving lines of credit totaling $1.0 billion from HSBC Finance. There were no balances outstanding under any of these lines of credit at September 30, 2011 and December 31, 2010.
- We extended a $1.0 billion committed unsecured 364 day credit facility to HSBC Bank Nevada, a subsidiary of HSBC Finance, in December 2009. This facility was renewed for an additional 364 days in December 2010. There were no balances outstanding at September 30, 2011 and December 31, 2010.

Transactions Conducted with HMUS

- We utilize HSBC Securities (USA) Inc. ("HSI"), a wholly-owned subsidiary of HMUS, for broker dealer, debt and preferred stock underwriting, customer referrals,

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

- We have extended loans and lines, some of them uncommitted, to HMUS and its subsidiaries in the amount of $3.3 billion at September 30, 2011 and December 31, 2010. At September 30, 2011 and December 31, 2010, $383 million and $867 million, respectively, was outstanding on these loans and lines. Interest income on these loans and lines totaled $1 million and $5 million during the three and nine months ended September 30, 2011, respectively compared to $4 million and $13 million during the three and nine months ended September 30, 2010, respectively.

Other Transactions with HSBC Affiliates

- In January 2011, we acquired Halbis Capital Management (USA) Inc (Halbis), an asset management business, from an affiliate, Halbis Capital Management (UK) Ltd. as part of a reorganization which resulted in an increase to additional paid-in-capital of approximately $21 million.
- In April 2011, we completed the sale of our European Banknotes Business with assets of $123 million to HSBC Bank plc.
- In April 2011, we issued senior notes in the amount of $3.0 billion to HNAH. The notes mature in three equal installments of $1.0 billion in April 2013, 2015 and 2016. The notes bear interest at 90 day USD Libor plus a spread, with each maturity at a different spread.
- We have periodically purchased foreign-denominated marketable securities from certain affiliates including HSI, HSBC Asia-Pacific, HSBC Mexico and HSBC Canada. Marketable securities outstanding from these purchases are reflected in trading assets and totaled $9.3 billion and $4.2 billion at September 30, 2011 and December 31, 2010, respectively.
- In June 2010, we sold certain securities with a book value of $302 million to HSBC Bank plc and recognized a pre-tax loss of $40 million.
- HNAH extended a $1.0 billion senior note to us in August 2009. This is a five year floating rate note which matures on August 28, 2014 with interest due quarterly beginning in November 2009. The note bears interest at 90 day USD Libor plus 180 basis points.
- We have a committed unused line of credit with HSBC Bank plc of $2.5 billion at September 30, 2011 and December 31, 2010.
- We have an uncommitted unused line of credit with HSBC North America Inc. ("HNAI") of $150 million at September 30, 2011 and December 31, 2010.
- We have extended loans and lines of credit to various other HSBC affiliates totaling $460 million at September 30, 2011 and December 31, 2010. At September 30, 2011 and December 31, 2010 there were no amounts outstanding on these loans and lines of credit. Interest income on these lines totaled less than $1 million and $5 million during the three and nine months ended September 30, 2010, respectively.
- Historically, we have provided support to several HSBC affiliate sponsored asset-backed commercial paper ("ABCP") conduits by purchasing A-1/P-1 rated

commercial paper issued by them. We held $75 million of commercial paper issued by an HSBC affiliate sponsored ABCP conduit at December 31, 2010.

- We routinely enter into derivative transactions with HSBC Finance and other HSBC affiliates as part of a global HSBC strategy to offset interest rate or other market risks associated with debt issues and derivative contracts with unaffiliated third parties. The notional value of derivative contracts related to these contracts was approximately $891.9 billion and $774.1 billion at September 30, 2011 and December 31, 2010, respectively. The net credit exposure (defined as the recorded fair value of derivative receivables) related to the contracts was approximately $24.5 billion and $16.6 billion at September 30, 2011 and December 31, 2010, respectively. Our Global Banking and Markets business accounts for these transactions on a mark to market basis, with the change in value of contracts with HSBC affiliates substantially offset by the change in value of related contracts entered into with unaffiliated third parties.
- In December 2008, HSBC Bank USA entered into derivative transactions with another HSBC affiliate to offset the risk associated with the contingent "loss trigger" options embedded in certain leveraged super senior ("LSS") tranched credit default swaps. These transactions are expected to significantly reduce income volatility for HSBC Bank USA by transferring the volatility to the affiliate. The recorded fair value of derivative assets related to these derivative transactions was not significant at September 30, 2011 and was approximately $25 million at December 31, 2010.
- Technology and some centralized operational services including human resources, finance, corporate affairs, compliance, legal, tax and other shared services in North America are centralized within HTSU.
- Technology related assets and software purchased are generally purchased and owned by HTSU. HTSU also provides certain item processing and statement processing activities which are included in Support services from HSBC affiliates in the consolidated statement of income.
- Our domestic employees participate in a defined benefit pension plan sponsored by HSBC North America. Additional information regarding pensions is provided in Note 14, "Pension and Other Postretirement Benefits."
- Employees participate in one or more stock compensation plans sponsored by HSBC. Our share of the expense of these plans on a pre-tax basis was $14 million and $38 million during the three and nine months ended September 30, 2011, respectively. During the three and nine months ended September 30, 2010, our share of the expense of these plans was $11 million and $33 million, respectively.
- We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas customer service, systems, collection and accounting functions. The expenses related to these services of $7 million and $21 million during the three and nine months ended September 30, 2011, respectively, are included as a component of Support services from HSBC affiliates in the consolidated statement of income and the table above. Prior to 2011, billing for these services was processed by HTSU.
- We did not pay any dividends to our immediate parent, HNAI, on our common stock during the nine months ended September 30, 2011 and 2010.

16. Regulatory Capital

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

	September 30, 2011			December 31, 2010		
	Capital Amount	Well-Capitalized Minimum Ratio(1)	Actual Ratio	Capital Amount	Well-Capitalized Minimum Ratio(1)	Actual Ratio
	(dollars are in millions)					
Total capital ratio:						
HSBC USA Inc.	$21,577	10.00%	18.03%	$22,070	10.00%	18.14%
HSBC Bank USA	21,957	10.00	18.48	22,177	10.00	18.41
Tier 1 capital ratio:						
HSBC USA Inc.	14,837	6.00	12.40	14,355	6.00	11.80
HSBC Bank USA	15,550	6.00	13.09	14,970	6.00	12.43
Tier 1 leverage ratio:						
HSBC USA Inc.	14,837	3.00(2)	7.40	14,355	3.00(2)	7.87
HSBC Bank USA	15,550	5.00	7.92	14,970	5.00	8.28
Risk weighted assets:						
HSBC USA Inc.	119,663			121,645		
HSBC Bank USA	118,816			120,473		

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

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

We did not receive any cash capital contributions from our immediate parent, HNAI, during the first nine months of 2011.

As part of the regulatory approvals with respect to the aforementioned receivable purchases completed in January 2009, HSBC Bank USA and HSBC made certain additional capital commitments to ensure that HSBC Bank USA holds sufficient capital with respect to the purchased receivables that are or may become "low-quality assets," as defined by the Federal Reserve Act. These capital requirements, which require a risk-based capital charge of 100 percent for each "low-quality asset" transferred or arising in the purchased portfolios rather than the eight percent capital charge applied to similar assets that are not part of the transferred portfolios, are applied both for purposes of satisfying the terms of the commitments and for purposes of measuring and reporting HSBC Bank USA's risk-based capital and related ratios. This treatment applies as long as the low-quality assets are owned by an insured bank. During 2010, HSBC Bank USA sold low-quality auto finance loans with a net book value of approximately $178 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. These assets were subsequently sold to Santander Consumer USA in August 2010. During the third quarter of 2011, HSBC Bank USA sold low-quality credit card receivables with a net book value of approximately $230 million to a non-bank subsidiary of HSBC USA Inc. to reduce the capital requirement associated with these assets. Capital ratios and amounts at September 30, 2011 and December 31, 2010 in the table above reflect this reporting. At September 30, 2011, the remaining purchased receivables subject to this requirement totaled $1.7 billion of which $3 million held by HSBC Bank USA are considered to be low-quality assets. These receivables will be sold to Capital One as part of the previously discussed sale which is expected to close in the first half of 2012.

Regulatory guidelines impose certain restrictions that may limit the inclusion of deferred tax assets in the computation of regulatory capital. We closely monitor the deferred tax assets for potential limitations or exclusions. At December 31, 2010, deferred tax assets of $360 million, were excluded in the computation of regulatory capital. At September 30, 2011 $483 million was excluded in the computation of regulatory capital.

17. Business Segments

As discussed in our 2010 Form 10-K, we initiated a process in late 2010 to re-evaluate the financial information used to manage our business including the scope and content of the financial data being reported to our management. During the first quarter of 2011, we completed our evaluation and decided we would no longer manage and evaluate the performance of the receivables purchased from HSBC Finance as a separate operating segment. Rather, we would manage and evaluate the performance of these assets as a component of our Retail Banking and Wealth Management (formerly Personal Financial Services) operating segment, consistent with HSBC's globally defined business segments. As a result, beginning in the first quarter of 2011, our management reporting was changed to reflect this decision and we now report our financial results under four reportable segments which are generally based upon customer group and global business: Retail Banking and Wealth Management (formerly Personal Financial Services), Commercial Banking, Global Banking and Markets and Private Banking. These changes have been reflected in the segment financial information for all periods presented to reflect this new segmentation.

HSBC previously announced that with effect from March 1, 2011, Retail Banking and Wealth Management would be managed as a single global business. This business is the historical Personal Financial Services with Asset Management moving from Global Banking and Markets to this new single business. Therefore, to coincide with the change in our management reporting effective beginning in the second quarter of 2011, we changed the name of our Personal Financial Services segment to Retail Banking and Wealth Management and have included the results of Asset Management, which provides investment solutions to institutions, financial intermediaries and individual investors, in this segment for all periods presented. There have been no other changes in the basis of our segmentation or measurement of segment profit as compared with the presentation in our 2010 Form 10-K.

Our segment results are reported on a continuing operations basis. As previously discussed, in August 2011 we agreed to sell our GM and UP credit card receivable portfolios and our private label credit card and closed-end receivable portfolio, all of which were purchased from HSBC Finance, to Capital One. Because the credit card and private label receivables being sold have been classified as held for sale and the operations and cash flows from these receivables will be eliminated from our ongoing operations upon disposition without any significant continuing involvement, we have determined we have met the requirements to report the results of these credit card and private label card receivables being sold as discontinued operations and have included these receivables in Assets of discontinued operations on our balance sheet for all periods presented. The results for these receivables were previously reported in the Retail Banking and Wealth Management segment.

Net interest income of each segment represents the difference between actual interest earned on assets and interest incurred on liabilities of the segment, adjusted for a funding charge or credit. Segments are charged a cost to fund assets (e.g. customer loans) and receive a funding credit for funds provided (e.g. customer deposits) based on equivalent market rates. The objective of these charges/credits is to transfer interest rate risk from the segments to one centralized unit in Global Banking and Markets and more appropriately reflect the profitability of segments.

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

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

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

	IFRS Consolidated Amounts									
	RBWM	CMB	Global Banking and Markets	PB	Other	Adjustments/ Reconciling Items	Total	IFRS Adjustments(4)	IFRS Reclassi- fications(5)	U.S. GAAP Consolidated Totals
	(in millions)									
Three Months Ended September 30, 2011										
Net interest income(1)	$259	$179	$119	$44	$(6)	$(11)	$584	$(64)	$108	$628
Other operating income	148	115	67	28	380	11	749	11	(93)	667
Total operating income	407	294	186	72	374	-	1,333	(53)	15	1,295
Loan impairment charges(3)	76	(5)	28	(24)	-	-	75	2	1	78

	331	299	158	96	374	-	1,258	(55)	14	1,217
Operating expenses(2)	368	177	269	65	13	-	892	15	14	921
Profit before income tax expense	$(37)	$122	$(111)	$31	$361	$-	$366	$(70)	$-	$296
Balances at end of period:										
Total assets	$25,629	$20,144	$232,769	$5,946	$92	$-	$284,580	$(96,198)	$60	$188,442
Total loans, net	16,118	16,173	25,592	4,462	-	-	62,345	(5,880)	(7,614)	48,851
Goodwill	579	358	480	326	-	-	1,743	485	-	2,228
Total deposits	47,314	27,215	47,906	11,929	-	-	134,364	(5,029)	3,506	132,841
Three Months Ended September 30, 2010										
Net interest income(1)	$261	$172	$187	$47	$1	$(8)	$660	$(14)	$18	$664
Other operating income	157	111	151	34	35	8	496	114	(12)	598
Total operating income	418	283	338	81	36	-	1,156	100	6	1,262
Loan impairment charges(3)	(2)	50	(45)	(13)	(1)	-	(11)	3	18	10
	420	233	383	94	37	-	1,167	97	(12)	1,252
Operating expenses(2)	382	178	204	63	17	-	844	(9)	(12)	823
Profit before income tax expense	$38	$55	$179	$31	$20	$-	$323	$106	$-	$429
Balances at end of period:										
Total assets	$22,311	$16,329	$203,267	$4,866	$21	$-	$246,794	$(77,862)	$(155)	$168,777
Total loans, net	17,788	14,632	28,554	4,040	-	-	65,014	(1,754)	(14,539)	48,721
Goodwill	876	368	480	326	-	-	2,050	576	-	2,626
Total deposits	47,598	23,547	36,829	11,529	-	-	119,503	(4,823)	4,002	118,682
Nine Months Ended September 30, 2011										
Net interest income(1)	$756	$527	$382	$134	$(73)	$(26)	$1,700	$(75)	$198	$1,823
Other operating income	337	325	756	97	363	26	1,904	36	(148)	1,792
	1,093	852	1,138	231	290	-	3,604	(39)	50	3,615

Total operating income										
Loan impairment charges(3)	166	7	1	(34)	-	-	140	6	25	171
	927	845	1,137	265	290	-	3,464	(45)	25	3,444
Operating expenses(2)	1,187	553	735	194	51	-	2,720	(1)	25	2,744
Profit before income tax expense	$(260)	$292	$402	$71	$239	$-	$744	$(44)	$-	$700
Nine Months Ended September 30, 2010										
Net interest income(1)	$827	$535	$473	$139	$(9)	$(18)	$1,947	$(16)	$102	$2,033
Other operating income	218	362	825	103	267	18	1,793	(7)	35	1,821
Total operating income	1,045	897	1,298	242	258	-	3,740	(23)	137	3,854
Loan impairment charges(3)	24	98	(193)	(24)	(1)	-	(96)	62	27	(7)
	1,021	799	1,491	266	259	-	3,836	(85)	110	3,861
Operating expenses(2)	987	499	562	180	47	-	2,275	100	110	2,485
Profit before income tax expense	$34	$300	$929	$86	$212	$-	$1,561	$(185)	$-	$1,376

(1) Net interest income of each segment represents the difference between actual interest earned on assets and interest paid on liabilities of the segment adjusted for a funding charge or credit. Segments are charged a cost to fund assets (e.g. customer loans) and receive a funding credit for funds provided (e.g. customer deposits) based on equivalent market rates. The objective of these charges/credits is to transfer interest rate risk from the segments to one centralized unit in Treasury and more appropriately reflect the profitability of segments.
(2) Expenses for the segments include fully apportioned corporate overhead expenses.
(3) Segment provisions are based on each segments' net charge offs and the change in allowance for credit losses.
(4) Represents adjustments associated with differences between IFRSs and U.S. GAAP basis of accounting.
(5) Represents differences in financial statement presentation between IFRSs and U.S. GAAP.

Further discussion of the differences between IFRSs and U.S. GAAP are presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the caption

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

Net Interest Income

Effective interest rate - The calculation of effective interest rates under IFRS 39, "Financial Instruments: Recognition and Measurement ("IAS 39"), requires an estimate of changes in estimated contractual cash flows, including fees and points paid or recovered between parties to the contract that are an integral part of the effective interest rate to be included. U.S. GAAP generally prohibits recognition of interest income to the extent the net interest in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Under U.S. GAAP, prepayment penalties are generally recognized as received. U.S. GAAP also includes interest income on loans originated as held for sale which is included in other operating income for IFRSs.

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

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

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

Other Operating Income (Total Other Revenues)

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

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

Loans held for sale - IFRSs requires loans originated with the intent to sell to be classified as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for sale are reflected as loans and recorded at the lower of amortized cost or fair value. Under IFRSs, the income related to loans held for sale are reported in net interest income or trading revenue. Under U.S. GAAP, the income related to loans held for sale are reported similarly to loans held for investment.

For loans transferred to held for sale subsequent to origination, IFRSs requires these receivables to be reported separately on the balance sheet but does not change the measurement criteria. Accordingly, for IFRSs purposes such loans continue to be accounted for in accordance with held for sale investment guidance, with any gain or loss recorded at the time of sale.

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

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

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