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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ______ to ______

Commission file number 1-7436

HSBC USA Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Yes _X_ No ___

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

Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer _X_

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

Yes ___ No _X_

At October 31, 2007, there were 706 shares of the registrant's Common Stock outstanding, all of which are owned by HSBC North America Inc.

DOCUMENTS INCORPORATED BY REFERENCE

None

HSBC USA Inc.
Form 10-Q

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HSBC USA Inc.
Consolidated Statements of Income (Unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	(in millions)			
Interest income:				
Loans	**$ 1,586**	$ 1,444	**$ 4,505**	$ 4,112
Securities	**317**	289	**879**	826
Trading assets	**167**	107	**476**	317
Short-term investments	**241**	209	**719**	528
Other	**60**	27	**135**	64
Total interest income	**2,371**	2,076	**6,714**	5,847
Interest expense:				
Deposits	**993**	828	**2,841**	2,246
Short-term borrowings	**90**	91	**266**	237
Long-term debt	**365**	380	**1,087**	1,077
Total interest expense	**1,448**	1,299	**4,194**	3,560
Net interest income	**923**	777	**2,520**	2,287
Provision for credit losses	**402**	207	**871**	586
Net interest income after provision for credit losses	**521**	570	**1,649**	1,701
Other revenues:				
Trust income	**26**	22	**73**	66
Service charges	**53**	52	**158**	149
Credit card fees	**225**	148	**601**	409
Other fees and commissions	**118**	110	**312**	302
HSBC affiliate income	**46**	61	**134**	182
Other (loss) income	**(187)**	157	**(135)**	165
Residential mortgage banking revenue	**6**	6	**69**	57
Trading revenues	**28**	52	**477**	600
Securities gains, net	**59**	6	**96**	16
Total other revenues	**374**	614	**1,785**	1,946
Operating expenses:				
Salaries and employee benefits	**337**	317	**1,016**	953
Occupancy expense, net	**63**	54	**181**	163
Support services from HSBC affiliates	**280**	273	**844**	785
Other expenses	**211**	175	**571**	479
Total operating expenses	**891**	819	**2,612**	2,380
Income before income tax expense	**4**	365	**822**	1,267
Income tax (credit) expense	**(17)**	121	**237**	429
Net income	**$ 21**	$ 244	**$ 585**	$ 838

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

HSBC USA Inc.
Consolidated Balance Sheets (Unaudited)

	September 30, 2007	December 31, 2006
	(in millions)	
Assets		
Cash and due from banks	**$ 2,585**	$ 3,359
Interest bearing deposits with banks	**8,126**	1,921
Federal funds sold and securities purchased under resale agreements	**11,070**	13,775
Trading assets	**31,582**	23,630
Securities available for sale	**21,609**	19,783
Securities held to maturity (fair value $2,973 million and $3,040 million at September 30, 2007 and December 31, 2006, respectively)	**2,946**	2,972
Loans	**92,666**	90,237
Less - allowance for credit losses	**1,058**	897
Loans, net	**91,608**	89,340
Properties and equipment, net	**557**	540
Intangible assets	**579**	521
Goodwill	**2,716**	2,716
Other assets	**12,043**	6,260
Total assets	**$ 185,421**	$ 164,817
Liabilities		
Deposits in domestic offices:		
Noninterest bearing	**$ 12,027**	$ 12,813
Interest bearing (includes $1,754 million and $1,322 million of deposits recorded at fair value at September 30, 2007 and December 31, 2006, respectively)	**67,592**	61,538
Deposits in foreign offices:		
Noninterest bearing	**1,261**	727
Interest bearing	**29,928**	27,068
Total deposits	**110,808**	102,146
Trading liabilities	**16,819**	12,314
Short-term borrowings	**9,404**	5,073
Interest, taxes and other liabilities	**8,246**	3,771
Long-term debt	**28,131**	29,252
Total liabilities	**173,408**	152,556
Shareholders' equity		
Preferred stock	**1,690**	1,690
Common shareholder's equity:		
Common stock ($5 par; 150,000,000 shares authorized; 706 shares issued and outstanding at September 30, 2007 and December 31, 2006)	**- (1)**	- (1)
Capital surplus	**8,123**	8,124
Retained earnings	**2,536**	2,661
Accumulated other comprehensive loss	**(336)**	(214)
Total common shareholder's equity	**10,323**	10,571
Total shareholders' equity	**12,013**	12,261
Total liabilities and shareholders' equity	**$ 185,421**	$ 164,817

The accompanying notes are an integral part of the consolidated financial statements.
(1) Less than $500 thousand

HSBC USA Inc.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Nine months ended September 30, 2007	2006
	(in millions)	
Preferred stock		
Balance, January 1,	**$ 1,690**	$ 1,316
Preferred stock issuance	**-**	374
Balance, September 30,	**1,690**	1,690
Common stock		
Balance, January 1 and September 30,	**- (1)**	- (1)
Capital surplus		
Balance, January 1,	**8,124**	8,118
Capital contribution from parent	**2**	15
Preferred stock issuance costs	**-**	(9)
Employee benefit plans and other	**(3)**	4
Balance, September 30,	**8,123**	8,128
Retained earnings		
Balance, January 1,	**2,661**	2,172
Net income	**585**	838
Cash dividends declared on preferred stock	**(75)**	(62)
Cash dividends declared on common stock	**(635)**	(455)
Cumulative effect of change in accounting for mortgage servicing assets	**-**	(4)
Balance, September 30,	**2,536**	2,489
Accumulated other comprehensive income		
Balance, January 1,	**(214)**	(12)
Net change in net unrealized losses on securities available for sale, net of tax	**(45)**	(113)
Net change in net unrealized (losses) gains on derivatives classified as cash flow hedges, net of tax	**(90)**	(73)
Net change in net unrealized gains on interest only strip receivables, net of tax	**-**	(6)
Unrecognized actuarial gains, transition obligation and prior service ....costs relating to pension and postretirement benefits, net of tax	**10**	-
Foreign currency translation adjustments, net of tax	**3**	(2)
Other comprehensive loss, net of tax	**(122)**	(194)
Balance, September 30,	**(336)**	(206)
Total shareholders' equity, September 30,	**$ 12,013**	$ 12,101
Comprehensive income		
Net income	**$ 585**	$ 838
Other comprehensive loss	**(122)**	(194)
Comprehensive income	**$ 463**	$ 644

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

(1) Less than $500 thousand

HSBC USA Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	(in millions)	
Cash flows from operating activities		
Net income	**$ 585**	$ 838
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, amortization and deferred taxes	**69**	294
Provision for credit losses	**871**	586
Net change in other assets and liabilities	**(4,529)**	1,452
Net change in loans held for sale to HSBC Markets (USA) Inc. (HMUS):		
Loans acquired from originators	**(5,295)**	(13,024)
Sales of loans to HMUS	**5,749**	12,657
Net change in other loans held for sale	**(2,154)**	132
Net change in loans attributable to tax refund anticipation loans program:		
Originations of loans	**(17,433)**	(16,100)
Sales of loans to HSBC Finance Corporation, including premium	**17,645**	16,100
Net change in trading assets and liabilities	**(52)**	(1,803)
Net change in fair value of derivatives and hedged items	**642**	733
Net cash (used in) provided by operating activities	**(3,902)**	1,865
Cash flows from investing activities		
Net change in interest bearing deposits with banks	**(6,205)**	(2)
Net change in federal funds sold and securities purchased under resale agreements	**2,705**	(10,126)
Net change in securities available for sale:		
Purchases of securities available for sale	**(12,947)**	(5,981)
Proceeds from sales of securities available for sale	**3,736**	2,366
Proceeds from maturities of securities available for sale	**7,332**	1,799
Net change in securities held to maturity:		
Purchases of securities held to maturity	**(187)**	(761)
Proceeds from maturities of securities held to maturity	**213**	941
Net change in loans:		
Originations, net of collections	**15,491**	16,616
Loans purchased from HSBC Finance Corporation	**(17,136)**	(16,849)
Net cash used for acquisitions of properties and equipment	**(71)**	(51)
Other, net	**(123)**	(211)
Net cash used in investing activities	**(7,192)**	(12,259)
Cash flows from financing activities		
Net change in deposits	**8,662**	6,536
Net change in short-term borrowings	**4,331**	676
Net change in long-term debt:		
Issuance of long-term debt	**5,019**	5,685
Repayment of long-term debt	**(6,981)**	(3,113)
Preferred stock issuance, net of issuance costs	**-**	365
Other (decreases) increases in capital surplus	**(1)**	19
Dividends paid	**(710)**	(517)
Net cash provided by financing activities	**10,320**	9,651
Net change in cash and due from banks	**(774)**	(743)
Cash and due from banks at beginning of period	**3,359**	4,441
Cash and due from banks at end of period	**$ 2,585**	$ 3,698

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

Notes to Consolidated Financial Statements

Note 1. Organization and Basis of Presentation

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. (HNAH), which is an indirect wholly owned subsidiary of HSBC Holdings plc (HSBC). The accompanying unaudited interim consolidated financial statements of HSBC USA Inc. and its subsidiaries (collectively, HUSI), including its principal subsidiary, HSBC Bank USA, National Association (HBUS), have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, 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 U.S. GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. These unaudited interim financial statements should be read in conjunction with HUSI's Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K). Certain reclassifications have been made to prior period amounts to conform to the current period presentations. The accounting and reporting policies of HUSI are consistent, in all material respects, with those used to prepare the 2006 Form 10-K, except for the impact of new accounting pronouncements summarized in Note 15 of these unaudited interim consolidated financial statements.

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.

Note 2. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

	September 30, 2007	**December 31, 2006**
	(in millions)	
Trading assets:		
U.S. Treasury	**$ 408**	$ 646
U.S. Government agency	**3,178**	1,902
Asset backed securities	**2,926**	3,053
Corporate bonds	**1,362**	1,420
Other securities	**5,787**	4,903
Precious metals	**4,659**	2,716
Fair value of derivatives	**13,262**	8,990
Total	**$ 31,582**	$ 23,630
Trading liabilities:		
Securities sold, not yet purchased	**$ 1,804**	$ 1,914
Payables for precious metals	**1,814**	1,336
Fair value of derivatives	**13,201**	9,064
Total	**$ 16,819**	$ 12,314

During the second quarter of 2007, HUSI adopted the reporting requirements of FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (refer to Note 15 of these consolidated financial statements). In accordance with this standard, HUSI offsets fair value amounts recognized for the obligation to return cash collateral or the right to reclaim cash collateral against the fair value of derivative instruments executed with the same counterparty under a master netting agreement. As a result of application of this standard, certain reclassifications have been made to the December 31, 2006 consolidated balance sheet, as noted below.

At September 30, 2007 and December 31, 2006, the fair value of derivatives included in trading assets have been reduced by $3.9 billion and $2.4 billion, respectively, of amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties. At December 31, 2006, these amounts were originally reported as interest bearing deposits.

At September 30, 2007 and December 31, 2006, the fair value of derivatives included in trading liabilities have been reduced by $4.1 billion and $1.7 billion, respectively, of amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties. At December 31, 2006, $.4 billion of these amounts were originally reported as interest bearing deposits with banks and $1.3 billion were reported as other assets.

Note 3. Securities

At September 30, 2007 and December 31, 2006, HUSI held no securities of any single issuer (excluding the U.S. Treasury, U.S. Government agencies and U.S. Government sponsored enterprises) with a book value that exceeded 10% of shareholders' equity. The amortized cost and fair value of the securities available for sale and securities held to maturity portfolios are summarized in the following tables.

September 30, 2007	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Securities available for sale:				
U.S. Treasury	**$ 607**	**$ -**	**$ (5)**	**$ 602**
U.S. Government sponsored enterprises (1)	**12,105**	**37**	**(363)**	**11,779**
U.S. Government agency issued or guaranteed	**3,489**	**4**	**(77)**	**3,416**
Obligations of U.S. states and political subdivisions	**670**	**1**	**(8)**	**663**
Asset backed securities	**1,691**	**2**	**(20)**	**1,673**
Other domestic debt securities	**2,701**	**11**	**(23)**	**2,689**
Foreign debt securities	**760**	**1**	**(4)**	**757**
Equity securities	**29**	**2**	**(1)**	**30**
Total	**$ 22,052**	**$ 58**	**$ (501)**	**$ 21,609**
Securities held to maturity:				
U.S. Government sponsored enterprises (1)	**$ 1,854**	**$ 34**	**$ (25)**	**$ 1,863**
U.S. Government agency issued or guaranteed	**539**	**18**	**(3)**	**554**
Obligations of U.S. states and political subdivisions	**274**	**14**	**(5)**	**283**
Other domestic debt securities	**174**	**-**	**(6)**	**168**
Foreign debt securities	**105**	**-**	**-**	**105**
Total	**$ 2,946**	**$ 66**	**$ (39)**	**$ 2,973**

December 31, 2006	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Securities available for sale:				
U.S. Treasury	$ 1,535	$ 3	$ (8)	$ 1,530
U.S. Government sponsored enterprises (1)	10,682	30	(257)	10,455
U.S. Government agency issued or guaranteed	3,793	6	(72)	3,727
Obligations of U.S. states and political subdivisions	515	4	(1)	518
Asset backed securities	578	1	(3)	576
Other domestic debt securities	1,343	3	(19)	1,327
Foreign debt securities	860	7	(3)	864
Equity securities	775	11	-	786
Total	$ 20,081	$ 65	$ (363)	$ 19,783
Securities held to maturity:				
U.S. Government sponsored enterprises (1)	$ 1,845	$ 43	$ (17)	$ 1,871
U.S. Government agency issued or guaranteed	584	25	(2)	607
Obligations of U.S. states and political subdivisions	325	19	-	344
Other domestic debt securities	167	2	(2)	167
Foreign debt securities	51	-	-	51
Total	$ 2,972	$ 89	$ (21)	$ 3,040

(1) Includes primarily mortgage backed securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC).

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

	One Year or Less			Greater Than One Year		
September 30, 2007	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			($ in millions)			
Securities available for sale:						
U.S. Treasury	**1**	**$ (1)**	**$ 154**	**3**	**$ (4)**	**$ 447**
U.S. Government sponsored enterprises (1)	**75**	**(71)**	**1,940**	**634**	**(292)**	**6,811**
U.S. Government agency issued or guaranteed	**139**	**(12)**	**608**	**739**	**(65)**	**2,246**
Obligations of U.S. states and political subdivisions	**76**	**(8)**	**496**	**2**	*****	**22**
Asset backed securities	**37**	**(17)**	**1,070**	**17**	**(3)**	**210**
Other domestic debt securities	**28**	**(8)**	**579**	**55**	**(15)**	**848**
Foreign debt securities	**6**	**(2)**	**81**	**6**	**(2)**	**144**
Equity securities	**-**	**-**	**-**	**1**	**(1)**	**23**
Total	**362**	**$ (119)**	**$ 4,928**	**1,457**	**$ (382)**	**$ 10,751**
Securities held to maturity:						
U.S. Government sponsored enterprises (1)	**17**	**$ (3)**	**$ 237**	**24**	**$ (22)**	**$ 377**
U.S. Government agency issued or guaranteed	**2**	*****	**51**	**106**	**(3)**	**40**
Obligations of U.S. states and political subdivisions	**5**	**(5)**	**2**	**-**	**-**	**-**
Other domestic debt securities	**5**	**(2)**	**96**	**8**	**(4)**	**71**
Foreign debt securities	**5**	**-**	**105**	**-**	**-**	**-**
Total	**34**	**$ (10)**	**$ 491**	**138**	**$ (29)**	**$ 488**

	One Year or Less			Greater Than One Year		
December 31, 2006	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			($ in millions)			
Securities available for sale:						
U.S. Treasury	8	$ (1)	$ 527	6	$ (7)	$ 566
U.S. Government sponsored enterprises (1)	211	(114)	3,158	482	(143)	5,042
U.S. Government agency issued or guaranteed	691	(40)	2,334	268	(32)	1,076
Obligations of U.S. states and political subdivisions	12	(1)	85	3	*	27
Asset backed securities	6	*	81	19	(3)	293
Other domestic debt securities	10	(1)	153	56	(18)	910
Foreign debt securities	6	(1)	191	11	(2)	227
Total	944	$ (158)	$ 6,529	845	$ (205)	$ 8,141
Securities held to maturity:						
U.S. Government sponsored enterprises (1)	23	$ *	$ 15	22	$ (17)	$ 389
U.S. Government agency issued or guaranteed	49	*	21	169	(2)	35
Obligations of U.S. states and political subdivisions	1	*	*	9	*	4
Other domestic debt securities	2	*	22	4	(2)	33
Foreign debt securities	2	*	51	-	-	-
Total	77	$ *	$ 109	204	$ (21)	$ 461

(1) Included primarily mortgaged-backed securities issued by FNMA and FHLMC.
* Less than $500 thousand

Gross unrealized losses within the available for sale securities portfolio increased during the nine months ended September 30, 2007 due to the impact of general increases in market interest rates on HUSI's portfolios, which are primarily fixed rate securities. Since substantially all of these securities are high credit grade (i.e., AAA or AA), and HUSI has the ability and intent to hold these securities until maturity or a market price recovery, they are not considered to be other than temporarily impaired.

Note 4. Loans

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

	September 30, 2007			December 31, 2006		
	Loans Held for Sale	**All Other Loans**	**Total Loans**	**Loans Held for Sale**	**All Other Loans**	**Total Loans**
			(in millions)			
Commercial loans:						
Construction and other real estate	**$ 382**	**$ 8,526**	**$ 8,908**	$ 102	$ 8,816	$ 8,918
Other commercial	**1,892**	**24,646**	**26,538**	-	20,564	20,564
	2,274	**33,172**	**35,446**	102	29,380	29,482
Consumer loans:						
Sub-prime residential mortgages held for sale to HMUS.....................	**2,120**	**-**	**2,120**	2,582	-	2,582
Other residential mortgages...............	**1,532**	**33,077**	**34,609**	1,645	35,581	37,226
Credit card receivables	**-**	**18,044**	**18,044**	-	18,260	18,260
Other consumer	**497**	**1,950**	**2,447**	394	2,293	2,687
	4,149	**53,071**	**57,220**	4,621	56,134	60,755
Total loans	**$ 6,423**	**$ 86,243**	**$ 92,666**	$ 4,723	$ 85,514	$ 90,237

Loans pledged as collateral are summarized in Note 14 beginning on page 21 of this Form 10-Q.

Loans Held for Sale

HUSI originates commercial loans in connection with its participation in a number of leveraged acquisition finance syndicates. A substantial majority of these loans were originated with the intent of selling them to unaffiliated third parties and are classified as other commercial loans held for sale at September 30, 2007. Commercial loans held for sale under this program were $1.9 billion at September 30, 2007.

Residential mortgage loans held for sale include sub-prime residential mortgage loans acquired from unaffiliated third parties and from HSBC Finance Corporation, with the intent of selling the loans to an HSBC affiliate, HSBC Markets (USA) Inc. (HMUS). Also included in residential mortgage loans held for sale are prime mortgage loans originated and held for sale to HMUS, and various governmental agencies. Residential mortgage loans held for sale to HMUS were $2.8 billion at September 30, 2007 and $3.1 billion at December 31, 2006, of which $2.1 billion and $2.6 billion respectively were sub-prime loans.

Student loans held for sale to government agencies are included in other consumer loans.

Commercial loans held for sale are recorded at the lower of cost or market value. Residential mortgage loans and student loans held for sale are recorded at the lower of aggregate cost or market value. The cost of commercial loans held for sale exceeded market value at September 30, 2007. The aggregate cost of consumer loans held for sale exceeded market value at September 30, 2007 and December 31, 2006. Changes in the valuation allowance utilized to adjust loans held for sale to market value, that is included in the determination of net income, are summarized in the following table and reflect the recording of substantial valuation adjustments as a result of adverse conditions in the corporate credit and U.S. residential mortgage markets. Also, see commentary regarding changes in the valuation allowance included in the Management's Discussion and Analysis of Financial Condition and Results of Operation (MD&A) on pages 41 and 42 of this Form 10-Q.

	2007			2006		
	Valuation Allowance Related to			Valuation Allowance Related to		
	Residential Mortgages Loans Held for Sale to HMUS	All Other Loans Held for Sale	Total	Residential Mortgages Loans Held for Sale to HMUS	All Other Loans Held for Sale	Total
			(in millions)			
Three months ended September 30:						
Balance at beginning of period	**$ (49)**	**$ (9)**	**$ (58)**	$ (83)	$ (20)	$ (103)
Valuation allowance increase for changes in market value	**(146)**	**(72)**	**(218)**	29	14	43
Releases of valuation allowance for loans sold	**3**	**2**	**5**	53	-	53
Balance at end of period	**$ (192)**	**$ (79)**	**$ (271)**	$ (1)	$ (6)	$ (7)
Nine months ended September 30:						
Balance at beginning of period	**$ (26)**	**$ (3)**	**$ (29)**	$ (11)	$ (15)	$ (26)
Valuation allowance increase for changes in market value	**(221)**	**(78)**	**(299)**	(123)	9	(114)
Releases of valuation allowance for loans sold	**55**	**2**	**57**	133	-	133
Balance at end of period	**$ (192)**	**$ (79)**	**$ (271)**	$ (1)	$ (6)	$ (7)

Loans held for sale are subject to credit risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions as well as the interest rate and credit environment. Interest rate risk for the residential mortgage loans held for sale to HMUS is partially mitigated through an economic hedging program to offset changes in the fair value of the loans held for sale. Trading related revenues related to this economic hedging program, which include net interest income and trading revenues, were $32 million and $110 million for the first nine months of 2007 and 2006, respectively.

Note 5. Allowance for Credit Losses and Credit Quality Statistics

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
		(in millions)		
Beginning balance	**$ 902**	$ 869	**$ 897**	$ 846
Allowance related to disposition of certain private label credit card relationships	**-**	-	**-**	(6)
Net charge offs:				
Charge offs	**305**	253	**903**	722
Recoveries	**59**	63	**193**	182
	246	190	**710**	540
Provision for credit losses	**402**	207	**871**	586
Ending balance	**$ 1,058**	$ 886	**$ 1,058**	$ 886

Credit Quality Statistics

Nonaccruing loans are summarized in the following table.

	September 30, 2007	December 31, 2006
	(in millions)	
Nonaccruing loans:		
Commercial:		
Construction and other real estate	**$ 40**	$ 33
Other commercial	**93**	69
Total commercial	**133**	102
Consumer:		
Residential mortgages	**512**	182
Other consumer	**1**	1
Total consumer	**513**	183
Total nonaccruing loans	**$ 646**	$ 285

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

Nine months ended September 30	**2007**	**2006**
	(in millions)	
Interest income on nonaccruing loans:		
Amount which would have been recorded had the associated loans been current in accordance with their original terms	**$ 32**	$ 16
Amount actually recorded	**6**	7

Additional credit quality statistics are summarized in the following table.

	September 30, 2007	December 31, 2006
	(in millions)	
Accruing loans contractually past due 90 days or more as to principal or interest:		
Total commercial loans	**$ 62**	$ 22
Consumer:		
Residential mortgages	**3**	11
Credit card receivables	**357**	339
Other consumer loans	**24**	16
Total consumer loans	**384**	366
Total	**$ 446**	$ 388
Impaired loans:		
Balance at end of period	**$ 133**	$ 100
Amount with impairment reserve	**59**	35
Impairment reserve	**18**	13
Other real estate and owned assets:		
Balance at end of period	**$ 63**	$ 53

Note 6. Intangible Assets

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

	September 30, 2007	December 31, 2006
	(in millions)	
Mortgage servicing rights	**$ 537**	$ 474
Other	**42**	47
Total intangible assets	**$ 579**	$ 521

Mortgage Servicing Rights (MSRs)

HUSI recognizes the right to service mortgage loans as a separate and distinct asset at the time they are acquired or when originated loans are sold. Servicing fees collected by HUSI are included in residential mortgage banking revenue, and were $85 million and $74 million for the first nine months of 2007 and 2006, respectively.

MSRs are subject to credit and interest rate risk, in that their value will fluctuate as a result of changes in the interest rate environment. Interest rate risk is mitigated through an active 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 beginning on page 65 of this Form 10-Q.

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

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

	September 30, 2007	**December 31, 2006**
Annualized constant prepayment rate (CPR)	**17.30%**	20.80 %
Constant discount rate	**10.75%**	10.34 %
Weighted average life	**5.5 years**	4.8 years

MSRs activity is summarized in the following table.

	2007	**2006**
	(in millions)	
Three months ended September 30:		
Fair value of MSRs:		
Beginning balance	**$ 552**	$ 499
Additions related to loan sales	**28**	24
Changes in fair value due to:		
Change in valuation inputs or assumptions used in the valuation models	**(29)**	(43)
Realization of cash flows	**(14)**	(21)
Ending balance	**$ 537**	$ 459
Nine months ended September 30:		
Fair value of MSRs:		
Beginning balance	**$ 474**	$ 418
Additions related to loan sales	**89**	69
Changes in fair value due to:		
Change in valuation inputs or assumptions used in the valuation models	**34**	32
Realization of cash flows	**(60)**	(60)
Ending balance	**$ 537**	$ 459

Note 7. Goodwill

During the third quarter of 2007, HUSI completed its annual impairment test of goodwill. At the testing date, HUSI determined that the fair value of each of its reporting units exceeded its carrying value. As a result, no impairment loss was required to be recognized. During the nine months ended September 30, 2007, there were no material events or transactions which warranted consideration for their impact on recorded book values assigned to goodwill.

Note 8. Income Taxes

The following table presents HUSI's effective tax rates.

	Three months ended September 30				Nine months ended September 30			
	2007		**2006**		**2007**		**2006**	
Statutory federal income tax rate	**35.0**	**%**	35.0	%	**35.0**	**%**	35.0	**%**
Increase (decrease) in rate resulting from								
State and local taxes, net of federal benefit	**66.1**		1.1		**2.0**		2.4	
Tax exempt income	**(129.6)**		(1.9)		**(1.9)**		(1.1)	
Validation of deferred tax balances	**-**		-		**(3.4)**		-	
Tax credits	**(256.5)**		(1.8)		**(3.7)**		(1.7)	
Effects of foreign operations	**(71.8)**		-		**(.2)**		-	
Uncertain tax provision	**(49.6)**		.3		**1.0**		(1.0)	
Other	**(18.6)**		.5		**-**		.3	
Effective tax rate	**(425.0)**	**%**	33.2	%	**28.8**	**%**	33.9	**%**

HUSI adopted FASB Interpretation No. 48 (FIN 48) effective January 1, 2007 (refer to Note 15 of these consolidated financial statements). The adoption resulted in the recognition of additional current tax liabilities and offsetting deferred tax assets of $11 million. The total amount of unrecognized tax benefits as of January 1, 2007 was $86 million. The state tax portion of this amount is reflected gross and not reduced by federal tax effect. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $54 million.

Major taxing jurisdictions for HUSI and tax years for each that remain subject to examination are as follows:

U.S. Federal	2004 and later
New York State	1992 and later
New York City	1995 and later

HUSI does not anticipate that any significant tax positions have a reasonable possibility of being effectively settled within the next 12 months.

HUSI recognizes accrued interest related to unrecognized tax benefits in other operating expenses. As of January 1, 2007, HUSI had accrued $16 million for the payment of interest.

Note 9. Long-Term Debt

Long-term debt is summarized in the following table.

	September 30, 2007	December 31, 2006
	(in millions)	
Senior debt	**$ 22,524**	$ 23,913
Subordinated debt	**5,592**	5,322
All other	**15**	17
Total long-term debt	**$ 28,131**	$ 29,252

Senior Debt

Senior debt includes $1.5 billion Floating Rate Extendible Notes, which require the noteholders to decide each month whether or not to extend the maturity date of their notes by one month beyond the initial maturity date of December 15, 2006. In no event will the maturity of the notes be extended beyond December 15, 2011, the final maturity date. If on any election date a noteholder decides not to extend the maturity of all or any portion of the principal amount of his notes, the notes will mature twelve months from the election date. Refer to page 128 of HUSI's 2006 Form 10-K for additional information regarding these notes.

In August 2007, noteholders of $749,500,000 of this debt exercised their option not to extend the maturity date of their notes. These notes will mature on August 15, 2008. In September 2007, noteholders of $690,000,000 of this debt exercised their option not to extend the maturity date of their notes. These notes will mature on September 15, 2008. On the October 2007 election date, noteholders of the remaining $60,500,000 of this debt elected not to extend the maturity date of their notes. Therefore, these notes will mature on October 15, 2008.

Senior debt includes $1,637 million and $902 million of debt instruments recorded at fair value at September 30, 2007 and December 31, 2006, respectively.

Subordinated Debt

During August 2007, HBUS issued $500,000,000 of subordinated notes under its Global Bank Note Program. These notes mature in 2017 and bear interest at 6.00%. Interest is paid semiannually in February and August, beginning in 2008.

During September 2007, HUSI exercised its right to redeem $206 million of 7.53% Junior Subordinated Debt Securities with an original maturity date of December 4, 2026.

Note 10. Related Party Transactions

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

	September 30, 2007	December 31, 2006
	(in millions)	
Assets:		
Cash and due from banks	**$ 77**	$ 179
Interest bearing deposits with banks	**107**	59
Federal funds sold and securities purchased under resale agreements	**277**	141
Trading assets (1)	**10,857**	6,895
Loans	**1,316**	813
Other	**3,763**	242
Total assets	**$ 16,397**	$ 8,329
Liabilities:		
Deposits	**$ 12,951**	$ 12,233
Trading liabilities (1)	**12,593**	6,473
Short-term borrowings	**643**	464
Other	**939**	254
Total liabilities	**$ 27,126**	$ 19,424

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

	Three months ended September 30		Nine months ended September 30	
	2007	**2006**	**2007**	**2006**
		(in millions)		
Interest income	**$ 44**	$ 13	**$ 109**	$ 36
Interest expense	**108**	102	**317**	299
HSBC affiliate income:				
Other fees and commissions:				
HSBC	**19**	8	**43**	20
HSBC Finance Corporation	**5**	3	**13**	8
HMUS	**2**	1	**8**	4
Other HSBC affiliates	**2**	1	**5**	4
Service charges	**1**	4	**9**	11
Gains on sales of loans to HMUS	**14**	40	**24**	105
Gains on sales of refund anticipation loans to HSBC Finance Corporation	**-**	-	**23**	21
Other HSBC affiliates income	**3**	4	**9**	9
Support services from HSBC affiliates:				
Fees paid to HSBC Finance Corporation	**115**	111	**347**	336
Fees paid to HMUS	**58**	58	**181**	165
Fees paid to HSBC Technology & Services (USA) Inc. (HTSU) for technology services	**63**	64	**185**	170
Fees paid to other HSBC affiliates	**44**	40	**131**	114

Transactions Conducted with HSBC Finance Corporation

- HUSI services a portfolio of residential mortgage loans owned by HSBC Finance Corporation. The related service fee income was $2.9 million and $7.6 million for the three months and nine months ended September 30, 2007, respectively.

- By agreement, HUSI purchases receivables generated by private label and MasterCard[1]/Visa[2] credit card relationships on a daily basis at a value that approximates fair value, as determined by an independent third party. Premiums paid are amortized to interest income over the estimated life of the receivables purchased. Activity related to these portfolios is summarized in the following table.

	Private Label		MasterCard/Visa	
Nine months ended September 30	**2007**	**2006**	**2007**	**2006**
		(in millions)		
Receivables acquired from HSBC Finance Corporation:				
Balance at beginning of period	**$ 16,973**	$ 14,355	**$ 1,287**	$ 1,159
Receivables acquired	**15,127**	15,168	**2,009**	1,681
Customer payments, net charge offs and other activity	**(15,761)**	(13,910)	**(1,591)**	(1,666)
Balance at end of period	**$ 16,339**	$ 15,613	**$ 1,705**	$ 1,174
Unamortized premiums paid to HSBC Finance Corporation:				
Balance at beginning of period	**$ 188**	$ 320	**$ 15**	$ 12
Premiums paid	**240**	257	**74**	26
Amortization	**(314)**	(390)	**(50)**	(25)
Balance at end of period	**$ 114**	$ 187	**$ 39**	$ 13

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

- HUSI's wholly-owned subsidiaries HBUS and HSBC Trust Company (Delaware), N.A. (HTCD) are the originating lenders for a federal income tax refund anticipation loan program for clients of various third party tax preparers, which are managed by HSBC Finance Corporation. By agreement, HBUS and HTCD process applications, fund and subsequently sell these loans to HSBC Finance Corporation. During the nine months ended September 30, 2007, approximately $17 billion of loans were originated by HBUS and HTCD and sold to HSBC Finance Corporation, resulting in gains of $23 million. For the same 2006 period, $16 billion of loans were sold to HSBC Finance Corporation, resulting in gains of $21 million.

- Certain of HUSI's consolidated subsidiaries have secured lines of credit totaling $2.3 billion with HSBC Finance Corporation. There were no balances outstanding under any of these lines of credit at September 30, 2007 or December 31, 2006.

- In 2006, HUSI began acquiring residential mortgage loans at fair value from HSBC Finance Corporation for the purpose of selling these loans to HMUS (see "Transactions Conducted with HMUS" below). During the nine months ended September 30, 2007, HUSI acquired $645 million of loans from HSBC Finance Corporation for a net discount of $12 million.

Transactions Conducted with HMUS

- HUSI utilizes 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 HMUS 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 HMUS are deferred as a reduction of long-term debt and amortized to interest expense over the life of the related debt. Preferred

[1] MasterCard is a registered trademark of MasterCard, Incorporated.
[2] Visa is a registered trademark of Visa USA, Inc.

stock issuance costs charged by HMUS are recorded as a reduction of capital surplus. Customer referral fees paid to HMUS are netted against customer fee income, which is included in other fees and commissions.

- In 2005, HUSI began acquiring residential mortgage loans from unaffiliated third parties and from HSBC Finance Corporation and subsequently selling these acquired loans to HMUS (refer to Note 4 of these consolidated financial statements). HUSI maintains no ownership interest in the residential mortgage loans after sale. Under this program, HUSI sold $5.8 billion and $12.7 billion of loans to HMUS during the first nine months of 2007 and 2006, respectively. Total gains on sale were $24 million and $105 million during the first nine months of 2007 and 2006, respectively.

- During the first quarter of 2007, as part of a strategy to consolidate certain investments into a common HSBC entity in North America, HUSI sold certain non-marketable investments to HMUS resulting in total net gains of $6 million. The carrying value of these investments totaled $10 million at the time of the sale.

Support Services from HSBC Technology & Services (USA) Inc.

HSBC's technology services in North America are centralized within HSBC Technology & Services (USA) Inc. (HTSU). Technology related assets and software acquired for HUSI are generally purchased and owned by HTSU. Pursuant to a master service level agreement, HTSU charges HUSI for equipment related costs and technology services. HTSU also charges for software development costs, which generally are capitalized by HUSI.

Other Transactions with HSBC Affiliates

HUSI has a $2 billion line of credit with HSBC which was unused at September 30, 2007 and December 31, 2006.

HUSI has extended loans and lines of credit to various other HSBC affiliates totaling $2.1 billion, of which $431 million and $172 million was outstanding at September 30, 2007 and December 31, 2006, respectively.

HUSI utilizes other HSBC affiliates primarily for global outsourcing initiatives and, to a lesser extent, for treasury and traded markets services. Fees billed to HUSI for these services are included in support services from HSBC affiliates.

HUSI routinely enters into derivative transactions with HSBC Finance Corporation and other HSBC affiliates as part of a global HSBC strategy to offset interest rate or other market risks associated with debt issues and derivative contracts with unaffiliated third parties. The fair value of derivative receivables related to these contracts was approximately $11 billion and $7 billion at September 30, 2007 and December 31, 2006, respectively. HUSI, within its Corporate, Investment Banking and Markets business segment, 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.

Domestic employees of HUSI participate in a defined benefit pension plan sponsored by HNAH. Additional information regarding pensions is provided in Note 11 of these consolidated financial statements.

Employees of HUSI participate in one or more stock compensation plans sponsored by HSBC. HUSI's share of the expense of these plans on a pre-tax basis for the first nine months of 2007 and 2006 was approximately $50 million and $58 million, respectively. As of September 30, 2007, HUSI's share of compensation cost related to nonvested stock compensation plans was approximately $101 million, which is expected to be recognized over a weighted-average period of 1.5 years. A description of these stock compensation plans begins on page 140 of HUSI's 2006 Form 10-K.

During the first nine months of 2007 and 2006, HUSI declared and paid dividends of $635 million and $455 million, respectively, to its parent company, HSBC North America Inc.

Note 11. Pensions and Other Postretirement Benefits of HUSI and HSBC Finance Corporation

Effective January 1, 2005, the separate U.S. defined benefit pension and health and life insurance plans were merged into a single defined benefit pension plan, under the sponsorship of HNAH, which facilitated the development of a unified employee benefit policy and unified employee benefit plan administration for HSBC affiliates operating in the U.S.

The following table presents the components of net periodic benefit cost as allocated to HUSI from HNAH.

	Pension Benefits		Other Postretirement Benefits	
	2007	**2006**	**2007**	**2006**
		(in millions)		
Three months ended September 30:				
Net periodic benefit cost:				
Service cost – benefits earned during the period	**$ 7**	$ 8	**$ -**	$ -
Interest cost	**18**	17	**1**	2
Expected return on plan assets	**(23)**	(22)	**-**	-
Recognized losses	**2**	3	**-**	-
Transition amount amortization	**-**	-	**1**	1
Net periodic benefit cost	**$ 4**	$ 6	**$ 2**	$ 3
Nine months ended September 30:				
Net periodic benefit cost:				
Service cost – benefits earned during the period	**$ 23**	$ 24	**$ 1**	$ 1
Interest cost	**53**	50	**4**	5
Expected return on plan assets	**(68)**	(65)	**-**	-
Recognized losses	**5**	10	**-**	-
Transition amount amortization	**-**	-	**2**	2
Net periodic benefit cost	**$ 13**	$ 19	**$ 7**	$ 8

During 2007, HUSI expects to make no contribution for pension benefits and expects to contribute approximately $9 million for other postretirement benefits.

Note 12. Regulatory Capital

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

	September 30, 2007			December 31, 2006		
	Capital Amount	**Well-Capitalized Minimum Ratio (1)**	**Actual Ratio**	**Capital Amount**	**Well-Capitalized Minimum Ratio (1)**	**Actual Ratio**
			($ in millions)			
Total capital ratio:						
HUSI	**$ 15,583**	**10.00 %**	**11.82 %**	$ 15,501	10.00 %	12.58 %
HBUS	**15,575**	**10.00**	**11.87**	14,998	10.00	12.23
Tier 1 capital ratio:						
HUSI	**10,263**	**6.00**	**7.79**	10,577	6.00	8.58
HBUS	**10,309**	**6.00**	**7.86**	10,278	6.00	8.38
Tier 1 leverage ratio:						
HUSI	**10,263**	**3.00** (2)	**6.02**	10,577	3.00 (2)	6.36
HBUS	**10,309**	**5.00**	**6.15**	10,278	5.00	6.29
Risk weighted assets:						
HUSI	**131,785**			123,262		
HBUS	**131,178**			122,652		

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

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

Note 13. Variable Interest Entities (VIEs)

HUSI, in the ordinary course of business, makes use of VIE structures in a variety of business activities, primarily to facilitate client needs. VIE structures are utilized after careful consideration of the most appropriate structure needed to achieve HUSI's control and risk management objectives and to help ensure an efficient and appropriate structure from a regulatory and taxation perspective.

Consolidated VIEs

HUSI has entered into a series of transactions with VIEs organized by HSBC affiliates and unrelated third parties. These VIEs were structured as trusts or corporations that issue fixed or floating rate instruments backed by the assets of the issuing entities. HUSI sold trading assets to the VIEs and subsequently entered into total return swaps with the VIEs whereby HUSI receives the total return on the transferred assets and, in return, pays a market rate of return to its counterparties. HUSI is the primary beneficiary of these VIEs and, accordingly, consolidated $7.5 billion and $2.6 billion of trading assets at September 30, 2007 and December 31, 2006, respectively. These assets were pledged as collateral for obligations of the VIEs, which are included in long-term debt. The holders of the instruments issued by the VIEs have no recourse to the general credit of HUSI beyond the assets sold to the VIEs and pledged as collateral.

Unconsolidated VIEs

HUSI also holds variable interests in various other VIEs which were not consolidated at September 30, 2007 or December 31, 2006, since HUSI is not the primary beneficiary of these VIE structures. Information regarding unconsolidated VIEs is summarized in the following table and commentary. Descriptions of these VIE relationships are included in pages 151-152 of HUSI's 2006 Form 10-K.

	September 30, 2007		**December 31, 2006**	
	Total Assets	**Maximum Exposure to Loss**	**Total Assets**	**Maximum Exposure to Loss**
		(in millions)		
Asset backed commercial paper conduits	**$ 14,633**	**$ 9,160**	$ 14,104	$ 8,048
Securitization vehicles	**6,308**	**889**	2,242	612
Investment funds	**702**	**-**	717	2
Capital funding vehicles	**903**	**26**	1,093	32
Low income housing tax credits	**715**	**118**	406	153
Total	**$ 23,261**	**$ 10,193**	$ 18,562	$ 8,847

HUSI provides liquidity facilities to affiliate sponsored asset backed commercial paper (ABCP) conduits as disclosed in the table above. Although the commercial paper market experienced reduced liquidity during the third quarter, none of these liquidity facilities were drawn upon nor did any other event occur that would cause HUSI to reconsider consolidation. HUSI did extend additional liquidity facilities to affiliate sponsored ABCP conduits during the current quarter. HUSI also provided support to affiliate sponsored conduits during the quarter by purchasing and holding commercial paper for a limited period of time.

Other Asset Backed Commercial Paper Conduits

Certain credit-linked notes structured by HUSI are issued to and held by ABCP conduits sponsored by unrelated third parties. The ABCP conduits issue commercial paper in the capital market to finance the purchase of the credit-linked notes. In certain circumstances, HUSI also provides liquidity facilities to the ABCP conduit investors. The maximum exposure to loss relating to these liquidity facilities at September 30, 2007 is $2.5 billion. HUSI does not perform administrative duties for or service any assets of these conduits. HUSI currently holds commercial paper issued by these conduits.

Note 14. Financial Guarantee Arrangements, Pledged Assets and Contingent Liabilities

Financial Guarantee Arrangements

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

	September 30, 2007	December 31, 2006
	(in millions)	
Standby letters of credit, net of participations (1)	**$ 8,478**	$ 7,259
Loan sales with recourse	**6**	8
Credit derivative contracts (2)	**592,200**	431,631
Total	**$ 600,684**	$ 438,898

(1) Includes $596 million and $542 million issued for the benefit of HSBC affiliates at September 30, 2007 and December 31, 2006, respectively.
(2) Includes $90,599 million and $71,908 million issued for the benefit of HSBC affiliates at September 30, 2007 and December 31, 2006, respectively.

Standby Letters of Credit

Fees are charged for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, representing the fair value of the “stand ready obligation to perform” under these guarantees, amounting to $23 million and $21 million at September 30, 2007 and December 31, 2006, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $24 million and $25 million at September 30, 2007 and December 31, 2006, respectively.

Credit Derivative Contracts

HUSI enters into credit derivative contracts primarily to satisfy the needs of its customers and, in certain cases, for its own benefit. Credit derivatives are arrangements that provide for one party (the “protection buyer”) to transfer the credit risk of a “reference asset” to another party (the “protection seller”). Under this arrangement, the protection seller assumes the credit risk associated with the reference asset without directly purchasing it. The protection buyer agrees to pay a specified fee to the protection seller. In return, the protection seller agrees to pay the protection buyer an agreed upon amount if there is a default during the term of the contract.

In accordance with its policy, HUSI offsets most of the risk it assumes in selling credit protection through a credit derivative contract with another counterparty. Credit derivatives are recorded at fair value. The commitment amount included in the table is the maximum amount that HUSI could be required to pay, without consideration of the approximately equal amount receivable from third parties and any associated collateral.

Pledged Assets

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

	September 30, 2007	December 31, 2006
	(in millions)	
Interest bearing deposits with banks	**$ 507**	$ 764
Trading assets (1)	**2,882**	2,961
Securities available for sale (2)	**7,968**	6,775
Securities held to maturity	**224**	273
Loans (3)	**8,471**	8,426
Other assets (4)	**2,214**	849
Total	**$ 22,266**	$ 20,048

(1) Trading assets are primarily pledged against liabilities associated with consolidated variable interest entities (refer to Note 13 of the consolidated financial statements, beginning on page 20 of this Form 10-Q).
(2) Securities available for sale are primarily pledged against various short-term borrowings.
(3) Loans are primarily private label credit card receivables pledged against long-term secured borrowings and residential mortgage loans pledged against long-term borrowings from the Federal Home Loan Bank.
(4) Other assets represent cash on deposit with non-banks related to derivative collateral support agreements.

Litigation

HUSI is named in and is defending legal actions in various jurisdictions arising from its normal business. None of these proceedings are regarded as material litigation. In addition, there were certain proceedings that occurred in the quarter that related to the "Princeton Note Matter", more fully described below.

In relation to the Princeton Note Matter, as disclosed in HUSI's 2002 Annual Report on Form 10-K, two of the noteholders were initially excluded from the restitution order that was negotiated with the U.S. Government. Those noteholders were Maruzen Company, Limited and Yakult Honsha Co., Ltd. Those entities were excluded because a senior officer of one of the noteholders was being criminally prosecuted in Japan for his conduct relating to its Princeton Notes and the other noteholder was likely to recover from the Princeton Receiver an amount that exceeded its losses attributable to its funds transfers with Republic New York Securities Corporation, as calculated by the U.S. Government.

Both Maruzen and Yakult then commenced separate civil suits. Both of those civil suits sought compensatory, punitive, and treble damages pursuant to RICO and assorted fraud and breach of duty claims arising from unpaid Princeton Notes with face amounts totaling approximately $125 million. No amount of compensatory damages was specified in either complaint. Those two complaints named HUSI, HBUS, and Republic New York Securities Corporation as defendants. The parties to those two cases recently engaged in separate settlement discussions, resulting in the conclusion of both cases. The settlements, individually and collectively, did not have a material impact on HUSI's consolidated results.

Note 15. New Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 establishes threshold and measurement attributes for financial statement measurement and recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 on January 1, 2007 did not have a material impact on HUSI's financial position or results of operations. Refer to Note 8 beginning on page 14 of this Form 10-Q.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. HUSI is currently evaluating the impact that adoption will have on its financial position and results of operations.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FSP FIN 39-1). FSP FIN 39-1 allows entities that are party to a master netting arrangement to offset the receivable or payable recognized upon payment or receipt of cash collateral against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with FASB Interpretation No. 39. The guidance in FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. Entities are required to recognize the effects of applying FSP FIN 39-1 as a change in accounting principle through retrospective application for all financial statements presented unless it is impracticable to do so. HUSI adopted FSP FIN 39-1 during the second quarter of 2007, the impact of which is described in Note 2 of these consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which creates an alternative measurement method for certain financial assets and liabilities. SFAS 159 permits fair value to be used for both the initial and subsequent measurements on a contract-by-contract election, with changes in fair value to be recognized in earnings as those changes occur. This election is referred to as the "fair value option". SFAS 159 also requires additional disclosures to compensate for the lack of comparability that will arise from the use of the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007. HUSI is currently evaluating the impact the adoption of SFAS 159 will have on its financial position and results of operations.

On November 5, 2007, the SEC issued Staff Accounting Bulletin 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109), which supersedes SAB 105, Application of Accounting Principles to Loan Commitments. SAB 109 revises the views expressed by the staff in SAB 105 to specify that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. HUSI is currently evaluating the impact of SAB 109 on its consolidated financial statements.

Note 16. Business Segments

HUSI has five distinct segments that it utilizes for management reporting and analysis purposes, which are generally based upon customer groupings, as well as products and services offered.

Effective January 1, 2007, corporate goals of HUSI are based upon results reported under International Financial Reporting Standards (IFRS), which are utilized by HSBC to prepare its consolidated financial statements. Operating results for HUSI are now being monitored and reviewed, trends are being evaluated, and decisions are being made about allocating certain resources on an IFRS basis. As a result, business segment results are reported on an IFRS basis to align with the revised internal reporting mechanism for monitoring performance. Results for the third quarter and first nine months of 2006 have been restated on an IFRS basis.

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.

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. For segment reporting purposes, these inter-segment transactions are accounted for as if they were with third parties and have not been eliminated.

Results for each segment on an IFRS basis, as well as a reconciliation of total results under IFRS to U.S. GAAP consolidated totals, are provided in the following tables. Descriptions of the significant differences between IFRS and U.S. GAAP that impact HUSI's results follow the tables.

The results for each business segment are summarized in the following tables. Analysis of operating results for each segment begins on page 50 of this Form 10-Q.

	IFRS Consolidated Amounts							(1) IFRS Adjustments	(2) IFRS Reclassifications	Intersegmental Revenue	U.S. GAAP Consolidated Totals
	PFS	CF	CMB	CIBM	PB	Other	Total				
	(in millions)										
Three months ended September 30, 2007											
Net interest income	**$ 276**	**$ 296**	**$ 208**	**$ 62**	**$ 50**	**$ (4)**	**$ 888**	**$ 9**	**$ 152**	**$ (126)**	**$ 923**
Other revenues	**157**	**86**	**67**	**(139)**	**66**	**150**	**387**	**(127)**	**(12)**	**126**	**374**
Total revenues	**433**	**382**	**275**	**(77)**	**116**	**146**	**1,275**	**(118)**	**140**	**-**	**1,297**
Provision for credit losses	**35**	**305**	**35**	**17**	**(1)**	**-**	**391**	**14**	**(3)**	**-**	**402**
	398	**77**	**240**	**(94)**	**117**	**146**	**884**	**(132)**	**143**	**-**	**895**
Operating expenses	**313**	**8**	**137**	**197**	**87**	**4**	**746**	**2**	**143**	**-**	**891**
Income before income tax expense	**85**	**69**	**103**	**(291)**	**30**	**142**	**138**	**(134)**	**-**	**-**	**4**
Income tax expense	**26**	**24**	**27**	**(97)**	**8**	**51**	**39**	**(56)**	**-**	**-**	**(17)**
Net income	**$ 59**	**$ 45**	**$ 76**	**$ (194)**	**$ 22**	**$ 91**	**$ 99**	**$ (78)**	**$ -**	**$ -**	**$ 21**
Balances at end of period:											
Total assets	**$ 36,005**	**$ 21,747**	**$ 19,940**	**$ 152,029**	**$ 5,210**	**$ 236**	**$ 235,167**	**$ (49,746)**	**$ -**	**$ -**	**$ 185,421**
Total loans	**31,260**	**20,574**	**18,089**	**21,781**	**4,376**	**-**	**96,080**	**(248)**	**(3,166)**	**-**	**92,666**
Goodwill	**917**	**-**	**366**	**494**	**335**	**-**	**2,112**	**604**	**-**	**-**	**2,716**
Total deposits	**42,254**	**37**	**17,296**	**41,325**	**10,965**	**2**	**111,879**	**(3,865)**	**2,794**	**-**	**110,808**
Three months ended September 30, 2006											
Net interest income	.$ 305	$ 197	$ 201	$ 46	$ 50	$ (9)	$ 790	$ (11)	$ 84	$ (86)	$ 777
Other revenues	127	22	82	143	108	(31)	451	38	39	86	614
Total revenues	432	219	283	189	158	(40)	1,241	27	123	-	1,391
Provision for credit losses	15	160	31	7	2	(1)	214	5	(12)	-	207
	417	59	252	182	156	(39)	1,027	22	135	-	1,184
Operating expenses	296	7	136	180	75	(9)	685	(1)	135	-	819
Income before income tax expense	121	52	116	2	81	(30)	342	23	-	-	365
Income tax expense	43	19	38	3	28	(20)	111	10	-	-	121
Net income	$ 78	$ 33	$ 78	$ (1)	$ 53	$ (10)	$ 231	$ 13	$ -	$ -	$ 244
Balances at end of period:											
Total assets	$ 42,212	$ 20,283	$ 17,706	$ 110,084	$ 5,980	$ 338	$ 196,603	$ (26,540)	$ (2.566)	$ -	$ 167,497
Total loans	37,657	19,531	14,835	19,200	4,584	-	95,807	-	(5,787)	-	90,020
Goodwill	917	-	366	494	335	-	2,112	582	-	-	2,694
Total deposits	33,241	43	14,777	37,735	9,629	-	95,425	-	1,402	-	96,827

(1) Represents adjustments associated with differences between IFRS and U.S. GAAP bases of accounting. These adjustments, which are more fully described beginning on page 25 of this Form 10-Q, consist of the following:

	Net Interest Income	Other Revenues	Provision for Credit Losses	Operating Expenses	Income before Income Tax Expense	Total Assets
	(in millions)					
Three months ended September 30, 2007						
Unquoted equity securities	**$ -**	**$ 25**	**$ -**	**$ -**	**$ 25**	**$ -**
Fair value option	**-**	**(146)**	**-**	**-**	**(146)**	**-**
Servicing assets	**-**	**(15)**	**-**	**-**	**(15)**	**-**
Loan origination	**(4)**	**-**	**-**	**(1)**	**(3)**	**-**
Loans held for trading purposes	**-**	**9**	**-**	**-**	**9**	**-**
Recording derivative assets and liabilities gross	**-**	**-**	**-**	**-**	**-**	**(49,746)**
Other	**13**	**-**	**14**	**3**	**(4)**	**-**
Total	**$ 9**	**$ (127)**	**$ 14**	**$ 2**	**$ (134)**	**$ (49,746)**
Three months ended September 30, 2006						
Unquoted equity securities	$ -	$ (9)	$ -	$ -	$ (9)	$ -
Fair value option	-	53	-	-	53	-
Servicing assets	-	(23)	-	-	(23)	-
Loan origination	(11)	(1)	-	(5)	(7)	-
Loans held for trading purposes	-	(1)	-	-	(1)	-
Recording derivative assets and liabilities gross	-	-	-	-	-	(26,540)
Other	-	19	5	4	10	-
Total	$ (11)	$ 38	$ 5	$ (1)	$ 23	$ (26,540)

(2) Represents differences in financial statement presentation between IFRS and U.S. GAAP.

The results for each business segment are summarized in the following tables. Analysis of operating results for each segment begins on page 50 of this Form 10-Q.

	IFRS Consolidated Amounts							(1) IFRS Adjustments	(2) IFRS Reclassifications	Intersegmental Revenue	U.S. GAAP Consolidated Totals
	PFS	CF	CMB	CIBM	PB	Other	Total				
	(in millions)										
Nine months ended September 30, 2007											
Net interest income	$ 838	$ 705	$ 606	$ 199	$ 150	$ (9)	$ 2,489	$ 5	$ 482	$ (456)	$ 2,520
Other revenues	417	194	196	436	210	90	1,543	(120)	(94)	456	1,785
Total revenues	1,255	899	802	635	360	81	4,032	(115)	388	-	4,305
Provision for credit losses	64	693	72	6	11	1	847	19	5	-	871
	1,191	206	730	629	349	80	3,185	(134)	383	-	3,434
Operating expenses	923	26	420	584	255	5	2,213	16	383	-	2,612
Income before income tax expense	268	180	310	45	94	75	972	(150)	-	-	822
Income tax expense	82	63	92	17	27	23	304	(67)	-	-	237
Net income	$ 186	$ 117	$ 218	$ 28	$ 67	$ 52	$ 668	$ (83)	$ -	$ -	$ 585
Nine months ended September 30, 2006											
Net interest income	$ 882	$ 535	$ 550	$ 183	$ 146	$ (19)	$ 2,277	$ (3)	$ 459	$ (446)	$ 2,287
Other revenues	369	62	205	701	245	(32)	1,550	40	(90)	446	1,946
Total revenues	1,251	597	755	884	391	(51)	3,827	37	369	-	4,233
Provision for credit losses	39	459	62	(5)	32	(1)	586	(4)	4	-	586
	1,212	138	693	889	359	(50)	3,241	41	365	-	3,647
Operating expenses	875	21	369	535	224	(4)	2,020	(5)	365	-	2,380
Income before income tax expense	337	117	324	354	135	(46)	1,221	46	-	-	1,267
Income tax expense	115	41	110	126	46	(28)	410	19	-	-	429
Net income	$ 222	$ 76	$ 214	$ 228	$ 89	$ (18)	$ 811	$ 27	$ -	$ -	$ 838

(1) Represents adjustments associated with differences between IFRS and U.S. GAAP bases of accounting. These adjustments, which are more fully described below, consist of the following:

	Net Interest Income	Other Revenues	Provision for Credit Losses	Operating Expenses	Income before Income Tax Expense
			(in millions)		
Nine months ended September 30, 2007					
Unquoted equity securities	$ -	$ (50)	$ -	$ -	$ (50)
Fair value option	(2)	(82)	-	-	(84)
Servicing assets	-	21	-	-	21
Loan origination	(11)	(7)	-	2	(20)
Loans held for trading purposes	-	2	-	-	2
Other	18	(4)	19	14	(19)
Total	$ 5	$ (120)	$ 19	$ 16	$ (150)
Nine months ended September 30, 2006					
Unquoted equity securities	$ -	$ (7)	$ -	$ -	$ (7)
Fair value option	-	61	-	-	61
Servicing assets	-	5	-	-	5
Loan origination	(5)	(8)	-	(15)	2
Loans held for trading purposes	-	(21)	-	-	(21)
Other	2	10	(4)	10	6
Total	$ (3)	$ 40	$ (4)	$ (5)	$ 46

(2) Represents differences in financial statement presentation between IFRS and U.S. GAAP.

Differences between IFRS and U.S. GAAP

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

Fair value option – Reflects the impact of applying the fair value option under IFRS for certain debt issued, which is accounted for either at amortized cost or is only adjusted for market interest rate risk movements under U.S. GAAP. This impact is primarily recorded as other revenues within the Other business segment.

Servicing assets –Servicing assets are initially recorded at allocated cost based on the fair values of assets transferred and assets retained under IFRS and are (1) periodically tested for impairment with impairment adjustments charged against current earnings; and (2) recoveries of impairment are credited to current earnings only to the extent of previous write-downs. Under U.S. GAAP, servicing assets are initially recorded at fair value and all subsequent adjustments to fair value are reflected in current earnings.

Loan origination – Certain loan fees and incremental direct loan origination costs, including direct salaries but excluding overhead costs, are deferred and amortized to earnings over the life of the loan under IFRS. Certain loan fees and direct, but not necessarily incremental loan origination costs, including an apportionment of overhead in addition to direct salaries, are deferred and amortized to earnings under U.S. GAAP. For the first nine months of 2007, the net costs amortized under U.S. GAAP exceed net costs amortized under IFRS.

Loans held for trading purposes – Under IFRS, loans held for sale are treated as trading assets and are initially recorded at fair value, with changes in fair value being recognized in current period earnings, and any gains on sale recognized on the trade date. Under U.S. GAAP, loans held for sale are recorded at the lower of amortized cost or market value (LOCOM), with gains on sale being recognized on the settlement date. Because of the differences between fair value and LOCOM accounting, the recorded value of certain pools of loans held for sale under IFRS may exceed the recorded value under U.S. GAAP, resulting in higher IFRS earnings. The timing difference between trade date accounting under IFRS and settlement date accounting under U.S. GAAP also results in higher current earnings under IFRS.

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

Other – Includes the net impact of differences relating to various adjustments, none of which were individually material for the third quarter and first nine months of 2007 and 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

FORWARD-LOOKING STATEMENTS

The MD&A should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this Form 10-Q and with HUSI's 2006 Form 10-K. The MD&A may contain certain statements that are forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. HUSI's results may differ materially from those noted in the forward-looking statements. Words such as "may", "should", "would", "could", "intends", "appears", "believe", "expects", "estimates", "targeted", "plans", "anticipates", "goal" and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. Statements that are not historical facts, including statements about management's beliefs and expectations, are forward-looking statements that involve inherent risks and uncertainties and are based on current views and assumptions. A number of factors could cause actual results to differ materially from those contained in any forward-looking statements. For a list of important risk factors that may affect HUSI's actual results, see Cautionary Statement on Forward-Looking Statements and Risk Factors in Part I of HUSI's 2006 Form 10-K.

EXECUTIVE OVERVIEW

Challenging market conditions, particularly in the U.S. mortgage and credit markets, led to significant declines in trading and other income, which resulted in income before income tax expense of $4 million in the third quarter, and $822 million for the nine months ended September 30, 2007, a decrease of 99% and 35%, respectively, from the same periods in 2006. Net income decreased 91% to $21 million for the third quarter and 30% to $585 million for the first nine months of 2007 from the same periods in 2006.

Net interest income was $923 million for the third quarter and $2,520 million for the first nine months of 2007, an increase of 19% and 10% from the same periods in 2006. These increases primarily resulted from:

- higher interest income from growth in the private label credit card portfolio, and reduced amortization of the initial premium paid for the portfolio as the purchased balances pay down;
- higher accrued income as a result of a more robust income recognition methodology on private label credit card promotional transactions; and
- business expansion initiatives, including continued focus on the Online Savings product, new branches and expansion of services and products to small business customers, which led to growth in consumer and commercial deposits and in commercial loans.

The increases in net interest income were partially offset by:

- continued narrowing of interest spreads primarily due to competitive pressures as customers migrated to higher yielding deposit products; and
- lower interest income from residential mortgage loans due to the impact of balance sheet initiatives to reduce prepayment risk and improve liquidity by selling the majority of residential mortgage loan originations through the secondary markets and by allowing the existing residential mortgage loan portfolio to run off.

The provision for credit losses increased for the third quarter and for the first nine months of 2007, primarily due to higher average credit card receivable balances and to growing delinquencies within the credit card portfolio. In addition, consumer provision expense was unusually low for the first nine months of 2006, due to the impact of bankruptcy legislation enacted in 2005, which resulted in accelerated consumer charge offs and higher provision expense during the fourth quarter of 2005.

Other revenues fell as market conditions surrounding sub-prime mortgages resulted in significantly wider credit spreads and less liquidity in the market. These adverse market conditions resulted in substantial valuation adjustments in several asset classes, including available for sale and trading securities, residential mortgage loans held for sale, leveraged acquisition finance loans, and credit derivative products. Other revenues also reflect the decrease in value of derivative trading instruments used to hedge an investment in Class B shares issued by MasterCard, Incorporated, the fair value of which has increased significantly but which cannot be recognized until the investment is sold. These losses were partially offset by:

- increased credit card fees from growing credit card receivable portfolios;
- increased trading revenue from structured derivative product transactions and from foreign exchange and precious metals trading desks; and
- gains on the sale of HUSI's investment in MasterCard Class B shares.

Increased operating expenses for 2007 resulted mainly from higher salaries, marketing and other direct expenses related to business expansion initiatives, and to higher technology and other costs to support the build out of enhanced product and service platforms.

During the first quarter of 2007, after a thorough review of its deferred income taxes, HUSI increased the carrying value of its deferred tax assets by $28 million, with a corresponding decrease in income tax expense. The remaining decrease in income tax expense and the related decrease in the effective tax rate was mainly due to a concentration of normal tax credits and an adjustment of the tax provision to reflect the actual tax return liabilities.

Income Before Income Tax Expense - Significant Trends

Analysis of the components of HUSI's income before income tax expense begins on page 36 of this Form 10-Q. Income before income tax expense, and various trends and activity affecting operations, are summarized in the following table.

	Three months ended September 30	Nine months ended September 30
	(in millions)	
Income before income tax expense for 2006	$ 365	$ 1,267
Increase (decrease) in income before income tax expense attributable to:		
Balance sheet management activities (1)	(11)	(55)
Trading related activities (2)	(29)	(33)
Private label receivable portfolio (3)	35	111
Loans held for sale (4)	(218)	(299)
Residential mortgage banking revenue (5)	(19)	(49)
Earnings from equity investments (6)	(31)	(31)
All other activity (7)	(88)	(89)
	(361)	(445)
Income before income tax expense for 2007	$ 4	$ 822

(1) Balance sheet management activities are comprised primarily of net interest income and, to a lesser extent, gains on sales of investments and trading revenues, resulting from management of interest rate risk associated with the repricing characteristics of balance sheet assets and liabilities. Refer to commentary regarding CIBM net interest income, trading revenues, and the CIBM business segment beginning on page 54 of this Form 10-Q, respectively.
(2) Refer to commentary regarding trading revenues beginning on page 41 of this Form 10-Q. Amounts in the table exclude trading related revenues from hedging activities associated with loans held for sale to an HSBC affiliate, which are reported in a separate line of the table.
(3) Refer to commentary regarding the CF business segment beginning on page 52 of this Form 10-Q.
(4) Refer to commentary regarding loans held for sale beginning on page 39 of this Form 10-Q.
(5) Refer to commentary regarding residential mortgage banking revenue beginning on page 43 of this Form 10-Q.
(6) Refer to commentary regarding other income beginning on page 41 of this Form 10-Q.
(7) Represents core banking and other activities that have been impacted by recent business expansion initiatives. Refer to business segments commentary beginning on page 50 of this Form 10-Q.

Selected Financial Data

The following tables present a summary of selected financial information.

	Three months ended September 30		Nine months ended September 30	
	2007	**2006**	**2007**	**2006**
		($ in millions)		
Income statement:				
Net interest income	**$ 923**	$ 777	**$ 2,520**	$ 2,287
Provision for credit losses	**(402)**	(207)	**(871)**	(586)
Total other revenues	**374**	614	**1,785**	1,946
Total operating expenses	**(891)**	(819)	**(2,612)**	(2,380)
Income tax credit (expense)	**17**	(121)	**(237)**	(429)
Net income	**$ 21**	$ 244	**$ 585**	$ 838
Balances at period end:				
Loans, net of allowance	**$ 91,608**	$ 89,134		
Total assets	**185,421**	167,497		
Total tangible assets	**182,663**	164,754		
Total deposits	**110,808**	96,827		
Common shareholder's equity	**10,323**	10,411		
Tangible common shareholder's equity	**7,916**	7,884		
Total shareholders' equity	**12,013**	12,101		
Selected financial ratios:				
Total shareholders' equity to total assets, at period end	**6.48 %**	7.22 %		
Tangible common shareholder's equity to total tangible assets, at period end	**4.33 %**	4.79 %		
Rate of return on average (1):				
Total assets	**0.05 %**	.59 %	**0.47 %**	.69 %
Total common shareholder's equity	**(0.15)**	8.28	**6.51**	9.89
Net interest margin to average (1):				
Earning assets	**2.53 %**	2.22 %	**2.37 %**	2.26 %
Total assets	**2.14**	1.88	**2.02**	1.90
Average total shareholders' equity to average total assets (1)	**6.99 %**	7.37 %	**7.24 %**	7.39 %
Efficiency ratio (1)	**68.69**	58.88	**60.67**	56.21

(1) Selected financial ratios are defined in the Glossary of Terms beginning on page 87 of HUSI's 2006 Form 10-K.

Significant trends and transactions that impacted pre-tax net income for the three month and nine month periods ending September 30, 2007 and 2006 are summarized on page 28 of this Form 10-Q.

BASIS OF REPORTING

HUSI's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

International Financial Reporting Standards (IFRS)

Effective January 1, 2007, corporate goals of HUSI are based upon results reported under IFRS (a non-U.S. GAAP measure). Operating results for HUSI are now monitored and reviewed, trends are being evaluated, and decisions are being made about allocating certain resources on an IFRS basis. In addition, HSBC reports its results in accordance with IFRS and IFRS results are used by HSBC in measuring and rewarding performance of employees. The following table reconciles HUSI's net income on a U.S. GAAP basis to net income on an IFRS basis.

	Three months ended September 30		Nine months ended September 30	
	2007	**2006**	**2007**	**2006**
		(in millions)		
Net income – U.S. GAAP basis	**$ 21**	$ 244	**$ 585**	$ 838
Adjustments, net of tax:				
Unquoted equity securities	**(15)**	-	**29**	-
Fair value option	**85**	(31)	**49**	(34)
Servicing assets	**9**	13	**(12)**	(3)
Loan origination	**2**	-	**12**	-
Loans held for trading purposes	**(5)**	1	**(1)**	12
Other	**2**	4	**6**	(2)
Net income – IFRS basis	**$ 99**	$ 231	**$ 668**	$ 811

Differences between U.S. GAAP and IFRS are as follows:

Unquoted equity securities

HUSI holds certain equity securities whose market price is not quoted on a recognized exchange, but for which the fair value can be reliably measured either through an active market, comparison to similar equity securities which are quoted, or by using discounted cash flow calculations.

IFRS

- Under IAS 39, equity securities which are not quoted on a recognized exchange, but for which fair value can be reliably measured, are required to be measured at fair value. Accordingly, such securities are measured at fair value and classified as either available-for-sale securities, with changes in fair value recognized in other comprehensive income, or as trading securities, with changes in fair value recognized in income.

U.S. GAAP

- Under SFAS 115, 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 impairment. Unquoted equity securities are reported within "Other assets".

Impact

- Changes in fair values of equity securities for which IFRS requires recognition of the change and U.S. GAAP requires the securities to be held at cost, impact net income and shareholders' equity when the security is classified as trading under IFRS and impact shareholders' equity when the security is classified as available-for-sale under IFRS.

Fair value option

IFRS

- Under IAS 39, a financial instrument, other than one held for trading, is classified in this category if it meets the criteria set out below, and is so designated by management. An entity may designate financial instruments at fair value where the designation:
  - eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognizing the gains and losses on them on different bases; or
  - applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to management; or
  - relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.
- Financial assets and financial liabilities so designated are recognized initially at fair value, with transaction costs taken directly to the income statement, and are subsequently remeasured at fair value. This designation, once made, is irrevocable in respect of the financial instruments to which it is made. Financial assets and financial liabilities are recognized using trade date accounting.
- Gains and losses from changes in the fair value of such assets and liabilities are recognized in the income statement as they arise, together with related interest income and expense and dividends.

U.S. GAAP

- Generally, for financial assets to be measured at fair value with gains and losses recognized immediately in the income statement, they must meet the definition of trading securities in SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. Financial liabilities are generally reported at amortized cost under U.S. GAAP.
- Since January 1, 2006, HUSI has accounted for hybrid financial instruments under the provisions of SFAS 155, Accounting for Certain Hybrid Financial Instruments. Hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation are, where designated through an irrevocable election, initially and subsequently measured at fair value, with changes in fair value recognized through net income.

Impact

- HUSI has principally used the fair value designation for certain fixed rate long-term debt issues whose interest rate characteristic has been changed to floating through interest rate swaps as part of a documented interest rate management strategy. Approximately $2 billion of HUSI's debt issues have been accounted for using the option. The movement in fair value of these debt issues includes the effect of changes in the credit spread and any ineffectiveness in the economic relationship between the related swaps and this debt. Such ineffectiveness arises from the different credit characteristics of the swap and the debt coupled with the sensitivity of the floating leg of the swap to changes in short-term interest rates. In addition, the economic relationship between the swap and the debt can be affected by relative movements in market factors, such as bond and swap rates, and the relative bond and swap rates at inception. The size and direction of the accounting consequences of changes in credit spread and ineffectiveness can be volatile from period to period, but do not alter the cash flows anticipated as part of the documented interest rate management strategy.
- Under U.S. GAAP, debt issues are generally reported at amortized cost. There are circumstances, by virtue of different technical requirements and the transition arrangements to IFRS, where derivatives providing an economic hedge for an asset or liability, and so designated under IFRS, are not so treated under U.S. GAAP, thereby creating a reconciliation difference and asymmetrical accounting between the asset and liability and the offsetting derivative.

Servicing assets

IFRS

- Under IAS 38, servicing assets are initially recorded on the balance sheet at cost and amortized over the projected life of the assets.
- Servicing assets are periodically tested for impairment with impairment adjustments charged against current earnings.
- Subsequent recoveries of impairment, if any, are credited to current earnings only to the extent of previous write-downs.

U.S. GAAP

- Under U.S. GAAP, servicing assets are initially recorded on the balance sheet at fair value.
- All subsequent adjustments to fair value are reflected in current period earnings.

Impact

- HUSI's mortgage subsidiary currently holds $534 million of residential mortgage servicing rights (MSRs), primarily related to loans sold to governmental agencies.
- For certain pools of MSRs, fair value recorded under U.S. GAAP exceeds amortized cost recorded under IFRS. Therefore, current earnings under U.S. GAAP exceeded earnings under IFRS for the first nine months of 2007.

Loan origination

IFRS

- Certain loan fee income and incremental directly attributable loan origination costs are amortized to the income statement over the life of the loan as part of the effective interest calculation under IAS 39.

U.S. GAAP

- Certain loan fee income and direct but not necessarily incremental loan origination costs, including an apportionment of overheads, are amortized to the income statement over the life of the loan as an adjustment to interest income (SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases").

Impact

During the first nine months of 2007, the net costs amortized against earnings under U.S. GAAP exceeded net costs amortized under IFRS.

Loans held for trading purposes

IFRS

- Under IAS 39, loans originated or acquired with the intent to sell them are treated as trading assets.
- As trading assets, loans held for resale are initially recorded at fair value, with changes in fair value being recognized in current period earnings.
- Any gains realized on sales of such loans are recognized in current period earnings on the trade date.

U.S. GAAP

- Under U.S. GAAP, loans held for resale are designated as loans on the balance sheet.
- Such loans are recorded at the lower of amortized cost or market value (LOCOM). Therefore, recorded value cannot exceed amortized cost.
- Subsequent gains on sale of such loans are recognized in current period earnings on the settlement date.

Impact

- HUSI holds $6.4 billion of loans held for resale on the balance sheet at September 30, 2007 for various business purposes. These include residential mortgage loans held for resale to HSBC affiliates for securitization purposes, residential mortgage loans held for resale to various governmental agencies, leveraged acquisition finance loans held for sale to third parties, and other types of consumer loans.
- Because of differences between fair value and LOCOM accounting, the recorded value of certain pools of loans held for resale under IFRS may exceed the value recorded under U.S. GAAP.
- The timing difference between trade date accounting for IFRS and settlement date accounting under U.S. GAAP also results in higher current earnings under IFRS.

Other

Other includes the net impact of differences relating to various adjustments, none of which were individually material for the third quarter and first nine months of 2007 and 2006, respectively.

BALANCE SHEET REVIEW

HUSI utilizes borrowings from various sources to fund balance sheet growth, to meet cash and capital needs, and to fund investments in subsidiaries. Balance sheet totals at September 30, 2007, and movements in comparison with prior periods, are summarized in the following table.

		Increase (Decrease) from			
	September 30, 2007	December 31, 2006 Amount	%	September 30,2006 Amount	%
		($ in millions)			
Period end assets:					
Short-term investments	**$ 21,781**	$ 2,726	14	$ 1,135	5
Loans, net	**91,608**	2,268	3	2,474	3
Trading assets	**31,582**	7,952	34	6,345	25
Securities	**24,555**	1,800	8	1,655	7
Other assets	**15,895**	5,858	58	6,315	66
	$ 185,421	$ 20,604	13	$ 17,924	11
Funding sources:					
Total deposits	**$ 110,808**	$ 8,662	8	$ 13,981	14
Trading liabilities	**16,819**	4,505	37	2,914	21
Short-term borrowings	**9,404**	4,331	85	2,411	34
All other liabilities	**8,246**	4,475	119	3.478	73
Long-term debt	**28,131**	(1,121)	(4)	(4,772)	(15)
Shareholders' equity	**12,013**	(248)	(2)	(88)	(1)
	$ 185,421	$ 20,604	13	$ 17,924	11

Short-Term Investments

Short-term investments include cash and due from banks, interest bearing deposits with banks, Federal funds sold and securities purchased under resale agreements. Increases in these asset balances resulted from an increase in HUSI's excess liquidity position, which was primarily due to deposit growth in 2006 and 2007.

Loans, Net

Loan balances at September 30, 2007, and movements in comparison with prior periods, are summarized in the following table.

	September 30, 2007	Increase (Decrease) from December 31, 2006 Amount	%	Increase (Decrease) from September 30, 2006 Amount	%
		($ in millions)			
Total commercial loans	**$ 35,446**	$ 5,964	20	$ 6,103	21
Consumer loans:					
Residential mortgages	**36,729**	(3,079)	(8)	(4,261)	(10)
Credit card receivables:					
Private label	**16,339**	(634)	(4)	726	5
MasterCard/Visa	**1,705**	418	32	531	45
Other consumer	**2,447**	(240)	(9)	(453)	(16)
Total consumer loans	**57,220**	(3,535)	(6)	(3,457)	(6)
Total loans	**92,666**	2,429	3	2,646	3
Allowance for credit losses	**1,058**	161	18	172	19
Loans, net	**$ 91,608**	$ 2,268	3	$ 2,474	3

Increased commercial loan balances were partly due to expansion of middle market activities, as well as an increase in previously unfunded commitments. Additionally, in the third quarter of 2007, HUSI began originating commercial loans in connection with its participation in a number of leveraged acquisition finance syndicates. A majority of these loans were originated with the intent of selling them to third parties.

Beginning in 2005, as a result of balance sheet initiatives to reduce prepayment risk and improve HBUS's structural liquidity, HUSI decided to sell a majority of its residential loan originations through the secondary markets and allow the existing loan portfolio to run off, resulting in reductions in loan balances throughout 2006 and the first nine months of 2007.

The addition of new merchant and customer relationships to the private label credit card portfolio and decreased balance requirements of off-balance sheet securitized receivable trusts (refer to pages 64-65 of this Form 10-Q) have resulted in higher on-balance sheet credit card receivable balances from September 30, 2006 to September 30, 2007.

Trading Assets and Liabilities

Trading assets and liabilities balances at September 30, 2007, and movements in comparison with prior periods, are summarized in the following table.

	September 30, 2007	Increase (Decrease) from December 31, 2006 Amount	%	Increase (Decrease) from September 30, 2006 Amount	%
		($ in millions)			
Trading assets:					
Securities (1)	**$ 13,661**	$ 1,737	15	$ (33)	-
Precious metals	**4,659**	1,943	72	1,184	34
Fair value of derivatives	**13,262**	4,272	48	5,194	64
	$ 31,582	$ 7,952	34	$ 6,345	25
Trading liabilities:					
Securities sold, not yet purchased	**$ 1,804**	$ (110)	(6)	$ (1,695)	(48)
Payables for precious metals	**1,814**	478	36	131	8
Fair value of derivatives	**13,201**	4,137	46	4,479	51
	$ 16,819	$ 4,505	37	$ 2,915	21

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

Growth in securities balances from December 31, 2006 and from September 30, 2006 was attributable to purchases of hybrid adjustable rate prime mortgages during 2007, due to increased hedging opportunities to capitalize on the current spread environment in these assets. Also contributing to the increase were purchases of emerging market securities for hedging of credit swap derivative credit risk exposure. Higher derivative balances resulted from increased values on various derivative products including credit default swaps, foreign currency forward contracts and equity swaps as a result of increasing credit spreads during the quarter. Higher precious metals balances were due to higher levels of trading activity, and to generally higher market prices for various metals, specifically gold and platinum.

Deposits

Deposit balances by major depositor categories at September 30, 2007, and movements in comparison with prior periods, are summarized in the following table.

		Increase (Decrease) from			
	September 30,	December 31, 2006		September 30, 2006	
	2007	Amount	%	Amount	%
		($ in millions)			
Individuals	**$ 48,344**	$ 5,078	12	$ 7,351	18
Partnerships and corporations	**40,867**	1,329	3	324	1
Domestic and foreign banks	**17,225**	982	6	5,360	45
U.S. Government, states and political subdivisions	**2,292**	365	19	457	25
Foreign government and official institutions	**2,080**	908	77	489	31
Total deposits	**$ 110,808**	$ 8,662	8	$ 13,981	14
Total core deposits (1)	**$ 63,363**	$ 5,787	10	$ 7,545	14

(1) HUSI monitors "core deposits" as a key measure for assessing results of its core banking network. Core deposits generally include all domestic demand, money market and other savings accounts, as well as time deposits with balances not exceeding $100,000.

Beginning in 2004, HUSI implemented a growth strategy for its retail banking network, which includes building deposits over a three to five year period across multiple geographic markets, channels and customer segments and utilizing multiple delivery systems. Since inception, the following initiatives have been launched:

- deployment of new personal and business checking and savings products, with an emphasis on relationship based products that offer more competitive pricing;
- new internet based products offered through the HSBC Direct website, particularly Online Savings accounts, which have grown significantly since 2005. Since their introduction, Online Savings balances have grown to $12.4 billion at September 30, 2007, of which $5.2 billion was raised during the first nine months of 2007;
- a retail branch expansion strategy within our existing footprint as well as in new geographic markets;
- improved delivery systems, including internet, call center and ATM capabilities; and
- refined marketing and customer analytics to drive increased utilization of products and improve customer retention.

Total deposit growth of $13 billion and $12 billion during calendar years 2006 and 2005, respectively, has been followed by growth of $9 billion in the first nine months of 2007.

RESULTS OF OPERATIONS

Net Interest Income

An analysis of consolidated average balances and interest rates on a taxable equivalent basis is presented on pages 72-73 of this Form 10-Q. Significant components of HUSI's net interest margin are summarized in the following table.

	Three months ended September 30				Nine months ended September 30			
	2007		**2006**		**2007**		**2006**	
Yield on total earning assets	**6.47**	**%**	5.91	%	**6.28**	**%**	5.75	%
Rate paid on interest bearing liabilities	**4.41**		4.23		**4.40**		3.96	
Interest rate spread	**2.06**		1.68		**1.88**		1.79	
Benefit from net non-interest earning or paying funds	**.47**		.54		**.49**		.47	
Net interest margin to earning assets (1)	**2.53**	**%**	2.22	%	**2.37**	**%**	2.26	%

(1) Selected financial ratios are defined in the Glossary of Terms beginning on page 87 of HUSI's 2006 Form 10-K.

Significant trends affecting the comparability of 2007 and 2006 net interest income and interest rate spread are summarized in the following table. Net interest income in the table is presented on a taxable equivalent basis (refer to pages 72-73 of this Form 10-Q).

	Three months ended September 30			Nine months ended September 30		
	Amount	**Interest Rate Spread**		**Amount**	**Interest Rate Spread**	
		($ in millions)				
Net interest income/interest rate spread for 2006	**$ 783**	**1.68**	**%**	**$ 2,306**	**1.79**	**%**
Increase (decrease) in net interest income associated with:						
Balance sheet management activities (1)	**(2)**			**(42)**		
Private label receivable portfolio	**88**			**177**		
Residential mortgage banking	**(19)**			**(61)**		
All other core banking activity	**80**			**161**		
Net interest income/interest rate spread for 2007	**$ 930**	**2.06**	**%**	**$ 2,541**	**1.88**	**%**

(1) Represents HUSI's activities to manage interest rate risk associated with the repricing characteristics of balance sheet assets and liabilities. Interest rate risk, and HUSI's approach to manage such risk, are described beginning on page 70 of HUSI's 2006 Form 10-K.

Balance Sheet Management Activities

Lower net interest income from balance sheet management activities continued to impact results for the CIBM business segment during the third quarter and first nine months of 2007. A relatively flat yield curve continued to limit available opportunities to generate additional net funds income within the CIBM business segment.

The CIBM business segment expanded its operations and products offered to clients, which has resulted in increased trading and lending activity. The resulting increases in average trading assets and average commercial loan balances were partially offset by the impact of the relatively flat yield curve.

Private Label Receivable Portfolio (PLRP)

Higher net interest income for the PLRP for the third quarter and for the first nine months of 2007 resulted from:

- increased credit card receivable balances, due to the addition of new PLRP merchant relationships during 2006 and 2007, and to decreased balance requirements of off-balance sheet securitized PLRP receivable trusts;
- higher accrued income as a result of a more robust income recognition methodology on private label credit card promotional transactions; and

- lower amortization of premiums paid for purchases of receivables included within the PLRP. Although premiums associated with daily purchases of receivables from HSBC Finance Corporation continue to be recorded and amortized, premium amortization associated with the initial portfolio acquisition in 2004 was $63 million lower for the first nine months of 2007.

Residential Mortgage

Lower net interest income from residential mortgage activities primarily resulted from continued narrowing of interest rate spreads and from contraction of the residential mortgage loan portfolio. As a result of a continuing strategy to reduce prepayment risk and improve HBUS's structural liquidity, HUSI continues to sell a majority of its residential mortgage loan originations and allow the residential mortgage loan portfolio to runoff.

Other Core Banking Activity

Higher net interest income from other core banking activity mostly resulted from business expansion initiatives, which have led to increased deposits and loans.

Personal deposits continued to grow in 2007 as a result of continued success of the Online Savings product and expansion of the branch network. However, customers continued to migrate to higher yielding deposit products such as the Online Savings product, leading to a change in product mix and narrowing of deposit spreads, which partly offset the benefit of higher deposit balances. Refer to page 35 of this Form 10-Q for commentary regarding HUSI's deposit strategy and growth.

Significant resources have been dedicated to expansion of various commercial lending businesses and regional offices, which has resulted in increased loan and deposit balances. The average yield earned on commercial loans was also higher for the first nine months of 2007.

Provision for Credit Losses

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

			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		($ in millions)		
Three months ended September 30:				
Commercial	**$ 57**	$ 34	**$ 23**	**68**
Consumer:				
Residential mortgages	**24**	3	**21**	*****
Credit card receivables	**301**	150	**151**	**101**
Other consumer	**20**	20	**-**	**-**
Total consumer	**345**	173	**172**	**99**
Total provision for credit losses	**$ 402**	$ 207	**$ 195**	**94**
Nine months ended September 30:				
Commercial	**$ 122**	$ 110	**$ 12**	**11**
Consumer:				
Residential mortgages	**48**	18	**30**	**167**
Credit card receivables	**645**	417	**228**	**55**
Other consumer	**56**	41	**15**	**37**
Total consumer	**749**	476	**273**	**57**
Total provision for credit losses	**$ 871**	$ 586	**$ 285**	**49**

* Not meaningful.

Higher provision expense associated with credit card receivables for the third quarter and first nine months of 2007 primarily resulted from higher delinquencies and charge offs within the private label credit card portfolio. In addition, provision expense for the first nine months of 2006 was unusually low due to the impact of bankruptcy legislation enacted in 2005, which resulted in accelerated credit card receivable and other consumer loan charge offs during the fourth quarter of 2005. During the first quarter of 2007, HUSI refined its allowance methodology associated with MasterCard/Visa credit card receivables, resulting in a $13 million reduction in the allowance balance and provision expense, which partially offset overall increases in credit card allowances. Refer to additional commentary regarding credit card receivables credit quality on page 61of this Form 10-Q.

Commercial loan provision expense increased $23 million for the third quarter of 2007, as compared with the same 2006 period. During the second quarter of 2006, provision expense of $29 million was recorded due to a combination of charge offs and increased allowances related to a specific commercial real estate investment loan for which no specific allowance for credit losses was previously recorded. Excluding this specific 2006 provision, commercial loan provision expense increased $41 million for the first nine months of 2007, as compared with the same 2006 period. Higher provision expense for the first nine months of 2007 was primarily due to higher criticized asset balances. Refer to additional commentary regarding commercial loan credit quality beginning on page 60 of this Form 10-Q.

Other Revenues

Decreased revenue for the three months and nine months ended September 30, 2007, was mostly driven by reduced liquidity and higher volatility in the credit and sub-prime markets which led to substantial valuation losses being recorded. This was partially offset by increased credit card fees, other fees and commissions from affiliates, and increased security gains.

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

			Increase/(Decrease)	
Three months ended September 30	**2007**	**2006**	**Amount**	**%**
		($ in millions)		
Trust income	**$ 26**	$ 22	**$ 4**	**18**
Service charges	**53**	52	**1**	**2**
Credit card fees	**225**	148	**77**	**52**
Other fees and commissions:				
Letter of credit fees	**19**	19	**-**	**-**
Wealth and tax advisory services	**28**	25	**3**	**12**
Other fee-based income, net of referral fees	**71**	66	**5**	**8**
	118	110	**8**	**7**
HSBC affiliate income:				
Service charges	**1**	4	**(3)**	**(75)**
Other fees and commissions	**28**	13	**15**	**115**
Gain on sale of residential mortgage loans to HMUS (1)	**14**	40	**(26)**	**(65)**
Gain on sale of refund anticipation loans to HSBC Finance Corporation	**-**	-	**-**	**-**
Other affiliate income	**3**	4	**(1)**	**(25)**
	46	61	**(15)**	**(25)**
Other income:				
Securitization revenue	**-**	-	**-**	**-**
Insurance	**13**	11	**2**	**18**
Valuation allowance (increase) decrease for changes in market value of loans held for sale	**(218)**	43	**(261)**	*****
Gains (loss) on sale of property and other financial assets	**(16)**	34	**(50)**	**(147)**
Earnings from equity investments	**22**	53	**(31)**	**(58)**
Miscellaneous income	**12**	16	**(4)**	**(25)**
	(187)	157	**(344)**	*****
Residential mortgage banking revenue	**6**	6	**-**	**-**
Trading revenues	**28**	52	**(24)**	**(46)**
Securities gains, net	**59**	6	**53**	*****
Total other revenues	**$ 374**	$ 614	**$ (240)**	**(39)**

(1) Refer to tables and commentary regarding "Residential Mortgage Loans Held for Sale to an HSBC Affiliate" on pages 41-42 of this Form 10-Q
* Not meaningful.

Nine months ended September 30	2007	2006	Increase/(Decrease) Amount	%
		($ in millions)		
Trust income	$ 73	$ 66	$ 7	11
Service charges	158	149	9	6
Credit card fees	601	409	192	47
Other fees and commissions:				
Letter of credit fees	55	55	-	-
Wealth and tax advisory services	80	72	8	11
Other fee-based income, net of referral fees	177	175	2	1
	312	302	10	3
HSBC affiliate income:				
Service charges	9	11	(2)	(18)
Other fees and commissions	69	36	33	92
Gain on sale of residential mortgage loans to HMUS (1)	24	105	(81)	(77)
Gain on sale of refund anticipation loans to HSBC Finance Corporation	23	21	2	10
Other affiliate income	9	9	-	-
	134	182	(48)	(26)
Other income:				
Securitization revenue	-	19	(19)	(100)
Insurance	38	35	3	9
Valuation allowance increase for changes in market value of loans held for sale	(299)	(114)	(185)	(162)
Gains on sale of property and other financial assets	6	50	(44)	(88)
Earnings from equity investments	63	95	(32)	(34)
Miscellaneous income	57	80	(23)	(29)
	(135)	165	(300)	(182)
Residential mortgage banking revenue	69	57	12	21
Trading revenues	477	600	(123)	(21)
Securities gains, net	96	16	80	*
Total other revenues	$ 1,785	$ 1,946	$ (161)	(8)

(1) Refer to tables and commentary regarding “Residential Mortgage Loans Held for Sale to an HSBC Affiliate” on pages 41-42 of this Form 10-Q.
* Not meaningful.

Credit Card Fees

Higher credit card fees in 2007 from private label and co-brand credit card portfolio activity were primarily due to the following factors:

- credit card receivables included in off-balance sheet securitization transactions for the first nine months of 2006 were included in on-balance sheet credit card receivables for the first nine months of 2007. Late fees associated with these receivables, which were recorded in securitization revenue in 2006 (refer to other income commentary), are recorded in credit card fees for 2007;
- the number of accounts, volume of customer transaction activity and average receivable balances included within the private label portfolio all were higher for 2007, due to the addition of merchant and customer relationships and to expansion of credit card products offered. Product repricing also resulted in higher fees; and
- higher late fees due to increased delinquencies within the private label portfolio.

HSBC Affiliate Income

Higher fees and commissions from HSBC affiliates was primarily due to increased customer referral and other fees from HMUS and HSBC associated with current expansion of the payments and cash management business and previous expansion of various trading businesses. Fees from HSBC Finance Corporation for loan servicing have also increased in 2007.

Other Income

In the third quarter of 2006, the last remaining securitization trust agreement related to the private label credit card receivable portfolio was amended. As a result, the trust no longer qualified for sale treatment and all assets and liabilities of the trust were returned to HUSI's consolidated balance sheet. In addition, all new collateralized funding transactions have been structured as secured financings since the third quarter of 2004. The loss of securitization revenue for 2007 was offset by higher net interest income and higher fee revenue (refer to previous credit card fees commentary) from the receivables and liabilities that were returned to the consolidated balance sheet.

HUSI holds an equity investment in a non-consolidated foreign HSBC affiliate. During the third quarter of 2006, this affiliate sold a portion of its investment in a foreign equity fund to another HSBC affiliate. During the second quarter of 2007, the same affiliate sold its remaining investment in the foreign equity fund. This decrease in equity investment holdings resulted in lower equity earnings for the first nine months of 2007.

Valuation Allowance on Residential Mortgage Loans Held for Sale to an HSBC Affiliate

In 2005, HUSI began acquiring residential mortgage loans from unaffiliated third parties with the intent of selling these loans to an HSBC affiliate, HSBC Markets (USA) Inc. (HMUS). HMUS in turn sells these loans to securitization vehicles. During 2006, HUSI also began acquiring residential mortgage loans from HSBC Finance Corporation under this program. Loans acquired from unaffiliated third parties and HSBC Finance Corporation primarily include sub-prime residential mortgage loans. In addition, a number of prime adjustable rate mortgage loans originated by HUSI have been identified for this program and are being held with the intent of selling these loans to HMUS. HMUS in turn sells these loans to securitization vehicles. Loans held for sale are recorded by HUSI at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. HUSI maintains a portfolio of derivatives and securities, which are used as economic hedges to offset changes in market values of the loans held for sale to HMUS. Gains on sales associated with these loans result from incremental value realized on pools of loans sold to HMUS for securitization.

The activity related to this program affects various consolidated financial statement line items, as summarized in the following table. Lower results and activity for this program for the third quarter and the first nine months of 2007 generally resulted from the overall weakness and illiquidity in the U.S. residential mortgage market, and specifically from significantly reduced fair values of sub-prime loans.

Three months ended September 30	2007	2006
	(in millions)	
Residential mortgage loans held for sale to HMUS:		
Balance at beginning of period	**$ 3,059**	$ 4,795
Loans acquired from originators	**1,009**	3,088
Loans sold to HMUS	**(1,061)**	(4,501)
Other, primarily loans resold to originators and other third parties	**(177)**	(157)
Balance at end of period	**$ 2,830**	$ 3,225
Valuation allowance for changes in market value of loans held for sale to HMUS:		
Balance at beginning of period	**$ (49)**	$ (83)
Valuation allowance (increase) decrease for changes in market value	**(146)**	29
Releases of valuation allowance for loans sold to HMUS	**3**	53
Balance at end of period	**$ (192)**	$ (1)
Impact on income before income taxes:		
Net interest income associated with loans held for sale to HMUS (1)	**$ 6**	$ 13
Gains on sale of residential mortgage loans sold to HMUS, recorded in HSBC affiliate income	**14**	40
Valuation allowance (increase) decrease for changes in market value of loans held for sale to HMUS, recorded in other income	**(146)**	29
Trading revenues recognized from economic hedges held to offset changes in market values of loans held for sale to HMUS (1)	**(30)**	(57)
Net program costs included in other expenses	**(3)**	(6)
Net impact on income before income taxes	**$ (159)**	$ 19

Nine months ended September 30	2007	2006
	(in millions)	
Residential mortgage loans held for sale to HMUS:		
Balance at beginning of period	**$ 3,126**	$ 2,882
Loans acquired from originators	**6,028**	13,218
Loans sold to HMUS	**(5,749)**	(12,657)
Other, primarily loans resold to originators and other third parties	**(575)**	(218)
Balance at end of period	**$ 2,830**	$ 3,225
Valuation allowance for changes in market value of loans held for sale to HMUS:		
Balance at beginning of period	**$ (26)**	$ (11)
Valuation allowance increase for changes in market value	**(221)**	(123)
Releases of valuation allowance for loans sold to HMUS	**55**	133
Balance at end of period	**$ (192)**	$ (1)
Impact on income before income taxes:		
Net interest income associated with loans held for sale to HMUS (1)	**$ 39**	$ 51
Gains on sale of residential mortgage loans sold to HMUS, recorded in HSBC affiliate income	**24**	105
Valuation allowance increase for changes in market value of loans held for sale to HMUS, recorded in other income	**(221)**	(123)
Trading revenues recognized from economic hedges held to offset changes in market values of loans held for sale to HMUS (1)	**(7)**	59
Net program costs included in other expenses	**(15)**	(9)
Net impact on income before income taxes	**$ (180)**	$ 83

(1) Refer to trading revenues commentary beginning on page 45 of this Form 10-Q.

Valuation Allowance for Leveraged Acquisition Finance Loans Held for Sale

HUSI originates commercial loans in connection with its participation in a number of leveraged acquisition finance syndicates. A substantial majority of these loans were originated with the intent of selling them to unaffiliated third parties and are classified as held for sale at September 30, 2007. Commercial loans held for sale, including those related to the leveraged lending program, are recorded at the lower of cost or market value with valuation adjustments recorded to a valuation allowance and reflected in Other Income. Adverse conditions in the corporate credit markets resulted in a substantial increase in the valuation allowance for commercial loans held for sale.

Residential Mortgage Banking Revenue

The following tables present the components of residential mortgage banking revenue. Net interest income includes interest earned/paid on assets and liabilities of the residential mortgage banking business, as well as the funding cost or benefit associated with these balances. The net interest income component in the table is included in net interest income in the consolidated statement of income and reflects actual interest earned, net of cost of funds, and adjusted for corporate transfer pricing.

			Increase (Decrease)	
Three months ended September 30	**2007**	**2006**	**Amount**	**%**
		($ in millions)		
Net interest income	**$ 59**	$ 78	**$** (19)	(24)
Servicing related income:				
Servicing fee income	**29**	25	4	16
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**(28)**	(43)	15	35
Realization of cash flows	**(14)**	(21)	7	33
Trading – Derivative instruments used to offset changes in value of MSRs	**19**	38	(19)	(50)
	6	(1)	7	*
Originations and sales related income:				
(Losses) gains on sales of residential mortgages	**(5)**	3	(8)	*
Trading and fair value hedge activity	**(1)**	(1)	-	-
	(6)	2	(8)	*
Other mortgage income	**6**	5	1	20
Total residential mortgage banking revenue included in other revenues	**6**	6	-	-
Total residential mortgage banking related revenue	**$ 65**	$ 84	**$** (19)	(23)

			Increase (Decrease)	
Nine months ended September 30	**2007**	**2006**	**Amount**	**%**
		($ in millions)		
Net interest income	**$ 199**	$ 260	**$** (61)	(23)
Servicing related income:				
Servicing fee income	**85**	74	11	15
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**35**	31	4	13
Realization of cash flows	**(60)**	(60)	-	-
Trading – Derivative instruments used to offset changes in value of MSRs	**(34)**	(19)	(15)	(79)
	26	26	-	-
Originations and sales related income:				
Gains on sales of residential mortgages	**23**	14	9	64
Trading and fair value hedge activity	**-**	1	(1)	*
	23	15	8	53
Other mortgage income	**20**	16	4	25
Total residential mortgage banking revenue included in other revenues	**69**	57	12	21
Total residential mortgage banking related revenue	**$ 268**	$ 317	**$** (49)	(15)

* Not meaningful.

Net Interest Income

Decreased net interest income for the third quarter and first nine months of 2007 resulted from lower average residential mortgage loans outstanding as well as a slight narrowing of interest rate spreads. During 2007, HUSI continued to sell the majority of new loan originations to government sponsored enterprises and private investors and allow existing loans to runoff. The held loans portfolio is expected to continue to decline for the remainder of 2007 as a result of this initiative.

Servicing Related Income

Higher servicing fee income for the third quarter and first nine months of 2007 resulted from a higher volume of loans included within the average serviced loans portfolio. The average serviced loans portfolio increased approximately 13% in the third quarter and first nine months of 2007 due to the following factors:

- the volume of loans sold in the third quarter and first nine months of 2007 was consistent with the same timeframes in 2006; and
- in 2007, HUSI commenced servicing a portfolio of loans previously serviced by a third party.

The increased serviced loans portfolio, and its positive impact on service fee income, was partially offset by a decrease in value of the hedged MSRs portfolio including an increase in realization of cash flows on the growing portfolio of loans serviced for others for the first nine months of 2007.

Trading Revenues

Trading revenues are generated by HUSI's participation in the foreign exchange, credit derivative and precious metal markets; from trading derivative contracts, including interest rate swaps and options; from trading securities; and as a result of certain residential mortgage banking activities.

The following table summarizes trading related revenues by business. The data in the table includes net interest income earned on trading instruments, as well as funds transfer charges and credits associated with these trading positions. The trading related net interest income component is included in net interest income on the consolidated income statement. Trading revenues related to the mortgage banking business are included in residential mortgage banking revenue.

			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		($ in millions)		
Three months ended September 30:				
Trading revenues	**$ 28**	$ 52	**$ (24)**	**(46)**
Net interest expense	**(1)**	(16)	**15**	**94**
Trading related revenues	**$ 27**	$ 36	**$ (9)**	**(25)**
Business:				
Derivatives instruments	**$ (33)**	$ 48	**$ (81)**	**(169)**
Economic hedges of loans held for sale to HMUS	**(24)**	(44)	**20**	**45**
Treasury (primarily securities)	**(28)**	(7)	**(21)**	*****
Foreign exchange and banknotes	**77**	37	**40**	**108**
Precious metals	**24**	3	**21**	*****
Other trading	**11**	(1)	**12**	*****
Trading related revenues	**$ 27**	$ 36	**$ (9)**	**(25)**
Nine months ended September 30:				
Trading revenues	**$ 477**	$ 600	**$ (123)**	**(21)**
Net interest expense	**(30)**	(42)	**12**	**29**
Trading related revenues	**$ 447**	$ 558	**$ (111)**	**(20)**
Business:				
Derivatives instruments	**$ 201**	$ 221	**$ (20)**	**(9)**
Economic hedges of loans held for sale to HMUS	**32**	110	**(78)**	**(71)**
Treasury (primarily securities)	**(33)**	7	**(40)**	*****
Foreign exchange and banknotes	**191**	132	**59**	**45**
Precious metals	**47**	74	**(27)**	**(36)**
Other trading	**9**	14	**(5)**	**(36)**
Trading related revenues	**$ 447**	$ 558	**$ (111)**	**(20)**

* Not meaningful.

During the first nine months of 2006, a wider range of product offerings and enhanced sales capabilities within the CIBM business segment, along with favorable market conditions in certain sectors, drove significant trading gains across all major client-related activities. Successful launches of new products and increased sales of structured products that are tailored to specific customer needs led to strong derivatives trading revenues. Gains in the precious metals business reflected volume growth driven by a surge in demand arising from strong commodities markets. Income streams in the foreign exchange business remained robust against the backdrop of a weakening U.S. dollar.

During the third quarter of 2007, trading revenue was affected by reduced liquidity, widening spreads and higher volatility in the credit and sub-prime lending markets which impacted trading in mortgage backed securities and credit derivatives. The market turmoil has caused a significant fall in revenues in both the third quarter and the first nine months of 2007 as compared with the same 2006 periods. Precious metals revenue also experienced a decline in the first nine months of 2007, as compared to prior year, as a result of lower price volatility. Partially offsetting this, the foreign exchange business has continued to contribute solid revenues as a result of ongoing market volatility and the performance for the first nine months benefited from structured credit and emerging markets derivatives activity in the first half of the year.

Effective during the third quarter of 2006, HUSI maintains a portfolio of MasterCard, Incorporated Class B shares as part of structured product transactions for customers. In addition, HUSI uses derivative instruments to offset changes in the fair value of the MasterCard Class B shares. The increase in value of the derivative instruments, which totaled $22 million for the third quarter and the decrease in value of the derivative instruments, which totaled $56 million for the first nine months of 2007, are reflected in trading revenue from derivative instruments. Under U.S. GAAP, the increased value of the MasterCard Class B shares is not recognized until they are sold.

HUSI also maintains a portfolio of derivative instruments that are utilized as economic hedges to offset changes in market values of loans held for sale to HMUS. Lower revenues from economic hedges of loans held for sale to HMUS resulted from the overall weakness of the U.S. housing market. Lower trading results related to this program are generally offset by the changes in the valuation allowance related to loans held for sale to HMUS, which is recorded in other revenues. Further analysis and commentary regarding these loans and the associated hedges is provided beginning on page 41 of this Form 10-Q.

HUSI recognizes gains or losses at the inception of derivative transactions only when the fair value of the transaction can be verified to market transactions or if all significant pricing model assumptions can be verified to observable market data. Gain or loss not recognized at inception is recorded in trading assets and recognized over the term of the derivative contract, or when market data becomes observable. The availability of observable market data resulted in recognition of $7 million and $40 million in trading revenues for the first nine months of 2007 and 2006, respectively.

Securities Gains, Net

HUSI maintains various securities portfolios as part of its overall balance sheet diversification and risk management strategies. The following table summarizes net securities gains resulting from various strategies.

	2007	2006
	(in millions)	
Three months ended September 30:		
Sales of MasterCard Class B Shares	**$ 55**	$ -
Balance sheet diversity and reduction of risk	**-**	(5)
Management of Latin American investment exposure	**3**	3
Sales of securities to an HSBC affiliate (1)	**-**	-
Other	**1**	8
Securities gains, net	**$ 59**	$ 6
Nine months ended September 30:		
Sales of MasterCard Class B Shares	**$ 55**	$ -
Balance sheet diversity and reduction of risk	**9**	(2)
Management of Latin American investment exposure	**23**	3
Sales of securities to an HSBC affiliate (1)	**9**	-
Other	**-**	15
Securities gains, net	**$ 96**	$ 16

(1) Represents net gains realized from transfers of various available for sale securities, other non-marketable securities and equity investments as part of a strategy to consolidate certain investments into common HSBC entities.

Operating Expenses

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

Three months ended September 30	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Salaries and employee benefits:				
Salaries	**$ 241**	$ 234	**$ 7**	**3**
Employee benefits	**96**	83	**13**	**16**
Total salaries and employee benefits	**337**	317	**20**	**6**
Occupancy expense, net	**63**	54	**9**	**17**
Support services from HSBC affiliates:				
Fees paid to HSBC Finance Corporation for loan servicing and other administrative support	**115**	111	**4**	**4**
Fees paid to HMUS	**58**	58	**-**	**-**
Fees paid to HTSU for technology services	**63**	64	**(1)**	**(2)**
Fees paid to other HSBC affiliates	**44**	40	**4**	**10**
Total support services from HSBC affiliates	**280**	273	**7**	**3**
Other expenses:				
Equipment and software	**13**	17	**(4)**	**(24)**
Marketing	**34**	28	**6**	**21**
Outside services	**44**	29	**15**	**52**
Professional fees	**19**	17	**2**	**12**
Telecommunications	**5**	6	**(1)**	**(17)**
Postage, printing and office supplies	**9**	9	**-**	**-**
Insurance business	**15**	5	**10**	**200**
Miscellaneous	**72**	64	**8**	**13**
Total other expenses	**211**	175	**36**	**21**
Total operating expenses	**$ 891**	$ 819	**$ 72**	**9**
Personnel - average number	**12,329**	12,216	**113**	**1**

Nine months ended September 30	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Salaries and employee benefits:				
Salaries	**$ 731**	$ 671	**$ 60**	**9**
Employee benefits	**285**	282	**3**	**1**
Total salaries and employee benefits	**1,016**	953	**63**	**7**
Occupancy expense, net	**181**	163	**18**	**11**
Support services from HSBC affiliates:				
Fees paid to HSBC Finance Corporation for loan servicing and other administrative support	**347**	336	**11**	**3**
Fees paid to HMUS	**181**	165	**16**	**10**
Fees paid to HTSU for technology services	**185**	170	**15**	**9**
Fees paid to other HSBC affiliates	**131**	114	**17**	**15**
Total support services from HSBC affiliates	**844**	785	**59**	**8**
Other expenses:				
Equipment and software	**42**	56	**(14)**	**(25)**
Marketing	**97**	74	**23**	**31**
Outside services	**115**	89	**26**	**29**
Professional fees	**52**	48	**4**	**8**
Telecommunications	**15**	15	**-**	**-**
Postage, printing and office supplies	**27**	25	**2**	**8**
Insurance business	**27**	15	**12**	**80**
Miscellaneous	**196**	157	**39**	**25**
Total other expenses	**571**	479	**92**	**19**
Total operating expenses	**$ 2,612**	$ 2,380	**$ 232**	**10**
Personnel - average number	**12,324**	12,094	**230**	**2**

Overview

Increased expenses for the third quarter and for the first nine months of 2007 were largely driven by higher personnel, marketing, technology and other expense growth associated with continued rollout of various business growth initiatives affecting all business segments.

Salaries and Employee Benefits

Higher salaries expenses for the first nine months of 2007 are mainly due to:

- higher staff counts and a changing mix of staffing to support various business growth initiatives, primarily within the PFS, CIBM and PB business segments;
- higher average salaries and pay rates, due to normal annual pay increases; and
- higher personnel costs within the CIBM segment associated with the expansion of various businesses that are better positioned to leverage HSBC's global markets capabilities, and with repositioning certain other businesses in order to focus on building a financing and emerging markets led wholesale banking business.

During the second quarter of 2006, the HSBC Remuneration Committee exercised its discretion to waive the Total Shareholder Return performance condition related to 2003 share option awards under the HSBC Group Share Option Plan (refer to page 141 of HUSI's 2006 Form 10-K for a description of this plan). This modification resulted in an additional charge to employee benefits expense of $9 million for the second quarter of 2006. No similar charge was recorded during 2007. Excluding this 2006 charge, higher employee benefit costs directly associated with increased salaries expenses were offset by lower pension costs.

Occupancy Expense, Net

Expansion of the core banking and commercial lending networks within the PFS and CMB business segments has been a key component of recent business expansion initiatives. New branches have been opened and lending operations have been expanded, which have resulted in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses during the first nine months of 2007.

Support Services from HSBC Affiliates

HUSI has routinely purchased private label credit card receivables from HSBC Finance Corporation since December 2004. In addition, higher quality nonconforming residential mortgage loans were acquired from HSBC Finance Corporation's correspondent network from December 2003 until September 2005. In most cases, HSBC Finance Corporation retained the right to service these portfolios. Fees charged by HSBC Finance Corporation for loan origination and servicing expenses, which are primarily recorded in the CF segment, have increased moderately for 2007 due to an increased number of private label credit card receivables serviced.

Fees charged by HMUS pursuant to service level agreements for broker dealer, loan syndication, treasury and traded markets related services are included in support services from HSBC affiliates. Higher fees charged by HMUS for the first nine months of 2007 primarily relate to increased loan syndication services.

HSBC's technology services in North America are centralized within HSBC Technology & Services (USA) Inc. (HTSU). Technology related assets and software acquired for HUSI are generally purchased and owned by HTSU. Pursuant to a master service level agreement, HTSU charges HUSI for equipment related costs and technology services. Fees charged by HTSU to HUSI for technology services are higher in 2007, as HUSI continues to upgrade its technology environment within all business segments.

HUSI also utilizes other HSBC affiliates in support of global outsourcing initiatives and, to a lesser extent, for treasury and traded markets services. Higher expense for 2007 primarily resulted from expanded data processing and other global outsourcing services.

Other Expenses

Higher marketing and promotional expenses resulted from continuing investment in HSBC brand activities, promotion of the internet savings account and marketing support for branch expansion initiatives, primarily within the PFS business segment.

As a result of a decision to discontinue operations of HBUS's real estate settlement services company, certain deferred start-up costs and other contractual costs totaling $6 million were included in outside services for the second quarter of 2007. Employment agency and staff recruitment fees, also included in outside services, have increased in 2007, primarily to support business expansion and ongoing technology enhancement projects.

The increase in Insurance business expense in the third quarter of 2007 primarily relates to the costs incurred to terminate a portion of the annuity reinsurance business. Additionally, there was a nominal increase in claims for the quarter.

Miscellaneous expenses for the first nine months of 2006 were unusually low, mainly due to reversal of a charge for the accrued interest related to settlement of certain income tax liabilities during the second quarter of 2006. Excluding this 2006 adjustment, higher miscellaneous expenses for 2007 were primarily due to increased insurance costs and higher expenses associated with business expansion.

Efficiency Ratio

	Three months ended September 30		**Nine months ended September 30**	
	2007	**2006**	**2007**	**2006**
Efficiency ratio (1)	**68.69 %**	58.88 %	**60.67 %**	56.21 %

(1) Ratio of total operating expenses, reduced by minority interests, to the sum of net interest income and other revenues.

Higher net interest income was more than offset by a decrease in other revenues and increased operating expenses for the third quarter and the first nine months of 2007, resulting in an increase in the efficiency ratio for both periods.

SEGMENT RESULTS

HUSI has five distinct segments that are utilized for management reporting and analysis purposes. The segments, which are based upon customer groupings as well as products and services offered, are described on pages 19-20 of HUSI's Form 10-Q for the quarterly period ended March 31, 2007.

Effective January 1, 2007, corporate goals of HUSI are based upon results reported under International Financial Reporting Standards (IFRS), which are utilized by HSBC to prepare its consolidated financial statements. Operating results for HUSI are now being monitored and reviewed, trends are being evaluated, and decisions are being made about allocating certain resources on an IFRS basis. As a result, business segment results are reported on an IFRS basis to align with the revised internal reporting mechanism for monitoring performance. Results for 2007 and 2006 in the tables that follow are reflected on an IFRS basis.

Results for each business segment on an IFRS basis are summarized in the following tables.

Personal Financial Services (PFS)

Overview

Resources continue to be directed towards expansion of the core retail banking business, including investment in the HSBC brand, expansion of the branch network in existing and new geographic areas, and continued rollout of HSBC Direct, the internet banking channel. Significant expense growth from these initiatives for the third quarter and the first nine months of 2007 has been partially offset by growth in revenues from key investments. Net interest income from core banking activities has decreased in 2007 due to continued narrowing of interest rate spreads, as well as customer migration to higher yielding deposit products such as Online Savings and CDs and was partially offset by the positive impact of new customers and product sales.

Balance sheet growth for core retail banking for the first nine months of 2007 was highlighted by a 24.5% increase in average deposits, as compared with the same 2006 period. This was driven by a successful strategy to build deposits across multiple markets and business segments and utilizing various delivery channels.

PFS business segment results for 2007 also have been impacted by lower residential mortgage banking revenue, primarily due to loan portfolio runoff. During 2007, as part of a continuing effort to manage prepayment risk and liquidity, HUSI made the decision to sell a majority of its residential mortgage loan originations and allow the residential mortgage loan portfolio to run off.

Operating Results

The following table summarizes results for the PFS segment.

	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ 276**	$ 305	**$ (29)**	**(10)**
Other revenues	**157**	127	**30**	**24**
Total revenues	**433**	432	**1**	**-**
Provision for credit losses	**35**	15	**20**	**133**
	398	417	**(19)**	**(5)**
Operating expenses	**313**	296	**17**	**6**
Income before income tax expense	**85**	121	**(36)**	**(30)**
Income tax expense	**26**	43	**(17)**	**(40)**
Net income	**$ 59**	$ 78	**$ (19)**	**(24)**
Nine months ended September 30:				
Net interest income	**$ 838**	$ 882	**$ (44)**	**(5)**
Other revenues	**417**	369	**48**	**13**
Total revenues	**1,255**	1,251	**4**	**-**
Provision for credit losses	**64**	39	**25**	**64**
	1,191	1,212	**(21)**	**(2)**
Operating expenses	**923**	875	**48**	**5**
Income before income tax expense	**268**	337	**(69)**	**(20)**
Income tax expense	**82**	115	**(33)**	**(29)**
Net income	**$ 186**	$ 222	**$ (36)**	**(16)**

Lower net interest income for the third quarter and the first nine months of 2007 was partially due to lower interest earned and lower interest rate spreads on the residential mortgage loan portfolio. Average residential mortgage loans decreased 11.1% for the first nine months of 2007, as compared with the same 2006 period.

Net interest income from core banking activities also decreased for the third quarter and first nine months of 2007. Although deposits continued to grow in 2007, driven by the success of the Online Savings product and expansion of the retail branch network, this was offset by a narrowing of deposit spreads as customers continue to migrate to higher yielding deposit products, such as the Online Savings and CDs. Refer to page 35 of this Form 10-Q for commentary regarding HUSI's deposit strategy and growth.

Higher other revenues for the first nine months of 2007 were due to $21 million of gains realized on sales of branch premises to unaffiliated third parties.

Higher provision for credit losses, which was driven by increased delinquencies within various consumer portfolios, was partially offset by a $13 million reduction in allowance resulting from refinement of the allowance methodology associated with MasterCard/Visa receivables. In addition, provision expense for the first half of 2006 was unusually low due to the impact of bankruptcy legislation enacted in 2005, which resulted in accelerated consumer charge offs in the fourth quarter of 2005.

Increased operating expenses are related to higher staff, marketing, occupancy and technology costs and reflect investment in branch expansion, branch automation and in the development of the HSBC Direct online platform.

Consumer Finance (CF)

Overview

The CF segment includes the private label receivable portfolio (the PLRP) and other loans acquired from HSBC Finance Corporation and its correspondents. Results of the CF segment have been positively impacted by lower amortization of premiums paid to HSBC Finance Corporation for those receivables, and by growth of private label credit card receivables, which are 7% higher at September 30, 2007 compared with the prior year.

Operating Results

The following table summarizes results for the CF segment.

	2007	2006	Increase (Decrease) Amount	Increase (Decrease) %
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ 296**	$ 197	**$ 99**	**50**
Other revenues (1)	**86**	22	**64**	*****
Total revenues	**382**	219	**163**	**74**
Provision for credit losses	**305**	160	**145**	**91**
	77	59	**18**	**31**
Operating expenses	**8**	7	**1**	**14**
Income before income tax expense	**69**	52	**17**	**33**
Income tax expense	**24**	19	**5**	**26**
Net income	**$ 45**	$ 33	**$ 12**	**36**
Nine months ended September 30:				
Net interest income	**$ 705**	$ 535	**$ 170**	**32**
Other revenues (1)	**194**	62	**132**	*****
Total revenues	**899**	597	**302**	**51**
Provision for credit losses	**693**	459	**234**	**51**
	206	138	**68**	**49**
Operating expenses	**26**	21	**5**	**24**
Income before income tax expense	**180**	117	**63**	**54**
Income tax expense	**63**	41	**22**	**54**
Net income	**$ 117**	$ 76	**$ 41**	**54**

(1) For IFRS reporting purposes, fees charged by HSBC Finance Corporation for servicing various loan and receivable portfolios are netted against other revenues. These fees totaled $104 million and $102 million for the third quarter of 2007 and 2006, respectively, and $311 million and $305 million for the first nine months of 2007 and 2006, respectively.

* Not meaningful.

Higher net interest income for the third quarter and first nine months of 2007 resulted from:

- higher interest income from increased credit card receivable balances, due to the addition of new private label merchant relationships during 2006 and 2007;
- higher accrued income as a result of a more robust income recognition methodology on private label credit card promotional transactions; and
- lower amortization of premiums paid for purchases of receivables included within the PLRP. Although premiums associated with daily purchases of receivables from HSBC Finance Corporation continue to be recorded and amortized, the premium amortization associated with the initial portfolio acquisition in 2004 was $65 million lower for the first nine months of 2007.

Higher other revenues are directly related to increased credit card fees (refer to page 40 of this Form 10-Q).

Higher provisions for credit losses resulted from higher allowance for credit losses required for private label credit card receivable growth and from higher delinquencies within the portfolio.

HUSI is considering the purchase of a portfolio of General Motors MasterCard and Visa receivables (the "GM Portfolio") from HSBC Finance Corporation in the future in order to maximize the efficient use of capital and liquidity at each entity. The purchase is subject to obtaining the necessary regulatory and other approvals. HSBC Finance Corporation will maintain the customer account relationships. Subsequent to the initial receivable purchase, HUSI will purchase additional volume on a daily basis.

Commercial Banking (CMB)

Overview

Despite expansion of middle market activities in Chicago, Washington D.C. and the west coast of the U.S. and growth in small business lending, which have contributed to higher loan and deposit balances, overall performance within the CMB segment is relatively flat as business expansion costs and credit quality have offset these benefits. Overall, average commercial loans and deposits are 4% and 20% higher, respectively, for the first nine months of 2007, as compared with the same period in 2006. Commercial real estate lending has been impacted by a slowdown in this sector, which has offset growth in other business areas.

Operating Results

The following table summarizes results for the CMB segment.

			Increase (Decrease)	
	2007	2006	Amount	%
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ 208**	$ 201	**$ 7**	**3**
Other revenues	**67**	82	**(15)**	**(18)**
Total revenues	**275**	283	**(8)**	**(3)**
Provision for credit losses	**35**	31	**4**	**13**
	240	252	**(12)**	**(5)**
Operating expenses	**137**	136	**1**	**1**
Income before income tax expense	**103**	116	**(13)**	**(11)**
Income tax expense	**27**	38	**(11)**	**(29)**
Net income	**$ 76**	$ 78	**$ (2)**	**(3)**
Nine months ended September 30:				
Net interest income	**$ 606**	$ 550	**$ 56**	**10**
Other revenues	**196**	205	**(9)**	**(4)**
Total revenues	**802**	755	**47**	**6**
Provision for credit losses	**72**	62	**10**	**16**
	730	693	**37**	**5**
Operating expenses	**420**	369	**51**	**14**
Income before income tax expense	**310**	324	**(14)**	**(4)**
Income tax expense	**92**	110	**(18)**	**(16)**
Net income	**$ 218**	$ 214	**$ 4**	**2**

Pre-tax profit decreased by 11% to $103 million for the third quarter due to lower revenue, and by 4% to $310 million for the first nine months of 2007 due to provisions and expenses rising at a faster rate than revenues.

Net interest income grew by 10% to $606 million for the first nine months of 2007, driven by average loan balance growth of 20% in middle market lending and 22% in small business deposits. Offsetting this, net interest income was constrained by lower commercial real estate activity and narrowing spreads, particularly on deposits, as customers migrated to higher yielding products.

Other revenues decreased by 4% to $196 million for the first nine months of 2007, mainly due to lower gains on asset disposals for the first nine months of 2007 compared with the same period in 2006.

Provisions for credit losses were in line with the third quarter of 2006. However, provisions have increased by 16% for the first nine months of the year. This is due to higher commercial real estate provisions resulting from customer downgrades, as development projects are taking longer to complete. Additional commentary regarding credit quality begins on page 57 of this Form 10-Q.

Higher operating expenses of 14% for the first nine months of 2007, over the same period in 2006, reflects organic growth in legacy markets and business expansion in Chicago, Washington D.C. and the west coast. In addition, higher incentive compensation costs and increased community investment activities have also contributed to cost growth.

Deposits continue to be a key driver of growth in 2007, driven by expansion initiatives and targeted marketing campaigns. For the CMB segment, average customer deposits are 20% higher for the first nine months of 2007, compared with the same period in 2006.

Loan growth is primarily due to strong activity in middle market lending, with growth distributed equally between legacy and expansion markets. However, overall loan growth has been adversely impacted by a slowdown in commercial real estate activity. For the CMB segment, average loans are 4% higher for the first nine months of 2007, compared with the same period in 2006.

Corporate, Investment Banking and Markets (CIBM)

Overview

During the third quarter of 2007, the CIBM segment was affected by reduced market liquidity, widening spreads and higher volatility in the credit and sub-prime lending markets. This impacted trading in mortgage backed securities and credit derivatives and led to asset mark downs being recorded on leveraged buyout activity. The market turmoil has caused a significant fall in revenues in both the third quarter and the first nine months of 2007 as compared with the same 2006 periods. Third quarter precious metals revenue also experienced a decline related to lower price volatility. Partially offsetting this, the foreign exchange business has continued to contribute solid revenues as a result of ongoing market volatility and performance for the first nine months benefited from structured credit and emerging markets derivatives activity in the first half of the year.

Revenues from the recently expanded payments and cash management business were significantly higher for the third quarter and first nine months of 2007, as compared with the same 2006 periods, reflecting higher deposit balances and higher associated transaction fee revenues.

A relatively flat yield curve has reduced net interest income from balance sheet management activities for the first nine months of 2007 and has continued to limit opportunities to generate additional net funds income within the CIBM business segment.

During the first nine months of 2006, successful launches of new products and increased sales of structured products that are tailored to specific customer needs led to strong derivatives trading revenues. Gains in the precious metals business reflected volume growth driven by a surge in demand arising from strong commodities markets. Income streams in the foreign exchange business were robust against the backdrop of a weak U.S. dollar.

Operating Results

The following table summarizes results for the CIBM segment.
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	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ 62**	$ 46	**$ 16**	**35**
Other revenues	**(139)**	143	**(282)**	**(197)**
Total revenues	**(77)**	189	**(266)**	**(141)**
Provision for credit losses	**17**	7	**10**	**143**
	(94)	182	**(276)**	**(152)**
Operating expenses	**197**	180	**17**	**9**
Income before income tax expense	**(291)**	2	**(293)**	*****
Income tax expense	**(97)**	3	**(100)**	*****
Net loss	**$ (194)**	$ (1)	**$ (193)**	*****
Nine months ended September 30:				
Net interest income	**$ 199**	$ 183	**$ 16**	**9**
Other revenues	**436**	701	**(265)**	**(38)**
Total revenues	**635**	884	**(249)**	**(28)**
Provision for credit losses	**6**	(5)	**11**	*****
	629	889	**(260)**	**(29)**
Operating expenses	**584**	535	**49**	**9**
Income before income tax expense	**45**	354	**(309)**	**(87)**
Income tax expense	**17**	126	**(109)**	**(87)**
Net income	**$ 28**	$ 228	**$ (200)**	**(88)**

* Not meaningful.

Lower revenues primarily resulted from lower balance sheet management income and lower trading related revenues (refer to pages 28 and 45 of this Form 10-Q), which were partially offset by higher gains realized from sales of securities (refer to page 46 of this Form 10-Q).

Higher operating expenses for the first nine months of 2007, as compared with the same 2006 period, resulted from higher personnel costs associated with expansion of various businesses that are better positioned to leverage HSBC's global capabilities. Expenses for 2007 also included incremental costs associated with repositioning certain other non-strategic businesses in order to focus on building a financing and emerging markets led wholesale banking business.

Private Banking (PB)

Overview

During 2005 and 2006, additional resources have been allocated to expand products and services provided to high net worth customers served by the PB business segment. As a result, total average loans and deposit balances were 8% and 16% higher, respectively, for the first nine months of 2007, compared with the same 2006 period. Assets under management also increased 25%. However, these increases did not translate into higher net income over the prior year as gains from the sale of equity investments were recognized in 2006.

Operating Results

The following table summarizes results for the PB segment.

	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ 50**	$ 50	**$ -**	**-**
Other revenues	**66**	108	**(42)**	**(39)**
Total revenues	**116**	158	**(42)**	**(27)**
Provision for credit losses	**(1)**	2	**(3)**	**(150)**
	117	156	**(39)**	**(25)**
Operating expenses	**87**	75	**12**	**16**
Income before income tax expense	**30**	81	**(51)**	**(63)**
Income tax expense	**8**	28	**(20)**	**(71)**
Net income	**$ 22**	$ 53	**$ (31)**	**(58)**
Nine months ended September 30:				
Net interest income	**$ 150**	$ 146	**$ 4**	**3**
Other revenues	**210**	245	**(35)**	**(14)**
Total revenues	**360**	391	**(31)**	**(8)**
Provision for credit losses	**11**	32	**(21)**	**(66)**
	349	359	**(10)**	**(3)**
Operating expenses	**255**	224	**31**	**14**
Income before income tax expense	**94**	135	**(41)**	**(30)**
Income tax expense	**27**	46	**(19)**	**(41)**
Net income	**$ 67**	$ 89	**$ (22)**	**(25)**

Higher net interest income for the first nine months of 2007 resulted from the mix of higher average loans and deposit balances, offset by lower interest spreads.

The PB business segment includes an equity investment in a non-consolidated foreign HSBC affiliate (the foreign equity investment). During the third quarter of 2006, the foreign equity investment sold a portion of its investment in a foreign equity fund to another HSBC affiliate. During the second quarter of 2007, the foreign equity investment sold its remaining investment in the foreign equity fund, resulting in a gain from which HUSI recorded additional equity earnings of $7 million. Excluding the impact of this transaction, the decrease in equity investment holdings resulted in lower equity earnings included in other revenues for the first nine months of 2007, which was offset by higher commission and fee revenues from managed products, derivatives and annuity products.

Increased operating expenses for the third quarter and first nine months of 2007 mainly resulted from higher staff costs related to business expansion initiatives.

The provision for credit losses for the first nine months of 2007 includes the impact of an $8 million charge off related to a specific commercial customer relationship, for which no allowance was previously recorded. For 2006, the provision includes a $29 million charge for a combination of charge offs and higher allowances related to a specific commercial real estate investment loan relationship for which no specific allowance was previously recorded.

Other

Overview

The Other segment primarily includes an equity investment in HSBC Republic Bank (Suisse) S.A., and adjustments made at the corporate level for fair value option accounting related to certain debt issued.

Operating Results

The following table summarizes results for the Other segment.

	2007	2006	Increase (Decrease) Amount	%
		($ in millions)		
Three months ended September 30:				
Net interest income	**$ (4)**	$ (9)	**$ 5**	**56**
Other revenues	**150**	(31)	**181**	*****
Total revenues	**146**	(40)	**186**	*****
Provision for credit losses	**-**	(1)	**1**	**100**
	146	(39)	**185**	*****
Operating expenses	**4**	(9)	**13**	**144**
Income before income tax expense	**142**	(30)	**172**	*****
Income tax expense	**51**	(20)	**71**	*****
Net income (loss)	**$ 91**	$ (10)	**$ 101**	*****
Nine months ended September 30:				
Net interest income	**$ (9)**	$ (19)	**$ 10**	**53**
Other revenues	**90**	(32)	**122**	*****
Total revenues	**81**	(51)	**132**	*****
Provision for credit losses	**1**	(1)	**2**	*****
	80	(50)	**130**	*****
Operating expenses	**5**	(4)	**9**	*****
Income before income tax expense	**75**	(46)	**121**	*****
Income tax expense	**23**	(28)	**51**	**182**
Net income (loss)	**$ 52**	$ (18)	**$ 70**	*****

* Not meaningful.

The increase in other revenues for the third quarter and the first nine months of 2007 primarily resulted from decreases in the fair value of certain debt instruments, due to widening credit spreads, as compared with the same 2006 periods.

CREDIT QUALITY

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

HUSI's allowance for credit losses methodology and its accounting policies related to the allowance for credit losses are presented in Critical Accounting Policies beginning on page 25 of its 2006 Form 10-K and in Note 2 of the consolidated financial statements beginning on page 99 of its 2006 Form 10-K.

HUSI's approach toward credit risk management is summarized on pages 72-74 of its 2006 Form 10-K. There have been no material revisions to policies or methodologies during the first nine months of 2007, although the company continues to monitor current market conditions and will adjust credit policies as deemed necessary.

Overview

The allowance for credit losses increased $156 million (17%) and increased $161 million (18%) during the three month and nine month periods ended September 30, 2007, respectively. Higher allowances associated with the private label and MasterCard/Visa credit card receivable were primarily driven by higher delinquencies and charge offs. Allowance for credit losses balances and activity, by loan portfolio, are summarized on page 60 of this Form 10-Q.

The provision for credit losses increased $195 million (94%) for the third quarter of 2007, and increased $285 million (49%) for the first nine months of 2007 as compared with the same 2006 periods, primarily due to higher provisions associated with credit card receivable portfolios. The provision for credit losses associated with various loan portfolios is summarized on page 37 of this Form 10-Q.

Problem Loan Management

Nonaccruing loans by portfolio and impaired loans are summarized in Note 4 of the consolidated financial statements beginning on page 10 of this Form 10-Q.

HUSI's policies and practices for placing loans on nonaccruing status are summarized in Note 2 of the consolidated financial statements, beginning on page 99 of its 2006 Form 10-K.

Criticized Assets

Criticized asset classifications are based on the risk rating standards of HUSI's primary regulator. Problem credit facilities, which include loans and other credit arrangements such as letters of credit, are assigned various criticized facility grades under HUSI's allowance for credit losses methodology.

Criticized credit facilities are summarized in the following table.

		Increase (Decrease) from			
	September 30,	December 31, 2006		September 30, 2006	
Balance at	2007	Amount	%	Amount	%
		($ in millions)			
Special mention (1):					
Commercial loans	**$ 1,701**	$ 450	36	$ 827	95
Substandard (2):					
Commercial loans	**620**	(61)	(9)	161	35
Consumer loans	**881**	280	47	324	58
	1,501	219	17	485	48
Doubtful (3):					
Commercial loans	**27**	(5)	(16)	(23)	(46)
Total	**$ 3,229**	$ 664	26	$ 1,289	66

(1) Generally includes credit facilities that are protected by collateral and/or the credit worthiness of the customer, but are potentially weak based upon economic or market circumstances which, if not checked or corrected, could weaken HUSI's credit position at some future date.
(2) Includes credit facilities that are inadequately protected by the underlying collateral and/or general credit worthiness of the customer. These credit facilities present a distinct possibility that HUSI will sustain some loss if the deficiencies are not corrected.
(3) Includes credit facilities that have all the weaknesses exhibited by substandard credit facilities, with the added characteristic that the weaknesses make collection or liquidation in full of the recorded loan highly improbable. However, although the possibility of loss is extremely high, certain factors exist which may strengthen the credit at some future date, and therefore the decision to charge off the loan is deferred. Loans graded as doubtful are required to be placed in nonaccruing status.

Allowance for Credit Losses

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

Quarter ended	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
			($ in millions)		
Total loans at quarter end	**$ 92,666**	$ 87,409	$ 88,893	$ 90,237	$ 90,020
Average total loans	**88,720**	88,477	88,092	89,343	88,739
Allowance balance at beginning of quarter	**$ 902**	$ 862	$ 897	$ 886	$ 869
Allowance related to disposal of certain credit card receivables	**-**	-	-	(2)	-
Charge offs:					
Commercial	**35**	34	36	43	29
Consumer:					
Residential mortgages	**14**	12	14	10	9
Credit card receivables	**228**	221	224	205	188
Other consumer loans	**28**	26	31	32	27
Total consumer loans	**270**	259	269	247	224
Total charge offs	**305**	293	305	290	253
Recoveries on loans charged off:					
Commercial	**6**	8	6	9	8
Consumer:					
Residential mortgages	**-**	1	-	1	1
Credit card receivables	**44**	50	49	47	49
Other consumer loans	**9**	10	10	9	5
Total consumer loans	**53**	61	59	57	55
Total recoveries	**59**	69	65	66	63
Total net charge offs	**246**	224	240	224	190
Provision charged to income	**402**	264	205	237	207
Allowance balance at end of quarter	**$ 1,058**	$ 902	$ 862	$ 897	$ 886
Allowance ratios:					
Annualized net charge offs to average loans:					
Commercial	**.36 %**	.35 %	.43 %	.47 %	.29 %
Consumer:					
Residential mortgages	**.15**	.11	.15	.09	.08
Credit card receivables	**4.09**	3.91	4.01	3.62	3.39
Other consumer loans	**3.08**	2.58	3.20	3.27	2.95
Total consumer	**1.51**	1.35	1.43	1.25	1.12
Total loans	**1.10 %**	1.01 %	1.11 %	1.00 %	.85 %
Quarter-end allowance to:					
Quarter-end total loans	**1.14 %**	1.03 %	.97 %	.99 %	.98 %
Quarter-end total nonaccruing loans	**163.78 %**	277.54 %	280.78 %	314.74 %	331.84 %

Changes in the allowance for credit losses by general loan categories are summarized in the following tables.

Three months ended September 30	Commercial	Residential Mortgage	Credit Card	Other Consumer	Unallocated	Total
			(in millions)			
2007						
Balance at beginning of period	**$ 212**	**$ 30**	**$ 624**	**$ 25**	**$ 11**	**$ 902**
Charge offs	**35**	**14**	**228**	**28**	**-**	**305**
Recoveries	**6**	**-**	**44**	**9**	**-**	**59**
Net charge offs	**29**	**14**	**184**	**19**	**-**	**246**
Provision charged to income	**54**	**24**	**301**	**20**	**3**	**402**
Balance at end of period	**$ 237**	**$ 40**	**$ 741**	**$ 26**	**$ 14**	**$ 1,058**
2006						
Balance at beginning of period	$ 192	$ 31	$ 600	$ 29	$ 17	$ 869
Charge offs	29	9	188	27	-	253
Recoveries	8	1	49	5	-	63
Net charge offs	21	8	139	22	-	190
Provision charged to income	40	3	150	20	(6)	207
Balance at end of period	$ 211	$ 26	$ 611	$ 27	$ 11	$ 886

Nine months ended September 30	Commercial	Residential Mortgage	Credit Card	Other Consumer	Unallocated	Total
			(in millions)			
2007						
Balance at beginning of period	**$ 203**	**$ 31**	**$ 626**	**$ 26**	**$ 11**	**$ 897**
Charge offs	**105**	**40**	**673**	**85**	-	**903**
Recoveries	**20**	**1**	**143**	**29**	**-**	**193**
Net charge offs	**85**	**39**	**530**	**56**	**-**	**710**
Provision charged to income	**119**	**48**	**645**	**56**	**3**	**871**
Balance at end of period	**$ 237**	**$ 40**	**$ 741**	**$ 26**	**$ 14**	**$ 1,058**
2006						
Balance at beginning of period	$ 162	$ 34	$ 600	$ 36	$ 14	$ 846
Allowance related to disposals	-	-	(6)	-	-	(6)
Charge offs	93	27	523	79	-	722
Recoveries	29	1	123	29	-	182
Net charge offs	64	26	400	50	-	540
Provision charged to income	113	18	417	41	(3)	586
Balance at end of period	$ 211	$ 26	$ 611	$ 27	$ 11	$ 886

Commercial Loan Credit Quality

Components of the commercial allowance for credit losses, as well as movements in comparison with prior periods, are summarized in the following table.

	September 30, 2007	Increase (Decrease) from			
		December 31, 2006		September 30, 2006	
		Amount	%	Amount	%
			($ in millions)		
On-balance sheet allowance:					
Specific	**$ 18**	$ 4	29	$ 2	13
Collective	**219**	30	16	24	12
	237	34	17	26	12
Unallocated	**14**	3	27	3	27
Total on-balance sheet allowance	**251**	37	17	29	13
Off-balance sheet allowance	**93**	(5)	(5)	(5)	(5)
Total commercial allowances	**$ 344**	$ 32	10	$ 24	8

Overall, commercial loan credit quality remains stable and well-controlled. Higher criticized loan balances from September 30, 2006 to September 30, 2007 (refer to page 58 of this Form 10-Q) resulted mainly from downgrades in real estate and middle market exposures. The downgrades resulted in part from changes in the credit metrics for specific credits within these portfolios. Total nonaccruing commercial loans remain low as a percentage of total commercial loans. Based upon evaluation of the repayment capacity of the obligors, including support from adequately margined collateral, performance on guarantees, and other mitigating factors, impairment is modestly higher in 2007 as compared with prior reporting periods, and is adequately reflected in the allowances for specific and collective impairment.

HUSI management continues to monitor the following factors that could affect portfolio risk:

- recent growth initiatives which have resulted in growth in the size and complexity of the commercial loan portfolio;
- HUSI's continued geographic expansion;
- borrower concentrations;
- increased number and complexity of products offered; and
- continuing signs of stress within certain segments of the economy.

HUSI management continues to monitor and reduce exposures to those industries considered to be higher risk. During 2006, HUSI management began to make more extensive use of available tools to more actively manage net exposure within its corporate loan portfolios with an increased syndication capacity as well as increased use of credit default swaps to economically hedge and reduce certain exposures.

Any sudden and/or unexpected adverse economic events or trends could significantly affect credit quality and increase provisions for credit losses. For example, HUSI management is monitoring the U.S. housing market, rising interest rates and high energy prices, which could potentially lead to a deceleration of U.S. economic activity.

Credit Card Receivable Credit Quality

Credit card receivables are primarily private label receivables, including closed and open ended contracts, acquired from HSBC Finance Corporation. Receivables included in the private label credit card portfolio are generally maintained in accruing status until being charged off six months after delinquency. Selected credit quality data for credit card receivables is summarized in the following table.

	September 30, 2007	**December 31, 2006**	**September 30, 2006**
		($ in millions)	
Accruing balances contractually past due 90 days or more:			
Balance at end of quarter	**$ 357**	$ 339	$ 314
As a percent of total credit card receivables	**1.98 %**	1.86 %	1.87 %
Allowance for credit losses associated with credit card receivables:			
Balance at end of quarter	**$ 741**	$ 626	$ 611
As a percent of total credit card receivables	**4.11 %**	3.43 %	3.64 %
Net charge offs of credit card receivables:			
Total for the quarter ended	**$ 184**	$ 158	$ 139
Annualized net charge offs as a percent of average credit card receivables	**4.09 %**	3.62 %	3.39 %

The allowance for credit losses associated with credit card receivables increased $117 million (19%) during the third quarter and $115 million (18%) for the first nine months of 2007. Net charge off and provision activity was higher during the third quarter and the first nine months of 2007 as compared to 2006 due to increased private label and MasterCard/Visa credit card receivable balances and to higher delinquencies within these portfolios, which have resulted in a higher collective allowance balance. Underwriting criteria is continually being reviewed and will be modified as necessary based on the current economic environment.

Residential Mortgage Loan Credit Quality

The increase in the allowance for credit losses related to residential mortgage loans in the third quarter of 2007 was primarily related to Home Equity Lines of Credit (HELOC). The remainder of HUSI's residential mortgage portfolio is primarily comprised of prime mortgage loans, which are experiencing some deterioration, but have remained relatively stable.

Additional disclosures regarding certain risk concentrations inherent within the residential mortgage loan portfolio are provided beginning on page 66 of this Form 10-Q.

Reserve for Off-Balance Sheet Exposures

HUSI maintains a separate reserve for credit risk associated with certain off-balance sheet exposures including letters of credit, unused commitments to extend credit and financial guarantees. This reserve, included in other liabilities, was $93 million, $98 million and $98 million at September 30, 2007, December 31, 2006 and September 30, 2006, respectively. Off-balance sheet exposures are summarized on page 64 of this Form 10-Q.

Credit and Market Risks Associated with Derivative Contracts

Credit (or repayment) risk in derivative instruments is minimized by entering into transactions with high quality counterparties, including other HSBC entities. Counterparties include financial institutions, government agencies, both foreign and domestic, corporations, funds (mutual funds, hedge funds, etc.), insurance companies and private clients. These counterparties are subject to regular credit review by the credit risk management department. Most derivative contracts are governed by an International Swaps and Derivatives Association Master Agreement. Depending on the type of counterparty and the level of expected activity, bilateral collateral arrangements may also be required.

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

- the existence of a master netting agreement among the counterparties;
- volatility of interest rates, currencies, equity or corporate reference entity used as the basis for determining contract payments;
- maturity and liquidity of contracts;
- credit worthiness of the counterparties in the transaction; and
- existence and value of collateral received from counterparties to secure exposures.

The following table presents credit risk exposure and net fair value associated with derivative contracts. In the table, current credit risk exposure is the recorded fair value of derivative receivables, which represents revaluation gains from the marking to market of derivative contracts held for trading purposes, for all counterparties with an International Swaps and Derivatives Association Master Agreement in place.

Future credit risk exposure in the following table is measured using rules contained in the risk-based capital guidelines published by U.S. banking regulatory agencies. The risk exposure calculated in accordance with the risk-based capital guidelines potentially overstates actual credit exposure, because:

- the risk-based capital guidelines ignore collateral that may have been received from counterparties to secure exposures; and
- the risk-based capital guidelines compute exposures over the life of derivative contracts. However, many contracts contain provisions that allow a bank to close out the transaction if the counterparty fails to post required collateral. As a result, these contracts have potential future exposures that are often much smaller than the future exposures derived from the risk-based capital guidelines.

The net credit risk exposure amount in the following table does not reflect the impact of bilateral netting (i.e., netting with a single counterparty when a bilateral netting agreement is in place). However, the risk-based capital guidelines recognize that bilateral netting agreements reduce credit risk and therefore allow for reductions of risk-weighted assets when netting requirements have been met. Therefore, risk-weighted amounts for regulatory capital purposes are a fraction of the original gross exposures.

	September 30, 2007	December 31, 2006
	(in millions)	
Risk associated with derivative contracts:		
Current credit risk exposure	**$ 13,209**	$ 11,398
Future credit risk exposure	**74,728**	72,447
Total risk exposure	**87,937**	83,845
Less: collateral held against exposure	**(5,368)**	(3,989)
Net credit risk exposure	**$ 82,569**	$ 79,856

HUSI's Asset and Liability Policy Committee is responsible for monitoring and defining the scope and nature of various strategies utilized to manage interest rate risk that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedge strategies are then incorporated into HUSI's overall interest rate risk management and trading strategies.

Market risk is the adverse effect that a change in interest rates, currency, or implied volatility rates has on the value of a financial instrument. HUSI manages the market risk associated with interest rate and foreign exchange contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. HUSI also manages the market risk associated with trading derivatives through hedging strategies that correlate the rates, price and spread movements. HUSI measures this risk daily by using Value at Risk (VAR) and other methodologies (refer to pages 68-70 of this Form 10-Q).

Notional values of derivative contracts are summarized in the following table.

	September 30, 2007	December 31, 2006
	(in millions)	
Interest rate:		
Futures and forwards	**$ 125,252**	$ 94,204
Swaps	**1,967,158**	1,906,688
Options written	**225,977**	510,023
Options purchased	**236,364**	544,026
	2,554,751	3,054,941
Foreign exchange:		
Swaps, futures and forwards	**500,568**	394,621
Options written	**75,570**	61,406
Options purchased	**76,451**	63,795
Spot	**58,571**	32,654
	711,160	552,476
Commodities, equities and precious metals:		
Swaps, futures and forwards	**48,879**	43,620
Options written	**20,953**	12,263
Options purchased	**20,241**	16,115
	90,073	71,998
Credit derivatives	**1,139,480**	816,422
Total	**$ 4,495,464**	$ 4,495,837

The total notional amounts in the table above relate primarily to HUSI's trading activities. Notional amounts included in the table related to non-trading fair value, cash flow and economic hedging activities were $21 billion and $27 billion at September 30, 2007 and December 31, 2006, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

The following table provides maturity information related to off-balance sheet arrangements. Descriptions of these arrangements are found on pages 68-69 of HUSI's 2006 Form 10-K.

	Balance at September 30, 2007				Balance at December 31, 2006
	One Year or Less	**Over One Through Five Years**	**Over Five Years**	**Total**	
			(in millions)		
Standby letters of credit, net of participations (1)	**$ 5,798**	**$ 2,565**	**$ 115**	**$ 8,478**	$ 7,259
Commercial letters of credit	**796**	**214**	**-**	**1,010**	795
Loan sales with recourse	**-**	**1**	**5**	**6**	8
Credit derivative contracts (2)	**18,028**	**343,047**	**231,125**	**592,200**	431,631
Commitments to extend credit:					
Commercial	**28,189**	**29,113**	**4,471**	**61,773**	55,862
Consumer	**9,805**	**-**	**-**	**9,805**	9,627
Total	**$ 62,616**	**$ 374,940**	**$ 235,716**	**$ 673,272**	$ 505,182

(1) Includes $596 million and $542 million issued for the benefit of HSBC affiliates at September 30, 2007 and December 31, 2006, respectively.
(2) Includes $90,599 million and $71,908 million issued for the benefit of HSBC affiliates at September 30, 2007 and December 31, 2006, respectively.

Letters of Credit

Fees are charged for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, representing the fair value of the "stand ready obligation to perform" under these guarantees, amounting to $23 million and $21 million at September 30, 2007 and December 31, 2006, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $24 million and $25 million at September 30, 2007 and December 31, 2006, respectively.

Credit Derivatives

HUSI enters into credit derivative contracts primarily to satisfy the needs of its customers and, in certain cases, for its own benefit. Credit derivatives are arrangements that provide for one party (the "protection buyer") to transfer the credit risk of a "reference asset" to another party (the "protection seller"). Under this arrangement, the protection seller assumes the credit risk associated with the reference asset without directly purchasing it. The protection buyer agrees to pay a specified fee to the protection seller. In return, the protection seller agrees to pay the protection buyer an agreed upon amount if there is a default during the term of the contract.

In accordance with its policy, HUSI offsets most of the risk it assumes in selling credit protection through a credit derivative contract with another counterparty. Credit derivatives are recorded at fair value. The commitment amount included in the table is the maximum amount that HUSI could be required to pay, without consideration of the approximately equal amount receivable from third parties and any associated collateral.

Commitments to Extend Credit – Commercial Lending Commitments

HUSI extends commercial lending commitments primarily in connection with its participation in leveraged acquisition finance syndicates. Substantially all of HUSI's leveraged acquisition finance commitments resulted in the origination of loans during the third quarter of 2007. At September 30, 2007, HUSI's exposure to unfunded leveraged acquisition finance commitments was $268 million.

Securitizations and Secured Financings

On December 29, 2004, HUSI acquired a domestic private label loan portfolio from HSBC Finance Corporation, without recourse, which included securitized private label credit card receivables, and retained interest assets related to these securitizations. These credit card securitization transactions were structured to receive sale treatment under Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125 (SFAS 140).

In the third quarter of 2006, the last remaining securitization trust agreement related to the private label portfolio acquired from HSBC Finance Corporation in 2004 was amended. As a result, the securitization trust no longer qualifies for sale treatment in accordance with U.S. GAAP, and the transaction is now recorded as a secured financing transaction. At the agreement amendment date, all outstanding investments, credit card receivables and liabilities related to the trust were recorded on HUSI's consolidated balance sheet.

Under IFRS, HUSI’s securitizations are treated as secured financings. In order to align its accounting treatment with that of HSBC, all of HUSI’s collateralized funding transactions have been structured as secured financings under U.S. GAAP since the third quarter of 2004. In a secured financing, a designated pool of receivables is conveyed to a wholly owned limited purpose subsidiary, which in turn transfers the receivables to a trust that sells interests to investors. Repayment of the debt issued by the trust is secured by the receivables transferred. The transactions are structured as secured financings under SFAS 140. Therefore, the receivables and the underlying debt of the trust remain on HUSI’s balance sheet. HUSI does not recognize a gain in a secured financing transaction. Because the receivables and debt remain on the balance sheet, revenues and expenses are reported consistent with the owned balance sheet portfolio. There have been no new secured financing transactions in the first nine months of 2007.

HUSI’s secured financings and securitized receivables are summarized in the following table.

	September 30, 2007	December 31, 2006
	(in millions)	
Secured financings included in long-term debt	**$ 1,550**	$ 2,134
Private label credit card receivables collateralizing secured financings at period end	**$ 1,885**	$ 2,439

RISK MANAGEMENT

Overview

Some degree of risk is inherent in virtually all of HUSI’s activities. For the principal activities undertaken by HUSI, the most important types of risks are considered to be credit, interest rate, market, liquidity, operational, fiduciary and reputational. Market risk broadly refers to price risk inherent in mark to market positions taken on trading and non-trading instruments. Operational risk technically includes legal and compliance risk. However, since compliance risk, including anti-money laundering (AML) risk, has such broad scope within HUSI’s businesses, it is addressed as a separate functional discipline. During the first nine months of 2007, there have been no significant changes in policies or approach for managing various types of risk, although the company continues to monitor current market conditions and will adjust risk management policies and procedures if deemed necessary.

Liquidity Management

HUSI's approach to address liquidity risk is summarized on pages 75-76 of HUSI's 2006 Form 10-K. There have been no material changes in HUSI's approach toward liquidity risk management during 2007.

HUSI's ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit rating agencies. At September 30, 2007, HUSI and HBUS maintained the following debt ratings.

At September 30, 2007	**Moody's**	**S&P**	**Fitch**
HUSI:			
Short-term borrowings	**P-1**	**A-1+**	**F1+**
Long-term debt	**Aa3**	**AA-**	**AA**
HBUS:			
Short-term borrowings	**P-1**	**A-1+**	**F1+**
Long-term debt	**Aa2**	**AA**	**AA**

HUSI periodically issues capital instruments to fund balance sheet growth, to meet cash and capital needs, or to fund investments in subsidiaries. In December 2005, the United States Securities and Exchange Commission (SEC) amended its rules regarding registration, communications and offerings under the Securities Act of 1933. The amended rules facilitate access to capital markets by well-established public companies, provide more flexibility regarding restrictions on corporate communications during a securities offering and further integrate disclosures under the Securities Act of 1933 and the Securities Exchange Act of 1934. The amended rules provide the most flexibility to "well-known seasoned issuers", including the option of automatic effectiveness upon filing of shelf registration statements and relief under the liberalized communications rules. HUSI currently satisfies the eligibility requirements for designation as a "well-known seasoned issuer", and has an effective shelf registration statement with the SEC under which it may issue debt securities, preferred stock, either separately or represented by depositary shares, warrants, purchase contracts and units.

Concentrations of Risk Inherent in Loan Portfolios

Certain risk concentrations are inherent within the prime residential mortgage loan portfolio, as well as the subprime residential mortgage whole loans held for sale portfolio, including concentrations that result in credit risk. A concentration of risk is defined as a significant exposure with an individual or group engaged in similar activities or affected similarly by economic conditions. As is true for all loan portfolios, HUSI utilizes high underwriting standards and prices loans in a manner that is appropriate to compensate for the higher risk associated with these concentrations.

HUSI holds certain residential mortgage loans that have high loan-to-value (LTV) ratios and no mortgage insurance, which could result in potential inability to recover the entire investment in loans involving foreclosed or damaged properties. At September 30, 2007 and December 31, 2006, high LTV loans were mainly loans on primary residences with LTV ratios equal to or exceeding 90%.

HUSI also holds interest-only residential mortgage loans that allow borrowers to pay only the accruing interest for a period of time, which results in lower payments during the initial loan period. Depending on a customer's financial situation, the subsequent increase in the required payment attributable to loan principal could affect a customer's ability to repay the loan at some future date when the interest rate resets and/or principal payments are required.

Outstanding balances of high LTV and interest-only residential mortgage loans are summarized in the following table.

	September 30, 2007	**December 31, 2006**
	(in millions)	
Residential mortgage loans with high LTV and no mortgage insurance	**$ 2,067**	$ 2,717
Interest-only residential mortgage loans	**6,514**	7,537
Total	**$ 8,581**	$ 10,254

Concentrations of first and second liens within the residential mortgage loan portfolio are summarized in the following table. Amounts in the table exclude loans held for sale.

	September 30, 2007	December 31, 2006
	(in millions)	
Closed end:		
First lien	**$ 29,327**	$ 31,876
Second lien	**731**	474
Revolving:		
Second lien	**3,019**	3,231
Total	**$ 33,077**	$ 35,581

HUSI also offers adjustable rate residential mortgage loans which allow it to adjust pricing on the loan in line with market movements. As interest rates have risen over the last three years, many adjustable rate loans are expected to require a significantly higher monthly payment following their first adjustment. A customer's financial situation at the time of the interest rate reset could affect their ability to repay the loan after the adjustment, or may cause the customer to prepay or refinance the loan. At September 30, 2007, HUSI had approximately $18.6 billion in adjustable rate residential mortgage loans. For the remainder of 2007, approximately $.4 billion of adjustable rate residential mortgage loans will experience their first interest rate reset. In 2008, approximately $3.1 billion of adjustable rate residential mortgage loans will experience their first interest rate reset.

Interest Rate Risk Management

Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of HUSI's assets, liabilities, and derivative contracts. The approach toward managing interest rate risk is summarized on pages 77-79 of HUSI's 2006 Form 10-K. During the first nine months of 2007, there were no significant changes in policies or approach for managing interest rate risk.

Present Value of a Basis Point (PVBP) Analysis

PVBP is the change in value of the balance sheet for a one basis point upward movement in all interest rates. HUSI's PVBP position is summarized in the following table.

September 30, 2007	Values
	(in millions)
Institutional PVBP movement limit	**$ 6.5**
PVBP position at period end	**1.1**

Economic Value of Equity

Economic value of equity is the change in value of the assets and liabilities (excluding capital and goodwill) for either a 200 basis point gradual rate increase or decrease. HUSI's economic value of equity position is summarized in the following table.

September 30, 2007	Values (%)	
Institutional economic value of equity limit	**+/-**	**20**
Projected change in value (reflects projected rate movements on October 1, 2007):		
Change resulting from a gradual 200 basis point increase in interest rates		**(5)**
Change resulting from a gradual 200 basis point decrease in interest rates		**(7)**

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

Dynamic Simulation Modeling

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

	September 30, 2007 Values	
	Amount	%
	($ in millions)	
Projected change in net interest income for scenarios subject to a formal institutional movement limit (reflects projected rate movements on October 1, 2007):		
Institutional base earnings movement limit		**(10)**
Change resulting from a gradual 200 basis point increase in the yield curve	**$ (164)**	**(5)**
Change resulting from a gradual 200 basis point decrease in the yield curve	**132**	**4**
Change resulting from a gradual 100 basis point increase in the yield curve	**(80)**	**(2)**
Change resulting from a gradual 100 basis point decrease in the yield curve	**68**	**2**
Other significant scenarios monitored for internal purposes, not subject to a formal institutional movement limit (reflects projected rate movements on October 1, 2007):		
Change resulting from an immediate 100 basis point increase in the yield curve	**(128)**	**(4)**
Change resulting from an immediate 100 basis point decrease in the yield curve	**104**	**3**
Change resulting from an immediate 200 basis point increase in the yield curve	**(268)**	**(7)**
Change resulting from an immediate 200 basis point decrease in the yield curve	**102**	**3**

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

Capital Risk/Sensitivity of Other Comprehensive Income

Large movements of interest rates could directly affect some reported capital and capital ratios. The mark to market valuation of available for sale securities is adjusted on a tax effective basis through other comprehensive income in the consolidated statement of changes in shareholders' equity. Although this valuation mark is excluded from Tier 1 and Tier 2 capital ratios, it is included in two important accounting based capital ratios: the tangible common equity to tangible assets and the tangible common equity to risk weighted assets. As of September 30, 2007, HUSI had an available for sale securities portfolio of approximately $22 billion with a net negative mark to market of $443 million included in tangible common equity of $8 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $120 million to a net loss of $563 million with the following results on the tangible capital ratios.

September 30, 2007	Actual	Proforma – Reflecting 25 Basis Points Increase in Rates
Tangible common equity to tangible assets	**4.33 %**	**4.30 %**
Tangible common equity to risk weighted assets	**6.01**	**5.95**

Market Risk Management

Value at Risk (VAR)

VAR analysis is used to estimate the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. VAR calculations are performed for all material trading activities and as a tool for managing interest rate risk inherent in non-trading activities. HUSI calculates VAR daily for a one-day holding period to a 99% confidence level. At a 99% confidence level for a two-year observation period, HUSI is setting as its limit the fifth worst loss performance in the last 500 business days.

VAR - Trading Activities

HUSI's management of market risk is based on restricting individual operations to trading within a list of permissible instruments, and enforcing rigorous approval procedures for new products. In particular, trading in the more complex derivative products is restricted to offices with appropriate levels of product expertise and robust control systems.

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques, including VAR and various techniques for monitoring interest rate risk (beginning on page 67 of this Form 10-Q). These techniques quantify the impact on capital of defined market movements.

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

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

Trading VAR for 2007 is summarized in the following table.

	September 30,	Nine months ended September 30, 2007			December 31,
	2007	**Minimum**	**Maximum**	**Average**	**2006**
			(in millions)		
Total trading	**$ 31**	**$ 9**	**$ 41**	**$ 17**	$ 9
Precious metals	**1**	**- (1)**	**4**	**1**	2
Equities	**- (1)**	**- (1)**	**4**	**- (1)**	- (1)
Foreign exchange	**1**	**- (1)**	**3**	**1**	2
Interest rate directional and credit spread	**26**	**5**	**38**	**15**	13

(1) Less than $500 thousand.

The frequency distribution of daily market risk-related revenues for trading activities during 2007 is summarized in the following table. Market risk-related trading revenues include realized and unrealized gains (losses) related to trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the three months ended September 30, 2007 shows that the largest daily gain was $20 million and the largest daily loss was $65 million. Analysis of the gain (loss) data for the nine months ended September 30, 2007 shows that the largest daily gain was $25 million and the largest daily loss was $65 million.

Ranges of daily Treasury trading revenue earned from market risk-related activities (in millions)	Below $(10)	$(10) to $(5)	$(5) to $0	$0 to $5	Over $5
Three months ended September 30, 2007:					
Number of trading days market risk-related revenue was within the stated range	**11**	**13**	**15**	**12**	**12**
Nine months ended September 30, 2007:					
Number of trading days market risk-related revenue was within the stated range	**13**	**25**	**53**	**62**	**35**

VAR - Non-trading Activities

The principal objective of market risk management of non-trading portfolios is to optimize net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on optionality in certain product areas, for example, mortgage prepayments, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand. The prospective change in future net interest income from non-trading portfolios will be reflected in the current realizable value of these positions, should they be sold or closed prior to maturity. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to global markets or to separate books managed under the supervision of ALCO. Once market risk has been consolidated in global markets or ALCO-managed books, the net exposure is typically managed through the use of interest rate swaps within agreed-upon limits.

Non-trading VAR for 2007, assuming a 99% confidence level for a two-year observation period and a one-day "holding period", is summarized in the following table.

	September 30, 2007	**Nine months ended September 30, 2007**			**December 31, 2006**
		Minimum	**Maximum**	**Average**	
			(in millions)		
Interest rate	**$ 39**	**$ 18**	**$ 55**	**$ 30**	$ 24

Trading Activities – HSBC Mortgage Corporation (USA)

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

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

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

Rate Shock Analysis

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

September 30, 2007	**Values**
	(in millions)
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on October 1, 2007):	
Value of hedged MSRs portfolio	**$ 537**
Change resulting from an immediate 50 basis point decrease in the yield curve:	
Change limit (no worse than)	**(16)**
Calculated change in net market value	**2**
Change resulting from an immediate 50 basis point increase in the yield curve:	
Change limit (no worse than)	**(8)**
Calculated change in net market value	**1**
Change resulting from an immediate 100 basis point increase in the yield curve:	
Change limit (no worse than)	**(12)**
Calculated change in net market value	**3**

Economic Value of MSRs

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

Hedge Volatility

The frequency distribution of the weekly economic value of MSR assets during 2007 is summarized in the following table. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the quarter, if applicable.

Ranges of mortgage economic value from market risk-related activities (in millions)	**Below $(2)**	**$(2) to $0**	**$0 to $2**	**$2 to $4**	**Over $4**
Three months ended September 30, 2007:					
Number of trading weeks market risk-related revenue was within the stated range	**3**	**5**	**5**	**-**	**-**
Nine months ended September 30, 2007:					
Number of trading weeks market risk-related revenue was within the stated range	**7**	**11**	**15**	**4**	**2**

HSBC USA Inc.
Consolidated Average Balances and Interest Rates

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

	Three months ended September 30,					
	2007			2006		
	Balance	**Interest**	**Rate***	**Balance**	**Interest**	**Rate***
	(in millions)					
Assets						
Interest bearing deposits with banks	**$ 6,508**	**$ 98**	**6.01 %**	$ 3,865	$ 57	5.84 %
Federal funds sold and securities purchased under resale agreements	**10,772**	**143**	**5.26**	11,292	152	5.36
Trading assets	**11,712**	**167**	**5.66**	11,439	107	3.70
Securities	**24,151**	**324**	**5.32**	22,515	295	5.19
Loans						
Commercial	**31,606**	**518**	**6.50**	28,838	472	6.49
Consumer:						
Residential mortgages	**36,848**	**497**	**5.35**	40,717	542	5.28
Credit cards	**17,828**	**508**	**11.31**	16,231	361	8.82
Other consumer	**2,438**	**63**	**10.18**	2,953	69	9.33
Total consumer	**57,114**	**1,068**	**7.42**	59,901	972	6.44
Total loans	**88,720**	**1,586**	**7.09**	88,739	1,444	6.46
Other	**3,938**	**60**	**5.98**	1,916	27	5.57
Total earning assets	**145,801**	**$ 2,378**	**6.47 %**	139,766	$ 2,082	5.91 %
Allowance for credit losses	**(994)**			(937)		
Cash and due from banks	**3,065**			4,100		
Other assets	**24,992**			22,157		
Total assets	**$ 172,864**			$ 165,086		
Liabilities and Shareholders' Equity						
Deposits in domestic offices						
Savings deposits	**$ 44,284**	**$ 361**	**3.23 %**	$ 37,187	$ 288	3.08 %
Other time deposits	**20,895**	**303**	**5.75**	22,694	289	5.05
Deposits in foreign offices						
Foreign banks deposits	**9,723**	**107**	**4.35**	7,280	87	4.74
Other time and savings	**16,578**	**222**	**5.32**	13,697	164	4.74
Total interest bearing deposits	**91,480**	**993**	**4.31**	80,858	828	4.06
Short-term borrowings	**9,698**	**90**	**3.66**	10,645	91	3.39
Long-term debt	**28,920**	**365**	**5.01**	30,332	380	4.97
Total interest bearing liabilities	**130,098**	**1,448**	**4.41**	121,835	1,299	4.23
Net interest income / Interest rate spread		**$ 930**	**2.06 %**		$ 783	1.68 %
Noninterest bearing deposits	**13,940**			13,155		
Other liabilities	**16,736**			17,922		
Total shareholders' equity	**12,090**			12,174		
Total liabilities and shareholders' equity	**$ 172,864**			$ 165,086		
Net interest margin on average earning assets			**2.53 %**			2.22 %
Net interest margin on average total assets			**2.14 %**			1.88 %

* Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the three months ended September 30, 2007 and 2006 included fees of $9 million and $12 million, respectively.

HSBC USA Inc.
Consolidated Average Balances and Interest Rates

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

	Nine months ended September 30,					
	2007			2006		
	Balance	Interest	Rate*	Balance	Interest	Rate*
	(in millions)					
Assets						
Interest bearing deposits with banks	**$ 5,412**	**$ 236**	**5.83 %**	$ 4,234	$ 183	5.79 %
Federal funds sold and securities						
purchased under resale agreements	**11,896**	**483**	**5.42**	9,249	345	4.98
Trading assets	**11,689**	**476**	**5.44**	10,844	317	3.91
Securities	**22,866**	**900**	**5.26**	21,922	845	5.15
Loans						
Commercial	**29,947**	**1,458**	**6.51**	27,777	1,288	6.20
Consumer:						
Residential mortgages	**38,270**	**1,554**	**5.43**	42,350	1,671	5.27
Credit cards	**17,690**	**1,305**	**9.86**	15,539	952	8.19
Other consumer	**2,525**	**188**	**9.99**	3,021	201	8.92
Total consumer	**58,485**	**3,047**	**6.97**	60,910	2,824	6.20
Total loans	**88,432**	**4,505**	**6.81**	88,687	4,112	6.20
Other	**3,088**	**135**	**5.84**	1,478	64	5.80
Total earning assets	**143,383**	**$ 6,735**	**6.28 %**	136,414	$ 5,866	5.75 %
Allowance for credit losses	**(950)**			(931)		
Cash and due from banks	**3,015**			4,019		
Other assets	**22,708**			22,433		
Total assets	**$ 168,156**			$ 161,935		
Liabilities and Shareholders' Equity						
Deposits in domestic offices						
Savings deposits	**$ 42,729**	**$ 1,038**	**3.25 %**	$ 33,873	$ 680	2.69 %
Other time deposits	**22,157**	**915**	**5.52**	24,521	851	4.64
Deposits in foreign offices						
Foreign banks deposits	**9,079**	**328**	**4.82**	7,105	259	4.87
Other time and savings	**15,315**	**560**	**4.89**	14,760	456	4.13
Total interest bearing deposits	**89,280**	**2,841**	**4.25**	80,259	2,246	3.74
Short-term borrowings	**9,121**	**266**	**3.90**	10,505	237	3.01
Long-term debt	**28,971**	**1,087**	**5.02**	29,394	1,077	4.90
Total interest bearing liabilities	**127,372**	**4,194**	**4.40**	120,158	3,560	3.96
Net interest income / Interest rate spread		**$ 2,541**	**1.88 %**		$ 2,306	1.79 %
Noninterest bearing deposits	**13,687**			12,627		
Other liabilities	**14,924**			17,176		
Total shareholders' equity	**12,173**			11,974		
Total liabilities and shareholders' equity	**$ 168,156**			$ 161,935		
Net interest margin on average earning assets			**2.37 %**			2.26 %
Net interest margin on average total assets			**2.02 %**			1.90 %

* Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the nine months ended September 30, 2007 and 2006 included fees of $32 million and $41 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the captions “Interest Rate Risk Management” and “Trading Activities”, beginning on page 65 of this Form 10-Q.

Item 4. Controls and Procedures

HUSI maintains a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, (the Exchange Act), is recorded, processed, summarized and reported on a timely basis. HUSI’s Board of Directors, operating through its Audit Committee, which is composed entirely of independent outside directors, provides oversight to the financial reporting process.

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

There have been no changes in HUSI’s internal controls or in other factors that could significantly affect internal and disclosure controls subsequent to the date that the evaluation was carried out, although the company continues to monitor current market conditions and will adjust policies and procedures if deemed necessary.

HUSI continues the process to complete a thorough review of its internal controls as part of its preparation for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404). Section 404 requires management to report on, and external auditors to attest to, the effectiveness of HUSI’s internal control structure and procedures for financial reporting. As a non-accelerated filer under Rule 12b-2 of the Exchange Act, HUSI’s first report under Section 404 will be contained in its Form 10-K for the period ended December 31, 2007.

Part II – OTHER INFORMATION

Item 1A. Risk Factors

Risk factors were set forth in HUSI's Form 10-K for the period ended December 31, 2006. There have been no material changes from the risk factors disclosed in that Form 10-K.

Item 6. Exhibits

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

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

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

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

SIGNATURE

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

HSBC USA Inc.
(Registrant)

Date: November 14, 2007

/s/ Joseph R. Simpson
Joseph R. Simpson
Executive Vice President and Controller
(On behalf of Registrant)

Exhibit 12

HSBC USA Inc.
Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends
(in millions, except ratios)

Nine months ended September 30	2007	2006
Ratios excluding interest on deposits:		
Net income	$ 585	$ 838
Income tax expense	237	429
Less: Undistributed equity earnings	5	19
Fixed charges:		
Interest on:		
Borrowed funds	266	237
Long-term debt	1,087	1,077
One third of rents, net of income from subleases	21	18
Total fixed charges, excluding interest on deposits	1,374	1,332
Earnings before taxes and fixed charges, net of undistributed equity earnings	$ 2,191	$ 2,580
Ratio of earnings to fixed charges	1.59	1.94
Total preferred stock dividend factor (1)	$ 105	$ 95
Fixed charges, including the preferred stock dividend factor	$ 1,479	$ 1,427
Ratio of earnings to combined fixed charges and preferred stock dividends	1.48	1.81
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	$ 1,374	$ 1,332
Add: Interest on deposits	2,841	2,246
Total fixed charges, including interest on deposits	$ 4,215	$ 3,578
Earnings before taxes and fixed charges, net of undistributed equity earnings	$ 2,191	$ 2,580
Add: Interest on deposits	2,841	2,246
Total	$ 5,032	$ 4,826
Ratio of earnings to fixed charges	1.19	1.35
Fixed charges, including the preferred stock dividend factor	$ 1,479	$ 1,427
Add: Interest on deposits	2,841	2,246
Fixed charges, including the preferred stock dividend factor and interest on deposits	$ 4,320	$ 3,673
Ratio of earnings to combined fixed charges and preferred stock dividends	1.16	1.31

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

Exhibit 31.1

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

I, Paul J. Lawrence, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended September 30, 2007 of HSBC USA Inc.;

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

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

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

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

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

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

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

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

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

Date: November 14, 2007

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

Exhibit 31.2

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

I, Gerard Mattia, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended September 30, 2007 of HSBC USA Inc.;

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

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

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

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

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

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

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

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

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

Date: November 14 , 2007

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

Exhibit 32.0

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of HSBC USA Inc., a Maryland corporation (HUSI), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the Form 10-Q) of HUSI fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of HUSI.

Date: November 14, 2007

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

Date: November 14, 2007

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to HSBC USA Inc. and will be retained by HSBC USA Inc. and furnished to the United States Securities and Exchange Commission or its staff upon request.