UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number 1-7436

HSBC USA Inc.

(Exact name of registrant as specified in its charter)

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

(212) 525-5000

Registrant's telephone number, including area code

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

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

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

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

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

As of July 31, 2014, there were 713 shares of the registrant's common stock outstanding, all of which are owned by HSBC North America Inc.

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PART I

Item 1. Financial Statements (Unaudited)

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Interest income:				
Loans	**$ 471**	$ 478	**$ 935**	$ 942
Securities	**194**	225	**401**	453
Trading assets	**65**	27	**113**	51
Short-term investments	**20**	16	**36**	30
Other	**12**	11	**22**	21
Total interest income	**762**	757	**1,507**	1,497
Interest expense:				
Deposits	**36**	56	**71**	99
Short-term borrowings	**14**	8	**23**	17
Long-term debt	**152**	166	**322**	333
Other	**(113)**	9	**(101)**	25
Total interest expense	**89**	239	**315**	474
Net interest income	**673**	518	**1,192**	1,023
Provision for credit losses	**85**	67	**101**	88
Net interest income after provision for credit losses	**588**	451	**1,091**	935
Other revenues:				
Credit card fees	**13**	21	**27**	34
Other fees and commissions	**182**	176	**355**	346
Trust income	**32**	31	**63**	63
Trading revenue	**15**	127	**148**	271
Net other-than-temporary impairment losses[1]	**(5)**	—	**(7)**	—
Other securities gains (losses), net	**(7)**	23	**15**	154
Servicing and other fees from HSBC affiliates	**51**	59	**98**	113
Residential mortgage banking revenue	**22**	9	**70**	55
Gain (loss) on instruments designated at fair value and related derivatives	**(44)**	95	**(16)**	88
Other income	**2**	25	**8**	34
Total other revenues	**261**	566	**761**	1,158
Operating expenses:				
Salaries and employee benefits	**223**	247	**438**	499
Support services from HSBC affiliates	**385**	362	**739**	686
Occupancy expense, net	**52**	57	**109**	116
Other expenses	**216**	100	**340**	233
Total operating expenses	**876**	766	**1,626**	1,534
Income (loss) before income tax	**(27)**	251	**226**	559
Income tax expense (benefit)	**(206)**	71	**(57)**	196
Net income	**$ 179**	$ 180	**$ 283**	$ 363

(1) During the three and six months ended June 30, 2014, other-than-temporary impairment ("OTTI") losses on securities held-to-maturity totaling $5 million and $7 million, respectively, were recognized in other revenues. There were no losses in the non-credit component of such impaired securities reflected in accumulated other comprehensive income ("AOCI"), net of tax during the periods. During the three and six months ended June 30, 2013, there were no OTTI losses on securities recognized in other revenues and no OTTI loss on securities were recognized in the non-credit component in AOCI, net of tax.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
		(in millions)		
Net income	**$ 179**	$ 180	**$ 283**	$ 363
Net change in unrealized gains (losses), net of tax:				
Securities available-for-sale	**175**	(585)	**305**	(735)
Other-than-temporarily impaired debt securities held-to-maturity	**2**	—	**3**	—
Derivatives designated as cash flow hedges	**(15)**	51	**(35)**	74
Total other comprehensive income (loss)	**162**	(534)	**273**	(661)
Comprehensive income (loss)	**$ 341**	$ (354)	**$ 556**	$ (298)

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30, 2014	December 31, 2013
	(in millions, except share data)	
Assets[1]		
Cash and due from banks	**$ 2,325**	$ 961
Interest bearing deposits with banks	**23,946**	19,614
Federal funds sold and securities purchased under agreements to resell	**2,311**	2,119
Trading assets	**25,156**	28,894
Securities available-for-sale	**44,778**	54,906
Securities held-to-maturity (fair value of $1.4 billion and $1.5 billion at June 30, 2014 and December 31, 2013, respectively)	**1,205**	1,358
Loans	**72,198**	67,695
Less – allowance for credit losses	**624**	606
Loans, net	**71,574**	67,089
Loans held for sale (includes $159 million and $58 million designated under fair value option at June 30, 2014 and December 31, 2013, respectively)	**500**	230
Properties and equipment, net	**250**	269
Intangible assets, net	**240**	295
Goodwill	**1,612**	1,612
Other assets	**8,321**	8,140
Total assets	**$ 182,218**	$ 185,487
Liabilities[1]		
Debt:		
Deposits in domestic offices:		
Noninterest bearing	**$ 32,220**	$ 29,707
Interest bearing (includes $7.7 billion designated under fair value option at both June 30, 2014 and December 31, 2013, respectively)	**65,734**	62,903
Deposits in foreign offices:		
Noninterest bearing	**1,440**	1,364
Interest bearing	**16,127**	18,634
Total deposits	**115,521**	112,608
Short-term borrowings	**12,906**	19,135
Long-term debt (includes $8.3 billion and $7.6 billion designated under fair value option at June 30, 2014 and December 31, 2013, respectively)	**24,604**	22,847
Total debt	**153,031**	154,590
Trading liabilities	**8,815**	10,875
Interest, taxes and other liabilities	**3,388**	3,558
Total liabilities	**165,234**	169,023
Shareholders' equity		
Preferred stock	**1,565**	1,565
Common shareholder's equity:		
Common stock ($5 par; 150,000,000 shares authorized; 713 shares issued and outstanding at June 30, 2014 and December 31, 2013)	**—**	—
Additional paid-in capital	**14,106**	14,106
Retained earnings	**1,199**	952
Accumulated other comprehensive income (loss)	**114**	(159)
Total common shareholder's equity	**15,419**	14,899
Total shareholders' equity	**16,984**	16,464
Total liabilities and shareholders' equity	**$ 182,218**	$ 185,487

(1) The following table summarizes assets and liabilities related to our consolidated variable interest entities ("VIEs") as of June 30, 2014 and December 31, 2013 which are consolidated on our balance sheet. Assets and liabilities exclude intercompany balances that eliminate in consolidation. See Note 16, "Variable Interest Entities," for additional information.

	June 30, 2014	December 31, 2013
	(in millions)	
Assets		
Interest bearing deposits with banks	**$ 3**	$ 5
Securities held-to-maturity	**157**	200
Other assets	**458**	502
Total assets	**$ 618**	$ 707
Liabilities		
Long-term debt	**92**	92
Interest, taxes and other liabilities	**71**	93
Total liabilities	**$ 163**	$ 185

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30,	2014	2013
	(dollars are in millions)	
Preferred stock		
Balance at beginning and end of period	**$ 1,565**	$ 1,565
Common stock		
Balance at beginning and end of period	**—**	—
Additional paid-in capital		
Balance at beginning of period	**14,106**	14,123
Other	**—**	(33)
Balance at end of period	**14,106**	14,090
Retained earnings		
Balance at beginning of period	**952**	1,363
Net income	**283**	363
Cash dividends declared on preferred stock	**(36)**	(36)
Balance at end of period	**1,199**	1,690
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**(159)**	785
Adjustment to add other-than-temporary impairment on securities held-to-maturity due to the consolidation of a variable interest entity	**—**	(67)
Other comprehensive income (loss), net of tax	**273**	(661)
Balance at end of period	**114**	57
Total common shareholder's equity	**$ 15,419**	$ 15,837
Total shareholders' equity	**$ 16,984**	$ 17,402

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30,	2014	2013
	(in millions)	
Cash flows from operating activities		
Net income	**$ 283**	$ 363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**56**	175
Provision for credit losses	**101**	88
Net realized gains on securities available-for-sale	**(15)**	(146)
Realized (gains) losses on securities held-to-maturity	**7**	(8)
Net change in other assets and liabilities	**(538)**	154
Net change in loans held for sale:		
Originations of loans	**(654)**	(1,043)
Sales and collection of loans held for sale	**537**	1,246
Net change in trading assets and liabilities	**1,678**	4,064
Lower of amortized cost or fair value adjustments on loans held for sale	**—**	9
Loss (gain) on instruments designated at fair value and related derivatives	**16**	(88)
Net cash provided by (used in) operating activities	**1,471**	4,814
Cash flows from investing activities		
Net change in interest bearing deposits with banks	**(4,332)**	(16,522)
Net change in federal funds sold and securities purchased under agreements to resell	**(192)**	1,750
Securities available-for-sale:		
Purchases of securities available-for-sale	**(6,512)**	(13,876)
Proceeds from sales of securities available-for-sale	**15,999**	22,216
Proceeds from maturities of securities available-for-sale	**1,541**	4,745
Securities held-to-maturity:		
Proceeds from sales of securities held-to-maturity	**—**	79
Proceeds from maturities of securities held-to-maturity	**153**	233
Change in loans:		
Originations, net of collections	**(5,441)**	(3,616)
Loans sold to third parties	**692**	490
Net cash used for acquisitions of properties and equipment	**(10)**	(15)
Other, net	**10**	(15)
Net cash provided by (used in) investing activities	**1,908**	(4,531)
Cash flows from financing activities		
Net change in deposits	**2,755**	(5,894)
Debt:		
Net change in short-term borrowings	**(6,229)**	6,046
Issuance of long-term debt	**3,887**	2,875
Repayment of long-term debt	**(2,392)**	(3,289)
Other increases (decreases) in capital surplus	**—**	(33)
Dividends paid	**(36)**	(36)
Net cash provided by (used in) financing activities	**(2,015)**	(331)
Net change in cash and due from banks	**1,364**	(48)
Cash and due from banks at beginning of period	**961**	1,359
Cash and due from banks at end of period	**$ 2,325**	$ 1,311

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Organization and Presentation*

HSBC USA Inc. ("HSBC USA"), incorporated under the laws of Maryland, is a New York State based bank holding company and an indirect wholly-owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly-owned subsidiary of HSBC Holdings plc ("HSBC" and, together with its subsidiaries, "HSBC Group"). The accompanying unaudited interim consolidated financial statements of HSBC USA and its subsidiaries (collectively "HUSI") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominant practices within the banking industry. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HUSI may also be referred to in these notes to the consolidated financial statements as "we", "us" or "our". These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

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

On January 1, 2014, we adopted new accounting guidance on the presentation of Low Income Housing Tax Credit ("LIHTC") investments and related tax benefits. See Note 20, "New Accounting Pronouncements," for further details and related impacts.

During the second quarter of 2014, we concluded certain state and local tax audits resulting in the settlement of significant uncertain tax positions covering a number of years. As a result, we released tax reserves previously maintained in relation to the periods and issues under review which resulted in an income tax benefit of $183 million during the quarter. In addition, we released our accrued interest associated with the tax reserves released which resulted in a $120 million benefit to interest expense during the quarter.

2. Trading Assets and Liabilities

Trading assets and liabilities consisted of the following.

	June 30, 2014	December 31, 2013
	(in millions)	
Trading assets:		
U.S. Treasury	**$ 2,717**	$ 1,344
U.S. Government agency issued or guaranteed	**20**	19
U.S. Government sponsored enterprises[1]	**115**	159
Obligations of U.S. states and political subdivisions	**27**	25
Asset backed securities	**494**	481
Corporate and foreign bonds	**6,931**	9,099
Other securities	**21**	25
Precious metals	**10,477**	11,751
Derivatives	**4,354**	5,991
	$ 25,156	$ 28,894
Trading liabilities:		
Securities sold, not yet purchased	**$ 771**	$ 308
Payables for precious metals	**3,037**	3,826
Derivatives	**5,007**	6,741
	$ 8,815	$ 10,875

(1) Includes mortgage backed securities of $88 million and $133 million issued or guaranteed by the Federal National Mortgage Association ("FNMA") and $27 million and $26 million issued or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") at June 30, 2014 and December 31, 2013, respectively.

At June 30, 2014 and December 31, 2013, the fair value of derivatives included in trading assets has been reduced by $3,128 million and $3,870 million, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties.

At June 30, 2014 and December 31, 2013, the fair value of derivatives included in trading liabilities has been reduced by $2,277 million and $2,116 million, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties.

See Note 9, "Derivative Financial Instruments," for further information on our trading derivatives and related collateral.

3. Securities

Our securities available-for-sale and securities held-to-maturity portfolios consisted of the following:

June 30, 2014	Amortized Cost	Non-Credit Loss Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
			(in millions)		
Securities available-for-sale:					
U.S. Treasury	**$ 19,506**	**$ —**	**$ 392**	**$ (31)**	**$ 19,867**
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	**182**	**—**	**—**	**(5)**	**177**
Collateralized mortgage obligations	**39**	**—**	**—**	**—**	**39**
Direct agency obligations	**4,114**	**—**	**243**	**(11)**	**4,346**
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	**9,904**	**—**	**192**	**(212)**	**9,884**
Collateralized mortgage obligations	**4,871**	**—**	**13**	**(97)**	**4,787**
Obligations of U.S. states and political subdivisions	**728**	**—**	**12**	**(10)**	**730**
Asset backed securities collateralized by:					
Residential mortgages	**1**	**—**	**—**	**—**	**1**
Commercial mortgages	**85**	**—**	**1**	**—**	**86**
Home equity	**104**	**—**	**—**	**(10)**	**94**
Other	**105**	**—**	**—**	**(11)**	**94**
Foreign debt securities(2)	**4,503**	**—**	**12**	**(8)**	**4,507**
Equity securities	**165**	**—**	**3**	**(2)**	**166**
Total available-for-sale securities	**$ 44,307**	**$ —**	**$ 868**	**$ (397)**	**$ 44,778**
Securities held-to-maturity:					
U.S. Government sponsored enterprises:(3)					
Mortgage-backed securities	**$ 763**	**$ —**	**$ 81**	**$ —**	**$ 844**
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	**47**	**—**	**8**	**—**	**55**
Collateralized mortgage obligations	**194**	**—**	**23**	**—**	**217**
Obligations of U.S. states and political subdivisions	**26**	**—**	**1**	**—**	**27**
Asset-backed securities collateralized by residential mortgages	**18**	**—**	**1**	**—**	**19**
Asset-backed securities and other debt securities held by a consolidated VIE(4)	**255**	**(98)**	**53**	**—**	**210**
Total held-to-maturity securities	**$ 1,303**	**$ (98)**	**$ 167**	**$ —**	**$ 1,372**

December 31, 2013	Amortized Cost	Non-Credit Loss Component of OTTI Securities	Unrealized Gains	Unrealized Losses	Fair Value
			(in millions)		
Securities available-for-sale:					
U.S. Treasury	$ 27,716	$ —	$ 391	$ (113)	$ 27,994
U.S. Government sponsored enterprises:[1]					
Mortgage-backed securities	159	—	—	(14)	145
Collateralized mortgage obligations	41	—	—	(1)	40
Direct agency obligations	4,115	—	225	(16)	4,324
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	10,304	—	40	(342)	10,002
Collateralized mortgage obligations	6,584	—	17	(154)	6,447
Obligations of U.S. states and political subdivisions	755	—	12	(25)	742
Asset backed securities collateralized by:					
Residential mortgages	1	—	—	—	1
Commercial mortgages	125	—	1	—	126
Home equity	263	—	—	(36)	227
Other	100	—	—	(6)	94
Foreign debt securities[2]	4,607	—	10	(15)	4,602
Equity securities	165	—	2	(5)	162
Total available-for-sale securities	$ 54,935	$ —	$ 698	$ (727)	$ 54,906
Securities held-to-maturity:					
U.S. Government sponsored enterprises:[3]					
Mortgage-backed securities	$ 845	$ —	$ 88	$ —	$ 933
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	52	—	8	—	60
Collateralized mortgage obligations	214	—	24	—	238
Obligations of U.S. states and political subdivisions	29	—	1	—	30
Asset-backed securities collateralized by residential mortgages	18	—	1	—	19
Asset-backed securities and other debt securities held by a consolidated VIE[4]	304	(104)	19	—	219
Total held-to-maturity securities	$ 1,462	$ (104)	$ 141	$ —	$ 1,499

(1) Includes securities at amortized cost of $189 million and $167 million issued or guaranteed by FNMA at June 30, 2014 and December 31, 2013, respectively, and $32 million and $33 million issued or guaranteed by FHLMC at June 30, 2014 and December 31, 2013, respectively.

(2) At June 30, 2014 and December 31, 2013, foreign debt securities consisted of $1,140 million and $1,101 million, respectively, of securities fully backed by foreign governments. The remainder of foreign debt securities represents public sector entity, bank or corporate debt.

(3) Includes securities at amortized cost of $357 million and $398 million issued or guaranteed by FNMA at June 30, 2014 and December 31, 2013, respectively, and $406 million and $447 million issued and guaranteed by FHLMC at June 30, 2014 and December 31, 2013, respectively.

(4) Relates to securities held by Bryant Park Funding LLC ("Bryant Park"), a variable interest entity which was consolidated in the second quarter of 2013. See Note 16, "Variable Interest Entities" for additional information.

The following table summarizes gross unrealized losses and related fair values as of June 30, 2014 and December 31, 2013 classified as to the length of time the losses have existed:

	One Year or Less			Greater Than One Year		
June 30, 2014	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	**4**	**$ (1)**	**$ 741**	**8**	**$ (30)**	**$ 2,128**
U.S. Government sponsored enterprises	**18**	**(1)**	**41**	**30**	**(15)**	**612**
U.S. Government agency issued or guaranteed	**40**	**(224)**	**2,317**	**48**	**(85)**	**2,224**
Obligations of U.S. states and political subdivisions	**14**	**(1)**	**90**	**36**	**(9)**	**336**
Asset backed securities	**3**	**(11)**	**115**	**7**	**(10)**	**100**
Foreign debt securities	**—**	**—**	**—**	**6**	**(8)**	**2,470**
Equity securities	**1**	**(2)**	**157**	**—**	**—**	**—**
Securities available-for-sale	**80**	**$ (240)**	**$ 3,461**	**135**	**$ (157)**	**$ 7,870**
Securities held-to-maturity:						
U.S. Government sponsored enterprises	**13**	**$ —**	**$ —**	**49**	**$ —**	**$ —**
U.S. Government agency issued or guaranteed	**78**	**—**	**—**	**826**	**—**	**2**
Obligations of U.S. states and political subdivisions	**1**	**—**	**1**	**4**	**—**	**2**
Securities held-to-maturity	**92**	**$ —**	**$ 1**	**879**	**$ —**	**$ 4**

	One Year or Less			Greater Than One Year		
December 31, 2013	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available-for-sale:						
U.S. Treasury	22	$ (82)	$ 16,958	6	$ (31)	$ 630
U.S. Government sponsored enterprises	23	(12)	400	20	(19)	356
U.S. Government agency issued or guaranteed	170	(494)	10,243	5	(2)	23
Obligations of U.S. states and political subdivisions	42	(19)	330	5	(6)	65
Asset backed securities	3	(6)	115	10	(36)	237
Foreign debt securities	1	—	50	7	(15)	2,916
Equity securities	1	(5)	154	—	—	—
Securities available-for-sale	262	$ (618)	$ 28,250	53	$ (109)	$ 4,227
Securities held-to-maturity:						
U.S. Government sponsored enterprises	13	$ —	$ —	48	$ —	$ —
U.S. Government agency issued or guaranteed	79	—	—	859	—	2
Obligations of U.S. states and political subdivisions	7	—	4	2	—	1
Securities held-to-maturity	99	$ —	$ 4	909	$ —	$ 3

Net unrealized gains and losses increased within the available-for-sale portfolio in the six months ended June 30, 2014 due to sales of U.S. government agency mortgage-backed securities and other asset-backed securities that were in a net unrealized loss position at December 31, 2013 and a decrease in yields on U.S. Government agency securities and U.S. Treasury securities during the period.

We have reviewed the securities for which there is an unrealized loss for other-than-temporary impairment in accordance with our accounting policies, discussed further below. As a result of consolidating Bryant Park during the second quarter of 2013, we had held-to-maturity asset backed securities that were previously determined to be other-than-temporarily impaired which totaled $157 million and $200 million at June 30, 2014 and December 31, 2013, respectively. We do not consider any other debt securities to be other-than-temporarily impaired at June 30, 2014 as we expect to recover their amortized cost basis and we neither intend nor expect to be required to sell these securities prior to recovery, even if that equates to holding securities until their individual maturities. However, additional other-than-temporary impairments may occur in future periods if the credit quality of the securities deteriorates.

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

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

For all securities held in the available-for-sale or held-to-maturity portfolios for which unrealized losses attributed to factors other than credit have existed for a period of time, we do not have the intention to sell and believe we will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. Our assessment for credit loss was concentrated on private label asset-backed securities. Substantially all of the private label asset-backed securities are supported by residential mortgages, home equity loans or commercial mortgages. Our assessment for credit loss was concentrated on this particular asset class because of the following inherent risk factors:

- The recovery of the U.S. economy has been slow;
- The high levels of pending foreclosure volume associated with a U.S. housing market in the early stages of recovery;
- A lack of significant traction in government sponsored programs in loan modifications;
- A lack of refinancing activities within certain segments of the mortgage market, even at the current low interest rate environment, and the re-default rate for refinanced loans;
- The unemployment rate although improving remains high compared with historical levels;
- The decline in the occupancy rate in commercial properties; and
- The severity and duration of unrealized loss.

For a complete description of the factors considered when analyzing debt securities for impairment, see Note 5, "Securities" in our 2013 Form 10-K. There have been no material changes in our process for assessing impairment during 2014.

During the three and six months ended June 30, 2014, none of our debt securities were determined to have initial other-than-temporary impairment while the debt securities held by Bryant Park were determined to have changes to their previous other-than-temporary impairment estimates related to the credit component. The additional credit losses associated with the impaired debt securities, which reflects the excess of amortized cost over the present value of expected future cash flows, were $5 million and $7 million during the three and six months ended June 30, 2014, respectively, and were recorded as a component of net other-than-temporary impairment losses in the accompanying consolidated statement of income.

During the three and six months ended June 30, 2013, none of our debt securities were determined to have either initial other-than-temporary impairment or changes to previous other-than-temporary impairment estimates relating to the credit component, as such, there were no other-than-temporary impairment losses recognized related to credit loss.

At June 30, 2014 and December 31, 2013, the excess of discounted future cash flows over fair value, representing the non-credit component of the unrealized loss associated with all other-than-temporary impaired securities which is recognized in accumulated other comprehensive income (loss), was $98 million and $104 million, respectively.

The following table summarizes the rollforward of credit losses on debt securities that were other-than-temporarily impaired which have previously been recognized in income that we do not intend to sell nor will likely be required to sell:

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
	(in millions)	
Credit losses at the beginning of the period	**$ 63**	$ 61
Increase in credit losses for which an other-than-temporary impairment was previously recognized	**5**	7
Ending balance of credit losses on held-to-maturity debt securities for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss)	**$ 68**	**$ 68**

At June 30, 2014, we held 18 individual asset-backed securities in the available-for-sale portfolio, of which 5 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $188 million of the total aggregate fair value of asset-backed securities of $275 million at June 30, 2014. The gross unrealized losses on these monoline wrapped securities were $21 million at June 30, 2014. We did not take into consideration the value of the monoline wrap of any non-investment grade monoline insurers as of June 30, 2014 and, therefore, we only considered the financial guarantee of monoline insurers on securities for purposes of evaluating other-than-temporary impairment on securities with a fair value of $93 million. No security wrapped by a below investment grade monoline insurance company was deemed to be other-than-temporarily impaired at June 30, 2014.

At December 31, 2013, we held 22 individual asset-backed securities in the available-for-sale portfolio, of which 8 were also wrapped by a monoline insurance company. The asset-backed securities backed by a monoline wrap comprised $321 million of the total aggregate fair value of asset-backed securities of $448 million at December 31, 2013. The gross unrealized losses on these monoline wrapped securities were $42 million at December 31, 2013. We did not take into consideration the value of the monoline wrap of any non-investment grade monoline insurers as of December 31, 2013 and, therefore, we only considered the financial guarantee of monoline insurers on securities with a fair value of $98 million for purposes of evaluating other-than-temporary impairment. No security wrapped by a below investment grade monoline insurance company was deemed to be other-than-temporarily impaired at December 31, 2013.

As discussed above, certain asset-backed securities in the available-for-sale portfolio have an embedded financial guarantee provided by monoline insurers. Because the financial guarantee is not a separate and distinct contract from the asset-backed security, they are considered as a single unit of account for fair value measurement and impairment assessment purposes. The monoline insurers are regulated by the insurance commissioners of the relevant states and certain monoline insurers that write the financial guarantee contracts are public companies. We did not consider the value of the monoline wrap of any non-investment grade monoline insurer at June 30, 2014 and December 31, 2013. In evaluating the extent of our reliance on investment grade monoline insurance companies, consideration is given to our assessment of the creditworthiness of the monoline and other market factors. We perform both a credit as well as a liquidity analysis on the monoline insurers each quarter. Our analysis also compares market-based credit default spreads, when available, to assess the appropriateness of our monoline insurer's creditworthiness. Based on the public information available, including the regulatory reviews and actions undertaken by the state insurance commissions and the published financial results, we determine the degree of reliance to be placed on the financial guarantee policy in estimating the cash flows to be collected for the purpose of recognizing and measuring impairment loss.

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

Realized Gains (Losses) The following table summarizes realized gains and losses on investment securities transactions attributable to available-for-sale securities:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	**2014**	2013
	(in millions)			
Gross realized gains	**$ 25**	$ 83	**$ 68**	$ 207
Gross realized losses	**(32)**	(60)	**(53)**	(61)
Net realized gains	**$ (7)**	$ 23	**$ 15**	$ 146

During the three and six months ended June 30, 2014, we recognized losses of $5 million and $7 million, respectively, due to other-than-temporary impairment credit losses on securities held-to-maturity, as discussed above. During the first quarter of 2013, we sold six asset-backed securities out of our held-to-maturity portfolio with a total carrying value of $71 million and recognized a gain of $8 million. These sales were in response to the significant credit deterioration which had occurred on these securities which had been classified as substandard for regulatory reporting purposes and, therefore, these disposals did not affect our intent and ability to hold our remaining held-to-maturity portfolio until maturity.

Contractual Maturities and Yields The following table summarizes the amortized cost and fair values of securities available-for-sale and securities held-to-maturity at June 30, 2014 by contractual maturity. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. Securities available-for-sale amounts exclude equity securities as they do not have stated maturities. The table below also reflects the distribution of maturities of debt securities held at June 30, 2014, together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at June 30, 2014. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

Taxable Equivalent Basis	Within One Year Amount	Within One Year Yield	After One But Within Five Years Amount	After One But Within Five Years Yield	After Five But Within Ten Years Amount	After Five But Within Ten Years Yield	After Ten Years Amount	After Ten Years Yield
	(dollars are in millions)							
Available-for-sale:								
U.S. Treasury	$ 1,225	.34%	$ 14,017	.91%	$ 2,429	2.90%	$ 1,835	3.80%
U.S. Government sponsored enterprises	—	—	1,108	2.62	2,450	3.27	777	3.74
U.S. Government agency issued or guaranteed	—	—	12	4.23	107	2.65	14,656	2.36
Obligations of U.S. states and political subdivisions	—	—	110	3.66	302	3.32	316	3.52
Asset backed securities	—	—	—	—	7	.39	288	3.56
Foreign debt securities	554	3.10	3,949	1.94	—	—	—	—
Total amortized cost	$ 1,779	1.20%	$ 19,196	1.24%	$ 5,295	3.09%	$ 17,872	2.61%
Total fair value	$ 1,781		$ 19,299		$ 5,587		$ 17,945	
Held-to-maturity:								
U.S. Government sponsored enterprises	$ —	—%	$ —	—%	$ 2	7.77%	$ 761	6.14%
U.S. Government agency issued or guaranteed	—	—	1	7.62	2	7.75	238	6.49
Obligations of U.S. states and political subdivisions	5	5.28	8	4.40	6	3.94	7	5.04
Asset backed securities	—	—	—	—	—	—	18	6.21
Asset backed securities issued by consolidated VIE	—	—	—	—	64	.33	93	.33
Total amortized cost	$ 5	5.28%	$ 9	4.79%	$ 74	1.05%	$ 1,117	5.72%
Total fair value	$ 5		$ 11		$ 78		$ 1,278	

Investments in Federal Home Loan Bank stock and Federal Reserve Bank stock of $130 million and $483 million, respectively, were included in other assets at June 30, 2014. Investments in Federal Home Loan Bank stock and Federal Reserve Bank stock of $139 million and $483 million, respectively, were included in other assets at and December 31, 2013.

4. Loans

Loans consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Commercial loans:		
Construction and other real estate	**$ 9,682**	$ 9,034
Business and corporate banking	**15,956**	14,446
Global banking[1]	**24,268**	21,625
Other commercial	**3,127**	3,389
Total commercial	**53,033**	48,494
Consumer loans:		
Residential mortgages	**16,097**	15,826
Home equity mortgages	**1,914**	2,011
Credit cards	**681**	854
Other consumer	**473**	510
Total consumer	**19,165**	19,201
Total loans	**$ 72,198**	$ 67,695

(1) Represents large multinational firms including globally focused U.S. corporate and financial institutions and U.S. dollar lending to multinational banking customers managed by HSBC on a global basis. Also includes loans to HSBC affiliates which totaled $5,080 million and $5,328 million at June 30, 2014 and December 31, 2013, respectively. See Note 13, "Related Party Transactions" for additional information regarding loans to HSBC affiliates.

Net deferred origination fees totaled $6 million and $23 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014 and December 31, 2013, we had a net unamortized premium on our loans of $14 million and $16 million, respectively.

Age Analysis of Past Due Loans The following table summarizes the past due status of our loans at June 30, 2014 and December 31, 2013. The aging of past due amounts is determined based on the contractual delinquency status of payments under the loan. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms. Delinquency status is affected by customer account management policies and practices such as re-age, which results in the re-setting of the contractual delinquency status to current.

	Past Due				
At June 30, 2014	**30 - 89 days**	**90+ days**	**Total Past Due 30 Days or More**	**Current[(1)]**	**Total Loans**
			(in millions)		
Commercial loans:					
Construction and other real estate	**$ 7**	**$ 14**	**$ 21**	**$ 9,661**	**$ 9,682**
Business and corporate banking	**7**	**27**	**34**	**15,922**	**15,956**
Global banking	**—**	**—**	**—**	**24,268**	**24,268**
Other commercial	**27**	**—**	**27**	**3,100**	**3,127**
Total commercial	**41**	**41**	**82**	**52,951**	**53,033**
Consumer loans:					
Residential mortgages	**400**	**935**	**1,335**	**14,762**	**16,097**
Home equity mortgages	**18**	**54**	**72**	**1,842**	**1,914**
Credit cards	**10**	**11**	**21**	**660**	**681**
Other consumer	**10**	**10**	**20**	**453**	**473**
Total consumer	**438**	**1,010**	**1,448**	**17,717**	**19,165**
Total loans	**$ 479**	**$ 1,051**	**$ 1,530**	**$ 70,668**	**$ 72,198**

	Past Due				
At December 31, 2013	**30 - 89 days**	**90+ days**	**Total Past Due 30 Days or More**	**Current[(1)]**	**Total Loans**
			(in millions)		
Commercial loans:					
Construction and other real estate	$ 6	$ 58	$ 64	$ 8,970	$ 9,034
Business and corporate banking	48	36	84	14,362	14,446
Global banking	8	3	11	21,614	21,625
Other commercial	27	9	36	3,353	3,389
Total commercial	89	106	195	48,299	48,494
Consumer loans:					
Residential mortgages	443	1,037	1,480	14,346	15,826
Home equity mortgages	28	59	87	1,924	2,011
Credit cards	16	14	30	824	854
Other consumer	12	13	25	485	510
Total consumer	499	1,123	1,622	17,579	19,201
Total loans	$ 588	$ 1,229	$ 1,817	$ 65,878	$ 67,695

(1) Loans less than 30 days past due are presented as current.

Nonaccrual Loans Nonaccrual loans totaled $1,107 million and $1,305 million at June 30, 2014 and December 31, 2013, respectively. For an analysis of reserves for credit losses, see Note 5, "Allowance for Credit Losses." Nonaccrual loans and accruing receivables 90 days or more delinquent consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Nonaccrual loans:		
Commercial:		
Real Estate:		
Construction and land loans	**$ 17**	$ 44
Other real estate	**47**	122
Business and corporate banking	**28**	21
Global banking	**—**	65
Other commercial	**2**	2
Total commercial	**94**	254
Consumer:		
Residential mortgages	**879**	949
Home equity mortgages	**69**	77
Total residential mortgages(1)(2)(3)	**948**	1,026
Total consumer loans	**948**	1,026
Nonaccrual loans held for sale	**65**	25
Total nonaccruing loans	**1,107**	1,305
Accruing loans contractually past due 90 days or more:		
Commercial:		
Business and corporate banking	**7**	5
Other commercial	**1**	1
Total commercial	**8**	6
Consumer:		
Credit card receivables	**11**	14
Other consumer	**11**	14
Total consumer loans	**22**	28
Total accruing loans contractually past due 90 days or more	**30**	34
Total nonperforming loans	**$ 1,137**	$ 1,339

(1) At June 30, 2014 and December 31, 2013, residential mortgage loan nonaccrual balances include $849 million and $866 million, respectively, of loans that are carried at the lower of amortized cost or fair value of the collateral less cost to sell.

(2) Nonaccrual residential mortgages includes all receivables which are 90 or more days contractually delinquent as well as loans discharged under Chapter 7 bankruptcy and not re-affirmed and second lien loans where the first lien loan that we own or service is 90 or more days contractually delinquent.

(3) Residential mortgage nonaccrual loans for all periods does not include guaranteed loans purchased from the Government National Mortgage Association ("GNMA"). Repayment of these loans are predominantly insured by the Federal Housing Administration and as such, these loans have different risk characteristics from the rest of our customer loan portfolio.

The following table provides additional information on our nonaccrual loans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Interest income that would have been recorded if the nonaccrual loans had been current in accordance with contractual terms during the period	**$ 22**	$ 30	**$ 46**	$ 61
Interest income that was recorded on nonaccrual loans and included in interest income during the period	**6**	8	**14**	11

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

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

Modifications for consumer or commercial loans may include changes to one or more terms of the loan, including, but not limited to, a change in interest rate, extension of the amortization period, reduction in payment amount and partial forgiveness or deferment of principal. A substantial amount of our modifications involve interest rate reductions which lower the amount of interest income we are contractually entitled to receive in future periods. Through lowering the interest rate and other loan term changes, we believe we are able to increase the amount of cash flow that will ultimately be collected from the loan, given the borrower's financial condition. TDR Loans are reserved for either based on the present value of expected future cash flows discounted at the loans' original effective interest rates which generally results in a higher reserve requirement for these loans or in the case of certain secured loans, the estimated fair value of the underlying collateral. Once a consumer loan is classified as a TDR Loan, it continues to be reported as such until it is paid off or charged-off. For commercial loans, if subsequent performance is in accordance with the new terms and such terms reflect current market rates at the time of restructure, they will no longer be reported as a TDR Loan beginning in the year after restructuring. Since 2012, there have been no commercial loans that met this criteria and were removed from TDR Loan classification.

The following table presents information about receivables which were modified during the three and six months ended June 30, 2014 and 2013 and as a result of this action became classified as TDR Loans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Commercial loans:				
Construction and other real estate	**$ —**	$ 32	**$ —**	$ 32
Business and corporate banking	**11**	5	**11**	9
Other commercial	**—**	—	**10**	—
Total commercial	**11**	37	**21**	41
Consumer loans:				
Residential mortgages	**47**	49	**81**	92
Credit cards	**1**	1	**3**	1
Total consumer	**48**	50	**84**	93
Total	**$ 59**	$ 87	**$ 105**	$ 134

The weighted-average contractual rate reduction for consumer loans which became classified as TDR Loans during the three and six months ended June 30, 2014 was 1.52 percent and 1.51 percent, respectively, compared with 2.07 percent and 2.06 percent during the three and six months ended June 30, 2013, respectively. The weighted-average contractual rate reduction for commercial loans was not significant in either the number of loans or rate.

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

	June 30, 2014	December 31, 2013
	(in millions)	
TDR Loans[(1)(2)]:		
Commercial loans:		
Construction and other real estate	**$ 205**	$ 292
Business and corporate banking	**28**	21
Global banking	**—**	51
Other commercial	**—**	25
Total commercial	**233**	389
Consumer loans:		
Residential mortgages[(3)]	**959**	973
Credit cards	**8**	8
Total consumer	**967**	981
Total TDR Loans[(4)]	**$ 1,200**	$ 1,370

	June 30, 2014	December 31, 2013
	(in millions)	
Allowance for credit losses for TDR Loans[(5)]:		
Commercial loans:		
Construction and other real estate	**$ 2**	$ 16
Business and corporate banking	**5**	1
Total commercial	**7**	17
Consumer loans:		
Residential mortgages	**58**	68
Credit cards	**2**	2
Total consumer	**60**	70
Total allowance for credit losses for TDR Loans	**$ 67**	$ 87

(1) TDR Loans are considered to be impaired loans. For consumer loans, all such loans are considered impaired loans regardless of accrual status. For commercial loans, impaired loans include other loans in addition to TDR Loans which totaled $33 million and $92 million at June 30, 2014 and December 31, 2013, respectively.

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

	June 30, 2014	December 31, 2013
	(in millions)	
Commercial loans:		
Construction and other real estate	**$ 219**	$ 309
Business and corporate banking	**68**	60
Global banking	**—**	51
Other commercial	**—**	28
Total commercial	**287**	448
Consumer loans:		
Residential mortgages	**1,145**	1,153
Credit cards	**8**	8
Total consumer	**1,153**	1,161
Total	**$ 1,440**	$ 1,609

(3) Includes $725 million and $706 million at June 30, 2014 and December 31, 2013, respectively, of loans that are recorded at the lower of amortized cost or fair value of the collateral less cost to sell.

(4) Includes $343 million and $458 million at June 30, 2014 and December 31, 2013, respectively, of loans which are classified as nonaccrual.

(5) Included in the allowance for credit losses.

The following table presents information about average TDR Loans and interest income recognized on TDR Loans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Average balance of TDR Loans				
Commercial loans:				
Construction and other real estate	**$ 220**	$ 290	**$ 244**	$ 307
Business and corporate banking	**23**	30	**22**	49
Global banking	**—**	—	**17**	—
Other commercial	**5**	29	**12**	30
Total commercial	**248**	349	**295**	386
Consumer loans:				
Residential mortgages	**948**	890	**947**	906
Credit cards	**8**	12	**8**	13
Total consumer	**956**	902	**955**	919
Total average balance of TDR Loans	**$ 1,204**	$ 1,251	**$ 1,250**	$ 1,305
Interest income recognized on TDR Loans				
Commercial loans:				
Construction and other real estate	**$ 2**	$ 3	**$ 8**	$ 5
Other commercial	**—**	1	**—**	2
Total commercial	**2**	4	**8**	7
Consumer loans:				
Residential mortgages	**9**	8	**18**	17
Total consumer	**9**	8	**18**	17
Total interest income recognized on TDR Loans	**$ 11**	$ 12	**$ 26**	$ 24

The following table presents loans which were classified as TDR Loans during the previous 12 months which for commercial loans became 90 days or greater contractually delinquent or for consumer loans became 60 days or greater contractually delinquent during the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Commercial loans:				
Construction and other real estate	**$ —**	$ —	**$ 12**	$ —
Total commercial	**—**	—	**12**	—
Consumer loans:				
Residential mortgages	**9**	11	**17**	24
Total consumer	**9**	11	**17**	24
Total	**$ 9**	$ 11	**$ 29**	$ 24

Impaired commercial loans The following table summarizes impaired commercial loan statistics:

	Amount with Impairment Reserves	Amount without Impairment Reserves	Total Impaired Commercial Loans[(1)(2)]	Impairment Reserve
	(in millions)			
At June 30, 2014				
Construction and other real estate	**$ 19**	**$ 194**	**$ 213**	**$ 4**
Business and corporate banking	**32**	**11**	**43**	**8**
Global banking	**—**	**—**	**—**	**—**
Other commercial	**2**	**8**	**10**	**2**
Total	**$ 53**	**$ 213**	**$ 266**	**$ 14**
At December 31, 2013				
Construction and other real estate	$ 122	$ 211	$ 333	$ 32
Business and corporate banking	28	12	40	3
Global banking	14	51	65	5
Other commercial	1	42	43	—
Total	$ 165	$ 316	$ 481	$ 40

(1) Includes impaired commercial loans that are also considered TDR Loans which totaled $233 million and $389 million at June 30, 2014 and December 31, 2013, respectively.

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

	June 30, 2014	December 31, 2013
	(in millions)	
Construction and other real estate	**$ 232**	$ 380
Business and corporate banking	**93**	91
Global banking	**—**	123
Other commercial	**10**	47
Total	**$ 335**	$ 641

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(in millions)			
Average balance of impaired commercial loans:				
Construction and other real estate	**$ 237**	$ 353	**$ 269**	$ 401
Business and corporate banking	**36**	58	**37**	74
Global banking	**—**	18	**22**	18
Other commercial	**15**	69	**24**	71
Total average balance of impaired commercial loans	**$ 288**	$ 498	**$ 352**	$ 564
Interest income recognized on impaired commercial loans:				
Construction and other real estate	**$ 2**	$ 4	**$ 8**	$ 7
Other commercial	**—**	2	**—**	3
Total interest income recognized on impaired commercial loans	**$ 2**	$ 6	**$ 8**	$ 10

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

Criticized asset classifications Criticized loan classifications are based on the risk rating standards of our primary regulator. Problem loans are assigned various criticized facility grades. We also assign obligor grades which are used under our allowance for credit losses methodology. The following facility grades are deemed to be criticized:

- *Special Mention* – generally includes loans 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 our credit position at some future date.
- *Substandard* – includes loans that are inadequately protected by the underlying collateral and/or general credit worthiness of the customer. These loans present a distinct possibility that we will sustain some loss if the deficiencies are not corrected. This category also includes certain non-investment grade securities, as required by our principal regulator.
- *Doubtful* – includes loans that have all the weaknesses exhibited by substandard loans, 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.

The following table summarizes criticized assets for commercial loans:

	Special Mention	Substandard	Doubtful	Total
		(in millions)		
At June 30, 2014				
Construction and other real estate	**$ 287**	**$ 298**	**$ 8**	**$ 593**
Business and corporate banking	**715**	**153**	**4**	**872**
Global banking	**70**	**161**	**—**	**231**
Other commercial	**37**	**21**	**1**	**59**
Total	**$ 1,109**	**$ 633**	**$ 13**	**$ 1,755**
At December 31, 2013				
Construction and other real estate	$ 351	$ 346	$ 30	$ 727
Business and corporate banking	557	156	2	715
Global banking	367	112	5	484
Other commercial	79	33	—	112
Total	$ 1,354	$ 647	$ 37	$ 2,038

Nonperforming The following table summarizes the status of our commercial loan portfolio:

	Performing Loans	Nonaccrual Loans	Accruing Loans Contractually Past Due 90 days or More	Total
		(in millions)		
At June 30, 2014				
Commercial:				
Construction and other real estate	**$ 9,618**	**$ 64**	**$ —**	**$ 9,682**
Business and corporate banking	**15,921**	**28**	**7**	**15,956**
Global banking	**24,268**	**—**	**—**	**24,268**
Other commercial	**3,124**	**2**	**1**	**3,127**
Total commercial	**$ 52,931**	**$ 94**	**$ 8**	**$ 53,033**
At December 31, 2013				
Commercial:				
Construction and other real estate	$ 8,868	$ 166	$ —	$ 9,034
Business and corporate banking	14,420	21	5	14,446
Global banking	21,560	65	—	21,625
Other commercial	3,386	2	1	3,389
Total commercial	$ 48,234	$ 254	$ 6	$ 48,494

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

	Investment Grade[(1)]	Non-Investment Grade	Total
		(in millions)	
At June 30, 2014			
Construction and other real estate	**$ 7,159**	**$ 2,523**	**$ 9,682**
Business and corporate banking	**7,845**	**8,111**	**15,956**
Global banking	**21,140**	**3,128**	**24,268**
Other commercial	**1,608**	**1,519**	**3,127**
Total commercial	**$ 37,752**	**$ 15,281**	**$ 53,033**
At December 31, 2013			
Construction and other real estate	$ 6,069	$ 2,965	$ 9,034
Business and corporate banking	7,279	7,167	14,446
Global banking	18,636	2,989	21,625
Other commercial	1,583	1,806	3,389
Total commercial	$ 33,567	$ 14,927	$ 48,494

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

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

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

	June 30, 2014		December 31, 2013	
	Delinquent Loans	Delinquency Ratio	Delinquent Loans	Delinquency Ratio
	(dollars are in millions)			
Consumer:				
Residential mortgages	**$ 1,086**	**6.73%**	$ 1,208	7.59%
Home equity mortgages	**59**	**3.08**	68	3.38
Total residential mortgages[1]	**1,145**	**6.34**	1,276	7.11
Credit cards	**15**	**2.20**	21	2.46
Other consumer	**15**	**2.78**	19	3.32
Total consumer	**$ 1,175**	**6.10%**	$ 1,316	6.80%

(1) At June 30, 2014 and December 31, 2013, residential mortgage loan delinquency includes $983 million and $1,074 million, respectively, of loans that are carried at the lower of amortized cost or fair value of the collateral less cost to sell.

Nonperforming The following table summarizes the status of our consumer loan portfolio:

	Performing Loans	Nonaccrual Loans	Accruing Loans Contractually Past Due 90 days or More	Total
	(in millions)			
At June 30, 2014				
Consumer:				
Residential mortgages	**$ 15,218**	**$ 879**	**$ —**	**$ 16,097**
Home equity mortgages	**1,845**	**69**	**—**	**1,914**
Total residential mortgages	**17,063**	**948**	**—**	**18,011**
Credit cards	**670**	**—**	**11**	**681**
Other consumer	**462**	**—**	**11**	**473**
Total consumer	**$ 18,195**	**$ 948**	**$ 22**	**$ 19,165**
At December 31, 2013				
Consumer:				
Residential mortgages	$ 14,877	$ 949	$ —	$ 15,826
Home equity mortgages	1,934	77	—	2,011
Total residential mortgages	16,811	1,026	—	17,837
Credit cards	840	—	14	854
Other consumer	496	—	14	510
Total consumer	$ 18,147	$ 1,026	$ 28	$ 19,201

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

Concentration of Credit Risk At June 30, 2014 and December 31, 2013, our loan portfolio included interest-only residential mortgage loans totaling $3,645 million and $3,643 million, respectively. An interest-only residential mortgage loan allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect the ability of customers to repay the loan in the future when the principal payments are required which increases the credit risk of this loan type.

5. Allowance for Credit Losses

The following table summarizes the changes in the allowance for credit losses by product and the related loan balance by product during the three and six months ended June 30, 2014 and 2013:

	Commercial				Consumer				
	Construction and Other Real Estate	Business and Corporate Banking	Global Banking	Other Comm'l	Residential Mortgages	Home Equity Mortgages	Credit Card	Other Consumer	Total
	(in millions)								
Three Months Ended June 30, 2014									
Allowance for credit losses – beginning of period	**$ 93**	**$ 129**	**$ 67**	**$ 19**	**$ 156**	**$ 52**	**$ 45**	**$ 13**	**$ 574**
Provision charged (credited) to income	**6**	**56**	**29**	**(9)**	**7**	**(8)**	**4**	**—**	**85**
Charge offs	**(5)**	**(6)**	**—**	**—**	**(19)**	**(3)**	**(12)**	**(3)**	**(48)**
Recoveries	**—**	**1**	**—**	**3**	**5**	**1**	**2**	**1**	**13**
Net (charge offs) recoveries	**(5)**	**(5)**	**—**	**3**	**(14)**	**(2)**	**(10)**	**(2)**	**(35)**
Allowance for credit losses – end of period	**$ 94**	**$ 180**	**$ 96**	**$ 13**	**$ 149**	**$ 42**	**$ 39**	**$ 11**	**$ 624**
Three Months Ended June 30, 2013									
Allowance for credit losses – beginning of period	$ 116	$ 96	$ 40	$ 17	$ 192	$ 50	$ 42	$ 15	$ 568
Provision charged (credited) to income	(14)	15	29	(4)	14	13	13	1	67
Charge offs	(1)	(9)	—	—	(13)	(11)	(11)	(3)	(48)
Recoveries	9	1	—	4	3	—	1	—	18
Net (charge offs) recoveries	8	(8)	—	4	(10)	(11)	(10)	(3)	(30)
Allowance for credit losses – end of period	$ 110	$ 103	$ 69	$ 17	$ 196	$ 52	$ 45	$ 13	$ 605
Six Months Ended June 30, 2014									
Allowance for credit losses – beginning of period	**$ 108**	**$ 112**	**$ 68**	**$ 20**	**$ 186**	**$ 49**	**$ 50**	**$ 13**	**$ 606**
Provision charged (credited) to income	**8**	**75**	**36**	**(13)**	**(9)**	**(6)**	**9**	**1**	**101**
Charge offs	**(24)**	**(11)**	**(8)**	**—**	**(36)**	**(8)**	**(23)**	**(5)**	**(115)**
Recoveries	**2**	**4**	**—**	**6**	**8**	**7**	**3**	**2**	**32**
Net (charge offs) recoveries	**(22)**	**(7)**	**(8)**	**6**	**(28)**	**(1)**	**(20)**	**(3)**	**(83)**
Allowance for credit losses – end of period	**$ 94**	**$ 180**	**$ 96**	**$ 13**	**$ 149**	**$ 42**	**$ 39**	**$ 11**	**$ 624**
Ending balance: collectively evaluated for impairment	**$ 90**	**$ 172**	**$ 96**	**$ 11**	**$ 93**	**$ 40**	**$ 37**	**$ 11**	**$ 550**
Ending balance: individually evaluated for impairment	**4**	**8**	**—**	**2**	**56**	**2**	**2**	**—**	**74**
Total allowance for credit losses	**$ 94**	**$ 180**	**$ 96**	**$ 13**	**$ 149**	**$ 42**	**$ 39**	**$ 11**	**$ 624**
Loans:									
Collectively evaluated for impairment	**$ 9,469**	**$ 15,913**	**$24,268**	**$ 3,117**	**$ 14,290**	**$ 1,895**	**$ 673**	**$ 473**	**$70,098**
Individually evaluated for impairment[1]	**213**	**43**	**—**	**10**	**215**	**19**	**8**	**—**	**508**
Loans carried at lower of amortized cost or fair value less cost to sell	**—**	**—**	**—**	**—**	**1,592**	**—**	**—**	**—**	**1,592**
Total loans	**$ 9,682**	**$ 15,956**	**$24,268**	**$ 3,127**	**$ 16,097**	**$ 1,914**	**$ 681**	**$ 473**	**$72,198**

	Commercial				Consumer				
	Construction and Other Real Estate	Business and Corporate Banking	Global Banking	Other Comm'l	Residential Mortgages	Home Equity Mortgages	Credit Card	Other Consumer	Total
					(in millions)				
Six Months Ended June 30, 2013									
Allowance for credit losses – beginning of period	$ 162	$ 97	$ 41	$ 17	$ 210	$ 45	$ 55	$ 20	$ 647
Provision charged (credited) to income	(5)	17	28	(4)	11	30	11	—	88
Charge offs	(59)	(15)	—	—	(29)	(23)	(23)	(9)	(158)
Recoveries	12	4	—	4	4	—	2	2	28
Net (charge offs) recoveries	(47)	(11)	—	4	(25)	(23)	(21)	(7)	(130)
Allowance for credit losses – end of period	$ 110	$ 103	$ 69	$ 17	$ 196	$ 52	$ 45	$ 13	$ 605
Ending balance: collectively evaluated for impairment	$ 84	$ 91	$ 69	$ 17	$ 122	$ 49	$ 41	$ 13	$ 486
Ending balance: individually evaluated for impairment	26	12	—	—	74	3	4	—	119
Total allowance for credit losses	$ 110	$ 103	$ 69	$ 17	$ 196	$ 52	$ 45	$ 13	$ 605
Loans:									
Collectively evaluated for impairment	$ 8,064	$ 12,323	$23,321	$ 2,941	$ 14,057	$ 2,151	$ 847	$ 574	$64,278
Individually evaluated for impairment[(1)]	465	68	18	64	212	21	11	—	859
Loans carried at lower of amortized cost or fair value less cost to sell	—	—	—	—	1,568	—	—	—	1,568
Total loans	$ 8,529	$ 12,391	$23,339	$ 3,005	$ 15,837	$ 2,172	$ 858	$ 574	$66,705

(1) For consumer loans and certain small business loans, these amounts represent TDR Loans for which we evaluate reserves using a discounted cash flow methodology. Each loan is individually identified as a TDR Loan and then grouped together with other TDR Loans with similar characteristics. The discounted cash flow analysis is then applied to these groups of TDR Loans. Loans individually evaluated for impairment exclude TDR loans that are carried at the lower of amortized cost or fair value of the collateral less cost to sell which totaled $725 million and $657 million at June 30, 2014 and 2013, respectively.

6. Loans Held for Sale

Loans held for sale consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Commercial loans	**$ 396**	$ 76
Consumer loans:		
Residential mortgages	**38**	91
Other consumer	**66**	63
Total consumer	**104**	154
Total loans held for sale	**$ 500**	$ 230

We originate commercial loans in connection with our participation in a number of syndicated credit facilities. Syndicated loans that are originated with the intent of selling them to unaffiliated third parties are classified as commercial loans held for sale. The fair value of commercial loans held for sale under this program was $159 million and $58 million at June 30, 2014 and December 31, 2013, respectively. We have elected to designate all commercial syndicated loans classified as held for sale at fair value under the fair value option. See Note 10, "Fair Value Option," for additional information.

Commercial loans held for sale also includes $43 million of global banking loans at June 30, 2014, which were transferred to held for sale during the first half of 2014, as well as commercial real estate loans totaling $194 million and $18 million at June 30, 2014 and December 31, 2013, respectively.

We sell all our agency eligible loan originations servicing released directly to PHH Mortgage Corporation ("PHH Mortgage"). Also included in residential mortgage loans held for sale are subprime residential mortgage loans with a fair value of $23 million and $46 million at June 30, 2014 and December 31, 2013, respectively, which were acquired from unaffiliated third parties and from HSBC Finance Corporation ("HSBC Finance") with the intent of securitizing or selling the loans to third parties. Gains and losses from the sale of residential mortgage loans are reflected as a component of residential mortgage banking revenue in the accompanying consolidated statement of income.

Loans held for sale are subject to market risk, liquidity risk and interest rate risk, in that their value will fluctuate as a result of changes in market conditions, as well as the credit environment. PHH Mortgage is obligated to purchase agency eligible loans from us as of the earlier of when the customer locks the mortgage loan pricing or when the mortgage loan application is approved. As such, we retain none of the risk of market changes in mortgage rates for these loans.

Other consumer loans held for sale includes certain student loans which we no longer originate.

Excluding the commercial loans designated under fair value option discussed above, loans held for sale are recorded at the lower of amortized cost or fair value. While the initial carrying amount of consumer loans held for sale continued to exceed fair value at June 30, 2014, we experienced a decrease in the valuation allowance for consumer loans held for sale during the six months ended June 30, 2014 due primarily to loan sales. The valuation allowance on consumer loans held for sale was $46 million and $77 million at June 30, 2014 and December 31, 2013, respectively. The valuation allowance on commercial loans held for sale was $7 million at June 30, 2014 compared with no allowance at December 31, 2013.

7. *Intangible Assets*

Intangible assets consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Mortgage servicing rights:		
Residential	**$ 186**	$ 227
Commercial	**2**	10
Total mortgage servicing rights	**$ 188**	$ 237
Purchased credit card relationships	**50**	54
Favorable lease agreements	**2**	4
Total intangible assets	**$ 240**	$ 295

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

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

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

The following table summarizes the critical assumptions used to calculate the fair value of residential MSRs:

	June 30, 2014	December 31, 2013
Annualized constant prepayment rate ("CPR")	**13.8%**	11.3%
Constant discount rate	**13.3**	12.7
Weighted average life (in years)	**4.6**	5.3

The following table summarizes residential MSRs activity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Fair value of MSRs:				
Beginning balance	**$ 205**	$ 190	**$ 227**	$ 168
Additions related to loan sales	**—**	5	**—**	11
Changes in fair value due to:				
Change in valuation model inputs or assumptions	**(12)**	43	**(24)**	69
Customer payments	**(7)**	(13)	**(17)**	(23)
Ending balance	**$ 186**	$ 225	**$ 186**	$ 225

The outstanding principal balance of serviced for others mortgages, which are not included in the consolidated balance sheet, totaled $25,041 million and $26,951 million at June 30, 2014 and December 31, 2013, respectively.

Servicing fees collected are included in residential mortgage banking revenue and totaled $17 million and $35 million during the three and six months ended June 30, 2014, respectively, compared with $21 million and $42 million during the three and six months ended June 30, 2013, respectively.

During the second quarter of 2013, we completed the conversion of our mortgage processing and servicing operations to PHH Mortgage. Under the terms of the agreement, PHH Mortgage provides us with mortgage origination processing services as well as the sub-servicing of our portfolio of owned and serviced for others mortgages with an outstanding principal balance of $42,375 million and $44,039 million at June 30, 2014 and December 31, 2013, respectively. Although we continue to own both the mortgages on our balance sheet and the mortgage servicing rights associated with the serviced loans at the time of conversion, we now sell our agency eligible originations beginning with May 2013 applications to PHH Mortgage on a servicing released basis which results in no new mortgage servicing rights being recognized.

Commercial mortgage servicing rights Commercial MSRs represent servicing rights associated with commercial mortgage loans originated and sold to FNMA and FHLMC and are accounted for using the lower of amortized cost or fair value method. During the fourth quarter of 2013, we decided to sell $8 million of our commercial MSRs and, as a result, we considered these assets held for sale at June 30, 2014 and is reflected in other assets on the consolidated balance sheet. As the estimated sales price of these MSRs was in excess of its carrying amount, these MSRs continue to be carried at amortized cost. In July 2014, we completed the sale of these MSRs to a third party for $22 million, which will result in the recognition of a gain of $16 million in the third quarter of 2014.

Purchased credit card relationships In March 2012, we purchased from HSBC Finance the account relationships associated with $746 million of credit card receivables which were not included in the sale to Capital One Financial Corporation at a fair value of $108 million. Approximately $43 million of this value was associated with the credit card receivables sold to First Niagara Bank, National Association. The remaining $65 million was included in intangible assets and is being amortized over the estimated useful life of the credit card relationships which is ten years.

8. Goodwill

During the first half of 2014, there were no events or changes in circumstances to indicate that it is more likely than not that the fair values of any of our reporting units have reduced below their respective carrying amounts.

9. Derivative Financial Instruments

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

The following table presents the fair value of derivative contracts by major product type on a gross basis. Gross fair values exclude the effects of both counterparty netting as well as collateral, and therefore are not representative of our exposure. The table below presents the amounts of counterparty netting and cash collateral that have been offset in the consolidated balance sheet, as well as cash and securities collateral posted and received under enforceable credit support agreements that do not meet the criteria for netting. Derivative assets and liabilities which are not subject to an enforceable master netting agreement, or are subject to a netting agreement that we have not yet determined to be enforceable, have not been netted in the table below. Where we have received or posted collateral under credit support agreements, but have not yet determined such agreements are enforceable, the related collateral also has not been netted in the table below.

	June 30, 2014		December 31, 2013	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	(in millions)			
Derivatives accounted for as fair value hedges[1]				
OTC-cleared[2]	**$ 20**	**$ 132**	$ 75	$ 20
Bilateral OTC[2]	**60**	**254**	203	192
Interest rate contracts	**80**	**386**	278	212
Derivatives accounted for as cash flow hedges[1]				
Bilateral OTC[2]	**1**	**18**	—	3
Foreign exchange contracts	**1**	**18**	—	3
OTC-cleared[2]	**14**	**—**	16	—
Bilateral OTC[2]	**5**	**111**	16	62
Interest rate contracts	**19**	**111**	32	62
Total derivatives accounted for as hedges	**100**	**515**	310	277
Trading derivatives not accounted for as hedges[3]				
Exchange-traded[2]	**96**	**37**	82	32
OTC-cleared[2]	**21,454**	**22,595**	24,218	25,468
Bilateral OTC[2]	**30,814**	**30,486**	31,097	30,451
Interest rate contracts	**52,364**	**53,118**	55,397	55,951
Exchange-traded[2]	**29**	**—**	7	16
Bilateral OTC[2]	**12,745**	**11,586**	15,422	14,565
Foreign exchange contracts	**12,774**	**11,586**	15,429	14,581
Equity contract - bilateral OTC[2]	**1,421**	**1,418**	1,413	1,412
Exchange-traded[2]	**3**	**138**	181	6
Bilateral OTC[2]	**643**	**637**	1,402	815
Precious metals contracts	**646**	**775**	1,583	821
OTC-cleared[2]	**516**	**540**	576	604
Bilateral OTC[2]	**3,283**	**3,369**	4,079	4,104
Credit contracts	**3,799**	**3,909**	4,655	4,708
Other derivatives not accounted for as hedges[1]				
Interest rate contracts - bilateral OTC[2]	**604**	**74**	470	91
Foreign exchange contracts - bilateral OTC[2]	**1**	**18**	—	44
Equity contracts - bilateral OTC[2]	**806**	**102**	789	148
Precious metals contracts - bilateral OTC[2]	**—**	**19**	—	36
Credit contracts - bilateral OTC[2]	**17**	**12**	9	11
Total derivatives	**72,532**	**71,546**	80,055	78,080
Less: Gross amounts of receivable / payable subject to enforceable master netting agreements[4][6]	**63,522**	**63,522**	68,616	68,616
Less: Gross amounts of cash collateral received / posted subject to enforceable master netting agreements[5][6]	**3,128**	**2,277**	3,870	2,116
Net amounts of derivative assets / liabilities presented in the balance sheet	**5,882**	**5,747**	7,569	7,348
Less: Gross amounts of financial instrument collateral received / posted subject to enforceable master netting agreements but not offset in the consolidated balance sheet	**1,247**	**2,160**	1,641	3,094
Net amounts of derivative assets / liabilities	**$ 4,635**	**$ 3,587**	$ 5,928	$ 4,254

(1) Derivative assets/liabilities related to cash flow hedges, fair value hedges and derivative instruments held for purposes other than for trading are recorded in other assets / interest, taxes and other liabilities on the consolidated balance sheet.

(2) Over-the-counter (OTC) derivatives include derivatives executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house. The credit risk associated with bilateral OTC derivatives is managed through master netting agreements and obtaining collateral.

OTC-cleared derivatives are executed bilaterally in the OTC market but then novated to a central clearing counterparty, whereby the central clearing counterparty becomes the counterparty to both of the original counterparties. Exchange traded derivatives are executed directly on an organized exchange that provides pre-trade price transparency. Credit risk is minimized for OTC-cleared derivatives and exchange traded derivatives through daily margining required by central clearing counterparties.

(3) Trading related derivative assets/liabilities are recorded in trading assets/trading liabilities on the consolidated balance sheet.

(4) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable netting agreements.

(5) Represents the netting of cash collateral posted and received by counterparty under enforceable credit support agreements.

(6) Netting is performed at a counterparty level in cases where enforceable master netting and credit support agreements are in place, regardless of the type of derivative instrument. Therefore, we have not attempted to allocate netting to the different types of derivative instruments shown in the table above.

See Note 17, "Guarantee Arrangements, Pledged Assets and Collateral," for further information on offsetting related to resale and repurchase agreements and securities borrowing and lending arrangements.

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

We designate derivative instruments to offset the fair value risk and cash flow risk arising from fixed-rate and floating-rate assets and liabilities as well as forecasted transactions. We assess the hedging relationships, both at the inception of the hedge and on an ongoing basis, using a regression approach to determine whether the designated hedging instrument is highly effective in offsetting changes in the fair value or the cash flows attributable to the hedged risk. Accounting principles for qualifying hedges require us to prepare detailed documentation describing the relationship between the hedging instrument and the hedged item, including, but not limited to, the risk management objective, the hedging strategy and the methods to assess and measure the ineffectiveness of the hedging relationship. We discontinue hedge accounting when we determine that the hedge is no longer highly effective, the hedging instrument is terminated, sold or expired, the designated forecasted transaction is not probable of occurring, or when the designation is removed by us.

Fair Value Hedges In the normal course of business, we hold fixed-rate loans and securities and issue fixed-rate senior and subordinated debt obligations. The fair value of fixed-rate (U.S. dollar and non-U.S. dollar denominated) assets and liabilities fluctuates in response to changes in interest rates or foreign currency exchange rates. We utilize interest rate swaps, forward and futures contracts and foreign currency swaps to minimize the effect on earnings caused by interest rate and foreign currency volatility.

The changes in the fair value of the hedged item designated in a qualifying hedge are captured as an adjustment to the carrying amount of the hedged item (basis adjustment). If the hedging relationship is terminated and the hedged item continues to exist, the basis adjustment is amortized over the remaining life of the hedged item. We recorded basis adjustments for active fair value hedges which decreased the carrying amount of our debt by less than $1 million and $1 million during the three and six months ended June 30, 2014, compared with an increase in the carrying amount of our debt of less than $1 million and $1 million during the three and six months ended June 30, 2013, respectively. We amortized $2 million and $5 million of basis adjustments related to terminated and/or re-designated fair value hedge relationships during the three and six months ended June 30, 2014 , respectively, compared with $3 million and $7 million during the three and six months ended June 30, 2013, respectively. The total accumulated unamortized basis adjustment amounted to an increase in the carrying amount of our debt of $27 million and $33 million as of June 30, 2014 and December 31, 2013, respectively. Basis adjustments for active fair value hedges of available-for-sale ("AFS") securities increased the carrying amount of the securities by $162 million and $338 million during the three and six months ended June 30, 2014, respectively, compared with decreases in the carrying amount of the securities of $445 million and $600 million during the three and six months ended June 30, 2013, respectively. Total accumulated unamortized basis adjustments for active fair value hedges of available-for-sale securities amounted to an increase in carrying amount of $281 million as of June 30, 2014 compared with a decrease of $84 million as of December 31, 2013, respectively.

The following table presents information on gains and losses on derivative instruments designated and qualifying as hedging instruments in fair value hedges and the hedged items in fair value hedges and their location on the consolidated statement of income:

	Gain (Loss) on Derivative		Gain (Loss) on Hedged Items		Net Ineffective Gain (Loss) Recognized
	Interest Income (Expense)	Other Income	Interest Income (Expense)	Other Income	Other Income
			(in millions)		
Three Months Ended June 30, 2014					
Interest rate contracts/AFS Securities	**$ (64)**	**$ (188)**	**$ 96**	**$ 189**	**$ 1**
Interest rate contracts/subordinated debt	**2**	**—**	**(1)**	**—**	**—**
Total	**$ (62)**	**$ (188)**	**$ 95**	**$ 189**	**$ 1**
Three Months Ended June 30, 2013					
Interest rate contracts/AFS Securities	$ (55)	$ 397	$ 111	$ (380)	$ 17
Interest rate contracts/subordinated debt	4	—	(15)	—	—
Total	$ (51)	$ 397	$ 96	$ (380)	$ 17
Six Months Ended June 30, 2014					
Interest rate contracts/AFS Securities	**$ (127)**	**$ (407)**	**$ 198**	**$ 401**	**$ (6)**
Interest rate contracts/subordinated debt	**6**	**(1)**	**(16)**	**1**	**—**
Total	**$ (121)**	**$ (408)**	**$ 182**	**$ 402**	**$ (6)**
Six Months Ended June 30, 2013					
Interest rate contracts/AFS Securities	$ (111)	$ 567	$ 225	$ (554)	$ 13
Interest rate contracts/subordinated debt	8	(1)	(30)	1	—
Total	$ (103)	$ 566	$ 195	$ (553)	$ 13

Cash Flow Hedges We own or issue floating rate financial instruments and enter into forecasted transactions that give rise to variability in future cash flows. As a part of our risk management strategy, we use interest rate swaps, currency swaps and futures contracts to mitigate risk associated with variability in the cash flows. Changes in fair value of a derivative instrument associated with the effective portion of a qualifying cash flow hedge are recognized initially in other comprehensive income. When the cash flows for which the derivative is hedging materialize and are recorded in income or expense, the associated gain or loss from the hedging derivative previously recorded in accumulated other comprehensive income (loss) is reclassified into earnings in the same accounting period in which the designated forecasted transaction or hedged item affects earnings. If a cash flow hedge of a forecasted transaction is de-designated because it is no longer highly effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative to that date will continue to be reported in accumulated other comprehensive income (loss) unless it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period as documented at the inception of the hedge, at which time the cumulative gain or loss is released into earnings. As of June 30, 2014 and December 31, 2013, active cash flow hedge relationships extend or mature through July 2036. During the three and six months ended June 30, 2014, $2 million and $3 million of losses related to terminated and/or de-designated cash flow hedge relationships were amortized to earnings from accumulated other comprehensive income (loss) compared with losses of $3 million and $7 million during the three and six months ended June 30, 2013. During the next twelve months, we expect to amortize $9 million of remaining losses to earnings resulting from these terminated and/or de-designated cash flow hedges. The interest accrual related to the derivative contract is recognized in interest income.

The following table presents information on gains and losses on derivative instruments designated and qualifying as hedging instruments in cash flow hedges (including amounts recognized in accumulated other comprehensive income (loss) ("AOCI") from all terminated cash flow hedges) and their locations on the consolidated statement of income:

	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassed From AOCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on the Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on the Derivative (Ineffective Portion)	
	2014	2013		2014	2013		2014	2013
				(in millions)				
Three Months Ended June 30,								
Foreign exchange contracts	**$ —**	$ —	Interest income (expense)	**$ —**	$ —	Other income	**$ —**	$ —
Interest rate contracts	**(25)**	84	Interest income (expense)	**(2)**	(3)	Other income	**—**	1
Total	**$ (25)**	$ 84		**$ (2)**	$ (3)		**$ —**	$ 1
Six Months Ended June 30,								
Foreign exchange contracts	**$ 1**	$ —	Interest income (expense)	**$ —**	$ —	Other income	**$ —**	$ —
Interest rate contracts	**(61)**	119	Interest income (expense)	**(3)**	(7)	Other income	**—**	—
Total	**$ (60)**	$ 119		**$ (3)**	$ (7)		**$ —**	$ —

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

We have elected the fair value option for certain fixed rate long-term debt issuances as well as hybrid instruments which include all structured notes and structured deposits and have entered into certain derivative contracts related to these debt issuances and hybrid instruments carried at fair value. These derivative contracts are non-qualifying hedges but are considered economic hedges. We have also entered into credit default swaps which are designated as economic hedges against the credit risks within our loan portfolio. In the event of an impairment loss occurring in a loan that is economically hedged, the impairment loss is recognized as provision for credit losses while the gain on the credit default swap is recorded as other income. In addition, we also from time to time have designated certain forward purchase or sale of to-be-announced ("TBA") securities to economically hedge mortgage servicing rights. Changes in the fair value of TBA positions, which are considered derivatives, are recorded in residential mortgage banking revenue. Derivative instruments designated as economic hedges that do not qualify for hedge accounting are recorded at fair value through profit and loss. Realized and unrealized gains and losses are recognized in gain (loss) on instruments designated at fair value and related derivatives, other income or residential mortgage banking revenue while the derivative asset or liability positions are reflected as other assets or other liabilities.

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

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
		(in millions)			
Interest rate contracts	Trading revenue	**$ (89)**	$ (468)	**$ (32)**	$ (382)
Interest rate contracts	Residential mortgage banking revenue	**22**	(34)	**37**	(41)
Foreign exchange contracts	Trading revenue	**58**	736	**83**	578
Equity contracts	Trading revenue	**—**	4	**—**	2
Precious metals contracts	Trading revenue	**10**	19	**18**	61
Credit contracts	Trading revenue	**(108)**	(69)	**(115)**	78
Total		**$ (107)**	$ 188	**$ (9)**	$ 296

The following table presents information on gains and losses on derivative instruments held for non-qualifying hedging activities and their locations on the consolidated statement of income:

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
		(in millions)			
Interest rate contracts	Gain (loss) on instruments designated at fair value and related derivatives	**$ 111**	$ (176)	**$ 227**	$ (238)
Interest rate contracts	Residential mortgage banking revenue	**—**	4	**—**	4
Foreign exchange contracts	Gain (loss) on instruments designated at fair value and related derivatives	**9**	(44)	**13**	(55)
Equity contracts	Gain (loss) on instruments designated at fair value and related derivatives	**258**	(75)	**339**	240
Precious metals contracts	Gain (loss) on instruments designated at fair value and related derivatives	**8**	(42)	**24**	(42)
Credit contracts	Gain (loss) on instruments designated at fair value and related derivatives	**—**	1	**1**	1
Credit contracts	Other income	**(7)**	3	**(11)**	3
Total		**$ 379**	$ (329)	**$ 593**	$ (87)

Credit-Risk Related Contingent Features We enter into total return swap, interest rate swap, cross-currency swap and credit default swap contracts, amongst others which contain provisions that require us to maintain a specific credit rating from each of the major credit rating agencies. Sometimes the derivative instrument transactions are a part of broader structured product transactions. If HSBC Bank USA, National Association's ("HSBC Bank USA") credit ratings were to fall below the current ratings, the counterparties to our derivative instruments could demand us to post additional collateral. The amount of additional collateral required to be posted will depend on whether HSBC Bank USA is downgraded by one or more notches and whether the downgrade is in relation to long-term or short-term ratings. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position as of June 30, 2014, was $4,701 million for which we have posted collateral of $3,837 million. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position as of December 31, 2013, was $5,614 million for which we have posted collateral of $5,059 million. Substantially all of the collateral posted is in the form of cash or securities available-for-sale. See Note 17, "Guarantee Arrangements, Pledged Assets and Collateral," for further details.

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

Moody's Short-Term Ratings	**Long-Term Ratings A1**	**A2**	**A3**
		(in millions)	
P-1	$ —	$ 53	$ 182
P-2	1	53	182

S&P Short-Term Ratings	**Long-Term Ratings AA-**	**A+**	**A**
		(in millions)	
A-1+	$ —	$ —	$ 52
A-1	4	4	56

We would be required to post $5 million of additional collateral on total return swaps if HSBC Bank USA is downgraded by S&P and Moody's by two notches on our long term rating accompanied by one notch downgrade in our short term rating.

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

	June 30, 2014	**December 31, 2013**
	(in millions)	
Interest rate:		
Futures and forwards	**$ 115,127**	$ 175,468
Swaps	**3,694,301**	3,645,085
Options written	**46,040**	85,021
Options purchased	**61,121**	87,735
	3,916,589	3,993,309
Foreign Exchange:		
Swaps, futures and forwards	**843,970**	804,278
Options written	**121,210**	82,817
Options purchased	**122,574**	84,835
Spot	**59,786**	52,193
	1,147,540	1,024,123
Commodities, equities and precious metals:		
Swaps, futures and forwards	**47,815**	41,123
Options written	**12,156**	21,531
Options purchased	**10,266**	21,723
	70,237	84,377
Credit derivatives	**303,034**	355,286
Total	**$ 5,437,400**	$ 5,457,095

10. Fair Value Option

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

Loans We elected to apply FVO to certain commercial syndicated loans which are originated with the intent to sell and are included as loans held for sale in the consolidated balance sheet. The election allows us to account for these loans at fair value which is consistent with the manner in which the instruments are managed. Interest from these loans is recorded as interest income in the consolidated statement of income. Because a substantial majority of the loans elected for the fair value option are floating rate assets, changes in their fair value are primarily attributable to changes in loan-specific credit risk factors. The components of gain (loss) related to loans designated at fair value are summarized in the table below. As of June 30, 2014 and December 31, 2013, no loans for which the fair value option has been elected are 90 days or more past due or on nonaccrual status.

Long-Term Debt (Own Debt Issuances) We elected to apply FVO for certain fixed-rate long-term debt for which we had applied or otherwise would elect to apply fair value hedge accounting. The election allows us to achieve a similar accounting effect without having to meet the hedge accounting requirements. The own debt issuances elected under FVO are traded in secondary markets and, as such, the fair value is determined based on observed prices for the specific instruments. The observed market price of these instruments reflects the effect of changes to our own credit spreads and interest rates. Interest on the fixed-rate debt accounted for under FVO is recorded as interest expense in the consolidated statement of income. The components of gain (loss) related to long-term debt designated at fair value are summarized in the table below.

Hybrid Instruments We elected to apply fair value option accounting to all of our hybrid instruments issued, inclusive of structured notes and structured deposits. The valuation of the hybrid instruments is predominantly driven by the derivative features embedded within the instruments. Cash flows of the hybrid instruments are discounted at an appropriate rate for the applicable duration of the instrument adjusted for our own credit spreads. The credit spreads applied to structured notes are determined with reference to our own debt issuance rates observed in the primary and secondary markets, internal funding rates, and structured note rates in recent executions while the credit spreads applied to structured deposits are determined using market rates currently offered on comparable deposits with similar characteristics and maturities. Interest on this debt is recorded as interest expense in the consolidated statement of income. The components of gain (loss) related to hybrid instruments designated at fair value which reflect the instruments described above are summarized in the table below.

The following table summarizes the fair value and unpaid principal balance for items we account for under FVO:

	Fair Value	Unpaid Principal Balance
	(in millions)	
At June 30, 2014		
Commercial syndicated loans	**$ 159**	**$ 159**
Fixed rate long-term debt	**2,063**	**1,750**
Hybrid instruments:		
Structured deposits	**7,714**	**7,472**
Structured notes	**6,200**	**5,787**
At December 31, 2013		
Commercial syndicated loans	$ 58	$ 59
Fixed rate long-term debt	1,893	1,750
Hybrid instruments:		
Structured deposits	7,740	7,539
Structured notes	5,693	5,377

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

	Loans	Long-Term Debt	Hybrid Instruments	Total
		(in millions)		
Three Months Ended June 30, 2014				
Interest rate and other components[1]	**$ —**	**$ (61)**	**$ (330)**	**$ (391)**
Credit risk component[2][3]	**—**	**(46)**	**7**	**(39)**
Total mark-to-market on financial instruments designated at fair value	**—**	**(107)**	**(323)**	**(430)**
Mark-to-market on the related derivatives	**—**	**50**	**319**	**369**
Net realized gain on the related long-term debt derivatives	**—**	**17**	**—**	**17**
Gain (loss) on instruments designated at fair value and related derivatives	**$ —**	**$ (40)**	**$ (4)**	**$ (44)**
Three Months Ended June 30, 2013				
Interest rate and other components[1]	$ —	$ 120	$ 204	$ 324
Credit risk component[2][3]	—	53	54	107
Total mark-to-market on financial instruments designated at fair value	—	173	258	431
Mark-to-market on the related derivatives	—	(128)	(224)	(352)
Net realized gain on the related long-term debt derivatives	—	16	—	16
Gain (loss) on instruments designated at fair value and related derivatives	$ —	$ 61	$ 34	$ 95
Six Months Ended June 30, 2014				
Interest rate and other components[1]	**$ —**	**$ (143)**	**$ (483)**	**$ (626)**
Credit risk component[2][3]	**—**	**(27)**	**33**	**6**
Total mark-to-market on financial instruments designated at fair value	**—**	**(170)**	**(450)**	**(620)**
Net realized loss on financial instruments	**—**	**—**	**—**	**—**
Mark-to-market on the related derivatives	**—**	**120**	**450**	**570**
Net realized gain on the related long-term debt derivatives	**—**	**34**	**—**	**34**
Gain (loss) on instruments designated at fair value and related derivatives	**$ —**	**$ (16)**	**$ —**	**$ (16)**
Six Months Ended June 30, 2013				
Interest rate and other components[1]	$ —	$ 183	$ (112)	$ 71
Credit risk component[2][3]	21	11	87	119
Total mark-to-market on financial instruments designated at fair value	21	194	(25)	190
Net realized loss on financial instruments	(8)	—	—	(8)
Mark-to-market on the related derivatives	—	(190)	64	(126)
Net realized gain on the related long-term debt derivatives	—	32	—	32
Gain (loss) on instruments designated at fair value and related derivatives	$ 13	$ 36	$ 39	$ 88

(1) As it relates to hybrid instruments, interest rate and other components includes interest rate, foreign exchange and equity contract risks.

(2) During the three and six months ended June 30, 2014, the losses in the credit risk component for long-term debt are attributable to the tightening of our own credit spreads while the gains during the three and six months ended June 30, 2013 are attributable to the widening of our own credit spreads.

(3) During the three months ended June 30, 2014, the gains in the credit risk component for hybrid instruments reflect the widening of credit spreads on structured deposits partially offset by the tightening of credit spreads on structured notes. During the six months ended June 30, 2014, the gains in the credit risk component for hybrid instruments are attributable primarily to the widening of credit spreads on structured notes. During the three and six months ended June 30, 2013, the gains in the credit risk component for hybrid instruments are attributable primarily to the widening of credit spreads on structured notes.

11. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes certain items that are reported directly within a separate component of shareholders' equity. The following table presents changes in accumulated other comprehensive income balances:

Three Months Ended June 30,	2014	2013
	(in millions)	
Unrealized gains (losses) on securities available-for-sale:		
Balance at beginning of period	**$ 112**	$ 842
Other comprehensive income (loss) for period:		
Net unrealized gains (losses) arising during period, net of tax of $110 million and $(398) million, respectively	**171**	(571)
Reclassification adjustment for (gains) losses realized in net income, net of tax of $3 million and $(9) million, respectively[1]	**4**	(14)
Total other comprehensive income (loss) for period	**175**	(585)
Balance at end of period	**287**	257
Unrealized losses on other-than-temporarily impaired debt securities held-to-maturity:		
Balance at beginning of period	**(59)**	—
Adjustment to add other-than-temporary impairment due to the consolidation of VIE, net of tax of $(48) million	**—**	(67)
Other comprehensive income for period:		
Reclassification adjustment related to the accretion of unrealized other-than-temporary impairment, net of tax of $1 million[2]	**2**	—
Total other comprehensive income for period	**2**	—
Balance at end of period	**(57)**	(67)
Unrealized gains (losses) on derivatives designated as cash flow hedges:		
Balance at beginning of period	**(103)**	(178)
Other comprehensive income (loss) for period:		
Net gains (losses) arising during period, net of tax of $(10) million and $35 million, respectively	**(16)**	49
Reclassification adjustment for losses realized in net income, net of tax of $1 million and $1 million, respectively[3]	**1**	2
Total other comprehensive income (loss) for period	**(15)**	51
Balance at end of period	**(118)**	(127)
Pension and postretirement benefit liability:		
Balance at beginning and end of period	**2**	(6)
Total accumulated other comprehensive income at end of period	**$ 114**	$ 57

Six Months Ended June 30,	2014	2013
	(in millions)	
Unrealized gains (losses) on securities available-for-sale:		
Balance at beginning of period	**$ (18)**	$ 992
Other comprehensive income (loss) for period:		
Net unrealized gains (losses) arising during period, net of tax of $202 million and $(455) million, respectively	**315**	(649)
Reclassification adjustment for gains realized in net income, net of tax of $(6) million and $(60) million, respectively[1]	**(10)**	(86)
Total other comprehensive income (loss) for period	**305**	(735)
Balance at end of period	**287**	257
Unrealized losses on other-than-temporarily impaired debt securities held-to-maturity:		
Balance at beginning of period	**(60)**	—
Adjustment to add other-than-temporary impairment due to the consolidation of a VIE, net of tax of $(48) million	**—**	(67)
Other comprehensive income for period:		
Reclassification adjustment related to the accretion of unrealized other-than-temporary impairment, net of tax of $3 million[2]	**3**	—
Total other comprehensive income for period	**3**	—
Balance at end of period	**(57)**	(67)
Unrealized gains (losses) on derivatives designated as cash flow hedges:		
Balance at beginning of period	**(83)**	(201)
Other comprehensive income (loss) for period:		
Net gains (losses) arising during period, net of tax of $(23) million and $49 million, respectively	**(37)**	70
Reclassification adjustment for losses realized in net income, net of tax of $1 million and $3 million, respectively[3]	**2**	4
Total other comprehensive income (loss) for period	**(35)**	74
Balance at end of period	**(118)**	(127)
Pension and postretirement benefit liability:		
Balance at beginning and end of period	**2**	(6)
Total accumulated other comprehensive income at end of period	**$ 114**	$ 57

(1) Amount reclassified to net income is included in other securities gains, net in our consolidated statement of income.

(2) Amount reclassified to the carrying value of the debt securities is included in securities held-to-maturity in our consolidated balance sheet.

(3) Amount reclassified to net income is included in interest income (expense) in our consolidated statement of income.

12. Pension and Other Postretirement Benefits

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Service cost – benefits earned during the period	**$ 1**	$ 1	**$ 2**	$ 2
Interest cost on projected benefit obligation	**18**	17	**36**	34
Expected return on assets	**(21)**	(21)	**(42)**	(41)
Recognized losses	**9**	13	**19**	26
Pension expense	**$ 7**	$ 10	**$ 15**	$ 21

Pension expense was lower during the three and six months ended June 30, 2014 mainly due to lower recognized losses. During the first quarter of 2014, an additional contribution of $74 million was made to the Plan.

Postretirement Plans Other Than Pensions The components of net periodic benefit cost for our postretirement plans other than pension are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Interest cost	**$ 1**	$ —	**$ 1**	$ 1
Net periodic postretirement benefit cost	**$ 1**	$ —	**$ 1**	$ 1

13. Related Party Transactions

In the normal course of business, we conduct transactions with HSBC and its subsidiaries. These transactions occur at prevailing market rates and terms and include funding arrangements, derivative, servicing arrangements, information technology, centralized support services, banking and other miscellaneous services. All extensions of credit by (and certain credit exposures of) HSBC Bank USA to other HSBC affiliates (other than Federal Deposit Insurance Corporation ("FDIC") insured banks) are legally required to be secured by eligible collateral. The following tables and discussions below present the more significant related party balances and the income (expense) generated by related party transactions:

	June 30, 2014	**December 31, 2013**
	(in millions)	
Assets:		
Cash and due from banks	**$ 1,347**	$ 102
Interest bearing deposits with banks [1]	**1,226**	631
Trading assets [2]	**15,993**	17,082
Loans	**5,080**	5,328
Other [3]	**1,168**	1,219
Total assets	**$ 24,814**	$ 24,362
Liabilities:		
Deposits	**$ 18,676**	$ 16,936
Trading liabilities [2]	**17,543**	19,463
Short-term borrowings	**1,748**	1,514
Long-term debt	**3,983**	3,987
Other [3]	**511**	573
Total liabilities	**$ 42,461**	$ 42,473

(1) Includes interest bearing deposits with HSBC Mexico S.A. of $1,100 million and $500 million at June 30, 2014 and December 31, 2013, respectively.

(2) Trading assets and trading liabilities do not reflect the impact of netting which allows the offsetting of amounts relating to certain contracts if certain conditions are met. Trading assets and liabilities primarily consist of derivatives contracts.

(3) Other assets and other liabilities primarily consist of derivative contracts.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Income/(Expense):				
Interest income	**$ 86**	$ 83	**$ 123**	$ 105
Interest expense	**(19)**	(19)	**(37)**	(39)
Net interest income	**$ 67**	$ 64	**$ 86**	$ 66
Servicing and other fees from HSBC affiliate:				
Fees and commissions:				
HSBC Finance Corporation	**$ 23**	$ 26	**$ 38**	$ 47
HSBC Markets (USA) Inc. ("HMUS")	**1**	4	**5**	9
Other HSBC affiliates	**12**	14	**31**	30
Other HSBC affiliates income	**15**	15	**24**	27
Total affiliate income	**$ 51**	$ 59	**$ 98**	$ 113
Support services from HSBC affiliates:				
HSBC Finance Corporation	**$ (3)**	$ (5)	**$ (6)**	$ (9)
HMUS	**(51)**	(54)	**(104)**	(106)
HSBC Technology & Services (USA) ("HTSU")	**(271)**	(242)	**(524)**	(475)
Other HSBC affiliates	**(60)**	(61)	**(105)**	(96)
Total support services from HSBC affiliates	**$ (385)**	$ (362)	**$ (739)**	$ (686)
Stock based compensation expense with HSBC [1]	**$ (10)**	$ (13)	**$ (18)**	$ (22)

[1] Employees may participate in one or more stock compensation plans sponsored by HSBC. These expenses are included in Salaries and employee benefits in our consolidated statement of income. Employees also may participate in a defined benefit pension plan and other postretirement plans sponsored by HSBC North America which are discussed in Note 12, "Pension and Other Postretirement Benefits."

Funding Arrangements with HSBC Affiliates:

We use HSBC affiliates to fund a portion of our borrowing and liquidity needs. Long-term debt with affiliates reflects $4.0 billion in senior debt with HSBC North America. Of this amount, $1.0 billion is a 5 year floating rate note which matures in August 2014 and $3.0 billion that matures in three equal installments of $1.0 billion in April 2015, 2016 and 2017. The debt bears interest at 90 day U.S. dollar Libor plus a spread, with each maturity at a different spread.

We have the following funding arrangements available with HSBC affiliates, although there were no outstanding balances at either June 30, 2014 and December 31, 2013:

- $1,000 million committed line of credit with HSBC Investment (Bahamas) Limited;
- $500 million committed line of credit with HSBC; and
- $150 million uncommitted line of credit with HSBC North America Inc. ("HNAI").

We have also incurred short-term borrowings with certain affiliates, largely related to metals activity. In addition, certain affiliates have also placed deposits with us.

Lending and Derivative Related Arrangements Extended to HSBC Affiliates:

At June 30, 2014 and December 31, 2013, we have the following loan balances outstanding with HSBC affiliates:

	June 30, 2014	December 31, 2013
	(in millions)	
HSBC Finance Corporation	**$ 3,014**	$ 3,015
HSBC Markets (USA) Inc. ("HMUS") and subsidiaries	**720**	199
HSBC Bank Brasil S.A.	**1,100**	1,000
Other short-term affiliate lending	**246**	1,114
Total assets	**$ 5,080**	**$ 5,328**

HSBC Finance Corporation - We have extended a $5.0 billion, 364 day uncommitted unsecured revolving credit agreement to HSBC Finance which allows for borrowings with maturities of up to 15 years. At both June 30, 2014 and December 31, 2013, $3.0 billion was outstanding under this credit agreement with $512 million maturing in September 2017, $1.5 billion maturing in January 2018 and $1.0 billion maturing in September 2018. We have also extended a committed revolving credit facility to HSBC Finance of $1.0 billion which did not have any outstanding balance at either June 30, 2014 or December 31, 2013. This credit facility expires in May 2017.

HMUS and subsidiaries - We have extended loans and lines, some of them uncommitted, to HMUS and its subsidiaries in the amount of $6.7 billion and $3.8 billion at June 30, 2014 and December 31, 2013, respectively, of which $720 million and $199 million, respectively, was outstanding. The outstanding balances mature at various stages between 2014 and 2017.

HSBC Bank Brasil S.A. - We have extended uncommitted lines of credit to HSBC Bank Brasil in the amount of $1.1 billion and $1.5 billion at June 30, 2014 and December 31, 2013, respectively, of which $1.1 billion and $1.0 billion, respectively, was outstanding. The outstanding balances mature at various stages between 2014 and 2016.

We have extended lines of credit to various other HSBC affiliates totaling $2.3 billion which did not have any outstanding balances at either June 30, 2014 and December 31, 2013.

Other short-term affiliate lending - In addition to loans and lines extended to affiliates discussed above, from time to time we may extend loans to affiliates which are generally short term in nature. At June 30, 2014 and December 31, 2013, there were $246 million and $1,114 million, respectively, of these loans outstanding.

HUSI is also committed to provide liquidity facilities to backstop the liquidity risk in Regency, an asset-backed commercial paper conduit consolidated by our affiliate, in relation to assets originated in the U.S. region. The notional amount of the liquidity facilities provided by HUSI to Regency was approximately $2.4 billion as of June 30, 2014, which is less than half of Regency's total liquidity facilities.

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, we routinely enter into derivative transactions with HSBC Finance and other HSBC affiliates. The notional value of derivative contracts related to these contracts was approximately $1,138.7 billion and $1,210.6 billion at June 30, 2014 and December 31, 2013, respectively. The net credit exposure (defined as the net fair value of derivative assets and liabilities) related to the contracts was approximately $953 million and $845 million at June 30, 2014 and December 31, 2013, respectively. Our Global Banking and Markets business accounts for these transactions on a mark to market basis, with the change in value of contracts with HSBC affiliates substantially offset by the change in value of related contracts entered into with unaffiliated third parties.

Services Provided Between HSBC Affiliates:

Under multiple service level agreements, we provide services to and receive services from various HSBC affiliates. The following summarizes these activities:

- Servicing activities for residential mortgage loans across North America are performed both by us and HSBC Finance. As a result, we receive servicing fees from HSBC Finance for services performed on their behalf and pay servicing fees to HSBC Finance for services performed on our behalf. The fees we receive from HSBC Finance are reported in Servicing and other fees from HSBC affiliates. Fees we pay to HSBC Finance are reported in Support services from HSBC affiliates. This includes fees paid for the servicing of residential mortgage loans (with a carrying amount of $907 million and $983 million at June 30, 2014 and December 31, 2013, respectively) that we purchased from HSBC Finance in 2003 and 2004.
- HSBC North America's technology and certain centralized support services including human resources, corporate affairs, risk management, legal, compliance, tax, finance and other shared services that are centralized within HTSU. HTSU also provides certain item processing and statement processing activities to us. The fees we pay HTSU for the centralized support services

and processing activities are included in Support services from HSBC affiliates. We also receive fees from HTSU for providing certain administrative services to them. The fees we receive from HTSU are included in Servicing and other fees from HSBC affiliates. In certain cases, for facilities used by HTSU, we may guarantee their performance under the lease agreements.

- We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas, customer service, systems, collection and accounting functions. The expenses related to these services are included in Support services from HSBC affiliates.
- We utilize HSBC Securities (USA) Inc. ("HSI") for broker dealer, debt underwriting, customer referrals, loan syndication and other treasury and traded markets related services, pursuant to service level agreements. Fees charged by HSI for broker dealer, loan syndication services, treasury and traded markets related services are included in Support services from HSBC affiliates. Debt underwriting fees charged by HSI are deferred as a reduction of long-term debt and amortized to interest expense over the life of the related debt. Customer referral fees paid to HSI are netted against customer fee income, which is included in other fees and commissions.

Other Transactions with HSBC Affiliates

We also received revenue from our affiliates for rent on certain office space, which has been recorded as a component of support services from HSBC affiliates. Rental revenue from our affiliates totaled $13 million and $27 million during the three and six months ended June 30, 2014, respectively, compared with $13 million and $25 million during the three and six months ended June 30, 2013, respectively.

14. Business Segments

We have four distinct business segments that we utilize for management reporting and analysis purposes, which are aligned with HSBC's global businesses and business strategy. There have been no changes in the basis of our segmentation or measurement of segment profit as compared with the presentation in our 2013 Form 10-K.

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

A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented in Note 25, "Business Segments," in our 2013 Form 10-K. There have been no significant changes since December 31, 2013 in the differences between U.S. GAAP and IFRSs impacting our results.

The following table summarizes the results for each segment on an IFRSs basis, as well as provides a reconciliation of total results under IFRSs to U.S. GAAP consolidated totals:

	IFRSs Consolidated Amounts									
	RBWM	CMB	GB&M	PB	Other	Adjustments/ Reconciling Items	Total	IFRSs Adjustments[4]	IFRSs Reclassi-fications[5]	U.S. GAAP Consolidated Totals
						(in millions)				
Three Months Ended June 30, 2014										
Net interest income[1]	$ 212	$ 202	$ 109	$ 56	$ 78	$ (4)	$ 653	$ (16)	$ 36	$ 673
Other operating income	104	64	151	25	(38)	4	310	(6)	(43)	261
Total operating income	316	266	260	81	40	—	963	(22)	(7)	934
Loan impairment charges[3]	21	83	40	—	—	—	144	(52)	(7)	85
	295	183	220	81	40	—	819	30	—	849
Operating expenses[2]	298	174	239	61	28	—	800	76	—	876
Profit (loss) before income tax expense	$ (3)	$ 9	$ (19)	$ 20	$ 12	$ —	$ 19	$ (46)	$ —	$ (27)
Three Months Ended June 30, 2013										
Net interest income[1]	$ 206	$ 172	$ 125	$ 49	$ (14)	$ (3)	$ 535	$ (21)	$ 4	$ 518
Other operating income	82	77	295	30	68	3	555	12	(1)	566
Total operating income	288	249	420	79	54	—	1,090	(9)	3	1,084
Loan impairment charges[3]	21	1	6	—	—	—	28	19	20	67
	267	248	414	79	54	—	1,062	(28)	(17)	1,017
Operating expenses[2]	300	171	250	67	22	—	810	(27)	(17)	766
Profit (loss) before income tax expense	$ (33)	$ 77	$ 164	$ 12	$ 32	$ —	$ 252	$ (1)	$ —	$ 251
Six Months Ended June 30, 2014										
Net interest income[1]	$ 410	$ 389	$ 206	$ 105	$ 65	$ (9)	$ 1,166	$ (31)	$ 57	$ 1,192
Other operating income	217	132	445	50	(13)	9	840	(10)	(69)	761
Total operating income	627	521	651	155	52	—	2,006	(41)	(12)	1,953
Loan impairment charges[3]	23	90	55	(5)	—	—	163	(48)	(14)	101
	604	431	596	160	52	—	1,843	7	2	1,852
Operating expenses[2]	577	332	478	116	53	—	1,556	68	2	1,626
Profit (loss) before income tax expense	$ 27	$ 99	$ 118	$ 44	$ (1)	$ —	$ 287	$ (61)	$ —	$ 226
Balances at end of period:										
Total assets	$ 19,169	$ 26,467	$ 175,330	$ 8,232	$ 826	$ —	$ 230,024	$ (47,570)	$ (236)	$ 182,218
Total loans, net	16,315	25,239	19,957	6,069	—	—	67,580	1,693	2,301	71,574
Goodwill	581	358	—	325	—	—	1,264	348	—	1,612
Total deposits	29,138	22,135	31,935	11,822	—	—	95,030	(3,128)	23,619	115,521

	IFRSs Consolidated Amounts									
	RBWM	CMB	GB&M	PB	Other	Adjustments/ Reconciling Items	Total	IFRSs Adjustments[4]	IFRSs Reclassi-fications[5]	U.S. GAAP Consolidated Totals
						(in millions)				
Six Months Ended June 30, 2013										
Net interest income[1]	$ 421	$ 342	$ 234	$ 94	$ (28)	$ (7)	$ 1,056	$ (38)	$ 5	$ 1,023
Other operating income	189	142	677	58	51	7	1,124	38	(4)	1,158
Total operating income	610	484	911	152	23	—	2,180	—	1	2,181
Loan impairment charges[3]	53	15	9	1	—	—	78	(4)	14	88
	557	469	902	151	23	—	2,102	4	(13)	2,093
Operating expenses[2]	591	333	480	127	43	—	1,574	(27)	(13)	1,534
Profit (loss) before income tax expense	$ (34)	$ 136	$ 422	$ 24	$ (20)	$ —	$ 528	$ 31	$ —	$ 559
Balances at end of period:										
Total assets	$ 19,563	$ 20,799	$ 197,729	$ 7,499	$ 1,088	$ —	$ 246,678	$ (57,199)	$ 45	$ 189,524
Total loans, net	16,508	19,693	19,975	5,874	—	—	62,050	3,144	906	66,100
Goodwill	581	358	480	325	—	—	1,744	484	—	2,228
Total deposits	31,855	21,382	35,524	12,152	—	—	100,913	(5,047)	15,869	111,735

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

(2) Expenses for the segments include fully apportioned corporate overhead expenses.

(3) The provision assigned to the segments is based on the segments' net charge offs and the change in allowance for credit losses.

(4) Represents adjustments associated with differences between IFRSs and U.S. GAAP bases of accounting.

(5) Represents differences in financial statement presentation between IFRSs and U.S. GAAP.

15. Retained Earnings and Regulatory Capital Requirements

Bank dividends are a major source of funds used for payment by us of shareholder dividends and, along with interest earned on investments, cover our operating expenses which consist primarily of interest on outstanding debt. Any significant dividend from HSBC Bank USA would require the approval of the Office of the Comptroller of the Currency (the "OCC"). Approval is also required if the total of all dividends HSBC Bank USA declares in any year exceeds the cumulative net profits for that year, combined with the profits for the two preceding years reduced by dividends attributable to those years. Under a separate restriction, payment of dividends is prohibited in amounts greater than undivided profits then on hand, after deducting actual losses and bad debts. Bad debts are debts due and unpaid for a period of six months unless well secured, as defined, and in the process of collection.

The following table summarizes the capital amounts and ratios of HSBC USA and HSBC Bank USA, calculated in accordance with banking regulations in effect as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	Capital Amount	Well-Capitalized Minimum Ratio[(1)(2)]	Actual Ratio	Capital Amount	Well-Capitalized Minimum Ratio[(1)]	Actual Ratio[(3)]
	(dollars are in millions)					
Total capital ratio:						
HSBC USA	**$ 21,009**	**10.00%**	**16.01%**	$ 20,242	10.00%	16.36%
HSBC Bank USA	**22,603**	**10.00%**	**18.03**	21,324	10.00	18.03
Tier 1 capital ratio:						
HSBC USA	**15,167**	**6.00**	**11.56**	14,409	6.00	11.65
HSBC Bank USA	**17,011**	**8.00**	**13.57**	15,763	6.00	13.33
Common equity Tier 1 ratio[(4)]:						
HSBC USA	**13,679**	**4.50**	**10.42**	12,301	5.00 [(5)]	9.94
HSBC Bank USA	**17,011**	**6.50**	**13.57**	15,763	5.00	13.33
Tier 1 leverage ratio:						
HSBC USA	**15,167**	**4.00**	**8.28**	14,409	3.00 [(6)]	7.90
HSBC Bank USA	**17,011**	**5.00**	**9.71**	15,763	5.00	9.06
Risk weighted assets:						
HSBC USA	**131,231**			123,737		
HSBC Bank USA	**125,359**			118,285		

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

(2) As previously discussed, the minimum regulatory ratios for a depository institution to be well-capitalized will increase in 2015 under Basel III, and the new ratios are shown above. The total capital and Tier 1 capital ratios shown above for HSBC USA are the well-capitalized ratios for a bank holding company. There are no common equity Tier 1 or Tier 1 leverage ratio components in the definition of a well-capitalized bank holding company and the ratios shown are the required minimum ratios beginning in 2015.

(3) At December 31, 2013, capital ratios were reported according to Basel I rules and reflect the impact of the U.S. market risk final rule (known in the industry as Basel 2.5).

(4) Basel III introduces the common equity Tier 1 ratio. For December 31, 2013, the ratios presented are the Tier 1 common ratio calculated under Basel I.

(5) There was no Tier 1 common ratio component in the definition of a well-capitalized bank holding company under Basel I. The ratio shown is the required minimum Tier 1 common ratio, calculated under Basel I, as included in the Federal Reserve Board's final rule regarding capital plans for U.S. bank holding companies with total consolidated assets of $50 billion or more.

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

In 2013, U.S. regulators issued a final rule implementing the Basel III capital framework in the U.S. which, for banking organizations such as HSBC North America and HSBC Bank USA, took effect January 1, 2014 with certain provisions being phased in over time through the beginning of 2019. As a result, beginning in 2014, capital ratios are reported in accordance with the Basel III transition rules within the final rule.

We did not receive any cash capital contributions from our immediate parent, HNAI during the first six months of 2014. We did not make any capital contributions to our subsidiary, HSBC Bank USA, during the six months ended June 30, 2014.

16. *Variable Interest Entities*

In the ordinary course of business, we have organized special purpose entities ("SPEs") primarily to structure financial products to meet our clients' investment needs, to facilitate clients to access and raise financing from capital markets and to securitize financial assets held to meet our own funding needs. For disclosure purposes, we aggregate SPEs based on the purpose, risk characteristics and business activities of the SPEs. A SPE is a VIE if it lacks sufficient equity investment at risk to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack either a) the power through voting or similar rights to direct the activities of the entity that most significantly impacts the entity's economic performance; or b) the obligation to absorb the entity's expected losses, the right to receive the expected residual returns, or both.

Variable Interest Entities We consolidate VIEs in which we hold a controlling financial interest as evidenced by the power to direct the activities of a VIE that most significantly impact its economic performance and the obligation to absorb losses of, or the right to receive benefits from, the VIE that could be potentially significant to the VIE and therefore are deemed to be the primary beneficiary. We take into account our entire involvement in a VIE (explicit or implicit) in identifying variable interests that individually or in the aggregate could be significant enough to warrant our designation as the primary beneficiary and hence require us to consolidate the VIE or otherwise require us to make appropriate disclosures. We consider our involvement to be significant where we, among other things, (i) provide liquidity put options or other liquidity facilities to support the VIE's debt obligations; (ii) enter into derivative contracts to absorb the risks and benefits from the VIE or from the assets held by the VIE; (iii) provide a financial guarantee that covers assets held or liabilities issued; (iv) design, organize and structure the transaction; and (v) retain a financial or servicing interest in the VIE.

We are required to evaluate whether to consolidate a VIE when we first become involved and on an ongoing basis. In almost all cases, a qualitative analysis of our involvement in the entity provides sufficient evidence to determine whether we are the primary beneficiary. In rare cases, a more detailed analysis to quantify the extent of variability to be absorbed by each variable interest holder is required to determine the primary beneficiary.

Consolidated VIEs The following table summarizes assets and liabilities related to our consolidated VIEs as of June 30, 2014 and December 31, 2013 which are consolidated on our balance sheets. Assets and liabilities exclude intercompany balances that eliminate in consolidation.

	June 30, 2014		December 31, 2013	
	Consolidated Assets	Consolidated Liabilities	Consolidated Assets	Consolidated Liabilities
	(in millions)			
Asset-backed commercial paper conduit:				
Interest bearing deposits with banks	**3**	**—**	5	—
Held-to-maturity securities	**157**	**—**	200	—
Other assets	**40**	**—**	45	—
Other liabilities	**—**	**—**	—	3
Subtotal	**200**	**—**	250	3
Low income housing limited liability partnership:				
Other assets	**418**	**—**	457	—
Long-term debt	**—**	**92**	—	92
Other liabilities	**—**	**71**	—	90
Subtotal	**$ 418**	**$ 163**	$ 457	$ 182
Total	**$ 618**	**$ 163**	$ 707	$ 185

Asset-backed conduit During 2013, HSBC decided to restructure certain of its asset-backed commercial paper conduit programs to have only one asset-backed commercial paper conduit providing securitized financing to HSBC clients globally. As part of this initiative, our commercial paper conduit otherwise known as Bryant Park is no longer transacting new business and certain existing Bryant Park customer transactions have been refinanced by an existing commercial paper conduit currently consolidated by HSBC Bank plc. Bryant Park continues to exist but only to fund select legacy assets it currently holds. Upon completion of the restructure in 2013, HSBC Bank USA became the primary beneficiary of Bryant Park at which time Bryant Park became included in our consolidated results.

Low income housing limited liability partnership In 2009, all low income housing investments held by us were transferred to a Limited Liability Partnership ("LLP") in exchange for debt and equity while a third party invested cash for an equity interest that is mandatorily redeemable at a future date. The LLP was created in order to ensure the utilization of future tax benefits from these low income housing tax projects. The LLP was deemed to be a VIE as it does not have sufficient equity investment at risk to finance its activities. Upon entering into this transaction, we concluded that we are the primary beneficiary of the LLP due to the nature of our continuing involvement and, as a result, consolidate the LLP and report the equity interest issued to the third party investor in other liabilities and the assets of the LLP in other assets on our consolidated balance sheet. The investments held by the LLP represent equity investments in the underlying low income housing partnerships for which the LLP applies equity-method accounting. The LLP does not consolidate the underlying partnerships because it does not have the power to direct the activities of the partnerships that most significantly impact the economic performance of the partnerships.

Unconsolidated VIEs We also have variable interests in other VIEs that are not consolidated because we are not the primary beneficiary. The following table provides additional information on these unconsolidated VIEs, including the variable interests held by us and our maximum exposure to loss arising from our involvements in these VIEs, as of June 30, 2014 and December 31, 2013:

	Variable Interests Held Classified as Assets	Variable Interests Held Classified as Liabilities	Total Assets in Unconsolidated VIEs	Maximum Exposure to Loss
		(in millions)		
At June 30, 2014				
Asset-backed commercial paper conduits	**$ 42**	**$ —**	**$ 12,407**	**$ 2,354**
Structured note vehicles	**2,830**	**8**	**6,085**	**5,929**
Total	**$ 2,872**	**$ 8**	**$ 18,492**	**$ 8,283**
At December 31, 2013				
Asset-backed commercial paper conduits	$ 417	$ —	$ 17,044	$ 2,560
Structured note vehicles	2,272	55	6,190	5,888
Total	$ 2,689	$ 55	$ 23,234	$ 8,448

Information on the types of variable interest entities with which we are involved, the nature of our involvement and the variable interests held in those entities is presented below.

Asset-backed commercial paper ("ABCP") conduits Separately from the Bryant Park facility discussed above, we provide liquidity facilities to Regency, a multi-seller ABCP conduit consolidated by our affiliate. Customers sell financial assets, such as trade receivables, to Regency, which funds the purchases by issuing short-term highly-rated commercial paper collateralized by the assets acquired. We, along with other financial institutions, provide liquidity facilities to Regency in the form of lines of credit or asset purchase commitments. These liquidity facilities support transactions associated with a specific seller of assets to the conduit and we would only be required to provide support in the event of certain triggers associated with those transactions and assets. Our obligations are generally pari passu with those of other institutions that also provide liquidity support to the same conduit or for the same transactions. We do not provide any program-wide credit enhancements to ABCP conduits.

Each seller of assets to an ABCP conduit typically provides credit enhancements in the form of asset overcollateralization and, therefore, bears the risk of first loss related to the specific assets transferred. We do not transfer our own assets to Regency. We also do not provide the majority of the liquidity facilities to Regency. We have no ownership interests in, perform no administrative duties for, and do not service any of the assets held by Regency. We are not the primary beneficiary and do not consolidate Regency. Credit risk related to the liquidity facilities provided is managed by subjecting these facilities to our normal underwriting and risk management processes. The $2,354 million maximum exposure to loss presented in the table above represents the maximum amount of loans and asset purchases we could be required to fund under the liquidity facilities. The maximum loss exposure is estimated assuming the facilities are fully drawn and the underlying collateralized assets are in default with zero recovery value.

Structured note vehicles Our involvement in structured note vehicles includes derivatives such as interest rate and currency swaps and investments in the vehicles' debt instruments. With respect to several of these VIEs, we hold variable interests in the form of total return swaps under which we receive the total return on certain assets held by the VIE and pay a market rate of return.

We also hold credit default swaps with these structured note VIEs under which we receive credit protection on specified reference assets in exchange for the payment of a premium. Through these derivatives, the VIEs assume the credit risk associated with the reference assets which are then passed on to the holders of the debt instruments they issue. Because they create rather than absorb variability, the credit default swaps we hold are not considered variable interests. In limited circumstances, we entered into total return swaps taking on the risks and benefits of certain structured notes issued by unconsolidated VIEs. The same risks and benefits are passed on to third party entities through back-end total return swaps. We earn a spread for facilitating the transaction. Our maximum exposure to loss is the notional amount of the structured notes covered by the swap. The maximum exposure to loss will occur in the unlikely scenario where the value of the structured notes is reduced to zero and, at the same time, the counterparty of the back-end swap defaults with zero recovery.

We record all investments in, and derivative contracts with, unconsolidated structured note vehicles at fair value on our consolidated balance sheet. Our maximum exposure to loss is limited to the recorded amounts of these instruments or, where applicable, the notional amount of the derivatives wrapping the structured notes.

Beneficial interests issued by third-party sponsored securitization entities We hold certain beneficial interests such as mortgage-backed securities issued by third party sponsored securitization entities which may be considered VIEs. The investments are transacted at arm's-length and decisions to invest are based on a credit analysis of the underlying collateral assets or the issuer. We are a passive investor in these issuers and do not have the power to direct the activities of these issuers. As such, we do not consolidate these securitization entities. Additionally, we do not have other involvements in servicing or managing the collateral assets or provide financial or liquidity support to these issuers which potentially give rise to risk of loss exposure. These investments are an integral part of the disclosure in Note 3, "Securities," and Note 18, "Fair Value Measurements," and, therefore, are not disclosed in this note to avoid redundancy.

17. Guarantee Arrangements, Pledged Assets and Collateral

Guarantee Arrangements As part of our normal operations, we enter into credit derivatives and various off-balance sheet guarantee arrangements with affiliates and third parties. These arrangements arise principally in connection with our lending and client intermediation activities and include standby letters of credit and certain credit derivative transactions. The contractual amounts of these arrangements represent our maximum possible credit exposure in the event that we are required to fulfill the maximum obligation under the contractual terms of the guarantee.

The following table presents total carrying value and contractual amounts of our sell protection credit derivatives and major off-balance sheet guarantee arrangements as of June 30, 2014 and December 31, 2013. Following the table is a description of the various arrangements.

	June 30, 2014		December 31, 2013	
	Carrying Value	Notional/ Maximum Exposure to Loss	Carrying Value	Notional/ Maximum Exposure to Loss
	(in millions)			
Credit derivatives[1][4]	**$ 1,047**	**$ 149,540**	$ 545	$ 180,380
Financial standby letters of credit, net of participations[2][3]	**—**	**5,491**	—	5,237
Performance (non-financial) guarantees[3]	**—**	**2,904**	—	3,172
Liquidity asset purchase agreements[3]	**—**	**2,354**	—	2,560
Total	**$ 1,047**	**$ 160,289**	$ 545	$ 191,349

(1) Includes $36,920 million and $34,856 million of notional issued for the benefit of HSBC affiliates at June 30, 2014 and December 31, 2013, respectively.

(2) Includes $842 million and $865 million issued for the benefit of HSBC affiliates at June 30, 2014 and December 31, 2013, respectively.

(3) For standby letters of credit and liquidity asset purchase agreements, maximum loss represents losses to be recognized assuming the letter of credit and liquidity facilities have been fully drawn and the obligors have defaulted with zero recovery.

(4) For credit derivatives, the maximum loss is represented by the notional amounts without consideration of mitigating effects from collateral or recourse arrangements.

Credit-Risk Related Guarantees

Credit derivatives Credit derivatives are financial instruments that transfer the credit risk of a reference obligation from the credit protection buyer to the credit protection seller who is exposed to the credit risk without buying the reference obligation. We sell credit protection on underlying reference obligations (such as loans or securities) by entering into credit derivatives, primarily in the form of credit default swaps, with various institutions. We account for all credit derivatives at fair value. Where we sell credit protection to a counterparty that holds the reference obligation, the arrangement is effectively a financial guarantee on the reference obligation. Under a credit derivative contract, the credit protection seller will reimburse the credit protection buyer upon occurrence of a credit event (such as bankruptcy, insolvency, restructuring or failure to meet payment obligations when due) as defined in the derivative contract, in return for a periodic premium. Upon occurrence of a credit event, we will pay the counterparty the stated notional amount of the derivative contract and receive the underlying reference obligation. The recovery value of the reference obligation received could be significantly lower than its notional principal amount when a credit event occurs.

Certain derivative contracts are subject to master netting arrangements and related collateral agreements. A party to a derivative contract may demand that the counterparty post additional collateral in the event its net exposure exceeds certain predetermined limits and when the credit rating falls below a certain grade. We set the collateral requirements by counterparty such that the collateral covers various transactions and products, and is not allocated to specific individual contracts.

We manage our exposure to credit derivatives using a variety of risk mitigation strategies where we enter into offsetting hedge positions or transfer the economic risks, in part or in entirety, to investors through the issuance of structured credit products. We actively manage the credit and market risk exposure in the credit derivative portfolios on a net basis and, as such, retain no or a limited net sell protection position at any time. The following table summarizes our net credit derivative positions as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Carrying (Fair) Value	Notional	Carrying (Fair) Value	Notional
	(in millions)			
Sell-protection credit derivative positions	**$ 1,047**	**$ 149,540**	$ 545	$ 180,380
Buy-protection credit derivative positions	**(1,056)**	**153,494**	(505)	174,906
Net position[(1)]	**$ (9)**	**$ (3,954)**	$ 40	$ 5,474

(1) Positions are presented net in the table above to provide a complete analysis of our risk exposure and depict the way we manage our credit derivative portfolio. The offset of the sell-protection credit derivatives against the buy-protection credit derivatives may not be legally binding in the absence of master netting agreements with the same counterparty. Furthermore, the credit loss triggering events for individual sell protection credit derivatives may not be the same or occur in the same period as those of the buy protection credit derivatives thereby not providing an exact offset.

Standby letters of credit A standby letter of credit is issued to a third party for the benefit of a customer and is a guarantee that the customer will perform or satisfy certain obligations under a contract. It irrevocably obligates us to pay a specified amount to the third party beneficiary if the customer fails to perform the contractual obligation. We issue two types of standby letters of credit: performance and financial. A performance standby letter of credit is issued where the customer is required to perform some nonfinancial contractual obligation, such as the performance of a specific act, whereas a financial standby letter of credit is issued where the customer's contractual obligation is of a financial nature, such as the repayment of a loan or debt instrument. As of June 30, 2014, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $5,491 million and $2,904 million, respectively. As of December 31, 2013, the total amount of outstanding financial standby letters of credit (net of participations) and performance guarantees were $5,237 million and $3,172 million, respectively.

The issuance of a standby letter of credit is subject to our credit approval process and collateral requirements. We charge fees 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, which represent the value of the stand-ready obligation to perform under these guarantees, amounting to $41 million and $46 million at June 30, 2014 and December 31, 2013, respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $19 million and $18 million at June 30, 2014 and December 31, 2013, respectively.

The following table summarizes the credit ratings of credit risk related guarantees including the credit ratings of counterparties against which we sold credit protection and financial standby letters of credit as of June 30, 2014 as an indicative proxy of payment risk:

Notional/Contractual Amounts	Average Life (in years)	Credit Ratings of the Obligors or the Transactions: Investment Grade	Non-Investment Grade	Total
		(dollars are in millions)		
Sell-protection Credit Derivatives[1]				
Single name credit default swaps ("CDS")	2.5	$ 96,763	$ 18,760	$ 115,523
Structured CDS	2.1	11,139	1,565	12,704
Index credit derivatives	2.8	17,148	194	17,342
Total return swaps	3.3	3,553	418	3,971
Subtotal		128,603	20,937	149,540
Standby Letters of Credit[2]	1.1	6,222	2,173	8,395
Total		$ 134,825	$ 23,110	$ 157,935

(1) The credit ratings in the table represent external credit ratings for classification as investment grade and non-investment grade.

(2) External ratings for most of the obligors are not available. Presented above are the internal credit ratings which are developed using similar methodologies and rating scale equivalent to external credit ratings for purposes of classification as investment grade and non-investment grade.

Our internal groupings are determined based on HSBC's risk rating systems and processes which assign a credit grade based on a scale which ranks the risk of default of a customer. The groupings are determined and used for managing risk and determining level of credit exposure appetite based on the customer's operating performance, liquidity, capital structure and debt service ability. In addition, we also incorporate subjective judgments into the risk rating process concerning such things as industry trends, comparison of performance to industry peers and perceived quality of management. We compare our internal risk ratings to outside external rating agency benchmarks, where possible, at the time of formal review and regularly monitor whether our risk ratings are comparable to the external ratings benchmark data.

A non-investment grade rating of a referenced obligor has a negative impact to the fair value of the credit derivative and increases the likelihood that we will be required to perform under the credit derivative contract. We employ market-based parameters and, where possible, use the observable credit spreads of the referenced obligors as measurement inputs in determining the fair value of the credit derivatives. We believe that such market parameters are more indicative of the current status of payment/performance risk than external ratings by the rating agencies which may not be forward-looking in nature and, as a result, lag behind those market-based indicators.

Mortgage Loan Repurchase Obligations

Sale of mortgage loans In the ordinary course of business, we originate and sell mortgage loans and provide various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance to the origination criteria established by the agencies. In the event of a breach of our representations and warranties, we may be obligated to repurchase the loans with identified defects or to indemnify the buyers. Our contractual obligation arises only when the breach of representations and warranties are discovered and repurchase is demanded. Historically, these sales had been primarily to government sponsored entities ("GSEs") and, as a result of the settlements discussed in further detail below, the repurchase exposure associated with these sales has been substantially resolved. In addition, with the conversion of our mortgage processing and servicing operations to PHH Mortgage in the second quarter of 2013, new agency eligible originations beginning with May 2013 applications are sold directly to PHH Mortgage and PHH Mortgage is responsible for origination representations and warranties for all loans purchased.

During the fourth quarter of 2013, we entered into a settlement with FNMA for $83 million which settled our liability for substantially all loans sold to FNMA between January 1, 2000 and June 26, 2012. The settlement resulted in a release of $15 million in repurchase reserves previously provided for this exposure. During the first quarter of 2014, we entered into a similar settlement with the FHLMC for $25 million, reflected in realized losses in the liability rollforward below, which settled our liability for substantially all loans sold to FHLMC from January 1, 2000 through 2013. As a result of the settlement and a re-assessment of the residual exposure, we released $34 million in repurchase reserves. We continue to maintain repurchase reserves for FNMA and FHLMC exposure associated with residual risk not covered by the settlement agreements.

The following table provides information about outstanding repurchase demands received from GSEs and other third parties at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	(in millions)	
GSEs	**$ 3**	$ 41
Others	**—**	3
Total[(1)]	**$ 3**	$ 44

(1) Includes repurchase demands on loans sourced from our legacy broker channel of $1 million and $26 million at June 30, 2014 and December 31, 2013, respectively.

In estimating our repurchase liability arising from breaches of representations and warranties, we consider historical losses on residual risks not covered by settlement agreements adjusted for any risk factors not captured in the historical losses.

The following table summarizes the change in our estimated repurchase liability for loans sold to the GSEs and other third parties during the three and six months ended June 30, 2014 and 2013 for obligations arising from the breach of representations and warranties associated with the sale of these loans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Balance at beginning of period	**$ 36**	$ 211	**$ 99**	$ 219
Increase (decrease) in liability recorded through earnings	**—**	23	**(34)**	36
Realized losses	**(2)**	(17)	**(31)**	(38)
Balance at end of period	**$ 34**	$ 217	**$ 34**	$ 217

Our remaining mortgage repurchase liability of $34 million at June 30, 2014 represents our best estimate of the loss that has been incurred including interest, resulting from various representations and warranties in the contractual provisions of our mortgage loan sales adjusted for settlements reached with counterparties. Because the level of mortgage loan repurchase losses is dependent upon economic factors, investor demand strategies and other external risk factors such as housing market trends that may change, the level of the liability for mortgage loan repurchase losses requires significant judgment. We have seen recent changes in investor demand trends and continue to evaluate our methods of determining the best estimate of loss based on these recent trends. As these estimates are influenced by factors outside our control, there is uncertainty inherent in these estimates making it reasonably possible that they could change. The range of reasonably possible losses in excess of our recorded repurchase liability is between zero and $30 million at June 30, 2014. This estimated range of reasonably possible losses was determined based upon modifying the assumptions utilized in our best estimate of probable losses to reflect what we believe to be reasonably possible adverse assumptions.

Written Put Options, Non Credit-Risk Related and Indemnity Arrangements

Liquidity asset purchase agreements We provide liquidity facilities to Regency, a multi-seller ABCP conduit consolidated by our affiliate. Regency finances the purchase of individual assets by issuing commercial paper to third party investors. Each liquidity facility is transaction specific and has a maximum limit. Pursuant to the liquidity agreements, we are obligated, subject to certain limitations, to advance funds in an amount not to exceed the face value of the commercial paper in the event Regency is unable or unwilling to refinance its commercial paper. A liquidity asset purchase agreement is economically a conditional written put option issued to the conduit where the exercise price is the face value of the commercial paper. As of June 30, 2014 and December 31, 2013, we had issued $2,354 million and $2,560 million, respectively, of liquidity facilities to provide liquidity support to ABCP conduits. See Note 16, "Variable Interest Entities," for further information.

Clearinghouses and exchanges We are a member of various exchanges and clearinghouses that trade and clear securities and/or derivatives contracts. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, members of a clearinghouse may be required to contribute to a guaranty fund to backstop members' obligations to the clearinghouse. As a member, we may be required to pay a proportionate share of the financial obligations of another member who defaults on its obligations to the exchange or the clearinghouse. Our guarantee obligations would arise only if the exchange or clearinghouse had exhausted its resources. Any potential contingent liability under these membership agreements cannot be estimated.

Pledged Assets Pledged assets included in the consolidated balance sheet consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Interest bearing deposits with banks	**$ 324**	$ 355
Trading assets[1]	**3,051**	1,296
Securities available-for-sale[2]	**15,307**	21,346
Securities held-to-maturity	**327**	362
Loans[3]	**3,732**	3,969
Other assets[4]	**2,904**	2,904
Total	**$ 25,645**	$ 30,232

(1) Trading assets are primarily pledged against liabilities associated with repurchase agreements.

(2) Securities available-for-sale are primarily pledged against derivatives, public fund deposits, trust deposits and various short-term and long term borrowings, as well as providing capacity for potential secured borrowings from the Federal Home Loan Bank and the Federal Reserve Bank.

(3) Loans are primarily 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.

Debt securities pledged as collateral that can be sold or repledged by the secured party continue to be reported on the consolidated balance sheet. The fair value of securities available-for-sale that can be sold or repledged was $5,342 million and $10,950 million at June 30, 2014 and December 31, 2013, respectively. The fair value of trading assets that can be sold or repledged was $3,051 million and $1,296 million at June 30, 2014 and December 31, 2013, respectively.

The fair value of collateral we accepted but not reported on the consolidated balance sheet that can be sold or repledged was $7,345 million and $4,187 million at June 30, 2014 and December 31, 2013, respectively. This collateral was obtained under security resale agreements. Of this collateral, $3,522 million and $2,771 million has been sold or repledged as collateral under repurchase agreements or to cover short sales at June 30, 2014 and December 31, 2013, respectively.

Securitization Activity In addition to the repurchase risk described above, we have also been involved as a sponsor/seller of loans used to facilitate whole loan securitizations underwritten by our affiliate, HSI. In this regard, we began acquiring residential mortgage loans in 2005 which were warehoused on our balance sheet with the intent of selling them to HSI to facilitate HSI's whole loan securitization program which was discontinued in 2007. During 2005-2007, we purchased and sold $24 billion of such loans to HSI which were subsequently securitized and sold by HSI to third parties. See "*Mortgage Securitization Activity and Litigation*" in Note 20, "Litigation and Regulatory Matters," for additional discussion of related exposure.

Offsetting of Resale and Repurchase Agreements and Securities Borrowing and Lending Agreements

We enter into purchases and borrowings of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) identical or substantially the same securities. Resale and repurchase agreements are generally accounted for as secured lending and secured borrowing transactions, respectively.

The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the consolidated balance sheets at the amount advanced or borrowed, plus accrued interest to date. Interest earned on resale agreements is reported as interest income. Interest paid on repurchase agreements is reported as interest expense. We offset resale and repurchase agreements executed with the same counterparty under legally enforceable netting agreements that meet the applicable netting criteria as permitted by generally accepted accounting principles.

Repurchase agreements may require us to deposit cash or other collateral with the lender. In connection with resale agreements, it is our policy to obtain possession of collateral, which may include the securities purchased, with market value in excess of the principal amount loaned. The market value of the collateral subject to the resale and repurchase agreements is regularly monitored, and additional collateral is obtained or provided when appropriate, to ensure appropriate collateral coverage of these secured financing transactions.

The following table provides information about repurchase agreements and resell agreements that are subject to offset as of June 30, 2014 and December 31, 2013:

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet[1]	Net Amounts Presented in the Balance Sheet	Financial Instruments [2]	Cash Collateral Received / Pledged	Net Amount [3]
			(in millions)			
As of June 30, 2014:						
Assets:						
Securities purchased under agreements to resell	**$ 7,745**	**5,434**	**2,311**	**2,311**	**—**	**$ —**
Liabilities:						
Securities sold under repurchase agreements	**$ 11,915**	**5,434**	**6,481**	**6,481**	**—**	**$ —**
As of December 31, 2013:						
Assets:						
Securities purchased under agreements to resell	$ 4,187	2,068	2,119	2,118	—	$ 1
Liabilities:						
Securities sold under repurchase agreements	$ 14,989	2,068	12,921	12,913	—	$ 8

(1) Represents recognized amount of resale and repurchase agreements with counterparties subject to legally enforceable netting agreements that meet the applicable netting criteria as permitted by generally accepted accounting principles.

(2) Represents securities received or pledged to cover financing transaction exposures.

(3) Represents the amount of our exposure that is not collateralized / covered by pledged collateral.

18. *Fair Value Measurements*

Accounting principles related to fair value measurements provide a framework for measuring fair value that focuses on the exit price that would be received to sell an asset or paid to transfer a liability in the principal market (or in the absence of the principal market, the most advantageous market) accessible in an orderly transaction between willing market participants (the "Fair Value Framework"). Where required by the applicable accounting standards, assets and liabilities are measured at fair value using the "highest and best use" valuation premise. Fair value measurement guidance clarifies that financial instruments do not have alternative use and, as such, the fair value of financial instruments should be determined using an "in-exchange" valuation premise. However, the fair value measurement literature provides a valuation exception and permits an entity to measure the fair value of a group of financial assets and financial liabilities with offsetting credit risks and/or market risks based on the exit price it would receive or pay to transfer the net risk exposure of a group of assets or liabilities if certain conditions are met. We elected to apply the measurement exception to a group of derivative instruments with offsetting credit risks and market risks, which primarily relate to interest rate, foreign currency, debt and equity price risk, and commodity price risk as of the reporting date.

Fair Value Adjustments The best evidence of fair value is quoted market price in an actively traded market, where available. In the event listed price or market quotes are not available, valuation techniques that incorporate relevant transaction data and market parameters reflecting the attributes of the asset or liability under consideration are applied. Where applicable, fair value adjustments are made to ensure the financial instruments are appropriately recorded at fair value. The fair value adjustments reflect the risks associated with the products, contractual terms of the transactions, and the liquidity of the markets in which the transactions occur. The fair value adjustments are broadly categorized by the following major types:

Credit risk adjustment - The credit risk adjustment is an adjustment to a group of financial assets and financial liabilities, predominantly derivative assets and derivative liabilities, to reflect the credit quality of the parties to the transaction in arriving at fair value. A credit valuation adjustment to a financial asset is required to reflect the default risk of the counterparty. A debit valuation adjustment to a financial liability is recorded to reflect the default risk of HUSI.

For derivative instruments, we calculate the credit risk adjustment by applying the probability of default of the counterparty to the expected exposure, and multiplying the result by the expected loss given default. We estimate the implied probability of default based on the credit spread of the specific counterparty observed in the credit default swap market. Where credit default spread of the counterparty is not available, we use the credit default spread of a specific proxy (e.g. the credit default swap spread of the counterparty's parent). Where specific proxy credit default swap is not available, we apply a blended approach based on a combination of credit default swaps referencing to credit names of similar credit standing and the historical rating-based probability of default.

Liquidity risk adjustment - The liquidity risk adjustment (primarily in the form of bid-offer adjustment) reflects the cost that would be incurred to close out the market risks by hedging, disposing or unwinding the position. Valuation models generally produce mid market values. The bid-offer adjustment is made in such a way that results in a measure that reflects the exit price that most represents the fair value of the financial asset or financial liability under consideration or, where applicable, the fair value of the net market risk exposure of a group of financial assets or financial liabilities. These adjustments relate primarily to Level 2 assets.

Model valuation adjustment - Where fair value measurements are determined using an internal valuation model based on observable and unobservable inputs, certain valuation inputs may be less readily determinable. There may be a range of possible valuation inputs that market participants may assume in determining the fair value measurement. The resultant fair value measurement has inherent measurement risk if one or more parameters are unobservable and must be estimated. An input valuation adjustment is necessary to reflect the likelihood that market participants may use different input parameters, and to mitigate the possibility of measurement error. In addition, the values derived from valuation techniques are affected by the choice of valuation model and model limitation. When different valuation techniques are available, the choice of valuation model can be subjective. Furthermore, the valuation model applied may have measurement limitations. In those cases, an additional valuation adjustment is also applied to mitigate the measurement risk. Model valuation adjustments are not material and relate primarily to Level 2 instruments.

We apply stress scenarios in determining appropriate liquidity risk and model risk adjustments for Level 3 fair values by reviewing the historical data for unobservable inputs (e.g., correlation, volatility). Some stress scenarios involve a 95 percent confidence interval (i.e., two standard deviations). Other stress scenarios may be performed using highly stressed historical inputs such as credit spreads experienced during a credit crisis. We also utilize unobservable parameter adjustments when instruments are valued using internally developed models which reflects the uncertainty in the value estimates provided by the model.

Fair Value Hierarchy The Fair Value Framework establishes a three-tiered fair value hierarchy as follows:

Level 1 *quoted market price* - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 *valuation technique using observable inputs* - Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are inactive, and measurements determined using valuation models where all significant inputs are observable, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 *valuation technique with significant unobservable inputs* - Level 3 inputs are unobservable inputs for the asset or liability and include situations where fair values are measured using valuation techniques based on one or more significant unobservable input.

Classification within the fair value hierarchy is based on whether the lowest hierarchical level input that is significant to the fair value measurement is observable. As such, the classification within the fair value hierarchy is dynamic and can be transferred to other hierarchy levels in each reporting period. Transfers between leveling categories are assessed, determined and recognized at the end of each reporting period.

Valuation Control Framework We have established a control framework which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the determination of fair values rests with Finance. Finance has established an independent price validation process to ensure that the assets and liabilities measured at fair value are properly stated.

A valuation committee, chaired by the Head of Business Finance of Global Banking and Markets, meets monthly to review, monitor and discuss significant valuation matters arising from credit and market risks. The committee is responsible for establishing valuation policies and procedures, approving the internal valuation techniques and models developed by the Quantitative Risk and Valuation Group ("QRVG"), reviewing and approving valuation adjustments pertaining to, among other things, unobservable inputs, market liquidity, selection of valuation model and counterparty credit risk. Significant valuation risks identified in business activities are corroborated and addressed by the committee members and, where applicable, are escalated to the Chief Financial Officer of HUSI and the Audit Committee of the Board of Directors.

Where fair value measurements are determined based on information obtained from independent pricing services or brokers, Finance applies appropriate validation procedures to substantiate fair value. For price validation purposes, quotations from at least two independent pricing sources are obtained for each financial instrument, where possible.

The following factors are considered in determining fair values:

- similarities between the asset or the liability under consideration and the asset or liability for which quotation is received;
- collaboration of pricing by referencing to other independent market data such as market transactions and relevant benchmark indices;
- consistency among different pricing sources;
- the valuation approach and the methodologies used by the independent pricing sources in determining fair value;
- the elapsed time between the date to which the market data relates and the measurement date;
- the source of the fair value information; and
- whether the security is traded in an active or inactive market.

Greater weight is given to quotations of instruments with recent market transactions, pricing quotes from dealers who stand ready to transact, quotations provided by market-makers who structured such instrument and market consensus pricing based on inputs from a large number of survey participants. Any significant discrepancies among the external quotations are reviewed and adjustments to fair values are recorded where appropriate. Where the transaction volume of a specific instrument has been reduced and the fair value measurement becomes less transparent, Finance will apply more detailed procedures to understand and challenge the appropriateness of the unobservable inputs and the valuation techniques used by the independent pricing service. Where applicable, Finance will develop a fair value estimate using its own pricing model inputs to test reasonableness. Where fair value measurements are determined using internal valuation models, Finance will validate the fair value measurement by either developing unobservable inputs based on the industry consensus pricing surveys in which we participate or back testing by observing the actual settlements occurring soon after the measurement date. Any significant valuation adjustments are reported to and discussed with the valuation committee.

Fair Value of Financial Instruments The fair value estimates, methods and assumptions set forth below for our financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this quarterly report.

The following table summarizes the carrying value and estimated fair value of our financial instruments at June 30, 2014 and December 31, 2013:

June 30, 2014	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(in millions)		
Financial assets:					
Short-term financial assets	$ 26,335	$ 26,335	$ 2,325	$ 23,946	$ 64
Federal funds sold and securities purchased under resale agreements	2,311	2,311	—	2,311	—
Non-derivative trading assets	20,802	20,802	2,717	15,006	3,079
Derivatives	5,882	5,882	10	5,828	44
Securities	46,081	46,150	27,924	18,226	—
Commercial loans, net of allowance for credit losses	52,650	54,210	—	—	54,210
Commercial loans designated under fair value option and held for sale	159	159	—	159	—
Commercial loans held for sale	237	237	—	237	—
Consumer loans, net of allowance for credit losses	18,924	16,732	—	—	16,732
Consumer loans held for sale:					
Residential mortgages	38	38	—	14	24
Other consumer	66	66	—	—	66
Financial liabilities:					
Short-term financial liabilities	$ 12,987	$ 12,987	$ —	$ 12,924	$ 63
Deposits:					
Without fixed maturities	105,977	105,977	—	105,977	—
Fixed maturities	1,830	1,834	—	1,834	—
Deposits designated under fair value option	7,714	7,714	—	5,457	2,257
Non-derivative trading liabilities	3,808	3,808	656	3,152	—
Derivatives	5,747	5,747	14	5,715	18
Long-term debt	16,341	17,022	—	17,022	—
Long-term debt designated under fair value option	8,263	8,263	—	7,525	738

December 31, 2013	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(in millions)		
Financial assets:					
Short-term financial assets	$ 20,626	$ 20,626	$ 961	$ 19,614	$ 51
Federal funds sold and securities purchased under resale agreements	2,119	2,119	—	2,119	—
Non-derivative trading assets	22,903	22,903	1,344	18,924	2,635
Derivatives	7,569	7,569	26	7,467	76
Securities	56,368	56,405	39,553	16,852	—
Commercial loans, net of allowance for credit losses	48,186	49,897	—	—	49,897
Commercial loans designated under fair value option and held for sale	58	58	—	58	—
Commercial loans held for sale	18	18	—	18	—
Consumer loans, net of allowance for credit losses	18,903	16,051	—	—	16,051
Consumer loans held for sale:					
Residential mortgages	91	92	—	36	56
Other consumer	63	63	—	—	63
Financial liabilities:					
Short-term financial liabilities	$ 19,205	$ 19,205	$ —	$ 19,154	$ 51
Deposits:					
Without fixed maturities	102,584	102,584	—	102,584	—
Fixed maturities	2,284	2,289	—	2,289	—
Deposits designated under fair value option	7,740	7,740	—	5,406	2,334
Non-derivative trading liabilities	4,134	4,134	308	3,826	—
Derivatives	7,348	7,348	5	7,294	49
Long-term debt	15,261	15,729	—	15,729	—
Long-term debt designated under fair value option	7,586	7,586	—	6,686	900

Loan values presented in the table above were determined using the Fair Value Framework for measuring fair value, which is based on our best estimate of the amount within a range of value we believe would be received in a sale as of the balance sheet date (i.e. exit price). The secondary market demand and estimated value for our residential mortgage loans has been heavily influenced by the challenging economic conditions during the past several years, including house price depreciation, elevated unemployment, changes in consumer behavior, changes in discount rates and the lack of financing options available to support the purchase of receivables. For certain consumer loans, investors incorporate numerous assumptions in predicting cash flows, such as future interest rates, higher charge-off levels, slower voluntary prepayment speeds, different default and loss curves and estimated collateral values than we, as the servicer of these loans, believe will ultimately be the case. The investor's valuation process reflects this difference in overall cost of capital assumptions as well as the potential volatility in the underlying cash flow assumptions, the combination of which may yield a significant pricing discount from our intrinsic value. The estimated fair values at June 30, 2014 and December 31, 2013 reflect these market conditions. The increase in the relative fair value of our residential mortgage loans during 2014 is largely due to improved conditions in the housing industry driven by increased property values and, to a lesser extent, lower required market yields and increased investor demand for these types of receivables.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

June 30, 2014	Level 1	Level 2	Level 3	Gross Balance	Netting[1]	Net Balance
	Fair Value Measurements on a Recurring Basis (in millions)					
Assets:						
Trading Securities, excluding derivatives:						
U.S. Treasury, U.S. Government agencies and sponsored enterprises	$ 2,717	$ 135	$ —	$ 2,852	$ —	$ 2,852
Obligations of U.S. States and political subdivisions	—	27	—	27	—	27
Collateralized debt obligations	—	—	260	260	—	260
Asset-backed securities:						
Residential mortgages	—	153	—	153	—	153
Student Loans	—	81	—	81	—	81
Corporate and other domestic debt securities	—	—	2,819	2,819	—	2,819
Debt Securities issued by foreign entities:						
Corporate	—	77	—	77	—	77
Government-backed	—	4,035	—	4,035	—	4,035
Equity securities	—	21	—	21	—	21
Precious metals trading	—	10,477	—	10,477	—	10,477
Derivatives[2]:						
Interest rate contracts	97	52,969	1	53,067	—	53,067
Foreign exchange contracts	29	12,731	16	12,776	—	12,776
Equity contracts	—	2,062	165	2,227	—	2,227
Precious metals contracts	2	644	—	646	—	646
Credit contracts	—	3,460	356	3,816	—	3,816
Derivatives netting	—	—	—	—	(66,650)	(66,650)
Total derivatives	128	71,866	538	72,532	(66,650)	5,882
Securities available-for-sale:						
U.S. Treasury, U.S. Government agencies and sponsored enterprises	27,914	11,186	—	39,100	—	39,100
Obligations of U.S. states and political subdivisions	—	730	—	730	—	730
Asset-backed securities:						
Residential mortgages	—	1	—	1	—	1
Commercial mortgages	—	86	—	86	—	86
Home equity	—	94	—	94	—	94
Other	—	94	—	94	—	94
Debt Securities issued by foreign entities:						
Corporate	—	869	—	869	—	869
Government-backed	10	3,628	—	3,638	—	3,638
Equity securities	—	166	—	166	—	166
Loans[3]	—	159	—	159	—	159
Mortgage servicing rights[4]	—	—	186	186	—	186
Total assets	$ 30,769	$ 103,885	$ 3,803	$ 138,457	$ (66,650)	$ 71,807
Liabilities:						
Deposits in domestic offices[5]	$ —	$ 5,457	$ 2,257	$ 7,714	$ —	$ 7,714
Trading liabilities, excluding derivatives	656	3,152	—	3,808	—	3,808
Derivatives[2]:						
Interest rate contracts	37	53,651	1	53,689	—	53,689
Foreign exchange contracts	—	11,606	16	11,622	—	11,622
Equity contracts	—	1,414	106	1,520	—	1,520
Precious metals contracts	138	656	—	794	—	794
Credit contracts	—	3,822	99	3,921	—	3,921
Derivatives netting	—	—	—	—	(65,799)	(65,799)
Total derivatives	175	71,149	222	71,546	(65,799)	5,747
Long-term debt[6]	—	7,525	738	8,263	—	8,263
Total liabilities	$ 831	$ 87,283	$ 3,217	$ 91,331	$ (65,799)	$ 25,532

December 31, 2013	Level 1	Level 2	Level 3	Gross Balance	Netting[(1)]	Net Balance
	Fair Value Measurements on a Recurring Basis (in millions)					
Assets:						
Trading Securities, excluding derivatives:						
U.S. Treasury, U.S. Government agencies and sponsored enterprises	$ 1,344	$ 178	$ —	$ 1,522	$ —	$ 1,522
Obligations of U. S. States and political subdivisions	—	25	—	25	—	25
Collateralized debt obligations	—	—	254	254	—	254
Asset-backed securities:						
Residential mortgages	—	159	—	159	—	159
Student loans	—	68	—	68	—	68
Corporate and other domestic debt securities	—	—	2,260	2,260	—	2,260
Debt Securities issued by foreign entities:						
Corporate	—	495	—	495	—	495
Government-backed	—	6,223	121	6,344	—	6,344
Equity securities	—	25	—	25	—	25
Precious metals trading	—	11,751	—	11,751	—	11,751
Derivatives[(2)]:						
Interest rate contracts	81	56,095	1	56,177	—	56,177
Foreign exchange contracts	7	15,291	131	15,429	—	15,429
Equity contracts	—	2,042	160	2,202	—	2,202
Precious metals contracts	182	1,400	1	1,583	—	1,583
Credit contracts	—	4,152	512	4,664	—	4,664
Derivatives netting	—	—	—	—	(72,486)	(72,486)
Total derivatives	270	78,980	805	80,055	(72,486)	7,569
Securities available-for-sale:						
U.S. Treasury, U.S. Government agencies and sponsored enterprises	39,513	9,439	—	48,952	—	48,952
Obligations of U.S. states and political subdivisions	—	742	—	742	—	742
Asset-backed securities:						
Residential mortgages	—	1	—	1	—	1
Commercial mortgages	—	126	—	126	—	126
Home equity	—	227	—	227	—	227
Other	—	94	—	94	—	94
Corporate and other domestic debt securities	—	—	—	—	—	—
Debt Securities issued by foreign entities:						
Corporate	—	881	—	881	—	881
Government-backed	40	3,681	—	3,721	—	3,721
Equity securities	—	162	—	162	—	162
Loans[(3)]	—	58	—	58	—	58
Mortgage servicing rights[(4)]	—	—	227	227	—	227
Total assets	$ 41,167	$ 113,315	$ 3,667	$ 158,149	$ (72,486)	$ 85,663
Liabilities:						
Deposits in domestic offices[(5)]	$ —	$ 5,406	$ 2,334	$ 7,740	$ —	$ 7,740
Trading liabilities, excluding derivatives	308	3,826	—	4,134	—	4,134
Derivatives[(2)]:						
Interest rate contracts	34	56,282	—	56,316	—	56,316
Foreign exchange contracts	16	14,576	36	14,628	—	14,628
Equity contracts	—	1,403	157	1,560	—	1,560
Precious metals contracts	7	847	3	857	—	857
Credit contracts	—	4,398	321	4,719	—	4,719
Derivatives netting	—	—	—	—	(70,732)	(70,732)
Total derivatives	57	77,506	517	78,080	(70,732)	7,348
Long-term debt[(6)]	—	6,686	900	7,586	—	7,586
Total liabilities	$ 365	$ 93,424	$ 3,751	$ 97,540	$ (70,732)	$ 26,808

(1) Represents counterparty and cash collateral netting which allow the offsetting of amounts relating to certain contracts if certain conditions are met.

(2) Includes trading derivative assets of $4,354 million and $5,991 million and trading derivative liabilities of $5,007 million and $6,741 million as of June 30, 2014 and December 31, 2013, respectively, as well as derivatives held for hedging and commitments accounted for as derivatives.

(3) Includes certain commercial loans held for sale which we have elected to apply the fair value option. See Note 6, "Loans Held for Sale," for further information.

(4) See Note 7, "Intangible Assets," for additional information.

(5) Represents structured deposits risk-managed on a fair value basis for which we have elected to apply the fair value option.

(6) Includes structured notes and own debt issuances which we have elected to measure on a fair value basis.

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

Transfers between Levels 1 and 2 Measurements There were no transfers between Levels 1 and 2 during the three and six months ended June 30, 2014 and 2013.

Information on Level 3 assets and liabilities The following table summarizes additional information about changes in the fair value of Level 3 assets and liabilities during the three and six months ended June 30, 2014 and 2013. As a risk management practice, we may risk manage the Level 3 assets and liabilities, in whole or in part, using securities and derivative positions that are classified as Level 1 or Level 2 measurements within the fair value hierarchy. Since those Level 1 and Level 2 risk management positions are not included in the table below, the information provided does not reflect the effect of such risk management activities related to the Level 3 assets and liabilities.

		Total Gains and (Losses) Included in[1]								
	Apr. 1, 2014	Trading Revenue (Loss)	Other Revenue	Purch-ases	Issu-ances	Settle-ments	Transfers Into Level 3	Transfers Out of Level 3	Jun. 30, 2014	Current Period Unrealized Gains (Losses)
					(in millions)					
Assets:										
Trading assets, excluding derivatives:										
Collateralized debt obligations	$ 258	$ 7	$ —	$ —	$ —	$ (5)	$ —	$ —	$ 260	$ 7
Corporate and other domestic debt securities	2,808	—	—	11	—	—	—	—	2,819	—
Corporate debt securities issued by foreign entities	—	—	—	—	—	—	—	—	—	—
Government debt securities issued by foreign entities	117	3	—	—	—	(1)	—	(119)	—	—
Equity securities	—	—	—	—	—	—	—	—	—	—
Derivatives, net[2]:										
Interest rate contracts	1	—	(1)	—	—	—	—	—	—	—
Foreign exchange contracts	96	8	—	—	—	(6)	—	(98)	—	4
Equity contracts	24	66	—	—	—	(29)	2	(4)	59	41
Precious metals contracts	—	—	—	—	—	—	—	—	—	—
Credit contracts	181	(41)	—	—	—	3	—	114	257	(42)
Mortgage servicing rights[4]	205	—	(12)	—	—	(7)	—	—	186	(12)
Total assets	$ 3,690	$ 43	$ (13)	$ 11	$ —	$ (45)	$ 2	$ (107)	$ 3,581	$ (2)
Liabilities:										
Deposits in domestic offices	$ (2,244)	$ (85)	$ —	$ —	$ (135)	$ 130	$ (27)	$ 104	(2,257)	$ (34)
Long-term debt	(732)	4	—	—	(110)	73	—	27	(738)	(22)
Total liabilities	$ (2,976)	$ (81)	$ —	$ —	$ (245)	$ 203	$ (27)	$ 131	$ (2,995)	$ (56)

	Jan. 1, 2014	Total Gains and (Losses) Included in[1]: Trading Revenue (Loss)	Total Gains and (Losses) Included in[1]: Other Revenue	Purchases	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Jun. 30, 2014	Current Period Unrealized Gains (Losses)
	(in millions)									
Assets:										
Trading assets, excluding derivatives:										
Collateralized debt obligations	$ 254	$ 14	$ —	$ —	$ —	$ (8)	$ —	$ —	$ 260	$ 14
Corporate and other domestic debt securities	2,260	(5)	—	564	—	—	—	—	2,819	(6)
Corporate debt securities issued by foreign entities	—	—	—	—	—	—	—	—	—	—
Government debt securities issued by foreign entities	121	5	—	—	—	(7)	—	(119)	—	—
Equity securities	—	—	—	—	—	—	—	—	—	—
Derivatives, net[2]:										
Interest rate contracts	1	—	(1)	—	—	—	—	—	—	(1)
Foreign exchange contracts	95	10	—	—	—	(12)	—	(93)	—	5
Equity contracts	3	86	—	—	—	(36)	6	—	59	49
Precious metals contracts	(2)	2	—	—	—	—	—	—	—	—
Credit contracts	191	(55)	—	—	—	7	—	114	257	(98)
Mortgage servicing rights[4]	227	—	(24)	—	—	(17)	—	—	186	(24)
Total assets	$ 3,150	$ 57	$ (25)	$ 564	$ —	$ (73)	$ 6	$ (98)	$ 3,581	$ (61)
Liabilities:										
Deposits in domestic offices	$ (2,334)	$ (210)	$ —	$ —	$ (160)	$ 298	$ (95)	$ 244	(2,257)	$ (51)
Long-term debt	(900)	97	—	—	(153)	120	—	98	(738)	(23)
Total liabilities	$ (3,234)	$ (113)	$ —	$ —	$ (313)	$ 418	$ (95)	$ 342	$ (2,995)	$ (74)

	Apr. 1, 2013	Total Gains and (Losses) Included in[1] Trading Revenue (Loss)	Other Revenue	Purch-ases	Issu-ances	Settle-ments	Transfers Into Level 3	Transfers Out of Level 3	Jun. 30, 2013	Current Period Unrealized Gains (Losses)
					(in millions)					
Assets:										
Trading assets, excluding derivatives:										
Collateralized debt obligations	$ 481	$ 83	$ —	$ 216	$ —	$ (553)	$ —	$ —	$ 227	$ 56
Corporate and other domestic debt securities	1,524	21	—	16	—	(63)	—	—	1,498	21
Corporate debt securities issued by foreign entities	294	(9)	—	—	—	—	—	—	285	(9)
Government debt securities issued by foreign entities	143	(7)	—	—	—	(1)	—	—	135	(9)
Equity securities	11	(7)	—	—	—	(4)	—	—	—	(7)
Derivatives, net[2]:										
Interest rate contracts	6	(1)	(6)	—	—	—	—	—	(1)	(7)
Foreign exchange contracts	134	(18)	—	—	—	(6)	(6)	—	104	(28)
Equity contracts	34	(81)	—	—	—	(27)	6	(15)	(83)	(92)
Credit contracts	364	(105)	—	—	—	(34)	—	—	225	(82)
Mortgage servicing rights[4]	190	—	30	—	5	—	—	—	225	30
Total assets	$ 3,181	$ (124)	$ 24	$ 232	$ 5	$ (688)	$ —	$ (15)	$ 2,615	$ (127)
Liabilities:										
Deposits in domestic offices	$ (2,876)	$ 411	$ —	$ —	$ (81)	$ 110	$ (177)	$ 165	(2,448)	$ 432
Long-term debt	(618)	(242)	—	—	(59)	68	—	179	(672)	(239)
Total liabilities	$ (3,494)	$ 169	$ —	$ —	$ (140)	$ 178	$ (177)	$ 344	$ (3,120)	$ 193

	Jan. 1, 2013	Total Gains and (Losses) Included in[1] Trading Revenue (Loss)	Other Revenue	Purch-ases	Issu-ances	Settle-ments	Transfers Into Level 3	Transfers Out of Level 3	Jun. 30, 2013	Current Period Unrealized Gains (Losses)
					(in millions)					
Assets:										
Trading assets, excluding derivatives:										
Collateralized debt obligations	$ 466	$ 118	$ —	$ 237	$ —	$ (594)	$ —	$ —	$ 227	$ 87
Corporate and other domestic debt securities	1,861	28	—	31	—	(422)	—	—	1,498	24
Corporate debt securities issued by foreign entities	299	(14)	—	—	—	—	—	—	285	(14)
Government debt securities issued by foreign entities	311	15	—	—	—	(191)	—	—	135	10
Equity securities	9	(5)	—	—	—	(4)	—	—	—	(5)
Derivatives, net[2]:										
Interest rate contracts	7	(1)	(7)	—	—	—	—	—	(1)	(8)
Foreign exchange contracts	5	(4)	—	—	—	116	(13)	—	104	106
Equity contracts	(7)	(20)	—	—	—	(48)	13	(21)	(83)	(73)
Credit contracts	571	(155)	—	—	—	(145)	(46)	—	225	(274)
Mortgage servicing rights[4]	168	—	46	—	11	—	—	—	225	51
Total assets	$ 3,690	$ (38)	$ 39	$ 268	$ 11	$ (1,288)	$ (46)	$ (21)	$ 2,615	$ (96)
Liabilities:										
Deposits in domestic offices	$ (2,636)	$ 370	$ —	$ —	$ (485)	$ 219	$ (160)	$ 244	(2,448)	$ 406
Long-term debt	(429)	(273)	—	—	(270)	119	—	181	(672)	(250)
Total liabilities	$ (3,065)	$ 97	$ —	$ —	$ (755)	$ 338	$ (160)	$ 425	$ (3,120)	$ 156

(1) Includes realized and unrealized gains and losses.

(2) Level 3 net derivatives included derivative assets of $538 million and derivative liabilities of $222 million as of June 30, 2014 and derivative assets of $985 million and derivative liabilities of $740 million as of June 30, 2013.

(3) See Note 7, "Intangible Assets," for additional information.

The following table presents quantitative information about the unobservable inputs used to determine the recurring fair value measurement of assets and liabilities classified as Level 3 fair value measurements as of June 30, 2014 and December 31, 2013:

June 30, 2014

Financial Instrument Type	Fair Value (in millions)	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs
Collateralized debt obligations	**260**	Broker quotes or consensus pricing and, where applicable, discounted cash flows	Prepayment rates	**1% - 5%**
			Conditional default rates	**6% - 7%**
			Loss severity rates	**90% - 91%**
Corporate and other domestic debt securities	**2,819**	Discounted cash flows	Spread volatility on collateral assets	**1% - 3%**
			Correlation between insurance claim shortfall and collateral value	**80%**
Interest rate derivative contracts	**—**	Market comparable adjusted for probability to fund	Probability to fund for rate lock commitments	**5% - 97%**
Foreign exchange derivative contracts[1]	**—**	Option pricing model	Implied volatility of currency pairs	**8% - 14%**
Equity derivative contracts[1]	**59**	Option pricing model	Equity / Equity Index volatility	**9% - 41%**
			Equity / Equity and Equity / Index correlation	**47% - 60%**
Credit derivative contracts	**257**	Option pricing model	Correlation of defaults of a portfolio of reference credit names	**49% - 56%**
			Issuer by issuer correlation of defaults	**83% - 95%**
Mortgage servicing rights	**186**	Option adjusted discounted cash flows	Constant prepayment rates	**8% - 46%**
			Option adjusted spread	**8% - 19%**
			Estimated annualized costs to service	**$91 - $333 per account**
Deposits in domestic offices (structured deposits)[1][2]	**(2,257)**	Option adjusted discounted cash flows	Implied volatility of currency pairs	**8% - 14%**
			Equity / Equity Index volatility	**9% - 41%**
			Equity / Equity and Equity / Index correlation	**47% - 60%**
Long-term debt (structured notes)[1][2]	**(738)**	Option adjusted discounted cash flows	Implied volatility of currency pairs	**8% - 14%**
			Equity / Equity Index volatility	**9% - 41%**
			Equity / Equity and Equity / Index correlation	**47% - 60%**

December 31, 2013

Financial Instrument Type	Fair Value (in millions)	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs
Collateralized debt obligations	254	Broker quotes or consensus pricing and, where applicable, discounted cash flows	Prepayment rates	0% - 5%
			Conditional default rates	5% - 7%
			Loss severity rates	90% - 100%
Corporate and other domestic debt securities	2,260	Discounted cash flows	Spread volatility on collateral assets	1% - 3%
			Correlation between insurance claim shortfall and collateral value	80%
Corporate and government debt securities issued by foreign entities	121	Discounted cash flows	Correlations of default among a portfolio of credit names of embedded credit derivatives	36% - 63%
Interest rate derivative contracts	1	Market comparable adjusted for probability to fund	Probability to fund for rate lock commitments	10% - 99%
Foreign exchange derivative contracts[1]	95	Option pricing model	Implied volatility of currency pairs	11% - 16%
Equity derivative contracts[1]	3	Option pricing model	Equity / Equity Index volatility	6% - 69%
			Equity / Equity and Equity / Index correlation	50% - 58%
Credit derivative contracts	191	Option pricing model	Correlation of defaults of a portfolio of reference credit names	46% - 54%
			Industry by industry correlation of defaults	83% - 95%
Mortgage servicing rights	227	Option adjusted discounted cash flows	Constant prepayment rates	5% - 22%
			Option adjusted spread	8% - 19%
			Estimated annualized costs to service	$91 - $333 per account
Deposits in domestic offices (structured deposits)[1][2]	(2,334)	Option adjusted discounted cash flows	Implied volatility of currency pairs	11% - 16%
			Equity / Equity Index volatility	6% - 69%
			Equity / Equity and Equity / Index correlation	50% - 58%
Long-term debt (structured notes)[1][2]	(900)	Option adjusted discounted cash flows	Implied volatility of currency pairs	11% - 16%
			Equity / Equity Index volatility	6% - 69%
			Equity / Equity and Equity / Index correlation	50% - 58%

(1) We are the client-facing entity and we enter into identical but opposite derivatives to transfer the resultant risks to our affiliates. With the exception of counterparty credit risks, we are market neutral. The corresponding intra-group derivatives are presented as equity derivatives and foreign exchange derivatives in the table.

(2) Structured deposits and structured notes contain embedded derivative features whose fair value measurements contain significant Level 3 inputs.

Significant Unobservable Inputs for Recurring Fair Value Measurements

Collateralized Debt Obligations (CDOs)

- *Prepayment rate* - The rate at which borrowers pay off the mortgage loans early. The prepayment rate is affected by a number of factors including the location of the mortgage collateral, the interest rate type of the mortgage loans, borrowers' credit and sensitivity to interest rate movement. The prepayment rate of our CDOs portfolio is tilted towards the low end of the range.
- *Default rate* - Annualized percentage of default rate over a group of collateral such as residential or commercial mortgage loans. The default rate and loss severity rate are positively correlated. The default rate of our portfolio is close to the mid point of the range.
- *Loss Severity Rate* - Included in our Level 3 CDOs portfolio are collateralized loan obligations (CLOs) and trust preferred securities which are about equally distributed. The loss severity rate for trust preferred securities as of June 30, 2014 is about 1.8 times that of CLOs.

Derivatives

- *Correlation of Default* - The default correlation of a group of credit exposures measures the likelihood that the credit references within a group will default together. The default correlation is a significant input to structured credit products such as nth-to-default swaps. In addition, the correlation between the currency and the default risk of the reference credits is a critical input to a foreign currency denominated credit default swap where the correlation is not observable.
- *Implied volatility* - The implied volatility is a significant pricing input for freestanding or embedded options including equity, foreign currency and interest rate options. The level of volatility is a function of the nature of the underlying risk, the level of strike price and the years to maturity of the option. Depending on the underlying risk and tenure, we determine the implied volatility based on observable input where information is available. However, substantially all of the implied volatilities are derived based on historical information. The implied volatility for different foreign currency pairs is between 8 percent and 14 percent while the implied volatility for equity/equity or equity/equity index is between 9 percent and 41 percent, respectively at June 30, 2014. Although implied foreign currency volatility and equity volatility appear to be widely distributed at the portfolio level, the deviation of implied volatility on a trade-by-trade basis is narrower. The average deviation of implied volatility for the foreign currency pair and at-the-money equity option are 3 percent and 5 percent, respectively at June 30, 2014.
- *Correlations of a group of foreign currency or equity* - Correlation measures the relative change in values among two or more variables (i.e., equity or foreign currency pair). Variables can be positively or negatively correlated. Correlation is a key input in determining the fair value of a derivative referenced to a basket of variables such as equities or foreign currencies. A majority of the correlations are not observable, but are derived based on historical data. The correlation between equity/equity and equity/equity index was between 47 percent and 60 percent at June 30, 2014.

Sensitivity of Level 3 Inputs to Fair Value Measurements

*Collateralized Debt Obligation*s - Probability of default, prepayment speed and loss severity rate are significant unobservable inputs. Significant increase (decrease) in these inputs will result in a lower (higher) fair value measurement of a collateralized debt obligation. A change in assumption for default probability is often accompanied by a directionally similar change in loss severity, and a directionally opposite change in prepayment speed.

Corporate and Domestic Debt Securities - The fair value measurements of certain corporate debt securities are affected by the fair value of the underlying portfolios of investments used as collateral and the make-whole guarantee provided by third party guarantors. The probability that the collateral fair value declines below the collateral call threshold concurrent with the guarantors failure to perform its make whole obligation is unobservable. The increase (decrease) in the probability the collateral value falls below the collateral call threshold is often accompanied by a directionally similar change in default probability of the guarantor.

Credit derivatives - Correlation of default among a basket of reference credit names is a significant unobservable input if the credit attributes of the portfolio are not within the parameters of relevant standardized CDS indices. Significant increase (decrease) in the unobservable input will result in a lower (higher) fair value measurement of the credit derivative. A change in assumption for default correlation is often accompanied by a directionally similar change in default probability and loss rates of other credit names in the basket.

Equity and foreign exchange derivatives - The fair value measurement of a structured equity or foreign exchange derivative is primarily affected by the implied volatility of the underlying equity price or exchange rate of the paired foreign currencies. The implied volatility is not observable. Significant increase (decrease) in the implied volatility will result in a higher (lower) fair value of a long position in the derivative contract.

Significant Transfers Into and Out of Level 3 Measurements During the three and six months ended June 30, 2014, we transferred $104 million and $244 million, respectively, of deposits in domestic offices and $27 million and $98 million, respectively, of long-term debt, which we have elected to carry at fair value, from Level 3 to Level 2 as a result of the embedded derivative no longer being unobservable as the derivative option is closer to maturity and there is more observability in short term volatility. During the second quarter of 2014, we transferred $119 million of government debt securities issued by foreign governments from Level 3 to Level 2 due to the availability of inputs in the market including independent pricing service valuations. Additionally, during the three and six months ended June 30, 2014, we transferred $27 million and $95 million, respectively, of deposits in domestic offices, which we have elected to carry at fair value, from Level 2 to Level 3 as a result of a change in the observability of underlying instruments that resulted in the embedded derivative being unobservable.

During the three and six months ended June 30, 2013, we transferred $165 million and $244 million, respectively, of deposits in domestic offices and $179 million and $181 million, respectively, of long-term debt, which we have elected to carry at fair value, from Level 3 to Level 2 as a result of the embedded derivative no longer being unobservable as the derivative option is closer in maturity and there is more observability in short term volatility. Additionally, during the three and six months ended June 30, 2013, we transferred $177 million and $160 million, respectively, of deposits in domestic offices, which we have elected to carry at fair value, from Level 2 to Level 3 as a result of a change in the observability of underlying instruments that resulted in the embedded derivative being unobservable.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis Certain financial and non-financial assets are measured at fair value on a non-recurring basis and therefore, are not included in the tables above. These assets include (a) mortgage and commercial loans classified as held for sale reported at the lower of amortized cost or fair value and (b) impaired loans or assets that are written down to fair value based on the valuation of underlying collateral during the period. These instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustment in certain circumstances (e.g., impairment). The following table presents the fair value hierarchy level within which the fair value of the financial and non-financial assets has been recorded as of June 30, 2014 and December 31, 2013. The gains (losses) during the three and six months ended June 30, 2014 and 2013 are also included.

	Non-Recurring Fair Value Measurements as of June 30, 2014				Total Gains (Losses) For the Three Months Ended June 30, 2014	Total Gains (Losses) For the Six Months Ended June 30, 2014
	Level 1	Level 2	Level 3	Total		
				(in millions)		
Residential mortgage loans held for sale[1]	**$ —**	**$ 2**	**$ 24**	**$ 26**	**$ (2)**	**$ 1**
Impaired commercial loans[2]	**—**	**—**	**24**	**24**	**(4)**	**3**
Consumer loans[3]	**—**	**107**	**—**	**107**	**(9)**	**(23)**
Real estate owned[4]	**21**	**—**	**—**	**21**	**(3)**	**(2)**
Commercial loans held for sale[5]	**—**	**43**	**—**	**43**	**(7)**	**(7)**
Total assets at fair value on a non-recurring basis	**$ 21**	**$ 152**	**$ 48**	**$ 221**	**$ (25)**	**$ (28)**

	Non-Recurring Fair Value Measurements as of December 31, 2013				Total Gains (Losses) For the Three Months Ended June 30, 2013	Total Gains (Losses) For the Six Months Ended June 30, 2013
	Level 1	Level 2	Level 3	Total		
				(in millions)		
Residential mortgage loans held for sale[1]	$ —	$ 9	$ 56	$ 65	$ —	$ 3
Impaired commercial loans[2]	—	—	108	108	(1)	(2)
Consumer loans[3]	—	492	—	492	(23)	(51)
Real estate owned[4]	20	—	—	20	—	2
Total assets at fair value on a non-recurring basis	$ 20	$ 501	$ 164	$ 685	$ (24)	$ (48)

(1) As of June 30, 2014 and December 31, 2013, the fair value of the loans held for sale was below cost. Certain residential mortgage loans held for sale have been classified as a Level 3 fair value measurement within the fair value hierarchy as the underlying real estate properties which determine fair value are illiquid assets as a result of market conditions and significant inputs in estimating fair value were unobservable. Additionally, the fair value of these properties is affected by, among other things, the location, the payment history and the completeness of the loan documentation.

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

(3) Represents residential mortgage loans held for investment whose carrying amount was reduced during the periods presented based on the fair value of the underlying collateral.

(4) Real estate owned is required to be reported on the balance sheet net of transactions costs. The real estate owned amounts in the table above reflect the fair value unadjusted for transaction costs.

(5) Represents certain commercial loans that have been transferred to the held for sale portfolio.

The following table presents quantitative information about non-recurring fair value measurements of assets and liabilities classified with Level 3 of the fair value hierarchy as of June 30, 2014 and December 31, 2013:

As of June 30, 2014

Financial Instrument Type	Fair Value (in millions)	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs
Residential mortgage loans held for sale	$ 24	Valuation of third party appraisal on underlying collateral	Loss severity rates	**0% - 100%**
Impaired commercial loans	24	Valuation of third party appraisal on underlying collateral	Loss severity rates	**10% - 48%**

As of December 31, 2013

Financial Instrument Type	Fair Value (in millions)	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs
Residential mortgage loans held for sale	$ 56	Valuation of third party appraisal on underlying collateral	Loss severity rates	0% - 100%
Impaired commercial loans	108	Valuation of third party appraisal on underlying collateral	Loss severity rates	1% - 66%

Significant Unobservable Inputs for Non-Recurring Fair Value Measurements

Residential mortgage loans held for sale primarily represent subprime residential mortgage loans which were previously acquired with the intent of securitizing or selling them to third parties. The weighted average loss severity rate for these loans was approximately 70 percent at June 30, 2014. These severity rates are primarily impacted by the value of the underlying collateral securing the loans.

Impaired loans represent commercial loans. The weighted average severity rate for these loans was approximately 27 percent at June 30, 2014. These severity rates are primarily impacted by the value of the underlying collateral securing the loans.

Valuation Techniques Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for those financial instruments not recorded at fair value for which fair value disclosure is required.

Short-term financial assets and liabilities - The carrying amount of certain financial assets and liabilities recorded at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk. These items include cash and due from banks, interest bearing deposits with banks, accrued interest receivable, customer acceptance assets and liabilities and short-term borrowings.

*Federal funds sold and securities purchased and sold under resale and repurchase agreements - Federal funds sold and s*ecurities purchased and sold under resale and repurchase agreements are recorded at cost. A significant majority of these transactions are short-term in nature and, as such, the recorded amounts approximate fair value. For transactions with long-dated maturities, fair value is based on dealer quotes for instruments with similar terms and collateral.

Loans - Except for certain commercial syndicated loans, we do not record loans at fair value on a recurring basis. From time to time, we record impairments to loans. The write-downs can be based on observable market price of the loan or the underlying collateral value. In addition, fair value estimates are determined based on the product type, financial characteristics, pricing features and maturity.

- Mortgage Loans Held for Sale – Certain residential mortgage loans are classified as held for sale and are recorded at the lower of amortized cost or fair value. The fair value of these mortgage loans is determined based on the valuation information observed in alternative exit markets, such as the whole loan market, adjusted for portfolio specific factors. These factors include the location of the collateral, the loan-to-value ratio, the estimated rate and timing of default, the probability of default or foreclosure and loss severity if foreclosure does occur.
- Syndicated Loans Held for Sale – We record certain commercial syndicated loans which are originated with the intent to sell at fair value. Where available, market consensus pricing obtained from independent sources is used to estimate the fair value of the syndicated loans. In validating the fair value, we take into consideration the number of participants submitting pricing information, the range of pricing information and distribution, the methodology applied by the pricing services to cleanse the data and market liquidity. Where consensus pricing information is not available, fair value is estimated using observable market prices of similar instruments or inputs, including bonds, credit derivatives, and loans with similar characteristics. Where observable market parameters are not available, fair value is determined based on contractual cash flows, adjusted for the probability of default and estimated recoveries where applicable, discounted at the rate demanded by market participants under

current market conditions. In those cases, we also consider the loan specific attributes and inherent credit risk and risk mitigating factors such as collateral arrangements.

- Commercial Loans – Commercial loans and commercial real estate loans are valued by discounting the contractual cash flows, adjusted for prepayments and the borrower's credit risk, using a discount rate that reflects the current rates offered to borrowers of similar credit standing for the remaining term to maturity and, when applicable, our own estimate of liquidity premium.
- Commercial Impaired Loans – Generally represents collateral dependent commercial loans with fair value determined based on pricing quotes obtained from an independent third party appraisal.
- Consumer Loans – The estimated fair value of our consumer loans were determined by developing an approximate range of value from a mix of various sources as appropriate for the respective pool of assets. These sources included estimates from an HSBC affiliate which reflect over-the-counter trading activity, forward looking discounted cash flow models using assumptions consistent with those which would be used by market participants in valuing such receivables; trading input from other market participants which includes observed primary and secondary trades; where appropriate, the impact of current estimated rating agency credit tranching levels with the associated benchmark credit spreads; and general discussions held directly with potential investors. For revolving products, the estimated fair value excludes future draws on the available credit line as well as other items and, therefore, does not include the fair value of the entire relationship.

  Valuation inputs include estimates of future interest rates, prepayment speeds, default and loss curves, estimated collateral value and market discount rates reflecting management's estimate of the rate that would be required by investors in the current market given the specific characteristics and inherent credit risk of the receivables. Some of these inputs are influenced by collateral value changes and unemployment rates. Where available, such inputs are derived principally from or corroborated by observable market data. We perform analytical reviews of fair value changes on a quarterly basis and periodically validate our valuation methodologies and assumptions based on the results of actual sales of such receivables. In addition, from time to time, we may engage a third party valuation specialist to measure the fair value of a pool of receivables. Portfolio risk management personnel provide further validation through discussions with third party brokers and other market participants. Since an active market for these receivables does not exist, the fair value measurement process uses unobservable significant inputs specific to the performance characteristics of the various receivable portfolios.

Lending-related commitments - The fair value of commitments to extend credit, standby letters of credit and financial guarantees are not included in the table. The majority of the lending related commitments are not carried at fair value on a recurring basis nor are they actively traded. These instruments generate fees, which approximate those currently charged to originate similar commitments, which are recognized over the term of the commitment period. Deferred fees on commitments and standby letters of credit totaled $41 million and $46 million at June 30, 2014 and December 31, 2013, respectively.

Precious metals trading - Precious metals trading primarily includes physical inventory which is valued using spot prices.

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

- U.S. Treasury, U.S. Government agency issued or guaranteed and Obligations of U.S. state and political subdivisions – As these securities transact in an active market, fair value measurements are based on quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated.
- U.S. Government sponsored enterprises – For government sponsored mortgage-backed securities which transact in an active market, fair value measurements are based on quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated. For government sponsored mortgage-backed securities which do not transact in an active market, fair value is determined primarily based on pricing information obtained from pricing services and is verified by internal review processes.
- Asset-backed securities, including collateralized debt obligations – Fair value is primarily determined based on pricing information obtained from independent pricing services adjusted for the characteristics and the performance of the underlying collateral.

The following tables provide additional information relating to asset-backed securities as well as certain collateralized debt obligations held as of June 30, 2014:

Trading asset-backed securities:

Rating of Securities:[1]	Collateral Type:	Level 2	Level 3	Total
			(in millions)	
AAA -A	Residential mortgages - Alt A	$ 89	$ —	$ 89
	Residential mortgages - Subprime	59	—	59
	Student loans	81	—	81
	Total AAA -A	229	—	229
BBB -B	Collateralized debt obligations	—	260	260
CCC-Unrated	Residential mortgages - Subprime	5	—	5
		$ 234	$ 260	$ 494

Available-for-sale securities backed by collateral:

Rating of Securities:[1]	Collateral Type:	Level 2	Level 3	Total
			(in millions)	
AAA -A	Commercial mortgages	$ 86	$ —	$ 86
	Home equity - Alt A	94	—	94
	Other	94	—	94
	Total AAA -A	274	—	274
CCC -Unrated	Residential mortgages - Alt A	1	—	1
		$ 275	$ —	$ 275

(1) We utilize Standard & Poor's ("S&P") as the primary source of credit ratings in the tables above. If S&P ratings are not available, ratings by Moody's and Fitch are used in that order. Ratings for collateralized debt obligations represent the ratings associated with the underlying collateral.

- Other domestic debt and foreign debt securities (corporate and government) - For non-callable corporate securities, a credit spread scale is created for each issuer. These spreads are then added to the equivalent maturity U.S. Treasury yield to determine current pricing. Credit spreads are obtained from the new market, secondary trading levels and dealer quotes. For securities with early redemption features, an option adjusted spread ("OAS") model is incorporated to adjust the spreads determined above. Additionally, we survey the broker/dealer community to obtain relevant trade data including benchmark quotes and updated spreads.
- Equity securities – Except for those legacy investments in hedge funds, since most of our securities are transacted in active markets, fair value measurements are determined based on quoted prices for the identical security. For hedge fund investments, we receive monthly statements from the investment manager with the estimated fair value.

Derivatives – Derivatives are recorded at fair value. Asset and liability positions in individual derivatives that are covered by legally enforceable master netting agreements, including receivables (payables) for cash collateral posted (received), are offset and presented net in accordance with accounting principles which allow the offsetting of amounts.

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

We use the Overnight Indexed Swap (OIS) curves as inputs to measure the fair value of collateralized interest rate derivatives.

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

- Credit Derivatives – Use credit default curves and recovery rates which are generally provided by broker quotes and various pricing services. Certain credit derivatives may also use correlation inputs in their model valuation. Correlation is derived using market quotes from brokers and various pricing services.
- Interest Rate Derivatives – Swaps use interest rate curves based on currency that are actively quoted by brokers and other pricing services. Options will also use volatility inputs which are also quoted in the broker market.
- Foreign Exchange ("FX") Derivatives – FX transactions, to the extent possible, use spot and forward FX rates which are quoted in the broker market. Where applicable, we also use implied volatility of currency pairs as inputs.
- Equity Derivatives – Use listed equity security pricing and implied volatilities from equity traded options position.
- Precious Metal Derivatives – Use spot and forward metal rates which are quoted in the broker market.

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

We estimate the counterparty credit risk for financial assets and own credit standing for financial liabilities (the "credit risk adjustments") in determining the fair value measurement. For derivative instruments, we calculate the credit risk adjustment by applying the probability of default of the counterparty to the expected exposure, and multiplying the result by the expected loss given default. We also take into consideration the risk mitigating factors including collateral agreements and master netting arrangements in determining credit risk adjustments. We estimate the implied probability of default based on the credit spread of the specific counterparty observed in the credit default swap market. Where credit default spread of the counterparty is not available, we use the credit default spread of a specific proxy (e.g. the credit default swap spread of the counterparty's parent). Where specific proxy credit default swap is not available, we apply a blended approach based on a combination of credit default swaps referencing to credit names of similar credit standing and the historical rating-based probability of default.

Real estate owned - Fair value is determined based on third party appraisals obtained at the time we take title to the property and, if less than the carrying amount of the loan, the carrying amount of the loan is adjusted to the fair value. The carrying amount of the property is further reduced, if necessary, at least every 45 days to reflect observable local market data, including local area sales data.

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

Structured notes – Structured notes are hybrid instruments containing embedded derivatives. Structured notes are elected to be measured at fair value in their entirety under fair value option accounting principles. The valuation of hybrid instruments is predominantly driven by the derivative features embedded within the instruments. The valuation of embedded derivatives may include significant unobservable inputs such as correlation of the referenced credit names or volatility of the embedded option.

Cash flows of the funded notes are discounted at the appropriate rate for the applicable duration of the instrument adjusted for our own credit spreads. The credit spreads so applied are determined with reference to our own debt issuance rates observed in the primary and secondary markets, internal funding rates, and the structured note rates in recent executions.

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

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

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

19. Litigation and Regulatory Matters

The following supplements, and should be read together with, the disclosure in Note 28, "Litigation and Regulatory Matters," in our 2013 Form 10-K and our Form 10-Q for the three month period ended March 31, 2014 (the "2014 First Quarter 10-Q"). Only those matters with significant updates and new matters since our disclosure in our 2013 Form 10-K and our 2014 First Quarter Form 10-Q are reported herein.

In addition to the matters described below, and in our 2013 Form 10-K and our 2014 First Quarter Form 10-Q, in the ordinary course of business, we are routinely named as defendants in, or as parties to, various legal actions and proceedings relating to activities of our current and/or former operations. These legal actions and proceedings may include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief. In the ordinary course of business, we also are subject to governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In connection with formal and informal inquiries by these regulators, we receive numerous requests, subpoenas and orders seeking documents, testimony and other information in connection with various aspects of our regulated activities.

In view of the inherent unpredictability of litigation and regulatory matters, particularly where the damages sought are substantial or indeterminate or when the proceedings or investigations are in the early stages, we cannot determine with any degree of certainty the timing or ultimate resolution of litigation and regulatory matters or the eventual loss, fines, penalties or business impact, if any, that may result. We establish reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. Once established, reserves are adjusted from time to time, as appropriate, in light of additional information. The actual costs of resolving litigation and regulatory matters, however, may be substantially higher than the amounts reserved for those matters.

For the litigation and governmental and regulatory matters disclosed below and in Note 28, "Litigation and Regulatory Matters," in our 2013 Form 10-K and in Note 19 "Litigation and Regulatory Matters" in our 2014 First Quarter Form 10-Q as to which a loss in excess of accrued liability is reasonably possible in future periods and for which there is sufficient currently available information on the basis of which management believes it can make a reliable estimate, we believe a reasonable estimate could be as much as $1.2 billion for HUSI and its U.S. affiliates. The litigation and governmental and regulatory matters underlying this estimate of possible loss will change from time to time and actual results may differ significantly from this current estimate.

Given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could have a material adverse effect on our consolidated financial statements in particular quarterly or annual periods.

Litigation

Salveson v. JPMorgan Chase et al. (N.D.Cal. No. 13-CV-5816) On May 8, 2014, after being served with the complaint, HSBC filed a separate motion to dismiss, and both it and HNAH joined the joint motion to dismiss. On June 4, 2014, the Judicial Panel on Multidistrict Litigation transferred the case to the Eastern District of New York for consolidation with MDL 1720.

Credit Default Swap Litigation On May 23, 2014, defendants filed motions to dismiss plaintiffs' second amended, consolidated complaint. The motion is fully briefed and pending.

Gold and Silver Fix Litigation

Since March 2014, numerous putative class actions have been filed in the US District Courts for the Southern District of New York, the District of New Jersey and the Northern District of California naming HSBC and a number of other members of The London Gold Market Fixing Ltd as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives during the afternoon London gold fix in order to reap profits on proprietary trades. Plaintiffs have filed a motion for transfer with the Judicial Panel on Multi-District Litigation requesting assignment to and consolidation in the New York District Court. That motion is pending.

In July 2014, putative class actions were filed in the US District Court for the Southern and Eastern Districts of New York naming HSBC, HSBC Bank plc, HSBC Bank USA and the other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical silver and silver derivatives for their collective benefit in violation of the US Commodity Exchange Act and US antitrust laws. These actions are at a very early stage.

Based on the facts currently known, it is not practicable at this time for us to predict the resolution of these private lawsuits, including the timing and potential impact on us.

Madoff Litigation

In December 2008, Bernard L. Madoff ("Madoff") was arrested for running a Ponzi scheme and a trustee was appointed for the liquidation of his firm, Bernard L. Madoff Investment Securities LLC ("Madoff Securities"), an SEC-registered broker-dealer and investment adviser. Various non-U.S. HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the United States whose assets were invested with Madoff Securities. Plaintiffs (including funds, funds investors and the Madoff Securities trustee) have commenced Madoff-related proceedings against numerous defendants in a multitude of jurisdictions. Various HSBC companies have been named as defendants in suits in the United States, Ireland, Luxembourg and other jurisdictions. Certain suits (which include U.S. putative class actions) allege that the HSBC defendants knew or should have known of Madoff's fraud and breached various duties to the funds and fund investors.

In re Herald, Primeo and Thema Funds Securities Litigation On May 28, 2014, after the United States Supreme Court decided *Chadbourne & Park LLP v. Troice*, 134 S. Ct. 1058 (2014), the Second Circuit denied Thema International Fund plc's petition for panel rehearing following its affirmance of the district court's dismissal of all U.S. class action claims against the HSBC defendants on *forum non conveniens* grounds. The petition for rehearing *en banc* remains pending.

The Madoff Securities trustee filed a suit in the U.S. captioned *Picard v. HSBC et al* (Bankr S.D.N.Y. No. 09-01364), which also names certain funds, investment managers, and other non-HSBC entities and individuals, seeking $9 billion in damages and additional recoveries from HSBC Bank USA, certain of our foreign affiliates and the various other non-HSBC co-defendants. In July 2011, the district court dismissed the trustee's various common law claims, which in total account for approximately $6.6 billion of the potential exposure in the action, on the grounds that the trustee lacked standing to assert them, and the Court of Appeals affirmed that decision in June 2013. On June 30, 2014, the Supreme Court denied the trustee's petition for a *writ of certiorari* of the Court of Appeal's decision. The dismissal of the trustee's common law claims is now final.

The district court previously returned the trustee's bankruptcy claims to the bankruptcy court for further proceedings, but retained certain issues for further consideration. These claims seek the return of the transfers of funds from Bernard L. Madoff Investment Securities LLC ("Madoff Securities") to the feeder fund defendants as well as subsequent transfers of those assets from the feeder funds to other defendants, including the HSBC defendants, as preferential and fraudulent transfers under U.S. bankruptcy law. As to the HSBC defendants, which include HSBC Bank USA, the claims seek recovery of unspecified amounts that the HSBC defendants received from funds invested with Madoff, including amounts that the HSBC defendants received when they redeemed units held in the various funds. On July 7, 2014, the district court ruled that the U.S. bankruptcy code does not provide the trustee the right to recover money that was transferred between foreign entities, even if that money ultimately is traceable to Madoff Securities. This decision is subject to appeal and has not been applied to the facts of the trustee's case against the HSBC defendants, so its impact on the trustee's remaining claims is uncertain.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings including, but not limited to, the circumstances of the fraud, the multiple jurisdictions in which proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. For these reasons, among others, we are unable to reasonably estimate the aggregate liability or ranges of liability that might arise as a result of these claims but they could be significant. In any event, we consider that we have good defenses to these claims and will continue to defend them vigorously.

Benchmark Rate Litigation In May 2014 HSBC, HSBC Bank plc, HSBC USA and HSBC Finance, along with the other U.S. dollar Libor panel banks, were named as defendants in a lawsuit filed by two mutual funds managed by Prudential Investment Portfolios seeking unspecified damages as a result of alleged artificial suppression of U.S. dollar Libor rates which plaintiffs allege resulted in plaintiffs receiving substantially less interest payments in connection with certain transactions entered into with the defendants. Additionally, the Federal Deposit Insurance Corporation, in its role as receiver for several failed banks, filed a complaint against the British Bankers Association and the U.S. dollar Libor panel banks, including HSBC, HSBC Bank USA, and The Hongkong and Shanghai Banking Corporation, seeking unspecified damages as a result of fraudulent artificial suppression of U.S. dollar Libor rates. These actions have been transferred and/or consolidated with a U.S. dollar Libor Multi-District Litigation proceeding in the U.S. District Court for the Southern District of New York. HSBC and HSBC Bank plc are defendants in that proceeding as well. These actions are subject to a stay imposed by the court.

Mortgage Securitization Activity and Litigation

In addition to the repurchase risk described in Note 17, "Guarantee Arrangements and Pledged Assets," HSBC Bank USA has also been involved as a sponsor/seller of loans used to facilitate whole loan securitizations underwritten by HSI. During 2005-2007, HSBC Bank USA purchased and sold $24 billion of whole loans to HSI which were subsequently securitized and sold by HSI to third parties. The outstanding principal balance on these loans was approximately $6.1 billion and $6.5 billion at June 30, 2014 and December 31, 2013, respectively.

Participants in the U.S. mortgage securitization market that purchased and repackaged whole loans have been the subject of lawsuits and governmental and regulatory investigations and inquiries, which have been directed at groups within the U.S. mortgage market, such as servicers, originators, underwriters, trustees or sponsors of securitizations, and at particular participants within these groups. As the industry's residential mortgage foreclosure issues continue, HSBC Bank USA has taken title to a number of foreclosed homes as trustee on behalf of various securitization trusts. As nominal record owner of these properties, HSBC Bank USA has been sued by municipalities and tenants alleging various violations of law, including laws regarding property upkeep and tenants' rights. While we believe and continue to maintain that the obligations at issue and any related liability are properly those of the servicer of each trust, we continue to receive significant and adverse publicity in connection with these and similar matters, including foreclosures that are serviced by others in the name of "HSBC, as trustee."

Federal Housing Finance Agency, as Conservator for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation v. HSBC North America Holdings Inc. et al. (S.D.N.Y. No. CV 11-6189-LAK) Various defendants' motions for summary judgment and other applications have been fully briefed and are currently pending before the court. Expert discovery is scheduled to continue through August 2014. The aggregate unpaid principal balance of the securities was approximately $1.5 billion and $1.6 billion at June 30, 2014 and December 30, 2013, respectively.

In June 2014, the *Deutsche Zentral-Genossenschaftsbank AG, New York Branch v. HSBC North America Holdings Inc., et al* (S.D.N.Y. No. 12-CV-4025) and *Bayerische Landesbank v HSBC Holdings plc, et al*. (Index No. 65481/12) matters each were resolved by a confidential settlement among the parties. The settlements did not have a material impact on our results.

In May 2014 Commerzbank AG London Branch filed a complaint against nearly 70 different financial institutions, including HSBC, HSI and HSI Asset Securitization Corporation, seeking unspecified damages as a result of alleged fraud and fraudulent concealment committed by the defendants in the securitization of residential mortgages and the sale of those securities to the plaintiff. Commerzbank had previously filed a summons with notice against the same defendants in December 2013. This action is at an early stage.

In June 2014, a lawsuit was filed in New York State court against HSBC Bank USA, as trustee of approximately 264 identified trusts (the "Trusts"). Similar lawsuits were filed simultaneously against other non-HSBC financial institutions that served as mortgage securitization pool trustees. The plaintiffs are investors in the Trusts and include, among others, BlackRock and PIMCO funds. The lawsuits were brought derivatively on behalf of the Trusts. The complaint against HSBC Bank USA alleges that the Trusts have sustained losses in collateral value of over $32 billion. The lawsuit seeks unspecified damages resulting from an alleged breach of the Trust Indenture Act, breach of fiduciary duties, and negligence. This action is at an early stage.

Shareholder Derivative Action On May 7, 2014 a shareholder of HSBC (who is not a shareholder of HSBC Bank USA, HNAH or HSBC USA) filed a shareholder derivative action, captioned *Michael Mason-Mahon v. Douglas J. Flint, et al.* (New York State Supreme Court, Nassau County, Index No. 602052/2014), purportedly on behalf of HSBC, HSBC Bank USA, HNAH and HSBC USA in New York State Supreme Court against the directors, certain officers and certain former directors of those HSBC companies alleging that those directors and officers breached their fiduciary duties to the companies and caused a waste of corporate assets by allegedly permitting and/or causing the conduct underlying the DPA. This action is at a very early stage, but the ultimate outcome of the action is not expected to have a material impact on HUSI.

20. New Accounting Pronouncements

Unrecognized Tax Benefits In July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists in the same tax jurisdiction. The ASU requires an entity to present the unrecognized tax benefit as a reduction of the deferred tax asset for an NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. However, the ASU requires an entity to present an unrecognized tax benefit on the balance sheet as a liability if certain conditions are met. The new guidance is effective for all annual and interim periods beginning January 1, 2014. The adoption of this guidance did not have an impact on our unrecognized tax benefit liability.

Accounting for Investments in Qualified Housing Projects In January 2014, the FASB issued an ASU which permits, but does not require, an investor to amortize its Low Income Housing Tax Credit ("LIHTC") investments in proportion to the allocated Low Income Housing Federal tax benefits and present such tax benefits net of investment amortization in the income tax line. The ASU is effective for fiscal years beginning after December 15, 2014 to be applied retrospectively with early adoption permitted. We elected to early adopt the ASU on January 1, 2014 due to its improvement in the presentation of the economic benefits of this investment class. The early adoption of the ASU required the previous period to also be restated and resulted in a reduction to operating expenses of $21 million and $42 million in both of the three and six months ended June 30, 2014 and 2013, respectively, with a corresponding increase to income tax expense. There was no overall impact to net income.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity In April 2014, the FASB issued an ASU which changes the criteria for determining whether a disposition qualifies for discontinued operations presentation and requires enhanced disclosures about discontinued operations and significant dispositions that do not qualify for discontinued operations reporting. Under the ASU, only disposals representing a strategic shift in operations, such as a disposal of a major geographic area, a major line of business, a major equity method investment or other major parts of an entity, are required to be presented as discontinued operations. The ASU will be effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual and interim periods beginning January 1, 2015. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this guidance is not expected to have a significant impact on our financial position or results of operations.

Recognition of Revenue from Contracts with Customers In May 2014, the FASB issued an ASU which provides a principles-based framework for revenue recognition that supersedes virtually all previously issued revenue recognition guidance. Additionally, the ASU requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The core principle of the five-step revenue recognition framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU will be effective for all annual and interim periods beginning January 1, 2017. The amendments in the ASU should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. We are currently evaluating the potential impact of adopting this ASU, including determining which transition method to apply.

Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures In June 2014, the FASB issued an ASU which changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting and requires secured borrowing accounting for the repurchase agreement in a contemporaneous repurchase financing arrangement. The accounting changes in the ASU will be effective for all annual and interim periods beginning January 1, 2015 and will require the changes in accounting for transactions outstanding on the effective date to be presented as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The ASU also requires new disclosure about certain transactions accounted for as a sale to be presented for interim and annual periods beginning January 1, 2015, and new disclosure about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings to be presented for annual periods beginning January 1, 2015, and for interim periods beginning April 1, 2015. We are currently evaluating the potential impact the adoption of this ASU may have on our financial position and results of operations.

There were no additional accounting pronouncements issued that are expected to have a significant impact on our financial position or results of operations.

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

Forward-Looking Statements

Certain matters discussed throughout this Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the United States Securities and Exchange Commission ("SEC"), in press releases, or oral or written presentations by representatives of HSBC USA Inc. ("HSBC USA" and together with its subsidiaries, "HUSI") that are not statements of historical fact and may also constitute forward-looking statements. Words such as “may”, “will”, “should”, “would”, “could”, “appears”, “believe”, “intends”, “expects”, “estimates”, “targeted”, “plans”, “anticipates”, “goal”, and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, economic forecast, results of operations, plans, objectives, performance or business developments and will not involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond our control. Our actual future results may differ materially from those set forth in our forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ materially from those in the forward-looking statements:

- uncertain market and economic conditions, uncertainty relating to the U.S. debt and budget matters, the potential for future downgrading of U.S. debt ratings, a decline in housing prices, high unemployment, tighter credit conditions, changes in interest rates, the availability of liquidity, unexpected geopolitical events, heightened market concerns over sovereign creditworthiness in over-indebted countries, changes in consumer confidence and consumer spending, and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;
- changes in laws and regulatory requirements;
- extraordinary government actions as a result of market turmoil;
- capital and liquidity requirements under Basel III, the Federal Reserve Board's ("FRB") Comprehensive Capital Analysis and Review ("CCAR"), and the Dodd-Frank Act stress testing ("DFAST");
- changes in central banks' policies with respect to the provision of liquidity support to financial markets;
- the ability of HSBC Holdings plc ("HSBC" and, together with its subsidiaries, "HSBC Group") and HSBC Bank USA, National Association ("HSBC Bank USA") to fulfill the requirements imposed by the deferred prosecution agreements with the U.S. Department of Justice, the U.S. Attorney's Office for the Eastern District of New York, and the U.S. Attorney's Office for the Northern District of West Virginia, our agreement with the Office of the Comptroller of the Currency, our other consent agreements as well as guidance from regulators generally;
- damage to our reputation;
- the ability to attract and retain customers and to retain key employees;
- the effects of competition in the markets where we operate including increased competition for non-bank financial services companies, including securities firms;
- a failure in or a breach of our operation or security systems or infrastructure, or those of third party servicers or vendors;
- third party suppliers' and outsourcing vendors' ability to provide adequate services;
- our ability to meet our funding requirements;
- our ability to cross-sell our products to existing customers;
- increases in our allowance for credit losses and changes in our assessment of our loan portfolios;
- changes in Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") accounting standards;
- continued heightened regulatory scrutiny with respect to residential mortgage servicing practices, with particular focus on loss mitigation, foreclosure prevention and outsourcing;
- changes to our mortgage servicing and foreclosure practices;
- changes in the methodology for determining benchmark rates;
- heightened regulatory and government enforcement scrutiny of financial markets, with a particular focus on foreign exchange;

- the possibility of incorrect assumptions or estimates in our financial statements, including reserves related to litigation, deferred tax assets and the fair value of certain assets and liabilities;
- changes in bankruptcy laws to allow for principal reductions or other modifications to mortgage loan terms;
- additional financial contribution requirements to the HSBC North America Holdings Inc. ("HSBC North America") pension plan;
- unexpected and/or increased expenses relating to, among other things, litigation and regulatory matters; and
- the other risk factors and uncertainties described under Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Form 10-K").

Forward-looking statements are based on our current views and assumptions and speak only as of the date they are made.We undertake no obligation to update any forward-looking statement to reflect subsequent circumstances or events. You should, however, consider any additional disclosures of a forward-looking nature that arise after the date hereof as may be discussed in any of our subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q or Current Reports on Form 8-K.

Executive Overview

HSBC USA is an indirect wholly-owned subsidiary of HSBC North America, which is an indirect wholly-owned subsidiary of HSBC. HUSI may also be referred to in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") as "we", "us" or "our".

Current Environment The U.S. economy continued its gradual recovery during the first half of 2014. While consumer confidence, buoyed by healthy job growth, began to increase during the second quarter of 2014 and recover from the impact of the severe winter weather experienced across many parts of the United States during the first quarter, it remained flat compared with December 31, 2013 as wage growth prospects and prolonged high gasoline prices continued to impact consumer sentiment. During the first half of 2014, the Federal Reserve Board announced further reductions in its bond buying stimulus program and updated its guidance on short-term interest rates, putting less weight on the unemployment rate and indicating that it would look at ‘a broad range of economic indicators’ in deciding when to start raising short-term interest rates. The prolonged period of low interest rates continues to put pressure on spreads earned on our deposit base.

While the economy continued to add jobs in the first half of 2014, the pace of new job creation continued to be slower than needed to significantly reduce the number of long-term unemployed. While the unemployment rate in the U.S. fell 60 basis points since year-end to 6.1 percent at June 30, 2014 as more people began to find work, there are a significant number of U.S. residents who are no longer looking for work and are not reflected in the U.S. unemployment rates. Unemployment has continued to have an impact on the provision for credit losses in our loan portfolio and in loan portfolios across the industry. Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, fiscal policy, volatility in energy prices, credit market volatility including the ability to resolve various global financial issues and trends in corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates, a sustained recovery of the housing markets and stabilization in energy prices remain critical components of a broader U.S. economic recovery. These conditions in combination with the impact of recent regulatory changes, including the on-going implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act" or "Dodd-Frank"), will continue to impact our results in 2014 and beyond.

While the housing market in the U.S. continues to recover, the strength of recovery varies by market. The listing of foreclosed properties for sale has slowed price gains in 2014. In addition, certain courts and state legislatures have issued rules or statutes relating to foreclosures and scrutiny of foreclosure documentation has increased in some courts. Also, in some areas, officials are requiring additional verification of information filed prior to the foreclosure proceeding. The combination of these factors has led to a significant backlog of foreclosures in several jurisdictions which will take time to resolve.

Performance, Developments and Trends The following table sets forth selected financial highlights of HSBC USA for the three and six months ended June 30, 2014 and 2013 and as of June 30, 2014 and December 31, 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(dollars are in millions)			
Net Income	**$ 179**	$ 180	**$ 283**	$ 363
Rate of return on average:				
Total assets	**.4%**	.4%	**.3%**	.4%
Total common shareholder’s equity	**4.2**	4.0	**3.3**	4.1
Net interest margin	**1.66**	1.30	**1.48**	1.30
Efficiency ratio	**93.8**	70.7	**83.3**	70.3
Commercial net charge-off ratio(1)	**.05**	(.04)	**.13**	.25
Consumer net charge-off ratio(1)	**.59**	.70	**.56**	.80

(1) Excludes loans held for sale.

	June 30, 2014	December 31, 2013
	(dollars are in millions)	
Additional Select Ratios:		
Allowance as a percent of loans[1]	**.86%**	.90%
Commercial allowance as a percent of loans[1]	**.72**	.64
Consumer allowance as a percent of loans[1]	**1.26**	1.55
Consumer two-months-and-over contractual delinquency	**6.10**	6.80
Loans to deposits ratio[2]	**83.02**	79.16
Tier 1 capital to risk weighted assets	**11.56**	11.65
Common equity Tier 1 ratio[3]	**10.42**	9.94
Total capital to risk weighted assets	**16.01**	16.36
Total shareholders' equity to total assets	**9.32**	8.88
Select Balance Sheet Data:		
Cash and interest bearing deposits with banks	**$ 26,271**	$ 20,575
Trading assets	**25,156**	28,894
Securities available-for-sale	**44,778**	54,906
Loans:		
Commercial loans	**53,033**	48,494
Consumer loans	**19,165**	19,201
Total loans	**72,198**	67,695
Deposits	**115,521**	112,608

(1) Excludes loans held for sale.

(2) Represents period end loans, net of allowance for loan losses, as a percentage of domestic deposits equal to or less than $100,000.

(3) Basel III introduces the common equity Tier 1 ratio. For December 31, 2013, the ratio presented is the Tier 1 common ratio calculated under Basel I.

Net income was $179 million and $283 million during the three and six months ended June 30, 2014, respectively, compared with net income of $180 million and $363 million during the three and six months ended June 30, 2013, respectively. Net income during the three and six months ended June 30, 2014 was significantly impacted by a tax reserve release as a result of the settlement of certain state and local tax audits which resulted in an income tax benefit of $183 million. Income (loss) before income tax was a loss of $27 million in the three months ended June 30, 2014 and a gain of $226 million in the six months ended June 30, 2014 compared with income before income tax of $251 million and $559 million during the three and six months ended June 30, 2013, respectively. The decrease in income (loss) before income tax was driven by lower other revenues driven by lower trading revenue as well as lower gains on security sales, higher operating expenses driven by higher litigation expenses and a higher provision for credit losses, partially offset by higher net interest income. Our results in all periods were impacted by the change in the fair value of our own debt attributable to credit spread for which we have elected fair value option which distorts comparability of the underlying performance trends of our business. The following table summarizes the impact of this item on our income (loss) before income taxes for all periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Income (loss) before income tax, as reported	**$ (27)**	$ 251	**$ 226**	$ 559
Fair value movement on own fair value option debt attributable to credit spread	**46**	(53)	**27**	(11)
Underlying income before income tax[1]	**$ 19**	$ 198	**$ 253**	$ 548

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

Excluding the impact of the change in the fair value of our own debt attributable to credit spread for which we have elected fair value option accounting in the table above, our underlying income before income tax for the three and six months ended June 30, 2014 decreased $179 million and $295 million, respectively, compared with the prior year periods as lower other revenues, higher operating expenses and a higher provision for credit losses were partially offset by higher net interest income.

During the six months ended June 30, 2014, we continued to reduce legacy and other risk positions as opportunities arose. The following table provides a summary of the significant valuation adjustments associated with these legacy positions that impacted revenue for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Insurance monoline structured credit products[1]	**$ (4)**	$ 21	**$ 12**	$ 41
Other structured credit products[1]	**(15)**	2	**2**	38
Total gains (loss)	**$ (19)**	$ 23	**$ 14**	$ 79

(1) Reflected in Trading revenue in the consolidated statement of income.

See "Results of Operations" for a more detailed discussion of our operating trends. In addition, see "Balance Sheet Review" for further discussion on our receivable trends, "Liquidity and Capital Resources" for further discussion on funding and capital and "Credit Quality" for additional discussion on our credit trends.

During the first half of 2014, we revised certain estimates used in our commercial loan collective impairment calculation to better reflect inherent losses in a growing loan portfolio. This resulted in an increase to our allowance for credit losses of approximately $93 million ($68 million of which was recorded in the second quarter) for these loans. We are continuing to refine aspects of our commercial loan allowance calculation and, as a result, there could be further adjustments to our credit loss estimates for commercial loans in future periods. While we have seen significant loan growth in our target markets, our commercial loan risk appetite and business model remain unchanged.

During the second quarter of 2014, we concluded certain state and local tax audits resulting in the settlement of significant uncertain tax positions covering a number of years. As a result, we released tax reserves previously maintained in relation to the periods and issues under review which resulted in an income tax benefit of $183 million during the quarter. In addition, we released our accrued interest associated with the tax reserves released which resulted in a $120 million benefit to interest expense during the quarter.

We continue to focus on cost optimization efforts to ensure realization of cost efficiencies. To date, we have identified and implemented various opportunities to reduce costs through organizational structure redesign, vendor spending, discretionary spending and other general efficiency initiatives. Additional cost reduction opportunities have been identified and are in the process of implementation. Workforce reductions, some of which relate to our retail branch divestitures, have resulted in total full-time equivalent employees being reduced by 38 percent since December 31, 2010. Workforce reductions are also occurring in certain shared services functions other than compliance, which we expect will result in additional reductions to future allocated costs for these functions. These efforts continue and, as a result, we may incur restructuring charges in future periods, the amount of which will depend upon the actions that ultimately are implemented.

In October 2013, our Board of Directors approved a sale of our London Branch precious metals custody and clearing business to HSBC Bank plc. As the sale of this business is between affiliates under common control, we expect the consideration received in excess of our carrying value will result in an increase to additional paid-in-capital, net of tax, of approximately $50 million upon close. The cash sale is currently expected to be completed in the second half of 2014. At June 30, 2014, assets and liabilities related to this business totaled approximately $10.5 billion each, while revenue associated with this business was approximately $18 million and $26 million during the six months ended June 30, 2014 and 2013, respectively. We will continue to operate our metals trading business which is unaffected by this decision.

We continue to evaluate our overall operations as we seek to optimize our risk profile and cost efficiencies as well as our liquidity, capital and funding requirements. This could result in further strategic actions that may include changes to our legal structure, asset levels, cost structure or product offerings in support of HSBC’s strategic priorities.

Basis of Reporting

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Unless noted, the discussion of our financial condition and results of operations included in MD&A are presented on a continuing operations basis of reporting. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In addition to the U.S. GAAP financial results reported in our consolidated financial statements, MD&A includes reference to the following information which is presented on a non-U.S. GAAP basis:

International Financial Reporting Standards ***("IFRSs")*** Because HSBC reports financial information in accordance with IFRSs and IFRSs operating results are used in measuring and rewarding performance of employees, our management also separately monitors net income under IFRSs (a non-U.S. GAAP financial measure). The following table reconciles our net income on a U.S. GAAP basis to net income on an IFRSs basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in millions)			
Net income – U.S. GAAP basis	**$ 179**	$ 180	$ 283	$ 363
Adjustments, net of tax:				
IFRSs reclassification of fair value measured financial assets during 2008	**—**	(7)	(1)	(17)
Securities	**—**	(1)	(2)	(4)
Loan impairment	**(19)**	18	4	11
Property	**(2)**	(2)	(2)	(4)
Pension costs	**3**	3	11	7
Litigation accrual	**49**	(7)	52	(7)
Other	**(6)**	(9)	(15)	(22)
Net income – IFRSs basis	**204**	175	330	327
Tax expense (benefit) – IFRSs basis	**(185)**	77	(43)	201
Profit before tax – IFRSs basis	**$ 19**	$ 252	$ 287	$ 528

The significant differences between U.S. GAAP and IFRSs impacting our results presented in the table above are discussed in more detail within "Basis of Reporting" in our 2013 Form 10-K. There have been no significant changes since December 31, 2013 in the differences between U.S. GAAP and IFRSs impacting our results.

Balance Sheet Review

We utilize deposits and borrowings from various sources to provide liquidity, fund balance sheet growth, meet cash and capital needs, and fund investments in subsidiaries. The following table provides balance sheet totals at June 30, 2014 and increases (decreases) since December 31, 2013:

		Increase (Decrease) From December 31, 2013	
	June 30, 2014	**Amount**	**%**
	(dollars are in millions)		
Period end assets:			
Short-term investments	**$ 28,582**	$ 5,888	25.9 %
Loans, net	**71,574**	4,485	6.7
Loans held for sale	**500**	270	*
Trading assets	**25,156**	(3,738)	(12.9)
Securities	**45,983**	(10,281)	(18.3)
Other assets	**10,423**	107	1.0
	$ 182,218	$ (3,269)	(1.8)%
Funding sources:			
Total deposits	**$ 115,521**	$ 2,913	2.6 %
Trading liabilities	**8,815**	(2,060)	(18.9)
Short-term borrowings	**12,906**	(6,229)	(32.6)
Long-term debt	**24,604**	1,757	7.7
All other liabilities	**3,388**	(170)	(4.8)
Shareholders' equity	**16,984**	520	3.2
	$ 182,218	$ (3,269)	(1.8)%

* Not meaningful.

Short-Term Investments Short-term investments include cash and due from banks, interest bearing deposits with banks, federal funds sold and securities purchased under resale agreements. Balances will fluctuate from period to period depending upon our liquidity position at the time. Overall balances increased since December 31, 2013 as we managed our short-term investments to maximize earnings while retaining liquidity.

Loans, Net The following summarizes our loan balances at June 30, 2014 and increases (decreases) since December 31, 2013:

		Increase (Decrease) From December 31, 2013	
	June 30, 2014	**Amount**	**%**
	(dollars are in millions)		
Commercial loans:			
Construction and other real estate	**$ 9,682**	$ 648	7.2%
Business and corporate banking	**15,956**	1,510	10.5
Global banking[1]	**24,268**	2,643	12.2
Other commercial loans	**3,127**	(262)	(7.7)
Total commercial loans	**53,033**	4,539	9.4
Consumer loans:			
Residential mortgages	**16,097**	271	1.7
Home equity mortgages	**1,914**	(97)	(4.8)
Total residential mortgages	**18,011**	174	1.0
Credit cards	**681**	(173)	(20.3)
Other consumer	**473**	(37)	(7.3)
Total consumer loans	**19,165**	(36)	(.2)
Total loans	**72,198**	4,503	6.7
Allowance for credit losses	**624**	18	3.0
Loans, net	**$ 71,574**	$ 4,485	6.7%

(1) Represents large multinational firms including globally focused U.S. corporate and financial institutions and U.S. dollar lending to multinational banking customers managed by HSBC on a global basis. Also includes loans to HSBC affiliates which totaled $5,080 million and $5,328 million at June 30, 2014 and December 31, 2013, respectively.

Commercial loan balances increased compared with December 31, 2013 due to new business activity, largely in global banking and business and corporate banking, which reflects our continued focus on expanding our core offerings and proactively targeting companies with international banking requirements in key growth markets. These increases were partially offset by pay downs and managed reductions in certain exposures.

Total residential mortgage loans increased modestly compared with December 31, 2013 as an increase in residential mortgages was partially offset by a decrease in home equity mortgages. We continue to sell newly originated conforming loans to PHH Mortgage and target new residential mortgage loan originations towards our Premier and Advance customer relationships.

Prior to 2013, real estate markets in a large portion of the United States were affected by stagnation or declines in property values for a number of years. As a result, while the loan-to-value ("LTV") ratios for our mortgage loan portfolio have deteriorated since origination, we have recently seen a general improvement in the LTVs for our loan portfolio. The following table presents LTVs for our mortgage loan portfolio, excluding subprime residential mortgage loans held for sale.

	LTVs at June 30, 2014(1)(2)		LTVs at December 31, 2013(1)(2)	
	First Lien	**Second Lien**	**First Lien**	**Second Lien**
LTV < 80%	**89.4%**	**69.9%**	87.4%	65.0%
80% ≤ LTV < 90%	**5.4**	**13.2**	6.0	14.1
90% ≤ LTV < 100%	**3.1**	**8.2**	3.8	9.5
LTV ≥ 100%	**2.1**	**8.6**	2.9	11.3
Average LTV for portfolio	**59.6**	**64.3**	61.4	67.3

(1) LTVs for first liens are calculated using the loan balance as of the reporting date. LTVs for second liens are calculated using the loan balance as of the reporting date plus the senior lien amount at origination. Current estimated property values are derived from the property's appraised value at the time of loan origination updated by the change in the Federal Housing Finance Agency's (formerly known as the Office of Federal Housing Enterprise Oversight) house pricing index ("HPI") at either a Core Based Statistical Area ("CBSA") or state level. The estimated value of the homes could differ from actual fair

values due to changes in condition of the underlying property, variations in housing price changes within metropolitan statistical areas and other factors. As a result, actual property values associated with loans that end in foreclosure may be significantly lower than the estimates used for purposes of this disclosure.

(2) Current property values are calculated using the most current HPIs available and applied on an individual loan basis, which results in an approximate three month delay in the production of reportable statistics. Therefore, the information in the table above reflects current estimated property values using HPIs as of March 31, 2014 and September 30, 2013, respectively.

Credit card receivable balances decreased compared with December 31, 2013 reflecting seasonal paydowns.

Other consumer loans decreased since December 31, 2013, reflecting the discontinuation of student loan originations and the run-off of our installment loan and auto finance portfolios.

Loans Held for Sale The following table summarizes loans held for sale at June 30, 2014 and increases (decreases) since December 31, 2013:

	June 30, 2014	Increase (Decrease) From December 31, 2013 Amount	%
	(dollars are in millions)		
Total commercial loans	**$ 396**	$ 320	*
Consumer loans:			
Residential mortgages	**38**	(53)	(58.2)%
Other consumer	**66**	3	4.8
Total consumer loans	**104**	(50)	(32.5)%
Total loans held for sale	**$ 500**	$ 270	*

* Not meaningful.

Commercial loans held for sale increased compared with December 31, 2013. Commercial syndicated loans that are originated with the intent of selling them to unaffiliated third parties are classified as commercial loans held for sale and are recorded at fair value as we have elected to designate these loans under fair value option. The fair value of commercial loans held for sale under this program was $159 million and $58 million at June 30, 2014 and December 31, 2013, respectively.

Commercial loans held for sale also includes $43 million of global banking loans at June 30, 2014, which were transferred to held for sale during the first half of 2014, as well as commercial real estate loans of $194 million and $18 million at June 30, 2014 and December 31, 2013, respectively.

Residential mortgage loans held for sale decreased compared with December 31, 2013. We sell all our agency eligible loan originations servicing released directly to PHH Mortgage. Also included in residential mortgage loans held for sale are subprime residential mortgage loans of $23 million and $46 million at June 30, 2014 and December 31, 2013, respectively, which were acquired from unaffiliated third parties and from HSBC Finance Corporation ("HSBC Finance") with the intent of securitizing or selling the loans to third parties.

Other consumer loans held for sale includes certain student loans which we no longer originate. The increase since December 31, 2013 was due to an increase in the fair value of the loans attributable to improved economic conditions as well as increased investor demand for student loans.

Excluding the commercial loans designated under fair value option discussed above, loans held for sale are recorded at the lower of amortized cost or fair value. The valuation allowance on consumer loans held for sale was $46 million and $77 million at June 30, 2014 and December 31, 2013, respectively. The valuation allowance on commercial loans held for sale was $7 million at June 30, 2014 compared with no allowance at December 31, 2013.

Trading Assets and Liabilities The following table summarizes trading assets and liabilities balances at June 30, 2014 and increases (decreases) since December 31, 2013:

	June 30, 2014	Increase (Decrease) From December 31, 2013 Amount	%
	(dollars are in millions)		
Trading assets:			
Securities[1]	**$ 10,325**	$ (827)	(7.4)%
Precious metals	**10,477**	(1,274)	(10.8)
Derivatives[2]	**4,354**	(1,637)	(27.3)
	$ 25,156	$ (3,738)	(12.9)%
Trading liabilities:			
Securities sold, not yet purchased	**771**	463	*
Payables for precious metals	**3,037**	(789)	(20.6)
Derivatives[3]	**5,007**	(1,734)	(25.7)
	$ 8,815	$ (2,060)	(18.9)%

* Not meaningful.

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

(2) At June 30, 2014 and December 31, 2013 the fair value of derivatives included in trading assets has been reduced by $3,128 million and $3,870 million, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties.

(3) At June 30, 2014 and December 31, 2013 the fair value of derivatives included in trading liabilities has been reduced by $2,277 million and $2,116 million, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties.

Securities balances decreased since December 31, 2013 largely due to decreases in foreign sovereign guaranteed positions, partially offset by increases in U.S. Treasury and corporate bond positions. Securities positions are held to mitigate the risks of interest rate products issued to customers of domestic and emerging markets. Balances of securities sold, not yet purchased increased since December 31, 2013 due to an increase in short U.S. Treasury positions related to hedges of derivatives in the interest rate trading portfolio.

Precious metals trading assets decreased since December 31, 2013 due primarily to a decrease in unallocated metal inventory that resulted from client activity. The lower payable for precious metals compared with December 31, 2013 was primarily due to a decrease in unallocated metal balances held on behalf of clients. Both of the decreases in precious metals trading assets and precious metals trading liabilities were partially offset by an increase in spot rates during the first half of the year.

Precious metal positions may not represent our net underlying exposure as we may use derivatives contracts to reduce our risk associated with these positions, the fair value of which would appear in derivatives in the table above.

Derivative asset and liability balances decreased since December 31, 2013 mainly from market movements as valuations of foreign exchange, interest rate, credit and commodity derivatives all declined.

Securities Securities include securities available-for-sale and securities held-to-maturity. Balances will fluctuate between periods depending upon our liquidity position at the time. The decline in balances since December 31, 2013 largely reflects the sales of U.S. Treasury, government agency mortgage-backed and other asset-backed securities as part of a continuing strategy to re-balance the securities portfolio for risk management purposes based on the current interest rate environment.

Other Assets Other assets includes intangibles and goodwill. Other assets increased modestly since December 31, 2013 as higher outstanding balances related to the settlement of precious metal stock positions were largely offset by a decline in net deferred tax assets and lower derivative balances associated with hedging activities.

Deposits The following summarizes deposit balances by major depositor categories at June 30, 2014 and increases (decreases) since December 31, 2013:

	June 30, 2014	Increase (Decrease) From December 31, 2013 Amount	%
		(dollars are in millions)	
Individuals, partnerships and corporations	**$ 93,791**	$ 2,562	2.8%
Domestic and foreign banks	**$ 20,764**	339	1.7
U.S. government and states and political subdivisions	**711**	39	5.8
Foreign governments and official institutions	**255**	(27)	(9.6)
Total deposits	**$ 115,521**	$ 2,913	2.6%
Total core deposits[1]	**$ 87,564**	1,755	2.0%

(1) Core deposits, as calculated in accordance with Federal Financial Institutions Examination Council ("FFIEC") guidelines, generally include all domestic demand, money market and other savings accounts, as well as time deposits with balances not exceeding $100,000.

Deposit balances at June 30, 2014 increased since December 31, 2013 as increased wholesale time deposits driven by an increase in affiliate deposits and new issuances from the launch of a wholesale term certificate of deposit issuance program, was partially offset by a decrease in deposits from individuals, primarily reflected in on-line savings accounts. Total deposits from HSBC affiliates increased $1,740 million since December 31, 2013. The strategy for our core retail banking business includes building relationship deposits and wealth management across multiple markets, channels and segments. This strategy involves various initiatives, such as:

- HSBC Premier, a premium service wealth and relationship banking proposition designed for the internationally-minded client with a dedicated premier relationship manager. Total Premier deposits increased slightly to $20,930 million at June 30, 2014 as compared with $20,877 million at December 31, 2013; and
- Expanding our existing customer relationships by needs-based sales of wealth, banking and mortgage products.

We continue to actively manage our balance sheet to increase profitability while maintaining adequate liquidity.

Short-Term Borrowings Short-term borrowings decreased since December 31, 2013 primarily due to the management of our short-term liquidity positions which resulted in decreased levels of securities sold under agreements to repurchase. Partially offsetting the decreases was an increase in commercial paper outstanding.

Long-Term Debt Long-term debt increased compared with December 31, 2013 due primarily to the impact of debt issuances, partially offset by long-term debt retirements. Debt issuances during the six months ended June 30, 2014 included $2,250 million of senior debt, which was issued by HSBC USA in June 2014, and $1,650 million of structured medium-term notes, of which $28 million was issued by HSBC Bank USA.

Incremental issuances from the $40 billion HSBC Bank USA Global Bank Note Program totaled $28 million during the six months ended June 30, 2014. Total debt outstanding under this program was $4,525 million and $4,535 million at June 30, 2014 and December 31, 2013, respectively. Given the adequate liquidity of HSBC Bank USA, we do not anticipate the Global Bank Note Program being heavily used in the future as, among diverse funding sources designed to minimize overall costs, deposits will continue to be a primary funding source for HSBC Bank USA.

Incremental long-term debt issuances from our shelf registration statement with the Securities and Exchange Commission ("SEC") totaled $3,873 million during the six months ended June 30, 2014. Total long-term debt outstanding under this shelf was $14,248 million and $11,738 million at June 30, 2014 and December 31, 2013, respectively.

Borrowings from the Federal Home Loan Bank of New York ("FHLB") totaled $1,000 million at both June 30, 2014 and December 31, 2013. At June 30, 2014, we had the ability to access further borrowings of up to $5,077 million based on the amount pledged as collateral with the FHLB.

All Other Liabilities All other liabilities decreased slightly compared with December 31, 2013 due primarily to the release of tax reserves and associated accrued interest related to the conclusion of certain state and local tax audits during the second quarter of 2014, as discussed further under the heading "Income Taxes" in "Results of Operations." These decreases were largely offset by increased litigation accruals and higher derivative balances associated with hedging activities.

Results of Operations

Net Interest Income Net interest income is the total interest income on earning assets less the total interest expense on deposits and borrowed funds. In the discussion that follows, interest income and rates are presented and analyzed on a taxable equivalent basis to permit comparisons of yields on tax-exempt and taxable assets. An analysis of consolidated average balances and interest rates on a taxable equivalent basis is presented in this MD&A under the caption "Consolidated Average Balances and Interest Rates."

The significant components of net interest margin are summarized in the following table:

Three Months Ended June 30,	2014	2014 Compared to 2013 Increase (Decrease) Volume	Rate	2013
		(dollars are in millions)		
Interest income:				
Short-term investments	**$ 20**	**$ 3**	**$ 1**	$ 16
Trading assets	**65**	**4**	**34**	27
Securities	**198**	**(39)**	**7**	230
Commercial loans	**295**	**41**	**(41)**	295
Consumer loans	**176**	**(6)**	**(1)**	183
Other	**12**	**2**	**(1)**	11
Total interest income	**766**	**5**	**(1)**	762
Interest expense:				
Deposits	**36**	**4**	**(24)**	56
Short-term borrowings	**14**	**5**	**1**	8
Long-term debt	**152**	**3**	**(17)**	166
Tax liabilities	**(113)**	**(2)**	**(120)**	9
Total interest expense	**89**	**10**	**(160)**	239
Net interest income – taxable equivalent basis	**677**	**$ (5)**	**$ 159**	523
Less: tax equivalent adjustment	**4**			5
Net interest income – non taxable equivalent basis	**$ 673**			$ 518
Yield on total interest earning assets	**1.88%**			1.89%
Cost of total interest bearing liabilities	**.28**			.81
Interest rate spread	**1.60**			1.08
Benefit from net non-interest paying funds[(1)]	**.06**			.22
Net interest margin on average earning assets	**1.66%**			1.30%

Six Months Ended June 30,	2014	2014 Compared to 2013 Increase (Decrease) Volume	Rate	2013
	(dollars are in millions)			
Interest income:				
Short-term investments	**$ 36**	**$ 4**	**$ 2**	$ 30
Trading assets	**113**	**7**	**55**	51
Securities	**409**	**(62)**	**8**	463
Commercial loans	**582**	**77**	**(63)**	568
Consumer loans	**353**	**(10)**	**(11)**	374
Other	**22**	**3**	**(2)**	21
Total interest income	**1,515**	**19**	**(11)**	1,507
Interest expense:				
Deposits	**71**	**—**	**(28)**	99
Short-term borrowings	**23**	**9**	**(3)**	17
Long-term debt	**322**	**9**	**(20)**	333
Tax liabilities	**(101)**	**(5)**	**(121)**	25
Total interest expense	**315**	**13**	**(172)**	474
Net interest income – taxable equivalent basis	**1,200**	**$ 6**	**$ 161**	1,033
Less: tax equivalent adjustment	**8**			10
Net interest income – non taxable equivalent basis	**$1,192**			$ 1,023
Yield on total interest earning assets	**1.87%**			1.90%
Cost of total interest bearing liabilities	**.50**			.81
Interest rate spread	**1.37**			1.09
Benefit from net non-interest paying funds[1]	**.11**			.21
Net interest margin on average earning assets	**1.48%**			1.30%

(1) Represents the benefit associated with interest earning assets in excess of interest bearing liabilities. The increased percentages reflect growth in this excess.

Net interest income in the second quarter of 2014 reflects a $120 million benefit to tax liabilities interest expense related to the conclusion of certain state and local tax audits, as discussed further below under the heading "Income Taxes." Excluding the impact of this item, net interest income increased $35 million and $49 million, respectively, during the three and six months ended June 30, 2014 as compared with the corresponding prior year periods. Compared with the prior year periods, interest income increased modestly as higher income from trading assets, short-term investments and, in the year-to-date period, commercial loans was largely offset by lower income from securities and consumer loans, while interest expense decreased reflecting lower expense from deposits, long-term debt and tax liabilities partially offset by higher expense from short-term borrowings.

Short-term investments Higher interest income during the three and six months ended June 30, 2014 was primarily due to higher average balances.

Trading Assets The increase in interest income during the three and six months ended June 30, 2014 reflects the result of rising market interest rates since the prior year periods and a shift in asset mix to longer term, higher yielding securities. Securities in the trading portfolio are managed as hedges against the derivative activity of our customers, which, in response to the current interest rate environment, has shifted towards longer term, higher yielding returns.

Securities Interest income decreased during the three and six months ended June 30, 2014 due primarily to sales of U.S. Treasury and government agency mortgage-backed securities which resulted in lower outstanding balances compared with the prior year periods.

Commercial Loans Interest income was flat during the three months ended June 30, 2014 and was slightly higher during the six months ended June 30, 2014, as loan growth was largely offset by lower yields on newly originated loans and, to a lesser extent, loan repricing. Lower yields reflect a continued focus on higher quality lending to reduce credit risk exposure in our loan portfolios.

Consumer Loans Interest income decreased during the three and six months ended June 30, 2014 due primarily to slightly lower outstanding balances and, in the year-to-date period, lower yields on newly originated loans. Lower yields reflect a continued focus on higher quality lending to reduce credit risk exposure in our loan portfolios.

Short-term borrowings The increase in interest expense during the three and six months ended June 30, 2014 was due to higher average outstanding borrowings primarily in securities sold under repurchase agreements and federal funds purchased, which continue to be preferred sources of funding given the current interest rate environment.

Deposits Lower interest expense during the three and six months ended June 30, 2014 reflects the impact of lower rates paid on interest-bearing deposits.

Long-term debt Interest expense was lower during the three and six months ended June 30, 2014 due to a shift in mix towards lower yielding non-subordinated debt partially offset by higher outstanding borrowings.

Tax liabilities Excluding the one-time benefit related to the conclusion of certain state and local tax audits discussed above, interest expense decreased during the three and six months ended June 30, 2014 as the conclusion of these audits resulted in lower interest-bearing tax liability balances.

Provision for Credit Losses The following table summarizes the provision for credit losses associated with our various loan portfolios:

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	Increase (Decrease) %
	(dollars are in millions)			
Commercial:				
Construction and other real estate	**$ 6**	$ (14)	$ 20	*
Business and corporate banking	**56**	15	41	*
Global banking	**29**	29	—	—
Other commercial	**(9)**	(4)	(5)	*
Total commercial	**$ 82**	$ 26	$ 56	*
Consumer:				
Residential mortgages	**7**	14	(7)	(50.0)%
Home equity mortgages	**(8)**	13	(21)	*
Credit card receivables	**4**	13	(9)	(69.2)
Other consumer	**—**	1	(1)	(100.0)
Total consumer	**3**	41	(38)	(92.7)
Total provision for credit losses	**$ 85**	$ 67	$ 18	26.9 %
Provision as a percentage of average loans, annualized	**0.5%**	0.4%		

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	Increase (Decrease) %
	(dollars are in millions)			
Commercial:				
Construction and other real estate	**$ 8**	$ (5)	$ 13	*
Business and corporate banking	**75**	17	58	*
Global banking	**36**	28	8	28.6
Other commercial	**(13)**	(4)	(9)	*
Total commercial	**$ 106**	$ 36	$ 70	*
Consumer:				
Residential mortgages	**(9)**	11	(20)	*
Home equity mortgages	**(6)**	30	(36)	*
Credit card receivables	**9**	11	(2)	(18.2)
Other consumer	**1**	—	1	*
Total consumer	**(5)**	52	(57)	*
Total provision for credit losses	**$ 101**	$ 88	$ 13	14.8 %
Provision as a percentage of average loans, annualized	**0.3%**	0.3%		

* Not meaningful.

Our provision for credit losses increased $18 million and $13 million during the three and six months ended June 30, 2014, respectively, driven by higher provisions for credit losses in our commercial loan portfolio, partially offset by a lower provisions for credit losses in our consumer loan portfolio. During the three and six months ended June 30, 2014, we increased our credit loss reserves as the provision for credit losses was higher than net charge-offs by $50 million and $18 million, respectively.

In our commercial portfolio, the provision for credit losses increased $56 million and $70 million during the three and six months ended June 30, 2014, respectively. During the first half of 2014, we revised certain estimates used in our commercial loan impairment calculation resulting in an incremental provision for credit losses of approximately $93 million ($68 million of which was recorded in the second quarter) for these loans. Excluding the impact of this item, our commercial provision for credit losses decreased $12 million and $23 million during the three and six months ended June 30, 2014, respectively. The decrease in both periods reflects lower provisions for risk factors primarily associated with global banking large loan exposures and, in the year-to-date period emerging markets loan exposures, as well as continued improvements in economic and credit conditions which led to lower nonperforming loans and criticized asset levels, partially offset by loan growth, largely in global banking and business and corporate banking.

The provision for credit losses on residential mortgages including home equity mortgages decreased $28 million and $56 million during the three and six months ended June 30, 2014, respectively. The decrease was driven by an improvement in home prices as well as continued improvements in economic and credit conditions including lower dollars of delinquency on accounts less than 180 days contractually delinquent and improvements in loan delinquency roll rates. These improvements were partially offset in the three month period by increased loss estimates associated with the remediation of certain mortgage servicing activities and higher losses associated with advances made on behalf of borrowers.

The provision for credit losses associated with credit card receivables decreased $9 million and $2 million during the three and six months ended June 30, 2014, respectively, reflecting improved economic conditions, including lower dollars of delinquency, improvements in delinquency roll rates and lower receivable levels.

Our methodology and accounting policies related to the allowance for credit losses are presented in our 2013 Form 10-K under the caption "Critical Accounting Policies and Estimates" and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements." See "Credit Quality" in this MD&A for additional discussion on the allowance for credit losses associated with our various loan portfolios.

Other Revenues The following table summarizes the components of other revenues:

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$ 13**	$ 21	$ (8)	(38.1)%
Other fees and commissions	**182**	176	6	3.4
Trust income	**32**	31	1	3.2
Trading revenue	**15**	127	(112)	(88.2)
Net other-than-temporary impairment losses	**(5)**	—	(5)	*
Other securities gains (losses), net	**(7)**	23	(30)	*
HSBC affiliate income:				
Fees and commissions	**36**	44	(8)	(18.2)
Other affiliate income	**15**	15	—	—
Total HSBC affiliate income	**51**	59	(8)	(13.6)
Residential mortgage banking revenue	**22**	9	13	*
Gain (loss) on instruments designated at fair value and related derivatives	**(44)**	95	(139)	*
Other income:				
Valuation of loans held for sale	**(1)**	6	(7)	*
Insurance	**5**	3	2	66.7
Miscellaneous income	**(2)**	16	(18)	*
Total other income	**2**	25	(23)	(92.0)
Total other revenues	**$ 261**	$ 566	$ (305)	(53.9)%

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Credit card fees	**$ 27**	$ 34	$ (7)	(20.6)%
Other fees and commissions	**355**	346	9	2.6
Trust income	**63**	63	—	—
Trading revenue	**148**	271	(123)	(45.4)
Net other-than-temporary impairment losses	**(7)**	—	(7)	*
Other securities gains (losses), net	**15**	154	(139)	(90.3)
HSBC affiliate income:				
Fees and commissions	**74**	86	(12)	(14.0)
Other affiliate income	**24**	27	(3)	(11.1)
Total HSBC affiliate income	**98**	113	(15)	(13.3)
Residential mortgage banking revenue	**70**	55	15	27.3
Gain (loss) on instruments designated at fair value and related derivatives	**(16)**	88	(104)	*
Other income:				
Valuation of loans held for sale	**—**	9	(9)	(100.0)
Insurance	**8**	4	4	100.0
Miscellaneous income	**—**	21	(21)	(100.0)
Total other income	**8**	34	(26)	(76.5)
Total other revenues	**$ 761**	$ 1,158	$ (397)	(34.3)%

* Not meaningful.

Credit card fees Credit card fees decreased in the three and six months ended June 30, 2014 driven by lower outstanding balances as well as lower late fees due to improved customer behavior.

Other fees and commissions Other fees and commissions increased in the three and six months ended June 30, 2014 due to higher fee based income resulting from increased levels of commercial lending activity, partially offset by lower custodial fees due to a decrease in precious metals average inventory held under custody as well as lower average metals prices. The following table summarizes the components of other fees and commissions:

			Increase (Decrease)	
Three Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Account services	**$ 78**	$ 71	7	9.9
Credit facilities	**53**	52	1	1.9
Custodial fees	**10**	14	(4)	(28.6)
Other fees	**41**	39	2	5.1
Total other fees and commissions	**$ 182**	$ 176	$ 6	3.4%

			Increase (Decrease)	
Six Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Account services	**$ 148**	$ 140	$ 8	5.7%
Credit facilities	**105**	104	1	1.0
Custodial fees	**21**	32	(11)	(34.4)
Other fees	**81**	70	11	15.7
Total other fees and commissions	**$ 355**	$ 346	$ 9	2.6%

Trust income Trust income was relatively flat in the three and six months ended June 30, 2014.

Trading revenue Trading revenue is generated by participation in the foreign exchange, rates, credit, equities and precious metals markets. The following table presents trading related revenue by business activity and includes net interest income earned on trading instruments, as well as an allocation of the funding benefit or cost associated with the trading positions. The trading related net interest income component is included in net interest income on the consolidated statement of income. Trading revenues related to the mortgage banking business are included in residential mortgage banking revenue.

			Increase (Decrease)	
Three Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Trading revenue	**$ 15**	$ 127	$ (112)	(88.2)%
Net interest income	**46**	(5)	51	*
Trading related revenue	**$ 61**	$ 122	$ (61)	(50.0)%
Business:				
Derivatives[(1)]	**$ 12**	$ 26	$ (14)	(53.8)%
Balance sheet management	**(6)**	7	(13)	*
Foreign exchange	**53**	63	(10)	(15.9)
Precious metals	**3**	22	(19)	(86.4)
Global banking	**—**	1	(1)	(100.0)
Other trading	**(1)**	3	(4)	*
Trading related revenue	**$ 61**	$ 122	$ (61)	(50.0)%

			Increase (Decrease)	
Six Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Trading revenue	**$ 148**	$ 271	$ (123)	(45.4)%
Net interest income	**49**	(15)	64	*
Trading related revenue	**$ 197**	$ 256	$ (59)	(23.0)%
Business Activities:				
Derivatives[(1)]	**$ 72**	$ 95	$ (23)	(24.2)%
Balance sheet management	**(3)**	4	(7)	*
Foreign exchange	**110**	108	2	1.9
Precious metals	**21**	48	(27)	(56.3)
Global Banking	**—**	1	(1)	(100.0)
Other trading	**(3)**	—	(3)	*
Trading related revenue	**$ 197**	$ 256	$ (59)	(23.0)%

* Not meaningful.

(1) Includes derivative contracts related to credit default and cross-currency swaps, equities, interest rates and structured credit products.

Trading related revenue decreased during the three and six months ended June 30, 2014 due to lower revenue from derivatives, balance sheet management, precious metals and, in the three month period, lower revenue from foreign exchange.

Trading revenue from derivative products decreased during the three and six months ended June 30, 2014 due to lower valuation gains related to structured credit products, reduced debit valuation adjustments, as our own credit spreads tightened compared with the widening that occurred in the year ago periods, and lower new deal activity on domestic interest rate products. Partially offsetting these declines was an increase in emerging markets related revenue from higher new deal activity and higher interest income on securities positions.

Trading revenue related to balance sheet management activities decreased during the three and six months ended June 30, 2014 primarily due to the performance of economic hedge positions used to manage interest rate risk.

Foreign exchange trading revenue decreased during the three months ended June 30, 2014 due to lower trading volumes. This decrease was more than offset in the in the year-to-date period due primarily to lower interest expense.

Precious metals revenue decreased during the three and six months ended June 30, 2014 from reduced trade volumes as investor demand shifted in favor of other assets.

Net other-than-temporary impairment losses During the three and six months ended June 30, 2014, the debt securities held by a consolidated variable interest entity ("VIE") were determined to have changes to their previous other-than-temporary impairment estimates with only the credit component of such other-than-temporary impairments recognized in earnings. During the three and six months ended June 30, 2013, there were no other-than-temporary impairment losses recognized.

Other securities gains (losses), net We maintain various securities portfolios as part of our balance sheet diversification and risk management strategies. During the three and six months ended June 30, 2014, we sold $9,144 million and $15,999 million, respectively, of U.S. Treasury, government agency mortgage-backed and other asset-backed securities as part of a continuing strategy to re-balance the securities portfolio for risk management purposes based on the current interest rate environment. In the three and six months ended June 30, 2013, we sold $9,838 million and $22,295 million, respectively, of U.S. Treasury, government agency mortgage-backed and other asset-backed securities as part of a continuing strategy to re-balance the securities portfolio for risk management purposes based on the current interest rate environment. The gross realized gains and losses from sales of securities in both years, which is included as a component of other securities gains (losses), net above, are summarized in Note 3, "Securities," in the accompanying consolidated financial statements.

HSBC affiliate income Affiliate income decreased in the three and six months ended June 30, 2014 due to lower fees associated with residential mortgage loan servicing activities performed on behalf of HSBC Finance, lower fees related to lending arrangements extended to other HSBC affiliates and lower income related to certain performance based activity.

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

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 46**	$ 44	$ 2	4.5 %
Servicing related income:				
Servicing fee income	**17**	21	(4)	(19.0)
Changes in fair value of Mortgage Servicing Rights ("MSRs") due to:				
Changes in valuation model inputs or assumptions	**(12)**	42	(54)	*
Customer payments	**(7)**	(13)	6	46.2
Trading – Derivative instruments used to offset changes in value of MSRs	**22**	(34)	56	*
Total servicing related income	**20**	16	4	25.0
Originations and sales related income:				
Gains on sales of residential mortgages	**—**	8	(8)	(100.0)
Recovery (provision) for repurchase obligations	**—**	(23)	23	100.0
Trading and hedging activity	**—**	4	(4)	(100.0)
Total originations and sales related income	**—**	(11)	11	100.0
Other mortgage income	**2**	4	(2)	(50.0)
Total residential mortgage banking revenue included in other revenues	**22**	9	13	*
Total residential mortgage banking related revenue	**$ 68**	$ 53	$ 15	28.3 %

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 91**	$ 95	$ (4)	(4.2)%
Servicing related income:				
Servicing fee income	**35**	42	(7)	(16.7)
Changes in fair value of MSRs due to:				
Changes in valuation model inputs or assumptions	**(24)**	68	(92)	*
Customer payments	**(17)**	(23)	6	26.1
Trading – Derivative instruments used to offset changes in value of MSRs	**37**	(41)	78	*
Total servicing related income	**31**	46	(15)	(32.6)
Originations and sales related income:				
Gains on sales of residential mortgages	**—**	32	(32)	(100.0)
Recovery (provision) for repurchase obligations	**34**	(36)	70	*
Trading and hedging activity	**—**	4	(4)	(100.0)
Total originations and sales related income	**34**	—	34	*
Other mortgage income	**5**	9	(4)	(44.4)
Total residential mortgage banking revenue included in other revenues	**70**	55	15	27.3
Total residential mortgage banking related revenue	**$ 161**	$ 150	$ 11	7.3 %

* Not meaningful.

Net interest income was relatively flat in the three and six months ended June 30, 2014 reflecting lower amortization of deferred origination costs as a result of lower portfolio prepayments due to higher mortgage rates during the second quarter of 2014 compared with the prior year period. Lower amortization offset the lower net interest income resulting from lower spreads on newly originated loans. Consistent with our strategy, additions to our residential mortgage portfolio are primarily mortgages to our Premier and Advance customers, while sales of newly originated conforming loans are sold to PHH Mortgage as discussed further below.

Total servicing related income increased during the three months ended June 30, 2014 due to improved net hedged MSR performance, partially offset by lower servicing fees while in the year-to-date period, total servicing related income declined as servicing fees remained lower and net hedged MSR performance declined. Servicing fees declined in both periods due to a lower average serviced loan portfolio. As a result of our strategic relationship with PHH Mortgage, beginning with May 2013 applications, we no longer add new volume to our serviced portfolio as all agency eligible loans are now sold on a servicing released basis. Changes in net hedged MSR performance is driven by changes in the MSR valuations due to updated market based assumptions such as interest rates, expected prepayments, primary-secondary spreads and cost of servicing which differ from period to period along with changes in the value of the underlying instruments used to hedge changes in the fair value of the MSRs. Consequently, primarily as a result of declining mortgage rates, our MSR fair value decreased during the three and six months ended June 30, 2014, which was offset by gains on instruments used to hedge changes in the fair value of the MSR.

Originations and sales related income improved in the three and six months ended June 30, 2014 largely due to lower loss provisions for loan repurchase obligations associated with loans previously sold partially offset by lower gains on sales of residential mortgage loans. During the three months ended June 30, 2014, we recorded no provision compared with a provision of $23 million in the year ago period. During the six months ended June 30, 2014, we recorded a recovery of $34 million compared with a provision of $36 million in the year ago period. Both periods reflects reduction in our estimated exposure associated with repurchase obligations on loans previously sold. During the first quarter of 2014, we entered into a settlement with the Federal Home Loan Mortgage Corporation ("FHLMC") for $25 million which settled our liability for substantially all loans sold to FHLMC from January 1, 2000 through 2013. The settlement and a re-assessment of the residual exposure resulted in a release of reserves. A similar settlement was entered into with the Federal National Mortgage Association ("FNMA") in the fourth quarter of 2013. We continue to maintain repurchase reserves for FNMA and FHLMC exposure associated with residual risks not covered under these settlement agreements. The lower gains on sales of residential mortgage loans reflects the impact of our agreement with PHH Mortgage as well as lower levels of saleable loan volume due in part to higher interest rates compared with the prior year periods.

Gain (loss) on instruments designated at fair value and related derivatives We have elected to apply fair value option accounting to commercial syndicated loans held for sale, certain own fixed-rate debt issuances and all of our hybrid instruments issued, inclusive of structured notes and structured deposits. We also use derivatives to economically hedge the interest rate risk associated with certain financial instruments for which fair value option has been elected. See Note 10, "Fair Value Option," in the accompanying consolidated financial statements for additional information including a breakout of these amounts by individual component.

Valuation of loans held for sale Valuation gains on loans held for sale decreased in the three and six months ended June 30, 2014 due primarily to valuation write-downs on certain commercial loans held for sale, recorded in the second quarter of 2014, as well as lower valuation gains on residential mortgage loans held for sale due mostly to lower average balances in the current year periods. Partially offsetting these decreases were higher valuation gains on certain student loans held for sale attributable to improved economic and regulatory conditions as well as increased investor demand. Residential mortgage loans held for sale, which were purchased from third parties and HSBC affiliates with the intent of securitization or sale, includes subprime residential mortgage loans with a fair value of $23 million and $54 million as of June 30, 2014 and 2013, respectively. Loans held for sale are recorded at the lower of their aggregate cost or fair value, with adjustments to fair value being recorded as a valuation allowance. Valuations on residential mortgage loans held for sale that we originate are recorded as a component of residential mortgage banking revenue in the consolidated statement of income.

Other income Other income, excluding the valuation of loans held for sale as discussed above, decreased during the three and six months ended June 30, 2014 driven primarily by lower income associated with fair value hedge ineffectiveness related to securities available-for-sale as well as lower income associated with credit default swap protection on certain commercial loans. Partially offsetting these decreases was higher income associated with bank owned life insurance.

Operating Expenses Compliance costs, which remained a significant component of our cost base, totaled $71 million and $145 million in the three and six months ended June 30, 2014, respectively, compared with $73 million and $149 million in the prior year periods. While we continue to focus attention on cost mitigation efforts in order to continue realization of optimal cost efficiencies, compliance related costs remain elevated due to the remediation required by regulatory consent agreements.

The following table summarizes the components of operating expenses:

			Increase (Decrease)	
Three Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Salary and employee benefits	**$ 223**	$ 247	$ (24)	(9.7)%
Occupancy expense, net	**$ 52**	$ 57	(5)	(8.8)
Support services from HSBC affiliates:				
Fees paid to HSBC Finance	**3**	5	(2)	(40.0)
Fees paid to HSBC Markets (USA) Inc. ("HMUS")	**51**	54	(3)	(5.6)
Fees paid to HSBC Technology and Services (USA) ("HTSU")	**271**	242	29	12.0
Fees paid to other HSBC affiliates	**60**	61	(1)	(1.6)
Total support services from HSBC affiliates	**385**	362	23	6.4
Other expenses:				
Equipment and software	**13**	13	—	—
Marketing	**21**	8	13	*
Outside services	**13**	39	(26)	(66.7)
Professional fees	**29**	29	—	—
Postage, printing and office supplies	**—**	2	(2)	(100.0)
Off-balance sheet credit reserves	**3**	(22)	25	*
FDIC assessment fee	**26**	20	6	30.0
Miscellaneous	**111**	11	100	*
Total other expenses	**216**	100	116	*
Total operating expenses	**$ 876**	$ 766	$ 110	14.4 %
Personnel - average number	**6,197**	6,589		
Efficiency ratio	**93.8%**	70.7%		

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salary and employee benefits	**$ 438**	$ 499	$ (61)	(12.2)%
Occupancy expense, net	**109**	116	(7)	(6.0)
Support services from HSBC affiliates:				
Fees paid to HSBC Finance	**6**	9	(3)	(33.3)
Fees paid to HMUS	**104**	106	(2)	(1.9)
Fees paid to HTSU	**524**	475	49	10.3
Fees paid to other HSBC affiliates	**105**	96	9	9.4
Total support services from HSBC affiliates	**739**	686	53	7.7
Other expenses:				
Equipment and software	**27**	28	(1)	(3.6)
Marketing	**30**	18	12	66.7
Outside services	**26**	65	(39)	(60.0)
Professional fees	**51**	54	(3)	(5.6)
Postage, printing and office supplies	**2**	4	(2)	(50.0)
Off-balance sheet credit reserves	**9**	(16)	25	*
FDIC assessment fee	**57**	42	15	35.7
Miscellaneous	**138**	38	100	*
Total other expenses	**340**	233	107	45.9
Total operating expenses	**$ 1,626**	$ 1,534	$ 92	6.0 %
Personnel - average number	**6,184**	6,707		
Efficiency ratio	**83.3%**	70.3%		

* Not meaningful.

Salaries and employee benefits Total salaries and employee benefits expense decreased during the three and six months ended June 30, 2014 primarily due to lower average personnel in addition to lower incentive compensation expense, partially offset in the three month period by increased staffing associated with capital planning and reporting activities.

Occupancy expense, net Occupancy expense decreased in the three and six months ended June 30, 2014 due largely to lower rental expense, including the consolidation of office space in Buffalo, NY which was completed in the fourth quarter of 2013.

Support services from HSBC affiliates Support services from HSBC affiliates increased in the three and six months ended June 30, 2014 due, in part, to changing the billing process for certain third-party loan servicing costs from a direct expense in the prior year to support services from HTSU in 2014. Also contributing to higher support services from HSBC affiliates were higher cost allocations from various corporate functions as well as increased costs associated with our investment in process enhancements and infrastructure to improve and modernize our legacy business systems. Compliance costs reflected in support services from affiliates totaled $68 million and $139 million during the three and six months ended June 30, 2014, respectively, compared with $70 million and $143 million in the year-ago periods. A summary of the activities charged to us from various HSBC affiliates is included in Note 13, "Related Party Transactions," in the accompanying consolidated financial statements.

Marketing Marketing expenses increased in the three and six months ended June 30, 2014 driven largely by marketing campaigns to support the re-launch of HSBC Premier in the second quarter of 2014.

Other expenses Other expenses increased in the three and six months ended June 30, 2014 due primarily to higher miscellaneous expense related to certain litigation matters as well as higher FDIC assessment fees, higher loss estimates associated with off-balance sheet credit exposures as the prior year periods reflect a reserve release due to an upgrade of an individual monoline and, in the year-to-date period, higher expense related to an increase in our expectation of compensatory fees payable to GSEs due, in part, to the exclusion of these exposures from the FHLMC settlement discussed above. Partially offsetting these increases was a decline in outside services expense due to moving the billing of certain third-party loan servicing costs from a direct expense in the prior year to support services from HTSU in 2014.

Efficiency ratio Our efficiency ratio was 93.8 percent and 83.3 percent during the three and six months ended June 30, 2014, respectively, compared with 70.7 percent and 70.3 percent during the year-ago periods. Our efficiency ratio was impacted in both periods by the change in the fair value of our own debt attributable to credit spread for which we have elected fair value option accounting. Excluding the impact of this item, our efficiency ratio for the three and six months ended June 30, 2014, respectively, increased to 89.4 percent and 82.1 percent compared with 74.3 percent and 70.7 percent in the year-ago periods due to a decrease in other revenues driven by lower trading revenue as well as lower gains on security sales and higher operating expenses driven by higher litigation expenses, partially offset by an increase in net interest income. In addition, operating expenses continue to reflect elevated levels of compliance costs.

Income taxes The following table provides an analysis of the difference between effective rates based on the total income tax provision attributable to pretax income and the statutory U.S. Federal income tax rate:

Three Months Ended June 30,	2014		2013	
	(dollars are in millions)			
Tax expense (benefit) at the U.S. federal statutory income tax rate	**$ (9)**	**(35.0)%**	$ 88	35.0%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	**3**	**11.1**	13	5.2
Adjustment of tax rate used to value deferred taxes	**(1)**	**(3.7)**	—	—
Other non-deductible / non-taxable items[2]	**(3)**	**(11.1)**	(12)	(4.8)
Items affecting prior periods[3]	**(7)**	**(25.9)**	(12)	(4.8)
Uncertain tax positions[4]	**(178)**	**(657.7)**	4	1.6
Impact of foreign operations[5]	**(2)**	**(7.4)**	1	0.4
Low income housing tax credit investments[6]	**(7)**	**(25.9)**	(8)	(3.2)
Change in valuation allowance reserves[7]	**(1)**	**(3.7)**	—	—
Other	**(1)**	**(3.7)**	(3)	(1.1)
Total income tax expense (benefit)	**$ (206)**	**(763.0)%**	$ 71	28.3%

Six Months Ended June 30,	2014		2013	
	(dollars are in millions)			
Tax expense at the U.S. federal statutory income tax rate	**$ 79**	**35.0 %**	$ 196	35.0%
Increase (decrease) in rate resulting from:				
State and local taxes, net of federal benefit	**13**	**5.8**	30	5.4
Adjustment of tax rate used to value deferred taxes[1]	**60**	**26.5**	—	—
Other non-deductible / non-taxable items[2]	**(4)**	**(1.8)**	(9)	(1.6)
Items affecting prior periods[3]	**(24)**	**(10.6)**	(22)	(3.9)
Uncertain tax positions[4]	**(181)**	**(80.1)**	18	3.2
Impact of foreign operations[5]	**1**	**.4**	4	0.8
Low income housing tax credits investments[6]	**(14)**	**(6.2)**	(15)	(2.7)
Change in valuation allowance reserves[7]	**13**	**5.8**	—	—
Other	**—**	**—**	(6)	(1.1)
Total income tax expense (benefit)	**$ (57)**	**(25.2)%**	$ 196	35.1%

(1) For 2014, the amount relates to the effects of revaluing our deferred tax assets for New York State Tax Reform that was enacted on March 31, 2014.

(2) For 2014 and 2013, the amounts mainly relate to tax exempt interest income.

(3) For 2014, the amount relates to changes in estimates in the amount of state income taxes deductible on the federal income tax return. For 2013, the amount relates to corrections to current and deferred tax balance sheet accounts and changes in estimates as a result of filing the federal and state income tax returns.

(4) For 2014, the amount mainly reflects the resolution and settlement with taxation authorities of certain significant state and local tax audits during the second quarter of 2014 which is discussed further below. For 2013, the amount relates to changes in state uncertain tax positions which no longer meet the more likely than not requirement for recognition.

(5) For 2013, the amounts relate to foreign (United Kingdom) tax expense for which no foreign tax credits are allowed.

(6) For 2014 and 2013, reflects early adoption of ASU 2014-01 which permits an investor to amortize its Low Income Housing Tax Credit investments in proportion to the Low Income Housing tax benefits and present such benefits net of investment amortization in the tax line.

(7) For 2014, the amount relates to the establishment of a valuation allowance against our deferred tax assets due to New York State Tax Reform that was enacted on March 31, 2014.

During the second quarter of 2014, we concluded certain state and local tax audits resulting in the settlement of significant uncertain tax positions covering a number of years. As a result, we released tax reserves previously maintained in relation to the periods and issues under review which resulted in an income tax benefit of $183 million during the quarter. The total amount of our unrecognized tax benefits related to uncertain tax positions was $27 million at June 30, 2014 compared with $540 million at December 31, 2013. In addition, we released our accrued interest associated with the tax reserves released which resulted in a $120 million benefit to interest expense during the quarter. At June 30, 2014 our accrued liability for the payment of interest associated with uncertain tax positions was $3 million compared with $208 million at December 31, 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits related to uncertain tax positions is as follows:

	(in millions)
Balance at January 1, 2014	**$ 540**
Additions based on tax positions related to the current year	**16**
Reductions based on tax positions related to the current year	**(10)**
Additions for tax positions of prior years	**5**
Reductions for tax positions of prior years	**(322)**
Reductions related to settlements with taxing authorities	**(202)**
Balance at June 30, 2014	**$ 27**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate was $22 million and $334 million at June 30, 2014 and December 31, 2013, respectively. Included in the unrecognized tax benefits are some items the recognition of which would not affect the effective tax rate, such as the tax effect of temporary differences and the amount of state taxes that would be deductible for U.S. federal purposes.

On March 31, 2014, New York Governor Cuomo signed legislation overhauling New York's corporate tax regime as well as other significant tax changes. Most of these changes take effect for tax years beginning on or after January 1, 2015 and will have a significant and positive future economic impact on HSBC entities with activity taxed in New York State, including us. The changes resulted in a decrease to our net deferred tax asset of approximately $75 million in the first quarter of 2014.

Segment Results – IFRSs Basis

We have four distinct business segments that are utilized for management reporting and analysis purposes which are aligned with HSBC's global businesses and business strategy. The segments, which are generally based upon customer groupings and global businesses, are described under Item 1, "Business," in our 2013 Form 10-K. There have been no changes in the basis of our segmentation or measurement of segment profit as compared with the presentation in our 2013 Form 10-K.

We report financial information to our parent, HSBC, in accordance with IFRSs. As a result, our segment results are presented on an IFRSs basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRSs basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis. The significant differences between U.S. GAAP and IFRSs as they impact our results are summarized in Note 23, "Business Segments," in our 2013 Form 10-K.

Retail Banking and Wealth Management ("RBWM") Our RBWM segment provides a full range of banking and wealth products and services through our branches and direct channels to individuals. These services include asset-driven services such as credit and lending, liability-driven services such as deposit taking and account services and fee-driven services such as advisory and wealth management. During the first half of 2014, we continued to direct resources towards the development and delivery of premium service, client needs based wealth and banking services with particular focus on HSBC Premier, HSBC's global banking service that was re-launched in 2014 and offers customers a seamless international service, as well as HSBC Advance, a proposition directed towards the emerging affluent client in the initial stages of wealth accumulation.

Consistent with our strategy, additions to our residential mortgage portfolio are primarily to our Premier and Advance customers, while sales of loans historically consisted primarily of conforming loans sold to GSEs and beginning in May 2013, PHH Mortgage. In addition to normal sales activity, at times we have historically sold prime adjustable and fixed rate mortgage loan portfolios to third parties and retained the servicing rights in relation to the mortgages upon sale. Upon conversion of our mortgage processing and servicing operations to PHH Mortgage, we now sell our agency eligible originations beginning with May 2013 applications directly to PHH Mortgage on a servicing released basis which has resulted in no new mortgage servicing rights being recognized going forward.

The following table summarizes the IFRSs results for our RBWM segment:

			Increase (Decrease)	
Three Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ 212**	$ 206	$ 6	2.9 %
Other operating income	**104**	82	22	26.8
Total operating income	**316**	288	28	9.7
Loan impairment charges	**21**	21	—	—
Net operating income	**295**	267	28	10.5
Operating expenses	**298**	300	(2)	(.7)
Loss before tax	**$ (3)**	$ (33)	$ 30	90.9 %

			Increase (Decrease)	
Six Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ 410**	$ 421	$ (11)	(2.6)%
Other operating income	**217**	189	28	14.8
Total operating income	**627**	610	17	2.8
Loan impairment charges	**23**	53	(30)	(56.6)
Net operating income	**604**	557	47	8.4
Operating expenses	**577**	591	(14)	(2.4)
Profit (loss) before tax	**$ 27**	$ (34)	$ 61	*

* Not meaningful.

Our RBWM segment reported improved results during the three and six months ended June 30, 2014. Profit (loss) before tax improved $30 million during the three months ended June 30, 2014, driven by higher interest income and higher other operating income. Profit before tax improved $61 million during the six months ended June 30, 2014, driven by higher other operating income, lower loan impairment charges and lower operating expenses, partially offset by lower net interest income.

Net interest income reflects an $11 million release of accrued interest related to uncertain tax positions which were settled with the taxing authorities in the second quarter of 2014. Excluding this item, net interest income was lower during the three and six months ended June 30, 2014 due to lower deposit levels partially offset by margin improvements due to active repricing of the deposit base especially in the non-premier segments which reduced our funding costs. Residential mortgage average balances were slightly lower resulting from higher portfolio prepayments in the prior year. Also impacting net interest income in the current year are lower spreads on newly originated loans which reflects competitive pressures and the lower risk profile of our Premier customers.

Other operating income increased in the three and six months ended June 30, 2014 driven by lower provisions for mortgage loan repurchase obligations associated with previously sold loans due to a release of reserves in the first quarter of 2014 due primarily to a settlement with FHLMC which settled our liability for substantially all loans sold to FHLMC compared with increases to the repurchase liability in the prior year periods. This was partially offset by lower gains on sales of mortgage loans and, in the year-to-date period, lower net hedged mortgage servicing rights results.

In the second quarter of 2013, we recorded an incremental loan impairment charge of $15 million to reflect an update to the period of time after a loss event a real estate loan remains current before delinquency is observed. Excluding this item, loan impairment charges were higher during the three months ended June 30, 2014 driven primarily by increased loss estimates associated with the remediation of certain mortgage servicing activities and higher losses associated with advances made on behalf of borrowers. In the year-to-date period, the increased charges during the quarter were more than offset by continued improvements in economic and credit conditions including lower delinquency levels on accounts less than 180 days contractually delinquent, improvements in delinquency roll rates and lower charge-offs, including improvements in market value adjustments on loan collateral due to improvements in home prices.

Operating expenses were lower in the three and six months ended June 30, 2014 primarily due to decreases in expenses driven by several cost reduction initiatives relating to our retail branch network, primarily optimizing staffing and administrative areas. Partially offsetting these improvements were higher risk and compliance costs, and, in the year-to-date period, an increase in our estimate of compensatory fees payable to GSEs due, in part, to the exclusion of these exposures from the FHLMC settlement discussed above.

Commercial Banking ("CMB") CMB's goal is to be the leading international trade and business bank in the U.S. CMB strives to execute this vision and strategy by focusing on key markets with high concentration of internationally minded customers. Our CMB segment serves the markets through three client groups, notably Corporate Banking, Business Banking and Commercial Real Estate which allows us to align our resources in order to efficiently deliver suitable products and services based on our client's needs. Whether it is through commercial centers, the retail branch network, or via HSBC*net,* CMB provides customers with products and services needed to grow their businesses internationally and delivers those products and services through its relationship managers who operate within a robust, customer focused compliance and risk culture and collaborate across HSBC to capture a larger percentage of a relationship. An increase in the number of relationship managers and product partners is enabling us to gain a larger presence in key growth markets, including the West Coast, Southeast and Midwest. This strategy has also led to a reduction in certain Business Banking customers who do not have significant international needs.

New loan originations have resulted in a 31 percent increase in quarter-to-date average loans outstanding to Corporate Banking customers since the second quarter of 2013. The Commercial Real Estate group is focusing on selective business opportunities in markets where we have strong portfolio expertise, which reflects in a 16 percent increase in quarter-to-date average outstanding loans for this portfolio since the second quarter of 2013. Total quarter-to-date average loans increased 22 percent across all CMB business lines as compared with the second quarter of 2013.

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

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ **202**	$ 172	$ 30	17.4 %
Other operating income	**64**	77	(13)	(16.9)
Total operating income	**266**	249	17	6.8
Loan impairment charges	**83**	1	82	*
Net operating income	**183**	248	(65)	(26.2)
Operating expenses	**174**	171	3	1.8
Profit before tax	$ **9**	$ 77	$ (68)	(88.3)%

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	$ **389**	$ 342	$ 47	13.7 %
Other operating income	**132**	142	(10)	(7.0)
Total operating income	**521**	484	37	7.6
Loan impairment charges	**90**	15	75	*
Net operating income	**431**	469	(38)	(8.1)
Operating expenses	**332**	333	(1)	(.3)
Profit before tax	$ **99**	$ 136	$ (37)	(27.2)%

* Not meaningful.

Our CMB segment reported a lower profit before tax during the three and six months ended June 30, 2014, driven by lower other operating income and higher loan impairment charges, partially offset by higher net interest income.

Net interest income increased in the three and six months ended June 30, 2014 due to the favorable impact of higher loan balances, primarily in key growth markets, as well as a release of accrued interest related to uncertain tax positions which were settled with the taxing authorities during the second quarter. These increases were partially offset by lower yields on newly originated loans and, to a lesser extent, loan repricing.

Other operating income was lower during the three and six months ended June 30, 2014 due to the non-recurrence of asset sales in commercial real estate in the prior year period and lower trade revenues from managing risk with trading counterparties. Partially offsetting were higher fees generated from an increase in credit commitments and higher Global Banking and Markets ("GB&M") collaboration income due to an increase in debt and leverage acquisition financing activity.

Loan impairment charges were higher during the three and six months ended June 30, 2014 largely due to a revision to certain estimates used in our commercial loan impairment calculation which resulted in a loan impairment charge of approximately $72 million during the second quarter of 2014, as well as higher charges due to loan growth and, in the three month period, increased levels of reserves for risk factors associated with emerging markets loan exposures.

Operating expenses increased during the three months ended June 30, 2014, driven by higher expense associated with variable compensation accruals and higher corporate function cost allocations, while operating expenses were flat in the year-to-date period.

Global Banking and Markets Our GB&M business segment supports HSBC's emerging markets-led and financing-focused global strategy by leveraging the HSBC Group's advantages and scale, strength in developed and emerging markets and product expertise in order to focus on delivering international products to U.S. clients and local products to international clients, with New York as the hub for the Americas business, including Canada and Latin America. GB&M provides tailored financial solutions to major government, corporate and institutional clients as well as private investors worldwide. GB&M clients are served by sector-focused teams that bring together relationship managers and product specialists to develop financial solutions that meet individual client needs. With a focus on providing client connectivity between the emerging markets and developed markets, GB&M aims to develop a comprehensive understanding of each client's financial requirements with a long-term relationship management approach. In addition to GB&M clients, GB&M works with RBWM, CMB and Private Banking ("PB") to meet their domestic and international banking needs.

Within client-focused business lines, GB&M offers a full range of capabilities, including:

- Banking and financing solutions for corporate and institutional clients, including loans, working capital, trade services, payments and cash management, and leveraged and acquisition finance; and
- A markets business with 24-hour coverage and knowledge of world-wide local markets which provides services in credit and rates, foreign exchange, precious metals trading, equities and securities services.

Also included in our GB&M segment is Balance Sheet Management, which is responsible for managing liquidity and funding under the supervision of our Asset and Liability Management Committee. Balance Sheet Management also manages our structural interest rate position within a limit structure.

We continue to target U.S. companies with international banking requirements and foreign companies with banking needs in the Americas. Consistent with our global strategy, we are also focused on identifying opportunities to cross-sell our products to CMB and RBWM customers. Furthermore, we have seen higher corporate loan balances compared with the prior year. During the six months ended June 30, 2014 U.S. financial market conditions reflected continued low interest rates and generally less volatile credit spreads and foreign exchange prices, however average precious metals prices fell compared with the prior year periods.

The following table summarizes IFRSs results for the GB&M segment:

			Increase (Decrease)	
Three Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ 109**	$ 125	$ (16)	(12.8)%
Other operating income	**151**	295	(144)	(48.8)
Total operating income[1]	**260**	420	(160)	(38.1)
Loan impairment charges	**40**	6	34	*
Net operating income	**220**	414	(194)	(46.9)
Operating expenses	**239**	250	(11)	(4.4)
Profit (loss) before tax	**$ (19)**	$ 164	$ (183)	*

			Increase (Decrease)	
Six Months Ended June 30,	**2014**	**2013**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$ 206**	$ 234	$ (28)	(12.0)%
Other operating income	**445**	677	(232)	(34.3)
Total operating income[1]	**651**	911	(260)	(28.5)
Loan impairment charges	**55**	9	46	*
Net operating income	**596**	902	(306)	(33.9)
Operating expenses	**478**	480	(2)	(.4)
Profit before tax	**$ 118**	$ 422	$ (304)	(72.0)%

* Not meaningful.

(1) The following table summarizes the impact of key activities on the total operating income of the GB&M segment:

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(in millions)			
Credit[2]	**$ (10)**	$ 34	$ (44)	*
Rates	**34**	34	—	—
Foreign Exchange and Metals	**66**	98	(32)	(32.7)
Equities	**(11)**	20	(31)	*
Total Global Markets	**79**	186	(107)	(57.5)
Capital Financing	**55**	61	(6)	(9.8)
Payments and Cash Management	**87**	84	3	3.6
Securities Services	**3**	3	—	—
Global Trade and Receivables Finance	**12**	9	3	33.3
Balance Sheet Management[3]	**33**	83	(50)	(60.2)
Debit Valuation Adjustment	**(13)**	(14)	1	7.1
Other[4]	**4**	8	(4)	(50.0)
Total operating income	**$ 260**	$ 420	$ (160)	(38.1)%

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
		(dollars are in millions)		
Credit[2]	**$ 26**	$ 59	$ (33)	(55.9)%
Rates	**92**	83	9	10.8
Foreign Exchange and Metals	**143**	191	(48)	(25.1)
Equities	**(10)**	15	(25)	*
Total Global Markets	**251**	348	(97)	(27.9)
Capital Financing	**117**	114	3	2.6
Payments and Cash Management	**172**	162	10	6.2
Securities Services	**6**	7	(1)	(14.3)
Global Trade and Receivables Finance	**23**	22	1	4.5
Balance Sheet Management[3]	**97**	245	(148)	(60.4)
Debit Valuation Adjustment	**(13)**	7	(20)	*
Other[4]	**(2)**	6	(8)	*
Total operating income	**$ 651**	$ 911	$ (260)	(28.5)%

* Not meaningful.

(2) Credit includes losses of $9 million and gains of $26 million in the three and six months ended June 30, 2014, respectively, compared with gains of $35 million and $66 million in the three and six months ended June 30, 2013, respectively, of operating income related to structured credit products and mortgage loans held for sale which we no longer offer.

(3) Includes losses on the sale of securities of $7 million and gains of $16 million in the three and six months ended June 30, 2014, respectively, compared with gains on the sale of securities of $23 million and $154 million in the three and six months ended June 30, 2013, respectively.

(4) Other includes corporate funding charges and earnings on capital.

Our GB&M segment reported a lower profit before tax during the three and six months ended June 30, 2014, driven primarily by lower trading revenue and lower gains on security sales within other operating income, as well as, lower net interest income and higher loan impairment charges, partially offset by lower operating expenses.

Credit revenue decreased during the three and six months ended June 30, 2014 from the performance of legacy credit products. Changes in the fair value of legacy structured credit products resulted in losses of $6 million and gains of $24 million during the three and six months ended June 30, 2014, respectively, compared with gains of $28 million and $55 million during the three and six months ended June 30, 2013, respectively. Included in the changes in fair value from structured credit products were decreases in fair value of $4 million and increases in fair value of $12 million during the three and six months ended June 30, 2014, respectively, related to exposures to monoline insurance companies, compared with increases of $21 million and $41 million during the three and six months ended June 30, 2013, respectively. Credit revenue also included valuation losses of $2 million and less than $1 million during the three and six months ended June 30, 2014, respectively, related to the fair value of sub-prime residential mortgage loans held for sale compared with valuation gains of $6 million and $8 million during the three and six months ended June 30, 2013, respectively. Revenue from Rates increased during the year-to-date period due primarily to higher deal activity in emerging markets related derivatives. Foreign Exchange and Metals revenue declined during the three and six months ended June 30, 2014 from a decline in metals related client trading and lower fees. The decrease in Equities during the three and six months ended June 30, 2014 was driven by the impact of fair value adjustments on certain equity linked structured note liabilities, which were related to movements in our own credit spreads.

Capital Financing revenues benefited from increased corporate and asset backed lending during the three and six months ended June 30, 2014. These increased revenues were more than offset by increased hedging costs during the three month period. Payments and Cash Management revenue increased due to higher average deposit balances and higher income from transaction related services.

Balance Sheet Management reflected lower gains from the sales of securities during the three and six months ended June 30, 2014, partially offset by higher net interest income resulting from higher average investment balances.

Debit valuation adjustments on derivative liabilities decreased during the six months ended June 30, 2014, which reflected a tightening of our spreads relative to 2013.

Loan impairment charges were higher during the three and six months ended June 30, 2014 due to a revision to certain estimates used in our commercial loan impairment calculation which resulted in a loan impairment charge of approximately $20 million during the second quarter of 2014, as well as higher expected loss on a single name exposure and, to a lesser extent, the revaluation of a loan held for sale.

Operating expenses decreased during the three and six months ended June 30, 2014 due primarily due to lower performance based compensation accruals which is correlated to the reduction in operating income.

Private Banking PB provides wealth management, business and family succession solutions to high net worth individuals and families with local and international needs. Accessing the most suitable products from the marketplace, PB works with its clients to offer tailored, coordinated and innovative ways to manage and preserve wealth while optimizing returns. PB, as a global business, offers a wide range of products and services, including banking, liquidity management, investment services, custody, tailored lending, trust and fiduciary services, family wealth and philanthropy advisory services. PB also works to ensure that its clients have access to other products and services available throughout the HSBC Group, such as credit cards and investment banking, to deliver total solutions for their financial and banking needs.

PB strategy is concentrated on three main areas: growth, streamlining and global standard. Areas of focus are banking and cash management, investment advice including discretionary portfolio management, investment and structured products, residential mortgages, as well as wealth planning and trusts services.

Client deposit levels decreased $300 million or 3 percent compared with June 30, 2013 mainly from international market customers. Total loans increased $250 million or 4 percent compared with the prior year from commercial and industrial, and residential mortgage portfolios. Overall period end client assets were lower than June 30, 2013 by $600 million and $440 million lower than December 31, 2013 primarily due to reductions in highly active institutional custody customer balances and deposits, partially offset by higher PB wealth management and investment products.

The following table provides additional information regarding client assets during the six months ended June 30, 2014 and 2013:

	2014	2013
	(in millions)	
Client assets at beginning of the period	**$ 44,661**	$ 46,461
Net new money	**(1,454)**	(1,672)
Value change	**1,008**	16
Client assets at end of period	**$ 44,215**	$ 44,805

The following table summarizes IFRSs results for the PB segment.

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 56**	$ 49	$ 7	14.3%
Other operating income	**25**	30	(5)	(16.7)
Total operating income	**81**	79	2	2.5
Loan impairment charges (recoveries)	**—**	—	—	—
Net operating income	**81**	79	2	2.5
Operating expenses	**61**	67	(6)	(9.0)
Profit before tax	**$ 20**	$ 12	$ 8	66.7%

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income	**$ 105**	$ 94	$ 11	11.7%
Other operating income	**50**	58	(8)	(13.8)
Total operating income	**155**	152	3	2.0
Loan impairment charges (recoveries)	**(5)**	1	(6)	*
Net operating income	**160**	151	9	6.0
Operating expenses	**116**	127	(11)	(8.7)
Profit before tax	**$ 44**	$ 24	$ 20	83.3%

* Not meaningful.

Our PB segment reported higher profit before tax during the three and six months ended June 30, 2014 driven by higher net interest income, lower loan impairment charges and lower operating expenses, partially offset by lower other operating income.

Net interest income was higher in the three and six months ended June 30, 2014 due to improved volumes in lending and liquidity premiums on deposits, partially offset by lower net interest from reduced demand deposit and time deposit balances.

Other operating income was lower during the three and six months ended June 30, 2014 mainly due to reductions in other income from affiliates and custody product fees.

Loan impairment charges were flat during the three months ended June 30, 2014 and decreased during the year-to-date period due to releases of reserves due to loan pay downs and, in the year-to-date period, a recovery related to the payoff of a troubled debt restructuring loan.

Operating expenses decreased during the three and six months ended June 30, 2014 primarily due to lower incentive compensation expense as well as reduced indirect and intercompany costs.

Other The other segment primarily includes adjustments made at the corporate level for fair value option accounting related to credit risk on certain debt issued, income and expense associated with certain affiliate transactions, adjustments to the fair value on HSBC shares held for stock plans, interest expense associated with certain tax exposures and, prior to 2014, the economic benefits from investing in low income housing tax credit investments.

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

Three Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income (expense)	**$ 78**	$ (14)	$ 92	*
Gain (loss) on own fair value option debt attributable to credit spread	**(46)**	53	(99)	*
Other operating income	**8**	15	(7)	(46.7)
Total operating income	**40**	54	(14)	(25.9)
Loan impairment charges	**—**	—	—	—
Net operating income	**40**	54	(14)	(25.9)
Operating expenses	**28**	22	6	27.3
Profit before tax	**$ 12**	$ 32	$ (20)	(62.5)%

Six Months Ended June 30,	2014	2013	Increase (Decrease) Amount	%
	(dollars are in millions)			
Net interest income (expense)	**$ 65**	$ (28)	$ 93	*
Gain (loss) on own fair value option debt attributable to credit spread	**(27)**	11	(38)	*
Other operating income	**14**	40	(26)	(65.0)
Total operating income	**52**	23	29	*
Loan impairment charges	**—**	—	—	—
Net operating income	**52**	23	29	*
Operating expenses	**53**	43	10	23.3
Loss before tax	**$ (1)**	$ (20)	$ 19	95.0 %

* Not meaningful.

Net interest income reflects an $87 million release of accrued interest related to uncertain tax positions which were settled with the taxing authorities in the second quarter of 2014. Excluding this item, profit (loss) before tax decreased during the three and six months ended June 30, 2014 primarily due to losses associated with changes in the fair value of our own debt for which fair value option was elected and related derivatives and increased operating expenses which reflects a favorable fringe rate adjustment in the prior year. The current year periods also reflect lower net revenues from low income housing tax credit investments as, due to the significant involvement required by the business to manage the investments, a fee arrangement is in place in 2014 to share the net revenue of the investments with CMB and GB&M.

Reconciliation of Segment Results As previously discussed, segment results are reported on an IFRSs basis. For segment reporting purposes, intersegment transactions have not been eliminated, and we generally account for transactions between segments as if they were with third parties. Also see Note 14, "Business Segments," in the accompanying consolidated financial statements for a reconciliation of our IFRSs segment results to U.S. GAAP consolidated totals.

Credit Quality

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

Allowance for Credit Losses Commercial loans are monitored on a continuous basis with a formal assessment completed, at a minimum, annually. As part of this process, a credit grade and Loss Given Default are assigned and an allowance is established for these loans based on a probability of default estimate associated with each credit grade under the allowance for credit losses methodology. Credit Review, an independent second line of defense function, provides an ongoing assessment of lending activities that includes independently assessing credit grades and Loss Given Default estimates. When it is deemed probable based upon known facts and circumstances that full interest and principal on an individual loan will not be collected in accordance with its contractual terms, the loan is considered impaired. An impairment reserve is then established based on the present value of expected future cash flows, discounted at the loan's original effective interest rate, or as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Updated appraisals for collateral dependent loans are generally obtained only when such loans are considered troubled and the frequency of such updates are generally based on management judgment under the specific circumstances on a case-by-case basis. In addition, loss reserves on commercial loans are maintained to reflect our judgment of portfolio risk factors which may not be fully reflected in the reserve calculations.

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

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

For loans identified as troubled debt restructurings ("TDR Loans"), an allowance for credit losses is maintained based on the present value of expected future cash flows discounted at the loans' original effective interest rate or in the case of certain loans which are solely dependent on the collateral for repayment, the estimated fair value of the collateral less costs to sell. The circumstances in which we perform a loan modification involving a TDR loan at a then current market interest rate for a borrower with similar credit risk would include other changes to the terms of the original loan made as part of the restructure (e.g. principal reductions, collateral changes, etc.) in order for the loan to be classified as a TDR Loan.

For pools of homogeneous consumer receivables and certain small business loans which do not qualify as troubled debt restructures, probable losses are estimated using a roll rate migration analysis that estimates the likelihood that a loan will progress through the various stages of delinquency, or buckets, and ultimately charge-off based upon recent historical performance experience of other loans in our portfolio. This migration analysis incorporates estimates of the period of time between a loss occurring and the confirming event of its charge-off. This analysis considers delinquency status, loss experience and severity and takes into account whether loans are in bankruptcy or have been subject to account management actions, such as the re-age of accounts or modification arrangements. The allowance for credit losses on consumer receivables also takes into consideration the loss severity expected based on the underlying collateral, if any, for the loan in the event of default based on historical and recent trends which are updated monthly based on a rolling average of several months' data using the most recently available information and is typically in the range of 30-55 percent for first lien mortgage loans and 95-100 percent for second lien home equity loans. At June 30, 2014, approximately 1 percent of our second lien mortgages where the first lien mortgage is held or serviced by us and has a delinquency status of 90 days or more delinquent, were less than 90 days delinquent and not considered to be a troubled debt restructure or already recorded at fair value less costs to sell.

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

Our allowance for credit losses methodology and our accounting policies related to the allowance for credit losses are presented in further detail under the caption "Critical Accounting Policies and Estimates" and in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," in our 2013 Form 10-K. Our approach toward credit risk management is summarized under the caption "Risk Management" in our 2013 Form 10-K. There have been no significant revisions to our policies or methodologies during the first half of 2014.

The following table sets forth the allowance for credit losses for the periods indicated:

	June 30, 2014	March 31, 2014	December 31, 2013
	(dollars are in millions)		
Allowance for credit losses	**$ 624**	$ 574	$ 606
Ratio of Allowance for credit losses to:			
Loans:(1)			
Commercial	**.7%**	.6%	.6%
Consumer:			
Residential mortgages	**0.9**	1.0	1.2
Home equity mortgages	**2.2**	2.7	2.4
Credit card receivables	**5.7**	6.6	5.9
Other consumer loans	**2.3**	2.7	2.5
Total consumer loans	**1.3**	1.4	1.6
Total	**.9%**	.8%	.9%
Net charge-offs(1)(2):			
Commercial	**1,367.9%**	317.5%	513.3%
Consumer	**215.2**	274.2	301.0
Total	**445.7%**	295.9%	381.1%
Nonperforming loans(1):			
Commercial	**375.5%**	246.4%	118.5%
Consumer	**24.8**	26.3	28.3
Total	**58.2%**	50.6%	46.1%

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

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

See Note 5, "Allowance for Credit Losses," in the accompanying consolidated financial statements for a rollforward of credit losses by general loan categories for the three and six months ended June 30, 2014 and 2013.

The allowance for credit losses at June 30, 2014 increased $50 million or 9 percent as compared with March 31, 2014 and increased $18 million or 3 percent as compared with December 31, 2013, due to higher loss estimates in our commercial loan portfolio partially offset by lower loss estimates in our consumer loan portfolio.

Our commercial allowance for credit losses increased $75 million or 24 percent as compared with both March 31, 2014 and December 31, 2013 primarily due to a revision to certain estimates used in our commercial loan impairment calculation as discussed above. Excluding this item, our commercial allowance for credit losses remained higher due to increased levels of reserves for risk factors not fully reflected in the statistical reserve calculation, including emerging markets loan exposure, as well as higher allowances associated with loan growth. Partially offsetting these increases were continued improvements in economic and credit conditions which led to lower nonperforming loans and criticized asset levels and, in the year-to-date period, managed reductions in certain loan exposures and improvements in the circumstances of certain customer relationships.

Our consumer allowance for credit losses decreased $25 million or 9 percent as compared with March 31, 2014 and decreased $57 million or 19 percent as compared with December 31, 2013. The decreases in both periods were driven primarily by lower loss estimates in our residential mortgage loan portfolio due to an improvement in home prices and continued improvements in credit quality including lower delinquency levels and improvements in loan delinquency roll rates. These improvements were partially offset in the three month period by increased loss estimates associated with the remediation of certain mortgage servicing activities. Our residential mortgage loan allowance for credit losses in both periods reflects consideration of certain risk factors relating to trends such as recent portfolio performance as compared with average roll rates and economic uncertainty, including housing market trends and foreclosure timeframes. Also contributing to the decrease was a lower allowance for credit losses for our credit card portfolio due to improved economic conditions, including lower dollars of delinquency, improvements in delinquency roll rates and lower receivable levels. Reserve levels for all consumer loan categories however continue to be impacted by the slow pace of the economic recovery in the U.S. economy, including elevated unemployment rates and, as it relates to residential mortgage loans, a housing market which is in the early stages of recovery.

The allowance for credit losses as a percentage of total loans at June 30, 2014 increased as compared with March 31, 2014 and was flat as compared with December 31, 2013 for the reasons discussed above.

The allowance for credit losses as a percentage of net charge-offs increased as compared with March 31, 2014 largely due to lower dollars of commercial loan net charge-offs, while the overall allowance for credit losses increased. The allowance for credit losses as a percentage of net charge-offs increased as compared with December 31, 2013 driven by lower dollars of commercial loan net charge-offs which outpaced the increase in total allowance levels.

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

	June 30, 2014		March 31, 2014		December 31, 2013	
	Amount	**% of Loans to Total Loans[1]**	**Amount**	**% of Loans to Total Loans[1]**	**Amount**	**% of Loans to Total Loans[1]**
			(dollars are in millions)			
Commercial[2]	**$ 383**	**73.5%**	$ 308	72.4%	$ 308	71.6%
Consumer:						
Residential mortgages	**149**	**22.3**	156	23.1	186	23.4
Home equity mortgages	**42**	**2.7**	52	2.8	49	3.0
Credit card receivables	**39**	**.9**	45	1.0	50	1.3
Other consumer	**11**	**.6**	13	.7	13	.7
Total consumer	**241**	**26.5**	266	27.6	298	28.4
Total	**$ 624**	**100.0%**	$ 574	100.0%	$ 606	100.0%

(1) Excluding loans held for sale.

(2) See Note 5, "Allowance for Credit Losses," in the accompanying consolidated financial statements for components of the commercial allowance for credit losses.

While our allowance for credit loss is available to absorb losses in the entire portfolio, we specifically consider the credit quality and other risk factors for each of our products in establishing the allowance for credit loss.

Reserves for Off-Balance Sheet Credit Risk We also maintain a separate reserve for credit risk associated with certain commercial off-balance sheet exposures, including letters of credit, unused commitments to extend credit and financial guarantees. The following table summarizes this reserve, which is included in other liabilities on the consolidated balance sheet. The related provision is recorded as a component of other expense within operating expenses.

	June 30, 2014	March 31, 2014	December 31, 2013
Off-balance sheet credit risk reserve	**$ 68**	66	$ 60

The increase in off-balance sheet reserves at June 30, 2014 as compared with both March 31, 2014 and December 31, 2013 largely reflects new customer activity and higher estimated exposures on certain facilities. Off-balance sheet exposures are summarized under the caption "Off-Balance Sheet Arrangements, Credit Derivatives and Other Contractual Obligations" in this MD&A.

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

	June 30, 2014	March 31, 2014	December 31, 2013
	(dollars are in millions)		
Delinquent loans:			
Commercial	**$ 101**	$ 120	$ 135
Consumer:			
Residential mortgages	**1,086**	1,132	1,208
Home equity mortgages	**59**	59	68
Total residential mortgages[1][2]	**1,145**	1,191	1,276
Credit card receivables	**15**	19	21
Other consumer	**15**	17	19
Total consumer	**1,175**	1,227	1,316
Total	**$ 1,276**	$ 1,347	$ 1,451
Delinquency ratio:			
Commercial	**.19%**	.24%	.28%
Consumer:			
Residential mortgages	**6.73**	7.10	7.59
Home equity mortgages	**3.08**	3.04	3.38
Total residential mortgages[2]	**6.34**	6.66	7.11
Credit card receivables	**2.20**	2.78	2.46
Other consumer	**2.78**	3.11	3.32
Total consumer	**6.10**	6.42	6.80
Total	**1.76%**	1.93%	2.14%

(1) At June 30, 2014, March 31, 2014 and December 31, 2013, residential mortgage loan delinquency includes $983 million, $1,041 million and $1,074 million, respectively, of loans that are carried at the lower of amortized cost or fair value of the collateral less costs to sell, including $18 million, $22 million and $27 million, respectively, relating to loans held for sale.

(2) The following table reflects dollars of contractual delinquency and delinquency ratios for interest-only loans and adjustable rate mortgage loans:

	June 30, 2014	March 31, 2014	December 31, 2013
	(dollars are in millions)		
Dollars of delinquent loans:			
Interest-only loans	**$ 66**	$ 77	$ 58
ARM loans	**302**	323	304
Delinquency ratio:			
Interest-only loans	**1.81%**	2.09%	1.59%
ARM loans	**2.72**	2.97	2.85

Compared with March 31, 2014, our two-months-and-over contractual delinquency ratio decreased 17 basis points driven by lower dollars of two-months-and-over contractual delinquency in both our commercial and consumer loan portfolios and higher outstanding loan balances primarily in our commercial loan portfolio. Our consumer loan two-month-and-over contractual delinquency ratio at June 30, 2014 decreased 32 basis points from March 31, 2014 primarily due to lower levels of residential mortgage loan delinquency and, to a lesser extent, credit card loan delinquency, driven by continued improvements in economic conditions, while total outstanding loan balances remained relatively flat. Residential mortgage loan delinquency levels however continue to be impacted by an elongated foreclosure process which has resulted in loans which would otherwise have been foreclosed and transferred to REO remaining in loan account and, consequently, in delinquency. Compared with March 31, 2014, our commercial two-months-and-over contractual delinquency ratio decreased 5 basis points due to continued improvements in the credit quality of the portfolio and higher outstanding loan balances.

Compared with December 31, 2013, our two-months-and-over contractual delinquency ratio declined 38 basis points driven by lower dollars of two-months-and-over contractual delinquency in both our commercial and consumer loan portfolios and higher outstanding loan balances primarily in our commercial loan portfolio. Our consumer loan two-month-and-over contractual delinquency ratio at June 30, 2014 decreased 70 basis points from December 31, 2013 primarily due to lower levels of residential mortgage loan delinquency and, to a lesser extent, credit card loan delinquency, driven by continued improvements in economic conditions, while total outstanding loan balances remained relatively flat. Compared with December 31, 2013, our commercial two-months-and-over contractual delinquency ratio decreased 9 basis points due to continued improvements in the credit quality of the portfolio, higher outstanding loan balances and reductions in certain loan exposures including the charge-off of certain client relationships.

Residential mortgage delinquency is significantly higher than home equity mortgage delinquency in all periods largely due to the inventory of loans which are held at the lower of amortized cost or fair value of the collateral less cost to sell and are in the foreclosure process. Given the extended foreclosure time lines, particularly in those states where HUSI has a large footprint, the residential mortgage portfolio has a substantial inventory of loans which are greater than 180 days past due and have been written down to the fair value of the collateral less cost to sell. Therefore, there are no additional credit loss reserves required for these loans. There is a substantially lower volume of home equity mortgage loans where we pursue foreclosure less frequently given the subordinate position of the lien. In addition, our legacy business originated through broker channels and loan transfers from HSBC Finance is of a lower credit quality and, therefore, contributes to an overall higher weighted average delinquency rate for our residential mortgages. Both of these factors are expected to diminish in future periods as the foreclosure backlog resulting from extended foreclosure time lines is managed down and the portfolio mix continues to shift to higher quality loans as the legacy broker originated business and prior loan transfers run off.

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

	June 30, 2014	March 31, 2014	June 30, 2013
		(dollars are in millions)	
Net Charge-off Dollars:			
Commercial:			
Construction and other real estate	**$ 5**	$ 17	$ (8)
Business and corporate banking	**5**	2	8
Global banking	**—**	8	—
Other commercial	**(3)**	(3)	(4)
Total commercial	**7**	24	(4)
Consumer:			
Residential mortgages	**14**	14	10
Home equity mortgages	**2**	(1)	11
Total residential mortgages	**16**	13	21
Credit card receivables	**10**	10	10
Other consumer	**2**	1	3
Total consumer	**28**	24	34
Total	**$ 35**	$ 48	$ 30
Net Charge-off Ratio:			
Commercial:			
Construction and other real estate	**.21%**	.75%	(.38)%
Business and corporate banking	**.12**	.05	.26
Global banking	**—**	.15	—
Other commercial	**(.41)**	(.40)	(.52)
Total commercial	**.05**	.20	(.04)
Consumer:			
Residential mortgages	**.35**	.36	.25
Home equity mortgages	**.42**	(.20)	2.00
Total residential mortgages	**.36**	.30	.47
Credit card receivables	**5.91**	5.87	4.90
Other consumer	**1.65**	.81	2.05
Total consumer	**.59**	.51	.70
Total	**.20%**	.29%	.19 %

Our net charge-off ratio as a percentage of average loans decreased 9 basis points for the quarter ended June 30, 2014 compared with the quarter ended March 31, 2014, due primarily to the sale or payoff of certain commercial exposures, largely in construction and other real estate and global banking, which resulted in higher commercial loan charge-offs in the prior quarter. This decrease was partially offset by an increase in consumer loan net charge-offs due primarily to the recovery of one large home equity mortgage loan exposure recorded in the prior quarter. Residential mortgage loan net charge-offs were flat as higher charge-offs associated with corporate advances were offset by lower charge-offs due to continued improvements in economic conditions.

Compared with the year-ago quarter, our net charge-off ratio as a percentage of average loans remained relatively flat as higher commercial loan charge-offs due to a higher level of recoveries reflected in the prior year were offset by lower charge-offs in consumer loans, driven by lower home equity mortgage charge-offs, reflecting the impact of improved credit quality, including lower delinquency levels experienced in prior quarters.

Nonperforming Assets Nonperforming assets consisted of the following:

	June 30, 2014	March 31, 2014	December 31, 2013
	(dollars are in millions)		
Nonaccrual loans:			
Commercial:			
Real Estate:			
Construction and land loans	**$ 17**	$ 32	$ 44
Other real estate	**47**	62	122
Business and corporate banking	**28**	21	21
Global banking	**—**	—	65
Other commercial	**2**	3	2
Total commercial	**94**	118	254
Consumer:			
Residential mortgages	**879**	912	949
Home equity mortgages	**69**	71	77
Total residential mortgages(1)(2)(3)	**948**	983	1,026
Total consumer loans	**948**	983	1,026
Nonaccrual loans held for sale	**65**	79	25
Total nonaccruing loans	**$ 1,107**	1,180	$ 1,305
Accruing loans contractually past due 90 days or more:			
Commercial:			
Business and corporate banking	**7**	6	5
Other commercial	**1**	1	1
Total commercial	**8**	7	6
Consumer:			
Credit card receivables	**11**	14	14
Other consumer	**11**	13	14
Total consumer loans	**22**	27	28
Total accruing loans contractually past due 90 days or more	**30**	34	34
Total nonperforming loans	**1,137**	1,214	1,339
Other real estate owned	**47**	47	47
Total nonperforming assets	**$ 1,184**	$ 1,261	$ 1,386
Allowance for credit losses as a percent of nonperforming loans(4):			
Commercial	**375.5%**	246.4%	118.5%
Consumer	**24.8**	26.3	28.3

(1) At June 30, 2014, March 31, 2014 and December 31, 2013, residential mortgage loan nonaccrual balances include $849 million, $853 million and $866 million, respectively, of loans that are carried at the lower of amortized cost or fair value of the collateral less cost to sell.

(2) Nonaccrual residential mortgages includes all receivables which are 90 or more days contractually delinquent as well as loans discharged under Chapter 7 bankruptcy and not re-affirmed and second lien loans where the first lien loan that we own or service is 90 or more days contractually delinquent.

(3) Residential mortgage nonaccrual loans for all periods does not include guaranteed loans purchased from the Government National Mortgage Association ("GNMA"). Repayment of these loans are predominantly insured by the Federal Housing Administration and as such, these loans have different risk characteristics from the rest of our customer loan portfolio.

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

Nonaccrual loans at June 30, 2014 decreased as compared with March 31, 2014 and December 31, 2013 due to lower levels of both commercial and consumer nonaccrual loans. Commercial nonaccrual loans decreased due primarily to the sale or payoff of certain commercial exposures as well as customer upgrades out of default outpacing new defaults. Our consumer nonaccrual loans also decreased compared with March 31, 2014 and December 31, 2013 driven by lower nonaccrual residential mortgage loans due to improved credit quality. Residential mortgage loan nonaccrual levels however continue to be impacted by an elongated foreclosure process as previously discussed. Accruing loans past due 90 days or more were relatively flat compared with March 31, 2014 and December 31, 2013.

Our policies and practices for problem loan management and placing loans on nonaccrual status are summarized in Note 2, "Summary of Significant Accounting Policies and New Accounting Pronouncements," in our 2013 Form 10-K.

See Note 4, "Loans," in the accompanying consolidated financial statements for information regarding impaired loans, including TDR Loans, as well as certain other commercial and consumer loan credit quality indicators.

Concentration of Credit Risk A concentration of credit risk is defined as a significant credit exposure with an individual or group engaged in similar activities or affected similarly by economic conditions. We enter into a variety of transactions in the normal course of business that involve both on and off-balance sheet credit risk. Principal among these activities is lending to various commercial, institutional, governmental and individual customers. We participate in lending activity throughout the United States and internationally. In general, we manage the varying degrees of credit risk involved in on and off-balance sheet transactions through specific credit policies. These policies and procedures provide for a strict approval, monitoring and reporting process. It is our policy to require collateral when it is deemed appropriate. Varying degrees and types of collateral are secured depending upon management's credit evaluation. As with any nonconforming and non-prime loan products, we utilize high underwriting standards and price these loans in a manner that is appropriate to compensate for higher risk. We do not offer teaser rate mortgage loans.

Our loan portfolio includes the following types of loans:

- Interest-only loans – A loan which allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period.
- Adjustable rate mortgage ("ARM") loans – A loan which allows us to adjust pricing on the loan in line with market movements.

The following table summarizes the balances of interest-only and ARM loans in our loan portfolios, including certain loans held for sale, at June 30, 2014 and December 31, 2013, respectively. Each category is not mutually exclusive and loans may appear in more than one category below.

	June 30, 2014	December 31, 2013
	(in millions)	
Interest-only residential mortgage loans	**$ 3,645**	$ 3,643
ARM loans[1]	**11,101**	10,684

[1] ARM loan balances above exclude $4 million and $11 million of subprime residential mortgage loans held for sale at June 30, 2014 and December 31, 2013, respectively. During the remainder of 2014 and during 2015, approximately $143 million and $188 million, respectively, of the ARM loans will experience their first interest rate reset.

The following table summarizes the concentrations of first and second liens within the outstanding residential mortgage loan portfolio. Amounts in the table exclude residential mortgage loans held for sale of $38 million and $91 million at June 30, 2014 and December 31, 2013, respectively.

	June 30, 2014	December 31, 2013
	(in millions)	
Closed end:		
First lien	**$ 16,097**	$ 15,826
Second lien	**123**	137
Revolving:		
Second lien	**1,790**	1,874
Total	**$ 18,010**	$ 17,837

Geographic Concentrations The following table reflects regional exposure at June 30, 2014 for certain loan portfolios:

	Commercial Construction and Other Real Estate Loans	Residential Mortgages and Home Equity Mortgages	Credit Card Receivables
New York State	38.8%	33.7%	56.2%
California	18.3	32.6	9.0
North Central United States	3.4	5.5	3.5
North Eastern United States, excluding New York State	13.0	9.4	12.4
Southern United States	20.6	14.4	13.8
Western United States, excluding California	5.9	4.4	2.7
Others	—	—	2.4
Total	100.0%	100.0%	100.0%

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

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

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

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

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

	June 30, 2014	December 31, 2013
	(in millions)	
Risk associated with derivative contracts:		
Total credit risk exposure	**$ 41,369**	$ 44,209
Less: collateral held against exposure	**5,112**	6,064
Net credit risk exposure	**$ 36,257**	$ 38,145

Liquidity and Capital Resources

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

During the first half of 2014, marketplace liquidity continued to remain available for most sources of funding. The prolonged period of low interest rates continues to put pressure on spreads earned on our deposit base.

On June 26, 2014, HSBC and HSBC Bank USA submitted is annual resolution plan jointly to the FRB and the Federal Deposit Insurance Corporation ("FDIC") as required under Dodd-Frank and a rule issued by those bank regulators relating to the resolution of bank holding companies with assets of $50 billion or more and a FDIC rule relating to the resolution of insured depository institutions with assets of $50 billion or more.

Interest Bearing Deposits with Banks totaled $23,946 million and $19,614 million at June 30, 2014 and December 31, 2013, respectively, which includes $22,240 million and $18,520 million, respectively, held with the Federal Reserve Bank. Balances will fluctuate from year to year depending upon our liquidity position at the time and our strategy for deploying such liquidity.

Federal Funds Sold and Securities Purchased under Agreements to Resell totaled $2,311 million and $2,119 million at June 30, 2014 and December 31, 2013, respectively. Balances will fluctuate from year to year depending upon our liquidity position at the time and our strategy for deploying such liquidity.

Short-Term Borrowings totaled $12,906 million and $19,135 million at June 30, 2014 and December 31, 2013, respectively. See "Balance Sheet Review" in this MD&A for further analysis and discussion on short-term borrowing trends.

Deposits totaled $115,521 million and $112,608 million at June 30, 2014 and December 31, 2013, respectively. See "Balance Sheet Review" in this MD&A for further analysis and discussion on deposit trends.

Long-Term Debt increased to $24,604 million at June 30, 2014 from $22,847 million at December 31, 2013. The following table presents the maturities of long-term debt at June 30, 2014, including secured financings and conduit facility renewals:

	(in millions)
2014	**$ 1,846**
2015	**4,812**
2016	**1,591**
2017	**2,722**
2018	**3,069**
Thereafter	**10,564**
Total	**$ 24,604**

The following table summarizes issuances and retirements of long-term debt during the six months ended June 30, 2014 and 2013:

Six Months Ended June 30,	2014	2013
	(in millions)	
Long-term debt issued	**$ 3,887**	$ 2,875
Long-term debt repaid	**(2,392)**	(3,289)
Net long-term debt issued	**$ 1,495**	$ (414)

See "Balance Sheet Review" in this MD&A for further analysis and discussion on long-term debt trends, including additional information on debt issued during the six months ended June 30, 2014.

Under our shelf registration statement on file with the SEC, we may issue debt securities or preferred stock. The shelf has no dollar limit, but the amount of debt outstanding is limited by the authority granted by the Board of Directors. At June 30, 2014, we were authorized to issue up to $21,000 million, of which $5,187 million was available. HSBC Bank USA also has a $40 billion Global Bank Note Program of which $15,805 million was available at June 30, 2014.

As a member of the FHLB, we have a secured borrowing facility which is collateralized by real estate loans and investment securities. At June 30, 2014 and December 31, 2013, long-term debt included $1,000 million under this facility. The facility also allows access to further borrowings of up to $5,077 million based upon the amount pledged as collateral with the FHLB.

Preferred Equity See Note 18, "Preferred Stock," in our 2013 Form 10-K for information regarding all outstanding preferred share issues.

Common Equity During the first half of 2014, we did not receive any cash capital contributions from HSBC North America Inc. ("HNAI") and we did not make any capital contributions to our subsidiary, HSBC Bank USA.

Selected Capital Ratios Capital amounts and ratios are calculated in accordance with banking regulations in effect as of June 30, 2014 and December 31, 2013. In managing capital, we develop targets for common equity Tier 1 capital to risk weighted assets, Tier 1 capital to risk weighted assets, Total capital to risk weighted assets and Tier 1 capital to average assets (this latter ratio, also known as the "leverage ratio"). Our targets may change from time to time to accommodate changes in the operating environment, regulatory requirements or other considerations such as those listed above.

The following table summarizes selected capital ratios for HSBC USA with detailed explanation below:

	June 30, 2014	December 31, 2013
Common equity Tier 1 capital to risk weighted assets[(1)]	**10.42%**	9.94%
Tier 1 capital to risk weighted assets	**11.56**	11.65
Total capital to risk weighted assets	**16.01**	16.36
Tier 1 capital to average assets (leverage ratio)	**8.28**	7.90
Total equity to total assets	**9.32**	8.88

(1) For December 31, 2013, the ratio presented is the Tier 1 common ratio calculated under Basel I.

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

Regulatory capital requirements are based on the amount of capital required to be held, as defined by regulations, and the amount of risk weighted assets, also calculated based on regulatory definitions. Economic Capital is a proprietary measure to estimate unexpected loss at the 99.95 percent confidence level over a 1-year time horizon. Economic Capital is compared to a calculation of available capital resources to assess capital adequacy as part of the ICAAP. In addition, Risk Adjusted Return On Economic Capital (RAROC) is computed for our businesses to allow for a comparison of return on risk.

As previously disclosed in our 2013 Form 10-K, U.S. regulators issued a final rule implementing the Basel III capital framework in the U.S. which, for banking organizations such as HSBC North America and HSBC Bank USA, took effect from January 1, 2014 with certain provisions being phased in over time through the beginning of 2019. As a result, beginning in 2014, capital ratios are reported in accordance with the Basel III transition rules in the final rule. At December 31, 2013, capital ratios were reported according to Basel I rules and reflect the impact of the U.S. market risk final rule (known in the industry as Basel 2.5).

The Basel III final rule established an integrated regulatory capital framework to improve the quality and quantity of regulatory capital and introduced the "Standardized Approach" for risk weighted assets, which will replace the Basel 1 risk-based guidance for determining risk-weighted assets as of January 1, 2015. In addition to phasing in a complete replacement to the Basel I general risk-based capital rules, the Basel III final rule also builds on the "Advanced Approach" introduced by Basel II, incorporates certain changes to Basel 2.5 and implements certain other requirements of the Dodd-Frank Act.

The Advanced Approach introduced by Basel II includes an internal ratings based approach for credit risk and an advanced measurement approach for operational risk and is applicable for banking organizations with $250 billion or more in total consolidated assets or $10 billion or more of foreign exposures (referred to as "Advanced Approach" banking organizations, which includes banking organizations such as HSBC North America and HSBC Bank USA). Adoption of the Advanced Approach requires the approval of U.S. regulators. Advanced Approach banking organizations, including HSBC North America and HSBC Bank USA, are required to operate initially in a "parallel run" wherein they must report their risk-based capital ratios using risk-weighted assets under both Basel I (and in 2015, the Standardized Approach) as well as the Advanced Approach to their primary federal regulator, but publicly disclose only their capital ratios calculated using Basel I (or in 2015, the Standardized Approach) risk-weighted assets.

Upon receiving approval to exit parallel run, Advanced Approach banking organizations would then publicly disclose their capital ratios calculated using Basel I (or in 2015, their Standardized Approach) and Advanced Approach risk weighted assets. Although we began a parallel run period in January 2010, it is unclear as to when approval from the appropriate regulators will be received in order to exit parallel run.

With regard to the elements of capital, the application of the Basel III final rule requires HSBC USA to phase trust preferred securities issued prior to May 19, 2010 out of Tier 1 capital by January 1, 2016, with 50 percent of these capital instruments includable in Tier 1 capital in 2014 and 25 percent includable in 2015. The trust preferred securities excluded from Tier 1 capital may be included fully in Tier 2 capital during those two years, but must be phased out of Tier 2 capital by January 1, 2022. We continue to consider options for redeeming our outstanding trust preferred securities which total $550 million at June 30, 2014. In addition, any nonconforming Tier 2 subordinated debt issued prior to May 19, 2010 is required to be phased out by January 1, 2016. As a result, approximately $200 million of our currently outstanding Tier 2 qualifying subordinated debt will be phased out of capital under the final rule. Also under the final rule, Tier 1 capital generally includes only noncumulative perpetual preferred stock, in addition to common stock, and the final rule removes the limitation on the amount of Tier 2 capital that may be recognized relative to Tier 1 capital.

In February 2014, the FRB adopted a final rule requiring enhanced supervision of the U.S. operations of non-U.S. banks such as HSBC. The rule requires certain large non-U.S. banks with significant operations in the United States, such as HSBC, to establish a single intermediate holding company ("IHC") to hold all of their U.S. bank and non-bank subsidiaries. The HSBC Group currently operates in the United States through such an IHC structure (i.e., HSBC North America), therefore, we do not expect this requirement will have a significant impact on our U.S. operations. HSBC North America is developing its IHC implementation plan to be submitted, as required, to the FRB by January 1, 2015. Under the final rule, IHCs, including HSBC North America and HSBC USA, will be subject to the Standardized Approach unless they apply to be subject to the Advanced Approach. IHCs will be subject to all other risk-based capital requirements, stress testing requirements, enhanced risk management standards and enhanced governance and stress testing requirements for liquidity management, as well as other prudential standards. Under the final rule, most of these requirements will become effective on July 1, 2016. The impact of the final rule is being reviewed.

As previously disclosed, U.S. bank holding companies with $50 billion or more in total consolidated assets, including HSBC North America, are required to submit annual capital plans for review. Under the capital plan rules, the FRB will evaluate bank holding companies annually on their capital adequacy, internal capital adequacy assessment process and plans for capital distributions, and will approve capital distributions only for companies that are able to demonstrate sufficient capital strength after making the capital distribution.

In addition, U.S. bank holding companies with $50 billion or more in total consolidated assets, including HSBC North America, are required to comply with the FRB's CCAR program, which includes annual supervisory DFAST conducted by the FRB, as well as semi-annual bank holding company-run DFAST. HSBC North America submitted its first CCAR capital plan and its annual company-run DFAST results in January 2014. In July 2014, HSBC North America submitted its mid-year company-run DFAST results. HSBC Bank USA is subject to the OCC's DFAST requirements, which require certain banks to conduct annual bank-run DFAST, and submitted its first DFAST results in January 2014. The company-run stress tests are forward looking exercises to assess the impact of hypothetical macroeconomic baseline, adverse and severely adverse scenarios provided by the FRB and the OCC for the annual exercise, and internally developed scenarios for both the annual and mid-cycle exercises, on the financial condition and capital adequacy of a bank-holding company or bank over a nine quarter planning horizon.

HSBC North America and HSBC Bank USA are required to disclose the results of their annual DFAST under the FRB and OCC’s severely adverse stress scenario. HSBC North America is required to disclose the results of its mid-cycle DFAST under its internally developed severely adverse stress scenario. HSBC North America and HSBC Bank USA publicly disclosed their DFAST results, as required, in March 2014. The FRB also publicly disclosed its own DFAST and CCAR results in March 2014. HSBC North America will disclose its mid-cycle DFAST results in September 2014.

On March 26, 2014, the FRB informed HSBC North America, our indirect parent company, that it did not object to HSBC North America's capital actions, including payment of dividends on outstanding preferred stock and trust preferred securities of HSBC North America and its subsidiaries. The FRB informed HSBC North America that it did object to its capital plan submitted for the 2014 CCAR submission due to weaknesses in its capital planning processes. The FRB does not permit bank holding companies to disclose confidential supervisory information including the reason for an objection to a capital plan submitted for CCAR. HSBC North America is required to resubmit its capital plan, incorporating enhancements to its processes, by January 5, 2015, the due date for the next annual CCAR submission. Stress testing results are based solely on hypothetical adverse scenarios and should not be viewed or interpreted as forecasts of expected outcomes or capital adequacy or of the actual financial condition of HSBC North America. Capital planning and stress testing for HSBC North America may impact our future capital and liquidity.

In June 2014, U.S. regulators issued a proposal that would amend the CCAR capital planning and DFAST supervisory stress testing rules. This proposal would shift the start date of the annual capital plan and supervisory and company-run stress test cycles back by one calendar quarter beginning with the 2015-2016 capital plan and stress test cycles. The proposal would make certain other substantive changes to the capital plan and stress test regulations, including limiting a bank holding company's ability to make capital distributions if its actual capital issuances in that quarter were less than the amount indicated in the capital plan. We are reviewing the potential impact of the proposal on our capital planning and stress testing processes.

We and HSBC Bank USA are required to meet minimum capital requirements by our principal regulators. Risk-based capital amounts and ratios are presented in Note 15 , "Retained Earnings and Regulatory Capital Requirements," in the accompanying consolidated financial statements.

2014 Funding Strategy Our current estimate for funding needs and sources for 2014 are summarized in the following table.

	Actual January 1 through June 30, 2014	Estimated July 1 through December 31, 2014	Estimated Full Year 2014
		(in billions)	
Funding needs:			
Net loan growth	$ 6	$ 3	$ 9
Long-term debt maturities	2	1	3
Total funding needs	$ 8	$ 4	$ 12
Funding sources:			
Liquidation of short-term investments	$ 4	$ 4	$ 8
Long-term debt issuance	4	—	4
Total funding sources	$ 8	$ 4	$ 12

The above table reflects a long-term funding strategy. Daily balances fluctuate as we accommodate customer needs, while ensuring that we have liquidity in place to support the balance sheet maturity funding profile. Should market conditions deteriorate, we have contingency plans to generate additional liquidity through the sales of assets or financing transactions. Our prospects for growth continue to be dependent upon our ability to attract and retain deposits and, to a lesser extent, access to the global capital markets. We remain confident in our ability to access the market for long-term debt funding needs in the current market environment. We continue to seek well-priced and stable customer deposits as customers move funds to larger, well-capitalized institutions.

We will continue to sell a portion of new mortgage loan originations, largely to PHH Mortgage.

HSBC Finance ceased issuing under its commercial paper program in 2012 and instead is relying on its affiliates, including HSBC USA, to satisfy its funding needs.

HSBC Bank USA is subject to significant restrictions imposed by federal law on extensions of credit to, and certain other "covered transactions" with HSBC USA and other affiliates. Covered transactions include loans and other extensions of credit, investments and asset purchases, and certain other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. A bank's credit exposure to an affiliate as a result of a derivative, securities lending/borrowing or repurchase transaction is also subject to these restrictions. A bank's transactions with its non-bank affiliates are also required to be on arm's length terms. Certain Edge Act subsidiaries of HSBC Bank USA are limited in the amount of funds they can provide to other affiliates including their parent. Amounts above their level of invested capital have to be secured with U.S. government securities.

For further discussion relating to our sources of liquidity and contingency funding plan, see the caption "Risk Management" in this MD&A.

Off-Balance Sheet Arrangements, Credit Derivatives and Other Contractual Obligations

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

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

The following table provides maturity information related to our credit derivatives and off-balance sheet arrangements. Many of these commitments and guarantees expire unused or without default. As a result, we believe that the contractual amount is not representative of the actual future credit exposure or funding requirements.

	Balance at June 30, 2014				Balance at December 31, 2013
	One Year or Less	Over One through Five Years	Over Five Years	Total	
	(in millions)				
Standby letters of credit, net of participations[1]	**$ 6,013**	**$ 2,370**	**$ 12**	**$ 8,395**	$ 8,409
Commercial letters of credit	**421**	**176**	**—**	**597**	528
Credit derivatives[2]	**37,527**	**106,023**	**5,990**	**149,540**	180,380
Other commitments to extend credit:					
Commercial[3]	**15,077**	**53,452**	**5,292**	**73,821**	66,328
Consumer	**6,755**	**—**	**—**	**6,755**	6,714
Total	**$ 65,793**	**$162,021**	**$ 11,294**	**$239,108**	$ 262,359

(1) Includes $842 million and $865 million issued for the benefit of HSBC affiliates at June 30, 2014 and December 31, 2013, respectively.

(2) Includes $36,920 million and $34,856 million issued for the benefit of HSBC affiliates at June 30, 2014 and December 31, 2013, respectively.

(3) Includes $3,774 million and $3,763 million issued for the benefit of HSBC affiliates at June 30, 2014 and December 31, 2013, respectively.

Other Commitments to Extend Credit Other commitments to extend credit include arrangements whereby we are contractually obligated to extend credit in the form of loans, participations in loans, lease financing receivables, or similar transactions. Consumer commitments are comprised of certain unused MasterCard/Visa credit card lines, where we have the right to change terms or conditions upon notification to the customer, and commitments to extend credit secured by residential properties, where we have the right to change terms or conditions, for cause, upon notification to the customer. Commercial commitments comprise primarily those related to secured and unsecured loans and lines of credit and certain asset purchase commitments. In connection with our commercial lending activities, we provide liquidity support to Regency, a multi-seller asset backed commercial paper ("ABCP") conduit consolidated by our affiliate. See Note 16, "Variable Interest Entities," in the accompanying consolidated financial statements for additional information regarding ABCP conduits and our variable interests in them.

We provide liquidity support to Regency in the form of lines of credit or asset purchase agreements. Under the terms of these liquidity agreements, Regency may call upon us to lend money or to purchase certain assets in the event the conduit is unable or unwilling to issue or rollover maturing commercial paper. The maximum amount that we could be required to advance is generally limited to the lesser of the amount of outstanding commercial paper related to the supported transaction and the balance of the assets underlying that transaction adjusted by a funding formula that excludes defaulted and impaired assets. As a result, the maximum amount that we would be required to fund may be significantly less than the maximum contractual amount specified by the liquidity agreement.

The following tables present information on our liquidity facilities with Regency at June 30, 2014. The maximum exposure to loss presented in the first table represents the maximum contractual amount of loans and asset purchases we could be required to make under the liquidity agreements. This amount does not reflect the funding limits discussed above and also assumes that we suffer a total loss on all amounts advanced and all assets purchased from Regency. As such, we believe that this measure significantly overstates our expected loss exposure.

Conduit Type	Maximum Exposure to Loss	Conduit Assets[1]		Conduit Funding[1]	
		Total Assets	Weighted Average Life (Months)	Commercial Paper	Weighted Average Life (Days)
		(dollars are in millions)			
HSBC affiliate sponsored (multi-seller)	$ 2,354	$ 1,459	16	$ 1,460	12

(1) The amounts presented represent only the specific assets and related funding supported by our liquidity facilities.

Asset Class	Average Asset Mix	Average Credit Quality[1]				
		AAA	AA+/AA	A	A–	BB/BB–
Multi-seller conduit						
Debt securities backed by:						
Auto loans and leases	45%	69%	—%	—%	—%	—%
Trade receivables	35	—	100	100	—	—
Credit card receivables	—	—	—	—	—	—
Equipment loans	20	31	—	—	—	—
	100%	100%	100%	100%	—%	—%

(1) Credit quality is based on Standard and Poor’s ratings at June 30, 2014.

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

During the six months ended June 30, 2014, U.S. asset-backed commercial paper volumes continued to be stable as most major bank conduit sponsors continue to extend new financing to clients. Credit spreads in the multi-seller conduit market have also remained stable during the six months ended June 30, 2014 following a pattern that was prevalent across the U.S. credit markets.

The preceding tables do not include information on credit facilities that we previously provided to certain Canadian multi-seller ABCP conduits that have been subject to restructuring agreements as part of the Montreal Accord. As part of the enhanced collateral pool established for the restructuring, at December 31, 2013, we had provided a CAD $307 million Margin Funding Facility to a Master Asset Vehicle, which was undrawn and expires in July 2017. At June 30, 2014, the undrawn facility was reduced to CAD $127 million.

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

Fair Value

Fair value measurement accounting principles require a reporting entity to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of our own credit risk accounted for an increase of $39 million and a decrease of $6 million in the fair value of financial liabilities during the three and six months ended June 30, 2014, respectively, compared with decreases of $107 million and $98 million during the prior year periods.

Net income volatility arising from changes in either interest rate or credit components of the mark-to-market on debt designated at fair value and related derivatives affects the comparability of reported results between periods. Accordingly, the gain (loss) on debt designated at fair value and related derivatives during the six months ended June 30, 2014 should not be considered indicative of the results for any future period.

Control Over Valuation Process and Procedures We have established a control framework which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. See Note 18, "Fair Value Measurements" in the accompanying consolidated financial statements for further details on our valuation control framework.

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

- whether the asset or liability is transacted in an active market with a quoted market price;
- the level of bid-ask spreads;
- a lack of pricing transparency due to, among other things, complexity of the product and market liquidity;
- whether only a few transactions are observed over a significant period of time;
- whether the pricing quotations differ substantially among independent pricing services;
- whether inputs to the valuation techniques can be derived from or corroborated with market data; and
- whether significant adjustments are made to the observed pricing information or model output to determine the fair value.

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

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

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

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants' assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances. As of June 30, 2014 and December 31, 2013, our Level 3 instruments included the following: collateralized debt obligations ("CDOs") for which there is a lack of pricing transparency due to market illiquidity, certain structured deposits as well as certain structured credit and structured equity derivatives where significant inputs (e.g., volatility or default correlations) are not observable, credit default swaps with certain monoline insurers where the deterioration in the creditworthiness of the counterparty has resulted in significant adjustments to fair value, U.S. subprime mortgage loans and subprime related asset-backed securities, impaired commercial loans, mortgage servicing rights, and derivatives referenced to illiquid assets of less desirable credit quality. See Note 18, "Fair Value Measurements" in the accompanying consolidated financial statements for additional information on Level 3 inputs.

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

We value uncollateralized derivatives by discounting expected future cash flows at a benchmark interest rate, typically Libor or its equivalent. This approach has historically been adopted across the industry, and has therefore been an appropriate basis for fair value. As previously disclosed in our 2013 Form 10-K, we and other industry participants are currently considering whether this approach appropriately reflects the manner in which the derivatives are funded, which may occur at rates other than interbank offer rates. No consensus has yet emerged on how such funding should be reflected in the fair value measurement for uncollateralized derivatives. In the future, and possibly in the second half of 2014, we may adopt a "funding fair value adjustment" to reflect funding of uncollateralized derivatives at rates other than interbank offer rates.

Transfers Between Level 1 and Level 2 Measurements During the three and six months ended June 30, 2014 and 2013, there were no transfers between Level 1 and Level 2 measurements.

Level 3 Measurements The following table provides information about Level 3 assets/liabilities in relation to total assets/liabilities measured at fair value as of June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
	(dollars are in millions)	
Level 3 assets[(1)(2)]	**$ 3,851**	$ 3,831
Total assets measured at fair value[(3)]	**138,678**	158,834
Level 3 liabilities	**3,217**	3,751
Total liabilities measured at fair value[(1)]	**91,331**	97,540
Level 3 assets as a percent of total assets measured at fair value	**2.8%**	2.4%
Level 3 liabilities as a percent of total liabilities measured at fair value	**3.5%**	3.8%

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

(2) Includes $3,803 million of recurring Level 3 assets and $48 million of non-recurring Level 3 assets at June 30, 2014. Includes $3,667 million of recurring Level 3 assets and $164 million of non-recurring Level 3 assets at December 31, 2013.

(3) Includes $138,457 million of assets measured on a recurring basis and $221 million of assets measured on a non-recurring basis at June 30, 2014. Includes $158,149 million of assets measured on a recurring basis and $685 million of assets measured on a non-recurring basis at December 31, 2013.

Significant Changes in Fair Value for Level 3 Assets and Liabilities

Derivative Assets and Counterparty Credit Risk We have entered into credit default swaps with monoline insurers to hedge our credit exposure in certain asset-backed securities and synthetic CDOs. We made $4 million negative and $12 million positive credit risk adjustments to the fair value of our credit default swap contracts during the three and six months ended June 30, 2014, respectively, compared with positive adjustments of $21 million and $41 million during the three and six months ended June 30, 2013, respectively. These adjustments to fair value are recorded in trading revenue in the consolidated statement of income. We have recorded a cumulative credit adjustment reserve of $52 million and $64 million against our monoline exposure at June 30, 2014 and December 31, 2013, respectively. The fair value of our monoline exposure net of cumulative credit adjustment reserves equaled $233 million and $273 million at June 30, 2014 and December 31, 2013, respectively.

Loans As of June 30, 2014 and December 31, 2013, we have classified $23 million and $46 million, respectively, of subprime residential mortgage loans held for sale as a non-recurring Level 3 financial asset. These mortgage loans are accounted for on a lower of amortized cost or fair value basis. Based on our assessment, we recorded gains of less than a million during the three and six months ended June 30, 2014, respectively, compared with gains of $5 million and $7 million during the three and six months ended June 30, 2013, respectively. The changes in fair value are recorded in other revenues in the consolidated statement of income.

Significant Transfers Into and Out of Level 3 Measurements During the three and six months ended June 30, 2014, we transferred $104 million and $244 million, respectively, of deposits in domestic offices and $27 million and $98 million, respectively, of long-term debt, which we have elected to carry at fair value, from Level 3 to Level 2 as a result of the embedded derivative no longer being unobservable as the derivative option is closer to maturity and there is more observability in short term volatility. During the second quarter of 2014, we transferred $119 million of government debt securities issued by foreign governments from Level 3 to Level 2 due to the availability of inputs in the market including independent pricing service valuations. Additionally, during the three and six months ended June 30, 2014, we transferred $27 million and $95 million, respectively, of deposits in domestic offices, which we have elected to carry at fair value, from Level 2 to Level 3 as a result of a change in the observability of underlying instruments that resulted in the embedded derivative being unobservable.

During the three and six months ended June 30, 2013, we transferred $165 million and $244 million, respectively of deposits in domestic offices and $179 million and $181 million, respectively, of long-term debt, which we have elected to carry at fair value, from Level 3 to Level 2 as a result of the embedded derivative no longer being unobservable as the derivative option is closer in maturity and there is more observability in short term volatility. Additionally, during the three and six months ended June 30, 2013, we transferred $177 million and $160 million, respectively, of deposits in domestic offices, which we have elected to carry at fair value, from Level 2 to Level 3 as a result of a change in the observability of underlying instruments that resulted in the embedded derivative being unobservable.

See Note 18, "Fair Value Measurements," in the accompanying consolidated financial statements for information on additions to and transfers into (out of) Level 3 measurements during the three and six months ended June 30, 2014 and 2013 as well as for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

Assets Underlying Asset-backed Securities The following tables summarize the types of assets underlying our asset-backed securities as well as certain collateralized debt obligations held as of June 30, 2014:

		Total
		(in millions)
Rating of securities:[1]	Collateral type:	
AAA	Commercial mortgages	$ 86
	Residential mortgages - Alt A	89
	Residential mortgages - Subprime	1
	Total AAA	176
AA	Other	42
A	Residential mortgages - Alt A	11
	Residential mortgages - Subprime	58
	Home equity - Alt A	94
	Student loans	81
	Other	52
	Total A	296
BBB	Residential mortgages - Alt A	8
	Collateralized debt obligations	260
	Total BBB	268
CCC	Residential mortgages - Subprime	5
Unrated	Residential mortgages - Alt A	1
		$ 788

(1) We utilize Standard & Poor's ("S&P") as the primary source of credit ratings in the tables above. If S&P ratings are not available, ratings by Moody's and Fitch are used, in that order. Ratings for collateralized debt obligations represent the ratings associated with the underlying collateral.

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

The unobservable input parameters selected are subject to the internal valuation control processes and procedures. When we perform a test of all the significant input parameters to the extreme values within the range at the same time, it could result in an increase of the overall fair value measurement of approximately $35 million or a decrease of the overall fair value measurement of approximately $44 million as of June 30, 2014. The effect of changes in significant unobservable input parameters are primarily driven by mortgage servicing rights, certain asset-backed securities including CDOs, and the uncertainty in determining the fair value of credit derivatives executed against monoline insurers.

Risk Management

Overview Some degree of risk is inherent in virtually all of our activities. Accordingly, we have comprehensive risk management policies and practices in place to address potential risks, which include the following:

- *Credit risk* is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default; Credit risk includes risk associated with cross-border exposures.
- *Liquidity risk* is the potential that an institution will be unable to meet its obligations as they become due or fund its customers because of inadequate cash flow or the inability to liquidate assets or obtain funding itself;
- *Interest rate risk* is the potential impairment of net interest income due to mismatched pricing between assets and liabilities as well as losses in value due to rate movements;
- *Market risk* is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce HSBC USA's income or the value of its portfolios;
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events (including legal risk);
- *Compliance risk* is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice causing us to incur fines, penalties and damage to our business and reputation;
- *Fiduciary risk* is the risk of breaching fiduciary duties where we act in a fiduciary capacity as trustee, investment manager or as mandated by law or regulation.
- *Reputational risk* is the risk arising from a failure to safeguard our reputation by maintaining the highest standards of conduct at all times and by being aware of issues, activities and associations that might pose a threat to the reputation of HSBC locally, regionally or internationally;
- *Strategic risk* is the risk that the business will fail to identify, execute, and react appropriately to opportunities and/ or threats arising from changes in the market, some of which may emerge over a number of years such as changing economic and political circumstances, customer requirements, demographic trends, regulatory developments or competitor action;
- *Security and Fraud risk* is the risk to the business from terrorism, crime, incidents/disasters, cyber attacks and groups hostile to HSBC interests;
- *Model risk* is the risk of incorrect implementation or inappropriate application of models. Model risk occurs when a model does not properly capture risk(s) or perform functions as designed; and
- *Pension risk* is the risk that the cash flows associated with pension assets will not be enough to cover the pension benefit obligations required to be paid.

See "Risk Management" in MD&A in our 2013 Form 10-K for a more complete discussion of the objectives of our risk management system as well as our risk management policies and practices. Our risk management process involves the use of various simulation models. We believe that the assumptions used in these models are reasonable, but actual events may unfold differently than what is assumed in the models. Consequently, model results may be considered reasonable estimates, with the understanding that actual results may differ significantly from model projections.

Credit Risk Management Credit risk is the potential that a borrower or counterparty will default on a credit obligation, as well as the impact on the value of credit instruments due to changes in the probability of borrower default. Credit risk includes risk associated with cross-border exposures. There have been no material changes to our approach towards credit risk management since December 31, 2013. See "Risk Management" in MD&A in our 2013 Form 10-K for a more complete discussion of our approach to credit risk.

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

- loan portfolios;
- investment portfolios;
- unfunded commitments such as letters of credit and lines of credit that customers can draw upon; and
- derivative financial instruments, such as interest rate swaps which, if more valuable today than when originally contracted, may represent an exposure to the counterparty to the contract.

While credit risk exists widely in our operations, diversification among various commercial and consumer portfolios helps to lessen risk exposure. Day-to-day management of credit and market risk is performed by the Chief Credit Officer / Head of Wholesale Credit and Market Risk North America and the HSBC North America Chief Retail Credit Officer, who report directly to the HSBC

North America Chief Risk Officer and maintain independent risk functions. The credit risk associated with commercial portfolios is managed by the Chief Credit Officer, while credit risk associated with retail consumer loan portfolios, such as credit cards, installment loans and residential mortgages, is managed by the HSBC North America Chief Retail Credit Officer. Further discussion of credit risk can be found under the "Credit Quality" caption in this MD&A.

Liquidity Risk Management There have been no material changes to our approach towards liquidity risk management since December 31, 2013. See “Risk Management” in MD&A in our 2013 Form 10-K for a more complete discussion of our approach to liquidity risk. Although our overall approach to liquidity management has not changed, we continuously monitor the impact of market events on our liquidity positions and continue to adapt our liquidity framework to reflect market events and the evolving regulatory landscape and view as to best practices. Current regulatory initiatives encourage banks to retain a portfolio of extremely high quality liquid assets. As such, we are maintaining a large portfolio of high quality sovereign and sovereign guaranteed securities.

Our liquidity management approach includes increased deposits and potential sales (e.g. residential mortgage loans) in liquidity contingency plans. As previously discussed, HSBC Finance ceased issuing under its commercial paper program in 2012 and now relies on its affiliates, including HSBC USA, to satisfy its funding needs outside of cash generated from its loan sales and operations.

In 2009, the Basel Committee proposed two minimum liquidity metrics for limiting risk: the liquidity coverage ratio ("LCR"), designed to be a short-term measure to ensure banks have sufficient high-quality liquid assets to cover net stressed cash outflows over the next 30 days, and the net stable funding ratio ("NSFR"), which is a longer term measure with a 12-month time horizon to ensure a sustainable maturity structure of assets and liabilities. The ratios are subject to an observation period and are expected to become established standards, subject to phase-in periods, by 2015 and 2018, respectively.

In October 2013, the FRB, the OCC and the FDIC issued for public comment a rule to implement the LCR in the United States, applicable to certain large banking institutions, including HSBC North America and HSBC Bank USA. The LCR proposal is generally consistent with the Basel Committee guidelines, but is more stringent in several areas including the range of assets that will qualify as high-quality liquid assets and the assumed rate of outflows of certain kinds of funding. Under the proposal, U.S. institutions would begin the LCR transition period on January 1, 2015 and would be required to be fully compliant by January 1, 2017, as opposed to the Basel Committee's requirement to be fully compliant by January 1, 2019. The LCR proposal does not address the NSFR requirement, which is currently in an international observation period. Based on the results of the observation periods, the Basel Committee and U.S. banking regulators may make further changes to the LCR and the NSFR. U.S. regulators are expected to issue a proposed rulemaking implementing the NSFR in advance of its scheduled global implementation in 2018.

In the first quarter of 2014, the FRB issued rules pursuant to section 165 of the Dodd-Frank Act, which established enhanced prudential standards for U.S. bank holding companies and foreign banking organizations with total global consolidated assets of $50 billion or more. The rules complement the capital planning, resolution planning, and stress testing requirements that have been previously finalized. The rules require bank holding companies, such as HSBC North America, to comply with various liquidity risk management standards and to maintain a liquidity buffer of unencumbered highly liquid assets based on the results of internal liquidity stress testing. Bank holding companies are also required to meet heightened liquidity requirements, which include qualitative liquidity standards, cash flow projections, internal liquidity stress tests, and liquidity buffer requirements by January 1, 2015. HSBC North America is developing plans to meet the standard and we do not expect a significant impact to our business model. From July 1, 2016, HSBC North America will be treated as an IHC owned by a foreign banking organization. This transition is not expected to have a significant impact on our U.S. operations or change our liquidity management policies. HSBC North America is required to submit its IHC implementation plan to the FRB by January 1, 2015.

We believe that HSBC North America and HSBC Bank USA will meet these liquidity requirements prior to their formal introduction. The actual impact will be dependent on the specific final regulations issued by the U.S. regulators to implement these standards. HSBC North America and HSBC Bank USA may need to change their liquidity profile to support compliance with any future final rules. We are unable at this time, however, to determine the extent of changes we will need to make to our liquidity position, if any.

Our ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. The following table reflects the long and short-term debt ratings we and HSBC Bank USA maintained at June 30, 2014:

	Moody's	S&P	Fitch	DBRS[1]
HSBC USA Inc.:				
Short-term borrowings	**P-1**	**A-1**	**F1+**	**R-1 (middle)**
Long-term/senior debt	**A2**	**A+**	**AA-**	**AA (low)**
HSBC Bank USA:				
Short-term borrowings	**P-1**	**A-1+**	**F1+**	**R-1 (middle)**
Long-term/senior debt	**A1**	**AA-**	**AA-**	**AA (low)**

(1) Dominion Bond Rating Service.

On February 6, 2014, Standard and Poor's published a request for comment regarding proposed revisions to their treatment of Bank and Prudentially Regulated Finance Company Hybrid Capital Instruments. The adoption of any such revisions may unfavorably impact the ratings of our preferred stock, trust preferred securities and subordinated debt.

As of June 30, 2014, there were no pending actions in terms of changes to ratings on the debt of HSBC USA or HSBC Bank USA from any of the rating agencies.

Interest Rate Risk Management Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of our assets, liabilities and derivative contracts. Our approach to managing interest rate risk is summarized in MD&A in our 2013 Form 10-K under the caption "Risk Management". There have been no material changes to our approach towards interest rate risk management since December 31, 2013.

Present value of a basis point ("PVBP) is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	(in millions)	
Institutional PVBP movement limit	**$ 8.0**	$ 8.0
PVBP position at period end	**2.1**	6.8

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

	June 30, 2014		December 31, 2013	
	Amount	%	Amount	%
	(dollars are in millions)			
Projected change in net interest income (reflects projected rate movements on July 1 and January 1):				
Change resulting from a gradual 100 basis point increase in the yield curve	**$ 39**	**2**	$ (5)	—
Change resulting from a gradual 100 basis point decrease in the yield curve	**(94)**	**(4)**	(68)	(3)
Change resulting from a gradual 200 basis point increase in the yield curve	**46**	**2**	(43)	(2)
Change resulting from a gradual 200 basis point decrease in the yield curve	**(188)**	**(9)**	(137)	(6)
Other significant scenarios monitored (reflects projected rate movements on July 1 and January 1):				
Change resulting from an immediate 100 basis point increase in the yield curve	**75**	**3**	(7)	—
Change resulting from an immediate 100 basis point decrease in the yield curve	**(175)**	**(8)**	(109)	(5)
Change resulting from an immediate 200 basis point increase in the yield curve	**128**	**6**	(39)	(2)
Change resulting from an immediate 200 basis point decrease in the yield curve	**(310)**	**(14)**	(257)	(12)

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 differ from these estimates, possibly by significant amounts.

Capital Risk/Sensitivity of Other Comprehensive Income Large movements of interest rates could directly affect some reported capital balances and ratios. The mark-to-market valuation of available-for-sale securities is credited on a tax effected basis to accumulated other comprehensive income (loss). This valuation mark is included in two important accounting based capital ratios: tangible common equity to tangible assets and tangible common equity to risk weighted assets. Under the final rule adopting the Basel III regulatory capital reforms, the valuation mark will be included in common equity Tier 1 capital and the impact of this change for HSBC USA is being assessed along with the other Basel III changes being introduced. As of June 30, 2014, we had an available-for-sale securities portfolio of approximately $44,778 million with a positive mark-to-market of $471 million included in tangible common equity of $13,641 million. An increase of 25 basis points in interest rates of all maturities would lower the mark-to-market by approximately $219 million to a net gain of $252 million with the following results on our tangible capital ratios.

	June 30, 2014		December 31, 2013	
	Actual	Proforma(1)	Actual	Proforma(1)
Tangible common equity to tangible assets	**7.56%**	**7.49%**	7.28%	7.20%
Tangible common equity to risk weighted assets	**10.39**	**10.29**	10.82	10.69

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

Market Risk Management We have incorporated the qualitative and quantitative requirements of Basel 2.5, including stressed value at risk ("VAR"), Incremental Risk Charge and Comprehensive Risk Measure into our process and received regulatory approval to initiate these enhancements effective January 1, 2013. See “Risk Management” in MD&A in our 2013 Form 10-K for a more complete discussion of our approach to market risk. There have been no material changes to our approach towards market risk management since December 31, 2013.

Value at Risk VAR analysis is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. VAR calculations are performed for all material trading activities and as a tool for managing risk inherent in non-trading activities. VAR is calculated daily for a one-day holding period to a 99 percent confidence level.

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

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

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

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

The following table summarizes trading VAR for the six months ended June 30, 2014:

	June 30, 2014	Six Months Ended June 30, 2014 Minimum	Maximum	Average	December 31, 2013
			(in millions)		
Total trading	**$ 8**	**$ 6**	**$ 12**	**$ 8**	$ 9
Foreign exchange	**5**	**4**	**8**	**6**	7
Interest rate directional and credit spread	**7**	**7**	**14**	**9**	10

The following table summarizes the frequency distribution of daily market risk-related revenues for trading activities during the six months ended June 30, 2014. Market risk-related trading revenue excludes certain items such as fees, commissions, fair value adjustments, net interest income and intra-day trading revenues. Analysis of the gain (loss) data for the six months ended June 30, 2014 shows that the largest daily gain was $6 million and the largest daily loss was $4 million.

Ranges of daily trading revenue earned from market risk-related activities	Below $(5)	$(5) to $0	$0 to $5	$5 to $10	Over $10
		(dollars are in millions)			
Number of trading days market risk-related revenue was within the stated range	—	68	55	1	—

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

Non-trading VAR also includes the impact of asset market volatility on the current investment portfolio of financial investments including assets held on an available for sale (AFS) and held to maturity (HTM) basis. The main holdings of AFS securities are held by Balance Sheet Management within GB&M. These positions which are originated in order to manage structural interest rate and liquidity risk are treated as non-trading risk for the purpose of market risk management. The main holdings of AFS assets include U.S. Treasuries and Government backed GNMA securities.

The following table summarizes non-trading VAR for the six months ended June 30, 2014, assuming a 99 percent confidence level for a two-year observation period and a one-day "holding period":

	June 30, 2014	Six Months Ended June 30, 2014 Minimum	Maximum	Average	December 31, 2013
			(in millions)		
Total Accrual VAR	**$ 56**	**$ 56**	**$ 100**	**$ 64**	$ 104

Trading Activities MSRs – Trading occurs in mortgage banking operations as a result of an economic hedging program intended to offset changes in the value of mortgage servicing rights. Economic hedging may include, for example, forward contracts to sell residential mortgages and derivative instruments used to protect the value of MSRs.

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

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

The following table reflects the modeling techniques, primarily rate shock analyses, used to monitor certain interest rate scenarios for their impact on the economic value of net hedged MSRs:

	June 30, 2014	December 31, 2013
	(in millions)	
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on July 1 and January 1):		
Value of hedged MSRs portfolio	**$ 186**	$ 227
Change resulting from an immediate 50 basis point decrease in the yield curve:		
Change limit (no worse than)	**(10)**	(20)
Calculated change in net market value	**(1)**	(2)
Change resulting from an immediate 50 basis point increase in the yield curve:		
Change limit (no worse than)	**(4)**	(8)
Calculated change in net market value	**1**	3
Change resulting from an immediate 100 basis point increase in the yield curve:		
Change limit (no worse than)	**(6)**	(12)
Calculated change in net market value	**3**	6

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

The following table summarizes the frequency distribution of the weekly economic value of the MSR asset during the six months ended June 30, 2014. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the year.

Ranges of mortgage economic value from market risk-related activities	Below $(2)	$(2) to $0	$0 to $2	$2 to $4	Over $4
			(dollars are in millions)		
Number of trading weeks market risk-related revenue was within the stated range	—	10	16	—	—

Model Risk Management In order to manage the risks arising out of the use of incorrect or misused model output or reports, a comprehensive Model Governance framework has been established that provides oversight and challenge to all models across HSBC North America. This framework includes a HSBC North America Model Standards Policy that was enhanced during the second quarter of 2014 and aligns with model risk management regulations. Model governance is managed through HSBC's global Model Oversight Committee ("MOC") structure, with business and functional MOCs in HSBC North America reporting into corresponding global MOCs. Materiality levels of models are maintained through the HSBC North America Model Standards Policy. A complete inventory of all HSBC North America models is maintained and is being updated in line with recent policy enhancements.

There has been no other significant changes in our approach to model risk management since December 31, 2013.

Operational Risk There have been no material changes to our approach toward operational risk since December 31, 2013.

Compliance Risk There have been no material changes to our approach toward compliance risk since December 31, 2013.

Fiduciary Risk There have been no material changes to our approach toward fiduciary risk since December 31, 2013.

Reputational Risk There have been no material changes to our approach toward reputational risk since December 31, 2013.

Strategic Risk There have been no material changes to our approach toward strategic risk since December 31, 2013.

Security and Fraud Risk There have been no material changes to our approach toward security and fraud risk since December 31, 2013.

Model Risk There have been no material changes to our approach toward model risk since December 31, 2013.

Pension Risk There have been no material changes to our approach toward pension risk since December 31, 2013.

CONSOLIDATED AVERAGE BALANCES AND INTEREST RATES

The following tables summarize the quarter-to-date average daily 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. Net interest margin is calculated by dividing annualized net interest income by the average interest earning assets from which interest income is earned. Loan interest for the three and six months ended June 30, 2014 included fees of $15 million and $34 million, respectively, compared with fees of $19 million and $43 million during the three and six months ended June 30, 2013, respectively.

Three Months Ended June 30,	2014			2013		
	Average Balance	Interest	Rate[(1)]	Average Balance	Interest	Rate[(1)]
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$ 27,229**	**$ 17**	**.26%**	$ 23,168	$ 14	.26%
Federal funds sold and securities purchased under resale agreements	**1,525**	**3**	**.69**	1,862	2	.37%
Trading assets	**12,060**	**65**	**2.14**	10,524	27	1.04
Securities	**48,183**	**198**	**1.65**	57,794	230	1.60
Loans:						
Commercial	**52,156**	**295**	**2.27**	45,421	295	2.60
Consumer:						
Residential mortgages	**16,019**	**136**	**3.43**	16,031	140	3.49
Home equity mortgages	**1,928**	**16**	**3.35**	2,197	18	3.27
Credit cards	**677**	**17**	**10.07**	817	17	8.45
Other consumer	**545**	**7**	**5.30**	649	8	4.67
Total consumer	**19,169**	**176**	**3.71**	19,694	183	3.72
Total loans	**71,325**	**471**	**2.65**	65,115	478	2.94
Other	**3,314**	**12**	**1.29**	2,847	11	1.49
Total interest earning assets	**163,636**	**$ 766**	**1.88%**	161,310	$ 762	1.89%
Allowance for credit losses	**(559)**			(573)		
Cash and due from banks	**938**			1,133		
Other assets	**21,173**			22,032		
Total assets	**$ 185,188**			$ 183,902		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$ 43,049**	**$ 13**	**.12%**	$ 43,964	$ 18	.16%
Other time deposits	**22,476**	**21**	**.38**	19,942	36	.71
Deposits in foreign offices:						
Foreign banks deposits	**6,760**	**1**	**.07**	7,183	1	.07
Other interest bearing deposits	**5,894**	**1**	**.07**	7,432	1	.08
Total interest bearing deposits	**78,179**	**36**	**.19**	78,521	56	.28
Short-term borrowings	**25,306**	**14**	**.22**	16,688	8	.20
Long-term debt	**22,426**	**152**	**2.72**	21,997	166	3.01
Total interest bearing deposits and debt	**125,911**	**202**	**.64**	117,206	230	.78
Tax liabilities	**264**	**(113)**	**(172.05)**	504	9	7.76
Total interest bearing liabilities	**126,175**	**89**	**.28**	117,710	239	.81
Net interest income/Interest rate spread		**$ 677**	**1.60%**		$ 523	1.08%
Noninterest bearing deposits	**29,728**			30,853		
Other liabilities	**12,440**			17,554		
Total shareholders' equity	**16,845**			17,785		
Total liabilities and shareholders' equity	**$ 185,188**			$ 183,902		
Net interest margin on average earning assets			**1.66%**			1.30%
Net interest income to average total assets			**1.46%**			1.14%

Six Months Ended June 30,	2014			2013		
	Average Balance	Interest	Rate[(1)]	Average Balance	Interest	Rate[(1)]
	(dollars are in millions)					
Assets						
Interest bearing deposits with banks	**$ 24,446**	**$ 31**	**.26%**	$ 20,292	$ 26	.26%
Federal funds sold and securities purchased under resale agreements	**1,387**	**5**	**.65**	1,886	4	.43
Trading assets	**12,319**	**113**	**1.84**	10,991	51	.93
Securities	**52,124**	**409**	**1.58**	60,107	463	1.55
Loans:						
Commercial	**50,819**	**582**	**2.31**	44,375	568	2.58
Consumer:						
Residential mortgages	**15,988**	**272**	**3.43**	15,895	286	3.62
Home equity mortgages	**1,949**	**33**	**3.40**	2,237	37	3.30
Credit cards	**687**	**34**	**10.08**	794	35	8.84
Other consumer	**551**	**14**	**5.21**	648	16	5.06
Total consumer	**19,175**	**353**	**3.72**	19,574	374	3.85
Total loans	**69,994**	**935**	**2.70**	63,949	942	2.97
Other	**3,436**	**22**	**1.24**	3,034	21	1.43
Total interest earning assets	**163,706**	**$ 1,515**	**1.87%**	160,259	$ 1,507	1.90%
Allowance for credit losses	**(575)**			(603)		
Cash and due from banks	**949**			1,130		
Other assets	**21,207**			23,494		
Total assets	**$ 185,287**			$ 184,280		
Liabilities and Shareholders' Equity						
Deposits in domestic offices:						
Savings deposits	**$ 43,025**	**$ 26**	**.12%**	$ 44,262	$ 37	.17%
Other time deposits	**20,761**	**41**	**.40**	20,492	56	.55
Deposits in foreign offices:						
Foreign banks deposits	**7,431**	**2**	**.06**	7,433	3	.07
Other interest bearing deposits	**5,667**	**2**	**.08**	6,759	3	.09
Total interest bearing deposits	**76,884**	**71**	**.19**	78,946	99	.25
Short-term borrowings	**26,082**	**23**	**.18**	16,442	17	.21
Long-term debt	**22,620**	**322**	**2.87**	22,036	333	3.04
Total interest bearing deposits and debt	**125,586**	**416**	**.67**	117,424	449	.77
Tax liabilities	**347**	**(101)**	**(58.68)**	495	25	10.26
Total interest bearing liabilities	**125,933**	**315**	**.50**	117,919	474	.81
Net interest income/Interest rate spread		**$ 1,200**	**1.37%**		$ 1,033	1.09%
Noninterest bearing deposits	**29,952**			30,983		
Other liabilities	**12,630**			17,577		
Total shareholders' equity	**16,772**			17,801		
Total liabilities and shareholders' equity	**$ 185,287**			$ 184,280		
Net interest margin on average earning assets			**1.48%**			1.30%
Net interest income to average total assets			**1.31%**			1.13%

(1) Rates are calculated on amounts that have not been rounded to the nearest million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information required by this Item is included within Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Risk Management section under the captions "Interest Rate Risk" and "Market Risk".

Item 4. Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting There has been no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

See "Litigation and Regulatory Matters" in Note 19, "Litigation and Regulatory Matters," in the accompanying consolidated financial statements beginning on page 77 for our legal proceedings disclosure, which is incorporated herein by reference.

Item 5. Other Information

Disclosures Pursuant to Section 13(r) of the Securities Exchange Act Section 13(r) of the Securities Exchange Act requires each issuer registered with the SEC to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions with persons or entities targeted by U.S. sanctions programs relating to Iran, terrorism, or the proliferation of weapons of mass destruction, even if those activities are not prohibited by U.S. law and are conducted outside the U.S. by non-U.S. affiliates in compliance with local laws and regulations.

In order to comply with this requirement, HSBC Holdings plc (together with its affiliates, "HSBC Group") has requested relevant information from its affiliates globally. During the period covered by this Form 10-Q, HSBC USA did not engage in any activities or transactions requiring disclosure pursuant to Section 13(r) other than those activities related to frozen accounts and transactions permitted under relevant U.S. sanction programs described under "Frozen Accounts and Transactions" below. The following activities conducted by our affiliates are disclosed in response to Section 13(r):

Loans in repayment Between 2001 and 2005, the Project and Export Finance division of HSBC Group arranged or participated in a portfolio of loans to Iranian energy companies and banks. All of these loans were guaranteed by European and Asian export credit agencies, and they have varied maturity dates with final maturity in 2018. For those loans that remain outstanding, the HSBC Group continues to seek repayment in accordance with its obligations to the supporting export credit agencies and, in all cases, with appropriate regulatory approvals. Details of these loans follow.

The HSBC Group has 11 loans outstanding to an Iranian petrochemical and energy company. These loans are supported by the official Export Credit Agencies of the following countries: the United Kingdom, France, Germany, Spain, The Netherlands, South Korea and Japan. The HSBC Group continues to seek repayments from the company under the existing loans in accordance with the original maturity profiles. All repayments made by the Iranian company have received a license or an authorization from relevant authorities. Repayments have been received under a number of the loans in the second quarter of 2014.

Bank Melli and Bank Saderat acted as sub-participants in two of the aforementioned loans. The repayments due to these banks under the loan agreements were paid into frozen accounts under licenses or authorizations from relevant European governments, although no such payments were made in the second quarter of 2014.

In 2002, the HSBC Group provided a loan to Bank Tejarat with a guarantee from the Government of Iran to fund the construction of a petrochemical plant undertaken by a U.K. contractor. This loan was supported by the U.K. Export Credit Agency and is administered under license from the relevant European Government. This loan has now matured, but claims for non-payment are still being processed with the UK Export Credit Agency.

The HSBC Group also maintains sub-participations in loans provided by other international banks to Bank Tejarat and Bank Mellat with guarantees from the Government of Iran. In relation to Bank Mellat, the HSBC Group has two sub-participations, which were supported by the Export Credit Agencies of the Netherlands and Spain. Both of the facilities have matured. In relation to Bank Tejarat, the HSBC Group has one sub-participation supported by the Export Credit Agency of Italy, which has also has matured. The payments due under the sub-participations have not been received from Bank Mellat or Bank Tejarat and claims are being processed with the relevant European Export Credit Agencies. Licenses and relevant authorizations have been obtained from the competent authorities of the European Union in respect of the transactions.

Estimated gross revenue to the HSBC Group generated by these loans in repayment for the second quarter of 2014, which includes interest and fees, was approximately $640,000. Estimated net profit for the HSBC Group during the second quarter of 2014 was approximately $388,000. While the HSBC Group intends to continue to seek repayment under the existing loans, it does not intend to extend any new loans.

Legacy contractual obligations related to guarantees Between 1996 and 2007, the HSBC Group provided guarantees to a number of its non-Iranian customers in Europe and the Middle East for various business activities in Iran. In a number of cases, the HSBC Group issued counter indemnities in support of guarantees issued by Iranian banks as the Iranian beneficiaries of the guarantees required that they be backed directly by Iranian banks. The Iranian banks to which the HSBC Group provided counter indemnities included Bank Tejarat, Bank Melli, and the Bank of Industry and Mine.

The HSBC Group has worked with relevant regulatory authorities to obtain licenses where required and ensure compliance with laws and regulations while seeking to cancel the guarantees and counter indemnities. None were canceled during the second quarter of 2014 and approximately 20 remain outstanding.

There was no measurable gross revenue to the HSBC Group for the second quarter of 2014. The HSBC Group does not allocate direct costs to fees and commissions and, therefore, has not disclosed a separate profits measure. The HSBC Group is seeking to cancel all relevant guarantees and does not intend to provide any new guarantees involving Iran.

Other relationships with Iranian banks Activity related to U.S.-sanctioned Iranian banks not covered elsewhere in this disclosure includes the following:

- The HSBC Group maintains a frozen account in the U.K. for an Iranian-owned, U.K.-regulated financial institution. In April 2007, the U.K. government issued a license to allow the HSBC Group to handle certain transactions (operational payments and settlement of pre-sanction transactions) for this institution. In December 2013, the U.K. government issued a new license to allow the HSBC Group to deposit certain check payments. There was some licensed activity in the second quarter of 2014.

- The HSBC Group has acted during the second quarter of 2014 as the trustee and administrator for a pension scheme involving four employees of a U.S.-sanctioned Iranian bank in Hong Kong. Under the rules of these schemes, the HSBC Group accepts contributions from the Iranian bank each month and allocates the funds into the pension accounts of the four Iranian bank employees. The HSBC Group runs and operates the pension scheme in accordance with Hong Kong laws and regulations. During the second quarter of 2014, notices of resignation were received for two of the employees.

- In 2010, the HSBC Group closed its representative office in Iran. The HSBC Group maintains a local account with an Iranian bank in Tehran in order to facilitate residual activity related to the closure. The HSBC Group has been authorized by the U.S. Government (and by relevant non-U.S. regulators) to make these types of payments in connection with the liquidation and deregistration of the representative office in Tehran. In the second quarter of 2014, the HSBC Group initiated payments of approximately $22,000 from this account to pay legal and administrative related expenses associated with the closure.

Estimated gross revenue to the HSBC Group in the second quarter of 2014 for all Iranian bank-related activity described in this section, which includes fees and/or commissions, was approximately $109,000. The HSBC Group does not allocate direct costs to fees and commissions and therefore has not disclosed a separate profits measure. The HSBC Group intends to continue to wind down this Iranian bank-related activity and not enter into any new such activity.

Activity related to U.S. Executive Order 13224 The HSBC Group maintains a frozen personal account for an individual sanctioned under Executive Order 13224, and by the U.K. and the U.N. Security Council. Activity on this account in the second quarter of 2014 was permitted by a license issued by the U.K. There was no measurable gross revenue or net profits generated to the HSBC Group in the second quarter of 2014.

Activity related to U.S. Executive Order 13382 The HSBC Group held an account for a customer in the Middle East who was sanctioned under Executive Order 13382 in the first quarter of 2014. The HSBC Group closed the account in the second quarter. There was no measurable gross revenue or net profits generated to the HSBC Group in the first and second quarters of 2014.

Other activity The HSBC Group holds a lease of branch premises in London which it entered into in 2005 and is due to expire in 2020. The landlord of the premises is owned by the Iranian government and is a specially designated national under U.S. sanctions programs. The HSBC Group has exercised a break clause in the lease and is in the process of exiting the property. The HSBC Group made no payments in the second quarter of 2014. There was no gross revenue or net profit to the HSBC Group.

Frozen accounts and transactions The HSBC Group and HSBC Bank USA maintain several accounts that are frozen under relevant sanctions programs and on which no activity, except as licensed or otherwise authorized, took place during the second quarter of 2014. In the second quarter of 2014, the HSBC Group and HSBC Bank USA also froze payments where required under relevant sanctions programs. There was no gross revenue or net profit to the HSBC Group or HSBC Bank USA.

Item 6. Exhibits

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document[1,2]
101.SCH	XBRL Taxonomy Extension Schema Document[1]
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document[1]
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document[1]
101.LAB	XBRL Taxonomy Extension Label Linkbase Document[1]
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document[1]

1. Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in HSBC USA Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in eXentsible Business Reporting Language ("XBRL") interactive data files: (i) the Consolidated Statement of Income for the three and six months ended June 30, 2014 and 2013, (ii) the Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iii) the Consolidated Balance Sheet as of June 30, 2014 and December 31. 2013, (iv) the Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2014 and 2013, (v) the Consolidated Statement of Cash Flows for the six months ended June 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements.

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Signatures

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

Date: August 4, 2014

HSBC USA INC.

By: /s/ GERARD MATTIA

Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

Exhibit Index

12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document(1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(1)

1. Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in HSBC USA Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in eXentsible Business Reporting Language ("XBRL") interactive data files: (i) the Consolidated Statement of Income for the three and six months ended June 30,, 2014 and 2013, (ii) the Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iii) the Consolidated Balance Sheet as of June 30, 2014 and December 31. 2013, (iv) the Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2014 and 2013, (v) the Consolidated Statement of Cash Flows for the six months ended June 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements.

EXHIBIT 12

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

	Six Months Ended June 30,	
	2014	**2013**
	(dollars are in millions)	
Ratios excluding interest on deposits:		
Income (loss) from continuing operations	**$ 283**	$ 363
Income tax expense (benefit)	**(57)**	196
Less: Undistributed equity earnings	**—**	—
Fixed charges:		
Interest on:		
Borrowed funds	**23**	17
Long-term debt	**322**	333
Others[2]	**(101)**	25
One third of rents, net of income from subleases	**14**	17
Total fixed charges, excluding interest on deposits	**258**	392
Earnings from continuing operations before taxes and fixed charges, net of undistributed equity earnings	**484**	951
Ratio of earnings to fixed charges	**1.88**	2.43
Total preferred stock dividend factor[1]	**$ 59**	$ 61
Fixed charges, including the preferred stock dividend factor	**$ 317**	$ 453
Ratio of earnings from continuing operations to combined fixed charges and preferred stock dividends	**1.53**	2.10
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	**$ 258**	$ 392
Add: Interest on deposits	**71**	99
Total fixed charges, including interest on deposits	**$ 329**	$ 491
Earnings from continuing operations before taxes and fixed charges, net of undistributed equity earnings	**$ 484**	$ 951
Add: Interest on deposits	**71**	99
Total	**$ 555**	$ 1,050
Ratio of earnings to fixed charges	**1.69**	2.14
Fixed charges, including the preferred stock dividend factor	**$ 317**	$ 453
Add: Interest on deposits	**71**	99
Fixed charges, including the preferred stock dividend factor and interest on deposits	**$ 388**	$ 552
Ratio of earnings from continuing operations to combined fixed charges and preferred stock dividends	**1.43**	1.90

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

(2) During the second quarter of 2014, we concluded certain state and local tax audits resulting in the settlement of significant uncertain tax positions covering a number of years. As a result, we released tax reserves previously maintained in relation to the periods and issues under review. In addition, we released our accrued interest associated with the tax reserves released which resulted in a $120 million benefit to interest expense in 2014.

EXHIBIT 31

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

Certification of Chief Executive Officer

I, Irene M. Dorner, President, Chief Executive Officer and Chairman of the Board of HSBC USA Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2014

/s/ IRENE M. DORNER

Irene M. Dorner
President, Chief Executive
Officer and Chairman of the Board

Certification of Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2014

/s/ GERARD MATTIA

Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

EXHIBIT 32

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

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

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the "Company") quarterly report on Form 10-Q for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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

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

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

Date: August 4, 2014

/s/ IRENE M. DORNER

Irene M. Dorner
President, Chief Executive
Officer and Chairman of the Board

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

The certification set forth below is being submitted in connection with the HSBC USA Inc. (the “Company”) quarterly report on Form 10-Q for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Gerard Mattia, Executive Vice President and Chief Financial Officer of the Company, certify that:

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

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

Date: August 4, 2014

/s/ GERARD MATTIA

Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

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

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