FRONTIER COMMUNICATIONS CORP
Form 8-K
January 12, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): January 12, 2009

Frontier Communications Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-11001	**06-0619596**
(Commission File Number)	**(IRS Employer Identification No.)**

3 High Ridge Park, Stamford, Connecticut	**06905**
(Address of principal executive offices)	**(Zip Code)**

(203) 614-5600

(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR240.13e-4(c))

Item 7.01. Regulation FD Disclosure

Donald R. Shassian, Chief Financial Officer of Frontier Communications Corporation (the Company), will be reviewing certain materials concerning the Company with investors from time to time, commencing the week of January 12, 2009 in London, England, Milan, Italy, and Dublin, Ireland. A copy of the materials is attached hereto as Exhibit 99.1.

The information furnished in Item 7.01 of this Form 8-K and in Exhibit 99.1 attached hereto shall not be deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 Presentation to Investors.

SIGNATURES

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

FRONTIER COMMUNICATIONS CORPORATION

Date: January 12, 2009

By: /s/ Robert J. Larson
Robert J. Larson
Senior Vice President and Chief

Accounting Officer

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	127			
Other trading	**(2)**	1	**(3)**	*
Trading related (loss) revenue	**$ (691)**	$ 113	**$ (804)**	*

* Not meaningful.

Trading (loss) revenue for the three months ended March 31, 2008 was significantly affected by reduced liquidity, widening spreads and higher volatility in the credit and sub-prime lending markets. The market turmoil has caused a significant fall in revenues in the first quarter of 2008, as compared with the same 2007 period.

Trading losses related to derivatives increased substantially, primarily due to write downs on credit derivatives and structured products totaling approximately $726 million in the first quarter of 2008. Most notably, recent downgrades in credit ratings of monoline insurance companies have resulted in fair value adjustments on derivative contracts with these entities due to counterparty credit risk exposures. As of March 31, 2008, this exposure totaled $1,756 million. HUSI recorded write downs on contracts with monoline insurance companies of approximately $488 million in the first three months ended March 31, 2008, which reflects the decreased credit quality of these entities and concerns over their ability to perform at this date. Additionally, trading losses relating to structured products include the mark on a forward contract to subscribe a structured note for $300 million at a future date. At March 31, 2008, the fair value of the note was below the subscription price by approximately $60 million resulting in the recognition of a loss.

Trading losses related to securities increased significantly, primarily due to credit spread widening and write downs on asset backed securities held for trading purposes.

Partially offsetting the above noted declines in trading revenues, the foreign exchange business has continued to contribute increased revenues as a result of ongoing market volatility.

Precious metals revenue also increased in the first quarter of 2008, as compared to prior year, as a result of higher prices on various metals, specifically gold and platinum.

The increase in net interest income reflects a reduction in funding costs as the federal funds rates decreased in the first quarter of 2008.

Securities Gains, Net

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

Three months ended March 31 (in millions)	**2008**	**2007**
Sale of Visa Class B Shares	**$ 83**	$ -
Balance sheet diversity and reduction of risk	**1**	8
Reduction of Latin American investment exposure	**-**	5
Sales on equity investments to an HSBC affiliate (1)	**-**	8
Securities gains, net	**$ 84**	$ 21

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

HSBC Affiliate Income

Affiliate fees and commissions increased $7 million for the three months ended March 31, 2008 as compared to the same 2007 period. This was primarily related to a $19 million increase in customer referral fees and other fees received from HSBC affiliates. Partially offsetting this was a decrease in gains related to lower volumes of tax refund anticipation loan originations, which resulted in lower affiliate income of $10 million for the first quarter of 2008, as compared to the same period in 2007.

Residential Mortgage Banking Revenue

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

			Increase (Decrease)	
Three months ended March 31	**2008**	**2007**	**Amount**	**%**
($ in millions)				
Net interest income	**$ 61**	$ 74	**$ (13)**	**(18)**
Servicing related income:				
Servicing fee income	**31**	28	**3**	**11**
Changes in fair value of MSRs due to:				
Changes in valuation inputs or assumptions used in valuation model	**(21)**	6	**(27)**	*****
Realization of cash flows	**(30)**	(24)	**(6)**	**(25)**
Trading - Derivative instruments used to offset changes in value of MSRs	**40**	(3)	**43**	*****
	20	7	**13**	**186**
Originations and sales related income:				
Gains on sales of residential mortgages	**13**	6	**7**	**117**
	13	6	**7**	**117**
Other mortgage income	**5**	7	**(2)**	**(29)**
Total residential mortgage banking revenue included in other revenues	**38**	20	**18**	**90**
Total residential mortgage banking related revenue	**$ 99**	$ 94	**$ 5**	**5**

* Not meaningful.

Net Interest Income

Decreased net interest income for the first quarter of 2008 resulted from lower average residential mortgage loans outstanding. During this period, HUSI continued to sell the majority of new loan originations to government sponsored enterprises and private investors and allow existing loans to runoff. The held loans portfolio is expected to continue to decline for the remainder of 2008 as a result of this initiative.

Servicing Related Income

Higher servicing fee income for the first quarter of 2008 resulted from a higher volume of loans included within the average serviced loans portfolio. The average serviced loans portfolio increased approximately 8% in the first quarter as HUSI continued servicing a portfolio of loans previously serviced by a third party.

The increased serviced loans portfolio, and its positive impact on service fee income, was partially offset by an increase in realization of cash flows on the growing portfolio of loans serviced for others for the first three months of 2008. Favorable MSR performance for the first quarter of 2008 resulted primarily from the positive impact of the widening spread between mortgage servicing and derivatives used to hedge MSR interest rate risk.

Other (Loss) Income

The $52 million decrease in other (loss) income is primarily due to write downs on loans held for sale which totaled $117 million for the first three months of 2008. This was partially offset by a $62 million increase related to the unrealized gain on credit default swaps protection.

Valuation on Loans Held for Sale

Deterioration in the U.S. mortgage markets have resulted in negative valuation adjustments on loans held for sale in the first quarter of 2008. Valuations on loans held for sale relate to residential mortgage loans purchased from HSBC affiliates and third parties with the intent of securitization or sale. Included in this portfolio is approximately $1.7 billion of sub-prime residential mortgage loans. Loans held for sale are recorded by HUSI at the lower of their aggregate cost or market value, with adjustments to market value being recorded as a valuation allowance. Overall weakness and illiquidity in the U.S. residential mortgage market, and specifically significantly reduced fair values of sub-prime loans, resulted in valuation adjustments totaling $117 million being recorded on these loans in the first three months of 2008, as compared with $10 million during the same time period of the previous year.

Operating Expenses

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

						Increase (Decrease)	
Three months ended March 31		**2008**		**2007**		**Amount**	**%**
($ in millions)							
Salaries and employee benefits:							
Salaries	**$**	**217**	$	245	**$**	**(28)**	**(11)**
Employee benefits		**93**		93		**-**	**-**
Total salaries and employee benefits		**310**		338		**(28)**	**(8)**
Occupancy expense, net		**64**		58		**6**	**10**
Support services from HSBC affiliates:							
Fees paid to HSBC Finance Corporation for loan servicing		**121**		119		**2**	**2**

and other administrative support				
Fees paid to HMUS	**51**	57	**(6)**	**(11)**
Fees paid to HTSU for technology services	**60**	61	**(1)**	**(2)**
Fees paid to other HSBC affiliates	**58**	42	**16**	**38**
Total support services from HSBC affiliates	**290**	279	**11**	**4**
Other expenses:				
Equipment and software	**11**	15	**(4)**	**(27)**
Marketing	**38**	32	**6**	**19**
Outside services	**31**	29	**2**	**7**
Professional fees	**18**	17	**1**	**6**
Telecommunications	**5**	5	**-**	**-**
Postage, printing and office supplies	**9**	9	**-**	**-**
Miscellaneous	**48**	61	**(13)**	**21**
Total other expenses	**160**	168	**(8)**	**(5)**
Total operating expenses	**$ 824**	$ 843	**$ (19)**	**(2)**
Personnel - average number	**11,945**	12,318	**(373)**	**(3)**
Efficiency ratio	**93.62 %**	59.17 %		

Salaries and Employee Benefits

Decreased salaries expenses for the first three months of 2008, as compared to the same 2007 period, are mainly due to lower headcount (partially due to the sale of WTAS business) and the resulting reduction in salaries and bonus payments. Also contributing to this decrease are global resourcing initiatives undertaken by management. Refer to Support Services from HSBC Affiliates below.

Occupancy Expense, Net

Expansion of the core banking and commercial lending networks within the PFS and CMB business segments has been a key component of recent business expansion initiatives. New branches have been opened, resulting in higher rental expenses, depreciation of leasehold improvements, utilities and other occupancy expenses during the first three months of 2008, as compared to the same 2007 period.

Support Services from HSBC Affiliates

Higher expense for the first three months of 2008 primarily resulted from HUSI's utilization of other HSBC affiliates in support of global resourcing initiatives and, to a lesser extent, for treasury and traded markets services.

Other Expenses

Other expenses remained relatively flat for the first quarter of 2008, as compared to the same 2007 period. The increase in marketing expenses resulted from a continuing investment in HSBC brand activities, marketing support for branch expansion initiatives within the PFS business segment and an increase in marketing for CMB products and services. This was more than offset by a $37 million decrease in miscellaneous expenses primarily due to an adjustment to VISA litigation expenses which were recorded in the fourth quarter of 2007, where Visa has established a legal defense fund which reduces the expenses that HUSI expects to incur.

Efficiency Ratio

Three months ended March 31	**2008**	**2007**
Efficiency ratio (1)	**93.62 %**	59.17 %

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

Deterioration of the efficiency ratio resulted primarily from a decrease in other revenues, partially offset by higher net interest income for the three months ended March 31, 2008, as compared to the same 2007 period.

SEGMENT RESULTS

HUSI has five distinct segments that are utilized for management reporting and analysis purposes. The segments, which are based upon customer groupings as well as products and services offered, are described on pages 5-7 of HUSI's 2007 Form 10-
K.

Corporate goals of HUSI are based upon results reported under International Financial Reporting Standards (IFRSs), which are utilized by HSBC to prepare its consolidated financial statements. Operating results for HUSI are monitored and reviewed, trends are evaluated, and decisions are made about allocating certain resources on an IFRSs basis. As a result, business segment results are reported on an IFRSs basis. Results for 2008 and 2007 in the tables that follow are reflected on an IFRSs basis.

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

Personal Financial Services (PFS)

Overview

Resources continued to be directed towards expansion of the core retail banking business, including investment in the HSBC brand and expansion of the branch network in existing and new geographic areas. As a result, balance sheet growth for core retail banking in 2008 was highlighted by a 4% increase in average deposits, as compared with the same 2007 period. Interest income, however, has declined compared with the same 2007 period due to narrowing of deposit spreads driven by competitive pricing pressures and the decline in the rate environment. Additionally, a deterioration in credit quality, particularly on Home Equity Lines of Credit, Home Equity Loans and credit cards, has negatively impacted results.

HUSI continued to sell the majority of new residential mortgage loan originations to government sponsored enterprises and private investors and to allow the existing balance sheet to runoff. As a result, average residential mortgage loans decreased 8% for the first three months of 2008, as compared with the same 2007 period.

Operating Results

The following table summarizes results for the PFS segment.

Three months ended March 31 **($ in millions)**	**2008**	**2007**	**Increase (Decrease) Amount**	**%**
Net interest income	**$ 247**	$ 287	**$ (40)**	**(14)**
Other revenues	**226**	150	**76**	**51**
Total revenues	**473**	437	**36**	**8**
Provision for credit losses	**59**	5	**54**	*****
	414	432	**(18)**	**(4)**
Operating expenses	**280**	292	**(12)**	**(4)**
Income before income tax expense	**134**	140	**(6)**	**(4)**
Income tax expense	**51**	39	**12**	**31**
Net income	**$ 83**	$ 101	**$ (18)**	**(18)**

* Not meaningful.

Net interest income from continuing core banking activities has decreased for the first quarter of 2008, as compared with the same 2007 period due to narrowing of interest rate spreads driven by the declining rate environment and competitive pricing pressures on savings and Certificates of Deposit products. Net interest income for the first quarter of 2008 was also impacted by lower interest income due to loan portfolio runoff on the residential mortgage portfolio.

Other revenues for the first quarter of 2008 were higher as compared to the same 2007 period due to gain on sale of $83 million from Visa Class B shares. This was partially offset by lower revenues of $15 million resulting from lower volumes of federal income tax refund anticipation loans originated by HBUS and HTCD and sold to HSBC Finance Corporation. Additionally, 2007 revenue included a gain on the sale of branch property of $17 million.

Higher provision for credit losses was driven by an increase in delinquencies and charge offs within the Home Equity Line of Credit (HELOC) and Home Equity Loan portfolios, which is primarily due to conditions in the housing markets deteriorating. Residential first mortgage loans are also beginning to experience moderate increases in delinquencies and charge offs due to the deterioration of the housing market. Provisions on MasterCard/Visa receivables and other consumer loans have also increased in the first quarter of 2008, as compared with the same 2007 period, due in part to higher levels of personal bankruptcy filings and a weakening U.S. economy.

Decreased operating expenses are related to the partial recovery of $37 million representing a portion of the Visa indemnification reserve that was recorded in the fourth quarter of 2007. Refer to Part II. Item 1 of this Form 10-Q for additional information regarding Legal Proceedings. Partially offsetting this reduction in expense was higher staff, marketing, occupancy and technology costs reflecting investment in branch expansion and branch automation.

Consumer Finance (CF)

Overview

The CF segment includes the private label and co-brand credit cards, as well as other loans acquired from HSBC Finance Corporation and its correspondents. Most notably, HUSI purchased a portfolio of higher quality nonconforming residential mortgage loans (the HMS portfolio) from HSBC Finance Corporation with the intent of holding these loans. Results of the CF segment have been negatively impacted by significant increases in provision for credit losses relating to the private label and HMS portfolios.

Operating Results

The following table summarizes results for the CF segment.

Three months ended March 31	**2008**	2007	**Increase (Decrease) Amount**	**%**
($ in millions)				
Net interest income	**$ 294**	$ 199	**$ 95**	**48**
Other revenues	**93**	48	**45**	**94**
Total revenues	**387**	247	**140**	**57**
Provision for credit losses	**368**	174	**194**	**111**
	19	73	**(54)**	**(74)**
Operating expenses	**17**	8	**9**	**113**
Income before income tax expense	**2**	65	**(63)**	**(97)**
Income tax expense	**1**	23	**(22)**	**(96)**
Net income	**$ 1**	$ 42	**$ (41)**	**(98)**

Higher net interest income in 2008 primarily relates to lower amortization of premiums paid for purchases of receivables included within the private label portfolio as well as lower funding costs due to declining federal funds rates.

Higher other revenues are directly related to increased credit card fees due to higher delinquencies in the private label and co-brand credit card portfolios (refer to page 41 of this Form 10-Q).

The provision for credit losses associated with credit card receivables increased for the first quarter of 2008, as compared with the same 2007 period primarily due to higher delinquencies and charge offs within the private label credit card portfolio due in part to higher levels of personal bankruptcy filings and a weakening U.S. economy. Higher delinquencies and charge offs in the HMS portfolio have also contributed to this increase due to deterioration in the housing market.

Operating expenses have increased $9 million for the first quarter of 2008, as compared to the same 2007 period, primarily due to additional expenses paid to a third party for collection activities of charged off, private label accounts, and foreclosure and maintenance expenses on the HMS portfolio. Additionally, there have been write downs on properties currently held due to foreclosures.

HUSI is considering the purchase of a portfolio of General Motors MasterCard receivables (the "GM Portfolio") from HSBC Finance Corporation in the future in order to maximize the efficient use of capital and liquidity at each entity. Any such purchase will be subject to obtaining the necessary regulatory and other approvals. HSBC Finance

Corporation would, however, maintain the customer account relationships and, subsequent to the initial receivable purchase, HUSI would purchase additional volume on a daily basis. At March 31, 2008, the GM Portfolio had an outstanding receivable balance of approximately $6.5 billion. If this bulk purchase occurs, the transaction will be recorded at fair value. In future periods, HUSI's net interest income and fee income would be increased. Offsetting these increases would be amortization of the premium from the initial continuing purchase of credit card receivables, provision for credit losses and servicing fees paid to HSBC Finance Corporation.

Commercial Banking (CMB)

Overview

Balanced growth between established footprint in
New York

State
 and expansion markets in the West Coast,
Chicago
 and the Southeast, has led to an 18% increase in lending to middle market customers and a 20% increase in customer deposits for the first quarter of 2008, as compared to the same 2007 period. The small business market has seen more moderate growth rates, with competition in this business particularly strong. The commercial real estate business has taken the opportunity in recent months to manage down its lending exposures. This has had a dampening effect on balance sheet growth at a total commercial banking level.

The declining interest rate environment also negatively impacted income growth, as deposit spreads have narrowed across all businesses. Although charge offs remain relatively benign, provisions for credit losses have increased in recent months following a deterioration in the outlook for the economy.

Operating Results

The following table summarizes results for the CMB segment.

			Increase (Decrease)	
Three months ended March 31	**2008**	**2007**	**Amount**	**%**
($ in millions)				
Net interest income	**$ 184**	$ 196	**$ (12)**	**(6)**
Other revenues	**71**	62	**9**	**15**
Total revenues	**255**	258	**(3)**	**(1)**
Provision for credit losses	**47**	18	**29**	**161**
	208	240	**(32)**	**(13)**
Operating expenses	**144**	140	**4**	**3**
Income before income tax expense	**64**	100	**(36)**	**(36)**
Income tax expense	**25**	26	**(1)**	**(4)**
Net income	**$ 39**	$ 74	**$ (35)**	**(47)**

Net interest income decreased in the first quarter of 2008, as compared to the same 2007 period, primarily due to declining spreads on deposits. This was partially offset by average balance growth in middle market loans and deposits.

Other revenues increased for the first quarter of 2008, mainly due to higher gains on loan sales and syndication fees.

Provisions for credit losses have increased by 161% for the first quarter of 2008, as compared to the same 2007 period. This is the result of higher provisions across the portfolio due to the downturn in the real estate market and worsening economic conditions.

Deposit volumes continue to be a key driver of growth in the first quarter of 2008, driven by expansion initiatives and targeted marketing campaigns. For the CMB segment, average customer deposit balances have increased 10% for the first quarter of 2008 compared with the same 2007 period.

Loan growth resulted primarily from strong activity in middle market lending, with growth distributed between legacy and expansion markets. However, overall loan growth has been restrained by a slowdown in commercial real estate activity. For the CMB segment, average loans are 5% higher for the first quarter of 2008, compared with the same 2007 period.

Global Banking and Markets

Overview

During the first three months of 2008, the Global Banking and Markets segment has continued to be affected by reduced market liquidity, widening spreads and higher volatility in the credit and sub-prime lending markets, which has led to a considerable fall in revenues for the first quarter of 2008, as compared with the same 2007 period. This impacted trading in mortgage backed securities and credit derivatives and led to substantial reserves being taken in several asset classes. Partially offsetting this, payments and cash management, emerging markets, precious metals and the foreign exchange business have contributed significantly higher revenues.

Operating Results

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

			Increase (Decrease)	
Three months ended March 31	**2008**	**2007**	**Amount**	**%**
($ in millions)				
Net interest income	**$ 122**	$ (3)	**$ 125**	*
Other (loss) revenues	**(717)**	254	**(971)**	*
Total (loss) revenues	**(595)**	251	**(846)**	*
Provision for credit losses	**42**	(5)	**47**	*
	(637)	256	**(893)**	*
Operating expenses	**203**	189	**14**	**7**
Income (loss) before income tax expense	**(840)**	67	**(907)**	*
Income tax (benefit) expense	**(318)**	18	**(336)**	*
Net (loss) income	**$ (522)**	$ 49	**$ (571)**	*

* Not meaningful.

Increased net interest income was primarily due to an increase in balance sheet management activities and also reflects higher held for sale leverage commercial loan balances as loan syndication activities were negatively impacted by the decline in market liquidity.

Other revenues were significantly affected by adverse market conditions. Specifically, valuation losses of $258 million were recorded against the fair values of sub-prime residential mortgage and leveraged commercial loans held for sale. Additionally, losses of $369 million were recorded for trading securities, credit derivatives and structured derivative products.

Other revenues also reflects fair value adjustments of $488 million in the first quarter of 2008 as adverse market conditions have led to downgrades in internal credit ratings of monoline insurance companies. These adjustments have been recorded due to counterparty credit risk exposures on derivative contracts with these entities, and reflect the decreased credit quality of these entities and concerns over their ability to perform at March 31, 2008.

Partially offsetting the above mentioned declines, revenues from the recently expanded payments and cash management business were higher for the first quarter of 2008, as compared with the same 2007 period, reflecting higher deposit balances and higher associated transaction fee revenues. The foreign exchange, precious metals, emerging markets and interest rate trading activities also contributed higher revenues as a result of ongoing market volatility, increased customer flow and a weakening dollar. Additionally, revenues benefited from increased valuations on credit default swaps used to economically hedge credit exposures.

Increased provisions in the first quarter of 2008, as compared with the same period of 2007, reflect weaker credit fundamentals which have resulted in a higher number of downgrades.

Higher operating expenses for the first quarter of 2008, as compared with the same 2007 period, primarily resulted from increased charges from affiliates for business support.

Private Banking (PB)

Overview

During the first quarter of 2008 resources continued to be allocated to expand products and services provided to high net worth customers served by the PB business segment. As a result, total average loans (mostly commercial) and deposits (primarily from foreign clients) were 4% and 12% higher, respectively, for the first quarter of 2008 compared with the same 2007 period. Assets under management also increased 1%.

Operating Results

The following table summarizes results for the PB segment.

			Increase (Decrease)	
Three months ended March 31	**2008**	**2007**	**Amount**	**%**
($ in millions)				
Net interest income	**$ 49**	$ 50	**$ (1)**	**(2)**
Other revenues	**43**	73	**(30)**	**(41)**
Total revenues	**92**	123	**(31)**	**(25)**

(Credit) provision for credit losses	**(3)**	7	**(10)**	**(143)**
	95	116	**(21)**	**(18)**
Operating expenses	**61**	82	**(21)**	**(26)**
Income before income tax expense	**34**	34	**-**	**-**
Income tax expense	**13**	9	**4**	**44**
Net income	**$ 21**	$ 25	**$ (4)**	**(16)**

Net interest income for the first three months of 2008 was impacted by higher average balances for loans and deposits which was offset by lower interest spreads.

Lower other revenues and operating expenses were primarily due to the sale of the Wealth and Tax Advisory Services (WTAS) business at December 31, 2007. Excluding the impact of the WTAS business, other revenues in the first quarter of 2008 were higher primarily due to higher commission and fee revenues from managed products, derivatives and annuity products. Operating expenses increased as a result of higher staff costs to expand the services provided to high net worth domestic and foreign clients.

Provision for credit losses was lower in the first quarter of 2008, as compared to the same period in 2007, due to lower general reserves and an $8 million write-off in the first quarter of 2007 related to a specific client relationship.

Other

Overview

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

Operating Results

The following table summarizes results for the Other segment.

			Increase	
Three months ended March 31	**2008**	**2007**	**Amount**	**%**
($ in millions)				
Net interest income	**$ 2**	$ (2)	**$ 4**	**200**
Other revenues	**164**	5	**159**	*****
Total revenues	**166**	3	**163**	*****
Provision for credit losses	**-**	-	**-**	**-**
	166	3	**163**	*****
Operating expenses	**-**	-	**-**	**-**
Income before income tax expense	**166**	3	**163**	*****
Income tax expense	**64**	1	**63**	*****
Net income	**$ 102**	$ 2	**$ 100**	*****

* Not meaningful.

The increase in other revenues for the first quarter of 2008 primarily resulted from decreases in the fair value of certain debt instruments to which fair value option accounting is applied, due to widening credit spreads.

CREDIT QUALITY

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

HUSI's allowance for credit losses methodology and its accounting policies related to the allowance for credit losses are presented in Critical Accounting Policies beginning on page 25 of its 2007 Form 10-
K and in Note 2 of the consolidated financial statements beginning on page 103 of its 2007 Form 10-
K.

HUSI's approach toward credit risk management is summarized on pages 77-78 of its 2007 Form 10-
K. There have been no material revisions to policies or methodologies during the first quarter of 2008, although the company continues to monitor current market conditions and will adjust credit policies as deemed necessary.

Overview

The allowance for credit losses increased $169 million (12%) during the three month period ended March 31, 2008. Allowance for credit losses balances and activity, by loan portfolio, are summarized on page 55 of this Form 10-
Q.

The provision for credit losses increased $293 million (143%) for the first quarter of 2008 as compared with the same 2007 period, primarily due to higher provisions associated with commercial loans, residential mortgages and credit card receivables. The provision for credit losses associated with various loan portfolios is summarized on page 40 of this Form 10-
Q.

Problem Loan Management

Nonaccruing loans by portfolio and impaired loans are summarized in Note 5 of the consolidated financial statements beginning on page 11 of this Form 10-
Q.

HUSI's policies and practices for placing loans on nonaccruing status are summarized in Note 2 of the consolidated financial statements, beginning on page 103 of its 2007 Form 10-
K.

Criticized Assets

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

Criticized credit facilities are summarized in the following table, which includes only assets that are reservable through HUSI's credit loss reserve process.

		Increase from			
	March 31,	December 31, 2007		March 31, 2007	
Balance at	**2008**	**Amount**	**%**	**Amount**	**%**
($ in millions)					
Special mention (1):					
Commercial loans	**$ 2,514**	$ 112	5	$ 1,276	103
Substandard (2):					
Commercial loans	**898**	273	44	397	79
Consumer loans	**972**	110	13	365	60
	1,870	383	26	762	69
Doubtful (3):					
Commercial loans	**37**	11	42	4	12
Total	**$ 4,421**	$ 506	13	$ 2,042	86

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

Allowance for Credit Losses

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

Quarter ended	**March 31, 2008**	**December 31, 2007**	**September 30, 2007**	**June 30, 2007**	**March 31, 2007**
($ in millions)					
Total loans at quarter end	**$ 92,665**	$ 95,826	$ 92,666	$ 87,409	$ 88,893
Average total loans	**92,756**	92,527	88,720	88,477	88,092

Allowance balance at beginning of quarter	**$ 1,414**	$ 1,058	$ 902	$ 862	$ 897
Charge offs:					
Commercial	**31**	42	35	34	36
Consumer:					
Residential mortgages	**40**	30	14	12	14
Credit card receivables	**299**	262	228	221	224
Other consumer loans	**32**	32	28	26	31
Total consumer loans	**371**	324	270	259	269
Total charge offs	**402**	366	305	293	305
Recoveries on loans charged off:					
Commercial	**6**	8	6	8	6
Consumer:					
Residential mortgages	**1**	-	-	1	-
Credit card receivables	**57**	55	44	50	49
Other consumer loans	**9**	8	9	10	10
Total consumer loans	**67**	63	53	61	59
Total recoveries	**73**	71	59	69	65
Total net charge offs	**329**	295	246	224	240
Provision charged to income	**498**	651	402	264	205
Allowance balance at end of quarter	**$ 1,583**	$ 1,414	$ 1,058	$ 902	$ 862
Allowance ratios:					
Annualized net charge offs to average loans:					
Commercial	**.28 %**	.38 %	.36 %	.35 %	.43 %
Consumer:					
Residential mortgages	**.45**	.33	.15	.11	.15
Credit card receivables	**5.19**	4.43	4.09	3.91	4.01
Other consumer loans	**4.18**	4.08	3.08	2.58	3.20
Total consumer	**2.18**	1.82	1.51	1.35	1.43
Total loans	**1.43 %**	1.26 %	1.10 %	1.01 %	1.11 %
Quarter-end allowance to:					
Quarter-end total loans	**1.71 %**	1.48 %	1.14 %	1.03 %	.97 %
Quarter-end total					

nonaccruing loans	**160.06 %**	185.08 %	163.78 %	277.54 %	280.78 %

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

Three months ended March 31 (in millions)	**Commercial**	**Residential Mortgage**	**Credit Card**	**Other Consumer**	**Unallocated**	**Total**
2008						
Balance at beginning of period	**$ 280**	**$ 88**	**$ 997**	**$ 29**	**$ 20**	**$ 1,414**
Charge offs	**31**	**40**	**299**	**32**	**-**	**402**
Recoveries	**6**	**1**	**57**	**9**	**-**	**73**
Net charge offs	**25**	**39**	**242**	**23**	**-**	**329**
Provision charged to income	**85**	**57**	**329**	**21**	**6**	**498**
Balance at end of period	**$ 340**	**$ 106**	**$ 1,084**	**$ 27**	**$ 26**	**$ 1,583**
2007						
Balance at beginning of period	$ 203	$ 31	$ 626	$ 26	$ 11	$ 897
Charge offs	36	14	224	31	-	305
Recoveries	6	-	49	10	-	65
Net charge offs	30	14	175	21	-	240
Provision charged to income	33	14	140	18	-	205
Balance at end of period	$ 206	$ 31	$ 591	$ 23	$ 11	$ 862

Commercial Loan Credit Quality

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

	March 31, 2008	Increase from December 31, 2007 Amount	%	Increase from March 31, 2007 Amount	%
($ in millions)					
On-balance sheet allowance:					
Specific	**$ 29**	$ 14	93	$ 15	107
Collective	**311**	46	17	119	62
	340	60	21	134	65
Unallocated	**26**	6	30	15	136
Total on-balance sheet allowance	**366**	66	22	149	69
Off-balance sheet allowance	**111**	8	8	16	17
Total commercial allowances	**$ 477**	$ 74	18	$ 165	53

Higher commercial loan allowance from December 31, 2007 to March 31, 2008 resulted mainly from higher criticized loan balances (refer to page 53 of this Form 10-Q) caused by downgrades in financial institution counterparties as well as real estate and middle market customers. The downgrades resulted in part from changes in financial conditions of specific customers within these portfolios. Total nonaccruing commercial loans remain low as a percentage of total commercial loans. Based upon evaluation of the repayment capacity of the obligors, including support from adequately margined collateral, performance on guarantees, and other mitigating factors, impairment is modestly higher in the first quarter of 2008, as compared with prior reporting periods, and is adequately reflected in the allowances for specific and collective impairment.

- HUSI management continues to monitor the following factors that could affect portfolio risk:
- recent growth initiatives which have resulted in growth in the size and complexity of the commercial loan portfolio;
- HUSI's continued geographic expansion;
- borrower concentrations;
- increased number and complexity of products offered; and
- continuing signs of stress within certain segments of the economy.

HUSI management continues to monitor and reduce exposures to those industries considered to be higher risk, including managing the net exposure within its corporate loan portfolios with an increased syndication capacity as well as increased use of credit default swaps to economically hedge and reduce certain exposures.

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

Credit Card Receivable Credit Quality

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

($ in millions)	**March 31, 2008**	December 31, 2007	March 31, 2007
Accruing balances contractually past due 90 days or more:			
Balance at end of quarter	**$ 464**	$ 432	$ 318
As a percent of total credit card receivables	**2.56 %**	2.23 %	1.84 %
Allowance for credit losses associated with credit card receivables:			
Balance at end of quarter	**$ 1,084**	$ 997	$ 591
As a percent of total credit card receivables	**5.98 %**	5.14 %	3.41 %
Net charge offs of credit card receivables:			
Total for the quarter ended	**$ 242**	$ 207	$ 175
Annualized net charge offs as a percent of average credit card receivables	**5.19 %**	4.43 %	4.01 %

The allowance for credit losses associated with credit card receivables increased $87 million (9%) during the first quarter of 2008. Net charge off and provision activity was higher during the first three months of 2008 as compared to 2007 primarily due to higher delinquencies within these portfolios due in part to higher levels of personal bankruptcy filings and the weakening U.S. economy, which have resulted in a higher collective allowance balance. Underwriting criteria is continually being reviewed and will be modified as necessary based on the current economic environment.

Residential Mortgage Loan Credit Quality

The increase in the allowance for credit losses related to residential mortgage loans in the first quarter of 2008 was related to increased delinquencies and charge offs in the portfolio of higher quality nonconforming residential mortgage loans which HUSI purchased from HSBC Finance Corporation and within the Home Equity Line of Credit (HELOC) and the Home Equity Loan portfolios. Also contributing to this increase to a lesser extent are HUSI's prime residential mortgage loans.

Additional disclosures regarding certain risk concentrations inherent within the residential mortgage loan portfolio are provided beginning on page 69 of this Form 10-Q.

Reserve for Off-Balance Sheet Exposures

HUSI maintains a separate reserve for credit risk associated with certain off-balance sheet exposures including letters of credit, unused commitments to extend credit and financial guarantees. This reserve, included in other liabilities, was $116 million, $105 million and $95 million at March 31, 2008, December 31, 2007 and March 31, 2007, respectively. Off-balance sheet exposures are summarized on page 64 of this Form 10-Q.

Credit and Market Risks Associated with Derivative Contracts

Credit (or repayment) risk in derivative instruments arises from entering into transactions with counterparties such as financial institutions, government agencies, both foreign and domestic, 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. Most derivative contracts are governed by an International Swaps and Derivatives Association Master Agreement. Depending on the type of counterparty and the level of expected activity, bilateral collateral arrangements may also be required.

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

- volatility of interest rates, currencies, equity or corporate reference entity used as the basis for determining contract payments;
- maturity and liquidity of contracts;
- credit worthiness of the counterparties in the transaction;
- 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. The risk exposure calculated in accordance with the risk-based capital guidelines potentially overstates actual credit exposure, because:

- the risk-based capital guidelines ignore collateral that may have been received from counterparties to secure exposures; and
- the risk-based capital guidelines compute exposures over the life of derivative contracts. However, many contracts contain provisions that allow a bank to close out the transaction if the counterparty fails to post required collateral. In addition, many contracts give HUSI 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.

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

	March 31,	**December 31,**
	2008	**2007**
(in millions)		
Risk associated with derivative contracts:		
Total credit risk exposure	**$ 122,419**	$ 78,115

Less: collateral held against exposure	**(6,727)**	(5,148)
Net credit risk exposure	**$ 115,692**	$ 72,967

HUSI enters into basis trades to monetize the basis difference between a bond and a credit default swap (CDS). In a basis trade, HUSI subscribes newly-issued floating rate investment grade mortgage backed or asset backed securities and contemporaneously buys credit protection from monoline insurers for a premium. The sponsoring monoline provides financial guaranty to HUSI if there is a credit event. When the bond spread is higher than the CDS spread, the basis is "negative" and the trade is described as a negative basis trade. The monolines typically do not post collateral. As of March 31, 2008, HUSI had approximately $1,756 million of exposure for CDS under the negative basis arrangements with monolines.

Due to recent downgrades in HUSI's internal credit ratings of monoline insurance companies (refer to Credit Risk Management beginning on page 77 of HUSI's 2007 Form 10-
K for additional commentary relating to HUSI's credit rating system), fair value adjustments have been recorded due to counterparty credit exposures. As of March 31, 2008, this adjustment totaled $775 million. HUSI recorded write-downs on these contracts of approximately $488 million in the first quarter of 2008, which reflects the decreased credit quality of these entities and concerns over their ability to perform at March 31, 2008.

Market risk is the adverse effect that a change in interest rates, currency, or implied volatility rates has on the value of a financial instrument. HUSI manages the market risk associated with interest rate and foreign exchange contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. HUSI also manages the market risk associated with trading derivatives through hedging strategies that correlate the rates, price and spread movements. HUSI measures this risk daily by using Value at Risk (VAR) and other methodologies (refer to page 72 of this Form 10-
Q).

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

	March 31, 2008	**December 31, 2007**
(in millions)		
Interest rate:		
Futures and forwards	**$ 103,422**	$ 96,077
Swaps	**1,874,744**	1,874,340
Options written	**76,572**	97,198
Options purchased	**82,116**	102,015
	2,136,854	2,169,630
Foreign exchange:		
Swaps, futures and forwards	**591,333**	534,988
Options written	**57,063**	87,730
Options purchased	**56,001**	86,350
Spot	**71,252**	39,963
	775,649	749,031
Commodities, equities and precious metals:		

Swaps, futures and forwards	**57,662**	49,080
Options written	**18,746**	19,394
Options purchased	**18,278**	18,730
	94,686	87,204
Credit derivatives	**1,340,928**	1,252,337
Total	**$ 4,348,117**	$ 4,258,202

The total notional amounts in the table above relate primarily to HUSI's trading activities. Notional amounts included in the table related to non-trading fair value, cash flow and economic hedging activities were $15 billion at March 31, 2008 and December 31, 2007.

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

FAIR VALUE

On January 1, 2008, HUSI adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), and Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). As a result, HUSI recorded a total after-tax cumulative effect adjustment of $113 million as an increase to the opening balance of retained earnings as of January 1, 2008. The transition adjustment to the opening balance of retained earnings as of January 1, 2008 includes (a) a $36 million release of certain unamortized deferred profit upon adoption of SFAS 157 and (b) $77 million from the application of the fair value option to certain own debt issuances under SFAS 159.

SFAS 157 also requires HUSI to take into consideration its own credit risk in determining the fair value of financial liabilities. The incorporation of own credit risk reduced the fair value of financial liabilities by $174 million, resulting in a related gain, for the three month period ended March 31, 2008.

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 impacts the comparability of reported results between periods. Accordingly, gain on debt designated at fair value and related derivatives for the three months ended March 31, 2008 should not be considered indicative of the results for any future period.

SFAS 157 establishes a fair value hierarchy for disclosing the fair value measurements of assets and liabilities. The classification of an asset or a liability in the hierarchy is based on the lowest level of significant input to the overall fair value measurement of the asset or liability. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable 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, a valuation technique is used. The majority of 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 the fair value measurements. In the absence of observable market input, the financial instrument is valued based on valuation techniques that feature one or more significant unobservable inputs (Level 3).

The following table indicates that Level 3 assets were 5.45% of the total assets measured at fair value as of March 31, 2008. Level 3 liabilities as a percentage of the total liabilities measured at fair value were 1.44% as of March 31, 2008.

($ in millions)	March 31, 2008
Level 3 assets (1), (2)	**$ 8,943**
Total assets measured at fair value (3)	**163,978**
Level 3 liabilities	**1,814**
Total liabilities measured at fair value (1)	**125,943**
Level 3 assets as a percent of total assets measured at fair value	**5.45 %**
Level 3 liabilities as a percent of total liabilities measured at fair value	**1.44 %**

(1)Presented without FIN 39,
Offsetting of Amounts Relating to Certain Contracts
, netting.
(2)Includes $7,081 million of recurring Level 3 assets and $1,862 million of non-recurring Level 3 assets.
(3)Includes $161,744 million of assets measured on recurring basis and $2,234 million of assets measured on a non-recurring basis.

Material Changes in Fair Value for Level 3 Assets and Liabilities

Derivatives

HUSI entered into buy-protection credit default swaps with monoline insurers to cover the credit exposure in certain asset backed securities. The credit default swaps have been classified as Level 3 instruments at January 1, 2008. As of March 31, 2008, HUSI had a mark-to-market exposure to these monoline insurers of $1,756 million. HUSI reviewed the counterparty credit risk for the credit default swaps with the monolines, and as a result, made a negative credit risk adjustment to the fair value of the credit default swap contracts of $488 million in the first quarter of 2008. The adjustment is included in the trading revenue column in the Level 3 roll-forward table. As of March 31, 2008, HUSI has recorded a fair value adjustment of $775 million in relation to the monoline exposure.

Loans

HUSI classified $1,816 million of mortgage whole loans as Level 3 financial assets as of March 31, 2008 which are measured at fair value on a non-recurring basis. These mortgage loans are accounted for on a lower of cost or fair value basis. Based on its assessment, HUSI recorded a loss of $118 million for such mortgage loans in the first quarter of 2008.

As of March 31, 2008, HUSI held certain leveraged loans and revolvers designated as held for sale valued at $1,797 million ($2,063 million notional principal) of which $746 million was classified as Level 3 assets. HUSI is also committed to fund $91 million of leveraged loans as of March 31, 2008. During the three-month period ended March 31, 2008, HUSI recorded a loss of $81 million in relation to the leveraged loans classified as Level 3 assets in the fair value hierarchy.

Material Transfers Into or Out of Level 3 for the Three-Month Period Ended March 31, 2008

Derivatives

At March 31, 2008, HUSI transferred $1,784 million of Leveraged Super Senior (LSS) credit derivative swaps from Level 2 into Level 3 in the fair value hierarchy. These LSS trades are collateralized and contain market value or loss triggers where additional collateral will be called by HUSI upon breaching of pre-defined portfolio credit loss levels. The valuation of a LSS swap is affected by the "gap risk" - the possibility that the collateral posted will not be sufficient to cover the replacement cost if the trade is unwound when the counterparty fails to meet the collateral call.

HUSI uses an internal valuation technique to value the gap risk. The key unobservable inputs include correlations and the volatility of the credit spreads of the reference credits. In prior periods, the measurement of gap risk was not material. However, as credit spreads continued to increase in the first quarter of 2008, the gap risk component became material relative to the measurement of the LSS trade. As a result, during the three-month period ended March 31, 2008, HUSI has reclassified the fair value measurement of LSS trades from Level 2 to Level 3.

HUSI recorded a gain of $1,053 million for these LSS trades (net of $83 million in gap risk) for the three-month period ended March 31, 2008. As a risk management practice, HUSI hedges the risks in its credit derivative portfolio including the LSS trades on a macro basis. The majority of the hedges have been classified as a Level 2 measurement in the fair value hierarchy and as such, the gain from the LSS trades is presented without any offsetting effect from the hedges.

Debt Securities

During the three-month period ended March 31, 2008, HUSI transferred $180 million of debt securities, including asset backed securities, from Level 2 to Level 3 within the fair value hierarchy. As the credit ratings of the securities were downgraded, the credit risk adjustment to these securities, which is not an observable input to the overall measurement, became significant to the overall measurement of the securities. HUSI recorded a loss of $23 million for these securities during the three-month period ended March 31, 2008, of which $13 million was recorded in other comprehensive income and $10 million was recorded in trading revenue. Such loss is included in the fair value of the securities recorded in the "Transfer Into or Out of Level 3" column in the Level 3 roll-forward table.

HUSI owned senior classes of debt securities issued by certain collateralized debt obligations (CDOs). These securities are collateralized primarily by asset backed securities which are in turn collateralized by various asset classes such as residential and commercial mortgages and corporate debt. In addition, HUSI also owns certain collateralized loan obligations (CLOs) where the collateral assets are corporate leveraged finance loans. HUSI has purchased credit protection in the form of credit default swaps from monoline insurers to hedge the exposure in these financial assets. As such, HUSI is not exposed to the credit risk of these instruments but is exposed to the credit risk of the monoline insurers.

These CDO and CLO securities were rated AAA by the rating agencies upon issuance because they were designed to be well protected by the subordinated positions in the structure. However, the fair value of the subordinated positions has declined during the recent credit crisis and has reduced the level of protection provided to the senior tranches. In view of the complexity of the structure and the degree of subjectivity involved in determining the fair value of the CDO and CLO securities, HUSI transferred $1,307 million of CDO and CLO securities held and $402 million of total return swaps referenced to similar CDO and CLO securities from Level 2 into Level 3 in the fair value hierarchy in the first quarter of 2008. HUSI recorded a loss of $185 million related to the CDO and CLO securities held and $206 million of loss related to the total return swaps transferred to Level 3 measurements. The losses are included in the "Transfer Into or Out of Level 3" column in the Level 3 roll-forward schedule on page 24.

The following tables summarize the types and credit quality of the assets underlying HUSI's asset backed securities as well as certain collateralized debt obligations and collateralized loan obligations held as of March 31, 2008:

Asset backed securities backed by consumer finance collateral:

Credit quality of collateral:		**Total**	**Prime**		**Alt-A**		**Sub-prime**	
Year of issuance:			**Prior to 2006**	**2006/ 2007**	**Prior to 2006**	**2006/ 2007**	**Prior to 2006**	**2006/ 2007**
(in millions)								
Rating of securities:	Collateral type:							
AAA	Home equity loans	$ 1,447	$ 35	$ 842	$ 111	$ 10	$ 449	$ -
	Auto loans	222	169	53	-	-	-	-
	Student loans	14	14	-	-	-	-	-
	Consumer loans	2	2	-	-	-	-	-
	Not specified	221	26	185	10	-	-	-
		1,906	246	1,080	121	10	449	-
A	Home equity loans	20	-	20	-	-	-	-
	Auto loans	12	12	-	-	-	-	-
		32	12	20	-	-	-	-
BBB	Home equity loans	10	10	-	-	-	-	-
	Auto loans	7	7	-	-	-	-	-
		17	17	-	-	-	-	-
BB	Home equity loans	98	-	98	-	-	-	-
		$ 2,053	$ 275	$ 1,198	$ 121	$ 10	$ 449	$ -

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

Credit quality of collateral:			**A or Higher**	**BBB**	**BB/B**	**CCC**	**Unrated**
Rating of securities:	Collateral type:						
AAA	Corporate loans	$ 546	$ -	$ 146	$ 400	$ -	$ -
	Commercial mortgages	293	-	-	293	-	-
	Trust preferred	326	-	309	17	-	-
	Aircraft leasing	79	-	-	-	-	79
	Others	1,152	1,059	-	-	-	93
		2,396	$ 1,059	$ 455	$ 710	$ -	$ 172
	Total asset backed	$ 4,449					

securities

(1) HUSI has provided asset financing to certain insurance trusts. HUSI holds securities linked to the economic performance of those trusts including the performance of the assets held in the trusts. These assets primarily include commercial mortgages, credit card receivables, commercial paper and corporate bonds. HUSI has transferred the risks in these trusts by entering into total return swaps for the same amounts with third parties.

Valuation Techniques for Major Assets and Liabilities

Loans Held for Sale and Unfunded Commitments

Where available, loans are valued based on broker quotes or independent pricing services. Where market quotes are not available, fair value is determined by reference to quoted market prices for instruments with similar characteristics. If an observable market price is not available, fair value is determined by discounting projected cash flows based on risk-adjusted credit spreads and interest rates appropriate for the duration of the instrument.

Residential Mortgage Loans Held for Sale or Securitization

For residential mortgage whole loans pending securitization or sale, fair value is determined based on the observed prices of mortgage backed securities with collateral with similar characteristics. HUSI makes adjustments to the valuation for, among other things, the risk premium that reflects the uncertainty that the securitization may not materialize, liquidity premium, dissimilarity of the underlying collateral and direct transaction costs to convert mortgage loans into securities. When the securitization market is less liquid, HUSI may also use current transaction prices of loan purchases and sales as a benchmark if available. When used, the observed transaction prices will be adjusted to reflect the differences in the underlying collateral.

Debt and Equity Securities

Securities are valued based on quoted market prices if the instruments are traded in an active market. If a quoted market price for identical securities is not available or the security is not actively traded, it is valued based on quotes from similar securities where possible.

For certain mortgage backed and asset backed securities, HUSI uses internally developed valuation techniques with inputs which are directly observable or derived from observable market data, and, where relevant, its own assumptions about market participants' assumptions with respect to unobservable inputs. The valuation models estimate losses in the underlying collateral and attribute such losses to the securities held. To ensure that the valuation presented is appropriate, HUSI regularly compares its valuation results to pricing services' information and the hypothetical valuation estimates using relevant inputs calibrated to market indices.

Derivatives

Over-the-counter derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows based upon "no arbitrage" principles. For many plain vanilla derivative products, such as interest rate swaps, the valuation approaches used are standardized. For more complex derivative products, HUSI uses internally-developed valuation models to price the instruments. There may be a discrepancy in practice when this is performed and the valuation outcome may be affected by the choice of valuation model and the underlying assumptions about the timing of cash flows, volatility and credit spreads. Where possible, inputs to valuation models are obtained from observable market data which include prices available from dealers, brokers or providers of consensus pricing. Certain inputs to the valuation models may not be observable directly in the market, but are indirectly derived from observable prices via model calibration procedures.

Long-Term Debt and Structured Deposits

Certain own debt issuances, structured notes and deposits are measured at fair value with the resultant gain or loss reflected in earnings. For valuation purposes, HUSI takes into consideration any derivative features embedded in the structured notes and deposits. Cash flows are discounted using the appropriate interest rate for the applicable duration of the instrument. SFAS 157 requires HUSI to consider its own credit risk (spread) when measuring the fair value of financial liabilities. The credit spread applied to these instruments is derived from the spreads at which HUSI would issue structured notes as of the measurement date. The observed market spreads for structured notes and deposits are lower than the credit spreads observed for plain vanilla debt or in the credit default swap market.

HUSI's own debt issuances for which the fair value option has been elected are traded on an over-the-counter basis. Where available, the fair value of HUSI's own debt issuances is determined based on observed prices for the specific instrument. The observed market price of these instruments includes the effect of the appropriate credit spread of HUSI.

Valuation Adjustments

Because judgment is more significant in determining the fair value of Level 3 instruments, HUSI has considered additional factors which are not included in the initial valuation techniques and records valuation adjustments as a result of these additional considerations. Some of the valuation adjustments are:

- Credit risk adjustment: an adjustment to reflect the creditworthiness of the counterparty for over-the-counter products where the market parameters may not be indicative of the creditworthiness of the counterparty. For derivative instruments, the market price implies parties to the transaction have credit ratings equivalent to AA. Therefore, HUSI will make an appropriate credit risk adjustment to reflect the counterparty credit risk if different from an AA credit rating. For non-derivative instruments measured at fair value, the credit risk adjustment is calculated based on HUSI's internal rating-based credit assessment system.
- Market data/model uncertainty: an adjustment to reflect uncertainties in the fair value measurements determined based on unobservable market data inputs. Because one or more significant parameters may be unobservable and must be estimated, the resultant fair value estimates have inherent measurement risk. In addition, the values derived from valuation techniques are affected by the choice of valuation model. Where different valuation techniques are available, the choice of valuation model can be subjective and in those cases, a valuation adjustment is applied to mitigate the potential risk of measurement error. In most cases, HUSI stresses certain key unobservable parameters to estimate the fair value adjustment amounts.
- Liquidity adjustment: a type of bid-offer adjustment to reflect the difference between the mark-to-market valuation of all open positions in the portfolio and the close out cost. The liquidity adjustment is a portfolio level adjustment and is a function of the liquidity and volatility of the underlying risk positions.

Control Over Valuation Process and Procedures

HUSI has various controls over its valuation process and procedures to ensure appropriate valuations. All valuation techniques and any subsequent changes are reviewed and approved by its Valuation Committee. Where appropriate, HUSI calibrates the valuation models to market information. In addition, HUSI also participates in pricing surveys administered by third party pricing services as part of the model validation process. On a regular basis, the Valuation Committee also reviews and discusses issues on valuation techniques and model inputs brought forward by various control groups. In addition, HUSI regularly gives careful review to material profits and losses on instruments for which measurements are determined using unobservable inputs.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

The following table presents total contractual amounts and maturity information related to HUSI's off-balance sheet arrangements. Many of these commitments and guarantees expire unused or without default; as a result, HUSI believes that the contractual amount is not representative of the actual future credit exposure or funding requirements. Descriptions of the various arrangements follow the table.

The following table provides maturity information related to off-balance sheet arrangements. Descriptions of these arrangements are found on pages 70-74 of HUSI's 2007 Form 10-K.

	Balance at March 31, 2008				
	One Year or Less	**Over One Through Five Years**	**Over Five Years**	**Total**	**Balance at December 31, 2007**
(in millions)					
Standby letters of credit, net of participations (1)	**$ 6,444**	**$ 2,671**	**$ 113**	**$ 9,228**	$ 9,021
Commercial letters of credit	**848**	**94**	**-**	**942**	934
Credit derivatives	**21,432**	**438,824**	**229,678**	**689,934**	650,243

considered guarantees (2)					
Other commitments to extend credit:					
Commercial	**29,757**	**24,709**	**3,693**	**58,159**	59,041
Consumer	**9,913**	**-**	**-**	**9,913**	10,053
Total	**$ 68,394**	**$ 466,298**	**$ 233,484**	**$ 768,176**	$ 729,292

(1) Includes $647 million and $598 million issued for the benefit of HSBC affiliates at March 31, 2008 and December 31, 2007, respectively.
(2) Includes $109,034 million and $98,250 million issued for the benefit of HSBC affiliates at March 31, 2008 and December 31, 2007, respectively.

Letters of Credit

HUSI may issue a letter of credit for the benefit of a customer, authorizing a third party to draw on the letter for specified amounts under certain terms and conditions. The issuance of a letter of credit is subject to HUSI's credit approval process and collateral requirements. HUSI issues two types of letters of credit, commercial and standby.

- A commercial letter of credit is drawn down on the occurrence of an expected underlying transaction, such as the delivery of goods. Upon the occurrence of the transaction, the amount drawn under the commercial letter of credit is recorded as a receivable from the customer in other assets and as a liability to the vendor in other liabilities until settled.
- A standby letter of credit is issued to third parties for the benefit of a customer and is essentially a guarantee that the customer will perform, or satisfy some obligation, under a contract. It irrevocably obligates HUSI to pay a third party beneficiary when a customer either: (1) in the case of a performance standby letter of credit, fails to perform some contractual non-financial obligation, or (2) in the case of a financial standby letter of credit, fails to repay an outstanding loan or debt instrument.

Fees are charged for issuing letters of credit commensurate with the customer's credit evaluation and the nature of any collateral. Included in other liabilities are deferred fees on standby letters of credit, representing the fair value of the "stand ready obligation to perform" under these guarantees, amounting to $27 million and $25 million at March 31, 2008 and December 31, 2007, respectively. Fees are recognized ratably over the term of the standby letters of credit. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit of $26 million and $27 million at March 31, 2008 and December 31, 2007, respectively.

Credit Derivatives Considered Guarantees

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

In accordance with its policy, HUSI offsets most of the market risk it assumes in selling credit guarantees through a credit derivative contract with another counterparty. Credit derivatives, although having characteristics of a guarantee, are accounted for as derivative instruments and are carried at fair value. The commitment amount included in the table on the preceding page is the maximum amount that HUSI could be required to pay, without consideration of the approximately equal amount receivable from third parties and any associated collateral.

Other Commitments to Extend Credit

Other commitments to extend credit include arrangements whereby HUSI is contractually obligated to extend credit in the form of loans, participations in loans, lease financing receivables, or similar transactions. Consumer commitments comprise unused credit card lines and commitments to extend credit secured by residential properties. HUSI has the right to change or terminate any terms or conditions of a customer's credit card or home equity line of credit account, 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 its commercial lending activities, HUSI provides liquidity support to a number of multi-seller and single-seller asset backed commercial paper conduits (ABCP conduits) sponsored by affiliates and third parties. These ABCP conduits and HUSI's variable interests in them are more fully described in Note 13 Variable Interest Entities beginning on page 19 of this Form 10-
Q.

HUSI provides liquidity support to ABCP conduits in the form of liquidity loan agreements and liquidity asset purchase agreements. Liquidity facilities provided to multi-seller conduits support transactions associated with a specific seller of assets to the conduit and HUSI would only be required to provide support in the event the multi-seller conduit is unable to issue or rollover maturing commercial paper because of a commercial paper market disruption or the supported transaction has breached certain triggers. Liquidity facilities provided to single-seller conduits are not identified with specific transactions or assets and HUSI would be required to provide support upon the occurrence of a commercial paper market disruption or the breach of certain triggers that affect the single-seller conduit's ability to issue or rollover maturing commercial paper. HUSI's obligations have generally the same terms as those of other institutions that also provide liquidity support to the same conduit or for the same transactions. HUSI does not provide any program-wide credit enhancements to ABCP conduits.

Under the terms of these liquidity agreements, the ABCP conduits may call upon HUSI to lend money or to purchase certain assets in the event the ABCP conduits are unable to issue or rollover maturing commercial paper because of a commercial paper market disruption or the supported transaction has breached certain triggers. These trigger events are generally limited to performance tests on the underlying portfolios of collateral securing the conduits' interests. With regard to a multi-seller liquidity facility, the maximum amount that HUSI could be required to advance upon the occurrence of a trigger event 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. Under a single-seller liquidity facility, the maximum amount that HUSI and other liquidity providers could be required to advance is also generally limited to each provider's pro-rata share of the lesser of the amount of outstanding commercial paper and the balance of unimpaired performing assets held by the conduit. As a result, the maximum amount that HUSI would be required to fund may be significantly less than the maximum contractual amount specified by the liquidity agreement.

The tables below present information on HUSI's liquidity facilities with ABCP conduits at March 31, 2008 excluding facilities with certain multi-seller ABCP conduits that are subject to agreements affecting HUSI's obligations and which are separately discussed in the commentary following the tables. The maximum exposure to loss presented in the first table represents the maximum contractual amount of loans and asset purchases HUSI could be required to make under the liquidity agreements. This amount does not reflect the funding limits discussed above and also assumes that HUSI suffers a total loss on all amounts advanced and all assets purchased from the ABCP conduits. As such, HUSI believes that this measure significantly overstates its expected loss exposure.

		Conduit Assets (1)		Conduit Funding (1)	
Conduit Type	**Maximum Exposure to Loss**	**Total Assets**	**Weighted Average Life (Months)**	**Commercial Paper**	**Weighted Average Life (Days)**
($ in millions)					
HSBC affiliate sponsored (multi-seller)	**$ 9,143**	**$ 6,511**	**3**	**$ 6,505**	**32**
Third-party sponsored:					
Multi-seller	**296**	**398**	**96**	**398**	**10**
Single-seller	**1,059**	**26,450**	**37**	**25,573**	**32**
Total	**$ 10,498**	**$ 33,359**		**$ 32,476**	

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

		Average Credit Quality (1)		
Asset Class	**Average Asset Mix**	**Aaa**	**Aa**	**A**
<u>Multi-seller conduits</u>				
Debt securities backed by:				
Auto loans and leases	**32%**	**24%**		**76%**
Trade receivables	**23**	**27**	**13%**	**60**
Credit card receivables	**22**	**49**		**51**
Other securities	**10**	**100**		
Capital calls	**5**			**100**
Collateralized debt obligations	**3**	**100**		
Auto dealer floor plan loans	**3**			**100**
Consumer loans	**1**			**100**
Business loans	**1**			**100**

Total	**100%**		
Single-seller conduits			
Debt securities backed by:			
Auto loans and leases	**87%**	**98%**	**2%**
Loans and trade receivables:			
Auto loans and leases	**13**		**100**
Total	**100%**		

(1) Credit quality is based on Standard and Poor's ratings at March 31, 2008 except for loans and trade receivables held by single-seller conduits, which are based on HUSI's internal ratings.

HUSI receives fees for providing these liquidity facilities. Credit risk on these obligations is managed by subjecting them to HUSI's normal underwriting and risk management processes.

During the second half of 2007, asset backed commercial paper markets experienced a decline in liquidity as concerns surrounding
U.S.
 sub-prime residential mortgages spilled over into other credit markets. As a result, issuers of asset backed commercial paper found it increasingly difficult to refinance maturing commercial paper and many found it necessary to draw on liquidity facilities or obtain additional support in other forms. Despite market difficulties, none of the ABCP conduits included in the tables above drew on the liquidity facilities provided by HUSI during 2007 or in the first quarter of 2008. HUSI did, however, provide support to several HSBC affiliate sponsored ABCP conduits by purchasing up to $1.16 billion of A-
1/P-
1 rated commercial paper issued by them.

The majority of commercial paper purchased was repaid upon maturity, although HUSI continued to hold $119 million and $306 million of such paper at March 31, 2008 and December 31, 2007, respectively.

As noted, the tables do not include information on liquidity facilities that HUSI provides to certain multi-seller ABCP conduits that are subject to agreements affecting HUSI's contractual obligations under the facilities. As a result of difficulties in the asset backed commercial paper markets, HUSI entered into various agreements during the second half of 2007 that modified its obligations with respect to these facilities. Under one of these agreements, known as the Montreal Accord, the adhering parties agreed not to trade, trigger default provisions, pursue liquidity or collateral calls, or exercise security rights over assets held by the covered conduits while they work to restructure outstanding commercial paper into longer-term securities. Separately, HUSI agreed to purchase and hold a specified amount of commercial paper issued by certain conduits covered by HUSI liquidity facilities, all of which was repaid in the first quarter of 2008. While the parties to these arrangements also agreed not to trigger defaults, make liquidity calls, or exercise security rights, the sponsors of these conduits agreed to meet certain collateral calls made by HUSI. HUSI continues to participate in a restructuring proposal being implemented for these conduits.

In late March 2008, the multi-seller ABCP conduits subject to the Montreal Accord referenced above, were placed into bankruptcy protection under the
Province
 of
Ontario

's Companies Creditors' Arrangement Act. Although a restructuring proposal is to be presented to ABCP noteholders for approval, no agreement has yet been voted on by investors.

As of March 31, 2008, HUSI continued to provide $950 million of liquidity facilities to ABCP conduits subject to the Montreal Accord and other agreements referenced. These were undrawn, and requisite minimum terms for the drawing of these facilities were not met as of that date. Ten million of drawings were outstanding against an additional liquidity facility that expired on March 31, 2008, therefore no additional amounts can be drawn on this facility.

In addition to the facilities provided to ABCP conduits, HUSI also provides a $50 million liquidity facility to a third-party sponsored multi-seller structured investment vehicle (SIV). This SIV and HUSI's involvement with it is more fully described in Note 13 Variable Interest Entities beginning on page 19 of this Form 10-Q. At March 31, 2008 this facility was fully funded and is recorded in loans on HUSI's balance sheet. The funded amount related to this liquidity facility was considered in the determination of HUSI's allowance for loan losses and a specific reserve has been established against this facility in accordance with HUSI's credit policies.

Money Market Funds

HUSI has established and manages 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.

At March 31, 2008, one of HUSI's sponsored CNAV funds, which had total net assets of $8.3 billion, held $458 million of investments issued by SIVs. As a result of recent market conditions and rating agency actions, these investments have experienced declines in market value. HUSI has no legal obligation, and currently has no plan, to offer financial support to this fund in the event that it is unable to maintain a constant net asset value as a result of becoming unable to value its assets at amortized cost. This fund did, however, receive support from an affiliate of HUSI, which in January 2008 provided a letter of limited indemnity in relation to certain of the fund's SIV investments.

HUSI does not consolidate the CNAV funds it sponsors as they are not VIEs and HUSI does not hold a majority voting interest.

RISK MANAGEMENT

Overview

Some degree of risk is inherent in virtually all of HUSI's activities. For the principal activities undertaken by HUSI, the most important types of risks are considered to be credit, interest rate, market, liquidity, operational, fiduciary and reputational. Market risk broadly refers to price risk inherent in mark to market positions taken on trading and non-trading instruments. Operational risk technically includes legal and compliance risk. However, since compliance risk, including anti-money laundering (AML) risk, has such broad scope within HUSI's businesses, it is addressed as a separate functional discipline. During the first quarter of 2008, there have been no significant changes in policies or approach for managing various types of risk, although HUSI continues to monitor current market conditions and will adjust risk management policies and procedures if deemed necessary.

Liquidity Management

HUSI's approach to address liquidity risk is summarized on pages 79-81 of HUSI's 2007 Form 10-K. There have been no material changes in HUSI's approach toward liquidity risk management during the first quarter of 2008.

HUSI's ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit rating agencies. At March 31, 2008, HUSI and HBUS maintained the following debt ratings.

	Moody's	S&P	Fitch	DBRS *
HUSI:				
Short-term borrowings	**P-1**	**A-1+**	**F1+**	**R-1**
Long-term debt	**Aa3**	**AA-**	**AA**	**AA**
HBUS:				
Short-term borrowings	**P-1**	**A-1+**	**F1+**	**R-1**
Long-term debt	**Aa2**	**AA**	**AA**	**AA**

* Dominion Bond Rating Service.

Numerous factors, internal and external, may impact HUSI's access to and costs associated with issuing debt in the global capital markets. These factors include HUSI's debt ratings, overall economic conditions, overall capital markets volatility and the effectiveness of HUSI's management of credit risks inherent in its customer base.

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

Concentrations of Risk Inherent in Loan Portfolios

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

HUSI holds certain residential mortgage loans that were originated at high loan-to-value (LTV) ratios and no mortgage insurance, which could result in potential inability to recover the entire investment in loans involving foreclosed or damaged properties. High LTV loans were mainly loans on primary residences with LTV ratios equal to or exceeding 90% at March 31, 2008 and December 31, 2007.

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

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

(in millions)	**March 31, 2008**	**December 31, 2007**
Residential mortgage loans with high LTV and no mortgage insurance	**$ 2,175**	$ 2,345
Interest-only residential mortgage loans	**6,055**	6,161
Total	**$ 8,230**	$ 8,506

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

(in millions)	**March 31, 2008**	**December 31, 2007**
Closed end:		
First lien	**$ 28,125**	$ 28,315
Second lien	**772**	1,096
Revolving:		
Second lien	**3,143**	3,082
Total	**$ 32,040**	$ 32,493

HUSI also offers adjustable rate residential mortgage loans which allow it to adjust pricing on the loan in line with market movements. As interest rates have risen over the last three years, many adjustable rate loans may require a significantly higher monthly payment following their first adjustment. A customer's financial situation at the time of the interest rate reset could affect their ability to repay the loan after the adjustment, or may cause the customer to prepay or refinance the loan. At March 31, 2008, HUSI had approximately $17.1 billion in adjustable rate residential mortgage loans. For the remainder of 2008, approximately $2.3 billion of adjustable rate residential mortgage loans will experience their first interest rate reset.

Interest Rate Risk Management

Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of HUSI's assets, liabilities, and derivative contracts. The approach toward managing interest rate risk is summarized on pages 81-83 of HUSI's 2007 Form 10-
K. During the first three months of 2008, there were no significant changes in policies or approach for managing interest rate risk.

Present Value of a Basis Point (PVBP) Analysis

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

March 31, 2008 (in millions)		**Values**
Institutional PVBP movement limit	**$**	**6.5**
PVBP position at period end		**3.1**

Economic Value of Equity

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

March 31, 2008		**Values (%)**
Institutional economic value of equity limit	**+/-**	**20**
Projected change in value (reflects projected rate movements on April 1, 2008):		
Change resulting		**(10)**

from a gradual 200 basis point increase in interest rates	
Change resulting from a gradual 200 basis point decrease in interest rates	**(4)**

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

Dynamic Simulation Modeling

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

	March 31, 2008 Values	
	Amount	**%**
($ in millions)		
Projected change in net interest income for scenarios subject to a formal institutional movement limit		
(reflects projected rate movements on		

April 1, 2008):		
Institutional base earnings movement limit		**(10)**
Change resulting from a gradual 200 basis point increase in the yield curve	**$ (334)**	**(8)**
Change resulting from a gradual 200 basis point decrease in the yield curve	**151**	**4**
Change resulting from a gradual 100 basis point increase in the yield curve	**(162)**	**(4)**
Change resulting from a gradual 100 basis point decrease in the yield curve	**128**	**3**

Other significant scenarios monitored for internal purposes, not subject to a formal institutional

movement limit (reflects projected rate

movements on April 1, 2008):		
Change resulting from an immediate 100 basis point increase in the yield curve	**(267)**	**(6)**
Change resulting from an immediate 100 basis point decrease in the yield curve	**168**	**4**
Change resulting from an immediate 200 basis point increase in the yield curve	**(544)**	**(13)**
Change resulting from an immediate 200 basis point decrease in the yield curve	**92**	**2**

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

Capital Risk/Sensitivity of Other Comprehensive Income

Large movements of interest rates could directly affect some reported capital and capital ratios. The mark to market valuation of available for sale securities is adjusted on a tax effective basis through other comprehensive income in the

Consolidated Statement of Changes in Shareholders' Equity. Although this valuation mark is excluded from Tier 1 and Tier 2 capital ratios, it is included in two important accounting based capital ratios: the tangible common equity to tangible assets and the tangible common equity to risk weighted assets. As of March 31, 2008, HUSI had an available for sale securities portfolio of approximately $23 billion with a net negative mark to market of $351 million included in tangible common equity of $8 billion. An increase of 25 basis points in interest rates of all maturities would lower the mark to market by approximately $174 million to a net loss of $525 million with the following results on the tangible capital ratios.

March 31, 2008	**Actual**	**Proforma - Reflecting 25 Basis Points Increase in Rates**
Tangible common equity to tangible assets	**4.30** %	**4.25** %
Tangible common equity to risk weighted assets	**5.61**	**5.54**

Market Risk Management

Value at Risk (VAR)

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

VAR - Trading Activities

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

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques, including VAR and various techniques for monitoring interest rate risk (beginning on page 70 of this Form 10-
Q). These techniques quantify the impact on capital of defined market movements.

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

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

Trading VAR for the first quarter of 2008 is summarized in the following table.

(in millions)	**March 31, 2008**	**Three months ended March 31, 2008**			**December 31, 2007**
		Minimum	**Maximum**	**Average**	
Total trading	**$ 31**	**$ 12**	**$ 79**	**$ 30**	$ 25
Commodities	*****	*****	**5**	**1**	2
Equities	*****	*****	**1**	*****	*
Foreign exchange	**1**	*****	**3**	**1**	3
Interest rate directional and credit spread	**23**	**11**	**36**	**20**	17

* Less than $500 thousand.

The frequency distribution of daily market risk-related revenues for trading activities during 2008 is summarized in the following table. Market risk-related trading revenues include realized and unrealized gains (losses) related to trading activities, but exclude the related net interest income. Analysis of the gain (loss) data for the three months ended March 31, 2008 shows that the largest daily gain was $45 million and the largest daily loss was $63 million.

Ranges of daily Treasury trading revenue earned from market risk-related activities (in millions)	**Below $(20)**	**$(20) to $0**	**$0 to $20**	**Over $20**
Three months ended March 31, 2008:				
Number of trading days market risk-related revenue was within the stated range	**8**	**21**	**26**	**5**

VAR - Non-trading Activities

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

Non-trading VAR for the first quarter of 2008, assuming a 99% confidence level for a two-year observation period and a one-day "holding period", is summarized in the following table.

	March 31, 2008	**Three months ended March 31, 2008**			**December 31, 2007**
		Minimum	**Maximum**	**Average**	
	(in millions)				
Interest rate	**$ 62**	**$ 46**	**$ 89**	**$ 59**	$ 24

Trading Activities - HSBC Mortgage Corporation (USA)

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

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

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

Rate Shock Analysis

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

March 31, 2008	**Values (in millions)**
Projected change in net market value of hedged MSRs portfolio (reflects projected rate	

movements on April 1, 2008):

Value of hedged MSRs portfolio		**$ 468**
Change resulting from an immediate 50 basis point decrease in the yield curve:		
	Change limit (no worse than)	**(16)**
	Calculated change in net market value	**8**
Change resulting from an immediate 50 basis point increase in the yield curve:		
	Change limit (no worse than)	**(8)**
	Calculated change in net market value	**(5)**
Change resulting from an immediate 100 basis point increase in the yield curve:		
	Change limit (no worse than)	**(12)**
	Calculated change in net market value	**(6)**

Economic Value of MSRs

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

Hedge Volatility

The frequency distribution of the weekly economic value of MSR assets during 2008 is summarized in the following table. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the quarter, if applicable.

Ranges of mortgage economic value from market risk-related activities (in millions)	**Below $(2)**	**$(2) to $0**	**$0 to $2**	**$2 to $4**	**Over $4**
Three months ended March 31, 2008:					
Number of trading weeks market risk-related revenue was within the stated range	**4**	**2**	**-**	**1**	**6**

CONSOLIDATED AVERAGE BALANCES AND INTEREST RATES

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

	Three months ended March 31, 2008			**2007**		
	Balance	**Interest**	**Rate***	**Balance**	**Interest**	**Rate***
			($ in millions)			
Assets						
Interest bearing deposits with banks	**$ 5,715**	**$ 45**	**3.19 %**	$ 3,955	$ 57	5.82 %
Federal funds sold and securities	**10,026**	**86**	**3.45**	12,075	162	5.46

purchased under resale agreements						
Trading assets	**11,975**	**158**	**5.29**	10,762	141	5.30
Securities	**24,818**	**309**	**5.01**	22,523	294	5.30
Loans						
Commercial	**36,597**	**498**	**5.47**	28,665	459	6.50
Consumer:						
Residential mortgages	**35,195**	**460**	**5.25**	39,085	528	5.48
Credit cards	**18,739**	**473**	**10.15**	17,684	392	8.98
Other consumer	**2,225**	**57**	**10.68**	2,658	63	9.72
Total consumer	**56,159**	**990**	**7.09**	59,427	983	6.71
Total loans	**92,756**	**1,488**	**6.45**	88,092	1,442	6.64
Other	**8,972**	**83**	**3.71**	2,272	32	5.74
Total earning assets	**154,262**	**$ 2,169**	**5.66 %**	139,679	$ 2,128	6.18 %
Allowance for credit losses	**(1,522)**			(937)		
Cash and due from banks	**3,051**			3,176		
Other assets	**32,822**			21,581		
Total assets	**$ 188,613**			$ 163,499		
Liabilities and Shareholder's Equity						
Deposits in domestic offices						
Savings deposits	**$ 45,277**	**$ 276**	**2.45 %**	$ 40,427	$ 322	3.23 %
Other time deposits	**24,359**	**291**	**4.80**	23,366	309	5.36
Deposits in foreign offices						
Foreign banks deposits	**13,608**	**98**	**2.90**	9,313	112	4.89
Other interest bearing deposits	**15,602**	**134**	**3.46**	12,978	146	4.58
Total interest bearing deposits	**98,846**	**799**	**3.25**	86,084	889	4.19
Short-term borrowings	**13,377**	**99**	**2.96**	8,643	71	3.35
Long-term debt	**27,391**	**302**	**4.44**	29,255	372	5.15
Total interest bearing liabilities	**139,614**	**1,200**	**3.46**	123,982	1,332	4.36
Net interest income / Interest rate spread		**$ 969**	**2.20**		$ 796	1.82 %
Noninterest bearing deposits	**14,639**			13,910		
Other liabilities	**22,989**			13,369		
Total shareholders' equity	**11,371**			12,238		
Total liabilities and shareholders' equity	**$ 188,613**			$ 163,499		
Net interest margin on average earning			**2.53 %**			2.31 %

assets		
Net interst margin on average total assets	**2.07 %**	1.98 %

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total
interest earning assets, including the daily average amount on nonperforming loans. Loan interest for the first three months of
2008 and 2007 included fees of $7 million and $10 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the captions "Interest Rate Risk Management" and "Trading Activities", beginning on page 70 of this Form 10-Q.

Item 4. Controls and Procedures

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

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

There have been no significant changes in HUSI's internal control over financial reporting that occurred during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, HUSI's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements and amends the discussion set forth under Part I, Item 3 "Legal Proceedings" of the 2007 Form 10-
K.

General

HUSI is a party to various legal proceedings resulting from ordinary business activities relating to its current and/or former operations. Due to uncertainties in litigation and other factors, management cannot be certain that HUSI will ultimately prevail in each instance. Management believes that HUSI's defenses to these actions have merit and any adverse decision should not materially affect HUSI's consolidated financial condition. However, losses may be material to HUSI's results of operations for any particular future period depending on HUSI's income level for that period.

DataTreasury Litigation

HBUS and HNAH are among the more than 50 defendants named in an action filed in the U.S. District Court for the Eastern District of Texas: DataTreasury Corporation v. Wells Fargo, et al. This suit alleges that the named entities infringed certain DataTreasury Corporation patents, including patents covering image capture, centralized processing and electronic storage of document and check information. DataTreasury Corporation seeks unspecified damages and injunctive relief in both cases. At this time, HUSI is unable to quantify the potential impact from this action, if any.

Item 6. Exhibits

3 (ii)	Bylaws of HSBC USA Inc., as amended May 1, 2008 (incorporated by reference to Exhibit 3 (ii) of HSBC USA Inc.'s current report on Form 8-K filed on May 2, 2008).
12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

HSBC USA Inc.
(Registrant)

Date: May 12, 2008	/s/ Joseph R. Simpson
	Joseph R. Simpson
	Executive Vice President and Controller
	(On behalf of Registrant)

Exhibit 12

HSBC USA Inc.
Computation of Ratio of Earnings to Fixed Charges and

Earnings to Combined Fixed Charges and Preferred Stock Dividends
(in millions, except ratios)

Three months ended March 31		**2008**		**2007**
Ratios excluding interest on deposits:				
Net (loss) income	**$**	**(278)**	$	273
Income tax (benefit) expense		**(164)**		103
Less: Undistributed equity earnings		**-**		-
Fixed charges:				
Interest on:				
Borrowed funds		**99**		71
Long-term debt		**303**		372
One third of rents, net of income from subleases		**6**		7
Total fixed charges, excluding interest on deposits		**408**		450

Earnings before taxes and fixed charges, net of undistributed equity earnings	**$ (34)**	$ 826
Ratio of earnings to fixed charges	**(0.08)**	1.84
Total preferred stock dividend factor (1)	**$ 35**	$ 34
Fixed charges, including the preferred stock dividend factor	**$ 443**	$ 484
Ratio of earnings to combined fixed charges and preferred stock dividends	**(0.08)**	1.71
Ratios including interest on deposits:		
Total fixed charges, excluding interest on deposits	**$ 408**	$ 450
Add: Interest on deposits	**799**	889
Total fixed charges, including interest on deposits	**$ 1,207**	$ 1,339
Earnings before taxes and fixed charges, net of undistributed equity earnings	**$ (34)**	$ 826
Add: Interest on deposits	**799**	889
Total	**$ 765**	$ 1,715
	0.63	1.28

Ratio of earnings to fixed charges		
Fixed charges, including the preferred stock dividend factor	**$ 443**	$ 484
Add: Interest on deposits	**799**	889
Fixed charges, including the preferred stock dividend factor and interest on deposits	**$ 1,242**	$ 1,373
Ratio of earnings to combined fixed charges and preferred stock dividends	**0.62**	1.25

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-
OXLEY ACT OF 2002

Certification of Chief Executive Officer

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

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

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

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

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008 /s/ Paul J. Lawrence
Paul J. Lawrence
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

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

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

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

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

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008 /s/ Gerard Mattia
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. Quarterly Report on Form 10-
Q for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-
14(b) or Rule 15d-
14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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

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

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

Date: May 12, 2008 /s/ Paul J. Lawrence
Paul J. Lawrence
President and Chief Executive Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the HSBC USA Inc. Quarterly Report on Form 10-
Q for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report") for the purpose of complying with Rule 13a-
14(b) or Rule 15d-
14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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

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

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

Date: May 12, 2008 /s/ Gerard Mattia
Gerard Mattia
Senior Executive Vice President and
Chief Financial Officer

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

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

SIGNATURE

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

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group

Secretary

Date: May 12th 2008