



# FORM 10-K

**HSBC USA INC /MD/ - RNB**

**Filed: February 28, 2005 (period: December 31, 2004)**

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
AND EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

452 Fifth Avenue  
New York, New York 10018  
(Address of principal executive offices)

Telephone: (212) 525-3735

IRS Employer Identification No.:  
13-2764867

State of Incorporation:  
Maryland

Securities registered pursuant to Section 12(b) of the Act and registered on the  
New York Stock Exchange: Depositary Shares, each representing a one-fourth  
interest in a share of Adjustable Rate Cumulative

Preferred Stock, Series D  
\$1.8125 Cumulative Preferred Stock  
\$2.8575 Cumulative Preferred Stock  
7% Subordinated Notes due 2006  
8.375% Debentures due 2007

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of the Form 10-K or any amendment to this  
Form 10-K.

At February 28, 2005, all voting stock (706 shares of Common Stock \$5 par value)  
is owned by an indirect wholly owned subsidiary of HSBC Holdings plc.

Indicate by check mark whether the registrant is an accelerated filer as defined  
in Rule 12b-2 of the Act.

Yes  No

Documents incorporated by reference: None

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## Item 1. Business

## History

HSBC USA Inc., incorporated under the laws of Maryland, is a New York State based bank holding company registered under the Bank Holding Company Act of 1956, as amended. HSBC USA Inc. and its subsidiaries are collectively referred to as "HUSI". HUSI's origin was in Buffalo, New York in 1850 as The Marine Trust Company, which later became Marine Midland Banks, Inc. (Marine). In 1980, The Hongkong and Shanghai Banking Corporation (now HSBC Holdings plc, hereinafter referred to as "HSBC") acquired 51% of the common stock of Marine and the remaining 49% of common stock in 1987. In December 1999, HSBC acquired Republic New York Corporation (Republic) and merged it with HUSI. At the merger date, Republic and HUSI had total assets of approximately \$47 billion and \$43 billion respectively. HSBC is one of the largest banking and financial services organizations in the world.

Effective January 1, 2004, HSBC created a new North American organizational structure with HSBC North America Holdings Inc. (HNAH) as the top-tier United States (U.S.) bank holding company. HNAH's principal subsidiaries include a U.S. bank holding company, HSBC North America Inc. (HNAI), a Canadian banking subsidiary, HSBC Bank Canada, a consumer finance holding company, HSBC Finance Corporation (formerly Household International, Inc.), a holding company for investment banking and markets subsidiaries, HSBC Markets (USA) Inc. (HSBC Markets), and a provider of information technology services, HSBC Technology & Services (USA) Inc. (HTSU). HUSI, a wholly owned subsidiary of HNAI, routinely conducts transactions with HSBC Finance Corporation, HSBC Markets and HTSU in the normal course of business.

At December 31, 2004, HUSI had total assets of approximately \$141 billion and approximately 10,800 full and part time employees. HUSI is among the 10 largest U.S. bank holding companies ranked by assets. HUSI's principal subsidiary is HSBC Bank USA, National Association (HBUS), which had total assets of approximately \$138 billion and total deposits of approximately \$81 billion at December 31, 2004.

HUSI offers a full range of traditional commercial banking products and services to individuals, including high net worth individuals, small businesses, corporations, institutions and governments. Through its affiliation with HSBC, HUSI also offers its three million customers access to global markets and services. In turn, HUSI plays a role in the delivery and processing of other HSBC products. HUSI also has mortgage banking operations, and is an international dealer in derivative instruments denominated in U.S. dollars and other currencies, focusing on structuring of transactions to meet clients' needs as well as for proprietary purposes.

HBUS's domestic operations are primarily in New York State. It also has banking branch offices and/or representative offices in Florida, California, Pennsylvania, Oregon, Washington, Delaware, Massachusetts, and Washington, D.C. In addition to its domestic offices, HBUS maintains foreign branch offices, subsidiaries and/or representative offices in the Caribbean, Europe, Asia, Latin America, Australia and Canada.

## 2004 Developments

On July 1, 2004, HUSI consolidated its banking operations under a single national charter, following approval from the Office of the Comptroller of the Currency (the OCC). The national charter enables HBUS to serve its customers more efficiently and effectively across the U.S., as well as provide an expanded range of products. It also enables HBUS to operate on the same competitive footing as other major U.S. banks.

In March 2003, HSBC completed its acquisition of Household International, Inc. In December 2004, Household International, Inc. changed its legal name to HSBC Finance Corporation. As a result of the acquisition, HUSI and HSBC Finance Corporation have been working together to identify synergies in products and processes. Synergies have been achieved in loan origination and servicing, card processing, IT contingency rationalization, purchasing, call center cooperation, the shared use of HSBC's service centers, and the consolidation of certain administrative

functions. In addition, HSBC Finance Corporation's credit scoring and data-mining technology has been made available to HUSI. HUSI and HSBC Finance Corporation will continue to work cooperatively on product offerings and back-office operations.

During 2004, HUSI purchased approximately \$17 billion of loans from HSBC Finance Corporation, and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs. The most significant of these transactions was the acquisition of approximately \$12 billion of private label loans and retained interests in another \$3 billion of securitized trusts (the private label loan portfolio). Details of these and other transactions with HSBC Finance Corporation are presented in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K.

During 2004, HSBC integrated certain North American and Latin American operations through changes to its organization structure. These organizational changes are further described in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K.

2004 was also highlighted by significant growth in residential mortgage loan balances, which increased approximately 78% to \$47 billion at December 31, 2004. HUSI continued the general strategy begun in 2003 to retain variable rate residential mortgages on the balance sheet, while selling fixed rate mortgages to government agencies. Prior to 2004, the interest rate environment generally caused customers to favor originations of fixed rate loans. In 2004, customers generally favored variable rate products. In addition, HUSI continues to acquire residential mortgages from HSBC Finance Corporation and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs.

#### Description of Business Segments

HUSI has four distinct segments that it utilizes for management reporting and analysis purposes, which are consistent with the line of business groupings used by HSBC. The segments are based upon customer groupings, as well as products and services offered. The segments are described in the following paragraphs.

##### The Personal Financial Services (PFS) Segment

This segment provides a broad range of financial products and services including installment and revolving term loans, deposits, branch services, mutual funds, investments and insurance. These products are marketed to individuals primarily through the branch banking network. Residential mortgage lending provides loan financing through direct retail and wholesale origination channels. Mortgage loans are originated through a network of brokers, wholesale agents and retail origination offices. Servicing is performed for the individual mortgage holder or on a contractual basis for mortgages owned by third parties.

This segment also includes residential mortgage loans, credit card receivables, other consumer loans and retained interests in securitized trusts purchased from HSBC Finance Corporation and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs in 2003 and 2004.

##### The Commercial Banking (CMB) Segment

This segment provides loan and deposit products to small businesses and middle-market corporations including specialized products such as real estate financing. Various credit and trade related products are also offered such as standby facilities, performance guarantees and acceptances. These products and services are offered through multiple delivery systems, including the branch banking network.



#### The Corporate, Investment Banking and Markets (CIBM) Segment

This segment is comprised of Corporate/Institutional Banking (CIB) and Investment Banking and Markets (IBM). CIB provides deposit and lending functionality to large and multi-national corporations and banks. U.S. dollar clearing services are offered for domestic and international wire transfer transactions. Credit and trade related products such as standby facilities, performance guarantees and acceptances are also provided by CIB to large corporate entities. The IBM component includes treasury and traded markets. The treasury function maintains overall responsibility for the investment and borrowing of funds to ensure liquidity, manage interest rate risk and capital at risk. Traded markets encompasses the trading and sale of foreign exchange, banknotes, derivatives, precious metals, securities and emerging markets instruments, both domestically and internationally.

#### The Private Banking (PB) Segment

This segment offers a full range of services for high net worth domestic and foreign individuals including deposit, lending, trading, trust, branch services, mutual funds, insurance and investment management.

#### Other Segment

This segment includes equity investments in Wells Fargo HSBC Trade Bank N.A. and HSBC Republic Bank (Suisse) S.A.

Operating results by business segment are presented on pages 33-36 of this Form 10-K.

#### Geographic Distribution of Assets and Earnings

HUSI's foreign operations represented less than 7% of HUSI's consolidated total assets at December 31, 2004 and 2003, and less than 5% of consolidated income before income tax expense for 2004, 2003 and 2002.

#### Regulation, Supervision and Capital

Through June 30, 2004, HUSI and HBUS were supervised and routinely examined by the State of New York Banking Department and the Board of Governors of the Federal Reserve System (the Federal Reserve). Effective July 1, 2004, HBUS became a nationally chartered bank and is primarily supervised by the OCC. HUSI, as a bank holding company, continues to be supervised by the Federal Reserve. HUSI and HBUS are subject to banking laws and regulations which place various restrictions on and requirements regarding their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, payment of dividends and numerous other matters. The Federal Reserve Act restricts certain transactions between banks and their nonbank affiliates. The deposits of HBUS are insured by the Federal Deposit Insurance Corporation (FDIC) and HBUS is thereby subject to relevant FDIC regulations.

HBUS is required to maintain noninterest bearing cash reserves with the Federal Reserve Bank. HBUS's reserves averaged \$730 million in 2004 and \$578 million in 2003.

HUSI and HBUS are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory actions, and possibly additional discretionary actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

HUSI's capital resources are summarized on page 20 of this Form 10-K.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations). The following table presents the capital ratios of HUSI and HBUS, calculated in accordance with banking regulations. To be categorized as "well capitalized", a banking institution must have the minimum ratios reflected in the table and must not be subject to a directive, order or written agreement to meet and maintain specific capital levels. Capital amounts and ratios for HUSI and HBUS were as follows.

December 31	2004			2003		
	Capital Amount	Well-Capitalized Minimum Ratio	Actual Ratio	Capital Amount	Well-Capitalized Minimum Ratio	Actual Ratio
(in millions)						
Total capital (to risk weighted assets):						
HUSI .....	\$ 13,496	10.00%	12.53%	\$ 7,816	10.00%	12.42%
HBUS .....	13,270	10.00	12.46	7,325	10.00	11.82
Tier 1 capital (to risk weighted assets):						
HUSI .....	8,983	6.00	8.34	5,366	6.00	8.53
HBUS .....	9,219	6.00	8.66	5,572	6.00	8.99
Tier 1 capital (to average assets):						
HUSI .....	8,983	3.00	7.20	5,366	3.00	5.87
HBUS .....	9,219	5.00	7.51	5,572	5.00	6.22
Tangible common equity (to risk weighted assets):						
HUSI .....	7,611		7.05	4,022		6.39
HBUS .....	9,249		8.73	5,621		9.07
Risk weighted assets:						
HUSI .....	107,696			62,945		
HBUS .....	106,470			61,973		

The following table presents the components of HUSI's risk-based capital.

December 31	2004	2003
(in millions)		
Tier 1 Capital:		
Common shareholder's equity .....	\$ 10,366	\$ 6,962
Preferred stock .....	375	375
Minority interest (primarily trust preferred securities) .....	1,029	1,025
Goodwill, identifiable intangibles and other direct deductions from capital .....	(2,771)	(2,881)
Other Tier 1 adjustments .....	(16)	(115)
Tier 1 capital .....	8,983	5,366
Tier 2 Capital:		
Long-term debt and other instruments qualifying as Tier 2 capital .....	3,621	1,993
Qualifying aggregate allowance for credit losses .....	872	437
Other Tier 2 components .....	20	20
Tier 2 capital .....	4,513	2,450
Total capital .....	\$ 13,496	\$ 7,816

From time to time, bank regulators propose amendments to or issue interpretations of risk-based capital guidelines. Such proposals or interpretations could, upon implementation, affect reported capital ratios and net risk weighted assets. A new capital adequacy framework has been proposed by U.S. regulators for implementation by January 1, 2008, as further described below under "Basel Capital Standards".

HBUS is subject to risk-based assessments from the FDIC, the U.S. Government agency that insures deposits in HBUS to a maximum of \$100,000 per domestic depositor. Depository institutions subject to assessment are categorized based on capital ratios and other factors, with those in the highest rated categories paying no assessments. Because of its standing as a "well-capitalized", financially sound institution, HBUS has not been assessed by the FDIC in the past three years.

The Deposit Insurance Funds Act (DIFA) of 1996 authorized the Financing Corporation (FICO), a U.S. Government corporation, to collect funds from FDIC insured institutions to pay interest on FICO bonds. The FICO assessment rate in effect at December 31, 2004 was 1.46 percent of assessable deposits. The FICO assessment rate is adjusted quarterly. HBUS is subject to a quarterly FICO premium.

The USA Patriot Act (the Patriot Act), effective October 26, 2001, imposed significant record keeping and customer identity requirements, expanded the government's powers to freeze or confiscate assets and increased the available penalties that may be assessed against financial institutions for violation of the requirements of the Patriot Act intended to detect and deter money laundering. The Patriot Act required the U.S. Treasury Secretary to develop and adopt final regulations with regard to the anti-money laundering compliance obligations on financial institutions (a term which includes insured U.S. depository institutions, U.S. branches and agencies of foreign banks, U.S. broker-dealers and numerous other entities). The U.S. Treasury Secretary delegated certain authority to a bureau of the U.S. Treasury Department known as the Financial Crimes Enforcement Network (FinCEN).

Many of the new anti-money laundering compliance requirements of the Patriot Act, as implemented by FinCEN, are generally consistent with the anti-money laundering compliance obligations that applied to HBUS under the Bank Secrecy Act and applicable Federal Reserve Board regulations before the Patriot Act was adopted. These include requirements to adopt and implement an anti-money laundering program, report suspicious transactions and implement due diligence procedures for certain correspondent and private banking accounts. Certain other specific requirements under the Patriot Act involve new compliance obligations. The Patriot Act and other recent events have resulted in heightened scrutiny of Bank Secrecy Act and anti-money laundering compliance programs by the federal and state bank regulators. On April 30, 2003, HBUS entered into a written agreement with the Federal Reserve Bank of New York and the New York State Banking Department to enhance its compliance with anti-money laundering requirements. Due to the change in primary regulators in 2004, this agreement is now subject to enforcement by the OCC. HBUS has increased compliance staff and has implemented certain improvements in its compliance, reporting, and review systems and procedures.

#### Basel Capital Standards

In June 2004, the Basel Committee on Banking Supervision (Basel) published a revised capital adequacy framework for complex and internationally active banks. The framework (Basel II) is now being considered by U.S. regulatory agencies, including the Federal Reserve and the OCC. The U.S. regulatory agencies expect to publish a notice of proposed rulemaking regarding new capital adequacy regulations based on Basel II by mid-year 2005, followed by the final rules sometime in 2006. The earliest that banks may adopt the new rules is January 1, 2008.

In 2004, HSBC was advised by the U.S. regulatory agencies that HNAH and its subsidiaries, including HUSI and HBUS, are considered to be mandatory participants in the new capital framework. HNAH and HUSI have established comprehensive Basel implementation project teams comprised of risk management specialists representing all risk disciplines. HUSI currently anticipates full implementation of Basel standards by January 1, 2008.

#### Sarbanes-Oxley Act of 2002, Section 404 Compliance

As an SEC registrant of public debt and preferred shares HUSI is required to comply with the Sarbanes-Oxley Act of 2002 (the Act). Section 404 of the Act (Section 404) requires registrants and their auditors to assess and report on internal controls over financial reporting on an annual basis. HUSI is required to comply with Section 404 of the Act for the fiscal year ending December 31, 2005.

HUSI has adopted the framework of financial reporting assertions established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as the basis for the risk assessment process. Certain other financial reporting risk assessment factors have been added to the COSO framework to ensure adequate coverage of safeguarding of assets and anti-fraud risks.

#### Competition

The Gramm-Leach-Bliley Act of 1999 (GLB Act), effective March 11, 2000, eliminated many of the regulatory restrictions on providing financial services. The GLB Act allows for financial institutions and other providers of financial products to enter into combinations that permit a single organization to offer a complete line of financial products and services. Therefore, HUSI and its subsidiaries face intense competition in all of the markets they serve, competing with both other financial institutions and non-banking institutions such as insurance companies, major retailers, brokerage firms and investment companies.

Following the enactment of the GLB Act, HUSI elected to be treated as a financial holding company (FHC). As an FHC, HUSI's activities in the U.S. have been expanded enabling it to offer a more complete line of products and services. HUSI's ability to engage in expanded financial activities as an FHC depends upon its meeting certain criteria, including requirements that its U.S. depository institution subsidiary, HBUS, and its forty percent owned subsidiary, Wells Fargo HSBC Trade Bank N.A., be well capitalized and well managed, and that they have achieved at least a satisfactory record of meeting community credit needs during their most recent examination pursuant to the Community Reinvestment Act. In general, an FHC would be required, upon notice by the Federal Reserve Board, to enter into an agreement to correct any deficiency in the requirements necessary to maintain its FHC election. Until such deficiencies are corrected, the Federal Reserve Board may impose limitations on the conduct or activities of an FHC or any of its affiliates as it deems appropriate. If such deficiencies are not timely corrected, the Federal Reserve Board may require an FHC to divest its control of any subsidiary depository institution or to cease to engage in certain financial activities. As of December 31, 2004, no known deficiencies exist, and HUSI is not subject to limitations or penalties relative to its status as an FHC.

#### Corporate Governance

HUSI is committed to high standards of corporate governance. Governance standards, together with the charters of committees of the Board of Directors, provide the framework for the corporate governance of HUSI. HUSI's Board of Directors has three primary committees to assist with corporate oversight responsibilities.

- o Audit and Examining Committee - This committee's primary duties are to:
  - (1) monitor the integrity of HUSI's financial reporting processes and systems of internal controls regarding finance, accounting, and legal compliance;
  - (2) monitor the independence and performance of HUSI's internal and independent auditor; and
  - (3) provide an avenue of communication among the independent auditor, management, the internal auditors, and the Board of Directors.
- o Human Resources Committee - This committee's primary duties are to review and make recommendations with respect to the appointment and compensation of such officers and employees as the Board by resolution shall from time to time determine, including incentive compensation programs, and to counsel management with respect to general human resources related matters.
- o Fiduciary Committee - This committee's primary duties are to review matters related to HUSI's responsibilities to its customers, employees and the communities it serves.

The annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as filed with the Securities and Exchange Commission (the SEC), are available on HUSI's website at [www.us.hsbc.com](http://www.us.hsbc.com).

#### Cautionary Statement On Forward-Looking Statements

Certain matters discussed throughout this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, certain statements may be made in future filings with the SEC, in press releases, or in oral or written presentations by representatives of HUSI that are not statements of historical fact and may also constitute forward-looking statements. Words such as "believe", "expects", "estimates", "targeted", "anticipates", "goal" and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. Forward-looking statements are based on current views and assumptions and speak only as of the date they are made. HUSI undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

The important factors, many of which are out of HUSI's control, which could affect our actual results and could cause results to vary materially from those expressed in public statements or documents are:

- o changes in laws and regulations;
- o increased competition which may impact the terms, rates, costs or profits historically included in the products offered by HUSI;
- o changes in accounting or credit policies, practices or standards, as they may be internally modified from time to time or changes as may be required by regulatory agencies or the Financial Accounting Standards Board;
- o changes to operational practices from time to time or changes to our customer account management policies and practices and risk management/collection practices;
- o changes in overall economic conditions, including the interest rate environment in which HUSI operates, the capital markets in which HUSI funds its operations, the market values of consumer owned real estate throughout the United States, recession, employment and currency fluctuations;
- o consumer perception of the availability of credit, including price competition in the market segments targeted and the ramifications or ease of filing for personal bankruptcy;
- o the effectiveness of models or programs to predict loan delinquency or loss, initiatives to improve collections in all business areas, and changes made from time to time in these models, programs and initiatives;
- o continued consumer acceptance of HUSI's distribution systems and demand for HUSI's loan or insurance products;
- o changes associated with, as well as the difficulty in, integrating systems, operational functions and cultures, as applicable, of any organization or portfolio acquired by HUSI;
- o a reduction of our debt ratings by any of the nationally recognized statistical rating organizations that rate these instruments to a level that is below our current rating;
- o the costs, effects and outcomes of regulatory reviews or litigation relating to the business practices or policies of any of our business units, including, but not limited to, additional compliance requirements;
- o increased funding costs resulting from instability in the capital markets and risk tolerance of fixed income investors;
- o the costs, effects and outcomes of any litigation matter that is determined adversely to HUSI or its businesses;
- o the ability to attract and retain qualified personnel to support the underwriting, servicing, collection and sales functions of HUSI's businesses;
- o the inability of HUSI to manage any or all of the foregoing risks as well as anticipated.

Item 2. Properties

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The principal executive offices of HUSI are located at 452 Fifth Avenue, New York, New York 10018, which is owned by HBUS. The main office of HBUS is located at 1105 N. Market Street, Wilmington, Delaware 19801 and the principal executive offices of HBUS are located at One HSBC Center, Buffalo, New York 14203, in a building under a long-term lease. HBUS has more than 380 other banking offices in New York State located in 46 counties, eleven branches in Florida, eight branches in California, three branches in Washington, D.C. and one branch each in Pennsylvania, Oregon, Washington and Delaware. Approximately 39% of these offices are located in buildings owned by HBUS and the remaining are located in leased quarters. In addition, there are branch offices and locations for other activities occupied under various types of ownership and leaseholds in states other than New York, none of which is materially important to the respective activities. HBUS also owns properties in: Montevideo, Uruguay; Punta del Este, Uruguay; and Buenos Aires, Argentina.

Item 3. Legal Proceedings

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HUSI's legal proceedings are summarized in Note 23 of the consolidated financial statements on page 106 of this Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

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Omitted.

P A R T II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

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All 706 shares of HUSI's outstanding stock are owned by HSBC North America Inc., an indirect subsidiary of HNAH. Consequently, there is no public market in HUSI's common stock.

Item 6. Selected Financial Data

Year Ended December 31	2004	2003	2002	2001	2000
	(in millions)				
Net interest income.....	\$ 2,741	\$ 2,510	\$ 2,376	\$ 2,265	\$ 2,119
Trading revenues .....	288	291	130	255	140
Residential mortgage banking revenue (expense).....	(120)	(102)	24	33	-
Securities gains, net.....	85	48	118	149	29
Other income.....	1,066	917	787	659	664
Total other revenues.....	1,319	1,154	1,059	1,096	833
Goodwill amortization.....	--	--	--	176	176
Princeton Note Matter.....	--	--	--	575	--
Operating expenses.....	2,101	2,040	1,875	1,792	1,730
Provision for credit losses.....	(17)	113	195	238	138
Income before income tax expense and cumulative effect of accounting change.....	1,976	1,511	1,365	580	908
Income tax expense.....	718	570	510	226	339
Income before cumulative effect of accounting change.....	1,258	941	855	354	569
Cumulative effect of accounting change - implementation of SFAS 133, net of tax.....	--	--	--	(1)	--
Net income.....	\$ 1,258	\$ 941	\$ 855	\$ 353	\$ 569
Adjusted net income (1).....	\$ 1,258	\$ 941	\$ 855	\$ 529	\$ 745
Balances at year end:					
Loans:					
Commercial.....	\$ 23,032	\$ 18,704	\$ 19,946	\$ 19,944	\$ 21,450
Residential mortgages.....	46,715	26,295	20,438	17,595	15,683
Other consumer.....	15,200	3,475	3,252	3,384	3,285
Total loans.....	84,947	48,474	43,636	40,923	40,418
Allowance for credit losses.....	(788)	(399)	(493)	(506)	(525)
Loans, net.....	84,159	48,075	43,143	40,417	39,893
Total assets.....	141,050	95,562	89,426	87,114	83,035
Total tangible assets.....	138,310	92,736	86,544	84,218	79,806
Total deposits.....	79,981	63,955	59,830	57,330	56,961
Short-term borrowings.....	9,874	6,782	7,392	9,202	8,562
Long-term debt.....	23,839	3,814	3,675	3,668	4,178
Common shareholder's equity.....	10,366	6,962	6,897	6,549	6,834
Tangible common shareholder's equity.....	7,611	4,022	3,737	3,535	3,481
Total shareholders' equity.....	10,866	7,462	7,397	7,049	7,334
Selected financial ratios:					
Total shareholders' equity to total assets.....	7.70%	7.81%	8.27%	8.09%	8.83%
Tangible common shareholder's equity to total tangible assets.....	5.50	4.34	4.32	4.20	4.36
Rate of return on (2):					
Total assets .....	1.12	1.02	.97	.41	.69
Total common shareholder's equity.....	16.35	13.06	12.42	4.80	8.22
Net interest margin to (2):					
Earning assets.....	2.70	3.07	3.03	2.94	2.89
Total assets.....	2.46	2.76	2.74	2.66	2.59
Total shareholders' equity to total assets (2).....	7.18	8.20	8.20	8.50	8.56
Cost/income ratio (2).....	51.73	55.65	54.59	52.94	55.73

(1) With the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets on January 1, 2002, HUSI is no longer required to amortize goodwill, but rather evaluate goodwill for impairment annually. Accordingly, for prior periods presented, goodwill amortization has been excluded from the adjusted amounts for consistency purposes.

(2) Selected financial ratios are defined in the Glossary of Terms beginning on page 60 of this Form 10-K.

Executive Overview

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Increased net income for 2004 as compared with 2003 reflects growth in net interest income, lower provisions for credit losses and increased other revenues. Partially offsetting these improvements were lower levels of residential mortgage banking revenue and higher non-salary related operating expenses.

The increase in net interest income was a net result of:

- o the excess of total average earning assets over total average interest bearing liabilities (net earning assets) increased approximately \$3 billion during 2004;
- o the net interest rate spread on net earning assets decreased 40 basis points. The overall decreases in yields earned on assets were greater than decreases in rates paid on liabilities.

Average total loan balances increased approximately \$16 billion (37%) during 2004, primarily in residential mortgage loans. The positive impact of increased loan balances was partially offset by decreases in average yields earned on various loan portfolios. Increased assets were funded primarily by increased interest bearing deposits, short-term borrowings and long-term debt. The average rate paid on these combined interest bearing liabilities increased during 2004, despite a decrease in the average rate paid on long-term debt balances. An analysis of net interest income begins on page 21 of this Form 10-K.

The decreased provision for credit losses during 2004 resulted from a continuing trend of improved credit quality within the commercial lending portfolios, as evidenced by decreased charge offs of commercial loan balances, and by increased recoveries of balances previously charged off. In addition, the unallocated component of the allowance for credit losses was reduced as a result of refinement of the allowance methodology, resulting in an additional reduction in the provision. An analysis of credit quality begins on page 37 of this Form 10-K.

The 2004 net increase in total other revenues was primarily attributable to the following transactions and/or activities. An analysis of other revenues begins on page 23 of this Form 10-K.

- o Sale of credit card relationships to HSBC Finance Corporation for a gain of approximately \$99 million.
- o Sale of an investment in NYCE Corporation for a gain of approximately \$45 million.
- o Gains on sales of securities were approximately \$37 million higher in 2004, as compared with 2003.
- o Residential mortgage banking revenue decreased approximately \$18 million in 2004, compared with 2003.

The 2004 increase in total operating expenses was primarily attributable to the following transactions and/or activities. An analysis of operating expenses begins on page 30 of this Form 10-K.

- o Additional provisions for off-balance sheet credit exposure, resulting in increased expense of approximately \$53 million in 2004.
- o A fourth quarter 2004 provision for U.S. withholding tax costs related to deficiencies in client tax documentation, resulting in increased expense of approximately \$26 million.
- o Increased expenses related to technology services, debt underwriting, and loan origination and servicing costs paid to HNAH affiliates, which were offset by decreased salaries and other expenses resulting from efficiencies gained from integration of certain North American operations, and from the relationship with HSBC Finance Corporation.

The increase in income tax expense for 2004 was primarily attributable to higher taxable income, which was partially offset by a release of approximately \$51 million of income tax liability during the second quarter related to completion of outstanding audits. An analysis of income tax expense and deferred income taxes is provided in Note 13 of the consolidated financial statements beginning on page 91 of this Form 10-K.



HUSI is planning for continued growth in 2005 for all business segments. The following general initiatives, begun in 2004, will continue to be emphasized in 2005 to achieve overall net revenue growth:

- o Additional resources and priority have been focused on HBUS's core retail banking businesses. Investment in the retail branch network has been, and will continue to be, expanded and reallocated to ensure coverage of high potential growth geographic areas.
- o Loan and deposit products offered to individuals, small businesses, and middle-market commercial customers have been expanded, in conjunction with increased marketing efforts. HUSI plans to build upon its status as the top ranked small business lender in New York State.
- o Various treasury and traded markets activities have been expanded through increased products offered to customers, increased marketing efforts for those products, and increased proprietary activities.
- o Additional resources have been allocated to expand services provided to high net worth domestic and foreign individuals.
- o HUSI will continue to leverage its relationship with HSBC Finance Corporation to increase consumer loan assets, to obtain loan origination and loan servicing, and to centralize and reduce the operating cost of various administrative services.

The purchase of the private label loan portfolio from HSBC Finance Corporation in December 2004 will have a significant impact on various components of revenue and expense in 2005. Overall, 2005 net income will decrease as a result of this transaction, due to heavy first year amortization of the premium paid at the purchase date. In subsequent years, net income will increase due to significantly reduced premium amortization.

Effective October 1, 2004, through its affiliation with HSBC Finance Corporation, HBUS is the originating lender for a federal tax refund anticipation loan program for clients of various third party tax preparers. Although the impact on 2004 net income was minimal, this arrangement will result in increased other revenues in the first half of 2005.

Despite anticipated increases in costs related to information technology, compliance and finance functions, HUSI expects to recognize nominal increases in operating expenses for core support services in 2005, as compared with 2004. The 2005 business plan depends greatly on HUSI's ability to operate efficiently and cost effectively while supporting new business initiatives.

Primary opportunities and risks associated with achieving HUSI's business goals in 2005, which are largely dependent upon economic conditions, revolve around many key factors, including the following:

- o Success in achieving overall financial goals in 2005 is predicated upon continued growth in various consumer and commercial loan and deposit portfolios. Maximizing deposits as a relatively low-cost funding source for asset growth will have a positive impact on net interest rate spreads. Conversely, funding asset growth primarily through higher-cost sources such as long-term debt will have a negative impact on spreads.
- o Credit quality associated with various HUSI commercial lending portfolios generally improved in 2004, resulting in reduced provisions for credit losses. The improving economic climate in 2004 resulted in significant recoveries of loan balances previously charged off. HUSI expects that a more normalized environment in 2005 will result in lower recoveries and higher provision expense. Although overall commercial credit quality is expected to remain stable and well controlled in 2005, any sudden and/or unexpected adverse economic events or trends could significantly affect credit quality and increase provisions for credit losses.
- o Significant growth in consumer lending portfolios in 2004, primarily residential mortgages and credit cards acquired from HSBC Finance Corporation, has changed products offered and customer credit profiles, and consequently has increased revenues and risks associated with these portfolios. Certain economic trends, such as unemployment and underemployment, must be closely scrutinized for their potential impact on these portfolios.

Allowance for Credit Losses

HUSI's reserves for credit losses are regularly assessed for adequacy through a detailed review of the loan portfolio. Reserves are comprised of two balance sheet components:

- o The allowance for credit losses, which is carried as a reduction to loans on the balance sheet, includes reserves for anticipated losses associated with all loans and leases outstanding.
- o The reserve for off-balance sheet risk, which is recorded in other liabilities, includes probable and reasonably estimable losses arising from off-balance sheet arrangements such as letters of credit and commitments to lend that have not as yet been drawn by customers.

Both types of reserves include amounts calculated for individual loan balances and for collective loan portfolios depending on the nature of the exposure and the manner in which risks inherent in that exposure are managed.

- o All loans that exceed five hundred thousand dollars are evaluated individually for impairment. When a loan is found to be "impaired", a specific reserve is calculated. Reserves against impaired loans are determined primarily by an analysis of discounted expected cash flows expected by HUSI with reference to independent valuations of underlying loan collateral and also considering secondary market prices for distressed debt where appropriate.
- o Loans which are not individually evaluated for impairment are pooled into homogeneous categories of loans and evaluated to determine if it is deemed probable, based on historical data, that a loss has been realized even though it has not yet been manifested in a specific loan.

For retail credit card receivables, HUSI uses roll rate methodology (statistical analysis of historical trends used to estimate the probability of continued delinquency, ultimate charge off, and amount of consequential loss assessed at each time period for which payments are overdue) to ensure that an acceptable number of months of anticipated losses are included in the allowance for credit losses. The resulting loss coverage ratio varies by portfolio based on inherent risk and regulatory guidance. Historical factors used in the models are modified as appropriate by an evaluation of current economic conditions and portfolio trends including behavioral and account management information such as bankruptcy. Roll rates are regularly updated and benchmarked against actual outcomes to ensure that they remain appropriate.

In 2004, HUSI implemented a new methodology to support the estimation of losses inherent in pools of homogeneous commercial loans, leases and off-balance sheet risk. These measures have been under development at HUSI for over three years to support more advanced credit risk management, estimation of credit economic capital, enhanced portfolio management and the requirements of the Basel framework. This new methodology uses the probability of default from the customer rating assigned to each counterparty, the "Loss Given Default" rating assigned to each transaction or facility based on the collateral securing the transaction, and the measure of exposure based on the transaction. A suite of models, tools and templates was developed using quantitative and statistical techniques, which are combined with expert judgement to support the assessment of each transaction. They were developed using HUSI's internal data and supplemented by data from external sources which was judged to be consistent with HUSI's internal credit standards. As some of the requirements under Basel differ from interpretations of U.S. GAAP requirements for the measurement of inherent losses in homogeneous pools of loans, these measures are modified to meet accounting standards. These advanced measures are applied to the homogeneous credit pools to estimate the reserves required.

The results from the advanced commercial analysis, retail roll rate analysis and the specific/impairment reserving process is reviewed each quarter by a Credit Reserve Committee co-chaired by the Chief Financial Officer and Chief Credit Officer. This committee also considers other observable factors, both internal to HUSI and external in the general economy, to ensure that the estimates provided by the various models adequately include all known information at each reporting period. The Credit Reserve Committee may add to or reduce a general unallocated

reserve to account for any observable factor not considered in the various models, for small portfolios or period ending manual entries not considered in a model and to recognize modeling imperfections. The credit reserves and the results of the Credit Reserve Committee are reviewed with HUSI's Credit Risk Management Committee and the Board of Directors' Audit and Examining Committee each quarter.

HUSI recognizes however that there is a high degree of subjectivity and imprecision inherent in the process of estimating losses utilizing historical data. Accordingly, a discretionary component of the allowance for credit losses for unspecified potential losses inherent in the loan portfolios is provided based upon an evaluation of certain critical factors including the impact of the national economic cycle, migration of loans within non-criticized loan portfolios, and loan portfolio concentration. As a result of review and revision of various assumptions used in the overall methodology for calculating the allowance for credit losses, the unspecified component was reduced to \$13 billion at December 31, 2004.

Additional credit quality related analysis begins on page 37 of this Form 10-K. HUSI's approach toward credit risk management begins on page 47 of this Form 10-K.

#### Goodwill

Goodwill is not subject to amortization but must be tested for possible impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including the goodwill.

Reporting units were identified based upon an analysis of each of HUSI's individual operating segments. A reporting unit is defined as any distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Goodwill was allocated to the carrying value of each reporting unit based on its relative fair value.

Determining the fair value of a reporting unit requires a high degree of subjective management assumption. Discounted cash flow valuation models are utilized that incorporate such variables as revenue growth rates, expense trends, interest rates and terminal values. Based upon an evaluation of key data and market factors, management selects from a range the specific variables to be incorporated into the valuation model.

HUSI has established April 30 of each year as the date for conducting its annual goodwill impairment assessment. The variables are selected as of that date and the valuation models are run to determine the fair value of each reporting unit. See Business Segments beginning on page 33 of this Form 10-K for an allocation of recorded book value of goodwill by segment. At April 30, 2004, there were no individual reporting units with a fair value less than carrying value, including goodwill. In aggregate, fair value of all the reporting units exceeded carrying value, including goodwill, by more than \$6 billion. Fair value exceeded carrying value by at least \$300 million for all business units. The fair value calculations were tested for sensitivity to reflect reasonable variations, including keeping all other variables constant and assuming no future expense savings are achieved; and keeping other variables constant while cutting projected revenue growth rates in half. In both of these cases there was no impairment identified in any reporting unit.

#### Mortgage Servicing Rights

HUSI recognizes the right to service mortgage loans as a separate and distinct asset at the time the loans are sold. Servicing rights are then amortized in proportion to net servicing income and carried on the balance sheet at the lower of their initial carrying value, adjusted for amortization, or fair value.

As interest rates decline, prepayments generally accelerate, thereby reducing future net servicing cash flows from the serviced mortgage loan portfolio. The carrying value of the mortgage servicing rights (MSRs) is periodically evaluated for impairment based on the difference between the carrying value of such rights and their current fair value. For purposes of measuring impairment, MSRs are stratified based upon interest rates and whether such rates

are fixed or variable and other loan characteristics. Fair value is determined based upon the application of pricing valuation models incorporating portfolio specific prepayment assumptions. These assumptions involve a high degree of subjectivity that is dependent on future interest rate movements. The reasonableness of these pricing models is periodically substantiated by reference to external independent broker valuations and industry surveys.

Note 9 of the consolidated financial statements, which begins on page 88 of this Form 10-K, contains information regarding the factors that were used in determining the fair value of the MSRs at December 31, 2004.

HUSI manages its exposure to declines in the fair value of the MSRs by reference to the interest rate environment. However, in evaluating the impact of the interest rate changes, the effect of various financial instruments, including investment securities and derivatives, that are used to offset changes in the economic value of the MSRs, are considered. Modeling techniques are used to monitor certain interest rate scenarios for their impact on the economic value of net hedged MSRs. These modeling scenarios are summarized beginning on page 55 of this Form 10-K.

Balance Sheet Review

Overview

Balance sheet growth during 2004 was highlighted by significant increases in residential mortgages and credit card receivables, and moderate increases in other consumer and commercial loans. Acquisitions of loans from HSBC Finance Corporation contributed significantly to the overall increases. Transactions with HSBC Finance Corporation are described in Note 18 of the consolidated financial statements on page 97 of this Form 10-K.

HUSI and HBUS periodically issue debt instruments to fund balance sheet growth, to meet cash and capital needs, or to fund investments in subsidiaries. HUSI's shelf registration statement filed with the U.S. Securities and Exchange Commission has \$825 million available under which it may issue debt and equity securities and have ready access to the capital markets for long-term funding through the issuance of registered debt. In 2004, HBUS completed a \$20 billion Global Bank Note Program for the issuance of subordinated and senior global notes. Through December 31, 2004, approximately \$14 billion of debt has been issued from this program. HBUS also issued \$1 billion of subordinated debt in March 2004.

As of December 31, 2004, HUSI had borrowings from the Federal Home Loan Bank (FHLB) of approximately \$5 billion and access to a potential secured borrowing facility as a member of the FHLB. Off-balance sheet special purpose vehicles or other off-balance sheet mechanisms are not used as a significant source of liquidity or funding.

As of December 31, 2004, HUSI had deposits and borrowings from HSBC affiliates of approximately \$6 billion, and an unused \$750 million line of credit with HSBC.

Anticipated balance sheet growth in 2005, can be funded through a variety of sources, including new deposit growth, asset securitizations, borrowings from other affiliates, borrowings from the FHLB, debt issuances from the Global Bank Note Program, and short-term wholesale markets.

Loans Outstanding

The following table provides a breakdown of major loan categories.

December 31	2004	2003	2002	2001	2000
	(in millions)				
Domestic:					
Commercial:					
Construction and other real estate	\$ 8,341	\$ 7,075	\$ 6,350	\$ 5,954	\$ 5,646
Other commercial .....	11,815	8,658	11,025	10,920	12,704
Consumer:					
Residential mortgage loans .....	46,715	26,295	20,438	17,595	15,683
Credit card receivables .....	12,078	1,112	1,101	1,148	1,232
Other consumer loans .....	3,122	1,904	1,693	1,770	1,640
	-----	-----	-----	-----	-----
	82,071	45,044	40,607	37,387	36,905
	-----	-----	-----	-----	-----
International:					
Government and official institutions .	167	168	184	169	302
Banks and other financial institutions	202	186	139	314	852
Commercial and industrial .....	2,507	2,617	2,248	2,587	1,946
Consumer .....	--	459	458	466	413
	-----	-----	-----	-----	-----
	2,876	3,430	3,029	3,536	3,513
	-----	-----	-----	-----	-----
Total loans .....	\$84,947	\$48,474	\$43,636	\$40,923	\$40,418
	=====	=====	=====	=====	=====

2004 Compared to 2003

Commercial Loans

The increase in commercial loans in 2004 primarily reflects targeted growth in middle market, commercial real estate and small business lending portfolios. Specific programs were implemented in 2004 to expand these portfolios.

Residential Mortgage Loans

The increase in residential mortgage loans partially reflects 2004 purchases of approximately \$4 billion from HSBC Finance Corporation and from originating lenders pursuant to an HSBC Finance Corporation correspondent loan program. The remaining net increase resulted from continued growth in the held mortgage loan portfolio.

Credit Card Receivables and Other Consumer Loans

On December 29, 2004, HUSI acquired a \$12 billion private label loan portfolio from HSBC Finance Corporation, which consisted primarily of credit card receivables.

2003 Compared to 2002

Commercial Loans

The exit of less profitable relationships, including equipment finance, U.S. factoring and commercial finance resulted in a decrease in other business and financial commercial loans. Partially offsetting this decrease was business growth in commercial middle market loans in the New York City area. The increase in commercial construction and mortgage loans reflects business growth in New York State based commercial real estate lending businesses.

Residential Mortgage Loans

The increase in residential mortgage loans includes the December 31, 2003 purchase of approximately \$3 billion of residential mortgage loan assets from HSBC Finance Corporation. The increase also was a result of loan growth attributed to the low interest rate environment which continued to stimulate consumers to refinance mortgages and purchase residential property.

Commercial Loan Maturities and Sensitivity to Changes in Interest Rates

The following table presents the contractual maturity and interest sensitivity of domestic commercial and international loans at December 31, 2004.

December 31, 2004	One Year or Less	Over One Through Five Years	Over Five Years	Total Loans
(in millions)				
Domestic:				
Construction and other real estate	\$ 2,557	\$ 4,212	\$ 1,572	\$ 8,341
Other commercial .....	7,518	3,542	755	11,815
International .....	2,211	564	101	2,876
Total .....	\$12,286	\$ 8,318	\$ 2,428	\$23,032
Loans with fixed interest rates .....	\$ 4,279	\$ 2,370	\$ 1,308	\$ 7,957
Loans having variable interest rates ...	8,007	5,948	1,120	15,075
Total .....	\$12,286	\$ 8,318	\$ 2,428	\$23,032

Capital Resources

A summary of changes in common shareholder's equity is presented in the following table.

	2004	2003	2002
	(in millions)		
Balance, January 1 .....	\$ 6,962	\$ 6,896	\$ 6,550
Increases (decreases) due to:			
Net income .....	1,258	941	855
Dividends paid to common shareholder ...	(125)	(690)	(670)
Dividends paid to preferred shareholders	(23)	(22)	(23)
Change in other comprehensive income ...	(97)	(134)	163
Capital contribution from parent (1) ...	2,411	15	21
Reductions of capital surplus .....	(20)	(44)	--
Total net increase .....	3,404	66	346
Balance, December 31 .....	\$ 10,366	\$ 6,962	\$ 6,896

(1) Capital contribution from parent includes amounts related to an HSBC stock option plan in which almost all of HUSI's employees are eligible to participate (\$11 million, \$15 million and \$21 million for 2004, 2003 and 2002 respectively).

Year end common shareholder's equity ratios are presented in the following table.

Year Ended December 31	2004	2003	2002
Common shareholder's equity to total assets.....	7.35%	7.28%	7.71%
Tangible common shareholder's equity to total tangible assets.....	5.50	4.34	4.32

HUSI periodically pays dividends to its parent company, HNAI. Dividends paid to HNAI were significantly reduced in 2004 in order to conserve funds for the December 2004 acquisition of private label loans from HSBC Finance Corporation. The capital contribution from parent includes \$2.4 billion received to provide additional funding for the private label loan acquisition.

Reductions of capital surplus in 2004 resulted from sales or transfers of subsidiaries to affiliated HSBC entities.

HUSI and HBUS are required to meet minimum capital requirements by their principal regulators. Risk-based capital amounts and ratios are presented on page 7 of this Form 10-K.

Results of Operations

Net Interest Income

Net interest income is the total interest income on earning assets less the total interest expense on deposits and borrowed funds. In the discussion that follows, interest income and rates are presented and analyzed on a taxable equivalent basis, in order to permit comparisons of yields on tax-exempt and taxable assets.

The following table presents changes in the components of net interest income according to "volume" and "rate". Specific categories and amounts for interest income and interest expense agree with the "Consolidated Average Balances and Interest Rates" tables on pages 66-67 of this Form 10-K.

Year Ended December 31	2004	2004 Compared to 2003		2003	2003 Compared to 2002		2002
		Increase/(Decrease) Volume	Rate		Increase/(Decrease) Volume	Rate	
(in millions)							
<b>Interest income:</b>							
Interest bearing deposits with banks ..	\$ 41	\$ 13	\$ 3	\$ 25	\$ (8)	\$ (22)	\$ 55
Federal funds sold and securities purchased under resale agreements ...	74	2	17	55	(13)	(27)	95
Trading assets .....	165	35	(7)	137	20	(45)	162
Securities .....	885	(40)	17	908	27	(94)	975
<b>Loans</b>							
<b>Domestic</b>							
Commercial .....	732	(24)	(49)	805	8	(44)	841
<b>Consumer</b>							
Residential mortgages ..	1,795	779	(155)	1,171	116	(195)	1,250
Other consumer .....	286	42	(4)	248	7	(30)	271
International .....	99	12	(39)	126	--	(34)	160
Other interest .....	18	2	(4)	20	--	(3)	23
<b>Total interest income .....</b>	<b>4,095</b>	<b>821</b>	<b>(221)</b>	<b>3,495</b>	<b>157</b>	<b>(494)</b>	<b>3,832</b>
<b>Interest expense:</b>							
<b>Deposits in domestic offices</b>							
Savings deposits .....	179	17	(27)	189	34	(57)	212
Other time deposits .....	365	121	21	223	(54)	(78)	355
Deposits in foreign offices .....	281	31	(4)	254	16	(169)	407
Short-term borrowings .....	132	3	38	91	(44)	(97)	232
Long-term debt .....	380	247	(73)	206	(9)	(10)	225
<b>Total interest expense .....</b>	<b>1,337</b>	<b>419</b>	<b>(45)</b>	<b>963</b>	<b>(57)</b>	<b>(411)</b>	<b>1,431</b>
<b>Net interest income - taxable equivalent basis .....</b>	<b>2,758</b>	<b>\$ 402</b>	<b>\$ (176)</b>	<b>2,532</b>	<b>\$ 214</b>	<b>\$ (83)</b>	<b>2,401</b>
<b>Tax equivalent adjustment .....</b>	<b>17</b>			<b>22</b>			<b>25</b>
<b>Net interest income - non taxable equivalent basis .....</b>	<b>\$ 2,741</b>			<b>\$ 2,510</b>			<b>\$ 2,376</b>

2004 Compared to 2003

Net interest income increased approximately \$231 million (9%) in 2004, compared with the prior year. Increased average loan balances, primarily residential mortgage loans, were partially offset by increased long-term debt and deposit balances, and by a reduction in the net interest rate spread during 2005.

Residential mortgage interest income increased approximately \$624 million (53%) in 2004, compared with 2003. Average residential mortgages increased approximately \$16 billion (74%) in 2004. The low interest rate environment of 2003 and 2004 continued to stimulate consumers to refinance mortgages and purchase residential property. In addition, HUSI continued to purchase residential mortgage loans from HSBC Finance Corporation and



from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs. HUSI generally sells higher fixed rate residential mortgages under Federal loan programs, and retains low adjustable rate mortgages on the balance sheet. The increase in variable rate mortgages relative to the entire residential mortgage portfolio has caused a decline in average residential mortgage interest rates of approximately 66 basis points for 2004.

Commercial loan interest income decreased approximately \$73 million (9%) in 2004. Average commercial loans decreased approximately \$.5 billion (3%). Targeted growth in middle-market, commercial real estate and small business lending portfolios increased commercial loan balances in 2004. However, during 2002 and 2003, certain equipment finance, commercial finance and U.S. factoring businesses were exited or restructured resulting in office closings and sales of customer relationships. In addition, certain receivables associated with these businesses were retained, but have been decreasing throughout 2003 and 2004 as balances have run off. These transactions more than offset the positive impact of 2004 loan growth on interest income.

Interest expense associated with time deposits in domestic and foreign offices increased a combined \$159 million (24%) in 2004. An increase in average time deposit balances of approximately \$10 billion (19%), coupled with an increase in the average rate paid on time deposits, were the primary drivers of the overall interest expense increase.

Interest expense on short-term borrowings increased approximately \$41 million (45%) in 2004, due primarily to increases in the federal funds borrowing rate during the year.

Interest expense on long-term debt increased approximately \$174 million (84%) in 2004. Debt issued from HUSI's expanded global notes program and advances from the Federal Home Loan Bank with maturities greater than one year were primary funding sources for the purchase of \$12 billion of private label receivables from HSBC Finance Corporation in December 2004, thus increasing average long-term debt balances by approximately \$6 billion (158%) during the year. The average rate paid on long-term debt decreased significantly during 2004, due to rates on new debt which are lower than rates on debt that existed in 2003.

The purchase of the \$12 billion private label loan portfolio from HSBC Finance Corporation in December 2004, as well as the ongoing purchases of receivables associated with the portfolio relationships in 2005, will have a significant impact on net interest income in 2005. Additional consumer loans will also be purchased from HSBC Finance Corporation and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs. Increased interest earned on these receivables will be offset by amortization of premiums paid and additional interest expense associated with related funding sources.

HUSI also plans for organic growth of various loan and deposit portfolios during 2005. Emphasis will be placed on enhancing and improving core retail banking businesses. Investment in the retail branch network is planned. Loan and deposit products offered to individuals, small businesses, and middle-market commercial customers were expanded in 2004, and will continue to be expanded in 2005, in conjunction with increased marketing efforts.

#### 2003 Compared to 2002

An improved mix of loans, securities and deposits on the balance sheet and a continued steep yield curve all contributed to the increase in net interest income as compared to 2002. Also contributing to the increase in net interest income was a larger balance sheet, primarily from residential mortgages and growth in lower cost savings deposits.

Average residential mortgages outstanding grew approximately \$2 billion compared with 2002, as the low interest rate environment continued to stimulate consumers to refinance mortgages and purchase residential property. Although total average commercial loans were essentially unchanged from 2002, HUSI benefited from efforts to improve its loan mix. Less profitable relationships, including equipment finance, U.S. factoring and commercial finance relationships were exited, while more profitable commercial middle market and commercial real estate loans

grew. This improved loan mix and higher levels of commercial loan prepayment fees helped to maintain the gross rate earned on commercial loans during a period of declining rates. The securities portfolio also increased as longer term fixed rate instruments were purchased to replace matured variable rate securities. This strategy helped to improve the net yield as funding costs dropped more than the gross rate earned on these securities.

HUSI experienced almost \$4 billion of growth in average savings deposits as compared to 2002. Due to the low rate environment and the uncertainty of the equity markets, many of HUSI's personal financial services customers showed preference to place funds in more liquid savings deposits as opposed to time deposits or mutual funds. This savings deposit growth has been achieved primarily in the New York City market. Higher levels of savings deposits also permitted HUSI to reduce its reliance on short-term borrowings as a funding source. The almost \$1 billion increase in average noninterest bearing deposits was due to commercial deposit growth and the increased usage of compensating balances to pay for services provided to commercial customers.

#### Other Revenues

The following table presents the components of other revenues.

Year Ended December 31	2004	2003	2002	2004 Compared to 2003		2003 Compared to 2002	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
(in millions)							
Trust income .....	\$ 95	\$ 94	\$ 94	\$ 1	1	\$ --	--
Service charges:							
HSBC affiliate income ....	17	16	15	1	6	1	7
Other service charges ....	196	196	191	--	--	5	3
Other fees and commissions:							
Letter of credit fees ....	70	71	66	(1)	(1)	5	8
Credit card fees .....	82	76	72	6	8	4	6
Investment product fees ..	36	75	89	(39)	(52)	(14)	(16)
Wealth and tax advisory services .....	45	39	15	6	15	24	160
HSBC affiliate income ....	27	26	8	1	4	18	225
Other fee-based income ...	165	159	148	6	4	11	7
Total other fees and commissions .....	425	446	398	(21)	(5)	48	12
Other income:							
Insurance .....	63	65	46	(2)	(3)	19	41
Interest on tax settlement	17	22	--	(5)	(23)	22	--
Other .....	253	78	43	175	224	35	81
Total other income .....	333	165	89	168	102	76	85
Residential mortgage banking revenue (expense) .....	(120)	(102)	24	(18)	(18)	(126)	(525)
Trading revenues .....	288	291	130	(3)	(1)	161	124
Securities gains, net .....	85	48	118	37	77	(70)	(59)
Total other revenues .....	\$ 1,319	\$ 1,154	\$ 1,059	\$ 165	14	\$ 95	9

## 2004 Compared to 2003

### Other Fees and Commissions

The overall decrease in other fees and commissions during 2004 was attributable to the June 2004 transfer of a brokerage subsidiary of HUSI to an HSBC affiliate. As a result, income received directly from customers and recorded as investment product fees prior to the transfer, was replaced by lower net referral fees received from HSBC affiliates.

On December 29, 2004, HUSI acquired \$12 billion of private label loans from HSBC Finance Corporation, which consisted primarily of credit card receivables. These additional receivables will result in a significant increase in credit card fees in 2005.

### Other Income

The 2004 increase in other income was primarily the result of the following significant non-recurring transactions and/or other activities:

- o HUSI sold certain consumer credit card relationships to HSBC Finance Corporation at a gain of approximately \$99 million, which was recorded as other income. Further analysis of transactions with HSBC Finance Corporation is provided in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K.
- o HUSI sold its non-marketable minority investment in NYCE Corporation for a gain of approximately \$45 million. HUSI had held its investment since 1985 and was obligated to sell its investment by the majority shareholder in accordance with the terms of the shareholder agreement.
- o HUSI recorded higher earnings from a foreign equity investment, resulting in an increase in other income of approximately \$13 million in 2004, as compared with 2003.
- o Various bank branches and other properties were sold during 2004, with combined gains on sale of approximately \$9 million being recorded as other income.

## 2003 Compared to 2002

### Other Fees and Commissions

The year to year increase in credit card fees was primarily due to higher levels of credit card interchange fees, the result of an increase in purchase volume per account. An increase in merchant fee income, the result of increased sales and marketing efforts, also contributed to this increase. The decrease in investment product fees for 2003 as compared to 2002 was due to lower sales and customer demand for annuity based products, which historically have had a higher commission structure. Uncertainties affecting the stock market reduced customer demand for equity mutual fund products, while sales of fixed income securities were higher in 2003. The increased revenue from the wealth and tax advisory services business reflects 12 months of activity for 2003 versus 4 months of activity for 2002 (the business commenced activity during the third quarter of 2002). Higher levels of fees earned by International Private Banking, Investment Banking and Markets and by HUSI's U.S. dollar clearing business account for the majority of the year to year increase in other fee-based income.

### Other Income

Increased sales, marketing and employee training efforts resulted in substantial growth in insurance income for 2003 as compared to 2002. Commissions from retail insurance products (life, disability and elder care) as well as credit and annuity reinsurance premiums grew at a double digit rate. During the second quarter of 2003 HUSI received \$21 million from the Internal Revenue Service for settlement of additional interest related to a corporate tax refund for prior years. Included in other is a \$12 million increase related to equity investments primarily from the investment in HSBC Republic Bank (Suisse) S.A.

Residential Mortgage Banking Revenue

The following table presents 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 an allocation of the funding benefit or cost associated with these balances. The net interest income component of the table is included in net interest income in the consolidated statement of income and reflects actual interest earned, net of interest expense and corporate transfer pricing cost of funds.

Year Ended December 31	2004	2003	2002	2004 Compared to 2003		2003 Compared to 2002	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
(in millions)							
Net interest income .....	\$ 667	\$ 430	\$ 286	\$ 237	55	\$ 144	50
Servicing related income (expense):							
Servicing fee income .....	78	72	72	6	8	--	--
MSRs amortization .....	(101)	(158)	(77)	57	36	(81)	(105)
MSRs temporary impairment (provision) recovery .....	(102)	(27)	(56)	(75)	(278)	29	52
Trading - Derivative instruments used to offset changes in value of MSRs .....	8	(135)	44	143	106	(179)	(407)
Gains on sales of available for sale securities .....	8	22	1	(14)	(64)	21	2,100
Total net servicing related income (expense) .....	(109)	(226)	(16)	117	52	(210)	(1,312)
Originations and sales related income (expense):							
Gains (losses) on sales of mortgages	(4)	117	164	(121)	(103)	(47)	(29)
Trading - Forward loan sale commitments .....	(2)	35	(189)	(37)	(106)	224	119
- Interest rate lock commitments .....	(13)	(40)	47	27	68	(87)	(185)
Fair value hedge activity (1) .....	(2)	--	8	(2)	--	(8)	(100)
Total net originations and sales related income (expense) .....	(21)	112	30	(133)	(119)	82	273
Other mortgage income .....	10	12	10	(2)	(17)	2	20
Total residential mortgage banking revenue (expense) included in other revenues .....	(120)	(102)	24	(18)	(18)	(126)	(525)
Total residential mortgage banking related revenue .....	\$ 547	\$ 328	\$ 310	\$ 219	67	\$ 18	6

(1) Includes SFAS 133 qualifying fair value adjustments related to residential mortgage banking warehouse fair value hedging activity.

Overview

Increased residential mortgage banking related revenue for full year 2004 was primarily due to increased net interest income and decreased net servicing related expense, which were partially offset by decreased net originations and sales related income.

Net Interest Income

Increased net interest income in 2004 resulted from the significant increase in residential mortgage loans during the year, primarily due to the following factors:

- o Approximately \$4 billion of residential mortgage loans were acquired from HSBC Finance Corporation and from originating lenders pursuant to an HSBC Finance Corporation correspondent loan program.
- o Increased origination volumes in the held loan portfolio. In 2004 HUSI continued the general strategy to retain variable rate mortgage loans in the held portfolio, while selling fixed rate loans to government agencies. Consumer demand for variable rate products increased significantly in 2004.

Residential mortgage loan portfolio increases were partially offset by lower interest rate spreads on originated loans and by lower income on loans held for sale due to reduced levels of loans originated for sale. Commentary regarding residential mortgage interest income is presented on pages 21-22 of this Form 10-K.

Servicing Related Income (Expense)

Decreased net servicing related expense for full year 2004 resulted from increased servicing fee income, decreased MSR amortization expense and increased income associated with derivative instruments used to offset changes in the economic value of MSRs. These were partially offset by increases in temporary impairment reserves. Normal amortization of MSRs decreased \$57 million for full year 2004.

The recorded net book value of MSRs, as well as related amortization expense, are directly impacted by levels of residential mortgage prepayments. Higher levels of prepayments generally increase amortization expense and decrease the net book value of MSRs. Conversely, lower levels of prepayments generally decrease amortization expense and increase the net book value of MSRs. During 2004, prepayments of residential mortgages, mostly in the form of loan refinancings, have decreased in comparison with 2003 levels. 30 year fixed rate mortgage rates generally rose in the second quarter of 2004 from the historically low rates experienced in 2003, declined again through the third quarter, and leveled off in the fourth quarter. Loan refinance activity represented 50% of total originations in 2004, as compared with 74% in 2003. The reduction in amortization is also partially due to lower MSR balances in 2004, as compared with 2003.

The positive impacts of amortization and trading revenue for 2004 were partially offset by increases in the temporary impairment valuation allowance for the MSRs. The net servicing related expense amounts in the tables do not reflect approximately \$4 million of unrealized losses, recorded as other comprehensive income, on available for sale securities used to offset changes in the economic value of MSRs, or net interest income of \$19 million on these securities.

Additional commentary regarding risk management associated with the MSRs hedging program is presented on pages 55-56 of this Form 10-K.

## Originations and Sales Related Income (Expense)

Originations and sales related income in 2004 reflects a small amount of net losses realized on sales of residential mortgage loans, as compared with net gains of \$117 million for 2003. Significantly lower volume of loans originated with the intention to sell in 2004 were coupled with lower gains recorded on each sale transaction. During 2004, residential mortgages originated with the intention to sell declined 64% from 2003 levels, despite an overall increase in residential mortgage loan originations. This was attributable to lower mortgage refinancings and a larger proportion of adjustable rate mortgage originations in 2004, which are generally held on HBUS's balance sheet. In the low interest rate environment that existed prior to 2004, customers tended to refinance with fixed rate loans, which are generally sold. As interest rates have risen during 2004, and refinancing activity has decreased, origination of fixed rate loans originated for sale also has decreased.

General market conditions and industry factors have affected the ability of lenders to recognize the same level of gains in 2004 when compared to 2003. During 2003, the market demand for residential mortgages far outweighed the supply of such mortgages originated by lenders, which drove up pricing and associated gains recorded on the sales. During 2004, due to lower mortgage refinancings and a contracting national mortgage originations market, the demand has weakened relative to supply, which in turn has returned pricing to more normalized levels and net gains associated with sales of mortgages.

The adoption of Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 105, Applications of Accounting Principles to Loan Commitments (SAB 105), effective April 1, 2004, resulted in deferral of originations and sales related income of approximately \$22 million in 2004. This income will be realized in future reporting periods.

### 2003 Compared to 2002

The increases in net interest income reflected growth in the residential mortgage portfolio in combination with widening interest rate spreads. Average residential mortgages outstanding grew approximately \$2 billion in 2003 and 2002. During 2003, the mortgage industry experienced the lowest mortgage rates in forty years, with the rate on a 30 year fixed rate mortgage reaching a low of 4.99% in June. The unusually low interest rate environment in 2003 encouraged consumers to refinance mortgages and purchase residential property in unprecedented numbers, as HUSI originated approximately \$32 billion in mortgages. The steep yield curve and historically low interest rates contributed to increased interest margins in the mortgage banking business.

Total servicing related income decreased \$210 million in 2003, primarily driven by accelerated amortization and large write-downs of mortgage servicing rights (MSRs) as customers refinanced mortgages in record numbers due to the low rate environment. The decrease in servicing related income also reflected significant losses on derivative instruments used to protect the economic value of MSRs. The June/July 2003 time period was one of the more difficult periods related to derivatives used to hedge the change in economic value of MSRs. Specifically, as mortgage rates continued to fall in June, additional derivative instrument positions were taken to further reduce the exposure to losses in a continuing declining rate environment. Extreme interest rate volatility ensued during July when there was a significant rise in interest rates resulting in a substantial loss in value of the derivative instruments and resultant mark to market losses. Subsequent falls in rates only modestly recovered part of these losses which compounded the impact of large MSRs write-downs recorded in prior months. Partially offsetting these reductions were gains related to the sale of certain mortgage backed securities available for sale that were used as "on-balance sheet" economic hedges of MSRs.

While the values of MSRs generally decline in a falling rate environment as mortgages prepay, the effect of this decline is often mitigated to some degree by increases in originations and thus income from increases in mortgage loan refinancings. Total loan volumes originated for sale in 2003 were \$20 billion compared to \$12 billion for 2002. Market conditions during 2003 also permitted favorable pricing which allowed HUSI to earn a significantly higher gain on sale percentage per salable loan dollar. Total originations and sales related income for 2003 therefore increased approximately \$82 million compared to 2002.

## Trading Revenues

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

The following table presents trading related revenues by business. The data in the table includes net interest income earned on trading instruments, as well as an allocation of the funding benefit or cost associated with the trading positions. The trading related net interest income component is not included in other revenues, but it is included in net interest income. Trading revenues related to the mortgage banking business are included in residential mortgage banking revenue. See analysis of residential mortgage banking revenue for details.

Year Ended December 31	2004	2003	2002	2004 Compared to 2003		2003 Compared to 2002	
				Increase/(Decrease)	%	Increase/(Decrease)	%
(in millions)							
Trading revenues .....	\$ 288	\$ 291	\$ 130	\$ (3)	(1)	\$ 161	124
Net interest income .....	76	81	74	(5)	(6)	7	9
Trading related revenues .....	\$ 364	\$ 372	\$ 204	\$ (8)	(2)	\$ 168	82
<b>Business:</b>							
Derivatives and treasury .....	\$ 149	\$ 190	\$ 71	\$ (41)	(22)	\$ 119	168
Foreign exchange and banknotes .....	143	102	39	41	40	63	162
Precious metals .....	49	59	70	(10)	(17)	(11)	(16)
Other trading .....	23	21	24	2	10	(3)	(13)
Trading related revenues .....	\$ 364	\$ 372	\$ 204	\$ (8)	(2)	\$ 168	82

### 2004 Compared to 2003

Derivatives and treasury revenue decreased in 2004, due primarily to a lower interest rate environment which decreased customer activity and reduced proprietary gains.

Increased foreign exchange revenues resulted from improved performance for foreign currency and banknotes trading activities. 2003 banknotes trading results were negatively impacted by the SARS scare and by the war in Iraq. 2004 activity reflected a recovery of customer activity levels and improved proprietary results.

Decreased precious metals trading revenue was primarily due to a significant default by a customer in Australia, which was partially offset by slightly improved results in other domestic and foreign locations.

### 2003 Compared to 2002

The increase in foreign exchange and banknotes revenues was due to increased client activity and improved trading results relative to 2002, when a challenging market environment in emerging markets currencies impacted performance. The increase in foreign exchange client activity can be attributed to significant investment in marketing and trading personnel, as part of a targeted effort to improve client business. Banknotes revenue in 2003 benefited from an improving global economy.

Derivative and treasury revenue increases in 2003 were primarily the result of mark to market gains on economic hedges of HUSI's investment portfolio. HUSI also had higher proprietary trading revenue in corporate and other securities, offset by lower proprietary trading revenues in credit and interest rate derivatives. Revenue from client activity in interest and credit derivatives increased in 2003 due to an expanded customer base and a continued focus on servicing client business.

The decrease in precious metals trading revenues was a result of losses in risk taking activities in precious metals options and the impact of adverse movements in precious metals interest rates on other proprietary metal trading positions.

Security Gains, Net

2004 Overview

The following table presents realized security gains and losses included in the consolidated statement of income for 2004.

Year Ended December 31, 2004	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)
(in millions)			
Net gains included in:			
Residential mortgage banking revenue (1)	\$ 8	\$ --	\$ 8
Security gains, net.....	93	(8)	85
	-----	-----	-----
	\$ 101	\$ (8)	\$ 93
	=====	=====	=====

(1) Securities gains related to available for sale securities used to offset charges in the economic value of MSRs are included in residential mortgage banking revenue.

HUSI continued to manage its credit risk exposure related to investment in Latin American securities, resulting in net gains on sales of securities of approximately \$30 million. Ongoing review and diversification of securities portfolios to adjust for interest rate changes and changes in credit risk profiles resulted in an additional \$48 million of net gains.

2003 Overview

The following table presents realized security gains and losses included in the consolidated statement of income for 2003.

Year Ended December 31, 2003	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)
(in millions)			
Net gains included in:			
Residential mortgage banking revenue (1)	\$ 22	\$ --	\$ 22
Security gains, net.....	59	(11)	48
	-----	-----	-----
	\$ 81	\$ (11)	\$ 70
	=====	=====	=====

(1) Securities gains related to available for sale securities used to offset charges in the economic value of MSRs are included in residential mortgage banking revenue.

Certain Latin American securities were sold during 2003 in order to reduce the credit risk of HUSI, resulting in approximately \$18 million of gains. The remainder of the security gains in 2003 primarily related to transactions that adjusted the average life and interest rate profile of HUSI's available for sale securities holdings.

2002 Overview

The following table presents realized security gains and losses included in the consolidated statement of income for 2002.

Year Ended December 31, 2002	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)
(in millions)			
Net gains included in:			
Residential mortgage banking revenue (1)	\$ 1	\$ --	\$ 1
Security gains, net.....	190	(72)	118
	-----	-----	-----
	\$ 191	\$ (72)	\$ 119
	=====	=====	=====



- (1) Securities gains related to available for sale securities used to offset charges in the economic value of MSRs are included in residential mortgage banking revenue.

Security gains for 2002 included gains on sales of mortgage backed, U.S. Treasury and Latin American securities. HUSI sold the securities to adjust to interest rate changes and/or reduce its credit risk.

Operating Expenses

Year Ended December 31	2004	2003	2002	2004 Compared to 2003		2003 Compared to 2002	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
(in millions)							
Salaries and employee benefits ...	\$ 947	\$ 1,138	\$ 1,036	\$ (191)	(17)	\$ 102	10
Occupancy expense, net .....	176	164	165	12	7	(1)	(1)
Other expenses:							
Equipment and software .....	108	145	141	(37)	(26)	4	3
Marketing .....	44	39	38	5	13	1	3
Outside services .....	103	116	106	(13)	(11)	10	9
Professional fees .....	55	69	43	(14)	(20)	26	60
Telecommunications .....	17	42	43	(25)	(60)	(1)	(2)
Postage, printing and office supplies .....	25	29	32	(4)	(14)	(3)	(9)
Insurance business .....	22	31	24	(9)	(29)	7	29
HSBC affiliate charges .....	420	159	98	261	164	61	62
Other .....	184	108	149	76	70	(41)	(28)
Total other expenses .....	978	738	674	240	33	64	9
Total operating expenses .....	\$ 2,101	\$ 2,040	\$ 1,875	\$ 61	3	\$ 165	9
Personnel - average number .....	11,416	13,486	13,856	(2,070)	(15)	(370)	(3)

2004 Compared to 2003

Total operating expenses increased 3% in 2004, as compared with 2003, primarily due to increased charges by HSBC affiliates for technology related services, broker-dealer, loan origination and servicing and other administrative services, offset by related salary decreases as described below, and to increased provisions for off-balance sheet credit exposures.

During 2003, certain equipment finance, commercial finance and U.S. factoring businesses were sold. In addition, during 2004, certain domestic and foreign operations were sold or transferred to HSBC affiliates at fair value. These transactions decreased various operating expense lines by an approximate combined amount of \$97 million in 2004.

HSBC affiliate charges include amounts for information technology, loan origination and servicing, administrative and other operational support. During 2003 and into 2004, HSBC instituted certain organizational changes that resulted in employees and other aspects of operations being transferred to other HSBC affiliates in North America. These other HSBC affiliates in turn charge for services in accordance with service level agreements. These organizational changes have impacted the amounts recorded in various functional expense categories included in operating expenses on the consolidated statement of income. Direct expenses previously recorded in "salaries and employee benefits" on the consolidated statement of income for 2003 and 2002 are now recorded in "other expenses" for 2004. In the preceding table, the increase in HSBC affiliate charges, as well as the decreases for salaries and employee benefits, equipment and software, telecommunications and outside services expenses, primarily resulted from these organizational changes. Additional details regarding HSBC affiliate charges are presented in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K.

## Salaries and Employee Benefits

The decrease in salaries and employee benefits in 2004 was primarily due to the transfer of employees to HSBC affiliates, to sales of various commercial lending business units in 2003, and to the sales or transfers of various subsidiaries to affiliated HSBC entities during 2004, as previously described. Additional decreases in salaries have resulted from ongoing efforts to integrate and centralize operations of various departments with those of HSBC Finance Corporation. As a result of the organizational changes and other efforts, the average number of personnel employed directly by HUSI has decreased 15% during 2004, as compared with 2003. During 2003, severance costs of \$48 million were recorded as a result of various expense reduction, global resourcing, and HSBC Finance Corporation integration efforts. These initiatives were generally completed in 2003 resulting in expense decreases in 2004.

Partially offsetting the above salary decreases were increased expenses associated with expanded residential mortgage lending and CIBM operations.

## HSBC Affiliate Charges

As previously noted, a significant number of employees were transferred to HSBC affiliates during 2004. Fees charged by these entities in accordance with various service level agreements either began on January 1, 2004, or have increased during the year due to expansion of the services they provide. Total technology related expenses, net of related salary line decreases, increased during 2004 as HUSI has continued to upgrade its automated technology environment. Origination and servicing expenses have increased due to increased services provided by HSBC Finance Corporation related to residential mortgages and other consumer loans.

The purchase of the private label loan portfolio from HSBC Finance Corporation in December 2004 will result in a significant increase in servicing fees paid to HSBC Finance Corporation and included in HSBC affiliate charges.

## Other Expense

The 2004 increase in other expense was primarily due to the following factors:

- o HUSI refined its methodology for calculating its reserve for off-balance sheet exposure, resulting in an increase in the provision for off-balance sheet exposure of approximately \$53 million.
- o In the fourth quarter of 2004, HUSI recorded a provision of approximately \$26 million for U.S. withholding tax costs related to deficiencies in client tax documentation through a charge to other expense.

## 2003 Compared to 2002

Higher costs related to certain volume driven and revenue driven incentive compensation programs contributed approximately \$23 million to the year to year increase in personnel costs. Fringe benefit costs increased approximately \$48 million compared to the prior year, primarily due to higher pension and health care costs. Offsetting these higher incentive and fringe benefit costs was a \$26 million increase in personnel expense deferrals of direct costs associated with the origination of loans, primarily residential mortgage loans. HUSI had almost a \$9 billion increase in loan originations during 2003. During 2003 severance costs of \$48 million were recorded for expense reduction initiatives, global resourcing moves and HSBC Finance Corporation integration efforts, a \$28 million increase over the prior year. Personnel costs related to the wealth and tax advisory services business, which commenced activity during the third quarter of 2002, increased approximately \$34 million over 2002. Included in these costs are severance costs related to the closure of certain offices of the business.

The increase in outside services included incremental costs of approximately \$8 million supporting new business initiatives and products in treasury (derivative and structured products) and wealth management (brokerage self-clearing). Increased residential mortgages origination activity for 2003 also resulted in an over \$2 million increase in outside services.

Professional fees for 2003 included \$13 million related to consulting and other professional fees incurred by HUSI to enhance its compliance with anti-money laundering requirements and an increase of approximately \$7 million supporting new business initiatives and products in wealth management (brokerage self-clearing) and treasury (derivative and structured products).

The increase in insurance business expense reflected higher claim expenses associated with continued growth in the reinsurance businesses and was more than offset by increases in insurance related other income. See comments related to other revenues.

The increase in HSBC affiliate charges was primarily due to increased costs supporting continued growth in our treasury and traded markets businesses.

#### Provision for Credit Losses

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Provisions for credit losses are recorded to adjust the allowance for credit losses to the level that management deems adequate to absorb losses inherent in the loan and lease portfolio. Such provisions decreased \$130 million in 2004, as compared with 2003, due primarily to the following factors.

- o The overall credit quality of HUSI's commercial lending portfolios continued to improve during 2004, as evidenced by decreased nonaccruing loan balances, decreased criticized asset balances, decreased commercial loan charge offs, and increased recoveries of balances previously charged off. Specific reserves on impaired commercial loans decreased approximately \$69 million during 2004, while formula reserves on criticized commercial loans decreased approximately \$20 million.
- o The unallocated component of the allowance for credit losses was significantly reduced due to refinement of the allowance for credit losses methodology, resulting in an overall reduction in provision expense of approximately \$51 million.

On December 29, 2004, HUSI purchased the \$12 billion private label loan portfolio from HSBC Finance Corporation, including an allowance for credit losses associated with the purchased portfolio of approximately \$505 million. The purchased portfolio is considered to be prime credit quality, with historical credit losses ranging from 5%-6% over the past few years.

Analysis of the loan portfolios is presented within the Balance Sheet Review section on pages 18-19 of this Form 10-K. Analysis of credit quality associated with loan portfolios begins on page 37 of this Form 10-K.

#### Income Taxes

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Income tax expense increased \$148 million (26%) in 2004, as compared with 2003, due principally to an increase in pretax income. Analysis of income tax expense, the effective tax rate, and the net deferred tax position is provided in Note 13 of the consolidated financial statements beginning on page 91 of this Form 10-K.

Business Segments

HUSI's business segments are described beginning on page 5 of this Form 10-K. Results for each segment are summarized in the following table and commentary. Prior period disclosures previously reported for 2003 and 2002 have been conformed herein to the presentation of current segments, including methodology changes related to the transfer pricing of assets and liabilities.

	PFS	CMB	CIBM	PB	Other	Total
(in millions)						
2004						
Net interest income (1) .....	\$ 1,478	\$ 585	\$ 558	\$ 130	\$ (10)	\$ 2,741
Other revenues .....	382	170	536	204	27	1,319
Total revenues .....	1,860	755	1,094	334	17	4,060
Operating expenses (2) .....	961	352	525	263	--	2,101
Working contribution .....	899	403	569	71	17	1,959
Provision for credit losses (3) .	103	(26)	(95)	1	--	(17)
Income before income tax expense	\$ 796	\$ 429	\$ 664	\$ 70	\$ 17	\$ 1,976
Average assets .....	\$45,460	\$ 13,750	\$ 48,687	\$ 4,029	\$ 300	\$ 112,226
Average liabilities/equity (4) ..	34,165	14,670	54,440	8,951	--	112,226
Goodwill at December 31, 2004 (5)	1,170	468	631	428	--	2,697
2003						
Net interest income (1) .....	\$ 1,193	\$ 592	\$ 619	\$ 123	\$ (17)	\$ 2,510
Other revenues .....	250	158	526	195	25	1,154
Total revenues .....	1,443	750	1,145	318	8	3,664
Operating expenses (2) .....	930	402	442	265	1	2,040
Working contribution .....	513	348	703	53	7	1,624
Provision for credit losses (3) .	68	55	(8)	(2)	--	113
Income before income tax expense	\$ 445	\$ 293	\$ 711	\$ 55	\$ 7	\$ 1,511
Average assets .....	\$28,601	\$ 14,236	\$ 45,738	\$ 2,936	\$ 314	\$ 91,825
Average liabilities/equity (4) ..	31,066	13,281	38,917	8,561	--	91,825
Goodwill at December 31, 2003 (5)	1,223	495	631	428	--	2,777
2002						
Net interest income (1) .....	\$ 1,106	\$ 588	\$ 566	\$ 127	\$ (11)	\$ 2,376
Other revenues .....	369	133	411	127	20	1,060
Total revenues .....	1,475	721	977	254	9	3,436
Operating expenses (2) .....	897	406	371	202	--	1,876
Working contribution .....	578	315	606	52	9	1,560
Provision for credit losses (3) .	68	97	21	9	--	195
Income before income tax expense	\$ 510	\$ 218	\$ 585	\$ 43	\$ 9	\$ 1,365
Average assets .....	\$26,475	\$ 14,413	\$ 43,990	\$ 2,813	\$ 89	\$ 87,780
Average liabilities/equity (4) ..	29,872	13,239	35,645	9,006	18	87,780
Goodwill at December 31, 2002 ...	1,223	543	635	428	--	2,829

(1) Net interest income of each segment represents the difference between actual interest earned on assets and interest paid on liabilities of the segment adjusted for a funding charge or credit. Segments are charged a cost to fund assets (e.g. customer loans) and receive a funding credit for funds provided (e.g. customer deposits) based on equivalent market rates.

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

(3) The provision apportioned to the segments is based on the segments' net charge offs and the change in allowance for credit losses. Credit loss reserves are established at a level sufficient to absorb the losses considered to be inherent in the portfolio.

(4) Common shareholder's equity and earnings on common shareholder's equity are allocated back to the segments based on the percentage of capital assigned to the business.

(5) The reduction in goodwill from December 31, 2003 to December 31, 2004 resulted from the sale or transfer of certain domestic and foreign

operations during 2004. The reduction in goodwill from December 31, 2002 to December 31, 2003 includes goodwill associated with the sale of the domestic factoring business on December 31, 2003.

## Personal Financial Services (PFS)

### 2004 Compared to 2003

During 2004, HUSI sold or transferred certain foreign subsidiaries to HSBC affiliates. As a result of these transactions, HUSI reported 2003 PFS amounts associated with these sold subsidiaries, for net interest income, other revenues, and operating expenses that exceeded 2004 amounts.

Excluding the effects of sales of the foreign subsidiaries noted above:

- o Net interest income increased \$292 million, primarily due to higher interest income from residential mortgage lending activity. Growth in residential mortgage loans continued to result from the low interest rate environment, especially for variable rate loans, which HUSI maintains in its held portfolio. Increased loan balances were partially offset by a decline in the average interest rate earned on the held mortgage loan portfolio during the year.
- o Other revenues increased \$171 million in 2004, primarily as a result of a \$99 million gain on sale of credit card relationships to HSBC Finance Corporation, and a \$45 million gain from sale of an investment in NYCE Corporation. Residential mortgage banking revenue decreased \$18 million in 2004, as a reduction in gains on sales of mortgage loans, coupled with an increase in temporary impairment expense associated with MSRs, which was partially offset by decreased MSRs amortization expense and improved trading performance related to derivative instruments used to offset changes in the value of MSRs. Other general increases in various fees and other revenues resulted from expansion of retail lending and deposit activities.
- o Operating expenses increased \$70 million in 2004, due to growth in residential mortgage operations to accommodate increased loan production, increased technology costs due to conversions of consumer loan systems to platforms that are shared with HSBC Finance Corporation, and a provision for U.S. withholding tax costs related to deficiencies in client tax documentation.
- o The provision for credit losses increased \$31 million in 2004, as a direct result of increases in residential mortgage loan and other consumer loan portfolios.

### 2003 Compared to 2002

Income before income tax expense for the segment decreased \$65 million in 2003 due to lower levels of other revenues and higher levels of operating expenses partially offset by an increase in net interest income. The decrease in other revenues was due to a reduction in residential mortgage banking revenue, driven by accelerated amortization of MSRs and losses on hedges used to offset changes in the economic value of MSRs. That decrease was partially offset by increases in residential mortgage originations and sales related income. Wealth management fees were also lower, reflecting reduced demand for retail investment products, weaker consumer confidence and volatile equity markets. The increase in operating expenses reflected higher personnel costs (pension, health care insurance costs and severance), professional fees associated with enhanced compliance with anti-money laundering requirements and higher technology related infrastructure expenses. The increase in net interest income was driven by continued growth in residential mortgage activity, an improved mix of loans and savings deposits and lower funding costs. Average residential mortgages grew \$2 billion as the low interest rate environment continued to stimulate consumers to refinance mortgages and purchase residential property.

## Commercial Banking (CMB)

### 2004 Compared to 2003

During 2002 and 2003, certain equipment finance, commercial finance and U.S. factoring businesses were exited or restructured resulting in office closings and sales of customer relationships. Certain receivables associated with these businesses were retained, but have been decreasing throughout 2003 and 2004 as balances have run off. During 2004, HUSI sold or transferred certain foreign subsidiaries to HSBC affiliates. As a result of these transactions, reported CMB amounts for 2003 associated with these exited businesses, for net interest income, other revenues and expenses all exceeded 2004 amounts.

Excluding the effect of the business sale and transfer transactions:

- o Net interest income increased \$73 million, due to growth in net interest income from loan and deposit activity with middle-market, commercial real estate and small business customers in the second half of the year.
- o Revenue growth was achieved in 2004 while maintaining a stable operating expense base, due to focused cost containment efforts.
- o The provision for credit losses decreased \$58 million, due primarily to continued improvement in commercial credit quality, as evidenced by decreased nonaccruing loan balances, decreased criticized assets, decreased charge offs, and increased recoveries of commercial loans previously charged off. A reduction in the unallocated portion of the allowance for credit losses also contributed to the overall decrease in provision expense.

2003 Compared to 2002

Income before income tax expense for this segment increased 34% over 2002 reflecting a decrease in the provision for credit losses and an increase in other revenues. The decrease in the provision for credit losses was driven by continued improvement in the overall credit quality of HUSI's commercial lending portfolio as evidenced by a significant decline in the level of criticized assets. The increase in other revenues includes growth in fees earned by the commercial real estate lending business and commercial service charges from the New York City region as well as this segment's share of the \$21 million interest on a tax settlement for 2003. An increase in commercial loan prepayment fees earned by the Commercial Real Estate Lending business contributed to the year to year increase in net interest income. The restructuring of the commercial finance receivables and equipment financing units led to lower operating expenses. These cost savings were partially offset by higher pension, health care insurance and severance related costs.

Corporate, Investment Banking and Markets (CIBM)

2004 Compared to 2003

The decrease in income before income tax expense in 2004 primarily resulted from decreased net interest income and increased operating expenses, offset by decreased provision for credit losses.

Net interest income decreased \$61 million in 2004, due partly to a significant increase in short-term borrowings and long-term debt balances during the second half of the year, and partly to a flattening yield curve, which tightened the interest spread earned on net earning assets. Short-term and long-term debt issuances reported in CIBM were the primary sources of funds for PFS balance sheet growth, and increases in these debt balances significantly outpaced increases in net treasury and traded markets assets included in CIBM during 2004.

The 2004 increase in other revenues was due to increased net gains on sales of securities, which was partially offset by decreased trading revenues.

Operating expenses increased \$83 million in 2004 due primarily to expansion initiatives related to various treasury and traded markets products. These initiatives resulted in higher salaries and benefits expenses, higher information technology expenses, and increased administrative and other fees charged by HSBC and other affiliated entities.

The provision for credit losses decreased \$87 million in 2004 due to general improvement of commercial credit quality. Significant loan paydowns and recoveries of amounts previously charged off were received during 2004. In addition, there were upgrades of classification of certain large criticized credits during the year. A reduction in the unallocated portion of the allowance for credit losses also contributed to the overall decrease in provision expense.



#### 2003 Compared to 2002

Income before income tax expense for this segment increased 22% over 2002 due to higher levels of trading revenue and net interest income. The year to year improvement in trading revenue primarily related to derivatives and treasury trading and foreign exchange trading revenue. The increase in derivatives and treasury trading revenue for 2003 was due to increased client activity in interest rate and credit derivatives, higher proprietary trading revenue and mark to market gains on economic hedges of HUSI's investment portfolio. Increased client activity and improved trading results relative to 2002, when a challenging market environment in emerging markets currencies impacted performance, drove the improvement in foreign exchange trading revenue. The increases in trading revenue were partially offset by lower profits from the sale of available for sale investment securities. The net interest income growth in this segment was driven by a larger balance sheet and improved interest spreads resulting from historically low interest rates and a steep yield curve, particularly during the first half of the year. The increase in operating expenses reflected higher levels of performance driven incentive compensation and higher fringe benefit costs. Recoveries on several large credits in the Corporate Banking unit and improved overall credit quality drove the year to year improvement in provision for credit losses.

Private Banking (PB)

#### 2004 Compared to 2003

Income before income tax expense increased 27% in 2004 due to increased equity investment revenue, increased wealth and tax advisory service revenues, and increased gains on sales of investment securities. Operating expenses were flat in 2004, as compared with 2003, as a provision for U.S. withholding tax costs related to deficiencies in client tax documentation was offset by decreases in other expenses.

#### 2003 Compared to 2002

Income before income tax expense for this segment increased 28% over 2002 reflecting increases in other revenues and a reduced provision for credit losses. Increased wealth and tax advisory services, higher levels of investment sales and increases in trust income all contributed to the year to year increase in other revenues. Other revenues also includes \$24 million of additional revenues from wealth and tax advisory services, a business that commenced activity during the third quarter of 2002. The lower provision for credit losses reflected the improvement in the overall credit quality of the segment including fewer problem credits related to South American risk. The increase in operating expenses was due to a \$39 million increase in expenses related to the wealth and tax advisory services business, which commenced activity in the third quarter of 2002. Also contributing to the expense increase were higher levels of performance related incentive compensation for certain businesses, agency recruitment fees and fringe benefit costs.

Credit Quality

Regional Concentrations of Credit Risk

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.

The following is a summary of the regional exposure HUSI has at December 31, 2004 for the following secured loan portfolios.

December 31, 2004	Commercial, Construction and Mortgage Loans	Residential Mortgage Loans
New York State.....	61%	22%
North Central United States.....	3	12
North Eastern United States.....	9	12
Southern United States.....	10	24
Western United States.....	17	28
Other.....	--	2
Total.....	100%	100%

In general, HUSI controls the varying degrees of credit risk involved in on and off-balance sheet transactions through specific credit policies. These policies and procedures provide for a strict approval, monitoring and reporting process. It is HUSI's policy to require collateral when it is deemed appropriate. Varying degrees and types of collateral are secured depending upon management's credit evaluation.

Cross-Border Net Outstandings

Cross-border net outstandings, as calculated in accordance with Federal Financial Institutions Examination Council (FFIEC) guidelines, are amounts payable to HUSI by residents of foreign countries regardless of the currency of claim and local country claims in excess of local country obligations. Cross-border net outstandings include deposits in other banks, loans, acceptances, securities available for sale, trading securities, revaluation gains on foreign exchange and derivative contracts and accrued interest receivable. Excluded from cross-border net outstandings are, among other things, the following: local country claims funded by non-local country obligations (U.S. dollar or other non-local currencies), principally certificates of deposit issued by a foreign branch, where the providers of funds agree that, in the event of the occurrence of a sovereign default or the imposition of currency exchange restrictions in a given country, they will not be paid until such default is cured or currency restrictions lifted or, in certain circumstances, they may accept payment in local currency or assets denominated in local currency (hereinafter referred to as constraint certificates of deposit); and cross-border claims that are guaranteed by cash or other external liquid collateral.

There were no cross-border net outstandings which exceeded .75% of total assets at December 31, 2004, 2003 and 2002.

Problem Loan Management

Nonaccruing Loans

Borrowers who experience difficulties in meeting the contractual payment terms of their loans receive special attention. Depending on circumstances, decisions may be made to cease accruing interest on such loans.

Commercial loans are designated as nonaccruing when, in the opinion of management, reasonable doubt exists with respect to collectibility of all interest and principal based on certain factors, including adequacy of collateral. However, HUSI complies with regulatory requirements, which mandate that interest not be accrued on commercial loans with principal or interest past due for a period of ninety days, unless the loan is both adequately secured and in process of collection.

Residential mortgage interest accruals are suspended when principal or interest payments are more than three months contractually past due. Loans to credit card customers that are past due more than ninety days are designated as nonaccruing only if the customer has agreed to credit counseling; otherwise they are charged off in accordance with a predetermined schedule. Other consumer loans are generally not designated as nonaccruing and are charged off against the allowance for credit losses according to an established delinquency schedule.

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

In certain situations where the borrower is experiencing temporary cash flow problems, and after careful examination by management, the interest rate and payment terms may be adjusted from the original contractual agreement. When this occurs and the revised terms at the time of renegotiations are less than HUSI would be willing to accept for a new loan with comparable risk, the loan is separately identified as restructured.

HUSI has commitments to lend additional funds to borrowers whose loans are classified as nonaccruing. A significant portion of these commitments includes clauses that provide for cancellation in the event of a material adverse change in the financial position of the borrower.

#### Impaired Loans

In accordance with HUSI's credit policy, a loan is considered to be impaired when it is deemed probable that all principal and interest amounts due, according to the contractual terms of the loan agreement, will not be collected. Probable losses from impaired loans are quantified and recorded as a component of the overall allowance for credit losses. Generally, impaired loans include loans in nonaccruing status, loans which have been assigned a specific allowance for credit losses, loans which have been partially or wholly charged off, and loans designated as troubled debt restructures.

#### Criticized Loans

Problem loans are assigned various criticized facility grades under the allowance for credit losses methodology.

Special Mention Loans are generally 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.

Substandard Loans are inadequately protected by the underlying collateral and/or general credit worthiness of the customer. These loans present a distinct possibility that HUSI will sustain some loss if the deficiencies are not corrected.

Doubtful Loans have all the weaknesses exhibited by substandard loans, with the added characteristic that the weaknesses make collection or liquidation in full of the recorded loan highly improbable. However, although the possibility of loss is extremely high, certain pending 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.

Credit Quality Statistics

A summary of nonaccruing loan information is presented in the following table.

	2004	2003	2002	2001	2000
(in millions)					
Nonaccruing loans					
Balance at end of period:					
Domestic:					
Commercial loans:					
Construction and other real estate .....	\$ 33	\$ 30	\$ 29	\$ 28	\$ 35
Other commercial .....	103	205	200	237	252
Total commercial .....	136	235	229	265	287
Consumer loans .....	114	93	102	118	105
Total domestic .....	250	328	331	383	392
International .....	14	38	56	34	31
Total nonaccruing loans .....	\$264	\$366	\$387	\$417	\$423
As a percent of loans:					
Domestic:					
Commercial loans:					
Construction and other real estate .....	.40%	.42%	.46%	.47%	.62%
Other commercial .....	.87	2.37	1.81	2.17	1.98
Total commercial .....	.67	1.49	1.32	1.57	1.56
Consumer loans .....	.18	.32	.44	.58	.57
Total domestic .....	.30	.73	.82	1.02	1.06
International .....	.49	1.11	1.85	.96	.88
Total .....	.31%	.76%	.89%	1.02%	1.05%
Commitments to lend additional funds to borrowers whose loans are classified as nonaccruing (Balance at end of period):					
Other commercial .....	\$ 1	\$ 4	\$ 12	\$ 10	\$ 46
Interest income on nonaccruing loans (Year ended December 31):					
Amount which would have been recorded had the associated loans been current in accordance with their original terms .....	\$ 23	\$ 28	\$ 37	\$ 31	\$ 28
Amount actually recorded .....	17	12	9	19	24

2004 growth in consumer loans resulted primarily from residential mortgage loan originations and from the \$12 billion private label loan portfolio purchased from HSBC Finance Corporation. 2004 loan growth did not result in significantly increased nonaccruing loan balances, and therefore resulted in a significant reduction in consumer nonaccruing loan balances as a percentage of total consumer loans, as reflected in the above table.

Additional credit quality information is presented in the following table.

December 31	2004	2003	2002	2001	2000
	(in millions)				
Accruing loans contractually past due 90 days or more as to principal or interest:					
Commercial .....	\$ 13	\$ 24	\$ 31	\$ 12	\$ 29
Consumer .....	246	12	5	10	13
International .....	--	1	5	--	--
Total accruing loans contractually past due 90 days or more .....	\$ 259	\$ 37	\$ 41	\$ 22	\$ 42
Criticized assets (Balance at end of period):					
Special mention .....	\$ 784	\$ 618	\$ 1,099	\$ 1,146	\$ 1,383
Substandard .....	590	682	996	946	540
Doubtful .....	46	128	115	108	118
Total .....	\$ 1,420	\$ 1,428	\$ 2,210	\$ 2,200	\$ 2,041
Impaired loans					
Balance at end of period .....	\$ 236	\$ 267	\$ 288	\$ 243	\$ 224
Amount with impairment reserve .....	210	179	170	151	109
Impairment reserve .....	18	86	89	83	46
Other real estate and owned assets					
Balance at end of period .....	\$ 15	\$ 17	\$ 17	\$ 18	\$ 21
Ratio of total nonaccruing loans, other real estate assets to total assets .....	.20%	.40%	.45%	.50%	.53%

The increase in accruing loans contractually past due 90 days was a direct result of credit card receivables growth during 2004. Receivables included in the \$12 billion private label loan portfolio acquired from HSBC Finance Corporation are generally maintained in accruing status until being charged off after six months of delinquency.

Allowance for Credit Losses

HUSI's methodology and accounting policies related to its allowance for credit losses are presented in Critical Accounting Policies on page 15 and in Note 2 of the consolidated financial statements beginning on page 75 of this Form 10-K.

An analysis of changes in the allowance for credit losses and related allowance ratios is presented in the following table.

Year Ended December 31	2004	2003	2002	2001	2000
Total loans at year end .....	\$ 84,947	\$ 48,474	\$ 43,636	\$ 40,923	\$ 40,418
Average total loans .....	60,328	44,187	42,054	41,441	38,966
Allowance for credit losses:					
Balance at beginning of year .....	\$ 399	\$ 493	\$ 506	\$ 525	\$ 638
Allowance related to acquisitions and (dispositions), net .....	485	(15)	(2)	(19)	(11)
Charge offs:					
Commercial:					
Construction and other real estate	2	2	8	7	11
Other commercial .....	51	147	126	181	173
Consumer:					
Residential mortgages .....	10	2	3	3	5
Credit card receivables .....	65	58	61	66	71
Other consumer loans .....	22	18	14	11	11
International .....	7	16	29	13	2
Total charge offs .....	157	243	241	281	273
Recoveries on loans charged off:					
Commercial:					
Construction and other real estate	4	2	9	--	3
Other commercial .....	56	26	11	29	15
Consumer:					
Residential mortgages .....	1	1	1	1	1
Credit card receivables .....	8	7	8	9	11
Other consumer loans .....	6	5	4	4	4
International .....	3	10	2	--	--
Total recoveries .....	78	51	35	43	34
Total net charge offs .....	79	192	206	238	239
Translation adjustment .....	--	--	--	--	(1)
Provision charged to income .....	(17)	113	195	238	138
Balance at end of year .....	\$ 788	\$ 399	\$ 493	\$ 506	\$ 525
Allowance ratios:					
Total net charge offs to average loans	.13%	.43%	.49%	.57%	.61%
Year-end allowance to:					
Year-end total loans .....	.93%	.82%	1.13%	1.24%	1.30%
Year-end total nonaccruing loans .	298.48%	109.02%	127.39%	121.34%	124.11%

During 2004, total nonaccruing loans decreased approximately \$102 million while the allowance for credit losses increased approximately \$389 million, resulting in a significant increase in the ratio of year-end allowance to total nonaccruing loans in the preceding table. The increased allowance for credit losses resulted from the acquisition of the private label loan portfolio from HSBC Finance Corporation on December 29, 2004. As these receivable balances are typically maintained as accruing until charged off, there were no loan balances included in this portfolio which were classified as nonaccruing at December 31, 2004.

An allocation of the allowance for credit losses by major loan categories is presented in the following table. The decrease in the unallocated portion noted in the table is due to refinement in the allowance methodology during 2004.

	2004		2003		2002		2001		2000	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
(in millions)										
Domestic:										
Commercial:										
Construction and other real estate..	\$ 42	10	\$ 29	15	\$ 27	15	\$ 25	14	\$ 28	14
Other commercial.....	78	14	148	18	226	25	224	27	163	31
Consumer:										
Residential mortgages.....	20	55	12	54	11	47	11	43	10	39
Credit card receivables.....	560	14	48	2	51	2	53	3	62	3
Other consumer.....	25	4	22	4	27	4	29	4	31	4
International.....	50	3	75	7	93	7	105	9	117	9
Unallocated reserve.....	13	--	65	--	58	--	59	--	114	--
Total.....	\$788	100	\$399	100	\$493	100	\$506	100	\$525	100
	=====	====	=====	====	=====	====	=====	====	=====	====

#### 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 approximately \$90 million and \$44 million at December 31, 2004 and 2003 respectively. In 2004, HUSI refined its methodology for calculating its reserve for off-balance sheet exposure.

Descriptions and financial information for various off-balance sheet arrangements begin on page 43 of this Form 10-K.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

The following table presents maturity information related to various off-balance sheet arrangements. Descriptions of the various arrangements follow the table.

December 31, 2004	One Year or Less	Over One Through Five Years	Over Five Years	Total
(in millions)				
Standby letters of credit, net of participations ..	\$ 3,564	\$ 1,521	\$ 110	\$ 5,195(1)
Commercial letters of credit, net of participations	584	200	76	860
Recourse on sold loans .....	--	1	9	10(2)
Securities lending indemnifications .....	4,534	--	--	4,534
Credit derivative contracts .....	990	51,435	12,990	65,415(3)
Commitments to extend credit:				
Commercial .....	19,808	18,879	1,944	40,631
Consumer .....	5,582	--	--	5,582
Commitments to deliver mortgage backed securities .	1,627	--	--	1,627
Total .....	\$ 36,689	\$ 72,036	\$ 15,129	\$123,854
	=====	=====	=====	=====

(1) Includes \$383 million issued for the benefit of related parties.

(2) \$8 million of this amount is indemnified by third parties.

(3) Includes \$9,912 million issued for the benefit of related parties.

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.

- o 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, a commercial letter of credit is recorded as a customer acceptance in other assets and other liabilities until settled.
- o 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 HUSI's "stand ready obligation to perform" under these guarantees, amounting to \$15 million and \$12 million at December 31, 2004 and 2003 respectively. Also included in other liabilities is an allowance for credit losses on unfunded standby letters of credit, of \$28 million and \$25 million at December 31, 2004 and 2003 respectively.

Loan Sales with Recourse

HUSI securitizes and sells assets, generally without recourse. In prior years, HUSI's mortgage banking subsidiary sold residential mortgage loans with recourse upon borrower default, with partial indemnification from third parties.



## Credit Derivatives

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 virtually all 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.

## Securities Lending Indemnifications

HUSI may lend securities of customers, on a fully collateralized basis, as an agent to third party borrowers. HUSI indemnifies the customers against the risk of loss and obtains collateral from the borrower with a market value exceeding the value of the loaned securities. At December 31, 2004, the fair value of that collateral was approximately \$4,625 million.

## Commitments to Extend Credit

Commitments 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 are comprised of 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, upon notification to the customer.

## Contractual Obligations

Obligations to make future payments under contracts are presented in the following table.

December 31, 2004	One Year or Less	Over One Through Five Years	Over Five Years	Total
(in millions)				
Subordinated long-term debt and perpetual capital notes (1) .	\$ --	\$ 1,094	\$ 3,894	\$ 4,988
Other long-term debt, including capital lease obligations (1)	80	17,872	899	18,851
Pension and other postretirement benefit obligations (2) ....	49	237	407	693
Minimum future rental commitments on operating leases (3) ...	65	174	134	373
Purchase obligations (4) .....	57	31	--	88
Total .....	\$ 251	\$19,408	\$ 5,334	\$24,993
	=====	=====	=====	=====

- (1) Future payments are based on the recorded book value of debt instruments included in Note 14 of the consolidated financial statements beginning on page 93 of this Form 10-K.
- (2) Represents estimated future employee service expected to be paid based on assumptions used to measure HUSI's benefit obligation at December 31, 2004. See Note 20 of the consolidated financial statements beginning on page 101 of this Form 10-K.
- (3) Represents expected minimum lease payments under noncancellable operating leases for premises and equipment included in Note 22 of the consolidated financial statements beginning on page 105 of this Form 10-K.
- (4) Represents binding agreements for facilities management and maintenance contracts, custodial account processing services, internet banking services and other services.

## 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 below as a separate functional discipline.

The objective of HUSI's risk management system is to identify, measure and monitor risks so that:

- o the potential costs can be weighed against the expected rewards from taking the risks;
- o unexpected losses can be minimized;
- o appropriate disclosures can be made to all concerned parties;
- o adequate protections, capital and other resources can be put in place to weather all significant risks; and
- o compliance with all relevant laws, regulations and regulatory requirements is ensured through staff education, adequate processes and controls, and ongoing monitoring efforts.

Historically, HUSI's approach toward risk management has emphasized a culture of business line responsibility combined with central requirements for diversification of customers and businesses. Extensive centrally determined requirements for controls, limits, reporting and the escalation of issues have been detailed in HUSI's and HSBC's policies and procedures. In addition, HUSI has a formal independent compliance function, the staff of which has been aligned with, and has advised, each business and support function.

As a result of an increasingly complex business environment, increased regulatory scrutiny, and the evolution of improved risk management tools and standards, HUSI has significantly upgraded, and continues to upgrade, its methodologies and systems. New practices and techniques have been developed that involve data development, modeling, simulation and analysis, management information systems development, self-assessment, and staff education programs. A senior leadership structure has been introduced at HUSI, under the direction of the Chief Risk Officer, which includes dedicated independent risk specialists for operational, AML and fiduciary risk, in addition to the existing specialists for managing other risks. Staffing has been expanded, including a three-fold increase of compliance/AML specialists to approximately 200 persons, to accommodate an extensive compliance/AML monitoring and testing program.

Risk management oversight begins with HUSI's Board of Directors and its various committees, principally the Audit and Examining Committee. Specific oversight of various risk management processes is provided by the Risk Management Committee, which is chaired by the Chief Risk Officer, and its five principal subcommittees:

- o the Credit Risk Committee;
- o the Asset and Liability Policy Committee;
- o the Operational Risk Management Committee;
- o the Fiduciary Risk Management Committee; and
- o the Compliance Risk Management Committee.

The Risk Management Committee and each sub-committee have charters established by the Board of Directors. While the charters are tailored to reflect the roles and responsibilities of each committee, they all have the following common themes:

- o defining risk appetites, policies and limits;
- o monitoring and assessing exposures, trends and the effectiveness of risk management;
- o reporting to the Board of Directors; and
- o promulgating a suitable risk taking, risk management, and compliance culture.

Day-to-day management of credit risk is centralized under the Chief Credit Officer. For retail consumer loan portfolios, such as credit cards, installment loans, and residential mortgages, the Chief Credit Officer leverages off the consumer credit management skills and tools of HSBC Finance Corporation. Day-to-day management of interest rate and market risk is centralized principally under the Treasurer. Operational, fiduciary, and compliance risk is decentralized and is the responsibility of each business and support unit. However, for all risk types, there are independent risk specialists that set standards, develop new risk methodologies, maintain central risk databases, and conduct reviews and analysis. The Chief Risk Officer and the Executive Vice Presidents for Compliance and Anti-Money Laundering provide day-to-day oversight of these activities and work closely with Internal Audit, and senior risk officers and specialists at HNAH and HSBC.

#### Economic and Regulatory Capital

##### Economic Capital

Economic capital is defined as the amount of capital required to sustain a business through a complete business cycle, enabling the business to absorb unexpected losses and thus minimize the probability of insolvency. Economic capital is measured at the business unit level based on four categories of risk:

- o Credit risk
- o Operational risk
- o Market risk
- o Interest rate risk

Whereas regulatory capital is traditionally only calculated at the total bank level as a measure of the minimum capital needed for regulatory compliance and is based on the amount of capital maintained in relation to risk-weighted assets at a specific point in time, economic capital is actually a measure of risk that can be assigned to each business unit according to its risk characteristics. As a result, economic capital can be used to establish business performance measures, make pricing decisions or set portfolio guidelines.

Economic capital is an internal measure developed by HUSI based on its unique set of diverse businesses, risk appetites, and management practices. In 2004, HUSI began to calculate economic capital from statistical analyses of possible losses related to credit, market, interest rate and operational risk. HUSI calculates economic capital sufficient to cover losses over a one year time horizon at a 99.95% confidence level. This is consistent with HBUS's "AA" rating, as "AA" rated credits have historically defaulted at a rate of about .05% per year. The one year time horizon is also consistent with traditional planning and budgeting time horizons. Quantification of possible losses related to other risks, such as fiduciary and reputational risk, are broadly covered under the credit, market and operational risk measurements.

##### Basel Capital Standards

The status of HNAH's and HUSI's preparations relative to Basel II is summarized on page 8 of this Form 10-K. Only the most advanced approaches toward implementation of the Basel II framework are expected to be adopted by U.S. regulators. For credit risk and operational risk, bank holding companies must adopt the Advanced Internal Ratings Based approach and the Advanced Measurement Approach, respectively, as described in the Basel framework. Market risk assessment will continue to be based on the same value at risk calculations used under current regulation.

HUSI will continue to leverage the internal economic capital development program begun in 2002 in its preparations for the new capital adequacy standards. Many of the practices related to the calculation of economic capital will be used to satisfy regulatory requirements. HUSI expects to qualify to use the new approaches in time to meet the January 1, 2008 implementation date.

## Credit Risk Management

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

For HUSI, credit risk is inherent in various on and off-balance sheet instruments and arrangements:

- o in loan portfolios;
- o in investment portfolios;
- o in unfunded commitments such as letters of credit and lines of credit that customers can draw upon; and
- o in treasury instruments, such as interest rate swaps which, if more valuable today than when originally contracted, may represent an exposure to the counterparty to the contract.

While credit risk exists widely within HUSI, diversification among various commercial and consumer portfolios helps HUSI to lessen risk exposure.

HUSI assesses, monitors and controls credit risk with formal standards, policies and procedures. An independent Credit Risk function is maintained under the direction of the Chief Credit Officer, who reports directly to the Chief Executive Officer of HUSI, and indirectly to the Chief Risk Officer of HNAH and to the Group General Manager, Head of Credit and Risk for HSBC.

The responsibilities of the Credit Risk function include:

- o Formulating credit policies - HUSI's policies are designed to ensure that various retail and commercial business units operate within clear standards of acceptable credit risk. HUSI's policies ensure that the HSBC standards are consistently implemented across all businesses and that all regulatory requirements are also considered. Credit policies are reviewed and approved annually by the Audit and Examining Committee.
- o Approving new commercial and financial institution credit exposures and reviewing large exposures annually - The Chief Credit Officer delegates credit authority to various lending units throughout HUSI. However, most large credits are reviewed and approved centrally through a dedicated Credit Approval Unit that reports directly to the Chief Credit Officer. In addition, the Chief Credit Officer coordinates the approval of material credits with HSBC Group Credit and Risk which, subject to certain agreed-upon limits, will review and concur on material new and renewal transactions.
- o Monitoring portfolio performance - HUSI has implemented a credit data warehouse to centralize the reporting of its credit risk, support the analysis of risk using tools such as economic capital, and to calculate its credit loss reserves. This data warehouse will also support HSBC's wider effort to meet the requirements of Basel II and to generate credit reports for management and the Board of Directors.
- o Establishing counterparty and portfolio limits - HUSI monitors and limits its exposure to individual counterparties and to the combined exposure of related counterparties. In addition, selected industry portfolios, such as real estate, telecommunications, aviation, and shipping, are subject to caps that are established by the Chief Credit Officer and reviewed where appropriate by management committees and the Board of Directors. Counterparty credit exposure related to derivative activities is also managed under approved limits. Since the exposure related to derivatives is variable and uncertain, HUSI uses internal risk management methodologies to calculate the 95% worst-case potential future exposure for each customer. These methodologies take into consideration, among other factors, cross-product close-out netting, collateral received from customers under Collateral Support Annexes (CSAs), termination clauses, and off-setting positions within the portfolio.
- o Managing problem commercial loans - Special attention is paid to problem loans. When appropriate, HUSI's Special Credits Unit provides customers with intensive management and control support in order to help them avoid default wherever possible and maximize recoveries.

- o Overseeing retail credit risk - Each retail business unit is supported by dedicated advanced risk analytics units. The Chief Credit Officer provides independent oversight of credit risk associated with these retail portfolios and is supported by expertise from HNAH's Retail Credit Management unit, under the direction of the HNAH's Chief Risk Officer.
- o Chairing the Credit Risk Management Committee - The Chief Credit Officer chairs the Credit Risk Management Committee and is responsible for strategic and collective oversight of the scope of risk taken, the adequacy of the tools used to measure it, and the adequacy of reporting.

During 2004, HUSI introduced a new two dimensional credit risk rating system to replace its previous single dimensional, seven level system. Under the new system, the first "dimension" is measurement of customer or counterparty credit risk through a probability of default based "Customer Rating". The second "dimension" is measurement of loss severity through a facility level "Loss Given Default" assessment.

Customer Rating entails a 22 level grading system. Each grade has its own specified probability of default calibrated to the performance of Standard and Poor's and Moody's Long-Term Debt Ratings across an economic cycle. A suite of models, tools and templates developed using quantitative and statistical techniques, as well as expert judgement, supports the estimation of the probability of default. This suite of tools has been developed using a combination of internal and external resources and data and aims at following what has been determined to be best practice in the industry. To estimate the probable loss in the event of default, HUSI is working with other members of the HSBC Group in building a significant database of historical internal credit losses which will be supplemented by data from external sources, and has implemented other tools and models to support this effort.

The Customer Rating and Loss Given Default measures are also leveraged to support the calculation of HUSI's commercial credit loss reserves beginning with year-end 2004. These measures are modified from their Basel II definitions to ensure that the calculation will comply with U.S. accounting and regulatory standards for credit reserves.

In 2004, HUSI implemented the first stage of its credit economic capital risk measurement system, using the measure in certain internal and Board of Directors reporting. A simulation model is used to determine the amount of unexpected losses, beyond expected losses, that HUSI must be prepared to support with capital given its targeted debt rating. Monthly credit economic capital reports are generated and reviewed with management and the business units. Efforts continue to refine both the inputs and assumptions used in the credit economic capital model to increase its usefulness in pricing and the evaluation of large and small commercial and retail customer portfolio products and business unit return on risk. HUSI intends to continue to refine its calculation of economic capital related to credit risk and begin to integrate the new credit risk modeling tools into the credit risk and portfolio management processes as appropriate.

#### Asset/Liability Management

Asset and liability management includes management of liquidity, interest rate, and market risk. Liquidity risk is the potential that an institution will be unable to meet its obligations as they become due or fund its customers because of inadequate cash flow or the inability to liquidate assets or obtain funding itself. Market risk includes both interest rate and trading risk. Interest rate risk is the potential impairment of net interest income due to mismatched pricing between assets and liabilities and off-balance sheet instruments. Market risk is the potential for losses in daily mark to market positions (mostly trading) due to adverse movements in money, foreign exchange, equity or other markets. In managing these risks, HUSI seeks to protect both its income stream and the value of its assets.

HUSI has substantial, but historically well controlled, interest rate risk in large part as a result of its large portfolio of residential mortgages and mortgage backed securities, which consumers can prepay without penalty, and to a lesser extent the result of its large base of demand and savings deposits. These deposits can be withdrawn by consumers at will, but historically they have been a stable source of funds. Market risk exists principally in treasury businesses and to a lesser extent in the residential mortgage business where mortgage servicing rights and the

pipeline of forward mortgage sales are hedged. HUSI has little foreign exchange exposure from investments in overseas operations, which are limited in scope, and total equity investments, excluding stock owned in the Federal Reserve and New York Federal Home Loan Bank, which are less than 2% of total available for sale securities.

The management of liquidity, interest rate and most market risk is centralized in treasury and mortgage banking operations. In all cases, the valuation of positions and tracking of positions against limits is handled independently by HUSI's finance units. Oversight of all liquidity, interest rate and market risks is provided by the Asset and Liability Policy Committee (ALCO) which is chaired by the Chief Financial Officer. Subject to the approval of the HUSI Board of Directors and HSBC, ALCO sets the limits of acceptable risk, monitors the adequacy of the tools used to measure risk, and assesses the adequacy of reporting. ALCO also conducts contingency planning with regard to liquidity.

#### Liquidity Risk Management

Liquidity risk is the risk that an institution will be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding. Liquidity is managed to provide the ability to generate cash to meet lending, deposit withdrawal and other commitments at a reasonable cost in a reasonable amount of time, while maintaining routine operations and market confidence. HUSI is planning its funding and liquidity management in conjunction with HSBC Finance Corporation, as the markets increasingly view debt issuances from the separate companies within the context of their common parent company. Liquidity management is performed at HUSI and at HBUS. Each entity is required to have sufficient liquidity for a crisis situation. ALCO is responsible for the development and implementation of related policies and procedures to ensure that the minimum liquidity ratios and a strong overall liquidity position are maintained.

In carrying out this responsibility, ALCO projects cash flow requirements and determines the optimal level of liquid assets and available funding sources to have at HUSI's disposal, with consideration given to anticipated deposit and balance sheet growth, contingent liabilities, and the ability to access wholesale funding markets. Our liquidity management approach has been supplemented by increased long-term debt issuances to third parties, and potential asset sales/securitizations (i.e. residential mortgage loans) in liquidity contingency plans. In addition, ALCO monitors the overall mix of deposit and funding concentrations to avoid undue reliance on individual funding sources and large deposit relationships. It must also maintain a liquidity management contingency plan, which identifies certain potential early indicators of liquidity problems, and actions that can be taken both initially and in the event of a liquidity crisis, to minimize the long-term impact on HUSI's business and customer relationships. In the event of a cash flow crisis (e.g. no access to wholesale funding for one year), the objective of crisis cash flow contingency plans is for sources of cash to exceed uses by a ratio of 1.1 or greater in 12 months. Contingency funding needs will be satisfied primarily through the sale of the investment portfolio and liquidation of the residential mortgage portfolio. Securities may be sold or used as collateral in a repurchase agreement depending on the scenario. Portions of the mortgage portfolio may be sold, securitized, or used for collateral at the FHLB to increase borrowings.

Deposit accounts from a diverse mix of "core" retail, commercial and public sources represent a significant, cost-effective source of liquidity under normal operating conditions. HUSI's ability to regularly attract wholesale funds at a competitive cost is enhanced by strong ratings from the major credit ratings agencies. At December 31, 2004, HUSI and HBUS maintained the following long and short-term debt ratings:

	Short-Term Debt			Long-Term Debt		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
HSBC USA Inc.	P-1	A-1	F1+	A1	A+	A+
HSBC Bank USA, N.A.	P-1	A-1+	F1+	Aa3	AA-	A+

Our continued success and prospects for growth are dependent upon access to the global capital markets. Numerous factors, internal and external, may impact our access to and the costs associated with issuing debt in these markets. These factors include our debt ratings, overall economic conditions, overall capital markets volatility and the effectiveness of our management of credit risks inherent in our customer base.

The following assets are primary sources of liquidity to the extent that they can be sold or used as collateral for borrowing:

- o a portfolio of highly rated investment securities in excess of \$18 billion, approximately \$5 billion of which, based on anticipated cash flows, is scheduled to mature within the next twelve months;
- o a liquid trading portfolio in excess of \$19 billion; and
- o residential mortgage loans.

The economics and long-term business impact of obtaining liquidity from assets must be weighed against the economics of obtaining liquidity from liabilities, along with consideration given to the associated capital ramifications of these two alternatives. Currently, assets would be used to supplement liquidity derived from liabilities only in a crisis scenario.

It is the policy of HBUS to maintain both primary and secondary collateral in order to ensure precautionary borrowing availability from the Federal Reserve. Primary collateral is that which is physically maintained at the Federal Reserve, and serves as a safety net against any unexpected funding shortfalls that may occur. Secondary collateral is collateral that is acceptable to the Federal Reserve, but is not maintained there. If unutilized borrowing capacity were to be low, secondary collateral would be identified and maintained as necessary.

## Interest Rate Risk Management

HUSI is subject to interest rate risk associated with the repricing characteristics of its balance sheet assets and liabilities. Specifically, as interest rates change, amounts of interest earning assets and liabilities fluctuate, and interest earning assets reprice at intervals that do not correspond to the maturities or repricing patterns of interest bearing liabilities. This mismatch between assets and liabilities in repricing sensitivity results in shifts in net interest income as interest rates move. To help manage the risks associated with changes in interest rates, and to optimize net interest income within ranges of interest rate risk that management considers acceptable, HUSI uses derivative instruments such as interest rate swaps, options, futures and forwards as hedges to modify the repricing characteristics of specific assets, liabilities, forecasted transactions or firm commitments.

The following table shows the repricing structure of assets and liabilities as of December 31, 2004. For assets and liabilities whose cash flows are subject to change due to movements in interest rates, such as the sensitivity of mortgage loans to prepayments, data is reported based on the earlier of expected repricing or maturity and reflects anticipated prepayments based on the current rate environment. The resulting "gaps" are reviewed to assess the potential sensitivity to earnings with respect to the direction, magnitude and timing of changes in market interest rates. Data shown is as of year end, and one-day figures can be distorted by temporary swings in assets or liabilities.

December 31, 2004	Within One Year	After One But Within Five Years	After Five But Within Ten Years	After Ten Years	Total
(in millions)					
Commercial loans (including international) .	\$ 19,253	\$ 2,460	\$ 915	\$ 404	\$ 23,032
Residential mortgages .....	17,760	24,051	4,070	834	46,715
Credit card receivables .....	8,576	3,340	162	--	12,078
Other loans .....	1,770	1,206	134	12	3,122
Total loans .....	47,359	31,057	5,281	1,250	84,947
Securities available for sale and securities held to maturity .....	6,115	6,546	3,541	2,334	18,536
Other assets .....	32,327	2,358	2,882	--	37,567
Total assets .....	85,801	39,961	11,704	3,584	141,050
Domestic deposits (1) Savings and demand .....	17,445	8,372	9,106	--	34,923
Certificates of deposit .....	9,824	1,582	130	211	11,747
Long-term debt .....	18,389	3,158	1,269	1,023	23,839
Other liabilities/equity .....	60,394	4,114	6,033	--	70,541
Total liabilities and equity .....	106,052	17,226	16,538	1,234	141,050
Total balance sheet gap .....	(20,251)	22,735	(4,834)	2,350	--
Effect of derivative contracts .....	12,753	(11,660)	(1,053)	(40)	--
Total gap position .....	\$ (7,498)	\$ 11,075	\$ (5,887)	\$ 2,310	\$ --

(1) Does not include purchased or wholesale treasury deposits. The placement of administered deposits such as savings and demand for interest rate risk purposes reflects behavioral expectations associated with these balances. Long term core balances are differentiated from more fluid balances in an effort to reflect anticipated shifts of non-core balances to other deposit products or equities over time.

Various techniques are utilized to quantify and monitor risks associated with the repricing characteristics of HUSI's assets, liabilities, and derivative contracts. During 2004, there were no significant changes in policies or approach for managing interest rate risk.



In the course of managing interest rate risk, Present Value of a Basis Point (PVBP) analysis is utilized in conjunction with a combination of other risk assessment techniques, including capital at risk, dynamic simulation modeling, capital risk and Value at Risk (VAR) analyses. The combination of these tools enables management to identify and assess the potential impact of interest rate movements and take appropriate action.

The assessment techniques discussed below act as a guide for managing interest rate risk associated with balance sheet composition and off-balance sheet hedging strategy (the risk position). Calculated values within limit ranges reflect an acceptable risk position, although an unfavorable trend may prompt consideration to adjust on or off-balance sheet exposure. Calculated values outside of limit ranges will result in consideration of adjustment of the risk position, or consideration of temporary dispensation from making adjustments.

#### Present Value of a Basis Point (PVBP)

PVBP is the change in value of the balance sheet for a one basis point upward movement in all interest rates. The following table reflects the PVBP position at December 31, 2004.

	December 31, 2004 Values	
	(in millions)	
Institutional PVBP movement limit .....	+/-	\$ 6.5
PVBP position at period end.....		(2.3)

#### Capital at Risk

Capital at risk is the change in base case valuation of the balance sheet for either a 200 basis point gradual rate increase or a 100 basis point gradual rate decrease. The following table reflects the capital at risk position at December 31, 2004.

	December 31, 2004 Values	
Institutional capital at risk movement limit.....	+/-	10.0%
Projected change in value resulting from a gradual 200 basis point increase in interest rates.....		(6.0)
Projected change in value resulting from a gradual 100 basis point decrease in interest rates.....		(2.0)

The projected drop in value for a 100 basis point gradual decrease in rates is primarily related to the anticipated acceleration of prepayments for the held mortgage and mortgage backed securities portfolios in this lower rate environment. This assumes that no management actions are taken to manage exposures to the changing interest rate environment.

Dynamic Simulation Modeling

In addition to the previously mentioned limits, ALCO uses additional modeling to monitor a number of interest rate scenarios for their impact on net interest income. The following table reflects the impact on net interest income of the scenarios utilized by these modeling techniques.

December 31, 2004 Values		
	Amount	%
(in millions)		
Projected change in net interest income (reflects projected rate movements on January 1, 2005):		
Institutional base earnings movement limit.....		+/- 10
Change resulting from a gradual 200 basis point increase in the yield curve .....	\$ (71)	(2)
Change resulting from a gradual 200 basis point decrease in the yield curve .....	351	10
Other significant scenarios monitored (reflects projected rate movements on January 1, 2005):		
Change resulting from an immediate 100 basis point increase in the yield curve .....	(48)	
Change resulting from an immediate 100 basis point decrease in the yield curve .....	61	
Change resulting from an immediate 200 basis point increase in the yield curve .....	(201)	
Change resulting from an immediate 200 basis point decrease in the yield curve .....	20	
Change resulting from an immediate 75-100 basis point decrease in long-term rates, and a decrease of 50 basis points in short-term rates.....	(13)	
Change resulting from an immediate 100 basis point increase in short-term rates.....	(122)	

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, except for some changes in residential mortgage loans and various types of personal deposits. 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 credited on a tax effective basis to accumulated other comprehensive income. This valuation mark is excluded from Tier 1 and Tier 2 capital ratios but it would be 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 December 31, 2004, HUSI had an available for sale securities portfolio of approximately \$15 billion with a net positive mark to market of \$21 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 \$112 million to a net loss of \$91 million with the following results on the tangible capital ratios.

December 31, 2004	Actual	Proforma - Reflecting 25 Basis Points Increase in Rates
Tangible common equity to tangible assets.....	5.50%	5.46%
Tangible common equity to risk weighted assets.....	7.05	6.99

Value at Risk (VAR)

VAR analysis is also used to measure interest rate risk and to calculate the economic capital required to cover potential losses due to interest risk. As it relates to net interest income, VAR looks at a historical observation period and shows the potential loss from unfavorable market conditions during a "given period" with a certain confidence level (99% for HUSI). HUSI uses a one-day "given period" or "holding period" for setting limits and measuring results. At a 99% confidence level for a two year observation period, HUSI is setting as its limit the fifth worse loss performance in the last 500 business days.

The predominant VAR methodology used by HUSI, "historical simulation", has a number of limitations, including the use of historical data as a proxy for the future, the assumption that position adjustments can be made within the holding period specified, and the use of a 99% confidence level, which does not take into account potential losses that might occur beyond that level of confidence.

## Trading Activities

Trading portfolios reside primarily in the Treasury and mortgage banking areas and include foreign exchange, derivatives, precious metals (gold, silver, platinum), commodities, equities and money market instruments including "repos" and securities. Trading occurs as a result of customer facilitation, proprietary position taking, and economic hedging. In this context, economic hedging may include, for example, forward contracts to sell residential mortgages and derivative contracts which, while economically viable, may not satisfy the hedge requirements of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (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 Activities - Treasury

#### Value at Risk

Value at Risk (VAR) analysis is relied upon as a basis for quantifying and managing risks associated with the Treasury trading portfolios. Such analysis is based upon the following two general principles:

- (i) VAR applies to all trading positions across all risk classes including interest rate, equity, commodity, optionality and global/foreign exchange risks; and
- (ii) VAR is based on the concept of independent valuations, with all transactions being repriced by an independent risk management function using separate models prior to being stressed against VAR parameters.

VAR attempts to capture the potential loss resulting from unfavorable market developments within a given time horizon (typically ten days), given a certain confidence level (99%) and based on a two year observation period. VAR calculations are performed for all material trading and investment portfolios and for market risk-related treasury activities. The VAR is calculated using the historical simulation or the variance/covariance (parametric) method.

The following table summarizes trading VAR for 2004, assuming a 99% confidence level for a two year observation period and a 10 day "holding period".

	December 31, 2004	Full Year 2004			December 31, 2003
		Minimum	Maximum	Average	
		(in millions)			
Total trading.....	\$ 41	\$ 34	\$ 74	\$ 47	\$ 23
Commodities.....	11	--	11	3	1
Credit derivatives.....	9	4	32	11	4
Equities.....	1	--	1	1	1
Foreign exchange.....	1	1	11	5	11
Interest rate.....	27	19	61	33	16

### Trading Volatility

The following table summarizes the frequency distribution of daily market risk-related revenues for Treasury trading activities during calendar year 2004. Market risk-related Treasury trading revenues include realized and unrealized gains (losses) related to Treasury trading activities, but exclude the related net interest income. Analysis of the 2004 gain (loss) data shows that the largest daily gain was \$13 million and the largest daily loss was \$11 million.

Ranges of daily Treasury trading revenue earned from market risk-related activities	Below \$(2)	\$(2) to \$0	\$0 to \$2	\$2 to \$4	\$4 to \$6	Over \$6
(in millions)						
Number of trading days market risk-related revenue was within the stated range.....	12	48	92	58	26	14

### Trading Activities - Mortgage Banking

Trading occurs in Mortgage Banking 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 which, while economically viable, may not satisfy the hedge requirements of SFAS 133.

MSRs are assets that represent the present value of net servicing income (servicing fees, ancillary income, escrow and deposit float, 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 decline as a result of actual and expected acceleration of prepayment of the underlying loans in a falling interest rate environment.

Interest rate risk is mitigated through an active hedging program that uses available for sale (AFS) 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.

A review of HUSI's MSRs hedging program was conducted in light of the unprecedented market conditions of 2003. This was to ensure that a program is in place to support anticipated business growth while at the same time limiting volatility in the mortgage banking results. Existing risk limits were revised and additional risk limits were established for hedging of economic losses.

### 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.

	December 31, 2004 Values	
	Amount	%
(in millions)		
Projected change in net market value of hedged MSRs portfolio (reflects projected rate movements on January 1, 2005):		
Value of hedged MSRs portfolio.....	\$ 309	
Change resulting from an immediate 50 basis point decrease in the yield curve:		
Change limit (no worse than) .....	-	4
Calculated change in net market value.....	(2)	1
Change resulting from an immediate 50 basis point increase in the yield curve:		
Change limit (no worse than) .....	-	2
Calculated change in net market value.....	4	1
Change resulting from an immediate 100 basis point increase in the yield curve:		
Change limit (no worse than) .....	-	3
Calculated change in net market value.....	6	2

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 following table summarized the frequency distribution of the weekly economic value of the MSR asset during calendar year 2004. This includes the change in the market value of the MSR asset net of changes in the market value of the underlying hedging positions used to hedge the asset. The changes in economic value are adjusted for changes in MSR valuation assumptions that were made during the course of the year.

Ranges of mortgage economic value from market risk-related activities	Below \$ (5)	\$ (5) to \$0	\$0 to \$5	\$5 to \$10	Over \$10
	(in millions)				
Number of weeks market risk-related revenue was within the stated range.....	9	17	20	3	3

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. It is inherent in every business organization and covers a wide spectrum of issues, including fraud, unauthorized activities, errors, omissions, inefficiency, systems failure and various issues/events outside of the direct control of HUSI.

HUSI has established an independent Operational Risk Management discipline. The Operational Risk Management Committee, chaired by the Executive Vice President-Operations and including the Chief Risk Officer, is responsible for oversight of the operational risks being taken, the analytic tools used to monitor those risks, and reporting. Results from this Committee are communicated to the Risk Management Committee and subsequently to the Audit and Examining Committee of the Board of Directors. Business unit line management is responsible for managing and controlling all risks and for communicating and implementing all control standards. A Corporate Operational Risk Coordinator provides functional oversight by coordinating the following activities:

- o maintaining a network of business line Operational Risk Coordinators;
- o developing quantitative tools and databases;
- o providing training and developing awareness; and
- o independently reviewing and reporting the assessments of operational risks.

Management of operational risk includes identification, assessment, monitoring, control and mitigation, rectification and reporting of the results of risk events and compliance with local regulatory requirements. These key components of the Operational Risk Management process have been communicated by issuance of a high level standard. Key features within the standard that have been addressed in HUSI's Operational Risk Management program include:

- o each business and support department is responsible for the identification and management of their operational risks;
- o each risk is evaluated and scored by its likelihood to occur; its potential impact on shareholder value; and by exposure - based on the effectiveness of current controls to prevent or mitigate losses. An operational risk automated database is used to record risk assessments and track risk mitigation action plans. The risk assessments are reviewed at least annually, or as business conditions change;
- o key risk indicators are established in the automated database where appropriate, and tracked monthly; and
- o the database is also used to track operational losses for analysis of root causes, comparison with risk assessments and lessons learned.

Management practices include standard monthly reporting to business line managers, senior management and the Operational Risk Management Committee of high risks, risk mitigation action plan exceptions, losses and key risk indicators. Monthly certification of internal controls includes an operational risk attestation. Operational Risk Management is an integral part of the new product development process and the management performance measurement process.

Analysis of primary types of operational risks reflects a greater than 40% concentration in process risk. The remaining 60% is divided fairly equally between the other three primary operational risk types - systems, people and external events. The same percent distribution of primary operational risk types applies for the higher or more critical operational risks. Within the process risk type greater than 70% of risk is concentrated within internal and external reporting and payment/settlement/delivery risk.

Internal audits, including audits by specialist teams in information technology and treasury, provide an important check on controls and test institutional compliance with the Operational Risk Management policy.

An annual review of internal controls is conducted by internal audit as part of HUSI's compliance with the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and its comprehensive examination and documentation of controls across HUSI involving all business and support units.

#### Compliance Risk

Compliance Risk is the risk arising from failure to comply with relevant laws, regulations, and regulatory requirements governing the conduct of specific businesses. It is a composite risk that can result in regulatory sanctions, financial penalties, litigation exposure and loss of reputation. Compliance risk is inherent throughout the HUSI organization.

Consistent with HSBC's commitment to ensure adherence with applicable regulatory requirements for all of its world-wide affiliates, HUSI has implemented a multi-faceted Compliance Risk Management Program. This program addresses the following priorities, among other issues:

- o anti-money laundering (AML) regulations
- o fair lending laws
- o dealings with affiliates
- o the Community Reinvestment Act
- o permissible activities
- o conflicts of interest

Oversight of the Compliance Risk Management Program is provided by the Audit and Examining Committee of the Board of Directors through the Risk Management Committee and its Compliance Risk Management Subcommittee. This subcommittee is chaired by the Chief Executive Officer and comprised of representatives from key business and support areas having significant compliance risk, the Chief Risk Officer, the General Counsel and executive compliance management. It was established in 2004 and is responsible for overseeing the effectiveness of the overall compliance program and providing counsel to line and compliance management on major potential issues, strategic policy-making decisions and reputational risk matters. Group Audit USA, through continuous monitoring and periodic internal audits, tests the effectiveness of the overall Compliance Risk Management Program.

The independent Corporate Compliance function is comprised of separate Corporate Compliance units focusing on General Compliance and Anti-Money Laundering (AML) compliance, as well as various compliance teams supporting specific business units. The Corporate Compliance function is responsible for the following activities:

- o advising management on compliance matters;
- o providing independent assessment and monitoring; and
- o reporting compliance issues to HUSI senior management and Board of Directors, as well as to HSBC Group Compliance.

The overall Corporate Compliance program elements include identification, assessment, monitoring, control and mitigation of the risk and timely resolution of the results of risk events. These functions are generally performed by line management, with oversight provided by Corporate Compliance. Controls for mitigating compliance risk are incorporated into business operating policies and procedures. Processes are in place to ensure controls are appropriately updated to reflect changes in regulatory requirements as well as changes in business practices, including new or revised products, services and marketing programs. A wide range of compliance training is provided to relevant staff, including mandated programs for such areas as anti-money laundering, fair lending and privacy.

HUSI took the following steps during 2004 to enhance its Corporate Compliance program:

- o compliance staffing was significantly increased to accommodate expansion of compliance monitoring and testing and to respond to the changing regulatory requirements and business strategies.
- o independent AML and General Compliance teams were enhanced to support existing and new business initiatives.
- o the Corporate Compliance function created a new centralized compliance testing unit to supplement testing performed by the business compliance teams. This testing unit conducts AML testing throughout HUSI as well as certain general compliance testing programs.
- o new AML procedures were written and implemented for each business unit.
- o an automated transaction monitoring program was implemented within retail banking and existing transaction monitoring systems enhanced for private and correspondent banking and assessments performed for the purpose of implementing further automated monitoring tools.
- o the existing Operational Risk methodology was leveraged to develop a new compliance self-assessment tool for business units. A common database is used for compliance, operational and fiduciary risk management.
- o initial business Compliance Self Assessments were completed by all businesses in 2004 and the self assessment program will be further expanded and modified in 2005 to include additional regulatory requirements and further development of key risk indicators.

## Fiduciary Risk

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

- o serving traditional fiduciary duties such as trustee, executor, administrator, registrar of stocks and bonds, guardian, receiver or assignee, or
- o providing investment advice for a fee, or
- o processing investment discretion on behalf of another.

Fiduciary risks reside in Private Banking businesses (including Investment Management, Personal Trust, Custody, Trust Operations) and in several other business lines outside of Private Banking (including Retirement Financial Services, Corporate Trust and Asset Management). These risks almost always occur where HUSI is entrusted to handle and execute client business affairs and transactions in a fiduciary capacity. HUSI's policies and procedures for addressing fiduciary risks generally address the following risk categories:

- o placing a client in unsuitable investments, or in investments that do not meet stated investment objectives;
- o improper asset allocation or mix, portfolio performance, and lack of adherence to investment policy;
- o untimely or improper execution of client instructions, especially in a trustee or custodial role;
- o failure to handle uninvested cash or overdrafts properly;
- o noncompliance with AML procedures or account documentation requirements;
- o failure to disburse funds properly, either by wire or check;
- o providing imprudent or unsound financial and asset safekeeping advice;
- o creating conflicts of interest between employee incentives and client objectives.

Oversight for the Fiduciary Risk Management function falls to the Fiduciary Risk Management Committee of the Risk Management Committee. This committee is chaired by the Senior Executive Vice President - Private Banking and Wealth Management and includes the Chief Risk Officer and the Senior Vice President - Fiduciary Risk. The Senior Vice President - Fiduciary Risk is responsible for an independent Fiduciary Risk Management Unit that is responsible for day to day oversight of the Fiduciary Risk Management function. The main goals and objectives of this unit include:

- o development and implementation of control self assessments, which have been completed for all fiduciary businesses;
- o developing, tracking and collecting rudimentary key risk indicators (KRI), and collecting data regarding errors associated with these risks. KRIs for each fiduciary business are in process of being expanded;
- o designing, developing and implementing risk monitoring tools, approaches and programs for the relevant business lines and senior management that will facilitate the identification, evaluation, monitoring, measurement, management and reporting of fiduciary risks. In this regard, a common database is used for compliance, operational and fiduciary risks;
- o ongoing development and implementation of more robust and enhanced key risk indicator/key performance indicator process with improved risk focused reporting.

## Business Continuity Planning

HUSI is committed to the protection of employees, customers and shareholders by a quick response to all threats to the organization, whether they are of a physical or financial nature. For this purpose, HUSI has established a Business Continuity Event Management (EM) process. EM provides an enterprise-wide response and communication framework for managing major business continuity events or incidents. It is designed to be flexible and is scaled to the scope and magnitude of the event or incident.



The EM process works in tandem with HUSI's business continuity policy, plans and key business continuity committees to manage events. HUSI's Crisis Management Committee, a 24/7 standing committee, is activated to manage the EM process in concert with senior HUSI management. This committee provides critical strategic and tactical management of business continuity crisis issues, risk management, communication, coordination and recovery management. HUSI also has designated an Institutional Manager for Business Continuity who plays a key role on the Crisis Management Committee. All major business and support functions have a senior representative assigned to HUSI's Business Continuity Planning Committee chaired by the Institutional Manager.

HUSI has dedicated certain work areas as hot and warm backup sites, which serve as primary business recovery locations. HUSI also has concentrations of major operations in both upstate and downstate New York. This geographic split of major operations is leveraged to provide secondary business recovery sites for many critical business and support areas of HUSI.

HUSI has built its own data center with the intention of developing the highest level of resiliency for disaster recovery as defined by industry standards. Data is mirrored synchronously to the disaster recovery site across duplicate dark fiber loops. A high level of network backup resiliency has been established. In a disaster situation, HUSI is positioned to bring main systems and server applications online within predetermined timeframes.

HUSI tests business continuity and disaster recovery resiliency and capability through routine contingency tests and actual events. Business continuity and disaster recovery programs have been strengthened in numerous areas as a result of these tests or actual events. There is a continuing effort to enhance the program well beyond the traditional business resumption and disaster recovery model.

In 2003, HUSI determined the applicability of the Interagency Paper on "Sound Practices to Strengthen the Resiliency of the U.S. Financial System". HUSI is committed to meeting or exceeding the requirements of the paper for the businesses impacted by the compliance due date.

#### Glossary of Terms

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Cost/Income Ratio - Ratio of total operating expenses, reduced by minority interests and certain non-recurring expense items, to the sum of net interest income and other revenues.

Federal Reserve - the Federal Reserve Bank; the principal regulator for HBUS.

Global Bank Note Program - \$20 billion note program, under which HBUS issues senior and subordinated debt.

Goodwill - Represents the purchase price over the fair value of identifiable assets acquired, reduced by liabilities assumed, for business combinations.

HBUS - HSBC Bank USA, National Association; a wholly-owned U.S. banking subsidiary of HUSI.

HNAH - HSBC North America Holdings Inc.; a wholly-owned subsidiary of HSBC and HSBC's top-tier bank holding company in North America.

HNAI - HSBC North America Inc.; an indirect wholly-owned subsidiary of HNAH.

HSBC - HSBC Holdings plc.; HNAH's U.K. parent company.

HSBC Affiliate - any direct or indirect subsidiary of HSBC outside of the HUSI consolidated group of entities.

HSBC Finance Corporation - an indirect wholly-owned finance company subsidiary of HNAH.

HTSU - HSBC Technology & Services (USA) Inc.; an indirect wholly-owned subsidiary of HNAH which provides information technology services to all subsidiaries of HNAH and to other subsidiaries of HSBC.

HUSI - HSBC USA Inc.; the registrant, and a wholly-owned subsidiary of HNAI.

Intangible Assets - Assets (not including financial assets) that lack physical substance. HUSI's acquired intangible assets include mortgage servicing rights and favorable lease arrangements.

Mortgage Servicing Rights - Intangible assets representing the right to service mortgage loans, which are recognized at the time the related loans are sold.

Net Interest Margin to Earning Assets - Net interest income divided by average interest-earning assets for a given period.

Net Interest Margin to Total Assets - Net interest income divided by average total assets for a given period.

Nonaccruing Loans - Loans for which interest is no longer accrued because ultimate collection is unlikely.

OCC - the Office of the Comptroller of the Currency; the principal regulator for HUSI.

Private Label Loan Portfolio - Loan and credit card receivable portfolio acquired from HSBC Finance Corporation on December 29, 2004.

Rate of Return on Common Shareholder's Equity - Net income, reduced by preferred dividends, divided by average common shareholder's equity for a given period.

Rate of Return on Total Assets - Net income after taxes divided by average total assets for a given period.

Total Average Shareholders' Equity to Total Assets - Average total shareholders' equity divided by average total assets as of a given date.

Total Period End Shareholders' Equity to Total Assets - Total shareholders' equity divided by total assets as of a given date.

Reporting to Parent Company in the U.K.

HSBC reports results in accordance with accounting principles generally accepted in the United Kingdom (U.K. GAAP). Therefore, management separately monitors net income and earnings excluding goodwill amortization under U.K. GAAP (non-GAAP financial measures). The following table reconciles net income of HUSI on a U.S. GAAP basis to net income on a U.K. GAAP basis.

Year Ended December 31	2004	2003	2002
	(in millions)		
Net income - U.S. GAAP basis .....	\$ 1,258	\$ 941	\$ 855
Adjustments, net of tax:			
Deferred loan origination fees and costs .....	(20)	--	--
Derivative financial instruments .....	13	8	(3)
Deferred taxation .....	(10)	45	(8)
Depreciation .....	16	16	15
Software amortization .....	8	(5)	(4)
Securitizations .....	(1)	--	--
Other .....	(10)	(2)	9
Earnings excluding goodwill amortization - U.K. GAAP basis	1,254	1,003	864
Goodwill amortization .....	(140)	(152)	(151)
Net income - U.K. GAAP basis .....	\$ 1,114	\$ 851	\$ 713

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

Deferred loan origination fees and costs

U.K. GAAP

- o Fee and commission income is accounted for in the period when receivable, except when it is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, it is recognized on an appropriate basis over the relevant period.
- o Loan origination costs are generally expensed as incurred. As permitted by U.K. GAAP, HSBC applies a restricted definition of the incremental, directly attributable origination expenses that are deferred and subsequently amortized over the life of the loans.

U.S. GAAP

- o In accordance with Statement of Financial Accounting Standards No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (SFAS 91), certain loan fee income and direct loan origination costs are amortized to the profit and loss account over the life of the loan as an adjustment to interest income. Prepayment and delinquency estimates are regularly monitored and cost amortization rates adjusted accordingly.
- o Credit card annual fees are netted with direct lending costs, deferred, and amortized on a straight-line basis over one year.

Derivative financial instruments

U.K. GAAP

- o Non-trading derivatives are those which are held for hedging purposes as part of HUSI's risk management strategy against cash flows, assets, liabilities, or positions measured on an accruals basis. Non-trading transactions include qualifying hedges and positions that synthetically alter the characteristics of specified financial instruments.
- o Non-trading derivatives are accounted for on an equivalent basis to the underlying assets, liabilities or net positions. Any profit or loss arising is recognized on the same basis as that arising from the related assets, liabilities or positions.

- o To qualify as a hedge, a derivative must effectively reduce the price, foreign exchange or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. If these criteria are met, the derivative is accounted for on the same basis as the underlying hedged item. Derivatives used for hedging purposes include swaps, forwards and futures.
- o Interest rate swaps are also used to alter synthetically the interest rate characteristics of financial instruments. In order to qualify for synthetic alteration, a derivative instrument must be linked to specific individual, or pools of similar, assets or liabilities by the notional principal and interest rate risk of the associated instruments, and must achieve a result that is consistent with defined risk management objectives. If these criteria are met, accrual based accounting is applied, i.e. income or expense is recognized and accrued to the next settlement date in accordance with the contractual terms of the agreement.
- o Any gain or loss arising on the termination of a qualifying derivative is deferred and amortized to earnings over the original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the qualifying derivative is immediately marked-to-market through the profit and loss account.
- o Derivatives that do not qualify as hedges or synthetic alterations at inception are marked-to-market through the profit and loss account, with gains and losses included within "other income".

#### U.S. GAAP

- o All derivatives must be recognized as either assets or liabilities in the balance sheet and be measured at fair value, in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133).
- o The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation as described below:
  - For a derivative designated as hedging exposure to changes in the fair value of a recognized asset or liability or a firm commitment, the gain or loss is recognized in earnings in the period of change together with the associated loss or gain on the hedged item attributable to the risk being hedged. Any resulting net gain or loss represents the ineffective portion of the hedge.
  - For a derivative designated as hedging exposure to variable cash flows of a recognized asset or liability, or of a forecast transaction, the derivative's gain or loss associated with the effective portion of the hedge is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecast transaction affects earnings. The ineffective portion is reported in earnings immediately.
  - For net investment hedges in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the change in fair value of the derivative associated with the effective portion of the hedge is included as a component of other comprehensive income, together with the associated loss or gain on the hedged item. The ineffective portion is reported in earnings immediately.
  - In order to apply hedge accounting it is necessary to comply with documentation requirements and to demonstrate the effectiveness of the hedge on an ongoing basis.
  - For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change in fair value.

#### Deferred taxation

#### U.K. GAAP

- o Deferred tax is generally recognized for all timing differences subject to exceptions in FRS 19, Deferred Tax, and the assessment of the recoverability of deferred tax assets.
- o Fair value adjustments on acquisition are treated as if they were timing differences arising in the acquired entity's own accounts. Deferred tax is recognized on fair value adjustments where they give rise to deferral or acceleration of taxable cash flows.



#### U.S. GAAP

- o In accordance with Statement of Financial Accounting Standards No. 109, Accounting For Income Taxes (SFAS 109), deferred tax liabilities and assets are recognized for all temporary differences. A valuation allowance is raised against any deferred tax asset where it is more likely than not that the asset, or a part thereof, will not be realized (SFAS 109 'Accounting for Income Taxes').
- o The deferred taxation impact of all temporary differences arising from fair value adjustments on acquisition is recognized as part of the purchase accounting adjustment.

#### Depreciation

#### U.K. GAAP

- o HSBC revalues its properties on an annual basis. HSBC depreciates non-investment properties based on their cost or revalued amounts. No depreciation is charged on investment properties, other than leaseholds, with useful lives of 20 years or less.

#### U.S. GAAP

- o U.S. GAAP does not permit revaluation of property, although it requires recognition of asset impairment. Depreciation is recognized on all properties, based on cost, over the useful lives of the assets.

#### Software amortization

#### U.K. GAAP

- o HSBC generally expenses costs of software developed for internal use. If it can be shown that conditions for capitalization are met under FRS 10, Goodwill and Intangible Assets, or FRS 15, Tangible Fixed Assets, the software is capitalized and amortized over its useful life.
- o Website design and content development costs are capitalized only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalized.

#### U.S. GAAP

- o The American Institute of Certified Public Accountants' (AICPA) Statement of Position 98-1, Accounting For the Costs of Computer Software Developed or Obtained For Internal Use, requires that all costs incurred in the preliminary project and post implementation stages of internal software development be expensed. Costs incurred in the application development stage must be capitalized and amortized over their estimated useful life. Website design costs are capitalized and website content development costs are expensed as they are incurred.

#### Securitizations

#### U.K. GAAP

- o FRS 5, "Reporting the Substance of Transactions," requires that the accounting for securitized receivables is governed by whether the originator has access to the benefits of the securitized assets and exposure to the risks inherent in those benefits and whether the originator has a liability to repay the proceeds of the note issue:
  - The securitized assets should be derecognized in their entirety and a gain or loss on sale recorded where the originator retains no significant benefits and no significant risks relating to those securitized assets.
  - The securitized assets and the related finance should be consolidated under a linked presentation where the originator retains significant benefits and significant risks relating to those securitized assets but where the downside exposure is limited to a fixed monetary amount and certain other conditions are met.
  - The securitized assets and the related finance should be consolidated on a gross basis where the originator retains significant benefits and significant risks relating to those securitized assets and does not meet the conditions required for linked presentation.

#### U.S. GAAP

- o SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," requires that receivables that are sold to a special purpose entity and securitized can only be derecognized and a gain or loss on sale recognized if the originator has surrendered control over those securitized assets.



- o Control has been surrendered over transferred assets if and only if all of the following conditions are met:
  - The transferred assets have been put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
  - Each holder of interests in the transferee (i.e., holder of issued notes) has the right to pledge or exchange their beneficial interests, and no condition constrains this right and provides more than a trivial benefit to the transferor.
  - The transferor does not maintain effective control over the assets through either an agreement that obligates the transferor to repurchase or to redeem them before their maturity or through the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.
  - If these conditions are not met the securitized assets should continue to be consolidated.
- o Where we retain an interest in the securitized assets, such as a servicing right or the right to residual cash flows from the special purpose entity, we recognize this interest at fair value on sale of the assets.
- o There are no provisions for linked presentation of securitized assets and the related finance.

#### Goodwill amortization

##### U.K. GAAP

- o Goodwill arising on acquisitions of subsidiary undertakings, associates or joint ventures prior to 1998 was charged against reserves in the year of acquisition.
- o For acquisitions made on or after January 1, 1998, goodwill is included in the balance sheet and amortized over its estimated useful life on a straight-line basis. U.K. GAAP allows goodwill previously eliminated against reserves to be reinstated, but does not require it. In common with many other U.K. companies, HSBC elected not to reinstate such goodwill on the grounds that it would not materially assist the understanding of readers of its accounts who were already familiar with U.K. GAAP.
- o Goodwill included in the balance sheet is tested for impairment when necessary by comparing the recoverable amount of an entity with the carrying value of its net assets, including attributable goodwill. The recoverable amount of an entity is the higher of its value in use, generally the present value of the expected future cash flows from the entity, and its net realizable value.
- o At the date of disposal of subsidiaries, associates or joint ventures, any unamortized goodwill or goodwill charged directly against reserves is included in the share of the undertakings' total net assets in the calculation of the gain or loss on disposal.
- o Where quoted securities are issued as part of the purchase consideration in an acquisition, the fair value of those securities for the purpose of determining the cost of acquisition is the market price at the date of completion.

##### U.S. GAAP

- o Goodwill acquired up to June 30, 2001 was capitalized and amortized over its useful life but not more than 25 years. The amortization of previously acquired goodwill ceased from December 31, 2001.
- o Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142) requires that goodwill should not be amortized but should be tested for impairment annually at the reporting unit level by applying a fair-value-based test.
- o The goodwill of a reporting unit should be tested for impairment between annual tests in response to events or changes in circumstance which could result in an impairment.
- o Where quoted securities are issued as part of the purchase consideration in an acquisition, the fair value of those securities for the purpose of determining the cost of acquisition is the average market price of the securities for a reasonable period before and after the date that the terms of the acquisition are agreed and announced.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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Refer to the disclosure in Item 7 of the Management's Discussion and Analysis of Financial Condition and Results of Operations under the captions "Interest Rate Risk Management" and "Trading Activities".





CONSOLIDATED AVERAGE BALANCES AND INTEREST RATES - THREE YEARS

The following table shows the major consolidated assets, liabilities and shareholders' equity, together with their respective interest amounts and rates earned or paid on a taxable equivalent basis.

	2004		
	Balance	Interest	Rate*
<b>Assets</b>			
Interest bearing deposits with banks .....	\$ 2,499	\$ 41	1.66%
Federal funds sold and securities purchased under resale agreements .....	4,682	74	1.58
Trading assets .....	15,816	165	1.04
Securities .....	18,224	885	4.86
<b>Loans</b>			
Domestic			
Commercial .....	16,114	732	4.54
Consumer			
Residential mortgages .....	37,014	1,795	4.85
Other consumer .....	3,567	286	8.00
Total domestic .....	56,695	2,813	4.96
International .....	3,633	99	2.72
Total loans .....	60,328	2,912	4.83
Other .....	533	18	3.46
Total earning assets .....	102,082	\$4,095	4.01%
Allowance for credit losses .....	(359)		
Cash and due from banks .....	3,276		
Other assets .....	7,227		
Total assets .....	\$ 112,226		
<b>Liabilities and Shareholders' Equity</b>			
Deposits in domestic offices			
Savings deposits .....	\$ 27,220	\$ 179	0.66%
Other time deposits .....	16,085	365	2.27
Deposits in foreign offices .....	21,899	281	1.28
Total interest bearing deposits .....	65,204	825	1.27
Short-term borrowings .....	9,320	132	1.42
Long-term debt .....	9,655	380	3.93
Total interest bearing liabilities .....	84,179	1,337	1.59
Net interest income / Interest rate spread .....		\$2,758	2.42%
Noninterest bearing deposits .....	7,649		
Other liabilities .....	12,341		
Total shareholders' equity .....	8,057		
Total liabilities and shareholders' equity .....	\$ 112,226		
Net yield on average earning assets .....			2.70%
Net yield on average total assets .....			2.46

\* Rates are calculated on unrounded numbers.

Total weighted average rate earned on earning assets is interest and fee earnings divided by daily average amounts of total interest earning assets, including the daily average amount on nonperforming loans. Loan interest included fees of \$78 million for 2004, \$68 million for 2003 and \$47 million for 2002.

2003			2002		
Balance	Interest	Rate*	Balance	Interest	Rate*
(in millions)					
\$ 1,682	\$ 25	1.46%	\$ 1,996	\$ 55	2.74%
4,521	55	1.22	5,289	95	1.79
12,427	137	1.10	10,943	162	1.47
19,051	908	4.76	18,541	975	5.26
16,612	805	4.85	16,464	841	5.11
21,245	1,171	5.51	19,346	1,250	6.46
3,049	248	8.15	2,963	271	9.13
-----	-----	-----	-----	-----	-----
40,906	2,224	5.44	38,773	2,362	6.09
3,281	126	3.83	3,281	160	4.88
-----	-----	-----	-----	-----	-----
44,187	2,350	5.32	42,054	2,522	6.00
-----	-----	-----	-----	-----	-----
482	20	4.28	476	23	4.91
-----	-----	-----	-----	-----	-----
82,350	\$ 3,495	4.24%	79,299	\$3,832	4.83%
-----	-----	-----	-----	-----	-----
(476)			(533)		
2,513			2,017		
7,438			6,997		
-----			-----		
\$ 91,825			\$87,780		
=====			=====		
\$ 24,822	\$ 189	0.76%	\$21,070	\$ 212	1.00%
10,691	223	2.09	12,879	355	2.76
19,490	254	1.30	18,705	407	2.17
-----	-----	-----	-----	-----	-----
55,003	666	1.21	52,654	974	1.85
-----	-----	-----	-----	-----	-----
8,885	91	1.03	11,415	232	2.03
3,738	206	5.50	3,901	225	5.78
-----	-----	-----	-----	-----	-----
67,626	963	1.42	67,970	1,431	2.10
-----	-----	-----	-----	-----	-----
	\$ 2,532	2.82%		\$2,401	2.73%
-----	-----	-----	-----	-----	-----
6,464			5,631		
10,203			6,979		
7,532			7,200		
-----			-----		
\$ 91,825			\$ 87,780		
=====			=====		
		3.07%			3.03%
		-----			-----
		2.76			2.74
		=====			=====

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of  
HSBC USA Inc.:

We have audited the accompanying consolidated balance sheets of HSBC USA Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2004, and the accompanying consolidated balance sheets of HSBC Bank USA, National Association (formerly HSBC Bank USA) and subsidiaries (the Bank) as of December 31, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2004, and the financial position of the Bank as of December 31, 2004 and 2003, in conformity with United States generally accepted accounting principles.

/s/ KPMG LLP

February 25, 2005  
New York, New York

-----  
CONSOLIDATED STATEMENT OF INCOME  
-----

Year Ended December 31,	2004	2003	2002
	----- (in millions) -----		
Interest income:			
Loans .....	\$ 2,912	\$ 2,350	\$ 2,521
Securities .....	868	887	952
Trading assets .....	165	136	161
Short-term investments .....	115	80	150
Other .....	18	20	23
	-----	-----	-----
Total interest income .....	4,078	3,473	3,807
	-----	-----	-----
Interest expense:			
Deposits .....	825	666	974
Short-term borrowings .....	132	91	232
Long-term debt .....	380	206	225
	-----	-----	-----
Total interest expense .....	1,337	963	1,431
	-----	-----	-----
Net interest income .....	2,741	2,510	2,376
Provision (credit) for credit losses .....	(17)	113	195
	-----	-----	-----
Net interest income after provision for credit losses	2,758	2,397	2,181
	-----	-----	-----
Other revenues:			
Trust income .....	95	94	94
Service charges .....	213	212	206
Other fees and commissions .....	425	446	398
Other income .....	333	165	89
Residential mortgage banking revenue (expense) ..	(120)	(102)	24
Trading revenues .....	288	291	130
Security gains, net .....	85	48	118
	-----	-----	-----
Total other revenues .....	1,319	1,154	1,059
	-----	-----	-----
Operating expenses:			
Salaries and employee benefits .....	937	1,131	1,029
Occupancy expense, net .....	157	156	156
Other expenses .....	1,007	753	690
	-----	-----	-----
Total operating expenses .....	2,101	2,040	1,875
	-----	-----	-----
Income before income tax expense .....	1,976	1,511	1,365
Income tax expense .....	718	570	510
	-----	-----	-----
Net income .....	\$ 1,258	\$ 941	\$ 855
	=====	=====	=====

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

-----  
 CONSOLIDATED BALANCE SHEET  
 -----

December 31,	2004	2003
	(in millions)	
<b>Assets</b>		
Cash and due from banks .....	\$ 2,682	\$ 2,534
Interest bearing deposits with banks .....	2,776	843
Federal funds sold and securities purchased under resale agreements .....	3,126	2,446
Trading assets .....	19,815	14,646
Securities available for sale .....	14,655	14,143
Securities held to maturity (fair value \$4,042 and \$4,648) .....	3,881	4,512
Loans .....	84,947	48,474
Less - allowance for credit losses .....	788	399
	-----	-----
Loans, net .....	84,159	48,075
Properties and equipment, net .....	594	681
Intangible assets, net .....	352	551
Goodwill .....	2,697	2,777
Other assets .....	6,313	4,354
	-----	-----
Total assets .....	\$141,050	\$ 95,562
	=====	=====
<b>Liabilities</b>		
Deposits in domestic offices:		
Noninterest bearing .....	\$ 7,639	\$ 6,093
Interest bearing .....	50,069	38,995
Deposits in foreign offices:		
Noninterest bearing .....	248	453
Interest bearing .....	22,025	18,414
	-----	-----
Total deposits .....	79,981	63,955
	-----	-----
Trading account liabilities .....	12,120	10,460
Short-term borrowings .....	9,874	6,782
Interest, taxes and other liabilities .....	4,370	3,089
Long-term debt .....	23,839	3,814
	-----	-----
Total liabilities .....	130,184	88,100
	-----	-----
<b>Shareholders' equity</b>		
Preferred stock .....	500	500
Common shareholder's equity:		
Common stock (\$5 par; 150,000,000 shares authorized; 706 and 704 shares issued) .....	-- (1)	-- (1)
Capital surplus .....	8,418	6,027
Retained earnings .....	1,917	807
Accumulated other comprehensive income .....	31	128
	-----	-----
Total common shareholder's equity .....	10,366	6,962
	-----	-----
Total shareholders' equity .....	10,866	7,462
	-----	-----
Total liabilities and shareholders' equity .....	\$141,050	\$ 95,562
	=====	=====

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

(1) Less than \$500 thousand

-----  
 CONSOLIDATED STATEMENT OF CHANGES  
 IN SHAREHOLDERS' EQUITY  
 -----

	2004	2003	2002
	(in millions)		
Preferred stock			
Balance, January 1 and December 31, .....	\$ 500	\$ 500	\$ 500
	-----	-----	-----
Common stock			
Balance, January 1 and December 31, .....	-- (1)	-- (1)	-- (1)
	-----	-----	-----
Capital surplus			
Balance, January 1, .....	6,027	6,056	6,035
Capital contribution from parent .....	2,411	15	21
Reductions of capital surplus .....	(20)	(44)	--
	-----	-----	-----
Balance, December 31, .....	8,418	6,027	6,056
	-----	-----	-----
Retained earnings			
Balance, January 1, .....	807	578	416
Net income .....	1,258	941	855
Cash dividends declared:			
Preferred stock .....	(23)	(22)	(23)
Common stock .....	(125)	(690)	(670)
	-----	-----	-----
Balance, December 31, .....	1,917	807	578
	-----	-----	-----
Accumulated other comprehensive income			
Balance, January 1, .....	128	262	99
Net change in unrealized (losses) gains on securities .....	(40)	(175)	80
Net change in unrealized (losses) gains on derivatives classified as cash			
flow hedges .....	(58)	11	79
Foreign currency translation adjustments .....	1	30	4
	-----	-----	-----
Other comprehensive (loss) income, net of tax .....	(97)	(134)	163
	-----	-----	-----
Balance, December 31, .....	31	128	262
	-----	-----	-----
Total shareholders' equity, December 31, .....	\$ 10,866	\$ 7,462	\$ 7,396
	=====	=====	=====
Comprehensive income			
Net income .....	\$ 1,258	\$ 941	\$ 855
Other comprehensive (loss) income .....	(97)	(134)	163
	-----	-----	-----
Comprehensive income .....	\$ 1,161	\$ 807	\$ 1,018
	=====	=====	=====

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

(1) Less than \$500 thousand



-----  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 -----

Year Ended December 31,	2004	2003	2002
	----- (in millions) -----		
Cash flows from operating activities			
Net income .....	\$ 1,258	\$ 941	\$ 855
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation, amortization and deferred taxes .....	459	399	811
Provision (credit) for credit losses .....	(17)	113	195
Net change in other accrual accounts .....	(66)	(960)	(694)
Net change in loans originated for sale .....	(423)	1,033	(775)
Net change in trading assets and liabilities .....	(2,974)	448	(408)
Other, net .....	(623)	(485)	(586)
	-----	-----	-----
Net cash provided by (used in) operating activities	(2,386)	1,489	(602)
Cash flows from investing activities			
Net change in interest bearing deposits with banks .....	(2,126)	(396)	2,512
Net change in short-term investments .....	(909)	494	(95)
Net change in securities available for sale:			
Purchases of securities available for sale .....	(11,306)	(13,827)	(13,110)
Proceeds from sales of securities available for sale ....	6,129	3,637	7,032
Proceeds from maturities of securities available for sale	5,578	10,752	5,306
Net change in securities held to maturity:			
Purchases of securities held to maturity .....	(1,190)	(2,678)	(1,556)
Proceeds from maturities of securities held to maturity .	1,826	3,004	1,596
Net change in loans:			
Net change in credit card receivables .....	1,416	(86)	(15)
Net change in other short-term loans .....	(828)	245	(374)
Net originations and maturities of long-term loans .....	(21,632)	(3,131)	(1,561)
Loans purchased from HSBC Finance Corporation .....	(16,227)	(2,847)	--
Sales of loans/other .....	466	669	190
Expenditures for properties and equipment .....	(29)	(65)	(83)
Net cash provided in acquisitions, net of cash acquired .....	196	403	23
Other, net .....	(849)	(366)	10
	-----	-----	-----
Net cash used in investing activities .....	(39,485)	(4,192)	(125)
Cash flows from financing activities			
Net change in deposits .....	17,030	4,405	2,399
Net change in short-term borrowings .....	3,333	(661)	(979)
Net change in long-term debt:			
Issuance of long-term debt .....	20,481	271	979
Repayment of long-term debt .....	(1,068)	(118)	(1,022)
Capital contribution from parent .....	2,411	15	21
Reduction of capital surplus .....	(20)	(44)	--
Dividends paid .....	(148)	(712)	(693)
	-----	-----	-----
Net cash provided by financing activities .....	42,019	3,156	705
Net change in cash and due from banks .....	148	453	(22)
Cash and due from banks at beginning of year .....	2,534	2,081	2,103
	-----	-----	-----
Cash and due from banks at end of year .....	\$ 2,682	\$ 2,534	\$ 2,081
	=====	=====	=====
Cash paid for: Interest .....	\$ 1,195	\$ 990	\$ 1,484
Income taxes .....	569	331	211

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

Pending settlement receivables/payables related to securities and trading assets and liabilities are treated as non cash items for cash flows reporting.

-----  
 C O N S O L I D A T E D   B A L A N C E   S H E E T

December 31,	2004	2003
----- (in millions)		
<b>Assets</b>		
Cash and due from banks .....	\$ 2,624	\$ 2,534
Interest bearing deposits with banks .....	2,698	555
Federal funds sold and securities purchased under resale agreements .....	3,123	2,446
Trading assets .....	19,240	14,487
Securities available for sale .....	14,539	13,529
Securities held to maturity (fair value \$3,879 and \$4,458) .....	3,729	4,335
Loans .....	84,419	48,390
Less - allowance for credit losses .....	787	398
	-----	-----
Loans, net .....	83,632	47,992
Properties and equipment, net .....	591	676
Intangible assets, net .....	350	548
Goodwill .....	2,092	2,173
Other assets .....	5,678	3,693
	-----	-----
Total assets .....	\$138,296	\$ 92,968
	=====	=====
<b>Liabilities</b>		
Deposits in domestic offices:		
Noninterest bearing .....	\$ 7,589	\$ 6,065
Interest bearing .....	50,069	38,995
Deposits in foreign offices:		
Noninterest bearing .....	248	453
Interest bearing .....	23,373	19,034
	-----	-----
Total deposits .....	81,279	64,547
	-----	-----
Trading account liabilities .....	12,075	10,442
Short-term borrowings .....	7,305	5,517
Interest, taxes and other liabilities .....	3,985	2,719
Long-term debt .....	22,279	1,812
	-----	-----
Total liabilities .....	126,923	85,037
	-----	-----
<b>Shareholder's equity</b>		
Common shareholder's equity		
Common stock (\$100 par; 50,000 shares authorized; 20,002 and 20,000 shares issued) .....	2	2
Capital surplus .....	9,527	7,133
Retained earnings .....	1,839	700
Accumulated other comprehensive income .....	5	96
	-----	-----
Total shareholder's equity .....	11,373	7,931
	-----	-----
Total liabilities and shareholder's equity .....	\$138,296	\$ 92,968
	=====	=====

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

Note 1. Organization and Basis of Presentation

HSBC USA Inc. is a New York State based bank holding company, and is an indirect wholly owned subsidiary of HSBC Holdings plc (HSBC). HSBC USA Inc. and its subsidiaries are collectively referred to as "HUSI". Effective January 1, 2004, HSBC created a new North American organizational structure with HSBC North America Holdings Inc. (HNAH) as the top-tier bank holding company parent. HNAH's principal subsidiaries include a top tier U.S. bank holding company, HSBC North America Inc. (HNAI), a consumer finance company, HSBC Finance Corporation (formerly Household International Inc.), a holding company for investment banking and markets, HSBC Markets (USA) Inc. (HSBC Markets), and a provider of information technology services, HSBC Technology & Services (USA) Inc. (HTSU). HUSI, a wholly owned subsidiary of HNAI, routinely conducts transactions with HSBC Finance Corporation, HSBC Markets and HTSU in the normal course of business.

On July 1, 2004, HUSI consolidated its banking operations under a single national charter, following approval from the Office of the Comptroller of the Currency.

The accounting and reporting policies of HUSI, including its principal subsidiary, HSBC Bank USA, National Association (HBUS), conform to accounting principles generally accepted in the United States of America and to predominant practice within the banking industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year amounts to conform with current year presentations.

Note 2. Summary of Significant Accounting Policies and New Accounting Pronouncements

Significant Accounting Policies and Practices

Principles of Consolidation

The financial statements of HUSI and HBUS are consolidated with those of their respective wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in companies in which the percentage of ownership is at least 20%, but not more than 50%, are generally accounted for under the equity method and reported as equity investments.

Foreign Currency Translation

The accounts of HUSI's foreign operations are measured using local currency as the functional currency. Assets and liabilities are translated into United States dollars at period end exchange rates. Income and expense accounts are translated at average monthly exchange rates. Net exchange gains or losses resulting from such translation are included in accumulated other comprehensive income and reported as a separate component of shareholders' equity. Foreign currency denominated transactions in other than the local functional currency are translated using the period end exchange rate with any foreign currency transaction gain or loss recognized currently in income.

Resale and Repurchase Agreements

HUSI enters into purchases of securities under agreements to resell ("resale agreements") and sales of securities under agreements to repurchase ("repurchase agreements") of substantially identical securities. Resale agreements and repurchase agreements are generally accounted for as secured lending and secured borrowing transactions respectively.

The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the consolidated balance sheet at the amount advanced or borrowed. Interest earned on resale agreements and interest paid on repurchase agreements are reported as interest income and interest expense respectively. HUSI offsets resale and repurchase agreements executed with the same counterparty under legally enforceable netting

agreements that meet the applicable netting criteria. HUSI's policy is to take possession of securities purchased under resale agreements. The market value of the securities subject to the resale and repurchase agreements is regularly monitored to ensure appropriate collateral coverage of these secured financing transactions.

#### Investment Securities

Debt securities that HUSI has the ability and intent to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. Securities acquired principally for the purpose of selling them in the near term are classified as trading assets and reported at fair value, with unrealized gains and losses included in earnings. All other securities are classified as available for sale and carried at fair value, with unrealized gains and losses, net of related income taxes, included in accumulated other comprehensive income and reported as a separate component of shareholders' equity.

The fair value of securities is based on current market quotations, where available or internal valuation models that approximate market pricing. The validity of internal pricing models is regularly substantiated by reference to actual market prices realized upon sale or liquidation of these instruments. If quoted market prices are not available, fair value is estimated based on the quoted price of similar instruments.

Realized gains and losses on sales of securities are computed on a specific identified cost basis and are reported within other revenues in the consolidated statement of income. Adjustments of trading assets to fair value and gains and losses on the sale of such securities are recorded in trading revenues.

HUSI regularly evaluates its securities portfolios to identify losses in value that are deemed other than temporary. To the extent such losses are identified, a loss is recognized in other revenues.

#### Loans

Loans are stated at amortized cost. Loans held for sale are carried at the lower of aggregate cost or market value and remain presented as loans in the consolidated balance sheet. Interest income is recorded using the effective yield method as adjusted for amortization of purchase premiums and discounts, and deferred fees and costs.

Commercial loans are categorized as nonaccruing when, in the opinion of management, reasonable doubt exists with respect to the ultimate collectibility of interest or principal based on certain factors including period of time past due (principally ninety days) and adequacy of collateral. At the time a loan is classified as nonaccruing, any accrued interest recorded on the loan is generally reversed and charged against income. Interest income on these loans is recognized only to the extent of cash received. In those instances where there is doubt as to collectibility of principal, any interest payments received are applied to principal. Loans are not reclassified as accruing until interest and principal payments are brought current and future payments are reasonably assured.

Residential mortgage interest income accruals are suspended when principal or interest payments are more than three months contractually past due. Loans to credit card customers that are past due more than ninety days are designated as nonaccruing if the customer has agreed to credit counseling; otherwise they are charged off in accordance with a predetermined schedule. Other consumer loans are generally not designated as nonaccruing and are charged off against the allowance for credit losses according to an established delinquency schedule.

Loans, other than those included in large groups of smaller balance homogenous loans, are considered impaired when, based on current information, it is probable that HUSI will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are valued at the present value of expected future cash flows, discounted at the loan's original effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Restructured loans are loans for which the original contractual terms have been modified to provide for terms that are less than HUSI would be willing to accept for new loans with comparable risk because of a deterioration in the borrowers' financial condition. Interest on these loans is accrued at the renegotiated rates.

## Loan Fees

Nonrefundable fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The amortization of net deferred fees and costs are recognized in interest income, generally by the interest method, based on the estimated lives of the loans. Nonrefundable fees related to lending activities other than direct loan origination are recognized as other revenues over the period the related service is provided. This includes fees associated with the issuance of loan commitments where the likelihood of the commitment being exercised is considered remote. In the event of the exercise of the commitment, the remaining unamortized fee is recognized in interest income over the loan term using the interest method. Other credit-related fees, such as standby letter of credit fees, loan syndication and agency fees and annual credit card fees are recognized as other revenues over the period the related service is performed.

## Allowance for Credit Losses

HUSI maintains an allowance for credit losses that is, in the judgment of management, adequate to absorb estimated losses inherent in its commercial and consumer loan portfolios. A separate reserve for credit losses associated with certain off-balance sheet exposures, such as letters of credit and commitments to lend, is also maintained and included in other liabilities. The adequacy of the allowance and the separate off-balance sheet reserve is assessed within the context of both Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114), and Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), and is based upon an evaluation of various factors including an analysis of individual exposures, current and historical loss experience, changes in the overall size and composition of the portfolio, specific adverse situations, and general economic conditions. Provisions for all credit losses are recorded to earnings based upon HUSI's periodic review of these and other pertinent factors. Actual loan losses are charged and recoveries are credited to the allowance.

For commercial and select consumer loan assets, HUSI conducts a periodic assessment of losses it believes to be inherent in the loan portfolio. When it is deemed probable, based upon known facts and circumstances, that full contractual interest and principal on an individual loan will not be collected, the asset is considered impaired. In accordance with SFAS 114, a "specific loss" impairment reserve is established based upon the present value of expected future cash flows, discounted at the loan's original effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Formula-based reserves are also established against commercial loans and off-balance sheet credit exposures in accordance with SFAS 5, based upon an analysis of relevant data, when it is probable that a loss has been incurred and will be realized and the amount of that loss can be reasonably estimated, even though it has yet to manifest itself in a specifically identifiable loan asset. These reserves are determined by reference to continuously monitored and updated historical loss rates or factors, derived from a migration analysis which considers net charge off experience by loan and industry type, in relation to internal credit grading.

Homogeneous pools of loans including consumer installment and residential mortgage loans are not assigned specific loan grades. Formula-based reserves are generally determined based upon historical loss experience by loan type or in certain instances, by reference to specific collateral values.

For retail credit card receivables, HUSI uses roll rate methodology (statistical analysis of historical trends used to estimate the probability of continued delinquency, ultimate charge off, and amount of consequential loss assessed at each time period for which payments are overdue) to ensure that an acceptable number of months of anticipated losses are included in the allowance for credit losses. The resulting loss coverage ratio varies by portfolio based on inherent risk and regulatory guidance. Historical factors used in the models are modified as appropriate by an evaluation of current economic conditions and portfolio trends including behavioral and account management information such as bankruptcy. Roll rates are regularly updated and benchmarked against actual outcomes to ensure that they remain appropriate.

Although the calculation of required formula-based reserves is a mechanical process incorporating historical data, the ultimate selection of reserve factors and the assessment of the overall adequacy of the allowance to provide for credit losses inherent in the loan portfolio involves a high degree of subjective management judgment. With recognition to the imprecision in estimating credit losses, and with consideration given to probable losses associated with factors including the impact of the national economic cycle, migration trends within non-criticized portfolios of loans, as well as portfolio concentration, HUSI therefore also maintains an "unallocated reserve".

HUSI gathers and analyzes historical data, updates assumptions relative to expected loss experience and reviews individual and portfolio loan assets on a quarterly basis. In December 2004, HUSI implemented a new advanced methodology for estimation of losses inherent in pools of homogeneous commercial loans, leases and off-balance sheet risk. Conversion to the new methodology, which is further described in Critical Accounting Policies on page 15 of this Form 10-K, resulted in a reduction in the allowance for credit losses and an increase in the reserve for off-balance sheet exposures.

#### Properties and Equipment, Net

Properties and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Costs of maintenance and repairs are expensed as incurred.

#### Mortgage Servicing Rights

HUSI recognizes the right to service mortgages as a separate and distinct asset at the time the loans are sold. Servicing rights are then amortized in proportion to net servicing income and carried on the balance sheet in other assets at the lower of their initial carrying value, adjusted for amortization, or fair value.

As interest rates decline, prepayments generally accelerate, thereby reducing future net servicing cash flows from the mortgage portfolio. The carrying value of the mortgage servicing rights (MSRs) is periodically evaluated for impairment through internal modeling based on the difference between the carrying value of such rights and their current fair value. For purposes of measuring impairment which, if temporary is recorded through the use of a valuation reserve or, if permanent as a direct write-down, MSRs are stratified based upon interest rates and whether such rates are fixed or variable and other loan characteristics. Fair value is determined based upon the application of pricing valuation models incorporating portfolio specific prepayment assumptions. The reasonableness of these pricing models is periodically substantiated by reference to external independent broker valuations and industry surveys.

If the carrying value of the servicing rights exceeds fair value, the asset is deemed impaired and impairment is recognized by recording a balance sheet valuation reserve with a corresponding charge to income.

HUSI uses certain derivative financial instruments including options and interest rate swaps, to protect against the decline in economic value of servicing rights. These instruments have not been designated as qualifying hedges under SFAS 133 and are therefore recorded as trading instruments that are marked to market through earnings.

#### Goodwill and Other Acquisition Intangibles

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from purchase acquisitions made by HUSI. HUSI has adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), which requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives, not be amortized but rather tested for impairment at least annually. Under SFAS 142, all recorded goodwill must be assigned to one or more reporting units of the entity and evaluated for impairment at that level. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including the goodwill.

## Income Taxes

HNAH files a consolidated federal income tax return which includes HUSI.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as the estimated future tax consequences attributable to net operating loss and tax credit carryforwards. A valuation allowance is established if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Foreign taxes paid are applied as credits to reduce federal income taxes payable.

## Derivative Financial Instruments

Derivative financial instruments are recognized on the balance sheet at fair value in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). On the date the derivative contract is entered into, HUSI designates it as either (1) a qualifying SFAS 133 hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); or (2) a qualifying SFAS 133 hedge of a forecasted transaction of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) as a trading position.

Changes in the fair value of a derivative that has been designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that has been designated and qualifies as a cash flow hedge are recorded in other comprehensive income to the extent of its effectiveness, until earnings are impacted by the variability of cash flows from the hedged item. Changes in the fair value of derivatives held for trading purposes are reported in current period earnings.

At the inception of each hedge, it is HUSI's policy to formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

Increased earnings volatility may result from the on-going mark to market of certain economically viable derivative contracts that do not satisfy the hedging requirements of SFAS 133, as well as from the hedge ineffectiveness associated with the qualifying contracts. HUSI expects however that it will be able to continue to pursue its overall asset and liability risk management objectives using a combination of derivatives and cash instruments.

## Embedded Derivatives

HUSI may acquire or originate a financial instrument that contains a derivative instrument "embedded" within it. Upon origination or acquisition of any such instrument, HUSI assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the principal component of the financial instrument (i.e., the "host contract") and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract; and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated a trading instrument.

#### Hedge Discontinuation

HUSI formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in future periods. If it is determined that a derivative is not highly effective as a hedge, or that in the future it ceases to be a highly effective hedge, HUSI discontinues hedge accounting prospectively, as discussed below.

HUSI discontinues hedge accounting prospectively when (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is unlikely that a forecasted transaction will occur; (4) the hedged firm commitment no longer meets the definition of a firm commitment; or (5) the designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value or cash flow hedge, the derivative will continue to be carried on the balance sheet at its fair value, and the hedged item will no longer be adjusted for changes in fair value or changes in the fair value of the derivative reclassified to other comprehensive income. If the hedged item was a firm commitment or forecasted transaction that is not expected to occur, any amounts recorded on the balance sheet related to the hedged item, including any amounts recorded in other comprehensive income, are reclassified to current period earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings unless redesignated as a qualifying SFAS 133 hedge.

#### Day One Profit (Loss) Recognition

HUSI recognizes profit and loss at the inception of derivative transactions only when the fair value of the transaction can be verified to market transactions or if all significant pricing model assumptions can be verified to observable market data. Profit or loss not recognized at inception is recognized over the term of the derivative contract in correlation with outstanding risk and valuation characteristics.

#### Receivables Sold With Limited Recourse and Securitization Revenue

Certain private label credit card receivables have been securitized and sold to investors with limited recourse. Servicing rights to these receivables was retained. Recourse is limited to the rights to future cash flow and any subordinated interest retained by HUSI. Upon sale, the receivables are removed from the balance sheet and a gain on sale is recognized for the difference between the carrying value of the receivables and the adjusted sales proceeds. The adjusted sales proceeds include cash received and the present value estimate of future cash flows to be received over the life of the sold receivables. Future cash flows are based on estimates of prepayments, the impact of interest rate movements on yields of receivables and securities issued, delinquency of receivables sold, servicing fees and other factors. The resulting gain is also adjusted by a provision for estimated probable losses under the recourse provision. This provision and the related reserve for receivables serviced with limited recourse are established at the time of sale to cover all probable credit losses over the life of the receivables sold based on historical experience and estimates of expected future performance. The methodology uses historical monthly net charge off rates applied to the expected balances to be received over the remaining life of the receivable. The reserves are reviewed periodically by evaluating the estimated future cash flows of each securitized pool to ensure that there is sufficient remaining cash flow to cover estimated future credit losses. Any changes to the estimates for the reserve for receivables serviced with limited recourse are made in the period they became known. Servicing income and excess spread relating to securitized receivables are reported in the accompanying consolidated statement of income as other revenues.

In connection with these transactions, an interest-only strip receivable has been recorded representing HUSI's contractual right to receive interest and other cash flows from securitization trusts. Interest-only strip receivables are reported at fair value using discounted cash flow estimates as a component of other assets net of the estimate of probable losses under the recourse provisions. Cash flow estimates include estimates of prepayments, the impact of



interest rate movements on yields of receivables and securities issued, delinquency of receivables sold, servicing fees and estimated probable losses under the recourse provisions. Interest-only strip receivables are reviewed for impairment quarterly or earlier if events indicate that the carrying value may not be recovered. Any decline in the fair value of the interest-only strip receivable which is deemed to be other than temporary is charged against current earnings.

Other subordinated interests have also been retained in these securitizations. Neither the interest-only strip receivables nor the other subordinated interests are in the form of securities.

In order to align the accounting treatment with that of HSBC under U.K. GAAP (and beginning in 2005, International Financial Reporting Standards), all new funding utilizing securitization is being structured as secured financings. However, because existing transactions were structured as sales to revolving trusts that require replenishments to support previously issued securities, receivables will continue to be sold to these trusts until the revolving periods end.

#### Transactions With Related Parties

In the normal course of business, HUSI enters into transactions with HSBC and its subsidiaries. These transactions include purchases and sales of receivables and/or account relationships, loan origination and servicing arrangements, information technology services, administrative and operational support, debt underwriting, and other miscellaneous services. Transactions with related parties are generally on terms comparable to those that would be made with unaffiliated parties.

#### New Accounting Pronouncements

In December 2003, the American Institute of Certified Public Accountants (AICPA) released Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable to credit quality. SOP 03-3 is effective for assets acquired in fiscal years beginning after December 15, 2004. Adoption is not expected to have a material impact on HUSI's financial position or results of operations.

In January 2004, the FASB issued FASB Staff Position 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-1). FSP 106-1 was issued in response to a new Medicare bill that provides prescription drug coverage to Medicare-eligible retirees and was signed into law in December 2003. FSP 106-1 allows plan sponsors the option of accounting for the effects of this new law in financial statements for periods that cover the date of enactment or making a one-time election to defer the accounting for the effects of the new law. HUSI elected to defer the accounting for the effects of the new law. In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-2), which superceded FSP 106-1. FSP 106-2 provides two methods of transition - retroactive application or prospective application from the date of adoption. If the effects of the new law are deemed to be a "significant event" the effect can be incorporated into the next measurement date following the effective date. Based on information currently available, the effects of the new law are not considered to be a "significant event", and therefore the effects of the new law have been accounted for in the measurement of pension liability at December 31, 2004.

In March 2004, the FASB reached a consensus on EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance for determining when an investment is impaired and whether the impairment is other than temporary. EITF 03-1 also incorporates into its consensus the required disclosures about unrealized losses on investments announced by the EITF in late 2003 and adds new disclosure requirements relating to cost-method investments. The new disclosure requirements are effective for reporting periods beginning after June 15, 2004, and the new impairment guidance was to become effective for reporting periods beginning after June 15, 2004. In September 2004, the FASB delayed the effective

date of EITF 03-1 for measurement and recognition of impairment losses until implementation guidance is issued. In December 2004, the FASB decided to reconsider in its entirety all guidance on disclosing, measuring and recognizing other-than-temporary impairments of debt and equity securities and requires companies to continue to comply with existing accounting literature. Until the new guidance is finalized, the impact on financial position and results of operations cannot be determined.

In March 2004, the SEC released Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments (SAB 105) which provides guidance regarding commitments related to loans to be held for sale, and accounted for as derivative instruments. The guidance indicates that, for commitments issued after March 31, 2004, expected future cash flows from servicing may not be considered in valuing the derivatives and may only be recorded upon sale of the related loans. HUSI previously recorded those cash flows as assets and income upon the issuance of the commitment. Commentary regarding the impact of SAB 105 on residential mortgage banking revenue is provided on page 27 of this Form 10-K.

In December 2004, FASB issued Statement No. 123 (Revised), Share-Based Payment (SFAS 123R). SFAS 123R requires public entities to measure the cost of stock-based compensation based on the grant date fair value of the award, and is effective for interim or annual reporting periods beginning after June 15, 2005. HUSI was substantially in compliance with SFAS 123R as of December 31, 2004, and will be entirely compliant by the required adoption date. The adoption of SFAS 123R therefore will not have a significant effect on operating results.

Note 3. Acquisitions and Divestitures

2004

The following acquisitions from affiliated HSBC entities are described in greater detail in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K:

- o On December 29, 2004, HUSI purchased approximately \$12 billion of private label loans, primarily credit card receivables, from HSBC Finance Corporation at fair value.
- o On March 31, 2004, HUSI purchased approximately \$1 billion of domestic residential mortgage loans asset at fair value from HSBC Finance Corporation. In addition, approximately \$3 billion of consumer loans were purchased from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs.

The following transfers and sales to affiliated HSBC entities are described in greater detail in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K:

- o On June 1, 2004, HUSI transferred a wholly owned domestic brokerage subsidiary to HSBC Markets at fair value.
- o On July 31, 2004, HUSI transferred most of its Panamanian branch operations to an HSBC affiliate at fair value.
- o On February 29, 2004, HUSI sold its banking subsidiary in Uruguay to an HSBC affiliate at fair value.

2003

On December 31, 2003 approximately \$3 billion of residential mortgage loan assets were purchased from HSBC Finance Corporation.

On December 31, 2003 HUSI sold its domestic factoring business to CIT Group Inc. Approximately \$1 billion of gross loans and over \$.7 billion of liabilities were sold. The transaction did not have a material effect on the 2003 results of HUSI.

Note 4. Trading Assets and Liabilities

The composition of trading assets and liabilities is presented in the following table.

December 31	2004	2003
(in millions)		
Trading assets:		
U.S. Treasury .....	\$ 181	\$ 115
U.S. Government agency .....	677	875
Asset backed securities .....	1,144	1,505
Corporate bonds .....	1,771	848
Other securities .....	3,263	1,344
Precious metals .....	3,172	2,306
Fair value of derivatives .....	9,607	7,653
	-----	-----
	\$19,815	\$14,646
	=====	=====
Trading account liabilities:		
Securities sold, not yet purchased .....	\$ 951	\$ 914
Payables for precious metals .....	1,134	1,181
Fair value of derivatives .....	10,035	8,365
	-----	-----
	\$12,120	\$10,460
	=====	=====

Note 5. Securities

At December 31, 2004 and 2003, HUSI held no securities of any single issuer (excluding the U.S. Treasury and U.S. Government agencies) with a book value that exceeded 10% of shareholders' equity.

The amortized cost and fair value of the available for sale and held to maturity securities portfolios are presented in the following table.

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)				
Securities available for sale:				
U.S. Treasury .....	\$ 203	\$ --	\$ 3	\$ 200
U.S. Government agency (1) .....	11,165	79	119	11,125
Asset backed securities .....	1,122	3	1	1,124
Other domestic debt securities .....	990	6	2	994
Foreign debt securities .....	1,090	15	2	1,103
Equity securities .....	64	49	4	109
Securities available for sale .....	\$14,634	\$ 152	\$ 131	\$14,655
Securities held to maturity:				
U.S. Treasury .....	\$ 122	\$ --	\$ --	\$ 122
U.S. Government agency (1) .....	2,918	132	13	3,037
Obligations of U.S. states and political subdivisions .....	465	37	--	502
Other domestic debt securities .....	231	6	1	236
Foreign debt securities .....	145	--	--	145
Securities held to maturity .....	\$ 3,881	\$ 175	\$ 14	\$ 4,042

(1) Includes mortgage backed securities issued or guaranteed by U.S. Government agencies.

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)				
Securities available for sale:				
U.S. Treasury .....	\$ --	\$ --	\$ --	\$ --
U.S. Government agency (1) .....	10,778	155	141	10,792
Asset backed securities .....	1,784	8	6	1,786
Other domestic debt securities .....	415	1	--	416
Foreign debt securities .....	904	13	--	917
Equity securities .....	187	49	4	232
Securities available for sale .....	\$14,068	\$ 226	\$ 151	\$14,143
Securities held to maturity:				
U.S. Treasury .....	\$ 125	\$ --	\$ --	\$ 125
U.S. Government agency (1) .....	3,513	123	40	3,596
Obligations of U.S. states and political subdivisions .....	572	47	--	619
Other domestic debt securities .....	294	8	2	300
Foreign debt securities .....	8	--	--	8
Securities held to maturity .....	\$ 4,512	\$ 178	\$ 42	\$ 4,648

(1) Includes mortgage backed securities issued or guaranteed by U.S. Government agencies.

A summary of gross unrealized losses and related fair values, classified as to the length of time the losses have existed, is presented in the following table. The unrealized losses that have existed for more than one year related to asset backed securities are due to interest rate market conditions. The securities in question are high credit grade (i.e. AAA or AA) and impairment is expected to be temporary.

December 31, 2004	Less Than One Year			Greater Than One Year		
	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investment
(in millions)						
Securities available for sale:						
U.S. Treasury .....	1	\$ 3	\$ 200	--	\$ --	\$ --
U.S. Government agency.....	140	47	3,764	166	72	1,876
All other securities.....	31	6	487	21	3	103
Securities available for sale..	172	\$ 56	\$ 4,451	187	\$ 75	\$ 1,979
Securities held to maturity:						
U.S. Government agency.....	12	\$ 3	\$ 190	15	\$ 10	\$ 281
All other securities.....	7	1	5	--	--	--
Securities held to maturity....	19	\$ 4	\$ 195	15	\$ 10	\$ 281

The following table presents realized gains and losses on investment securities transactions attributable to available for sale and held to maturity securities. Amounts in the table include net realized gains of \$8 million, \$22 million and \$1 million reported in residential mortgage banking revenue in the consolidated statement of income for 2004, 2003 and 2002 respectively.

Year Ended December 31	Gross Realized Gains	Gross Realized (Losses)	Net Realized Gains (Losses)
(in millions)			
2004			
Securities available for sale .....	\$ 100	\$ (8)	\$ 92
Securities held to maturity:			
Maturities, calls and mandatory redemptions .....	1	--	1
	\$ 101	\$ (8)	\$ 93
2003			
Securities available for sale .....	\$ 81	\$ (11)	\$ 70
2002			
Securities available for sale .....	\$ 188	\$ (70)	\$ 118
Securities held to maturity:			
Maturities, calls and mandatory redemptions .....	3	(2)	1
	\$ 191	\$ (72)	\$ 119

The amortized cost and fair values of securities available for sale and securities held to maturity at December 31, 2004, by contractual maturity are presented in the following table. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. The amounts exclude \$64 million cost (\$109 million fair value) of equity securities that do not have maturities.

The following table also reflects the distribution of maturities of debt securities held at December 31, 2004 together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at December 31, 2004. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

Taxable Equivalent Basis	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(in millions)								
Available for sale:								
U.S. Treasury .....	\$ --	--%	\$ --	--%	\$ 203	4.00%	\$ --	--%
U.S. Government agency	431	3.14	392	2.94	879	4.62	9,463	4.14
Asset backed securities	32	2.42	263	2.62	425	2.84	402	2.57
Other domestic debt								
securities .....	36	4.59	116	3.45	--	--	838	3.80
Foreign debt securities	126	3.52	349	5.37	391	6.62	224	6.59
Total amortized cost .....	\$ 625	3.26%	\$ 1,120	3.67%	\$ 1,898	4.57%	\$10,927	4.11%
Total fair value .....	\$ 623		\$ 1,116		\$ 1,903		\$10,904	
Held to maturity:								
U.S. Treasury .....	\$ 122	1.66%	\$ --	--%	\$ --	--%	\$ --	--%
U.S. Government agency	--	--	90	7.14	169	6.53	2,659	6.34
Obligations of U.S.								
states and political								
subdivisions .....	9	6.85	49	6.26	86	5.55	321	5.31
Other domestic debt								
securities .....	--	--	--	--	--	--	231	5.93
Foreign debt securities	145	2.49	--	--	--	--	--	--
Total amortized cost .....	\$ 276	2.28%	\$ 139	6.83%	\$ 255	6.20%	\$ 3,211	6.21%
Total fair value .....	\$ 277		\$ 145		\$ 275		\$ 3,345	

#### Note 6. Loans

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

December 31	2004		2003	
	Total	Held for Sale	Total	Held for Sale
(in millions)				
Domestic:				
Commercial:				
Construction and other real estate	\$ 8,341	\$ --	\$ 7,075	\$ --
Other commercial .....	11,815	--	8,658	--
Consumer:				
Residential mortgage .....	46,715	1,352	26,295	946
Credit card receivables .....	12,078	--	1,112	--
Other consumer .....	3,122	393	1,904	385
International .....	2,876	--	3,430	--
	\$84,947	\$ 1,745	\$48,474	\$ 1,331

On December 29, 2004, HUSI acquired a \$12 billion private label loan portfolio from HSBC Finance Corporation. The portfolio consisted of approximately \$1 billion of credit card receivables and \$1 billion of other consumer loans.

During 2004, HUSI purchased approximately \$1 billion of residential mortgage loans from HSBC Finance Corporation. In addition, approximately \$4 billion of additional consumer loans, primarily residential mortgage loans, were purchased from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs. The remaining net increase in residential mortgage loans resulted from organic growth, primarily in variable rate loans, as customers continued to take advantage of the low interest rate environment.

International loans includes certain bonds issued by the government of Venezuela as part of debt renegotiations (Brady Bonds). HUSI's intent is to hold these instruments until maturity. The Brady Bonds are fully secured as to principal by zero-coupon U.S. Treasury securities with a face value equal to that of the underlying bonds. The following table presents information regarding Brady Bonds.

December 31	2004	2003
	(in millions)	
Balance at end of year:		
Face value .....	\$178	\$178
Aggregate carrying value .....	166	166
Aggregate fair value .....	177	164

Information regarding credit quality of loans, including analysis of nonaccruing loans, criticized loans, impaired loans, and other real estate and owned assets, is presented in Item 7 beginning on page 37 of this Form 10-K.

HUSI has loans outstanding to certain executive officers and directors. The loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and do not involve more than normal risk of collectibility. The aggregate amount of such loans did not exceed 5% of shareholders' equity at December 31, 2004 and 2003.

Note 7. Allowance for Credit Losses

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

	2004	2003	2002
	(in millions)		
Balance at beginning of year .....	\$ 399	\$ 493	\$ 506
Allowance related to acquisitions and (dispositions), net	485	(15)	(2)
Provision (credited) charged to income .....	(17)	113	195
Recoveries on loans charged off .....	78	51	35
Loans charged off .....	(157)	(243)	(241)
Balance at end of year .....	\$ 788 =====	\$ 399 =====	\$ 493 =====

On December 29, 2004, HUSI acquired approximately \$12 billion of private label loans from HSBC Finance Corporation, including an allowance for credit losses of approximately \$505 million associated with the purchased loans.

Included in the December 31, 2004 and December 31, 2003 allowance for credit losses are approximately \$14 million and \$33 million respectively, of non-United States transfer risk reserves.

Note 8. Properties and Equipment, Net

The following table presents the composition of properties and equipment, net of accumulated depreciation and amortization.

December 31	Depreciable Life (Years)	2004	2003
(in millions)			
Land .....	--	\$ 99	\$ 102
Buildings .....	5-40	711	721
Furniture and equipment .....	3-7	483	504
Total .....		1,293	1,327
Less: accumulated depreciation and amortization		(699)	(646)
Properties and equipment, net .....		\$ 594	\$ 681

Depreciation and amortization expense was approximately \$98 million and \$99 million in 2004 and 2003 respectively.

Note 9. Intangible Assets, Net

The following table summarizes the composition of intangible assets.

December 31	2004	2003
(in millions)		
Mortgage servicing rights, net of accumulated amortization and valuation allowance	\$309	\$503
Favorable lease arrangements, net of accumulated depreciation of \$24 and \$19 .....	43	48
Intangible assets, net .....	\$352	\$551

Mortgage Servicing Rights (MSRs)

HUSI recognizes the right to service mortgages as a separate and distinct asset at the time the related loans are sold, or at the time the MSRs are purchased. MSRs are amortized in proportion to net servicing income and carried on the balance sheet at the lower of their initial carrying value, adjusted for amortization, or fair value.

Fair value is based on the present value of future cash flows which, at December 31, 2004, was calculated using a constant prepayment rate (CPR) of 19.8% annualized, a constant discount rate of 9.64%, and a weighted average life of 4.5 years.



The following table summarizes activity for MSRs and the related valuation allowance.

	2004	2003	2002
	(in millions)		
MSRs, net of accumulated amortization:			
Balance, January 1, .....	\$ 526	\$ 395	\$ 316
Additions related to loan sales .....	62	283	169
Net MSRs acquisitions (sales) .....	(54)	51	3
Permanent impairment charges .....	(15)	(44)	(16)
Amortization .....	(103)	(159)	(77)
	-----	-----	-----
Balance, December 31, .....	416	526	395
	-----	-----	-----
Valuation allowance for MSRs:			
Balance, January 1, .....	(23)	(40)	--
Temporary impairment (provision) recovery .....	(102)	(27)	(56)
Permanent impairment charges .....	15	44	16
Release of allowance related to MSRs sold .....	3	--	--
	-----	-----	-----
Balance, December 31, .....	(107)	(23)	(40)
	-----	-----	-----
MSRs, net of accumulated amortization and valuation allowance at December 31, .....	\$ 309	\$ 503	\$ 355
	=====	=====	=====

The increase in temporary impairment in 2004 resulted primarily from reductions in interest rates, supplemented by changes resulting from HUSI's normal ongoing review of assumptions used in its MSRs valuation model.

Residential mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The outstanding principal balances of these loans were \$28 billion and \$34 billion at December 31, 2004 and 2003 respectively. Custodial balances maintained in connection with the foregoing loan servicing, and included in noninterest bearing deposits in domestic offices, were approximately \$546 million and \$643 million at December 31, 2004 and 2003 respectively.

Normal amortization for the current MSRs portfolios is expected to be approximately \$88 million for the year ending December 31, 2005, declining gradually to approximately \$34 million for the year ending December 31, 2009. Actual levels of amortization could increase or decrease depending upon changes in interest rates and loan prepayment activity. Actual levels of amortization are also dependent upon future levels of MSRs recorded.

#### Favorable Lease Arrangements

Intangible assets have been recorded for favorable lease arrangements, which resulted from various business acquisitions. Scheduled amortization of favorable lease arrangements will approximate \$5 million per year for 2005 through 2009.

#### Note 10. Goodwill

During 2004, HUSI sold or transferred certain domestic and foreign operations to affiliated HSBC entities, resulting in reductions of goodwill of approximately \$80 million.

During the second quarter of 2004, HUSI completed its annual impairment test of goodwill and determined that the fair value of each of the reporting units exceeded its carrying value. As a result, no impairment loss was required to be recognized.

Note 11. Deposits

The aggregate amount of time deposit accounts (primarily certificates of deposits) each with a minimum of \$100,000 included in domestic office deposits were approximately \$19 billion and \$7 billion at December 31, 2004 and 2003 respectively. The scheduled maturities of all time deposits at December 31, 2004 follows.

	Time Deposits In		Total
	Domestic Offices	Foreign Offices	
		(in millions)	
2005 .....	\$18,081	\$12,460	\$30,541
2006 .....	4,112	11	4,123
2007 .....	291	3	294
2008 .....	243	4	247
2009 .....	91	--	91
Later years .....	300	--	300
	=====\$23,118	=====\$12,478	=====\$35,596

Note 12. Short-Term Borrowings

The following table presents selected information for short-term borrowings. Average interest rates during each year are computed by dividing total interest expense by the average amount borrowed.

	2004		2003		2002	
	Amount	Rate	Amount	Rate	Amount	Rate
	(in millions)					
Federal funds purchased (day to day):						
At December 31 .....	\$2,152	2.31%	\$1,718	.95%	\$ 656	1.29%
Average during year .....	958	1.30	915	1.11	1,402	1.62
Maximum month-end balance .....	2,612		2,563		2,788	
Securities sold under repurchase agreements:						
At December 31 .....	1,733	2.69	357	1.45	553	1.52
Average during year .....	1,008	3.38	638	1.97	834	3.64
Maximum month-end balance .....	2,597		1,475		1,054	
Commercial paper:						
At December 31 .....	1,879	2.22	1,730	1.08	1,484	1.53
Average during year .....	1,735	1.40	1,406	1.21	1,496	1.79
Maximum month-end balance .....	1,911		1,730		1,787	
Precious metals:						
At December 31 .....	3,163	.41	2,808	.78	3,083	.42
Average during year .....	3,017	.42	3,437	.33	3,275	.51
Maximum month-end balance .....	3,338		3,735		3,865	
All other short-term borrowings:						
At December 31 .....	947	2.76	169	.97	1,616	1.46
Average during year .....	766	4.28	1,044	1.80	2,781	2.76
Maximum month-end balance .....	2,187		2,103		6,669	

At December 31, 2004, HUSI had a \$2 billion line of credit with HSBC Finance Corporation, of which \$600 million was outstanding and included in all other short-term borrowings in the above table.

At December 31, 2004, HUSI had unused lines of credit with HSBC Bank plc aggregating \$750 million. These lines of credit do not require compensating balance arrangements and commitment fees are not significant.

As a member of the New York Federal Home Loan Bank, HUSI has a secured borrowing facility which is collateralized by residential mortgage loan assets.

Note 13. Income Taxes

Total income taxes were allocated as follows.

Year Ended December 31	2004	2003	2002
	(in millions)		
To income before income taxes .....	\$ 718	\$ 570	\$ 510
To shareholders' equity as tax charge (benefit):			
Net unrealized gains (losses) on securities available for sale .....	(20)	(99)	41
Unrealized gain (loss) on derivatives classified as cash flow hedges	(30)	6	43
Foreign currency translation, net .....	4	16	2
	\$ 672	\$ 493	\$ 596
	=====	=====	=====

The components of income tax expense follow.

Year Ended December 31	2004	2003	2002
	(in millions)		
Current:			
Federal .....	\$ 452	\$ 365	\$ (31)
State and local .....	153	48	10
Foreign .....	17	24	19
	-----	-----	-----
Total current .....	622	437	(2)
Deferred, primarily federal .....	96	133	512
	-----	-----	-----
Total income taxes .....	\$ 718	\$ 570	\$ 510
	=====	=====	=====

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

Year Ended December 31	2004	2003	2002
	(in millions)		
Statutory rate .....	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State and local income taxes .....	5.6	3.1	4.2
Goodwill .....	--	.9	--
Release of tax reserves .....	(2.9)	--	--
Tax exempt interest income .....	(.5)	(.8)	(1.0)
Other items .....	(.9)	(.5)	(.9)
	-----	-----	-----
Effective income tax rate .....	36.3%	37.7%	37.3%
	=====	=====	=====

The components of the net deferred tax position are presented in the following table.

December 31	2004	2003
	(in millions)	
Deferred tax assets:		
Allowance for credit losses .....	\$ 308	\$ 176
Benefit accruals .....	97	93
Accrued expenses not currently deductible .....	47	41
Investment securities .....	(12)	(38)
Net purchase discount on acquired companies .....	40	58
Premium on purchased receivables .....	44	--
	-----	-----
Total deferred tax assets .....	524	330
	-----	-----
Less deferred tax liabilities:		
Unrealized gains on securities available for sale .....	11	30
Lease financing income accrued .....	26	36
Accrued pension cost .....	197	212
Accrued income on foreign bonds .....	10	11
Deferred gain recognition .....	40	--
Depreciation and amortization .....	41	50
Interest and discount income .....	230	47
Deferred fees/costs .....	106	(2)
Mortgage servicing rights .....	116	185
Other .....	21	29
	-----	-----
Total deferred tax liabilities .....	798	598
	-----	-----
Net deferred tax asset (liability) .....	\$ (274)	\$ (268)
	=====	=====

Realization of deferred tax assets is contingent upon the generation of future taxable income or the existence of sufficient taxable income within the carryback period. Based upon the level of historical taxable income and the scheduled reversal of the deferred tax liabilities over the periods which the deferred tax assets are deductible, management believes that it is more likely than not HUSI would realize the benefits of these deductible differences.

Note 14. Long-Term Debt

The composition of long-term debt is presented in the following table. Interest rates on floating rate notes are determined periodically by formulas based on certain money market rates or, in certain instances, by minimum interest rates as specified in the agreements governing the issues. Interest rates in effect at December 31, 2004 are shown in parentheses.

December 31	2004	2003
	(in millions)	
Issued or acquired by HUSI or subsidiaries other than HBUS:		
Non-subordinated debt:		
Floating Rate Senior Notes due 2004 .....	\$ --	\$ 300
8.375% Debentures due 2007 .....	101	102
	101	402
Subordinated debt:		
7% Subordinated Notes due 2006 .....	300	299
Fixed Rate Subordinated Notes due 2008-2097 (5.88% - 9.70%) .....	1,523	1,544
Floating Rate Subordinated Notes due 2009 .....	--	124
Perpetual Capital Notes (2.25%) .....	125	125
Junior Subordinated Debentures due 2026-2032 (7.53% - 8.38%) .....	1,060	1,057
	3,008	3,149
Issued or acquired by HBUS or its subsidiaries:		
Non-subordinated debt:		
Global Bank Note Program:		
Medium-Term Floating Rate Notes due 2005-2040 (2.22%-2.56%) .....	890	175
Fixed Rate Senior Global Bank Notes due 2006-2009 (2.75%-3.88%) ...	1,977	--
Floating Rate Senior Global Bank Notes due 2006-2009 (2.09%-2.62%)	8,884	--
Floating Rate Non-USD Global Bank Notes due 2008-2009 (1.46%-2.25%)	1,362	--
Federal Home Loan Bank of New York (FHLB) advances:		
Fixed Rate FHLB advances due 2005-2033 (2.01%-7.24%) .....	12	17
Floating Rate FHLB advances due 2006-2008 (2.02%-2.48%) .....	5,000	--
Other:		
Floating Rate Note due 2019 (1.68%) .....	10	10
Senior Notes due 2036 (1.33%) .....	10	10
Floating Rate Notes due 2036 (.96%) .....	10	10
3.99% Non-USD Senior Debt due 2044 .....	557	--
Collateralized repurchase agreements .....	18	19
	18,730	241
Subordinated debt:		
Global Bank Note Program:		
Global Bank Notes due 2014-2034 (4.63%-5.88%) .....	1,980	--
Obligations under capital leases .....	20	22
	20	22
Total long-term debt .....	\$23,839	\$ 3,814

The above table excludes \$1,550 million of debt issued by HBUS or its subsidiaries payable to HUSI. Of this amount, the earliest note to mature is in 2006 and the latest note to mature is in 2097.

The Perpetual Capital Notes (PCNs) may be exchanged for securities that constitute permanent primary capital securities for regulatory purposes. The principal amount of each PCN will be payable as follows: (1) at the option of the holder on the put date in each year commencing in 2012, (2) at the option of HUSI on 90 days prior notice, the PCNs may be either (i) redeemed on the specified redemption date, in whole, for cash and at par, but only with the proceeds of a substantially concurrent sale of capital securities issued for the purpose of such redemption or (ii) exchanged, in whole, for capital securities having a market value equal to the principal amount of the PCNs, and, in each case, the payment of accrued interest in cash or (3) in the event that the sum of HUSI's retained earnings and surplus accounts becomes less than zero, the PCNs will automatically be exchanged, in whole, for capital securities having a market value equal to the principal amount of the PCNs and the payment of accrued interest in cash.

Prior to HUSI's adoption of FIN 46 at December 31, 2003, the statutory business trusts (issuer trusts) that issued guaranteed mandatorily redeemable securities (Capital Securities) were considered consolidated subsidiaries of HUSI. The \$1,050 million of Capital Securities issued by these trusts to third party investors, along with \$32 million of common securities of the trusts (Common Securities) issued to HUSI, were invested in Junior Subordinated Debentures of HUSI. The Capital Securities were included in long-term debt on HUSI's consolidated balance sheet and the Common Securities and Junior Subordinated Debentures were eliminated in consolidation. Upon adoption of FIN 46, HUSI deconsolidated the issuer trusts. As a result, the Junior Subordinated Debentures issued by HUSI to the trusts are reflected in total long-term debt on HUSI's consolidated balance sheet at December 31, 2004 and 2003.

In June 2004, HBUS finalized a \$10 billion Global Bank Note Program, which provided for issuance of subordinated and senior global notes. In September 2004, this program was replaced by a \$20 billion Global Bank Note Program. The new program replaced HBUS's \$4 billion Global Medium-Term Note Program initiated in June 2000.

Prior to June 2004 the Medium-Term Floating Rate Notes due 2004-2010 represented equity linked notes issued under HBUS's Global Medium-Term Note Program, which provided for the issuance of up to \$4 billion of notes having maturities of 7 days or more from the date of issuance. The Medium-Term Floating Rate Note due 2040 was also issued under this Program.

The collateralized repurchase agreements consist of securities repurchase agreements with initial maturities exceeding one year.

Contractual scheduled maturities for total long-term debt over the next five years are as follows.

-----		(in millions)
2005 .....		\$ 80
2006 .....		5,712
2007 .....		5,581
2008 .....		3,214
2009 .....		4,459

Note 15. Preferred Stock

The following table presents information related to the issues of preferred stock outstanding.

	Shares Outstanding 2004	Dividend Rate 2004	Amount Outstanding	
			2004	2003
(in millions)				
\$1.8125 Cumulative Preferred Stock (\$25 stated value) .....	3,000,000	7.250%	\$ 75	\$ 75
6,000,000 Depositary shares each representing a one-fourth interest in a share of Adjustable Rate Cumulative Preferred Stock, Series D (\$100 stated value) .....	1,500,000	4.563	150	150
Dutch Auction Rate Transferable Securities(TM) Preferred Stock (DARTS)				
Series A (\$100,000 stated value) .....	625	1.560	63	63
Series B (\$100,000 stated value) .....	625	1.537	62	62
\$2.8575 Cumulative Preferred Stock (\$50 stated value) .....	3,000,000	5.715	150	150
CTUS Inc. Preferred Stock .....	100		--(1)	--(1)
			-----	-----
			\$ 500	\$ 500
			=====	=====

(1) Less than \$500 thousand

The \$1.8125 Cumulative Preferred Stock may be redeemed, as a whole or in part, at the option of HUSI at \$25 per share plus dividends accrued and unpaid to the redemption date.

The dividend rate on the Adjustable Rate Cumulative Preferred Stock, Series D (Series D Stock) is determined quarterly, by reference to a formula based on certain benchmark market interest rates, but will not be less than 4 1/2% or more than 10 1/2% per annum for any applicable dividend period. The Series D Stock is redeemable, as a whole or in part, at the option of HUSI at \$100 per share (or \$25 per depositary share), plus accrued and unpaid dividends to the redemption date.

DARTS of each series are redeemable at the option of HUSI, as a whole or in part on any dividend payment date, at \$100,000 per share, plus accrued and unpaid dividends to the redemption date. Dividend rates for each dividend period are set pursuant to an auction procedure. The maximum applicable dividend rates on the shares of DARTS range from 110% to 150% of the 60 day "AA" composite commercial paper rate. DARTS are also redeemable at the option of HUSI, as a whole but not in part, on any dividend payment date at a redemption price of \$100,000 per share plus the payment of accrued and unpaid dividends, if the applicable rate for such series fixed with respect to the dividend period for such series ending on such dividend payment date equals or exceeds the 60 day "AA" composite commercial paper rate in effect on the date of determination of such rate.

The outstanding shares of \$2.8575 Cumulative Preferred Stock have an aggregate stated value of \$150 million. The shares may be redeemed at the option of HUSI, as a whole or in part, on or after October 1, 2007 at \$50 per share, plus dividends accrued and unpaid to the redemption date.

HUSI acquired CTUS Inc., a unitary thrift holding company in 1997 from CT Financial Services Inc. (the Seller). CTUS owned First Federal Savings and Loan Association of Rochester (First Federal). The acquisition agreement provided that HUSI issue preferred shares to the Seller. The preferred shares provide for, and only for, a contingent dividend or redemption equal to the amount of recovery, net of taxes and costs, if any, by First Federal resulting from the pending action against the United States government alleging breaches by the government of contractual obligations to First Federal following passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. HUSI issued 100 preferred shares at a par value of \$1.00 per share in connection with the acquisition.

Note 16. Retained Earnings

Bank dividends are a major source of funds for payment by HUSI of shareholder dividends and along with interest earned on investments, cover HUSI's operating expenses which consist primarily of interest on outstanding debt. The approval of the Federal Reserve Board is required if the total of all dividends declared by HBUS in any year exceeds the net profits for that year, combined with the retained profits for the two preceding years. Under a separate restriction, payment of dividends is prohibited in amounts greater than undivided profits then on hand, after deducting actual losses and bad debts. Bad debts are debts due and unpaid for a period of six months unless well secured, as defined, and in the process of collection.

Under the more restrictive of the above rules HBUS can pay dividends to HUSI as of December 31, 2004 of approximately \$1.7 billion, adjusted by the effect of its net income (loss) for 2005 up to the date of such dividend declaration.

Note 17. Accumulated Other Comprehensive Income

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

	2004	2003	2002
	(in millions)		
Unrealized gains (losses) on available for sale securities:			
Balance, January 1, .....	\$ 61	\$ 236	\$ 156
Increase (decrease) in fair value, net of taxes of \$19, \$(75), and \$82 in 2004, 2003 and 2002 respectively .....	14	(129)	156
Net gains on sale of securities reclassified to net income, net of taxes of \$39, \$25 and \$41 in 2004, 2003 and 2002 respectively .....	(54)	(46)	(76)
Net change .....	(40)	(175)	80
Balance, December 31, .....	21	61	236
Unrealized gains (losses) on derivatives classified as cash flow hedges:			
Balance, January 1, .....	52	41	(38)
Change in unrealized gain (loss) net of taxes of \$(30), \$11 and \$43 in 2004, 2003 and 2002 respectively .....	(58)	11	79
Net change .....	(58)	11	79
Balance, December 31, .....	(6)	52	41
Foreign currency translation adjustments:			
Balance, January 1, .....	15	(15)	(19)
Translation gains net of taxes of \$4, \$16 and \$2 in 2004, 2003 and 2002 respectively .....	1	30	4
Net change .....	1	30	4
Balance, December 31, .....	16	15	(15)
Total accumulated other comprehensive income at December 31, .....	\$ 31	\$ 128	\$ 262



Note 18. Related Party Transactions

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

December 31	2004	2003	2002
(in millions)			
<b>Assets:</b>			
Interest bearing deposits with banks	\$ 436	\$ 139	\$ 130
Loans	828	330	338
Trading assets	3,167	1,811	991
Other	752	34	38
	-----	-----	-----
Total assets	\$ 5,183	\$ 2,314	\$ 1,497
	=====	=====	=====
<b>Liabilities:</b>			
Deposits	\$ 9,759	\$ 7,512	\$ 6,140
Trading account liabilities	5,704	3,434	1,145
Short-term borrowings	1,089	735	267
Other	77	79	349
	-----	-----	-----
Total liabilities	\$16,629	\$11,760	\$ 7,901
	=====	=====	=====

December 31	2004	2003	2002
(in millions)			
Interest income	\$ (6)	\$ 17	\$ 28
Interest expense	119	91	87
Trading (losses) revenues	(2,821)	428	21
Other revenues	44	42	23
<b>Other expenses:</b>			
Fees paid to HTSU for technology services	172	--	--
Fees paid to HSBC Finance Corporation for loan origination, loan servicing and other administrative support	35	--	--
Other fees, primarily treasury and traded markets services	213	159	98

Trading losses for the year ended December 31, 2004 primarily represent the mark to market of the intercompany components of interest rate and foreign currency derivative swap transactions entered into by HSBC Finance Corporation. Specifically, HSBC Finance Corporation enters into these swap contracts with HUSI in order to hedge its interest rate positions. HUSI, within its Corporate, Investment Banking and Markets business, accounts for these transactions on a mark to market basis, with the change in value on the intercompany component substantially offset by the mark to market of related contracts entered into with third parties.

During 2004, HSBC has integrated certain North American operations through changes to its organization structure. The following organizational changes have resulted in changes in the classification of HUSI's revenues and/or expenses in 2004, as compared with 2003.

- o Technology services were centralized by the creation of a new HSBC subsidiary, HSBC Technology & Services (USA) Inc. (HTSU), effective January 1, 2004. HUSI's technology services employees, as well as technology services employees from other HSBC affiliates in the United States, were transferred to HTSU. All technology related assets and software purchased subsequent to January 1, 2004 are generally purchased and owned by HTSU. Technology related assets owned by HUSI prior to January 1, 2004 remain in place and were not transferred to HTSU. Pursuant to a master service level agreement, HTSU charges HUSI for technology services and software development. As a result, HSBC affiliate charges included in other expenses for 2004 include amounts previously recorded as "salaries and benefits" and "occupancy expense, net" and "other expenses" on HUSI's consolidated statement of income for 2003.

- o HUSI obtains certain underwriting, broker-dealer and administrative support services from an affiliated HSBC entity, HSBC Securities (USA) Inc. (HSUI) pursuant to various service level agreements. Effective January 1, 2004, several employees of HUSI were transferred to HSUI. As a result, HSBC affiliate charges included in other expenses for 2004 include amounts previously recorded as "salaries and benefits" on HUSI's consolidated statement of income for 2003.
- o On June 1, 2004, HUSI transferred its wholly owned subsidiary, HSBC Brokerage (USA) Inc. (HBUI) to a related HSBC entity. The transfer resulted in a decrease in total assets of approximately \$201 million and a loss on sale of approximately \$9 million, which has been reported as a reduction of capital surplus. For the five months ended May 31, 2004, HBUI contributed approximately \$14 million of HUSI's income before income tax expense.

The following business transactions were conducted with HSBC Finance Corporation during 2004:

- o On December 29, 2004, approximately \$12 billion of private label loans, primarily credit card receivables, and related assets were purchased from HSBC Finance Corporation at fair value, without recourse. The purchase price was determined based upon an independent valuation opinion. Residual interests in securitized private label credit card receivable pools of approximately \$3 billion were also acquired. Total premium of approximately \$639 million was recorded on the acquisition date. The premium will be amortized to interest income over the estimated life of the assets purchased. This transaction did not have a material impact on net income in 2004. HSBC Finance Corporation retained the customer relationships associated with this portfolio. By agreement, HUSI will purchase additional receivables generated under current and future private label accounts at fair value. HUSI and HSBC Finance Corporation will consider potential transfers of MasterCard and Visa receivables in the future based upon continuing evaluations of capital and liquidity at each entity.
- o During 2004, HUSI purchased approximately \$5 billion of consumer loans, primarily domestic residential mortgage loans, at fair value from HSBC Finance Corporation and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs.
- o On July 1, 2004, in order to centralize the servicing of credit card receivables within a common HSBC affiliate in the United States, certain consumer credit card customer relationships of HUSI were sold to HSBC Finance Corporation, resulting in a gain of approximately \$99 million. Receivable balances of approximately \$1 billion associated with these relationships were not sold as part of the transaction. Also effective July 1, 2004, new receivable balances generated by these relationships are purchased at fair value from HSBC Finance Corporation on a daily basis. Through December 31, 2004, approximately \$1 billion of receivables associated with these relationships have been purchased from HSBC Finance Corporation at a premium of approximately \$20 million, which is being amortized to interest income over the estimated life of the receivables purchased. Total premium amortized in 2004 was approximately \$9 million. Servicing for the majority of these relationships was transferred to HSBC Finance Corporation in October 2004, resulting in service expense paid to HSBC Finance Corporation of \$2 million through December 31, 2004.
- o HSBC affiliate expenses, included in other expenses, include charges by HSBC Finance Corporation under various service level agreements for loan origination and servicing as well as other operational and administrative support. Amounts reported in the preceding table do not include fees associated with loan originations that have been deferred and are being amortized over the life of the related loans.
- o Effective October 1, 2004, HBUS is the originating lender for a federal tax refund anticipation loan (RAL) program for clients of various third party tax preparers, which is managed by HSBC Finance Corporation. By agreement, HBUS will process applications, fund and subsequently sell RALs to HSBC Finance Corporation.
- o At December 31, 2004, HUSI had a \$2 billion line of credit with HSBC Finance Corporation, of which \$600 million was outstanding and included in short-term borrowings.

At December 31, 2004 and December 31, 2003, the aggregate notional amounts of all derivative contracts with HSBC affiliates were approximately \$302 billion and \$168 billion respectively. The net credit risk exposure related to these contracts was approximately \$2 billion at December 31, 2004 and December 31, 2003.

Employees of HUSI participate in one or more stock compensation plans sponsored by HSBC. HUSI's share of the expense of the plans for the year ended 2004 and 2003 was \$61 million and \$60 million respectively. A description of these plans is included in Note 19 of the consolidated financial statements below.

At December 31, 2004, HUSI had an unused line of credit with HSBC of \$750 million. Deposits from affiliated HSBC entities were approximately \$6 billion at December 31, 2004.

On July 31, 2004, HUSI transferred most of its Panamanian branch operations to an affiliated HSBC entity at fair value. Total assets and deposits transferred were each approximately \$1 billion. The sale resulted in a loss of approximately \$11 million, which has been reported as a reduction of capital surplus. For the seven months ended July 31, 2004, the transferred operations contributed approximately \$19 million of HUSI's income before income tax expense.

During 2004, HUSI received capital contributions of \$2.4 billion from its direct parent company, HNAI, in exchange for two shares of common stock. HUSI also contributed \$2.4 billion to HBUS in exchange for two shares of common stock.

HUSI periodically pays dividends to its parent company, HNAI. Dividends paid in 2004 and 2003 were \$125 million and \$690 million respectively.

#### Note 19. Stock Option Plans and Restricted Share Plans

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Options have been granted to employees of HUSI under the HSBC Holdings Group Share Option Plan (the Group Share Option Plan), the HSBC Holdings Executive Share Option Scheme (the Executive Share Option Plan) and under the HSBC Holdings Savings-Related Share Option Plan: Overseas Section (the Sharesave Plans). Since the shares and contribution commitment have been granted directly by HSBC, the offset to compensation expense was a credit to capital surplus, representing a contribution of capital from HSBC.

Fair values of Group Share Option and Sharesave Plan awards made in 2004, measured at the date of grant, are calculated using a binomial lattice methodology that is based on the underlying assumptions of the Black-Scholes model. When modeling awards with vesting dependent on performance targets, these performance targets are incorporated into the model using Monte-Carlo simulation. The expected life of options depends on the behavior of option holders, which is incorporated into the option model consistent with historic observable data. Prior to 2004, options were valued using a simpler methodology, which was also based on the Black-Scholes model.

The following table presents information for each plan. Descriptions of each plan follow the table.

December 31	2004	2003	2002
<b>Group Share Option Plan:</b>			
Total options granted .....	4,574,000	4,076,000	4,615,000
Fair value per option granted .....	\$ 2.83	\$ 3.01	\$ 2.33
Total compensation expense recognized (in millions) .	\$ 10	\$ 11	\$ 7
Significant assumptions used to calculate fair value:			
Risk free interest rate .....	4.90%	4.68%	5.57%
Expected life (years) .....	6.9	5	5.25
Expected volatility .....	25%	30%	25%
<b>Sharesave Plans (5 year vesting period):</b>			
Total options granted .....	207,000	737,000	524,000
Fair value per option granted .....	\$ 3.80	\$ 3.29	\$ 3.53
Total compensation expense recognized (in millions) .	\$ --	\$ 1	\$ 3
Significant assumptions used to calculate fair value:			
Risk free interest rate .....	5.0%	4.24%	5.57%
Expected life (years) .....	5	5	5.25
Expected volatility .....	25%	30%	30%
<b>Sharesave Plans (3 year vesting period):</b>			
Total options granted .....	407,000	910,000	691,000
Fair value per option granted .....	\$ 3.44	\$ 3.20	\$ 3.63
Total compensation expense recognized (in millions) .	\$ 1	\$ 1	\$ 1
Significant assumptions used to calculate fair value:			
Risk free interest rate .....	4.9%	4.01%	5.46%
Expected life (years) .....	3	3	3.25
Expected volatility .....	25%	30%	30%
<b>Restricted Share Plan:</b>			
Total compensation expense recognized (in millions) .	\$ 50	\$ 46	\$ 28
<b>Executive Share Option Plan:</b>			
Total compensation expense recognized (in millions) .	\$ --	\$ 1	\$ 4

#### Group Share Option Plan

The Group Share Option Plan is a discretionary long-term incentive compensation plan available to certain HUSI employees, based on performance criteria and potential, with grants usually made each year. Options are granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions. This plan was adopted by HUSI during 2001.

Beginning in 2005, no further Group Share options will be granted to employees although existing stock option grants will remain in effect subject to the same conditions as before. Instead employees will receive grants of shares of HSBC stock subject to certain vesting conditions.

#### Sharesave Plans

The Sharesave Plans invite eligible employees to enter into savings contracts to save up to \$400 per month, with the option to use the savings to acquire shares. There are currently two types of plans offered which allow the participant to select savings contracts of either a 5 year or 3 year length. The options are exercisable within six months following the third or fifth year respectively of the commencement of the related savings contract, at a 20 percent discount for options granted in 2004, 2003 and 2002.

Prior to the Sharesave Plans being offered to employees in its present form, eligible employees could elect to participate through HUSI's 401(k) plan and acquire contributions based on HSBC stock at 85% of market value on the date of grant. An employee's agreement to participate was a five year commitment. At the end of each five year period employees receive the appreciation of the HSBC stock over the initial exercise price credited to their 401(k) account. Eligibility for this plan was discontinued after 1999 with the adoption of the Sharesave Plans. Compensation expense related to this plan amounted to approximately \$0.1 million in 2004, \$0.3 million in 2003 and \$2 million in 2002.

#### Restricted Share Plans

Awards are granted to key individuals in the form of performance and non-performance restricted shares. The awards are based on an individual's demonstrated performance and future potential. Performance related restricted shares generally vest after three years from date of grant, based on HSBC's Total Shareholder Return (TSR) relative to a benchmark TSR during the performance period. TSR is defined as the growth in share value and declared dividend income during the period and the benchmark is composed of HSBC's peer group of financial institutions. If the performance conditions are met, the shares vest and are released to the recipients two years later. Non-performance restricted shares are released to the recipients based on continued service, typically at the end of a three year vesting period.

#### Executive Share Option Plan

The Executive Share Option Plan is a discretionary long-term incentive compensation plan available to certain HUSI employees, based on performance criteria and potential, with grants usually made each year. Options are granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions. No further grants have been made under this plan since the adoption of the Group Share Option Plan in 2001, and no further compensation expense is expected to be recognized beginning in 2004.

#### Note 20. Pension and Other Postretirement Benefits

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HUSI maintains noncontributory defined benefit pension plans covering substantially all of their employees hired prior to January 1, 1997 and those employees who joined HUSI through acquisitions and were participating in a defined benefit plan at the time of acquisition. Certain other HSBC subsidiaries also participate in these plans.

In November 2004, sponsorship of the U.S. defined benefit pension plans of HBUS and HSBC Finance Corporation were transferred to HNAH. Effective January 1, 2005, the two separate plans were merged into a single defined benefit pension plan which facilitates the development of a unified employee benefit policy and unified employee benefit plan administration for HSBC affiliates operating in the U.S.

HUSI also maintains unfunded noncontributory health and life insurance coverage (other postretirement benefits) for all employees who retired from HUSI and were eligible for immediate pension benefits from HUSI's retirement plan. Employees retiring after 1992 will absorb a portion of the cost of these benefits. Employees hired after that same date are not eligible for these benefits. A premium cap has been established for HUSI's share of retiree medical cost.

Plan Data and Assumptions

The measurement date for all plans described is December 31. The following table provides data concerning HUSI's qualified defined benefit plan and other postretirement benefits.

	Qualified Defined Benefit Plan		Other Postretirement Benefits	
	2004	2003	2004	2003
(in millions)				
Change in benefit obligation:				
Benefit obligation, January 1 .....	\$ 1,102	\$ 952	\$ 124	\$ 127
Service cost .....	31	29	2	2
Interest cost .....	69	64	6	7
Participant contributions .....	--	--	1	1
Plan amendment .....	--	--	--	(2)
Actuarial (gain) loss .....	9	91	--	(2)
Benefits paid .....	(38)	(34)	(11)	(9)
	=====	=====	=====	=====
Benefit obligation, December 31 .....	\$ 1,173	\$ 1,102	\$ 122	\$ 124
	=====	=====	=====	=====
Change in plan assets:				
Fair value of plan assets, January 1 .....	\$ 1,222	\$ 878	\$ --	\$ --
Actual return on plan assets .....	120	203	--	--
HUSI contribution .....	--	175	10	8
Participant contributions .....	--	--	1	1
Benefits paid .....	(38)	(34)	(11)	(9)
	=====	=====	=====	=====
Fair value of plan assets, December 31 .....	\$ 1,304	\$ 1,222	\$ --	\$ --
	=====	=====	=====	=====
Funded status of plan:				
Funded status, December 31 .....	\$ 130	\$ 119	\$ (122)	\$ (124)
Unrecognized actuarial loss .....	348	390	12	12
Unrecognized prior service cost .....	4	4	--	--
Unrecognized net transition obligation .....	--	--	24	27
	=====	=====	=====	=====
Recognized amount .....	\$ 482	\$ 513	\$ (86)	\$ (85)
	=====	=====	=====	=====
Amount recognized in the consolidated balance sheet:				
Prepaid benefit cost .....	\$ 482	\$ 513	\$ --	\$ --
Accrued benefit liability .....	--	--	(86)	(85)
	=====	=====	=====	=====
Recognized amount .....	\$ 482	\$ 513	\$ (86)	\$ (85)
	=====	=====	=====	=====

The accumulated benefit obligation for the defined benefit pension plan was approximately \$1,027 million and \$942 million at December 31, 2004 and 2003 respectively.

Total net periodic benefit cost included the following components.

	Qualified Defined Benefit Plan			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
(in millions)						
Net periodic benefit cost:						
Service cost .....	\$ 31	\$ 29	\$ 26	\$ 2	\$ 3	\$ 2
Interest cost .....	69	64	60	7	7	8
Expected return on plan assets .	(96)	(87)	(84)	--	--	--
Prior service cost amortization	1	1	1	--	--	--
Actuarial loss .....	26	32	9	--	--	--
Transition amount amortization .	--	--	--	3	3	3
	====	====	====	====	====	====
	\$ 31	\$ 39	\$ 12	\$ 12	\$ 13	\$ 13
Amount recorded as pension expense by:						
HUSI .....	\$ 25	\$ 37	\$ 10			
Other HSBC affiliates .....	6	2	2			
	====	====	====			
	\$ 31	\$ 39	\$ 12			
	====	====	====			

The assumptions used in determining projected benefit obligation and net periodic benefit cost are as follows:

	Qualified Defined Benefit Plan			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted-average assumptions to determine projected benefit obligation at December 31:						
Discount rate .....	6.00%	6.25%	6.75%	6.00%	5.75%	6.25%
Rate of compensation increase	3.75	3.75	3.75	3.75(1)	3.75(1)	3.75(1)
Weighted-average assumptions to determine net cost for years ended December 31:						
Discount rate .....	6.25%	6.75%	7.25%	5.75%	6.25%	6.75%
Expected return on plan assets	8.00	8.75	9.50	--	--	--
Rate of compensation increase	3.75	3.75	4.00	3.75	3.75	4.00

(1) Applicable to life insurance only.

HUSI determines its expected long-term rate of return based upon historical market returns of equities and fixed income investments adjusted for the mix between these instruments. Additional factors are considered such as the rate of inflation and interest rates. The expected long-term rate of return is validated by comparison to independent sources, which include actuarial consultants and investment advisors.

Assumed Health Care Cost Trend Rates

December 31	2004	2003
Health care cost trend rate assumed for next year pre-65	10%	7%
Health care cost trend rate assumed for next year post-65	9%	--%
Rate that the cost trend rate gradually declines to .....	5%	7%
Year that the rate reaches the ultimate rate .....	2009	2003

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects.

	One Percentage Point Increase	One Percentage Point Decrease
(in millions)		
Effect on total service and interest cost .....	\$ .1	\$(.1)
Effect on postretirement benefits obligation .....	1.9	(1.8)

Plan Assets

HUSI's qualified defined benefit pension plan's weighted-average asset allocation at December 31, 2004 and 2003 by asset category are as follows.

December 31	Percentage of Plan Assets	
	2004	2003
Equity securities .....	61%	62%
Debt securities .....	36	38
Cash and cash equivalents .....	3	--
Total .....	100%	100%

HUSI strives to maximize the possibility of having sufficient funds to meet the long-term liabilities of the pension plan. To do so, HUSI must achieve a fine balance between the goals of growing the assets of the plan and keeping risk at an acceptable level. A key factor in shaping HUSI's attitude towards risk is the long-term investment horizon of the pension fund. The long-term horizon enables the plan to tolerate the risk of somewhat volatile investment returns in the short run with the expectation of higher returns in the long run.

HUSI's Investment Committee has developed an asset allocation policy based on the plan's objectives, characteristics of the pension liabilities, and asset projections. In addition, the Investment Committee considered industry practices, the current market environment, and practical investment issues. HUSI is cognizant of the fact that diversification is necessary to reduce unnecessary risk. Therefore the pension fund is diversified across several asset classes and securities. The Investment Committee discussed "traditional" asset classes (i.e., publicly traded securities) as well as "alternative" asset classes (e.g., private equity, hedge funds, real estate, etc.), but decided it was not comfortable with alternative asset classes at this time.

Asset Class	Target Allocation Percentage
Equity securities .....	60%
Debt securities .....	40
Total .....	100%

The Investment Committee has examined the plan's risk tolerance from the perspective of participant demographic characteristics, funding characteristics and business/financial characteristics. Based on its assessment of these characteristics and risk preference, HUSI believes that its overall risk posture is average relative to the typical pension plan. Consequently, HUSI believes an average equity exposure is appropriate for its pension fund.





Expected Benefit Payments

Estimated employee benefit payments expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter, based upon the same assumptions used to measure HUSI's benefit obligation at December 31, 2004 is summarized as follows:

Years	Pension Benefits	Other Postretirement Benefits
	(in millions)	
2005 .....	\$ 38	\$11
2006 .....	42	11
2007 .....	46	11
2008 .....	50	11
2009 .....	55	11
2010-2014 .....	356	51

Cash Flows

HUSI does not expect to make employer contributions to the qualified defined benefit plan and expects to contribute \$10 million for other postretirement benefits during fiscal year 2005.

Defined Contribution Plans

Employees hired after December 31, 1996 become participants in a defined contribution plan after one year of service. Contributions to the plan are based on a percentage of employees' compensation. Total expense recognized for the plan was approximately \$6 million in 2004, \$8 million in 2003 and \$3 million in 2002.

HUSI maintains a 401(k) plan covering substantially all employees. Contributions to the plan by HUSI are based on employee contributions. Total expense recognized for the plan was approximately \$18 million in 2004, \$18 million in 2003 and \$16 million in 2002.

Note 21. Business Segments

HUSI reports and manages its business segments consistently with the line of business groupings used by HSBC. HUSI has four distinct segments that it utilizes for management reporting and analysis purposes. Descriptions of HUSI's business segments are presented in Item 1 on pages 5-6 of this Form 10-K.

Analysis of Business Segments results and geographic distribution of assets and earnings are presented on pages 33-36 of this Form 10-K.

Note 22. Collateral, Commitments and Contingent Liabilities

The following table presents pledged assets included in the consolidated balance sheet.

December 31	2004	2003
	(in millions)	
Interest bearing deposits with banks .....	\$ 767	\$ 140
Trading assets .....	305	647
Securities available for sale .....	6,096	4,171
Securities held to maturity .....	655	956
Loans .....	5,971	360
Total .....	\$13,794	\$6,274

In accordance with the Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140), debt securities pledged as collateral that can be sold or repledged by the secured party continue to be reported on the consolidated balance sheet. The fair value of securities available for sale that can be sold or repledged at December 31, 2004 and 2003 was approximately \$1,320 million and \$349 million respectively.

The fair value of collateral accepted by HUSI not reported on the consolidated balance sheet that can be sold or repledged at December 31, 2004 and 2003 was approximately \$2,834 million and \$1,655 million respectively. This collateral was obtained under security resale agreements. Of this collateral, approximately \$2,081 million at December 31, 2004 has been sold or repledged as collateral under repurchase agreements or to cover short sales compared with \$1,138 million at December 31, 2003.

The 2004 increase in pledged assets resulted from collateral requirements associated with increased short-term borrowings and with increased derivatives activity.

HUSI and its subsidiaries are obligated under a number of noncancellable leases for premises and equipment. Certain leases contain renewal options and escalation clauses. The following table presents actual and expected minimum lease payments under noncancellable operating leases, net of sublease rentals.

December 31	2004	2003	2002
	(in millions)		
Actual annual rental expense ....	\$ 81	\$ 63	\$ 58
	=====	=====	=====
Minimum expected future payments:			
2005 .....	\$ 65		
2006 .....	53		
2007 .....	49		
2008 .....	37		
2009 .....	35		
Thereafter .....	134		
	-----		
	\$373		
	=====		

Note 23. Litigation

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

In relation to the Princeton Note Matter, as disclosed in HUSI's 2002 Annual Report on Form 10-K, two of the noteholders were not included in the settlement and their civil suits are continuing. The U.S. Government excluded one of them from the restitution order (Yakult Honsha Co., Ltd.) because a senior officer of the noteholder was being criminally prosecuted in Japan for his conduct relating to its Princeton Notes. The senior officer in question was convicted during September 2002 of various criminal charges related to the sale of the Princeton Notes. The U.S. Government excluded the other noteholder (Maruzen Company, Limited) because the sum it is likely to recover from the Princeton Receiver exceeds its losses attributable to its funds transfers with Republic New York Securities Corporation as calculated by the U.S. Government. Both of these civil suits seek compensatory, punitive, and treble damages pursuant to RICO and assorted fraud and breach of duty claims arising from unpaid Princeton Notes with face amounts totaling approximately \$125 million. No amount of compensatory damages is specified in either complaint. These two complaints name HUSI, HBUS, and Republic New York Securities Corporation as defendants. HUSI and HBUS have moved to dismiss both complaints. The motion is fully briefed and sub judice. Mutual production of documents took place in 2001, but additional discovery proceedings have been suspended pending the Court's resolution of the motions to dismiss.

## Note 24. Derivative Instruments and Hedging Activities

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HUSI is party to various derivative financial instruments as an end user (1) for asset and liability management purposes; (2) in order to offset the risk associated with changes in the value of various assets and liabilities accounted for in the trading account; (3) to protect against changes in value of its mortgage servicing rights portfolio; and (4) for trading in its own account.

HUSI is also an international dealer in derivative instruments denominated in U.S. dollars and other currencies which include futures, forwards, swaps and options related to interest rates, foreign exchange rates, equity indices, commodity prices and credit, focusing on structuring of transactions to meet clients' needs.

### Fair Value Hedges

Specifically, interest rate swaps that call for the receipt of a variable market rate and the payment of a fixed rate are utilized under fair value strategies to hedge the risk associated with changes in the risk free rate component of the value of certain fixed rate investment securities. Interest rate swaps that call for the receipt of a fixed rate and payment of a variable market rate are utilized to hedge the risk associated with changes in the risk free rate component of certain fixed rate debt obligations. Additionally, beginning in December 2002, HUSI established a qualifying hedge strategy using forward sales contracts to offset the fair value changes of certain conventional closed mortgage loans originated for sale.

Where the critical terms of the hedge instrument are identical at hedge inception, the short-cut method of accounting is utilized. As a result, no retrospective or prospective assessment of effectiveness is required and no hedge ineffectiveness is recognized. However, in instances where the short-cut method of accounting cannot be applied, the cumulative dollar offset method is utilized in order to satisfy the retrospective and prospective assessment of hedge effectiveness for SFAS 133.

HUSI recognized net (losses) gains of approximately \$(2) million, \$0.2 million and \$8 million for the years ended December 31, 2004, 2003 and 2002 respectively, (reported as residential mortgage banking revenue and/or other income in the consolidated statement of income), which represented the ineffective portion of all fair value hedges. Only the time value component of these derivative contracts has been excluded from the assessment of hedge effectiveness.

### Cash Flow Hedges

Similarly, interest rate swaps and futures contracts that call for the payment of a fixed rate are utilized under the cash flow strategy to hedge the forecasted repricing of certain deposit liabilities and commercial loan assets. In order to initially qualify for hedge accounting, assessment of hedge effectiveness is demonstrated on a prospective basis utilizing both regression analysis and the cumulative dollar offset method. In order to satisfy the retrospective assessment of hedge effectiveness, the cumulative dollar offset method is utilized and ineffectiveness is recorded to the income statement on a monthly basis.

HUSI recognized net (losses) gains of approximately \$(1) million, \$3 million and \$13 million for the years ended December 31, 2004, 2003 and 2002 respectively, (reported as a component of other income in the consolidated statement of income), which represented the total ineffectiveness of all cash flow hedges. Only the time value component of these derivative contracts has been excluded from the assessment of hedge effectiveness.

Gains or losses on derivative contracts that are reclassified from accumulated other comprehensive income to current period earnings pursuant to this strategy, are included in interest expense on deposit liabilities during the periods that net income is impacted by the repricing. As of December 31, 2004, approximately \$12 million of deferred net losses on derivative instruments accumulated in other comprehensive income are expected to be charged to earnings during 2005.

## Trading and Other Activities

HUSI enters into certain derivative contracts for purely trading purposes in order to realize profits from short-term movements in interest rates, commodity prices, foreign exchange rates and credit spreads. In addition, certain derivative contracts are accounted for on a full mark to market basis through current earnings even though they were acquired for the purpose of protecting the economic value of certain assets and liabilities.

### Notional Values of Derivative Contracts

The following table summarizes the notional values of derivative contracts.

December 31	2004	2003
	(in millions)	
Interest rate:		
Futures and forwards .....	\$ 79,830	\$ 107,646
Swaps .....	1,219,657	625,670
Options written .....	105,582	161,824
Options purchased .....	90,635	197,081
	1,495,704	1,092,221
Foreign exchange:		
Swaps, futures and forwards .....	234,424	147,741
Options written .....	42,719	16,583
Options purchased .....	43,200	16,769
Spot .....	21,927	14,320
	342,270	195,413
Commodities, equities and precious metals:		
Swaps, futures and forwards .....	40,876	33,897
Options written .....	10,648	7,048
Options purchased .....	11,729	7,081
Credit derivatives .....	135,937	31,302
	199,190	79,328
Total .....	\$2,037,164	\$1,366,962

### Credit and Market Risks Associated with Derivative Contracts

By using derivative instruments, HUSI is exposed to credit and market risks. If the counterparty fails to perform, credit risk is equal to the fair value gain in the derivative. When the fair value of the derivative contract is positive, this generally indicates that the counterparty owes HUSI, and, therefore, creates a repayment risk for HUSI. When the fair value of a derivative contract is negative, HUSI owes the counterparty and, therefore, it has no repayment risk.

The notional value of derivative contracts only provides an indicator of the transaction volume in these types of instruments. It does not represent exposure to market or credit risks under these contracts.

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

The following table presents credit risk exposure and net fair value associated with derivative contracts. Total fair value of derivative receivables reflects revaluation gains from the "marking to market" of derivative contracts held for trading purposes, for all counterparties with an International Swaps and Derivatives Association Master Agreement in place. The net fair value of all derivative contracts represents the total fair value, less the net liability balance representing revaluation losses from the "marking to market" of derivative contracts held for trading purposes.

December 31	2004	2003
	(in millions)	
Credit risk exposure associated with derivative contracts:		
Total fair value of derivative receivables .....	\$ 9,607	\$ 7,653
Collateral held against exposure .....	(4,091)	(2,580)
	-----	-----
Net credit risk exposure .....	\$ 5,516	\$ 5,073
	=====	=====
Net fair value of all derivative contracts .....	\$ (249)	\$ (566)
	=====	=====

The table below summarizes the risk profile of the counterparties of HUSI's on balance sheet exposure to derivative contracts, net of cash and other highly liquid collateral as of December 31, 2004.

Rating equivalent	Net Credit Risk Exposure	Percent of Exposure Net of Collateral
	(in millions)	
AAA to AA- .....	\$1,756	32%
A+ to A- .....	2,572	47
BBB+ to BBB- .....	629	11
BB+ to B- .....	351	6
CCC+ and below .....	208	4
	-----	---
Total .....	\$5,516	100%
	=====	===

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 the 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.

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.

Securitizations

On December 29, 2004, HUSI acquired a domestic private label loan portfolio from HSBC Finance Corporation, without recourse, which included a consumer private label credit card portfolio, securitized receivables related to this portfolio, and other retained interest assets related to these securitizations. HUSI purchased all trusts and retained interests associated with these securitizations. Total receivables and delinquencies for the purchased consumer private label credit card portfolio are summarized in the following table:

		(in millions)
Private label credit card receivables at December 31, 2004:		
Reported in loans .....		\$10,935
Add: Securitized amounts .....		3,490
		-----
Total managed private label credit card receivables .....		\$14,425
		=====
Retained interest reported in other assets at December 31, 2004:		
Interest-only strip receivables .....	\$	50
Over collateralization .....		126
Subordinated tranche .....		163
Subordinated interest in accrued interest and fees .....		37
		-----
Total retained interests .....	\$	376
		=====
Private label credit card receivable delinquencies at December 31, 2004:		
Included in credit card receivables reported as loans .....	\$	206
Add: Securitized amounts acquired from HSBC Finance Corporation ..		58
		-----
Total private label credit card receivable delinquencies .....	\$	264
		=====

Structure of Credit Card Securitizations

These credit card securitization transactions are structured to receive sale treatment under Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125, (SFAS 140). In a securitization, a designated pool of private label credit card receivables is removed from the balance sheet and transferred to an unaffiliated trust. This unaffiliated trust is a qualifying special purpose entity ("QSPE") as defined by SFAS 140 and, therefore, is not consolidated. The QSPE funds its receivable purchase through the issuance of securities to investors, entitling them to receive specified cash flows during the life of the securities. The securities are collateralized by the underlying receivables transferred to the QSPE.

The credit card securitization trusts are established at fixed levels and, due to the revolving nature of the underlying receivables, require the sale of new receivables into the trust to replace runoff so that the principal dollar amount of the investors' interest remains unchanged. This activity is referred to as replenishment. Once the revolving period ends, the amortization period begins and the trust distributes principal payments to the investors.

To help ensure that adequate funds are available to meet the cash needs of the QSPE, various forms of interests in securitized assets may be retained including interest-only strip receivables, over collateralization, subordinated tranches, interest in accrued interest and fees, or other retained interests which provide credit enhancement to investors. Interest-only strip receivables are rights to future cash flows arising from the securitized receivables after the investors receive their contractual return, and are recorded at fair value, net of related loss reserves. Investors and the securitization trusts have only limited recourse to HUSI's assets for failure of debtors to pay. That recourse is limited to the rights to future cash flows and any other subordinated interest that HUSI may retain. Cash flows related to the interest-only strip receivables are collected over the life of the underlying securitized receivables.

The retained securitization interests are not in the form of securities and are included in other assets on the consolidated balance sheet. In addition to the subordinated retained interests previously described, credit card securitization trusts require HUSI to maintain a minimum undivided interest in the trusts, representing HUSI's interest in the receivables transferred to the trust that have not been securitized. This interest in the trust, which is not subordinated to the interest of other investors, amounted to approximately \$6 billion at December 31, 2004, and is carried at historical cost and classified as loans on the consolidated balance sheet.

#### Securitization Cash Flows

HUSI receives various fees and other revenues from the securitization trusts, which were minimal for 2004. HUSI outsources the servicing to HSBC Finance Corporation, for which minimal servicing fees were expensed for 2004.

As the securitized portfolio was purchased in late December 2004, there was no replenishment activity related to the securitization trusts in 2004.

#### Variable Interest Entities (VIEs)

The provisions of Financial Accounting Standards Board Interpretation No. 46 Revised, Consolidation of Variable Interest Entities (FIN 46R) were adopted effective March 31, 2004. HUSI is not the primary beneficiary of any of the VIEs it is involved with.

At December 31, 2004 and 2003, none of the VIEs that HUSI is involved with were required to be consolidated under FIN 46R. Information for unconsolidated VIEs is presented in the following table.

December 31, 2004	Total Assets	Maximum Exposure to Loss
	(in millions)	
Asset backed commercial paper conduits .....	\$ 5,657	\$5,867
Securitization vehicles .....	1,062	552
Investment funds .....	3,722	36
Capital funding vehicles .....	1,093	32
Low income housing tax credits .....	994	88
Total .....	\$12,528	\$6,575
	=====	=====

#### Asset Backed Commercial Paper Conduits

HSBC affiliates support the financing needs of customers by facilitating their access to the commercial paper markets. Specifically, pools of customers' assets, typically trade receivables, are sold to an independently rated, commercial paper financing entity, which in turn issues short-term, asset backed commercial paper that is collateralized by such assets. Neither the HSBC affiliates nor HUSI service the assets or transfer their own receivables into the financing entities.

HUSI and other banks provide one year liquidity facilities, in the form of either loan or asset purchase commitments, in support of each transaction in the financing entity. HUSI does not provide any program wide enhancements to the financing entities. In the table above, the total notional amount of the liquidity facilities represents HUSI's maximum exposure to loss.

In the normal course of business, HUSI provides liquidity facilities to asset backed commercial paper conduits sponsored by unrelated third parties. HUSI does not transfer their own receivables into the financing entity, has no ownership interest, no administrative duties, and does not service any assets of these conduits. The only interest HUSI has in these entities are liquidity facilities in the amount of approximately \$1.3 billion at December 31, 2004. These facilities are excluded from the table summarizing HUSI's involvement in VIEs.



Credit risk is managed on these commitments by subjecting them to HUSI's normal underwriting and risk management processes.

#### Securitization Vehicles

An HSBC affiliate and third parties organize trusts that are special purpose entities (SPEs) that issue fixed or floating rate debt backed by the assets of the trusts. Neither the HSBC affiliate nor HUSI transfer their own assets into the trusts. HUSI's relationship with the SPEs is primarily as a counterparty to the SPEs' derivative transactions (interest rate, credit default and currency swaps). HUSI's maximum exposure to loss from the unconsolidated trust entities is comprised of investments in the trust and the market risk on the derivative transactions.

#### Investment Funds

HUSI is an investor in and derivative counterparty (total return swap) with hedge funds established by unrelated third parties. HUSI has credit exposure with the funds in respect to the replacement costs (fair value) of the derivative contract. At December 31, 2004, the fair value of the total return swap is negative, hence the replacement cost is zero. At December 31, 2004, HUSI's maximum exposure to loss is its investment in the fund.

HUSI is a sub-investment advisor to mutual funds structures as trusts managed by an HSBC affiliate. As sub-advisor, HUSI receives a variable fee based on value of funds. HUSI has no ownership interest in or credit exposure resulting from its duty as sub-advisor. HUSI's maximum exposure to loss is zero at December 31, 2004.

HUSI is the investment manager of other vehicles that were determined to be VIE's. HUSI has no ownership interest in or credit exposure resulting from its duties as investment advisor.

#### Capital Funding Vehicles

At December 31, 2004, HUSI owned all of the common equity of five trusts. The trusts have issued "Capital Securities", guaranteed by HUSI, representing preferred beneficial interests in the trusts' assets, which consist of Company debt. HUSI's maximum exposure to loss is its equity ownership interest in the trusts.

#### Low Income Housing Tax Credits

HUSI participates as a limited partner in Low Income Housing Tax Credit Partnerships. The amount HUSI has agreed to invest in these limited partnerships represents HUSI's maximum exposure to loss.

#### Note 26. Fair Value of Financial Instruments

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HUSI is required to disclose the estimated fair value of its financial instruments in accordance with Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments (SFAS 107). The disclosures do not attempt to estimate or represent the fair value of HUSI as a whole. The disclosures exclude assets and liabilities that are not financial instruments, including intangible assets, such as goodwill. The estimation methods and assumptions used by HUSI to value individual classifications of financial instruments are described below. Different assumptions could significantly affect the estimates. Accordingly, the net realizable values upon liquidation of the financial instruments could be materially different from the estimates presented below.

Financial instruments with carrying value equal to fair value - The carrying value of certain financial assets and liabilities is considered to be equal to fair value as a result of their short term nature. These include cash and due from banks, interest bearing deposits with banks, federal funds sold and securities purchased under resale agreements, accrued interest receivable, customers' acceptance liability and certain financial liabilities including acceptances outstanding, short-term borrowings and interest, taxes, and other liabilities.

Securities and trading assets and liabilities - The fair value of securities and derivative contracts is based on current market quotations, where available. If quoted market prices are not available, fair value is estimated based on the quoted price of similar instruments or internal valuation models that approximate market pricing.

Loans - The fair value of the performing loan portfolio is determined primarily by calculating the present value of expected cash flows using a discount rate as noted below. The loans are grouped, to the extent possible, into homogeneous pools, segregated by maturity, weighted average maturity, and average coupon rate. Depending upon the type of loan involved, maturity assumptions are based on either the contractual or expected maturity date.

For commercial loans, the allowance for credit losses is allocated to the expected cash flows to provide for credit risk. A published interest rate that equates closely to a "risk free" or "low-risk" loan rate is used as the discount rate. The interest rate is adjusted for a liquidity factor, as appropriate.

The discount rate used to calculate the fair value of consumer loans is computed using the estimated rate of return an investor would demand for the product without regard to credit risk. The discount rate is formulated by reference to current market rates.

The discount rate used to calculate the fair value of residential mortgages is determined by reference to quoted market prices for loans with similar characteristics and maturities.

Deposits - The fair value of demand, savings, and money market deposits with variable maturities is equal to the carrying value. For deposits with fixed maturities, fair value is estimated using market interest rates currently offered on deposits with similar characteristics and maturities.

Long-term debt - Fair value is estimated using interest rates currently available to HUSI for borrowings with similar characteristics and maturities.

The summarized carrying values and estimated fair values of financial instruments as of December 31, 2004 and 2003 follows.

December 31	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(in millions)				
<b>Financial assets:</b>				
Instruments with carrying value equal to fair value ....	\$ 9,845	\$ 9,845	\$ 6,185	\$ 6,185
Trading assets .....	19,815	19,815	14,646	14,646
Securities available for sale .....	14,655	14,655	14,143	14,143
Securities held to maturity .....	3,881	4,042	4,512	4,648
Loans, net of allowance .....	84,159	84,216	48,075	48,871
Derivative instruments included in other assets (1) ....	217	217	194	194
<b>Financial liabilities:</b>				
Instruments with carrying value equal to fair value ....	10,200	10,200	6,960	6,960
<b>Deposits:</b>				
Without fixed maturities .....	68,234	68,234	54,304	54,304
Fixed maturities .....	11,747	11,749	9,651	9,675
Trading account liabilities .....	12,120	12,120	10,460	10,460
Long-term debt .....	23,839	24,589	3,814	4,500
Derivative instruments included in other liabilities (1)	176	176	53	53

(1) At December 31, 2004 and 2003, the amounts reported relate to derivative contracts that qualify for hedge accounting treatment as defined by SFAS 133.

The fair value of commitments to extend credit, standby letters of credit and financial guarantees, is not included in the previous table. These instruments generate fees, which approximate those currently charged to originate similar commitments.

Note 27. Financial Statements of HSBC USA Inc. (parent)

Condensed parent company financial statements follow.

Balance Sheet December 31	2004	2003
	(in millions)	
<b>Assets:</b>		
Cash and due from subsidiary bank .....	\$ --	\$ --
Interest bearing deposits with banks (including \$1,286 and \$548 in banking subsidiary) .....	1,351	613
Trading assets .....	279	179
Securities purchased under resale agreements .....	3	--
Securities available for sale .....	20	44
Securities held to maturity (fair value \$162 and \$180) .....	151	167
Loans (net of allowance for credit losses of \$1 and \$1) .....	533	104
Receivable from subsidiaries .....	1,766	1,682
Investment in subsidiaries at amount of their net assets:		
Banking .....	11,373	7,931
Other .....	362	1,244
Goodwill .....	604	605
Other assets .....	179	335
<b>Total assets .....</b>	<b>\$16,621</b>	<b>\$12,904</b>
	=====	=====
<b>Liabilities:</b>		
Interest, taxes and other liabilities .....	\$ 180	\$ 163
Short-term borrowings .....	2,480	1,746
Long-term debt (1) .....	3,092	3,530
Long-term debt due to subsidiary (1) .....	3	3
<b>Total liabilities .....</b>	<b>5,755</b>	<b>5,442</b>
Shareholders' equity * .....	10,866	7,462
<b>Total liabilities and shareholders' equity .....</b>	<b>\$16,621</b>	<b>\$12,904</b>
	=====	=====

\* See Consolidated Statement of Changes in Shareholders' Equity, page 72.

(1) Contractual scheduled maturities for the debt over the next five years are as follows: none for 2005; 2006, \$300 million; 2007, \$100 million; 2008, \$250 million and 2009, \$100 million.

Statement of Income Year Ended December 31	2004	2003	2002
	(in millions)		
Income:			
Dividends from banking subsidiaries .....	\$ 125	\$ 690	\$ 670
Dividends from other subsidiaries .....	2	34	3
Interest from banking subsidiaries .....	105	99	106
Interest from other subsidiaries .....	1	1	--
Other interest income .....	18	16	17
Securities transactions .....	4	(2)	(1)
Other income .....	91	49	23
	-----	-----	-----
Total income .....	346	887	818
	-----	-----	-----
Expenses:			
Interest (including \$86, \$64 and \$65 paid to subsidiaries) .....	240	229	241
Provision (credit) for credit losses .....	3	36	(24)
Other expenses .....	20	24	23
	-----	-----	-----
Total expenses .....	263	289	240
	-----	-----	-----
Income before taxes and equity in undistributed income of subsidiaries	83	598	578
Income tax benefit .....	(21)	(64)	(54)
	-----	-----	-----
Income before equity in undistributed income of subsidiaries .....	104	662	632
Equity in undistributed income of subsidiaries .....	1,154	279	223
	-----	-----	-----
Net income .....	\$ 1,258	\$ 941	\$ 855
	=====	=====	=====

Statement of Cash Flows Year Ended December 31	2004	2003	2002
	(in millions)		
Cash flows from operating activities:			
Net income .....	\$ 1,258	\$ 941	\$ 855
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and deferred taxes .....	13	13	132
Provision (credit) for credit losses .....	3	36	(24)
Net change in other accrued accounts .....	137	25	(540)
Undistributed income of subsidiaries .....	(1,154)	(279)	(223)
Other, net .....	(80)	(63)	(136)
Net cash provided by operating activities .....	177	673	64
Cash flows from investing activities:			
Net change in interest bearing deposits with banks .....	(738)	306	741
Purchases of securities .....	(11)	(1)	(5)
Sales and maturities of securities .....	41	31	47
Net originations and maturities of loans .....	(435)	(32)	(70)
Net change in investments in and advances to subsidiaries .	(1,510)	(539)	(19)
Other, net .....	(65)	56	96
Net cash provided by (used in) investing activities .....	(2,718)	(179)	790
Cash flows from financing activities:			
Net change in short-term borrowings .....	733	261	(150)
Issuance of long-term debt .....	(424)	--	609
Repayment of long-term debt .....	--	--	(624)
Dividends paid .....	(148)	(712)	(693)
Reductions of capital surplus .....	(20)	(44)	--
Capital contribution from HNAI .....	2,400	--	--
Net cash provided by (used in) financing activities .....	2,541	(495)	(858)
Net change in cash and due from banks .....	--	(1)	(4)
Cash and due from banks at beginning of year .....	--	1	5
Cash and due from banks at end of year .....	\$ --	\$ --	\$ 1
Cash paid for:			
Interest .....	\$ 237	\$ 228	\$ 250

HBUS is subject to legal restrictions on certain transactions with its nonbank affiliates in addition to the restrictions on the payment of dividends to HUSI. See Note 13 for further discussion.

Quarterly Results of Operations (Unaudited)

The following table presents a quarterly summary of selected financial information.

Quarter Ended	December 31	September 30	June 30	March 31
(in millions)				
2004				
Net interest income .....	\$ 700	\$ 698	\$ 689	\$ 654
Trading revenues .....	99	21	78	90
Residential mortgage banking revenue (expense)	(14)	(65)	(17)	(24)
Securities gains, net .....	26	18	3	38
Other income .....	214	388	234	230
Total other revenues .....	325	362	298	334
Operating expenses .....	613	480	520	488
Provision (credit) for credit losses .....	(24)	27	6	(26)
Income before income tax expense .....	436	553	461	526
Income tax expense .....	167	214	130	207
Net income .....	\$ 269	\$ 339	\$ 331	\$ 319
2003				
Net interest income .....	\$ 627	\$ 629	\$ 610	\$ 644
Trading revenues .....	78	52	91	70
Residential mortgage banking revenue (expense)	(22)	(74)	(14)	8
Securities (losses) gains, net .....	(3)	2	33	16
Other income .....	227	225	248	217
Total other revenues .....	280	205	358	311
Operating expenses .....	539	523	492	486
Provision (credit) for credit losses .....	27	(1)	31	56
Income before income tax expense .....	341	312	445	413
Income tax expense .....	125	114	172	159
Net income .....	\$ 216	\$ 198	\$ 273	\$ 254

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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There were no disagreements on accounting and financial disclosure matters between HUSI and its independent accountants during 2004.

Item 9A. Controls and Procedures

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Under the direction of HUSI's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), HUSI has reviewed its controls and other procedures designed to ensure that information required to be disclosed in HUSI's reports filed with the SEC is recorded, processed, summarized and reported by the due dates specified by the SEC's rules (disclosure controls and procedures). This process is the support for the certifications of the CEO and CFO included as Exhibit 31 to this report.

Since 1993, the CEO and CFO have reported on HBUS's disclosure controls and procedures pursuant to FDICIA regulations. HUSI's independent auditors have annually attested, without qualification, to the reports. Thus, management is well acquainted with the process underlying the attestation to financial reporting controls. The current review process is built on the annual review at HBUS for FDICIA purposes as well as various other internal control processes and procedures, which management has established and monitors. The review is conducted quarterly and includes all subsidiaries of HUSI.

To monitor HUSI's compliance with disclosure controls and procedures, HUSI has formed a Disclosure Committee chaired by its CFO. The Disclosure Committee is comprised of key members of senior management, who have knowledge of significant portions of HUSI's internal control system as well as the business and competitive environment in which HUSI operates. The Disclosure Committee covers all of HUSI's significant business and administrative functions. One of the key responsibilities of each Disclosure Committee member is to review the document to be filed with the SEC as it progresses through the preparation process. Open lines of communication to financial reporting management exist for Disclosure Committee members to convey comments and suggestions.

The Disclosure Committee has designated a preparation working group that is responsible for providing and/or reviewing the detail supporting financial disclosures including the development of appropriate forward-looking disclosures.

HUSI's CEO and CFO have concluded that, based on the deliberations of the Disclosure Committee and input received from senior business and financial managers, HUSI's disclosure controls and procedures were effective as of December 31, 2004 and that those controls and procedures support the disclosures in this document. During 2004 there were no material changes in HUSI's internal controls over financial reporting.

Item 10. Directors and Executive Officers of the Registrant

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Directors

Set forth below is certain biographical information relating to the members of HUSI's Board of Directors. Each director is elected annually. There are no family relationships among the directors.

William F. Aldinger III, age 57, Chairman of HUSI and HBUS since January 2004. Mr. Aldinger has been Chairman and Chief Executive Officer of HSBC Finance Corporation since 1996 and has been an Executive Director of HSBC since 2003. He is also a director of AT&T, Illinois Tool Works, Inc. and MasterCard International. He has been a director of HBUS and HUSI since 2003.

Under an agreement with management and the Board of Directors of HSBC, Mr. Aldinger acts as Chairman and Director of the principal U.S. operating subsidiaries of HSBC.

Salvatore H. Alfiero, age 67, Chairman and Chief Executive Officer, Protective Industries, LLC. He is also a director of Phoenix Companies, Inc., Southwire Company, Fresh Del Monte Produce Company and National Health Care Affiliates. He has been a director of HBUS since 1996 and a director of HUSI since 2000.

Donald K. Boswell, age 53, President and Chief Executive Officer, Western New York Public Broadcasting Association since 1998. Mr. Boswell has been in public broadcasting since 1977. He has been a director of HBUS and HUSI since 2002.

James H. Cleave, age 62, formerly President and Chief Executive Officer of HUSI and HBUS from 1993 through 1997. Prior to that Mr. Cleave was President and Chief Executive Officer of HSBC Bank Canada and he is currently a director and Vice Chairman of HSBC Bank Canada. He has been a director of HBUS and HUSI since 1991.

Frances D. Fergusson, age 60, President, Vassar College since 1986. Dr. Fergusson was formerly Provost and Vice President for Academic Affairs, Bucknell University. Dr. Fergusson is also a director of Wyeth Pharmaceuticals and a member of the Board of Overseers of Harvard University. She has been a director of HBUS since 1990 and a director of HUSI since 2000.

Martin J. G. Glynn, age 53, Director of HUSI and HBUS since 2000, and President and Chief Executive Officer of HUSI and HBUS since 2003. Mr. Glynn also has been a Group General Manager for HSBC since 2001 and Chairman of HSBC Bank Canada since 2004. He has been a director of HSBC Bank Canada since 1999 and was formerly President and Chief Executive Officer of HSBC Bank Canada from 1999 to 2003. He is also a director of AEA Investors LLC and Husky Energy Inc.

Richard A. Jalkut, age 60, President and Chief Executive Officer, Telepacific Communications and Chairman of Birch Telecom, Inc. Mr. Jalkut was formerly President and Chief Executive of Pathnet and previously President and Group Executive, NYNEX Telecommunications. He is also a director of IKON Office Solutions and Covad Communications. He has been a director of HBUS since 1992 and a director of HUSI since 2000.

Peter Kimmelman, age 60, private investor. Mr. Kimmelman was formerly a director of Republic New York Corporation and Republic National Bank of New York from 1976 until 1999. He has been a director of HBUS and HUSI since 2000.

Charles G. Meyer, Jr., age 67, Director and former President of Cord Meyer Development Company. Mr. Meyer was formerly a director of Republic National Bank of New York from 1987 until 1999. He has been a director of HBUS and HUSI since 2000.



James L. Morice, age 67, Executive Vice President and Director of NationsBuilders Insurance Services, Inc. and concurrently President and Chief Executive Officer of the JLM Group LLC, a management consulting firm. Mr. Morice is also a member of the University of New Haven Board of Governor's Human Resources Committee. He was formerly a director of Republic New York Corporation and Republic National Bank of New York from 1987 until 1999. He has been a director of HBUS and HUSI since 2000.

Executive Officers

Information regarding the executive officers of HUSI as of February 28, 2005 is presented in the following table.

Name	Age	Year Elected	Present Position with HUSI
Martin J. G. Glynn	53	2003	President and Chief Executive Officer
Brendan McDonagh	46	2002	Chief Operating Officer
Gerard Aquilina	53	2002	Senior Executive Vice President, Private Banking and Wealth Management
Janet L. Burak	49	2004	Senior Executive Vice President, General Counsel and Secretary
Robert M. Butcher	61	1988	Senior Executive Vice President and Chief Risk Officer
Vincent J. Mancuso	58	1996	Senior Executive Vice President and Group Audit Executive, USA
Joseph M. Petri	52	2001	Senior Executive Vice President, Treasurer and Co-Head, CIBM Americas
George T. Wendler	60	2000	Senior Executive Vice President and Chief Credit Officer
Paulette M. Crooke	51	2004	Executive Vice President, Operations
Jeanne G. Ebersole	43	2004	Executive Vice President, Human Resources
Roger K. McGregor	56	2003	Executive Vice President and Chief Financial Officer
Seamus McMahon	45	2004	Executive Vice President, Strategy and Corporate Development
Linda Stryker-Luftig	61	2004	Executive Vice President, Head of Group Public Affairs
Teresa A. Pesce	45	2005	Executive Vice President, AML Compliance
Carolyn M. Wind	51	2005	Executive Vice President, Compliance
Anthony J. Murphy	45	2005	Co-Head, CIBM Americas
Michael P. Ebbs	45	2005	Managing Director, Chief Information Officer
Joseph R. Simpson	43	2003	Chief Accounting Officer

Martin J. G. Glynn was appointed President and Chief Executive Officer of HUSI and HBUS in October 2003. Prior to joining HUSI, he was President and Chief Executive Officer of HSBC Bank Canada. Mr. Glynn was appointed a Group General Manager in 2001 and has been with the HSBC Group since 1982.

Brendan McDonagh was appointed Chief Operating Officer, HBUS effective October 22, 2004. Mr. McDonagh is an HSBC International Manager who has been with the HSBC Group for over twenty years. He has extensive commercial and retail management experience and prior to joining HUSI in 2002 served as Senior Executive, Strategy Implementation, at HSBC Group Headquarters.

Gerard Aquilina assumed responsibilities for Private Banking and Wealth Management Services for HSBC in North America in 2003. He previously held various management positions with Merrill Lynch from 1984 to 2002 including Global Head of Marketing and Wealth Management for their International Private Client Group.

Janet L. Burak was appointed HUSI General Counsel and Secretary effective April 1, 2004. She had served as an attorney with HSBC Finance Corporation for twelve years and most recently as their Group General Counsel. Prior to joining HSBC Finance Corporation, she was an associate with Shearman & Sterling and an attorney with Citigroup.

Robert M. Butcher was appointed Chief Risk Officer for HUSI and HBUS in May 2003. Prior to that he held the position of Chief Financial Officer from 1990 to May 2003. He joined HBUS's predecessor, Marine Midland Bank, in 1988. Prior to that he was with Citicorp for 15 years where he held various senior officer positions in the corporate finance department.

Vincent J. Mancuso was appointed Group Audit Executive USA in 1996. Prior to this role he held a variety of management positions in HBUS's corporate offices, including head of the commercial finance division and senior officer positions in credit. He has been with HBUS since 1965.

Joseph M. Petri, Head of Global Markets, Americas, was appointed Co-Head of Corporate, Investment Banking and Markets (CIEM) Americas in November 2004. Mr. Petri joined HUSI in April 2000 as Executive Managing Director and head of sales for HSBC's Investment Banking and Markets, Americas division. From 1995 to 1998, he was President and Senior Partner of Summit Capital Advisors LLC, a New Jersey based hedge fund. Prior to that, Mr. Petri held a variety of management positions with Merrill Lynch.

George T. Wendler was appointed Chief Credit Officer of HUSI in 2000. Mr. Wendler was Chief Credit Officer and a member of the Senior Management Committee for Republic New York Corporation when it was acquired by HSBC in December 1999. He was also a director and Vice Chairman of Republic New York Corporation from 1997 to 1999.

Paulette M. Crooke was appointed Executive Vice President, Operations for HUSI and HBUS in July 2004. She has previously held various management positions within HBUS including Human Resources and various retail banking markets, most recently directing PFS activities in Manhattan. Ms. Crooke has been with HBUS for 31 years.

Jeanne G. Ebersole joined HUSI from HSBC Finance Corporation in May 2004 as Executive Vice President, Human Resources. She held a variety of human resources roles since joining HSBC Finance Corporation in 1980 and had overall human resources responsibility for HSBC Finance Corporation's retail services, insurance services and refund lending businesses since August 2002.

Roger K. McGregor was appointed Chief Financial Officer in 2003 and was previously Chief Financial Officer, HSBC Bank Canada from 2000 to 2003. From 1995 to 2000, he was Head of International Financial Control, HSBC Bank plc. Mr. McGregor has been with the HSBC Group since 1977.

Seamus McMahon was appointed Executive Vice President in charge of strategic planning, corporate development and acquisitions, and ongoing integration initiatives in May 2004. In October 2004, Mr. McMahon was appointed Regional President Atlantic Region. Mr. McMahon has more than twenty years of experience in the financial services industry, most recently serving as President and CEO of TD Bank, USA, a wholly owned subsidiary of Toronto Dominion Bank. Previously, he led the retail financial services practices at First Manhattan Consulting Group and Booz Allen & Hamilton, and worked for Chase Manhattan in New York and Accenture (then Andersen Consulting) in Europe.

Linda Stryker-Luftig was appointed head of Group Public Affairs USA in 1998. Prior to that she was Vice President, Corporate Communications at First Union Corporation following its acquisition of CoreStates Financial Corp. in 1998. From 1990 to 1998 she held various positions in corporate communications, marketing and public relations with CoreStates Financial Corp.

Teresa A. Pesce joined HUSI in September 2003 as Executive Vice President and Anti-Money Laundering (AML) Director and in 2004 became the AML Director for all HSBC businesses in North America. Ms. Pesce joined HSBC from the United States Attorney's Office, Southern District of New York. In that office she was Senior Trial Counsel, White Plains Division and previously Chief of the Major Crimes Unit and Deputy Chief of the Criminal Division. From 1992 to 1999 she served as a Line Assistant in the Major Crimes, Narcotics, and General Crimes Units.

Carolyn M. Wind, Executive Vice President, Compliance was the Chief Compliance Officer for Republic New York Corporation when it was acquired by HSBC in December 1999. Prior to joining Republic New York Corporation, she was a senior national bank examiner with the Office of the Comptroller of the Currency (OCC).

Anthony J. Murphy, CEO, HSBC Securities (USA) Inc., was appointed Co-Head, CIEM Americas in November 2004. Mr. Murphy has been employed with the HSBC Group since 1990. Prior to his appointment as CEO, HSBC Securities (USA) Inc. in April 2003, he served as Chief Strategic Officer, CIEM Americas from 2000. Prior to that he was Head of Market Risk Management for HSBC Bank plc and HSBC Investment Bank in London from 1996.

Michael P. Ebbs was appointed Managing Director and Chief Information Officer - HBUS Banking Systems in January 2005. Mr. Ebbs was Head of Information Technology at the Bank of Bermuda Ltd., which was acquired by HSBC in February 2004. Prior to his thirteen years at the Bank of Bermuda, he held senior technology positions at The Putnam Companies and the Bank of New England.

Joseph R. Simpson was appointed Chief Accounting Officer for HUSI and HBUS in 2003. Prior to that he held the position of Manager of External Financial Reporting and previous to that, Manager of Accounting Policy. Mr. Simpson has been with HBUS for 16 years.

#### Audit and Examining Committee

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The Audit and Examining Committee of HUSI's Board of Directors is comprised of Messrs.: Alfiero (Chairman), Cleave, Jalkut and Kimmelman. Messrs. Alfiero and Cleave have been determined by HUSI's Board of Directors to be audit committee financial experts, each having the attributes prescribed by the SEC, and are independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

#### Code of Ethics

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HUSI has adopted a code of ethics applicable to its chief executive officer, its chief financial officer, and its chief accounting officer and is included herein as Exhibit 14.

Item 11. Executive Compensation

The following table presents the compensation earned for the three years ending December 31, 2004 by the President and Chief Executive Officer of HUSI and HBUS, the four most highly compensated Executive Officers of HUSI and HBUS, who were serving as such on December 31, 2004, and by a former Executive Officer, who would have been among the four most highly compensated Executive Officers had he not been appointed to another position within the HSBC group prior to December 31, 2004 (the named executive officers). Principal position indicates capacity served in 2004.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus	Other	Restricted Stock Awards	All Other Compensation
Martin J. G. Glynn (1) President and Chief Executive Officer	2004	\$ 600,000	\$ 1,500,000	\$ 299,312 (2)	\$ 1,200,000	\$ 7,738 (8)
	2003	103,846	1,000,000	70,449 (2)	526,693	1,846
Joseph M. Petri Senior Executive Vice President, Treasurer and Co-Head, Corporate, Investment Banking and Markets, Americas	2004	325,000	3,210,000	69,355 (3)	2,790,000	7,175 (8)
	2003	325,000	3,750,000	246,553 (3)	3,750,000	7,000
	2002	325,000	1,800,000	--	2,700,000	7,000
Gerard Aquilina Senior Executive Vice President, Private Banking and Wealth Management	2004	490,173	875,000	--	775,000	5,381 (8)
	2003	465,000	750,000	--	700,000	781
	2002	304,038	513,000	--	1,412,000	--
George T. Wendler Senior Executive Vice President and Chief Credit Officer	2004	566,500	700,194	--	150,000	--
	2003	566,500	475,000	--	--	--
	2002	566,500	450,000	--	56,000	--
Brendan McDonagh (4) Chief Operating Officer	2004	529,796	475,500	401,871 (5)	376,000	164,041 (9)
	2003	470,333	219,598	464,264 (5)	228,000	93,174
	2002	112,900	91,641	73,602 (5)	150,000	21,298
Brian Robertson (6) Former Senior Executive Vice President and CEO, Corporate, Investment Banking and Markets	2004	635,869	483,500	230,292 (7)	522,180	143,245 (9)
	2003	492,487	435,176	517,303 (7)	431,153	85,113

- (1) Mr. Glynn was appointed President and Chief Executive Officer of HUSI and HBUS effective October 22, 2003.
- (2) Mr. Glynn's Other Annual Compensation for 2004 and 2003 includes reimbursements and tax gross-ups related to rental expenses of \$272,115 and \$69,222 respectively.
- (3) Mr. Petri's Other Annual Compensation for 2004 and 2003 principally represents imputed interest income from the investment of deferred bonus amounts from previous years.
- (4) Mr. McDonagh, an HSBC International Manager, joined HUSI in 2002.
- (5) Mr. McDonagh's Other Annual Compensation for 2004 includes reimbursements and tax gross-ups related to rental expenses of \$135,501, a tax gross-up of \$132,329 on an HSBC paid pension contribution and \$103,205 of children's educational expenses. Mr. McDonagh's 2003 Other Annual Compensation includes \$169,283 of rental related expenses and \$124,149 of children's educational expenses. His 2002 Other Annual Compensation includes \$46,766 of rental related expenses and a tax gross-up of \$19,193 on an HSBC paid pension contribution.
- (6) Mr. Robertson, an HSBC International Manager, joined HUSI in 2003. In November 2004 Mr. Robertson left HUSI when he was appointed Group General Manager, Credit and Risk.
- (7) Mr. Robertson's 2004 Other Annual Compensation includes a housing allowance benefit of \$288,393 and a tax gross-up of \$144,280 on an HSBC paid pension contribution, and is net of a \$320,422 charge for a tax reimbursement received on employer paid income taxes. His 2003 Other Annual Compensation includes a \$228,019 housing allowance and a rent reimbursement of \$145,878.
- (8) All Other Compensation in 2004 for Messrs. Glynn, Petri and Aquilina represents HUSI's matching 401(k) plan contribution.
- (9) All Other Compensation in 2004 for Messrs. McDonagh and Robertson represents pension contributions made by HSBC on their behalf.

The restricted stock awards included in the prior table represent the monetary value of awards made under the HSBC Restricted Share Plan for performance in the year indicated. The actual number of shares of HSBC Holdings plc common stock corresponding to the 2004 awards will not be known until the shares are purchased, which is expected to occur late in the first quarter of 2005. Dividends are paid on all restricted shares and are reinvested in additional restricted shares.

The prior table includes the monetary value of restricted stock awards granted to the named executive officers for the three years ending December 31, 2004. The following table includes the number and value of restricted share holdings as of December 31, 2004, accumulated for all years of service.

December 31, 2004	Number of Shares	Value
Martin J. G. Glynn .....	109,175	\$ 1,857,015
Joseph M. Petri (1) .....	461,040	7,842,067
Gerard Aquilina .....	180,853	3,076,231
George T. Wendler .....	23,667	402,567
Brendan McDonagh .....	63,862	1,086,261
Brian Robertson (2) .....	81,419	1,384,904

- (1) Mr. Petri's restricted share holdings at December 31, 2004 include 184,320 shares, which represent the net accumulated balance of shares originally granted in March 2003, one third of which vested in 2004 and two thirds of which will vest equally in 2005 and 2006. Mr. Petri's restricted share holdings at December 31, 2004 also include 243,249 shares that were granted in March 2004. These shares will vest in equal increments on the date HSBC publishes its annual results in 2005, 2006 and in 2007.
- (2) Mr. Robertson's restricted share holdings at December 31, 2004 include 3,244 shares from a March 2004 grant and 2,141 shares from a June 2004 grant. Both of these grants vest equally on the date HSBC publishes its annual results in 2005, 2006 and in 2007.

No stock options on HSBC Holdings plc common stock were granted during 2004 to any of the named executives under the HSBC Holdings Group Share Option Plan and none of the named executives exercised any previously awarded stock options during 2004.

The unexercised stock options included in the following table on HSBC Holdings plc common stock were granted under the HSBC Holdings Executive Share Option Scheme for performance years 1998 and prior. The option awards for Messrs. McDonagh and Robertson are for performance while employed by other HSBC entities.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options as of December 31, 2004		Value of Unexercised In-the-Money Options as of December 31, 2004 (2)	
			Exercisable (1)	Unexercisable	Exercisable	Unexercisable
Martin J. G. Glynn..	--	\$ --	--	--	\$ --	--
Joseph M. Petri.....	--	--	--	--	--	--
Gerard Aquilina.....	--	--	--	--	--	--
George T. Wendler...	--	--	--	--	--	--
Brendan McDonagh....	--	--	33,900	--	176,128	--
Brian Robertson.....	--	--	37,500	--	226,527	--

- (1) Although the performance conditions have been met on the above unexercised options, HSBC Staff Dealing Rules prohibit the exercise of these options until the 2004 financial results of HSBC Holdings plc have been publicly announced.
- (2) The value of unexercised in-the-money options is based on the December 31, 2004 closing price per share of 8.795 GBP for HSBC Holdings plc common stock and a U.S. dollar exchange rate of 1.9340 per GBP.

The following table shows the estimated annual retirement benefit payable upon normal retirement on a straight life annuity basis to participating employees, including officers, in the compensation and years of service classifications indicated under the HSBC Bank USA Pension Plan (the Pension Plan) and non-qualified supplemental benefit plans, which cover most officers and employees on a noncontributory basis. The amounts shown are before application of social security reductions. Years of service credited for benefit purposes is limited to 30 years in the aggregate.

Five Year Average Compensation	15	20	25	30	35
\$ 300,000	\$ 87,750	\$ 117,600	\$ 147,600	\$ 177,600	\$ 178,350
400,000	117,000	156,800	196,800	236,800	237,800
500,000	146,250	196,000	246,000	296,000	297,250
600,000	175,500	235,200	295,200	355,200	356,700
700,000	204,750	274,400	344,400	414,400	416,150
800,000	234,000	313,600	393,600	473,600	475,600
900,000	263,250	352,800	442,800	532,800	535,050
1,000,000	292,500	392,000	492,000	592,000	594,500

The Pension Plan is a noncontributory defined benefit pension plan under which HBUS and other participating subsidiaries of HUSI make contributions in actuarially determined amounts. Compensation covered by the Pension Plan includes regular basic earnings (including salary reduction contributions to the 401(k) plan), but not incentive awards, bonuses, special payments or deferred salary. HUSI maintains supplemental benefit plans which provide for the difference between the benefits actually payable under the Pension Plan and those that would have been payable if certain other awards, special payments and deferred salaries were taken into account and if compensation in excess of the limitations set by the Internal Revenue Code could be counted. Payments under these plans are unfunded and will be made out of the general funds of HBUS or other participating subsidiaries. The calculation of retirement benefits is based on the highest five-consecutive year compensation.

Mr. Wendler is the only named executive officer who participates in the Pension Plan and is also a member of the Senior Management Committee of HBUS. Individuals who were members of the Senior Management Committee prior to July 1, 2004, and who participate in the Pension Plan receive two times their normal credited service for each year and fraction thereof served as a committee member in determining pension and severance benefits to a maximum of 30 years of credited service in total. This additional service accrual is unfunded and payments will be made from the general funds of HBUS or other subsidiaries. As of December 31, 2004, Mr. Wendler had 21.76 total years of credited service in determining benefits payable under the Pension Plan and other non-qualified supplemental benefit plans.

Mr. Glynn's pension benefits will be provided through the HSBC Bank Canada plan. Mr. Petri and Mr. Aquilina participate in the HSBC Bank USA Retirement Plan, a defined contribution retirement plan covering employees hired after 1996. Since Mr. McDonagh and Mr. Robertson are HSBC International Managers, they participate in HSBC's International Staff Retirement Benefits Scheme.

## Directors' Compensation

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For their services as directors of both HUSI and HBUS, all nonemployee directors receive an annual retainer of \$50,000. Directors who are employees of HSBC or other Group affiliates do not receive annual retainers or fees. Committee chairmen receive an additional annual fee of \$2,500 for acting in that capacity. Members of the Audit and Examining Committee receive an annual fee which is \$10,000 for the chairman and \$6,000 for the other members. Directors are reimbursed for their expenses incurred in attending meetings. HUSI and HBUS have standard arrangements pursuant to which directors elected prior to June 1999 may defer all or part of their fees.

The Directors' Retirement Plan covers nonemployee directors elected prior to 1998 and excludes those serving as directors at the request of HSBC. Eligible directors with at least five years of service will receive quarterly retirement benefit payments commencing at the later of age 65 or retirement from the Board, and continuing for ten years. The annual amount of the retirement benefit is a percent of the annual retainer in effect at the time of the last Board meeting the director attended. The percentage is 50 percent after five years of service and increases by five percent for each additional year of service to 100 percent upon completion of 15 years of service. If a director who has at least five years of service dies before the retirement benefit has commenced, the director's beneficiary will receive a death benefit calculated as if the director had retired on the date of death. If a retired director dies before receiving retirement benefit payments for the ten year period, the balance of the payments will be continued to the director's beneficiary. The plan is unfunded and payment will be made out of the general funds of HUSI or HBUS.

## Employment Contracts

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Mr. Joseph M. Petri has an agreement with HUSI whereby he will give six months notice before leaving and sign a non-compete agreement in order to receive all restricted stock granted to him at that time. There are no other employment contracts between HUSI and any of its other named executive officers.

## Compensation Committee Interlocks and Insider Participation

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The current members of the Human Resources Committee of HUSI's Board of Directors are: nonemployee director Dr. Frances D. Fergusson, Chair; Mr. Martin J. G. Glynn, President and Chief Executive Officer of HUSI and HBUS; nonemployee director Mr. James L. Morice and nonemployee director Mr. Donald K. Boswell. Other Committee members during 2004 were former Board members: Mr. Stephen K. Green, Group Chief Executive of HSBC and nonemployee director Ms. Carole S. Taylor. There are no interlocking relationships.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

HUSI's common stock is 100% owned by HSBC North America Inc. (HNAI). HNAI is an indirect wholly owned subsidiary of HSBC.

Security Ownership by Management

The following table shows the beneficial ownership of HSBC \$0.50 ordinary shares as of December 31, 2004 by each of HUSI's directors, the named executive officers in the Summary Compensation Table on page 123 and by all of HUSI's directors and executive officers as a group. Each of the individuals listed below and all directors and executive officers as a group own less than 1% of the outstanding shares of stock.

Directors	Shares Beneficially Owned (1)	Shares That May Be Acquired Within 60 Days By Exercise of Options (2)	Total Beneficially Owned Shares
William F. Aldinger III (3) (5)	6,667,662 (6)	8,586,750 (7)	15,254,412
Salvatore H. Alfiero	244,000	--	244,000
Donald K. Boswell	220	--	220
James H. Cleave	216,919	--	216,919
Frances D. Fergusson	100	--	100
Martin J. G. Glynn (4)	136,451	--	136,451
Richard A. Jalkut	250	--	250
Peter Kimmelman	16,485	--	16,485
Charles G. Meyer, Jr.	500	--	500
James L. Morice	500	--	500
Named executive officers			
Joseph M. Petri	461,040	--	461,040
Gerard Aquilina	180,853	--	180,853
George T. Wendler	23,667	--	23,667
Brendan McDonagh	80,984	33,900	114,884
Brian Robertson	156,911	37,500	194,411
All directors and executive officers as a group	8,616,286	8,887,050	17,503,336

- (1) Beneficially owned shares include restricted stock awards which do not carry voting rights.
- (2) HSBC Staff Dealing Rules prohibit the exercise of these options until the 2004 financial results of HSBC have been publicly announced.
- (3) Mr. Aldinger is an Executive Director of HSBC.
- (4) As the President and CEO of HUSI and HBUS, Mr. Glynn is also one of the named executive officers.
- (5) The majority of Mr. Aldinger's beneficially owned shares and options resulted from the conversion of beneficially owned HSBC Finance Corporation common stock and options into HSBC ordinary shares and options following HSBC's March 2003 acquisition of HSBC Finance Corporation. The conversion was in the same ratio as the offer for HSBC Finance Corporation, 2.675 HSBC ordinary shares for each HSBC Finance Corporation common share. Exercise prices per share were adjusted accordingly.
- (6) Includes: 4,025,850 HSBC ordinary shares held by an employee benefit trust of which Mr. Aldinger is a beneficiary; 1,363,849 shares held either personally, through partnerships and trusts, or as a result of exercising restricted stock rights; 1,050,053 shares held under the HSBC Restricted Share Plan; 212,785 shares resulting from the vesting of an HSBC Restricted Share Plan award; and 15,125 shares held in a charitable foundation of which Mr. Aldinger disclaims beneficial ownership.
- (7) Represents exercisable options for HSBC ordinary shares. Total options held at December 31, 2004 amounted to 9,656,750.



At December 31, 2004 Salvatore H. Alfiero beneficially owned 225,000 shares, or 7.50% of the outstanding non-voting shares, of HUSI's \$1.8125 Cumulative Preferred Stock. No other director or executive officer of HUSI owned any of HUSI's outstanding preferred stock at December 31, 2004.

Item 13. Certain Relationships and Related Transactions  
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Directors and officers of HUSI, members of their immediate families and HSBC and its affiliates were customers of, and had transactions with, HUSI, HBUS and other subsidiaries of HUSI in the ordinary course of business during 2004. Similar transactions in the ordinary course of business may be expected to take place in the future.

Of particular note are certain business transactions between HUSI and HSBC Finance Corporation, of which Mr. Aldinger is Chairman and Chief Executive Officer. The following transactions are further described in Note 18 of the consolidated financial statements beginning on page 97 of this Form 10-K.

- o On December 29, 2004, approximately \$12 billion of private label loans, primarily credit card receivables, and residual interests in approximately \$3 billion of securitized private label credit card receivable pools were purchased from HSBC Finance Corporation.
- o During 2004, HUSI purchased approximately \$5 billion of consumer loans, primarily residential mortgage loans, from HSBC Finance Corporation and from originating lenders pursuant to HSBC Finance Corporation correspondent loan programs.
- o On July 1, 2004, HUSI sold certain consumer credit card customer relationships to HSBC Finance Corporation.
- o Pursuant to various service level agreements, HSBC Finance Corporation charges HUSI for loan origination and servicing, and other operational and administrative support.
- o Effective October 1, 2004, HBUS is the originating lender for a federal tax refund anticipation program which is managed by HSBC Finance Corporation.
- o At December 31, 2004, HUSI had a \$2 billion line of credit with HSBC Finance Corporation, of which \$600 million was outstanding.

All loans to executive officers and directors and members of their immediate families and to HSBC and its affiliates were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features.

Item 14. Principal Accounting Fees and Services

Fees billed to HUSI by its auditing firm, KPMG LLP, were as follows.

Year Ended December 31	2004	2003
	(in thousands)	
Audit fees:		
Auditing of financial statements, quarterly reviews, statutory audits, preparation of comfort letters, consents and review of registration statements .....	\$4,310	\$3,476
Audit related fees:		
Employee benefit plan audits, due diligence assistance, internal control review assistance, and audit or attestation services not required by statute or regulation .....	1,478	598
Tax fees:		
Tax related research, general tax services in connection with transactions and legislation, and review of federal and state tax accounts for possible over-assessment of interest and/or penalties .....	1,762	168
All other fees .....	46	1,544
	-----	-----
Total KPMG LLP fees .....	\$7,596	\$5,786
	=====	=====

Audit and Examining Committee Pre-approval Policies and Procedures

It is the practice of the Audit and Examining Committee of HUSI's Board of Directors to approve the annual audit fees, including those covering audit services beyond HUSI's financial statements, before any audit procedures are undertaken. Prior to 2003, management had the implicit pre-approval of the Audit and Examining Committee to engage KPMG LLP, or any other professional service firm, to perform tax and other services. Any such services provided by KPMG LLP were reported to the Audit and Examining Committee after the fact. Beginning in 2003, the Audit and Examining Committee assumed responsibility for pre-approving all auditing services and permitted non-auditing services, including the related fees and terms thereof.

## Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

## (a) (1) Financial Statements

HSBC USA Inc.:

- Consolidated Balance Sheet
- Consolidated Statement of Income
- Consolidated Statement of Changes in Shareholders' Equity
- Consolidated Statement of Cash Flows

HSBC Bank USA, N.A.:

- Consolidated Balance Sheet
- Notes to Financial Statements

## (2) Financial Statement Schedules

All required schedules are omitted since they are either not applicable or the information is presented elsewhere in this document.

## (3) Exhibits

- 3(i) Registrant's Restated Certificate of Incorporation and Amendments thereto, Exhibit 3(a) to HUSI's 1999 Annual Report on Form 10-K incorporated herein by reference
- 3(ii) Registrant's By-Laws, as Amended and Restated effective January 20, 2005
- 4 Instruments Defining the Rights of Security Holders, Including Indentures, incorporated by reference to previously filed periodic reports
- 12.01 Computation of Ratio of Earnings to Fixed Charges
- 12.02 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
- 14 Code of Ethics for Senior Financial Officers
- 21 Subsidiaries of the Registrant:
  - HUSI's only significant subsidiary, as defined, is HBUS, a state bank organized under the laws of New York State.
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## (b) Reports on Form 8-K

A current report on Form 8-K was filed with the Securities and Exchange Commission on March 25, 2004 announcing HUSI's intention to apply with the OCC to consolidate its banking operations under a single national charter. A subsequent current report on Form 8-K was filed on June 28, 2004 announcing approval by the OCC.

A current report on Form 8-K was filed with the Securities and Exchange Commission on January 5, 2005 announcing that HBUS had purchased the \$12 billion domestic private label loan portfolio from HSBC Finance Corporation on December 29, 2004.

S I G N A T U R E S

Pursuant to the requirements of Section 13 or 15(d) 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  
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/s/ Janet L. Burak  
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Janet L. Burak  
Senior Executive Vice President, General Counsel  
and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on February 28, 2005 by the following persons on behalf of the registrant and in the capacities indicated:

/s/ Roger K. McGregor  
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Roger K. McGregor  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

William F. Aldinger III\*  
Chairman of the Board  
Salvatore H. Alfiero\* Director  
Donald K. Boswell\* Director  
James H. Cleave\* Director  
Frances D. Fergusson\* Director  
Martin J. G. Glynn\*  
Director, President and Chief  
Executive Officer  
Richard A. Jalkut\* Director  
Peter Kimmelman\* Director  
Charles G. Meyer, Jr.\* Director  
James L. Morice\* Director

/s/ Joseph R. Simpson  
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Joseph R. Simpson  
Chief Accounting Officer  
(Principal Accounting Officer)

\* /s/ Janet L. Burak  
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Janet L. Burak  
Attorney-in-fact

HSBC USA INC.

BY-LAWS

(As Amended and Restated effective January 20, 2005)

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BY-LAWS  
OF  
HSBC USA INC.

ARTICLE I  
OFFICES

Section 1.1 The principal office of HSBC USA Inc. (the "Corporation") in the State of Maryland shall be in the City of Baltimore, State of Maryland.

Section 1.2 The Corporation may also have offices at such other place or places, both within and without the State of Maryland, as the Board of Directors, or the President of the Corporation acting under delegated authority, may from time to time determine.

ARTICLE II  
STOCKHOLDERS

Section 2.1 Place of Stockholders' Meetings. Meetings of the Corporation's stockholders shall be held at such place in the United States as is set from time to time by the Corporation's Board of Directors.

Section 2.2 Annual Meetings of Stockholders. An annual meeting of the Corporation's stockholders shall be held in April each year. At each annual meeting, the Corporation's stockholders shall elect a Board of Directors and transact such other business as may properly be brought before the meeting in accordance with these By-Laws. Except as the Charter or statute provides otherwise, any business may be considered at an annual meeting without the purpose of the meeting having been specified in the notice. Failure to hold an annual meeting does not invalidate the Corporation's corporate existence or affect any otherwise valid corporate acts of the Corporation.

Section 2.3 Special Meetings of Stockholders. At any time in the interval between annual meetings, a special meeting of the Corporation's stockholders may be called by the Chairman of the Board or the President or by a majority of the Corporation's Board of Directors by vote at a meeting or in writing (addressed to the Corporate Secretary of the Corporation) with or without a meeting. Special meetings of the Corporation's stockholders shall be called by the Corporate Secretary on the written request of stockholders of the Corporation entitled to cast at least 25 percent of all the votes entitled to be cast at the meeting. A stockholders' request for a special meeting shall state the purpose of the meeting and the matters proposed to be acted on at it. The Corporate Secretary shall inform the stockholders who make the request of the reasonably estimated costs of preparing and mailing a notice of meeting and, on payment of these costs to the Corporation, notify each stockholder entitled to notice of the meeting. Unless requested by stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting, a special meeting need not be called to consider any matter which is substantially the same as a matter voted on at any special meeting of stockholders of the Corporation held in the preceding 12 months. Business transacted at any special meeting of stockholders shall be limited to the purpose stated in the notice thereof.

Section 2.4 Notice of Stockholders' Meetings; Waiver of Notice. Not less than 10 days nor more than 90 days before the date of every stockholders' meeting, the Corporate Secretary shall give to each stockholder entitled to vote at such meeting written notice stating the time and place of the meeting and, in the case of a special meeting or if notice of the purpose is required by statute, the purpose or purposes for which the meeting is called, either by mail or by presenting it to him personally or by leaving it at his residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at his address as it appears on the records of the Corporation, with postage thereon prepaid. Notwithstanding the foregoing provisions, a waiver of notice in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the meeting in person or by proxy, shall be deemed equivalent to the giving of such notice to such persons.

Section 2.5 Quorum at Stockholders' Meetings; Voting; Adjournments. Unless any statute or the Charter provides otherwise, at each meeting of the Corporation's stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting constitutes a quorum, and a majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any matter which properly comes before the meeting, except that a plurality of all votes cast at a meeting at which a quorum is present is sufficient to elect a director. Whether or not a quorum is present, a meeting of stockholders convened on the date for which it was called may be adjourned from time to time without further notice by a majority vote of the stockholders present in person or by proxy to a date not more than 120 days after the original record date. Any business which might have been transacted at the meeting as originally notified may be deferred and transacted at any such adjourned meeting at which a quorum is present.

Section 2.6 General Right to Vote; Proxies. Unless the Charter provides for a greater or lesser number of votes per share or limits or denies voting rights, each outstanding share of stock, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of stockholders; however, a share is not entitled to be voted if any installment payable on it is overdue and unpaid. In all elections of directors, each share of stock may be voted for as many persons as there are directors to be elected and for whose election the share is entitled to be voted. A stockholder may vote the stock the stockholder owns of record either in person or by proxy. A stockholder may sign a writing authorizing another person to act as proxy. Signing may be accomplished by the stockholder or the stockholder's authorized agent signing the writing or causing the stockholder's signature to be affixed to the writing by any reasonable means, including facsimile signature. A stockholder may authorize another person to act as proxy by transmitting, or authorizing the transmission of, a telegram, cablegram, datagram, or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission. Unless a proxy provides for a longer period, it is not valid more than eleven months after its date. A proxy is revocable by a stockholder at any time without condition or qualification unless the proxy states that it is irrevocable and the proxy is coupled with an interest. The interest with which a proxy may be coupled includes an interest in the stock to be voted under the proxy or another general interest in the Corporation or its assets or liabilities.

Section 2.7 List of Stockholders. At each meeting of stockholders, a full, true and complete list of all stockholders entitled to vote at such meeting, showing the number and class of shares held by each and certified by the transfer agent for such class or by the Corporate Secretary, shall be furnished by the Corporate Secretary.

Section 2.8 Conduct of Voting. At all meetings of stockholders, unless the voting is conducted by inspectors, the proxies and ballots shall be received, and all questions touching the qualification of voters and the validity of proxies, the acceptance or rejection of votes and procedures for the conduct of business not otherwise specified by these By-Laws, the Charter or law, shall be decided or determined by the chairman of the meeting. If demanded by stockholders, present in person or by proxy, entitled to cast 10% in number of votes entitled to be cast, or if ordered by the chairman of the meeting, the vote upon any election or question shall be taken by ballot. Before any meeting of the stockholders, the Board of Directors may appoint persons to act as inspectors of election at the meeting and any adjournment thereof. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of stockholders, present in person or by proxy, entitled to cast 10% in number of votes entitled to be cast, shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one or more. If inspectors are appointed at a meeting on the request of stockholders, the holders of a majority of shares present in person or by proxy shall determine whether one or more inspectors are to be appointed. No candidate for election as a director at a meeting shall serve as an inspector thereat. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of a stockholder shall, appoint a person to fill that vacancy. The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies; receive votes, ballots or consents; hear and determine all challenges and questions in any way arising in connection with the right to vote; count and tabulate all votes or consents; determine when polls shall close; determine the result; and do any other acts that may be proper to conduct the election or vote with fairness to all stockholders. Unless so demanded or ordered, no vote need be by ballot and voting need not be conducted by inspectors.

Section 2.9. Advance Notice Provisions for Election of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders, or at any special meeting of stockholders called for the purpose of electing directors, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.9 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 2.9.

To be timely, a stockholder's notice must be delivered to or mailed and received by the Corporate Secretary at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than 120 days nor more than 150 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 150th day prior to such annual meeting and not later than the close of business on the later of the 120th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the 10th day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Corporate Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director, all information relating to such person that is required to be disclosed in connection with solicitations of proxies for election of directors pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and address of such stockholder as they appear on the Corporation's books and of the beneficial owner, if any, on whose behalf the nomination is made, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder and such beneficial owner, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Regulation 14A of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.9. If the chairman of the meeting determines that nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded. No adjournment or postponement of a meeting of stockholders shall commence a new period for the giving of notice of a stockholder proposal hereunder.

Section 2.10. Advance Notice Provisions for Business to be Transacted at Annual Meeting. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.10 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 2.10.



To be timely, a stockholder's notice must be delivered to or mailed and received by the Corporate Secretary at the principal executive offices of the Corporation not less than 120 days nor more than 150 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 150th day prior to such annual meeting and not later than the close of business on the later of the 120th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

To be in proper written form, a stockholder's notice to the Corporate Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of such stockholder as they appear on the Corporation's books and of the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder and such beneficial owner, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in Section 2.09 or in this Section 2.10, provided, however, that once business has been properly brought before the annual meeting in accordance with such procedures, nothing in Section 2.09 nor in this Section 2.10 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted. No adjournment or postponement of a meeting of stockholders shall commence a new period for the giving of notice of a stockholder proposal hereunder.

#### ARTICLE III DIRECTORS

Section 3.1 The number of directors of the Corporation which shall constitute the whole of the Corporation's Board of Directors (the "Board") shall not be less than three nor more than thirty. Within the limits above specified, the number of directors constituting the Board shall be determined by resolution of the Board or by the Corporation's stockholders at the Annual Meeting, but the tenure of office of a director shall not be affected by any decrease in the number of directors so made by the Board. The directors shall be elected at the Annual Meeting of stockholders, except as provided in Section 3.2 of this Article, and each director elected shall hold office until the succeeding Annual Meeting of stockholders or until his successor is elected and qualified. Directors need not be stockholders.

Section 3.2 Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next Annual Meeting and until their successors are duly elected and shall qualify, unless sooner displaced.

Section 3.3 The business of the Corporation shall be managed by its Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders. The directors shall choose from among their number a Chairman of the Board.

Section 3.4 At any meeting of stockholders, duly called and at which a quorum is present, the stockholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast on the election or removal of such director, remove any director or directors from office and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed directors. In case such a removal occurs but the stockholders entitled to vote thereon fail to fill any resulting vacancies, such vacancies may be filled by the Board of Directors pursuant to Section 3.2.

#### MEETINGS OF THE BOARD OF DIRECTORS

Section 3.5 The Board may hold meetings, both regular and special, either within or without the State of Maryland.

Section 3.6 After each meeting of stockholders at which a Board of Directors shall have been elected, the Board of Directors so elected shall meet, as soon as practicable, for the purpose of organization and the transaction of other business; and, in the event that no other time is designated by the stockholders, the Board of Directors shall meet one hour after the time for such stockholders' meeting or immediately following the close of such meeting, whichever is later, on the day of such meeting. No notice of such meeting shall be necessary if held as hereinabove provided.

Section 3.7 Regular meetings of the Board shall be held at such time and place as designated by the Board. No notice of a Regular Meeting shall be required if the meeting is held according to a Schedule of Regular Meetings approved by the Board.

Section 3.8 Special Meetings of the Board may be called by the Chairman or the President upon notice to each director, either personally, by mail, by telex or by telegram. Special Meetings shall be called by the President or Secretary in like manner and on like notice upon the written request of three or more directors. Notice of the place, day and hour of every Special Meeting shall be given to each director at least twenty-four (24) hours before the time of the meeting, by delivering the same to him personally, by telephone, by telex, by telegraph, or by delivering the same at his residence or usual place of business, or, in the alternative, by mailing such notice at least seventy-two (72) hours before the time of the meeting, postage paid, and addressed to him at his last known post office address, according to the records of the Corporation. Unless required by the By-Laws or by resolution of the Board of Directors, no notice of any meeting of the Board of Directors need state the business to be transacted thereat. No notice of any meeting of the Board of Directors need be given to any director who attends, or to any director who, in writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, Annual or Special, may adjourn from time to time to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than by announcement.

Section 3.9 One third of the entire Board shall constitute a quorum at any meeting except as may be otherwise specifically provided by statute or by the Articles of Incorporation. If a quorum shall not be present at any meeting of the Board, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. Members of the Board or any committee designated thereby may participate in a meeting of the Board or any such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at such meeting.

Section 3.10 Unless otherwise restricted by the Articles of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto, in writing or writings and the writing or writings are filed with the minutes of the proceedings of the Board or committee.

Section 3.11 On any question on which the Board of Directors shall vote, the names of those voting and their votes shall be entered in the minutes of the meeting when any member of the Board so requests.

## COMMITTEES OF DIRECTORS

Section 3.12 Executive Committee. The Board of Directors may appoint from among its members an Executive Committee of not less than five directors and one of which shall be appointed Chairman of the Executive Committee. When the Board of Directors is not in session, the Executive Committee shall have and may exercise, in the absence of or subject to any restrictions which the Board of Directors may from time to time impose, all of the powers of the Board of Directors in the management of the business and affairs of the Corporation, except the power to authorize dividends on stock, elect directors, issue stock other than as provided in the next sentence, recommend to the stockholders any action which requires stockholder approval, amend these By-Laws, or approve any merger or share exchange which does not require stockholder approval. If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the number of shares to be issued, a committee of the Board, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

Section 3.13 Audit & Examining Committee. The Board shall designate an Audit & Examining Committee, which shall hold office until the next annual meeting of the Board following the annual meeting of stockholders, consisting of not less than three of its members, other than officers of the Corporation, and whose duty it shall be to make an examination at least once during each calendar year and within 15 months of the last such examination into the affairs of the Corporation including the administration of fiduciary powers, or cause suitable examinations to be made by auditors responsible only to the Board and to report the result of such examination in writing to the Board. Such report shall state whether the Corporation is in a sound condition, whether adequate internal controls and procedures are being maintained and shall recommend to the Board such changes in the manner of conducting the affairs of the Corporation as shall be deemed advisable.

Section 3.14 Other Committees. The Board of Directors may appoint any other committees, each of which shall be composed of one or more directors, as determined by the Board from time to time. Such other committees shall have such powers, subject to the same limitations as are applicable to the Executive Committee under Section 3.12, as shall be designated by the Board from time to time.

Section 3.15 Committee Procedure. Each committee shall keep minutes of its proceedings when exercising powers of the Board of Directors and may fix rules of procedure for its business. A majority of the members of a committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the committee. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint an eligible director to act in the place of an absent member. Any action required or permitted to be taken at a meeting of a committee may be taken without a meeting, if an unanimous written consent which sets forth the action is signed by each member of the committee and filed with the minutes of the committee. The members of a committee may conduct any meeting thereof by conference telephone in accordance with the provisions of Section 3.9.

## COMPENSATION OF DIRECTORS

Section 3.16 The Board shall fix the amounts to be paid directors for their services as directors and for their attendance at the meetings of the Board or of committees or otherwise. No director who receives a salary from the Corporation shall receive any fee for attending meetings of the Board or of any of its committees.

## RESIGNATION OF DIRECTORS

Section 3.17 Any director may resign at any time either by oral tender of such resignation at any meeting of the Board or to the Chairman or President or by giving written notice thereof to the Corporation. Any resignation shall be effective immediately, unless a date certain is specified for it to take effect.

ARTICLE IV  
OFFICERS

Section 4.1 The Corporation shall have a President, a Corporate Secretary and a Treasurer who shall be the Chief Financial Officer, and who need not be directors. The Corporation shall also have a Chairman of the Board and a Chairman of the Executive Committee, and may have one or more Vice Chairmen, each of whom shall be directors. The Board shall designate who shall serve as Chief Executive Officer, who shall have general supervision of the business and affairs of the Corporation. The Corporation may also have one or more Vice-Presidents, assistant and subordinate officers, other officers not designated by these By-Laws, and agents as it shall deem necessary, none of whom need be a director. A person may hold more than one office in the Corporation except that no person may serve concurrently as both President and Vice-President of the Corporation.

Section 4.2 Chairman of the Board. The Chairman of the Board shall be a director and shall preside at all meetings of the Board and of the Stockholders at which he shall be present.

Section 4.3 Chairman of the Executive Committee. The Chairman of the Executive Committee shall be a director and shall chair meetings of the Executive Committee, supervise and carry out policies adopted or approved by the Board and exercise such further powers and duties as are, from time to time, conferred upon or assigned to him by the Board. The Chairman of the Executive Committee shall also serve as Lead Director for the Board. The duties and responsibilities of the Chairman of the Executive Committee as Lead Director are as follows:

- i) The Chairman of the Executive Committee shall be informed by, and counsel, the Chairman and Chief Executive Officer on material strategy, policy, and management matters.
- ii) The Chairman of the Executive Committee shall be available to advise and counsel the Chief Executive Officer on any matter relating to the Corporation.
- iii) The Chairman of the Executive Committee shall offer the Chief Executive Officer counsel as to special interests and concerns of Directors and will act as principal liaison between the Independent Directors and the Chairman.
- iv) In the absence or inability of the Chairman or Chief Executive Officer to act, the Chairman of the Executive Committee shall perform those duties of the Chairman pertaining to Board functions.
- v) The Chairman of the Executive Committee shall recommend to the Chairman the retention of consultants or other experts who would report directly to the Board.
- vi) The Chairman of the Executive Committee shall advise the Chairman as to the quality, quantity and timeliness of the flow of information from the Corporation that is necessary for the Directors to effectively and responsibly perform their duties.
- vii) The Chairman of the Executive Committee shall chair in camera discussions requested by the Independent Directors.
- viii) The Chairman of the Executive Committee shall serve as an ex-officio member of each of the committees of the Board.
- ix) The Chairman of the Executive Committee shall work with the Chairman and other independent directors to give advice to the Chairman in the development of Board membership.

Section 4.4 Vice Chairman. Each Vice Chairman, if one or more be elected, shall be a director and shall perform such duties and may have such other powers as are, from time to time, assigned to him by the Board.

Section 4.5 President. The President shall be a director. The President may execute, in the name of the Corporation, all authorized deeds, mortgages, bonds, contracts or other instruments, except in cases in which the execution thereof shall have been expressly delegated to some other officer or agent of the Corporation. In general, he shall perform such duties usually performed by a president of a corporation and shall perform such other duties and may have such other powers as are from time to time assigned to him by the Board.

Section 4.6 Chief Executive Officer. The Chief Executive Officer shall exercise general supervision over the policies and business affairs of the Corporation and the carrying out of the policies adopted or approved by the Board. The Chairman of the Board or the President may at the same time be appointed Chief Executive Officer. Except as otherwise provided by these By-Laws, he shall have power to determine the duties to be performed by the officers appointed as provided in Section 4.9 of these By-Laws, and to employ and discharge officers and employees. Except as otherwise provided by the By-Laws or the Board, he shall be a member ex officio of all committees authorized by these By-Laws or created by the Board. In the absence of the Chairman of the Board and the President, he shall preside at all meetings of the Board and of shareholders.

Section 4.7 Corporate Secretary. The Corporate Secretary shall attend all meetings of the stockholders and all meetings of the Board and record, or cause to be recorded, all the procedures of the meetings of the stockholders and the Board in books to be kept for that purpose. The Corporate Secretary may perform like duties for the standing committees when required. He shall, as required, give, or cause to be given, notice of all meetings of the stockholders and meetings of the Board. He shall have custody of the corporate seal of the Corporation and he, or a Deputy or Associate or Assistant Corporate Secretary, shall affix the same to any instrument which is required or desired to be under its seal and when so affixed, it may be attested by his signature or by the signature of such Deputy or Associate or Assistant Corporate Secretary. The Board may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. In general, the Corporate Secretary shall perform all duties incident to the office of a secretary of a corporation, and shall perform such other duties and may have such other powers as are from time to time assigned to him by the Board, the Chief Executive Officer or the President.

Section 4.8 Deputy Corporate Secretary, Associate Corporate Secretary and Assistant Corporate Secretary. The Deputy Corporate Secretary or the Associate Corporate Secretary or the Assistant Corporate Secretary, or if there be more than one, each of them, may, in the absence of the Corporate Secretary or during his inability or refusal to act, perform the duties and exercise the powers of the Corporate Secretary and shall perform such other duties and have such other powers as are from time to time assigned to each of them by the Board, the Chief Executive Officer, the President or the Corporate Secretary.

Section 4.9 Treasurer. The Treasurer shall be the Chief Financial Officer and shall have charge of and be responsible for all corporate funds and securities and shall keep, or cause to be kept, full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit, or cause to be deposited, all moneys and other valuable effects, in the name and to the credit of the Corporation, in such depositories as may from time to time be designated. He shall render to the Board, the Chief Executive Officer or the President, when so required, an account of the financial condition of the Corporation. In general, the Treasurer shall perform all the duties incident to the office of a treasurer of a corporation, and shall perform such other duties and may have such other powers as are from time to time assigned to him by the Board, the Chief Executive Officer or the President.

Section 4.10 Executive and Other Senior Officers. The Board shall by resolution determine from time to time those officers whose appointment shall require approval by the Board or a committee of the Board. Each such officer shall have such powers and duties as may be assigned by the Board, a committee of the Board, the President or the Chief Executive Officer.

Section 4.11 Other Officers. The President or the Chief Executive Officer or his designee may appoint all officers whose appointment does not require approval by the Board or a committee of the Board, and assign to them such titles, as from time to time may appear to be required or desirable to transact the business of the Corporation. Each such officer shall have such powers and duties as may be assigned by the Board, the President or the Chief Executive Officer.

Section 4.12 Tenure of Office. The Chairman of the Board, the President and the Chief Executive Officer shall hold office for the current year for which the Board was elected, unless they shall resign, become disqualified, or be removed. All other officers shall hold office until their successors have been appointed and qualify unless they shall resign, become disqualified or be removed. The Board shall have the power to remove the Chairman of the Board, the President and the Chief Executive Officer. The Board or the President or the Chief Executive Officer or his designee shall have the power to remove all other officers and employees. Any vacancy occurring in the offices of Chairman of the Board, President or Chief Executive Officer shall be filled promptly by the Board.

Section 4.13 Compensation. The Board shall by resolution determine from time to time the officers whose compensation will require approval by the Board or a committee of the Board. The Chief Executive Officer shall fix the compensation of all officers and employees whose compensation does not require approval by the Board.

#### ARTICLE V CERTIFICATES OF STOCK

Section 5.1 Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by the Chairman of the Board or President or a Vice President and the Treasurer or an Assistant Treasurer, or the Secretary or a Deputy or Associate or Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Section 5.2 Where a certificate is manually countersigned (1) by a transfer agent, other than the Corporation or its employee, or, (2) by a registrar, other than the Corporation or its employee, any other signature on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is signed, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

#### LOST CERTIFICATES

Section 5.3 The Board may authorize a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

#### TRANSFER OF STOCK

Section 5.4 Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5.5 The Board may, at its discretion, appoint one or more banks or trust companies in New York City, and in such other city or cities as the Board may deem advisable, including any banking subsidiary of the Corporation, from time to time, to act as transfer agent(s) and registrar(s) of the stock of the Corporation.

#### FIXING RECORD DATE

Section 5.6 The Board is hereby empowered to fix, in advance, a date as the record date for the purpose of determining stockholders, or stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make determination of stockholders for any other proper purpose. Such date in any case shall be not more than ninety (90) days, and in case of a meeting of stockholders, not less than ten (10) days, prior to the date of which the particular action, requiring such determination of stockholders is to be taken. In lieu of fixing a record date, the Board may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, twenty (20) days. If the stock transfer books are closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten (10) days immediately preceding such meeting.

#### STOCK LEDGER

Section 5.7 Original or duplicate stock ledgers, containing the name and addresses of the stockholders of the Corporation and the number of shares of each class held by them respectively, shall be kept at the offices of a transfer agent for the particular class of stock, within or without the State of Maryland, or, if none, at a principal office or the principal executive offices of the Corporation.

#### REGISTERED STOCKHOLDERS

Section 5.8 The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Maryland.

#### ARTICLE VI GENERAL PROVISIONS

##### DIVIDENDS

Section 6.1 Subject to the provisions of the Articles of Incorporation, dividends, if any, may be declared by the Board at any meeting, pursuant to the law.

##### EXECUTION OF INSTRUMENTS

Section 6.2 All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies and other instruments or documents may be signed, executed, acknowledged, verified, delivered or accepted on behalf of the Corporation by the Chairman of the Board, or the President, or the Chief Executive Officer, or the Secretary, or any Vice President, or any other officer or employee designated by the Board or the Chief Executive Officer or his designee. Any such instruments may also be executed, acknowledged, verified, delivered or accepted in behalf of the Corporation in such other manner and by such other officers as the Board may from time to time direct. The provisions of this Section 6.2 are supplementary to any other provisions of these By-Laws. Each of the foregoing authorizations shall be at the pleasure of the Board, and each such authorization by the Chief Executive Officer or his designee also shall be at the pleasure of the Chief Executive Officer.

##### FISCAL YEAR

Section 6.3 The fiscal year of the Corporation shall be the calendar year.

#### SEAL

Section 6.4 The Corporation's seal shall have inscribed thereon the name of the Corporation and the words "Corporate Seal, Maryland". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

#### SHARES OF OTHER CORPORATIONS

Section 6.5 The Chairman of the Board, the President, any Vice President, and the Secretary is each authorized to vote, represent and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted to said officer to vote or represent on behalf of the Corporation any and all shares held by the Corporation in any other corporation or corporations may be exercised either by said officer in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officers. Notwithstanding the above, however, the Board, in its discretion, may designate by resolution the person to vote or represent said shares of other corporations.

#### RECORDS

Section 6.6 The By-Laws and the proceedings of all meeting of the shareholders, the Board, and standing committees of the Board, shall be recorded in appropriate minute books provided for the purpose. The minutes of each meeting shall be signed by the Secretary or other officer appointed to act as Secretary of the meeting.

#### EMERGENCY OPERATIONS

Section 6.7 In the event of war or warlike damage or disaster of sufficient severity to prevent the conduct and management of the affairs, business, and property of the Corporation by its directors and officers as contemplated by these By-Laws, any two or more available members of the then incumbent Board shall constitute a quorum for the full conduct and management of the affairs, business, and property of the Corporation. This By-Law shall be subject to implementation by resolutions of the Board passed from time to time for that purpose, and any provisions of these By-Laws (other than this Section) and any resolutions which are contrary to the provisions of this Section or to the provisions of any such implementary resolutions shall be suspended until it shall be determined by any interim Board acting under this Section that it shall be to the advantage of the Corporation to resume the conduct and management of its affairs, business, and property under all of the other provisions of these By-Laws.

#### RIGHT TO INDEMNIFICATION

Section 6.8 (a) . Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or officer of the Corporation or, while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (an "Indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Annotated Code of Maryland, as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith and such indemnification shall continue as to an Indemnitee who has ceased to be a director or officer and shall inure to the benefit of the Indemnitee's heirs, executors and administrators; provided, however, that, except as provided in Section 6.8(b) hereof with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such Indemnitee in connection with a proceeding (or party thereof) initiated by such Indemnitee only if such proceeding (or part thereof) was authorized by the Board. The right to indemnification conferred in this Section 6.8 shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Annotated Code of Maryland so



requires, an advancement of expenses incurred by an Indemnitee shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such Indemnitee is not entitled to be indemnified for such expenses under this Section or otherwise.

(b) Right of Indemnitee to Bring Suit. If a claim under paragraph (a) of this Section 6.8 is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of such Indemnitee's undertaking the Indemnitee shall be entitled to be paid the expense of prosecuting or defending such suit. In any suit brought by the Indemnitee to enforce a right to indemnification hereunder it shall be a defense that, and in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses upon a final adjudication that, the Indemnitee has not met the applicable standard of conduct set forth in the Annotated Code of Maryland. Neither the failure of the Corporation to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the Annotated Code of Maryland, nor an actual determination by the Corporation that the Indemnitee has not met such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit. In any suit brought by the Indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking by the Indemnitee, the Corporation shall have the burden of proving that the Indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Section 6.8 or otherwise.

(c) Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Section 6.8 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Certificate of Incorporation, By-Law, agreement, vote of shareholders or disinterested directors or otherwise.

(d) Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board, grant rights to indemnification, and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Section 6.8 with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

(e) Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense liability or loss under the Delaware General Corporation Law, as the same exists or may hereafter be amended.

#### ARTICLE VII AMENDMENTS

Section 7.1 The By-Laws may be added to, amended, altered or repealed at any regular meeting of the Board, by a vote of a majority of the total number of the directors, or at any meeting of shareholders, duly called and held, by a majority of the stock represented at such meeting.

ARTICLE VIII

Section 8.1 Notwithstanding any other provision of the charter of the Corporation or these By-Laws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to the acquisition of all of the common stock, \$5.00 par value per share, of the Corporation by HSBC Holdings plc, an English public limited company, pursuant to that certain Transaction Agreement and Plan of Merger, dated May 10, 1999, as amended by Amendment No. 1, dated November 8, 1999, and as may be further amended from time to time, by and among HSBC Holdings Plc, the Corporation, Safra Republic Holdings S.A., a societe anonyme organized and existing under the laws of Luxembourg, and RNYC Merger Corporation, a Maryland corporation, and to the other transactions contemplated thereby.

Section 8.2 Notwithstanding any other provision of the charter of the Corporation or these By-Laws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to the grant by the Corporation of the option to HSBC Holdings Plc, an English public limited company, pursuant to that certain Stock Option Agreement, dated May 10, 1999, between the Corporation and HSBC of shares of the Corporation's common stock pursuant thereto.

Section 8.3 Notwithstanding any other provision of the charter of the Corporation or these By-Laws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to the Stockholders Agreement, dated May 10, 1999, as amended by Amendment No. 1 to the Stockholders Agreement, dated November 8, 1999, and as may be further amended from time to time, among HSBC, an English public limited company, RNYC Holdings Limited, a Gibraltar corporation, Congregation Beit Yaakov, Saban S.A., a Panamanian corporation, Mr. Edmond J. Safra, HSBC North America Inc., a Delaware corporation, and in part, the Corporation, or the exercise by HSBC of its rights thereunder.

HSBC USA Inc.  
Computation of Ratio of Earnings to Fixed Charges  
(in millions, except ratios)

Year Ended December 31	2004	2003	2002	2001	2000
-----					
Excluding interest on deposits:					
Income before cumulative effect of accounting change .	\$1,258	\$ 941	\$ 855	\$ 354	\$ 569
Applicable income tax expense .....	718	570	510	226	339
Less undistributed equity earnings .....	21	6	7	9	8
Fixed charges:					
Interest on:					
Borrowed funds .....	132	91	232	337	445
Long-term debt .....	380	206	225	281	420
One third of rents, net of income from subleases	19	17	17	18	22
	-----	-----	-----	-----	-----
Total fixed charges .....	531	314	474	636	887
Earnings before taxes and cumulative effect of accounting change based on income and fixed charges	\$2,486	\$1,819	\$1,832	\$1,207	\$1,787
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges .....	4.68	5.79	3.86	1.90	2.01
	=====	=====	=====	=====	=====
Including interest on deposits:					
Total fixed charges (as above) .....	\$ 531	\$ 314	\$ 474	\$ 636	\$ 887
Add: Interest on deposits .....	825	666	974	1,904	2,334
	-----	-----	-----	-----	-----
Total fixed charges and interest on deposits .....	\$1,356	\$ 980	\$1,448	\$2,540	\$3,221
	=====	=====	=====	=====	=====
Earnings before taxes and cumulative effect of accounting change based on income and fixed charges (as above) .....	\$2,486	\$1,819	\$1,832	\$1,207	\$1,787
Add: Interest on deposits .....	825	666	974	1,904	2,334
	-----	-----	-----	-----	-----
Total .....	\$3,311	\$2,485	\$2,806	\$3,111	\$4,121
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges .....	2.44	2.54	1.94	1.22	1.28
	=====	=====	=====	=====	=====

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

Year Ended December 31	2004	2003	2002	2001	2000
-----					
Excluding interest on deposits:					
Income before cumulative effect of accounting change . . . . .	\$1,258	\$ 941	\$ 855	\$ 354	\$ 569
Applicable income tax expense . . . . .	718	570	510	226	339
Less undistributed equity earnings . . . . .	21	6	7	9	8
Fixed charges:					
Interest on:					
Borrowed funds . . . . .	132	91	232	337	445
Long-term debt . . . . .	380	206	225	281	420
One third of rents, net of income from subleases . . . . .	19	17	17	18	22
Total fixed charges . . . . .	531	314	474	636	887
Earnings before taxes and cumulative effect of accounting change based on income and fixed charges	\$2,486	\$1,819	\$1,832	\$1,207	\$1,787
	=====	=====	=====	=====	=====
Total fixed charges (as above) . . . . .	\$ 531	\$ 314	\$ 474	\$ 636	\$ 887
Preferred dividends . . . . .	23	22	23	25	28
Ratio of pretax income to income before cumulative effect of accounting change . . . . .	1.57	1.61	1.60	1.64	1.60
	-----	-----	-----	-----	-----
Total preferred stock dividend factor . . . . .	36	36	37	41	44
Fixed charges, including preferred stock dividend factor	\$ 567	\$ 350	\$ 511	\$ 677	\$ 931
	=====	=====	=====	=====	=====
Ratio of earnings to combined fixed charges and preferred dividends . . . . .	4.38	5.20	3.59	1.78	1.92
	=====	=====	=====	=====	=====
Including interest on deposits:					
Fixed charges, including preferred stock dividend factor					
(as above) . . . . .	\$ 567	\$ 350	\$ 511	\$ 677	\$ 931
Add: Interest on deposits . . . . .		825	666	974	1,904
		-----	-----	-----	-----
Total fixed charges, including preferred stock dividend factor and interest on deposits . . . . .		\$1,392	\$1,016	\$1,485	\$2,581
		=====	=====	=====	=====
Earnings before taxes and cumulative effect of accounting change based on income and fixed charges (as above) . . . . .		\$2,486	\$1,819	\$1,832	\$1,207
Add: Interest on deposits . . . . .		825	666	974	1,904
		-----	-----	-----	-----
Total . . . . .		\$3,311	\$2,485	\$2,806	\$3,111
		=====	=====	=====	=====
Ratio of earnings to combined fixed charges and preferred dividends . . . . .		2.38	2.45	1.89	1.21
		=====	=====	=====	=====

&lt;/TABLE&gt;

Code of Ethics for Senior Financial Officers  
(As required by Section 406 of the Sarbanes-Oxley Act)

As [Chief Executive Officer] [Chief Financial Officer] [Controller] of HSBC USA Inc. (the "Company"), I certify that I will adhere to the following principles and responsibilities, as well as the Company's Statement of Policy and Code of Ethics:

- o Act with honesty and integrity, and comply with the Company's policies and procedures relating to any actual or apparent conflict of interest involving personal and professional relationships;
- o Provide other officials and constituents of the Company information that is full, fair, accurate, complete, objective, timely and understandable;
- o Comply with rules and regulations of all U.S. and non-U.S. governmental entities, as well as other private and public regulatory agencies to which the Company is subject;
- o Act at all times in good faith, responsibly, with due care, competence and diligence, and without any misrepresentation of material facts;
- o Act objectively, without allowing my independent judgement to be subordinated;
- o Respect the confidentiality of Company information, except when authorized or otherwise required to make any disclosure, and avoid the use of any Company information for personal advantage;
- o Share my knowledge and skills with others to improve the Company's communications to its constituents;
- o Promote ethical behavior among employees under my supervision at the Company
- o Promote responsible use of and control over all assets and resources of the Company entrusted to me; and
- o Promptly report any violations of the Code of Ethics to the Company's General Counsel or Secretary.

Failure to comply with the Code of Ethics may lead to termination of employment.

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature

Consent of Independent Registered Public Accounting Firm

The Board of Directors  
HSBC USA Inc.:

We consent to incorporation by reference in Registration Statements (No. 333-42421, 333-42421-01, 333-42421-02) on Form S-3 of HSBC USA Inc. of our report dated February 25, 2005, relating to the consolidated balance sheets of HSBC USA Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, and the consolidated balance sheets of HSBC Bank USA, National Association (formerly HSBC Bank USA) and subsidiaries as of December 31, 2004 and 2003, which report appears in the 2004 HSBC USA Inc. Annual Report on Form 10-K.

/s/ KPMG LLP

February 28, 2005  
New York, New York

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

I, Martin J. G. Glynn, certify that:

1. I have reviewed this annual report on Form 10-K of HSBC USA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal 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 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 controls over financial reporting.

Date: February 28, 2005

/s/ Martin J. G. Glynn

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Martin J. G. Glynn  
President and Chief Executive Officer

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

I, Roger K. McGregor, certify that:

1. I have reviewed this annual report on Form 10-K of HSBC USA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 28, 2005

/s/ Roger K. McGregor

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Roger K. McGregor  
Executive Vice President and Chief  
Financial Officer



Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

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

The Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the Form 10-K) of HUSI fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of HUSI.

Date: February 28, 2005

/s/ Martin J. G. Glynn

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Martin J. G. Glynn  
President and Chief Executive Officer

Date: February 28, 2005

/s/ Roger K. McGregor

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Roger K. McGregor  
Executive Vice President and Chief  
Financial Officer