HSBC HOLDINGS PLC
Form 6-K
August 02, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of August

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

Click on, or paste the following link into your web browser, to view the associated PDF document.
http://www.rns-pdf.londonstockexchange.com/rns/3180Q_-2010-8-1.pdf

UNITED STATES SECURITIES AND

EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _________ to________ .

Commission file number 1-8198

HSBC FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**86-1052062**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
26525 North Riverwoods Boulevard, Mettawa, Illinois	**60045**
(Address of principal executive offices)	**(Zip Code)**

(224) 544-2000
Registrant's telephone number, including area code

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

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

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

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

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

As of July 30, 2010, there were 66 shares of the registrant's common stock outstanding, all of which are owned by HSBC Investments (North America) Inc.

HSBC FINANCE CORPORATION

FORM 10-Q

TABLE OF CONTENTS

Part I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Finance and other interest income	**$1,897**	$2,594	**$3,968**	$5,440
Interest expense on debt held by:				
HSBC affiliates	**35**	60	**74**	154
Non-affiliates	**808**	1,002	**1,636**	2,075
Net interest income	**1,054**	1,532	**2,258**	3,211
Provision for credit losses	**1,622**	2,436	**3,541**	5,381
Net interest income (loss) after provision for credit losses	**(568)**	(904)	**(1,283)**	(2,170)
Other revenues:				
Insurance revenue	**76**	85	**144**	178
Investment income	**24**	25	**51**	52
Net other-than-temporary impairment losses	**-**	-	**-**	(20)
Derivative related income (expense)	**(496)**	208	**(598)**	246
Gain (loss) on debt designated at fair value and related derivatives	**470**	(4,769)	**603**	(657)
Fee income	**39**	151	**128**	379
Enhancement services revenue	**101**	124	**204**	259
Taxpayer financial services revenue	**-**	3	**29**	93
Gain on bulk receivable sales to HSBC affiliates	**-**	-	**-**	57
Gain on receivable sales to HSBC affiliates	**142**	90	**258**	218
Servicing and other fees from HSBC affiliates	**164**	208	**402**	412
Lower of cost or fair value adjustment on receivables held for sale	**2**	(173)	**2**	(343)
Other income	**16**	18	**26**	64
Total other revenues	**538**	(4,030)	**1,249**	938
Operating expenses:				
Salaries and employee benefits	**161**	270	**337**	690
Occupancy and equipment expenses, net	**13**	36	**42**	138
Other marketing expenses	**79**	27	**136**	77
Real estate owned expenses	**40**	41	**79**	146
Other servicing and administrative expenses	**194**	188	**443**	454
Support services from HSBC affiliates	**263**	250	**561**	518
Amortization of intangibles	**35**	39	**74**	81
Policyholders' benefits	**38**	48	**80**	103
Goodwill and other intangible asset impairment charges	**-**	1,641	**-**	2,308
Total operating expenses	**823**	2,540	**1,752**	4,515
Loss before income tax benefit	**(853)**	(7,474)	**(1,786)**	(5,747)
Income tax benefit	**332**	1,140	**662**	285
Net loss	**$(521)**	$(6,334)	**$(1,124)**	$(5,462)

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30,	December 31,
	2010	**2009**
	(in millions, except share data)	
Assets		
Cash	**$229**	$311
Interest bearing deposits with banks	**15**	17
Securities purchased under agreements to resell	**5,216**	2,850
Securities available-for-sale	**3,277**	3,187
Receivables, net (including $7.4 billion and $8.0 billion at June 30, 2010 and December 31, 2009, respectively, collateralizing long-term debt)	**69,671**	78,131
Receivables held for sale	**5**	536
Intangible assets, net	**674**	748
Properties and equipment, net	**193**	201
Real estate owned	**787**	592
Derivative financial assets	**18**	-
Deferred income taxes, net	**2,758**	3,014
Other assets	**2,135**	4,966
Total assets	**$84,978**	$94,553
Liabilities		
Debt:		
Due to affiliates	**$7,530**	$9,043
Commercial paper	**3,736**	4,291
Long-term debt (including $25.6 billion and $26.7 billion at June 30, 2010 and December 31, 2009 carried at fair value and $4.9 billion and $5.5 billion at June 30, 2010 and December 31, 2009, respectively, collateralized by receivables)	**62,969**	69,658
Total debt	**74,235**	82,992
Insurance policy and claim reserves	**995**	996
Derivative related liabilities	**218**	60
Liability for post-retirement benefits	**272**	268
Other liabilities	**1,842**	1,858
Total liabilities	**77,562**	86,174
Shareholders' equity		
Redeemable preferred stock, 1,501,100 shares authorized, Series B, $0.01 par value, 575,000 shares issued	**575**	575
Common shareholder's equity:		
Common stock, $0.01 par value, 100 shares authorized, 66 shares and 65 shares issued at June 30, 2010 and December 31, 2009, respectively	**-**	-
Additional paid-in capital	**23,323**	23,119
Accumulated deficit	**(15,874)**	(14,732)
Accumulated other comprehensive loss	**(608)**	(583)
Total common shareholder's equity	**6,841**	7,804
Total liabilities and shareholders' equity	**$84,978**	$94,553

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30,	2010	2009
	(in millions)	
Preferred stock		
Balance at beginning and end of period	**$575**	$575
Common shareholder's equity		
Additional paid-in capital		
Balance at beginning of period	**$23,119**	$21,485
Capital contribution from parent company	**200**	2,285
Return of capital to parent company	**-**	(1,043)
Employee benefit plans, including transfers and other	**4**	(6)
Balance at end of period	**$23,323**	$22,721
Accumulated deficit		
Balance at beginning of period	**$(14,732)**	$(7,245)
Net loss	**(1,124)**	(5,462)
Dividends:		
Preferred stock	**(18)**	(18)
Balance at end of period	**$(15,874)**	$(12,725)
Accumulated other comprehensive loss		
Balance at beginning of period	**$(583)**	$(1,378)
Net change in unrealized gains (losses), net of tax, on:		
Derivatives classified as cash flow hedges	**(62)**	561
Securities available-for-sale, not other-than-temporarily impaired	**52**	36
Other-than-temporarily impaired debt securities available-for-sale(1)	**1**	-
Postretirement benefit plan adjustment, net of tax	**(5)**	15
Foreign currency translation adjustments	**(11)**	13
Other comprehensive income, net of tax	**(25)**	625
Balance at end of period	**$(608)**	$(753)
Total common shareholder's equity	**$6,841**	$9,243
Comprehensive income (loss)		
Net loss	**$(1,124)**	$(5,462)
Other comprehensive income (loss)	**(25)**	625
Comprehensive income (loss)	**$(1,149)**	$(4,837)

(1) During the six months ended June 30, 2010, gross other-than-temporary impairment ("OTTI") recoveries on available-for-sale securities totaled $1 million, all relating to the non-credit component of OTTI previously recorded in accumulated other comprehensive income ("AOCI").

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30,	2010	2009
	(in millions)	
Cash flows from operating activities		
Net loss	**$(1,124)**	$(5,462)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for credit losses	**3,541**	5,381
Gain on bulk sale of receivables to HSBC Bank USA, National Association ("HSBC Bank USA")	**-**	(57)
Gain on receivable sales to HSBC affiliates	**(258)**	(218)
Goodwill and other intangible impairment	**-**	2,308
Loss on sale of real estate owned, including lower of cost or market adjustments	**15**	99
Insurance policy and claim reserves	**(28)**	(5)
Depreciation and amortization	**91**	103
Mark-to-market on debt designated at fair value and related derivatives	**(186)**	928
Originations of loans held for sale	**(16,580)**	(18,365)
Sales and collections on loans held for sale	**16,841**	18,713
Purchase of auto finance receivables from HSBC Bank USA for immediate sale	**(379)**	-
Cash proceeds from sale of auto finance receivables	**379**	-
Foreign exchange and derivative movements on long-term debt and net change in non-FVO related derivative assets and liabilities	**(1,880)**	(1,100)
Other-than-temporary impairment on securities	**-**	20
Lower of cost or fair value on receivables held for sale	**(2)**	343
Net change in other assets	**3,044**	1,282
Net change in other liabilities	**(16)**	(577)
Other, net	**323**	195
Net cash provided by operating activities	**3,781**	3,588
Cash flows from investing activities		
Securities:		
Purchased	**(529)**	(227)
Matured	**176**	250
Sold	**112**	10
Net change in short-term securities available-for-sale	**231**	81
Net change in securities purchased under agreements to resell	**(2,366)**	(1,586)
Net change in interest bearing deposits with banks	**2**	(8)
Proceeds from sale of affiliate preferred stock shares to HSBC plc	**-**	242
Receivables:		
Net (originations) collections	**3,812**	4,774
Purchases and related premiums	**(21)**	(21)
Proceeds from sales of real estate owned	**628**	819
Cash received from bulk sales of receivables to HSBC Bank USA	**-**	8,821
Cash received in sale of auto finance servicing operations and receivables held for sale	**551**	-
Purchases of properties and equipment	**(7)**	(24)
Net cash provided by investing activities	**2,589**	13,131
Cash flows from financing activities		
Debt:		
Net change in short-term debt	**(555)**	(3,861)
Net change in due to affiliates	**(1,513)**	(2,232)

Long-term debt issued	**353**	1,600
Repayments of long-term debt	**(4,913)**	(13,017)
Insurance:		
Policyholders' benefits paid	**(39)**	(48)
Cash received from policyholders	**33**	26
Capital contribution from parent	**200**	2,010
Return of capital to parent	**-**	(1,043)
Shareholder's dividends	**(18)**	(18)
Net cash used in financing activities	**(6,452)**	(16,583)
Net change in cash	**(82)**	136
Cash at beginning of period	**311**	255
Cash at end of period	**$229**	$391
Supplemental Noncash Investing and Capital Activities:		
Fair value of properties added to real estate owned	**$834**	$662
Transfer of receivables to held for sale	**-**	516
Transfer of receivables to held for investment	**-**	804
Extinguishment of indebtedness related to bulk receivable sale	**$-**	$(6,077)
Redemption of the junior subordinated notes underlying the mandatorily redeemable preferred securities of the Household Capital Trust VIII for common stock	**$-**	$275

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

HSBC Finance Corporation is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC Finance Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC Finance Corporation and its subsidiaries may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The consolidated financial statements have been prepared on the basis that we will continue as a going concern. Such assertion contemplates the significant losses recognized in recent years and the challenges we anticipate with respect to a sustainable return to profitability under prevailing economic conditions. HSBC continues to be fully committed and has the capacity and willingness to continue to provide the necessary capital and liquidity to fund our operations.

As previously disclosed in the 2009 Form 10-K, subsequent to the filing of the June 30, 2009 Form 10-Q certain tax return filing adjustments were identified which resulted in an increase in the required valuation allowance against deferred tax assets at June 30, 2009 and a decrease in our income tax benefit for the three and six months ended June 30, 2009. Although we concluded that the impact of these items was not material individually or in the aggregate to the consolidated financial statements for the second quarter of 2009 as originally reported, we nonetheless decided to revise the consolidated statement of income (loss) for the three and six months ended June 30, 2009 previously reported in our quarterly report on Form 10-Q for the period ended June 30, 2009 as presented in this quarterly report on Form 10-Q. This resulted in a decrease to our income tax benefit and an increase in our net loss during the three and six months ended June 30, 2009 of $375 million as compared to what was previously reported.

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

During the first quarter of 2010, we adopted new accounting guidance on the consolidation of variable interest entities ("VIEs") and new disclosure requirements relating to fair value measurements. See Note 19, "New Accounting Pronouncements" for further details and related impacts.

2. Sale of Auto Finance Servicing Operations and Auto Finance Receivables

In March 2010, we sold our auto finance receivable servicing operations as well as both delinquent and non-delinquent auto finance receivables with a carrying value of $927 million (par value of $1.0 billion), of which $379 million was purchased from HSBC Bank USA immediately prior to the sale at estimated fair value, to Santander Consumer USA Inc. ("SC USA") for $930 million in cash. Under the terms of the agreement, our auto finance receivable servicing facilities in San Diego, California and Lewisville, Texas were assigned to SC USA, and the majority of the employees from those locations were offered the opportunity to transfer to SC USA at the time of close. SC USA is servicing the remainder of our auto finance receivable portfolio as well as the auto finance receivable portfolio we had previously serviced for HSBC Bank USA. As the receivables sold were previously classified as held for sale and written down to the lower of cost or fair value, we recorded a gain of $5 million ($3 million after-tax) during the first quarter of 2010 which primarily related to the sale of the auto servicing platform and reversal of certain accruals related to leases assumed by SC USA. While this business was operating in run-off mode at June 30, 2010, we have not reported it as a discontinued operation because we continued to generate cash flow from the on-going collection of the receivables, including interest and fees.

In July 2010, we agreed in principle to sell the remainder of our auto finance receivable portfolio with an outstanding principal balance of $2.9 billion at June 30, 2010 and other related assets to an unaffiliated third party, and to transfer approximately $490 million of indebtedness secured by auto finance receivables. See Note 20, "Subsequent Event," for additional information regarding this transaction.

3. Strategic Initiatives

As discussed in prior filings, we have been engaged in a continuing, comprehensive evaluation of the strategies and opportunities of our operations. In light of the unprecedented developments in the retail credit markets, particularly in the residential mortgage industry, this evaluation resulted in decisions to lower the risk profile of our operations, to reduce our capital and liquidity requirements by reducing the size of our balance sheet and to rationalize and maximize the efficiency of our operations. As a result, a number of strategic actions have been undertaken beginning in mid-2007 which are summarized below:

2009 Strategic Initiatives During 2009, we undertook a number of actions including the following:

> In November 2009, we entered into an agreement to sell our auto finance receivable servicing operations and auto finance receivables. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," for further discussion regarding this transaction.

> Throughout 2009, we decided to exit certain lease arrangements and consolidate a variety of locations across the United States. As a result, we have or will exit certain facilities and/or significantly reduce our occupancy space over the next 6 to 12 months in the following locations: Bridgewater, New Jersey; Minnetonka, Minnesota; Wood Dale, Illinois; Elmhurst, Illinois; Sioux Falls, South Dakota and Tampa, Florida. Additionally, we have consolidated our operations in Virginia Beach, Virginia into our Chesapeake, Virginia facility and consolidated certain servicing functions currently performed in Brandon, Florida to facilities in Buffalo, New York and Elmhurst, Illinois.

> In late February 2009, we decided to discontinue new customer account originations for all products by our Consumer Lending business and close all branch offices.

Summary of Restructuring Liability Related to 2009 Strategic Initiatives The following summarizes the changes in the restructure liability during the three and six months ended June 30, 2010 and 2009, respectively, relating to actions implemented during 2009:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Other	Total
		(in millions)		
Three months ended June 30, 2010:				
Restructuring liability at April 1, 2010	**$11**	**$8**	**$2**	**$21**
Restructuring costs recorded during the period	**-**	**4**	**-**	**4**
Restructuring costs paid during the period	**(5)**	**(2)**	**-**	**(7)**
Adjustments to the restructure liability during the period	**-**	**(2)**	**(2)**	**(4)**
Restructure liability at June 30, 2010	**$6**	**$8**	**$-**	**$14**
Three months ended June 30, 2009:				
Restructuring liability at April 1, 2009	$87	$50	$13	$150
Restructuring costs recorded during the period	2	-	-	2
Restructuring costs paid during the period	(53)	(19)	(5)	(77)
Adjustments to the restructure liability during the period	(13)	-	-	(13)
Restructure liability at June 30, 2009	$23	$31	$8	$62
Six months ended June 30, 2010:				
Restructuring liability at January 1, 2010	**$13**	**$12**	**$2**	**$27**
Restructuring costs recorded during the period	**1**	**4**	**-**	**5**
Restructuring costs paid during the period	**(8)**	**(7)**	**-**	**(15)**
Adjustments to the restructure liability during the period	**-**	**(1)**	**(2)**	**(3)**
Restructure liability at June 30, 2010	**$6**	**$8**	**$-**	**$14**
Six months ended June 30, 2009:				
Restructuring liability at January 1, 2009	$-	$-	$-	$-
Restructuring costs recorded during the period	89	54	14	157
Restructuring costs paid during the period	(53)	(23)	(6)	(82)
Adjustments to the restructure liability during the period	(13)	-	-	(13)
Restructure liability at June 30, 2009	$23	$31	$8	$62

2008 Strategic Initiatives During 2008, we undertook a number of actions including the following:

> During the third quarter of 2008, closed servicing facilities located in Jacksonville, Florida and White Marsh, Maryland in our Card and Retail Services business and redeployed these activities to other facilities in our Card and Retail Services business.

> Reduced headcount in our Card and Retail Services business during the fourth quarter of 2008;

> In March 2008, reduced the size of our Auto Finance business and in July 2008 discontinued all new auto finance originations from our dealer and direct-to-consumer channels; and

>

Ceased operations of Solstice Capital Group, Inc, a subsidiary of our Consumer Lending business which originated real estate secured receivables for resale.

Summary of Restructuring Liability Related to 2008 Strategic Initiatives The following summarizes the changes in the restructure liability during the three and six months ended June 30, 2010 and 2009 relating to the actions implemented during 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended June 30, 2010:			
Restructure liability at April 1, 2010	**$-**	**$2**	**$2**
Restructuring costs paid during the period	**-**	**-**	**-**
Liability assumed by third party(1)	**-**	**-**	**-**
Restructure liability at June 30, 2010	**$-**	**$2**	**$2**
Three months ended June 30, 2009:			
Restructure liability at April 1, 2009	$3	$9	$12
Restructuring costs paid during the period	(2)	(1)	(3)
Adjustments to the restructure liability during the period	(1)	-	(1)
Restructure liability at June 30, 2009	$-	$8	$8
Six months ended June 30, 2010:			
Restructure liability at January 1, 2010	**$-**	**$4**	**$4**
Restructuring costs paid during the period	**-**	**(1)**	**(1)**
Liability assumed by third party(1)	**-**	**(1)**	**(1)**
Restructure liability at June 30, 2010	**$-**	**$2**	**$2**
Six months ended June 30, 2009:			
Restructure liability at January 1, 2009	$10	$10	$20
Restructuring costs recorded during the period	1	-	1
Restructuring costs paid during the period	(10)	(2)	(12)
Adjustments to the restructure liability during the period	(1)	-	(1)
Restructure liability at June 30, 2009	$-	$8	$8

(1) During the first quarter of 2010, certain leases of our auto finance operations were assumed by SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," for additional information regarding this transaction.

2007 Actions Beginning in mid-2007 we undertook a number of actions including the following:

> Discontinued correspondent channel acquisitions of our Mortgage Services business;

> Ceased operations of Decision One Mortgage Company;

> Reduced the Consumer Lending branch network to approximately 1,000 branches at December 31, 2007; and

> Closed our loan underwriting, processing and collections center in Carmel, Indiana.

The following summarizes the changes in the restructure liability during the three and six months ended June 30, 2010 and 2009 relating to the actions implemented during 2007:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended June 30, 2010:			
Restructure liability at April 1, 2010	**$-**	**$14**	**$14**
Adjustments to the restructure liability during the period	**-**	**(14)**	**(14)**
Restructure liability at June 30, 2010	**$-**	**$-**	**$-**
Three months ended June 30, 2009:			
Restructure liability at April 1, 2009	$-	$16	$16
Restructuring costs paid during the period	-	(1)	(1)
Restructure liability at June 30, 2009	$-	$15	$15
Six months ended June 30, 2010:			
Restructure liability at January 1, 2010	**$-**	**$14**	**$14**
Adjustments to the restructure liability during the period	**-**	**(14)**	**(14)**
Restructure liability at June 30, 2010	**$-**	**$-**	**$-**
Six months ended June 30, 2009:			
Restructure liability at January 1, 2009	$1	$17	$18
Restructuring costs paid during the period	(1)	(2)	(3)
Restructure liability at June 30, 2009	$-	$15	$15

Summary of Restructuring Activities The following table summarizes the net cash and non-cash expenses recorded for all restructuring activities during the three and six months ended June 30, 2010 and 2009:

	One-Time Termination and Other Employee Benefits(1)	Lease Termination and Associated Costs(2)	Other(3)	Fixed Assets and Other Non-Cash Adjustments(4)	Total
		(in millions)			
Three months ended June 30, 2010:					
2009 Facility Closures	**$-**	**$4**	**$-**	**$-**	**$4**
2009 Consumer Lending Closure	**-**	**(2)**	**(2)**	**-**	**(4)**
2007 Mortgage Services initiatives	**-**	**(14)**	**-**	**-**	**(14)**
Total expense release	**$-**	**$(12)**	**$(2)**	**$-**	**$(14)**
Three months ended June 30, 2009:					
2009 Facility Closures	$2	$-	-	$3	$5
2009 Consumer Lending Closure(5)	(13)	-	-	-	(13)
2008 Auto Finance	(1)	-	-	-	(1)
Total expense (expense release)	$(12)	$-	$-	$3	$(9)
Six months ended June 30, 2010:					
2009 Facility Closure	**$-**	**$4**	**$-**	**$-**	**$4**
2009 Consumer Lending Closure	**1**	**(1)**	**(2)**	**-**	**(2)**
2007 Mortgage Services initiatives	**-**	**(14)**	**-**	**-**	**(14)**
Total expense (expense release)	**$1**	**$(11)**	**$(2)**	**$-**	**$(12)**
Six months ended June 30, 2009:					
2009 Facility Closure	$2	$-	$-	$3	$5
2009 Consumer Lending Closure(5)	74	54	14	14	156
Total expense	$76	$54	$14	$17	$161

(1) One-time termination and other employee benefits are included as a component of Salaries and employee benefits in the consolidated statement of income (loss).

(2) Lease termination and associated costs are included as a component of Occupancy and equipment expenses in the consolidated statement of income (loss).

(3) The other expenses are included as a component of Other servicing and administrative expenses in the consolidated statement of income (loss).

(4)

Includes $29 million of fixed asset write-offs during the six months ended June 30, 2009, which were recorded as a component of Other servicing and administrative expenses in the consolidated statement of income (loss). The six months ended June 30, 2009 also includes $3 million relating to stock based compensation and other benefits, a curtailment gain of $16 million and a reduction of pension expense of $2 million which were recorded as a component of Salaries and employee benefits in the consolidated statement of income (loss).

(5) Excludes intangible asset impairment charges of $14 million recorded during the six months ended June 30, 2009.

4. Securities

Securities consisted of the following available-for-sale investments:

June 30, 2010	Amortized Cost	Non-Credit Loss Component of OTTI Securities(4)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)			
U.S. Treasury	**$365**	**$-**	**$8**	**$-**	**$373**
U.S. government sponsored enterprises(1)	**252**	**-**	**6**	**-**	**258**
U.S. government agency issued or guaranteed	**15**	**-**	**1**	**-**	**16**
Obligations of U.S. states and political subdivisions	**30**	**-**	**1**	**-**	**31**
Asset-backed securities(2)	**81**	**(10)**	**2**	**-**	**73**
U.S. corporate debt securities(3)	**1,644**	**-**	**114**	**(7)**	**1,751**
Foreign debt securities	**349**	**-**	**17**	**(4)**	**362**
Equity securities	**12**	**-**	**-**	**-**	**12**
Money market funds	**371**	**-**	**-**	**-**	**371**
Subtotal	**3,119**	**(10)**	**149**	**(11)**	**3,247**
Accrued investment income	**30**	**-**	**-**	**-**	**30**
Total securities available-for-sale	**$3,149**	**$(10)**	**$149**	**$(11)**	**$3,277**

December 31, 2009	Amortized Cost	Non-Credit Loss Component of OTTI Securities(4)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)			

U.S. Treasury	$196	$-	$1	$(1)	$196
U.S. government sponsored enterprises(1)	95	-	3	(1)	97
U.S. government agency issued or guaranteed	20	-	1	-	21
Obligations of U.S. states and political subdivisions	31	-	1	-	32
Asset-backed securities(2)	94	(11)	2	(2)	83
U.S. corporate debt securities(3)	1,684	-	60	(20)	1,724
Foreign debt securities	351	-	15	-	366
Equity securities	12	-	-	-	12
Money market funds	627	-	-	-	627
Subtotal	3,110	(11)	83	(24)	3,158
Accrued investment income	29	-	-	-	29
Total securities available-for-sale	$3,139	$(11)	$83	$(24)	$3,187

(1) Includes $47 million and $65 million of mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as of June 30, 2010 and December 31, 2009, respectively.

(2) The majority of our asset-backed securities are residential mortgage-backed securities at June 30, 2010 and December 31, 2009.

(3) At June 30, 2010 and December 31, 2009, the majority of our U.S. corporate debt securities represent investments in the financial services, consumer products, healthcare and industrials sectors.

(4) For available-for-sale debt securities which are other-than-temporarily impaired, the non-credit loss component of other-than-temporary impairment ("OTTI") is recorded in accumulated other comprehensive income.

A summary of gross unrealized losses and related fair values as of June 30, 2010 and December 31, 2009, classified as to the length of time the losses have existed follows:

	Less Than One Year			**Greater Than One Year**		
June 30, 2010	Number of **Securities**	**Gross** Unrealized **Losses**	**Aggregate** Fair Value of **Investments**	Number **of Securities**	**Gross** Unrealized **Losses**	**Aggregate** Fair Value of **Investments**
			(dollars are in millions)			
U.S. Treasury	**1**	**$-**	**$-**	**-**	**$-**	**$-**
U.S. government sponsored enterprises	**-**	**-**	**-**	**-**	**-**	**-**
U.S. government agency issued or guaranteed	**-**	**-**	**-**	**-**	**-**	**-**

Obligations of U.S. states and political subdivisions	**2**	**-**	**-**	**1**	**-**	**-**
Asset-backed securities	**-**	**-**	**-**	**16**	**(10)**	**24**
U.S. corporate debt securities	**7**	**-**	**18**	**30**	**(7)**	**98**
Foreign debt securities	**17**	**(4)**	**37**	**-**	**-**	**-**
	27	**$(4)**	**$55**	**47**	**$(17)**	**$122**

	Less Than One Year			Greater Than One Year		
December 31, 2009	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investments	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investments
			(dollars are in millions)			
U.S. Treasury	17	$(1)	$97	-	$-	$-
U.S. government sponsored enterprises	1	-	5	1	(1)	4
U.S. government agency issued or guaranteed	-	-	-	-	-	-
Obligations of U.S. states and political subdivisions	-	-	-	1	-	-
Asset-backed securities	7	(1)	10	18	(12)	34
U.S. corporate debt securities	59	(3)	170	50	(17)	150
Foreign debt securities	12	-	33	-	-	-
	96	$(5)	$315	70	$(30)	$188

Gross unrealized losses decreased during the first half of 2010 primarily due to the impact of lower interest rates. We have reviewed our securities for which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment ("OTTI"). As a result of this review, other-than-temporary impairment of less than $1 million was recognized in earnings on certain debt securities in both the three and six months ended June 30, 2010. In addition, we recognized a recovery in accumulated other comprehensive income relating to the non-credit component of other-than-temporary impairment previously recognized in accumulated other comprehensive income totaling $1 million during the six months ended June 30, 2010.

Our decision in the first quarter of 2009 to discontinue new customer account originations in our Consumer Lending business adversely impacted certain insurance subsidiaries that held perpetual preferred securities. Therefore, during the first quarter of 2009 we determined it was more-likely-than-not that we would be required to sell the portfolio of perpetual preferred securities prior to recovery of amortized cost and, therefore, these securities were deemed to be other-than-temporarily impaired. We subsequently sold our entire portfolio of perpetual preferred securities during the second quarter of 2009. Prior to their sale, we recorded $20 million of impairment losses in the first quarter of 2009 related to these perpetual preferred securities as a component of investment income. The entire unrealized loss was recorded in earnings in accordance with new accounting guidance which we early adopted effective January 1, 2009 related to the recognition of other-than-temporary impairment and is described more fully below, as we determined it was more-likely-than-not that we would be required to sell the portfolio of perpetual preferred securities prior to recovery of amortized cost.

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

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

For all our debt securities, as of the reporting date we do not have the intention to sell these securities and believe we will not be required to sell these securities for contractual, regulatory or liquidity reasons.

We consider the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

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

At June 30, 2010, approximately 92 percent of our corporate debt securities are rated A- or better and approximately 67 percent of our asset-backed securities, which totaled $73 million are rated "AAA." Although other-than-temporary impairments of less than $1 million were recorded in earnings during the first half of 2010, without a sustained economic recovery, additional other-than-temporary impairments may occur in future periods.

Proceeds from the sale or call of available-for-sale investments totaled $37 million and $111 million during the three and six months ended June 30, 2010, respectively, compared to $49 million and $59 million during the three and six months ended June 30, 2009, respectively. We realized gross gains of $1 million and $4 million during the three and six months ended June 30, 2010, respectively, compared to gross gains of $3 million and $4 million during the three and six months ended June 30, 2009, respectively. We realized no gross losses and losses of less than $1 million during the three and six months ended June 30, 2010, respectively, compared to gross losses of $3 million during both the three and six months ended June 30, 2009, respectively.

Contractual maturities and yields on investments in debt securities for those with set maturities were as follows:

	At June 30, 2010				
	Due Within 1 Year	After 1 but Within 5 Years	After 5 but Within 10 Years	After 10 Years	Total
	(dollars are in millions)				
U.S. Treasury:					
Amortized cost	$77	$287	$1	$-	$365
Fair value	78	294	1	-	373
Yield(1)	.27%	2.03%	4.96%	-	1.66%
U.S. government sponsored enterprises:					
Amortized cost	$145	$37	$34	$36	$252
Fair value	145	37	37	39	258
Yield(1)	.26%	2.07%	4.73%	4.91%	1.79%
U.S. government agency issued or guaranteed:					
Amortized cost	$-	$-	$-	$15	$15
Fair value	-	-	-	16	16
Yield(1)	-	-	-	5.06%	5.06%
Obligations of U.S. states and political subdivisions:					
Amortized cost	$-	$-	$12	$18	$30
Fair value	-	-	12	19	31
Yield(1)	-	-	4.07%	4.05%	4.06%
Asset-backed securities:					
Amortized cost	$-	$20	$14	$47	$81
Fair value	-	21	15	37	73
Yield(1)	-	4.88%	5.30%	2.94%	3.83%
U.S. corporate debt securities:					
Amortized cost	$130	$761	$216	$537	$1,644
Fair value	132	811	230	578	1,751
Yield(1)	4.57%	4.75%	4.69%	5.37%	4.93%
Foreign debt securities:					
Amortized cost	$10	$257	$47	$35	$349
Fair value	10	265	48	39	362
Yield(1)	1.93%	4.28%	3.76%	6.43%	4.36%

(1) Computed by dividing annualized interest by the amortized cost of respective investment securities.

5. Receivables

Receivables consisted of the following:

	June 30, 2010	December 31, 2009

	(in millions)	
Real estate secured	**$54,083**	$59,535
Auto finance	**2,889**	3,961
Credit card	**10,119**	11,626
Personal non-credit card	**8,532**	10,486
Commercial and other	**48**	50
Total receivables	**75,671**	85,658
HSBC acquisition purchase accounting fair value adjustments	**(7)**	(11)
Accrued finance charges	**1,690**	1,929
Credit loss reserve for receivables	**(7,537)**	(9,264)
Unearned credit insurance premiums and claims reserves	**(146)**	(181)
Total receivables, net	**$69,671**	$78,131

HSBC acquisition purchase accounting fair value adjustments represent adjustments which have been "pushed down" to record our receivables at fair value on March 28, 2003, the date we were acquired by HSBC.

Purchased Receivable Portfolios In November 2006, we acquired $2.5 billion of real estate secured receivables from Champion Mortgage ("Champion") a division of KeyBank, N.A. Receivables purchased for which at the time of acquisition there was evidence of deterioration in credit quality since origination and for which it was probable that all contractually required payments would not be collected and that the associated line of credit had been closed, if applicable, were recorded at an amount dependent upon the cash flows expected to be collected at the time of acquisition ("Purchased Credit-Impaired Receivables"). The difference between these expected cash flows and the purchase price represents an accretable yield which is amortized to interest income over the life of the receivable. The carrying amount of Champion real estate secured receivables subject to these accounting requirements was $44 million and $36 million at June 30, 2010 and December 31, 2009, respectively, and is included in the real estate secured receivables in the table above. The outstanding contractual balance of these receivables was $61 million and $66 million at June 30, 2010 and December 31, 2009, respectively. Credit loss reserves of $16 million and $31 million as of June 30, 2010 and December 31, 2009, respectively, were held for the acquired Champion receivables subject to accounting requirements for Purchased Credit-Impaired Receivables due to a decrease in the expected future cash flows since the acquisition.

As part of our acquisition of Metris Companies Inc. ("Metris") on December 1, 2005, we acquired $5.3 billion of credit card receivables some of which were also subject to the accounting requirements for Purchased Credit-Impaired Receivables as described above. During the fourth quarter of 2009, the accretable yield was fully amortized to interest income and there was no remaining difference between the carrying value and the outstanding contractual balances of these Purchased Credit-Impaired Receivables. At June 30, 2010 and December 31, 2009, we no longer have any receivables acquired from Metris which are subject to these accounting requirements.

The following summarizes the accretable yield on Champion during the three and six months ended June 30, 2010 and for the Champion and Metris receivables during the three and six months ended June 30, 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010(1)(2)	2009(1)(2)	2010(1)(2)	2009(1)(2)
	(in millions)			
Accretable yield at beginning of period	**$(10)**	$(29)	**$(13)**	$(28)
Accretable yield amortized to interest income during the period	**1**	8	**2**	15

Reclassification of non-accretable difference(3)	**(6)**	(1)	**(4)**	(9)
Accretable yield at end of period(4)	**$(15)**	$(22)	**$(15)**	$(22)

(1) For the Champion portfolio, there was a reclassification of non-accretable difference of $6 million and $4 million during the three and six months ended June 30, 2010. During the three and six months ended June 30, 2009, there were no reclassifications of non-accretable difference.

(2) For the Metris portfolio, there was a reclassification of non-accretable difference of $1 million and $9 million during the three and six months ended June 30, 2009.

(3) Reclassification of non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying portfolio.

(4) At June 30, 2010, the entire remaining accretable yield is related to the Champion portfolio. The accretable yield related to the Metris portfolio was fully amortized to interest income during the fourth quarter of 2009.

Collateralized funding transactions We currently have secured conduit credit facilities with commercial banks which provide for secured financings of receivables on a revolving basis totaling $650 million and $400 million at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, $530 million and $400 million, respectively, were available under these facilities. These facilities will mature in the second quarter of 2011 and are renewable at the banks' option. The amount available under these facilities will vary based on the timing and volume of secured financing transactions and as part of our ongoing liquidity management plans.

Secured financings issued under our current conduit credit facilities as well as secured financings previously issued under public trusts of $4.9 billion at June 30, 2010 are secured by $7.4 billion of closed-end real estate secured, credit card and auto finance receivables. Secured financings of $5.5 billion at December 31, 2009 are secured by $8.0 billion of closed-end real estate secured and auto finance receivables.

Troubled Debt Restructurings The following table presents information about our TDR Loans:

	June 30, 2010	**December 31, 2009**
	(in millions)	
TDR Loans(1):		
Real estate secured(2):		
Mortgage Services	**$4,342**	$4,350
Consumer Lending	**5,258**	4,776
Total real estate secured	**9,600**	9,126
Auto finance	**208**	284
Credit card	**471**	473
Personal non-credit card	**746**	726
Total TDR Loans(4)	**$11,025**	$10,609

	June 30, 2010	December 31, 2009
	(in millions)	
Credit loss reserves for TDR Loans:		
Real estate secured:		
Mortgage Services	**$1,049**	$1,137
Consumer Lending	**1,099**	1,002
Total real estate secured	**2,148**	2,139
Auto finance	**55**	61
Credit card	**158**	158
Personal non-credit card	**428**	353
Total credit loss reserves for TDR Loans(3)	**$2,789**	$2,711

(1) Includes TDR balances reported as receivables held for sale for which there are no credit loss reserves as they are carried at the lower of cost or fair value. At June 30, 2010, there were no TDR Loans included in receivables held for sale. At December 31, 2009, TDR Loans included $53 million of auto finance receivables held for sale.

(2) At June 30, 2010 and December 31, 2009, TDR Loans totaling $1.1 billion and $773 million, respectively, are recorded at net realizable value less cost to sell and, therefore, have no credit loss reserve associated with them.

(3) Included in credit loss reserves.

(4) Includes balances of $1.7 billion at both June 30, 2010 and December 31, 2009 which are classified as nonaccrual receivables.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Average balance of TDR Loans(1)	**$11,166**	$5,596	**$11,071**	$5,577
Interest income recognized on TDR Loans	**145**	92	**287**	190

(1) During the third and fourth quarters of 2009, we developed enhanced tracking capabilities to identify and report TDR Loans which impacts the comparability between the periods reported above. See Note 7, "Receivables," in our 2009 Form 10-K for further discussion of these enhanced tracking capabilities.

Concentrations of Credit Risk We have historically served non-conforming and non-prime consumers. Such customers are individuals who have limited credit histories, modest incomes, high debt-to-income ratios or have experienced credit problems caused by occasional delinquencies, prior charge-offs, bankruptcy or other credit related actions. The majority of our secured receivables and receivables held for sale have high loan-to-value ratios. Our receivables and receivables held for sale portfolios include the following types of loans:

- Interest-only loans - A loan which allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect their ability to repay the loan in the future when the principal payments are required.

- ARM loans - A loan which allows the lender to adjust pricing on the loan in line with interest rate movements. A customer's financial situation and the general interest rate environment at the time of the interest rate reset could affect the customer's ability to repay or refinance the loan after adjustment.

- Stated income loans - Loans underwritten based upon the loan applicant's representation of annual income, which is not verified by receipt of supporting documentation.

The following table summarizes the outstanding balances of interest-only loans, ARM loans and stated income loans in our receivable portfolios at June 30, 2010 and December 31, 2009:

	June 30, 2010	**December 31, 2009**
	(in billions)	
Interest-only loans	**$1.6**	$1.8
ARM loans(1)	**8.6**	9.8
Stated income loans	**3.1**	3.7

(1) We do not have any option ARM loans in our portfolio.

At June 30, 2010 and December 31, 2009, interest-only, ARM and stated income loans comprise 19 percent and 20 percent of real estate secured receivables, including receivables held for sale, respectively.

6. Credit Loss Reserves

An analysis of credit loss reserves is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**

	(in millions)			
Credit loss reserves at beginning of period	**$8,417**	$12,972	**$9,264**	$12,415
Provision for credit losses	**1,622**	2,436	**3,541**	5,381
Charge-offs	**(2,685)**	(2,655)	**(5,648)**	(5,178)
Recoveries	**183**	137	**380**	272
Receivables transferred to held for sale	**-**	(56)	**-**	(56)
Credit loss reserves at end of period	**$7,537**	$12,834	**$7,537**	$12,834

Credit loss reserves since June 30, 2009 were significantly impacted by changes in our charge-off policies for real estate secured, personal non-credit card and auto finance receivables which impacts comparability between periods. See Note 8, "Changes in Charge-off Policies," in our 2009 Form 10-K for further discussion.

7. *Receivables Held for Sale*

Receivables held for sale, which are carried at the lower of cost or fair value, consisted of the following:

	June 30,	December 31,
	2010	**2009**
	(in millions)	
Real estate secured(1)	**$5**	$3
Auto finance	**-**	533
Total receivables held for sale, net	**$5**	$536

(1) Consists of real estate secured receivables in our Mortgage Services business which were originated with the intent to sell.

The following table shows the activity in receivables held for sale during the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Receivables held for sale, beginning of period	**$3**	$1,409	**$536**	$16,680
Receivables purchased from HSBC USA Inc for immediate sale to SC USA(1)	**-**	-	**379**	-
Transfer of auto finance receivables into receivables held for sale at the lower of cost or fair value	**-**	450	**15**	450
Receivable sales	**-**	(3)	**(927)**	(14,853)

Lower of cost or fair value adjustment subsequent to transfer to receivables held for sale	**2**	(163)	**2**	(333)
Transfer into receivables held for investment at the lower of cost or fair value:				
Real estate secured	**-**	-	**-**	(214)
Credit card	**-**	(590)	**-**	(590)
Net change in receivable balance	**-**	(3)	**-**	(40)
Receivables held for sale, end of period	**$5**	$1,100	**$5**	$1,100

(1) See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," for additional information regarding this transaction.

In March 2010, we sold a portfolio of auto finance receivables to SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," for details of this transaction.

In January 2009, we sold our GM and UP Portfolios as well as certain auto finance receivables to HSBC Bank USA. See Note 4, "Receivable Portfolio Sales to HSBC Bank USA," in our 2009 Form 10-K for details of these transactions.

In March 2009, we transferred real estate secured receivables previously classified as receivables held for sale to receivables held for investment as we now intend to hold these receivables for the foreseeable future, generally twelve months for real estate secured receivables. These receivables were transferred at the fair market value on the date of transfer of $214 million.

In June 2009, we transferred credit card receivables previously classified as receivables held for sale to receivables held for investment as we now intend to hold these receivables for the foreseeable future. These receivables were transferred at their current fair market value of $590 million. The outstanding contractual balance of these receivables at June 30, 2009 was $788 million.

The valuation allowance on receivables held for sale was $4 million and $18 million at June 30, 2010 and December 31, 2009, respectively.

8. *Intangible Assets*

Intangible assets consisted of the following:

		Cumulative Impairment	Accumulated	Carrying
	Gross	**Charges**	**Amortization**	**Value**
		(in millions)		
June 30, 2010				
Purchased credit card relationships and related programs	**$1,736**	**$-**	**$1,062**	**$674**
Consumer loan related relationships	**333**	**163**	**170**	**-**

Technology, customer lists and other contracts	**282**	**9**	**273**	**-**
Total	**$2,351**	**$172**	**$1,505**	**$674**
December 31, 2009				
Purchased credit card relationships and related programs	$1,736	$-	$992	$744
Consumer loan related relationships	333	163	170	-
Technology, customer lists and other contracts	282	9	269	4
Total	$2,351	$172	$1,431	$748

Estimated amortization expense associated with our intangible assets for each of the following years is as follows:

Year Ending December 31,	**(in millions)**
2010	$142
2011	138
2012	135
2013	99
2014	72

During the first quarter of 2010, our intangible assets related to technology, customer lists and other contracts became fully amortized.

9. Goodwill

Changes in the carrying amount of goodwill are as follows:

	2010	**2009**
	(in millions)	
Balance at January 1,	**$-**	$2,294
Goodwill impairment related to our Insurance Services business	**-**	(260)
Goodwill impairment related to our Card and Retail Services business	**-**	(2,034)
Balance at June 30,	**$-(1)**	$-(1)

(1) At both June 30, 2010 and 2009, accumulated impairment losses on goodwill totaled $6.3 billion.

As a result of the continuing deterioration of economic conditions throughout 2008 and into 2009 as well as the adverse impact to our Insurance Services business which resulted from the closure of all of our Consumer Lending branches, we wrote off all of our remaining goodwill balance during 2009, of which $1.6 billion and $2.3 billion was written off during the three and six months ended June 30, 2009. See Note 14, "Goodwill," in our 2009 Form 10-K for additional information.

10. Derivative Financial Instruments

Our business activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Accordingly, we have comprehensive risk management policies to address potential financial risks, which include credit risk, liquidity risk, market risk, and operational risks. Our risk management policy is designed to identify and analyze these risks, to set appropriate limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. Our risk management policies are primarily carried out in accordance with practice and limits set by the HSBC Group Management Board. The HSBC Finance Corporation Asset Liability Committee ("ALCO") meets regularly to review risks and approve appropriate risk management strategies within the limits established by the HSBC Group Management Board. Additionally, our Audit Committee receives regular reports on our liquidity positions in relation to the established limits. In accordance with the policies and strategies established by ALCO, in the normal course of business, we enter into various transactions involving derivative financial instruments. These derivative financial instruments primarily are used as economic hedges to manage risk.

Objectives for Holding Derivative Financial Instruments Market risk (which includes interest rate and foreign currency exchange risks) is the possibility that a change in interest rates or foreign exchange rates will cause a financial instrument to decrease in value or become more costly to settle. Historically, customer demand for our loan products shifted between fixed rate and floating rate products, based on market conditions and preferences. These shifts in loan products resulted in different funding strategies and produced different interest rate risk exposures. Additionally, the mix of receivables on our balance sheet and the corresponding market risk is changing as we manage the liquidation of several of our receivable portfolios. We maintain an overall risk management strategy that utilizes interest rate and currency derivative financial instruments to mitigate our exposure to fluctuations caused by changes in interest rates and currency exchange rates related to our debt liabilities. We manage our exposure to interest rate risk primarily through the use of interest rate swaps with the main objective of better matching the duration of our liabilities to the duration of our assets. We manage our exposure to foreign currency exchange risk primarily through the use of cross currency interest rate swaps. We do not use leveraged derivative financial instruments.

Interest rate swaps are contractual agreements between two counterparties for the exchange of periodic interest payments generally based on a notional principal amount and agreed-upon fixed or floating rates. The majority of our interest rate swaps are used to manage our exposure to changes in interest rates by converting floating rate debt to fixed rate or by converting fixed rate debt to floating rate. We have also entered into currency swaps to convert both principal and interest payments on debt issued from one currency to the appropriate functional currency.

We do not manage credit risk or the changes in fair value due to the changes in credit risk by entering into derivative financial instruments such as credit derivatives or credit default swaps.

Control Over Valuation Process and Procedures A control framework has been established which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the determination of fair values rests with the HSBC Finance Valuation Committee. The HSBC Finance Valuation Committee establishes policies and procedures to ensure appropriate valuations. Fair values for derivatives are determined by management using valuation techniques, valuation models and inputs that are developed, reviewed, validated and approved by the Quantitative Risk and Valuation Group of an affiliate, HSBC Bank USA. These valuation models utilize discounted cash flows or an option pricing model adjusted for counterparty credit risk and market liquidity. The models used apply appropriate control processes and procedures to ensure that the derived inputs are used to value only those instruments that share similar risk to the relevant benchmark indexes and therefore demonstrate a similar response to market factors. In addition, a validation process is followed which includes participation in peer group consensus pricing surveys, to ensure that valuation inputs incorporate market participants' risk expectations and risk premium.

Credit Risk By utilizing derivative financial instruments, we are exposed to counterparty credit risk. Counterparty credit risk is our primary exposure on our interest rate swap portfolio. Counterparty credit risk is the risk that the counterparty to a transaction fails to perform according to the terms of the contract. We manage the counterparty credit (or repayment) risk in derivative instruments through established credit approvals, risk control limits, collateral, and ongoing monitoring procedures. We utilize an affiliate, HSBC Bank USA, as the primary provider of domestic derivative products. We have never suffered a loss due to counterparty failure.

At June 30, 2010 and December 31, 2009, substantially all of our existing derivative contracts are with HSBC subsidiaries, making them our primary counterparty in derivative transactions. Most swap agreements require that payments be made to, or received from, the counterparty when the fair value of the agreement reaches a certain level. Generally, third-party swap counterparties provide collateral in the form of cash which is recorded in our balance sheet as derivative related liabilities. At June 30, 2010 and December 31, 2009, we provided third party swap counterparties with $25 million and $46 million of collateral, respectively, in the form of cash. When the fair value of our agreements with affiliate counterparties requires the posting of collateral, it is provided in either the form of cash and recorded on the balance sheet, consistent with third party arrangements, or in the form of securities which are not recorded on our balance sheet. At June 30, 2010 and December 31, 2009, the fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $934 million and $3.4 billion, respectively, all of which was provided in cash. These amounts are offset against the fair value amount recognized for derivative instruments that have been offset under the same master netting arrangement and recorded in our balance sheet as a component of derivative financial asset or derivative related liabilities. At June 30, 2010, we had derivative contracts with a notional value of $56.9 billion, including $56.1 billion outstanding with HSBC Bank USA. At December 31, 2009, we had derivative contracts with a notional value of approximately $59.7 billion, including $58.6 billion outstanding with HSBC Bank USA. Derivative financial instruments are generally expressed in terms of notional principal or contract amounts which are much larger than the amounts potentially at risk for nonpayment by counterparties.

To manage our exposure to changes in interest rates, we entered into interest rate swap agreements and currency swaps which have been designated as fair value or cash flow hedges under derivative accounting principles. We currently utilize the long-haul method to assess effectiveness of all derivatives designated as hedges. In the tables that follow below, the fair value disclosed does not include swap collateral that we either receive or deposit with our interest rate swap counterparties. Such swap collateral is recorded on our balance sheet at an amount which approximates fair value and is netted on the balance sheet with the fair value amount recognized for derivative instruments.

Fair Value Hedges Fair value hedges include interest rate swaps to convert our fixed rate debt to variable rate debt and currency swaps to convert debt issued from one currency into U.S. dollar variable debt. All of our fair value hedges are associated with debt. We recorded fair value adjustments for fair value hedges which increased the carrying value of our debt by $99 million and $85 million at June 30, 2010 and December 31, 2009, respectively. The following table provides information related to the location of derivative fair values in the consolidated balance sheet for our fair value hedges.

Asset Derivatives			Liability Derivatives		
	Fair Value as of			Fair Value as of	
Balance Sheet Location	June 30, 2010	December 31, 2009	Balance Sheet Location	June 30, 2010	December 31, 2009
	(in millions)			(in millions)	

Interest rate swaps	Derivative financial assets	**$7**	$-	Derivative related liabilities	**$5**	$39
Currency swaps	Derivative financial assets	**114**	312	Derivative related liabilities	**-**	-
Total fair value hedges		**$121**	$312		**$5**	$39

The following table presents fair value hedging information, including the gain (loss) recorded on the derivative and where that gain (loss) is recorded in the consolidated statement of income (loss) as well as the offsetting gain (loss) on the hedged item that is recognized in current earnings, the net of which represents hedge ineffectiveness.

			Amount of Gain (Loss) Recognized in Income On the Derivative		**Amount of Gain (Loss) Recognized in Income On Hedged Items**		**Amount of Gain (Loss) Recognized in Income On the Derivative**		**Amount of Gain (Loss) Recognized in Income On Hedged Items**	
		Location of Gain (Loss) Recognized in Income on Hedged Item and Derivative	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	Hedged Item		**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
			(in millions)							
Interest rate swaps	Fixed rate borrowings	Derivative related Income	**$39**	$(4)	**$(18)**	$4	**$40**	$(8)	**$(23)**	$15
Currency swaps	Fixed rate borrowings	Derivative related income	**(12)**	(9)	**10**	1	**(1)**	33	**-**	(32)
Total			**$27**	$(13)	**$(8)**	$5	**$39**	$25	**$(23)**	$(17)

Cash Flow Hedges Cash flow hedges include interest rate swaps to convert our variable rate debt to fixed rate debt and currency swaps to convert debt issued from one currency into U.S. dollar fixed rate debt. Gains and (losses) on unexpired derivative instruments designated as cash flow hedges are reported in accumulated other comprehensive income (loss) ("OCI") net of tax and totaled a loss of $586 million and $490 million at June 30, 2010 and December 31, 2009, respectively. We expect $442 million ($285 million after-tax) of currently unrealized net losses will be reclassified to earnings within one year. However, these reclassed unrealized losses will be offset by decreased interest expense associated with the variable cash flows of the hedged items and will result in no significant net economic impact to our earnings. The following table provides information related to the location of derivative fair values in the consolidated balance sheet for our cash flow hedges.

	Asset Derivatives			**Liability Derivatives**		
		Fair Value as of			**Fair Value as of**	
	Balance Sheet	**June 30,**	**December 31,**	**Balance Sheet**	**June 30,**	**December 31,**

	Location	2010	2009	Location	2010	2009
		(in millions)			(in millions)	
Interest rate swaps	Derivative financial assets	**$(499)**	$(358)	Derivative related liabilities	**$-**	$-
Currency swaps	Derivative financial assets	**(212)**	1,362	Derivative related liabilities	**-**	-
Total cash flow hedges		**$(711)**	$1,004		**$-**	$-

The following table provides the gain or loss recorded on our cash flow hedging relationships.

Three Months Ended June 30,	Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Reclassed from AOCI into Income (Effective Portion) 2010	2009	Location of Gain (Loss) Recognized in Income on the Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) 2010	2009
	(in millions)			(in millions)			(in millions)	
Interest rate swaps	**$(99)**	$234	Interest expense	**$(18)**	$(4)	Derivative related Income	**$-**	$8
Currency swaps	**(10)**	202	Interest expense	**(8)**	(13)	Derivative related Income	**(29)**	24
Total	**$(109)**	$436		**$(26)**	$(17)		**$(29)**	$32
Six Months Ended June 30, Interest rate swaps	**$(127)**	$372	Interest expense	**$(37)**	$(7)	Derivative related Income	**$-**	$9
Interest rate swaps	**-**	-	Gain on bulk receivable sale to HSBC affiliates	**-**	(80)		**-**	-
Currency swaps	**(17)**	383	Interest expense	**(17)**	(32)	Derivative related Income	**(26)**	62
Total	**$(144)**	$755		**$(54)**	$(119)		**$(26)**	$71

Non-Qualifying Hedging Activities We may enter into interest rate and currency swaps which are not designated as hedges under derivative accounting principles. These financial instruments are economic hedges but do not qualify for hedge accounting and are primarily used to minimize our exposure to changes in interest rates and currency exchange rates through more closely matching both the structure and duration of our liabilities to the structure and duration of our assets. The following table provides information related to the location and derivative fair values in the consolidated balance sheet for our non-qualifying hedges:

	Asset Derivatives			Liability Derivatives		
		Fair Value as of			Fair Value as of	
	Balance Sheet	June 30,	December 31,	Balance Sheet	June 30,	December 31,
	Location	2010	2009	Location	2010	2009
		(in millions)			(in millions)	
Interest rate contracts	Derivative financial assets	**$(274)**	$188	Derivative related liabilities	**$2**	$12
Currency contracts	Derivative financial assets	**1**	72	Derivative related liabilities	**2**	9
Total non-qualifying hedges		**$(273)**	$260		**$4**	$21

The following table provides detail of the gain or loss recorded on our non-qualifying hedges:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
	(in millions)				
Interest rate contracts	Derivative related income	**$(486)**	$188	**$(588)**	$172
Currency contracts	Derivative related income	**-**	(4)	**-**	(5)
Total		**$(486)**	$184	**$(588)**	$167

In addition to the non-qualifying hedges described above, we have elected the fair value option for certain issuances of our fixed rate debt and have entered into interest rate and currency swaps related to debt carried at fair value. The interest rate and currency swaps associated with this debt are considered economic hedges and realized gains and losses are reported as "Gain (loss) on debt designated at fair value and related derivatives" within other revenues. The derivatives related to fair value option debt are included in the tables below. See Note 11, "Fair Value Option," for further discussion.

	Asset Derivatives			Liability Derivatives		
		Fair Value as of			Fair Value as of	
	Balance Sheet	June 30,	December 31,	Balance Sheet	June 30,	December 31,
	Location	2010	2009	Location	2010	2009
		(in millions)			(in millions)	
Interest rate swaps	Derivative financial assets	**$1,219**	$1,034	Derivative related liabilities	**$-**	$-

Currency swaps	Derivative financial assets	**362**	752	Derivative related liabilities	-	-
Total non-qualifying hedges		**$1,581**	$1,786		$-	$-

The following table provides the gain or loss recorded on the derivatives related to fair value option debt, primarily due to changes in interest rates:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income On Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2010	**2009**	**2010**	**2009**
	(in millions)				
Interest rate contracts	Gain (loss) on debt designated at fair value and related derivatives	**$313**	$(295)	**$546**	$(309)
Currency contracts	Gain (loss) on debt designated at fair value and related derivatives	**78**	(59)	**156**	95
Total		**$391**	$(354)	**$702**	$(214)

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

	June 30, 2010	December 31, 2009
	(in millions)	
Derivatives designated as hedging instruments:		
Interest rate swaps	**$8,177**	$11,585
Currency swaps	**14,520**	15,373
	22,697	26,958
Non-qualifying economic hedges:		
Derivatives not designated as hedging instruments:		
Interest rate:		
Swaps	**9,921**	7,081
Purchased caps	**412**	682
Foreign exchange:		
Swaps	**1,228**	1,291
Forwards	**119**	349
	11,680	9,403
Derivatives associated with debt carried at fair value:		
Interest rate swaps	**18,419**	19,169
Currency swaps	**4,122**	4,122
	22,541	23,291
Total	**$56,918**	$59,652

11. Fair Value Option

Long-term debt at June 30, 2010 of $63.0 billion includes $25.6 billion of fixed rate debt carried at fair value. At June 30, 2010, we did not elect fair value option ("FVO") for $17.2 billion of fixed rate long-term debt or any of the variable rate debt currently carried on our balance sheet. Fixed rate debt accounted for under FVO at June 30, 2010 had an aggregate unpaid principal balance of $24.7 billion which includes a foreign currency translation adjustment relating to our foreign denominated FVO debt which decreased the debt balance by $3 million. Long-term debt at December 31, 2009 includes $26.7 billion of fixed rate debt accounted for under FVO. At December 31, 2009, we did not elect FVO for $19.0 billion of fixed rate long-term debt currently carried on our balance sheet. Fixed rate debt accounted for under FVO at December 31, 2009 had an aggregate unpaid principal balance of $25.9 billion which includes a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by $488 million.

We determine the fair value of the fixed rate debt accounted for under FVO through the use of a third party pricing service. Such fair value represents the full market price (credit and interest rate impact) based on observable market data for the same or similar debt instruments. See Note 17, "Fair Value Measurements," for a description of the methods and significant assumptions used to estimate the fair value of our fixed rate debt accounted for under FVO.

The components of "Gain (loss) on debt designated at fair value and related derivatives" are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30**	
	2010	**2009**	**2010**	**2009**
Mark-to-market on debt designated at fair value(1):				
Interest rate component	**$(346)**	$707	**$(489)**	$888
Credit risk component	**425**	(5,122)	**390**	(1,331)
Total mark-to-market on debt designated at fair value	**79**	(4,415)	**(99)**	(443)
Mark-to-market on the related derivatives(1)	**186**	(505)	**285**	(485)
Net realized gains on the related derivatives	**205**	151	**417**	271
Gain (loss) on debt designated at fair value and related derivatives	**$470**	$(4,769)	**$603**	$(657)

(1) Mark-to-market on debt designated at fair value and related derivatives excludes market value changes due to fluctuations in foreign currency exchange rates. Foreign currency translation gains (losses) recorded in derivative related income associated with debt designated at fair value was a gain of $264 million and $491 million for the three and six months ended June 30, 2010, respectively, compared to a loss of $188 million and a gain of $8 million for the three and six months ended June 30, 2009, respectively. Offsetting gains (losses) recorded in derivative related income associated with the related derivatives was a loss of $264 million and $491 million for the three and six months ended June 30, 2010, respectively, compared to a gain of $188 million and a loss of $8 million during the three and six months ended June 30, 2009, respectively.

The movement in the fair value reflected in gain (loss) on debt designated at fair value and related derivatives includes the effect of credit spread changes and interest rate changes, including any economic ineffectiveness in the relationship between the related swaps and our debt and any realized gains or losses on those swaps. With respect to the credit component, as credit spreads widen accounting gains are booked and the reverse is true if credit spreads narrow. Differences arise between the movement in the fair value of our debt and the fair value of the related swap due to the different credit characteristics and differences in the calculation of fair value for debt and derivatives. The size and direction of the accounting consequences of such changes can be volatile from period to period but do not alter the cash flows intended as part of the documented interest rate management strategy. On a cumulative basis, we have recorded fair value option adjustments which increased the value of our debt by $941 million and $842 million at June 30, 2010 and December 31, 2009, respectively.

The change in the fair value of the debt and the change in value of the related derivatives reflect the following:

- *Interest rate curve* - A decrease in long term U.S. interest rates during the second quarter of 2010 resulted in a loss in the interest rate component on the mark-to-market of the debt and a gain on the mark-to-market of the related derivative. During the current quarter, interest rates for instruments with a term of one year or less increased while interest rates for instruments with a term of two years or greater decreased. During the second quarter of 2009, an increase in long-term U.S. interest rates resulted in a gain in the interest rate component on the debt and a loss in the value of the related derivatives. During the year-ago quarter, interest rates for instruments with a term of one year or less decreased while interest rates for instruments with a term of two years or greater increased. A decrease in long term U.S. interest rates during the first half of 2010 resulted in a loss in the interest rate component on the mark-to-market of the debt and a corresponding gain on the mark-to-market of the related derivative. In the first half of 2009, changes in the debt interest rate component and the derivative market value reflect a steepening in the U.S. LIBOR curve. During the year-ago period, interest rates for instruments with terms of one year or less decreased while interest rates for instruments with terms of two years or greater increased. Changes in the value of the interest rate component of the debt as compared to the related derivative are also affected by differences in cash flows and valuation methodologies for the debt and the derivatives. Cash flows on debt are discounted using a single discount rate from the bond yield curve for each bond's applicable maturity while derivative cash flows are discounted using rates at multiple points along the U.S. LIBOR yield curve. The impacts of these differences vary as short-term and long-term interest rates shift and time passes. Furthermore, certain derivatives have been called by the counterparty resulting in certain FVO debt having no related derivatives. As a result, approximately 8 percent of our FVO debt does not have a corresponding derivative at June 30, 2010. Income from net realized gains increased due to reduced short term U.S. interest rates.

- *Credit* - Our secondary market credit spreads widened during the second quarter of 2010 as concerns raised by the recent European sovereign debt crisis in May 2010 impacted credit spreads throughout the U.S. during the quarter. During the second quarter of 2009, our credit spreads tightened significantly due to an increase in market confidence and an improvement in marketplace liquidity. In the first half of 2010, the widening of our credit spreads during the current quarter reversed a slight narrowing of our credit spreads during the first three months of 2010. During the first half of 2009, our credit spreads experienced a net tightening due to the improvement in market conditions which reversed a substantial widening of our credit spreads in the first quarter of 2009.

Net income volatility, whether based on changes in the interest rate or credit risk components of the mark-to-market on debt designated at fair value and the related derivatives, impacts the comparability of our reported results between periods. Accordingly, gain (loss) on debt designated at fair value and related derivatives for the six months ended June 30, 2010 should not be considered indicative of the results for any future periods.

12. Income Taxes

Effective tax rates are analyzed as follows.

Three Months Ended June 30,	**2010**		**2009**	
	(dollars are in millions)			
Tax expense (benefit) at the U.S. Federal statutory income tax rate	**$(298)**	**(35.0)%**	$(2,616)	(35.0)%
Increase (decrease) in rate resulting from:				
Valuation allowance	**(8)**	**(.9)**	916	12.2
Non-deductible goodwill	**-**	**-**	574	7.7
Bulk sale of receivable portfolios to an HSBC affiliate	**-**	**-**	-	-
State and local taxes, net of Federal benefit	**(13)**	**(1.5)**	(24)	(.3)
State rate change effect on net deferred taxes	**-**	**-**	-	-
Other	**(13)**	**(1.5)**	10	.1
Total income tax expense (benefit)	**$(332)**	**(38.9)%**	$(1,140)	(15.3)%

Six Months Ended June 30,	**2010**		**2009**	
	(dollars are in millions)			
Tax expense (benefit) at the U.S. Federal statutory income tax rate	**$(625)**	**(35.0)%**	$(2,011)	(35.0)%
Increase (decrease) in rate resulting from:				
Valuation allowance	**(8)**	**(.4)**	924	16.1
Non-deductible goodwill	**-**	**-**	798	13.9
Bulk sale of receivable portfolios to an HSBC affiliate	**-**	**-**	(47)	(.8)
State and local taxes, net of Federal benefit	**(17)**	**(1.0)**	6	.1
State rate change effect on net deferred taxes	**-**	**-**	32	.5
Other	**(12)**	**(.7)**	13	.2
Total income tax expense (benefit)	**$(662)**	**(37.1)%**	$(285)	(5.0)%

The effective tax rate for three and six months ended June 30, 2010 was impacted by state taxes where we file combined unitary state tax returns with other HSBC affiliates as well as the impact of changes in the valuation allowance on deferred tax assets during these periods.

The effective tax rate for three and six months ended June 30, 2009 was significantly impacted by the incremental valuation allowance on deferred tax assets recorded in 2009 and the non-tax deductible impairment of goodwill related to our Card and Retail Services business and for the year-to-date period, the non-tax deductible impairment of goodwill related to our Insurance Services business as well as valuation allowances recorded against deferred tax assets. The effective tax rate for the six months ended June 30, 2009 was also impacted by a change in estimate in the state tax rate for jurisdictions where we file combined unitary state tax returns with other HSBC affiliates and the sale of receivable portfolios to an HSBC affiliate.

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

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

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

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

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

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

Notwithstanding the above, the HNAH Group has valuation allowances against certain specific tax attributes such as foreign tax credits, certain state related deferred tax assets and certain tax loss carryforwards for which the aforementioned tax planning strategies do not provide appropriate support.

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

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

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

HSBC Finance Corporation Income Taxes We recognize deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and net operating and other losses. Our net deferred tax assets, including deferred tax liabilities and valuation allowances, totaled $2.8 billion and $3.0 billion as of June 30, 2010 and December 31, 2009, respectively.

We are currently under audit by the Internal Revenue Service as well as various state and local tax jurisdictions. Although one or more of these audits may be concluded within the next 12 months, it is not possible to reasonably estimate the impact of the results from these audits on our uncertain tax positions at this time.

13. Pension and Other Postretirement Benefits

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Service cost - benefits earned during the period	**$6**	$9	**$12**	$18
Interest cost on projected benefit obligation	**16**	18	**31**	35
Expected return on assets	**(15)**	(12)	**(29)**	(24)
Recognized losses	**8**	8	**17**	17
Amortization of prior service cost	**-**	-	**(1)**	-
Net periodic pension cost	**$15**	$23	**$30**	$46

Pension expense decreased during the three and six months ended June 30, 2010 due to lower service and interest costs as a result of reduced headcount from our previously discussed strategic decisions. Also contributing to lower pension expense was the realization of higher returns on plan assets solely due to higher asset levels.

During the first quarter of 2010, we announced that the Board of Directors of HSBC North America had approved a plan to cease all future benefit accruals for legacy participants under the final average pay formula components of the HSBC North America Pension Plan effective January 1, 2011. Future accruals to legacy participants under the Plan will thereafter be provided under the cash balance based formula which is now used to calculate benefits for employees hired after December 31, 1996. Furthermore, all future benefit accruals under the Supplemental Retirement Income Plan will also cease effective January 1, 2011.

The aforementioned changes to the Plan have been accounted for as a negative plan amendment and, therefore, the reduction in our share of HSBC North America's projected benefit obligation as a result of this decision will be amortized to net periodic pension cost over future service periods of the affected employees. The changes to the Supplemental Retirement Income Plan have been accounted for as a plan curtailment, which resulted in no significant immediate recognition of income or expense.

Components of the net periodic benefit cost for our post-retirement medical plan benefits other than pensions are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
	(in millions)			
Service cost - benefits earned during the period	**$-**	$-	**$1**	$1
Interest cost	**2**	3	**4**	6
Gain on curtailment	**-**	-	**-**	(16)
Recognized gains	**-**	(1)	**-**	(2)
Net periodic post-retirement benefit cost (income)	**$2**	$2	**$5**	$(11)

During the first quarter of 2009, we recorded a curtailment gain of $16 million as a result of the decision in late February 2009 to discontinue new customer account originations for all products by our Consumer Lending business and close all branch offices.

On March 23, 2010, the Patient Protection and Affordable Care Act was enacted and subsequently amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the "Act"). The Act is intended to ensure that more Americans have access to quality, affordable health care insurance with the provisions of the Act being phased in beginning in 2010 and continuing for a number of years. Based on an intensive analysis of the Act, there has been no impact on our consolidated financial statements for the period ended June 30, 2010 as it relates to either our ongoing active employee benefit plans or our postretirement retiree-only medical plans. We have also performed an analysis related to the provisions to be implemented in future periods and based on the Act as currently written, we currently do not believe there will be a material impact to our financial position or results of operation in future periods. Should the provisions of the Act be amended in future periods, the estimated impact to our financial position or results of operations in future periods could change.

14. Related Party Transactions

In the normal course of business, we conduct transactions with HSBC and its subsidiaries. These transactions occur at prevailing market rates and terms and include funding arrangements, derivative execution, purchases and sales of receivables, servicing arrangements, information technology and some centralized support services, item and statement processing services, banking and other miscellaneous services. The following tables present related party balances and the income and (expense) generated by related party transactions:

	June 30, 2010	December 31, 2009
	(in millions)	
Assets:		
Cash	**$217**	$295
Interest bearing deposits with banks	**7**	5
Securities purchased under agreements to resell	**2,415**	1,550
Other assets	**160**	123
Total assets	**$2,799**	$1,973
Liabilities:		
Due to affiliates	**$7,530**	$9,043
Derivative related liability	**218**	56
Other liabilities	**47**	194
Total liabilities	**$7,795**	$9,293

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Income/(Expense):				
Interest income from HSBC affiliates	**$2**	$1	**$3**	$4
Interest expense paid to HSBC affiliates(1)	**(202)**	(291)	**(422)**	(588)
Net Interest income (loss)	**(200)**	(290)	**(419)**	(584)
Net gain on bulk sale of receivables to HSBC Bank USA	**-**	-	**-**	57
HSBC affiliate income:				
Gain on receivable sales to HSBC affiliates:				
Daily sales of private label receivable originations	**50**	7	**88**	24
Daily sales of credit card receivables	**92**	83	**170**	192
Sales of real estate secured receivables	**-**	-	**-**	2
Total gain on receivable sales to HSBC affiliates	**142**	90	**258**	218
Loss on sale of affiliate preferred stock	**-**	(6)	**-**	(6)
Servicing and other fees from HSBC affiliates:				
HSBC Bank USA:				
Real estate secured servicing and related fees	**2**	2	**5**	3
Private label and card receivable servicing and related fees	**158**	160	**311**	327
Auto finance receivable servicing and related fees	**-**	16	**9**	30
Taxpayer financial services loan servicing and other fees	**2**	-	**58**	-
Other servicing, processing, origination and support revenues from HSBC Bank USA and other HSBC affiliates	**6**	13	**9**	22
HSBC Technology and Services (USA) Inc. ("HTSU") administrative fees and rental revenue	**(4)**(2)	17	**10**	30
Total servicing and other fees from HSBC affiliates	**164**	208	**402**	412
Taxpayer financial services loan origination and other fees	**-**	(1)	**(4)**	(11)
Support services from HSBC affiliates:				
HTSU	**(225)**	(198)	**(482)**	(414)
HSBC Global Resourcing (UK) Ltd.	**(31)**	(43)	**(65)**	(87)
Other HSBC affiliates	**(7)**	(9)	**(14)**	(17)
Total support services from HSBC affiliates	**(263)**	(250)	**(561)**	(518)

Stock based compensation expense with HSBC	**(4)**	(2)	**(8)**	(17)
Insurance commission paid to HSBC Bank Canada	**(9)**	(5)	**(14)**	(10)

(1) Includes interest expense paid to HSBC affiliates for debt held by HSBC affiliates as well as net interest paid to or received from HSBC affiliates on risk management positions related to non-affiliated debt.

(2) During the second quarter of 2010, changes were made in the methodology to allocate rental expense between us and HTSU and an adjustment was made to rental revenue to conform to this methodology for all of 2010. These changes resulted in a reversal of a portion of previously recognized rental revenue during the second quarter of 2010 which resulted in a net expense of $6 million. Rental revenue from HTSU totaled $6 million during year-to-date period, compared to $14 million and $25 million during the three and six months ended June 30, 2009, respectively.

Transactions with HSBC Bank USA:

- In January 2009, we sold our GM and UP Portfolios to HSBC Bank USA with an outstanding principal balance of $12.4 billion at the time of sale and recorded a gain on the bulk sale of these receivables of $130 million. This gain was partially offset by a loss of $80 million recorded on the termination of cash flow hedges associated with the $6.1 billion of indebtedness transferred to HSBC Bank USA as part of these transactions. We retained the customer account relationships and by agreement sell on a daily basis all new credit card receivable originations for the GM and UP Portfolios to HSBC Bank USA. We continue to service the GM and UP receivables for HSBC Bank USA for a fee. Information regarding these receivables is summarized in the table below.

- In January 2009, we also sold certain auto finance receivables with an outstanding principal balance of $3.0 billion at the time of sale to HSBC Bank USA and recorded a gain on the bulk sale of these receivables of $7 million. In March 2010, we repurchased $379 million of these auto finance receivables from HSBC Bank USA and immediately sold them to SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," for further discussion of the transaction with SC USA. Prior to the sale of our receivable servicing operations to SC USA in March 2010, we serviced these auto finance receivables for HSBC Bank USA for a fee. Information regarding these receivables is summarized in the table below.

- In July 2004 we purchased the account relationships associated with $970 million of credit card receivables from HSBC Bank USA and on a daily basis, we sell new receivable originations on these credit card accounts to HSBC Bank USA. We continue to service these loans for a fee. Information regarding these receivables is summarized in the table below.

- In December 2004, we sold to HSBC Bank USA our private label receivable portfolio (excluding retail sales contracts at our Consumer Lending business). We continue to service the sold private label and credit card receivables and receive servicing and related fee income from HSBC Bank USA. We retained the customer account relationships and by agreement sell on a daily basis all new private label receivable originations and new receivable originations on these credit card accounts to HSBC Bank USA. Information regarding these receivables is summarized in the table below.

- In 2003 and 2004, we sold approximately $3.7 billion of real estate secured receivables to HSBC Bank USA. We continue to service these receivables for a fee. Information regarding these receivables is summarized in the table below.

The following table summarizes the private label, credit card (including the GM and UP Portfolios), auto finance and real estate secured receivables we are servicing for HSBC Bank USA at June 30, 2010 and December 31, 2009 as well as the receivables sold on a daily basis during the three and six months ended June 30, 2010 and 2009:

		Credit Cards					
	Private Label	General Motors	Union Privilege	Other	Auto Finance	Real Estate Secured	Total
	(in billions)						
Receivables serviced for HSBC Bank USA:							
June 30, 2010	**$13.1**	**$4.5**	**$4.5**	**$1.9**	**$-**	**$1.7**	**$25.7**
December 31, 2009	15.6	5.4	5.3	2.1	2.1	1.8	32.3
Total of receivables sold on a daily basis to HSBC Bank USA during:							
Three months ended June 30, 2010	**$3.4**	**$3.5**	**$.8**	**$1.0**	**$-**	**$-**	**$8.7**
Three months ended June 30, 2009	3.8	3.7	1.0	1.1	-	-	9.6
Six months ended June 30, 2010	**$6.4**	**$6.6**	**$1.5**	**$2.0**	**$-**	**$-**	**$16.5**
Six months ended June 30, 2009	7.4	7.1	1.8	2.1	-	-	18.4

Fees received for servicing these loan portfolios totaled $159 million and $323 million during the three and six months ended June 30, 2010, respectively, compared to $178 million and $360 million during the three and six months ended June 30, 2009, respectively.

- The GM and UP credit card receivables as well as the private label receivables are sold to HSBC Bank USA on a daily basis at a sales price for each type of portfolio determined using a fair value calculated semi-annually in April and October by an independent third party based on the projected future cash flows of the receivables. The projected future cash flows are developed using various assumptions reflecting the historical performance of the receivables and adjusted for key factors such as the anticipated economic and regulatory environment. The independent third party uses these projected future cash flows and a discount rate to determine a range of fair values. We use the mid-point of this range as the sales price.

- In the second quarter of 2008, our Consumer Lending business launched a new program with HSBC Bank USA to sell real estate secured receivables to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Our Consumer Lending business originated the loans in accordance with Freddie Mac's underwriting criteria. The loans were then sold to HSBC Bank USA, generally within 30 days. HSBC Bank USA repackaged the loans and sold them to Freddie Mac under their existing Freddie Mac program. During the three months ended March 31, 2009, we sold $51 million of real estate secured loans to

HSBC Bank USA for a gain on sale of $2 million. This program was discontinued in late February 2009 as a result of our decision to discontinue new customer account originations in our Consumer Lending business.

- HSBC Bank USA services a portfolio of real estate secured receivables for us with an outstanding principal balance of $1.3 billion and $1.5 billion at June 30, 2010 and December 31, 2009, respectively. Fees paid relating to the servicing of this portfolio totaled less than $1 million during the three and six months ended June 30, 2010, respectively, compared to $3 million and $5 million during the year-ago periods. These fees are reported in Support services from HSBC affiliates. The decrease during the first half of 2010 reflects a renegotiation of servicing fees for this portfolio.

- In the third quarter of 2009, we sold $86 million of Low Income Housing Tax Credit Investment Funds to HSBC Bank USA for a loss on sale of $15 million (after-tax).

- Under multiple service level agreements, we also provide various services to HSBC Bank USA, including real estate and credit card servicing and processing activities, auto finance loan servicing and other operational and administrative support. Fees received for these services are reported as Servicing and other fees from HSBC affiliates.

- In the fourth quarter of 2009, an initiative was begun to streamline the servicing of real estate secured receivables across North America. As a result, certain functions that we had previously performed for our mortgage customers are now being performed by HSBC Bank USA for all North America mortgage customers, including our mortgage customers. Additionally, we are currently performing certain functions for all North America mortgage customers where these functions had been previously provided separately by each entity. During the three and six months ended June 30, 2010, we paid $2 million and $4 million, respectively, for services we received from HSBC Bank USA and received $1 million and $2 million for services we had provided.

- HSBC Bank USA and HSBC Trust Company (Delaware) ("HTCD") are the originating lenders on our behalf for loans initiated by our Taxpayer Financial Services business for clients of a single third party tax preparer. We historically purchased the loans originated by HSBC Bank USA and HTCD daily for a fee. During the first quarter of 2010, we began purchasing a smaller portion of these loans. The loans which we previously purchased are now held on HSBC Bank USA's balance sheet. In the event any of the loans which HSBC Bank USA continues to hold on its balance sheet reach a defined delinquency status, we purchase the delinquent loans at par value as we have assumed all credit risk associated with this program. We receive a fee from HSBC Bank USA for both servicing the loans and assuming the credit risk associated with these loans which totaled $2 million and $58 million for the three and six months ended June 30, 2010, respectively. In the table above, these fees are shown as taxpayer financial services loan servicing and other fees. For the loans which we continue to purchase from HTCD, we receive taxpayer financial services revenue and pay an origination fee to HTCD. Fees paid for originations totaled less than $1 million and $4 million during the three and six months ended June 30, 2010, respectively, and are included as an offset to taxpayer financial services revenue. Fees paid for originations totaled $1 million and $11 million during the three and six months ended June 30, 2009, respectively. In the table above, these origination fees are shown as taxpayer financial services loan origination and other fees.

- We have extended revolving lines of credit to subsidiaries of HSBC Bank USA for an aggregate total of $1.0 billion. No balances were outstanding under any of these lines of credit at either June 30, 2010 or December 31, 2009.

- HSBC Bank USA extended a secured $1.5 billion uncommitted credit facility to certain of our subsidiaries in December 2008. This is a 364 day credit facility which was renewed in November 2009. There were no balances outstanding at June 30, 2010 or December 31, 2009.

- HSBC Bank USA extended a $1.0 billion committed unsecured credit facility to HSBC Bank Nevada ("HOBN"), a subsidiary of HSBC Finance Corporation, in December 2008. This 364 day credit facility was renewed in December 2009. There were no balances outstanding at June 30, 2010 or December 31, 2009.

Transactions with HSBC Holdings plc:

- At June 30, 2010 and December 31, 2009, a commercial paper back-stop credit facility of $2.5 billion from HSBC supported our domestic issuances of commercial paper. No balances were outstanding under this credit facility at June 30, 2010 or December 31, 2009. The annual commitment fee requirement to support availability of this line is included as a component of Interest expense - HSBC affiliates in the consolidated statement of income (loss).

- In late February 2009, we effectively converted $275 million of mandatorily redeemable preferred securities of the Household Capital Trust VIII which had been issued during 2003 to common stock by redeeming the junior subordinated notes underlying the preferred securities and then issuing common stock to HSBC Investments (North America) Inc. ("HINO"). Interest expense recorded on the underlying junior subordinated notes totaled $3 million during the six months ended June 30, 2009. This interest expense is included in Interest expense - HSBC affiliates in the consolidated statement of income (loss).

-

Employees of HSBC Finance Corporation participate in one or more stock compensation plans sponsored by HSBC. These expenses are recorded in Salary and employee benefits and are reflected in the above table as Stock based compensation expense with HSBC.

Transactions with other HSBC affiliates:

- Technology and some centralized support services including human resources, corporate affairs, risk management and other shared services and beginning in January 2010, legal, compliance, tax and finance, in North America are centralized within HTSU. Technology related assets are generally capitalized and recorded on our consolidated balance sheet. HTSU also provides certain item processing and statement processing activities to us. The fees we pay HTSU for the centralized support services and processing activities are included in support services from HSBC affiliates. We also receive fees from HTSU for providing them certain administrative services, such as internal audit, as well as receiving rental revenue from HTSU for certain office space. The fees and rental revenue we receive from HTSU are recorded as a component of servicing and other fees from HSBC affiliates.

- The notional value of derivative contracts outstanding with HSBC subsidiaries totaled $56.1 billion and $58.6 billion at June 30, 2010 and December 31, 2009, respectively. When the fair value of our agreements with affiliate counterparties requires the posting of collateral, it is provided in either the form of cash and recorded on the balance sheet or in the form of securities which are not recorded on our balance sheet. The fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $934 million and $3.4 billion at June 30, 2010 and December 31, 2009, respectively, all of which was received in cash. These amounts are offset against the fair value amount recognized for derivative instruments that have been offset under the same master netting arrangement.

- Due to affiliates includes amounts owed to subsidiaries of HSBC as a result of direct debt issuances (other than preferred stock).

- In September 2008, we borrowed $1.0 billion from an existing uncommitted credit facility with HSBC Bank plc ("HBEU"). The borrowing was for 60 days and matured in November 2008. We renewed this borrowing for an additional 95 days. The borrowing matured in February 2009 and we chose not to renew it at that time. Interest expense on this borrowing totaled $5 million during the six months ended June 30, 2009.

- In October 2008, we borrowed $1.2 billion from an uncommitted money market facility with a subsidiary of HSBC Asia Pacific ("HBAP"). The borrowing was for six months, matured in April 2009 and we chose not to renew it at that time. Interest expense on this borrowing totaled $1 million and $19 million during the three and six months ended June 30, 2009, respectively.

- We purchase securities from HSBC Securities (USA) Inc. ("HSI") under an agreement to resell. Interest income recognized on these securities totaled $2 million and $3 million during the three and six months ended June 30, 2010 and $1 million and $3 million during the three and six months ended June 30, 2009, respectively, and is reflected as interest income paid to HSBC affiliates in the table above.

- We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas, customer service, systems, collection and accounting functions. The expenses related to these services of $31 million and $65 million during the three and six months ended June 30, 2010, respectively, are included as a component of Support services from HSBC affiliates in the table above. During the three and six months ended June 30, 2009, expenses related to these services totaled $43 million and $87 million, respectively.

- Support services from HSBC affiliates also include banking services and other miscellaneous services provided by other subsidiaries of HSBC, including HSBC Bank USA.

- Employees of HSBC Finance Corporation participate in a defined benefit pension plan and other post-retirement benefit plans sponsored by HSBC North America. See Note 13, "Pension and Other Post-retirement Benefits," for additional information on this pension plan.

- Historically, we have utilized HSBC Markets (USA) Inc., ("HMUS") to lead manage the underwriting of term debt issuances. There were no fees paid to the affiliate for such services during the six months ended June 30, 2010 or 2009. For debt not accounted for under the fair value option, these fees are amortized over the life of the related debt and included as a component of interest expense.

- We continue to guarantee the long-term and medium-term notes issued by our Canadian business prior to its sale to HSBC Bank Canada. During the three and six months ended June 30, 2010, we recorded fees of $2 million and $3 million, respectively, for providing this guarantee, compared to $2 million and $3 million during the three and six months ended June 30, 2009, respectively. As of June 30, 2010, the outstanding balance of the guaranteed notes was $1.4 billion and the latest scheduled maturity of the notes is May 2012. The sale agreement with HSBC Bank Canada allows us to continue to distribute various insurance products through the branch network for a fee. Fees paid to HSBC Bank Canada for distributing insurance products through this network during the three and six months ended June 30, 2010 were $9 million and $14 million, respectively, and are included in insurance commission paid to HSBC Bank Canada in the table above. During the three and six months ended June 30, 2009, fees paid for the distribution of insurance products totaled $5 million and $10 million, respectively.

15. Business Segments

We have two reportable segments: Card and Retail Services and Consumer. Our segments are managed separately and are characterized by different middle-market consumer lending products, origination processes, and locations. Our segment results are reported on a continuing operations basis.

In the second quarter of 2010, we revised the methodology used to allocate interest expense between our reportable segments. The new methodology recognizes that non-receivable assets and liabilities in each of our business segments have a shorter life than previously assumed and incorporates transfer pricing consistent with this revised forecasted life. There have been no other changes in our measurement of segment profit (loss) and there have been no changes in the basis of segmentation as compared with the presentation in our 2009 Form 10-K.

Our Card and Retail Services segment comprises our core operations and includes our MasterCard, Visa, private label and other credit card operations. The Card and Retail Services segment offers these products throughout the United States primarily via strategic affinity and co-branding relationships, merchant relationships and direct mail. We also offer products and provide customer service through the Internet.

Our Consumer segment consists of our run-off Consumer Lending, Mortgage Services and Auto Finance businesses which are no longer considered central to our core operations. The Consumer segment provided real estate secured, auto finance and personal non-credit card loans. Loans were offered with both revolving and closed-end terms and with fixed or variable interest rates. Loans were originated through branch locations and direct mail. Products were also offered and customers serviced through the Internet. Prior to the first quarter of 2007, we acquired loans from correspondent lenders and prior to September 2007 we also originated loans through mortgage brokers. While these businesses are operating in run-off mode, they have not been reported as discontinued operations because we continue to generate cash flow from the ongoing collections of the receivables, including interest and fees.

The All Other caption includes our Insurance business. It also includes our Taxpayer Financial Services and Commercial businesses which are no longer considered core to our operations. Each of these businesses falls below the quantitative threshold tests under segment reporting accounting principles for determining reportable segments. The "All Other" caption also includes our corporate and treasury activities, which includes the impact of FVO debt. Certain fair value adjustments related to purchase accounting resulting from our acquisition by HSBC and related amortization have been allocated to corporate, which is included in the "All Other" caption within our segment disclosure including goodwill arising from our acquisition by HSBC.

We report results to our parent, HSBC, in accordance with its reporting basis, IFRSs. Our segment results are presented on an IFRS Management Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRS Management Basis. IFRS Management Basis results are IFRSs results which assume that the GM and UP credit card, auto finance, private label and real estate secured receivables transferred to HSBC Bank USA have not been sold and remain on our balance sheet and the revenues and expenses related to these receivables remain on our income statement. IFRS Management Basis also assumes that the purchase accounting fair value adjustments relating to our acquisition by HSBC have been "pushed down" to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the receivable sales to HSBC Bank USA were conducted primarily to fund prime customer loans more efficiently through bank deposits and such receivables continue to be managed and serviced by us without regard to ownership. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP legal entity basis.

For segment reporting purposes, intersegment transactions have not been eliminated. We generally account for transactions between segments as if they were with third parties.

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

	Card and Retail Services	Consumer	All Other	Adjustments/ Reconciling Items	IFRS Management Basis Consolidated Totals	Management Basis Adjustments(3)	IFRS Adjustments(4)	IFRS Reclass-ifications(5)	U.S. GA[A]P Consolida[ted] Totals
					(in millions)				
Three months ended June 30, 2010									
Net interest income	**$1,177**	**$679**	**$181**	**$-**	**$2,037**	**$(664)**	**$(95)**	**$(224)**	**$1,**
Other operating income (Total other revenues)	**354**	**35**	**(203)**	**(6)(1)**	**180**	**78**	**(11)**	**291**	
Total operating income (loss)	**1,531**	**714**	**(22)**	**(6)**	**2,217**	**(586)**	**(106)**	**67**	**1,**
Loan impairment charges (Provision for credit losses)	**784**	**1,436**	**-**	**-**	**2,220**	**(455)**	**(143)**	**-**	**1,**
	747	**(722)**	**(22)**	**(6)**	**(3)**	**(131)**	**37**	**67**	**(**
Operating expenses	**488**	**247**	**18**	**(6)**	**747**	**(16)**	**25**	**67**	
Profit (loss) before tax	**$259**	**$(969)**	**$(40)**	**$-**	**$(750)**	**$(115)**	**$12**	**$-**	**$(8**
Intersegment revenues	**2**	**15**	**(11)**	**(6)(1)**	**-**	**-**	**-**	**-**	
Balances at end of period:									
Customer loans (Receivables)	**33,237**	**68,753**	**2,844**	**-**	**104,834**	**(25,798)**	**(565)**	**(2,800)**	**75,**

Assets	**32,240**	**68,225**	**12,971**	**-(2)**	**113,436**	**(25,623)**	**(2,718)**	**(117)**	**84,**
Three months ended June 30, 2009									
Net interest income	$1,298	$977	$235	$1	$2,511	$(718)	$(86)	$(175)	$1,
Other operating income (Total other revenues)	568	69	(4,612)	(5)(1)	(3,980)	(42)	(270)	262	(4,0
Total operating income (loss)	1,866	1,046	(4,377)	(4)	(1,469)	(760)	(356)	87	(2,4
Loan impairment charges (Provision for credit losses)	1,208	2,154	-	-	3,362	(720)	(206)	-	2,
	658	(1,108)	(4,377)	(4)	(4,831)	(40)	(150)	87	(4,9
Operating expenses	986	262	836	(5)	2,079	2	372	87	2,
Profit (loss) before tax	$(328)	$(1,370)	$(5,213)	$1	$(6,910)	$(42)	$(522)	$-	$(7,4
Intersegment revenues	1	33	(29)	(5)(1)	-	-	-	-	
Balances at end of period:									
Customer loans (Receivables)	40,981	90,197	1,072	-	132,250	(31,998)	(565)	(1,609)	98,
Assets	39,292	87,713	10,164	(2)(2)	137,167	(31,414)	(3,440)	(170)	102,
Six months ended June 30, 2010									
Net interest income	**$2,455**	**$1,386**	**$467**	**$-**	**$4,308**	**$(1,405)**	**$(190)**	**$(455)**	**$2,**
Other operating income (Total other revenues)	**746**	**(23)**	**(263)**	**(13)(1)**	**447**	**173**	**35**	**594**	**1,**
Total operating income (loss)	**3,201**	**1,363**	**204**	**(13)**	**4,755**	**(1,232)**	**(155)**	**139**	**3,**
Loan impairment charges (Provision for	**1,321**	**3,194**	**(1)**	**-**	**4,514**	**(764)**	**(209)**	**-**	**3,**

credit losses)									
	1,880	**(1,831)**	**205**	**(13)**	**241**	**(468)**	**54**	**139**	**(**
Operating expenses	**940**	**515**	**99**	**(13)**	**1,541**	**(27)**	**99**	**139**	**1,**
Profit (loss) before tax	**$940**	**$(2,346)**	**$106**	**$-**	**$(1,300)**	**$(441)**	**$(45)**	**$-**	**$(1,7**
Intersegment revenues	**5**	**33**	**(25)**	**(13)(1)**	**-**	**-**	**-**	**-**	
Six months ended June 30, 2009									
Net interest income	$2,638	$2,012	$491	$1	$5,142	$(1,442)	$(170)	$(319)	$3,
Other operating income (Total other revenues)	1,228	30	(582)	(12)(1)	664	61	(355)	568	
Total operating income (loss)	3,866	2,042	(91)	(11)	5,806	(1,381)	(525)	249	4,
Loan impairment charges (Provision for credit losses)	2,719	4,589	-	-	7,308	(1,559)	(368)	-	5,
	1,147	(2,547)	(91)	(11)	(1,502)	178	(157)	249	(1,2
Operating expenses	1,474	819	2,513	(12)	4,794	5	(533)	249	4,
Profit (loss) before tax	$(327)	$(3,366)	$(2,604)	$1	$(6,296)	$173	$376	$-	$(5,7
Intersegment revenues	3	67	(58)	(12)(1)	-	-	-	-	

(1) Eliminates intersegment revenues.

(2) Eliminates investments in subsidiaries and intercompany borrowings.

(3) Management Basis Adjustments represent the GM and UP credit card Portfolios and the auto finance, private label and real estate secured receivables transferred to HSBC Bank USA.

(4) IFRS Adjustments consist of the accounting differences between U.S. GAAP and IFRSs which have been described more fully below.

(5) Represents differences in balance sheet and income statement presentation between IFRSs and U.S. GAAP.

Further discussion of the differences between IFRSs and U.S. GAAP are presented in Item 2, "Management's

Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the caption "Basis of Reporting." A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

Net interest income

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

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

Derivative interest expense - Under IFRSs, net interest income includes the interest element for derivatives which correspond to debt designated at fair value. For U.S. GAAP, this is included in Gain (loss) on debt designated at fair value and related derivatives which is a component of other revenues. Additionally, under IFRSs, insurance investment income is included in net interest income instead of as a component of other revenues under U.S. GAAP.

Other operating income (Total other revenues)

Present value of long-term insurance contracts - Under IFRSs, the present value of an in-force ("PVIF") long-term insurance contract is determined by discounting future cash flows expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a discount rate that reflects the risk premium attributable to the respective long-term insurance business. Movements in the PVIF of long-term insurance contracts are included in other operating income. Under U.S. GAAP, revenue is recognized over the life insurance policy term.

Policyholder benefits - Other revenues under IFRSs include policyholder benefits expense which is classified as other expense under U.S. GAAP.

Loans held for sale - IFRSs requires loans designated as held for resale at the time of origination to be treated as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for resale are reflected as loans and recorded at the lower of amortized cost or fair value. Under IFRSs, the income and expenses related to receivables held for sale are reported in other operating income. Under U.S. GAAP, the income and expenses related to receivables held for sale are reported similarly to loans held for investment.

For receivables transferred to held for sale subsequent to origination, IFRSs requires these receivables to be reported separately on the balance sheet but does not change the recognition and measurement criteria. Accordingly, for IFRSs purposes such loans continue to be accounted for in accordance with IAS 39 with any gain or loss recorded at the time of sale. U.S. GAAP requires loans that management intends to sell to be transferred to a held for sale category at the lower of cost or fair value. Under U.S. GAAP, the component of the lower of cost or fair value adjustment related to credit risk is recorded in the statement of income (loss) as provision for credit losses while the component related to interest rates and liquidity factors is reported in the statement of income (loss) in other revenues.

Certain receivables that were previously classified as held for sale under U.S. GAAP have now been transferred to held for investment as we now intend to hold for the foreseeable future. Under U.S. GAAP, these receivables were subject to lower of cost or fair value adjustments while held for sale and have been transferred to held for investment at their current carrying value. Under IFRSs, these receivables were always reported within loans and the measurement criteria did not change. As a result, loan impairment charges are now being recorded under IFRSs which were essentially included as a component of the lower of cost or fair value adjustments under U.S. GAAP.

Securities - Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares are recorded at fair value through other comprehensive income. If it is determined these shares have become impaired, the fair value loss is recognized in profit and loss and any fair value loss recorded in other comprehensive income is reversed. There is no similar requirement under U.S. GAAP.

During the second quarter of 2009, under IFRSs we recorded income for the value of additional shares attributed to HSBC shares held for stock plans as a result of HSBC's rights offering earlier in 2009. The additional shares are not recorded under U.S. GAAP.

Other-than-temporary impairments - Under U.S. GAAP we are allowed to evaluate perpetual preferred securities for potential other-than-temporary impairment similar to a debt security provided there has been no evidence of deterioration in the credit of the issuer and record the unrealized losses as a component of other comprehensive income. There are no similar provisions under IFRSs as all perpetual preferred securities are evaluated for other-than-temporary impairment as equity securities.

Under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining portion of the impairment loss is recognized in other comprehensive income provided a company concludes it neither intends to sell the security nor concludes that it is more-likely-than-not that it will have to sell the security prior to recovery. Under IFRSs, there is no bifurcation of other-than-temporary impairment and the entire decline in value is recognized in earnings.

REO Expense - Other revenues under IFRSs includes losses on sale and the lower of cost or fair value adjustments on REO properties which are classified as other expense under U.S. GAAP.

Loan impairment charges (Provision for credit losses)

IFRSs requires a discounted cash flow methodology for estimating impairment on pools of homogeneous customer loans which requires the incorporation of the time value of money relating to recovery estimates. Also under IFRSs, future recoveries on charged-off loans are accrued for on a discounted basis and a recovery asset is recorded. Subsequent recoveries are recorded to earnings under U.S. GAAP, but are adjusted against the recovery asset under

IFRSs. Interest is recorded based on collectibility under IFRSs.

As discussed above, under U.S. GAAP the credit risk component of the lower of cost or fair value adjustment related to the transfer of receivables to held for sale is recorded in the statement of income (loss) as provision for credit losses. There is no similar requirement under IFRSs.

Operating expenses

Goodwill impairments - Goodwill impairment under IFRSs was higher than that under U.S. GAAP due to higher levels of goodwill established under IFRSs as well as differences in how impairment is measured as U.S. GAAP requires a two-step impairment test which requires the fair value of goodwill to be determined in the same manner as the amount of goodwill recognized in a business combination.

Policyholder benefits - Operating expenses under IFRSs are lower as policyholder benefits expenses are reported as an offset to other revenues as discussed above.

Pension costs - Net income under U.S. GAAP is lower than under IFRSs as a result of the amortization of the amount by which actuarial losses exceed gains beyond the 10 percent "corridor". Furthermore, in 2010 changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under U.S. GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition.

Assets

Customer loans (Receivables) - On an IFRSs basis loans designated as held for sale at the time of origination and accrued interest are classified as trading assets. However, the accounting requirements governing when receivables previously held for investment are transferred to a held for sale category are more stringent under IFRSs than under U.S. GAAP. Unearned insurance premiums are reported as a reduction to receivables on a U.S. GAAP basis but are reported as insurance reserves for IFRSs.

Other - In addition to the differences discussed above, derivative financial assets are higher under IFRSs than under U.S. GAAP as U.S. GAAP permits the netting of certain items. No similar requirement exists under IFRSs.

16. Variable Interest Entities

On January 1, 2010, we adopted the new guidance which amends the accounting for the consolidation of variable interest entities. The new guidance changed the approach for determining the primary beneficiary of a VIE from a quantitative approach focusing on risk and reward to a qualitative approach focusing on the power to direct the activities of the VIE and the obligation to absorb losses and/or the right to receive benefits of the VIE. The adoption of the new guidance has not resulted in any changes to consolidated entities for us.

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

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

Consolidated VIEs In the ordinary course of business, we have organized special purpose entities ("SPEs") primarily to meet our own funding needs through collateralized funding transactions. We transfer certain receivables to these trusts which in turn issue debt instruments collateralized by the transferred receivables. The entities used in these transactions are VIEs and we are deemed to be their primary beneficiary because we hold beneficial interests that expose us to the majority of their expected losses. Accordingly, we consolidate these entities and report the debt securities issued by them as secured financings in long-term debt. This has not changed as a result of the new accounting guidance effective January 1, 2010. As a result, all receivables transferred in these secured financings have remained and continue to remain on our balance sheet and the debt securities issued by them have remained and continue to be included in long-term debt.

The following table summarizes the assets and liabilities of these consolidated secured financing VIEs as of June 30, 2010 and December 31, 2009:

	June 30, 2010		**December 31, 2009**	
	Consolidated Assets	**Consolidated Liabilities**	**Consolidated Assets**	**Consolidated Liabilities**
	(in millions)			
Real estate collateralized funding vehicles:				
Receivables, net	**$6,048**	**$-**	$6,404	$-
Available-for-sale investments	**43**	**-**	13	-
Long-term debt	**-**	**4,324**	-	4,678
Subtotal	**6,091**	**4,324**	6,417	4,678
Credit card collateralized funding vehicles:				
Receivables, net	**2,025**	**-**	1,821	-
Long-term debt	**-**	**120**	-	-
Subtotal	**2,025**	**120**	1,821	-

Auto finance collateralized funding vehicles:				
Receivables, net	**698**	**-**	1,145	-
Other assets	**125**	**-**	152	-
Long-term debt	**-**	**490**	-	778
Subtotal	**823**	**490**	1,297	778
Total	**$8,939**	**$4,934**	$9,535	$5,456

The assets of the consolidated VIEs serve as collateral for the obligations of the VIEs. The holders of the debt securities issued by these vehicles have no recourse to our general credit.

Unconsolidated VIEs We are involved with VIEs related to low income housing partnerships, leveraged leases and investments in community partnerships that were not consolidated at June 30, 2010 or December 31, 2009 because we are not the primary beneficiary. At June 30, 2010, we have assets totaling $32 million on our consolidated balance sheet which represents our maximum exposure to loss for these VIEs.

Additionally, we are involved with other VIEs which currently provide funding to HSBC Bank USA through collateralized funding transactions. We have not consolidated these VIEs at June 30, 2010 or December 31, 2009 because we are not the primary beneficiary as our relationship with these VIEs is limited to servicing certain credit card and private label receivables of the related trusts.

17. Fair Value Measurements

Accounting principles related to fair value measurements provide a framework for measuring fair value and focuses on an exit price in the principal (or alternatively, the most advantageous) market accessible in an orderly transaction between willing market participants (the "Fair Value Framework"). The Fair Value Framework establishes a three-tiered fair value hierarchy with Level 1 representing quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are inputs that are observable for the identical asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are disorderly, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. Transfers between leveling categories are recognized at the end of each reporting period.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Quoted Prices in Active Markets for	Significant Other	Significant		**Total of** Assets (Liabilities) Measured at

	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3) (in millions)	Netting(1)	Fair Value
June 30, 2010:					
Derivative financial assets(1):					
Interest rate swaps	**$-**	**$1,326**	**$-**	**$-**	**$1,326**
Currency swaps	**-**	**1,129**	**-**	**-**	**1,129**
Foreign exchange forward	**-**	**1**	**-**	**-**	**1**
Derivative netting	**-**	**-**	**-**	**(2,438)**	**(2,438)**
Total derivative financial assets	**-**	**2,456**	**-**	**(2,438)**	**18**
Available-for-sale securities:					
U.S. Treasury	**373**	**-**	**-**	**-**	**373**
U.S. government sponsored enterprises	**24**	**232**	**2**	**-**	**258**
U.S. government agency issued or guaranteed	**-**	**16**	**-**	**-**	**16**
Obligations of U.S. states and political subdivisions	**-**	**31**	**-**	**-**	**31**
Asset-backed securities	**-**	**49**	**24**	**-**	**73**
U.S. corporate debt securities	**-**	**1,748**	**3**	**-**	**1,751**
Foreign debt securities:			**-**	**-**	
Government	**7**	**80**	**-**	**-**	**87**
Corporate	**-**	**275**	**-**	**-**	**275**
Equity securities	**-**	**12**	**-**	**-**	**12**
Money market funds	**371**	**-**	**-**	**-**	**371**
Accrued interest	**1**	**29**	**-**	**-**	**30**
Total available-for-sale securities	**776**	**2,472**	**29**	**-**	**3,277**
Total assets	**$776**	**$4,928**	**$29**	**$(2,438)**	**$3,295**
Long-term debt carried at fair value	**$-**	**$(25,592)**	**$-**	**$-**	**$(25,592)**
Derivative related liabilities(1):					
Interest rate swaps	**-**	**(880)**	**-**	**-**	**(880)**
Currency swaps	**-**	**(865)**	**-**	**-**	**(865)**
Foreign Exchange Forward	**-**	**(2)**	**-**	**-**	**(2)**
Derivative netting	**-**	**-**	**-**	**1,529**	**1,529**
Total derivative related liabilities	**-**	**(1,747)**	**-**	**1,529**	**(218)**
Total liabilities	**$-**	**$(27,339)**	**$-**	**$1,529**	**$(25,810)**
December 31, 2009:					
Derivative financial assets(2)	$-	$3,363	$-	$-	$3,363
Available-for-sale securities:					
U.S. Treasury	196	-	-	-	196
U.S. government sponsored enterprises	21	74	2	-	97
U.S. government agency issued or guaranteed	-	21	-	-	21
Obligations of U.S. states and political subdivisions	-	31	1	-	32
Asset-backed securities	-	57	26	-	83
U.S. corporate debt securities	-	1,704	20	-	1,724
Foreign debt securities	10	356	-	-	366

Equity securities	-	12	-	-	12
Money market funds	627	-	-	-	627
Accrued interest	1	28	-	-	29
Total available-for-sale securities	855	2,283	49	-	3,187
Total assets	$855	$5,646	$49	$-	$6,550
Long-term debt carried at fair value	$-	$(26,745)	$-	$-	$(26,745)
Derivative related liabilities	-	(59)	-	-	(59)
Total liabilities	$-	$(26,804)	$-	$-	$(26,804)

(1) Represents counter party and swap collateral netting which allow the offsetting of amounts relating to certain contracts when certain conditions are met.

(2) The fair value disclosed does not include swap collateral which was a net liability of $3.4 billion at December 31, 2009, that we either received or deposited with our interest rate swap counterparties. Such swap collateral is recorded on our balance sheet at an amount which "approximates fair value" and is netted on the balance sheet with the fair value amount recognized for derivative instruments when certain conditions are met.

The following table provides additional detail regarding the rating of our U.S. corporate debt securities at June 30, 2010:

	Level 2	**Level 3**	**Total**
	(in millions)		
AAA to AA(1)	$393	$-	$393
A+ to A-(1)	1,215	-	1,215
BBB+ to Unrated(1)	140	3	143

(1) We obtain ratings on our U.S. corporate debt securities from both Moody's Investor Services and Standard and Poor's Corporation. In the event the ratings we obtain from these agencies differ, we utilize the lower of the two ratings.

Significant Transfers Into/Out of Level 1 and Level 2 There were no transfers between Level 1 (quoted unadjusted prices in active markets for identical assets or liabilities) and Level 2 (using inputs that are observable for the identical asset or liability, either directly or indirectly) during the three or six months ended June 30, 2010.

Information on Level 3 Assets and Liabilities The table below reconciles the beginning and ending balances for assets recorded at fair value using significant unobservable inputs (Level 3) during the three and six months ended June 30, 2010 and 2009.

Total Gains and

	April 1, 2010	Income	(Losses) Included in Other Comp. Income	Purchases	Issuances	Settlement	Transfers Out of Level 2 and Into Level 3	Transfers Out of Level 3 and Into Level 2	June 30 2010	Current Period Unrealized Gains (Losses)
	(in millions)									
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	$-	$-	$-	$-	$-	$-	$2	$-	$2	$1
Obligations of U.S. states and political subdivisions	-	-	-	-	-	-	-	-	-	-
Asset-backed securities	27	-	(3)	-	-	-	-	-	24	-
U.S. corporate debt securities	10	-	-	-	-	-	-	(7)	3	-
Total assets	$37	$-	$(3)	$-	$-	$-	$2	$(7)	$29	$1

	April 1, 2009	Income	Total Gains and (Losses) Included in Other Comp. Income	Purchases	Issuances	Settlement	Transfers Into Level 3	Transfers Out of Level 3	June 30 2009	Current Period Unrealized Gains (Losses)
	(in millions)									
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	$2	$-	$-	$-	$-	$-	$-	$-	$2	$1
Asset-backed securities	30	-	(2)	-	-	-	12	(4)	36	(3)
U.S. corporate debt securities	32	-	1	-	-	-	37	(25)	45	4
Foreign debt securities	6	-	-	-	-	-	-	-	6	1
Equity Securities	42	-	-	5	-	(42)	-	-	5	-

Accrued interest	1	-	-	-	-	-	-	-	1	-
Total assets	$113	$-	$(1)	$5	$-	$(42)	$49	$(29)	$95	$3

		Total Gains and (Losses) Included in								
	Jan. 1, 2010	Income	Other Comp. Income	Purchases	Issuances	Settlement	Transfers Out of Level 2 and Into Level 3	Transfers Out of Level 3 and Into Level 2	June 30 2010	Current Period Unrealized Gains (Losses)
					(in millions)					
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	**$2**	**$-**	**$-**	**$-**	**$-**	**$-**	**$2**	**$(2)**	**$2**	**$1**
Obligations of U.S. states and political subdivisions	**1**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
Asset-backed securities	**26**	**-**	**(4)**	**-**	**-**	**-**	**2**	**-**	**24**	**2**
U.S. corporate debt securities	**20**	**-**	**-**	**-**	**-**	**-**	**8**	**(25)**	**3**	**-**
Total assets	**$49**	**$-**	**$(4)**	**$-**	**$-**	**$(1)**	**$12**	**$(27)**	**$29**	**$3**

		Total Gains and (Losses) Included in								
	Jan. 1, 2009	Income	Other Comp. Income	Purchases	Issuances	Settlement	Transfers Into Level 3	Transfers Out of Level 3	June 30 2009	Current Period Unrealized Gains (Losses)
					(in millions)					
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	$-	$-	$-	$-	$-	$-	$2	$-	$2	$-
	38	-	(4)	-	-	-	23	(21)	36	(2)

Asset-backed securities										
U.S. corporate debt securities	84	-	-	5	-	-	54	(98)	45	1
Foreign debt securities	-	-	-	-	-	-	6	-	6	1
Equity Securities	51	(7)	-	5	-	(44)	-	-	5	1
Accrued interest	2	-	-	-	-	-	-	(1)	1	-
Total assets	$175	$(7)	$(4)	$10	$-	$(44)	$85	$(120)	$95	$1

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis The following table presents information about our assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Non-Recurring Fair Value Measurements as of June 30, 2010				Total Gains (Losses) For the Three Months Ended June 30, 2010	Total Gains (Losses) For the Six Months Ended June 30, 2010
	Level 1	**Level 2**	**Level 3**	**Total**		
	(in millions)					
Real estate secured receivables held for sale at fair value	**$-**	**$-**	**$5**	**$5**	**$2**	**$2**
Real estate owned(1)	**$**	**$877**	**$-**	**$877**	**$(42)**	**$(81)**
Repossessed vehicles(1)	**$**	**$14**	**$-**	**$14**	**$-(2)**	**$-(2)**

	Non-Recurring Fair Value Measurements as of June 30, 2009				Total Gains (Losses) For the Three Months Ended June 30, 2009	Total Gains (Losses) For the Six Months Ended June 30, 2009
	Level 1	**Level 2**	**Level 3**	**Total**		
	(in millions)					
Real estate secured	$-	$-	$36	$36	$2	$-
Auto finance	-	450	-	450	(38)	(38)
Credit cards	-	-	609	609	(161)	(328)
Total receivables held for sale at fair value(3)	$-	$450	$645	$1,095	$(197)	$(366)
Real estate owned(1)	$-	$739	$-	$739	$(52)	$(151)
Repossessed vehicles(1)	$-	$33	$-	$33	$-(2)	$-(2)
Goodwill(4)	$-	$-	$-	$-	$(1,641)	$(2,294)
Intangible assets(4)	$-	$-	$-	$-	$-	$(14)

(1) Real estate owned and repossessed vehicles are required to be reported on the balance sheet net of transaction costs. The real estate owned and repossessed vehicle amounts in the table above reflect the fair value of the underlying asset unadjusted for transaction costs.

(2) Repossessed vehicles are typically sold within two months of repossession. As a result, fair value adjustments subsequent to repossession are not significant.

(3) Excludes $5 million of receivables held for sale at June 30, 2009 for which the fair value exceeds carrying value.

(4) During the three months ended March 31, 2009, goodwill with a carrying amount of $260 million allocated to our Insurance Services business was written down to its implied fair value of $0 million. Additionally, during the three and six months ended June 30, 2009, goodwill with a carrying amount of $1.6 billion and $2.0 billion, respectively, allocated to our Card and Retail Services businesses was written down to its implied fair value of $0 million, respectively. Additionally, technology, customer lists and customer loan related relationship intangible assets totaling $34 million were written down to their implied fair value of $20 million during the three months ended March 31, 2009. No write-down of goodwill or intangible assets occurred during the three or six months ended June 30, 2010.

Fair Value of Financial Instruments The fair value estimates, methods and assumptions set forth below for our financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this quarterly report. The following table summarizes the carrying values and estimated fair value of our financial instruments at June 30, 2010 and December 31, 2009.

	June 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Financial assets:				
Cash	**$229**	**$229**	$311	$311
Interest bearing deposits with banks	**15**	**15**	17	17
Securities purchased under agreements to resell	**5,216**	**5,216**	2,850	2,850
Securities	**3,277**	**3,277**	3,187	3,187
Consumer receivables:				
Mortgage Services:				
First lien	**13,878**	**9,453**	15,244	8,824
Second lien	**2,065**	**578**	2,331	672
Total Mortgage Services	**15,943**	**10,031**	17,575	9,496
Consumer Lending:				
First lien	**30,449**	**21,806**	32,751	20,918
Second lien	**3,217**	**895**	3,791	1,149
Total Consumer Lending real estate secured receivables	**33,666**	**22,701**	36,542	22,067
Non-real estate secured receivables	**6,958**	**4,932**	8,776	5,848

Total Consumer Lending	**40,624**	**27,633**	45,318	27,915
Credit card	**8,909**	**8,633**	9,905	9,358
Auto Finance	**2,620**	**2,521**	3,556	3,348
Total consumer receivables	**68,096**	**48,818**	76,354	50,117
Receivables held for sale	**5**	**5**	536	536
Due from affiliates	**160**	**160**	123	123
Derivative financial assets	**18**	**18**	-	-
Financial liabilities:				
Commercial paper	**3,736**	**3,736**	4,291	4,291
Due to affiliates	**7,530**	**7,208**	9,043	9,259
Long-term debt carried at fair value	**25,592**	**25,592**	26,745	26,745
Long-term debt not carried at fair value	**37,377**	**36,140**	42,913	41,144
Insurance policy and claim reserves	**995**	**1,225**	996	1,092
Derivative financial liabilities	**218**	**218**	60	60

Receivable values presented in the table above were determined using the Fair Value Framework for measuring fair value, which is based on our best estimate of the amount within a range of values we believe would be received in a sale as of the balance sheet date (i.e. exit price). The secondary market demand and estimated value for our receivables has been heavily influenced by the deteriorating economic conditions during the past few years, including house price depreciation, rising unemployment, changes in consumer behavior, and changes in discount rates. Many investors are non-bank financial institutions or hedge funds with high equity levels and a high cost of debt. For certain consumer receivables, investors incorporate numerous assumptions in predicting cash flows, such as higher charge-off levels and/or slower voluntary prepayment speeds than we, as the servicer of these receivables, believe will ultimately be the case. The investor discount rates reflect this difference in overall cost of capital as well as the potential volatility in the underlying cash flow assumptions, the combination of which may yield a significant pricing discount from our intrinsic value. The estimated fair values at June 30, 2010 and December 31, 2009 reflect these market conditions.

Valuation Techniques The following summarizes the valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but for which fair value disclosures are required.

Cash: Carrying value approximates fair value due to cash's liquid nature.

Interest bearing deposits with banks: Carrying value approximates fair value due to the asset's liquid nature.

Securities purchased under agreements to resell: The fair value of securities purchased under agreements to resell approximates carrying value due to the short-term maturity of the agreements.

Securities: Fair value for our available-for-sale securities is generally determined by a third party valuation source. The pricing services generally source fair value measurements from quoted market prices and if not available, the security is valued based on quotes from similar securities using broker quotes and other information obtained from dealers and market participants. For securities which do not trade in active markets, such as fixed income securities, the pricing services generally utilize various pricing applications, including models, to measure fair value. The pricing applications are based on market convention and use inputs that are derived principally from or corroborated by observable market data by correlation or other means. The following summarizes the valuation methodology used for our major security types:

- U.S. Treasury, U.S. government agency issued or guaranteed and Obligations of U.S. States and political subdivisions - As these securities transact in an active market, the pricing services source fair value measurements from quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated.

- U.S. government sponsored enterprises - For certain government sponsored mortgage-backed securities which transact in an active market, the pricing services source fair value measurements from quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated. For government sponsored mortgage-backed securities which do not transact in an active market, fair value is determined using discounted cash flow models and inputs related to interest rates, prepayment speeds, loss curves and market discount rates that would be required by investors in the current market given the specific characteristics and inherent credit risk of the underlying collateral.

- Asset-backed securities - Fair value is determined using discounted cash flow models and inputs related to interest rates, prepayment speeds, loss curves and market discount rates that would be required by investors in the current market given the specific characteristics and inherent credit risk of the underlying collateral.

- U.S. corporate and foreign debt securities - For non-callable corporate securities, a credit spread scale is created for each issuer. These spreads are then added to the equivalent maturity U.S. Treasury yield to determine current pricing. Credit spreads are obtained from the new issue market, secondary trading levels and dealer quotes. For securities with early redemption features, an option adjusted spread ("OAS") model is incorporated to adjust the spreads determined above. Additionally, the pricing services will survey the broker/dealer community to obtain relevant trade data including benchmark quotes and updated spreads.

- Preferred equity securities - In general, for perpetual preferred securities, fair value is calculated using an appropriate spread over a comparable U.S. Treasury security for each issue. These spreads represent the additional yield required to account for risk including credit, refunding and liquidity. The inputs are derived principally from or corroborated by observable market data.

- Money market funds - Carrying value approximates fair value due to the asset's liquid nature.

Significant inputs used in the valuation of our investment securities include selection of an appropriate risk-free rate, forward yield curve and credit spread which establish the ultimate discount rate used to determine the net present value of estimated cash flows. For asset-backed securities, selection of appropriate prepayment rates, default rates and loss severities also serve as significant inputs in determining fair value. We perform validations of the fair values sourced from the independent pricing services at least quarterly. Such validation principally includes sourcing security prices from other independent pricing services or broker quotes. The validation process provides us with information as to whether the volume and level of activity for a security has significantly decreased and assists in identifying transactions that are not orderly. Depending on the results of the validation, additional information may be gathered from other market participants to support the fair value measurements. A determination will be made as to whether adjustments to the observable inputs are necessary as a result of investigations and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing services.

Receivables and Receivables held for sale: The estimated fair value of our receivables was determined by developing an approximate range of value from a mix of various sources as appropriate for the respective pool of assets. These sources include, among other items, value estimates from an HSBC affiliate which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions we believe are consistent with those which would be used by market participants in valuing such receivables; trading input from other market participants which includes observed primary and secondary trades; where appropriate, the impact of current estimated rating agency credit tranching levels with the associated benchmark credit spreads; and general discussions held directly with potential investors.

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

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

Repossessed vehicles: Fair value is determined based on current Black Book values, which represent current observable prices in the wholesale auto auction market.

Due from affiliates: Carrying value approximates fair value because the interest rates on these receivables adjust with changing market interest rates.

Commercial paper: The fair value of these instruments approximates existing carrying value because interest rates on these instruments adjust with changes in market interest rates due to their short-term maturity or repricing characteristics.

Due to affiliates: The estimated fair value of our fixed rate and floating rate debt due to affiliates was determined using discounted future expected cash flows at current interest rates and credit spreads offered for similar types of debt instruments.

Long-term debt: Fair value was primarily determined by a third party valuation source. The pricing services source fair value from quoted market prices and, if not available, expected cash flows are discounted using the appropriate interest rate for the applicable duration of the instrument adjusted for our own credit risk (spread). The credit spreads applied to these instruments were derived from the spreads recognized in the secondary market for similar debt as of the measurement date. Where available, relevant trade data is also considered as part of our validation process.

Insurance policy and claim reserves: The fair value of insurance reserves for periodic payment annuities was estimated by discounting future expected cash flows at estimated market interest rates.

Derivative financial assets and liabilities: Derivative values are defined as the amount we would receive or pay to extinguish the contract using a market participant as of the reporting date. The values are determined by management using a pricing system maintained by HSBC Bank USA. In determining these values, HSBC Bank USA uses quoted market prices, when available, principally for exchange-traded options. For non-exchange traded contracts, such as interest rate swaps, fair value is determined using discounted cash flow modeling techniques. Valuation models calculate the present value of expected future cash flows based on models that utilize independently-sourced market parameters, including interest rate yield curves, option volatilities, and currency rates. Valuations may be adjusted in order to ensure that those values represent appropriate estimates of fair value. These adjustments, which are applied consistently over time, are generally required to reflect factors such as market liquidity and counterparty credit risk that can affect prices in arms-length transactions with unrelated third parties. Finally, other transaction specific factors such as the variety of valuation models available, the range of unobservable model inputs and other model assumptions can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

Counterparty credit risk is considered in determining the fair value of a financial asset. The Fair Value Framework specifies that the fair value of a liability should reflect the entity's non-performance risk and accordingly, the effect of our own credit risk (spread) has been factored into the determination of the fair value of our financial liabilities, including derivative instruments. In estimating the credit risk adjustment to the derivative assets and liabilities, we take into account the impact of netting and/or collateral arrangements that are designed to mitigate counterparty credit risk.

18. Contingent Liabilities

Both we and certain of our subsidiaries are parties to various legal proceedings resulting from ordinary business activities relating to our current and/or former operations. Certain of these activities are or purport to be class actions seeking damages in very large amounts. These actions include assertions concerning violations of laws and/or unfair treatment of consumers.

We accrue for litigation-related liabilities when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of litigation is inherently uncertain, we believe, in light of all information known to us at June 30, 2010, that our litigation reserves are adequate at such date. We review litigation reserves at least quarterly, and the reserves may be increased or decreased in the future to reflect further relevant developments. We believe that our defenses to the claims asserted against us in our currently active litigation have merit and any adverse decision should not materially affect our consolidated financial condition. However, losses may be material to our results of operations for any particular future periods depending on our income level for that period.

On May 7, 2009, the jury in the class action *Jaffe v. Household International Inc., et. al* returned a verdict partially in favor of the plaintiffs with respect to Household International and three former officers for certain of the claims arising out of alleged false and misleading statements made in connection with certain activities of Household International, Inc. between July 30, 1999 and October 11, 2002. Despite the verdict at the District Court level, we continue to believe, after consultation with counsel, that neither Household nor its former officers committed any wrongdoing and that the Seventh Circuit will reverse the trial Court verdict upon appeal. As such, it is not probable a loss has been incurred as of June 30, 2010 as a result of this verdict. Therefore, no loss accrual was established as a result of the verdict.

19. New Accounting Pronouncements

Accounting for transfers of financial assets In June 2009, the FASB issued guidance which amends the accounting for transfers of financial assets by eliminating the concept of a qualifying special-purpose entity ("QSPE") and provides additional guidance with regard to the accounting for transfers of financial assets. The guidance is effective for all interim and annual periods beginning after November 15, 2009. We adopted this guidance on January 1, 2010. The adoption of this guidance did not have any impact on our financial position or results of operations.

Accounting for consolidation of variable interest entities In June 2009, the FASB issued guidance which amends the accounting rules related to the consolidation of variable interest entities ("VIE"). The guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model, based on control and economics. Effective January 1, 2010, certain VIEs which were not consolidated currently will be required to be consolidated. The guidance became effective for all interim and annual periods beginning after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have an impact on our financial position or results of operations. See Note 16, "Variable Interest Entities," in these consolidated financial statements for additional information.

Improving Disclosures about Fair Value Measurements In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair measurements and describe the reasons for the same. It also requires Level 3 reconciliation to be presented on a gross basis, while disclosing purchases, sales, issuances and settlements separately. The guidance is effective for interim and annual financial periods beginning after December 15, 2009 except for gross basis presentation for Level 3 reconciliation, which is effective for interim and annual periods beginning after December 15, 2010. We adopted the new disclosure requirements in its entirety effective January 1, 2010. See Note 17, "Fair Value Measurements" in these consolidated financial statements.

Subsequent Events In February 2010, the FASB amended certain recognition and disclosure requirements for subsequent events. The guidance clarifies an entity that either (a) is an SEC filer, or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market is required to evaluate subsequent events through the date the financial statements are issued and in all other cases through the date the financial statements are available to be issued. The guidance eliminates the requirement to disclose the date through which subsequent events are evaluated for an SEC filer. The guidance was effective upon issuance. Adoption did not have an impact on our financial position or results of operations.

Derivatives and Hedging In March 2010, the FASB issued a clarification on the scope exception for embedded credit derivatives. The guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial debt instrument to another. The guidance is effective beginning in the first reporting period after June 15, 2010, with earlier adoption permitted for the quarter beginning after March 31, 2010. This clarification is not expected to have a material impact to our financial position or results of operations.

Insurance In April 2010, the FASB issued an update to clarify that any separate account interests held for the benefit of policyholders should not be considered to be insurer's interest for assessing the investment for consolidation. It also clarifies a separate account arrangement should be considered a subsidiary for the purpose of evaluating whether the retention of specialized accounting for investments in consolidation is appropriate. Further, an insurer is not required to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the stand-alone financial statements of the separate account. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption is permitted with retrospective application to all prior periods upon the date of adoption. The adoption of this guidance is not expected to have any significant impact on our financial position or results of operations.

Loan Modification In April 2010, the FASB issued an update affecting accounting for loan modifications for those loans that are acquired with deteriorated credit quality and are accounted for on a pool basis. It clarifies that the modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The new guidance is effective prospectively for loan modifications for those loans that are acquired with deteriorating credit quality and accounted for on a pool basis occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. This update will not have any impact on our financial position or results of operations.

20. Subsequent Event

In July 2010, we agreed in principle to sell the remainder of our auto finance receivable portfolio with an outstanding principal balance of $2.9 billion at June 30, 2010 and other related assets to an unaffiliated third party for approximately $2.7 billion, and to transfer approximately $490 million of indebtedness secured by auto finance receivables, resulting in net cash proceeds of approximately $2.2 billion. As a result of this transaction, we anticipate that we will recognize a pre-tax loss of approximately $70 million in the third quarter of 2010. The sale is expected to close in the third quarter of 2010.

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

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC Finance Corporation that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may," "will," "should," "would," "could," "appears," "believe," "intends," "expects," "estimates," "targeted," "plans," "anticipates," "goal" and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, economic forecast, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. Forward-looking statements are based on our current views and assumptions and speak only as of the date they are made. HSBC Finance Corporation undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Overview

HSBC Finance Corporation is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). HSBC Finance Corporation may also be referred to in MD&A as "we", "us", or "our".

Current Environment During the first half of 2010, economic conditions in the United States continued to improve, although the pace of improvement began to show signs of slowing during the second quarter. Liquidity has returned to the financial markets for most sources of funding except for mortgage securitization and earlier in the year companies were able to issue debt with credit spreads now approaching levels historically seen prior to the crisis, despite the expiration of some of the U.S. government's support programs. However, European sovereign debt fears triggered by Greece in May 2010 have translated into increased borrowing costs in the U.S. during the second quarter of 2010. While housing prices have stabilized in many markets and have begun to recover in others, particularly in the middle and lower price sectors, the first-time homebuyer tax credit as well as low interest rates attributable to government monetary policy actions have been the main stabilizing forces improving home sales and reducing home inventories. How sustainable these improvements will be in the absence of these government actions remains to be seen.

The job market also continued to improve in the first half of 2010, as the economy began to add jobs in March which continued into the second quarter. Despite improving job creation, U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained high at 9.50 percent in June 2010, a decrease of 20 basis points during the quarter and 50 basis points since December 2009. However, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in 18 states are greater than the U.S. national average. The increases in unemployment rates have generally been most pronounced in the markets which had previously experienced the highest appreciation in home values. Unemployment rates in 6 states are at or above 11 percent, including California and Florida, states where we have receivable portfolios in excess of 5 percent of our total outstanding receivables. Unemployment has continued to have an impact on the provision for credit losses in our loan portfolio and in loan portfolios across the industry.

Although we noted signs of improvement in mortgage lending industry trends during the first half of 2010, we continue to be affected by the following:

> Overall levels of delinquencies remain elevated;

>

Mortgage loan originations from 2005 to 2008 continue to perform worse than originations from prior periods;

> Real estate markets in a large portion of the United States continue to be affected by stagnation or declines in property values experienced over the last three years;

> While home prices have begun to stabilize in most markets, including some parts of California, they remain under pressure due to elevated foreclosure levels;

> Lower secondary market demand for subprime loans resulting in reduced liquidity for subprime mortgages; and

> Tighter lending standards by mortgage lenders which impacts the ability of borrowers to refinance existing mortgage loans.

Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, volatility in energy prices, volatility experienced by the credit markets including the possibility the recent European sovereign debt crisis will spread and trends in corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates and a sustained recovery of the housing market remain critical components of a broader U.S. economic recovery. Further weakening in these components as well as in consumer confidence may result in additional deterioration in consumer payment patterns and credit quality. Although consumer confidence has improved from the levels seen early in 2009, it remains low on a historical basis. Weak consumer fundamentals, including declines in wage income, reduced consumer spending, declines in wealth and a difficult job market continue to depress consumer confidence. Additionally there is uncertainty as to the future course of monetary policy and uncertainty as to the impact on the economy and consumer confidence when the remaining actions taken by the government to restore faith in the capital markets and stimulate consumer spending end. These conditions in combination with general economic weakness and the impact of recent and proposed regulatory changes will continue to impact our results in 2010, the degree of which is largely dependent upon the nature and timing of the economic recovery.

As discussed in prior filings, on May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act") was signed into law. For a discussion of the CARD Act as well as the impact to our operations, see "Segment Results - IFRS Management Basis."

Financial Regulatory Reform On July 21, 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" was signed into law. This legislation is a sweeping overhaul of the financial regulatory system. The new law is comprehensive and includes many provisions specifically relevant to our business and the business of our affiliates. For instance, over a transition period from 2013 to 2015, the Federal Reserve Board will apply more stringent capital and risk management requirements on bank holding companies such as HSBC North America, which will require a minimum leverage ratio of five percent and a total risk-based capital ratio of ten percent.

In order to preserve financial stability in the industry, the legislation has created the Financial Stability Oversight Council which may take certain actions, including precluding mergers, restricting financial products offered, restricting or terminating activities or imposing conditions on activities or requiring the sale or transfer of assets, against any bank holding company with assets greater than $50 billion that is found to pose a grave threat to financial stability. Large bank holding companies, such as HSBC North America, will also be required to file resolution plans and identify how insured bank subsidiaries are adequately protected from risk of other affiliates. The Federal Reserve

Board will also adopt a series of increased supervisory standards to be followed by large bank holding companies. Additionally, activities of bank holding companies, such as the ability to acquire U.S. banks or to engage in non-banking activities, will be more directly tied to examination ratings of "well-managed" and "well capitalized." There are also provisions in the Act which relate to governance of executive compensation, including disclosures evidencing the relationship between compensation and performance and a requirement that some executive incentive compensation is forfeitable in the event of an accounting restatement.

In relation to requirements for bank transactions with affiliates, the legislation extends current quantitative limits on credit transactions to now include credit exposure related to repurchase agreements, derivatives and securities lending transactions. This provision may limit the use of intercompany transactions between us and our affiliates which impacts our current funding strategies.

The legislation has numerous provisions addressing derivatives. There is the imposition of comprehensive regulation of over-the-counter ("OTC") derivatives markets, including credit default swaps, as well as limits on FDIC-insured banks' OTC derivatives activities. Most of the significant provisions are to be implemented within two to three years of the enactment of the legislation. There is also the requirement for the use of mandatory derivative clearing houses and exchanges, which will significantly change the overall derivatives industry.

The legislation has created the Consumer Financial Protection Bureau (the "CFPB"). The CFPB will be a new independent bureau within the Federal Reserve Board and will act as a single primary Federal consumer protection supervisor to regulate credit, savings, payment and other consumer financial products and services and providers of those products and services. The CFPB has the authority to issue regulations to prevent unfair, deceptive or abusive practices in connection with consumer financial products or services and to ensure features of any consumer financial products or services are fully, accurately and effectively disclosed to consumers.

The legislation codifies the current standard of federal preemption with respect to national banks. However, the preemption no longer extends to national banks' operating subsidiaries, the Office of the Comptroller of the Currency ("OCC") is limited to the extent in which it can make preemption decisions, and when subject to judicial review, the OCC's preemptive decisions must be supported by "substantial evidence" that they comply with the preemptive standard. These limitations on federal preemption may elevate our costs of compliance, while increasing litigation expenses as a result of plaintiff challenges and the risk of courts not giving deference to the OCC, as well as increasing complexity due to the lack of uniformity in state regulations. It is too early to determine how far reaching and deeply the limitations on federal preemption will impact our business and our competitors' businesses.

The legislation contains many other consumer related provisions including provisions addressing mortgage reform. In the area of mortgage origination, there is the elimination of stated income loans and a requirement to apply a net tangible benefit test for all refinancing transactions. There are also numerous revised servicing requirements for mortgage loans.

The legislation will have a significant impact on the operations of many financial institutions in the U.S., including our affiliates. As the legislation calls for extensive regulations to be promulgated to interpret and implement the legislation, it is not possible to precisely determine the impact to operations and financial results at this time. We do not currently believe the impact will be material.

Business Focus HSBC Holdings plc acquired Household International, Inc. ("Household"), the predecessor to HSBC Finance Corporation, in March 2003. At the time of the acquisition, Household was the largest independent consumer finance company in the U.S., the second largest third-party issuer of private label credit cards and the eighth largest issuer of MasterCard and Visa credit cards. A stated reason for the acquisition was to bring together HSBC, one of the world's most successful deposit gatherers, with Household, one of the world's largest generators of assets. In connection with the acquisition, HSBC also announced its expectation that funding costs for the Household businesses would be lower as a result of the financial strength and funding diversity of HSBC.

As discussed in this and prior filings, during the past few years we have made numerous strategic decisions regarding our operations, with the intent to lower the risk profile of our operations as well as reduce the capital and liquidity requirements of our operations by reducing the size of the balance sheet. As a result of these strategic decisions, our core lending operations currently consist of our credit card and retail services business. Our lending products currently include primarily MasterCard and Visa credit cards and private label credit cards. A portion of new credit card and all new private label receivable originations are sold on a daily basis to HSBC Bank USA, National Association ("HSBC Bank USA"). Our core credit card receivable portfolio totaled $10.1 billion at June 30, 2010 reflecting a decrease of 13 percent since December 31, 2009. This decrease is the result of numerous actions we have taken to manage risk beginning in the fourth quarter of 2007, including reduced marketing levels as well as an increased focus by consumers to reduce outstanding credit card debt which has resulted in balance reductions.

Our Consumer Lending, Mortgage Services and Auto Finance businesses are not considered central to our core operations. As a result, the real estate secured, auto finance and personal non-credit card receivable portfolios of these non-core businesses, which totaled $65.6 billion at June 30, 2010 are currently liquidating. The timeframe in which these portfolios will liquidate is dependent upon the rate at which receivables pay off prior to their maturity, which fluctuates for a variety of reasons such as interest rates, availability of refinancing, home values and individual borrowers' credit profile all of which are outside of our control. In light of the current economic conditions and mortgage industry trends described above, our loan prepayment rates have slowed when compared to historical experience even though interest rates remain low. However, we have experienced some improvements in overall loan payment rates during the first half of 2010 which we believe to some extent are due to the impact of government stimulus programs which have targeted our customer base. Additionally, our loan modification programs which are designed to maximize cash collections and avoid foreclosure if economically reasonable, are contributing to these slower loan prepayment rates.

While difficult to project both loan prepayment rates and default rates, based on current experience we expect the receivable portfolios of our non-core businesses to decline between 55 percent and 65 percent over the next five years and be comprised primarily of real estate secured receivables at the end of this period. Attrition will not be linear during this period. Over the near term, charge-off related receivable run-off is expected to remain high due to the economic environment. Run-off will later slow as charge-offs decline and the remaining real estate secured receivables stay on the balance sheet longer due to the impact of modifications and/or the lack of re-financing alternatives.

In July 2010, we agreed in principle to sell the remainder of our auto finance receivable portfolio with an outstanding principal balance of $2.9 billion at June 30, 2010 and other related assets to an unaffiliated third party, and to transfer approximately $490 million of indebtedness secured by auto finance receivables. The sale is expected to close in the third quarter of 2010. See Note 20, "Subsequent Event," in the accompanying consolidated financial statements for additional information regarding this transaction.

We continue to evaluate our operations as we seek to optimize our risk profile as well as our liquidity, capital and funding requirements and review opportunities in the subprime credit card industry as the credit markets stabilize. This could result in further strategic actions that may include changes to our legal structure, asset levels and further alterations or refinement of product offerings as we work to reposition our active businesses for long-term success. Although nothing is currently contemplated, we continue to evaluate additional ways to identify strategic opportunities with HSBC Bank USA, within the regulatory framework.

In July, we transferred certain employees in our real estate secured receivable servicing department to a subsidiary of

HSBC Bank USA. These employees will continue to service our real estate secured receivable portfolio. As a result, in future periods salary and employee benefits will decrease while support services from HSBC affiliates will increase.

Performance, Developments and Trends Our net loss was $521 million and $1.1 billion during the three and six months ended June 30, 2010, respectively, compared to net loss of $6.3 billion and $5.5 billion during the three and six months ended June 30, 2009, respectively. Our loss before tax was $853 million and $1.8 billion during the three and six months ended June 30, 2010, respectively, compared to a loss before taxes of $7.5 billion and $5.7 billion during the three and six months ended June 30, 2009, respectively. Our results in both periods were significantly impacted by the change in the fair value of debt and related derivatives for which we have elected fair value option and in the three and six months ended June 30, 2009, goodwill and other intangible asset impairment charges, which need to be excluded to understand the underlying performance trends of our business. The following table summarizes the collective impact of these items on our loss before income tax for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Loss before income tax, as reported	**$(853)**	$(7,474)	**$(1,786)**	$(5,747)
(Gain) loss in value of fair value option debt and related derivatives	**(470)**	4,769	**(603)**	657
Goodwill and other intangible asset impairment charges	**-**	1,641	**-**	2,308
Loss before income tax, excluding above items(1)	**$(1,323)**	$(1,064)	**$(2,389)**	$(2,782)

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

Excluding the collective impact of the items in the above table, our results for the six months ended June 30, 2010 improved $393 million compared to the year-ago period as lower net interest income, lower other revenues and lower derivative related income were more than offset by a lower provision for credit losses and lower operating expenses. Excluding the collective impact of the items in the above table, our loss before tax increased during the three months ended June 30, 2010 as significantly lower derivative income driven largely by realized losses in our non-qualifying economic hedge portfolio which resulted in losses of $414 million and $452 million in the three and six months ended June 30, 2010 as compared to gains of $217 million and $220 million in the year-ago periods and lower net interest income were partially offset by lower provision for credit losses and lower operating expenses.

The underlying performance trends of our business have also been impacted by changes to our charge-off policies for our real estate secured and personal non-credit card receivables in December 2009 (the "December 2009 Charge-off Policy Changes"). Beginning in December 2009, we now write down real estate secured receivables to net realizable value less estimated cost to sell generally no later than the end of the month in which the account becomes 180 days contractually delinquent. For personal non-credit card receivables, charge-off now occurs generally no later than the end of the month in which the account becomes 180 days contractually delinquent. As a result of these actions, delinquent real estate secured and personal non-credit card receivables charge-off earlier during the first half of 2010 than in the historical periods. See our 2009 Form 10-K for further discussion of these policy changes.

Net interest income decreased during the three and six months ended June 30, 2010 as compared to the year-ago periods primarily due to lower average receivables as a result of receivable liquidation, risk mitigation efforts, an increased focus by consumers to reduce outstanding credit card debt and lower overall receivable yields. The decrease in overall yields on our receivable portfolio reflects the impact of the December 2009 Charge-off Policy Changes as real estate secured and personal non-credit card receivables now charge-off earlier than in the historical period which results in all of the underlying accrued interest being reversed against net interest income upon charge-off earlier as well. Overall receivable yields were also negatively impacted by a shift in receivable mix to higher levels of lower yielding first lien real estate secured receivables as higher yielding credit card, auto finance and personal non-credit card receivables have run-off at a faster pace than real estate secured receivables as well as, in the year-to-date period, the impact of higher average levels of nonperforming and modified receivables. This was partially offset during the three month period by reduced levels of nonperforming and modified receivables due to charge-off as well as declines in new modification volumes. The decrease in overall receivable yields in both periods was also was partially offset by the impact of repricing initiatives during the fourth quarter of 2009 for credit card receivables as discussed below. We also experienced lower yields on our non-insurance investment portfolio held for liquidity management purposes. These investments are short term in nature and the lower yields reflect historically low interest rates consistent with the Federal Reserve Bank's monetary policy. These decreases were partially offset by lower interest expense in both periods due to lower average borrowings and, in the year-to-date period, lower average rates as interest rates were essentially flat as compared to the prior year quarter.

While overall yields on our receivable portfolio decreased, receivable yields vary between receivable products. Lower yields in our real estate secured receivable portfolio reflects the impact of an increase in the expected lives of receivables in payment incentive programs since June 30, 2009, the impact of the December 2009 Charge-off Policy Changes as discussed above and, in the year-to-date period, the impact of higher average levels of nonperforming and modified receivables. Yields on our credit card receivable portfolio increased during both the three and six months ended June 30, 2010 as a result of repricing initiatives during the fourth quarter of 2009 which were partially offset by the implementation of certain provisions of new credit card legislation including restrictions impacting repricing of delinquent accounts. Yields in our personal non-credit card portfolio increased during the three months ended June 30, 2010, but were essentially flat during the year-to-date period. The increase in the current quarter reflects significantly lower levels of nonaccrual receivables than during the year-ago quarter. In the year-to-date period, the benefits of lower levels of nonaccrual receivables were largely offset by the impact of the December 2009 Charge-off Policy Changes as discussed above.

Net interest margin decreased to 4.94 percent and 5.19 percent during the three and six months ended June 30, 2010, respectively, compared to 5.70 percent and 5.79 percent during the year-ago periods due to lower overall yields on our receivable portfolio as discussed above, partially offset by lower funding costs.

Other revenues during the three and six months ended June 30, 2010 and 2009 were impacted by a gain on debt designated at fair value and related derivatives while the year-ago periods reflected a loss on debt designated at fair value. Excluding the gain (loss) on debt designated at fair value and related derivatives from both periods, other revenues decreased during the three and six months ended June 30, 2010 primarily driven by significantly lower derivative-related income and to a lesser extent lower fee income, lower enhancement services revenues and, in the year-to-date period, lower taxpayer financial services ("TFS") revenue, partially offset by lower fair value write-downs on receivables held for sale. Lower derivative related income reflects the impact of decreasing interest rates, particularly during the second quarter of 2010, on our portfolio of non-qualifying pay fixed/receive variable interest rate swaps. We increased our portfolio of pay fixed/receive variable interest rate swaps by $1.0 billion during the second quarter of 2010 as these positions acted as economic hedges by lowering our overall interest rate risk through more closely matching both the structure and duration of our liabilities to the structure and duration of our assets although they did not qualify as effective hedges under hedge accounting principles. Lower fee income in both periods reflects lower late and overlimit fees due to lower volumes and lower delinquency levels, changes in customer behavior and impacts from the implementation of certain provisions of new credit card legislation which resulted in lower overlimit fees as well as restrictions on fees charged to process on-line and telephone payments. Lower enhancement services revenue reflects the impact of lower credit card receivable levels. Lower TFS revenues in the year-to-date period reflect changes in the way this program is jointly managed between us and HSBC Bank USA, as well as lower loan volumes in the 2010 tax season. Beginning in the first quarter of 2010, a portion of the loans we previously purchased are now retained by HSBC USA Inc. and we receive a fee from HSBC Bank USA for both servicing the loans and assuming the credit risk associated with these loans. As a result, the decrease in TFS revenue during the first half of 2010 is largely offset by new servicing and other fee revenue related to these loans which is recorded as a component of servicing and other fees from HSBC affiliates. Lower fair value markdowns during both periods reflect a smaller portfolio of held for sale receivables than during the year-ago periods. See "Results of Operations" for a more detailed discussion of other revenues.

Our provision for credit losses decreased significantly during the three and six months ended June 30, 2010 as compared to the year-ago periods as a result of a lower provision for credit losses in our core credit card receivable portfolio as well as lower provision for credit losses in our non-core Mortgage Services, Consumer Lending and Auto Finance businesses. The following discusses the changes in our provision for credit losses by business.

•Provision for credit losses in our core credit card receivable portfolio decreased $87 million and $455 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as a result of actions taken beginning in the fourth quarter of 2007 to manage risk as well as an increased focus by consumers to reduce outstanding credit card debt. The decrease also reflects the impact of improvement in the underlying credit quality of the portfolio including lower delinquency levels as well as continuing improvements in early stage delinquency roll rates, as customer payment rates have increased reflecting a focus by consumers on reducing outstanding credit card debt as well as improvements in economic conditions since the year-ago periods. The impact on credit card receivable losses from the current economic environment, including high unemployment rates, has not been as severe due in part to improved cash flow from government stimulus activities that have meaningfully benefited our non-prime customers.

•The provision for credit losses in our Mortgage Services business decreased $20 million and $243 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as the portfolio continues to liquidate, delinquency levels continue to decrease, economic conditions improved and a higher percentage of charge-offs that were on first lien loans which generally have lower charge-offs than second lien loans. The decreases in both periods also reflect lower loss estimates on troubled debt restructurings ("TDR Loans"), partially offset by the impact of elevated unemployment levels. Overall loss severities have also improved during both periods as severities on foreclosed loans have continued to be lower as compared to the year-ago periods as home prices have begun to stabilize in most markets. Improvements in overall loss severities during the second quarter also reflect an increase in the number of properties for which we agreed to allow the borrower to sell the property for less than the current outstanding receivable balance (also referred to as a short sale) which results in lower losses as compared to foreclosed loans or loans where we previously decided not to pursue foreclosure. The decrease in the provision for credit losses was less pronounced during the three months ended June 30, 2010 as charge-off levels and reductions in credit loss reserves were similar in the current and prior year quarters.

•The provision for credit losses in our Consumer Lending business decreased $569 million and $908 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as both the real estate secured and personal non-credit card receivable portfolios continue to liquidate, delinquency levels continue to decrease and economic conditions improved. The decrease in provision for real estate secured receivables also reflects a higher percentage of charge-offs on first lien loans which generally have lower charge-offs than second lien loans as well as an improved outlook on current inherent losses for first lien real estate secured receivables as the current trends for deterioration in delinquencies and charge-offs in many vintages have stabilized. Overall loss severities have also improved during both periods as severities on foreclosed loans have continued to be lower as compared to the year-ago periods as home prices have begun to stabilize in most markets. Improvements in overall loss severities during the second quarter also reflect an increase in the number of short sales as discussed above. These decreases in the provision for credit losses for real estate secured receivables were partially offset by lower receivable prepayments, portfolio seasoning, higher levels of unemployment and, for the year-to-date period, increased levels of troubled debt restructures including higher reserve requirements associated with these receivables. The decrease in the provision for credit losses for personal non-credit card receivables reflects lower receivable levels, lower delinquency levels and improvements in economic conditions, partially offset by higher levels of TDR Loans including higher reserve requirements associated with these receivables.

•The provision for credit losses in our auto finance receivable portfolio decreased in both periods as a result of lower receivable levels as the portfolio continues to liquidate. Additionally, we experienced lower loss severities driven by improvements in prices on repossessed vehicles.

In recent years, the impact of seasonal patterns in our provision for credit losses has been masked by the impact of a sustained deterioration in credit quality across all of our receivable portfolios. As the credit quality in our portfolios stabilizes, we anticipate that these seasonal patterns may re-emerge as a more significant component of our overall trend in loss provision.

See "Results of Operations" for a more detailed discussion of our provision for credit losses.

During the three and six months ended June 30, 2010, the provision for credit losses was $880 million and $1.7 billion, respectively, lower than net charge-offs. Lower credit loss reserves at June 30, 2010 reflect lower receivable levels, improved economic and credit conditions including lower delinquency levels and overall improvements in loss severities. These conditions have resulted in an overall improved outlook on future loss estimates. Reserve levels for real estate secured receivables at our Mortgage Services and Consumer Lending businesses as well as for receivables in our credit card business can be further analyzed as follows:

	Real Estate Secured Receivables(1)				Credit Card	
	Consumer Lending		Mortgage Services		Receivables	
	2010	2009	2010	2009	2010	2009
	(in millions)					
Credit loss reserves at April 1,	**$2,787**	$3,859	**$2,201**	$3,819	**$1,495**	$2,325
Provision for credit losses	**645**	891	**305**	325	**278**	365
Charge-offs	**(858)**	(472)	**(621)**	(622)	**(533)**	(667)
Recoveries	**14**	5	**12**	7	**58**	53
Credit loss reserves at June 30,	**$2,588**	$4,283	**$1,897**	$3,529	**$1,298**	$2,076

	Real Estate Secured Receivables(1)				Credit Card	
	Consumer Lending		Mortgage Services		Receivables	
	2010	2009	2010	2009	2010	2009
	(in millions)					
Credit loss reserves at January 1,	**$3,047**	$3,392	**$2,385**	$3,726	**$1,824**	$2,258
Provision for credit losses	**1,232**	1,751	**760**	1,003	**479**	934

Charge-offs	**(1,720)**	(870)	**(1,276)**	(1,215)	**(1,125)**	(1,224)
Recoveries	**29**	10	**28**	15	**120**	108
Credit loss reserves at June 30,	**$2,588**	$4,283	**$1,897**	$3,529	**$1,298**	$2,076

(1) Credit loss reserves since June 30, 2009 were significantly impacted by changes in our charge-off policies for real estate secured receivables which impacts comparability between periods. See Note 8, "Changes in Charge-off Policies," in our 2009 Form 10-K for further discussion.

Total operating expenses decreased significantly during the three and six months ended June 30, 2010 as compared to the year-ago periods, due in part to the following items recorded during the year-ago periods:

- Restructuring charges totaling $156 million primarily recorded during the first half of 2009, related to the decision to discontinue all new customer account originations for our Consumer Lending business and to close the Consumer Lending branch offices. See Note 3, "Strategic Initiatives," in the accompanying consolidated financial statements for additional information related to this decision;

- Goodwill impairment charges of $1.6 billion and $2.3 billion during the three and six months ended June 30, 2009 related to our Card and Retail Services and Insurance Services businesses;

- Impairment charges of $14 million during the first quarter of 2009 relating to technology, customer lists and loan related relationships resulting from the discontinuation of originations for our Consumer Lending business.

Excluding these items in the year-ago periods, total operating expenses remained lower in both periods, decreasing $76 million, or 9 percent, and $299 million, or 15 percent, during the three and six months ended June 30, 2010, respectively, primarily due to lower salary expense reflecting reduced headcount, lower occupancy and equipment expenses reflecting the further reduced scope of our business operations since March 2009 and continued entity-wide initiatives to reduce costs. The decreases also reflect lower real estate owned ("REO") expenses. These decreases were partially offset by higher collection costs, higher marketing expenses and higher support services from HSBC affiliates. See "Results of Operations" for a more detailed discussion of operating expenses.

Our effective income tax rate was 38.9 percent and 37.1 percent for the three and six months ended June 30, 2010, respectively, compared to 15.3 percent and 5.0 percent in the year-ago periods. The effective tax rate for three and six months ended June 30, 2010 was impacted by state taxes where we file combined unitary state tax returns with other HSBC affiliates. The effective tax rate for the three and six months ended June 30, 2009 was significantly impacted by the non-deductible impairment of goodwill related to the Card and Retail Services and Insurance Services businesses as well as valuation allowances recorded against deferred tax assets. The effective tax rate for the six months ended June 30, 2009 was also impacted by a change in estimate in the state tax rate for jurisdictions where we file combined unitary state tax returns with other HSBC affiliates.

The financial information set forth below summarizes selected financial highlights of HSBC Finance Corporation as of June 30, 2010 and December 31, 2009 and for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2010	2009	2010	2009
	(dollars are in millions)			
Net loss	**$(521)**	$(6,334)	**$(1,124)**	$(5,462)
Return on average owned assets ("ROA")	**(2.38)%**	(23.50)%	**(2.49)%**	(9.68)%
Return on average common shareholder's equity ("ROE")	**(29.12)**	(203.14)	**(30.96)**	(85.95)
Net interest margin	**4.94**	5.70	**5.19**	5.79
Consumer net charge-off ratio, annualized	**12.83**	10.01	**13.07**	9.50
Efficiency ratio(1)	**50.51**	(97.88)	**48.79**	109.05

	June 30,	December 31,
	2010	2009
	(dollars are in millions)	
Receivables:		
Core(2)	**$10,119**	$11,626
Non-core(3)	**65,552**	74,032
Total	**$75,671**	$85,658
Receivables held for sale	**$5**	$536
Two-month-and-over contractual delinquency ratio	**13.31%**	14.27%

(1) Ratio of total costs and expenses less policyholders' benefits to net interest income and other revenues less policyholders' benefits.

(2) Core receivables consist of our credit card receivable portfolios.

(3) Non-core receivables consists primarily of the liquidating receivable portfolios in our Consumer Lending, Mortgage Services and Auto Finance businesses.

Performance Ratios Our efficiency ratio during the three and six months ended June 30, 2010 and 2009 was impacted by the change in the fair value of debt for which we have elected fair value option accounting. Additionally, the three and six months ended June 30, 2009 were also significantly impacted by the goodwill and intangible asset impairment charges and Consumer Lending closure costs, as discussed above. Excluding these items from the periods presented, our efficiency ratio increased significantly during the three and six months ended June 30, 2010, respectively, as receivable portfolio liquidation and declining overall yields on our receivable portfolio caused net interest income to decrease more rapidly than operating expenses. The volatility between periods in other revenues, in particular the significantly lower derivative income due to the impact of falling interest rates on our portfolio of non-qualifying hedges as well as lower fee income which was partially offset by lower fair value write-downs on receivables held for sale also significantly impacted the efficiency ratio during the current periods.

Our return on average common shareholder's equity ("ROE") was (29.12) percent and (30.96) percent for the three and six months ended June 30, 2010 compared to (203.14) percent and (85.95) percent in the year-ago periods. Our return on average owned assets ("ROA") was (2.38) percent and (2.49) percent for the three and six months ended June 30, 2010 compared to (23.50) percent and (9.68) percent in the year-ago periods. ROE and ROA were impacted by the change in the fair value of debt for which we have elected fair value option accounting. Additionally, the three and six months ended June 30, 2009 were also significantly impacted by the goodwill and intangible asset impairment charges and Consumer Lending closure costs, as discussed above. Excluding these items, ROE improved 641 basis points during the three months ended June 30, 2010 and was flat during the six months ended June 30, 2010 as compared to the year-ago periods. The improvement in ROE during the current quarter reflects a more significant improvement in our net loss than during the year-to-date period. During the year-to-date period, our net loss improved at the same pace as average equity decreased. Excluding these same items, ROA improved 225 basis points and 133 points during the three and six months ended June 30, 2010, respectively, as compared to the year-ago periods as the improvement in our net loss during the periods outpaced the decrease in lower average assets.

Receivables Receivables were $75.7 billion, $80.3 billion and $85.7 billion at June 30, 2010, March 31, 2010 and December 31, 2009, respectively. The decrease in our core credit card receivable portfolio since March 31, 2010 and December 31, 2009 reflects the continuing impact of actions taken to mitigate risk and an increased focus of consumers to reduce outstanding credit card debt. The decrease in our non-core receivable portfolios since December 31, 2009 reflects the continued liquidation of these portfolios which will continue to decline going forward. As it relates to our real estate secured receivable portfolio liquidation rates continue to be impacted by declines in loan prepayments as fewer refinancing opportunities for our customers exist and the previously discussed trends impacting the mortgage lending industry. See "Receivables Review" for a more detailed discussion of the decreases in receivable balances.

Receivables held for sale were $5 million, $3 million and $536 million at June 30, 2010, March 31, 2010 and December 31, 2009, respectively. The decrease since December 31, 2009 reflects the sale of auto finance receivables to Santander Consumer USA Inc. ("SC USA") in the first quarter of 2010. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," in the accompanying consolidated financial statements for further details of this transaction.

Credit Quality Dollars of two-months-and-over contractual delinquency as a percentage of receivables and receivables held for sale ("delinquency ratio") decreased to 13.31 percent at June 30, 2010 compared to 13.60 percent at March 31, 2010 and 14.27 percent at December 31, 2009. Lower dollars of contractual delinquency reflect lower receivable levels due to lower origination volumes in our core credit card receivable portfolio and continued liquidation of our non-core receivable portfolios. Lower dollars of delinquency in our core credit card receivable portfolio also reflect improved early stage delinquency roll rates due to improvements in economic conditions. The delinquency ratio decreased as compared to March 31, 2010 and December 31, 2009 as dollars of delinquency decreased at faster pace than receivable levels. See "Credit Quality-Delinquency" for a more detailed discussion of our delinquency ratios.

Net charge-offs of consumer receivables as a percentage of average consumer receivables ("net charge-off ratio") and dollars of net charge-offs decreased as compared to the prior quarter but increased as compared to the prior year quarter. With the exception of our real estate secured receivable portfolio as compared to the year-ago period, dollars of net charge-off decreased for all products as compared to both the prior quarter and prior year quarter primarily as a result of lower average receivable levels as previously discussed including lower delinquency, partially offset by continued high unemployment levels. Real estate secured receivable net charge-off dollars also reflect a higher percentage of charge-offs on first lien loans which generally have lower charge-off than second lien loans. As compared to the prior year quarter, dollars of net charge-offs for our real estate secured and personal non-credit card receivable portfolios have been impacted by the December 2009 Charge-off Policy Changes, which resulted in charge-offs being recognized sooner for these products than during the year-ago period, although the impact to personal non-credit card receivables was less pronounced in the current quarter. The net charge-off ratio decreased as compared to March 31, 2010 as dollars of net charge-off decreased at a faster pace than average receivable levels. The increase in the net charge-off ratio as compared to the prior year quarter reflects the impact of the charge-off policy changes discussed above as well as the impact of lower average receivables. See "Credit Quality-Net Charge-offs of Consumer Receivables" for a more detailed discussion of our net charge-off ratios.

We anticipate delinquency and charge-off levels will remain elevated during the remainder of 2010. The extent to which delinquency and charge-off levels remain elevated will be determined by certain factors, including the pace and magnitude of recovery from the recent economic recession, unemployment levels, consumer confidence, volatility in energy and home prices and corporate earnings which will continue to influence the U.S. economic recovery and the capital markets.

Funding and Capital During the three months ended June 30, 2010, HSBC Investments (North America) Inc. ("HINO") made a capital contribution to us totaling $200 million to support ongoing operations and to maintain capital at levels we believe are prudent in the current market environment. Until we return to profitability, HSBC's continued support is required to properly manage our business operations and maintain appropriate levels of capital. HSBC has provided significant capital in support of our operations in the last few years and has indicated that it is fully committed and has the capacity and willingness to continue that support.

The tangible common equity to tangible assets ratio was 7.27 percent and 7.60 percent at June 30, 2010 and December 31, 2009, respectively. This ratio represents a non-U.S. GAAP financial ratio that is used by HSBC Finance Corporation management, certain rating agencies and our credit providing banks to evaluate capital adequacy and may be different from similarly named measures presented by other companies. See "Basis of Reporting" and "Reconciliations to U.S. GAAP Financial Measures" for additional discussion and quantitative reconciliation to the equivalent U.S. GAAP basis financial measure.

Basis of Reporting

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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

Equity Ratios Tangible common equity to tangible assets is a non-U.S. GAAP financial measure that is used by HSBC Finance Corporation management, certain rating agencies and our credit providing banks to evaluate capital adequacy. This ratio excludes from equity the impact of unrealized gains (losses) on cash flow hedging instruments, postretirement benefit plan adjustments, unrealized gains (losses) on investments, intangible assets as well as subsequent changes in fair value recognized in earnings associated with debt for which we elected the fair value option and the related derivatives. This ratio may differ from similarly named measures presented by other companies. The most directly comparable U.S. GAAP financial measure is the common and preferred equity to total assets ratio. For a quantitative reconciliation of these non-U.S. GAAP financial measures to our common and preferred equity to total assets ratio, see "Reconciliations to U.S. GAAP Financial Measures."

International Financial Reporting Standards Because HSBC reports results in accordance with International Financial Reporting Standards ("IFRSs") and IFRSs results are used in measuring and rewarding performance of employees, our management also separately monitors net income under IFRSs (a non-U.S. GAAP financial measure). All purchase accounting fair value adjustments relating to our acquisition by HSBC have been "pushed down" to

HSBC Finance Corporation for both U.S. GAAP and IFRSs consistent with our IFRS Management Basis presentation. The following table reconciles our net income on a U.S. GAAP basis to net income on an IFRSs basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
	(in millions)			
Net loss - U.S. GAAP basis	**$(521)**	$(6,334)	**$(1,124)**	$(5,462)
Adjustments, net of tax:				
Derivatives and hedge accounting (including fair value adjustments)	**(5)**	1	**(8)**	9
Intangible assets	**8**	9	**19**	21
Loan origination	**5**	16	**10**	31
Loan impairment	**(25)**	11	**(4)**	20
Loans held for sale	**(15)**	23	**(67)**	26
Interest recognition	**4**	2	**7**	4
Other-than-temporary impairments on available-for-sale securities	**-**	-	**1**	9
Securities	**1**	7	**15**	(68)
Present value of long term insurance business	**4**	43	**8**	43
Goodwill and intangible asset impairment charges	**-**	341	**-**	(615)
Pension and other postretirement benefit costs	**5**	6	**42**	22
Other	**8**	1	**7**	(12)
Net loss - IFRSs basis	**(531)**	(5,874)	**(1,094)**	(5,972)
Tax benefit - IFRSs basis	**333**	1,078	**646**	151
Loss before tax - IFRSs basis	**$(864)**	$(6,952)	**$(1,740)**	$(6,123)

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

Derivatives and hedge accounting (including fair value adjustments) - The historical use of the "shortcut" and "long haul" hedge accounting methods for U.S. GAAP resulted in different cumulative adjustments to the hedged item for both fair value and cash flow hedges. These differences are recognized in earnings over the remaining term of the hedged items. All of the hedged relationships which previously qualified under the shortcut method provisions of derivative accounting principles have been redesignated and are now either hedges under the long-haul method of hedge accounting or included in the fair value option election.

Intangible assets - Intangible assets under IFRSs are significantly lower than those under U.S. GAAP as the newly created intangibles associated with our acquisition by HSBC were reflected in goodwill for IFRSs. As a result, amortization of intangible assets is lower under IFRSs.

Deferred loan origination costs and fees - Under IFRSs, loan origination cost deferrals are more stringent and result in lower costs being deferred than permitted under U.S. GAAP. In addition, all deferred loan origination fees, costs and loan premiums must be recognized based on the expected life of the receivables under IFRSs as part of the effective interest calculation while under U.S. GAAP they may be recognized on either a contractual or expected life basis. As a result, in years with lower levels of receivable originations, net income is lower under U.S. GAAP as the higher costs deferred in prior periods are amortized into income without the benefit of similar levels of cost deferrals for current period originations.

Loan impairment provisioning - IFRSs requires a discounted cash flow methodology for estimating impairment on pools of homogeneous customer loans which requires the incorporation of the time value of money relating to recovery estimates. Also under IFRSs, future recoveries on charged-off loans are accrued for on a discounted basis and a recovery asset is recorded. Subsequent recoveries are recorded to earnings under U.S. GAAP, but are adjusted against the recovery asset under IFRSs. Interest is recorded based on collectibility under IFRSs.

Loans held for sale - IFRSs requires loans designated as held for sale at the time of origination to be treated as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for sale are reflected as loans and recorded at the lower of amortized cost or fair value. Under U.S. GAAP, the income and expenses related to receivables held for sale are reported similarly to loans held for investment. Under IFRSs, the income and expenses related to receivables held for sale are reported in other operating income.

For receivables transferred to held for sale subsequent to origination, IFRSs requires these receivables to be reported separately on the balance sheet but does not change the recognition and measurement criteria. Accordingly for IFRSs purposes, such loans continue to be accounted for in accordance with IFRS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), with any gain or loss recorded at the time of sale. U.S. GAAP requires loans that management intends to sell to be transferred to a held for sale category at the lower of cost or fair value.

Certain receivables that were previously classified as held for sale under U.S. GAAP have now been transferred to held for investment as we now intend to hold for the foreseeable future. Under U.S. GAAP, these receivables were subject to lower of cost or fair value ("LOCOM") adjustments while held for sale and have been transferred to held for investment at LOCOM. Under IFRSs, these receivables were always reported within loans and the measurement criteria did not change. As a result, loan impairment charges are now being recorded under IFRSs which were essentially included as a component of the lower of cost or fair value adjustments under U.S. GAAP.

Interest recognition - The calculation of effective interest rates under IAS 39 requires an estimate of "all fees and points paid or recovered between parties to the contract" that are an integral part of the effective interest rate be included. U.S. GAAP generally prohibits recognition of interest income to the extent the net interest in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Also under U.S. GAAP, prepayment penalties are generally recognized as received.

Securities - Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares are recorded at fair value through other comprehensive income and subsequently recognized in profit and loss as the shares vest. If it is determined these shares have become impaired, the fair value loss is recognized in profit and loss and any fair value loss recorded in other comprehensive income is reversed. There is no similar requirement under U.S. GAAP.

During the second quarter of 2009, under IFRSs we recorded income for the value of additional shares attributed to HSBC shares held for stock plans as a result of HSBC's rights offering earlier in 2009. The additional shares are not recorded under U.S. GAAP.

Other-than-temporary impairment on available-for-sale securities - Under U.S. GAAP we are allowed to evaluate perpetual preferred securities for potential other-than-temporary impairment similar to a debt security provided there has been no evidence of deterioration in the credit of the issuer and record the unrealized losses as a component of other comprehensive income. There are no similar provisions under IFRSs as all perpetual preferred securities are evaluated for other-than-temporary impairment as equity securities. Under IFRSs all impairments are reported in other operating income.

Under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining portion of the impairment loss is recognized in other comprehensive income provided a company concludes it neither intends to sell the security nor concludes that it is more-likely-than-not that it will have to sell the security prior to recovery. Under IFRSs, there is no bifurcation of other-than-temporary impairment and the entire decline in value is recognized in earnings.

Present value of long-term insurance contracts - Under IFRSs, the present value of an in-force ("PVIF") long-term insurance contract is determined by discounting future cash flows expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a discount rate that reflects the risk premium attributable to the respective long-term insurance business.

Movements in the PVIF of long-term insurance contracts are included in other operating income. Under U.S. GAAP, revenue is recognized over the life insurance policy term.

Goodwill and other intangible asset impairment charges - Goodwill levels established as a result of our acquisition by HSBC were higher under IFRSs than U.S. GAAP as the HSBC purchase accounting adjustments reflected higher levels of intangibles under U.S. GAAP. Consequently, the amount of goodwill allocated to our Card and Retail Services and Insurance Services businesses and written off during 2009 was greater under IFRSs. In addition, U.S. GAAP requires a two-step impairment test which requires an analysis of the reporting units' implied fair value of goodwill to be determined in the same manner as the amount of goodwill recognized in a business combination. In the second quarter of 2009, the Card and Retail Services goodwill written off was higher under U.S. GAAP as a greater proportion of goodwill was written off under IFRSs in the first quarter of 2009 due to the two-step process described above resulting in the cash flows supporting a higher amount of goodwill under U.S. GAAP than under IFRSs. Additionally, the intangible assets allocated to our Consumer Lending business and written off during the first quarter of 2009 were higher under U.S. GAAP. There are also differences in the valuation of assets and liabilities under IFRSs and U.S. GAAP resulting from the Metris acquisition in December 2005.

Pension and other postretirement benefit costs - Net income under U.S. GAAP is lower than under IFRSs as a result of the amortization of the amount by which actuarial losses exceed gains beyond the 10 percent "corridor." Furthermore in 2010 changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under US GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition. During the first quarter of 2009, the curtailment gain related to postretirement benefits during the first quarter of 2009 also resulted in a lower net income under U.S. GAAP than IFRSs.

Other - There are other differences between IFRSs and U.S. GAAP including purchase accounting and other miscellaneous items.

IFRS Management Basis Reporting As previously discussed, corporate goals and individual goals of executives are currently calculated in accordance with IFRSs under which HSBC prepares its consolidated financial statements. As a result, operating results are being monitored and reviewed, trends are being evaluated and decisions about allocating resources, such as employees, are being made almost exclusively on an IFRS Management Basis. IFRS Management Basis results are IFRSs results which assume that the GM and UP Portfolios and the auto finance, private label and real estate secured receivables transferred to HSBC Bank USA have not been sold and remain on our balance sheet and the revenues and expenses related to these receivables remain on our income statement. Additionally, IFRS Management Basis assumes that all purchase accounting fair value adjustments relating to our acquisition by HSBC have been "pushed down" to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the receivable sales to HSBC Bank USA were conducted primarily to appropriately fund prime customer loans more efficiently through bank deposits and such receivables continue to be managed and serviced by us without regard to ownership. Accordingly, our segment reporting is on an IFRS Management Basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on an U.S. GAAP legal entity basis. A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are also summarized in Note 15, "Business Segments," in the accompanying consolidated financial statements.

Quantitative Reconciliations of Non-U.S. GAAP Financial Measures to U.S. GAAP Financial Measures For quantitative reconciliations of non-U.S. GAAP financial measures presented herein to the equivalent GAAP basis financial measures, see "Reconciliations to U.S. GAAP Financial Measures."

Receivables Review

The following table summarizes receivables and receivables held for sale at June 30, 2010 and increases (decreases) over prior periods:

		Increases (Decreases) From			
	June 30,	**March 31, 2010**		**December 31, 2009**	
	2010	**$**	**%**	**$**	**%**
		(dollars are in millions)			
Receivables:					
Core receivable portfolios:					
Credit card	**$10,119**	$(478)	(4.5)%	$(1,507)	(13.0)%
Non-core receivable portfolios:					
Real estate secured(1)(2)	**54,083**	(2,817)	(5.0)	(5,452)	(9.2)
Auto finance	**2,889**	(457)	(13.7)	(1,072)	(27.1)
Personal non-credit card	**8,532**	(891)	(9.5)	(1,954)	(18.6)
Commercial and other	**48**	-	-	(2)	(4.0)
Total non-core receivable portfolios	**65,552**	(4,165)	(6.0)	(8,480)	(11.5)
Total receivables	**$75,671**	$(4,643)	(5.8)%	$(9,987)	(11.7)%
Receivables held for sale:					
Real estate secured	**$5**	$2	66.7%	$2	66.7%
Auto finance	**-**	-	-	(533)	(100.0)
Total receivables held for sale	**$5**	$2	66.7%	$(531)	(99.1)%
Total receivables and receivables held for sale:					
Core credit card receivables	**$10,119**	$(478)	(4.5)%	$(1,507)	(13.0)%
Non-core receivable portfolios:					
Real estate secured	**54,088**	(2,815)	(4.9)	(5,450)	(9.2)

Auto finance	**2,889**	(457)	(13.7)	(1,605)	(35.7)
Personal non-credit card	**8,532**	(891)	(9.5)	(1,954)	(18.6)
Commercial and other	**48**	-	-	(2)	(4.0)
Total non-core receivable portfolios	**65,557**	(4,163)	(6.0)	(9,011)	(12.1)
Total receivables and receivables held for sale	**$75,676**	$(4,641)	(5.8)%	$(10,518)	(12.2)%

(1) Real estate secured receivables are comprised of the following:

		Increases (Decreases) From			
	June 30,	**March 31, 2010**		**December 31, 2009**	
	2010	**$**	**%**	**$**	**%**
		(dollars are in millions)			
Mortgage Services	**$17,825**	$(1,118)	(5.9)%	$(2,116)	(10.6)%
Consumer Lending	**36,251**	(1,698)	(4.5)	(3,335)	(8.4)
All other	**7**	(1)	(12.5)	(1)	(12.5)
Total real estate secured	**$54,083**	$(2,817)	(5.0)%	$(5,452)	(9.2)%

(2) At June 30, 2010, March 31, 2010 and December 31, 2009, real estate secured receivables includes outstanding principles of $4.6 billion, $4.3 billion and $3.4 billion, respectively, of receivables that have been written down to their net realizable value less cost to sell in accordance with our existing charge-off policy.

Core credit card receivables Credit card receivables have decreased since March 31, 2010 and December 31, 2009 as a result of actions taken beginning in the fourth quarter of 2007 to manage risk including tightening initial credit lines and sales authorization criteria, closing inactive accounts, decreasing credit lines, tightening underwriting criteria, tightening cash access and reducing marketing levels, as well as an increased focus and ability on the part of consumers to reduce outstanding credit card debt. In 2008, we identified certain segments of our credit card portfolio which have been the most impacted by the housing and economic conditions and we stopped all new account originations in those market segments. Based on performance trends which began in the second half of 2009, we increased direct marketing mailings and new customer account originations for portions of our non-prime credit card receivable portfolio which will likely result in lower run-off of credit card receivables through the remainder of 2010. As compared to December 31, 2009, the lower credit card receivable balances also reflect seasonal improvements in our collection activities during the first quarter of the year as some customers use their tax refunds to make payments.

Non-core receivable portfolios Real estate secured receivables in our non-core receivable portfolios can be further analyzed as follows:

		Increases (Decreases) From			
	June 30,	**March 31, 2010**		**December 31, 2009**	
	2010	**$**	**%**	**$**	**%**
		(dollars are in millions)			
Real estate secured:					
Closed-end:					

First lien	**$47,511**	$(2,213)	(4.5)%	$(4,266)	(8.2)%
Second lien	**4,915**	(498)	(9.2)	(950)	(16.2)
Revolving:					
First lien	**199**	(7)	(3.4)	(12)	(5.7)
Second lien	**1,458**	(99)	(6.4)	(224)	(13.3)
Total real estate secured(1)	**$54,083**	(2,817)	(5.0)	(5,452)	(9.2)%

(1) Excludes receivables held for sale. Real estate secured receivables held for sale included $5 million, $3 million and $3 million, primarily of closed-end, first lien receivables at June 30, 2010, March 31, 2010 and December 31, 2009, respectively.

As previously discussed, real estate markets in a large portion of the United States have been and continue to be affected by stagnation or declines in property values. As such, the loan-to-value ("LTV") ratios for our real estate secured receivable portfolios have generally deteriorated since origination. Receivables which have an LTV greater than 100 percent have historically had a greater likelihood of becoming delinquent, resulting in higher credit losses for us. Refreshed loan-to-value ratios for our real estate secured receivable portfolios are presented in the table below as of June 30, 2010 and December 31, 2009. The trend in the ratio since December 31, 2009 reflects the continued stabilization in housing markets.

	Refreshed LTVs((1)(2) at June 30, 2010				**Refreshed LTVs((1)(2) at December 31, 2009**			
	Consumer Lending(3)		**Mortgage Services**		**Consumer Lending(3)**		**Mortgage Services**	
	First Lien	**Second Lien**	**First Lien**	**Second Lien**	**First Lien**	**Second Lien**	**First Lien**	**Second Lien**
LTV<80%	**36%**	**17%**	**31%**	**8%**	35%	18%	30%	8%
80%≤LTV<90%	**17**	**12**	**17**	**10**	18	12	18	12
90%≤LTV<100%	**18**	**20**	**22**	**18**	19	22	23	20
LTV≥100%	**29**	**51**	**30**	**64**	28	48	29	60
Average LTV for portfolio	**88%**	**101%**	**91%**	**110%**	88%	100%	91%	109%

(1) Refreshed LTVs for first liens are calculated as the current estimated property value expressed as a percentage of the receivable balance as of the reporting date (including any charge-offs recorded to reduce receivables to their net realizable value less cost to sell in accordance with our existing charge-off policies). Refreshed LTVs for second liens are calculated as the current estimated property value expressed as a percentage of the receivable balance as of the reporting date plus the senior lien amount at origination. For purposes of this disclosure, current estimated property values are derived from the property's appraised value at the time of receivable origination updated by the change in the Office of Federal Housing Enterprise Oversight's house pricing index ("HPI") at either a Core Based Statistical Area ("CBSA") or state level. The estimated value of the homes could vary from actual fair values due to changes in condition of the underlying property, variations in housing price changes within metropolitan statistical areas and other factors. As a result, actual property values associated with loans which end in foreclosure

may be significantly lower than the estimated values used for purposes of this disclosure.

(2) For purposes of this disclosure, current estimated property values are calculated using the most current HPI's available and applied on an individual loan basis, which results in an approximately three month delay in the production of reportable statistics for the current period. Therefore, the June 30, 2010 information in the table above reflects current estimated property values using HPIs as of March 31, 2010. For December 31, 2009, information in the table above reflects current estimated property values using HPIs as of September 30, 2009.

(3) Excludes the Consumer Lending receivable portfolios serviced by HSBC Bank USA which had a total outstanding principal balance of $1.3 billion and $1.5 billion at June 30, 2010 and December 31, 2009, respectively.

The following table summarizes various real estate secured receivables information (excluding receivables held for sale) for our Mortgage Services and Consumer Lending businesses:

	June 30, 2010		March 31, 2010		December 31, 2009	
	Mortgage Services	Consumer Lending	Mortgage Services	Consumer Lending	Mortgage Services	Consumer Lending
			(in millions)			
Fixed rate(3)	**$10,913**(1)	**$34,597**(2)	$11,466(1)	$36,176(2)	$11,962(1)	$37,717(2)
Adjustable rate(3)	**6,912**	**1,654**	7,477	1,773	7,979	1,869
Total	**$17,825**	**$36,251**	$18,943	$37,949	$19,941	$39,586
First lien	**$15,316**	**$32,399**	$16,229	$33,705	$16,979	$35,014
Second lien	**2,509**	**3,852**	2,714	4,244	2,962	4,572
Total	**$17,825**	**$36,251**	$18,943	$37,949	$19,941	$39,586
Adjustable rate(3)	**$5,638**	**$1,655**	$6,073	$1,773	$6,471	$1,869
Interest-only(3)	**1,274**	**-**	1,404	-	1,508	-
Total adjustable rate(3)	**$6,912**	**$1,655**	$7,477	$1,773	$7,979	$1,869
Total stated income	**$3,143**	**$-**	$3,413	$-	$3,677	$-

(1) Includes fixed rate interest-only loans of $254 million, $268 million and $283 million at June 30, 2010, March 31, 2010 and December 31, 2009, respectively.

(2) Includes fixed rate interest-only loans of $30 million, $32 million and $36 million at June 30, 2010, March 2010 and December 31, 2009, respectively.

(3) Receivable classification between fixed rate, adjustable rate and interest-only receivables is based on the classification at the time of receivable origination and does not reflect any changes in the classification that may have occurred as a result of any loan modifications.

All of our non-core receivable portfolio balances have decreased from March 31, 2010 and December 31, 2009 reflecting the continued liquidation of these portfolios which will continue going forward. The liquidation rates in our real estate secured receivable portfolios continue to be impacted by declines in loan prepayments as fewer refinancing opportunities for our customers exist and the trends impacting the mortgage lending industry as previously discussed. As compared to December 31, 2009, the lower balances in our non-core receivable portfolio also reflect seasonal improvements in our collection activities during the first quarter of the year as some customers use their tax refunds to make payments.

Receivables Held for Sale The decrease in receivables held for sale since December 31, 2009 reflects the sale of auto finance receivables to SC USA in the first quarter of 2010. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," in the accompanying consolidated financial statements for further details of this transaction.

Real Estate Owned

We obtain real estate by taking possession of the collateral pledged as security for real estate secured receivables. REO properties are made available for sale in an orderly fashion with the proceeds used to reduce or repay the outstanding receivable balance. The following table provides quarterly information regarding our REO properties:

	Three Months Ended				
	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Number of REO properties at end of period	**8,249**	6,826	6,060	6,266	7,105
Number of properties added to REO inventory in the period	**4,996**	4,143	3,422	3,448	3,463
Average loss on sale of REO properties(1)	**4.2%**	3.9%	5.4%	8.4%	13.0%
Average total loss on foreclosed properties(2)	**48.9%**	49.0%	49.8%	51.6%	52.4%
Average time to sell REO properties (in days)	**156**	170	172	184	194

(1) Property acquired through foreclosure is initially recognized at its fair value less estimated costs to sell ("Initial REO Carrying Value"). The average loss on sale of REO properties is calculated as cash proceeds less the Initial REO Carrying Value divided by the Initial REO Carrying Value.

(2) The average total loss on foreclosed properties sold each quarter includes both the loss on sale of the REO property as discussed above and the cumulative write-downs recognized on the loans up to the time of foreclosure. This average total loss on foreclosed properties is expressed as a percentage of the unpaid loan principal balance prior to write-down plus any other ancillary amounts owed (e.g., real estate tax advances) which were incurred prior to our taking title to the property.

The number of REO properties at June 30, 2010 increased as compared to March 31, 2010 due to improved processing of foreclosures following backlogs in foreclosure proceedings and actions by local governments and certain states that lengthened the foreclosure process beginning in 2008. We anticipate the number of REO properties will continue to increase in future periods if the backlogs in foreclosure proceedings continue to be reduced. The average loss on sale of REO properties increased slightly during the three months ended June 30, 2010 as a result of higher volumes of REO expenses during the quarter. The average total loss on foreclosed properties was essentially flat during the three months ended June 30, 2010 as the impact of stabilization in home prices in most markets continued.

Results of Operations

Net interest income The following table summarizes net interest income:

	2010		2009		Increase (Decrease)	
	$	%(1)	$	%(1)	Amount	%
Three Months Ended June 30,	(dollars are in millions)					
Finance and other interest income	**$1,897**	**8.89%**	$2,594	9.65%	$(697)	(.76)%
Interest expense	**843**	**3.95**	1,062	3.95	(219)	-
Net interest income	**$1,054**	**4.94%**	$1,532	5.70%	$(478)	(.76)%
Six Months Ended June 30,						
Finance and other interest income	**$3,968**	**9.11%**	$5,440	9.80%	$(1,472)	(.69)%
Interest expense	**1,710**	**3.92**	2,229	4.01	(519)	(.09)
Net interest income	**$2,258**	**5.19%**	$3,211	5.79%	$(953)	(.60)%

(1) % Columns: comparison to average owned interest-earning assets.

Net interest income decreased during the three and six months ended June 30, 2010 as compared to the year-ago periods primarily due to lower average receivables as a result of receivable liquidation, risk mitigation efforts, an increased focus by consumers to reduce outstanding credit card debt and lower overall receivable yields. The decrease in overall yields on our receivable portfolio reflects the impact of the December 2009 Charge-off Policy Changes as real estate secured and personal non-credit card receivables now charge-off earlier than in the historical period which results in all of the underlying accrued interest being reversed against net interest income upon charge-off earlier as well. Overall receivable yields were also negatively impacted by a shift in receivable mix to higher levels of lower yielding first lien real estate secured receivables as higher yielding credit card, auto finance and personal non-credit card receivables have run-off at a faster pace than real estate secured receivables as well as, in the year-to-date period the impact of higher average levels of nonperforming and modified receivables. This was partially offset during the three month period by reduced levels of nonperforming and modified receivables due to charge-off as well as declines in new modification volumes. The decrease in overall receivable yields in both periods was also partially offset by the impact of repricing initiatives during the fourth quarter of 2009 for credit card receivables as discussed below. We also experienced lower yields on our non-insurance investment portfolio held for liquidity management purposes. These investments are short term in nature and the lower yields reflect historically low interest rates consistent with the Federal Reserve Bank's monetary policy. These decreases were partially offset by lower interest expense in both periods due to lower average borrowings and, in the year-to-date period, lower average rates as interest rates were essentially flat as compared to the prior year quarter.

While overall yields on our receivable portfolio decreased, receivable yields vary between receivable products. Lower yields in our real estate secured receivable portfolio reflects the impact of an increase in the expected lives of receivables in payment incentive programs since June 30, 2009, the impact of the December 2009 Charge-off Policy Changes as discussed above and, in the year-to-date period, the impact of higher average levels of nonperforming and modified receivables. Yields on our credit card receivable portfolio increased during both the three and six months ended June 30, 2010 as a result of repricing initiatives during the fourth quarter of 2009 which were partially offset by the implementation of certain provisions of new credit card legislation including restrictions impacting repricing of delinquent accounts. Yields in our personal non-credit card portfolio increased during the three months ended June 30, 2010, but were essentially flat during the year-to-date period. The increase in the current quarter reflects significantly lower levels of nonaccrual receivables than during the year-ago quarter. In the year-to-date period, the benefits of lower levels of nonaccrual receivables were largely offset by the impact of the December 2009 Charge-off Policy Changes as discussed above.

Net interest margin was 4.94 percent and 5.19 percent during the three and six months ended June 30, 2010, respectively, compared to 5.70 percent and 5.79 percent during the year-ago periods. Net interest margin decreased in both periods due to lower overall yields on our receivable portfolio as discussed above, partially offset by lower funding costs. The following table shows the impact of these items on net interest margin:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Net interest margin - June 30, 2009 and 2008, respectively	**5.70%**	6.47%	**5.79%**	6.39%
Impact to net interest margin resulting from:				
Receivable yields:				
Receivable pricing	**(.28)**	.33	**(.08)**	.29
Receivable mix	**(.26)**	(.26)	**(.33)**	(.32)
Impact of modifications and nonperforming receivables	**.06**	(1.06)	**(.13)**	(1.02)
Non-insurance investment income	**(.28)**	(.24)	**(.16)**	(.24)
Cost of funds	**-**	.46	**.10**	.69
Net interest margin - June 30, 2010 and 2009, respectively	**4.94%**	5.70%	**5.19%**	5.79%

The varying maturities and repricing frequencies of both our assets and liabilities expose us to interest rate risk. When the various risks inherent in both the asset and the debt do not meet our desired risk profile, we use derivative financial instruments to manage these risks to acceptable interest rate risk levels. See the caption "Risk Management" for additional information regarding interest rate risk and derivative financial instruments.

Provision for credit losses The following table summarizes provision for credit losses by business:

Increase

Three Months Ended June 30,	2010 $	2009 $	(Decrease) Amount	%
	(dollars are in millions)			
Provision for credit losses:				
Credit card	**$278**	$365	$(87)	(23.8)%
Mortgage Services	**305**	325	(20)	(6.2)
Consumer Lending	**1,023**	1,592	(569)	(35.7)
Auto Finance	**16**	154	(138)	(89.6)
Total provision for credit losses	**$1,622**	$2,436	$(814)	(33.5)%

Six Months Ended June 30,	2010 $	2009 $	Increase (Decrease) Amount	%
	(dollars are in millions)			
Provision for credit losses:				
Credit card	**$479**	$934	$(455)	(48.7)%
Mortgage Services	**760**	1,003	(243)	(24.2)
Consumer Lending	**2,233**	3,141	(908)	(28.9)
Auto Finance	**69**	303	(234)	(77.2)
Total provision for credit losses	**$3,541**	$5,381	$(1,840)	(34.2)%

Our provision for credit losses decreased significantly during the three and six months ended June 30, 2010 as compared to the year-ago periods as a result of a lower provision for credit losses in our core credit card receivable portfolio as well as lower provision for credit losses in our non-core Mortgage Services, Consumer Lending and Auto Finance businesses as discussed below.

- Provision for credit losses in our core credit card receivable portfolio decreased $87 million and $455 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as a result of actions taken beginning in the fourth quarter of 2007 to manage risk as well as an increased focus by consumers to reduce outstanding credit card debt. The decrease also reflects the impact of improvement in the underlying credit quality of the portfolio including lower delinquency levels as well as continuing improvements in early stage delinquency roll rates, as customer payment rates have increased reflecting a focus by consumers on reducing outstanding credit card debt as well as improvements in economic conditions since the year-ago periods. The impact on credit card receivable losses from the current economic environment, including high unemployment rates, has not been as severe due in part to improved cash flow from government stimulus activities that have meaningfully benefited our non-prime customers.

- The provision for credit losses in our Mortgage Services business decreased $20 million and $243 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as the portfolio continues to liquidate, delinquency levels continue to decrease, economic conditions improved and a higher percentage of charge-offs that were on first lien loans which generally have lower charge-offs than second lien loans. The decreases in both periods also reflect lower loss estimates on TDR Loans, partially offset by the impact of elevated unemployment levels. Overall loss severities have also improved during both periods as severities on foreclosed loans have continued to be lower as compared to the year-ago periods as home prices have begun to stabilize in most markets. Improvements in overall loss severities during the second quarter also reflect an increase in the number of properties for which we agreed to allow the borrower to sell the property for less than the current outstanding receivable balance (also referred to as a short sale) which results in lower losses as compared to foreclosed loans or loans where we previously decided not to pursue foreclosure. The decrease in the provision for credit losses was less pronounced during the three months ended June 30, 2010 as charge-off levels and reductions in credit loss reserves were similar in the current and prior year quarters.

•The provision for credit losses in our Consumer Lending business decreased $569 million and $908 million during the three and six months ended June 30, 2010 as compared to the year-ago periods. The decrease in both periods reflects lower receivable levels as both the real estate secured and personal non-credit card receivable portfolios continue to liquidate, delinquency levels continue to decrease and economic conditions improved. The decrease in provision for real estate secured receivables also reflects a higher percentage of charge-offs on first lien loans which generally have lower charge-offs than second lien loans as well as an improved outlook on current inherent losses for first lien real estate secured receivables as the current trends for deterioration in delinquencies and charge-offs in many vintages have stabilized. Overall loss severities have also improved during both periods as severities on foreclosed loans have continued to be lower as compared to the year-ago periods as home prices have begun to stabilize in most markets. Improvements in overall loss severities during the second quarter also reflect an increase in the number of short sales as discussed above. These decreases in the provision for credit losses for real estate secured receivables were partially offset by lower receivable prepayments, portfolio seasoning, higher levels of unemployment and, for the year-to-date period, increased levels of troubled debt restructures including higher reserve requirements associated with these receivables. The decrease in the provision for credit losses for personal non-credit card receivables reflects lower receivable levels, lower delinquency levels and improvements in economic conditions, partially offset by higher levels of TDR Loans including higher reserve requirements associated with these receivables.

•The provision for credit losses in our auto finance receivable portfolio decreased in both periods as a result of lower receivable levels as the portfolio continues to liquidate. Additionally, we experienced lower loss severities driven by improvements in prices on repossessed vehicles.

In recent years, the impact of seasonal patterns in our provision for credit losses has been masked by the impact of a sustained deterioration in credit quality across all of our receivable portfolios. As the credit quality in our portfolios stabilizes, we anticipate that these seasonal patterns may re-emerge as a more significant component of our overall trend in loss provision.

Net charge-off dollars totaled $2.5 billion and $5.3 billion during the three and six months ended June 30, 2010, respectively, compared to $2.5 billion and $4.9 billion during the year-ago periods. Net charge-off dollars during the first half of 2010 have been impacted by the December 2009 Charge-off Policy Changes for real estate secured and personal non-credit card receivables. As a result of these policy changes, net charge-off dollars are higher in 2010 than they otherwise would have been. See Note 8, "Changes in Charge-off Policies," in our 2009 Form 10-K for further discussion of this policy change. Net charge-off dollars in our core credit card receivable portfolio were positively impacted by improvements in U.S. economic conditions as well as an increased focus by consumers to reduce outstanding credit card debt. For further discussion see "Credit Quality" in this Form 10-Q.

Credit loss reserves at June 30, 2010 decreased as compared to March 31, 2010 and December 31, 2009 as we recorded provision for credit losses less than net charge-offs of $880 million and $1.7 billion during the three and six months ended June 30, 2010, respectively. Credit loss reserves were lower for all products as compared to March 31, 2010 and December 31, 2009 reflecting lower dollars of delinquency and lower receivable levels in all receivable portfolios. The decrease in credit loss reserves in our credit card receivable portfolio reflects lower loss estimates driven by lower receivable levels due to the actions previously taken to reduce risk which has led to improved credit quality including lower delinquency levels as well as an increased focus by consumers to reduce outstanding credit card debt. The lower delinquency levels also resulted from continued improvements in early stage delinquency roll rates as economic conditions improved. The decrease in credit loss reserve levels in our real estate secured receivable portfolio also reflects lower receivable levels as the portfolio continues to liquidate and a continuing decrease in delinquency as the delinquent balances continue to migrate to charge-off and are replaced by lower levels of new delinquency volume as the portfolio continues to season and overall loss severities improve. While reserve requirements for real estate secured TDR Loans increased during the six months ended June 30, 2010 due to higher volumes and slower liquidation rates, TDR Loan reserve requirements decreased during the current quarter driven by an increase in the percentage of performing TDR Loans in our Mortgage Services business. Credit loss reserve levels in our personal non-credit card portfolio decreased as a result of lower receivable levels including lower delinquency lower partially offset by higher reserve requirements on TDR Loans due to an increase in volume and expected loss rates.

During the first half of 2010, we continue to experience elevated levels of TDR Loans, driven largely by real estate secured TDR Loans. Beginning in 2008, we significantly increased the use of loan modifications in an effort to assist customers who are experiencing financial difficulties. As a result, TDR Loans have also increased as compared to the year-ago period as these higher levels of modified loans become eligible to be reported as TDR Loans under our existing policy. Although TDR Loans generally carry a higher reserve requirement, in most cases their delinquency status was reset to current upon modification. Therefore, a significant portion of these balances will not be reported in two-months-and-over contractual delinquency and nonperforming loans unless they subsequently experience payment defaults. For further discussion of credit loss reserves see "Credit Quality" in this Form 10-Q.

Other revenues The following table summarizes other revenues:

	2010	2009	Increase (Decrease)	
Three Months Ended June 30,	$	$	Amount	%
	(dollars are in millions)			
Insurance revenue	**$76**	$85	$(9)	(10.6)%
Investment income	**24**	25	(1)	(4.0)
Net other-than-temporary impairment losses	**-**	-	-	
Derivative related income (expense)	**(496)**	208	(704)	(100.0+)
Gain (loss) on debt designated at fair value and related derivatives	**470**	(4,769)	5,239	100.0+
Fee income	**39**	151	(112)	(74.2)

Enhancement services revenue	**101**	124	(23)	(18.5)
Taxpayer financial services revenue	**-**	3	(3)	(100.0)
Gain on bulk sale of receivables to HSBC Bank USA	**-**	-	-	-
Gain on receivable sales to HSBC affiliates	**142**	90	52	57.8
Servicing and other fees from HSBC affiliates	**164**	208	(44)	(21.2)
Lower of cost or fair value adjustment on receivables held for sale	**2**	(173)	175	100.0+
Other income	**16**	18	(2)	(11.1)
Total other revenues	**$538**	$(4,030)	$4,568	100.0+%

Six Months Ended June 30,	2010 $	2009 $	Increase (Decrease) Amount	%
	(dollars are in millions)			
Insurance revenue	**$144**	$178	$(34)	(19.1)%
Investment income	**51**	52	(1)	(1.9)
Net other-than-temporary impairment losses	**-**	(20)	20	100.0
Derivative related income (expense)	**(598)**	246	(844)	(100.0+)
Gain (loss) on debt designated at fair value and related derivatives	**603**	(657)	1,260	100.0+
Fee income	**128**	379	(251)	(66.2)
Enhancement services revenue	**204**	259	(55)	(21.2)
Taxpayer financial services revenue	**29**	93	(64)	(68.8)
Gain on bulk sale of receivables to HSBC Bank USA	**-**	57	(57)	(100.0)
Gain on receivable sales to HSBC affiliates	**258**	218	40	18.3
Servicing and other fees from HSBC affiliates	**402**	412	(10)	(2.4)
Lower of cost or fair value adjustment on receivables held for sale	**2**	(343)	345	100.0+
Other income	**26**	64	(38)	(59.4)
Total other revenues	**$1,249**	$938	$311	33.2%

Insurance revenue decreased during both periods as a result of lower credit related premiums due largely to the decision in late February 2009 to discontinue all new customer account originations in our Consumer Lending business. As a result of this decision, we no longer issue new credit insurance policies in this business segment but continue to collect premiums on existing policies. The decreases in insurance revenue were partially offset by growth in the simplified issue term life insurance product that was introduced in 2007.

Investment income includes interest income on securities available-for-sale as well as realized gains and losses from the sale of securities. Investment income in both periods was flat as compared to the year-ago periods as higher gains on sales of securities were offset by the impact of lower average investment balances and significantly lower yields on money market funds.

Net other-than temporary impairment ("OTTI") losses During the three and six months ended June 30, 2010, OTTI losses on securities available-for-sale was less than $1 million. During the six months ended June 30, 2009, $20 million of OTTI was recorded on our portfolio of perpetual preferred securities which was subsequently sold during the second quarter of 2009. For further information, see Note 4, "Securities," in the accompanying consolidated financial statements.

Derivative related income (expense) includes realized and unrealized gains and losses on derivatives which do not qualify as effective hedges under hedge accounting principles as well as the ineffectiveness on derivatives which are qualifying hedges. Designation of swaps as effective hedges reduces the volatility that would otherwise result from mark-to-market accounting. All of our derivatives are economic hedges of the underlying debt instruments regardless of the accounting treatment. Derivative related income (expense) is summarized in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Net realized losses	**$(72)**	$(33)	**$(136)**	$(53)
Mark-to-market on derivatives which do not qualify as effective hedges	**(414)**	217	**(452)**	220
Ineffectiveness	**(10)**	24	**(10)**	79
Total	**$(496)**	$208	**$(598)**	$246

As previously discussed, the deterioration in marketplace and economic conditions has resulted in our Consumer Lending and Mortgage Services real estate secured receivables remaining on the balance sheet longer due to lower prepayment rates. To offset the increase in duration of these receivables and the corresponding increase in interest rate risk as measured by the present value of a basis point ("PVBP"), $6.5 billion of longer-dated pay fixed/receive variable interest rate swaps were outstanding at the end of the second quarter of 2010. This represents an increase of $1.0 billion and $1.2 billion in pay fixed/receive variable interest rate swaps when compared to March 31, 2010 and December 31, 2009, respectively. While these positions acted as economic hedges by lowering our overall interest rate risk through more closely matching both the structure and duration of our liabilities to the structure and duration of our assets, they did not qualify as effective hedges under hedge accounting principles. Falling long-term interest rates during 2010, which were more pronounced during the second quarter resulted in increases in net realized losses and had a significant negative impact on the mark-to-market on this portfolio of swaps. Should interest rates continue to decline or if we continue to increase the size of this swap portfolio, we will incur additional losses, although losses could reverse if and when interest rates increase. Over time, we anticipate further reducing our exposure to rising interest rates through the execution of additional pay fixed/receive variable interest rate swaps.

During the three and six months ended June 30, 2010, ineffectiveness was largely due to the impact of falling U.S. long term rates on our cross currency cash flow hedges, partially offset by falling long-term foreign interest rates. In the year-ago periods, ineffectiveness reflects rising long-term foreign interest rates partially offset by the impact of falling long-term U.S. interest rates on our cross currency cash flow hedges.

Net income volatility, whether based on changes in interest rates for swaps which do not qualify for hedge accounting or ineffectiveness recorded on our qualifying hedges under the long haul method of accounting, impacts the comparability of our reported results between periods. Accordingly, derivative related income for the six months ended June 30, 2010 should not be considered indicative of the results for any future periods.

Gain (loss) on debt designated at fair value and related derivatives reflects fair value changes on our fixed rate debt accounted for under fair value option ("FVO") as well as the fair value changes and realized gains (losses) on the related derivatives associated with debt designated at fair value. The gain on debt designated at fair value and related derivates during the three and six months ended June 30, 2010 primarily reflects a widening of credit spreads during the current periods as compared to a significant tightening of our credit spreads during the year-ago periods. See Note 11, "Fair Value Option," in the accompanying consolidated financial statements for additional information, including a break out of the components on the gain on debt designated at fair value and related derivatives.

Fee income, which includes revenues from fee-based products such as credit cards, decreased during both periods as a result of lower late, overlimit and interchange fees due to lower volumes and lower delinquency levels, changes in customer behavior and impacts from changes required by the new credit card legislation. The new credit card legislation has resulted in significant decreases in overlimit fees as customers must now opt-in for such fees as well as restrictions on fees charged to process on-line and telephone payments.

Enhancement services revenue, which consists of ancillary credit card revenue from products such as Account Secure Plus (debt protection) and Identity Protection Plan, decreased during both periods as a result of the impact of lower new origination volumes and lower receivable levels.

Taxpayer financial services ("TFS") revenue decreased during the six months ended June 30, 2010 as a result of changes in the way the TFS program is jointly managed between us and HSBC USA Inc. as well as lower loan volumes in the 2010 tax season. Beginning in the first quarter of 2010, a portion of the loans we previously purchased are now retained by HSBC USA Inc. and we receive a fee for both servicing the loans and for assuming the credit risk associated with these loans. As a result, the decrease in TFS revenue during the six months ended June 30, 2010 is largely offset by higher servicing and other fee revenue related to these loans which is recorded as a component of servicing and other fees from HSBC affiliates.

Gain on bulk sale of receivables to HSBC Bank USA during the first quarter of 2009 reflects the gain on the January 2009 sales of the GM and UP Portfolios, with an outstanding receivable balance of $12.4 billion at the time of sale, and $3.0 billion of auto finance receivables to HSBC Bank USA. These gains were partially offset by a loss recorded on the termination of cash flow swaps associated with $6.1 billion of indebtedness transferred to HSBC Bank USA as part of these transactions. No similar transaction occurred during the first half of 2010.

Gain on receivable sales to HSBC affiliates, which consists primarily of daily sales of private label receivable originations and certain credit card account originations to HSBC Bank USA increased in both periods. The increase in both periods was primarily due to higher overall premiums, partially offset by lower overall origination volumes. The higher overall premiums reflect the impact of contract renegotiation with certain merchants, repricing initiative in certain portfolios as well as the impact of improving credit quality during the first half of 2010, partially offset by impacts from the new credit card legislation, including restrictions impacting repricing of delinquent accounts.

Servicing and other fees from HSBC affiliates represents revenue received under service level agreements under which we service real estate secured, credit card, auto finance, private label receivables and beginning in the first quarter of 2010, taxpayer financial services loans for HSBC affiliates. The decrease during the three and six months ended June 30, 2010 reflects lower levels of receivables being serviced for HSBC Bank USA as well as the transfer to HSBC Technology & Services (USA) Inc. ("HTSU") of certain services we previously provided to other HSBC affiliates, partially offset in the year-to-date period by the servicing and other fees related to TFS loans as discussed above.

Lower of cost or fair value adjustment on receivables held for sale includes the non-credit portion of the lower of cost or fair value adjustment recorded on receivables at the date they are transferred to held for sale as well as the credit and non-credit portion of all lower of cost or fair value adjustments recorded on receivables held for sale subsequent to the transfer. During the first half of 2009, we had higher levels of receivables held for sale and the lower of cost or fair value adjustments on receivables held for sale reflects the impact of current market conditions on pricing at the time.

Other income was flat during the three months ended June 30, 2010 and decreased during the year-to-date period. The decrease during the year-to-date period reflects lower gains on sales of miscellaneous commercial assets, partially offset by a gain of $5 million on the sale of our auto finance servicing operations and auto finance receivables to Santander Consumer USA ("SC USA"). See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," in the accompanying consolidated financial statements for additional information regarding this transaction.

Operating expenses The following table summarizes total costs and expenses:

Three Months Ended June 30,	2010 $	2009 $	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salaries and employee benefits	**$161**	$270	$(109)	(40.4)%
Occupancy and equipment expenses	**13**	36	(23)	(63.9)
Other marketing expenses	**79**	27	52	100.0+
Real estate owned expenses	**40**	41	(1)	(2.4)
Other servicing and administrative expenses	**194**	188	6	3.2
Support services from HSBC affiliates	**263**	250	13	5.2
Amortization of intangibles	**35**	39	(4)	(10.3)
Policyholders' benefits	**38**	48	(10)	(20.8)
Goodwill and other intangible asset impairment charges	**-**	1,641	(1,641)	(100.0)
Total costs and expenses	**$823**	$2,540	$(1,717)	(67.6)%

Six Months Ended June 30,	2010 $	2009 $	Increase (Decrease) Amount	%
	(dollars are in millions)			
Salaries and employee benefits	**$337**	$690	$(353)	(51.2)%
Occupancy and equipment expenses	**42**	138	(96)	(69.6)
Other marketing expenses	**136**	77	59	76.6
Real estate owned expenses	**79**	146	(67)	(45.9)
Other servicing and administrative expenses	**443**	454	(11)	(2.4)
Support services from HSBC affiliates	**561**	518	43	8.3

Amortization of intangibles	**74**	81	(7)	(8.6)
Policyholders' benefits	**80**	103	(23)	(22.3)
Goodwill and other intangible asset impairment charges	**-**	2,308	(2,308)	(100.0)
Total costs and expenses	**$1,752**	$4,515	$(2,763)	(61.2)%

Salaries and employee benefits was significantly lower during the three and six months ended June 30, 2010 as a result of the reduced scope of our business operations, including the change in the number of employees from the strategic decisions implemented, the impact of entity-wide initiatives to reduce costs, and the centralization of additional shared services in North America, including, among other things, legal, compliance, tax and finance. Salaries and employee benefits during the six months ended June 30, 2009 included severance costs $76 million, primarily related to our decision in February 2009 to discontinue new account originations for all products in our Consumer Lending business and close all branch offices. See Note 3, "Strategic Initiatives," in the accompanying consolidated financial statements for a complete description of these decisions.

Occupancy and equipment expenses have been impacted in both periods by the impact of strategic initiatives. During the three and six months ended June 30, 2010, occupancy and equipment expenses were reduced by $14 million in each period as a result of a reduction in the lease liability associated with an office of our Mortgage Services business which has now been fully subleased. Additionally, during the six months ended June 30, 2009, occupancy and equipment expenses included $54 million related to the decision to close the Consumer Lending branch offices. Excluding the impact of these items, occupancy and equipment expense remained lower in both periods due to lower depreciation, utilities, repair and maintenance expenses as a result of the reduction of the scope of our business operations since March 2009.

Other marketing expenses include payments for advertising, direct mail programs and other marketing expenditures. Other marketing expenses increased during the three and six months ended June 30, 2010 as we have increased direct marketing mailings and new customer account originations for portions of our non-prime credit card receivable portfolio based on recent performance trends in this portfolio as well as increased compliance mailings in the second quarter of 2010 related to the new credit card legislation. Although other marketing expenses have increased, overall marketing levels remain low. Current marketing levels should not be considered indicative of marketing expenses for any future periods.

Real estate owned expenses decreased during the year-to-date period but were flat during the three months ended June 30, 2010. The decrease in the year-to-date period reflects lower losses on sales of REO properties as well as lower average levels of REO properties during the first half of 2010 as compared to the year-ago period due to backlogs in foreclosure proceedings and actions taken by local governments and certain states that have lengthened the foreclosure process. Lower losses on sales of REO properties during the first half of 2010 as compared to the year-ago period reflects home prices continuing to stabilize during the first half of 2010 which results in less deterioration in value between the date we take title to the property and when the property is ultimately sold. During the three months ended June 30, 2010, REO expenses were flat as the lower losses on sales of REO properties discussed above was largely offset by an increase in the number of REO properties held as the backlogs in foreclosure proceedings continued to be reduced as well as a higher level of expenses.

Other servicing and administrative expenses included fixed asset write-downs of $29 million during the six months ended June 30, 2009 related to the decision to close the Consumer Lending branch offices. Excluding the impact of this item, other servicing and administrative expenses increased in both periods as a result of higher expenses associated with receivables in the process of foreclosure. Additionally, a portion of this increase related to a change in the classification of certain pre-foreclosure costs, which during the first half of 2009 were reported as part of charge-off. In 2010, such costs are recorded in other servicing and administrative expenses which resulted in an incremental $8 million and $36 million being recorded in other servicing and administrative expenses during the three and six months ended June 30, 2010. The increase in other servicing and administrative expenses during the three months ended June 30, 2010 also reflects fees paid for the servicing of our auto finance receivables as a result of the sale of our auto financing servicing operations in March 2010. See Note 2, "Sale of Auto Finance Servicing Operations and Auto Finance Receivables," in the accompanying consolidated financial statements for further information regarding this transaction. The increases in other and servicing and administrative expenses in both periods were partially offset by the impact of entity wide initiatives to reduce costs.

Support services from HSBC affiliates increased during the three and six months ended June 30, 2010 as beginning in January 2010 it includes legal, compliance, tax and finance and other shared services charged to us by HTSU which were previously recorded in salaries and employee benefits. Support services from HSBC affiliates also includes services charged to us by an HSBC affiliate located outside of the United States which provides operational support to our businesses, including among other areas, customer service, systems, collection and accounting functions.

Amortization of intangibles decreased in both periods due to lower amortization for technology and customer lists due to the write-off of a portion of these intangibles during the first quarter of 2009 as a result of the decision to discontinue all new account originations in our Consumer Lending business with the remainder becoming fully amortized during the first quarter of 2010.

Policyholders' benefits decreased during the three and six months ended June 30, 2010 due to declines in claims on credit insurance policies since we are no longer issuing these policies in relation to Consumer Lending loans and there are fewer such policies in place. These decreases were partially offset by higher claims on a new term life product due to growth in this product offering.

Goodwill and other intangible asset impairment charges during the three and six months ended June 30, 2009 include a goodwill impairment charges of $1.6 billion and $2.3 billion, respectively, related to our Card and Retail Services and Insurance Services businesses. All goodwill was written off at June 30, 2009. See Note 14, "Goodwill," our 2009 Form 10-K for further discussion of the goodwill impairment. Additionally during the first quarter of 2009, we recorded impairment charges of $14 million for intangible assets associated with our Consumer Lending business as a result of our decision to discontinue new customer account originations for all products. See Note 3, "Strategic Initiatives," and Note 8, "Intangible Assets," in our 2009 Form 10-K for further discussion of the impairment. There were no intangible asset impairment charges during the first half of 2010.

Efficiency ratio The following table summarizes our owned basis efficiency ratio:

	2010	2009
Three months ended June 30,	**50.51%**	(97.88)%
Six months ended June 30,	**48.79**	109.05

Our efficiency ratio during the three and six months ended June 30, 2010 and 2009 was impacted by the change in the fair value of debt for which we have elected fair value option accounting. Additionally, the three and six months ended June 30, 2009 were also significantly impacted by the goodwill and intangible asset impairment charges and

Consumer Lending closure costs, as discussed above. Excluding these items from the periods presented, our efficiency ratio deteriorated significantly during the three and six months ended June 30, 2010, respectively, as receivable portfolio liquidation and declining overall yields on our receivable portfolio caused net interest income to decrease more rapidly than operating expenses. The volatility between periods in other revenues, in particular the significantly lower derivative income due to the impact of falling interest rates on our portfolio of non-qualifying hedges as well as lower fee income which was partially offset by lower fair value write-downs on receivables held for sale also significantly impacted the efficiency ratio during the current periods.

Segment Results - IFRS Management Basis

We have two reportable segments: Card and Retail Services and Consumer. Our segments are managed separately and are characterized by different middle-market consumer lending products, origination processes and locations. Our segment results are reported on a continuing operations basis.

Our Card and Retail Services segment comprises our core operations and includes our MasterCard, Visa, private label and other credit card operations. The Card and Retail Services segment offers these products throughout the United States primarily via strategic affinity and co-branding relationships, merchant relationships and direct mail. We also offer products and provide customer service through the Internet.

Our Consumer segment consists of our run-off Consumer Lending, Mortgage Services and Auto Finance businesses which are no longer considered central to our core operations. The Consumer segment provided real estate secured, auto finance and personal non-credit card loans. Loans were offered with both revolving and closed-end terms and with fixed or variable interest rates. Loans were originated through branch locations and direct mail. Products were also offered and customers serviced through the Internet. Prior to the first quarter of 2007, we acquired loans through correspondent channels and prior to September 2007 we also originated loans sourced through mortgage brokers. While these businesses are operating in run-off mode, they have not been reported as discontinued operations because we continue to generate cash flow from the ongoing collections of the receivables, including interest and fees.

The "All Other" caption includes our Insurance business. It also includes our Taxpayer Financial Services and Commercial businesses which are no longer considered core to our operations. Each of these businesses falls below the quantitative threshold tests under segment reporting rules for determining reportable segments. The "All Other" caption also includes our corporate and treasury activities, which includes the impact of FVO debt. Certain fair value adjustments related to purchase accounting resulting from our acquisition by HSBC and related amortization have been allocated to corporate, which is included in the "All Other" caption within our segment disclosure. Goodwill which was established as a result of our acquisition by HSBC was not allocated to or included in the reported results of our reportable segments as the acquisition by HSBC was outside of the ongoing operational activities of our reportable segments, consistent with management's view of our reportable segment results. Such goodwill of $530 million was impaired during the six months ended June 30, 2009. Goodwill relating to acquisitions subsequent to our acquisition by HSBC was included in the reported respective segment results as those acquisitions specifically related to the business, consistent with management's view of the segment results.

In the second quarter of 2010, we revised the methodology used to allocate interest expense between our reportable segments. The new methodology recognizes that non-receivable assets and liabilities in each of our business segments have a shorter life than previously assumed and incorporates transfer pricing consistent with this revised forecasted life. The impact of this change in methodology for our Card and Retail Services and Consumer segments was not significant. There have been no other changes in our measurement of segment profit (loss) and there have been no changes in the basis of segmentation as compared with the presentation in our 2009 Form 10-K.

We report results to our parent, HSBC, in accordance with its reporting basis, IFRSs. Our segment results are presented on an IFRS Management Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRS Management Basis. Accordingly, our segment reporting is on an IFRS Management Basis. IFRS Management Basis results are IFRSs results which assume that the GM and UP credit card portfolios and the auto finance, private label and real estate secured receivables transferred to HSBC Bank USA have not been sold and remain on our balance sheet and the revenues and expenses related to these receivables remain on our income statement. IFRS Management Basis also assumes that the purchase accounting fair value adjustments relating to our acquisition by HSBC have been "pushed down" to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the receivable sales to HSBC Bank USA were conducted primarily to fund prime customer loans more efficiently through bank deposits and such receivables continue to be managed and serviced by us without regard to ownership. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP legal entity basis. A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are summarized in Note 15, "Business Segments," in the accompanying consolidated financial statements.

Card and Retail Services Segment The following table summarizes the IFRS Management Basis results for our Card and Retail Services segment:

			Increase (Decrease)	
Three Months Ended June 30,	**2010**	**2009**	**Amount**	**%**
	(dollars are in millions)			
Net interest income	**$1,177**	$1,298	$(121)	(9.3)%
Other operating income	**354**	568	(214)	(37.7)
Total operating income	**1,531**	1,866	(335)	(18.0)
Loan impairment charges	**784**	1,208	(424)	