

HSBC HOLDINGS PLC
Form 6-K
May 27, 2011

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 May

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 ☒ 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 ☒

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

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

FORM 8-K

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

Date of Report: May 27, 2011

Commission file number 1-8198

HSBC FINANCE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	86-1052062
(State of Incorporation)	(IRS Employer Identification Number)
26525 North Riverwoods Boulevard	60045
Mettawa, Illinois	
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

On May 11, 2011, HSBC Finance Corporation (the "Company") filed its Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the "March 2011 Form 10-Q") with the Securities and Exchange Commission ("SEC"). In the March 2011 Form

10-Q, the Company presented updated business segment disclosures as discussed more fully below. HSBC Finance Corporation may also be referred to in this Form 8-K as "we," "us," or "our."

The supplemental information included in this Form 8-K provides changes to prior disclosures included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the "2010 Form 10-K") related to segment results as contained in Note 24, "Business Segments" of the audited consolidated financial statements as well as in Part II, Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations." The supplemental information should be read in conjunction with the 2010 Form 10-K, which was filed with the SEC on February 28, 2011.

SEGMENT CHANGES

During 2010, changes were made to the management structure within HSBC North America which resulted in the alignment of our Management to be focused on the legal entity results of our business operations. During the first quarter of 2011, we re-evaluated and made changes to the financial information used to manage our business, including the scope and content of the financial data being reported to our Management, consistent with this more legal entity focus of our Management. As a result, beginning in the first quarter of 2011, our operating results are now monitored and reviewed and trends are evaluated on a legal entity basis in accordance with IFRSs ("IFRS Basis"), which is the basis on which we report results to our parent, HSBC Holdings plc. However we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis.

Prior to the first quarter of 2011, we reported our results on an IFRS Management Basis which were IFRSs results which assumed that the General Motors and Union Plus credit card portfolios, the private label card portfolio and the real estate secured receivables which had been transferred to HSBC Bank USA, National Association had not been sold and remained on our balance sheet and the revenues and expenses related to these receivables remained in our income statement.

As a result of the changes discussed above, beginning in the first quarter of 2011 and going forward, the Company changed the composition of segment profit (loss) from an IFRS Management Basis of reporting to an IFRS Basis of reporting in order to align with its revised internal reporting structure. Segment financial information has been restated for all periods presented to reflect this new segmentation. There have been no other changes in the basis of the Company's segmentation or measurement of segment profit as compared with the presentation in the 2010 Form 10-K.

* * * * *

Attached hereto as Exhibit 99.01 and incorporated by reference herein are updated historical consolidated financial statements of HSBC Finance Corporation which reflect the updated business segment disclosures. Also attached hereto as Exhibit 99.02 and incorporated by reference herein are updated historical segment results included in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2010 Form 10-K. The historical consolidated financial statements and segment disclosures included in Exhibit 99.01 and Exhibit 99.02, respectively, shall serve as the historical consolidated financial statements and segment disclosures of HSBC Finance Corporation for existing and future filings made pursuant to the Securities Act of 1933, as amended, until the Company files its Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Item 9.01 Financial Statements and Exhibits.

Exhibits.

Exhibit No.	Description
99.01	Historical audited consolidated financial statements of HSBC Finance Corporation, reflecting the change in segment composition. Also included is the Report of Independent Registered Public Accounting Firm dated February 28, 2011, except as to Note 24, which is dated as of May 27, 2011.
99.02	Historical segment results of HSBC Finance Corporation included in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, reflecting the change in segment composition.
99.03	Consent of KPMG LLP.

Signature

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

HSBC FINANCE CORPORATION
(Registrant)

By: /s/ MIKE A. REEVES
Mike A. Reeves
Executive Vice President
and Chief Financial Officer

Dated: May 27, 2011

EXHIBIT 99.01

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholder
HSBC Finance Corporation:

We have audited the accompanying consolidated balance sheets of HSBC Finance Corporation, an indirect wholly-owned subsidiary of HSBC Holdings plc, and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of HSBC Finance Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC Finance Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), HSBC Finance Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of HSBC Finance Corporation's internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois
February 28, 2011, except as to Note 24
which is as of May 27, 2011

CONSOLIDATED STATEMENT OF INCOME (LOSS)

Year Ended December 31,	2010	2009	2008
	(in millions)		
Finance and other interest income	\$7,208	\$8,887	\$13,616
Interest expense on debt held by:			
HSBC affiliates	147	246	499
Non-affiliates	2,876	3,583	5,181
Net interest income	4,185	5,058	7,936
Provision for credit losses	6,180	9,650	12,410
Net interest income (loss) after provision for credit losses	(1,995)	(4,592)	(4,474)
Other revenues:			
Insurance revenue	274	334	417
Investment income	99	109	124
Net other-than-temporary impairment losses(1)	-	(25)	(54)
Derivative related income (expense)	(379)	300	(306)
Gain (loss) on debt designated at fair value and related derivatives	741	(2,125)	3,160
Fee income	188	650	1,687
Enhancement services revenue	404	484	700
Gain on bulk receivable sales to HSBC affiliates	-	50	-
Gain on receivable sales to HSBC affiliates	540	469	260
Servicing and other fees from HSBC affiliates	666	748	545
Lower of cost or fair value adjustment on receivables held for sale	2	(374)	(514)
Other income (expense)	32	92	(68)
Total other revenues	2,567	712	5,951
Operating expenses:			
Salaries and employee benefits	597	1,119	1,594
Occupancy and equipment expenses, net	92	182	238
Other marketing expenses	314	184	350
Real estate owned expenses	274	199	342
Other servicing and administrative expenses	814	947	1,020
Support services from HSBC affiliates	1,092	925	922
Amortization of intangibles	143	157	178
Goodwill and other intangible asset impairment charges	-	2,308	329
Policyholders' benefits	152	197	199
Operating expenses	3,478	6,218	5,172
Loss from continuing operations before income tax benefit	(2,906)	(10,098)	(3,695)
Income tax benefit	1,007	2,632	1,087
Loss from continuing operations	(1,899)	(7,466)	(2,608)
Discontinued Operations (Note 3);			
(Loss) gain from discontinued operations before income tax	(26)	29	(227)
Income tax benefit (expense)	9	(13)	52
(Loss) income from discontinued operations	(17)	16	(175)
Net loss	\$(1,916)	\$(7,450)	\$(2,783)

- (1) During 2009, \$36 million of gross other-than-temporary impairment losses on securities available-for-sale were recognized, of which \$11 million was recognized in accumulated other comprehensive income (loss) ("AOCI").

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

CONSOLIDATED BALANCE SHEET

December 31,	2010	2009
	(in millions, except share data)	
Assets		
Cash	\$175	\$289
Interest bearing deposits with banks	1,016	17
Securities purchased under agreements to resell	4,311	2,850
Securities available-for-sale	3,371	3,187
Receivables, net (including \$6.3 billion and \$6.8 billion at December 31, 2010 and 2009, respectively, collateralizing long-term debt)	61,333	74,308
Receivables held for sale	4	3
Intangible assets, net	605	748
Properties and equipment, net	202	201
Real estate owned	962	592
Derivative financial assets	75	-
Deferred income taxes, net	2,491	2,887
Other assets	1,791	4,563
Assets of discontinued operations	196	4,908
Total assets	\$76,532	\$94,553
Liabilities		
Debt:		
Due to affiliates (including \$436 million at December 31, 2010 carried at fair value)	\$8,255	\$9,043
Commercial paper	3,156	4,291
Long-term debt (including \$20.8 billion and \$26.7 billion at December 31, 2010 and 2009, respectively, carried at fair value and \$4.1 billion and \$4.7 billion at December 31, 2010 and 2009, respectively, collateralized by receivables)	54,616	68,880
Total debt	66,027	82,214
Insurance policy and claim reserves	982	996
Derivative related liabilities	2	60
Liability for postretirement benefits	265	268
Other liabilities	1,519	1,822
Liabilities of discontinued operations	17	814
Total liabilities	68,812	86,174
Shareholders' equity		
Redeemable preferred stock:		
Series B (1,501,100 shares authorized, \$0.01 par value, 575,000 shares issued)	575	575
Series C (1,000 shares authorized, \$0.01 par value, 1,000 shares issued)	1,000	-
Common shareholder's equity:		
Common stock (\$0.01 par value, 100 shares authorized; 66 shares and 65 shares issued at December 31, 2010 and 2009, respectively)	-	-

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Additional paid-in capital	23,321	23,119
Accumulated deficit	(16,685)	(14,732)
Accumulated other comprehensive loss	(491)	(583)
Total common shareholder's equity	6,145	7,804
Total liabilities and shareholders' equity	\$76,532	\$94,553

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	2010	2009	2008
	(dollars are in millions)		
Preferred stock			
Balance at the beginning of period	575	575	575
Issuance of Series C preferred stock	1,000	-	-
Balance at the end of period	\$1,575	\$575	\$575
Common shareholder's equity			
Common stock			
Balance at beginning and end of period	\$-	\$-	\$-
Additional paid-in capital			
Balance at beginning of period	\$23,119	\$21,485	\$18,227
Excess of book value over consideration received on sale of U.K. Operations to an HSBC affiliate	-	-	(196)
Excess of book value over consideration received on sale of Canadian Operations to an HSBC affiliate	-	-	(46)
Capital contribution from parent	200	2,685	3,500
Return of capital to parent	-	(1,043)	-
Employee benefit plans, including transfers and other	2	(8)	-
Balance at end of period	\$23,321	\$23,119	\$21,485
(Accumulated deficit) retained earnings			
Balance at beginning of period	\$(14,732)	\$(7,245)	\$(4,423)
Net loss	(1,916)	(7,450)	(2,783)
Dividend equivalents on HSBC's Restricted Share Plan	-	-	(2)
Dividends:			
Preferred stock	(37)	(37)	(37)
Common stock	-	-	-
Balance at end of period	\$(16,685)	\$(14,732)	\$(7,245)
Accumulated other comprehensive income (loss)			
Balance at beginning of period	\$(583)	\$(1,378)	\$(220)
Net change in unrealized gains (losses), net of tax, on:			
Derivatives classified as cash flow hedges	57	684	(610)
Securities available-for-sale, not other-than temporarily impaired	40	92	(53)
Other-than-temporarily impaired debt securities available-for-sale(1)	3	(7)	-
Postretirement benefit plan adjustment, net of tax	(8)	4	(1)
Foreign currency translation adjustments, net of tax	-	22	(120)
Other comprehensive income (loss), net of tax	92	795	(784)
Reclassification of foreign currency translation and pension adjustments to additional paid-in capital resulting from sale of U.K. Operations	-	-	(380)
Reclassification of foreign currency translation and pension adjustments to additional paid-in capital resulting from sale of Canadian Operations	-	-	6
Balance at end of period	\$(491)	\$(583)	\$(1,378)
Total common shareholder's equity	\$6,145	\$7,804	\$12,862
Comprehensive income (loss)			

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Net loss	\$(1,916)	\$(7,450)	\$(2,783)
Other comprehensive income (loss)	92	795	(784)
Comprehensive income (loss)	\$(1,824)	\$(6,655)	\$(3,567)
Preferred stock			
Number of shares at beginning of period	575,000	575,000	575,000
Number of shares of Series C preferred stock issued	1,000	-	-
Number of shares at the end of period	576,000	575,000	575,000
Common stock			
Number of shares at beginning of period	65	60	57
Number of shares of common stock issued to parent	1	5	3
Number of shares at end of period	66	65	60

(1) During 2010, gross other-than-temporary impairment ("OTTI") recoveries on available-for-sale securities totaled \$4 million, all relating to the non-credit component of OTTI previously recorded in accumulated other comprehensive income ("AOCI"). During 2009, \$36 million of gross OTTI losses on securities available-for-sale were recognized, of which \$11 million were recognized in AOCI.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31,	2010	2009	2008
	(in millions)		
Cash flows from operating activities			
Net loss	\$(1,916)	\$(7,450)	\$(2,783)
Loss from discontinued operations	(17)	16	(175)
Loss from continuing operations	(1,899)	(7,466)	(2,608)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses	6,180	9,650	12,410
Gain on bulk sale of receivables to HSBC Bank USA, National Association ("HSBC Bank USA")	-	(50)	-
Gain on receivable sales to HSBC affiliates	(540)	(469)	(260)
Goodwill and other intangible impairment charges	-	2,308	329
Loss on sale of real estate owned, including lower of cost or market adjustments	128	101	229
Insurance policy and claim reserves	(53)	(18)	(41)
Depreciation and amortization	179	202	243
Mark-to-market on debt designated at fair value and related derivatives	48	2,880	(2,924)
Gain on sale of Visa Class B shares	-	-	(11)
Deferred income tax (benefit) provision	315	(247)	(13)
Net change in other assets	2,813	(754)	(206)
Net change in other liabilities	(306)	(584)	(804)
Originations of loans held for sale	(33,799)	(38,089)	(24,884)
Sales and collections on loans held for sale	34,343	38,786	25,114
Foreign exchange and derivative movements on long-term debt and net change in non-FVO related derivative assets and liabilities	(630)	(594)	(161)
Change in accrued finance income related to December 2009 charge-off policy changes and nonaccrual policy change for re-aged loans	-	541	-
Other-than-temporary impairment on securities	-	25	54
Lower of cost or fair value adjustments on receivables held for sale	(2)	374	514
Other, net	438	185	148
Cash provided by operating activities-continuing operations	7,215	6,781	7,129
Cash provided by operating activities-discontinued operations	609	593	1,496
Net cash provided by (used in) operating activities	7,824	7,374	8,625
Cash flows from investing activities			
Securities:			
Purchased	(1,051)	(536)	(452)
Matured	452	363	538
Sold	216	166	175
Net change in short-term securities available-for-sale	274	52	(510)
	(1,461)	(1,825)	481

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Net change in securities purchased under agreements to resell			
Net change in interest bearing deposits with banks	(999)	8	251
Proceeds from sale of affiliate preferred shares to HSBC Holdings Plc	-	242	-
Proceeds from sale of Low Income Housing Tax Credit Investment Funds to HSBC Bank USA	-	106	-
Proceeds from sale of Visa Class B shares	-	-	11
Receivables:			
Net (originations) collections	4,623	6,170	4,452
Purchases and related premiums	(45)	(43)	(48)
Proceeds from sales of real estate owned	1,338	1,467	1,591
Proceeds from bulk sale of receivables to HSBC Bank USA	-	6,045	-
Proceeds from sales of real estate secured receivables held in portfolio to a third party	-	-	1,116
Properties and equipment:			
Purchases	(15)	(51)	(77)
Sales	-	-	50
Cash provided by (used in) investing activities-continuing operations	3,332	12,164	7,578
Cash provided by (used in) investing activities-discontinued operations	3,613	5,227	2,622
Net cash provided by (used in) investing activities	6,945	17,391	10,200
Cash flows from financing activities			
Debt:			
Net change in short-term debt	(1,135)	(5,348)	1,914
Net change in due to affiliates	(1,553)	(4,225)	2,184
Long-term debt issued	1,714	4,078	4,075
Long-term debt retired	(14,734)	(19,312)	(29,029)
Issuance of preferred stocks	1,000	-	-
Insurance:			
Policyholders' benefits paid	(80)	(95)	(95)
Cash received from policyholders	66	58	54
Capital contribution from parent	200	2,410	3,500
Return of capital to parent	-	(1,043)	-
Shareholder's dividends	(37)	(37)	(37)
Cash provided by (used in) financing activities-continuing operations	(14,559)	(23,514)	(17,434)
Cash provided by (used in) financing activities-discontinued operations	(346)	(1,195)	(1,893)
Net cash provided by (used in) financing activities	(14,905)	(24,709)	(19,327)
Effect of exchange rate changes on cash	-	-	(26)
Net change in cash	(136)	56	(528)
Cash at beginning of period(1)	311	255	783
Cash at end of period(2)	\$175	\$311	\$255
Supplemental Cash Flow Information:			
Interest paid	\$3,222	\$4,183	\$6,069
Income taxes paid during period	26	98	46
Income taxes refunded during period	4,135	1,030	264
Supplemental Noncash Activities:			

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Fair value of properties added to real estate owned	\$1,834	\$1,275	\$2,137
Transfer of receivables to held for sale	2,910	609	19,335
Transfer of receivables to held for investment	-	1,294	-
Extinguishment of indebtedness related to bulk receivable sale	(431)	(6,077)	-
Issuance of subordinated debt exchanged for senior debt	1,939	-	-
Extinguishment of senior debt exchanged for subordinated debt	(1,797)	-	-
Redemption of junior subordinated notes underlying the mandatorily redeemable preferred securities of the Household Capital Trust VIII for common stock	-	(275)	-

(1) Cash at beginning of period includes \$22 million, \$17 million and \$204 million for discontinued operations as of December 31, 2010, 2009 and 2008, respectively.

(2) Cash at end of period includes \$22 million and \$17 million for discontinued operations as of December 31, 2009 and 2008, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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"). HSBC Finance Corporation and its subsidiaries may also be referred to in these notes to the consolidated financial statements as "we," "us" or "our." HSBC Finance Corporation provides middle-market consumers with several types of loan products in the United States. Our lending products currently include MasterCard, Visa, American Express and Discover credit card receivables ("Credit Card") as well as private label receivables. A portion of new credit card and all new private label originations are sold on a daily basis to HSBC Bank USA, National Association ("HSBC Bank USA"). We also offer specialty insurance products in the United States and Canada. Historically, our lending products have also included real estate secured, auto finance and personal non-credit card receivables in the United States, the United Kingdom and Canada and tax refund anticipation loans and related products in the United States. Additionally, we also previously offered credit and specialty insurance in the United Kingdom. We have two reportable segments: Card and Retail Services and Consumer. Our Card and Retail Services segment includes our credit card operations, including private label credit cards. Our Consumer segment consists of our run-off Consumer Lending and Mortgage Services businesses.

2. Summary of Significant Accounting Policies and New Accounting Pronouncements

Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of HSBC Finance Corporation and all subsidiaries including all variable interest entities ("VIEs") in which we are the primary beneficiary. HSBC Finance Corporation and its subsidiaries may also be referred to in these notes to consolidated financial statements as "we," "us," or "our."

On January 1, 2010, we adopted new guidance issued by the Financial Accounting Standards Board in June 2009 related to VIEs. The new guidance eliminated the concept of qualifying special purpose entities ("QSPEs") that were previously exempt from consolidation and changed the approach for determining the primary beneficiary of a VIE, which is required to consolidate the VIE, from a quantitative approach focusing on risk and reward to a qualitative approach focusing on (a) the power to direct the activities of the VIE and (b) the obligation to absorb losses and/or the right to receive benefits that could be significant to the VIE. We assess whether an entity is a VIE and, if so, whether we are its primary beneficiary at the time of initial involvement with the entity and on an ongoing basis. A VIE must be consolidated by its primary beneficiary, which is the entity with the power to direct the activities of a VIE that most significantly impact its economic performance and the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. We are involved with VIEs primarily in connection with our collateralized funding transactions. See Note 15, "Long-Term Debt," for additional discussion of those activities and the use of VIEs.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Unless otherwise

indicated, information included in these notes to consolidated financial statements relates to continuing operations for all periods presented. In 2010, we completed the sale of our auto finance receivable servicing operations and auto finance receivables portfolio to Santander Consumer USA and we exited the Taxpayer Financial Services business. As a result, both of these businesses are now reported as discontinued operations. See Note 3, "Discontinued Operations," for further details. Certain reclassifications have been made to prior period amounts to conform to the current year presentation.

Securities purchased under agreements to resell Securities purchased under agreements to resell are treated as collateralized financing transactions and are carried at the amounts at which the securities were acquired plus accrued interest. Interest income earned on these securities is included in net interest income.

Securities We maintain investment portfolios of debt securities (comprised primarily of corporate debt securities) in both our noninsurance and insurance operations. Our entire investment securities portfolio is classified as available-for-sale. Available-for-sale investment securities are intended to be invested for an indefinite period but may be sold in response to events we expect to occur in the foreseeable future. These investments are carried at fair value with changes in fair value recorded as adjustments to common shareholder's equity in other comprehensive income (loss), net of income taxes.

When the fair value of a security has declined below its amortized cost basis, we evaluate the decline to assess if it is considered other-than-temporary. To the extent that such a decline is deemed to be other-than-temporary, an other-than-temporary impairment loss is recognized in earnings equal to the difference between the security's cost and its fair value except that beginning in 2009, only the credit loss component of such a decline is recognized in earnings for a debt security that we do not intend to sell and for which it is not more-likely-than-not that we will be required to sell prior to recovery of its amortized cost basis. A new cost basis is established for the security that reflects the amount of the other-than-temporary impairment loss recognized in earnings.

Cost of investment securities sold is determined using the specific identification method. Realized gains and losses from the investment portfolio are recorded in investment income. Interest income earned on the noninsurance investment portfolio is classified in the statements of income in net interest income, while investment income from the insurance portfolio is recorded in investment income. Accrued investment income is classified with investment securities.

For cash flow presentation purposes, we consider available-for-sale securities with original maturities less than 90 days as short term, and thus any purchases, sales and maturities are presented on a net basis.

Receivables Held for Sale Receivables are classified as held for sale when management does not have the intent to hold the receivable for the foreseeable future. Such receivables are carried at the lower of aggregate cost or fair value with any subsequent write downs or recoveries charged to other income. Unearned income, unamortized deferred fees and costs on originated receivables, and discounts on purchased receivables are recorded as an adjustment of the cost of the receivable and are not reflected in earnings until the receivables are sold.

Receivables Finance receivables are carried at amortized cost, which represents the principal amount outstanding, net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, purchase accounting fair value adjustments and premiums or discounts on purchased loans. Finance receivables are further reduced by credit loss reserves and unearned credit insurance premiums and claims reserves applicable to credit risk on our consumer receivables. Finance income, which includes interest income, unamortized deferred fees and costs on originated receivables and premiums or discounts on purchased receivables, is recognized using the effective yield method. Premiums and discounts, including purchase accounting adjustments on receivables, are recognized as adjustments to the yield of the related receivables. Origination fees, which include points on real estate secured loans, are deferred and generally amortized to finance income over the estimated life of the related receivables, except to the extent they offset directly related lending costs.

Provision and Credit Loss Reserves Provision for credit losses on receivables is made in an amount sufficient to maintain credit loss reserves at a level considered adequate, but not excessive, to cover probable incurred losses of principal, accrued interest and fees, including late, over limit and annual fees, in the existing loan portfolio. We estimate probable incurred losses for consumer receivables using a roll rate migration analysis that estimates the likelihood that a loan will progress through the various stages of delinquency and ultimately charge-off. This analysis considers delinquency status, loss experience and severity and takes into account whether loans are in bankruptcy, have been re-aged, or are subject to forbearance, an external debt management plan, hardship, modification, extension or deferment. Our credit loss reserves also take into consideration the loss severity expected based on the underlying

collateral, if any, for the loan in the event of default based on historical and recent trends. Delinquency status may be affected by customer account management policies and practices, such as the re-age of accounts, forbearance agreements, extended payment plans, modification arrangements, and deferments. When customer account management policies, or changes thereto, shift loans from a "higher" delinquency bucket to a "lower" delinquency bucket, this will be reflected in our roll rate statistics. To the extent that restructured accounts have a greater propensity to roll to higher delinquency buckets, this will be captured in the roll rates. Since the loss reserve is computed based on the composite of all these calculations, this increase in roll rate will be applied to receivables in all respective buckets, which will increase the overall reserve level. In addition, loss reserves on consumer receivables are maintained to reflect our judgment of portfolio risk factors which may not be fully reflected in the statistical roll rate calculation. Risk factors considered in establishing loss reserves on consumer receivables include product mix, bankruptcy trends, geographic concentrations, loan product features such as adjustable rate loans, economic conditions such as national and local trends in unemployment, housing markets and interest rates, portfolio seasoning, account management policies and practices, current levels of charge-offs and delinquencies, changes in laws and regulations and other items which can affect consumer payment patterns on outstanding receivables such as natural disasters and global pandemics.

While our credit loss reserves are available to absorb losses in the entire portfolio, we specifically consider the credit quality and other risk factors for each of our products. We recognize the different inherent loss characteristics in each of our products, and for certain products their vintages, as well as customer account management policies and practices and risk management/collection practices. Charge-off policies are also considered when establishing loss reserve requirements. We also consider key ratios such as reserves to nonperforming loans, reserves as a percentage of net charge-offs, reserves as a percentage of two-months-and-over contractual delinquency and months coverage ratios in developing our loss reserve estimate. Loss reserve estimates are reviewed periodically and adjustments are reported in earnings when they become known. As these estimates are influenced by factors outside our control, such as consumer payment patterns and economic conditions, there is uncertainty inherent in these estimates, making it reasonably possible that they could change.

Provisions for credit losses on consumer loans for which we have modified the terms of the loan as part of a troubled debt restructuring ("TDR Loans") are determined using a discounted cash flow impairment analysis. Loans which have been granted a permanent modification, a twelve-month or longer modification, or two or more consecutive six-month modifications are considered TDR Loans as it is generally believed that the borrower is experiencing financial difficulty and a concession has been granted. Modifications may include changes to one or more terms of the loan, including but not limited to, a change in interest rate, an extension of the amortization period, a reduction in payment amount and partial forgiveness or deferment of principal. TDR Loans are considered to be impaired loans. Interest income on TDR Loans is recognized in the same manner as loans which are not TDRs. Once a loan is classified as a TDR, it continues to be reported as such until it is paid off or charged-off.

Charge-Off and Nonaccrual Policies and Practices Our consumer charge-off and nonaccrual policies vary by product and are summarized below:

Product	Charge-off Policies and Practices	Nonaccrual Policies and Practices(1)
Real estate secured(2)	Beginning in December 2009, carrying value in excess of net realizable value less cost to sell are generally charged-off at or contractually past due. Before the time foreclosure is completed or settlement is reached with the borrower but, in any event,	Interest income accruals are suspended when principal or interest payments are more than three months past due. Beginning in October 2009, interest accruals are resumed and suspended when interest is recognized when

generally no later than the end of the month in which the account becomes six months contractually delinquent. If foreclosure is not pursued (which frequently occurs on loans in the second lien position) and there is no reasonable expectation for recovery (insurance claim, title claim, pre-discharge bankrupt account), the account is generally charged-off no later than the end of the month in which the account becomes six months contractually delinquent.

Prior to December 2009, carrying values in excess of net realizable value were charged-off at or before the time foreclosure was completed or when settlement was reached with the borrower. If foreclosure was not pursued and there was no reasonable expectation for recovery, generally the account was charged-off no later than by the end of the month in which the account became eight months contractually delinquent.

the customer makes the equivalent of six qualifying payments under the terms of the loan, while maintaining a current payment status at the point of the sixth payment. If the re-aged receivable again becomes more than three months contractually delinquent, any interest accrued beyond three months delinquency is reversed.

Prior to October 2009, upon re-age interest accruals were resumed and all suspended interest was recognized. For Consumer Lending, if the re-aged receivable again became more than three months contractually delinquent, any interest accrued beyond three months delinquency was reversed.

Auto finance(3)

Carrying values in excess of net realizable value are charged off at the earlier of the following:

- the collateral has been repossessed and sold,
- the collateral has been in our possession for more than 30 days, or
- the loan becomes 120 days contractually delinquent (prior to January 2009, 150 days contractually delinquent).

Interest income accruals are suspended and the portion of previously accrued interest expected to be uncollectible is written off when principal payments are more than two months contractually past due and resumed when the receivable becomes less than two months contractually past due.

Credit card	Generally charged-off by the end of the month in which the account becomes six months contractually delinquent.	Interest generally accrues until charge-off.
Personal non-credit card(4)	Beginning in December 2009, accounts are generally charged-off by the end of the month in which the account becomes six months contractually delinquent. Prior to December 2009, accounts were generally charged-off the month following the month in which the account became nine months contractually delinquent and no payment was received in six months, but in no event exceeded 12 months contractually delinquent (except in our discontinued United Kingdom business which did not include a recency factor).	Interest income accruals are suspended when principal or interest payments are more than three months contractually past due. Interest subsequently received is generally recorded as collected and accruals are not resumed upon a re-age when the receivable becomes less than three months contractually delinquent. For PHL's prior to October 2009 upon re-age, interest accruals were resumed and suspended interest accruals were recognized. If the receivable again becomes more than three months contractually delinquent, any interest accrued beyond three months delinquency is reversed.

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- (1) For our discontinued United Kingdom business, interest income accruals were suspended when principal or interest payments were more than three months contractually delinquent.
- (2) For our discontinued United Kingdom business, real estate secured carrying values in excess of net realizable value were charged-off at the time of sale.
- (3) Our Auto Finance business is now reported as discontinued operations as a result of the sale of our auto finance receivable servicing operations and auto finance receivables during 2010. See Note 3, "Discontinued Operations," for additional information. For our discontinued Canadian business, interest income accruals on auto loans were suspended and the portion of previously accrued interest expected to be uncollectible was written off when principal payments are more than three months contractually past due and resumed when the receivables become less than three months contractually past due.
- (4) For our discontinued Canadian business, delinquent personal non-credit card receivables were charged off when no payment is received in six months but in no event is an account to exceed 12 months contractually delinquent.

Charge-off involving a bankruptcy for our credit card receivables occurs by the end of the month at the earlier of 60 days after notification or 180 days delinquent. For auto finance receivables, bankrupt accounts were charged off at the earlier of (i) 60 days past due and 60 days after notification, or (ii) the end of the month in which the account becomes 120 days contractually delinquent. Prior to January 2009, auto finance accounts involving a bankruptcy were charged-off no later than the end of the month in which the loan became 210 days contractually delinquent.

Delinquency status for loans is determined using the contractual method which is based on the status of payments under the loan. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms. Delinquency status may be affected by customer account management policies and practices such as the restructure, re-age or modification of accounts.

Payments applied to nonaccrual loans are generally applied first to reduce the current interest on the earliest payment due with any remainder applied to reduce the principal balance associated with that payment due.

Transfers of Financial Assets and Securitizations Transfers of financial assets in which we have surrendered control over the transferred assets are accounted for as sales. In assessing whether control has been surrendered, we consider whether the transferee would be a consolidated affiliate, the existence and extent of any continuing involvement in the transferred financial assets and the impact of all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of transfer. Control is generally considered to have been surrendered when (i) the transferred assets have been legally isolated from us and our consolidated affiliates, even in bankruptcy or other receivership, (ii) the transferee (or, if the transferee is an entity whose sole purpose is to engage in securitization or asset-backed financing that is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received without any constraints that provide more than a trivial benefit to us, and (iii) neither we nor our consolidated affiliates and agents have (a) both the right and obligation under any agreement to repurchase or redeem the transferred assets before their maturity, (b) the unilateral ability to cause the holder to return specific financial assets that also provides us with a more-than-trivial benefit (other than through a cleanup call) and (c) an agreement that permits the transferee to require us to repurchase the transferred assets at a price so favorable that it is probable that it will require us to repurchase them.

If the sale criteria are met, the transferred financial assets are removed from our balance sheet and a gain or loss on sale is recognized. If the sale criteria are not met, the transfer is recorded as a secured borrowing in which the assets remain on our balance sheet and the proceeds from the transaction are recognized as a liability (a "secured financing"). For the majority of financial asset transfers, it is clear whether or not we have surrendered control. For other transfers, such as in connection with complex transactions or where we have continuing involvement such as servicing responsibilities, we generally obtain a legal opinion as to whether the transfer results in a true sale by law.

We have used collateral funding transactions for certain real estate secured, credit card and personal non-credit card receivables where it provides an attractive source of funding. All collateralized funding transactions remaining on our balance sheet have been structured as secured financings.

Properties and Equipment, Net Properties and equipment are recorded at cost, net of accumulated depreciation and amortization. For financial reporting purposes, depreciation is provided on a straight-line basis over the estimated useful lives of the assets which generally range from 3 to 40 years. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the lease. Maintenance and repairs are expensed as incurred.

Reposessed Collateral Collateral acquired in satisfaction of a loan is initially recognized at the lower of amortized cost or its fair value less estimated costs to sell and reported as either real estate owned or within other assets depending on the collateral. A valuation allowance is created to recognize any subsequent declines in fair value less estimated costs to sell. These values are periodically reviewed and adjusted against the valuation allowance but not in excess of cumulative losses previously recognized subsequent to the date of repossession. Adjustments to the

valuation allowance, costs of holding repossessed collateral, and any gain or loss on disposition are credited or charged to operating expense.

Insurance Insurance revenues on monthly premium insurance policies are recognized when billed. Insurance revenues on the remaining insurance contracts are recorded as unearned premiums and recognized into income based on the nature and terms of the underlying contracts. Liabilities for credit insurance policies are based upon estimated settlement amounts for both reported and incurred but not yet reported losses. Liabilities for future benefits on annuity contracts and specialty and corporate owned life insurance products are based on actuarial assumptions as to investment yields, mortality and withdrawals.

Intangible Assets Intangible assets currently consist of purchased credit card relationships and related programs, other loan related relationships, technology and customer lists. Intangible assets are amortized over their estimated useful lives on a straight-line basis. These useful lives range from 7 years for certain technology and other loan related relationships to approximately 10 years for certain purchased credit card relationships and related programs. Intangible assets are reviewed for impairment using discounted cash flows annually, or earlier if events indicate that the carrying amounts may not be recoverable. We consider significant and long-term changes in industry and economic conditions to be our primary indicator of potential impairment. Impairment charges, when required, are calculated using discounted cash flow models, using inputs and assumptions consistent with those used by market participants.

Goodwill Goodwill represents the excess purchase price over the fair value of identifiable assets acquired less liabilities assumed from business combinations. Goodwill is not amortized, but is reviewed for impairment annually using a discounted cash flow methodology. This methodology utilizes cash flow estimates based on internal forecasts updated to reflect current economic conditions and revised economic projections at the review date and discount rates that we believe adequately reflect the risk and uncertainty in our internal forecasts and are appropriate based on the implicit market rates in current comparable transactions. Impairment may be reviewed as of an interim date if circumstances indicate that the carrying amount may not be recoverable. We consider significant and long-term changes in industry and economic conditions to be our primary indicator of potential impairment.

The goodwill impairment analysis is a two step process. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, including allocated goodwill, there is no indication of impairment and no further procedures are required. If the carrying value including allocated goodwill exceeds fair value, the second step is performed to quantify the impairment amount, if any. If the implied fair value of goodwill, as determined using the same methodology as used in a business combination, is less than the carrying value of goodwill, an impairment charge is recorded for the excess. An impairment recognized cannot exceed the amount of goodwill assigned to a reporting unit. Subsequent reversals of goodwill impairment are not permitted. As of December 31, 2009, all of the goodwill previously recorded has been written off.

Derivative Financial Instruments All derivatives are recognized on the balance sheet at their fair value. At the inception of a hedging relationship, we designate the derivative as a fair value hedge, a cash flow hedge, or if the derivative does not qualify in a hedging relationship, a non-hedging derivative. Fair value hedges include hedges of the fair value of a recognized asset or liability and certain foreign currency hedges. Cash flow hedges include hedges of the variability of cash flows to be received or paid related to a recognized asset or liability and certain foreign currency hedges.

Changes in the fair value of derivatives designated as fair value hedges, along with the change in fair value on the hedged risk, are recorded as derivative related income (expense) in the current period. Changes in the fair value of derivatives designated as cash flow hedges, to the extent effective as a hedge, are recorded in accumulated other comprehensive income (loss) and reclassified into net interest margin in the period during which the hedged item affects earnings. Changes in the fair value of derivative instruments not designated as hedging instruments and

ineffective portions of changes in the fair value of hedging instruments are recognized in other revenue as derivative related income (expense) in the current period. Realized gains and losses as well as changes in the fair value of derivative instruments associated with fixed rate debt we have designated at fair value are recognized in other revenues as gain (loss) on debt designated at fair value and related derivatives in the current period.

For derivative instruments designated as qualifying hedges, we formally document all relationships between hedging instruments and hedged items. This documentation includes our risk management objective and strategy for undertaking various hedge transactions, as well as how hedge effectiveness and ineffectiveness will be measured. This process includes linking derivatives to specific assets and liabilities on the balance sheet. We also formally assess, both at the hedge's inception and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is conducted using statistical regression analysis. When as a result of the quarterly assessment, it is determined that a derivative is not expected to continue to be highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting as of the beginning of the quarter in which such determination was made.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge, the derivative will continue to be carried on the balance sheet at its fair value, with changes in its fair value recognized in current period earnings. For fair value hedges, the formerly hedged asset or liability will no longer be adjusted for changes in fair value and any previously recorded adjustments to the carrying value of the hedged asset or liability will be amortized in the same manner that the hedged item affects income. For cash flow hedges, amounts previously recorded in accumulated other comprehensive income (loss) will be reclassified into income in the same manner that the hedged item affects income.

If the hedging instrument is terminated early, the derivative is removed from the balance sheet. Accounting for the adjustments to the hedged asset or liability or adjustments to accumulated other comprehensive income (loss) are the same as described above when a derivative no longer qualifies as an effective hedge.

If the hedged asset or liability is sold or extinguished, the derivative will continue to be carried on the balance sheet until termination at its fair value, with changes in its fair value recognized in current period earnings. The hedged item, including previously recorded mark-to-market adjustments, is derecognized immediately as a component of the gain or loss upon disposition.

Foreign Currency Translation Effects of foreign currency translation in the statements of cash flows, primarily a result of the specialty insurance products we offer in Canada, were offset against the cumulative foreign currency adjustment within accumulated other comprehensive income, except for the impact on cash. Foreign currency transaction gains and losses are included in income as they occur.

Prior to the sale of our U.K. and Canadian Operations in 2008, the functional currency for each of these foreign subsidiaries was its local currency. Assets and liabilities of these subsidiaries were translated at the rate of exchange in effect on the balance sheet date. Translation adjustments resulting from this process were accumulated in common shareholder's equity as a component of accumulated other comprehensive income (loss). Income and expenses were translated at the average rate of exchange prevailing during the year.

Share-Based Compensation We account for all awards of HSBC stock granted to employees under various share option, restricted share, restricted stock units and employee stock purchase plans using the fair value based measurement method of accounting. The fair value of the rewards granted is recognized as expense over the requisite service period (e.g., vesting period), generally one, three or five years for options and three years for restricted share awards. The fair value of each option granted, measured at the grant date, is calculated using a methodology that is based on the underlying assumptions of the Black-Scholes option pricing model.

Compensation expense relating to restricted share awards is based upon the fair value of the shares on the date of grant.

Pension and Other Postretirement Benefits We recognize the funded status of our postretirement benefit plans on the consolidated balance sheets with the offset to accumulated other comprehensive income (loss), net of tax. Net postretirement benefit cost charged to current earnings related to these plans is based on various actuarial assumptions regarding expected future experience.

Certain of our employees are participants in various defined contribution and other non-qualified supplemental retirement plans. Our contributions to these plans are charged to current earnings.

Through various subsidiaries, we maintain various 401(k) plans covering substantially all employees. Employer contributions to the plan, which are charged to current earnings, are based on employee contributions.

Income Taxes HSBC Finance Corporation is 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 governs the current amount of taxes to be paid or received by the various entities included in the consolidated return filings. Generally, such agreements allocate taxes to members of the HNAH Group based on the calculation of tax on a separate return basis, adjusted for the utilization or limitation of tax credits of the consolidated group. To the extent all the tax attributes available cannot be currently utilized by the consolidated group, the proportionate share of the utilized attribute is allocated based on each affiliate's percentage of the available attribute computed in a manner that is consistent with the taxing jurisdiction's laws and regulations regarding the ordering of utilization. In addition, we file some unconsolidated state tax returns.

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. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the deferred tax items are expected to be realized. If applicable, valuation allowances are recorded to reduce deferred tax assets to the amounts we conclude are more-likely-than-not to be realized. Since we are included in HSBC North America's consolidated federal tax return and various combined state tax returns, the related evaluation of the recoverability of the deferred tax assets is performed at the HSBC North America legal entity level. We look 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. 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. This process involves significant management judgment about assumptions that are subject to change from period to period. Only those tax planning strategies that are both prudent and feasible, and for which management has the ability and intent to implement, are incorporated into our analysis and assessment.

Where a valuation allowance is determined to be necessary at the HNAH consolidated level, such allowance is allocated to principal subsidiaries within the HNAH Group in a manner that is systematic, rational and consistent with the broad principles of accounting for income taxes. The methodology allocates the valuation allowance to the principal subsidiaries based primarily on the entity's relative contribution to the growth of the HNAH consolidated deferred tax asset against which the valuation allowance is being recorded.

Further evaluation is performed at the HSBC Finance Corporation legal entity level to evaluate the need for a valuation allowance where we file separate company state income tax returns. Investment tax credits generated by leveraged leases are accounted for using the deferral method. Changes in estimates of the basis in our assets and liabilities or other estimates recorded at the date of our acquisition by HSBC are recorded through earnings. Prior to the adoption on January 1, 2009 of guidance issued by the FASB with respect to business combinations, these changes in estimates were adjusted against goodwill when it was determined that the difference pertained to a balance originating prior to our acquisition by HSBC.

Transactions with Related Parties In the normal course of business, we enter into 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, sales of businesses, servicing arrangements, information technology services, item processing and statement processing services, banking and other miscellaneous services, human resources, corporate affairs and other shared services in North America and beginning in 2010 also included tax, finance, compliance and legal.

New Accounting Pronouncements Adopted

Accounting for Transfers of Financial Assets In June 2009, the FASB issued guidance which amended the accounting for transfers of financial assets by eliminating the concept of a qualifying special-purpose entity ("QSPE") and provided additional guidance with regard to the accounting for transfers of financial assets. 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 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 amended the accounting rules related to the consolidation of variable interest entities ("VIE"). The guidance changed 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. 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 25, "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 those transfers. It also requires the Level 3 reconciliation to be presented on a gross basis, while disclosing purchases, sales, issuances and settlements separately. The guidance became effective for interim and annual financial periods beginning after December 15, 2009 except for the requirement to present the Level 3 reconciliation on a gross basis, which is effective for interim and annual periods beginning after December 15, 2010. We adopted the new disclosure requirements in their entirety effective January 1, 2010. See Note 26, "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 clarified that 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 eliminated 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 eliminated the scope exception for credit derivatives embedded in interests in securitized financial assets, unless the credit derivative is created solely by subordination of one financial debt instrument to another. The guidance became effective beginning in the third quarter of 2010. Adoption did not have any impact to our financial position or results of operations.

Loan Modifications In April 2010, the FASB issued guidance affecting the accounting for loan modifications for those loans that are acquired with deteriorated credit quality and are accounted for on a pool basis. It clarified 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 of the pool change. The new guidance became effective prospectively for modifications to loans 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. Adoption did not have any impact on our financial position or results of operations.

Credit Quality and Allowance for Credit Losses Disclosures In July 2010, the FASB issued guidance to provide more transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The guidance amends the existing disclosure requirements by requiring an entity to provide a greater level of disaggregated information to assist financial statement users in assessing its credit risk exposures and evaluating the adequacy of its allowance for credit losses. Additionally, the update requires an entity to disclose credit quality indicators, past due information, and modification of its financing receivables. The amendment is effective beginning interim and annual reporting periods ending on or after December 15, 2010. However, in January 2011, the FASB delayed the disclosure requirements regarding troubled debt restructurings. The new disclosures about troubled debt restructurings are anticipated to be effective for interim and annual periods ending after June 15, 2011. We adopted the new disclosures in the amendment, excluding the disclosures related to troubled debt restructurings which have been delayed, during the year ended December 31, 2010. For purposes of our credit quality and allowance for credit losses disclosures, we have determined we have one portfolio segment (consumer receivables) and our products within this portfolio segment represent our receivable classes. See Note 7, "Receivables," and Note 9, "Credit Loss Reserves," in these consolidated financial statements for the expanded disclosure.

3. Discontinued Operations

2010 Discontinued Operations:

Taxpayer Financial Services During the third quarter of 2010, the Internal Revenue Service ("IRS") announced it would stop providing information regarding certain unpaid obligations of a taxpayer (the "Debt Indicator"), which has historically served as a significant part of our underwriting process in our Taxpayer Financial Services ("TFS") business. We determined that, without use of the Debt Indicator, we could no longer offer the product that has historically accounted for the substantial majority of our TFS loan production and that we might not be able to offer the remaining products available under the program in a safe and sound manner. As a result, in December 2010, it was determined that we would not offer any tax refund anticipation loans or related products for the 2011 tax season and we exited the TFS business. As a result of this decision, our TFS business, which was previously considered a non-core business, is now reported in discontinued operations. During the fourth quarter of 2010 we recorded closure costs of \$25 million which primarily reflect severance costs and the write off of certain pre-paid assets which are included as a component of loss from discontinued operations. As a result of this transaction, our TFS business, previously included in the "All Other" caption within our segment reporting, is now reported as discontinued operations.

The following summarizes the operating results of our TFS business for the periods presented:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Net interest income and other revenues(1)	\$68	\$106	\$158
Income from discontinued operations before income tax	20	62	103

(1) Interest expense, which is included as a component of net interest income, has been allocated to discontinued operations in accordance with our existing internal transfer pricing policy. This policy uses match funding based on the expected lives of the assets and liabilities of the business at the time of origination, subject to periodic review, as demonstrated by the expected cash flows and re-pricing characteristics of the underlying assets.

The following summarizes the assets and liabilities of our TFS business at December 31, 2010 and 2009 which are now reported as Assets of discontinued operations and Liabilities of discontinued operations in our consolidated balance sheet.

At December 31,	2010	2009
	(in	
	millions)	
Deferred income tax, net	\$3	\$4
Other assets	55	76
Assets of discontinued operations	\$58	\$80
Other liabilities	\$10	\$7
Liabilities of discontinued operations	\$10	\$7

Auto Finance In March 2010, we sold our auto finance receivable servicing operations as well as auto finance receivables with a carrying value of \$927 million, of which \$379 million was purchased at estimated fair value from

HSBC Bank USA immediately prior to the sale, to Santander Consumer USA Inc. ("SC USA") for \$930 million in cash. Under the terms of the agreement, our auto finance servicing facilities in San Diego, California and Lewisville, Texas were assigned to SC USA at the time of close and the majority of the employees from those locations were offered the opportunity to transfer to SC USA. SC USA then serviced the remainder of our auto finance receivable portfolio. As the receivables sold were previously classified as held for sale and written down to 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.

In August 2010, we sold the remainder of our auto finance receivable portfolio with an outstanding principal balance of \$2.6 billion at the time of sale and other related assets to SC USA. The aggregate sales price for the auto finance receivables and other related assets was \$2.5 billion which included the transfer of \$431 million of indebtedness secured by auto finance receivables, resulting in net cash proceeds of \$2.1 billion. We recorded a net loss as a result of this transaction of \$43 million (\$28 million after-tax) during the third quarter of 2010. This net loss is included as a component of loss from discontinued operations. Severance costs recorded as a result of this transaction were less than \$1 million and are included as a component of loss from discontinued operations. As a result of this transaction, our Auto Finance business, previously included in our Consumer Segment, is now reported as discontinued operations.

The following summarizes the operating results of our Auto Finance business for the periods presented:

Year Ended December 31,	2010	2009	2008
	(in	millions)	
Net interest income and other revenues(1)	\$219	\$548	\$960
Loss from discontinued operations before income tax	(46)	(33)	(324)

(1) Interest expense, which is included as a component of net interest income, has been allocated to discontinued operations in accordance with our existing internal transfer pricing policy. This policy uses match funding based on the expected lives of the assets and liabilities of the business at the time of origination, subject to periodic review, as demonstrated by the expected cash flows and re-pricing characteristics of the underlying assets.

The following summarizes the assets and liabilities of our Auto Finance business at December 31, 2010 and 2009 which are now reported as Assets of discontinued operations and Liabilities of discontinued operations in our consolidated balance sheet. Other assets of discontinued operations at December 31, 2010 reflects current income taxes receivable on our Auto Finance business for the 2010 tax year.

At December 31,	2010	2009
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	(in millions)	
Cash	\$-	\$22
Receivables, net of credit loss reserves of \$172 million at December 31, 2009	-	3,823
Receivables held for sale	-	533
Deferred income tax, net	4	123
Other assets	134	327
Assets of discontinued operations	\$138	\$4,828
Long-term debt	\$-	\$778
Other liabilities	7	29
Liabilities of discontinued operations	\$7	\$807

Prior to the sale of our remaining auto finance receivable portfolio as discussed above, in January 2009, we sold certain auto finance receivables with an aggregate outstanding principal balance of \$3.0 billion to HSBC Bank USA for an aggregate sales price of \$2.8 billion. The sales price was based on an independent valuation opinion based on the fair values of the receivable in September 2008, the date the transaction terms were agreed upon. As a result, in the first quarter of 2009 we recorded a gain of \$7 million (\$4 million after-tax) on the sale of these auto finance receivables which is now reflected as a component of loss from discontinued operations. We continued to service these auto finance receivables for HSBC Bank USA for a fee until the sale of our auto finance servicing operations in March 2010.

2008 Discontinued Operations:

United Kingdom In May 2008, we sold all of the common stock of Household International Europe, the holding company for our United Kingdom operations ("U.K. Operations") to HSBC Overseas Holdings (UK) Limited ("HOHU"), a subsidiary of HSBC. The sales price was GBP 181 million (equivalent to approximately \$359 million at the time of sale). At the time of the sale, the assets of the U.K. Operations consisted primarily of net receivables of \$4.6 billion and the liabilities consisted primarily of amounts due to HSBC affiliates of \$3.6 billion. As a result of this transaction, HOHU assumed the liabilities of our U.K. Operations outstanding at the time of the sale. Because the sale was between affiliates under common control, the book value of the investment in our U.K. Operations in excess of the consideration received at the time of sale which totaled \$576 million was recorded as a decrease to common shareholder's equity. Of this amount, \$196 million was reflected as a decrease to additional paid-in-capital and \$380 million was reflected as a decrease to other comprehensive income (loss), primarily related to foreign currency translation adjustments. There was no tax benefit recorded as a result of this transaction. Our U.K. Operations were previously reported in the International Segment.

Prior to the sale of our entire U.K. operations in May 2008, we had disposed of our U.K. insurance operations in November 2007 and our European operations in November 2006 which were part of our U.K. Operations as well as our U.K. credit card business in December 2005. None of these individual transactions previously qualified for discontinued operations presentation. However, as a result of reclassifying our entire remaining U.K. Operations as discontinued, the results of these previous dispositions are now included in our discontinued operation results for all historical periods.

The following summarizes the operating results of our U.K. Operations for the periods presented:

Year Ended December 31,	2008 (in millions)
Net interest income and other revenues	\$190
Loss from discontinued operations before income tax	(14)

Canada On November 30, 2008, we sold the common stock of HSBC Financial Corporation Limited, the holding company for our Canadian business ("Canadian Operations") to HSBC Bank Canada. The sales price was approximately \$279 million (based on the exchange rate on the date of sale). At the time of the sale, the assets of the Canadian Operations consisted primarily of net receivables of \$3.1 billion, available-for-sale securities of \$98 million and goodwill of \$65 million. Liabilities at the time of the sale consisted primarily of long-term debt of \$3.1 billion. As a result of this transaction, HSBC Bank Canada assumed the liabilities of our Canadian Operations outstanding at the time of the sale. However, we continue to guarantee the long-term and medium-term notes issued by our Canadian business prior to the sale. As of December 31, 2010, the outstanding balance of the guaranteed notes was \$1.5 billion and the latest scheduled maturity of the notes is May 2012. Because the sale was between affiliates under common control, the book value of the investment in our Canadian Operations in excess of the consideration received at the time of sale which totaled \$40 million was recorded as a decrease to common shareholder's equity. Of this amount, \$46 million was reflected as a decrease to additional paid-in-capital and \$6 million was reflected as an increase to other comprehensive income (loss), primarily related to foreign currency translation adjustments. There was no tax benefit recorded as a result of this transaction. Our Canadian Operations were previously reported in the International Segment.

The following summarizes the operating results of our Canadian Operations for the periods presented:

Year Ended December 31,	2008 (in millions)
Net interest income and other revenues	\$486
Income from discontinued operations before income tax	8

4. Receivable Portfolio Sales to HSBC Bank USA

In January 2009, we sold our General Motors MasterCard receivable portfolio ("GM Portfolio") and our Union Plus MasterCard/Visa receivable portfolio ("UP Portfolio") with an aggregate outstanding principal balance of \$6.3 billion and \$6.1 billion, respectively, to HSBC Bank USA. The aggregate sales price for the GM and UP Portfolios was \$12.2 billion which included the transfer of approximately \$6.1 billion of indebtedness, resulting in net cash proceeds of \$6.1 billion. The sales price was determined based on independent valuation opinions based on the fair values of the pool of receivables in late November and early December 2008, the dates the transaction terms were agreed upon, respectively. As a result, during the first quarter of 2009 we recorded a gain of \$130 million (\$84 million after-tax) on the sale of the GM and UP Portfolios. This gain was partially offset by a loss of \$(80) million (\$(51) million after-tax) 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 we sell additional receivable originations generated under existing and future accounts to HSBC Bank USA on a daily basis at a sales price for each type of portfolio determined using a fair value which is calculated semi-annually. We continue to service the receivables sold to HSBC Bank USA for a fee.

As it relates to our discontinued auto finance operations, in January 2009, we sold certain auto finance receivables with an aggregate outstanding principal balance of \$3.0 billion to HSBC Bank USA for an aggregate sales price of \$2.8 billion. See Note 3, "Discontinued Operations," for additional information.

See Note 23, "Related Party Transactions," for further discussion of the daily receivable sales to HSBC Bank USA and how fair value is determined.

5. Strategic Initiatives

As discussed in prior filings, in prior years we performed several comprehensive evaluations of the strategies and opportunities of our operations. As a result of these various evaluations, we discontinued all new customer account originations except in our credit card business. There were no strategic initiatives during 2010 related to our continuing operations. Summarized below are a number of strategic actions which were undertaken in mid-2007, 2008 and 2009 for our continuing operations as a result of our evaluations:

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

> Throughout 2009, we decided to exit certain lease arrangements and consolidate a variety of locations across the United States. The process of closing and consolidating these facilities, which began during the second quarter of 2009, was completed during the fourth quarter of 2010. As a result, we have exited certain facilities and/or significantly reduced our occupancy space 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 previously 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 year ended December 31, 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)			
Year ended December 31, 2010:				
Restructuring liability at January 1, 2010	\$10	\$12	\$2	\$24
Restructuring costs recorded during the period	1	5	-	6
Restructuring costs paid during the period	(7)	(10)	-	(17)
Adjustments to the restructure liability during the period	-	(1)	(2)	(3)
Restructure liability at December 31, 2010	\$4	\$6	\$-	\$10
Year ended December 31, 2009:				
Restructuring liability at January 1, 2009	\$-	\$-	\$-	\$-
Restructuring costs recorded during the period	79	57	11	147
Restructuring costs paid during the period	(69)	(45)	(9)	(123)
Adjustments to the restructure liability during the period	-	-	-	-
Restructure liability at December 31, 2009	\$10	\$12	\$2	\$24

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; and

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

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Summary of Restructuring Liability Related to 2008 Strategic Initiatives The following summarizes the changes in the restructure liability during the years ended December 31, 2010, 2009 and 2008 relating to the actions implemented during 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Year ended December 31, 2010:			
Restructure liability at January 1, 2010	\$-	\$1	\$1
Restructuring costs paid during the period	-	(1)	(1)
Restructure liability at December 31, 2010	\$-	\$-	\$-
Year ended December 31, 2009:			
Restructure liability at January 1, 2009	\$6	\$4	\$10
Restructuring costs paid during the period	(6)	(1)	(7)
Adjustments to the restructuring liability during the period	-	(2)	(2)
Restructure liability at December 31, 2009	\$-	\$1	\$1
Year ended December 31, 2008:			
Restructure liability at January 1, 2008	\$-	\$-	\$-
Restructuring costs recorded during the period	10	6	16
Restructuring costs paid during the period	(4)	(2)	(6)
Restructure liability at December 31, 2008	\$6	\$4	\$10

2007 Strategic Initiatives 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 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.

Summary of Restructuring Liability Related to 2007 Strategic Initiatives The following summarizes the changes in the restructure liability during the years ended December 31, 2010, 2009 and 2008 relating to the actions implemented during 2007:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Year ended December 31, 2010:			
Restructure liability at January 1, 2010	\$-	\$14	\$14
	-	(14)	(14)

Adjustments to the restructure liability during the period

Restructure liability at December 31, 2010	\$-	\$-	\$-
Year ended December 31, 2009:			
Restructure liability at January 1, 2009	\$1	\$17	\$18
Restructuring costs paid during the period	(1)	(3)	(4)
Restructure liability at December 31, 2009	\$-	\$14	\$14
Year ended December 31, 2008:			
Restructure liability at January 1, 2008	\$17	\$37	\$54
Restructuring costs recorded during the period	-	4	4
Restructuring costs paid during the period	(9)	(21)	(30)
Adjustments to the restructure liability during the period	(7)	(3)	(10)
Restructure liability at December 31, 2008	\$1	\$17	\$18

Summary of Strategic Initiatives The following table summarizes the net cash and non-cash expenses recorded for all restructuring activities during the years ended December 31, 2010, 2009 and 2008:

	One-Time Termination and Other Employee Benefits(1)	Lease Termination and Associated Costs(2)	Fixed Assets and Other Non-Cash Other(3)	Adjustments(4)	Total
	(in millions)				
Year ended December 31, 2010:					
2009 Facility Closures	\$-	\$5	\$-	\$-	\$5
2009 Consumer Lending Closure	1	(1)	(2)	-	(2)
2007 Mortgage Services initiatives	-	(14)	-	-	(14)
Total expense (expense release)	\$1	\$(10)	\$(2)	\$-	\$(11)
Year ended December 31, 2009:					
2009 Facility Closures	\$6	\$4	\$-	\$3	\$13
2009 Consumer Lending Closure(5)	73	53	11	14	151
2008 Card and Retail Services initiatives	-	(2)	-	-	(2)
Total expense (expense release)	\$79	\$55	\$11	\$17	\$162
Year ended December 31, 2008:					
2008 Card and Retail Services initiatives	\$9	\$6	\$-	\$-	\$15
2008 Solstice Closure	1	-	-	-	1
2007 Mortgage Services initiatives	(4)	2	-	-	(2)
2007 Consumer Lending initiatives	(1)	(1)	-	-	(2)
2007 Carmel Facility closure	(2)	-	-	-	(2)
Total expense (expense release)	\$3	\$7	\$-	\$-	\$10

(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 \$32 million fixed asset write-offs during 2009, which were recorded as a component of Other servicing and administrative expenses in the consolidated statement of income (loss). Other expenses during 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 2009.

6. Securities

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

December 31, 2010	Non-Credit Loss Component				
	Amortized Cost	of OTTI Securities(4)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)				
U.S. Treasury	\$341		\$-	\$8	\$-
U.S. government sponsored enterprises(1)	282		-	4	(1)
U.S. government agency issued or guaranteed	10		-	1	-
Obligations of U.S. states and political subdivisions	29		-	1	-
Asset-backed securities(2)	65	(7)		2	-
U.S. corporate debt securities(3)	1,714		-	94	(6)
Foreign debt securities(5)	424		-	19	(1)
Equity securities	9		-	-	-
Money market funds	353		-	-	-
Subtotal	3,227	(7)		129	(8)
Accrued investment income	30		-	-	-
Total securities available-for-sale	\$3,257	\$(7)	\$129	\$(8)	\$3,371

December 31, 2009	Non-Credit Loss Component				
	Amortized Cost	of OTTI Securities(4)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)				
U.S. Treasury	\$196		\$-	\$1	\$(1)

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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(5)	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 \$33 million and \$65 million of mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as of December 31, 2010 and 2009, respectively.

(2) At December 31, 2010 and 2009, the majority of our asset-backed securities are residential mortgage-backed securities.

(3) At December 31, 2010 and 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 is recorded in accumulated other comprehensive income beginning in 2009.

(5) There were no foreign debt securities issued by the governments of Portugal, Ireland, Italy, Greece or Spain at December 31, 2010 or 2009.

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

	Less Than One Year			Greater Than One Year		
	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investments	Number of Securities	Gross Unrealized Losses	Aggregate Fair Value of Investments
December 31, 2010						
			(dollars are in millions)			
U.S. Treasury	1	\$-	\$25	-	\$-	\$-
U.S. government sponsored enterprises	13	(1)	139	-	-	-
U.S. government agency issued or guaranteed	-	-	-	-	-	-
Obligations of U.S. states and political subdivisions	4	-	5	-	-	-
Asset-backed securities	-	-	-	8	(7)	18

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U.S. corporate debt securities	100	(5)	209	6	(1)	23
Foreign debt securities	24	(1)	56	-	-	-
Equity Securities	1	-	4	-	-	-
	143	\$(7)	\$438	14	\$(8)	\$41

December 31, 2009	Less Than One Year			Greater Than One Year		
	Number	Gross	Aggregate	Number	Gross	Aggregate
	of Securities	Unrealized Losses	Fair Value of Investments (dollars are in millions)	of Securities	Unrealized Losses	Fair Value of Investments
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	-	-	-	-	-	-
Asset-backed securities	-	-	-	1	-	-
U.S. corporate debt securities	7	(1)	10	18	(12)	34
Foreign debt securities	59	(3)	170	50	(17)	150
	12	-	33	-	-	-
	96	\$(5)	\$315	70	\$(30)	\$188

Gross unrealized losses decreased during 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, OTTI of less than \$1 million was recognized in earnings on certain debt securities during 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 \$4 million during 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. During 2009, we recorded \$20 million of impairment losses 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. Additionally, during the fourth quarter of 2009, certain asset-backed securities were determined to be other-than-temporarily impaired which resulted in an other-than-temporary impairment of \$16 million being recognized on these investments. The credit loss component of the impairment on these debt securities which totaled \$5 million was recorded as a component of OTTI losses in the consolidated statement of income (loss), while the remaining non-credit portion of the OTTI loss which totaled \$11 million was recognized in other comprehensive income (loss).

We do not consider any other securities to be other-than-temporarily impaired because we expect to recover the entire amortized cost basis of the securities and we neither intend to nor expect to be required to sell the securities prior to recovery, even if that equates to holding securities until their individual maturities. However, additional other-than-temporary impairments may occur in future periods if the credit quality of the securities deteriorates.

On-Going Assessment for Other-Than-Temporary Impairment On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if 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 December 31, 2010, approximately 92 percent of our corporate debt securities are rated A- or better and approximately 66 percent of our asset-backed securities, which totaled \$60 million are rated "AAA." Although OTTI of less than \$1 million was recorded in earnings during 2010, without a sustained economic recovery, additional other-than-temporary impairments may occur in future periods.

Proceeds from the sale, call or redemption of available-for-sale investments totaled \$216 million, \$171 million and \$229 million during 2010, 2009 and 2008, respectively. We realized gross gains of \$7 million, \$13 million and \$5 million during 2010, 2009 and 2008, respectively. We realized gross losses of less than \$1 million, \$3 million and \$14 million during 2010, 2009 and 2008, respectively.

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

	Due	After 1	After 5	
	Within	but	but	After
December 31, 2010	1 Year	Within	Within	10 Years
		5 Years	10 Years	Total

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(dollars are in millions)

U.S. Treasury:					
Amortized cost	\$108	\$232	\$1	\$-	\$341
Fair value	109	239	1	-	349
Yield(1)	.81%	2.19%	4.96%	-	1.76%
U.S. government sponsored enterprises:					
Amortized cost	\$109	\$114	\$32	\$27	\$282
Fair value	109	113	35	28	285
Yield(1)	.26%	1.34%	4.71%	4.80%	1.64%
U.S. government agency issued or guaranteed:					
Amortized cost	\$-	\$-	\$-	\$10	\$10
Fair value	-	-	-	11	11
Yield(1)	-	-	-	5.01%	5.01%
Obligations of U.S. states and political subdivisions:					
Amortized cost	\$-	\$-	\$11	\$18	\$29
Fair value	-	-	12	18	30
Yield(1)	-	-	4.09%	4.06%	4.07%
Asset-backed securities:					
Amortized cost	\$-	\$27	\$5	\$33	\$65
Fair value	-	29	5	26	60
Yield(1)	-	4.86%	6.06%	2.12%	3.56%
U.S. corporate debt securities:					
Amortized cost	\$112	\$834	\$212	\$556	\$1,714
Fair value	114	879	224	585	1,802
Yield(1)	4.58%	4.12%	4.56%	5.35%	4.61%
Foreign debt securities:					
Amortized cost	\$18	\$319	\$42	\$45	\$424
Fair value	18	332	43	49	442
Yield(1)	3.09%	3.73%	3.97%	6.26%	4.00%

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

7. Receivables

Receivables consisted of the following:

At December 31,	2010	2009
	(in millions)	
Real estate secured:		
First lien	\$43,859	\$51,988
Second lien	5,477	7,547
Total real estate secured	49,336	59,535
Credit card	9,897	11,626
Personal non-credit card	7,117	10,486
Commercial and other	33	50
Total receivables	66,383	81,697
HSBC acquisition purchase accounting fair value adjustments	43	(11)

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Accrued finance income	1,521	1,895
Credit loss reserve for owned receivables	(6,491)	(9,091)
Unearned credit insurance premiums and claims reserves	(123)	(182)
Total receivables, net	\$61,333	\$74,308

HSBC acquisition purchase accounting fair value adjustments represent adjustments which have been "pushed down" to record our receivables at fair value at the date of acquisition by HSBC.

Net deferred origination fees, excluding MasterCard and Visa, totaled \$277 million and \$359 million at December 31, 2010 and 2009, respectively. MasterCard and Visa annual fees are netted with direct lending costs, deferred, and amortized on a straight-line basis over one year. Deferred MasterCard and Visa annual fees, net of direct lending costs related to these receivables, for continuing operations totaled \$161 million and \$140 million at December 31, 2010 and 2009, respectfully.

At December 31, 2010 and 2009, we had a net unamortized premium on our receivables of \$254 million and \$369 million, respectively. Unearned income on personal non-credit card receivables totaled \$30 million and \$96 million at December 31, 2010 and 2009, respectively.

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, for which it was probable that all contractually required payments would not be collected and for which 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 carrying amount of Champion real estate secured receivables subject to these accounting requirements was \$48 million and \$36 million at December 31, 2010 and 2009, respectively, and is included in the real estate secured receivables in the table above. The remaining accretable yield for the Champion real estate secured receivables subject to these accounting requirements was \$17 million and \$13 million at December 31, 2010 and 2009, respectively.

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 December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, \$455 million and \$400 million, respectively, were available under these facilities. These facilities 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 \$4.1 billion at December 31, 2010 are secured by \$6.3 billion of closed-end real estate secured and credit card receivables. Secured financings of \$4.7 billion at December 31, 2009 are secured by \$6.8 billion of closed-end real estate secured receivables.

Age Analysis of Past Due Receivables The following table summarizes the past due status of our receivables at December 31, 2010. The aging of past due amounts are determined based on the contractual delinquency status of payments made under the receivable. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms. Delinquency status may be affected by customer account management policies and practices such as re-age or modification. Additionally, delinquency status is also impacted by payment percentage requirements which vary between servicing platforms.

Days Past Due(1)	Total	Total
1-29 days	30-89 days	>90 days
	Past Due(1)	Current Receivables

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(in millions)

Real estate secured:						
First lien	\$7,024	\$4,909	\$5,977	\$17,910	\$25,949	\$43,859
Second lien	935	568	421	1,924	3,553	5,477
Total real estate secured	7,959	5,477	6,398	19,834	29,502	49,336
Credit card	473	363	437	1,273	8,624	9,897
Personal non-credit card	968	604	507	2,079	5,038	7,117
Commercial and other	-	-	-	-	33	33
Total receivables	\$9,400	\$6,444	\$7,342	\$23,186	\$43,197	\$66,383

(1) The receivable balances included in this table reflects the principal amount outstanding on the loan and various basis adjustments to the loan such as deferred fees and costs on originated loans, purchase accounting fair value adjustments and premiums or discounts on purchased loans. However, these basis adjustments to the loans are excluded in other presentations regarding delinquent account balances.

Contractual maturities Contractual maturities of our receivables were as follows:

	2011	2012	2013	2014	2015	Thereafter	Total
	(in millions)						
Real estate secured							
First lien	\$117	\$33	\$55	\$100	\$118	\$43,436	\$43,859
Second lien	76	23	36	45	34	5,263	5,477
Total real estate secured	193	56	91	145	152	48,699	49,336
Credit card(1)	5,236	1,974	1,009	568	346	764	9,897
Personal non-credit card	278	190	188	95	59	6,307	7,117
Commercial and other	10	-	-	-	-	23	33
Total	\$5,717	\$2,220	\$1,288	\$808	\$557	\$55,793	\$66,383

(1) As credit card receivables do not have stated contractual maturities, the table reflects estimates based on historical repayment patterns.

As a substantial portion of consumer receivables, based on our experience, will be renewed or repaid prior to contractual maturity, the above maturity schedule should not be regarded as a forecast of future cash collections.

The following table summarizes contractual maturities of receivables due after one year by repricing characteristic:

	Over 1 But Within 5 Years	Over 5 Years
At December 31, 2010	(in millions)	
Receivables at predetermined interest rates	\$1,641	\$47,121
Receivables at floating or adjustable rates	3,225	8,679
Total	\$4,866	\$55,800

Nonaccrual receivables Nonaccrual consumer receivables reflect all non-credit card receivables which are 90 or more days contractually delinquent and totaled \$6.9 billion and \$8.0 billion at December 31, 2010 and 2009, respectively. Nonaccrual receivables do not include receivables which have made qualifying payments and have been re-aged and the contractual delinquency status reset to current as such activity, in our judgment, evidences continued payment probability. If a re-aged loan subsequently experiences payment default and becomes 90 or more days contractually delinquent, it will be reported as nonaccrual. Nonaccrual receivable also do not include credit card receivables which, consistent with industry practice, continue to accrue until charge-off. Interest income that was not recorded but would have been recorded if such nonaccrual receivables had been current and in accordance with contractual terms was approximately \$339 million in 2010 and \$302 million in 2009. Interest income that was included in finance and other interest income prior to these loans being placed on nonaccrual status was approximately \$489 million in 2010 and \$620 million in 2009 of which portions have been written-off. For an analysis of reserves for credit losses, see Note 9, "Credit Loss Reserves."

Nonaccrual receivables and accruing receivables 90 or more days delinquent are summarized in the following table.

	2010	2009
At December 31,	(in millions)	
Nonaccrual receivables:		

Real estate secured(1)(2)	\$6,356	\$6,989
Personal non-credit card	530	998
Total non-accrual receivables	6,886	7,987
Nonaccrual receivables held for sale	4	6
Accruing credit card receivables 90 or more days delinquent(3)	447	890
Total nonperforming receivables	\$7,337	\$8,883
Credit loss reserves as a percent of nonperforming receivables-continuing operations(4)	88.5%	102.4%

(1) At December 31, 2010 and 2009, non-accrual real estate secured receivables includes \$4.1 billion and \$3.3 billion, respectively, of receivables that are carried at the lower of cost or net realizable value.

(2) Nonaccrual real estate secured receivables, excluding receivables held for sale, are comprised of the following:

At December 31,	2010	2009
Real estate secured:		
Closed-end:		
First lien	\$5,906	\$6,298
Second lien	320	510
Revolving:		
First lien	6	2
Second lien	124	179
Total real estate secured	\$6,356	\$6,989

(3) Credit card receivables continue to accrue interest after they become 90 or more days delinquent, consistent with industry practice.

(4) Ratio represents credit loss reserves divided by the corresponding outstanding balance of total nonperforming receivables. Nonperforming receivables include accruing loans contractually past due 90 days or more, but excludes nonperforming receivables associated with receivable portfolios which are considered held for sale as these receivables are carried at the lower of cost or fair value with no corresponding credit loss reserves.

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

At December 31,	2010	2009
	(in millions)	
TDR Loans(1)(2):		
Real estate secured:		
First lien	\$8,697	\$8,379
Second lien	647	747
Total real estate secured(3)(4)	9,344	9,126
Credit card	427	461
Personal non-credit card	704	726
Total TDR Loans	\$10,475	\$10,313

At December 31,	2010	2009
	(in millions)	
Credit loss reserves for TDR Loans:		
Real estate secured:		
First lien	\$1,728	\$1,766
Second lien	258	373
Total real estate secured	1,986	2,139
Credit card	154	158
Personal non-credit card	395	353
Total credit loss reserves for TDR Loans(1)(5)	\$2,535	\$2,650

(1) TDR Loans are considered to be impaired loans regardless of accrual status. We use certain assumptions and estimates to compile our TDR balances and future cash flow estimates relating to these loans.

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

At December 31,	2010	2009
	(in millions)	
Real estate secured:		
First lien	\$9,650	\$8,915
Second lien	709	767
Total real estate secured	10,359	9,682
Credit card	434	473
Personal non-credit card	705	726
Total TDR Loans	\$11,498	\$10,881

- (3) At December 31, 2010 and 2009, TDR Loans totaling \$1.5 billion and \$773 million, respectively, are recorded at net realizable value less cost to sell and, therefore, generally do not have credit loss reserves associated with them.

- (4) The following table summarizes real estate secured TDR Loans for our Mortgage Services and Consumer Lending businesses:

At December 31,	2010	2009
	(in millions)	
Mortgage Services	\$4,114	\$4,350
Consumer Lending	5,230	4,776
Total real estate secured	\$9,344	\$9,126

- (5) Included in credit loss reserves.

Additional information relating to TDR Loans is presented in the table below:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Average balance of TDR Loans(1):			
Real estate secured	\$9,534(2)	\$5,743	\$3,521
Credit card	467	287	398
Personal non-credit card	736	731	530
Total average balance of TDR Loans	\$10,737	\$6,761	\$4,449
Interest income recognized on TDR Loans			
Real estate secured:	\$446(2)	\$323	\$266
Credit card	50	23	25
Personal non-credit card	47	53	41
Total interest income recognized on TDR Loans	\$543	\$399	\$332

- (1) As previously disclosed in our 2009 Form 10-K, modified loans which otherwise qualified as a TDR have historically continued to be reported as a

TDR until such loans left a qualifying modification status. This was the result of our financial accounting systems not having the ability to track and report modified real estate secured loans which previously had been considered a TDR once they left a qualifying modification status. During the second half of 2009, we developed enhanced tracking capabilities which enabled us to identify and report certain modified customer loans which had qualified as a TDR, but did not remain in compliance with the modified loan terms and were subsequently removed from modification status. Additionally, during the fourth quarter of 2009 we also discovered that certain loans which should have been identified and reported as TDRs prior to the fourth quarter of 2009 were not being captured in our disclosure. The impact of these system changes resulted in an increase in real estate secured and personal non-credit card TDR Loans reported during the second half of 2009 and impacts the comparability of the average balance of TDR Loans between the periods reported above.

- (2) The following summarizes the average balance of real estate secured TDR Loans and interest income recognized on real estate secured TDR Loans split between first and second lien loans for the year ended December 31, 2010:

	First Lien	Second Lien	Total Real Estate Secured (in millions)
Average balance of real estate secured TDR Loans	\$8,832	\$702	\$9,534
Interest income recognized on real estate secured TDR Loans	407	39	446

Consumer Receivable Credit Quality Indicators Credit quality indicators used for consumer receivables include a loan's delinquency status, whether the loan is performing and whether the loan is considered a TDR Loan.

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

	December 31, 2010		December 31, 2009	
	Dollars of Delinquency	Ratio	Dollars of Delinquency	Ratio
	(dollars are in millions)			
Real estate secured:				
First lien	\$7,504	17.11%	\$8,372	16.10%
Second lien	667	12.18	1,023	13.56
Total real estate secured	8,171	16.56	9,395	15.78
Credit card receivables	612	6.18	1,211	10.41
Personal non-credit card	779	10.94	1,432	13.65
Total	\$9,562	14.41%	\$12,038	14.74%

Nonperforming The status of our consumer receivable portfolio are summarized in the following table:

	Accruing Loans			
	Performing Loans	Nonaccrual Loans	Contractually Past Due 90 days or More(1)	Total
	(in millions)			
At December 31, 2010				
Real estate secured	\$42,976	\$6,360	\$-	\$49,336
Credit Cards	9,450	-	447	9,897
Personal non-credit card	6,587	530	-	7,117
Total	\$59,013	\$6,890	\$447	\$66,350
At December 31, 2009				
Real estate secured	\$52,540	\$6,995	\$-	\$59,535
Credit Cards	10,736	-	890	11,626
Personal non-credit card	9,488	998	-	10,486
Total	\$72,764	\$7,993	\$890	\$81,647

(1) Credit card receivables continue to accrue interest after they become 90 days or more delinquent, consistent with industry practice.

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

8. Changes in Charge-off Policies During 2009

We have historically maintained charge-off policies within our Consumer Lending and Mortgage Services businesses that were developed in consideration of the historical consumer finance customer profile. As such, these policies focused on maximizing the amount of cash collected while avoiding excessive collection expenses on loans which would likely become uncollectible. Our historical real estate secured charge-off policies reflected consideration of customer behavior in that initiation of foreclosure or repossession activities often served to prompt repayment of

delinquent balances and, therefore, were designed to avoid ultimate foreclosure or repossession whenever it was economically reasonable. Charge-off policies for our personal non-credit card receivables were designed to be responsive to customer needs and collection experience which justified a longer collection and work out period for the consumer finance customer. Therefore, the charge-off policies for these products were historically longer than bank competitors who served a different market.

The impact of the economic turmoil which began in 2007 resulted in a change to the customer behavior patterns described above and it became clear in 2009 that the historical behavior patterns will not be re-established for the foreseeable future, if at all. As a result of these changes in customer behavior and resultant payment patterns, in December 2009 we elected to adopt more bank-like charge-off policies for our real estate secured and personal non-credit card receivables. As a result, real estate secured receivables are now written down to net realizable value less 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.

The impact of the changes in our charge-off policies adopted during the fourth quarter of 2009 resulted in an increase to our net loss of \$227 million as summarized below:

	Real Estate Secured	Personal Non-Credit Card	Total
	(in millions)		
Net interest income:			
Reversal of accrued interest income on charged-off accounts(1)	\$246	\$105	\$351
Provision for credit losses:			
Charge-offs to comply with charge-off policy changes	2,402	1,071	3,473
Release of credit loss reserves associated with principal and accrued interest income	(2,594)	(878)	(3,472)
Tax benefit	(19)	(106)	(125)
Reductions to net income	\$35	\$192	\$227

(1) Accrued interest income is reversed against finance and other interest income.

9. Credit Loss Reserves

An analysis of credit loss reserves for continuing operations was as follows:

	2010	2009	2008
	(in millions)		
Credit loss reserves at beginning of period	\$9,091	\$12,030	\$10,127
Provision for credit losses	6,180	9,650	12,410(1)
Charge-offs	(9,500)	(13,087)(2)	(9,975)
Recoveries	720	498	646
Reserves on receivables transferred to held for sale	-	-	(1,168)
Other, net	-	-	(10)
Credit loss reserves at end of period	\$6,491	\$9,091	\$12,030

(1) Includes \$191 million in 2008 related to the lower of cost or fair value adjustment attributable to credit for receivables transferred to held for sale. See Note 10, "Receivables Held for Sale," for further discussion.

(2) Includes \$3.5 billion related to the changes in charge-off policies for real estate secured and personal non-credit card receivables in December 2009. See Note 8, "Changes to Charge-off Policies During 2009," for additional information.

The following table summarizes the changes in credit loss reserves by product/class and the related receivable balance by product during the years ended December 31, 2010, 2009 and 2008:

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Real Estate						
Secured						
First Lien	Second Lien	Credit Card	Private Label	Personal Non- Credit Card	Comm'l and Other	Total

Year ended December 31,
2010:

Credit loss reserve balances at beginning of period	\$3,997	\$1,430	\$1,816	\$-	\$1,848	\$-	\$9,091
Provision for credit losses	3,126	789	834	-	1,431	-	6,180
Charge-offs	(3,811)	(1,456)	(1,905)	-	(2,328)	-	(9,500)
Recoveries	43	69	233	-	375	-	720
Net charge-offs	(3,768)	(1,387)	(1,672)	-	(1,953)	-	(8,780)
Credit loss reserve balance at end of period	\$3,355	\$832	\$978	\$-	\$1,326	\$-	\$6,491
Ending balance: collectively evaluated for impairment	\$1,611	\$571	\$824	\$-	\$931	\$-	\$3,937
Ending balance: individually evaluated for impairment(3)	1,728	258	154	-	395	-	2,535
Ending balance: loans acquired with deteriorated credit quality	16	3	-	-	-	-	19
Total credit loss reserves	\$3,355	\$832	\$978	\$-	\$1,326	\$-	\$6,491
Receivables:							
Collectively evaluated for impairment	\$31,556	\$4,762	\$9,470	\$-	\$6,413	\$33	\$52,234
Individually evaluated for impairment(3)	7,240	635	427	-	704	-	9,006
Receivables carried at net realizable value	5,022	73		-	-	-	5,095
Receivables acquired with deteriorated credit quality	41	7	-	-	-	-	48
Total receivables	\$43,859	\$5,477	\$9,897	\$-	\$7,117	\$33	\$66,383

Year ended December 31,
2009:

Credit loss reserve balances at beginning of period	\$4,998	\$2,115	\$2,249	\$-	\$2,668	\$-	\$12,030
Provision for credit losses	3,354	1,558	1,746	-	2,992	-	9,650
Charge-offs(1)	(4,381)	(2,282)	(2,385)	-	(4,039)	-	(13,087)
Recoveries	26	39	206	-	227	-	498
Net charge-offs	(4,355)	(2,243)	(2,179)	-	(3,812)	-	(12,589)
Receivables transferred to held for sale	-	-	-	-	-	-	-
Credit loss reserve balance at end of period	\$3,997	\$1,430	\$1,816	\$-	\$1,848	\$-	\$9,091
Ending balance: collectively evaluated for impairment	\$2,206	\$1,051	\$1,658	\$-	\$1,495	\$-	\$6,410
Ending balance: individually evaluated for impairment(3)	1,766	373	158	-	353	-	2,650
	25	6	-	-	-	-	31

Ending balance: loans
acquired with deteriorated
credit quality

Total credit loss reserves	\$3,997	\$1,430	\$1,816	\$-	\$1,848	\$-	\$9,091
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Receivables:

Collectively evaluated for impairment	\$40,972	\$6,753	\$11,165	\$-	\$9,760	\$50	\$68,700
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Individually evaluated for impairment(3)	7,613	741	461	-	726	-	9,541
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Receivables carried at net realizable value	3,374	46		-	-	-	3,420
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Receivables acquired with deteriorated credit quality	29	7	-	-	-	-	36
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Total receivables	\$51,988	\$7,547	\$11,626	\$-	\$10,486	\$50	\$81,697
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Year ended December 31,
2008:

Balance at beginning of period	\$2,350	\$2,604	\$2,635	\$26	\$2,511	\$1	\$10,127
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Provision for credit losses	4,684	1,978	3,333	19	2,396	-	12,410
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Charge-offs	(1,956)	(2,362)	(3,147)	(35)	(2,474)	(1)	(9,975)
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Recoveries	10	39	369	6	222	-	646
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Net charge-offs	(1,946)	(2,323)	(2,778)	(29)	(2,252)	(1)	(9,329)
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Receivables transferred to held for sale	(80)	(144)	(944)	-	-	-	(1,168)
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Release of credit loss reserves related to loan sales	(10)	-	-	-	-	-	(10)
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Balance at end of period	\$4,998	\$2,115	\$2,246	\$16(2)	\$2,655	\$-	\$12,030
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(1) Includes \$2.0 billion for first lien real estate secured receivables, \$434 million for second lien real estate secured receivables and \$1.1 billion for personal non-credit card receivables related to the December 2009 Charge-off Policy Changes.

(2) In the first quarter of 2009, we began reporting our liquidating private label receivable portfolio, which consists primarily of the liquidating retail sales contracts in our Consumer Lending business prospectively within our personal non-credit card receivable portfolio. Accordingly, beginning in the first quarter of 2009, we have also begun reporting the associated credit loss reserves for these receivables with the appropriate receivable product, primarily personal non-credit card receivables.

(3) These amounts represent TDR Loans for which we evaluate reserves using a discounted cash flow methodology. Each loan is individually identified as a TDR Loan and then grouped together with other TDR Loans with similar characteristics. The discounted cash flow impairment analysis is then applied to these groups of TDR Loans.

Credit loss reserves at December 31, 2009 were significantly impacted by changes in our charge-off policies for real estate secured, personal non-credit card and auto finance receivables. See Note 8, "Changes in Charge-off Policies During 2009," for further discussion.

10. Receivables Held for Sale

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

	2010	2009
	(in millions)	
Real estate secured receivables held for sale ⁽¹⁾	\$4	\$3

(1) These receivables were originated with the intent to sell.

The following table shows the activity in receivables held for sale during 2010 and 2009:

	2010	2009
	(in millions)	
Receivables held for sale at beginning of period	\$3	\$13,894
Receivable sales	-	(12,112)
Additional lower of cost or fair value adjustment subsequent to transfer to receivables held for sale	2	(374)
Transfer into receivables held for investment at the lower of cost or fair value:		
Real estate secured	-	(216)
Credit card	-	(1,078)
Net change in receivable balance	(1)	(111)
Receivables held for sale at end of period	\$4	\$3

In January 2009, we sold our GM and UP Portfolios to HSBC Bank USA. See Note 4, "Receivable Portfolio Sales to HSBC Bank USA," and Note 23, "Related Party Transactions," for details of these transactions.

In March and September 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 their current fair market value of \$216 million.

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In June and December 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 \$1.1 billion.

The following table summarizes the components of the lower of cost or fair value adjustments recorded at the date of transfer to receivables held for sale during 2010, 2009 and 2008:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Provision for credit losses(1)	\$-	\$-	\$191
Lower of cost or fair value adjustment recorded as a component of other income(2)	-	-	200
Total lower of cost or fair value adjustment	\$-	\$-	\$391

(1) The portion of the lower of cost or fair value adjustment attributable to credit was recorded as a provision for credit losses. This was determined by giving consideration to the impact of over-the-life credit loss estimates as compared to the existing credit loss reserves prior to our decision to transfer to receivables held for sale.

(2) Reflects the impact on value caused by current marketplace conditions including changes in interest rates and illiquidity.

The valuation allowance on receivables held for sale was \$3 million and \$7 million at December 31, 2010 and 2009, respectively.

As it relates to our discontinued auto finance operations, in June and September 2009, we transferred auto finance receivables with a combined fair value of \$533 million to receivables held for sale and recorded a lower of cost or fair value adjustment of \$44 million during 2009 attributable to credit and marketplace conditions and is included as a component loss from discontinued operations. These receivables were sold to SC USA during March 2010. Additionally, in July 2010, we transferred auto finance receivables to held for sale with an outstanding principal balance of \$2.9 billion at the time of transfer and recorded a lower of cost or fair value adjustment of \$87 million attributable to credit which was included as a component of loss from discontinued operations. These receivables were sold to SC USA in August 2010. See Note 3, "Discontinued Operations," for additional information on these transactions.

11. Properties and Equipment

Property and Equipment consisted of the following:

At December 31,	2010	2009	Depreciable Life
	(dollars are in millions)		
Land	\$13	\$13	-
Buildings and improvements	257	233	10-40 years
Furniture and equipment	43	47	3-10
Total	313	293	
Accumulated depreciation and amortization	(111)	(92)	
Properties and equipment, net	\$202	\$201	

Depreciation and amortization expense for continuing operations totaled \$29 million, \$38 million and \$56 million in 2010, 2009 and 2008, respectively.

12. Intangible Assets

Intangible assets consisted of the following:

At December 31, 2010	Gross	Cumulative Impairment Charges	Accumulated Amortization	Carrying Value
	(in millions)			
Purchased credit card relationships and related programs(1)	\$1,736	\$-	\$1,131	\$605
Consumer loan related relationships	333	163	170	-
Technology, customer lists and other contracts	261	9	252	-
Total	\$2,330	\$172	\$1,553	\$605

December 31, 2009	Gross	Cumulative Impairment Charges	Accumulated Amortization	Carrying Value
	(in millions)			
Purchased credit card relationships and related programs(1)	\$1,736	\$-	\$992	\$744
Consumer loan related relationships	333	163	170	-
Technology, customer lists and other contracts	261	9	248	4
Total	\$2,330	\$172	\$1,410	\$748

(1) Purchased credit card relationships are being amortized to their estimated residual value of \$162 million at December 31, 2010 and 2009.

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During the third quarter of 2010, we completed our annual impairment testing of intangible assets. As a result of this testing, we determined that the fair value of each remaining intangible asset exceeded its carrying value. Therefore, we concluded that none of our intangible assets were impaired.

The weighted-average amortization period for our purchased credit card relationships and related programs as of December 31, 2010 was 106 months.

Intangible amortization expense totaled \$143 million, \$157 million and \$178 million in 2010, 2009 and 2008, respectively. Estimated amortization expense associated with our intangible assets for each of the following years is as follows:

Year Ending December 31,	(in millions)	
2011		\$138
2012		135
2013		99
2014		71

13. Goodwill

Changes in the carrying amount of goodwill for continuing operations are as follows:

	2010	2009
	(in millions)	
Balance at beginning of year	\$-	\$2,294
Goodwill impairment related to the Insurance Services business	-	(260)
Goodwill impairment related to the Card and Retail Services business		(2,034)
Balance at end of year	\$- (1)	\$- (1)

(1) At December 31, 2010 and 2009, accumulated impairment losses on goodwill totaled \$6.0 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 the first half of 2009.

14. Commercial Paper

	Commercial Paper (in millions)
December 31, 2010	
Balance	\$3,156
Highest aggregate month-end balance	4,864
Average borrowings	3,732
Weighted-average interest rate:	
At year-end	.3%
Paid during year	.3
December 31, 2009	
Balance	\$4,291
Highest aggregate month-end balance	6,973
Average borrowings	5,412
Weighted-average interest rate:	
At year-end	.4%
Paid during year	.9
December 31, 2008	
Balance	\$9,639
Highest aggregate month-end balance	11,901
Average borrowings	7,853
Weighted-average interest rate:	
At year-end	1.0%
Paid during year	2.6

Interest expense for commercial paper totaled \$11 million in 2010, \$49 million in 2009 and \$207 million in 2008.

We maintain various bank credit agreements primarily to support commercial paper borrowings. We had committed back-up lines of credit totaling \$6.3 billion and \$7.8 billion at December 31, 2010 and 2009, respectively. At December 31, 2009, one of these facilities totaling \$2.5 billion was with an HSBC affiliate to support our issuance of commercial paper. This \$2.5 billion credit facility was renewed in September 2010 as a new \$2.0 billion back-up credit facility, split evenly between 364 day and two year tenors. Credit lines expire at various dates through 2012. Borrowings under these lines generally are available at a spread over LIBOR.

Our third party back-up line agreements contain a financial covenant which requires us to maintain a minimum tangible common equity to tangible assets ratio of 6.75 percent. Additionally, we are required to maintain a minimum of \$6.0 billion of debt extended to us from affiliates through June 30, 2011 and \$5.0 billion thereafter. At December 31, 2010, we were in compliance with all applicable financial covenants.

Annual commitment fee expenses to support availability of these lines during 2010, 2009 and 2008 totaled \$33 million, \$18 million and \$8 million, respectively, and included \$16 million, \$9 million and \$2 million, respectively, for the HSBC lines.

15. Long-Term Debt

Long-term debt consisted of the following:

At December 31,	2010	2009
	(in millions)	
Senior debt:		
Fixed rate:		
Secured financings:		
5.00% to 5.99%; due 2019 to 2021	373	488
Other fixed rate senior debt:		
1.00% to 1.99%; due 2013	3	-
2.00% to 2.99%; due 2010 to 2032	697	1,269
3.00% to 3.99%; due 2010 to 2015	440	152
4.00% to 4.99%; due 2010 to 2023	4,069	6,442
5.00% to 5.49%; due 2010 to 2021	11,613	13,226
5.50% to 5.99%; due 2010 to 2020	6,281	8,972
6.00% to 6.49%; due 2010 to 2033	6,165	7,261
6.50% to 6.99%; due 2010 to 2033	2,111	2,162
7.00% to 7.49%; due 2011 to 2032	1,864	2,109
7.50% to 7.99%; due 2012 to 2032	1,075	1,646
8.00% to 9.00%; due 2010	-	1,178
Variable interest rate:		
Secured financings - .32% to 2.76%; due 2010 to 2023	3,704	4,190
Other variable interest rate senior debt - .33% to 5.89%; due 2010 to 2016	13,004	18,719
Subordinated debt	2,208	-
Junior subordinated notes issued to capital trusts	1,031	1,031
Unamortized discount	(89)	(99)
Obligation under capital lease	17	18
HSBC acquisition purchase accounting fair value adjustments	50	116

Total long-term debt	\$54,616\$68,880
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HSBC acquisition purchase accounting fair value adjustments represent adjustments which have been "pushed down" to record our long-term debt at fair value at the date of our acquisition by HSBC.

At December 31, 2010, long-term debt included carrying value adjustments relating to derivative financial instruments which increased the debt balance by \$34 million and a foreign currency translation adjustment relating to our foreign denominated debt which increased the debt balance by \$2.1 billion. At December 31, 2009, long-term debt included carrying value adjustments relating to derivative financial instruments which increased the debt balance by \$55 million and a foreign currency translation adjustment relating to our foreign denominated debt which increased the debt balance by \$2.3 billion.

At December 31, 2010 and 2009, we have elected fair value option accounting for certain of our fixed rate debt issuances. See Note 16, "Fair Value Option," for further details. At December 31, 2010 and 2009, long-term debt totaling \$20.8 billion and \$26.7 billion, respectively, was carried at fair value.

Weighted-average interest rates on long-term debt were 4.6 percent and 4.1 percent at December 31, 2010 and 2009, respectively (excluding HSBC acquisition purchase accounting adjustments). Interest expense for long-term debt was \$2.9 billion in 2010, \$3.5 billion in 2009 and \$5.0 billion in 2008. There are no restrictive financial covenants in any of our long-term debt agreements. Debt denominated in a foreign currency is included in the applicable rate category based on the effective U.S. dollar equivalent rate as summarized in Note 17, "Derivative Financial Instruments."

During the fourth quarter of 2010, we offered noteholders of certain series of our debt the ability to exchange their existing senior notes for newly issued subordinated debt. As a result, we issued \$1.9 billion in new 10-year fixed rate subordinated debt in exchange for tendered debt totaling \$1.8 billion. Of the newly issued subordinated debt, \$1.2 billion was recorded in long-term debt and \$731 million was recorded in due to affiliates. In December 2010, we issued an additional \$1.0 billion of 10-year fixed rate subordinated debt to institutional investors.

During 2010, we redeemed \$1.0 billion of retail medium-term notes in four phases of approximately \$250 million each. These redemptions were funded through a new \$1.0 billion 364-day uncommitted revolving credit agreement with HSBC North America which was also executed during the third quarter of 2010 and allowed for borrowings with maturities of up to 15 years. During 2010, we borrowed \$1.0 billion under this credit agreement with scheduled maturities between 2022 and 2025. In November 2010, we replaced the \$1.0 billion outstanding under this loan through the issuance of preferred stock to HSBC Investments (North America) Inc. ("HINO"). See Note 19, "Redeemable Preferred Stock," for additional information regarding this issuance of preferred stock.

Receivables we have sold in collateralized funding transactions structured as secured financings remain on our balance sheet. 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. Secured financings previously issued under public trusts of \$3.9 billion at December 31, 2010 are secured by \$5.9 billion of closed-end real estate secured receivables, which are reported as receivables in the consolidated balance sheet. Secured financings previously issued under public trusts of \$4.7 billion at December 31, 2009 are secured by \$6.8 billion of closed-end real estate secured receivables. The holders of debt instruments issued by consolidated VIEs have recourse only to the receivables securing those instruments and have no recourse to our general credit.

The following table summarizes our junior subordinated notes issued to capital trusts ("Junior Subordinated Notes") and the related company obligated mandatorily redeemable preferred securities ("Preferred Securities"):

HSBC Finance Capital
Trust IX
("HFCT IX")

(dollars are
in millions)

Junior Subordinated Notes:	
Principal balance	\$1,031
Interest rate	5.91%
Redeemable by issuer	November 2015
Stated maturity	November 2035
Preferred Securities:	
Rate	5.91%
Face value	\$1,000
Issue date	November 2005

The Preferred Securities must be redeemed when the Junior Subordinated Notes are paid. The Junior Subordinated Notes have a stated maturity date, but are redeemable by us, in whole or in part, beginning on the dates indicated above at which time the Preferred Securities are callable at par (\$25 per Preferred Security) plus accrued and unpaid dividends. Dividends on the Preferred Securities are cumulative, payable quarterly in arrears, and are deferrable at our option for up to five years. We cannot pay dividends on our preferred and common stocks during such deferments. The Preferred Securities have a liquidation value of \$25 per preferred security. Our obligations with respect to the Junior Subordinated Notes, when considered together with certain undertakings of HSBC Finance Corporation with

respect to HFCT IX, constitute full and unconditional guarantees by us of HFCT IX's obligations under the Preferred Securities.

Maturities of long-term debt at December 31, 2010, including secured financings, conduit facility renewals and capital lease obligations were as follows:

	(in millions)
2011(1)	\$12,904
2012	11,373
2013	6,981
2014	2,931
2015	5,291
Thereafter	15,136
Total	\$54,616

(1) Weighted average interest rate on long-term debt maturing in 2011 is 5.1%.

Certain components of our long-term debt may be redeemed prior to its stated maturity.

16. Fair Value Option

We have elected FVO reporting for certain of our fixed rate debt issuances. At December 31, 2010, fixed rate debt accounted for under FVO totaled \$21.3 billion, of which \$20.8 billion is included as a component of long-term debt and \$436 million is included as a component of due to affiliates. At December 31, 2010, we had not elected FVO for \$16.8 billion of fixed rate long-term debt carried on our balance sheet. Fixed rate debt accounted for under FVO at December 31, 2010 has an aggregate unpaid principal balance of \$20.4 billion which included a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by \$404 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 \$18.2 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 26, "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:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Mark-to-market on debt designated at fair value(1):			
Interest rate component	\$(269)	\$1,063	\$(1,957)
Credit risk component	109	(3,334)	3,106
Total mark-to-market on debt designated at fair value	(160)	(2,271)	1,149
Mark-to-market on the related derivatives(1)	112	(609)	1,775

Net realized gains on the related derivatives	789	755	236
Gain (loss) on debt designated at fair value and related derivatives	\$741	\$(2,125)	\$3,160

(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 \$84 million during 2010 compared to a loss of \$75 million during 2009. Offsetting gains (losses) recorded in derivative related income associated with the related derivatives was a loss of \$84 million during 2010 compared to a gain of \$75 million during 2009.

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 \$873 million and \$842 million at December 31, 2010 and 2009, respectively.

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

- Interest rate curve - Interest rates in the U.S. decreased during 2010 resulting 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. An increase in long-term U.S. interest rates during 2009 resulted in gains in the interest rate component on the mark-to-market of the debt and losses on the mark-to-market of the related derivative. 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 and multiple rates along an interest rate 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 7 percent of our FVO debt does not have a corresponding derivative at both December 31, 2010 and 2009, respectively. Income from net realized gains increased during 2010 due to reduced short-term U.S. interest rates.
- Credit - During 2010 we experienced an overall gain in the credit component of our debt primarily resulting from widening of credit spreads in our longer-dated debt, which was partially offset by the tightening of credit spreads in our shorter-dated debt. During 2009, our credit spreads tightened due to increased market confidence and improvements in marketplace liquidity resulting in a loss in the credit component of debt recorded at fair value.

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 2010 should not be considered indicative of the results for any future periods.

17. 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 and Risk Committee receives regular reports on our interest rate and liquidity risk 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. Prior to our ceasing originations in our Consumer Lending business and ceasing purchase activities in our Mortgage Services business, 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 December 31, 2010 and 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 December 31, 2010 and 2009, we provided third party swap counterparties with \$33 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 December 31, 2010 and 2009, the fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of \$2.5 billion 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 December 31, 2010, we had derivative contracts with a notional value of \$50.5 billion, including \$49.9 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 or are treated as non-qualifying hedges. 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 \$51 million and \$85 million at December 31, 2010 and 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 Fair Value as of December 31,			Liability Derivatives Fair Value as of December 31,		
Balance Sheet Location		2010	Balance Sheet Location		2010
		2009			2009
		(in millions)			(in millions)
Interest rate swaps	Derivative financial assets	\$(4)	\$-Derivative related liabilities		\$18
Currency swaps	Derivative financial assets	124	Derivative related liabilities		\$39
Total fair value hedges		\$120			\$18
		\$312			\$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)			Amount of Gain (Loss)		
Location of Gain			Recognized in Income			Recognized in Income		
(Loss) Recognized in Income on Hedged Item and Derivative			on the Derivative			on Hedged Item		
Hedged Item			2010	2009	2008	2010	2009	2008
			(in millions)					
Interest rate swaps	Fixed rate borrowings	Derivative related income	\$17	\$(13)	\$35	\$7	\$21	\$(47)
Currency swaps	Fixed rate borrowings	Derivative related income	(13)	35	112	12	(34)	(88)
Total			\$4	\$22	\$147	\$19	\$(13)	\$(135)

Cash Flow Hedges Cash flow hedges include interest rate swaps to convert our variable rate debt to fixed rate debt and to fix future interest rate resets of floating rate debt as well as 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 \$492 million and \$490 million at December 31, 2010 and 2009, respectively. We expect \$408 million (\$264 million after-tax) of currently unrealized net losses will be reclassified to earnings within one year. However, these reclassified 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 Fair Value as of December 31,			Liability Derivatives Fair Value as of December 31,		
Balance Sheet Location		2010	Balance Sheet Location		2010
		2009			2009

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		(in millions)		(in millions)	
Interest rate swaps	Derivative financial assets	\$(437)	\$(358)	Derivative related liabilities	\$-
Currency swaps	Derivative financial assets	985	1,362	Derivative related liabilities	-
Total cash flow hedges		\$548	\$1,004		\$-

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

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Interest rate swaps	\$(65)	\$473	\$(567)	Interest expense	\$(62)	\$(24)	\$(12)	Derivative related income	\$(1)
				Gain on bulk receivable sale to HSBC affiliates					
				Interest expense	-	(80)	-		-
Currency swaps	70	441	(478)	Interest expense	(34)	(51)	(89)	Derivative related income	(7)
Total	\$5	\$914	\$(1,045)		\$(96)	\$(155)	\$(101)		\$(8)

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 projected 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 Fair Value as of December 31,				Liability Derivatives Fair Value as of December 31,		
Balance Sheet Location		2010	2009	Balance Sheet Location		2010
		(in millions)				2009
						(in millions)
Interest rate swaps	Derivative financial assets	\$165	\$188	Derivative related liabilities	\$5	\$12
Currency swaps	Derivative financial assets	67	72	Derivative related liabilities	-	9
Total		\$232	\$260		\$5	\$21

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

		Amount of Gain (Loss) Recognized in Derivative Related Income (Expense)		
		Location of Gain (Loss) Recognized in Income on Derivative	2010	2009
			2008	
			(in millions)	
Interest rate contracts	Derivative related income		\$(394)	\$200
Currency contracts	Derivative related income		-	(3)
Total			\$(394)	\$197

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 non-qualifying hedges but 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 16, "Fair Value Option," for further discussion.

Asset Derivatives Fair Value as of December 31,				Liability Derivatives Fair Value as of December 31,		
Balance Sheet Location		2010	2009	Balance Sheet Location		2010
		(in millions)				2009
						(in millions)
Interest rate swaps	Derivative financial assets	\$907	\$1,034	Derivative related liabilities	\$-	\$-
Currency swaps	Derivative financial assets	739	752	Derivative related liabilities	-	-
Total		\$1,646	\$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:

		Amount of Gain (Loss) Recognized in Derivative Related Income (Expense)		
Location of Gain (Loss) Recognized in Income on Derivative (in millions)		2010	2009	2008
Interest rate contracts	Gain (loss) on debt designated at fair value and related derivatives	\$719	\$(39)	\$1,703
Currency contracts	Gain (loss) on debt designated at fair value and related derivatives	182	185	308
Total		\$901	\$146	\$2,011

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

At December 31,	2010	2009
	(in millions)	
Derivatives designated as hedging instruments:		
Interest rate swaps	\$8,917	\$11,585
Currency swaps	10,018	15,373
	18,935	26,958
Non-qualifying economic hedges:		
Derivatives not designated as hedging instruments:		
Interest rate:		
Swaps	11,449	7,081
Purchased caps	173	682
Foreign exchange:		
Swaps	1,221	1,291
Forwards	123	349
	12,966	9,403
Derivatives associated with debt carried at fair value:		
Interest rate swaps	15,212	19,169
Currency swaps	3,376	4,122
	18,588	23,291
Total	\$50,489	\$59,652

18. Income Taxes

Total income taxes were as follows:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Provision (benefit) for income taxes related to continuing operations	\$(1,007)	\$(2,632)	\$(1,087)
Income taxes related to adjustments included in common shareholder's equity:			
Unrealized gains (losses) on securities available-for-sale, not other-than-temporarily impaired, net	22	51	(31)
Unrealized gains (losses) on other-than-temporarily impaired debt securities available-for-sale	1	(4)	-
Unrealized gains (losses) on cash flow hedging instruments	43	387	(370)
Changes in funded status of pension and post retirement benefit plans	(5)	2	(4)
Foreign currency translation adjustments	2	8	(46)
Exercise of stock based compensation	-	-	2
Valuation allowance	-	(2)	30
Total	\$(944)	\$(2,190)	\$(1,506)

Provisions for income taxes related to our continuing operations were:

Year Ended December 31,	2010	2009	2008
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(in millions)

Current provision (benefit):			
United States	\$(1,322)	\$(2,386)	\$(1,085)
Foreign	-	1	11
Total current provision (benefit)	(1,322)	(2,385)	(1,074)
Deferred provision (benefit):			
United States	315	(247)	(13)
Total deferred provision (benefit)	315	(247)	(13)
Total income provision (benefit)	\$(1,007)	\$(2,632)	\$(1,087)

The significant components of deferred provisions attributable to income from continuing operations were:

Year Ended December 31,	2010	2009	2008
	(in millions)		
Deferred income tax (benefit) provision (excluding the effects of other components)	\$274	\$(204)	\$(291)
Increase in valuation allowance	49	209	316
Change in operating loss carryforwards	(8)	(282)	(107)
Adjustment to statutory tax rate	-	30	69
Deferred income tax provision	\$315	\$(247)	\$(13)

A reconciliation of income tax expense (benefit) compared with the amounts at the U.S. federal statutory rates was as follows:

Year Ended December 31,	2010	2009	2008
	(dollars are in millions)		
Tax benefit at the U.S. federal statutory income tax rate	\$(1,017)	\$(3,534)	\$(1,293)
Increase (decrease) in rate resulting from:			
State and local taxes, net of Federal benefit	(15)	.5	(52)
State rate change effect on net deferred taxes	-	34	70
Non-deductible goodwill	-	798	115
Low income housing and other tax credits	-	(19)	(50)
Leveraged leases	48	20	34
Other	(23)	41	89
Total income tax benefit	\$(1,007)	\$(2,632)	\$(1,087)

The effective tax rate for continuing operations in 2010 was primarily impacted by state taxes, including states where we file combined unitary state tax returns with other HSBC affiliates and amortization of purchase accounting adjustments on leveraged leases that matured in December 2010. The effective tax rate for continuing operations in 2009 was significantly impacted by the non-tax deductible impairment of goodwill, the relative level of pretax book loss, increase in the state and local income tax valuation allowance, and a decrease in low income housing credits. The effective tax in 2008 was significantly impacted by the non-deductible goodwill impairment, an increase in the state and local income tax valuation allowance as well as a change in estimate in the state tax rate for jurisdictions where we file combined unitary state tax returns with other HSBC affiliates.

Temporary differences which gave rise to a significant portion of deferred tax assets and liabilities were as follows:

At December 31,	2010	2009
	(in millions)	
Deferred Tax Assets	\$2,497	\$2,837
Credit loss reserves	796	790
Unused tax benefit carryforwards	318	586
Market value adjustment	516	658
Other		

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Total deferred tax assets	4,127	4,871
Valuation allowance	(720)	(671)
Total deferred tax assets net of valuation allowance	3,407	4,200
Deferred Tax Liabilities		
Fee income	412	626
Deferred loan origination costs	290	306
Intangibles	-	185
Receivables sold	99	-
Leveraged leases	-	73
Other	115	123
Total deferred tax liabilities	916	1,313
Net deferred tax asset	\$2,491	\$2,887

The decrease in the credit loss reserves component of the deferred tax asset in 2010 reflects increased levels of charge-offs recorded during the year.

The deferred tax valuation allowance is attributed to the following deferred tax assets that based on the available evidence it is more-likely-than-not that the deferred tax asset will not be realized:

At December 31,	2010	2009
	(in	
	millions)	
State tax benefit loss limitations	\$537	\$480
Deferred capital loss on sale to affiliates	49	49
Foreign tax credit carryforward	127	127
Other	7	15
Total	\$720	\$671

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2009
	(in	
	millions)	
Balance at beginning of year	\$196	\$199
Additions based on tax positions related to the current year	13	6
Additions for tax positions of prior years	25	33
Reductions for tax positions of prior years	(27)	(21)
Settlements	(33)	(17)
Reductions for lapse of statute of limitations	(5)	(4)
Balance at end of year	\$169	\$196

The state tax portion of these amounts is reflected gross and not reduced by the federal tax effect. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$96 million and \$110 million at December 31, 2010 and 2009, respectively.

It is our policy to recognize accrued interest related to unrecognized tax benefits in interest expense in the consolidated statement of income (loss) and to recognize penalties related to unrecognized tax benefits as a component of other servicing and administrative expenses in the consolidated statement of income (loss). We had accruals for the payment of interest and penalties associated with uncertain tax positions of \$76 million and \$78 million at December 31, 2010 and 2009, respectively. We decreased our accrual for the payment of interest and penalties associated with uncertain tax positions by \$2 million and \$1 million during 2010 and 2009, respectively.

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 the 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 these market conditions have created losses in the HNAH Group in recent periods and volatility on our 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 \$2.5 billion and \$2.9 billion as of December 31, 2010 and 2009, respectively.

We remain subject to Federal income tax examination for years 1998 and forward and state income tax examinations for years 1996 and forward. It is reasonably possible that there could be a change in the amount of our unrecognized tax benefits within the next 12 months due to settlements or statutory expirations in various tax jurisdictions.

In November 2009, President Obama signed into law "The Worker, Homeownership, and Business Assistance Act of 2009" which allows for an extended carryback period for certain federal tax net operating losses. Our deferred tax asset related to such losses was reduced by \$1.6 billion as a result of this legislation during 2009.

In May 2008, we sold all of the common stock of Household International Europe, the holding company for our U.K. Operations to HSBC Overseas Holdings (UK) Limited for a loss. No tax benefit was recognized on the loss on sale because the sale was between affiliates under common control, the capital loss was deferred and a valuation allowance was established on the \$49 million deferred tax asset relating to the future realization of the deferred tax capital loss. The deferred tax capital loss could be recognized if the stock of Household International Europe is sold to an unaffiliated third party. Capital losses may only be offset by capital gains and have a five-year carryforward period. In November 2008, we transferred the common stock of HSBC Financial Corporation Limited, the holding company for our Canadian Operations to HSBC Bank Canada ("HBCA"). No tax benefit was recognized on the transfer due to loss disallowance rules.

At December 31, 2010, we had net operating loss carryforwards of \$10.1 billion for state tax purposes which expire as follows: \$151 million in 2011-2015; \$356 million in 2016-2020; \$1.9 billion in 2021-2025; and \$7.7 billion in 2026 and forward.

At December 31, 2010, we had foreign tax credit carryforwards of \$127 million for federal income tax purposes which expire as follows: \$43 million in 2015; \$36 million in 2016; and \$21 million in 2017; and \$27 million in 2018.

At December 31, 2010, we had general business tax credit carryforwards of \$87 million for federal income tax purposes which expire as follows: \$18 million in 2026; \$50 million in 2028; and \$19 million in 2029.

19. Redeemable Preferred Stock

In November 2010, we issued 1,000 shares of 8.625 percent Non-Cumulative Preferred Stock, Series C ("Series C Preferred Stock") to our parent, HINO, for a cash purchase price of \$1.0 billion. Dividends on the Series C Preferred Stock are non-cumulative and payable quarterly at a rate of 8.625 percent. The Series C Preferred Stock may be redeemed at our option after November 30, 2025 at \$1,000,000 per share, plus accrued dividends. The redemption and liquidation value is \$1,000,000 per share plus accrued and unpaid dividends. The holders of Series C Preferred Stock are entitled to payment before any capital distribution is made to the common shareholder and have no voting rights except for the right to elect two additional members to the board of directors in the event that dividends have not been declared and paid for six quarters, or as otherwise provided by law. Additionally, as long as any shares of the Series C Preferred Stock are outstanding, the authorization, creation or issuance of any class or series of stock that would rank prior to the Series C Preferred Stock with respect to dividends or amounts payable upon liquidation or dissolution of HSBC Finance Corporation must be approved by the holders of at least two-thirds of the shares of Series C Preferred Stock outstanding at that time. Dividend payments will begin during the first quarter of 2011.

In June 2005, we issued 575,000 shares of 6.36 percent Non-Cumulative Preferred Stock, Series B ("Series B Preferred Stock"). Dividends on the Series B Preferred Stock are non-cumulative and payable quarterly at a rate of 6.36 percent. The Series B Preferred Stock may be redeemed at our option after June 23, 2010 at \$1,000 per share, plus accrued dividends. The redemption and liquidation value is \$1,000 per share plus accrued and unpaid dividends. The holders of Series B Preferred Stock are entitled to payment before any capital distribution is made to the common shareholder and have no voting rights except for the right to elect two additional members to the board of directors in the event that dividends have not been declared and paid for six quarters, or as otherwise provided by law. Additionally, as long as any shares of the Series B Preferred Stock are outstanding, the authorization, creation or issuance of any class or series of stock which would rank prior to the Series B Preferred Stock with respect to dividends or amounts payable upon liquidation or dissolution of HSBC Finance Corporation must be approved by the holders of at least two-thirds of the shares of Series B Preferred Stock outstanding at that time. In 2010 and 2009, we declared dividends totaling \$37 million on the Series B Preferred Stock which were paid prior to December 31, 2010 and 2009.

20. Accumulated Other Comprehensive Income (Loss)

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

Year Ended December 31,	2010	2009	2008
	(in millions)		
Unrealized gains (losses) on cash flow hedging instruments:			
Balance at beginning of period	\$(632)	\$(1,316)	\$(718)
Other comprehensive income for period:			
Net gains (losses) arising during period, net of tax of \$41 million, \$329 million and \$(381) million, respectively	54	585	(675)
Reclassification adjustment for (gains) losses realized in net income, net of tax of \$2 million, \$56 million and \$36 million, respectively	3	99	65
Total other comprehensive income for period	57	684	(610)
Reclassification adjustment due to sale of Canadian Operations	-	-	12
Balance at end of period	(575)	(632)	(1,316)
Unrealized gains (losses) on securities available-for-sale, not other-than temporarily impaired:			
Balance at beginning of period	\$38	\$(54)	\$(13)
Other comprehensive income for period:			
Net unrealized holding gains (losses) arising during period, net of tax of \$25 million, \$48 million and \$(31) million, respectively	44	85	(59)
Reclassification adjustment for (gains) losses realized in net income, net of tax of \$(3) million, \$3 million and \$2 million, respectively	(4)	7	6
Total other comprehensive income for period	40	92	(53)
Reclassification adjustment due to sale of Canadian Operations	-	-	12
Balance at end of period	78	38	(54)
Unrealized gains (losses) on other-than-temporarily impaired debt securities available-for-sale:			

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Balance at beginning of period	\$ (7)	\$ -	\$ -
Other comprehensive income for period:			
Other-than-temporary impairment on debt securities available-for-sale recognized in other comprehensive income, net of tax of \$1 million, \$(6) million and \$- million, respectively	3	(10)	-
Reclassification adjustment for (gains) losses realized in net income, net of tax of \$- million, \$2 million and \$- million, respectively -	-	3	-
Total other comprehensive loss for period	3	(7)	-
Balance at end of period	(4)	(7)	-
Pension liability:			
Balance at beginning of period	8	4	(3)
Other comprehensive income for period:			
Postretirement benefit plan adjustment, net of tax of \$(5) million, \$2 million and \$(4) million, respectively	(8)	4	(1)
Total other comprehensive income for period	(8)	4	(1)
Reclassification adjustment due to sale of U.K. Operations	-	-	(10)
Reclassification adjustment due to sale of Canadian Operations	-	-	18
Balance at end of period	-	8	4
Foreign currency translation adjustments:			
Balance at beginning of period	10	(12)	514
Other comprehensive loss for period:			
Translation gains (losses), net of tax of \$2 million, \$8 million and \$(43) million, respectively	-	22	(120)
Total other comprehensive income for period	-	22	(120)
Reclassification adjustment due to sale of U.K. Operations	-	-	(370)
Reclassification adjustment due to sale of Canadian Operations	-	-	(36)
Balance at end of period	10	10	(12)
Total accumulated other comprehensive loss at end of period	\$(491)	\$(583)	\$(1,378)

21. Share-Based Plans

Restricted Share Plans Subsequent to our acquisition by HSBC, key employees have been provided awards in the form of restricted shares ("RSRs") and restricted stock units ("RSUs") under the Group Share Plan. These shares have been granted as both time vested (3 year vesting) and/or performance contingent (3 and 4 year vesting) awards. We also issue a small number of off-cycle grants each year for recruitment and retention. These RSR awards vest over a varying period of time depending on the nature of the award, the longest of which vests over a five year period. Annual awards to employees in 2004 vested over five years contingent upon the achievement of certain company performance targets.

Information with respect to RSR and RSUs awarded under HSBC's Restricted Share Plan/Group Share Plan, all of which are in HSBC ordinary shares, is as follows:

Year Ended December 31,	2010	2009	2008
RSR and RSUs awarded	964,927	4,618,923	3,566,510
Weighted-average fair market value per share	\$10.36	\$8.78	\$16.45
RSR and RSUs outstanding at December 31	4,038,870	9,559,886	12,102,259

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Compensation cost: (in millions)

Pre-tax	\$14	\$27	\$37
After-tax	9	18	24

Employee Stock Purchase Plans The HSBC Holdings Savings-Related Share Option Plan (the "HSBC Sharesave Plan"), allows eligible employees to enter into savings contracts to save up to the equivalent of 250 pounds sterling per month, with the option to use the savings to acquire ordinary shares of HSBC at the end of the contract period. There are currently three types of plans offered which allow the participant to select savings contracts of 1, 3 or 5 year length. The options for the 1 year plan are automatically exercised if the current share price is at or above the strike price, which is at a 15 percent discount to the fair market value of the shares on grant date. If the current share price is below the strike price, the participants have the ability to exercise the option during the three months following the maturity date if the share price rises. The options under the 3 and 5 year plans are exercisable within six months following the third or fifth year, respectively, of the commencement of the related savings contract, at a 20 percent discount for options granted. HSBC ordinary shares granted and the related fair value of the options for 2010, 2009 and 2008 are presented below:

	2010		2009		2008	
	HSBC	Fair	HSBC	Fair	HSBC	Fair
	Ordinary	Value	Ordinary	Value	Ordinary	Value
	Shares	Per	Shares	Per	Shares	Per
	Granted	Share	Granted	Share	Granted	Share
		of		of		of
		Shares		Shares		Shares
		Granted		Granted		Granted
1 year vesting period	115,205	\$2.00	425,259	\$2.07	305,147	\$3.10
3 year vesting period	120,591	2.57	738,859	2.41	660,727	3.93
5 year vesting period	31,276	2.76	379,170	2.19	208,019	4.18

Compensation expense related to the grants under the HSBC Sharesave Plan totaled \$1 million in 2010, \$3 million in 2009 and \$3 million in 2008. As of December 31, 2010, future compensation cost related to grants which have not yet fully vested is approximately \$9 million. This amount is expected to be recognized over a weighted-average period of 0.94 years.

The fair value of each option granted under the HSBC Sharesave Plan was estimated as of the date of grant using a third party option pricing model. The significant assumptions used to estimate the fair value of the options granted by year are as follows:

	2010	2009	2008
Risk-free interest rate	.47 - 2.63%	.52 - 2.10%	1.85 - 3.03%
Expected life	1, 3 or 5 years	1, 3 or 5 years	1, 3 or 5 years
Expected volatility	30%	50%, 35%, 30%	25%

Stock Option Plans The HSBC Holdings Group Share Option Plan (the "Group Share Option Plan"), which replaced the former Household stock option plans, was a long-term incentive compensation plan available to certain employees prior to 2005. Grants were usually made annually. At the 2005 HSBC Annual Meeting of Stockholders, the shareholders approved and HSBC adopted the HSBC Share Plan ("Group Share Plan") to replace this plan. Since 2004, no further options have been granted to employees although stock option grants from previous years remain in

effect subject to the same conditions as before. In lieu of options, these employees received grants of shares of HSBC stock subject to certain vesting conditions as discussed further above. If the performance conditions are not met by year 5, the options will be forfeited. Options granted to employees in 2004 vest 100 percent upon the attainment of certain company performance conditions which were met in 2009 and expire ten years from the date of grant. Such options were granted at market value. There was no compensation expense related to the Group Share Option Plan during 2010 or 2009.

Information with respect to the Group Share Option Plan is as follows:

	2010		2009		2008	
	HSBC	Weighted-Average	HSBC	Weighted-Average	HSBC	Weighted-Average
	Ordinary Shares	Price per Share	Ordinary Shares	Price per Share	Ordinary Shares	Price per Share
Outstanding at beginning of year	6,633,653	\$13.05	5,780,800	\$14.96	6,060,800	\$14.97
Options granted due to HSBC plc rights issuance(1)	-	-	852,853	13.05	-	-
Exercised	-	-	-	-	-	-
Transferred	-	-	-	-	(175,000)	15.31
Expired or canceled	-	-	-	-	(105,000)	14.82
Outstanding at end of year	6,633,653	13.05	6,633,653	13.05	5,780,800	14.96
Exercisable at end of year	6,633,653	\$13.05	6,633,653	\$13.05	3,654,800	\$15.31

(1) As a result of the HSBC plc share rights offering, existing holders of share options were granted additional options of a value such that the rights offering would not be dilutive to their individual positions.

The following table summarizes information about stock options outstanding under the Group Share Option Plan at December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted- Average Remaining Life	Weighted- Average Exercise Price	Number	Weighted- Average Exercise Price
\$12.51 - 15.00	6,633,653	2.98	\$13.05	6,633,653	\$13.05

Prior to our acquisition by HSBC, certain employees were eligible to participate in the former Household stock option plan. Employee stock options generally vested equally over four years and expired 10 years from the date of grant. Upon completion of our acquisition by HSBC, all options granted prior to November 2002 vested and became outstanding options to purchase HSBC ordinary shares. Options granted under the former Household plan subsequent to October 2002 were converted into options to purchase ordinary shares of HSBC, but did not vest under the change in control. No compensation expense related to the former Household plan was recorded in 2010, 2009 or 2008 as all shares under the former Household plan are fully vested.

Information with respect to stock options granted under the former Household plan is as follows:

	2010		2009		2008	
	HSBC Ordinary Shares	Weighted- Average Price per Share	HSBC Ordinary Shares	Weighted- Average Price per Share	HSBC Ordinary Shares	Weighted- Average Price per Share
Outstanding at beginning of year	17,101,975	\$16.28	19,525,710	\$18.23	21,159,911	\$18.04
Options granted due to HSBC plc rights issuance(1)	-	-	2,880,667	15.88	-	-
Exercised	(306,964)	9.29	(20,000)	10.66	(262,437)	13.35
Transferred in/(out)	-	-	-	-	(719,846)	18.29
Expired or canceled	(6,052,842)	16.10	(5,284,402)	14.61	(651,918)	14.16
Outstanding at end of year	10,742,169	\$16.58	17,101,975	\$16.28	19,525,710	\$18.23
Exercisable at end of year	10,742,169	\$16.58	17,101,975	\$16.28	19,525,710	\$18.23

(1) As a result of the HSBC plc share rights offering, existing holders of share options were granted additional options of a value such that the rights offering would not be dilutive to their individual positions.

The following table summarizes information about the number of HSBC ordinary shares subject to outstanding stock options under the former Household plan, at December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted- Average Remaining Life	Weighted- Average Exercise Price	Number	Weighted- Average Exercise Price
\$9.01 - \$12.50	2,345,452	1.87	\$9.29	2,345,452	\$9.29

\$17.51 - \$20.00	8,396,717	.87	18.62	8,396,717	18.62
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22. Pension and Other Postretirement Benefits

Defined Benefit Pension Plan Effective January 1, 2005, our previously separate qualified defined benefit pension plan was combined with that of HSBC Bank USA's into a single HSBC North America qualified defined benefit pension plan (either the "HSBC North America Pension Plan" or the "Plan") which facilitates the development of a unified employee benefit policy and unified employee benefit plan administration for HSBC companies operating in the U.S.

The table below reflects the portion of pension expense and its related components of the HSBC North America Pension Plan which has been allocated to us and is recorded in our consolidated statement of income (loss).