Investor Presentation

HSBC Finance Corporation
March 8, 2010

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Disclosure statements

This presentation, including the accompanying slides and subsequent discussion, contains certain forward-looking information with respect to the financial condition, results of operations and business of HSBC Holdings plc and HSBC Finance Corporation. This forward-looking information represents expectations or beliefs concerning future events and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the HSBC Holdings plc Annual Report and the HSBC Finance Corporation Annual Report on Form 10-K, each for the year ended December 31, 2009. Please be further advised that Regulation FD prohibits HSBC representatives from answering certain, specific questions during the Q&A session. You may get copies of the HSBC Finance Corporation document referred to above free by visiting EDGAR on the SEC website at www.sec.gov.

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HSBC Holdings plc reports financial results in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”). EU-endorsed IFRSs may differ from IFRSs, as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At December 31, 2009, there were no unendorsed standards affecting this document and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.

All amounts, unless otherwise stated, represents IFRS Management Basis of accounting.

IFRS Management Basis assumes that the mortgages, credit card loans, motor vehicle finance loans and private label customer loans transferred to HSBC’s US banking subsidiary, HSBC Bank USA, National Association (‘HSBC Bank USA’), have not been sold and remain on our balance sheet. Such customer loans continue to be managed and serviced by HSBC Finance Corporation without regard to ownership. IFRS Management Basis also assumes that all purchase accounting fair value adjustments relating to the acquisition of HSBC Finance Corporation by HSBC Holdings plc have been ‘pushed down’ to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the loans sold to HSBC Bank USA were conducted primarily to fund prime customer loans more efficiently through bank deposits and such customer loans continue to be managed and serviced by HSBC Finance Corporation without regard to ownership. All numbers are presented in US dollars on a continuing operations basis (excluding UK and Canada) unless otherwise noted.

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Update on HSBC Finance Strategy

Niall Booker

Chief Executive Officer

HSBC Finance Corporation

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Strategy Summary

Focus on Managing What We Can Control

- Risk
  - Underwriting changes
  - Reduction in product offerings
  - Closure of businesses
  - Trying to keep people in their homes where it makes economic sense to do so
- Balance sheet management
  - Leveraging bank funding
  - Reducing balance sheet to manage capital needed from Group. Total assets have declined $26.9bn or 17 percent in 2009
  - Managing for cash to repay debt
- Cost management
  - Continuing focus on expenses. Operating expenses (excluding goodwill impairment charges) have declined $952 million or 21 percent in 2009 as compared to 2008, while revenue excluding FVO fell $1.3 bn or 9 percent in the same period.
    - ➢ Cost efficiency ratio from continuing operations, excluding FVO and goodwill impairment charges, improved 430 bps in 2009 compared to 2008
  - Strengthening our operations for greater operational efficiencies
  - Joining up support functions to optimize shared services across North America
  - Using Cards skill set to develop Cards businesses in other parts of the Group
- People
  - Developing talent and exporting talent across the globe (560 North America employees on overseas secondments)
  - Retaining key people while allowing the work force to shrink as the run-off book declines

Strategy Summary

Taking Decisive Action

- Run-off certain portfolios and exiting businesses
  - Mortgage Services
  - Vehicle Finance
    - ➢Agreed to sell our vehicle finance loan servicing operations in November 2009
  - Consumer Lending
- Reduced the scope of the Taxpayer Financial Services business
- Leading Home Preservation Efforts
- Responded to changes in customer behavior caused by the recent economic turmoil and shortened the write-off period for real estate secured and personal non-credit card receivables in 2009 to 180 days

Environmental Factors Affecting our Business Which We Cannot Control

- Home price depreciation
- Unemployment
- Legislation/Regulatory Landscape
  - CARD Act and Congressional legislation
  - Mortgage related initiatives

Update on HSBC Finance Strategy

HSBC has focused on managing what we can control and have split our run-off businesses from our continuing businesses… 2 parts of HSBC business, today

Core Businesses

Card and Retail Services

- Continues to be profitable – one of only 4 credit card businesses to be so
- Continue to pursue integration of Cards into global business line, leveraging US analytic expertise. Systems platform already Global
- Exited unprofitable relationships in Retail Services and / or increased the value of those relationships
- Continue to review risk issues – geography, mortgage holders, unemployment, and watch mix between sub-prime and prime
- Change in terms completed in 2009
- Restarted mailings in sub-prime

Businesses under Run-off

Consumer Lending

Vehicle, Taxpayer Financial Services, Mortgage Services

Consumer Lending

- Announced in March 2009 we would discontinue all originations
- Focus on collection and default management strategies
- Continue to assist customers utilizing appropriate modification and other account management programs to maximize collection and home preservation
  - Approximately 51% of our real estate secured portfolio (CL and MS) has been modified and/or reaged at December 31, 2009
  - Approximately 62% of all loans modified and/or reaged (CL and MS) since January 2007 are less than 60 days delinquent or have paid in full at 12/31/09
- Enhance RE loan modifications analytics
- Collect effectively but ethically
- Run-off and managed disposition of CL portfolio

Other businesses

- Run-off and managed disposition of MS portfolio
- Run-off and managed disposition of VF portfolio
- TFS business - exited all independent relationships, only HR Block remaining

Why the Cards businesses are different from our Subprime mortgage businesses

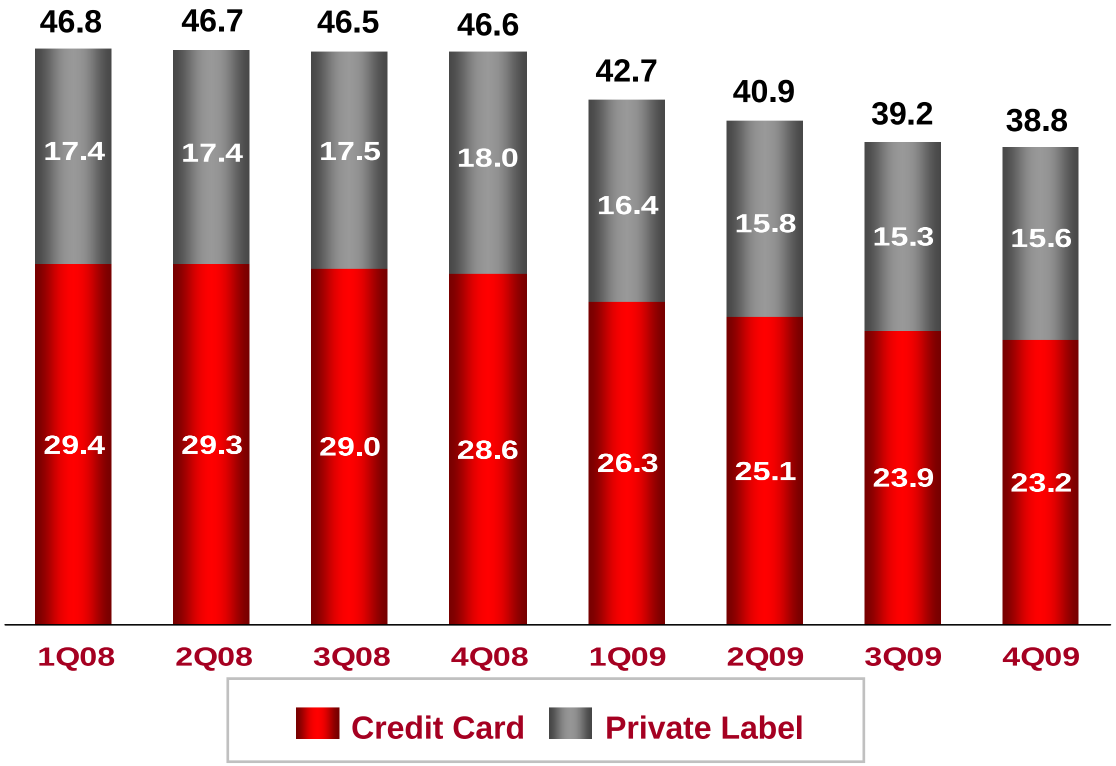
- Cards model is a transaction based model
- Borrowers are more compelled to maintain a card. Without it, their ability to spend decreases
- Cards model does not rely on house price appreciation
- Funding model for Cards is fundamentally different as it utilizes affiliate bank deposit funding
- Delinquency impacts are mitigated to some degree by higher margins
- Cards model benefits from smaller lines of credit and shorter repayment cycle than mortgages
- Recent regulatory actions pose some threat to income and the business model, however we are already in compliance with some of its provisions and will look to offset some of the additional impact through cost control and revenue enhancement within the spirit of the CARD Act and Congressional legislation
- Sub-prime has performed better relatively speaking than prime

Continue to enhance collection analytics and risk strategies, continued effort to reach out and assist mortgage customers, focus on cost management, deliver high brand value and focus on talent management and career development

Card and Retail Services

A core business

Customer loans, US$bn



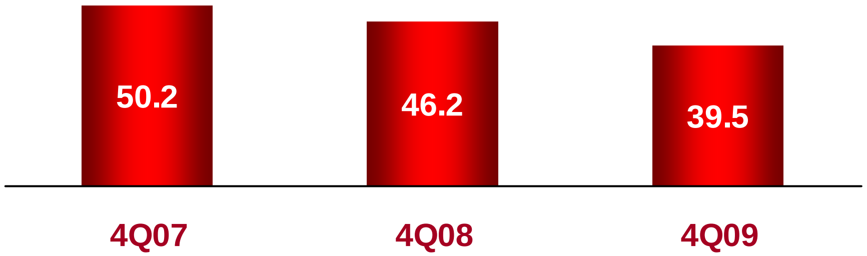
- Credit Card and Private Label loan balances decreased 8% and 4%, respectively, in 2008 and decreased 19% and 13%, respectively, in 2009 as we tightened underwriting and reduced mailings
  - HSBC was an early leader in reducing mail volumes
  - Credit Cards stopped growing receivables in Q1 2008 and declines are larger than other card issuers
  - Credit Cards significantly reduced outstanding credit lines in 2008 while many others did not or moved slower
  - Credit Card and Private Label loan balance decreases in 2009 also reflect lower consumer spending levels and the stopping of new account originations for certain segments of our portfolio which have been most severely impacted by the current housing and economic conditions
  - Limited direct marketing mailings and new account originations resumed in 3Q09 based on recent performance trends to slow run-off and preserve future revenue streams
- Reviewed merchant relationships for renegotiation or termination
  - Renegotiated all significant Private Label contracts to improve risk adjusted profitability; exited 47 retail partnerships
- Over two-thirds of the Credit Card and Private Label portfolio is now funded by HSBC Bank USA Inc. leveraging core deposits

Consumer Lending

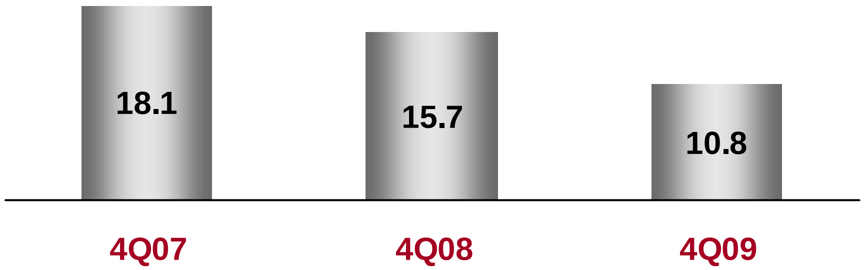
Ceased writing new business

Customer loans

Real estate secured consumer lending, US$bn



Unsecured personal non-credit card, US$bn



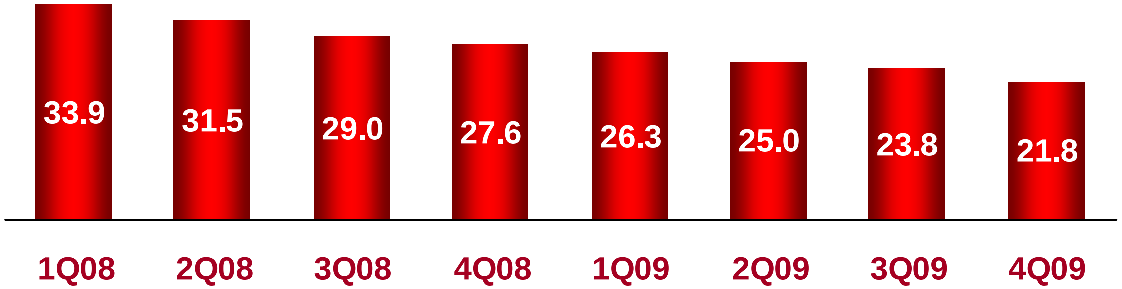
- Sub-prime mortgage refinance model has no connectivity to the rest of HSBC and no longer operates effectively
  - lack of home equity
  - deteriorating outlook for house price appreciation
  - very limited refinancing opportunity
  - return on equity targets for this type of business is no longer attainable based on wholesale funding model and mortgage yield constraints
- As a result, in 2008, we began to reposition our Consumer Lending business in order to maximize future value
  - lower loan-to-value lending
  - expanding lending scope for both government sponsored entity and conforming loan products
  - greater emphasis on unsecured loan products while decreasing secured loan production
- Results of repositioning efforts did not meet our expectations
  - economic factors
  - volume necessary to achieve profitability
  - reasonable expectations for near and medium term origination volume reduced
- Decision made in February 2009 to cease to write new Consumer Lending business
- Run-off the outstanding portfolio
  - real estate secured loans of US$40bn
  - unsecured portfolio of US$11bn
  - Run-off has been slightly slower than anticipated due to higher modifications and fewer refinancing opportunities (excluding the impact of the write-off period change in December 2009 which contributed $1.4bn and $.9bn to consumer real estate secured and unsecured personal non-credit card run-off, respectively, in 2009)
- Closed all of HFC and Beneficial branch network with loss of 6,100 jobs at HSBC
- Closure costs of approximately US$150m in 2009 and annualized cost savings of circa US$700m in North America
- Credit quality of loans originated in 2005 and earlier has begun to stabilize

Other Run-off portfolios

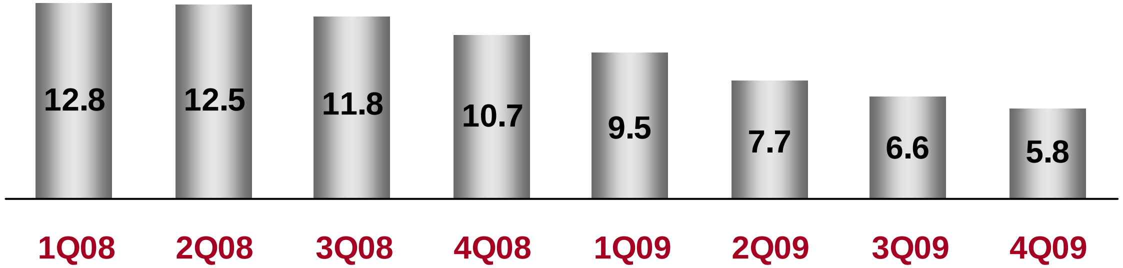
Mortgage Services and Vehicle Finance

Customer loans

Mortgage Services, US$bn



Vehicle Finance, US$bn



Continued progress

- Mortgage Services portfolio reduced to US$21.8bn at 12/31/09
  - Losses higher than originally expected but due mainly to economic deterioration
  - Run-off slower ($1.0bn in Q409 relating to write-off period change)
  - Default Management best practices and people transferred to CL
- Primarily 2006 and prior vintages remaining to run-off
- Loan impairment charges are decreasing in 2009 as the portfolio runs off and becomes more fully seasoned

- Vehicle finance loan portfolio reduced to US$5.8bn at 12/31/09
- Our analysis indicates the decision we made in July 2008 to discontinue dealer and direct vehicle finance loan originations was correct
- In November 2009, entered into an agreement to sell vehicle finance loan servicing operations and entered into a loan servicing agreement for remainder of our vehicle finance loan portfolio

HSBC Finance Results

Edgar D. Ancona

Chief Financial Officer
HSBC Finance Corporation

HSBC

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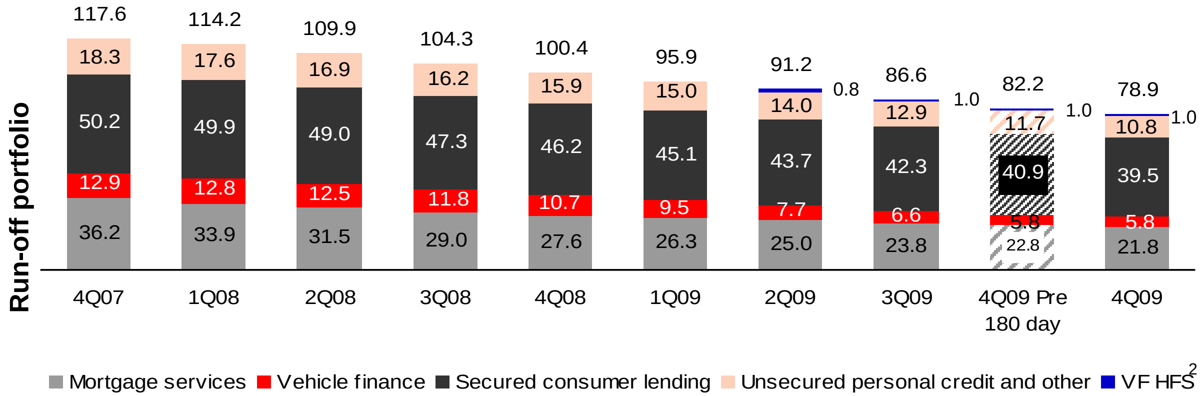
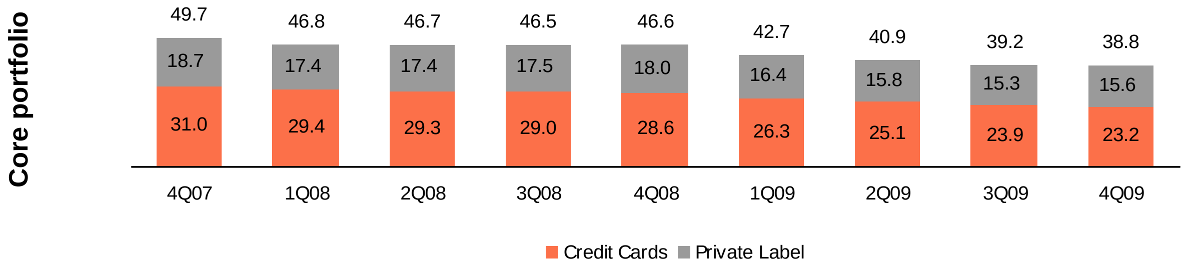
(IFRS/USD Millions)	Year-to-Date		Variance B/(W)	
			2008 Actual	
	2008 Actual	2009 Actual	$	%
Total Operating Income excl. FVO	13,738	12,484	(1,254)	(9)
Fair Value Option Income (Loss) FVO	2,924	(2,779)	(5,703)	(195)
Loan Impairment Charges	(15,347)	(13,545)	1,802	12
Total Operating Expenses excl. Goodwill Impairment	(4,526)	(3,574)	952	21
Goodwill Impairment	(900)	(2,915)	(2,015)	(224)
Profit (Loss) from continuing operations before tax	**(4,111)**	**(10,329)**	**(6,218)**	**(151)**
Profit (Loss) from discontinued operations before tax	(531)	-	531	**100**
Profit (Loss) before tax	**(4,642)**	**(10,329)**	**(5,687)**	**(123)**
Profit (Loss) before tax from continuing operations excl. FVO & Goodwill	**(6,135)**	**(4,635)**	**1,500**	**24**
Cost efficiency ratio excl. FVO & goodwill impairment	32.9%	28.6%	n/a	430 bps

HSBC Finance Corporation – US Customer Loans

Run-off portfolio: Down 21% from December 2008

Customer loans[1], US $bn





- Loans decreased by $21.5 billion (21%) since Q4 2008
- In Mortgage Services the loan decrease in 2009 of $5.8 billion included $1.0 billion of loans related to the write-off policy change and $4.8 billion from the continuing liquidation of the portfolio
- Secured Consumer Lending loans decreased $6.7 billion in 2009 primarily due to actions taken since mid-2007 to reduce risk, including the decision in late February 2009 to discontinue new account originations ($5.3 billion) as well as the impact of the change in write-off policy ($1.4 billion)
- Vehicle finance loans continue to decline as a result of our decision to discontinue loan originations in July 2008. Vehicle finance loans held for sale of $1.0 billion will be sold to Santander in Q1 2010
- Credit card loans decreased $5.4 billion in 2009 while private label decreased $2.4 billion in 2009 reflecting actions taken since late 2007 to manage risk. We resumed mailings in certain segments of the Core Credit Card Portfolio in Q4 2009 to slow run-off and preserve future revenue streams

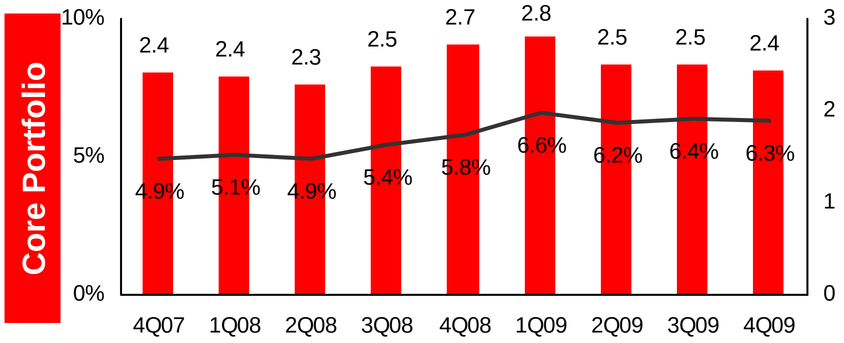
Note:

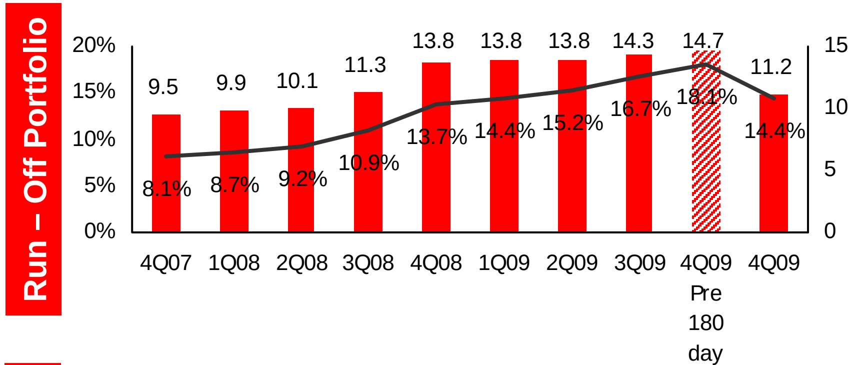
[1] Excludes reverse repo balances

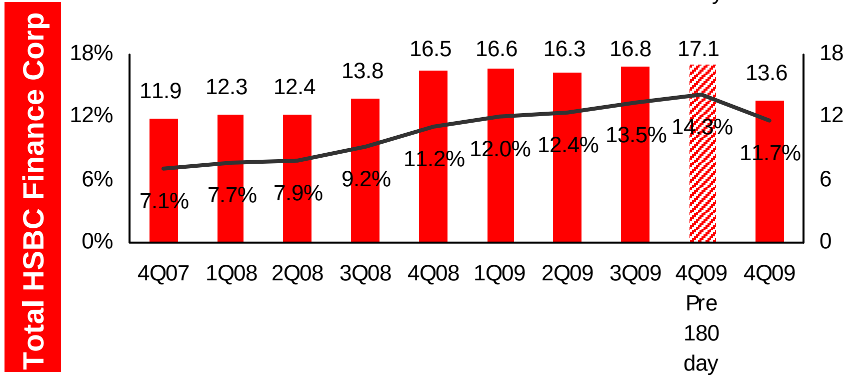
[2] Vehicle finance loans held for sale

HSBC Finance Corporation (US) 2+ Delinquency[(1)(2)]

US $bn







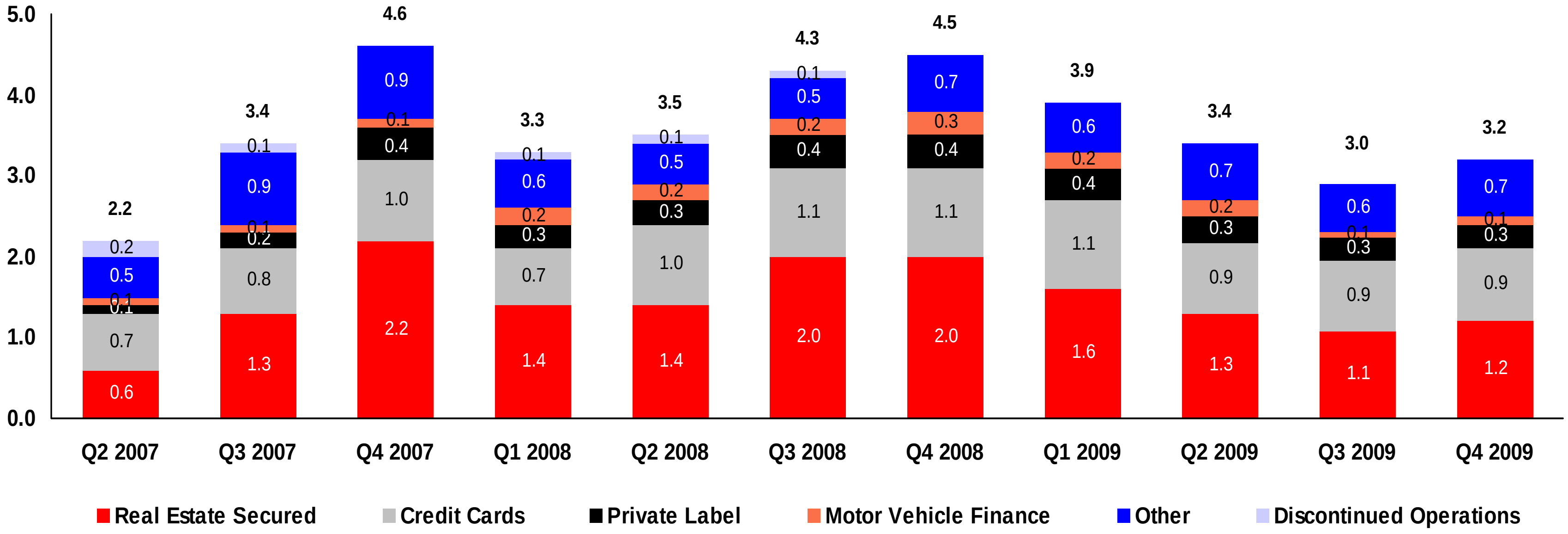
- Delinquency in our Core Portfolio remained stable in 4Q 2009. Factors contributing to dollars of 2+ stability include:
  - Lower receivable levels including actions previously taken to manage risk
  - Lower customer spending which also lowered receivables
  - Higher levels of personal bankruptcies in the first half of 2009, which resulted in accounts migrating to charge off and out of delinquency more quickly
- Decreases in dollars of delinquency in our Run-Off portfolios in 4Q 2009 were primarily due to the change in write-off policy. Excluding the change in policy, delinquencies increased modestly in the fourth quarter and were impacted by
  - Portfolio seasoning in the Consumer Lending portfolio
  - Continuing local government related delays in processing foreclosures
  - Lower account modification volumes
- While delinquency increased in second half of 2009, it was much less than typically experienced in the second half of prior periods
- The delinquency ratio in all portfolios was impacted by declining loan balances and seasonality

[(1)] Excludes reverse repo balances

[(2)] 2+ Delinquency ratio as a percentage of end of period consumer loans

HSBC Finance Corporation - Loan Impairment Charges

($ in billions)	Full Year 2006	 2007	 2008	 2009
Loan Impairment Charges	**7.0**	**12.2**	**15.6**	**13.5**

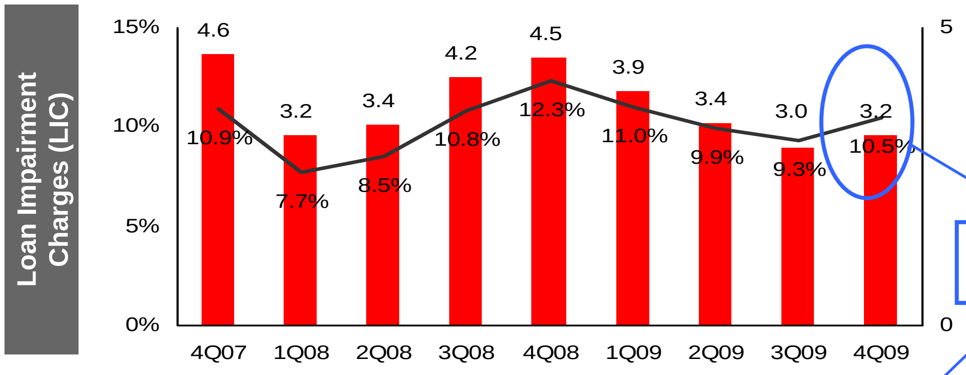


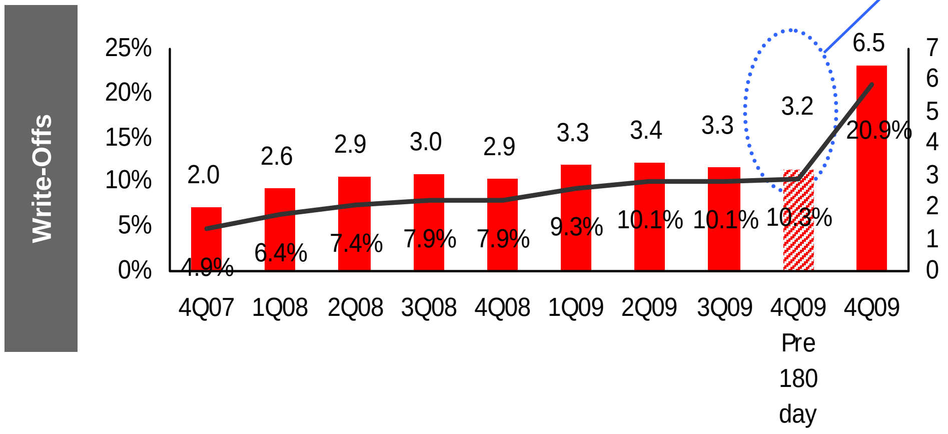
- LICs increased $200 million in Q4 2009 to $3.2 bn from low point of $3.0 bn in Q3 2009. Represents second best LIC quarter in last 2 years and is below the level experienced in Q1 and Q2 09.
- 2H 2009 trend is dramatically better than 2H trends from 2007 and 2008 where LICs experienced severe increases. Q4 09 level of $3.2 bn is significantly less than Q4 2008 level of $4.5 bn and Q4 2007 level of $4.6 bn.
- During Q4 2009 LICs were increased for trouble debt restructures by approximately $400 million as a result of updated assumptions specific to these impaired loans. This incorporates provisions for over the life losses for such impaired loans where we have provided a concession to the borrower (primarily rate reductions). This $400 million is not recurring unless these loans perform worse than expectations.
- Q4 periods typically experience seasonal increases in delinquency levels which are impacting disclosed ratios. The Consumer Lending (CL) first lien mortgage loans still have considerable 2006 and 2007 vintages which continued to season into Q4 2009.

Loan Impairment Charges[1][2] vs Write-off Trends

US $bn

Total HSBC Finance Corp





- The loan impairment charges, which declined in the first three quarters and increased modestly in the fourth quarter, primarily related to the real estate portfolios due to seasonality and higher loss provisions on troubled debt restructurings at both Consumer Lending and Mortgage Services

Write-offs in Q4 09 is approximately the same as LICs excluding write-off policy. See below comments

- Write-off increased $3.3 billion in 4Q 2009 due to the change in write-off policy. Excluding the write-off policy, write-off is approximately the same as LIC, resulting from:
  - Run-Off Portfolio: LIC were slightly higher than write-off, driven by Consumer Lending loans due to continued weakness in the US economy and higher loss estimates on trouble debt restructures. The increase was largely offset by Mortgage Services and Vehicle Finance as the portfolio continues to liquidate and the performance continues to stabilize and mature
  - Core Portfolio: LIC were slightly lower than write-off due to stable credit conditions as well as an improved outlook on future loss estimates as the impact of higher unemployment rates on losses has not been as severe as previously anticipated
- Sustainability of trend will largely depend upon future economic conditions in the US including unemployment and home price depreciation

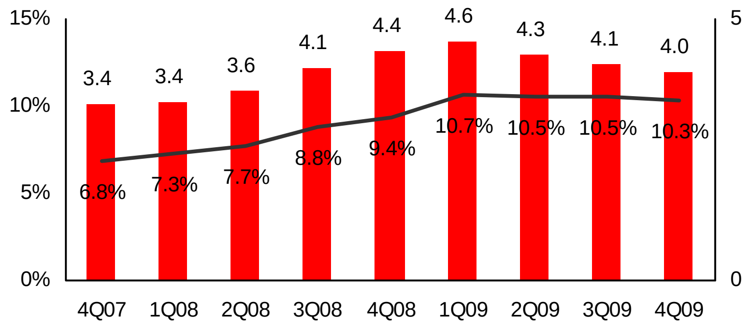
[1] Excludes reverse repo balances

[2] Loan Impairment Charge ratio as a percentage of average total loans (quarter annualized)

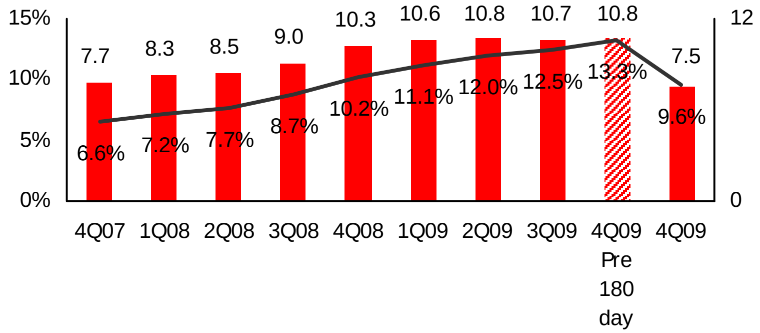
Impairment Allowance (Reserve) Trends[1][2]

US $bn

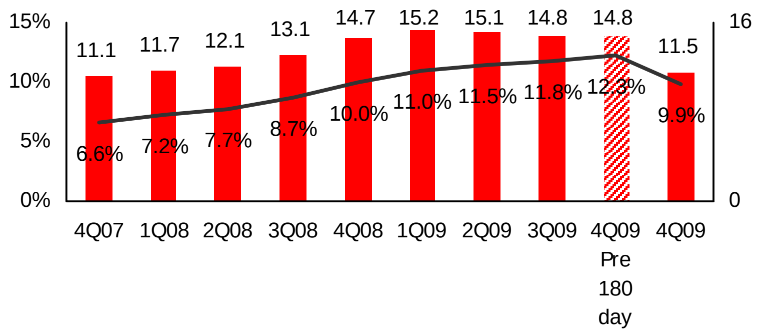
Core Portfolio



Run – Off Portfolio



Total HSBC Finance Corp



- Loan impairment allowance dollars in the Core Portfolio continued to decline in throughout 2009. Factors contributing to the decline include:
  - Lower loan levels due to actions previously taken to manage risk
  - Lower customer spending also lowered receivables
  - An improved outlook on future loss estimates as the impact of higher unemployment has not been as severe as previously anticipated

- Loan impairment allowance in the Run-Off Portfolio declined significantly due to the change in write-off policy
- Excluding the impact of this policy change, reserve levels would have increased modestly in 2009, driven by higher loss estimates for Consumer Lending real estate secured receivables due to higher delinquency levels and the impact of higher real estate secured troubled debt restructurings and higher reserve requirements associated with these receivables at both Consumer Lending and Mortgage Services, partially offset by lower dollars of delinquency and lower loan balances in the Mortgage Services portfolio

[1] Excludes reverse repo balances

[2] Impairment Allowance ratio as a percentage of end of period total loans

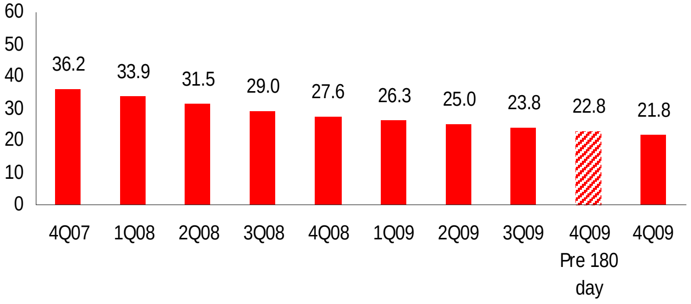
US Mortgages – continuing to shrink the mortgage portfolio

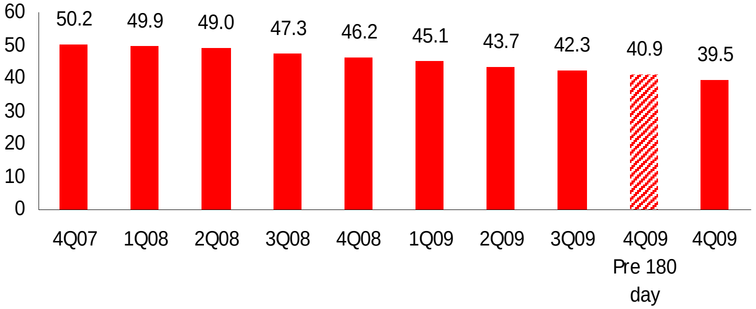
US $bn

Mortgage Services

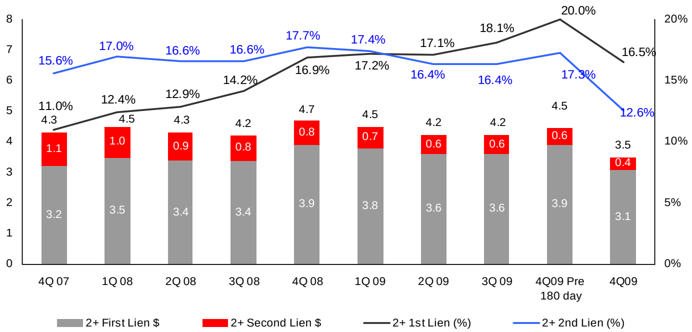
Consumer Lending

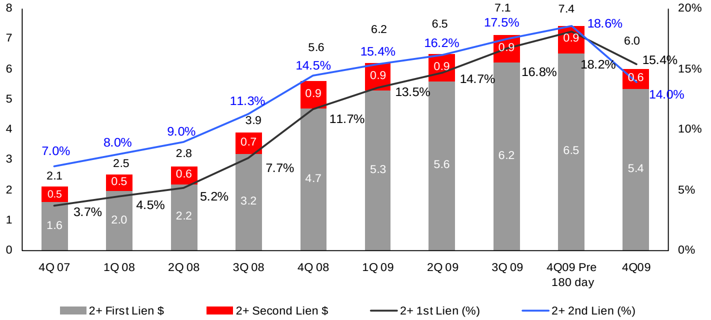
Customer Loans





2+ Delinquencies [(1)]





- Excluding the impacts of the change in write-off policy, loan balances in Mortgage Services and Consumer Lending reflect liquidation as expected, however the pace of run-off has continued to slow due to a decline in loan prepayments as fewer refinancing opportunities for our customers exist as mortgage industry trends continued to show weakness in 2009
- Including the impacts of the change in write-off policies, the Mortgage Services portfolio has decreased 21 percent from December 2008 and the Consumer Lending real estate portfolio, decreased 15 percent
- Delinquency levels for both portfolios decreased due to the change in write-off policy. Excluding the write-off policy change, delinquencies increased compared to the prior quarter due to seasonal trends for higher delinquency levels in the second half of the year, continued weakness in the US economy, higher unemployment rates during the fourth quarter of 2009, continued delays in the foreclosure process and for Consumer Lending, continued seasoning of the portfolio

[1] 2+ Delinquency ratio as a percentage of end of period consumer loans

HSBC Finance Corporation Loss Severities on Real Estate Book

Trends in REO [1]

		Three Months Ended					
	Full Year 2009	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Full Year 2008
Number of REO properties at end of period	6,060	6,060	6,266	7,105	8,643	9,350	9,350
Number of properties added to REO inventory in the period	14,476	3,422	3,448	3,463	4,143	3,313	19,532
Average loss on sale of REO properties	11.6%	5.4%	8.4%	13.0%	16.9%	13.3%	13.0%
Average total loss on foreclosed properties	51.6%	49.8%	51.6%	52.4%	52.0%	46.8%	42.2%
Average time to sell REO properties (in days)	193	172	184	194	201	180	177

- Average total loss (i.e., severity) on foreclosed properties began to stabilize in Q2 09 and declined throughout the rest of the year. The YTD average total loss on foreclosed properties is 51.6%
- Q3 09 marked first quarter in a long time that average total loss on foreclosed properties actually fell and the decline in loss continued in Q4 09
- Average total loss on foreclosed properties is consistent between Consumer Lending and Mortgage Services
- Average time to sell REO properties has also begun to trend down. However, as noted in our 10-K there is a significant build up in delinquencies (before the write-off policy change) due to slow down in completing foreclosures which are keeping inventories lower.

[1] US GAAP Legal Basis

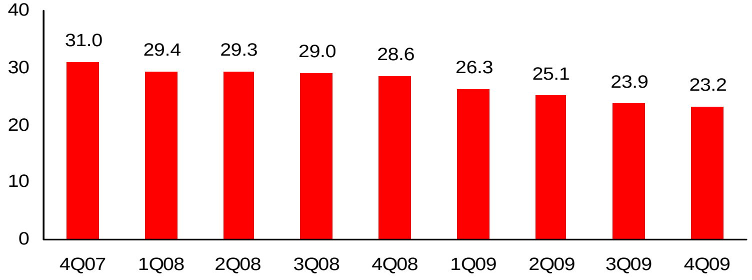
HSBC Finance Corporation Managing risk in Cards

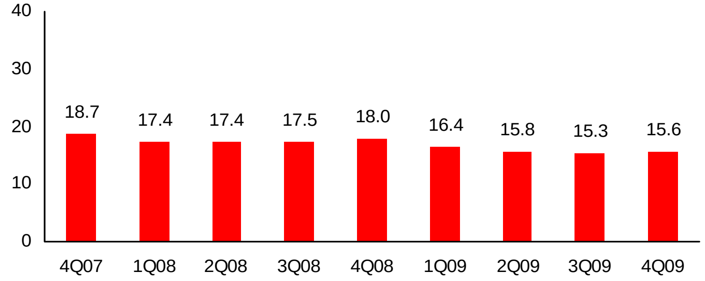
US $bn

Credit Card

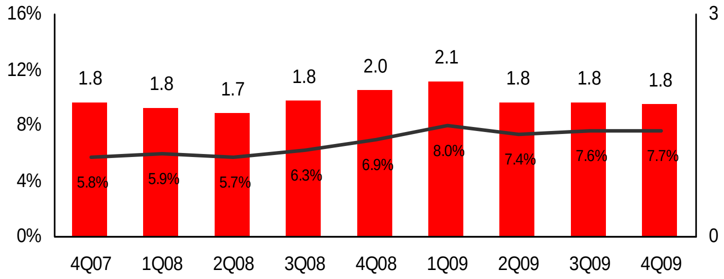
Private Label

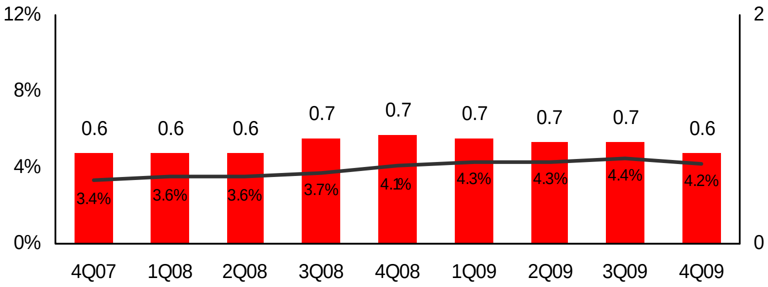
Customer Loans





2+ Delinquencies [1]





- Balances continue to decline due to lower customer spending and impacts of actions previously taken to manage risk as shown by relatively flat 2+ delinquency levels due to stable credit conditions as well as an improved outlook on future loss estimates as the impact of higher unemployment rates on losses has not been as severe as anticipated
- Based on recent performance trends, we began mailing in Q4 2009 to select portions of our non-prime credit card portfolio
- Full impact of the CARD Act is uncertain but we believe it will have a material adverse financial impact
  - We are compliant with the provisions of the CARD Act that took effect in August 2009 and February 2010

[1] 2+ Delinquency ratio as a percentage of end of period consumer loans

Liquidity and Funding

William Kesler
EVP – Treasurer

The world's local bank

Current State of the Market

- **Commercial paper market has stabilized**
  - The Commercial Paper Funding Facility (“CPFF”) was terminated on 2/1/10
  - Investors more willing to invest in term CP in search of yield
  - Issuers running larger liquidity portfolios
  - Issuers less reliant on CP as a source of funding
    - Market has shrunk to $1.1 trillion from peak of $2.2 trillion in July 2007

- **Corporate debt issuance has increased significantly**
  - Temporary Liquidity Guarantee Program (“TLGP”) has been terminated
  - Investors becoming more risk-tolerant
  - Issuance levels are up while new issue premiums continue to tighten
  - Finance sector credit spreads declined 100 - 150 bps in 2H 2009

- **Securitization market is slowly recovering**
  - ABS Term Asset-Backed Securities Loan Facility (“TALF”) was very successful particularly for the vehicle finance sector; program is ending
  - Vehicle finance securitization will continue to gain strength
  - New accounting rules and regulatory capital treatment will result in less securitization, particularly for bank credit card programs
  - Subprime real estate securitization will continue to be moribund

HSBC Finance – New Issue Spreads

- **HSBC Finance indicative new-issue spreads and CDS have tightened since June**

	6/30/09	12/31/09	2/24/10
5-yr new issue:	T + 450 bps	T + 175 bps	T + 213 bps
5-yr CDS:	L + 450 bps	L + 110 bps	L + 120 bps

- **HSBC Finance new issue spread premium versus other HSBC entities has tightened significantly since July:**

	7/30/09	12/31/09	2/24/10
5-yr HSBC Finance:	T + 388 bps	T + 175 bps	T + 213 bps
5-yr HSBC USA, Inc.	T + 238 bps	T + 130 bps	T + 135 bps
Premium	150 bps	45 bps	78 bps

HSBC Finance – 2009/2010 Funding Plan

- **2009 debt maturities of $26 billion were funded through**:
  - Sale of card and auto receivables to HSBC Bank USA ($9 bn net)
  - Balance sheet attrition ($9 bn)
  - Cash from operations ($7 bn)
  - Capital support provided by HSBC ($2.4 bn)
  - Retail / affiliate term debt issuance ($2.2 bn)

- **2010 debt maturities of $15 - $17 billion will be funded through:**
  - Balance sheet attrition ($3 - $5 bn)
  - Cash from operations / other ($4 - $7 bn)
  - Asset sales ($1 - $3 bn)
  - Capital support provided by HSBC ($1 - $3 bn)
  - Retail / affiliate term debt issuance ($0 - $2 bn)

- **HSBC Finance will continue its commercial paper issuance program**
  - $4.3 bn in maturing third party backstop credit facilities
  - Smaller to match declining balance sheet
  - Active cash management versus term funding

HSBC Finance – Long Term Funding Profile

- **Going forward, the finance company funding requirements are very manageable**
- **Maturing debt continues to decline**
  - 2011 will be approximately 50% of 2009
  - Run-off of debt will fall below $10 billion in 2013
- **The run-off receivables portfolio is projected to decline between 55% & 65% over the next 4 to 5 years**
- **Attrition net of charge-offs and cash from operations will continue to be the primary sources of debt repayment**
- **Any incremental funding requirements will be met through capital infusions, asset sales or selected debt issuances**

Consumer and Mortgage Lending – Default Management/Collections

Kathy Madison

EVP, HSBC Finance Corporation

President and Chief Servicing Officer, Consumer Mortgage Lending

HSBC

The world's local bank

Consumer and Mortgage Lending Update

CML consistently led the industry taking proactive actions to combat the impending credit crisis

REDUCED RISK AND COST

- Closed all origination channels over the course of 2007-2009, including the correspondent channel (MS), wholesale channel (Decision One), and retail network (HFC/Beneficial)
- Reduced credit lines on revolving accounts and pursuing opportunities to accelerate amortization through increasing payment factors

STRENGTHENED RISK MANAGEMENT AND CONTROLS

- Developed Loss Mitigation capability, including proactive modification campaigns for at risk borrowers and aggressive efforts to achieve recidivism rates far superior to industry benchmarks
- Comprehensive upgrade to Default Management, developing strategies to improve customer contact rates and implementing the Call Model to improve promise and payment rates

REDEFINED AS A SERVICING ORGANIZATION

- Our primary focus is the mitigation of delinquency and liquidation of the portfolio via efforts around improving cash collection efforts in a responsible and ethical manner
- Integrating functions across the business to maintain scale, consistency, and expertise through consolidation where feasible while ensuring flexibility to adapt to future demands
- Continued focus on Responsible & Ethical collections practices, driving enhancements in call quality

Servicing Overview

- **HSBC Consumer & Mortgage Lending (CML) Servicing is one of the largest servicers of sub-prime mortgages in the US**
  - 4,100+ employees (1)
  - 12 global servicing locations in the U.S. and India (1)
  - ~$61 billion real estate portfolio and ~620 thousand accounts (1)
  - Portfolio primarily held on own balance sheet (portfolio servicer)

- **Strategic and operational focus on optimizing loan performance while maximizing the value of customer relationships**
  - Effectively leverage organization capacity and flexibility while maximizing the consistency of service
  - Reduce portfolio risks with deep customer insight and sound and flexible default management tools and techniques

- **Results-oriented servicing operation focused on key drivers for business performance**
  - Robust analytics and active campaign management deliver positive front-end collections results
  - Significant scale and history in back-end practices effectively manages default experience

- **CML Servicing continues to rely on its deep operational experience while embarking on new strategies to drive improved performance and transparent results**
  - The management team exemplifies strong industry experience, company tenure and professional accomplishment
  - The organization is designed to promote best practice sharing throughout servicing while instilling strong governance and oversight with external partners

(1) At December 31, 2009

CML Servicing Priorities

Focus On Our Customer

- Continue to offer Best-in-Class home preservation tools
- Identify customers needs early by developing our culture around the Call Model
- Win the battle on the front end through effective contact strategies
- Improve our processes from the customer’s perspective
- Deliver call quality enhancements

Manage Credit

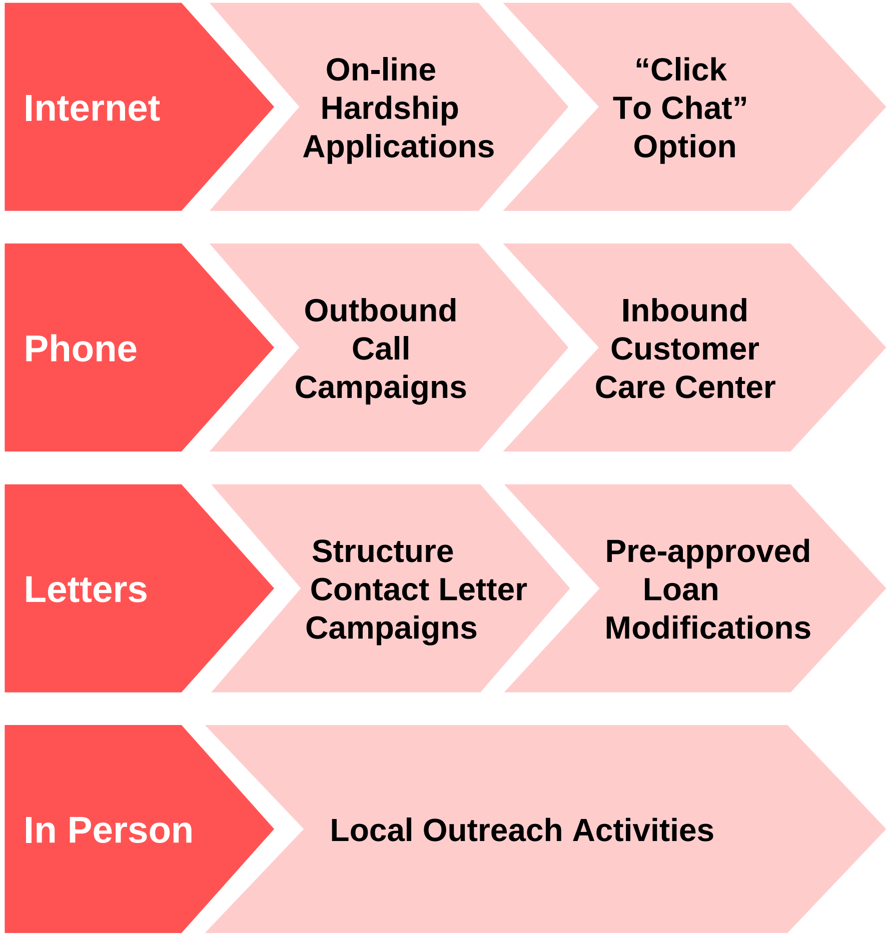
- Expand focus on delinquency prevention, proactively targeting at risk customers early
- Improve cash flows through expanding Modifications, Deed in Lieu, and Short Sale programs
- Develop loss mitigation tools to optimize the NPV based on each individual customer’s situation
- Align programs across business units to ensure consistent application of treatment options

Mitigate Costs

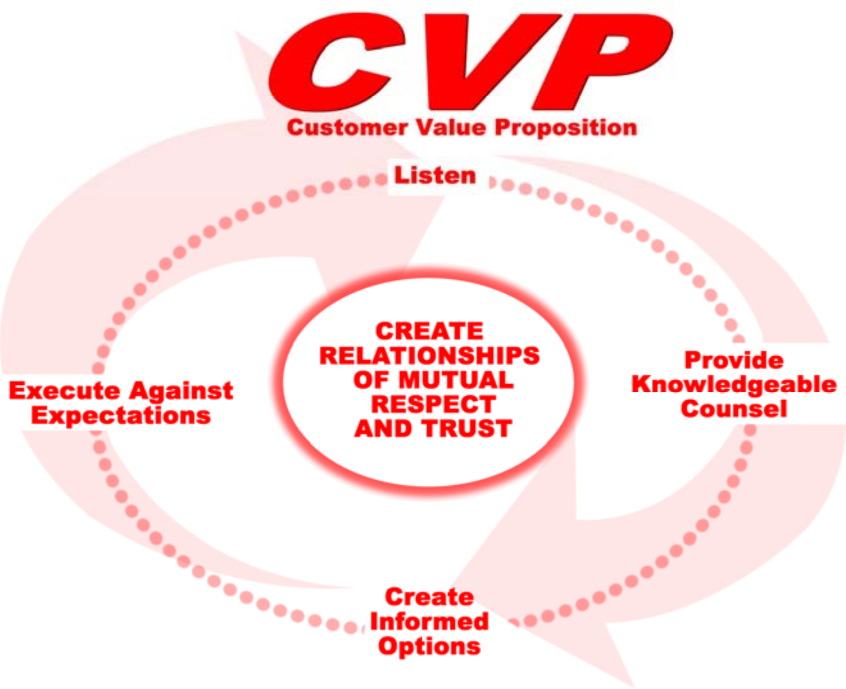
- Further pursue integration efforts for critical default and servicing functions
- Develop and leverage ‘Centers of Excellence’ to build scale, consistency, and expertise
- Expand leverage of the Global Servicing Centers where applicable

Our Approach to Our Customers

In this environment, we are leveraging all touch points: Collections, Customer Care and our Local Outreach to understand our customers' situations and needs.



Internet	On-line Hardship Applications	"Click To Chat" Option
Phone	Outbound Call Campaigns	Inbound Customer Care Center
Letters	Structure Contact Letter Campaigns	Pre-approved Loan Modifications
In Person	Local Outreach Activities	



CVP
Customer Value Proposition
Listen
Provide Knowledgeable Counsel
Create Informed Options
Execute Against Expectations
CREATE RELATIONSHIPS OF MUTUAL RESPECT AND TRUST

Default Overview

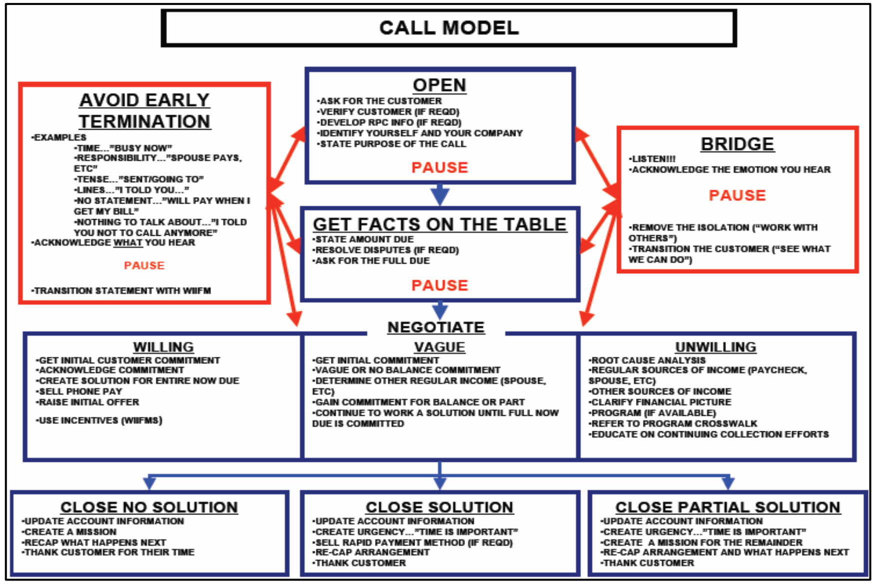
1. **Early quality two way communications**
   - Employ a strategy to contact high risk borrowers early in the process through advanced scoring, segmentation and dialer – calling could start as early as one day delinquent
   - Maintain a high volume outbound calling campaign environment, driven by segmentation strategies to maximize contact rates on all levels of delinquency

2. **Fast and meaningful resolution of current situation**
   - Focus contacts on assessing the borrower situation and determining the appropriate solution (cure, payment plan, or loan modification)
   - Offer solutions that are tailored to each customer situation - including pay schedules, automatic debit, restructures, counseling discussions, and leading up to a complete review for a hardship program - - with a focus on speed and customer responsiveness
   - Establish a culture of effective and ethical collections practices

3. **Culture of foreclosure avoidance**
   - Deploy loss mitigation treatments to keep customers in their homes and reestablish regular payments to bring accounts into good standing
   - Proactively target highest risk customers for loss mitigation treatments before delinquency occurs
   - Leverage referral processes to more advanced loss mitigation treatments as needed (Short Sale / Deed in Lieu)

Quality 2-way Communication to Assess Customer’s Needs

- Establishing quality 2-way communication is critical to assessing customers’ needs and identifying solutions to resolve delinquency
- The CBS Call Model has been implemented across all CML Servicing centers, driving behaviors to Open Strong, Avoid Early Termination, Bridge, Get the Facts on the Table, Negotiate, and Close
- Supports responsible and ethical collections practices, while also increasing the effectiveness of each customer contact
- The model has become ingrained in the culture of the servicing team, and is being established as the global standard for HSBC Servicing
- Managers follow a rigorous training program that drives performance improvement, linking skill development directly to fundamentals of the call model
- Controls have been established to ensure strict adherence to the call model



CALL MODEL

AVOID EARLY TERMINATION
- EXAMPLES
  - TIME…"BUSY NOW"
  - RESPONSIBILITY…"SPOUSE PAYS, ETC"
  - TENSE…"SENT/GOING TO"
  - LINES…"I TOLD YOU…"
  - NO STATEMENT…"WILL PAY WHEN I GET MY BILL"
  - NOTHING TO TALK ABOUT…"I TOLD YOU NOT TO CALL ANYMORE"
- ACKNOWLEDGE WHAT YOU HEAR

PAUSE

- TRANSITION STATEMENT WITH WIIFM

OPEN
- ASK FOR THE CUSTOMER
- VERIFY CUSTOMER (IF REQD)
- DEVELOP RPC INFO (IF REQD)
- IDENTIFY YOURSELF AND YOUR COMPANY
- STATE PURPOSE OF THE CALL

PAUSE

BRIDGE
- LISTEN!!!
- ACKNOWLEDGE THE EMOTION YOU HEAR

PAUSE

- REMOVE THE ISOLATION (“WORK WITH OTHERS”)
- TRANSITION THE CUSTOMER (“SEE WHAT WE CAN DO”)

GET FACTS ON THE TABLE
- STATE AMOUNT DUE
- RESOLVE DISPUTES (IF REQD)
- ASK FOR THE FULL DUE

PAUSE

NEGOTIATE

WILLING
- GET INITIAL CUSTOMER COMMITMENT
- ACKNOWLEDGE COMMITMENT
- CREATE SOLUTION FOR ENTIRE NOW DUE
- SELL PHONE PAY
- RAISE INITIAL OFFER
- USE INCENTIVES (WIIFMS)

VAGUE
- GET INITIAL COMMITMENT
- VAGUE OR NO BALANCE COMMITMENT
- DETERMINE OTHER REGULAR INCOME (SPOUSE, ETC)
- GAIN COMMITMENT FOR BALANCE OR PART
- CONTINUE TO WORK A SOLUTION UNTIL FULL NOW DUE IS COMMITTED

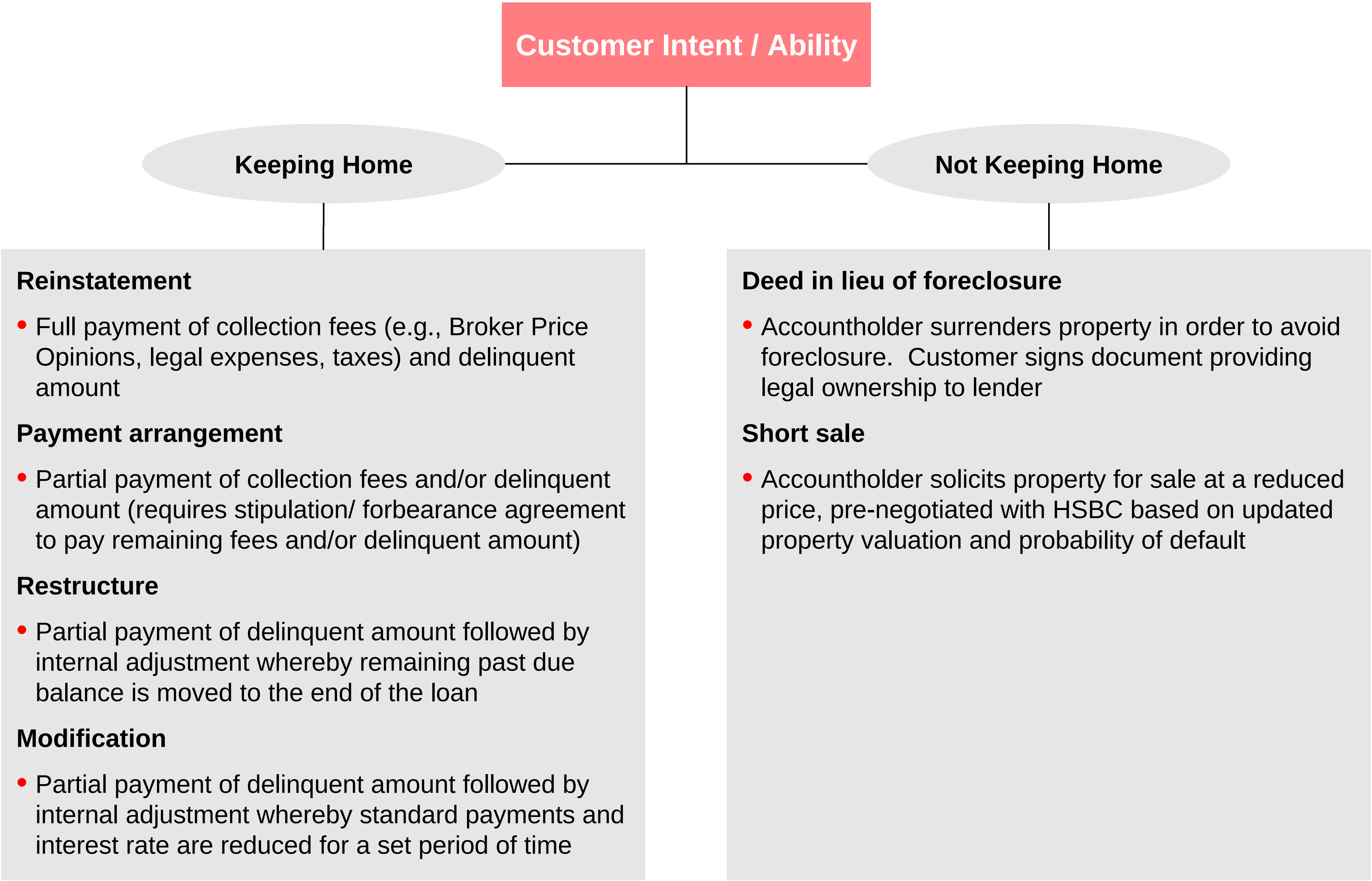
UNWILLING
- ROOT CAUSE ANALYSIS
- REGULAR SOURCES OF INCOME (PAYCHECK, SPOUSE, ETC)
- OTHER SOURCES OF INCOME
- CLARIFY FINANCIAL PICTURE
- PROGRAM (IF AVAILABLE)
- REFER TO PROGRAM CROSSWALK
- EDUCATE ON CONTINUING COLLECTION EFFORTS

CLOSE NO SOLUTION
- UPDATE ACCOUNT INFORMATION
- CREATE A MISSION
- RECAP WHAT HAPPENS NEXT
- THANK CUSTOMER FOR THEIR TIME

CLOSE SOLUTION
- UPDATE ACCOUNT INFORMATION
- CREATE URGENCY…"TIME IS IMPORTANT"
- SELL RAPID PAYMENT METHOD (IF REQD)
- RE-CAP ARRANGEMENT
- THANK CUSTOMER

CLOSE PARTIAL SOLUTION
- UPDATE ACCOUNT INFORMATION
- CREATE URGENCY…"TIME IS IMPORTANT"
- CREATE A MISSION FOR THE REMAINDER
- RE-CAP ARRANGEMENT AND WHAT HAPPENS NEXT
- THANK CUSTOMER

Loss Mitigation – Primary Tools to Resolve Secured Delinquency



Customer Intent / Ability

Keeping Home

Not Keeping Home

Reinstatement

- Full payment of collection fees (e.g., Broker Price Opinions, legal expenses, taxes) and delinquent amount

Payment arrangement

- Partial payment of collection fees and/or delinquent amount (requires stipulation/ forbearance agreement to pay remaining fees and/or delinquent amount)

Restructure

- Partial payment of delinquent amount followed by internal adjustment whereby remaining past due balance is moved to the end of the loan

Modification

- Partial payment of delinquent amount followed by internal adjustment whereby standard payments and interest rate are reduced for a set period of time

Deed in lieu of foreclosure

- Accountholder surrenders property in order to avoid foreclosure. Customer signs document providing legal ownership to lender

Short sale

- Accountholder solicits property for sale at a reduced price, pre-negotiated with HSBC based on updated property valuation and probability of default

CML is an Industry Leader in Homeownership Preservation

Culturally, homeownership preservation has been embedded in our operating philosophy for years

- Owned (as opposed to serviced) portfolio
- Mature Foreclosure Avoidance program in place since 2003
- Focus on borrower affordability, leveraging disposable income is a key driver
- Time tested data driven analytics, solidifying relationship between payment relief and modification performance
- Modification philosophy focused on bridging temporary cash flow impairments rather than a one size fits all panacea

In 2008, we completed more than 95,000 loan modifications totaling approximately $14B

- In 2008 we increased use of our foreclosure avoidance/account modification programs to qualify more customers with longer term assistance due to the weak housing market and U.S. economy, for payment relief modifications (generally either two or five years) with potentially lower interest rates
- This increase in assistance includes our streamlined pre-approved fixed rate modification program launched in Q1 2008
- Relief in the form of modifications and/or reages has increased steadily over the last year
- Performance is closely monitored

During 2009, we completed more than 104,000 loan modifications totaling approximately $15B

Portfolio Snapshots	12/31/06	12/31/07	12/31/08	12/31/09
Total Real Estate Modifications and/or Reages	$10B	$17B	$26B	$30B
% of Real Estate Portfolio with modification and/or reages	11%	20%	36%	51%

Note: Data from 2008 10-K and 2009 10-K, US GAAP legal entity basis

As of December 31, 2009, approximately 62 percent of all loans modified and/or re-aged since January 2007 are less than 60 days delinquent or have paid in full

- Some level of recidivism on such loans is to be expected
- Our recidivism rates compare favorably to market experience in general
- Recidivism considered in establishing credit loss reserve levels
- Modification when used appropriately maximizes cash flow and results in a positive NPV benefit

Loan Modification Programs

FAP
Foreclosure Avoidance Program

- Decisions to modify are dependant on each customer’s individual situation
- Solves for customer affordability based on disposable income
- Temporary relief, but can become permanent with continued validation of situation along with consistent payments
- Customers do not have to be delinquent to participate in the program
- Customers can initiate request by completing our online application
- Requires documentation from customers
- Rate and payments can be adjusted

COMET
Expanded Modification Program

- Decisions to modify are based on risk segmentation and housing projections (proactive & reactive)
- Evaluates NPV of multiple scenarios of payment relief and duration to offer a solution that maximizes benefit for borrower as well as HSBC
- Proactive modifications may occur in advance of contact with customer
- Loan are typically delinquent
- No/light documentation required
- Rates and payments can be adjusted

Change in Write-Off Policy

In December 2009, the business made a significant change to our write-off policy, accelerating write-off to 180 DOD, which previously occurred at 240+ DOD

Financial Impact

- In December 2009, the CML business incurred a one time write-off of $2.4 bln on the real estate portfolio, primarily in the form of partial write-offs on accounts >180 DOD. This did not result in a significant financial impact as the increase in write-offs was largely offset by a release in credit loss reserves

Rationale for Change

- Moving to a 180 day write-off practice resulted in the CML business moving very close towards the bank industry standard which typically charges off at 180 DOD
- The rationale to delay charge off has diminished due to changes to the external market, including delays in our ability to foreclose on properties, and changes to our business model that have reduced refinance opportunities

Operational Impact

- The change in policy has required us to modify our write-off processes, including some manual workflows until an automated solution is rolled out in Q2 2010
- The change does not impact the efforts of our secured default team, who will continue to pursue BAU collections

Going Forward

Going forward we will continue to focus on our strategic initiatives

Home Preservation

- Continuing to offer Best-in-Class home preservation tools, enhancing our programs to maximize the economic benefit for HSBC and our customers, aligning processes across business units to obtain benefits of scale and efficiency

Improving Cash Flows

- Where appropriate, focusing on shifting volume from foreclosures to short sale and deed-in-lieu (DIL), taking advantage of lower loss severities, and exploring opportunities for loan sales as the economic environment improves and asset prices strengthen

Driving Efficiency

- Refine and enhance our customer contact strategies, leveraging all touch points with the customer to launch collections discussions regarding delinquent debt, with the goal of increasing cash collected per FTE and reducing customer handoffs

Reducing Costs / Integration

- Continue to focus on integration across the business to maintain scale, consistency, and expertise through consolidation where feasible while ensuring flexibility to adapt to future demands

Business overview: Card and Retail Services and HSBC Group Cards

Brian Hughes
Executive Vice President
HSBC Finance Corporation

HSBC
The world's local bank

Card & Retail Services

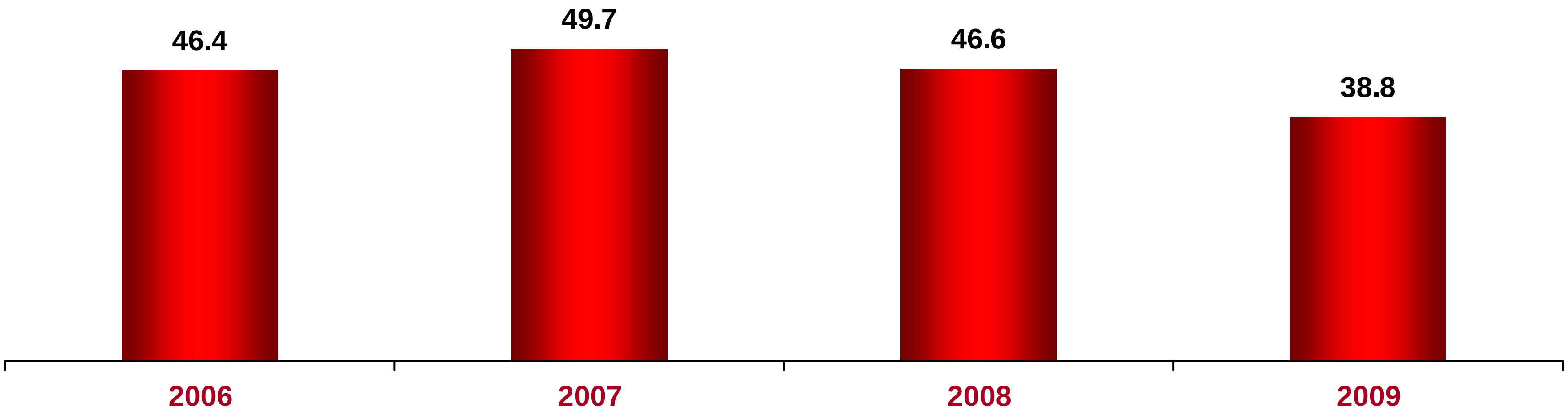
Credit Card overview

- Sixth-largest US MasterCard/Visa issuer
- $23.2 billion in managed receivables, 16 million active accounts

Retail Services overview

- Third-largest private label issuer
- $15.6 billion in managed receivables, 14 million active accounts
- More than 30 active merchant relationships

Card & Retail Services Receivables ($ billions)



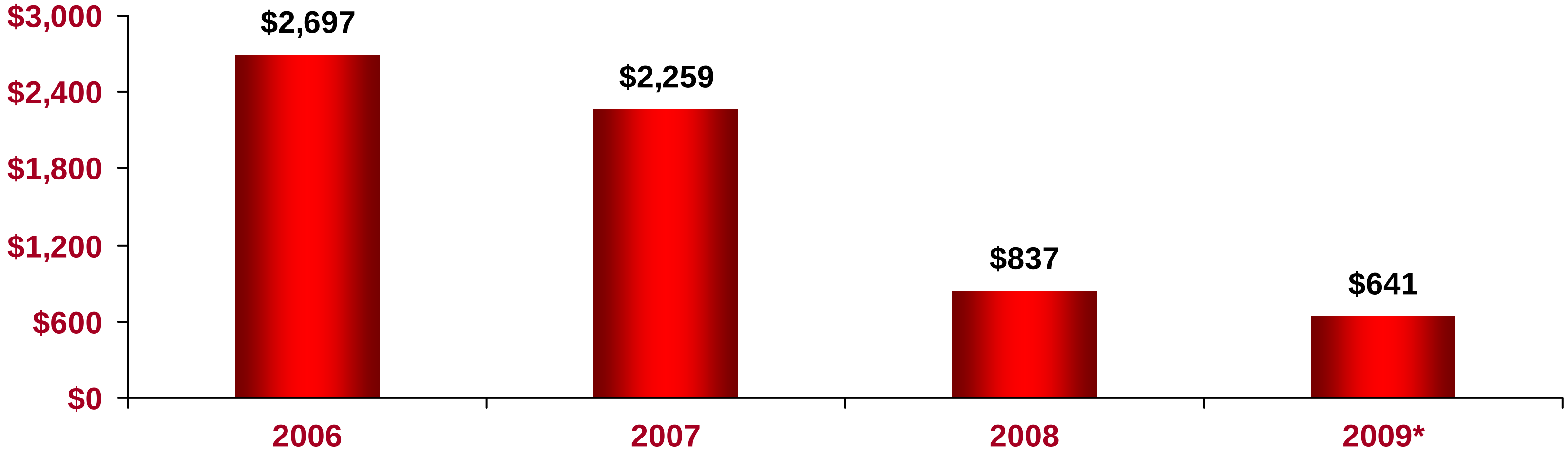
Note: Card and Retail Services represents a business segment of HSBC Finance Corporation

Returns impacted by economic environment and lower receivables

2009:

- Net interest margin has expanded
- Lower fees from reduced receivables and shift in customer behavior
- Lower marketing and continued efficient, low-cost operations
- Loan impairment charges have continued to be high reflecting weak economic conditions

Pretax Profit (millions)

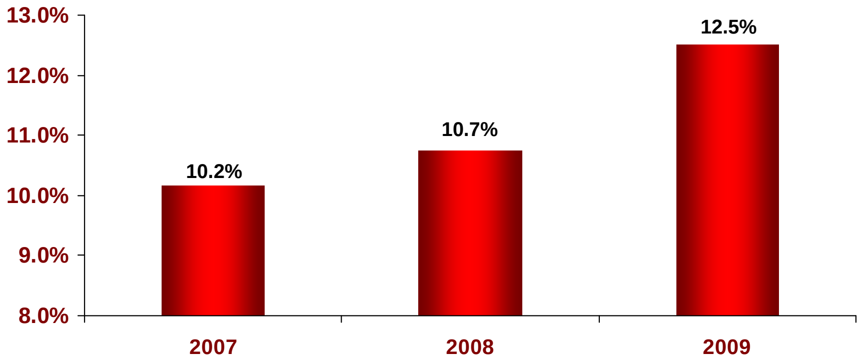


After-tax - ROA	3.96%	3.09%	1.15%	.96%

* Excludes Goodwill write-off of $530M.

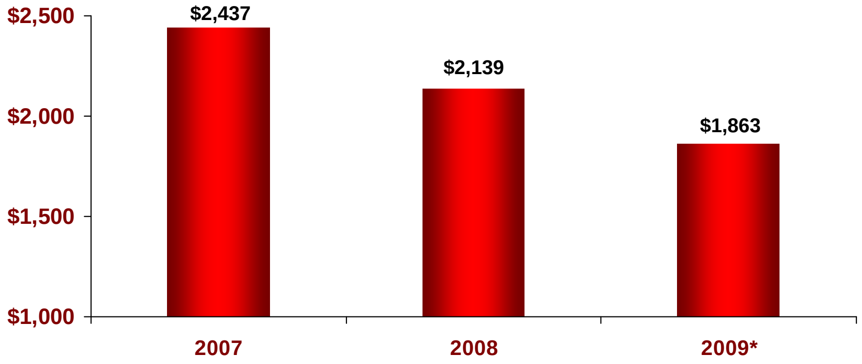
Strong net interest margin and lower operating expenses have partially mitigated high loan impairment charges

Net Interest Margin



- NIM expansion due to the following:
  - Lower funding rates and account floor benefits
  - Merchant/Partner contract renegotiations
  - Termination of underperforming merchants
  - Lower promotional balances

Total Operating Expenses



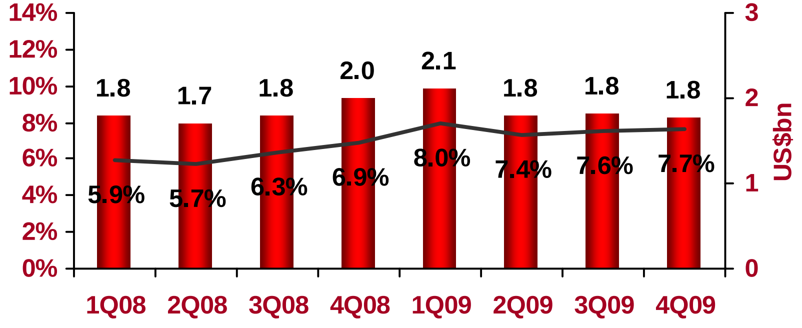
- Operating expenses are lower primarily due to marketing & expense reduction initiatives
- Efficiency ratio was 25% for 2009

* 2009 Operating Expenses exclude Goodwill write-off of $530M

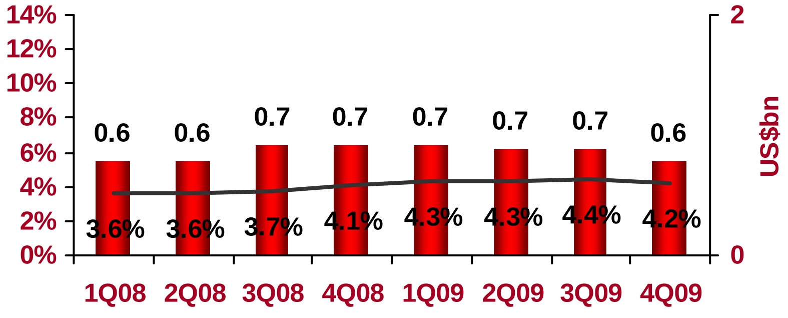
Delinquencies and charge-offs have stabilized but are still at elevated levels

2+ Delinquencies

Credit Card



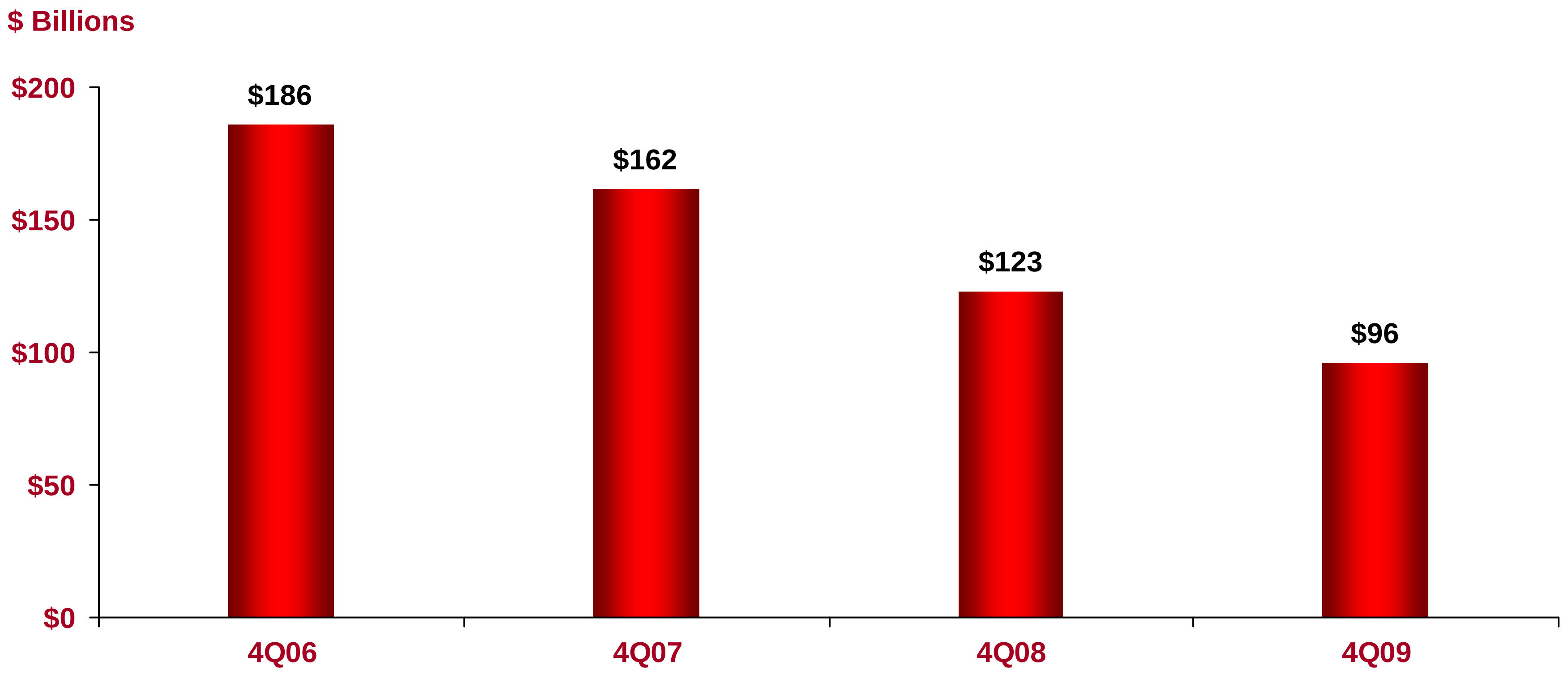
Private Label



- States which have experienced significant home depreciation have begun to see stabilization from previous acceleration in delinquencies.
- Our exposure in states experiencing significant home depreciation is not over-weighted
- Relative home price stability and lower levels of job losses in the economy have contributed to the stabilization in delinquencies.
- Continued focused collections efforts
- Relationship between delinquencies and unemployment has shifted

Open lines of credit have been reduced substantially

- Reduction has occurred as a result of decreasing credit lines, tightening of credit line increase criteria, tightening of authorizations, closing inactive accounts, lower balance transfer activity



Note: Data from HSBC Finance Corporation 2009, 2008 and 2007 Form 10-K

Broad Range of Loss Mitigation Actions Taken – Originations

- Prescreen, approval & credit Line parameters tightened across all programs through 3Q 2009
- Most merchant programs experienced several rounds of credit tightening to improve returns
- Continuously updated view of economic stress due to unemployment & home price depreciation incorporated into loss forecast, underwriting and pricing
- Significant increase in approved FICO scores due to a reduction in mail volumes as well as credit tightening in underwriting

Broad Range of Loss Mitigation Actions Taken – Account Management

- CLI’s (credit line increases) and balance transfers have each been reduced by approximately 90% vs. peak volumes in 2006/07
- Cash advance credit limits reduced
- Over limit authorization volumes down by over 75% due to incorporation of stricter authorization pad parameters
- Significant expansion of CLD (credit line decrease) programs across all portfolios
  - Majority of 6+ month inactive accounts either closed or line reduced to nominal amount
  - Sizable increase of CLD to high risk active accounts incorporating credit bureau attributes, mortgage attributes and ARM data
  - Using customer centric multiple account information to close high risk active accounts
- Initiatives related to improving economic outlook are being implemented

Regulatory changes are impacting the business and the competitive environment

- The Credit CARD Act passed May 22, 2009 with effective dates from August 2009 through August 2010 (most elements effective February 2010)
- The Credit CARD Act imposes new requirements and limits on:
  - Repricing strategies
  - Payment allocation
  - Time to pay
  - Fees for payments
  - Double-cycle billing
  - Upfront or 1st year fees
  - Acquisition piece disclosures
  - Statements
- Potential additional legislative actions are on the horizon
- Business is prepared for these changes
- Operational requirements for implementation are on track
- Business remains viable after these impacts

As the outlook improves, we will evaluate growth opportunities

Marketing

- Increasing marketing spend to grow new account bookings where expected to exceed profitability hurdles in 2010
- Incorporated impact of CARD Act – conducting extensive testing of new price points and product constructs. Initiating new product development
- Considering new partnerships

Underwriting

- Economic stress continues to be applied to investment decision models
- Tightened underwriting policy from recent years remain
- State and mortgage attributes used in selection
- Tightened initial credit line assignment criteria
- Underwriting may selectively be relaxed where historic data supports profitable outlook

Portfolio Actions

- Expect to strategically increase credit line, cash advance, balance transfer activities and spend programs in 2010 selectively where expected profitability exceeds hurdles
- Ongoing efforts to improve customer satisfaction in service operations

Group Cards Presence

- HSBC issues credit cards in over 50 countries and territories across five continents, making it one of the few truly global players in the industry
- Over 100 million credit cards in force
- 15 markets have over 500k credit cards

Global Cards Strategy

- Support for the PFS participation strategy
  - Focus on deepening relationships with core PFS segments, e.g. Premier
  - Targeting the upwardly mobile in emerging markets
- Improve card capabilities by knowledge transfer and establishment of regional centers of excellence
- Develop and deploy the Global cards business operating model
  - Gain global scale benefits by leveraging common technology, product functionality, process and infrastructure
  - Lower operating cost per active account
  - Enhanced and consistent customer experience

Examples of the contribution Card & Retail Services has made to the Group

- Contributed to the development of a globally common system infrastructure that incorporates the feature functionality of the US business that can be used in other geographies
  - Approximately 75% of Global Cards are on a US designed Cards platform
- A lead role in the continued development of the card element of the global HSBC Premier proposition
- Global cost management project. Enabling Global business to benefit from US understanding of card cost dynamics
- Business process management - Group wide best practice process of verification and telephone self service has been established
- Global Analytics-Project to standardize and organize customer, risk and collection analytics on a regional basis under a common infrastructure
- Cross sell task force to maximize the cross-sell of insurance products throughout different regions leveraging US expertise in sales effectiveness and product optimization

Retail Credit Risk

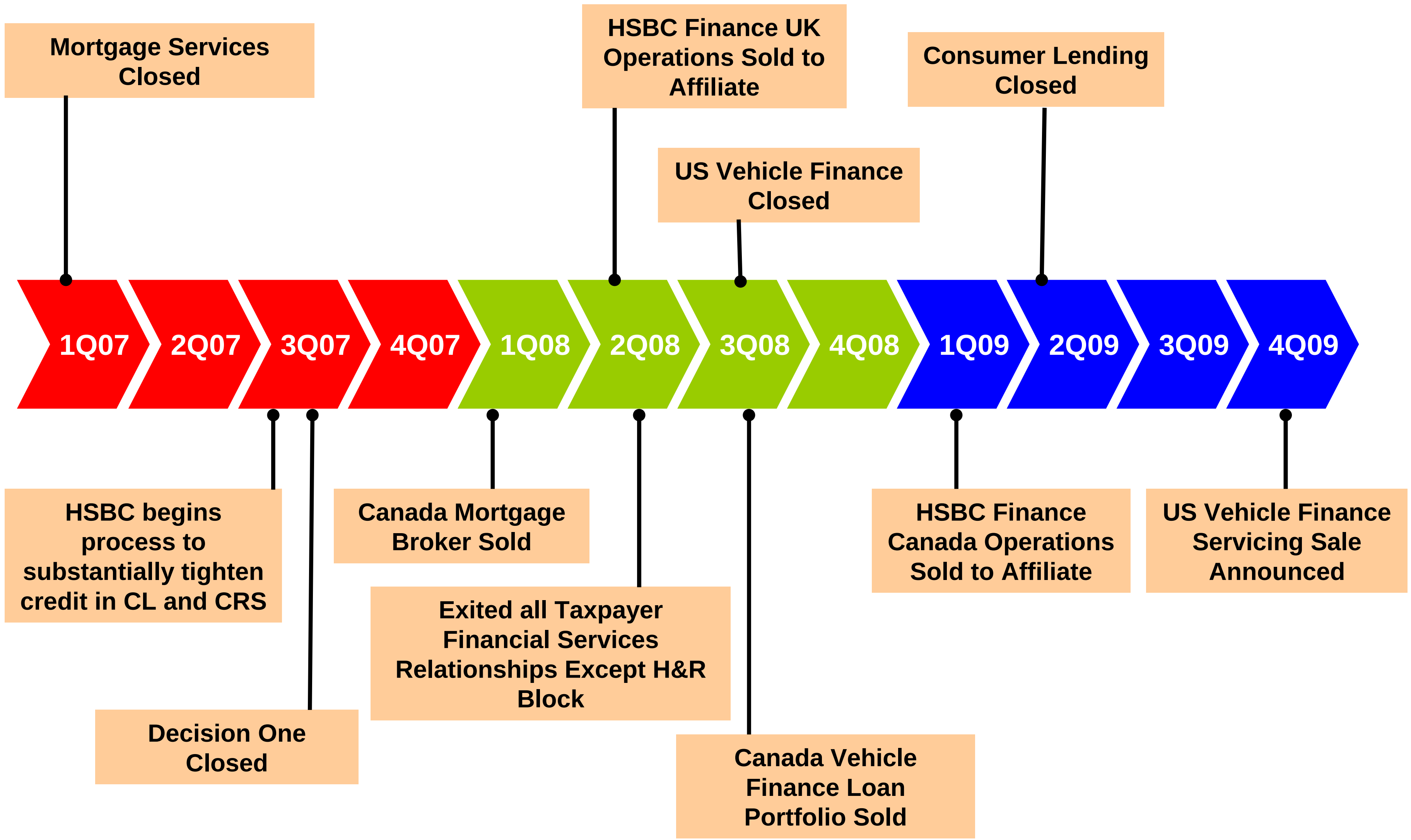
Mark Gunton

SEVP – Chief Risk Officer

HSBC

The world's local bank

Disposals and Business Realignment 2007-2009



1Q07 2Q07 3Q07 4Q07 1Q08 2Q08 3Q08 4Q08 1Q09 2Q09 3Q09 4Q09

Mortgage Services Closed

HSBC Finance UK Operations Sold to Affiliate

Consumer Lending Closed

US Vehicle Finance Closed

HSBC begins process to substantially tighten credit in CL and CRS

Canada Mortgage Broker Sold

HSBC Finance Canada Operations Sold to Affiliate

US Vehicle Finance Servicing Sale Announced

Exited all Taxpayer Financial Services Relationships Except H&R Block

Decision One Closed

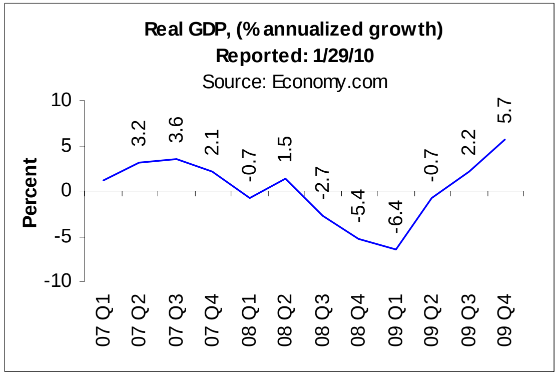
Canada Vehicle Finance Loan Portfolio Sold

Credit Update - Economic Trends

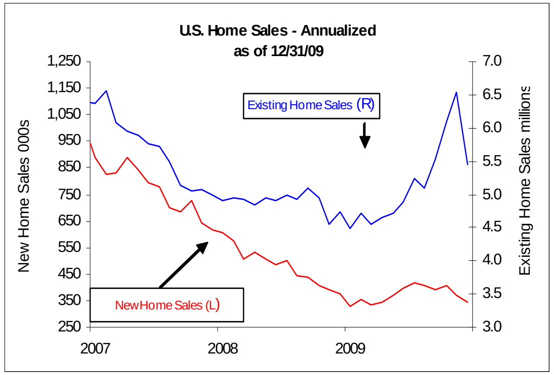
- Real GDP grew 5.7% at an annualized pace in the fourth quarter of 2009, the strongest quarter in more than six years. For all of 2009, real GDP fell 2.4%, the largest one-year contraction in the economy since 1938. With much of the 4Q09 growth coming from restocking of inventories, it is unlikely the economy can maintain strong growth in the quarters ahead since other sources of growth remain weak. Compared to 4Q09, Moody's Economy.com expects growth in the first half of 2010 to weaken, with full year 2010 growth expected to be 2.7%.

- Labor market challenges are still substantial, although the unemployment rate declined to 9.7% in January. The median duration of unemployment declined to 19.9 weeks, from 20.5 weeks, but the average duration increased to 30.2 from 29.1. This means that fewer people are entering the pool of unemployment, but few long-term unemployed are leaving it. While new claims for unemployment have been on a downward trend in 2009, there is little evidence of a significant increase in hiring. Moody's Economy.com expects weak economic growth in 1H2010 to push the unemployment rate to a peak of 10.6% .

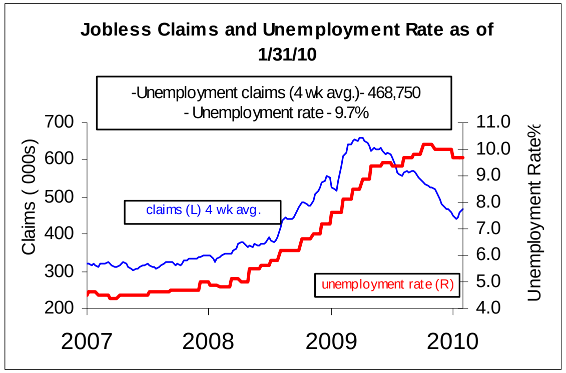
- As a result of the end of the first-time homebuyer tax credit, home sales dropped significantly in December (the tax credit has since been extended to April 2010). Looking ahead to 2010, foremost among the demand-side positives is affordability. The National Association of Realtors' affordability index remains near a record high due to the sharp decline in house prices and very low mortgage interest rates. However, the risks to the housing market remain weighted to the downside. The potential for even more foreclosures than expected is the main threat that would prolong and deepen the housing correction.



Real GDP, (% annualized growth)
Reported: 1/29/10
Source: Economy.com



U.S. Home Sales - Annualized
as of 12/31/09



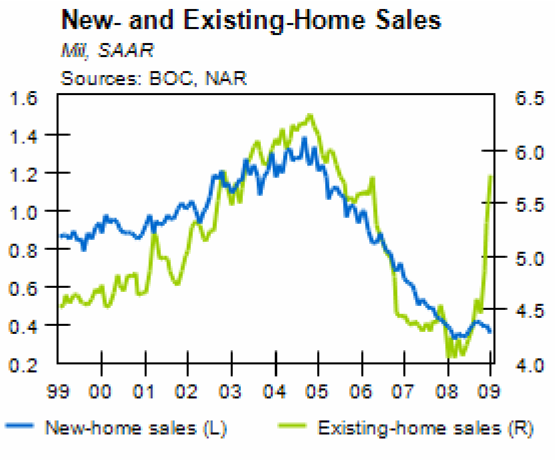
Jobless Claims and Unemployment Rate as of 1/31/10

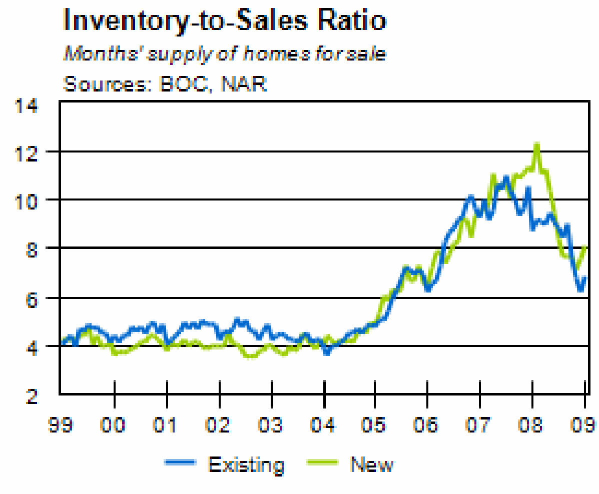
-Unemployment claims (4 wk avg.)- 468,750
- Unemployment rate - 9.7%

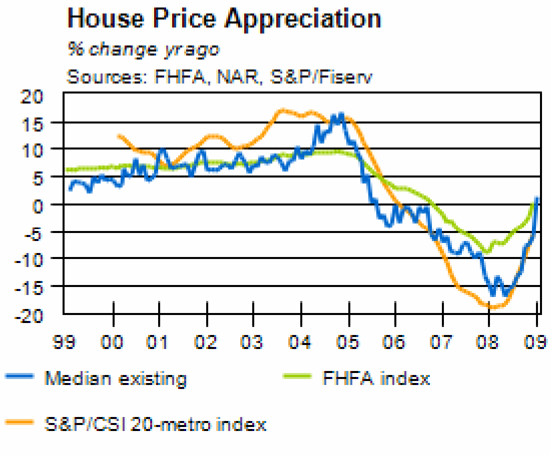
Source: Moody's Economy.com.

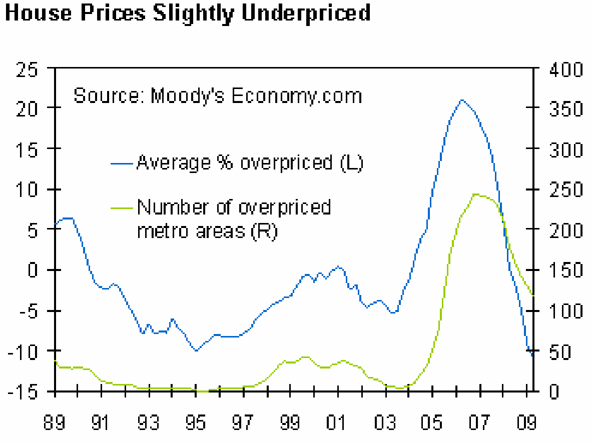
Credit Update – Economic Trends

The worst housing correction since the Great Depression has not yet concluded. Home sales, residential construction, house prices and foreclosures had all improved or stabilized at the end of 2009, but rising foreclosures are expected to pressure house prices in 2010.





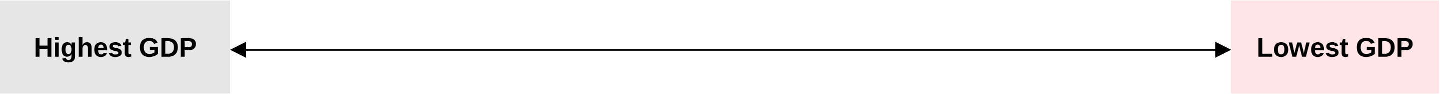




Based on Moody's Economy.com – Latest Single-Family Housing Market Monitor as of December 2009.

Credit Update – US Economic Outlook

- We leverage Moody's Economy.com's (MEDC) economic forecasts for planning purposes. We also look at the alternative forecasts from other institutions to have more informed opinion about the key macro variables.
- We observe that MEDC's outlook to the recovery is more gradual than consensus, i.e. as compared to consensus MEDC expects a lower GDP growth in 2010 but a higher degree of growth in 2011.



Highest GDP

Lowest GDP

2010 Full Year Forecast	RBS	Barclays Capital	Bank of America - Merrill Lynch	Consensus	Moody's Economy.com	Standard and Poors Corp.	Naroff Economic Advisors
Real GDP Growth	3.9	3.6	3.2	3.0	2.7	2.4	2.1
CPI (Inflation)	2.8	2.1	2.5	2.2	2.0	2.2	2.5
Industrial Production	4.5	6.2	5.2	4.5	3.0	3.2	2.8
Personal Income	2.4	3.2	2.3	2.1	0.9	1.4	2.7
Personal Consumption	2.5	2.3	1.7	2.0	1.3	1.7	1.9
Corporate Profits	15.0	17.6	na	14.5	8.9	15.6	7.2
Unemployment Rate	9.7	9.5	9.7	10.0	10.3	10.3	10.2

2011 Full Year Forecast	RBS	Moody's Economy.com	General Motors Corporation	Consensus	Morgan Stanley	Goldman Sachs & Co.	Economist Intelligence Unit
Real GDP Growth	4.5	3.8	3.5	3.1	2.8	2.4	1.4
CPI (Inflation)	3.2	1.7	1.3	2.0	2.5	0.4	1.3
Industrial Production	4.6	3.8	5.1	4.3	5.9	4.4	1.3
Personal Income	4.0	3.5	4.1	2.6	0.6	2.2	1.0
Personal Consumption	3.3	2.8	3.1	2.6	1.7	1.4	1.4
Corporate Profits	12.5	7.0	4.1	8.8	8.8	8.6	na
Unemployment Rate	8.3	9.4	9.6	9.2	9.5	10.7	9.2

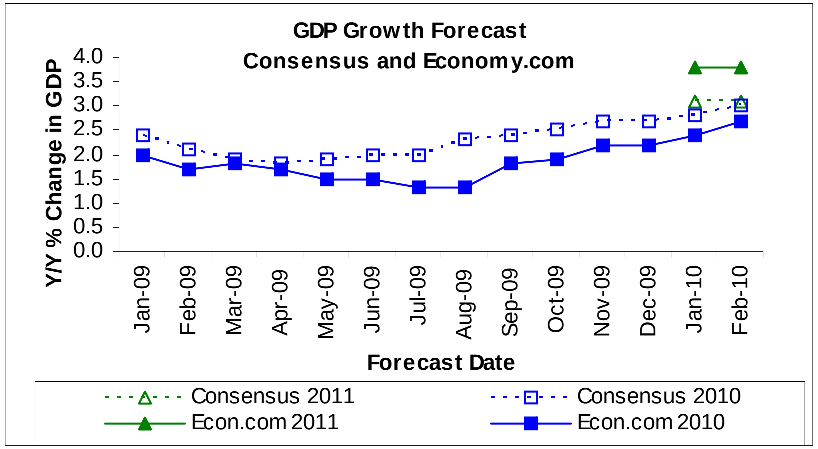
Blue Chip Consensus Forecast is an average of 52 economic forecasting groups as of February 10, 2010.

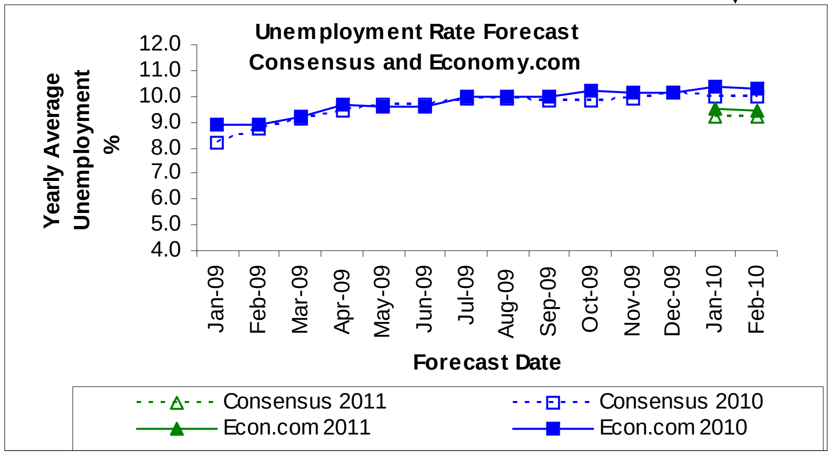
Credit Update – US Economic Outlook

- Both consensus and MEDC suggest improved GDP growth and lower unemployment for 2011.
- While MEDC is more optimistic than ‘Consensus’ about 2011 GDP, their unemployment forecasts are fairly aligned.

MEDC GDP forecast for 2010 has been more pessimistic than the consensus, while 2011 forecast shows relative optimism. For the two-year period, MEDC is slightly more optimistic than the consensus.

The Feb-10 forecast for avg. unemployment rate in 2010 and 2011 is in line with the consensus (~10.0% in 2010 and ~9.2% in 2011).





Blue Chip Consensus Forecast is an average of 52 economic forecasting groups as of February 10, 2010.