

# HSBC Finance Corporation

IFRS Management Basis

27 February 2012

# Disclosure Statement

This presentation, including the accompanying slides and subsequent discussion, may contain certain forward-looking information with respect to the financial condition, results of operations and business of HSBC Finance Corporation. Any 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 Finance Corporation Annual Report on Form 10-K for the period ended 31 December 2011. Please be further advised that Regulation FD prohibits HSBC representatives from answering specific questions.

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 31 December 2011, there were no unendorsed standards affecting this document and there was no difference between IFRSs endorsed by the EU and IFRSs as 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.

This presentation contains certain information regarding HSBC Finance Corporation, including Card and Retail Services, a wholly owned, indirect subsidiary of HSBC Holdings plc, and is presented on an IFRS Management Basis, which assumes that the mortgages, credit card loans, private label customer loans, and through August 2010, motor vehicle finance loans transferred to HSBC Bank USA, National Association ('HSBC Bank USA'), have not been sold and remain on HSBC Finance Corporation's balance sheet. 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. Trends are monitored 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 amounts are in US\$ unless otherwise stated.

# HSBC Finance Corporation

## 2011 Financial Results <sup>(1)</sup>

US\$m	2H 2010			1H 2011			2H 2011		
	Card and Retail Svcs <sup>(2)</sup>	Consumer and Other <sup>(3)(4)</sup>	Total	Card and Retail Svcs <sup>(2)</sup>	Consumer and Other <sup>(3)(4)</sup>	Total	Card and Retail Svcs <sup>(2)</sup>	Consumer and Other <sup>(3)(4)</sup>	Total
Net operating income before loan impairment charges excluding changes in Fair Value of Own Debt due to credit spreads (FVOD)	2,923	1,632	4,555	2,714	1,459	4,173	2,748	290	3,038
Loan impairment charges and other credit risk provisions	857	2,644	3,501	703	2,167	2,870	898	2,784	3,682
Total operating expenses	997	616	1,613	1,030	652	1,682	771	588	1,359
<b>Profit/(Loss) before tax excluding FVOD<sup>(5)</sup></b>	<b>1,069</b>	<b>(1,628)</b>	<b>(559)</b>	<b>981</b>	<b>(1,360)</b>	<b>(379)</b>	<b>1,079</b>	<b>(3,082)</b>	<b>(2,003)</b>

Net operating income before loan impairment charges for Consumer and Other above includes the effect of non-qualifying hedges ("NQHs") of \$195m gain in 2H 2010, (\$124m) loss in 1H 2011, and (\$1,057m) loss in 2H 2011.

### Notes:

- (1) In August 2011, we agreed to sell our Credit Card and Retail Services operations to Capital One Financial Group. The sale is currently expected to occur in the first half of 2012. In August 2010, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc. In December 2010, we decided to exit the Taxpayer Financial Services (TFS) business and we did not offer any tax refund anticipation loans or related products for the 2011 tax season. As a result of these decisions, our Credit Card and Retail Services operations, Vehicle Finance business, and our TFS business are reported as discontinued operations within our U.S. SEC filings.
- (2) Business results are being shown based on the planned sale to Capital One.
- (3) Consumer represents the run-off businesses of Consumer Lending, Mortgage Services, and our Vehicle Finance business as well as our Insurance, Commercial, Corporate and Treasury activities.
- (4) Included in Consumer and Other is PBT loss of (\$1,653m) in 2H 2010, (\$1,365m) in 1H 2011, and (\$3,107m) in 2H 2011 related to the RBWM run-off portfolio.
- (5) Profit/(loss) before tax excluding FVOD can be reconciled to reported IFRS segment results as follows:

	2H 2010		1H 2011		2H 2011	
	Card and Retail Svcs	Consumer and Other	Card and Retail Svcs	Consumer and Other	Card and Retail Svcs	Consumer and Other
Profit/(Loss) before tax excluding FVOD as reported above	1,069	(1,628)	981	(1,360)	1,079	(3,082)
Adjustments:						
Changes in FVOD	–	(270)	–	(66)	–	649
Discontinued operations	(1,069)	202	(981)	7	(1,079)	(1)
Management basis adjustments	–	(11)	–	14	–	2
<b>Profit/(Loss) from continuing operations before tax as reported</b>	<b>–</b>	<b>(1,707)</b>	<b>–</b>	<b>(1,405)</b>	<b>–</b>	<b>(2,432)</b>

See Note 20 'Business Segments' of the HSBC Finance Corporation U.S. SEC filings on Form 10-K for the period ended 31 December 2011 for further information related to business segment results.

# HSBC Finance Corporation

## 2011 Financial Results <sup>(1)</sup>

US\$m	2010 YTD			2011 YTD		
	Card and Retail Svcs <sup>(2)</sup>	Consumer and Other <sup>(3)(4)</sup>	Total	Card and Retail Svcs <sup>(2)</sup>	Consumer and Other <sup>(3)(4)</sup>	Total
Net operating income before loan impairment charges excluding changes in Fair Value of Own Debt due to credit spreads (FVOD)	6,115	2,805	8,920	5,462	1,749	7,211
Loan impairment charges and other credit risk provisions	2,174	5,841	8,015	1,600	4,952	6,552
Total operating expenses	1,962	1,192	3,154	1,801	1,240	3,041
<b>Profit/(Loss) before tax excluding FVOD<sup>(5)</sup></b>	<b>1,979</b>	<b>(4,228)</b>	<b>(2,249)</b>	<b>2,061</b>	<b>(4,443)</b>	<b>(2,382)</b>

Net operating income before loan impairment charges for Consumer and Other above includes the effect of non-qualifying hedges ("NQHS") of (\$394m) loss in 2010 and (\$1,181m) loss in 2011.

### Notes:

- (1) In August 2011, we agreed to sell our Credit Card and Retail Services operations to Capital One Financial Group. The sale is currently expected to occur in the first half of 2012. In August 2010, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc. In December 2010, we decided to exit the Taxpayer Financial Services (TFS) business and we did not offer any tax refund anticipation loans or related products for the 2011 tax season. As a result of these decisions, our Credit Card and Retail Services operations, Vehicle Finance business, and our TFS business are reported as discontinued operations within our U.S. SEC filings.
- (2) Business results are being shown based on the planned sale to Capital One.
- (3) Consumer and Other represents the run-off businesses of Consumer Lending, Mortgage Services, and our Vehicle Finance business as well as our Insurance, Commercial, Corporate and Treasury activities.
- (4) Included in Consumer and Other is PBT loss of (\$4,076m) in 2010 and (\$4,472m) in 2011 related to the RBWM run-off portfolio.
- (5) Profit/(loss) before tax excluding FVOD can be reconciled to reported IFRS segment results as follows:

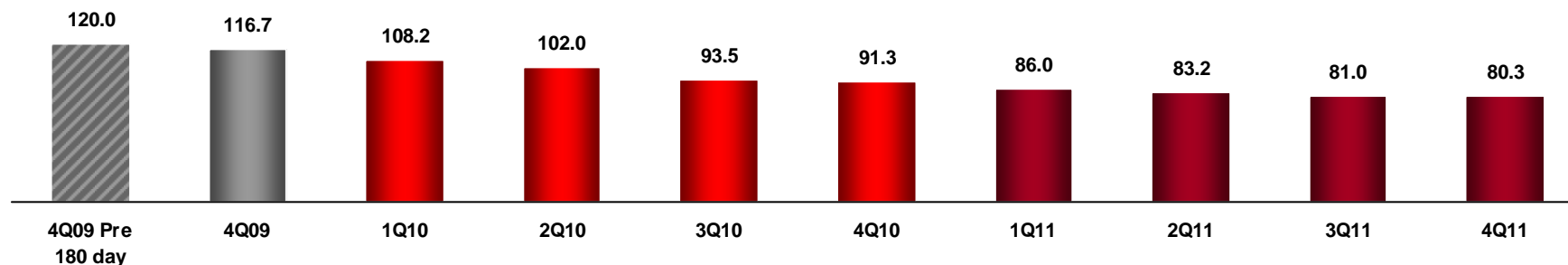
	2010 YTD		2011 YTD	
	Card and Retail Svcs	Consumer and Other	Card and Retail Svcs	Consumer and Other
Profit/(Loss) before tax excluding FVOD as reported above	1,979	(4,228)	2,061	(4,443)
Adjustments:				
Changes in FVOD	–	120	–	583
Discontinued operations	(1,979)	176	(2,061)	7
Management basis adjustments	–	14	–	16
<b>Profit/(Loss) from continuing operations before tax as reported</b>	<b>–</b>	<b>(3,918)</b>	<b>–</b>	<b>(3,837)</b>

See Note 20 'Business Segments' of the HSBC Finance Corporation U.S. SEC filings on Form 10-K for the period ended 31 December 2011 for further information related to business segment results.

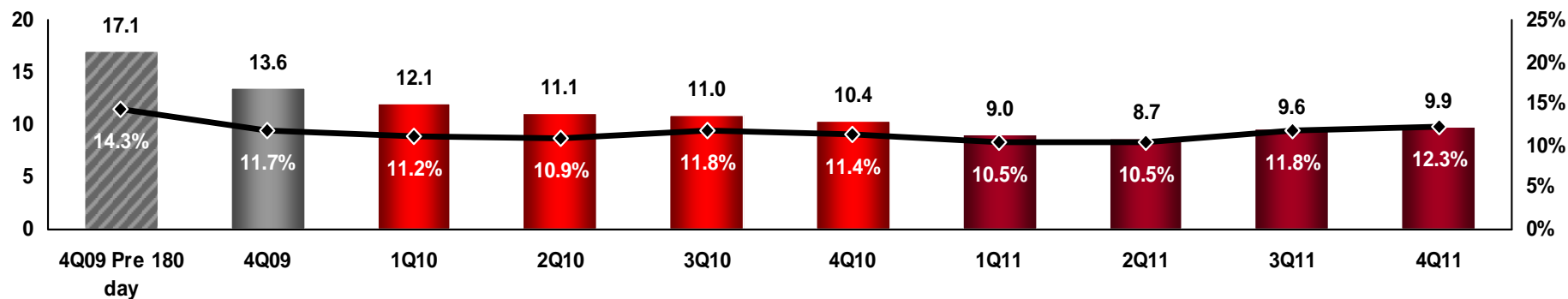
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## Continued reduction of balance sheet in the US

### Customer loans<sup>(1), (3), (4)</sup>, US\$bn



### 2+ Delinquency<sup>(1), (2), (3), (4)</sup>, US\$bn



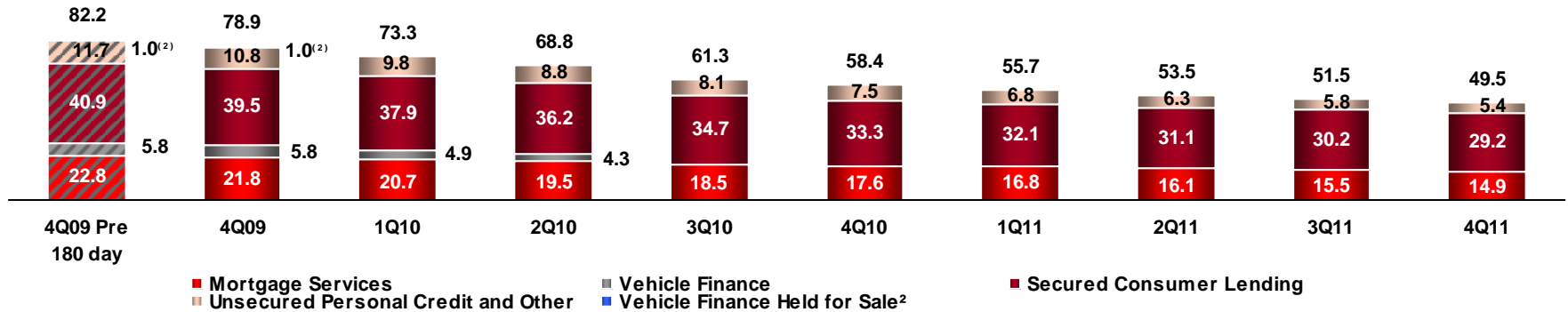
Notes:

- (1) Excludes reverse repo balances for all periods presented and vehicle finance loans held for sale.
- (2) 2+ Delinquency ratio as a percentage of end-of-period customer loans.
- (3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.
- (4) During 3Q11, the credit card and private label portfolios, included above, were moved to other assets pending the sale to Capital One Financial Group.

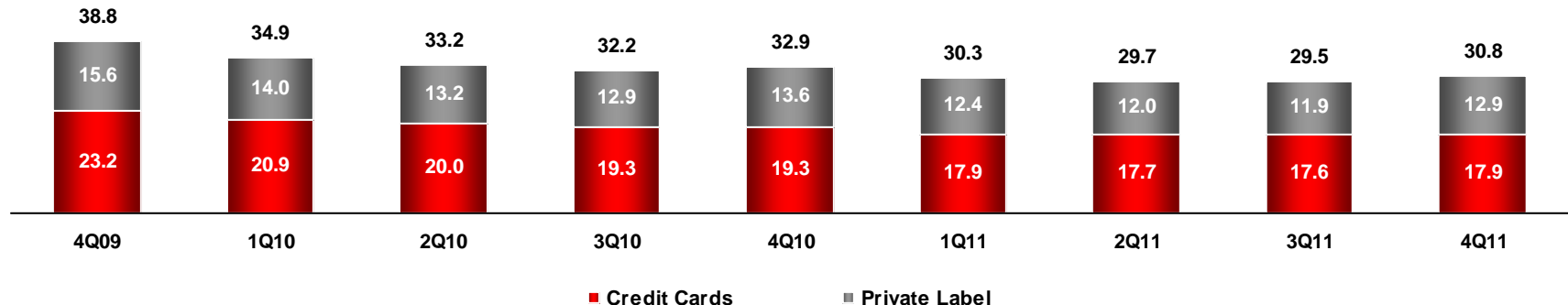
# HSBC Finance Corporation

## US customer loans – Run-off portfolio and Credit Card and Private Label

### Customer loans<sup>(1), (3)</sup> Run-off portfolio, US\$bn



### Customer loans<sup>(1), (4)</sup> Credit Card and Private Label, US\$bn



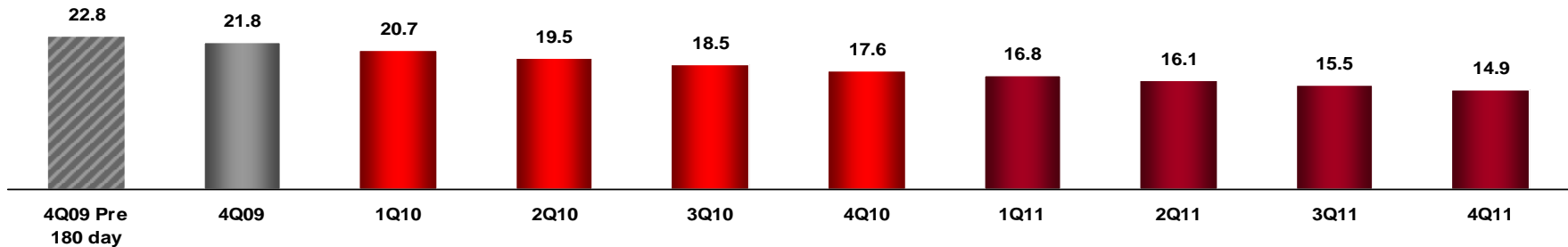
Notes:

- (1) Excludes reverse repo balances.
- (2) Vehicle finance loans held for sale.
- (3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.
- (4) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.

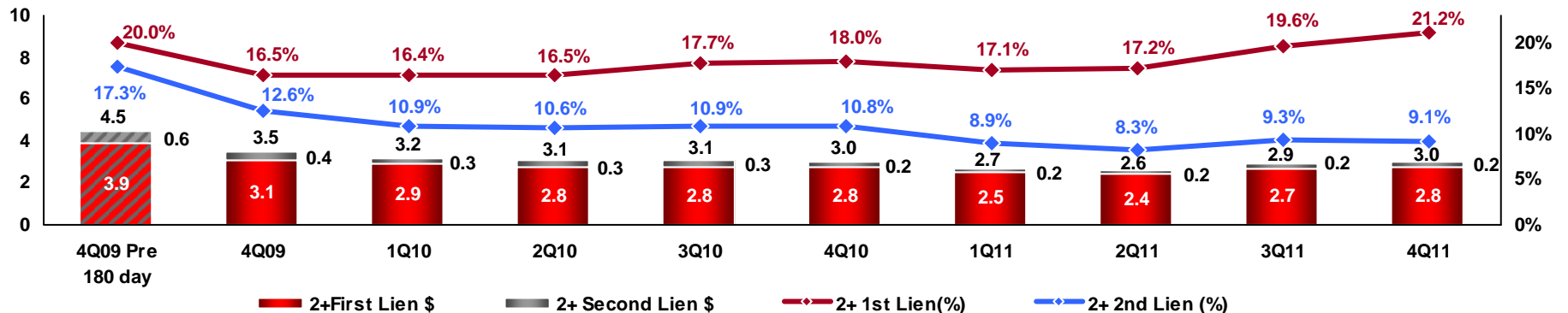
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## US Mortgages: Continuing to shrink the Mortgage Services portfolio

**Mortgage Services**  
Customer loans, US\$bn



**Mortgage Services**  
2+ Delinquency<sup>(1)</sup>, US\$bn



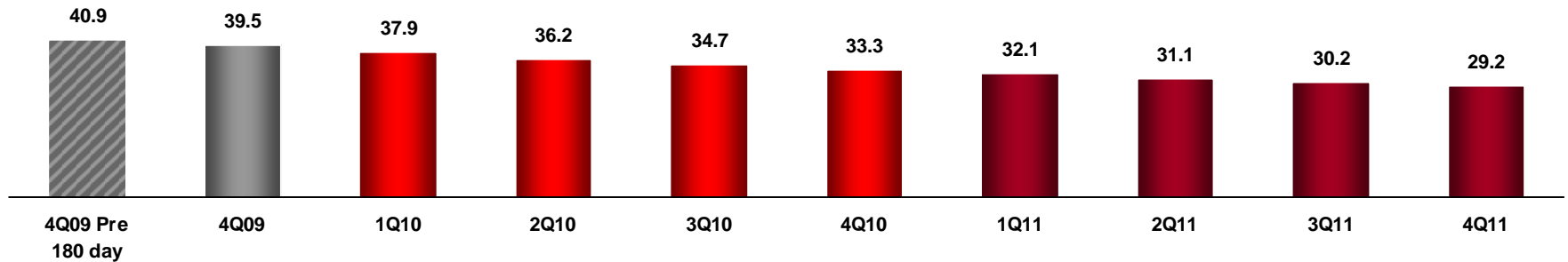
Notes:

(1) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

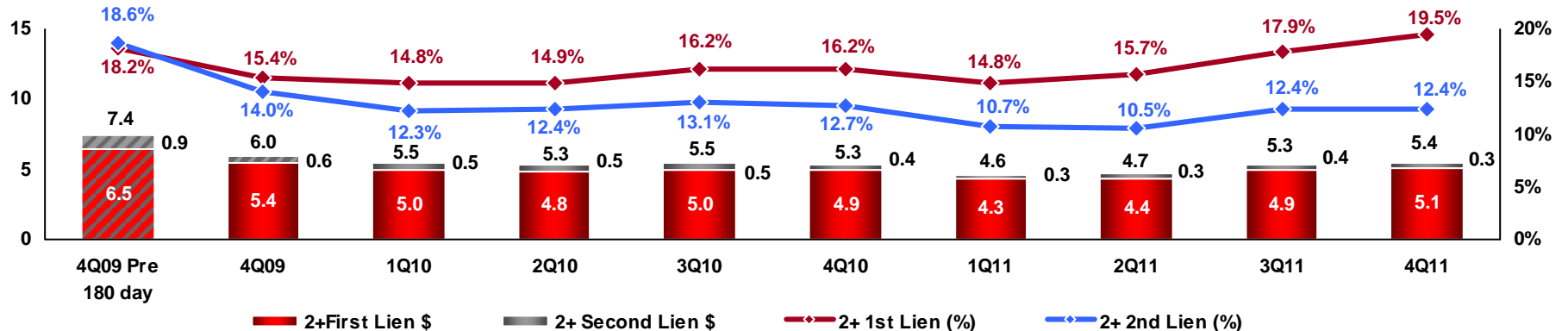
# HSBC Finance Corporation

## US Mortgages: Continuing to shrink the Secured Consumer Lending mortgage portfolio

**Secured Consumer Lending**  
Customer loans, US\$bn



**Secured Consumer Lending**  
2+ Delinquency<sup>(1)</sup>, US\$bn



Notes:

(1) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

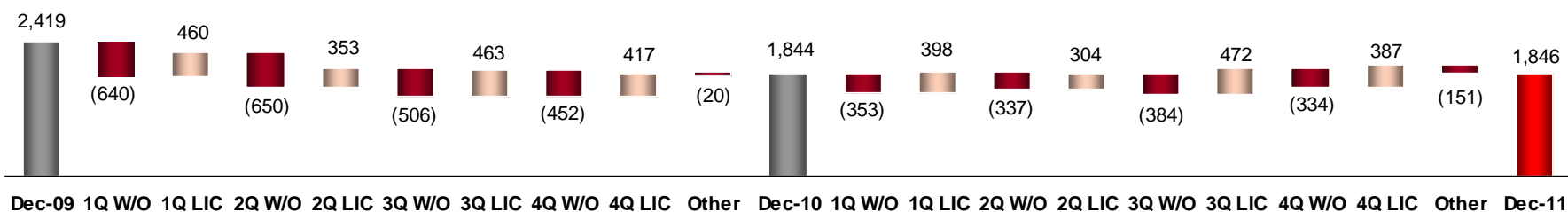


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## Impairment allowance

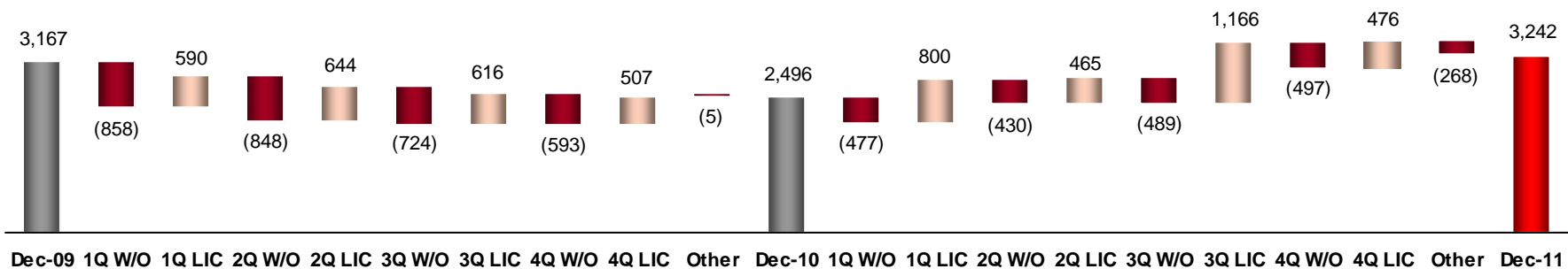
### Mortgage Services

Real Estate Secured, US\$m



### Secured Consumer Lending

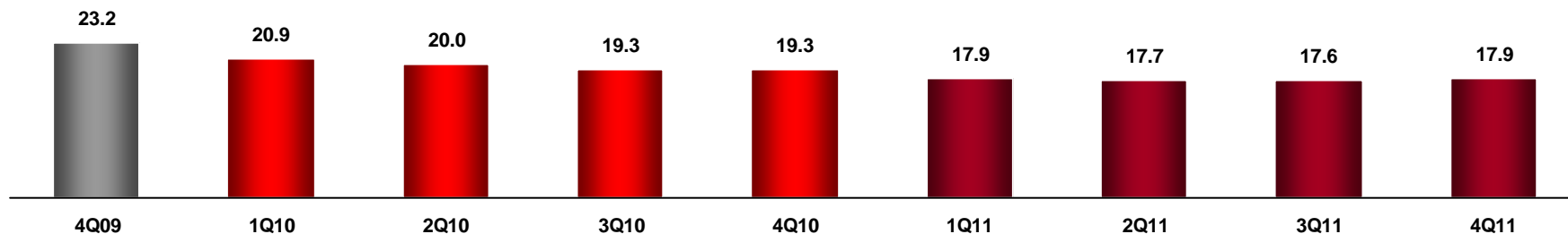
Real Estate Secured, US\$m



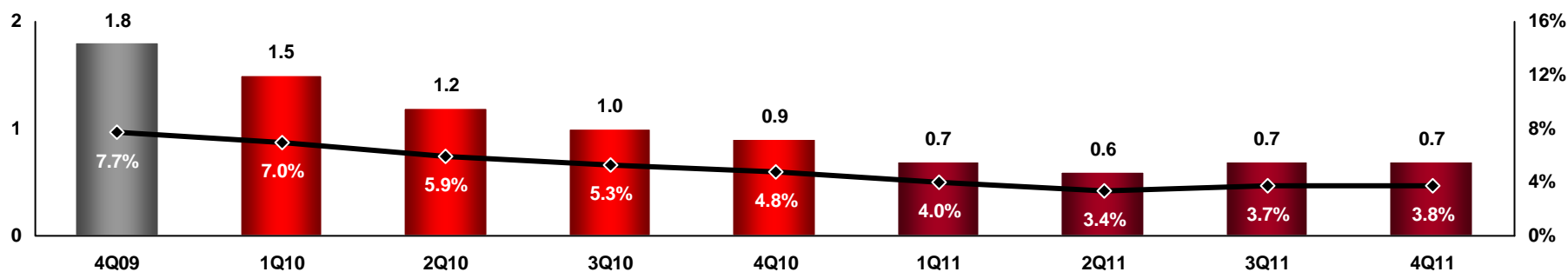
# HSBC Finance Corporation

## Managing risk: Credit Card<sup>(1)</sup>

**Credit Card**  
Customer Loans, US\$bn



**Credit Card**  
2+ Delinquencies<sup>(2)</sup>, US\$bn



Notes:

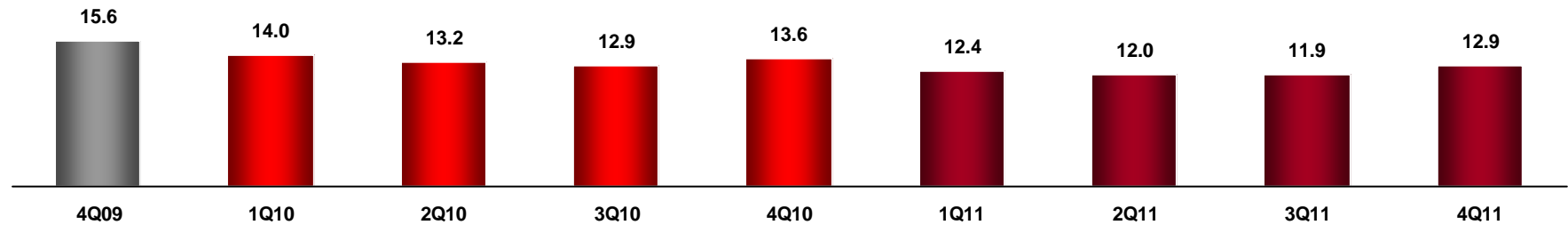
(1) During 3Q11, the credit card portfolio was moved to other assets pending the sale to Capital One Financial Group.

(2) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

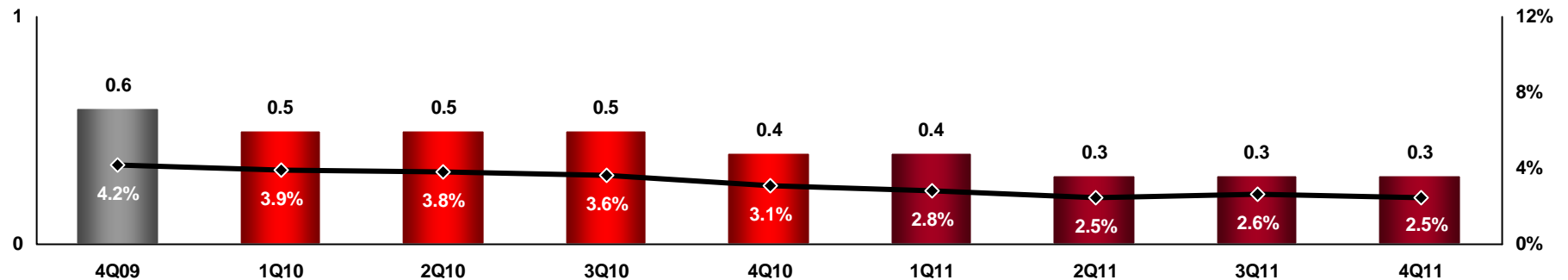
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## Managing risk: Private Label<sup>(1)</sup>

**Private Label**  
Customer Loans, US\$bn



**Private Label**  
2+ Delinquencies<sup>(2)</sup>, US\$bn



Notes:

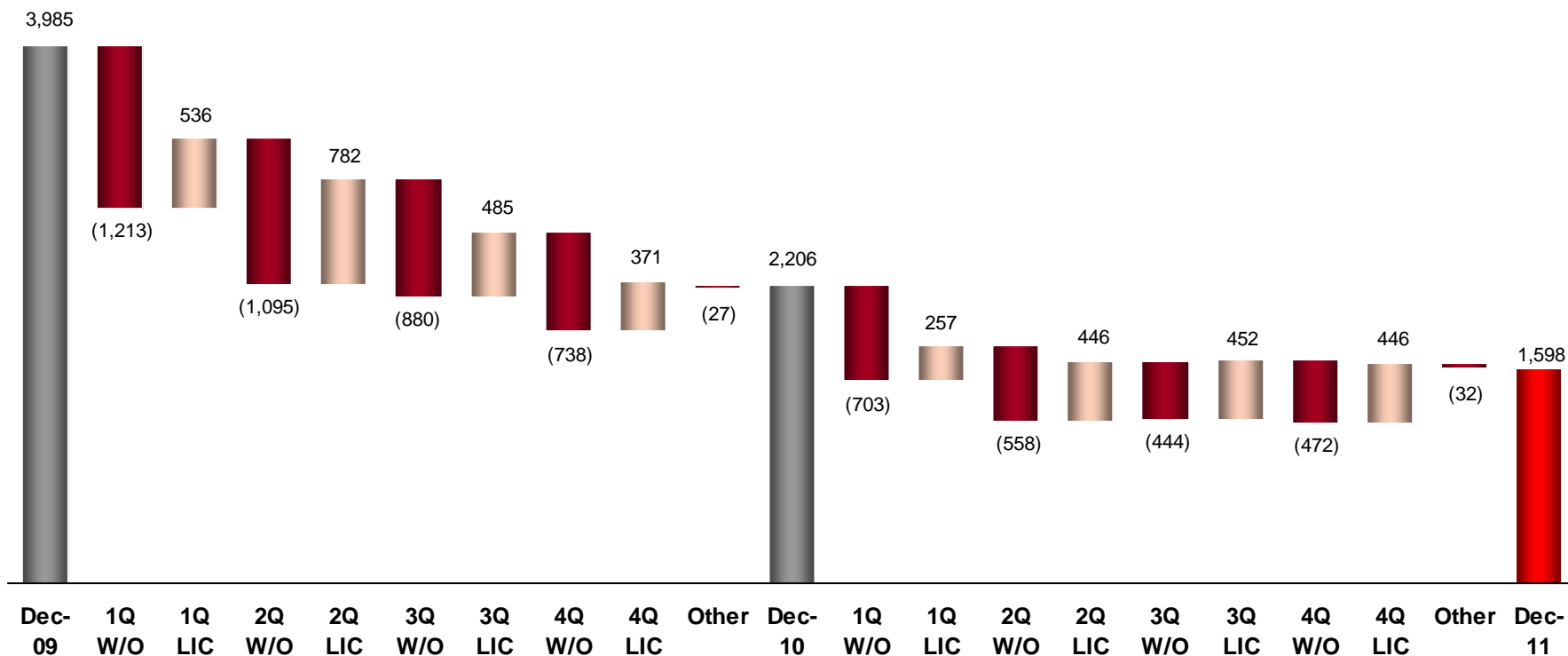
(1) During 3Q11, the private label portfolio was moved to other assets pending the sale to Capital One Financial Group.

(2) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

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## Impairment allowance

### Credit Card and Private Label<sup>(1)</sup>, US\$m



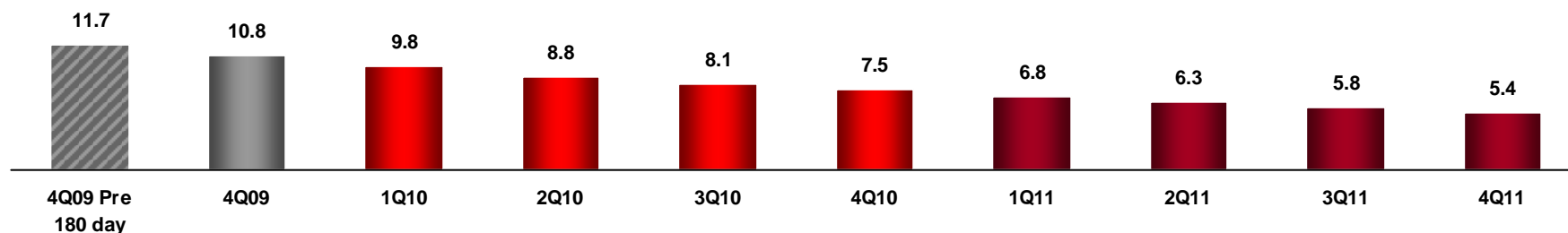
Notes:

(1) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.

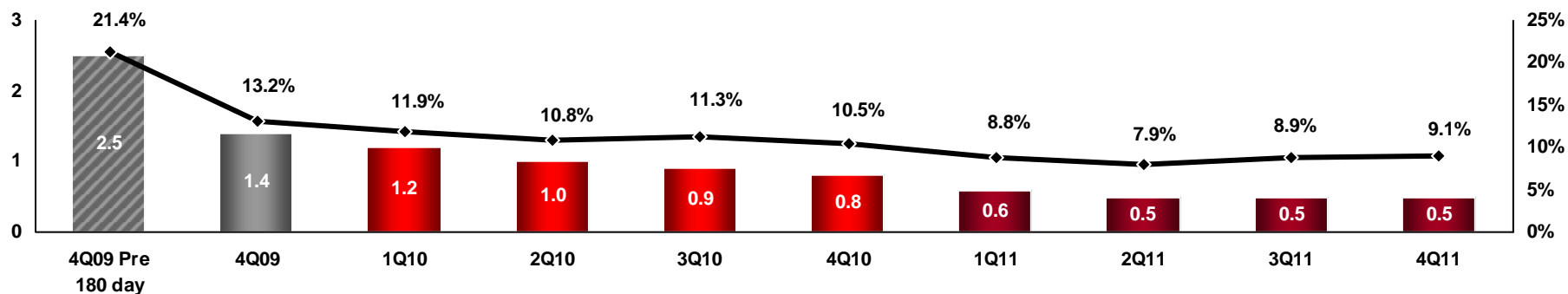
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## Managing personal non-credit card run-off

**Personal Non-Credit Card and Other Unsecured Customer Loans, US\$bn**



**Personal Non-Credit Card and Other Unsecured 2+ Delinquencies<sup>(1)</sup>, US\$bn**



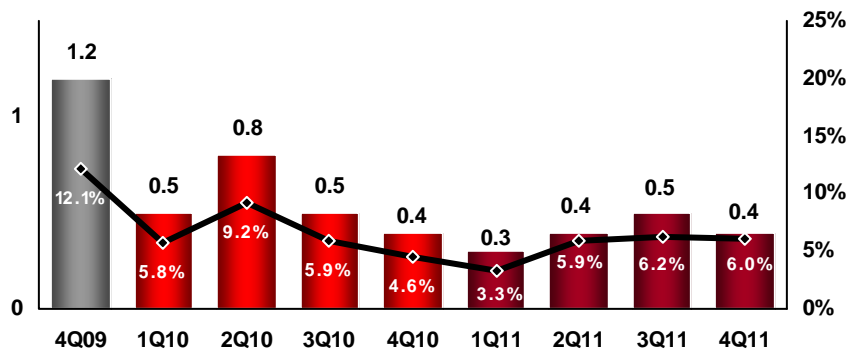
Notes:

(1) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

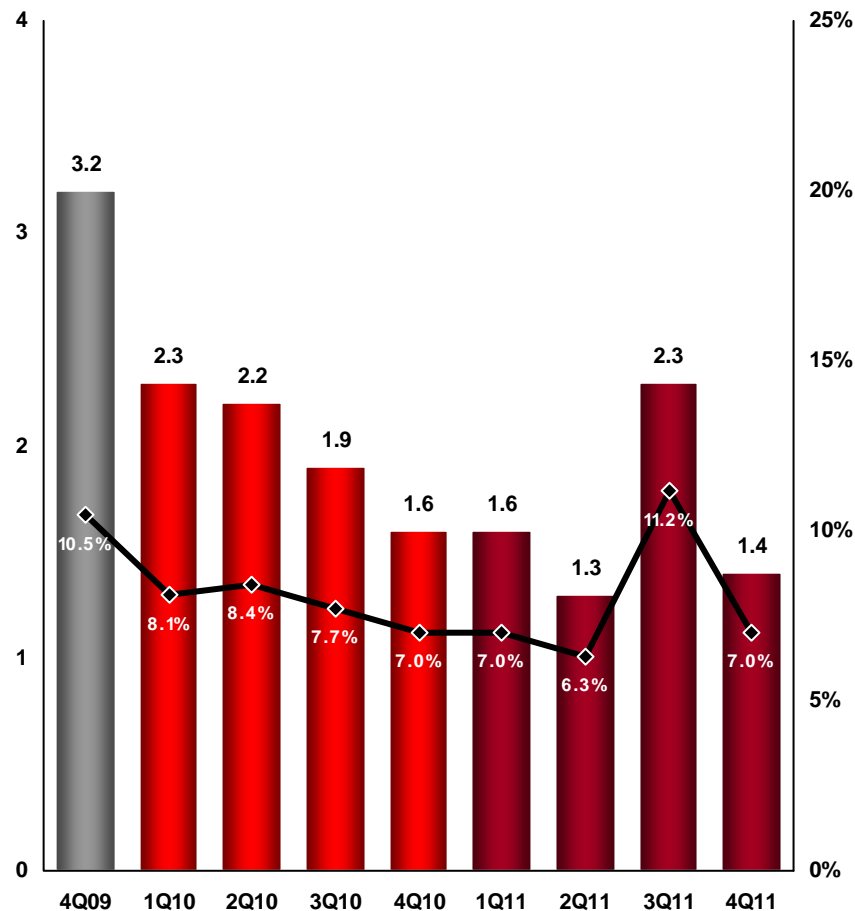
# HSBC Finance Corporation

## Loan impairment charges<sup>(1), (2), (3), (4)</sup>

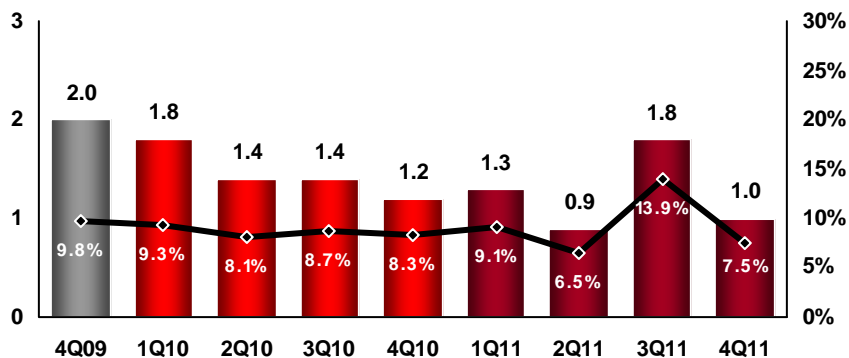
### Credit Card and Private Label, US\$bn



### Total HSBC Finance Corp, US\$bn



### Run-off Portfolio, US\$bn



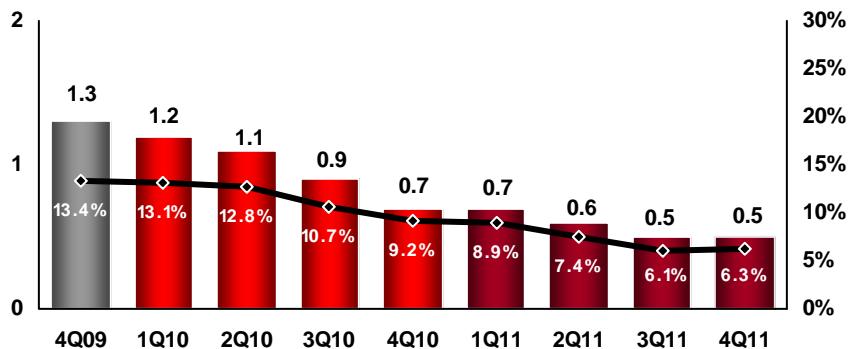
Notes:

- (1) Excludes reverse repo balances.
- (2) Loan impairment charge as a percentage of average total loans (quarter annualised).
- (3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.
- (4) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.

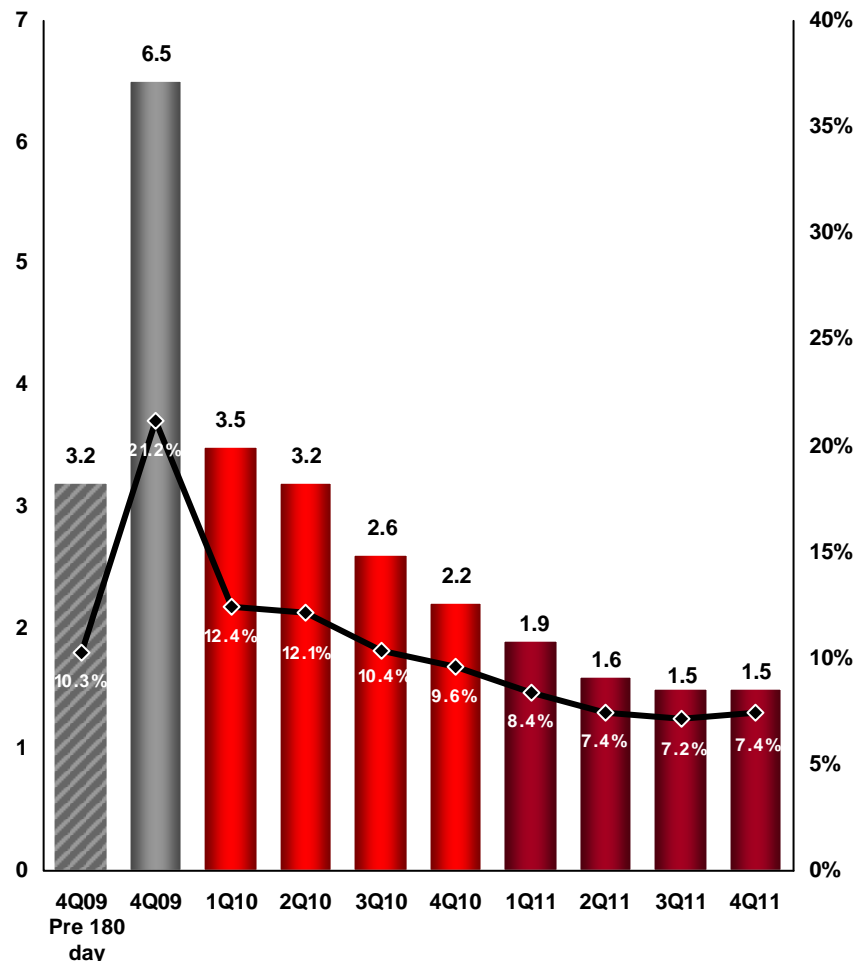
# HSBC Finance Corporation

Amount written-off (1), (2), (3), (4)

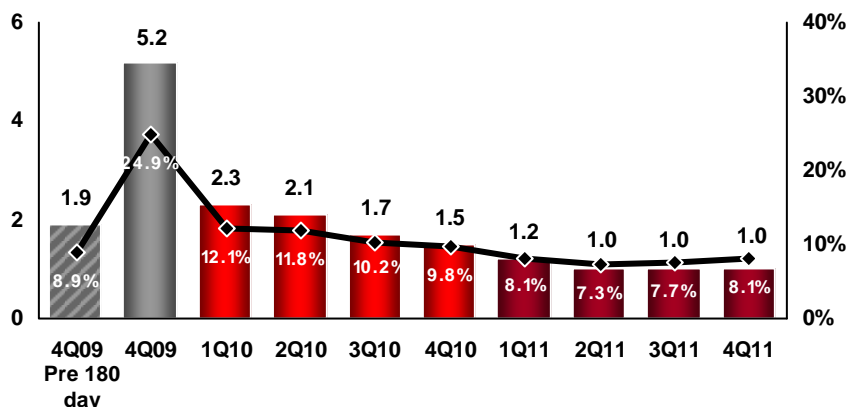
### Credit Card and Private Label, US\$bn



### Total HSBC Finance Corp, US\$bn



### Run-off Portfolio, US\$bn



Notes:

(1) Excludes reverse repo balances.

(2) Loans written-off ratio as a percentage of average total loans (quarter annualised).

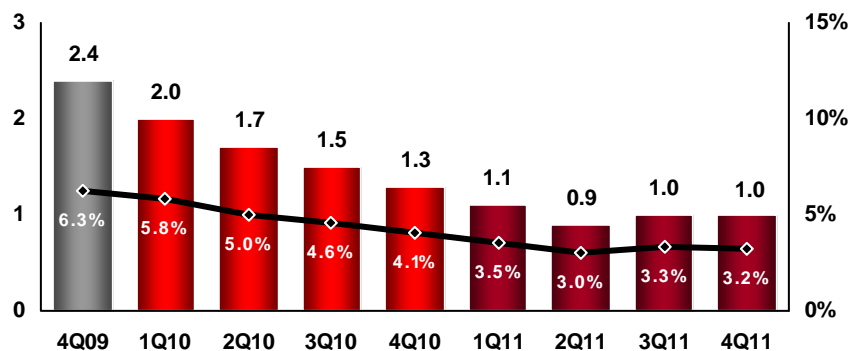
(3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.

(4) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.

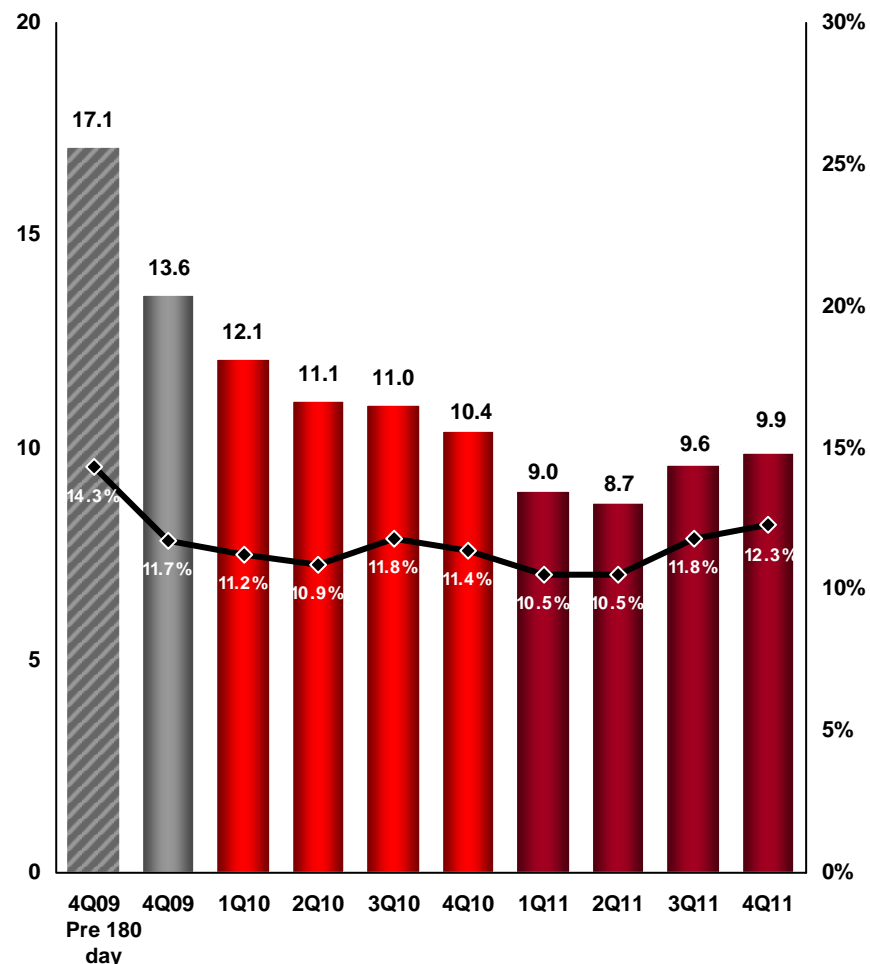
# HSBC Finance Corporation

2+ Delinquency<sup>(1), (2), (3), (4)</sup>

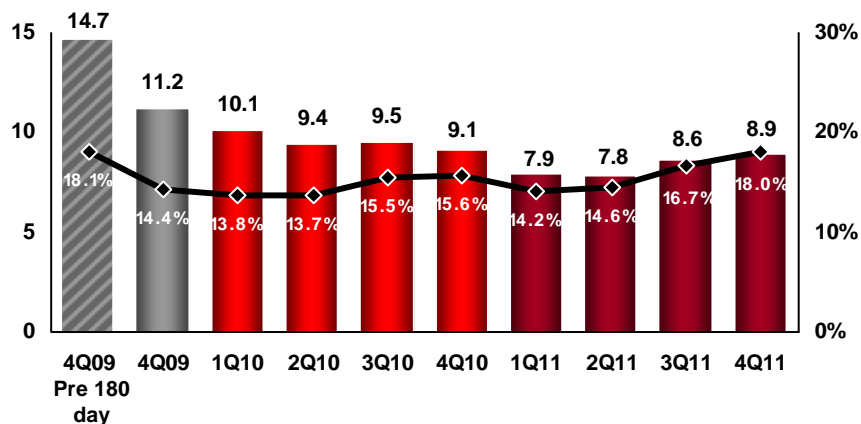
## Credit Card and Private Label, US\$bn



## Total HSBC Finance Corp, US\$bn



## Run-off Portfolio, US\$bn



Notes:

(1) Excludes reverse repo balances.

(2) 2+ Delinquency ratio as a percentage of end-of-period customer loans.

(3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.

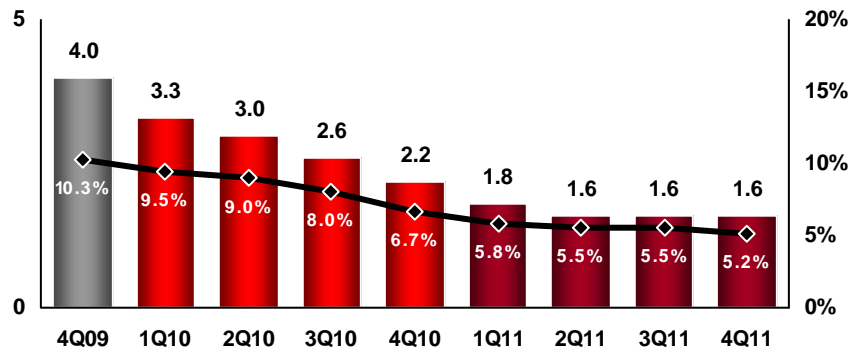
(4) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.



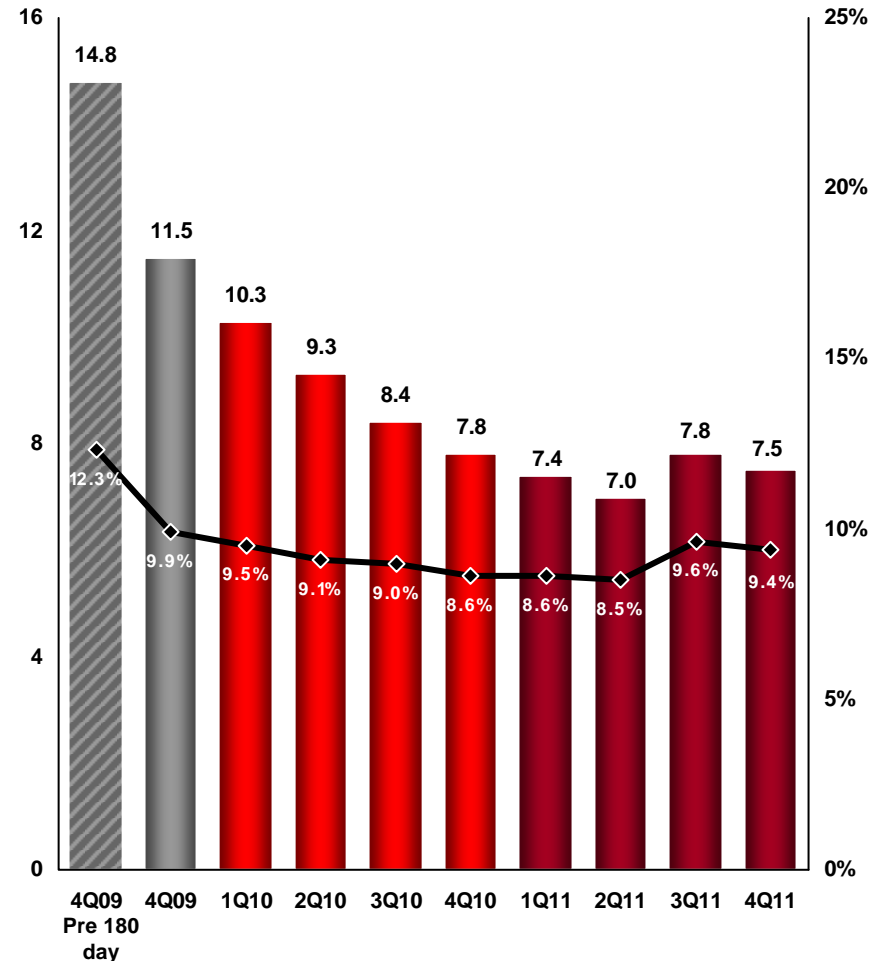
# HSBC Finance Corporation

## Impairment allowance<sup>(1), (2), (3), (4)</sup>

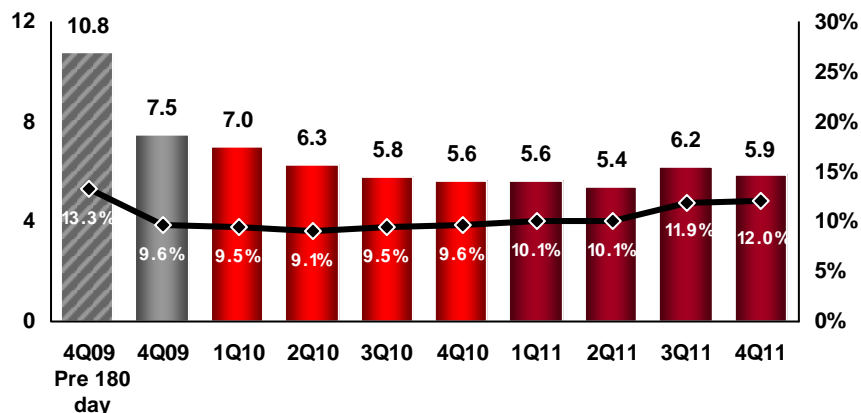
### Credit Card and Private Label, US\$bn



### Total HSBC Finance Corp, US\$bn



### Run-off Portfolio, US\$bn



Notes:

(1) Excludes reverse repo balances.

(2) Impairment allowance ratio as a percentage of end-of-period total loans, excluding vehicle finance loans classified as held for sale in 2Q09 through 1Q10.

(3) During 3Q10, we sold the remainder of our Vehicle Finance loan portfolio to Santander Consumer, USA Inc.

(4) During 3Q11, the credit card and private label portfolios were moved to other assets pending the sale to Capital One Financial Group.