HSBC HOLDINGS PLC
Form 6-K
November 10, 2008

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 November 2008

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

UNITED STATES SECURITIES AND

EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

(_) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__ to

Commission file number 1-8198

HSBC FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

(224) 544-2000

Registrant's telephone number, including area code

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

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

Large accelerated filer (_) Accelerated filer (_)
Non-accelerated filer (X) Smaller reporting company (_)

(Do not check if a smaller reporting company)

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

As of October 31, 2008, there were 60 shares of the registrant's common stock outstanding, all of which are owned by HSBC Investments (North America) Inc.

HSBC FINANCE CORPORATION

FORM 10-Q

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Part I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

HSBC Finance Corporation

CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	(in millions)			
Finance and other interest income	**$3,844**	$4,571	**$12,194**	$13,677
Interest expense:				
HSBC affiliates	**250**	192	**773**	566
Non-affiliates	**1,284**	1,780	**4,217**	5,389
Net interest income	**2,310**	2,599	**7,204**	7,722
Provision for credit losses	**3,821**	3,134	**9,944**	6,480
Net interest income (loss) after provision for credit losses	**(1,511)**	(535)	**(2,740)**	1,242
Other revenues:				
Insurance revenue	**108**	127	**321**	361
Investment income (loss)	**(22)**	29	**23**	78
Derivative income (expense)	**30**	4	**61**	(48)
Gain on debt designated at fair value and related derivatives	**1,709**	519	**2,021**	533
Fee income	**472**	653	**1,384**	1,840
Enhancement services revenue	**175**	167	**532**	465
Taxpayer financial services revenue (expense)	**10**	(27)	**165**	216
Gain on receivable sales to HSBC affiliates	**66**	94	**188**	298
Servicing and other fees from HSBC affiliates	**125**	126	**381**	374
Other (expense) income	**(127)**	(10)	**(266)**	(18)
Total other revenues	**2,546**	1,682	**4,810**	4,099
Costs and expenses:				
Salaries and employee benefits	**508**	544	**1,432**	1,666
Sales incentives	**10**	51	**50**	175
Occupancy and equipment expenses	**54**	66	**172**	206
Other marketing expenses	**75**	161	**296**	594
Other servicing and administrative expenses	**329**	278	**1,095**	641
Support services from HSBC affiliates	**256**	288	**790**	848
Amortization of intangibles	**42**	63	**139**	189
Policyholders’ benefits	**51**	64	**154**	184
Goodwill impairment charge	**71**	881	**71**	881

Total costs and expenses	**1,396**	2,396	**4,199**	5,384
Loss from continuing operations before income tax expense (benefit)	**(361)**	(1,249)	**(2,129)**	(43)
Income tax expense (benefit)	**(90)**	(172)	**(683)**	239
Income (loss) from continuing operations	**(271)**	(1,077)	**(1,446)**	(282)
Discontinued Operations (Note 2):				
Loss from discontinued U.K. Operations	-	(31)	**(15)**	(288)
Income tax benefit	-	(6)	-	(72)
Loss from discontinued operations	-	(25)	**(15)**	(216)
Net loss	**$(271)**	$(1,102)	**$(1,461)**	$(498)

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	September 30, 2008	December 31, 2007
	(in millions, except share data)	
Assets		
Cash	**$546**	$663
Interest bearing deposits with banks	**173**	335
Securities purchased under agreements to resell	**1,603**	1,506
Securities	**3,136**	3,152
Receivables, net	**113,162**	142,409
Receivables held for sale	**10,958**	80
Intangible assets, net	**964**	1,103
Goodwill	**2,724**	2,827
Properties and equipment, net	**242**	349
Real estate owned	**1,127**	1,023
Derivative financial assets	**4**	46
Deferred income taxes, net	**2,696**	2,763
Other assets	**3,798**	4,177
Assets of discontinued operations	**77**	5,294
Total assets	**$141,210**	$165,727
Liabilities		
Debt:		
Commercial paper, bank and other borrowings	**$7,879**	$8,399
Due to affiliates	**12,346**	11,359
Long term debt (with original maturities over one year, including $30.9 billion at September 30, 2008 and $32.9 billion at December 31, 2007 carried at fair value)	**100,647**	123,013
Total debt	**120,872**	142,771
Insurance policy and claim reserves	**969**	998
Derivative related liabilities	**814**	14
Liability for pension benefits	**372**	380
Other liabilities	**2,538**	3,147
Liabilities of discontinued operations	**-**	4,258
Total liabilities	**125,565**	151,568
Shareholders' equity		
Redeemable preferred stock, 1,501,100 shares authorized, Series B, $0.01 par value, 575,000 shares issued	**575**	575
Common shareholder's equity:		
Common stock, $0.01 par value, 100 shares authorized, 60 shares issued at September 30, 2008 and 57 shares issued at December 31, 2007	-	-
Additional paid-in capital	**21,535**	18,227

Accumulated deficit	**(5,914)**	(4,423)
Accumulated other comprehensive income (loss)	**(551)**	(220)
Total common shareholder's equity	**15,070**	13,584
Total liabilities and shareholders' equity	**$141,210**	$165,727

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Nine months ended September 30,	2008	2007
	(in millions)	
Preferred stock		
Balance at beginning and end of period	**$575**	$575
Common shareholder's equity		
Additional paid-in capital		
Balance at beginning of period	**$18,227**	$17,279
Excess of book value over consideration received on sale of U.K. Operations to an HSBC affiliate	**(196)**	-
Capital contribution from parent company	**3,500**	200
Employee benefit plans, including transfers and other	**4**	(9)
Balance at end of period	**$21,535**	$17,470
(Accumulated deficit) retained earnings		
Balance at beginning of period	**$(4,423)**	$1,877
Adjustment to initially apply the fair value method of accounting under FASB statement No. 159, net of tax	**-**	(542)
Balance at beginning of period, as adjusted	**(4,423)**	1,335
Net income (loss)	**(1,461)**	(498)
Dividend equivalents on HSBC's Restricted Share Plan	**(3)**	(5)
Dividends:		
Preferred stock	**(27)**	(27)
Common stock	**-**	(690)
Balance at end of period	**$(5,914)**	$115
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$(220)**	$359
Net change in unrealized gains (losses), net of tax, on:		
Derivatives classified as cash flow hedges	**195**	(293)
Securities available for sale and interest-only strip receivables	**(102)**	(2)
Actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits	**(3)**	-
Foreign currency translation adjustments	**(41)**	88
Other comprehensive income (loss), net of tax	**49**	(207)
Reclassification of foreign currency translation and pension adjustments to additional paid-in capital resulting from sale of U.K. Operations	**(380)**	-
Balance at end of period	**$(551)**	$152
Total common shareholder's equity	**$15,070**	$17,737
Comprehensive income (loss)		
Net income (loss)	**$(1,461)**	$(498)
Other comprehensive income (loss)	**49**	(207)

Comprehensive income (loss)	**$(1,412)**	$(705)

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

STATEMENT OF CASH FLOWS (UNAUDITED)

Nine months ended September 30,	**2008**	**2007**
	(in millions)	
Cash flows from operating activities		
Net income (loss)	**$(1,461)**	$(498)
Loss from discontinued operations	**(15)**	(216)
Income (loss) from continuing operations	**(1,446)**	(282)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	**9,944**	6,480
Gain on receivable sales to HSBC affiliates	**(188)**	(298)
Loss on sale of real estate owned, including lower of cost or fair value adjustments	**329**	152
Lower of cost or fair value adjustment on receivables transferred to held for sale included in other income	**298**	
Insurance policy and claim reserves	**(31)**	(13)
Depreciation and amortization	**192**	253
Gain on sale of Mastercard shares	**-**	(113)
Mark-to-market on debt designated at fair value and related derivatives	**(1,876)**	(776)
Other-than-temporary impairments on available for sale securities	**55**	-
Goodwill impairment	**71**	881
Net change in other assets	**255**	(376)
Net change in other liabilities	**(577)**	(349)
Net change in receivables held for sale, originated with intent to sell	**(33)**	1,409
Foreign exchange and SFAS No. 133 movements on long term debt and net change in non-FVO related derivative assets and liabilities	**(392)**	2,065
Excess tax benefits from share-based compensation arrangements	**-**	(8)
Other, net	**426**	(16)
Cash provided by operating activities – continuing operations	**7,027**	9,009
Cash provided by operating activities – discontinued operations	**186**	151
Net cash provided by operating activities	**7,213**	9,160
Cash flows from investing activities		
Securities:		
Purchased	**(387)**	(823)
Matured	**460**	589
Sold	**164**	95
Net change in short-term securities available for sale	**(463)**	1,220
Net change in securities purchased under agreements to resell	**(97)**	(1,310)
Net change in interest bearing deposits with banks	**155**	(322)
Proceeds from sale of Mastercard shares	**-**	17
Receivables:		
Net (originations) collections	**4,336**	(4,468)
Purchases and related premiums	**(37)**	(210)
Proceeds from sales of real estate owned	**1,395**	1,016
Cash received on sales of receivables held in portfolio to a third party	**1,696**	2,147

Net cash received in sale of U.K. Operations to an affiliate	**259**	-
Properties and equipment:		
Purchases	**(140)**	(96)
Sales	**21**	2
Cash provided by (used in) investing activities – continuing operations	**7,362**	(2,143)
Cash provided by (used in) investing activities – discontinued operations	**107**	487
Net cash provided by investing activities	**7,469**	(1,656)
Cash flows from financing activities		
Debt:		
Net change in short-term debt and deposits	**(497)**	(1,643)
Net change in due to affiliates	**1,015**	(329)
Long term debt issued	**4,467**	16,265
Long term debt retired	**(23,295)**	(21,235)
Insurance:		
Policyholders' benefits paid	**(78)**	(83)
Cash received from policyholders	**42**	36

STATEMENT OF CASH FLOWS (UNAUDITED) (Continued)

Nine months ended September 30,	**2008**	**2007**
	(in millions)	
Capital contribution from parent	**3,500**	200
Shareholders' dividends	**(27)**	(717)
Excess tax benefits from share-based compensation arrangements	**-**	8
Cash used in financing activities – continuing operations	**(14,873)**	(7,498)
Cash used in financing activities – discontinued operations	**(45)**	(402)
Net cash used in financing activities	**(14,918)**	(7,900)
Effect of exchange rate changes on cash	**8**	(8)
Net change in cash	**(228)**	(404)
Cash at beginning of period(1)	**783**	871
Cash at end of period(2)	**$555**	$467
Supplemental Noncash Investing Activities		
Transfer of receivables to real estate owned	**$1,868**	$1,513
Transfer of receivables to held for sale	**$12,222**	$-

(1) Cash at beginning of period includes $120 million and $133 million for discontinued operations as of January 1, 2008 and 2007, respectively.

(2) Cash at end of period includes $9 million and $130 million for discontinued operations as of September 30, 2008 and 2007, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and Basis of Presentation

HSBC Finance Corporation and subsidiaries is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC Finance Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC Finance Corporation may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation. Unless otherwise indicated, information included in these notes to consolidated financial statements relates to continuing operations for all periods presented. In May 2008 we completed the sale of our United Kingdom operations to an affiliate. See Note 2, "Discontinued Operations," for further details.

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

2. Discontinued Operations

In May 2008, we sold all of the common stock of Household International Europe Limited, 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 $359 million in May 2008). With this sale, our operations are now limited to North America. 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 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, 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008(1)	2007	2008(1)	2007
	(in millions)			
Net interest income and other revenues	**$-**	$206	**$189**	$588
Provision for credit losses	**-**	54	**94**	323
Loss before income tax benefit	**-**	(31)	**(15)**	(288)

Income tax benefit	**-**	(6)	-	(72)
Loss from discontinued operations	**-**	(25)	**(15)**	(216)

[1] Amounts shown for 2008 represent totals from the beginning of the period through May 31, 2008, the effective date of the sale.

The following summarizes the assets and liabilities of our U.K. Operations at December 31, 2007 which are now reported as *Assets of discontinued operations* and *Liabilities of discontinued operations* in our consolidated balance sheet.

December 31, 2007	
	(in millions)
Cash	$120
Receivables, net of credit loss reserves of $327 million	4,966
Intangible assets, net	4
Properties and equipment, net	66
Other assets	138
Assets of discontinued operations	$5,294
Commercial paper, bank and other borrowings	$25
Due to affiliates	3,543
Long term debt	472
Other liabilities	218
Liabilities of discontinued operations	$4,258

Assets of discontinued operations at September 30, 2008 includes $9 million of cash in non-interest bearing accounts and $68 million due from an HSBC affiliate related to a subsegment of this disposal group which is expected to be received in the fourth quarter of 2008 upon the dissolution of certain legal entities.

3. Pending Transfer of Canadian Operations

In July 2008, we decided to sell the common stock of HSBC Financial Corporation Limited, the holding company for our Canadian business ("Canadian Operations") to an HSBC affiliate. It is anticipated that ultimate ownership of the Canadian Operations will reside with HSBC Bank Canada. The aggregate sales price of approximately $377 million (based on the current exchange rate) was established after reviewing the results of an independent valuation. As a result of this valuation, a goodwill impairment charge was recorded. The sale is expected to close in the fourth quarter of 2008, subject to obtaining regulatory approval. Because the sale of our Canadian Operations is between affiliates under common control, any differences between the book value of the investment in our Canadian Operations and the consideration received will be recorded directly to common shareholder's equity. At September 30, 2008, assets in our Canadian Operations totaled $4.4 billion, consisting primarily of net receivables of $3.8 billion, available-for-sale securities of $441 million and goodwill of $96 million. At September 30, 2008, liabilities which totaled $4.0 billion, consisting primarily of long term debt of $3.8 billion. As a result of this decision, our operations will be entirely limited to the United States. Upon completion of the sale, we will report the results of our Canadian Operations as discontinued operations.

4. Restructuring Activities

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

Card and Retail Services Business As a result of our decision in the fourth quarter of 2007 to slow credit card receivable growth and in an effort to optimize our facility and staffing capacity, in June 2008 we decided to close our servicing facilities located in Jacksonville, Florida and White Marsh, Maryland (the "Servicing Facilities") during the third quarter of 2008. The servicing activities performed in the Servicing Facilities have been redeployed to other facilities in our Card and Retail Services businesses. Additionally, we decided to eliminate positions in a number of different functions across our Card and Retail Services businesses. The following

summarizes the changes in the restructure liability relating to our Card and Retail Services business during the three and nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended September 30, 2008:			
Restructure liability at June 30, 2008	$6	$6	$12
Restructuring costs paid during the period	(4)	-	(4)
Adjustments to restructure liability during the period	(1)	-	(1)
Restructure liability at September 30, 2008	$1	$6	$7
Nine months ended September 30, 2008:			
Restructure liability at December 31, 2007	$-	$-	$-
Restructuring costs recorded during the period	6	6	12
Restructuring costs paid during the period	(4)	-	(4)
Adjustments to restructure liability during the period	(1)	-	(1)
Restructure liability at September 30, 2008	$1	$6	$7

During the quarter ended September 30, 2008 we released $1 million of one-time termination accruals as we adjusted a variety of previously estimated severance costs. At September 30, 2008, our restructuring liability was $1 million related to one-time termination and other employee benefits and $6 million related to lease termination and associated costs. The remaining costs will be paid in future periods. No additional restructuring charges are anticipated to be incurred.

Auto Finance Business In March 2008, we decided to reduce the size of our Auto Finance business which is a part of our Consumer Segment and has historically purchased retail installment contracts from active dealer relationships throughout the U.S. as part of its business strategy. We decided to discontinue our dealer relationships in several select states, primarily in the Northeast, and discontinue certain other product offerings. As a result of these decisions, we recorded $3 million in severance costs during the first quarter of 2008 which are included as a component of *Salaries and employee benefits* in the consolidated statement of income (loss). These severance costs were fully paid to the affected employees during the second quarter of 2008.

In July 2008, we decided to discontinue new auto loan originations from our dealer and direct-to-consumer channels. We will honor all outstanding loan commitments to our customers. We intend to continue offering auto loans in our Consumer Lending branch offices through the autos-in-branches program until we establish an alliance with a third party provider, at which time all auto originations will cease. We will continue to service and collect the existing auto loan portfolio as it pays down. As a result of our decision to exit the Auto Finance business, during the three months ended September 30, 2008, we recorded $19 million of one-time termination and other employee benefits and $6 million of lease termination and associated costs. We currently anticipate an additional $2 million of one-time termination and other employee benefits costs will be recorded during the fourth quarter of 2008. In addition, we recorded a $2 million non-cash charge relating to impairment of fixed assets associated with our Auto Finance business during the third quarter of 2008. At September 30, 2008, our restructuring liability was $14 million related to

one-time termination and other employee benefits and $6 million related to lease termination and associated costs. While our Auto Finance business is currently operating in a run-off mode, we have not reported this business as a discontinued operation because of our continuing involvement.

Mortgage Services Business Early in 2007, we decided to discontinue the correspondent channel acquisitions of our Mortgage Services business, which is part of our Consumer Segment. The restructuring activities related to the decision to discontinue the correspondent channel acquisitions were completed in 2007. In the third quarter of 2007, as a result of the continuing deterioration in the subprime mortgage lending industry, we ceased the operations of Decision One Mortgage Company ("Decision One") which were reported as part of our Mortgage Services business. Also in 2007, we began closing our Mortgage Services' business headquarters office in Fort Mill, South Carolina. These actions resulted in the recording of a restructuring liability in 2007. The following summarizes the changes in the restructure liability relating to our Mortgage Services business during the three and nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended September 30, 2008:			
Restructure liability at June 30, 2008	$1	$21	$22
Restructuring costs paid during the period	-	(1)	(1)
Restructure liability at September 30, 2008	$1	$20	$21
Nine months ended September 30, 2008:			
Restructure liability at December 31, 2007	$6	$21	$27
Restructuring costs recorded during the period	-	4	4
Restructuring costs paid during the period	(2)	(5)	(7)
Adjustments to restructure liability during the period	(3)	-	(3)
Restructure liability at September 30, 2008	$1	$20	$21

During the nine months ended September 30, 2008, we released $3 million of severance accruals as we have adjusted a variety of previously estimated costs as well as recorded additional lease termination and associated costs of $4 million representing the updated accrual for the Fort Mill office space including the impact of a newly executed sublease arrangement with a third party. Through September 30, 2008, we have expensed a cumulative total of $56 million in restructuring costs, including fixed asset write-offs, as a result of these actions in our Mortgage Services business. No additional restructuring charges as a result of these decisions are anticipated in future periods. While our Mortgage Services business is currently operating in a run-off mode, we have not reported this business as a discontinued operation because of our continuing involvement.

Consumer Lending Business In 2006, we began a branch optimization initiative with the objective of increasing the number of branches in better performing markets and decreasing the number of branches in underperforming markets. In the fourth quarter of 2007, we took several actions in our Consumer Lending business, which is part of our Consumer Segment, to reduce risk and as a result, we decided to initiate a more aggressive approach to sizing the branch network to approximately 1,000 branches at December 31, 2007 (“2007 Branch Restructure”). This reduction of the branch network also resulted in realignment of staffing in our Consumer Lending corporate functions. No further costs resulting from the 2007 Branch Restructure are anticipated. These actions resulted in the recording of a restructuring liability in 2007. Our branch optimization program is ongoing and resulted in the elimination of approximately 100 additional branches during the first nine months of 2008. Additional branches may be eliminated the future as the branch optimization program continues.

The following summarizes the changes in restructure liability relating to our Consumer Lending business during the three and nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended September 30, 2008:			
Restructure liability at June 30, 2008	$1	$2	$3
Restructuring costs paid during the period	-	(1)	(1)
Restructure liability at September 30, 2008	$1	$1	$2
Nine months ended September 30, 2008:			
Restructure liability at December 31, 2007	$7	$14	$21
Restructuring costs paid during the period	(5)	(12)	(17)
Adjustments to restructure liability during the period	(1)	(1)	(2)
Restructure liability at September 30, 2008	$1	$1	$2

During the nine months ended September 30, 2008, we decreased the restructuring liability by $2 million as we have finalized a variety of previously estimated severance costs and lease termination costs. Through September 30, 2008, we have expensed a cumulative total of $29 million in restructuring costs, including fixed asset write-offs, as a result of these actions in our Consumer Lending business.

Facility in Carmel, Indiana In the third quarter of 2007, we closed our loan underwriting, processing and collections center in Carmel, Indiana (the "Carmel Facility") to optimize our facility and staffing capacity given the overall reductions in business volumes. The collection activities performed in the Carmel Facility have been redeployed to other facilities in our Consumer Lending business. The following summarizes the changes in restructure liability relating to the Carmel Facility during the three and nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended September 30, 2008:			
Restructure liability at June 30, 2008	$-	$1	$1
Restructuring costs paid during the period	-	(1)	(1)
Restructure liability at September 30, 2008	$-	$-	$-
Nine months ended September 30, 2008:			
Restructure liability at December 31, 2007	$4	$2	$6
Restructuring costs paid during the period	(2)	(2)	(4)
	(2)	-	(2)

Adjustments to restructure liability during the period			
Restructure liability at September 30, 2008	$-	$-	$-

During the nine months ended September 30, 2008, we reduced the restructuring liability by $2 million as we adjusted a variety of previously estimated severance costs. No additional costs were recorded during the nine months ended September 30, 2008 and no additional costs are anticipated in future periods. Through September 30, 2008, we have expensed a cumulative total of $5 million in restructuring costs as a result of closing the Carmel Facility.

Canadian Business During the fourth quarter of 2007, we tightened underwriting criteria for various real estate and unsecured products in our Canadian business, which is reported in the "All Other" caption in our segment reporting, resulting in lower volumes. This led to a decision to close our mortgage operations in Canada which underwrote loans sourced through brokers as well as to close 29 branches prior to November 1, 2007. These actions resulted in the recording of a restructuring liability in 2007. The following summarizes the changes in the restructure liability in our Canadian business during the three and nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended September 30, 2008:			
Restructure liability at June 30, 2008	$1	$1	$2
Restructuring costs paid during the period	(1)	-	(1)
Restructure liability at September 30, 2008	$-	$1	$1
Nine months ended September 30, 2008:			
Restructure liability at December 31, 2007	$1	$4	$5
Restructuring costs recorded during the period	2	-	2
Restructuring costs paid during the period	(3)	(2)	(5)
Adjustments to restructure liability during the period	-	(1)	(1)
Restructure liability at September 30, 2008	$-	$1	$1

During the nine months ended September 30, 2008, we recorded an additional restructuring charge of $2 million relating to previously estimated severance costs and reduced the restructuring liability by $1 million as we adjusted a variety of previously estimated lease terminations and associated costs. Through September 30, 2008, we have expensed a cumulative total of $14 million in restructuring costs as a result of these Canadian branch closures. As a result of the lower origination volumes discussed above, we are evaluating the appropriate scope and geographic distribution of our Canadian branches in efforts to optimize management efficiencies as well as to reduce expenses.

Summary of Restructuring Activities The following table summarizes the net expense for all restructuring activities recorded during the nine months ended September 30, 2008:

	One-Time Termination and Other Employee Benefits(1)(3)	Lease Termination and Associated Costs(2)(3)	Total
	(in millions)		
Card and Retail Services	$5	$6	$11
Auto Finance	22	6	28
Mortgage Services	(3)	4	1
Consumer Lending	(1)	(1)	(2)
Carmel Facility	(2)	-	(2)
Canadian Business	2	(1)	1
	$23	$14	$37

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

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

(3) During the three months ended September 30, 2008, we incurred a net expense of $18 million in one-time termination and other employee benefits and $6 million in lease termination and other associated costs.

5. Securities

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

September 30, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Corporate debt securities	**$2,000**	**$6**	**$(125)**	**$1,881**
Money market funds	**221**	**-**	**-**	**221**
U.S. government sponsored enterprises(1)	**331**	**2**	**(5)**	**328**
U.S. government and Federal agency debt securities	**109**	**-**	**(1)**	**108**
Non-government mortgage backed securities	**173**	**-**	**(42)**	**131**
Other	**444**	**1**	**(12)**	**433**
Subtotal	**3,278**	**9**	**(185)**	**3,102**
Accrued investment income	**34**	**-**	**-**	**34**
Total securities available for sale	**$3,312**	**$9**	**$(185)**	**$3,136**

December 31, 2007	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Corporate debt securities	$2,173	$18	$(28)	$2,163
Money market funds	194	-	-	194
U.S. government sponsored enterprises(1)	253	2	(2)	253
U.S. government and Federal agency debt securities	37	1	-	38
Non-government mortgage backed securities	208	-	(3)	205
Other	274	1	(9)	266
Subtotal	3,139	22	(42)	3,119
Accrued investment income	33	-	-	33
Total securities available for sale	$3,172	$22	$(42)	$3,152

(1) Includes primarily mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation which collectively represent $126 million and $156 million of total fair value at September 30, 2008 and December 31, 2007, respectively.

We have recorded other-than-temporary impairment charges of $40 million during the three months ended September 30, 2008 and $55 million in the year-to-date period. At September 30, 2008, the evaluation of our investments in perpetual preferred securities, which are included in the "Other" caption in the table above, was

performed in accordance with guidance issued in October 2008 by the Securities and Exchange Commission ("SEC"). This guidance allowed registrants to evaluate perpetual preferred securities similar to a debt security provided there has been no evidence of deterioration in the credit of the issuer. Prior to applying this guidance, perpetual preferred securities were assessed for impairment using an equity-like impairment model. At September 30, 2008, unrealized losses on certain perpetual preferred securities of $11 million are reflected as a component of other comprehensive income.

In the third quarter of 2008, we sold all our Fannie Mae and Freddie Mac preferred equity shares and recorded a loss of $13 million.

A summary of gross unrealized losses and related fair values as of September 30, 2008 and December 31, 2007, classified as to the length of time the losses have existed follows:

September 30, 2008	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
	(dollars are in millions)					
Corporate debt securities	**553**	**$(85)**	**$1,215**	**100**	**$(40)**	**$263**
U.S. government sponsored enterprises	**19**	**(2)**	**76**	**13**	**(3)**	**22**
U.S. government and Federal agency debt securities	**1**	**-**	**5**	**1**	**(1)**	**5**
Non-government mortgage backed securities	**26**	**(20)**	**91**	**7**	**(22)**	**33**
Other	**42**	**(10)**	**78**	**18**	**(2)**	**13**

December 31, 2007	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
	(dollars are in millions)					
Corporate debt securities	146	$(8)	$445	340	$(20)	$798
U.S. government sponsored enterprises	3	-	15	38	(2)	75
U.S. government and Federal agency debt securities	-	-	-	4	-	9
Non-government mortgage backed securities	8	(1)	52	9	(2)	32
Other	46	(9)	79	35	-	94

The gross unrealized losses on our securities available for sale have increased during the first nine months of 2008 as the impact of wider credit spreads, particularly in the third quarter of 2008, were only partially offset by decreases in interest rates. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than the par value of the investment. Substantially all of our remaining securities are rated A- or better, and we have the ability and intent to hold these investments until maturity or a market price recovery. Accordingly, other than the corporate debt and preferred equity securities discussed below, these securities are not considered other-than-temporarily impaired.

Approximately 73 percent of our non-government mortgage backed and asset backed securities, which totaled $178 million at September 30, 2008, are rated “AAA.” The level of subprime assets supporting these securities is approximately $23 million.

6. Receivables and Receivables Held for Sale

Receivables and receivables held for sale consisted of the following:

	September 30, 2008	December 31, 2007
	(in millions)	
Receivables:		
Real estate secured(1)	**$75,917**	$86,638
Auto finance	**8,706**	13,257
Credit card	**19,961**	30,390
Private label	**1,402**	1,579
Personal non-credit card	**16,668**	18,845
Commercial and other	**98**	144
Total receivables	**122,752**	150,853
HSBC acquisition purchase accounting fair value adjustments	**(23)**	(76)
Accrued interest receivable	**2,494**	2,493
Credit loss reserves	**(11,819)**	(10,577)
Unearned credit insurance premiums and claims reserves	**(242)**	(286)
Amounts due and deferred from receivable sales	**-**	2
Total receivables, net	**$113,162**	$142,409
Receivables held for sale(2):		
Real estate secured	**$380**	$80
Auto finance	**2,786**	-
Credit card	**7,792**	-
Total receivables held for sale	**$10,958**	$80

(1) Further analysis of our real estate secured receivable portfolio, including lien position, is presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations: of this Form 10-Q under the caption "Receivables Review."

(2) Receivables held for sale at September 30, 2008 includes $10.8 billion of receivables held for sale originated with intent to hold for investment and $113 million of receivables held for sale originated with intent to sell. See separate discussions below.

As of September 30, 2008, outstanding secured financings, which are a component of long term debt, of $18.2 billion including conduit credit facilities were secured by $26.6 billion of real estate secured, auto finance, credit card and personal non-credit card receivables. Secured financings, including conduit credit facilities, of $23.2 billion at December 31, 2007 were secured by $30.9 billion of real estate secured, auto finance, credit card and personal non-credit card receivables.

Receivables serviced with limited recourse were reduced to zero during the first quarter of 2008. Receivables serviced with limited recourse consisting of credit card receivables totaled $124 million at December 31, 2007.

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

Receivables Held for Sale – Originated with Intent to Hold For Investment:

As previously discussed, we have been engaged in a continuing, comprehensive evaluation of the strategies and opportunities of our operations. During the third quarter of 2008, we identified certain real estate secured receivables with a fair value of $75 million and auto finance receivables with a fair value of $2.8 billion for which we no longer have the intent to hold for the foreseeable future and anticipate will be sold in the near term. Accordingly, these receivables, which were previously held for investment purposes, have been transferred to held for sale during the third quarter of 2008.

The following table summarizes receivables previously held for investment purposes which have now been classified as receivables held for sale as of September 30, 2008 by business:

	Consumer Lending	Mortgage Services	Card and Retail Services	Auto Finance	Total
			(in millions)		
Real estate secured	$252(1)	$15(1)	$-	$-	$267
Auto finance(2)	302	-	-	2,484	2,786
Credit card(3)	-	-	7,792	-	7,792
	$554	$15	$7,792	$2,484	$10,845

(1) Comprised of fixed rate, first lien, closed-end real estate secured receivables to be sold to third parties.

(2) Represents auto finance receivables which we intend to sell to an HSBC affiliate, subject to regulatory approval.

(3) Includes the General Motors ("GM") MasterCard portfolio of $6.2 billion which we intend to sell to an HSBC affiliate, subject to regulatory approval, as well as receivables with a fair value of $1.6 billion from the Core and Metris portfolios which may be sold to third parties.

The following table shows the activity in our receivables held for sale — originated with the intent to hold for investment from June 30, 2008 to September 30, 2008:

Receivables held for sale-originated with intent to hold for investment at June 30, 2008(1)	$9,361
Transfers into receivables held for sale at lower of cost or fair value	2,861
Receivable sales	(1,279)
Additional lower of cost or fair value adjustment subsequent to transfer to receivables held for sale	(34)
Net change in receivable balances	(64)
Receivables held for sale-originated with intent to hold for investment at September 30, 2008	$10,845

(1) Prior to the second quarter of 2008, we had not transferred any receivables originated with the intent to hold for investment to receivables held for sale.

These receivables are carried at the lower of cost or fair value which resulted in a cumulative lower of cost or fair value adjustment of $327 million during the three months ended September 30, 2008 and $713 million in the year-to-date period comprised of the following:

	Consumer Lending	Mortgage Services	Card and Retail Services	Auto Finance	Canada	Total
			(in millions)			

Three months ended September 30, 2008:						
Provision for credit losses(1)	$22	$6	$-	$202	$-	$230
Other income(2)	10	6	30	51	-	97
Lower of cost or fair value adjustment	$32	$12	$30	$253	$-	$327
Nine months ended September 30, 2008:						
Provision for credit losses(1)	$52	$33	$128	$202	$-	$415
Other income(2)	59	31	150	51	7	298
Lower of cost or fair value adjustment	$111	$64	$278	$253	$7	$713

(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.

Receivables Held for Sale – Originated with Intent to Sell:

As discussed more fully in Note 11, "Related Party Transactions," during the second quarter of 2008, we launched a new program with HSBC Bank USA to originate and sell real estate secured receivables to the Federal Home Loan Mortgage Corporation. These receivables are considered held for sale at the time of origination and are carried at the lower of cost or fair value. At September 30, 2008, we had $32 million of receivables held for sale under this program.

Additionally, we continue to report as held for sale certain receivables of our Mortgage Services business and Solstice Capital Group Inc. ("Solstice"), a subsidiary of our Consumer Lending business, which were classified as held for sale at the time of origination. Receivables held for sale in our Mortgage Services business totaled $55 million at September 30, 2008 and $71 million at December 31, 2007. Receivables held for sale related to Solstice totaled $26 million at September 30, 2008 and $9 million at December 31, 2007.

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. These acquired receivables were subject to the requirements of Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3") to the extent there was evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected and that the associated line of credit had been closed. The carrying amount of Champion real estate secured receivables subject to the requirements of SOP 03-3 was $68 million at September 30, 2008 and $73 million at December 31, 2007 and is included in the real estate secured receivables in the table above. The outstanding contractual balance of these receivables was $78 million at September 30, 2008 and $92 million at December 31, 2007. At September 30, 2008, no credit loss reserve for the acquired Champion receivables subject to SOP 03-3 has been established as there has been no decrease to the expected future cash flows since the acquisition. There was a reclassification to accretable yield from non-accretable yield of $2 million during the quarter ended September 30, 2008. This reclassification from non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying Champion portfolio. There were no additions to accretable yield or reclassifications from non-accretable yield during the quarter ended September 30, 2007.

As part of our acquisition of Metris Companies Inc. ("Metris") on December 1, 2005, we acquired $5.3 billion of credit card receivables which were also subject to the requirements of SOP 03-3. The carrying amount of the credit card receivables acquired from Metris which were subject to SOP 03-3 was $60 million at September 30, 2008 and $105 million at December 31, 2007 and is included in the credit card receivables in the table above. The outstanding contractual balance of these receivables was $92 million at September 30, 2008 and $159 million at December 31, 2007. At September 30, 2008, no credit loss reserve for the acquired Metris receivables subject to SOP 03-3 has been established as there has been no decrease to the expected future cash flows since the acquisition. There was a reclassification to accretable yield from non-accretable difference of $3 million during the quarter ended September 30, 2008. This reclassification from non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying Metris portfolio. There was a reclassification to accretable yield from non-accretable yield of $5 million during the quarter ended September 30, 2007.

The following summarizes the accretable yield on Champion and Metris receivables at September 30, 2008 and 2007:

l	2008	2007
	(in millions)	
Accretable yield beginning of period	**$(34)**	$(50)
Accretable yield amortized to interest income during the period	**8**	11
Reclassification from non-accretable difference	**(5)**	(5)
Accretable yield at end of period	**$(31)**	$(44)

Nine months ended September 30,	2008	2007
	(in millions)	
Accretable yield beginning of period	**$(36)**	$(76)
Accretable yield amortized to interest income during the period	**26**	39
Reclassification from non-accretable difference	**(21)**	(7)
Accretable yield at end of period	**$(31)**	$(44)

Concentrations of Credit Risk:

We generally serve non-conforming and non-prime consumers. Such customers are individuals who have limited credit histories, modest incomes, high debt-to-income ratios or have experienced credit problems caused by occasional delinquencies, prior charge-offs, bankruptcy or other credit related actions. The majority of our secured receivables and receivables held for sale have a high loan-to-value ratio.

Interest-only loans allow customers to pay the interest only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect the ability of customers to repay the loan in the future when the principal payments are required. At September 30, 2008, the outstanding balance of our interest-only loans was $2.6 billion, or 2 percent of receivables, including receivables held for sale. At December 31, 2007, the outstanding balance of our interest-only loans was $4.1 billion, or 3 percent of receivables, including receivables held for sale. We no longer originate or acquire interest-only loans through either our Consumer Lending branch network or Mortgage Services business. Prior to our decision to cease operations, our Decision One mortgage operation offered interest-only loans largely for resale.

At September 30, 2008 and December 31 2007, we had $14.3 billion and $18.5 billion, respectively, in adjustable rate mortgage ("ARM") loans at our Consumer Lending and Mortgage Services businesses. The majority of our adjustable rate mortgages were acquired from correspondent lenders of our Mortgage Services business. In 2007, we discontinued correspondent channel acquisitions and eliminated the small volume of ARM originations in our Consumer Lending business. Consequently, the percentage of adjustable rate real estate secured receivables will decrease significantly over time. The table below shows ARM loans that will experience their first interest rate reset in the remainder of 2008 and through December 31, 2009. ARM loans with reset dates after 2009 are not significant.

Period of
First Interest

	Outstanding Balance of ARM Loans	Rate Reset(1) 2008	Rate Reset(1) 2009
	(in billions)		
September 30, 2008	$14.3	$.6	$3.5
December 31, 2007	18.5	3.7	4.1

(1) Based on original contractual reset date and the outstanding receivable levels at the end of each period.

Prior to 2007, we increased our portfolio of stated income loans. Stated income loans are underwritten based on the loan applicant's representation of annual income which is not verified by receipt of supporting documentation and, accordingly, carry a higher risk of default if the customer has not accurately reported their income. The outstanding balance of stated income loans in our real estate secured portfolio was $5.8 billion at September 30, 2008 and $7.9 billion at December 31, 2007. We no longer offer stated income loans.

Troubled Debt Restructurings:

Provision 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 in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"). Re-aged 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 and loss reserve estimates are determined in accordance with SFAS No. 114 which requires a discounted cash flow analysis to assess impairment. Interest income on TDR Loans is recognized in the same manner as loans which are not TDRs. The following table presents information about our TDR Loans:

	September 30, 2008	December 31, 2007
	(in millions)	
TDR Loans(1):		
Real estate secured:		
Mortgage Services	**$2,538**	$1,531
Consumer Lending	**1,513**	730
Canada and all other	**63**	67
Total real estate secured	**4,114**	2,328
Auto finance	**166**	144
Credit card	**398**	329
Private label	**7**	5
Personal non-credit card	**545**	500
Total TDR Loans	**$5,230**	$3,306

	September 30, 2008	December 31, 2007
	(in millions)	
Credit loss reserves for TDR Loans:		
Real estate secured:		
Mortgage Services	**$267**	$84
Consumer Lending	**217**	65

Canada and all other	**14**	9
Total real estate secured	**498**	158
Auto finance	**39**	29
Credit card	**78**	56
Private label	**1**	1
Personal non-credit card	**103**	88
Total credit loss reserves for TDR Loans(2)	**$719**	$332

Three months ended September 30,	**2008**	**2007**
	(in millions)	
Average balance of TDR Loans(1)	**$4,948**	$2,489
Interest income recognized on TDR Loans(1)	**85**	70

Nine months ended September 30,	**2008**	**2007**
	(in millions)	
Average balance of TDR Loans(1)	**$4,287**	$2,039
Interest income recognized on TDR Loans(1)	**207**	91

(1) Includes TDR balances reported as receivables held for sale. As a result, the TDR loan balances above include $62 million of credit card TDR loans held for sale for which there are no credit loss reserves as they are carried at lower of cost or fair value.

(2) Included in credit loss reserves.

7. Credit Loss Reserves

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in millions)			
Credit loss reserves at beginning of period	**$10,934**	$6,808	**$10,577**	$6,366
Provision for credit losses	**3,821**	3,134	**9,944**	6,480
Charge-offs	**(2,857)**	(1,840)	**(8,360)**	(5,119)
Recoveries	**179**	181	**575**	566
Receivables transferred to held for sale	**(249)**	-	**(894)**	-
Other, net	**(9)**	11	**(23)**	1
Credit loss reserves at end of period	**$11,819**	$8,294	**$11,819**	$8,294

As discussed more fully in Note 6, “Receivables and Receivables Held for Sale,” $10.8 billion of receivables which were previously held for investment purposes are classified as receivables held for sale as of September 30, 2008. Credit loss reserves associated with the transfer of receivables to receivables held for sale of $249 million during the three months ended September 30, 2008 and $894 million in the year-to-date period were transferred to receivables held for sale as part of the lower of cost or fair value adjustment.

Further analysis of credit quality and credit loss reserves and our credit loss reserve methodology are presented in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q under the caption “Credit Quality.”

8. Intangible Assets

Intangible assets consisted of the following:

	Gross	Historical Impairment Charges	Accumulated Amortization	Carrying Value
	(in millions)			
September 30, 2008				
Purchased credit card relationships and related programs	**$1,736**	$-	**$820**	**$916**
Retail services merchant relationships	**270**	-	**270**	-
Other loan related relationships	**333**	**158**	**171**	**4**
Trade names	**700**	**700**	-	-
Technology, customer lists and other contracts	**282**	-	**238**	**44**
Total	**$3,321**	**$858**	**$1,499**	**$964**
December 31, 2007				
Purchased credit card relationships and related programs	$1,736	$-	$717	$1,019
Retail services merchant relationships	270	-	257	13

Other loan related relationships	333	158	169	6
Trade names	700	700	-	-
Technology, customer lists and other contracts	282	-	217	65
Total	$3,321	$858	$1,360	$1,103

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

Year ending December 31,	**(in millions)**
2008	$181
2009	168
2010	146
2011	139
2012	136
Thereafter	172

9. Goodwill

Goodwill balances associated with our Canadian Operations will change from period to period due to movements in foreign exchange. Changes in estimates of the tax basis in our assets and liabilities or other tax estimates recorded at the date of our acquisition by HSBC or our acquisition of Metris are adjusted against goodwill pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Changes in the carrying amount of goodwill are as follows:

	2008	**2007**
	(in millions)	
Balance at January 1,(1)	**$2,827**	$6,568
Goodwill associated with the sale of our Canadian mortgage brokerage subsidiary	**(13)**	-
Goodwill impairment charge related to our Canadian operations	**(71)**	-
Goodwill impairment related to the Mortgage Services business	**-**	(881)
Change in estimate of the tax basis of assets and liabilities recorded in the HSBC acquisition	**(7)**	(60)
Impact of foreign currency translation	**(12)**	25
Balance at September 30,	**$2,724**	$5,652

(1) Goodwill balances at January 1, 2008 reflect goodwill impairment charges of $2,774 million during the fourth quarter of 2007 related to our Consumer Lending and Auto Finance businesses.

In March 2008, our Canadian operations sold all of the capital stock of a small mortgage brokerage subsidiary and $13 million of goodwill associated with this business was included as a component of the $9 million loss on sale.

During the third quarter of 2008, after determining the price of our Canadian operations in conjunction with our planned transfer to an HSBC affiliate, we concluded that the goodwill allocated to our Canadian operations was impaired. As a result, we recorded a goodwill impairment charge of $71 million.

10. Income Taxes

Effective tax rates for continuing operations are analyzed as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in millions)			
Statutory federal income tax rate	**(35.0)%**	(35.0)%	**(35.0)%**	(35.0)%
Increase (decrease) in rate resulting from:				
Goodwill impairment	**4.8**	22.2	**.8**	652.8
State rate change effect on net deferred tax assets	**-**	(.5)	**3.0**	(4.7)
State and local taxes, net of federal benefit	**(.1)**	(.7)	**(1.8)**	(9.9)
Low income housing and other tax credits	**(3.9)**	(1.3)	**(1.8)**	(111.6)
Leveraged lease accounting	**1.1**	-	**1.5**	48.8
Effects of foreign operations	**10.3**	1.1	**2.4**	22.7
Other	**(2.1)**	.4	**(1.2)**	(7.3)
Effective tax rate	**(24.9)%**	(13.8)%	**(32.1)%**	555.8%

The effective tax rate for continuing operations for the three months ended September 30, 2008 increased as compared to the prior year quarter primarily as a result of the effects of foreign operations which include a valuation allowance on foreign tax credit carryforwards. The effective tax rate for continuing operations for the nine months ended September 30, 2008 decreased as compared to the year-ago period primarily as a result of the non-deductible goodwill impairment in the prior year period. The significant percentage changes in the effective tax rate reconciliation for the nine months ended September 30, 2007 is due to the tax adjustments applied to an insignificant amount of pretax loss.

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

We are in a net deferred tax asset position of $2.7 billion as of September 30, 2008 and $2.8 billion as of December 31, 2007. This net deferred tax asset is net of both deferred tax liabilities and valuation allowances. We believe that it is more likely than not that the net deferred tax assets will be fully realized as we expect to generate sufficient taxable income in the future to realize these deferred tax assets. In making this determination, we considered forecasts of future profitability, earnings history, capital adequacy, tax planning strategies, carryback and carryforward periods. If future events differ from our current forecasts, an additional valuation allowance may need to be established.

11. Related Party Transactions

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

	September 30, 2008	December 31, 2007
	(in millions)	
Assets and (Liabilities):		
Cash	**$486**	$475
Securities	**62**	-
Securities purchased under agreements to resell	**600**	415
Derivative financial assets (liability), net	**(811)**	34
Affiliate preferred stock received in sale of U.K. credit card business(1)	**270**	301
Other assets	**289**	634
Due to affiliates	**(12,346)**	(11,359)
Other liabilities	**(104)**	(471)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Income/(Expense):				
Interest expense – HSBC affiliates	**$(250)**	$(192)	**$(773)**	$(566)
Interest income from HSBC affiliates	**4**	11	**30**	30
HSBC affiliate income:				
Gain (loss) on receivable sales to HSBC affiliates:				
Daily sales of domestic private label receivable originations	**26**	79	**89**	242
Daily sales of credit card receivables	**38**	31	**97**	72
Sales of real estate secured receivables	**2**	(16)	**2**	(16)
Servicing and other fees from HSBC affiliates:				
HSBC Bank USA, National Association (“HSBC Bank USA”):				
Real estate secured servicing, sourcing, underwriting and pricing revenue	**1**	3	**5**	7
Domestic private label and card receivable servicing and related fees	**105**	104	**323**	310
Other servicing, processing, origination and support revenues	**12**	11	**32**	36
HSBC Technology and Services (USA) Inc. (“HTSU”)	**4**	4	**12**	10
Other HSBC affiliates	**3**	4	**9**	11
Taxpayer financial services loan origination and other fees	-	-	**(13)**	(19)
Support services from HSBC affiliates:				
HTSU	**(198)**	(240)	**(615)**	(706)
HSBC Global Resourcing (UK) Ltd.	**(43)**	(35)	**(129)**	(108)
Other HSBC affiliates	**(15)**	(13)	**(46)**	(34)

Stock based compensation expense with HSBC	**(15)**	(25)	**(48)**	(85)

(1) Balance may fluctuate between periods due to foreign currency exchange rate impact.

Transactions with HSBC Bank USA:

•In the second quarter of 2008, our Consumer Lending business launched a new program with HSBC Bank USA to sell real estate secured receivables to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Our Consumer Lending business originates the loans in accordance with Freddie Mac's underwriting criteria. The loans are then sold to HSBC Bank USA, generally within 30 days. HSBC Bank USA repackages the loans and sells them to Freddie Mac under their existing Freddie Mac program. This program has been launched in six states during the second quarter of 2008 and was rolled out nationwide during the third quarter of 2008. During the three months ended September 30, 2008, we originated $83 million of real estate secured loans and sold $68 million of real estate secured loans to HSBC Bank USA for a gain on sale of $2 million. During the nine months ended September 30, 2008, we originated $110 million of real estate secured loans and sold $82 million of real estate secured loans to HSBC Bank USA for a gain on sale of $2 million.

•In July 2004 we purchased the account relationships associated with $970 million of credit card receivables from HSBC Bank USA and in December 2004, we sold HSBC Bank USA our domestic private label receivable portfolio (excluding retail sales contracts at our Consumer Lending business). We continue to service the sold domestic private label and credit card receivables and receive servicing and related fee income from HSBC Bank USA. On a daily basis we sell substantially all new domestic private label receivable originations and new originations on these credit card receivables to HSBC Bank USA. The servicing and related fee income received from HSBC Bank USA as well as the gains recorded on the sale of domestic private label and credit card receivables are reflected in the table above. The following table summarizes the receivables we are servicing for HSBC Bank USA at September 30, 2008 and December 31, 2007 and the receivables sold during the nine month periods ended September 30, 2008 and 2007:

	Private Label Receivables	**Credit Card Receivables**
	(in billions)	
Receivables serviced for HSBC Bank USA:		
September 30, 2008	$17.4	$1.9
December 31, 2007	18.5	1.8
Receivables sold to HSBC Bank USA during the nine months ended:		
September 30, 2008	14.2	3.6
September 30, 2007	15.1	2.8

•As of September 30, 2008 and December 31, 2007, we were servicing $2.2 billion and $2.5 billion, respectively, of real estate secured receivables for HSBC Bank USA. The fee revenue associated with these receivables is recorded in *Servicing and other fees from HSBC affiliates*.

•HSBC Bank USA and HSBC Trust Company (Delaware), N.A. ("HTCD") are the originating lenders for loans initiated by our Taxpayer Financial Services business for clients of various third party tax preparers. We purchase the loans originated by HSBC Bank USA and HTCD daily for a fee. Origination fees paid for these loans totaled $13 million and $19 million during the nine months ended September 30, 2008 and 2007, respectively. These origination fees are included as an offset to taxpayer financial services revenue and are reflected as *Taxpayer financial services loan origination and other fees* in the above table.

•Under multiple service level agreements, we also provide various services to HSBC Bank USA, including credit card servicing and processing activities, auto finance loan servicing and other operational and administrative support. Fees received for these services are reported as *Servicing and other fees from HSBC affiliates*. Additionally, HSBC Bank USA services certain real estate secured loans on our behalf. Fees paid for these services are reported as *Support services from HSBC affiliates*.

•We have extended revolving lines of credit to subsidiaries of HSBC Bank USA for an aggregate total of $1.0 billion. No balances were outstanding under any of these lines of credit at either September 30, 2008 or December 31, 2007.

•In the nine months ended September 30, 2007, we sold approximately $646 million of real estate secured receivables originated by our subsidiary, Decision One, to HSBC Bank USA and recorded a pre-tax loss on these sales of $16 million.

Transactions with HSBC Holdings plc:

•At September 30, 2008 and December 31, 2007, a commercial paper back-stop credit facility of $2.5 billion from HSBC supported our domestic issuances of commercial paper. No balances were outstanding under this credit facility at September 30, 2008 and December 31, 2007. The annual commitment fee requirement to support availability of this line is included as a component of *Interest expense – HSBC affiliates.*

•During 2003, Household Capital Trust VIII issued $275 million in mandatorily redeemable preferred securities to HSBC. Interest expense recorded on the underlying junior subordinated notes totaled $4 million during the three months ended September 30, 2008 and 2007 and $13 million during the nine months ended September 30, 2008 and 2007. This interest expense is included in *Interest expense – HSBC affiliates* in the consolidated statement of income.

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

Transactions with HTSU:

•We had extended a revolving line of credit to HTSU which was terminated in May 2008 and replaced by a line of credit from an affiliate. The balance outstanding under this line of credit was $.6 billion at December 31, 2007 and was included in other assets. Interest income associated with this line of credit was recorded in interest income and reflected as *Interest income from HSBC affiliates* in the table above.

•Technology services in North America are centralized within HTSU. Technology related assets and software purchased subsequent to January 1, 2004 are generally purchased and owned by HTSU. HTSU also provides certain item processing and statement processing activities which are included in *Support services from HSBC affiliates.* We also receive revenue from HTSU for rent on certain office space, which has been recorded as a reduction of occupancy and equipment expenses, and for certain administrative costs, which has been recorded as a component of servicing and other fees from HSBC affiliates. Rental revenue from HTSU recorded as a reduction of occupancy and equipment expense was $12 million during both the three months ended September 30, 2008 and the year-ago quarter. During both the nine months ended September 30, 2008 and the year-ago period, rental revenue from HTSU was $36 million.

Transactions with HSBC Bank plc ("HBEU"):

•We had a revolving credit facility from HBEU to fund our operations in the U.K. of $5.7 billion at December 31, 2007. Upon the sale of our U.K. Operations, this credit facility was assumed by HOHU. At December 31, 2007, $3.5 billion was outstanding under the HBEU lines for the U.K. which is now reported in *Liabilities of discontinued operations*. Annual commitment fee requirements to support availability of these lines is included as a component of *Loss from discontinued U.K. operations.*

•In September 2008, we borrowed $1 billion from an existing uncommitted credit facility with HBEU. The borrowing is for 60 days and matures in November 2008. We may request renewal of this borrowing for an additional period of time at its current maturity in November 2008.

•Technology services in the United Kingdom are centralized within a subsidiary of HBEU. Operating expenses relating to information technology which were billed to us by HBEU prior to the sale of our U.K. Operations to HOHU in May 2008 are included as a component of *Loss from discontinued U.K. operations*.

•In December 2005, we sold our U.K. credit card business, including $2.5 billion of receivables, the associated cardholder relationships and the related retained interests in securitized credit card receivables to HBEU for an aggregate purchase price of $3.0 billion. We retained the collection operations related to the credit card operations and

entered into a service level agreement to provide collection services and other support services, including components of the compliance, financial reporting and human resource functions, for the sold credit card operations to HBEU for a fee. We received $10 million during 2008 under this service level agreement which is included as a component of *Loss from discontinued U.K. operations*. We received $8 million and $24 million during the three and nine months ended September 30, 2007, respectively, under this service level agreement which is included as a component of *Loss from discontinued U.K. operations*. This service level agreement was transferred to HOHU as a result of the sale of our U.K. Operations.

Transactions with other HSBC affiliates:

•As previously discussed in Note 2, "Discontinued Operations," in May 2008 we sold all of the common stock of the holding company of our U.K. Operations to HOHU for GBP 181 million (equivalent to $359 million in May 2008). Because this sale was between affiliates under common control, the book value of the investment in our U.K. Operations in excess of the consideration received 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 foreign currency translation adjustments within other comprehensive income.

•The notional value of derivative contracts outstanding with HSBC subsidiaries totaled $83.7 billion at September 30, 2008 and $90.4 billion at December 31, 2007. When the fair value of our agreements with affiliate counterparties requires the posting of collateral, it is provided in either the form of cash and recorded on the balance sheet or in the form of securities which are not recorded on our balance sheet. At September 30, 2008, the fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $3.5 billion which was received in cash and offset against the fair value amount recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with FASB Staff Position No. FIN 39-1, "Amendment of FASB Interpretation No. 39," ("FSP 39-1") and recorded in our balance sheet as a reduction of derivative related assets. At December 31, 2007, the fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $3.8 billion which was received in cash and offset against the fair value amount recognized for derivative instruments in accordance with FSP 39-1. No collateral was provided in the form of securities at September 30, 2008 or December 31, 2007.

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

•We purchase from HSBC Securities (USA) Inc. ("HSI") securities under agreement to resell. Interest income recognized on these securities totaled $4 million during the three months ended September 30, 2008 and $15 million during the nine months ended September 30, 2008 and is reflected as *Interest income from HSBC affiliates* in the table above. Interest income recognized on these securities totaled $3 million during the three months ended September 30, 2007 and $6 million during the nine months ended September 30, 2007.

•During the second quarter of 2008 we extended a revolving line of credit of $.4 billion to HSI. This line of credit was terminated in September 2008 and replaced by a line of credit from another affiliate.

•We use an HSBC affiliate located outside of the United States to provide various support services to our operations including among other areas, customer service, systems, collection and accounting functions. The expenses related to these services are included as a component of *Support services from HSBC affiliates* in the table above.

•*Support services from HSBC affiliates* also includes banking services and other miscellaneous services provided by other subsidiaries of HSBC, including HSBC Bank USA.

•Through August 2008, our Canadian business originated and serviced auto loans for an HSBC affiliate in Canada. Fees received for these services are included in other income and are reflected in *Servicing and other fees from other HSBC affiliates* in the above table.

•We utilize HSBC Markets (USA) Inc., an affiliated HSBC entity, to lead manage the underwriting of a majority of our ongoing debt issuances. There were no fees paid to the affiliate for such services during the three and nine months ended September 30, 2008. During the three and nine months ended September 30, 2007, we paid fees to the affiliate for such services of $1 million and $12 million, respectively. For debt not accounted for under the fair value option, these fees are amortized over the life of the related debt.

•In the second quarter of 2007, we sold $2.2 billion of loans from the Mortgage Services portfolio to third parties. HSBC Markets (USA) Inc., an affiliated HSBC entity, assisted in the transaction by placing the loans with interested third parties. Fees paid for these services totaled $4 million and were included as a component of the approximately $20 million loss realized on the sale of this loan portfolio.

•Domestic employees of HSBC Finance Corporation participate in a defined benefit pension plan and other post-retirement benefit plans sponsored by HSBC North America. See Note 12, "Pension and Other Postretirement Benefits," for additional information on this pension plan.

12. Pension and Other Postretirement Benefits

The components of pension expense for the domestic defined benefit pension plan reflected in our consolidated statement of income are shown in the table below and reflect the portion of the pension expense of the combined HSBC North America pension plan which has been allocated to HSBC Finance Corporation:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	**2007**	**2008**	**2007**
	(in millions)			
Service cost – benefits earned during the period	**$13**	$12	**$43**	$38
Interest cost	**19**	17	**55**	49
Expected return on assets	**(22)**	(21)	**(64)**	(63)
Recognized losses	**1**	2	**1**	4
(Gains) losses on curtailment	**-**	-	**-**	-
Net periodic benefit cost	**$11**	$10	**$35**	$28

We sponsor additional defined benefit pension plans for our Canadian based employees. Pension expense for our Canadian defined benefit pension plans which is included in continuing operations was $.7 million and $2.1 million, respectively for the three and nine months ended September 30, 2008. Pension expense for our Canadian defined benefit pension plans was $.6 million and $1.8 million, respectively, for the three and nine months ended September 30, 2007.

Components of the net periodic benefit cost for our postretirement benefits other than pensions are as follows:

Three Months Ended	**Nine Months Ended**

	September 30,		September 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost – benefits earned during the period	**$1**	$2	**$3**	$4
Interest cost	**2**	3	**10**	10
Expected return on assets	-	-	-	-
Recognized (gains) losses	-	(1)	**(2)**	(1)
(Gains) losses on curtailment	-	-	**(4)**	-
Net periodic benefit cost	**$3**	$4	**$7**	$13

13. Business Segments

Through 2007, we reported the results of operations in three business segments: Consumer, Credit Card Services and International. In May 2007, we decided to integrate our Retail Services business, which had historically been included in the Consumer Segment, into our Credit Card Services business. In the first quarter of 2008, we completed the integration of management reporting for our Credit Card Services and Retail Services business which has resulted in the combination of these previously separate businesses into one reporting unit and began reporting results for the Cards and Retail Services segment.

Our segment disclosures are on a continuing operations basis. As discussed in Note 2, "Discontinued Operations," our U.K. Operations, which were historically reported in the International Segment, are now reported as discontinued operations and are no longer included in our segment presentation. In the second quarter of 2008, we reported our Canadian operations in the "All Other" caption as our Canadian operations fell below the quantitative threshold test under SFAS No. 131 for determining reportable segments. As discussed in Note 3, "Pending Transfer of Canadian Operations," we anticipate our Canadian operations will be sold to an HSBC affiliate during the fourth quarter of 2008. Under IFRSs, these operations are classified as discontinued operations and are no longer included in our segment presentation. As our Canadian operations are not currently considered discontinued operations under U.S. GAAP, they are included in the reconciliation to U.S. GAAP consolidated totals for continuing operations.

As a result, beginning in the second quarter of 2008 and going forward, we are reporting our financial results under two reportable segments: Consumer and Card and Retail Services. Our Consumer segment consists of our Consumer Lending, Mortgage Services and Auto Finance businesses. Our Card and Retail Services segment includes our domestic MasterCard, Visa, private label and other credit card operations. The All Other caption includes our Insurance, Taxpayer Financial Services and Commercial businesses, each of which falls below the quantitative threshold test under SFAS No. 131 for determining reportable segments, as well as our corporate and treasury activities. Beginning in the third quarter of 2008, our Canadian operations are no longer included in our segment presentation as these operations are currently considered discontinued operations under IFRSs. 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 our segmentation or measurement of segment profit as compared with the presentation in our 2007 Form 10-K.

We report results to our parent, HSBC, in accordance with its reporting basis, IFRSs. Our segment results are presented on an IFRS Management Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees and capital are made almost exclusively on an IFRS Management Basis. IFRS Management Basis results are IFRSs results adjusted to assume that the private label and real estate secured receivables transferred to HSBC Bank USA have not been sold and remain on our balance sheet. We currently intend to sell our GM MasterCard receivable portfolio and a portion of our domestic auto finance receivable portfolio to HSBC Bank USA, subject to regulatory approval. Upon the completion of these sales, IFRS Management Basis results will also assume that these portfolios have not been sold and remain on our balance sheet. IFRS Management Basis also assumes that the purchase accounting fair value

adjustments relating to our acquisition by HSBC have been "pushed down" to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the receivable sales to HSBC Bank USA were conducted primarily to appropriately fund prime customer loans within HSBC and such receivables continue to be managed and serviced by us without regard to ownership. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis.

Fair value adjustments related to purchase accounting resulting from our acquisition by HSBC and related amortization have been allocated to Corporate, which is included in the "All Other" caption within our segment disclosure.

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

	Consumer	Card and Retail Services	All Other	Adjustments/ Reconciling Items	IFRS Management Basis Continuing Operation Totals	Management Basis Adjustments(4)	IFRS Adjustments(5)	IFRS Reclass-ifications(6)	U.S. GA Continu Operat Tota
					(in millions)				
Three months ended September 30, 2008:									
Net interest income	$1,356	$1,263	$130	$-	$2,749	$(356)	$(171)	$88	$2
Other operating income (Total other revenues)	(13)	807	1,668	(68)(1)	2,394	(21)	63	110	2
Loan impairment charges (Provision for credit losses)	2,678	1,491	23	-	4,192	(438)	28	39	3
Operating expenses (Total costs and expenses)	491	525	130	-	1,146	14	89	147	1
Profit (loss) before tax	(1,826)	54	1,645	(68)	(195)	47	(225)	12	(
Income (loss) from continuing operations	(1,167)	30	1,020	(43)	(160)	33	(151)	7	(
Customer loans (Receivables)	104,210	46,506	109	-	150,825	(29,879)	(454)	2,260	122
Assets	99,168	44,230	25,293	(8,142)(3)	160,549	(19,151)	(5,042)	4,777	141

Intersegment revenues	59	4	5	(68)(1)	-	-	-	-	
Three months ended September 30, 2007:									
Net interest income	$1,750	$1,296	$(188)	$-	$2,858	$(398)	$43	$96	$2
Other operating income (Total other revenues)	(130)	1,106	653	(84)(1)	1,545	10	(67)	194	1
Loan impairment charges (Provision for credit losses)	2,292	1,058	-	1(2)	3,351	(305)	47	41	3
Operating expenses (Total costs and expenses)	587	578	1,474	-	2,639	6	(452)	203	2
Profit (loss) before tax	(1,259)	766	(1,009)	(85)	(1,587)	(89)	381	46	(1,
Income (loss) from continuing operations	(794)	484	(1,083)	(53)	(1,446)	(63)	402	30	(1,
Customer loans (Receivables)	120,226	47,623	149	-	167,998	(20,640)	(125)	4,741	151
Assets	118,367	46,952	30,615	(8,203)(3)	187,731	(20,064)	(5,308)	4,236	166
Intersegment revenues	58	21	5	(84)(1)	-	-	-	-	
Nine months ended September 30, 2008:									
Net interest income	$4,401	$3,828	$118	$-	$8,347	$(1,069)	$(366)	$292	$7
Other operating income (Total other revenues)	(15)	2,424	2,255	(176)(1)	4,488	(72)	(46)	440	4
Loan impairment charges (Provision for credit losses)	6,987	3,750	36	-	10,773	(1,188)	230	129	9
	1,403	1,643	458	-	3,504	38	139	518	4

Operating expenses (Total costs and expenses)									
Profit (loss) before tax	(4,004)	859	1,879	(176)	(1,442)	9	(781)	85	(2,
Income (loss) from continuing operations	(2,560)	540	1,136	(112)	(996)	12	(520)	58	(1,
Intersegment revenues	150	13	13	(176)(1)	-	-	-	-	
Nine months ended September 30, 2007:									
Net interest income	$5,439	$3,556	$(607)	$-	$8,388	$(1,038)	$85	$287	$7
Other operating income (Total other revenues)	(86)	2,880	1,202	(225)(1)	3,771	91	(127)	364	4
Loan impairment charges (Provision for credit losses)	4,521	2,491	(2)	4(2)	7,014	(693)	46	113	6
Operating expenses (Total costs and expenses)	1,805	1,845	1,759	-	5,409	6	(457)	426	5
Profit (loss) before tax	(973)	2,100	(1,162)	(229)	(264)	(260)	369	112	
Income (loss) from continuing operations	(614)	1,335	(1,060)	(144)	(483)	(179)	308	72	(
Intersegment revenues	158	54	13	(225)(1)	-	-	-	-	

(1) Eliminates intersegment revenues.

(2) Eliminates bad debt recovery sales between operating segments.

(3) Eliminates investments in subsidiaries and intercompany borrowings.

(4) Management Basis Adjustments represent the private label and real estate secured receivables transferred to HBUS.

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

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

See "Basis of Reporting" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2007 for a more complete discussion of differences between U.S. GAAP and IFRSs. Further discussion of the differences between IFRSs and U.S. GAAP are presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the caption "Basis of Reporting." A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

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

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

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

Other operating income (total other revenues) – In addition to the items discussed above which are presented differently between U.S. GAAP and IFRSs, other revenues under IFRSs includes policyholder benefits expense which is classified as other expense under U.S. GAAP.

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

For receivables transferred to held for sale subsequent to origination, there are no accounting requirements under IFRSs for loans that management intends to sell. Accordingly, for IFRSs purposes such loans continue to be accounted for in accordance with IAS 39 with any gain or loss recorded at the time of sale. U.S. GAAP requires loans that management intends to sell to be transferred to a held for sale category at the lower of cost or fair value. Under U.S. GAAP, the component of the lower of cost or fair value adjustment related to credit risk is recorded in the statement of income (loss) as provision for credit losses while the component related to interest rates and liquidity factors is reported in the statement of income (loss) in other revenues.

As a result of the guidance issued by the SEC in October 2008, under U.S. GAAP we are allowed to evaluate perpetual preferred securities for potential impairment similar to a debt security provided there has been no evidence of deterioration in the credit of the issuer and record the unrealized losses as a component of other comprehensive income. There are no similar provisions under IFRSs.

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

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

Operating expenses (total costs and expenses) – Amortization of intangible assets under IFRSs is lower than that under U.S. GAAP as the intangibles associated with our acquisition by HSBC are reflected in goodwill. Operating expenses are also lower under IFRSs as policyholder benefits expenses are reported as an offset to other revenues as discussed above. There are other less significant differences between IFRSs and U.S. GAAP relating to pension expense and changes in tax estimates.

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

Assets – In addition to the differences in customer loan balances as discussed above, securities under IFRSs includes HSBC Group shares held for stock plans at fair value. Additionally, there are higher derivative related assets under IFRSs compared to U.S. GAAP due to more stringent netting requirements.

14. Fair Value Option

Effective January 1, 2007, we elected fair value option ("FVO") reporting for certain issuances of our fixed rate debt in order to align our accounting treatment with that of HSBC under IFRSs. To align our U.S. GAAP and IFRSs accounting treatment, we have adopted SFAS No. 159 only for the fixed rate debt issuances which also qualify for FVO reporting under IFRSs.

Long term debt (with original maturities over one year) at September 30, 2008 of $100.6 billion includes $30.9 billion of fixed rate debt accounted for under FVO. At September 30, 2008, we have not elected FVO for $27.9 billion of fixed rate debt for the reasons discussed above. Fixed rate debt accounted for under FVO at September 30, 2008 has an aggregate unpaid principal balance of $32.8 billion which includes a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by $.4 billion. Long term debt (with original maturities over one year) at December 31, 2007 of $122.8 billion includes $32.9 billion of fixed rate debt accounted for under FVO. At December 31, 2007, we have not elected FVO for $34.6 billion of fixed rate debt for the reasons discussed above. Fixed rate debt accounted for under FVO at December 31, 2007 has an aggregate unpaid principal balance of $33.2 billion which included a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by $.5 billion.

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
	(in millions)			

Mark-to-market on debt designated at fair value:				
Interest rate component	**$(265)**	$(723)	**$(314)**	$(350)
Credit risk component	**1,592**	608	**1,917**	846
Total mark-to-market on debt designated at fair value	**1,327**	(115)	**1,603**	496
Mark-to-market on the related derivatives	**278**	719	**273**	280
Net realized gains (losses) on the related derivatives	**104**	(85)	**145**	(243)
Total	**$1,709**	$519	**$2,021**	$533

The movement in the fair value reflected in "Gain on debt designated at fair value and related derivatives" includes the effect of credit spread changes and interest rate changes, including any ineffectiveness in the relationship between the related swaps and our debt. With respect to the credit component, as credit spreads narrow accounting losses are booked and the reverse is true if credit spreads widen. 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. 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.

The changes in the interest component during the third quarter of 2008 reflect a decrease in long term interest rates. As of September 30, 2008, both short term and long term interest rates have decreased when compared to year-end 2007. Our credit spreads widened significantly in the third quarter of 2008, which added to the net widening of credit spreads that occurred during the first half of 2008.

15. Fair Value Measurements

Assets and Liabilities Recorded at Fair Value on a Recurring Basis The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2008 and December 31, 2007, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

	Assets (Liabilities) Measured at Fair Value at Balance Sheet Date	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
September 30, 2008:				
Risk management related derivatives, net(1)	**$2,663**	$-	**$2,663**	$-
Available for sale securities	**3,136**	**354**	**2,743**	**39**
Real estate owned(2)	**1,294**	-	**1,294**	-
Repossessed vehicles(2)	**50**	-	**50**	-
Long term debt carried at fair value	**30,915**	-	**30,915**	-
December 31, 2007:				
Risk management related derivatives, net(1)	$3,776	$-	$3,776	$-
Available for sale securities	3,152	267	2,885	-
Real estate owned(2)	1,151	-	1,151	-
Repossessed vehicles(2)	83	-	83	-
Long term debt carried at fair value	32,896	-	32,896	-

(1) The fair value disclosed excludes 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” as discussed in FASB Staff Position No. FIN 39-1, “Amendment of FASB Interpretation No. 39” and is netted on the balance sheet with the fair value amount recognized for derivative instruments.

(2) The fair value disclosed is unadjusted for transaction costs as required by SFAS No. 157, “Fair Value Measurements.” The amounts recorded in the consolidated balance sheet are recorded net of transaction costs as required by FASB Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

The following table reconciles the beginning and ending balances for assets recorded at fair value using significant unobservable inputs (Level 3):

Securities

	(in millions)
Beginning balance at March 31, 2008	$-
Transfers into Level 3(2)	59
Total gains or losses (realized/unrealized):	
Included in income from continuing operations	-
Included in other comprehensive income(1)	(8)
Ending balance at June 30, 2008	$51
Transfers into Level 3(3)	5
Total gains or losses (realized/unrealized):	
Included in income from continuing operations	-
Included in other comprehensive income(1)	(17)
Ending balance at September 30, 2008	$39

(1) The change in unrealized gains or losses relating to assets still held at September 30, 2008 was $(17) million.

(2) Represents a mortgage backed security held by our Canadian subsidiary.

(3) Represents domestic corporate debt and mortgage backed securities.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis Receivables held for sale are recorded in our consolidated balance sheet at the lower of cost or fair value on a non-recurring basis. As such, they are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in only certain circumstances (e.g. impairment). The following table presents the fair value hierarchy of the valuation techniques utilized to determine the fair value of the receivables held for sale which are carried at fair value as of September 30, 2008, as well as the gains (losses) on these receivables recorded during the three and nine months ended September 30, 2008. The fair value of receivables held for sale at June 30, 2008 were considered to be Level 2 in the fair value hierarchy of valuation techniques. We consider the fair value of receivables held for sale as of September 30, 2008 to be Level 3 given the current reduction of demand in the secondary market and lack of recent observable transactions.

	Non-Recurring Fair Value Measurements as of September 30, 2008				Total Gains (Losses) for the Three Months Ended September 30, 2008	Total Gains (Losses) for the Nine Months Ended September 30, 2008
	Level 1	Level 2	Level 3	Total		
	(in millions)					
Real estate secured	$-	$-	$322	$322	$(7)	$(16)
Auto finance	-	-	2,786	2,786	(281)	(281)
Credit cards	-	-	1,550	1,550	(30)	(278)
	$-	$-	$4,658	$4,658	$(318)	$(575)

Total receivables held for sale at fair

value(1)

(1) Excludes $6.3 billion of receivables held for sale for which the fair value exceeds our carrying value.

As discussed in Note 9, "Goodwill," goodwill allocated to our Canadian operations with a carrying value of $167 million was written down to its implied fair value of $96 million during the three months ended September 30, 2008. Goodwill carried at fair value at September 30, 2008 was considered to be Level 3 in the fair value hierarchy of valuation techniques due to the lack of recent observable transactions.

Assets and liabilities which could also be measured at fair value on a non-recurring basis include intangible assets.

Fair Value of Financial Instruments In accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," ("SFAS No. 107") on an annual basis we report the fair value of all financial instruments in our consolidated balance sheet, including those financial instruments carried at cost. As a result of the significant deterioration in the mortgage lending industry trends and economic conditions since December 31, 2007 and, in particular, during the third quarter of 2008, we are updating our SFAS No. 107 disclosures as of September 30, 2008. The fair value estimates, methods and assumptions used to determine the fair value of our financial instruments for continuing operations, as presented in the table below, are consistent with the methods described in our 2007 Form 10-K using assumptions that have been updated to reflect the economic conditions as of September 30, 2008.

	September 30, 2008		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Assets:				
Cash	$546	$546	$663	$663
Interest bearing deposits with banks	173	173	335	335
Securities purchased under agreements to resell	1,603	1,603	1,506	1,506
Securities	3,136	3,136	3,152	3,152
Consumer receivables:				
Mortgage Services:				
First lien	20,142	12,731	25,641	19,268
Second lien	2,917	1,209	4,649	2,609
Total Mortgage Services	23,059	13,940	30,290	21,877
Consumer Lending:				
First lien	39,664	27,164	42,861	30,881
Second lien	5,222	1,786	6,292	3,229
Total real estate secured	44,886	28,950	49,153	34,110
Non-real estate secured	13,928	6,567	16,277	10,351
Total Consumer Lending	58,814	35,517	65,430	44,461
Credit card	17,277	16,790	27,637	30,081
Auto Finance	7,930	6,596	11,797	10,998
Canadian receivables	3,768	3,960	4,983	5,238
Total consumer receivables	110,848	76,803	140,137	112,655
Receivables held for sale	10,958	10,958	80	80

Due from affiliates	289	289	634	634
Derivative financial assets	4	4	46	46
Liabilities:				
Commercial paper, bank and other borrowings	7,879	7,879	8,399	8,399
Due to affiliates	12,346	10,753	11,359	10,944
Long term debt carried at fair value	30,915	30,915	32,896	32,896
Long term debt not carried at fair value	69,732	62,952	90,117	88,159
Insurance policy and claim reserves	969	882	998	986
Derivative financial liabilities	814	814	14	14

As discussed in our 2007 Form 10-K, receivable values presented in the table above were determined using the framework for measuring fair value as prescribed by SFAS No. 157, which is based on our best estimate of the amount within a range of value we believe would be received in a sale as of the balance sheet date (i.e. exit price). In recent months, the unprecedented developments in the mortgage lending industry and the current economic conditions have resulted in a significant reduction in the secondary market demand for subprime loans. The estimated fair values at September 30, 2008 and December 31, 2007 for our receivables reflect this marketplace turmoil which implicitly assumes a significantly higher charge-off level than what we, as the servicer of these receivables, believe will ultimately be the case. This creates a value that is significantly lower than would otherwise be reported under more normal marketplace conditions.

16. New Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised), Business Combinations (“SFAS No. 141(R)”). This statement requires an acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at fair value as of the date of acquisition. This replaces the guidance in Statement No. 141 which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS No. 141(R) also changes the recognition and measurement criteria for certain assets and liabilities including those arising from contingencies, contingent consideration, and bargain purchases. SFAS 141 No.(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). This statement amends ARB 51 and provides guidance on the accounting and reporting of noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income. This statement also requires expanded disclosures that identify and distinguish between parent and noncontrolling interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the impact that SFAS No. 160 will have on our financial position or results of operations.

In February 2008, the FASB issued FSP SFAS No. 140-3, “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” (FSP SFAS No. 140-3”). Under the new guidance, the initial transfer of a financial asset and subsequent repurchase financing involving the same asset is presumptively to be linked and are considered part of the same arrangement under SFAS No. 140. The initial transfer and subsequent financing transaction will be considered separate transactions under SFAS No. 140 if certain conditions are met. FSP SFAS No. 140-3 is effective for new transactions entered into in fiscal years beginning after November 15, 2008. Early adoption is prohibited. We are currently evaluating the impact of FSP SFAS No. 140-3 on our financial position and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (“SFAS No. 161”). SFAS No. 161 requires enhanced disclosures about an entity’s derivative and hedging activities and attempts to improve transparency in financial reporting. SFAS No. 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedge items affect an entity’s financial position, financial performance and cash flows. It is effective for fiscal years beginning after November 15, 2008 with early adoption encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the changes required by this statement to our disclosures on derivative investment and hedging activities.

In May 2008, FASB issued Statement of Financial Accounting Standards No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). The new standard identifies the sources of accounting principles and the framework for applying those principles to financial statements in accordance with U.S. GAAP. The statement corresponds to Statement on Auditing Standards No. 69, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The standard is not intended to cause significant changes to financial reports. SFAS No. 162 shall be effective 60 days following the U.S. Securities and Exchange Commission’s (“SEC”) approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The adoption of SFAS No. 162 will not have any material impact on our consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60" ("SFAS No. 163"). SFAS No. 163 applies to financial guarantee insurance (and reinsurance) contracts issued by enterprises that are included within the scope of paragraph 6 of Statement 60 and that are not accounted for as derivative instruments. It clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. This statement requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. We are currently evaluating the impact that SFAS No. 163 may have on our financial position or results of operations.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market that is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies how management's internal assumptions and observable market information should be considered when measuring fair value in an inactive market and how market quotes (e.g. broker quotes) should be considered when assessing the relevance of observability of available data in measuring fair value. The adoption of FSP FAS 157-3 will not have any material impact on our consolidated financial statements.

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

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC Finance Corporation that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may", "will", "should", "would", "coul "intend", "believe", "expect", "estimate", "target", "plan", "anticipate", "goal" and similar expressions are intended to forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. Forward-looking statements are based on our current views and assumptions and speak only as of the date they are made. HSBC Finance Corporation undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Overview

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

Business Focus As discussed in prior filings, we have been engaged in a continuing, comprehensive evaluation of the strategies and opportunities for our operations. In light of the unprecedented developments in the retail credit markets, particularly in the residential mortgage industry, we made the strategic decision to lower the risk profile and reduce the capital and liquidity requirements of our operations by reducing the size of the balance sheet while maximizing efficiencies. Since mid-2007 a number of strategic actions have been undertaken. These included:

•Tightened credit criteria and underwriting practices across all product lines which included discontinuation of certain loan products, including adjustable rate, stated income and interest-only mortgages as well as personal homeowner loans;

•Closed our Decision One wholesale mortgage operation;

•Discontinued the dealer and direct-to-consumer auto finance loan origination channels. We will continue to offer auto loans in our Consumer Lending branch offices through the autos-in-branches program until an alliance is established with a third party provider;

•Eliminated all Taxpayer Financial Services pre-season and pre-file loan products and exited all relationships except H&R Block;

•Closed certain servicing facilities and redeployed the servicing activities to other facilities;

•Reduced staffing levels in many areas of operations;

•Reduced the Consumer Lending branch office locations to approximately 900 while we continue our ongoing branch optimization program;

•Initiated action to enhance our liquidity and reduce funding costs for HSBC's consolidated operations by targeting the sale of certain loan portfolios to affiliates while retaining the account relationships;

•Sold United Kingdom operations to an HSBC affiliate;

•Agreed to sell the Canadian operations to an HSBC affiliate, which we currently anticipate will close prior to December 31, 2008;

•Launched a mortgage loan origination program under Federal Home Loan Mortgage Corporation ("Freddie Mac") and expect to do so through the Federal Housing Administration ("FHA") in the near term;

•Sold to third parties real estate secured receivables held for sale with a fair value of $1.0 billion and auto finance receivables held for sale from our Canadian operations with a fair value of $319 million. These receivables were originally originated for investment purposes; and

•Expanded and enhanced re-age and modification opportunities for our customers, including a program modifying adjustable rate mortgage loans in advance of initial interest rate resets to maximize cash flow for us and home preservation for our customers.

Evaluation of our operations will continue as we seek to optimize our risk profile and liquidity, capital and funding requirements and determine the expected opportunities in the subprime lending industry as the credit markets stabilize. This is likely to result in further strategic actions that may include additional asset sales and further alterations or refinement of product offerings.

Performance, Developments and Trends Net loss was $(271) million for the three months ended September 30, 2008 compared to $(1,102) million in the prior year quarter. Net loss was $(1,461) million for the nine months ended September 30, 2008 compared to $(498) million in the prior year period. Results for both periods in 2008 benefited significantly from the change in the credit risk component of our fair value optioned debt which reduced our net loss by $1.0 billion in the quarter and $1.2 billion in the year-to-date period as compared to $0.4 billion and $0.5 billion in the corresponding 2007 periods. In addition, the results for both periods include goodwill impairment charges which increased our net loss by $63 million (after-tax) related to our Canadian operations in 2008 and $852 million (after-tax) related to our Mortgage Services business in 2007. Excluding the impact of these items, we reported a markedly higher net loss in both periods largely due to a significantly higher provision for credit losses as compared to the year-ago periods, the impact of lower of cost or fair value adjustments recorded for receivables transferred to held for sale in 2008, lower net interest income due to lower receivable levels and a deterioration in credit quality and lower other revenues excluding the impact of fair value option as compared to the year-ago periods, partially offset by lower costs and expenses.

In May 2008, we sold all of the common stock of Household International Europe Limited, the holding company for our United Kingdom business ("U.K. Operations") to HSBC Overseas Holdings (UK) Limited ("HOHU"), an HSBC affiliate. As a result, our U.K. Operations are reported as discontinued operations for all periods presented in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). See Note 2, "Discontinued Operations," for a full presentation of the components of the loss from discontinued operations. Loss from continuing operations was $(271) million during the three months ended September 30, 2008 and $(1.4) billion during the nine months ended September 30, 2008 compared to a loss from continuing operations of $(1.1) billion during the three months ended September 30, 2007 and $(282) million during the nine months ended September 30, 2007 for the reasons discussed above. The following discussion of our financial performance in this MD&A excludes the results of our discontinued operations unless otherwise noted.

The increase in provision for credit losses during the three and nine months ended September 30, 2008 primarily reflects higher loss estimates in our Mortgage Services and Consumer Lending businesses as well as in our domestic

credit card receivable portfolio largely due to the following:

•Higher overall levels of charge-off and delinquency, including higher roll rates, due to the continued weakening of the U.S. economy and rising unemployment, with delinquency increasing most significantly in the first-lien portion of our Consumer Lending and Mortgage Services real estate secured portfolios;

•Portfolio seasoning;

•Lower real estate secured receivable run-off;

•Increases in loss severities for real estate secured receivables due to continued deterioration of real estate values in certain markets;

•Lower recovery rates for credit card receivables;

•Increased levels of personal bankruptcy filings in our credit card and personal non-credit card portfolios;

•Higher delinquency levels in the early stage delinquency buckets in our Consumer Lending real estate secured and our credit card receivable portfolios; and

•Higher delinquency levels in our credit card receivable portfolio, particularly in the geographic regions most impacted by the housing market downturn and rising unemployment rates.

Provision for credit losses was also impacted by the transfer of $10.8 billion of real estate secured, auto finance and credit card receivables ($2.9 billion of which occurred in the third quarter of 2008), which were previously held for investment, and the related transfer of credit loss reserves of $894 million ($249 million of which occurred in the third quarter of 2008) to receivables held for sale. These receivables are carried at the lower of cost or fair value which resulted in a lower of cost or fair value adjustment at the time of transfer of $327 million during the three months ended September 30, 2008, of which $230 million was recorded as a component of *Provision for credit losses* and $97 million was recorded as a component of *Other income*. For the nine months ended September 30, 2008, the transfer of receivables to receivables held for sale resulted in a cumulative lower of cost or fair value adjustment at the time of transfer of $713 million, of which $415 million was recorded as a component of *Provision for credit losses* and $298 million was recorded as a component of *Other (expense) income*. Once transferred to held for sale, any subsequent lower of cost or fair value adjustments on these receivables are recorded as a component of *Other income*. See Note 6, "Receivables and Receivables Held for Sale," in the accompanying consolidated financial statements for additional information regarding the lower of cost or fair value adjustment for these receivables held for sale and the composition of these receivables. See "Results of Operations" for a more detailed discussion of the increase in the provision for credit losses during the periods presented.

Excluding the lower of cost or fair value adjustment for the transfer of receivables held for sale, we recorded loss provision in excess of net charge-offs of $913 million during the three months ended September 30, 2008 compared to $1,475 million during the prior year quarter and $1,760 million during the nine months ended September 30, 2008 compared to $1,927 million during the prior year period. Consequently, our credit loss reserve levels increased during the first nine months of 2008. Reserve levels for real estate secured receivables at our Mortgage Services and Consumer Lending businesses can be further analyzed as follows:

	Consumer Lending		**Mortgage Services**	
Three months ended September 30,	**2008**	**2007**	**2008**	**2007**
		(in millions)		
	$1,731	$492	**$3,837**	$2,147

Credit loss reserves at beginning of period				
Provision for credit losses	**1,021**	659	**893**	692
Charge-offs	**(340)**	(142)	**(848)**	(426)
Recoveries	**3**	2	**7**	11
Receivables transferred to held for sale	**(29)**	-	**(9)**	-
Credit loss reserves at end of period	**$2,386**	$1,011	**$3,880**	$2,424

	Consumer Lending		Mortgage Services	
Nine months ended September 30,	**2008**	**2007**	**2008**	**2007**
		(in millions)		
Credit loss reserves at beginning of period	**$1,386**	$278	**$3,573**	$2,085
Provision for credit losses	**1,970**	1,136	**2,776**	1,433
Charge-offs	**(915)**	(409)	**(2,442)**	(1,122)
Recoveries	**7**	6	**30**	49
Receivables transferred to held for sale	**(60)**	-	**(47)**	-
Other, net	**(2)**	-	**(10)**	(21)
Credit loss reserves at end of period	**$2,386**	$1,011	**$3,880**	$2,424

The decrease in net interest income in the three and nine months ended September 30, 2008 was due to lower average receivables and lower overall yields, partially offset by lower interest expense. Overall yields decreased due to increased levels of loan modifications and other hardship repricings, deterioration in credit quality including growth in non-performing assets, lower amortization of net deferred fees due to lower loan prepayments and lower loan origination volumes, and decreases in rates on variable rate products which reflect market rate movements, partially offset by increased levels of higher yielding products. Gain (loss) on debt designated at fair value and related derivatives, which is a component of other revenues, increased during the three and nine months ended September 30, 2008 due to a significant widening of credit spreads as compared to the year-ago periods. Changes in the credit component of fair value optioned debt increased other revenues by $1,592 million in the third quarter of 2008 compared to $608 million in the year-ago quarter. Excluding the gain on fair value optioned debt and related derivatives, other revenues decreased in both periods due to lower fee income, the lower of cost or fair value adjustment on receivables held for sale as discussed above, as well as lower investment income due to higher other-than-temporary impairment charges, partially offset by lower losses on Decision One receivables held for sale due to the closing of Decision One in the third quarter of 2007. Additionally, the year-ago periods benefited from the $113 million gain recorded on the sale of our portfolio of MasterCard Class B shares. For the year-to-date period, other revenue also decreased due to lower taxpayer financial services revenue due to strategic changes in product offerings. Fee income decreased due to changes in credit card fee practices implemented during the fourth quarter of 2007 and the second quarter of 2008 as well as higher charge-offs due to credit quality deterioration, partially offset by increased late fees due to higher delinquency levels and in the year-to-date period, the impact of higher levels of average credit card receivables. Costs and expenses decreased in both periods due to lower salary expense, lower marketing expenses, lower sales incentives and the impact of entity-wide initiatives to reduce costs, partially offset by higher collection costs and REO expenses. The decrease in salary expense was partially offset by a $52 million adjustment to the accrual for certain employee benefits. Additionally as discussed above, during the three months ended September 30, 2008 we recorded a goodwill impairment charge of $71 million (pre-tax) related to our Canadian operations as compared to a goodwill impairment charge of $881 million (pre-tax) relating to our Mortgage Services business in the year-ago period.

Our return on average owned assets (“ROA”) for continuing operations was (.74) percent for the quarter ended September 30, 2008 and (1.26) percent for the nine months ended September 30, 2008 compared to (2.57) percent for

the quarter ended September 30, 2007 and (.22) percent for the nine months ended September 30, 2007. ROA was significantly impacted by the change in the credit risk component of our fair value optioned debt and the goodwill impairment charges recorded during these periods. Excluding these items from the periods presented, ROA decreased 190 basis points during the three months ended September 30, 2008 and 175 basis points during the nine months ended September 30, 2008 as compared to the year-ago periods. The decrease in ROA in both periods is primarily due to the loss from continuing operations during the current period as discussed above, partially offset by the impact of lower average assets in both periods.

We experienced a significant decrease in loss from continuing operations in the current quarter as compared to the previous quarter. Loss from continuing operations before income tax benefit was $(361) million for the three months ended September 30, 2008 compared to $(2,225) million for the three months ended June 30, 2008. However, the loss from continuing operations in the current quarter was significantly impacted by a substantially higher gain on debt designated at fair value and related derivatives. The primary drivers of this decrease are summarized below:

(pre-tax, in millions)	
Loss from continuing operations – quarter ended June 30, 2008	$(2,225)
Higher gain on debt designated at fair value and related derivatives	2,578
Higher provision for credit losses, excluding the provision component related to receivables held for sale	(530)
Decrease in lower of cost or fair value adjustment on receivables held for sale, including provision component	59
Lower net interest income	(125)
Higher other-than-temporary impairment charges	(31)
Lower costs and expenses, excluding goodwill impairment charges	28
Goodwill impairment charge related to our Canadian operations	(71)
Other, net	(44)
Loss from continuing operations – quarter ended September 30, 2008	$(361)

The higher gain on debt designated at fair value and related derivatives was driven by a significant widening of credit spreads during the third quarter of 2008 while the spreads narrowed in the second quarter of 2008. The higher provision for credit losses in the third quarter of 2008 was largely driven by higher credit loss estimates in our Consumer Lending real estate secured and credit card receivable portfolios as previously discussed. The lower net interest income reflects lower receivable levels as well as slightly lower net interest margin. Additionally, as a result of the current marketplace conditions, we recorded higher other than temporary impairments on certain of our available-for-sale securities.

During the third quarter of 2008, mortgage lending industry trends and economic conditions continued to deteriorate, including:

•Mortgage loan originations from 2005, 2006 and 2007 continue to perform worse than originations from prior periods;

•Real estate markets in a large portion of the United States continue to be affected by a stagnation in property values or a decline in some markets although the rate of decline in some markets may be beginning to slow;

•Rising unemployment rates, particularly in the same markets experiencing the greatest home value depreciation;

•Increases in the period of time properties remain unsold in some markets;

•Increased loss severities on homes that are foreclosed and remarketed due to the increasing inventory of homes for sale and the declining property values in many markets;

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

•Continued tightening of lending standards by mortgage lenders which impacts a borrowers' ability to refinance existing mortgage loans;

•Increased energy costs; and

•Recessionary pressures in the U.S.

It is generally believed that the slowdown in the housing market will continue to impact housing prices into 2010. The combination of the above factors, including the exit of a number of mortgage lenders, has further reduced the ability of many of our customers to make payments on their loans or to refinance the loan as accessing any equity in their homes is no longer an option. This impacts both credit performance and run-off rates and has resulted in rising delinquency and charge-off rates in our portfolios and across the industry, particularly for real estate secured loans.