Interim Report as at 30 September 2013

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01. to 30.09.2013	01.01. to 30.09.2012*	Change in %
Income statement in €m			
Operating revenues	536.6	574.6	−6.6
Net loan impairment and other credit risk provisions	5.1	−1.4	–
Administrative expenses	381.0	395.7	−3.7
Pre-tax profit	163.5	188.0	−13.0
Tax expenses	45.8	62.5	−26.7
Net profit	117.7	125.5	−6.2
Ratios			
Cost efficiency ratio of usual business activity in %	69.3	67.9	–
Return on equity before tax in % (projected for the full year)	16.5	19.4	–
Net fee income in % of operating revenues	57.5	51.1	–
No. of employees at the reporting date	2,534	2,543	−0.4
Share information			
Average number of shares in circulation in million	28.1	28.1	0.0
Earnings per share in €	4.19	4.47	−6.3
Share price at the reporting date in €	86.00	88.00	−2.3
Market capitalisation at the reporting date in €m	2,417	2,473	−2.3

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

	30.09.2013	31.12.2012	Change in %
Balance sheet figures in €m			
Total assets	22,931	20,048	14.4
Shareholders' equity	1,416	1,385	2.3
Regulatory ratios			
Tier 1 in €m	1,183	1,193	−0.8
Regulatory capital in €m	1,512	1,535	−1.5
Risk-weighted assets in €m	10,200	9,238	10.4
Tier 1 ratio in %	11.6	12.9	–
Regulatory capital ratio in %	14.8	16.6	–

Letter from the Management Board

Ladies and Gentlemen,

The economic situation in the Eurozone has stabilised. This is evident from the fact that the recessionary tendencies have weakened in most of the member states or even been overcome in some cases. On the other hand, the economic environment in the emerging markets has deteriorated slightly of late and is still failing to meet the forecasts. Cyclical momentum in Germany has picked up notably over the course of this year owing to the upturn in domestic demand.

The substantial increase in costs on account of the current and future implementation of the growing regulatory requirements continues to put pressure on the financial sector, especially as there is hardly growth in revenue potential.

At the beginning of July, our two wholly-owned Luxembourg subsidiaries, HSBC Trinkaus & Burkhardt (International) SA and HSBC Trinkaus Investment Managers SA, sold their Private Banking activities and the Private Banking-related fund business to the Liechtenstein-based VP Bank Group, represented by the Luxembourg-based units VP Bank (Luxembourg) SA and VPB Finance SA. They plan to transfer these activities before the end of the current financial year. Furthermore, HSBC Trinkaus & Burkhardt (International) SA's business activities in the corporate banking business were transferred to a company belonging to the HSBC Group in the third quarter. After the transfer of the activities mentioned, we are planning to wind up the remaining parts of the business in 2014 and therefore completely withdraw from Luxembourg.

Under pressure from the expenses involved with its withdrawal from Luxembourg, HSBC Trinkaus generated a lower pre-tax profit of €163.5 million in the first nine months (first nine months 2012: €188.0 million). The notably lower contribution from both Luxembourg-based units towards group revenues could not be completely compensated in the operating business either. Net profit of €117.7 million was generated after €125.5 million for the period ending 30 September 2012.

Owing to the change in provisions relating to the recognition of pension obligations (IAS 19) as well as the impact of the Federal Labour Court (Bundesarbeitsgericht – BAG) ruling on employee rights under certain remuneration programmes, the prior-year figures had to be adjusted (cf. explanations on page 16 ff).

HSBC Trinkaus' stable and sustainable business model, which is clearly oriented towards clients in our Private Banking, Commercial Banking, Global Banking and Markets and Asset Management segments, remains profitable and by concentrating solely on the German market offers significant growth opportunities for the years ahead.

Profitability

The earnings components are as follows:

- Net interest income was down by €11.0 million, from €135.3 million in the comparable period of 2012, to €124.3 million, the result on the one hand of the decline in interest income from financial assets. Maturing bonds could only be replaced by bonds offering a comparable risk profile with far lower coupons in the current market environment. On the other hand, low margins in the deposit-taking business continue to put pressure on net interest income.

- After the net reversal of net loan impairment and other credit risk provisions of €1.4 million in the comparable period of 2012, there was a net charge of €5.1 million in the first nine months of 2013. This is essentially attributable to the net addition of €4.0 million to individually assessed impairments and €1.2 million to collectively assessed impairments. Our conservative orientation is unchanged in relation to the assessment of risk provisions.

- The share of profit in associates amounted to €0.2 million. The prior-year result of €-7.9 million was essentially attributable to a write-down on an investment which was required on account of the changes unfolding in the regulatory environment of the investment.

- Net fee income was up by €15.3 million to €308.7million (first nine months 2012: €293.4 million). At €168.8 million revenues in the securities business, the key factor of success in our fee-based business, were €9.8 million lower than the comparable prior-year figure (€178.6 million). The clear restraint shown by the Bank's clients regarding securities transactions is putting pressure on the result here. Net fee income from the foreign exchange and derivatives business improved by €3.5 million to €64.4 million (first nine months 2012: €60.9 million). There was significant growth in net fee income in our lending business, from €10.5 million to €18.9 million, due not least to fees earned from the lead arrangement of large syndicated loans within the scope of our growth strategy in the corporate banking business. Net fee income from Investment Banking also rose, from €6.6 million to €12.5 million, attributable mainly to supporting clients during fund raising transactions. Net fee income from alternative investments was also improved substantially, by €8.5 million to €11.6 million (first nine months 2012: €3.1 million). Net fee income from the issuing and structuring business declined by €3.6 million while net fee income from the international business and payments was almost unchanged.

- Net trading income declined substantially as expected, by €69.1 million to €78.3 million (first nine months 2012: €147.4 million), due above all to extraordinary items the previous year. On the one hand, the Bank benefited in 2012 from the extraordinary effect of a subsequent increase in compensation in income from trading in equities and equity/index derivatives. On the other hand, income from treasury operations was included in income from the fixed income and interest rate derivatives business in the comparable period which could not be repeated in the first nine months of 2013 owing to the change in the interest rate environment. Weak client demand for trading-oriented retail products and certificates continues to put pressure on the result.

- Administrative expenses declined by €14.7 million, from €395.7 million to €381.0 million. The prior-year figures had to be adjusted as a result of the change in the provisions relating to the recognition of pension obligations (IAS 19) (see explanations on page 16 ff.); the change in the provisions led to higher staff expenses in the comparable period of €1.4 million. A further adjustment to the prior-year figures had to be made owing to the impact of the BAG ruling (see explanations on page 16 ff.). This resulted in a decline in staff expenses of €2.8 million in the comparable period. Over and above the decline in staff expenses is largely the result of lower variable salary components as well as a reduction in the headcount compared to the previous year. After €119.5 million in the comparable prior-year period, other administrative expenses came to €146.2 million in the first nine months of 2013, affected by the repercussions of our withdrawal from Luxembourg. The cost efficiency ratio therefore came to 69.3% in the first nine months (first nine months 2012: 67.9%).

- Income from financial assets improved from €9.5 million to €13.1 million and is essentially the result of gains realised on the disposal of financial assets. The increase versus the comparable prior-year period is due to the fact that write-downs on investments in the real estate sector were also included in the result the previous year.

- The trend in net other income was influenced by the release of provisions for pending litigation. Net other income of €25.0 million (first nine months 2012: €4.6 million) also includes above all rental income from our property in Australia, which is set against interest expense from refinancing.

The asset situation

HSBC Trinkaus' total assets increased compared to the end of 2012 by €2.9 billion to €22.9 billion. Customer accounts of €12.9 billion (first nine months 2012: €11.9 billion) are still our most important source of refinancing. Even though the increase is partially reporting date related, we still regard this as a clear commitment on the part of our clients to our solid business policy and our high credit standing. As part of the HSBC Group, HSBC Trinkaus is still the highest rated private commercial bank in Germany with a 'AA- (Stable)' Fitch rating.

The increase in loans and advances to banks, from €1.6 billion to €2.4 billion, corresponds with the increase in deposits by banks, from €1.2 billion to €2.8 billion, and is largely reporting date related. This was due above all to short-term deposits by other units of the HSBC Group which we have also invested on a short-term basis.

Loans and advances to customers increased from €4.6 billion to €6.2 billion, largely the result of a reporting date-related repurchase transaction with Eurex (amounting to €1.1 billion). The €0.5 billion increase in the lending business is attributable to the first successes of our growth strategy in the corporate banking business.

Trading assets were down by €1.6 billion compared to the end of 2012 to €6.7 billion. The decline affects above all bonds and other fixed-income securities.

Shareholders' equity of €1,416.4 million is 2.2% higher than the level as at 31 December 2012 (€1,385.3 million). The valuation reserve for financial instruments declined by €27.5 million to €133.1 million while the valuation reserve for the remeasurement of the net pension obligation improved by €5.0 million to €–55.3 million. This is attributable essentially to the increase of the technical interest rate used for the valuation of our pension commitments.

Furthermore, the dividend for the previous year of €70.3 million was distributed in the second quarter.

The financial position

The bank's financial position is still characterised by excellent liquidity. The minimum regulatory requirements were exceeded by far again with an average of 2.1 for the end-of-month positions. We continue to invest a substantial part of our surplus liquidity in eligible bonds issued by German federal states. At 14.8%, compared to 16.6% at the end of the previous year, the capital ratio was slightly lower owing to the increase in risk exposure as a result of our growth strategy; the Tier 1 ratio is 11.6% and contains no hybrid capital components. In addition to the fact that we already fulfil the higher capitalisation requirements which will apply in the years ahead under the new Basel III provisions, there is adequate scope for further business expansion.

Outlook

HSBC Trinkaus has again shown in the first nine months that the diversified business model based on continuity and clear client orientation continues to pay off. Our integration into the global HSBC Group and the related international product and service ranges are strongly supporting our goal of significantly expanding the business with mid-market enterprises ('MMEs') and multinational corporate clients.

We are expecting an operating profit more or less on the prior-year level for the full financial year, provided the economic trend in Europe and in Germany in particular does not deteriorate significantly. Otherwise, additional risk provisioning could be required. Although 2013 net profit will come under pressure from the expenses in connection with our withdrawal from Luxembourg, we are nonetheless expecting a satisfactory overall result for the Bank.

Düsseldorf, November 2013

The Management Board

Andreas Schmitz | Paul Hagen | Carola Gräfin v. Schmettow

Consolidated Balance Sheet

Assets in €m	Note	30.09.2013	31.12.2012*	01.01.2012*	Change in %**
Cash reserve		1,944.4	265.0	672.2	>100
Loans and advances to banks	(8)	2,377.8	1,551.2	2,502.7	53.3
Loans and advances to customers	(9)	6,194.0	4,554.3	3,835.7	36.0
Net loan impairment provision	(10)	–30.5	–25.2	–27.1	21.0
Trading assets	(11)	6,747.8	8,261.5	9,088.7	–18.3
Financial assets	(12)	5,160.7	5,068.3	4,164.7	1.8
Interests in associates		54.4	55.1	65.2	–1.3
Fixed assets		85.7	80.6	79.3	6.3
Intangible assets		17.7	23.7	31.3	–25.3
Taxation recoverable		7.7	1.2	9.4	>100
current		5.7	1.2	8.6	>100
deferred		2.0	0.0	0.8	–
Other assets		294.7	212.1	213.1	38.9
Non-current assets and disposal groups held for sale***		77.0	0.0	0.0	–
Total assets		**22,931.4**	**20,047.8**	**20,635.2**	**14.4**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.
** Change from 31 December 2012 to 30 September 2013
*** In connection with our withdrawal from Luxembourg

Liabilities in €m	Note	30.09.2013	31.12.2012*	01.01.2012*	Change in %**
Deposits by banks	(13)	2,765.7	1,219.5	832.8	>100
Customer accounts	(14)	12,908.5	11,880.4	12,446.6	8.7
Certificated liabilities		10.0	10.0	10.0	0.0
Trading liabilities	(15)	4,526.1	4,721.9	5,309.5	–4.1
Provisions		136.1	136.6	103.0	–0.4
Taxation		47.5	65.8	48.4	–27.8
current		47.5	53.4	48.3	–11.0
deferred		0.0	12.4	0.1	–
Other liabilities		288.3	275.0	235.1	4.8
Subordinated capital		345.7	353.4	353.4	–2.2
Liabilities from disposal groups***		487.1	0.0	0.0	–
Shareholders' equity		1,416.4	1,385.3	1,296.4	2.2
Subscribed capital		75.4	75.4	75.4	0.0
Capital reserve		365.3	354.3	363.2	3.1
Retained earnings		782.0	726.0	666.6	7.7
Valuation reserve for financial instruments		133.1	160.6	88.5	–17.1
Valuation reserve for the remeasurement of the net pension obligation		–55.3	–60.3	–30.4	8.3
Valuation reserve from currency conversion		–1.8	–2.8	–2.8	35.7
Net profit including profit brought forward		117.7	132.0	135.9	–10.8
Total equity and liabilities		**22,931.4**	**20,047.8**	**20,635.2**	**14.4**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.
** Change from 31 December 2012 to 30 September 2013
*** In connection with our withdrawal from Luxembourg

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated income statement

in €m	Note	01.01. to 30.09.2013	01.01. to 30.09.2012*	Change in %
Interest income		176.7	196.2	–9.9
Interest expense		52.4	60.9	–14.0
Net interest income	(1)	124.3	135.3	–8.1
Net loan impairment and other credit risk provisions	(2)	5.1	–1.4	–
Share of profit in associates		0.2	–7.9	–
Fee income		565.9	524.0	8.0
Fee expenses		257.2	230.6	11.5
Net fee income	(3)	308.7	293.4	5.2
Net trading income	(4)	78.3	147.4	–46.9
Administrative expenses	(5)	381.0	395.7	–3.7
Income from financial assets		13.1	9.5	37.9
Net other income	(6)	25.0	4.6	>100
Pre-tax profit		**163.5**	**188.0**	**–13.0**
Tax expenses		45.8	62.5	–26.7
Net profit		**117.7**	**125.5**	**–6.2**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

Reconciliation from net income to comprehensive income

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012*
Net profit	117.7	125.5
Gains/losses after tax reclassified to the income statement	–26.5	55.4
of which from financial instruments	–27.5	56.0
of which from currency conversion	1.0	–0.6
Gains/losses after tax not reclassified to the income statement	5.0	–28.3
of which from the remeasurement of the net pension obligation	5.0	–28.3
Total	**96.2**	**152.6**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

Earnings per share

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012*	Change in %
Undiluted earnings per share	4.19	4.47	–6.3
Diluted earnings per share	4.19	4.47	–6.3

* Prior year’s figures adjusted. The adjustments are explained on page 16 ff.

Consolidated statement of changes in equity

in €	2013	2012*
Consolidated shareholders’ equity as at 31.12. of the previous year	1,385.0	1,296.1
Retrospective adjustment	0.3	0.3
Consolidated shareholders’ equity as at 01.01.	**1,385.3**	**1,296.4**
Distribution	–70.3	–70.3
Net profit	117.7	125.5
Gains/losses not recognised in the income statement	–21.5	27.1
Share-based payments settled in the form of equity instruments	27.1	–4.1
Transfer of shares to employees in connection with share-based payment schemes	–21.9	–6.1
Consolidated shareholders’ equity as at 30.09.	**1,416.4**	**1,368.5**

* Prior year’s figures adjusted. The adjustments are explained on page 16 ff.

Consolidated cash flow statement

in €m	2013	2012
Cash and cash equivalents as at 01.01.	**265.0**	**672.2**
Cash flow from operating activities	1,782.2	3,141.8
Cash flow from investing activities	–24.8	–27.2
Cash flow from financing activities	–78.0	–70.3
Cash and cash equivalents as at 30.09.	**1,944.4**	**3,716.5**

The cash flow statement calculated according to the indirect method shows the position and movements in cash and cash equivalents of the HSBC Trinkaus Group. Reported cash and cash equivalents correspond to the 'Cash reserve' balance sheet item, which comprises cash in hand plus balances at central banks.

Consolidated Income Statement Quarterly Results

in €m	Q1 2013	Q2 2013	Q3 2013	Q3 2012*
Interest income	57.2	59.3	60.2	63.6
Interest expense	17.9	17.2	17.4	17.5
Net interest income	39.3	42.1	42.9	46.1
Net loan impairment and other credit risk provisions	–0.1	5.3	–0.1	–0.1
Share of profit in associates	0.1	0.1	0.0	–0.9
Fee income	183.6	211.2	171.1	180.1
Fee expenses	81.8	93.6	81.8	77.6
Net fee income	101.8	117.6	89.3	102.5
Net trading income	26.3	35.1	16.9	35.1
Administrative expenses	117.1	125.6	138.3	126.0
Income from financial assets	6.3	5.9	0.9	4.9
Net other income	2.0	3.2	19.8	5.1
Pre-tax profit	**58.8**	**73.1**	**31.6**	**66.9**
Tax expenses	19.4	24.0	2.4	22.5
Net profit	**39.4**	**49.1**	**29.2**	**44.4**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

Earnings per share

in €	Q1 2013	Q2 2013	Q3 2013	Q3 2012*
Undiluted earnings per share	1.40	1.75	1.04	1.58
Diluted earnings per share	1.40	1.75	1.04	1.58

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

Notes to the Consolidated Income Statement and the Consolidated Balance Sheet

This Interim Report for the HSBC Trinkaus Group as at 30 September 2013 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. Furthermore, the report takes into consideration the requirement of an interim management statement pursuant to Section 37x German Securities Trading Act (WpHG). No review of the Interim Report was carried out by external auditors.

When drawing up this Interim Report including the comparable figures for the prior-year periods we applied the same accounting and valuation methods as in the 2012 consolidated financial statements, apart from the following exceptions.

Owing to the mandatory changes to be applied retrospectively from the 2013 financial year in accordance with IAS 19 'Employee Benefits', the expected interest income from the plan assets is calculated taking into consideration the underlying interest rate of the defined benefit plan. The retrospective adjustment of the return on plan assets increases staff expenses by around €1.3 million and improves the valuation reserve for the remeasurement of the net pension obligation by around €0.9 million in the first three quarters of 2012. In the opening balance sheet as at 1 January 2012 and in the balance sheet as at 31 December 2012, respectively, retained earnings/profit brought forward were/was reduced by €8.1 million and €9.3 million, respectively, on the one hand and the valuation reserve for the remeasurement of the net pension obligation increased by €8.1 million and €9.3 million, respectively, on the other.

Furthermore, the amendments to IAS 19 'Employee benefits' lead to a change in the measurement of the provisions covering additional compensation under old-age part-time work agreements. The additional compensation is no longer recognised as expense for the entire amount upon initial recognition of the provision, but is accumulated rateably up until the start of the inactive phase. The retrospective adjustment of the provision leads to an increase in staff expenses of around €0.1 million for the first three quarters of 2012. In the opening balance sheet as at 1 January 2012 and in the balance sheet as at 31 December 2012, respectively, the provision was reduced by €0.4 million and €0.3 million, respectively, on the one hand and retained earnings increased by €0.3 million and €0.2 million, respectively, on the other. Furthermore, the provision for deferred taxes was increased in the opening balance sheet as at 1 January 2012 and in the balance sheet as at 31 December 2012, respectively, by €0.1 million in each case.

Several of the terms used have also been changed with the amendment of IAS 19. For example, the term actuarial gains and losses has been used in relation to both the gross pension obligation and plan assets so far. This term now relates only to the effects of changed assumptions and estimates with respect to the measurement of the gross pension obligation and no longer to the deviation between the actual and expected income from the plan assets. We therefore use the new term 'Valuation reserve for the remeasurement of the net pension obligation' in shareholders' equity in this report in place of 'Valuation reserve for actuarial profits and losses' used to date.

The judgement of the German Federal Labour Court (BAG) of 18 January 2012, 10 AZR 612/10 (hereinafter referred to as BAG ruling), has led to a further retrospective adjustment in this financial report. As the BAG ruling was already taken into consideration in the 2012 consolidated financial statements, we refer to the 2012 Annual Report, Note 18, for a detailed explanation. The retrospective adjustment reduces staff expenses for the first three quarters of 2012 by around €2.8 million.

The balance sheet items 'Non-current assets and disposal groups held for sale' and 'Liabilities from disposal groups' are in connection with our withdrawal from Luxembourg. The assets and liabilities reported under these items are essentially client assets and loans from Private Banking activities which have been acquired by the VP Bank Group, but not yet transferred. In accordance with IFRS 5 these are to be reported separately in the balance sheet.

The application of the new standard IFRS 13 'Fair value measurement' is mandatory as of the 2013 financial year. IFRS 13 establishes a single standard guideline for fair value measurement, including a definition of the term fair value and guidance on the methods which can be used to determine it. The application of the standard involves no major measurement changes for HSBC Trinkaus.

Furthermore, the valuation reserves in the statement of comprehensive income are to be divided into two categories in accordance with the amendments to IAS 1. The valuation reserves from financial instruments and currency conversion belong to the category in which the valuation reserves are reclassified to the income statement. The valuation reserve for the remeasurement of the net pension obligation is not reclassified in the income statement, on the other hand.

The interests reported as minority interests so far consist of a limited partner interest in a closed-end real estate fund which is fully consolidated in the consolidated financial statements. After a further legal examination in connection with considerations with regard to the future use of the real estate, it was ascertained that the control and all opportunities and risks associated with the limited partner share are not attributable to the holder of the limited partner interests, but to HSBC Trinkaus & Burkhardt AG. Consequently, we no longer report minority interests with immediate effect and have adjusted the comparative disclosures accordingly.

We have amended the disclosure of our security in the derivatives business. Security reported under trading assets and liabilities, respectively, so far is now reported under loans and advances to customers/banks and customer accounts/deposits by banks, respectively. Furthermore, we no longer report the securities repurchase and lending business under trading assets and liabilities, respectively, but under other loans and advances in loans and advances to customers/banks and under other liabilities, respectively, in customer accounts/deposits by banks. We have adjusted the prior-year figures.

All changes to standards and interpretations, the early application of which we have dispensed with, are of no or only minor significance for our consolidated financial statements with the exception of IFRS 9. We are currently examining the possible impact of implementing IFRS 9 on our consolidated financial statements.

The preparation of IFRS financial statements requires the management to provide assessments, assumptions and estimates. Areas in which this is necessary are the determination of the fair value of financial instruments, the impairment of financial instruments and other assets and the accounting of provisions as well as other obligations. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessments.

For greater clarity all amounts are reported in millions of euros and commercially rounded. This may result in very small discrepancies in the calculation of totals and percentages in this Interim Report.

1 Net interest income

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012
Interest income	**176.7**	**196.2**
from loans and advances to banks	12.7	19.9
Money market transactions	9.5	17.4
Other interest-bearing receivables	3.2	2.5
from loans and advances to customers	71.5	77.6
Money market transactions	6.6	10.0
Other interest-bearing receivables	64.9	67.6
from financial assets	92.5	98.7
Interest income	88.8	95.2
Dividend income	2.6	2.0
Income from subsidiaries	1.1	1.5
Interest expense	**52.4**	**60.9**
from deposits by banks	16.7	12.8
Money market transactions*	0.9	4.3
Other interest-bearing deposits	15.8	8.5
from customer accounts	15.4	21.9
Money market transactions	4.3	8.1
Other interest-bearing deposits	11.1	13.8
from securitised liabilities	0.3	0.3
from subordinated capital	13.2	13.2
Other*	6.8	12.7
Net interest income	**124.3**	**135.3**

* The effect of transferring the Global Markets refinancing result from net interest income to net trading income was reclassified within interest expenses from the line 'From customer accounts/money market transactions' into the line 'Other'. The previous year's figures were adjusted accordingly.

2 Net loan impairment and other credit risk provisions

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012
Additions	5.7	1.5
Reversals	0.5	2.4
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.1	0.5
Total	**5.1**	**–1.4**

3 Net fee income

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012
Securities transactions	168.8	178.6
Foreign exchange transactions and derivatives	64.4	60.9
Lending	18.9	10.5
Investment banking	12.5	6.6
Alternative investments	11.6	3.1
Payments*	9.8	9.8
Issuing and structuring business	7.9	11.5
International business*	7.2	7.5
Other fee-based business	7.6	4.9
Total	**308.7**	**293.4**

* According to management reporting, we reclassified the result from international payments, from international business to payments. The previous year's figures were adjusted accordingly.

4 Net trading income

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012
Equities and equity/index-linked derivatives	31.5	71.1
Bonds and interest rate derivates	41.8	68.8
Foreign exchange	5.1	9.6
Derivatives held in the banking book	–0.1	–2.1
Total	**78.3**	**147.4**

Interest and dividend income attributable to trading activities – shown as the difference between the interest and dividend revenues of trading positions and the corresponding refinancing interest – is included in net trading income.

5 Administrative expenses

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012*
Staff expenses	217.3	258.1
Wages and salaries	183.2	226.7
Social security costs	22.0	20.5
Expenses for retirement pensions and other employee benefits	12.1	10.9
Other administrative expenses	146.2	119.5
Depreciation of property, plant and equipment and of intangible assets	17.5	18.1
Total	**381.0**	**395.7**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

6 Net other income

in €m	01.01. to 30.09.2013	01.01. to 30.09.2012
Other operating income	32.5	21.7
Other operating expenses	7.6	17.4
Other operating income/expenses	**24.9**	**4.3**
Other income	0.2	0.4
Other expenses	0.1	0.1
Other net income	**0.1**	**0.3**
Net other income	**25.0**	**4.6**

The hedge result is reported as net income/expenses from the 2013 financial year. The comparable figures have been adjusted accordingly.

7 Segment Reporting*

in €m	PB	CMB	GB & M	AM	Central / Consoli-dation	Total
Net interest income						
30.09.2013	14.8	50.7	51.2	4.0	3.6	124.3
30.09.2012	20.4	51.1	48.6	5.1	10.1	135.3
Net loan impairment and other credit risk provisions						
30.09.2013	0.0	5.0	0.5	0.0	–0.4	5.1
30.09.2012	–0.1	–1.2	–0.1	0.0	0.0	–1.4
Net interest income after net loan impairment and other credit risk provisions						
30.09.2013	14.8	45.7	50.7	4.0	4.0	119.2
30.09.2012	20.5	52.3	48.7	5.1	10.1	136.7
Share of profit in associates						
30.09.2013	0.0	0.0	0.2	0.0	0.0	0.2
30.09.2012	–1.0	–1.1	–4.5	–0.7	–0.6	–7.9
Net fee income						
30.09.2013	51.2	34.5	191.5	31.5	0.0	308.7
30.09.2012	53.3	30.2	190.9	32.8	–13.8	293.4
Operating trading income						
30.09.2013	3.5	4.4	69.1	1.8	–0.4	78.4
30.09.2012	3.1	3.4	142.2	2.0	–1.2	149.5
Income after net loan impairment provision						
30.09.2013	69.5	84.6	311.5	37.3	3.6	506.5
30.09.2012	75.9	84.8	377.3	39.2	–5.5	571.7
Administrative expenses						
30.09.2013	52.3	50.9	222.1	21.8	33.9	381.0
30.09.2012	59.7	54.1	250.0	25.8	6.1	395.7
of which depreciation and amortisation						
30.09.2013	0.7	0.9	1.7	0.2	14.0	17.5
30.09.2012	0.9	0.6	7.0	0.2	9.5	18.2
Income from financial assets						
30.09.2013	2.3	2.9	10.1	1.2	–3.4	13.1
30.09.2012	1.6	1.8	6.9	1.0	–1.8	9.5
Income from derivatives in the banking book						
30.09.2013					–0.1	–0.1
30.09.2012					–2.1	–2.1
Net other income						
30.09.2013	3.0	1.1	5.5	0.5	14.9	25.0
30.09.2012	1.7	2.1	8.5	1.2	–8.9	4.6
Pre-tax profit						
30.09.2013	**22.5**	**37.7**	**105.0**	**17.2**	–18.9	**163.5**
30.09.2012	**19.5**	**34.6**	**142.7**	**15.6**	–24.4	**188.0**
Taxation						
30.09.2013	6.9	11.9	32.9	5.4	–11.3	45.8
30.09.2012	6.0	10.8	44.8	4.9	–4.0	62.5
Net profit						
30.09.2013	**15.6**	**25.8**	**72.1**	**11.8**	**–7.6**	**117.7**
30.09.2012	**13.5**	**23.8**	**97.9**	**10.7**	**–20.4**	**125.5**

* Prior year's figures adjusted. The adjustments are explained on page 16 ff.

As in the two previous quarters, the structure of segment reporting corresponds for the first nine months of 2013 and adjusted retrospectively for the comparable prior-year period to the new organisational structure of HSBC Trinkaus, which is geared to HSBC. The Bank differentiates four Global Businesses: Private Banking (PB), Commercial Banking (CMB), Global Banking and Markets (GB & M) and Asset Management (AM) as well as Central. Private Banking is largely congruent with the private banking business to date, Commercial Banking is responsible for business with SME corporate clients. In addition to servicing large, international corporate clients and institutional clients, Global Banking and Markets is responsible for investment banking and global markets activities. Global Markets combines the origination, sales and trading activities for capital market products. The Asset Management business is now reported separately having been included in the private clients, corporate clients and institutional clients segments in previous years. Apart from extraordinary effects, such as those resulting from our withdrawal from Luxembourg in this quarter, only regulatory and other costs as well as reconciliation items between the total of the four core segment results and the overall amount in the respective sub-items of the income statements are essentially shown in Central.

The result in the third quarter of this year was influenced strongly by the preparations for our withdrawal from Luxembourg. This explains the strong increase in administrative expenses in Central in the third quarter of this year. On the other hand, the release of provisions for pending litigation significantly improved net other income.

Adjusted for these special factors, the result of ordinary banking operations was not quite as strong as the good result generated in the third quarter of the previous year. The comparable prior-year period benefited from strong revenues after the Eurozone crisis was contained by the announcement of the ECB's OMT programme, under which it purchases bonds issued by Eurozone member states. Moreover, the third quarter of this year was affected by fears that the US central bank would relax its quantitative easing measures, leading to major restraint on the part of many market participants and rising bond yields. The impact of these diverging general conditions was seen in particular in a significantly lower result in Global Banking and Markets in the third quarter compared to the previous year. The Global Banking and Markets segment reported a far weaker earnings trend in the first nine months of this year compared to the previous year, which saw extremely high revenues in the second quarter resulting from a subsequent increase in compensation in the wake of a business combination. Despite the uncertainty in these adverse market conditions, the other segments were able to exceed their prior-year results, underlining the balanced nature of the business structure and stability of the Bank's client-oriented business model.

The Private Banking segment was not able to fully offset the decline in net interest income in the deposit-taking business on account of the lower level of market interest rates by generating higher revenues from asset and custody account management as well as transaction revenues in the securities business. The positive impact of the growth strategy in Commercial Banking, which was reflected in particular in the growth in interest and fee income in the lending and international business, was offset by major declines in revenues in the deposit-taking business as a result of lower margins owing to the low level of market interest rates and by the increase in risk provisioning. Substantial increases in revenues from capital increases as well as from alternative investment transactions in the Global Banking and Markets segment were not enough to compensate for the notable revenue declines in Treasury and in equities trading, which benefited the previous year from falling market interest rates and extraordinary revenues from the subsequent increase in revenues already mentioned. Despite the adverse general conditions, in particular in the third quarter, the Asset Management segment generated revenues almost on the prior-year level again.

The restructuring measures to increase efficiency implemented the previous year and the lower performance-related remuneration this year lowered administrative costs in the Bank's four core segments as a result of which all segments, with the exception of Global Banking and Markets, made a stronger contribution to earnings.

8 Loans and advances to banks

in €m	30.09.2013	31.12.2012
Current accounts	941.2	400.0
Money market transactions	965.7	544.6
of which overnight money	68.7	73.2
of which term deposits	897.0	471.4
Other loans and advances	240.9	140.4
Security in the derivatives business	230.0	466.2
Total	**2,377.8**	**1,551.2**
of which domestic banks	557.5	178.3
of which foreign banks	1,820.3	1,372.9

We have amended the disclosure of our security in the derivatives business with banks. This has been reported under trading assets so far and is now reported under loans and advances to banks. Furthermore, we no longer report securities repurchase and lending transactions under trading activities, but under other loans and advances in loans and advances to banks. We have adjusted the prior-year figures.

9 Loans and advances to customers

in €m	30.09.2013	31.12.2012
Current accounts	1,230.8	1,104.8
Money market transactions	476.9	574.8
of which overnight money	62.4	77.0
of which term deposits	414.5	497.8
Loan accounts	2,651.9	2,374.7
Other loans and advances	1,233.6	138.3
Security in the derivatives business	600.8	361.7
Total	**6,194.0**	**4,554.3**
of which domestic customers	4,574.2	2,904.8
of which foreign customers	1,619.8	1,649.5

We have amended the disclosure of our security in the derivatives business with customers. This has been reported under trading assets so far and is now reported under loans and advances to customers. Furthermore, we no longer report securities repurchase and lending transactions under trading activities, but under other loans and advances in loans and advances to customers. We have adjusted the prior-year figures.

10 Net loan impairment and other credit risk provisions

in €m	30.09.2013	31.12.2012
Net loan impairment provision	30.5	25.2
Provisions for credit risks	4.0	4.1
Net loan impairment and other credit risk provisions	**34.5**	**29.3**

	Impairments/provisions					
	Individually assessed		Collectively assessed		Total	
in €m	2013	2012	2013	2012	2013	2012
As at 01.01.	12.9	16.6	16.4	13.7	29.3	30.3
Reversals	0.5	2.4	0.0	0.0	0.5	2.4
Utilisation	0.0	2.4	0.0	0.0	0.0	2.4
Additions	4.5	0.2	1.2	1.3	5.7	1.5
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.09.	16.9	12.0	17.6	15.0	34.5	27.0

11 Trading assets

in €m	30.09.2013	31.12.2012
Bonds and other fixed-income securities	2,616.4	3,853.2
Equities and other non fixed-income securities	949.5	807.9
Tradable receivables	1,472.2	1,770.9
Positive market value of derivatives	1,704.3	1,829.5
Derivatives in hedging relationships	5.4	0.0
Total	6,747.8	8,261.5

We have amended the disclosure of our security in the derivatives business. This has been reported under trading assets so far and is now reported under loans and advances to customers/banks. Furthermore, we no longer report securities repurchase and lending transactions under trading activities, but under other loans and advances in loans and advances to customers/banks. We have adjusted the prior-year figures.

12 Financial assets

in €m	30.09.2013	31.12.2012
Bonds and other fixed-income securities and interest rate derivatives	4,716.4	4,612.9
Equities and other non-fixed-income securities	40.0	38.9
Investment certificates	90.4	80.2
Promissory note loans	213.3	235.6
Investments	100.6	100.7
Total	5,160.7	5,068.3

13 Deposits by banks

in €m	30.09.2013	31.12.2012
Current accounts	1,857.3	561.5
Money market transactions	630.1	402.4
of which overnight money	441.0	22.9
of which term deposits	189.1	379.5
Other liabilities	76.1	90.9
Security in the derivatives business	202.2	164.7
Total	**2,765.7**	**1,219.5**
of which domestic banks	997.2	367.1
of which foreign banks	1,768.5	852.4

We have amended the disclosure of our security in the derivatives business with banks. This has been reported under trading liabilities so far and is now reported under deposits by banks. Furthermore, we no longer report securities repurchase and lending transactions under trading liabilities, but under other liabilities in deposits by banks. We have adjusted the prior-year figures.

14 Customer accounts

in €m	30.09.2013	31.12.2012
Current accounts	9,542.0	8,163.3
Money market transactions	2,917.2	3,394.9
of which overnight money	1,039.7	750.0
of which term deposits	1,877.5	2,644.9
Savings deposits	59.6	53.6
Other liabilities	389.7	268.6
Total	**12,908.5**	**11,880.4**
of which domestic customers	11,156.8	8,885.8
of which foreign customers	1,751.7	2,994.6

We have amended the disclosure of our security in the derivatives business with customers. This has been reported under trading liabilities so far and is now reported under other liabilities in customer accounts. Furthermore, we no longer report securities repurchase and lending transactions under trading liabilities, but under other liabilities in customer accounts. We have adjusted the prior-year figures.

15 Trading liabilities

in €m	30.09.2013	31.12.2012
Negative market value of derivatives	2,212.4	2,408.3
Promissory note loans, bonds, certificates and warrants	2,242.9	2,195.2
Delivery obligations arising from securities sold short	17.9	41.5
Derivatives in hedging relationships	48.3	70.4
Derivatives held in the banking book	4.6	6.5
Total	4,526.1	4,721.9

We have amended the disclosure of our security in the derivatives business. This has been reported under trading liabilities so far and is now reported under customer accounts/deposits by banks. Furthermore, we no longer report securities repurchase and lending transactions under trading liabilities, but under other liabilities in customer accounts/deposits by banks. We have adjusted the prior-year figures.

Other Notes

16 Derivatives business

in €m	Nominal amounts with a residual maturity of up to 1 year	1 – 5 years	Over 5 years	Total	Positive market values
Interest rate transactions					
30.09.2013	6,197	10,271	8,985	25,453	925
31.12.2012	6,183	12,464	8,934	27,581	1,220
Foreign exchange transactions					
30.09.2013	31,123	1,881	175	33,179	412
31.12.2012	31,633	1,238	463	33,334	355
Equity/index-based transactions					
30.09.2013	3,929	2,685	155	6,769	18
31.12.2012	3,005	2,151	116	5,272	20
Total					
30.09.2013	**41,249**	**14,837**	**9,315**	**65,401**	**1,355**
31.12.2012	**40,821**	**15,853**	**9,513**	**66,187**	**1,595**

Deals with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of deals represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity/index-related deals which include a settlement risk as well as corresponding market price risks. No account is taken of netting agreements. As there is no counterparty risk on exchange-traded products and short positions, the market values of these products are not shown. We focus in the derivatives business on transactions with other HSBC units.

17 Market risk

in €m	30.09.2013	31.12.2012
Interest rate risk	1.5	1.0
Credit spread risk	3.9	3.3
Currency risk	0.0	0.5
Equity/index risk	1.2	0.5
Commodities risk	0.0	0.0
Total potential market risk in the trading portfolio	**4.2**	**3.8**

The market risk potential is calculated for all market risk categories using a standardised internal model. We use a value-at-risk approach to measure market risks in our trading book under normal market conditions. We understand value-at-risk to be the potential loss which will, with 99% probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. By taking correlations into consideration the overall market risk potential is lower than the sum of the risks per risk category.

18 Contingent liabilities and other obligations

in €m	30.09.2013	31.12.2012
Contingent liabilities on guarantees and indemnity agreements	1,748.3	1,805.6
Irrevocable loan commitments	5,777.4	5,253.7
Total	7,525.7	7,059.3

Key Dates

26 February 2014
Results Press Conference

14 May 2014
Interim Report as at 31 March 2014

3 June 2014
Annual General Meeting

27 August 2014
Interim Report as at 30 June 2014

11 November 2014
Interim Report as at 30 September 2014

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