HSBC Bank Canada

Third Quarter 2013 Interim Report

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Corporate profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. With around 6,600 offices in over 80 countries and territories and assets of US$2,723bn at 30 September 2013, the HSBC Group is one of the world's largest banking and financial services organizations.

Headlines

- Profit before income tax expense was $251m for the quarter ended 30 September 2013, an increase of 3% compared with the same period in 2012. Profit before income tax expense was $702m for the nine months ended 30 September 2013, a decrease of 13% compared with the same period in 2012.
- Profit attributable to common shareholders was $168m for the quarter ended 30 September 2013, an increase of 4% compared with the same period in 2012. Profit attributable to common shareholders was $452m for the nine months ended 30 September 2013, a decrease of 17% compared with the same period in 2012.
- Return on average common equity was 16% for the quarter ended 30 September 2013 and 14.3% for the nine months ended 30 September 2013 compared with 15.7% and 17.9% respectively for the same periods in 2012.
- The cost efficiency ratio was 51.9% for the quarter ended 30 September 2013 and 48.9% for the nine months ended 30 September 2013 compared with 45.1% and 47.2% respectively for the same periods in 2012.
- Total assets were $85.6bn at 30 September 2013 compared with $84.5bn at 30 September 2012.
- Total assets under administration increased to $20.9bn at 30 September 2013 from $19bn at 30 September 2012.
- Common equity tier 1 capital ratio was 11.1%, tier 1 ratio 14.1% and the total capital ratio 16% at 30 September 2013 determined using regulatory guidelines in accordance with the Basel III capital adequacy framework adopted with effect from 1 January 2013.

Contents

Management's Discussion and Analysis

Financial Highlights

(in $ millions, except where otherwise stated)	Quarter ended			Nine months ended	
	30 September 2013	30 September 2012	30 June 2013	**30 September 2013**	30 September 2012
For the period ($m)					
Profit before income tax expense	**251**	244	182	**702**	811
Net operating income before loan impairment charges and other credit risk provisions	**522**	572	531	**1,637**	1,867
Profit attributable to common shareholders	**168**	162	113	**452**	547
At period-end ($m)					
Shareholders' equity	**5,187**	5,134	5,074		
Loan and advances to customers (net of impairment allowances)	**46,722**	46,309	44,946		
Customer accounts	**51,227**	47,713	49,505		
Capital measures[1]					
Common equity tier 1 capital ratio (%)	**11.1**	n/a	10.8		
Tier 1 ratio (%)	**14.1**	13.5	13.6		
Total capital ratio (%)	**16.0**	15.8	15.5		
Assets-to-capital multiple	**14.5**	13.6	14.5		
Risk-weighted assets ($m)	**36,281**	36,818	36,467		
Performance ratios (%)[2]					
Return on average common equity	**16.0**	15.7	10.6	**14.3**	17.9
Post-tax return on average total assets	**0.78**	0.77	0.53	**0.71**	0.88
Post-tax return on average risk-weighted assets[1]	**1.8**	1.8	1.3	**1.7**	2.0
Credit coverage ratios (%)					
Loan impairment charges as a percentage of total operating income	**1.7**	12.4	15.8	**9.1**	9.5
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.1**	0.5	0.7	**0.4**	0.5
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**61.2**	50.9	58.4	**61.2**	50.9
Efficiency and revenue mix ratios (%)[2]					
Cost efficiency ratio	**51.9**	45.1	50.1	**48.9**	47.2
Adjusted cost efficiency ratio	**51.9**	44.5	50.1	**48.8**	46.5
As a percentage of total operating income:					
- net interest income	**61.1**	62.4	64.0	**60.8**	60.4
- net fee income	**29.1**	27.4	29.0	**27.6**	23.9
- net trading income	**8.0**	8.4	8.5	**8.8**	7.2
Financial ratios (%)[2]					
Ratio of customer advances to customer accounts	**91.2**	97.1	90.8		
Average total shareholders' equity to average total assets	**6.0**	6.0	6.0		
Total assets under administration ($m)[2]					
Funds under management	**19,747**	18,097	19,220		
Custodial accounts	**1,142**	854	1,106		
Total assets under administration	**20,889**	18,951	20,326		

1 *Effective 1 January 2013, regulatory information is determined using regulatory guidelines in accordance with the Basel III capital adequacy framework. Comparative regulatory information for 2012 periods, were not restated and are determined using regulatory guidelines in accordance with the Basel II capital adequacy framework. Refer to the 'Capital' section of this document for further information relating to the adoption regulatory guidelines using the Basel III capital adequacy framework.*

2 *Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.*

Management's Discussion and Analysis (continued)

Basis of preparation of financial information

HSBC Bank Canada ('the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc ('HSBC Holdings'). Throughout Management's Discussion and Analysis ('MD&A'), the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. The MD&A is dated 4 November 2013, the date that our unaudited consolidated financial statements and MD&A for the third quarter of 2013 were approved by our Board of Directors ('the Board').

We prepare our unaudited consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'). The information in this MD&A is derived from our unaudited consolidated financial statements or from the information used to prepare them. The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

The references to 'notes' throughout this MD&A refer to notes on the unaudited consolidated financial statements for the third quarter ended 30 September 2013.

Use of non-IFRS financial measures

The bank uses certain non-IFRS financial measures to assess its performance. Non-IFRS financial measures are not defined by IFRS and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The following non-IFRS financial measures are used throughout this document and are defined below:

Non-IFRS financial measure	Definition
Adjusted cost efficiency ratio	Cost efficiency ratio adjusted to exclude gains and losses from financial instruments designated at fair value from net operating income before loan impairment charges and other credit risk provisions for the period.
Assets under administration	These are assets administered by the bank on behalf of our customers. The bank does not recognize these assets on its consolidated statement of financial position because our customers are the beneficial owners.
Average total shareholders' equity to average total assets	Average shareholders' equity is calculated using month-end balances of total shareholders' equity for the period and average total assets are calculated using average daily balances for the period.
Cost efficiency ratio	Calculated as total operating expenses for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.
Liquid assets	These assets include high grade financial investments and reverse repurchase agreements, of which a certain amount is pledged as collateral to secure recognized liabilities, and contingent obligations within payment and depository clearing systems.
Net interest income, net fee income and net trading income as a percentage of total operating income	Net interest income, net fee income and net trading income for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.
Post-tax return on average assets	Profit attributable to common shareholders on an annualized basis divided by average assets, which is calculated using average daily balances for the period.
Post-tax return on average risk-weighted assets	Profit attributable to common shareholders on an annualized basis divided by the average monthly balances of risk-weighted assets for the period. Risk-weighted assets are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework (2012: Risk weighted assets are calculated using the guidelines issued by OSFI in accordance with the Basel II capital adequacy framework).
Ratio of customer advances to customer accounts	Loans and advances to customers divided by customer accounts, using period-end balances.
Return on average common equity	Profit attributable to common shareholders on an annualized basis divided by average common equity, which is calculated using month-end balances of common equity for the period.

Overview

HSBC Bank Canada reported a profit before income tax expense of $251m for the third quarter of 2013, an increase of $7m, or 3%, compared with the third quarter of 2012, and an increase of $69m, or 38%, compared with the second quarter of 2013. Profit before income tax expense for the nine months ended 30 September 2013 was $702m, a decrease of $109m, or 13%, compared with the same period in 2012.

The increase in profit before income tax expense compared with the same quarter last year and the prior quarter is mainly due to lower loan impairment charges from lower specific provisions. Higher other operating income as a result of a reduction in fair value in the second quarter of 2013 of an investment property held for sale, partially offset by lower gains from the sale of financial investments, further contributed to the increase in profit before income tax expense compared with the prior quarter.

Profit before income tax expense for the nine months ended 30 September 2012 included a gain on the sale of the full service brokerage business of $84m and a restructuring charge of $36m mostly relating to the wind-down of the consumer finance business. Excluding the impact of these items, profit before income tax expense for the nine months ended 30 September 2013 decreased by $61m, or 8%, compared with the same period last year mainly due to lower net interest income from declining loan balances in connection with the wind-down of the consumer finance business and lower other operating income as result of a reduction in fair value of an investment property held for sale. The decrease is partially offset by lower operating expenses as a result of our on-going organizational effectiveness programmes, which resulted in sustainable cost savings as well as widening credit spreads on our own subordinated debentures designated at fair value. In addition offsetting the decrease were lower loan impairment charges from a reduction in collectively assessed provisions driven by lower average loan balances following the wind-down of the bank’s consumer finance business.

Commenting on the results, Paulo Maia, President and Chief Executive Officer of HSBC Bank Canada, said:

“The growth in our commercial loan portfolio in the third quarter and our success in continued sustainable operating expense savings within our operations in Canada are bright spots. We continue to face pressure from lower interest spreads. However, our continued focus on growing our core businesses by connecting our customers to international markets and business, consistent with HSBC's global strategy, has positioned us well for future growth.”

Analysis of Consolidated Financial Results for the Third Quarter 2013

Net interest income

Net interest income for the third quarter of 2013 was $319m, a decrease of $38m, or 11%, compared with the third quarter of 2012, and a decrease of $21m, or 6%, compared with the second quarter of 2013. Net interest income was $995m for the nine months ended 30 September 2013, a decrease of $132m, or 12%, compared with the same period in 2012. Net interest income decreased mainly due to declining loan balances in connection with the wind-down of the consumer finance business and lower net interest spread, partially offset by growth in average customer deposits and commercial loans.

Net fee income

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Credit facilities	**64**	62	63	**190**	176
Funds under management	**35**	32	35	**103**	93
Account services	**20**	22	22	**62**	66
Credit cards	**16**	14	16	**46**	40
Immigrant Investor Program	**9**	6	12	**29**	29
Corporate finance	**8**	12	11	**24**	25
Remittances	**8**	8	8	**24**	23
Brokerage commissions	**4**	3	4	**12**	12
Insurance	**3**	5	4	**11**	15
Trade finance import/export	**3**	3	3	**9**	8
Trustee fees	**1**	1	1	**3**	3
Other	**3**	7	2	**8**	21
Fee income	**174**	175	181	**521**	511
Less: fee expense	**(22)**	(18)	(27)	**(69)**	(64)
Net fee income	**152**	157	154	**452**	447

Management's Discussion and Analysis (continued)

Net fee income for the third quarter of 2013 was $152m, a decrease of $5m, or 3%, compared with the third quarter of 2012, and marginally lower compared with the second quarter of 2013. Net fee income was $452m for the nine months ended 30 September 2013, marginally higher compared with the same period in 2012. The decrease in net fee income compared with the same quarter last year was mainly due to lower corporate finance fees earned.

Net trading income

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Trading activities	**27**	34	33	**104**	102
Net interest from trading activities	**11**	10	12	**33**	26
Hedge ineffectiveness	**4**	4	–	**7**	7
Net trading income	**42**	48	45	**144**	135

Net trading income for the third quarter of 2013 was $42m, a decrease of $6m, or 13% compared with the third quarter of 2012, and a decrease of $3m, or 7%, compared with the second quarter of 2013. Net trading income was $144m for the nine months ended 30 September 2013, an increase of $9m, or 7%, compared with the same period in 2012. The decrease in net trading income compared with both the same quarter last year and the prior quarter is mainly due to declining customer spreads related to foreign exchange products. In the first quarter of 2013, the bank implemented changes in the methodology in respect of credit and debit valuation adjustments on derivative contracts to reflect evolving market practices. On a year-to-date basis, net trading income increased mainly as a result of the change in methodology and prior year losses caused by the narrowing of credit spreads on our own debt instruments, partially offset by declining customer spreads related to foreign exchange products.

Other items of income

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net expense from financial instruments designated at fair value	**–**	(8)	–	**(3)**	(24)
Gains less losses from financial investments	**2**	3	15	**52**	48
Other operating income	**7**	15	(23)	**(3)**	50
Gain on the sale of the full service retail brokerage business	**–**	–	–	**–**	84
Other items of income	**9**	10	(8)	**46**	158

Net expense from financial instruments designated at fair value for the third quarter of 2013 was nil compared with $8m in the third quarter of 2012 and nil in the second quarter of 2013. Net expense from financial instruments designated at fair value was $3m for the nine months ended 30 September 2013, a decrease of $21m, compared with the same period in 2012. The bank designates certain of its own subordinated debentures to be recorded at fair value. The decrease in net expense from financial instruments designated at fair value compared with prior year periods is largely as a result of the widening of credit spreads decreasing the fair value of these subordinated debentures.

Gains less losses from financial investments for the third quarter of 2013 were $2m, marginally lower compared with the third quarter of 2012 and a decrease of $13m compared with the second quarter of 2013. Gains less losses from financial investments were $52m for the nine months ended 30 September 2013, an increase of $4m compared with the same period in 2012. Gains less losses from financial investments decreased compared with the same quarter in 2012 and the prior quarter due to lower total gains realized from disposals of available-for-sale financial investments driven by balance sheet management activities. Gains less losses from financial investments increased compared with the nine months ended 30 September 2012 for similar reasons.

Other operating income for the third quarter of 2013 was $7m, a decrease of $8m compared with the third quarter of 2012, and an increase of $30m compared with the second quarter of 2013. Other operating income was a loss of $3m for the nine months ended 30 September 2013, a decrease of $53m compared with the same period in 2012. The variances from comparative periods are mainly due to a reduction in fair value of an investment property held for sale of $40m and $8m respectively in the second and third quarters of 2013.

Gain on the sale of the full service retail brokerage business. The sale of the full service retail brokerage business closed on 1 January 2012 and resulted in a gain of $84m, net of assets written off and directly related costs as reported in the nine months ended 30 September 2012.

Loan impairment charges and other credit risk provisions

Loan impairment charges and other credit risk provisions for the third quarter of 2013 were $9m, a decrease of $62m and $75m respectively compared with the third quarter of 2012 and the second quarter of 2013. Loan impairment charges and other credit provisions were $149m for the nine months ended 30 September 2013, a decrease of $29m, or 16%, compared with the same period in 2012. The decreases in loan impairment charges and other credit risk provisions compared with the same quarter last year and the prior quarter is mainly as a result of lower specific provisions as well as a reduction in collectively assessed provisions driven by lower average loan balances following the wind-down of the bank's consumer finance business. On a year-to-date basis, the decrease in loan impairment charges and other credit risk provisions is mainly as a result of a reduction in collectively assessed provisions driven by lower average loan balances following the wind-down of the bank's consumer finance business.

Operating expenses

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Employee compensation and benefits	**154**	149	158	**468**	507
General and administrative expenses	**105**	96	96	**296**	300
Depreciation of property, plant and equipment	**8**	10	8	**25**	27
Amortization and impairment of intangible assets	**4**	3	4	**11**	11
Total operating expenses (excluding restructuring charges)	**271**	258	266	**800**	845
Restructuring charges	**–**	–	–	**–**	36
Total operating expenses	**271**	258	266	**800**	881

Total operating expenses (excluding restructuring charges) for the third quarter of 2013 were $271m, an increase of $13m, or 5%, compared with the third quarter of 2012, and an increase of $5m, or 2%, compared with the second quarter of 2013. Total operating expenses were $800m for the nine months ended 30 September 2013, a decrease of $45m, or 5%, compared with the same period in 2012. The increase in total operating expenses compared with both the same quarter last year and the prior quarter is mainly due to our continued investment in our Regulatory and Financial Crime Compliance function and higher employee termination costs. A general sales tax refund recorded in the third quarter of 2012 contributed to the increase in total operating expense compared with the same quarter in 2013. On a year-to-date basis, total operating expenses decreased as a result of our on-going organizational effectiveness programmes, which resulted in sustainable cost savings of $25m in the nine months ended 30 September 2013. Cumulative sustainable cost savings from 2011 to the end of the nine months ended 30 September 2013 are in excess of $120m. The year-to-date decrease in operating expenses is partially offset by our continued investment in our Regulatory and Financial Crime Compliance function.

Restructuring charges of $36m were recognized in the first quarter of 2012 mainly relating to the wind-down of the bank's consumer finance business.

Share of profit in associates

Share of profit in associates for the third quarter of 2013 was $9m, an increase of $8m compared with both the third quarter of 2012 and the second quarter of 2013. Share of profit in associates was $14m for the nine months ended 30 September 2013, an increase of $11m compared to the same period last year. Share of profit in associates was higher in the current quarter due to an increase in value of the bank's investment in private equity funds.

Income taxes

Income tax expense. The effective tax rate in the third quarter of 2013 was 26.5%, compared with 26.4% in the third quarter of 2012 and 28.8% in the second quarter of 2013. The effective tax rate was 28.4% for the nine months ended 30 September 2013, compared with 26.3% for the same period in 2012. Income tax expense in the prior quarter included a tax adjustment relating to prior periods that resulted in a higher effective tax rate for both the second quarter of 2013 and the nine months ended 30 September 2013.

Management's Discussion and Analysis (continued)

Statement of Financial Position

Total assets at 30 September 2013 were $85.6bn, an increase of $4.9bn from $80.7bn at 31 December 2012, mainly due to increases of $2.2bn in trading assets, $1.2bn in loans and advances to customers, and $1.1bn in loans and advances to banks. The growth in trading assets is due to a higher holding of government and agency bonds as a result of increased trading activity in the rates business and a higher holding of pending settlement trading accounts. The growth in loans and advances to banks and loans and advances to customers is due to a higher holding of reverse repurchase agreements from increased liquidity and balance sheet management activities. Excluding reverse repurchase agreements, loans and advances to banks decreased marginally by $0.1bn and loans and advances to customers decreased by $1.4bn, mainly as a result of declining mortgage balances and consumer finance loan balances as a result of the wind-down of the consumer finance business in Canada, partially offset by a growth in commercial loans.

Liquid assets increased to $28.8bn at 30 September 2013, compared to $24.3bn at 31 December 2012 mainly as a result of deposit growth, debt issuance, and declining mortgage and consumer finance loan balances. Refer to the 'Use of non-IFRS financial measures' for a definition of liquid assets.

Total liabilities at 30 September 2013 were $80.2bn, an increase of $4.9bn from $75.3bn at 31 December 2012, mainly due to increases of $2.9bn in customer accounts and $1.7bn in trading liabilities. The increase in customer accounts is mainly due to growth in savings, deposits and current accounts. The increase in trading liabilities is as a result of increased activity in the rates business.

Analysis of Consolidated Financial Results for the Third Quarter 2013 by Customer Groups

Commercial Banking

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net interest income	**169**	175	171	**501**	532
Net fee income	**75**	78	77	**227**	221
Net trading income	**6**	9	8	**22**	25
Other operating income/(expense)	**(3)**	3	(35)	**(36)**	15
Net operating income before loan impairment charges and other credit risk provisions	**247**	265	221	**714**	793
Loan impairment (charges)/reversals and other credit risk provisions	**5**	(36)	(61)	**(95)**	(73)
Net operating income	**252**	229	160	**619**	720
Total operating expenses	**(94)**	(86)	(91)	**(273)**	(274)
Operating profit	**158**	143	69	**346**	446
Share of profit in associates	**9**	1	1	**14**	3
Profit before income tax expense	**167**	144	70	**360**	449

Overview

Profit before income tax expense was $167m for the third quarter of 2013, an increase of $23m, or 16%, compared with the third quarter of 2012, and an increase of $97m compared with the second quarter of 2013. Profit before income tax expense was $360m for the nine months ended 30 September 2013, a decrease of $89m, or 20%, compared with the same period in 2012. The increase in profit before income tax compared with the same quarter last year and the prior quarter is mainly due to lower specific loan impairment charges, higher other operating income from adjustments relating to a decline in the fair value of an investment property held for sale in comparative periods, and higher share of profit in associates due to an increase in value of the bank's investment in private equity funds. The increase in profit before income tax expense compared with the same quarter last year and the prior quarter is partially offset by lower net interest income from lower net interest spread in a competitive low interest rate environment and higher total operating expenses driven by our continued investment in our Regulatory and Financial Crime Compliance function.

On a year-to-date basis, profit before income tax decreased mainly due to higher specific loan impairment charges, lower operating income from adjustments related to a decline in the fair value of an investment property held for sale and lower net interest income from lower net interest spread in a competitive low interest rate environment, partially offset by higher share of profit in associates due to an increase in value of the bank's investment in private equity funds.

Financial performance

Net interest income for the third quarter of 2013 was $169m, a decrease of $6m and $2m respectively compared with the third quarter of 2012 and the second quarter of 2013. Net interest income was $501m for the nine months ended 30 September 2013, a decrease of $31m, or 6%, compared with the same period in 2012. The decrease in net interest income is mainly due to lower net interest spread in a competitive low interest rate environment.

Net fee income for the third quarter of 2013 was $75m, a decrease of $3m and $2m respectively compared with the third quarter of 2012 and the second quarter of 2013. Net fee income was $227m for the nine months ended 30 September 2013, an increase of $6m, or 3%, compared with the same period in 2012. On a year-to-date basis, net fee income increased compared with the prior year mainly as a result of growth in authorized credit facilities and transaction volume.

Net trading income for the third quarter of 2013 was $6m, a decrease of $3m and $2m respectively compared with the third quarter of 2012 and the second quarter of 2013. Net trading income was $22m for the nine months ended 30 September 2013, a decrease of $3m, or 12% compared with the same period in 2012. The decreases from comparative periods are mainly due to lower trading volume related to foreign exchange products.

Other operating income for the third quarter of 2013 was a loss of $3m, a decrease of $6m compared with the third quarter of 2012, and an increase of $32m compared with the second quarter of 2013. Other operating income was a loss of $36m for the nine months ended 30 September 2013, a decrease of $51m compared with the same period in 2012. The variances from comparative periods are mainly due to current and prior quarter adjustments related to a decline in the fair value of an investment property held for sale.

Loan impairment charges and other credit risk provisions for the third quarter of 2013 were reversals of $5m, a decrease of $41m and $66m respectively compared with the third quarter of 2012 and the second quarter of 2013. Loan impairment charges and other credit risk provisions were $95m for the nine months ended 30 September 2013, an increase of $22m, compared with the same period in 2012. The decreases in loan impairment charges and other credit risk provisions compared with the prior quarter and same quarter last year is mainly as a result of lower specific provisions. On a year-to-date basis, loan impairment charges and other credit risk provisions increased due to higher specific provisions.

Total operating expenses for the third quarter of 2013 were $94m, an increase of $8m and $3m respectively compared with the third quarter of 2012 and the second quarter of 2013. Total operating expenses were $273m for the nine months ended 30 September 2013, marginally lower compared with the same period in 2012. Total operating expenses increased compared with both the same quarter last year and the prior quarter mainly due to our continued investment in our Regulatory and Financial Crime Compliance function. On a year-to-date basis, total operating expenses decreased as a result of our on-going organizational effectiveness programmes, which resulted in sustainable cost savings.

Share in profit in associates for the third quarter of 2013 was $9m, an increase of $8m compared with both the third quarter of 2012 and the second quarter of 2013. Share in profit in associates was $14m for the nine months ended 30 September 2013, an increase of $11m compared to the same period last year. Share of profit in associates was higher in the current quarter due to an increase in value of the bank's investment in private equity funds.

Global Banking and Markets

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net interest income	**37**	41	40	**119**	127
Net fee income	**22**	25	20	**60**	63
Net trading income	**25**	28	24	**86**	78
Gains less losses from financial investments	**2**	3	13	**48**	48
Other operating income/(expense)	**(1)**	–	1	**–**	1
Gain on the sale of the full service retail brokerage business	**–**	–	–	**–**	8
Net operating income before loan impairment charges and other credit risk provisions	**85**	97	98	**313**	325
Loan impairment charges and other credit risk provisions	**(1)**	–	(2)	**(1)**	–
Net operating income	**84**	97	96	**312**	325
Total operating expenses	**(29)**	(27)	(29)	**(87)**	(85)
Profit before income tax expense	**55**	70	67	**225**	240

Management's Discussion and Analysis (continued)

Overview

Profit before income tax expense was $55m for the third quarter of 2013, a decrease of $15m, or 21%, compared with the third quarter of 2012 and a decrease of $12m, or 18%, compared with the second quarter of 2013. Profit before income tax expense was $225m for the nine months ended 30 September 2013, a decrease of $15m, or 6%, compared with the same period in 2012. The decrease in profit before income tax compared with the same quarter last year is mainly due to lower net interest income from reduced interest margin, lower underwriting fee income and lower net trading income from foreign exchange activities. The decrease in profit before income tax compared with the prior quarter is mainly due to lower total gains realized from disposals of available-for-sale financial investments and lower net interest income from reduced interest margin.

On a year-to-date basis, profit before income tax decreased mainly due to prior year gains on the sale of full services retail brokerage business and lower net interest income from reduced interest margin. The decrease was partially offset by higher trading income as a result of a change in valuation methodology on derivatives and prior year losses caused by the narrowing of credit spreads on our own debt instruments.

Financial performance

Net interest income for the third quarter of 2013 was $37m, a decrease of $4m and $3m respectively compared with the third quarter of 2012 and the second quarter of 2013. Net interest income was $119m for the nine months ended 30 September 2013, a decrease of $8m, or 6%, compared with the same period in 2012. The decrease in net interest income is due to lower interest margin.

Net fee income for the third quarter of 2013 was $22m, a decrease of $3m, or 12%, compared with the third quarter of 2012 and an increase of $2m, or 10%, compared with the second quarter of 2013. Net fee income was $60m for the nine months ended 30 September 2013, a decrease of $3m, or 5% compared with the same period in 2012. The decrease in net fee income compared with prior year periods is mainly due to lower sales credit and underwriting fees.

Net trading income for the third quarter of 2013 was $25m, a decrease of $3m, or 11%, compared with the third quarter of 2012, and marginally higher compared with the second quarter of 2013. Net trading income was $86m for the nine months ended 30 September 2013, an increase of $8m, or 10%, compared with the same period in 2012. The decrease in net trading income compared with the same quarter last year is mainly due to declining customer spreads related to foreign exchange products, partially offset by prior year losses caused by the narrowing of credit spreads on our own debt instruments. In the first quarter of 2013, the bank implemented changes in the methodology in respect of credit and debit valuation adjustments on derivative contracts to reflect evolving market practices. On a year-to-date basis, net trading income increased mainly as a result of the change in methodology and prior year losses caused by the narrowing of credit spreads on our own debt instruments, partially offset by declining customer spreads related to foreign exchange products.

Gains less losses from financial investments for the third quarter of 2013 was $2m, marginally lower compared with the third quarter of 2012, and a decrease of $11m compared with the second quarter of 2013. Gains less losses from financial investments was $48m for the nine months ended 30 September 2013, unchanged compared with the same period in 2012. Gains less losses from financial investments decreased compared with the prior quarter due to lower total gains realized from disposals of available-for-sale financial investments driven by balance sheet management activities.

Total operating expenses for the third quarter of 2013 were $29m, an increase of $2m, or 7%, compared with the second quarter of 2012 and unchanged compared with the second quarter of 2013. Total operating expenses were $87m for the nine months ended 30 September 2013, an increase of $2m, or 2%, compared with the same period in 2012. The increase in total operating expenses compared with comparative period last year is primarily due to our continued investment in our Regulatory and Financial Crime Compliance function.

Retail Banking and Wealth Management

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net interest income	**85**	85	86	**260**	282
Net fee income	**45**	42	48	**136**	128
Net trading income	**4**	3	7	**15**	9
Other operating income	**2**	3	2	**7**	8
Gain on the sale of the full service retail brokerage business	**–**	–	–	**–**	76
Net operating income before loan impairment charges and other credit risk provisions	**136**	133	143	**418**	503
Loan impairment charges and other credit risk provisions	**(5)**	(7)	(7)	**(19)**	(20)
Net operating income	**131**	126	136	**399**	483
Total operating expenses (excluding restructuring charges)	**(119)**	(113)	(118)	**(355)**	(370)
Restructuring charges	**–**	–	–	**–**	(2)
Profit before income tax expense	**12**	13	18	**44**	111

Overview

Profit before income tax expense for the third quarter of 2013 was $12m, marginally lower compared with third quarter of 2012, and a decrease of $6m, or 33%, compared with the second quarter of 2013. Profit before income tax expense was $44m for the nine months ended 30 September 2013, a decrease of $67m, or 60%, compared with the same period in 2012. Profit before income taxes decreased compared with the prior quarter mainly due to lower net fee income from a decline in Immigrant Investor Program volume and lower net trading income from a mark to market loss on structured products as well as reduced foreign exchange activity.

Profit before income tax in the nine months ended 30 September 2012 benefitted from a gain on the sale of the full service retail brokerage business partially offset by related restructuring charges. Excluding these items, profit before income tax expense increased by $7m, or 19%, compared with the nine months ended 30 September 2012 mainly due to lower operating expenses as a result of cost control and continued delivery of our organizational effectiveness programmes and fee income growth, partially offset by lower net interest income due to a decline in average loan balances and lower net interest spread in a competitive low interest rate environment.

Financial performance

Net interest income for the third quarter of 2013 was $85m unchanged compared with the third quarter of 2012, and marginally lower compared with the second quarter of 2013. Net interest income was $260m for the nine months ended 30 September 2013, a decrease of $22m, or 8%, compared with the same period in 2012. On a year-to-date basis net interest income decreased mainly due to a decline in loan balances and lower net interest spread in a competitive low interest rate environment, partially offset by customer deposit growth.

Net fee income for the third quarter of 2013 was $45m, an increase of $3m, or 7%, compared with the third quarter of 2012, and a decrease of $3m, or 6%, compared with the second quarter of 2013. Net fee income was $136m for the nine months ended 30 September of 2013, an increase of $8m, or 6%, compared with the same period in 2012. The increase in net fee income compared with prior year periods is mainly due to sustained growth in customer investment through our wealth management business. Net fee income decreased compared with the prior quarter due to a decline in Immigrant Investor Program volume.

Net trading income for the third quarter of 2013 was $4m, marginally higher compared with the third quarter of 2012, and a decrease of $3m, or 43%, compared with the second quarter of 2013. Net trading income was $15m for the nine months ended 30 September 2013, an increase of $6m, or 67%, compared with the same period in 2012. The variance in net trading income is primarily due to a mark to market loss on structured products and movements in foreign exchange activity.

Loan impairment charges and other credit risk provisions for the third quarter of 2013 were $5m, a decrease of $2m compared with both the third quarter of 2012 and with the second quarter of 2013. Loan impairment charges and other credit risk provisions were $19m for the nine months ended 30 September 2013, marginally lower compared with the same period in 2012. The decrease in loan impairment charges and other credit risk provisions is due to a reduction in collectively assessed provisions.

Management's Discussion and Analysis (continued)

Total operating expenses (excluding restructuring charges) for the third quarter of 2013 were $119m, an increase of $6m, or 5%, compared with the third quarter of 2012 and marginally higher compared with the second quarter of 2013. Total operating expenses were $355m for the nine months ended 30 September 2013, a decrease of $15m, or 4%, compared with the same period in 2012. The increase in total operating expenses compared with the same quarter last year and the prior quarter is mainly due to our continued investment in our Regulatory and Financial Crime Compliance function. The decreases in total operating expenses compared with the nine months ended 30 September 2012 is as a result of cost control and continued delivery of our organizational effectiveness programmes, which resulted in sustainable cost savings.

Consumer Finance

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net interest income	**35**	64	49	**136**	209
Net fee income	**10**	12	9	**29**	35
Gains less losses from financial investments	**–**	–	2	**4**	–
Other operating income	**1**	1	1	**3**	3
Net operating income before loan impairment charges and other credit risk provisions	**46**	77	61	**172**	247
Loan impairment charges and other credit risk provisions	**(8)**	(28)	(14)	**(34)**	(85)
Net operating income	**38**	49	47	**138**	162
Total operating expenses (excluding restructuring charges)	**(19)**	(21)	(20)	**(57)**	(81)
Restructuring charges	**–**	–	–	**–**	(34)
Profit before income tax expense	**19**	28	27	**81**	47

Overview

Profit before income tax expense was $19m for the third quarter of 2013, a decrease of $9m, or 32%, compared with the third quarter of 2012, and a decrease of $8m, or 30%, compared with the second quarter of 2013. Profit before income tax expense was $81m for nine months ended 30 September 2013, an increase of $34m, or 72%, compared with the same period in 2012. Profit before income tax decreased compared with the same quarter last year as well as the prior quarter due to lower net interest income driven by lower average loan balances as well as the sale of the private label credit card portfolio in the current quarter, partially offset by lower collectively assessed impairment provisions following the decision in March 2012 to wind-down the consumer finance business in Canada. In the nine months ended 30 September 2012, $34m restructuring costs were incurred relating to the wind-down. Excluding the restructuring costs, profit before income tax expense was unchanged compared with the nine months ended 30 September 2012.

Financial performance

Net interest income for the third quarter of 2013 was $35m, a decrease of $29m and $14m respectively compared with the third quarter of 2012 and the second quarter of 2013. Net interest income was $136m for the nine months ended 30 September 2013, a decrease of $73m, or 35%, compared with the same period in 2012. The decrease in net interest income is mainly due to declining customer loan balances as a result of the wind-down of the business and the sale of the private label credit card portfolio in the current quarter. Refer to note 9 for further information relating to the sale.

Net fee income for the third quarter of 2013 was $10m, a decrease of $2m, or 17%, compared with the third quarter of 2012 and marginally increased compared with the second quarter of 2013. Net fee income was $29m for the nine months ended 30 September 2013, a decrease of $6m, or 17% compared with the same period in 2012. The decrease in net fee income compared with prior year periods is mainly due to lower credit insurance income as a result of declining insured customer receivables following the wind-down of the business and increased credit card rewards costs.

Loan impairment charges and other credit risk provisions for the third quarter of 2013 were $8m, a decrease of $20m and $6m respectively compared with the third quarter of 2012 and with the second quarter of 2013. Loan impairment charges and other credit risk provisions were $34m for the nine months ended 30 September 2013, a decrease of $51m, or 60%, compared with the same period in 2012. The decrease in loan impairment charges and other credit risk provisions compared with the prior year is due to a reduction in collective provisions driven by lower average loan balances following the wind-down of the business as well as stable to improving delinquency levels.

Total operating expenses (excluding restructuring charges) for the third quarter of 2013 were $19m, a decrease of $2m, or 10%, compared with the third quarter of 2012 and marginally lower compared with the second quarter of 2013. Total operating expenses were $57m for the nine months ended 30 September 2013, a decrease of $24m, or 30%, compared with the same period in 2012. The decrease in total operating expenses compared with the prior year is due to reduced staff, infrastructure charges and other overhead expenses as a result of the wind-down of the business.

Other

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Net interest expense	**(7)**	(8)	(6)	**(21)**	(23)
Net trading income	**7**	8	6	**21**	23
Net expense from financial instruments designated at fair	**–**	(8)	–	**(3)**	(24)
Other operating income	**8**	8	8	**23**	23
Net operating income/(expense)	**8**	–	8	**20**	(1)
Total operating expenses	**(10)**	(11)	(8)	**(28)**	(35)
Loss before income tax expense	**(2)**	(11)	–	**(8)**	(36)

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include income and expense from the impact of changes in credit spreads on our own subordinated debentures designated at fair value and income and expense related to information technology services provided to HSBC Group companies on an arm's length basis. Profit before income tax expense for the third quarter of 2013 was a loss of $2m, a decrease of $9m, or 82%, compared with the third quarter of 2012, and an increase of $2m compared with the second quarter of 2013. Profit before income tax expense was a loss of $8m for the nine months ended 30 September 2013, a decrease of $28m, or 78%, compared with the same period in 2012. The variances from comparative periods are primarily due to the impact of the items noted above.

Quarterly summary of Condensed Consolidated Statements of Income (Unaudited)

The following table presents a summary of quarterly consolidated results for the last eight quarters:

	Quarter ended							
	30 September 2013 $m	30 June 2013 $m	31 March 2013 $m	31 December 2012 $m	30 September 2012 $m	30 June 2012 $m	31 March 2012 $m	31 December 2011 $m
Total revenue[1]	**522**	531	584	526	572	614	681	562
Profit for the period	**186**	130	189	154	180	201	219	132
Profit attributable to common shareholders	**168**	113	171	137	162	184	201	115
Profit attributable to preferred shareholders	**15**	15	15	15	15	15	15	15
Profit attributable to non-controlling interests	**3**	2	3	2	3	2	3	2
Basic earnings per common share	**0.34**	0.23	0.34	0.27	0.33	0.37	0.40	0.23

1 *Total revenue is reported as 'net operating income before loan impairment charges and other credit risk provisions' on the consolidated income statement.*

Refer to the 'Quarterly Summary of Condensed Consolidated Statements of Income' section of our Annual Report and Accounts 2012 for more information regarding quarterly trends in revenue and expenses for 2012 and 2011. Comparative information has been adjusted for the effect of the adoption of the revised IAS 19 Employee benefits. Refer to the 'Accounting and Reporting Changes' section below for further information.

Critical Accounting Policies and Impact of Estimates and Judgements

Refer to the 'Critical Accounting Policies and Impact of Estimates and Judgements' section of our Annual Report and Accounts 2012 for accounting policies that are deemed critical to the bank's results and financial position, in terms of materiality of the items which the policy is applied, or which involve a high degree of judgement including the use of assumptions and estimates.

Management's Discussion and Analysis (continued)

Accounting and Reporting Changes

Effective 1 January 2013, the bank adopted IAS 19 'Employee Benefits', which was applied retrospectively. The most significant impact for the bank is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement is presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate. However, there is no material impact on either plan assets as the difference between the estimated and the actual return on plan assets is recorded through the statement of other comprehensive income. There is a no material impact on plan liabilities. In addition, unvested amounts related to past service events are no longer amortized and recognized in the income statement over the vesting period, but recognized in full on the date of the past service event as a charge or a credit to income. Refer to note 2 for further information related to the restatement of comparative information.

Effective 1 January 2013, the bank adopted IFRS 10 'Consolidated Financial Statements' ('IFRS 10') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'), which were applied retrospectively. Under IFRS 10, there is one approach for determining if an investor controls an investee for all entities, based on the concept of power, variability of returns and their linkage. This replaced the previous approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities. The bank determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

Effective 1 January 2013, the bank adopted IFRS 13 'Fair Value Measurement' ('IFRS 13'), which was applied prospectively. IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRS. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement. The adoption of IFRS 13 did not have a material impact on the bank's consolidated financial statements.

Effective 1 January 2013, the bank adopted changes to IAS 1 'Presentation of Financial Statements' ('IAS 1') relating to the presentation of items of other comprehensive income, which was applied retrospectively. As a result of the adoption of changes within IAS 1, items presented within the consolidated statement of comprehensive income are grouped into those that will and those that will not be subsequently reclassified to income.

Financial Instruments including Off-Balance Sheet Arrangements

During the normal course of business, the bank makes extensive use of financial instruments including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instrument contracts. These arrangements were described in the 'Off-Balance Sheet Arrangements' section of our Annual Report and Accounts 2012. As a result of changing market practices in response to regulatory and accounting changes, as well as general market developments, the banks revised its methodology for estimating the credit valuation adjustment and debit valuation adjustment for derivatives from 1 January 2013. Refer to note 1(b)(iii) for further information relating to the revision. There have been no other changes in the basis of calculating the fair value of financial instruments from 31 December 2012, and there have been no significant changes in the fair value of financial instruments that arose from factors other than normal economic, industry and market conditions. For financial instruments, including derivatives, valued using significant non-observable market inputs (level 3), assumptions and methodologies used in our models are continually reviewed and revised to arrive at better estimates of fair value.

Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the bank and its subsidiaries at both the management and board levels. Each year, our Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2013 when our Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the design and effectiveness of disclosure controls and procedures as well as the design and effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The CEO and CFO have signed certifications relating to the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 September 2013, and their responsibility for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 30 September 2013 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's Audit and Risk Committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in Management's Discussion and Analysis in our Annual Report and Accounts 2012, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Related Party Transactions

Related party transaction policies and practices are unchanged from those outlined in the 'Related Party Transactions' section in our Annual Report and Accounts 2012. All transactions with related parties continue to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value. Transactions with related parties are detailed in note 13.

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The most important risk categories that we are exposed to include capital management, credit, liquidity and funding, market, structural and operational risk. A discussion of our risk management activities including both quantitative and qualitative factors is included in the 'Risk Management' section of our 2012 Annual Report and Accounts. There have been no changes in our processes and no material changes in quantitative factors during the nine months ended 30 September 2013. Refer to the 'Capital' section of the MD&A for a more information on our regulatory capital and regulatory capital ratios.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. It arises principally from direct lending, trade finance and the leasing business, but also from certain off-balance sheet products such as guarantees and counterparty credit risk on derivatives, and from our holdings of certain types of securities, particularly debt securities.

Loan portfolio diversity

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry and environmental factors. Therefore, diversification of credit risk is a key concept by which we are guided.

In assessing and monitoring the credit risk, we aggregate exposures by product type, industry and geographic area. Exposures are measured at exposure at default ('EAD') as defined under the Basel III capital adequacy framework (31 December 2012: as defined under the Basel II capital adequacy framework), which presents the amounts of loss the bank may be exposed to in the case of default of a customer.

Management's Discussion and Analysis (continued)

The following table demonstrates the diversification of our loan portfolios by product type:

Loan portfolio by product type

	Exposure at default At 30 September 2013 $m	Exposure at default At 31 December 2012 $m
Wholesale loan portfolios		
Sovereign		
Drawn exposures	**22,364**	20,083
Undrawn commitments	**26**	29
Derivatives	**115**	79
	22,505	20,191
Banks		
Drawn exposures	**2,947**	3,591
Repurchase type transactions	**30**	37
Derivatives	**2,021**	2,127
Other off-balance sheet exposures	**442**	347
	5,440	6,102
Corporate		
Drawn exposures	**26,805**	26,330
Undrawn commitments	**11,237**	11,124
Repurchase type transactions	**184**	131
Derivatives	**1,105**	1,070
Other off-balance sheet exposures	**2,694**	2,277
	42,025	40,932
Total wholesale loan portfolios	**69,970**	67,225
Retail loan portfolios		
Residential mortgages	**17,390**	17,850
Home equity lines of credit	**5,034**	5,543
Personal unsecured revolving loan facilities	**1,075**	1,127
Other personal loan facilities	**2,686**	2,827
Other small to medium enterprises loan facilities	**706**	746
Consumer finance loan portfolios	**1,860**	2,276
Total retail loan portfolios	**28,751**	30,369
Total loan portfolio exposure	**98,721**	97,594

Credit Quality of Financial Assets

The credit quality of financial assets at 30 September 2013 improved compared with the position at 31 December 2012 mainly due to lower delinquency, declining customer loan balances as a result of the wind-down of the consumer finance business, and the sale of the private label credit card portfolio in the current quarter. Refer to note 9 for further information relating to the sale. The improved credit quality resulted in a reduction of the collectively assessed impairment allowances.

Impairment allowances on loans and advances to customers

	At 30 September 2013 $m	At 31 December 2012 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances (A)	**506**	670
Collectively assessed loans and advances (B)	**46,604**	45,321
- impaired loans and advances	**119**	166
- non-impaired loans and advances	**46,485**	45,155
Total gross loans and advances to customers (C)	**47,110**	45,991
Less: impairment allowances (c)	**388**	419
- individually assessed (a)	**188**	202
- collectively assessed (b)	**200**	217
Net loans and advances to customers	**46,722**	45,572
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**37.2%**	30.1%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	**0.4%**	0.5%
Total loans and advances coverage - (c) as a percentage of (C)	**0.8%**	0.9%

Movement in impairment allowances on loans and advances to customers and provision for credit losses

	Nine months ended 30 September 2013				Nine months ended 30 September 2012			
	Customers individually assessed $m	**Customers collectively assessed $m**	**Provision for credit losses $m**	**Total $m**	Customers individually assessed $m	Customers collectively assessed $m	Provision for credit losses $m	Total $m
Opening balance at the beginning of the period	**202**	**217**	**80**	**499**	208	256	73	537
Movement								
Loans and advances written off	**(109)**	**(71)**	**–**	**(180)**	(60)	(87)	–	(147)
Charge to income statement	**107**	**54**	**(12)**	**149**	80	96	2	178
Interest recognized on impaired loans and advances	**(12)**	**–**	**–**	**(12)**	(13)	–	–	(13)
Closing balance at the end of the period	**188**	**200**	**68**	**456**	215	265	75	555

Liquidity and funding risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or will have to obtain such resources at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk, a form of liquidity risk, arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Liquid assets

The bank's liquid assets are classified according to their liquidity value under prescribed Group policies. Level 1 liquid assets include federal government debt instruments, debt instruments guaranteed by federal government and high quality foreign government debt instruments and provincial government debt instruments with a credit rating of 'AA-' or higher. Level 2 liquid assets include provincial government debt instruments with a credit rating of 'A+' or lower and debt instruments guaranteed by provincial government. All assets within the liquid asset portfolio are unencumbered.

Management's Discussion and Analysis (continued)

The carry value of the bank's aggregate liquid assets is shown in the table below.

	At 30 September 2013 $m	At 31 December 2012 $m
Level 1	**17,944**	15,955
Level 2	**3,685**	3,280
	21,629	19,235

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.

Value at Risk ('VaR')

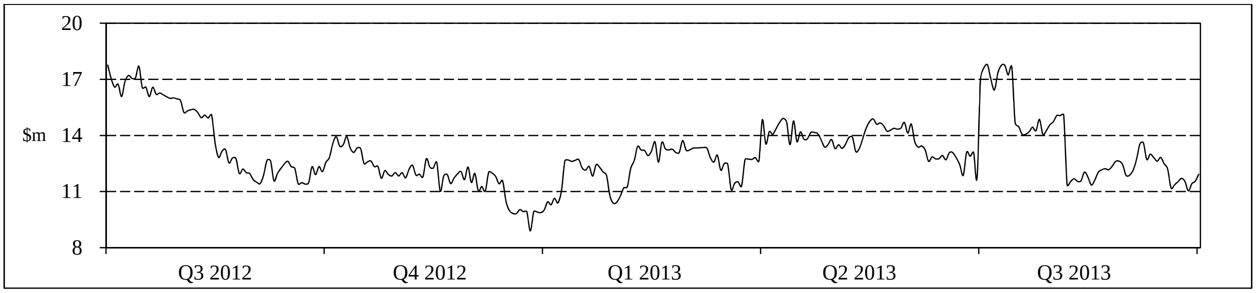
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Refer to the 'Market Risk' section of our Annual Report and Accounts 2012 for more information relating to the calculation of VaR.

In 2010, the HSBC Group's policy regarding the VaR calculation was expanded to include Idiosyncratic Credit VaR ('ICVaR') from trading positions. ICVaR captures the residual market risk of a specific issuer that is not captured in the historical simulation credit VaR. Effective 1 January 2013, the bank has included ICVaR within the VaR information presented in the table and graph below.

VaR disclosed in the table and graph below is the bank's total VaR for both trading and non-trading books and remained within the bank's limits. The increase in VaR during July 2013, was due a temporary widening in credit spreads effecting credit VaR.

	Quarter ended	
	30 September 2013 $m	31 December 2012 $m
End of quarter	**12**	10
Average	**13**	12
Minimum	**11**	9
Maximum	**18**	14

Daily VaR



Area of special interest: Exposures to Europe

The bank's exposure to Europe and in particular the eurozone remains within the bank's overall risk appetite. Exposures to the eurozone increased by $317m compared to the position at 31 December 2012 due to a growth of $249m in exposures with core and other eurozone countries and a growth of $68m in exposures with peripheral countries. The increase in exposures with peripheral countries was due to a growth in financial institution exposures, of which $37m is held with other HSBC Group affiliates. Exposures to other European countries outside of the eurozone were higher by $156m mainly as a result of increases of $62m and $252m of exposures with Sweden and the United Kingdom respectively, partially offset by a decrease of $158m in financial institutions exposures with Switzerland.

Exposures to eurozone countries

	At 30 September 2013				At 31 December 2012			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Core countries								
Germany	**–**	**573**	**–**	**573**	–	326	–	326
France	**–**	**231**	**208**	**439**	–	316	156	472
Total core countries	**–**	**804**	**208**	**1,012**	–	642	156	798
Peripheral countries								
Italy	**–**	**24**	**–**	**24**	–	12	–	12
Portugal	**–**	**6**	**–**	**6**	–	1	–	1
Spain	**–**	**59**	**–**	**59**	–	8	–	8
Total peripheral countries	**–**	**89**	**–**	**89**	–	21	–	21
Belgium	**–**	**97**	**–**	**97**	–	98	–	98
Luxembourg	**36**	**–**	**–**	**36**	–	–	–	–
Total	**36**	**990**	**208**	**1,234**	–	761	156	917

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $3m in Germany, $27m in France and $37m in Spain (31 December 2012: $3m in Germany, $8m in France and $7m in Spain).*

Exposures to other European countries outside of the eurozone

	At 30 September 2013				At 31 December 2012			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Sweden	**–**	**39**	**61**	**100**	–	38	–	38
Switzerland	**–**	**5**	**398**	**403**	75	–	486	561
United Kingdom	**10**	**1,302**	**–**	**1,312**	8	1,052	–	1,060
Total	**10**	**1,346**	**459**	**1,815**	83	1,090	486	1,659

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $1,172m in the United Kingdom (31 December 2012: $928m).*

Management's Discussion and Analysis (continued)

Capital

Effective 1 January 2013, the bank calculates its regulatory capital ratios using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework. Comparative information is presented using guidelines issued by OSFI in accordance with the Basel II capital adequacy framework and therefore is not comparable.

The Basel III capital adequacy framework significantly revises the definitions of regulatory capital and introduces the requirement that all regulatory capital must be able to absorb losses in a failed financial institution. Capital instruments issued prior to adoption, that do not meet the new requirements will be phased out as regulatory capital over a ten year period from 2013 to 2022. In addition, for the purposes of calculating common equity tier 1 capital, certain other regulatory adjustments including those relating to goodwill, intangible assets, pension assets and deferred tax assets will be phased in over a five year period from 2014 to 2018. The framework also emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity to risk-weighted assets ('CET1') ratio. The Basel III rules also call for the implementation of a capital conservation buffer, which could be drawn upon in periods of stress, as well as countercyclical capital buffer.

In guidance issued in December 2012, OSFI required a minimum ratio of 7.0% for CET1 by the first quarter of 2013, and 8.5% for total tier 1 and 10.5% for total capital by the first quarter of 2014 on an 'all-in' basis. The 'all-in' basis includes all regulatory adjustments that will be required by 2018, however retaining the phase out of non-qualifying capital instruments.

Regulatory capital

The bank's regulatory capital and risk-weighted assets are as follows:

	Basel III 'All-in' 30 September 2013 $m	Basel II 31 December 2012 $m
Common equity tier 1 capital	**4,040**	N/A
Additional tier 1 capital	**1,058**	N/A
Tier 1 capital	**5,098**	5,053
Tier 2 capital	**694**	823
Total capital available for regulatory purposes	**5,792**	5,876
Total risk-weighted assets	**36,281**	36,668

Regulatory capital ratios

The bank remained within its required regulatory capital limits during the nine months ended 30 September 2013.

The bank's actual regulatory capital ratios and capital limits are as follows:

	Basel III 'All-in' 30 September 2013	Basel II 31 December 2012
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**11.1%**	N/A
Tier 1 capital ratio	**14.1%**	13.8%
Total capital ratio	**16.0%**	16.0%
Actual assets-to-capital multiple	**14.5x**	13.1x
Required regulatory capital limits		
Minimum Common equity tier 1 capital ratio	**7.0%**	N/A
Minimum Tier 1 capital ratio[1]	**8.5%**	7.0%
Minimum Total capital ratio[1]	**10.5%**	10.0%
Maximum assets-to-capital multiple	**20.0x**	20.0x

1 *Limits are effective from 1 January 2014.*

Other Information

Shareholder Information

PRINCIPAL ADDRESSES:

Vancouver:
HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: (604) 685-1000
Fax: (604) 641-3098

Toronto:
HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J 1S9
Tel: (416) 868-8000
Fax: (416) 868-3800

MEDIA ENQUIRIES:
Sharon Wilks (416) 868-3878
Aurora Bonin (604) 641-1905

WEBSITE:
www.hsbc.ca

OTHER AVAILABLE INFORMATION:
The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's website and on the Canadian Securities Administrators' web site at www.sedar.com.

HSBC BANK CANADA SECURITIES ARE LISTED ON THE TORONTO STOCK EXCHANGE:

HSBC Bank Canada
Class 1 Preferred Shares – Series C (HSB.PR.C)
Class 1 Preferred Shares – Series D (HSB.PR.D)
Class 1 Preferred Shares – Series E (HSB.PR.E)

SHAREHOLDER CONTACT:

For change of address, shareholders are requested to write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address.

Other shareholder inquiries may be directed to Shareholder Relations by writing to:

HSBC Bank Canada
Shareholder Relations – Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
Canada V5M 0B2

Shareholder Relations:
Chris Young (604) 642-4389
Harry Krentz (604) 641-1013

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
9th Floor, 100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253

DIVIDENDS DATES:
Dividend record and payable dates for the bank's preferred shares, subject to approval by the Board, are:

2013

Record Date	Payable Date
13 December	31 December

2014

Record Date	Payable Date
14 March	31 March
13 June	30 June
15 September	30 September

Distribution dates on our HSBC HaTS are 30 June and 31 December.

Credit Ratings

Standard & Poor's ('S&P') and DBRS® maintain credit ratings of our debt and securities. The ratings are made within the rating agencies' normal classification system for each type of debt or security.

Our credit ratings influence our ability to secure cost-efficient wholesale funding. Our investment grade ratings were confirmed by S&P in December 2012 and amended downward one notch by DBRS® in February 2013 concurrent with similar rating actions on our ultimate parent, HSBC Holdings. Our investment grade ratings are comparable to those assigned to other Canadian banks.

Our ratings are as follows:

	S&P	DBRS®
Short-term instruments	A-1+	R-1 (Middle)
Deposits and senior debt	AA–	AA (Low)
Subordinated debt	A	A (High)
Preferred shares	P-1 (Low)[1]	Pfd-2
HSBC Canada Asset Trust Securities (HSBC HaTS™)	P-1 (Low)[1]	BBB (High)

1 *Based on S&P's Canadian national preferred share scale. Ratings are 'A–' on S&P's global preferred share scale.*

Other Information (continued)

Outstanding Shares and Securities

	At 4 November 2013		
	Dividend or distribution[1]	Number of issued shares and securities	Carrying value
	$ per share or security	Thousands	$m
Common shares			
HSBC Bank Canada		498,668	1,225
Preferred Shares – Class 1			
- Series C	0.31875	7,000	175
- Series D	0.3125	7,000	175
- Series E	0.4125	10,000	250
Preferred Shares – Class 2			
- Series B	0.0775	86,450	346
			946
HSBC Canada Asset Trust Securities (HSBC HaTS™)[2]			
- Series 2015	25.75		200

1 *Cash dividends on preference shares are non-cumulative and are payable quarterly. Cash distributions on HSBC HaTS™ are non-cumulative and are payable semi-annually.*
2 *Reported in non-controlling interests in the consolidated statement of financial position.*

During the third quarter of 2013, the bank declared and paid $90m in dividends on HSBC Bank Canada common shares, an increase of $7m from the same period in 2012. The bank declared and paid $270m in dividends on common shares during the nine months ended 30 September 2013, an increase of $22m from the same period in 2012.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, 31.25 cents per share on Class 1 Preferred Shares – Series D, 41.25 cents per share on Class 1 Preferred Shares – Series E and 7.75 cents per share on Class 2 Preferred Shares – Series B. Dividends will be paid on 31 December 2013, for shareholders of record on 13 December 2013.

Third Quarter 2013 Financial Statements and Notes (unaudited)

Contents

Financial Statements (unaudited)

Notes on the Financial Statements (unaudited)

Financial Statements (unaudited)

Consolidated income statement

		Quarter ended			Nine months ended	
		30 September 2013	30 September 2012	30 June 2013	**30 September 2013**	30 September 2012
	Notes	**$m**	$m	$m	**$m**	$m
Interest income		**511**	551	534	**1,562**	1,702
Interest expense		**(192)**	(194)	(194)	**(567)**	(575)
Net interest income		**319**	357	340	**995**	1,127
Fee income		**174**	175	181	**521**	511
Fee expense		**(22)**	(18)	(27)	**(69)**	(64)
Net fee income		**152**	157	154	**452**	447
Trading income excluding net interest income		**31**	38	33	**111**	109
Net interest income on trading activities		**11**	10	12	**33**	26
Net trading income		**42**	48	45	**144**	135
Net expense from financial instruments designated at fair value		**–**	(8)	–	**(3)**	(24)
Gains less losses from financial investments		**2**	3	15	**52**	48
Other operating income		**7**	15	(23)	**(3)**	50
Gain on sale of full service retail brokerage business		**–**	–	–	**–**	84
Net operating income before loan impairment charges and other credit risk provisions		**522**	572	531	**1,637**	1,867
Loan impairment charges and other credit risk provisions		**(9)**	(71)	(84)	**(149)**	(178)
Net operating income		**513**	501	447	**1,488**	1,689
Employee compensation and benefits	*3*	**(154)**	(149)	(158)	**(468)**	(507)
General and administrative expenses		**(105)**	(96)	(96)	**(296)**	(300)
Depreciation of property, plant and equipment		**(8)**	(10)	(8)	**(25)**	(27)
Amortization and impairment of intangible assets		**(4)**	(3)	(4)	**(11)**	(11)
Restructuring charges		**–**	–	–	**–**	(36)
Total operating expenses		**(271)**	(258)	(266)	**(800)**	(881)
Operating profit		**242**	243	181	**688**	808
Share of profit in associates		**9**	1	1	**14**	3
Profit before income tax expense		**251**	244	182	**702**	811
Income tax expense		**(65)**	(64)	(52)	**(197)**	(211)
Profit for the period		**186**	180	130	**505**	600
Profit attributable to common shareholders		**168**	162	113	**452**	547
Profit attributable to preferred shareholders		**15**	15	15	**45**	45
Profit attributable to shareholders		**183**	177	128	**497**	592
Profit attributable to non-controlling interests		**3**	3	2	**8**	8
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668	**498,668**	498,668
Basic earnings per common share		**$ 0.34**	$ 0.33	$ 0.23	**$ 0.91**	$ 1.10

The accompanying notes on pages 27 to 39 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 13 to 18 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Profit for the period	**186**	180	130	**505**	600
Other comprehensive income/(loss)					
Available-for-sale investments[1]	**1**	12	(89)	**(91)**	16
– fair value gains/(losses)	**3**	19	(104)	**(68)**	76
– fair value gains/(losses) transferred to income statement on disposal	**(2)**	(3)	(15)	**(52)**	(48)
– income taxes	**–**	(4)	30	**29**	(12)
Cash flow hedges[1]	**11**	(30)	(86)	**(77)**	(109)
– fair value (losses)/gains	**(2)**	10	(78)	**41**	(181)
– fair value gains/(losses) transferred to income statement	**16**	(50)	(37)	**(145)**	14
– income taxes	**(3)**	10	29	**27**	58
Actuarial gains/(losses) on defined benefit plans[2]	**23**	(23)	8	**27**	(61)
– before income taxes	**34**	(31)	7	**36**	(82)
– income taxes	**(11)**	8	1	**(9)**	21
Other comprehensive (loss)/income for the period, net of tax	**35**	(41)	(167)	**(141)**	(154)
Total comprehensive (loss)/income for the period	**221**	139	(37)	**364**	446
Total comprehensive (loss)/income for the period attributable to:					
– shareholders	**218**	136	(39)	**356**	438
– non-controlling interests	**3**	3	2	**8**	8
	221	139	(37)	**364**	446

1 *Other comprehensive income/(loss) items that can be reclassified into income.*
2 *Other comprehensive income/(loss) items that cannot be reclassified into income.*

The accompanying notes on pages 27 to 39 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 13 to 18 form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of financial position

	Notes	30 September 2013 $m	30 September 2012 $m	31 December 2012 $m
ASSETS				
Cash and balances at central bank		**59**	62	56
Items in the course of collection from other banks		**122**	123	90
Trading assets	*4*	**7,446**	6,610	5,272
Derivatives	*5*	**1,616**	2,042	1,810
Loans and advances to banks		**2,581**	1,627	1,480
Loans and advances to customers		**46,722**	46,309	45,572
Financial investments	*6*	**21,178**	21,571	20,410
Other assets		**434**	620	911
Prepayments and accrued income		**227**	262	165
Customers' liability under acceptances		**5,007**	5,040	4,737
Property, plant and equipment		**133**	130	140
Goodwill and intangible assets		**69**	75	71
Total assets		**85,594**	84,471	80,714
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**1,952**	2,359	2,173
Customer accounts		**51,227**	47,713	48,304
Items in the course of transmission to other banks		**86**	340	71
Trading liabilities	*7*	**4,420**	3,588	2,672
Financial liabilities designated at fair value	*8*	**427**	999	436
Derivatives	*5*	**1,306**	1,628	1,415
Debt securities in issue		**12,387**	14,063	11,980
Other liabilities		**2,251**	2,115	2,389
Acceptances		**5,007**	5,040	4,737
Accruals and deferred income		**529**	591	528
Retirement benefit liabilities		**258**	348	309
Subordinated liabilities		**327**	323	324
Total liabilities		**80,177**	79,107	75,338
Equity				
Preferred shares		**946**	946	946
Common shares		**1,225**	1,225	1,225
Other reserves		**113**	346	281
Retained earnings		**2,903**	2,617	2,694
Total shareholders' equity		**5,187**	5,134	5,146
Non-controlling interests		**230**	230	230
Total equity		**5,417**	5,364	5,376
Total equity and liabilities		**85,594**	84,471	80,714

The accompanying notes on pages 27 to 39 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 13 to 18 form an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	Quarter ended			Nine months ended	
		30 September 2013	30 September 2012	30 June 2013	**30 September 2013**	30 September 2012
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**251**	244	182	**702**	811
Adjustments for:						
– non-cash items included in profit before tax	*10*	**25**	87	98	**197**	160
– change in operating assets	*10*	**(1,608)**	(1,006)	2,048	**(1,145)**	(4,377)
– change in operating liabilities	*10*	**1,451**	2,078	(498)	**3,171**	3,563
– tax paid, net		**(37)**	(4)	(44)	**(170)**	(348)
Net cash (used in)/from operating activities		**82**	1,399	1,786	**2,755**	(191)
Cash flows from investing activities						
Purchase of financial investments		**(5,114)**	(2,593)	(4,588)	**(13,878)**	(14,581)
Proceeds from the sale and maturity of financial investments		**3,778**	1,139	4,630	**13,020**	12,195
Net cash flows from the sale of held for sale assets		**371**	–	–	**371**	(116)
Purchase of property, plant and equipment		**(11)**	(13)	(9)	**(30)**	(46)
Purchase of intangible assets		**–**	(3)	–	**–**	(9)
Net cash from/(used in) investing activities		**(976)**	(1,470)	33	**(517)**	(2,557)
Cash flows from financing activities						
Dividends paid to shareholders		**(105)**	(99)	(105)	**(315)**	(294)
Distributions to non-controlling interests		**(3)**	(3)	(2)	**(8)**	(8)
Net cash used in financing activities		**(108)**	(102)	(107)	**(323)**	(302)
Net increase/(decrease) in cash and cash equivalents		**(1,002)**	(173)	1,712	**1,915**	(3,050)
Cash and cash equivalents at the beginning of the period		**4,670**	2,000	2,958	**1,753**	4,877
Cash and cash equivalents at the end of the period	*10*	**3,668**	1,827	4,670	**3,668**	1,827

The accompanying notes on pages 27 to 39 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 13 to 18 form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of changes in equity for the nine months ended 30 September 2013

	Share capital $m	Retained earnings[1] $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January[1]	**2,171**	**2,694**	**121**	**160**	**281**	**5,146**	**230**	**5,376**
Profit for the period	**–**	**497**	**–**	**–**	**–**	**497**	**8**	**505**
Other comprehensive income (net of tax)	**–**	**27**	**(91)**	**(77)**	**(168)**	**(141)**	**–**	**(141)**
Available-for-sale investments	**–**	**–**	**(91)**	**–**	**(91)**	**(91)**	**–**	**(91)**
Cash flow hedges	**–**	**–**	**–**	**(77)**	**(77)**	**(77)**	**–**	**(77)**
Actuarial gains on defined benefit plans	**–**	**27**	**–**	**–**	**–**	**27**	**–**	**27**
Total comprehensive income for the period	**–**	**524**	**(91)**	**(77)**	**(168)**	**356**	**8**	**364**
Dividends paid on common shares	**–**	**(270)**	**–**	**–**	**–**	**(270)**	**–**	**(270)**
Dividends paid on preferred shares	**–**	**(45)**	**–**	**–**	**–**	**(45)**	**–**	**(45)**
Distributions to unit holders	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
At 30 September	**2,171**	**2,903**	**30**	**83**	**113**	**5,187**	**230**	**5,417**

Consolidated statement of changes in equity for the nine months ended 30 September 2012

	Share capital $m	Retained earnings[1] $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January[1]	2,171	2,379	138	301	439	4,989	230	5,219
Profit for the period	–	592	–	–	–	592	8	600
Other comprehensive income (net of tax)	–	(61)	16	(109)	(93)	(154)	–	(154)
Available-for-sale investments	–	–	16	–	16	16	–	16
Cash flow hedges	–	–	–	(109)	(109)	(109)	–	(109)
Actuarial losses on defined benefit plans	–	(61)	–	–	–	(61)	–	(61)
Total comprehensive income for the period	–	531	16	(109)	(93)	438	8	446
Dividends paid on common shares	–	(248)	–	–	–	(248)	–	(248)
Dividends paid on preferred shares	–	(45)	–	–	–	(45)	–	(45)
Distributions to unit holders	–	–	–	–	–	–	(8)	(8)
At 30 September	2,171	2,617	154	192	346	5,134	230	5,364

1 *Retained earnings at 1 January 2013 and 2012 restated (see Note 2).*

The accompanying notes on pages 27 to 39 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 13 to 18 form an integral part of these financial statements.

Notes on the Financial Statements (unaudited)

1 Basis of preparation

a *Compliance with International Financial Reporting Standards*

HSBC Bank Canada (“the bank”, “we”, “our”) is an indirectly wholly owned subsidiary of HSBC Holdings plc (“the Parent”, “HSBC”). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies. These interim financial statements should be read in conjunction with the bank’s 2012 annual consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (‘IFRS’) and Section 308 (4) of the Bank Act.

The interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’.

b *Presentation of information*

(i) The bank’s consolidated financial statements are presented in Canadian dollars which is also its functional currency. The abbreviation “$m” represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted. Certain prior period amounts have been reclassified to conform with the current period presentation.

(ii) In the first quarter of 2013, the bank adopted a revised disclosure convention for the presentation of impaired loans and advances which affects the disclosure of the impaired loan portfolio. The revised disclosure convention introduces a more stringent approach to the assessment of whether renegotiated loans are presented as impaired. This reflects HSBC Group standards and developments in industry best practice disclosure.

Under the revised disclosure convention, renegotiated consumer finance loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment, are included as impaired loans and advances. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Management believes that this revised approach better reflects the nature of risks and inherent credit quality in our loan portfolio as it applies stricter requirements for the performance of renegotiated loans before they may be presented as no longer impaired. The revised disclosure convention affects the disclosure presentation of impaired loans but does not affect the accounting policy for the recognition of impairment allowances as disclosed in Note 2(f) on pages 74 to 76 of the bank's 2012 Annual Report and Accounts and accordingly there is no impact on the income statement.

For the current period, impaired loan data as disclosed under the section "Credit Quality of Financial Assets" within Management's Discussion and Analysis" on page 14 reflects the revised impaired loans disclosure convention. The largest presentation difference is an increase of impaired loans relating to the Consumer Finance business which was $100m at 30 September 2013 (30 September 2012: $179m; 31 December 2012: $144m).

(iii) As a result of changing market practices in response to regulatory and accounting changes, as well as general market developments, the bank revised its methodology for estimating the credit valuation adjustment (‘CVA’) and debit valuation adjustment (‘DVA’) for derivatives from 1 January 2013. Previously, the probability of default (‘PD’) used in the CVA calculation was based on the bank’s internal credit rating for the counterparty taking into account how credit ratings may deteriorate over the duration of the exposure based on historical rating transition matrices. The revised methodology maximizes the use of the PDs based on market-observable data, such as credit default swap (‘CDS’) spreads. Where CDS spreads are not available, PDs are estimated having regard to market practice, considering relevant data including both CDS indices and historical rating transition matrices. In addition, the bank aligned its methodology for estimating the debit valuation adjustment (‘DVA’) to be consistent with that applied for CVA. Historically, the bank considered that a zero spread was appropriate in respect of own credit risk and consequently did not adjust derivative liabilities for its own credit risk.

Notes on the Financial Statements (unaudited) (continued)

c *Use of estimates and assumptions*

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described on pages 73 to 76 in Note 2 of the bank's 2012 Annual Report and Accounts.

d *Consolidation*

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 September 2013. The method adopted by the bank to consolidate its subsidiaries is described on page 70 in Note 1(d) of the 2012 Annual Report and Accounts.

e *Future accounting developments*

Future accounting developments have been disclosed in Note 1(f) on the consolidated financial statements of the bank's 2012 Annual Report and Accounts.

2 Summary of significant and critical accounting policies

Except as set out below, there have been no significant changes to the accounting policies of the bank from those as disclosed on pages 72 to 84 in Note 2 of the 2012 Annual Report and Accounts.

a *IAS 19 – Employee Benefits*

Effective 1 January 2013, the bank adopted *IAS 19 'Employee Benefits'* ('IAS 19 revised'), which was applied retrospectively. The most significant impact for the bank is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement is presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate. However, there is no impact on plan assets as the difference between the estimated and the actual return on plan assets is recorded through the statement of other comprehensive income. There is no material impact on plan liabilities.

In addition, unvested amounts related to past service events are no longer amortized and recognized in the income statement over the vesting period, but recognized in full on the date of the past service event as a charge or a credit to income.

The estimated effect of the adoption of this standard is an increase in total operating expenses for fiscal 2013 of approximately $10m annually. In addition, as the standard is to be applied retrospectively, there is an increase in retained earnings on 1 January 2013 of $14m, net of income taxes, relating to past service gains recorded in previous years that were previously deferred and not yet recognized as a reduction of costs. The financial statements for 2012 have been restated through an adjustment to increase retained earnings at 1 January 2012 of $16m, net of taxes, an increase of costs for 2012 of $9m (approximately $2m per quarter) and an increase in other comprehensive income of $7m ($5m after tax).

The impact on retained earnings is as follows:

Retained earnings as at 1 January

	2013	2012
	$m	$m
Retained earnings as previously reported	**2,680**	2,363
Change in accounting policy	**14**	16
Retained earnings as restated	**2,694**	2,379

b *IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities*

Effective 1 January 2013, the bank adopted *IFRS 10 'Consolidated Financial Statements'* ('IFRS 10') and IFRS 12 '*Disclosure of Interests in Other Entities*' ('IFRS 12'), which were applied retrospectively. Under IFRS 10, there is one approach for determining if an investor controls an investee for all entities, based on the concept of power, variability of returns and their linkage. This replaced the previous approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities.

The bank determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, there was no impact on the bank's consolidated financial statements.

c *IFRS 13 – Fair Value Measurement*

Effective 1 January 2013, the bank adopted *IFRS 13 'Fair Value Measurement'* ('IFRS 13'), which was applied prospectively. IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The adoption of IFRS 13 did not have any impact on the bank's reported financial results or financial position. However, there were certain new and revised disclosures as set out in Note 13.

d *IAS 1 – Presentation of Financial Statements*

Effective 1 January 2013, the bank adopted changes to *IAS 1 'Presentation of Financial Statements'* ('IAS 1') relating to the presentation of items of other comprehensive income, which was applied retrospectively.

As a result of the adoption of changes within IAS 1, items presented within the consolidated statement of comprehensive income are grouped into items that will or will not be reclassified into income.

3 Employee compensation and benefits

Included within 'Employee compensation and benefits' are components of net periodic benefit cost related to the bank's pension plans and other post-employment benefits, as follows:

	Quarter ended			Nine months ended	
	30 September 2013	30 September 2012	30 June 2013	**30 September 2013**	30 September 2012
	$m	$m	$m	**$m**	$m
Pension plans – defined benefit	**5**	4	5	**15**	13
Pension plans – defined contribution	**9**	6	6	**22**	21
Healthcare and other post-employment benefit plans	**3**	2	3	**9**	8
	17	12	14	**46**	42

As stated in Note 2 above, the defined benefit component has been restated to reflect the adoption of IAS 19 revised. Actuarial valuations for the bank's registered defined pension plans are prepared annually and for non-registered plans and other retirement compensation arrangements triennially. The most recent actuarial valuations of the registered defined benefit pension plans for funding purposes were conducted as at 31 December 2012.

Notes on the Financial Statements (unaudited) (continued)

4 Trading assets

	At 30 September 2013 $m	At 30 September 2012 $m	At 31 December 2012 $m
Trading assets:			
Not subject to repledge or resale by counterparties	**6,196**	4,581	4,123
Which may be repledged or resold by counterparties	**1,250**	2,029	1,149
	7,446	6,610	5,272
Canadian and Provincial Government bonds[1]	**2,872**	2,477	1,753
Debt securities	**513**	403	339
Total debt securities	**3,385**	2,880	2,092
Bankers acceptances	**2,576**	2,372	2,590
Customer trading assets	**1,058**	779	262
Treasury and other eligible bills	**422**	553	308
Equity securities	**5**	26	20
	7,446	6,610	5,272

1 *Includes government guaranteed bonds.*

5 Derivatives

For a detailed description of the type and use of derivatives by the bank, please refer to the bank's accounting policies disclosed on pages 72 to 84 in Note 2, and Note 11 on pages 101 to 107 of the bank's 2012 Annual Report and Accounts.

Fair values of derivatives by product contract type held:

	At 30 September 2013					
	Assets			**Liabilities**		
	Trading $m	**Hedging $m**	**Total $m**	**Trading $m**	**Hedging $m**	**Total $m**
Foreign exchange	**738**	**239**	**977**	**720**	**36**	**756**
Interest rate	**408**	**191**	**599**	**356**	**154**	**510**
Commodity	**40**	**–**	**40**	**40**	**–**	**40**
Gross total fair values	**1,186**	**430**	**1,616**	**1,116**	**190**	**1,306**

	At 30 September 2012					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	950	89	1,039	833	6	839
Interest rate	595	343	938	541	183	724
Commodity	65	–	65	65	–	65
Gross total fair values	1,610	432	2,042	1,439	189	1,628

	At 31 December 2012					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	756	182	938	693	10	703
Interest rate	530	282	812	484	168	652
Commodity	60	–	60	60	–	60
Gross total fair values	1,346	464	1,810	1,237	178	1,415

Trading derivatives

Notional contract amounts of derivatives held for trading purposes by product type

	At 30 September 2013	At 30 September 2012	At 31 December 2012
	$m	$m	$m
Foreign exchange	**75,059**	63,380	65,583
Interest rate	**33,069**	37,142	35,510
Commodity	**412**	462	561
Total derivatives	**108,540**	100,984	101,654

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the reporting date; they do not represent amounts at risk.

Hedging instruments

Notional contract amounts of derivatives held for hedging purposes by product type

	At 30 September 2013		At 30 September 2012		At 31 December 2012	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Interest rate	**20,854**	**7,089**	22,738	4,260	22,561	4,294
Foreign exchange	**2,794**	**–**	2,107	–	2,300	–
Total derivatives	**23,648**	**7,089**	24,845	4,260	24,861	4,294

Fair value of derivatives designated as fair value hedges

	At 30 September 2013		At 30 September 2012		At 31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**33**	**71**	7	101	8	94

Gains or losses arising from the change in fair value of fair value hedges

	Quarter ended			Nine months ended	
	30 September 2013	30 September 2012	30 June 2013	30 September 2013	30 September 2012
	$m	$m	$m	$m	$m
Gains/(losses)					
On hedging instruments	**(11)**	(13)	46	**49**	(23)
On hedged items attributable to the hedged risk	**11**	14	(48)	**(50)**	25

The gains and losses on ineffective portions of fair value hedges are recognized immediately in "Net trading income".

Fair value of derivatives designated as cash flow hedges

	At 30 September 2013		At 30 September 2012		At 31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**239**	**36**	89	6	182	10
Interest rate	**158**	**83**	336	82	273	75

Notes on the Financial Statements (unaudited) (continued)

6 Financial investments

Financial investments consist of the following:

	At 30 September 2013 $m	At 30 September 2012 $m	At 31 December 2012 $m
Financial investments			
Not subject to repledge or resale by counterparties	**18,919**	20,360	19,661
Which may be subject to repledge or resale by counterparties	**2,259**	1,211	749
	21,178	21,571	20,410
Available-for-sale			
Canadian and Provincial Government bonds[1]	**15,423**	13,897	13,429
International Government bonds[1]	**2,766**	3,019	2,999
Treasury bills and other eligible bills	**1,722**	2,937	2,308
Debt securities issued by banks and other financial institutions	**1,267**	1,695	1,666
Other debt securities	**–**	23	8
	21,178	21,571	20,410

1 *Includes government guaranteed bonds.*

7 Trading liabilities

	At 30 September 2013 $m	At 30 September 2012 $m	At 31 December 2012 $m
Other liabilities – net short positions	**2,527**	2,213	1,644
Customer trading liabilities	**1,517**	1,167	916
Trading liabilities due to other banks	**343**	132	55
Other debt securities in issue	**33**	76	57
	4,420	3,588	2,672

8 Financial liabilities designated at fair value

	At 30 September 2013 $m	At 30 September 2012 $m	At 31 December 2012 $m
Debt securities in issue	**–**	563	–
Subordinated debentures	**427**	436	436
	427	999	436

The carrying amount at 30 September 2013 of financial liabilities designated at fair value was $27m higher (30 September 2012: $39m higher; 31 December 2012: $36m higher) than the contractual amount at maturity. At 30 September 2013, the cumulative amount of change in fair value attributable to changes in credit risk was a $4m gain (30 September 2012: $3m loss; 31 December 2012: $7m gain).

9 Business disposals

At 31 December 2012 (note 13 on page 108 of the 2012 Annual Report and Accounts) we reported that negotiations had commenced to sell a portfolio of consumer finance loans. In March 2013 it was announced that an agreement to sell the consumer private label credit card portfolio had been entered into. This transaction closed on 5 August 2013 and a portfolio of private label credit card loans was sold for $371m. On 8 October 2013, the sale of investment property recorded as held for sale was completed. There was no material impact on net profit from either transaction.

10 Notes on the statement of cash flows

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Non-cash items included in profit before tax					
Gain on sale of full service retail brokerage business	**–**	–	–	**–**	(84)
Depreciation and amortization	**8**	14	8	**25**	44
Share based payment expense	**3**	3	1	**8**	15
Loan impairment charges and other credit risk provisions	**9**	71	84	**149**	178
Charge for defined benefit pension plans	**5**	1	5	**15**	7
	25	89	98	**197**	160
Change in operating assets					
Change in prepayments and accrued income	**(9)**	(22)	9	**(62)**	(42)
Change in net trading securities and net derivatives	**320**	(197)	601	**378**	(1,144)
Change in loans and advances to customers	**(1,785)**	(254)	973	**(1,299)**	(2,130)
Change in other assets	**(134)**	(533)	465	**(162)**	(1,061)
	(1,608)	(1,006)	2,048	**(1,145)**	(4,377)
Change in operating liabilities					
Change in accruals and deferred income	**42**	86	(29)	**1**	30
Change in deposits by banks	**373**	612	(651)	**(221)**	1,030
Change in customer accounts	**1,722**	616	1,321	**2,923**	1,099
Change in debt securities in issue	**(853)**	102	(480)	**407**	736
Change in financial liabilities designated at fair value	**(1)**	(12)	(10)	**(9)**	(7)
Change in other liabilities	**168**	674	(649)	**70**	675
	1,451	2,078	(498)	**3,171**	3,563
Cash and cash equivalents					
Cash and balances at central bank	**59**	62	66	**59**	62
Items in the course of transmission from/(to) other banks, net	**36**	(217)	(39)	**36**	(217)
Loans and advances to banks of one month or less	**2,581**	1,627	3,656	**2,581**	1,627
T-Bills and certificates of deposits – three months or less	**992**	355	987	**992**	355
	3,668	1,827	4,670	**3,668**	1,827
Interest					
Interest paid	**175**	133	227	524	519
Interest received	**498**	524	553	1,508	1,675

Notes on the Financial Statements (unaudited) (continued)

11 Contingent liabilities, contractual commitments and guarantees

	At 30 September 2013 $m	At 30 September 2012 $m	At 31 December 2012 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**3,590**	2,939	3,083
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend [1]	**33,541**	35,421	36,291
Documentary credits and short-term trade-related transactions	**502**	760	627
	34,043	36,181	36,918

1 *Based on original contractual maturity.*

Legal and regulatory proceedings

We are subject to a number of legal proceedings arising in the normal course of our business. We do not expect the outcome of any of these proceedings, in aggregate, to have a material effect on our consolidated financial position or our results of operations.

US regulatory and law enforcement investigations

In December 2012, HSBC Holdings plc (‘HSBC Holdings’), the bank’s ultimate parent company, HSBC Bank USA, N.A. (‘HBUS’), and HSBC North America Holdings (‘HNAH’) entered into agreements to achieve a resolution with US and UK government agencies regarding past inadequate compliance with anti-money laundering (‘AML’), Bank Secrecy Act (BSA) and sanctions laws. Among other agreements, HSBC Holdings and HBUS entered into a five-year Deferred Prosecution Agreement (the ‘US DPA’) with the US Department of Justice (‘DOJ’), HSBC Holdings entered into a two-year Deferred Prosecution Agreement with the New York County District Attorney (‘DANY’), and HSBC Holdings consented to a cease and desist order with the Federal Reserve Board (‘FRB’). HSBC Holdings also entered into an Undertaking with the UK Financial Services Authority (now a Financial Conduct Authority (‘FCA’) Direction) to comply with certain forward-looking obligations with respect to anti-money laundering and sanctions requirements over a five-year term.

In addition, HBUS entered into a monetary penalty consent order with the US Department of the Treasury’s Financial Crimes Enforcement Network (‘FinCEN’) and a separate monetary penalty order with the Office of the Comptroller of the Currency (‘OCC’). HBUS also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC’s then most recent report of examination, imposing certain restrictions on HBUS directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HBUS entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

Under these agreements, HSBC Holdings and HBUS will continue to cooperate fully with US and UK regulatory and law enforcement authorities and take further action to strengthen its compliance policies and procedures. Under its agreements with DOJ, the FCA, and the FRB, an independent corporate compliance monitor will evaluate the HSBC Group’s progress in implementing its obligations under the relevant agreements. Michael Cherkasky has been selected as the independent monitor, and, on 1 July, 2013, the United States District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same.

If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DOJ’s charges against those entities will be dismissed at the end of the five-year period of that agreement. Similarly, if HSBC Holdings fulfils all of the requirements imposed by the DANY DPA, DANY’s charges against it will be dismissed at the end of the two-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA, and DANY may prosecute HSBC Holdings in relation to the matters which are subject of the DANY DPA if HSBC Holdings violates the terms of the DANY DPA.

Under these agreements, HSBC Holdings has certain obligations to ensure that entities in the HSBC Group, including the bank and its subsidiaries, comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

The settlement with U.S. and U.K. authorities does not preclude private litigation relating to, among other things, the HSBC Group's compliance with applicable AML/ BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

12 Segment analysis

We manage and report our operations according to our main customer groups. Information on each business line is included in Management's Discussion and Analysis and pages 95 to 96 of the 2012 Annual Report and Accounts. Various estimate and allocation methodologies are used in the preparation of the customer groups' financial information. We allocate expenses directly related to earning revenues to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to customer groups using appropriate allocation formulas. Customer group net interest income reflects internal funding charges and credits on the customer groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in the Global Banking and Markets segment.

	Quarter ended			Nine months ended	
	30 September 2013	30 September 2012	30 June 2013	**30 September 2013**	30 September 2012
	$m	$m	$m	**$m**	$m
Commercial Banking					
Net interest income	**169**	175	171	**501**	532
Net fee income	**75**	78	77	**227**	221
Net trading income	**6**	9	8	**22**	25
Other operating income/(expense)	**(3)**	3	(35)	**(36)**	15
Net operating income before loan impairment charges and other credit risk provisions	**247**	265	221	**714**	793
Loan impairment (charges)/reversals and other credit risk provisions	**5**	(36)	(61)	**(95)**	(73)
Net operating income	**252**	229	160	**619**	720
Total operating expenses	**(94)**	(86)	(91)	**(273)**	(274)
Operating profit	**158**	143	69	**346**	446
Share of profit in associates	**9**	1	1	**14**	3
Profit before income tax expense	**167**	144	70	**360**	449
Global Banking and Markets					
Net interest income	**37**	41	40	**119**	127
Net fee income	**22**	25	20	**60**	63
Net trading income	**25**	28	24	**86**	78
Gain less losses from financial investments	**2**	3	13	**48**	48
Other operating income/(expense)	**(1)**	–	1	**–**	1
Gain on sale of full service retail brokerage business	**–**	–	–	**–**	8
Net operating income before loan impairment charges and other credit risk provisions	**85**	97	98	**313**	325
Loan impairment charges and other credit risk	**(1)**	–	(2)	**(1)**	–
Net operating income	**84**	97	96	**312**	325
Total operating expenses	**(29)**	(27)	(29)	**(87)**	(85)
Profit before income tax expense	**55**	70	67	**225**	240

Notes on the Financial Statements (unaudited) (continued)

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Retail Banking and Wealth Management					
Net interest income	**85**	85	86	**260**	282
Net fee income	**45**	42	48	**136**	128
Net trading income	**4**	3	7	**15**	9
Other operating income	**2**	3	2	**7**	8
Gain on sale of full service retail brokerage business	**–**	–	–	**–**	76
Net operating income before loan impairment charges and other credit risk provisions	**136**	133	143	**418**	503
Loan impairment charges and other credit risk provisions	**(5)**	(7)	(7)	**(19)**	(20)
Net operating income	**131**	126	136	**399**	483
Total operating expenses (excluding restructuring charges)	**(119)**	(113)	(118)	**(355)**	(370)
Restructuring charges	**–**	–	–	**–**	(2)
Profit before income tax expense	**12**	13	18	**44**	111
Consumer Finance					
Net interest income	**35**	64	49	**136**	209
Net fee income	**10**	12	9	**29**	35
Gain less losses from financial investments	**–**	–	2	**4**	–
Other operating income	**1**	1	1	**3**	3
Net operating income before loan impairment charges and other credit risk provisions	**46**	77	61	**172**	247
Loan impairment charges and other credit risk provisions	**(8)**	(28)	(14)	**(34)**	(85)
Net operating income	**38**	49	47	**138**	162
Total operating expenses (excluding restructuring charges)	**(19)**	(21)	(20)	**(57)**	(81)
Restructuring charges	**–**	–	–	**–**	(34)
Profit before income tax expense	**19**	28	27	**81**	47
Other					
Net interest expense	**(7)**	(8)	(6)	**(21)**	(23)
Net trading income	**7**	8	6	**21**	23
Net expense from financial instruments designated at fair value	**–**	(8)	–	**(3)**	(24)
Other operating income	**8**	8	8	**23**	23
Net operating income/(expense)	**8**	–	8	**20**	(1)
Total operating expenses	**(10)**	(11)	(8)	**(28)**	(35)
Loss before income tax expense	**(2)**	(11)	–	**(8)**	(36)

Other information about the profit/(loss) for the quarter

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Quarter ended 30 September 2013						
Net operating income:	**131**	**252**	**84**	**38**	**8**	**513**
External	**155**	**249**	**63**	**38**	**8**	**513**
Inter-segment	**(24)**	**3**	**21**	**–**	**–**	**–**
Quarter ended 30 September 2012						
Net operating income:	126	229	97	49	–	501
External	170	217	65	49	–	501
Inter-segment	(44)	12	32	–	–	–
Quarter ended 30 June 2013						
Net operating income:	136	160	96	47	8	447
External	163	156	73	47	8	447
Inter-segment	(27)	4	23	–	–	–
Nine months ended 30 September 2013						
Net operating income:	**399**	**619**	**312**	**138**	**20**	**1,488**
External	**479**	**610**	**241**	**138**	**20**	**1,488**
Inter-segment	**(80)**	**9**	**71**	**–**	**–**	**–**
Nine months ended 30 September 2012						
Net operating income:	483	720	325	162	(1)	1,689
External	604	681	243	162	(1)	1,689
Inter-segment	(121)	39	82	–	–	–

Statement of financial position information

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
At 30 September 2013						
Loans and advances to customers (net)	**22,694**	**16,195**	**7,820**	**1,112**	**(1,099)**	**46,722**
Customers' liability under acceptances	**–**	**4,162**	**845**	**–**	**–**	**5,007**
Total assets	**23,735**	**21,079**	**40,881**	**1,735**	**(1,836)**	**85,594**
Customer accounts	**21,606**	**20,209**	**9,983**	**1**	**(572)**	**51,227**
Acceptances	**–**	**4,162**	**845**	**–**	**–**	**5,007**
Total liabilities	**24,721**	**24,779**	**30,735**	**1,223**	**(1,281)**	**80,177**
At 30 September 2012						
Loans and advances to customers (net)	24,995	16,484	4,400	2,056	(1,626)	46,309
Customers' liability under acceptances	–	4,094	946	–	–	5,040
Total assets	25,415	20,431	38,462	2,198	(2,035)	84,471
Customer accounts	20,008	19,708	7,606	1	390	47,713
Acceptances	–	4,094	946	–	–	5,040
Total liabilities	23,263	24,210	31,116	1,776	(1,258)	79,107
At 31 December 2012						
Loans and advances to customers (net)	23,755	16,367	5,411	1,497	(1,458)	45,572
Customers' liability under acceptances	–	3,982	755	–	–	4,737
Total assets	24,467	21,055	34,768	2,045	(1,621)	80,714
Customer accounts	20,225	20,291	7,818	1	(31)	48,304
Acceptances	–	3,982	755	–	–	4,737
Total liabilities	23,520	24,735	26,553	1,599	(1,069)	75,338

Notes on the Financial Statements (unaudited) (continued)

13 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings including other companies in the HSBC Holdings Group. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Transactions between the bank and HSBC Holdings including other companies in the HSBC Holdings Group

	Quarter ended			Nine months ended	
	30 September 2013 $m	30 September 2012 $m	30 June 2013 $m	**30 September 2013 $m**	30 September 2012 $m
Income Statement					
Interest income	**15**	20	13	**45**	60
Interest expense	**(18)**	(9)	(7)	**(35)**	(16)
Fee income	**3**	6	2	**10**	17
Fee expense	**(1)**	(1)	(3)	**(5)**	(3)
Other operating income	**11**	11	13	**35**	35
General and administrative expenses	**(28)**	(28)	(24)	**(77)**	(83)

Balances due to/from the bank and HSBC Group affiliates in Europe are included in "Exposures to Europe" within Management's Discussion and Analysis on page 16.

14 Fair values of financial instruments

Control framework

As reported in Note 2 above, the bank adopted IFRS 13 effective 1 January 2013. Although this standard provided an updated definition of fair value, the bank's existing methodology had already adopted the principles included in the revised standard. Accordingly, there was no change in recorded profit or assets and liabilities arising from the adoption.

Bases of valuing assets and liabilities measured at fair value

The table below provides an analysis of the fair value hierarchy which has been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements.

	Valuation techniques			
	Level 1 Quoted market price $m	**Level 2 Observable inputs $m**	**Level 3 Significant unobservable inputs $m**	**Total $m**
At 30 September 2013				
Assets				
Trading assets	**4,338**	**3,108**	**–**	**7,446**
Derivatives	**–**	**1,582**	**34**	**1,616**
Financial investments: available-for-sale	**18,436**	**2,742**	**–**	**21,178**
Liabilities				
Trading liabilities	**3,935**	**475**	**10**	**4,420**
Financial liabilities at fair value	**–**	**427**	**–**	**427**
Derivatives	**–**	**1,272**	**34**	**1,306**

Non-financial assets measured at fair value include pension plan assets. The majority of pension plan assets are considered Level 1 with an insignificant amount in Level 2 or Level 3. The fair value of these assets is $432m, which has been recorded as a reduction of the related pension plan obligation.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

	Assets		Liabilities	
	Available-for-sale $m	**Derivatives $m**	**Held for trading $m**	**Derivatives $m**
At 1 January 2013	**9**	**5**	**49**	**7**
Total gains or losses recognized in profit or loss	**1**	**33**	**1**	**31**
Issues	**–**	**–**	**15**	**–**
Settlements	**(9)**	**–**	**–**	**–**
Transfer out	**–**	**(4)**	**(55)**	**(4)**
Other	**(1)**	**–**	**–**	**–**
At 30 September 2013	**–**	**34**	**10**	**34**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**–**	**32**	**–**	**32**

During the third quarter in 2013, there were no significant transfers between Level 1 and 2.

For a detailed description of fair value and the classification of financial instruments by the bank, please refer to the bank's accounting policies disclosed on page 72 to 84 in Note 2, and Note 25 on 115 to 120 of the bank's 2012 Annual Report and Accounts.

Fair values of financial instruments which are not carried at fair value on the statement of financial position

	30 September 2013	
	Carrying amount $m	**Fair value $m**
Assets		
Loans and advances to banks	**2,581**	**2,581**
Loans and advances to customers	**46,722**	**46,800**
Liabilities		
Deposits by banks	**1,952**	**1,952**
Customer accounts	**51,227**	**51,297**
Debt securities in issue	**12,387**	**12,522**
Subordinated liabilities	**327**	**304**

Further discussion of the bank’s liquidity and funding management can be found in the audited sections of ‘Risk management’ within Management’s Discussion and Analysis on pages 31 to 60 of the 2012 Annual Report and Accounts.

15 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 30 September 2013 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 4 November 2013 and authorized for issue.