HSBC Bank Canada

Third Quarter 2014 Interim Report

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Corporate profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. The HSBC Group serves customers worldwide from over 6,200 offices in over 74 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,729 at 30 September 2014, the HSBC Group is one of the world's largest banking and financial services organizations.

Headlines

- Profit before income tax expense for the quarter ended 30 September 2014 was $231m, a decrease of 8.0% compared with the same period in 2013. Profit before income tax expense was $706m for the nine months ended 30 September 2014, an increase of 0.6% compared with the same period in 2013.
- Profit attributable to the common shareholder was $163m for the quarter ended 30 September 2014, a decrease of 3.0% compared with the same period in 2013. Profit attributable to the common shareholder was $495m for the nine months ended 30 September 2014, an increase of 9.5% compared with the same period in 2013.
- Return on average common equity was 14.5% and 15.0% for the quarter and nine months ended 30 September 2014 respectively compared with 16.0% and 14.3% respectively for the same periods in 2013.
- The cost efficiency ratio was 52.3% and 51.8% for the quarter and nine-months ended 30 September 2014 respectively compared with 51.9% and 48.9% respectively for the same periods in 2013.
- Total assets were $84.7bn at 30 September 2014 compared with $84.3bn at 31 December 2013.
- Common equity tier 1 capital ratio was 10.8%, tier 1 ratio 12.1% and total capital ratio 13.7% at 30 September 2014 compared with 11.1%, 14.1% and 16.0% respectively at 30 September 2013.

Contents

Management's Discussion and Analysis

Financial summary

(in $ millions, except where otherwise stated)	Quarter ended			Nine months ended	
	30 September 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
Financial performance for the period					
Total operating income	**520**	522	539	**1,591**	1,637
Profit before income tax expense	**231**	251	242	**706**	702
Profit attributable to the common shareholder	**163**	168	172	**495**	452
Basic earnings per common share ($)	**0.32**	0.34	0.35	**0.99**	0.91
Financial position at period-end					
Loans and advances to customers[1]	**41,534**	41,102	41,549		
Customer accounts[1]	**49,698**	47,668	49,329		
Ratio of customer advances to customer accounts (%)[2]	**83.6**	86.2	84.2		
Shareholders' equity	**4,836**	5,187	4,791		
Average total shareholders' equity to average total assets (%)[2]	**5.8**	6.0	5.8		
Capital measures					
Common equity tier 1 capital ratio (%)	**10.8**	11.1	11.0		
Tier 1 ratio (%)	**12.1**	14.1	12.4		
Total capital ratio (%)	**13.7**	16.0	14.0		
Assets-to-capital multiple	**16.8**	14.5	16.0		
Risk-weighted assets ($m)	**40,129**	36,281	38,629		
Performance ratios (%)[2]					
Credit coverage ratios (%)					
Loan impairment charges to total operating income	**3.4**	1.7	5.0	**4.4**	9.1
Loan impairment charges to average gross customer advances[3]	**0.2**	0.1	0.3	**0.2**	0.4
Total impairment allowances to impaired loans at period-end[3]	**70.8**	61.2	67.7	**70.8**	61.2
Return ratios (%)					
Return on average common shareholder's equity	**14.5**	16.0	15.6	**15.0**	14.3
Post-tax return on average total assets	**0.77**	0.78	0.81	**0.78**	0.71
Pre-tax return on average risk-weighted assets[3]	**2.3**	1.8	2.5	**2.4**	1.7
Efficiency and revenue mix ratios (%)					
Cost efficiency ratio	**52.3**	51.9	51.1	**51.8**	48.9
Adjusted cost efficiency ratio	**52.2**	51.9	51.0	**51.7**	48.8
Net interest income to total operating income	**58.3**	61.1	57.0	**57.6**	60.8
Net fee income to total operating income	**30.9**	29.1	29.7	**29.9**	27.6
Net trading income to total operating income	**6.8**	8.0	6.2	**6.8**	8.8

1 *From 1 January 2014, non-trading reverse repurchase and repurchase agreements are presented as separate lines in the balance sheet. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. Comparative data have been restated accordingly. Refer to the 'Accounting matters' section of this document for further information on this change in presentation.*

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

3 *The measure has been aligned with that in use by the HSBC Group and comparative information has been restated. Refer to the 'Use of non-IFRS financial measures' section of this document for a description of the method in use to calculate the measure.*

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 29 October 2014, the date that our unaudited consolidated financial statements and MD&A for the third quarter of 2014 were approved by the Audit and Risk Committee of our Board of Directors.

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 2014.

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.

Use of non-IFRS financial measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the Financial Statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS financial measures are used throughout this document and their purposes and definitions are discussed below:

Financial position at period-end

These measures are indicators of the stability of the bank's balance sheet and the degree funds are deployed to fund assets.

Ratio of customer advances to customer accounts is calculated by dividing loans and advances to customers by customer accounts using period-end balances.

Average total shareholders' equity to average total assets is calculated by dividing average total shareholders' equity (determined using month-end balances during the period) with average total assets (determined using month-end balances during the period).

Credit coverage ratios

Credit coverage ratios are useful to management as a measure of the extent of incurred loan impairment charges relative to the bank's performance and size of its customer loan portfolio during the period.

Loan impairment charges to total operating income is calculated as loan impairment charges and other credit provisions, as a percentage of total operating income for the period.

Loan impairment charges to average gross customer advances is calculated as annualized loan impairment charges and other credit provisions for the period, as a percentage of average gross customer advances and acceptances (determined using month-end balances during the period).

Total impairment allowances to impaired loans at period-end are useful to management to evaluate the coverage of impairment allowances relative to impaired loans using period-end balances.

Return ratios

Return ratios are useful for management to evaluate profitability on equity, assets and risk-weighted assets.

Return on average common equity is calculated as annualized profit attributable to the common shareholder for the period, divided by average common equity (determined using month-end balances during the period).

Post-tax return on average total assets is calculated as annualized profit attributable to the common shareholder for the period, divided by average assets (determined using average month-end balances during the period).

Pre-tax return on average risk-weighted assets is calculated as annualized profit attributable to the common shareholder for the period, divided by average risk-weighted assets (determined using quarter-end balances during the period).

Efficiency ratios

Efficiency ratios are measures of the bank's efficiency in managing its operating expense to generate revenue.

Cost efficiency ratio is calculated as total operating expenses for the period as a percentage of total operating income for the period.

Adjusted cost efficiency ratio is calculated similar to the cost efficiency ratio; however, total operating income for the period excludes gains and losses from financial instruments designated at fair value, as the movement in value of the bank's own subordinated debt issues are primarily driven by changes in market rates and are not under the control of management.

Revenue mix ratio

This measure demonstrates the contribution of each of the primary revenue streams to total operating income.

Net interest income, net fee income and net trading income to total operating income is calculated as net interest income, net fee income and net trading income for the period divided by total operating income for the period.

Financial performance

Condensed consolidated income statement

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net interest income	**303**	319	307	**917**	995
Net fee income	**161**	152	160	**476**	452
Net trading income	**35**	42	33	**107**	144
Net expense from financial instruments designated at fair value	**(1)**	–	(1)	**(4)**	(3)
Gains less losses from financial investments	**7**	2	27	**53**	52
Other operating income / (expense)	**15**	7	13	**42**	(3)
Total operating income	**520**	522	539	**1,591**	1,637
Loan impairment charges and other credit risk provisions	**(17)**	(9)	(27)	**(70)**	(149)
Net operating income	**503**	513	512	**1,521**	1,488
Total operating expenses	**(272)**	(271)	(276)	**(824)**	(800)
Operating profit	**231**	242	236	**697**	688
Share of profit in associates	**–**	9	6	**9**	14
Profit before income tax expense	**231**	251	242	**706**	702
Income tax expense	**(61)**	(65)	(60)	**(182)**	(197)
Profit for the period	**170**	186	182	**524**	505

Overview

HSBC Bank Canada reported a profit before income tax expense of $231m for the third quarter of 2014, a decrease of $20m, or 8%, compared with the third quarter of 2013 and a decrease of $11m or 5% compared with the second quarter of 2014. Profit before income tax expense for the nine months ended 30 September 2014 was $706m, an increase of $4m, or 1% compared with the same period in 2013.

The decrease in profit before income tax expense for the third quarter of 2014 compared with the same period last year was primarily due to lower net interest income from the continued planned run-off of the consumer finance portfolio, lower net trading income from foreign exchange products, lower income from associates and higher loan impairment charges, arising from a release of specific provisions in the comparative period. This was partially offset by increased fees from credit and wealth products and an increase in other income arising from a reduction in the fair value of investment property held for sale recorded in the third quarter of 2013. The increase in profit before income tax expense for the nine months ended 30 September 2014 compared with the same period last year was primarily due to increased fees from credit and wealth products, lower loan impairment charges as a result of lower specific allowances for commercial customers and an increase in other income arising from a reduction in the fair value of investment property held for sale recorded in 2013. This was partially offset by lower net interest income from the continued planned run-off of the consumer finance portfolio, lower net trading income from foreign exchange products and increased operating expenses as we invest in HSBC Group's global standards as well as risk and compliance activities.

Commenting on the results, Paulo Maia, President and Chief Executive Officer of HSBC Bank Canada, said: "Consistent with the HSBC Group we continue to make progress towards our three strategic priorities: growing our business, making it more efficient and implementing global standards within Canada. We continued to make investments to grow all three of our business lines in

Management's Discussion and Analysis (continued)

Canada, enhancing our Payments and Cash Management and Project Export Finance offerings, and introducing new mobile capabilities for retail customers.

"As a result of increased residential mortgage business, the ongoing Retail Banking and Wealth Management business recorded strong growth in profit before tax over both the same quarter last year and the immediately preceding quarter. However, this was offset somewhat by increased investments in HSBC Groups's global standards as well as risk and compliance activities which continue to impact results."

Performance by income and expense item

Net interest income

Net interest income for the third quarter of 2014 was $303m, a decrease of $16m, or 5%, compared with the third quarter of 2013 and marginally decreased compared with the second quarter of 2014. Net interest income for the nine months ended 30 September 2014 was $917m, a decrease of $78m, or 8%, compared with the same period in 2013. The decrease from the comparative periods in 2013 was primarily due to declining loan balances from the continued planned run-off of the consumer finance portfolio.

Net fee income

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Credit facilities	**68**	64	70	**206**	190
Funds under management	**43**	35	41	**121**	103
Account services	**18**	20	21	**58**	62
Credit cards	**16**	16	16	**46**	46
Remittances	**8**	8	8	**24**	24
Corporate finance	**10**	8	10	**28**	24
Immigrant Investor Program	**3**	9	6	**13**	29
Brokerage commissions	**3**	4	3	**9**	12
Insurance	**3**	3	3	**9**	11
Trade finance import/export	**3**	3	3	**8**	9
Trustee fees	**2**	1	1	**4**	3
Other	**4**	3	1	**10**	8
Fee income	**181**	174	183	**536**	521
Less: fee expense	**(20)**	(22)	(23)	**(60)**	(69)
Net fee income	**161**	152	160	**476**	452

Net fee income for the third quarter of 2014 was $161m, an increase of $9m, or 6%, compared with the third quarter of 2013 and marginally increased from the second quarter of 2014. Net fee income for the nine month period ended 30 September 2014 was $476m, an increase of $24m, or 5%, compared with the same period in 2013. The increase in net fee income from the same periods last year was primarily due to higher fees from credit products such as standby lines of credit and banker's acceptances, as well as increased fees from wealth related products and from higher funds under management. This was partially offset by a reduction in fees due to the cancellation of the Canadian Federal Government's Immigrant Investor Program.

Net trading income

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Trading activities	**35**	27	32	**100**	104
Net interest income on trading activities	**3**	11	1	**7**	33
Hedge ineffectiveness	**(3)**	4	–	**–**	7
Net trading income	**35**	42	33	**107**	144

Net trading income for the third quarter of 2014 was $35m, a decrease of $7m, or 17% compared with the third quarter of 2013, and an increase of $2m, or 6%, compared with the second quarter of 2014. Net trading income for nine months ended 30 September 2014 was $107m, a decrease of $37m, or 26%, compared with the same period in 2013. The decrease in net trading income compared with the same periods last year was mainly due to lower spreads on foreign exchange products and the impact of debit valuation adjustments on derivative contracts due to the narrowing of our own credit spreads.

The increase in net trading income compared with the second quarter of 2014 mainly resulted from the impact of debit valuation adjustments on derivatives recorded in the second quarter.

Other items of income

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net expense from financial instruments designated at fair value	**(1)**	–	(1)	**(4)**	(3)
Gains less losses from financial investments	**7**	2	27	**53**	52
Other operating income / (expense)	**15**	7	13	**42**	(3)
Other items of income	**21**	9	39	**91**	46

Net expense from financial instruments designated at fair value for the third quarter and nine months ended 30 September 2014 was $1m and $4m, little changed from the comparative periods in 2013.

Gains less losses from financial investments for the third quarter of 2014 were $7m, an increase of $5m, or 250%, compared with the third quarter of 2013 and a decrease of $20m, or 74%, compared with the second quarter of 2014. Gains less losses from financial investments for the nine months ended 30 September 2014 was $53m, marginally increased from the same period in 2013. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities. The variances from comparative periods are primarily as a result of the bank's continuous balance sheet management activities.

Other operating income for the third quarter of 2014 was $15m, $8m or 114% higher compared with the third quarter of 2013, and marginally increased from the second quarter of 2014. Other operating income for the nine months ended 30 September 2014 was $42m, an increase of $45m compared with the same period in 2013. The increase in other operating income compared with the comparative periods in 2013 reflected the reduction in the fair value of an investment property held for sale that was recorded in the second and third quarters of 2013.

Loan impairment charges and other credit risk provisions

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Individually assessed allowances	**11**	(3)	21	**47**	107
Collectively assessed allowances	**5**	14	3	**14**	54
Loan impairment charges	**16**	11	24	**61**	161
Other credit risk provisions/(reversal of provisions)	**1**	(2)	3	**9**	(12)
Loan impairment charges and other credit risk provisions	**17**	9	27	**70**	149

Loan impairment charges and other credit risk provisions for the third quarter of 2014 were $17m, an increase of $8m or 89% compared with the third quarter of 2013 and a decrease of $10m or 37% compared with the second quarter of 2014. Loan impairment charges and other credit risk provisions for the nine months ended 30 September 2014 were $70m, a decrease of $79m or 53% compared with the same period in 2013. The increase in loan impairment charges and other credit risk provisions compared with the third quarter of 2013 was mainly due to a release of certain specific provisions in the same period in 2013. The decrease in loan impairment charges and other credit risk provisions for the nine months ended 30 September 2014 compared with the same period in the prior year is primarily as a result of lower specific allowances for commercial customers and the impact of reduced impairment charges resulting from the planned continued run-off of the consumer finance portfolio.

Management's Discussion and Analysis (continued)

Total operating expenses

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Employee compensation and benefits	**156**	154	152	**467**	468
General and administrative expenses	**105**	105	111	**320**	296
Depreciation of property, plant and equipment	**8**	8	9	**25**	25
Amortization and impairment of intangible assets	**3**	4	4	**12**	11
Total operating expenses	**272**	271	276	**824**	800

Total operating expenses for the third quarter of 2014 were $272m, marginally increased compared with the third quarter of 2013 and slightly decreased from second quarter of 2014. Total operating expenses for the nine months ended 30 September 2014 were $824m, an increase of $24m, or 3%, compared with the same period in 2013. The increase in total operating expenses compared with prior year was primarily due to the continued investment in HSBC's global standards as well as risk and compliance activities.

Share of profit in associates

Share of profit in associates for the third quarter of 2014 was $nil, $9m and $6m respectively lower than the third quarter of 2013 and the second quarter of 2014. Share of profit in associates for the nine months ended 30 September 2014 was $9m, $5m lower than the same period in 2013. The increases and decreases in the share of profit in associates over comparative periods are due to the timing of changes in the value of the bank's investment in private equity funds.

Income tax expense

The effective tax rate in the third quarter of 2014 was 26.7%, little changed compared with 26.5% in the same period last year and 24.8% in the second quarter of 2014, results from the effect of a tax refund. The effective tax rate for the nine month ended 30 September 2014 was 26.0% compared with 28.4% for the same period in 2013. Income tax expense for the nine months ended 30 September 2014 includes the effect of an income tax refund noted above, while the comparative period in 2013 reflect the impact of a tax adjustment relating to prior periods.

Movement in financial position

Condensed consolidated balance sheet

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
ASSETS			
Trading assets	**7,707**	7,446	6,728
Derivatives	**2,953**	1,616	2,112
Loans and advances to banks	**603**	564	1,149
Loans and advances to customers	**41,534**	41,102	40,524
Reverse repurchase agreements – non-trading	**5,979**	7,637	6,161
Financial investments	**19,786**	21,178	21,814
Customer's liability under acceptances	**5,222**	5,007	4,757
Other assets	**932**	1,044	1,015
Total assets	**84,716**	85,594	84,260
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**808**	1,277	635
Customer accounts	**49,698**	47,688	50,926
Repurchase agreements – non-trading	**2,272**	4,214	1,487
Trading liabilities	**3,912**	4,420	4,396
Derivatives	**2,770**	1,306	1,746
Debt securities in issue	**11,292**	12,387	11,348
Acceptances	**5,222**	5,007	4,757
Other liabilities	**3,706**	3,878	3,880
Total liabilities	**79,680**	80,177	79,175
Equity			
Share capital and other reserves	**1,688**	2,284	1,959
Retained earnings	**3,148**	2,903	2,926
Non-controlling interests	**200**	230	200
Total equity	**5,036**	5,417	5,085
Total equity and liabilities	**84,716**	85,594	84,260

Assets
Total assets at 30 September 2014 were $84.7bn, up $0.5bn from 31 December 2013. Increases in commercial customer lending and residential mortgages resulted in a $1.0bn growth in loans and advances to customers as well as $0.5bn in customers' liability under acceptances. There was also an increase of $1.0bn in trading assets due to pending settlements of trading positions in government and agency bonds as well as an increase in derivatives of $0.8bn due to changes in interest and particularly foreign exchange rates. These increases were offset by declines of $2.0bn in financial investments and $0.5bn in loans and advances to banks resulting from disposals, maturities and other balance sheet management activities.

Liabilities
Total liabilities at 30 September 2014 were $79.7bn, up $0.5bn from 31 December 2013. There were increases in derivatives of $1.0bn due to changes in interest and particularly foreign exchange rates, non-trading repurchase agreements of $0.8bn resulting from balance sheet management activities and an increase in acceptances of $0.5bn driven by customer demand. These were partially offset by decreases in customer accounts of $1.2bn, primarily as a result of lower commercial account balances, and trading liabilities of $0.5bn, primarily due to lower balances from pending trade settlements and short position securities.

Management's Discussion and Analysis (continued)

Global lines of business

Commercial Banking

Commercial Banking offers a full range of commercial financial services and tailored solutions to customers ranging from small and medium-sized enterprises ('SMEs') to publicly quoted companies.

Review of financial performance

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net interest income	**164**	169	165	**497**	502
Net fee income	**79**	78	81	**239**	235
Net trading income	**6**	7	7	**19**	22
Gains less losses from financial investments	**–**	–	16	**16**	–
Other operating income / (expense)	**5**	(5)	3	**14**	(37)
Total operating income	**254**	249	272	**785**	722
Loan impairment (charges)/releases and other credit risk provisions	**(11)**	5	(18)	**(41)**	(95)
Net operating income	**243**	254	254	**744**	627
Total operating expenses	**(100)**	(96)	(104)	**(305)**	(278)
Operating profit	**143**	158	150	**439**	349
Share of profit in associates	**–**	9	6	**9**	14
Profit before income tax expense	**143**	167	156	**448**	363

Overview

Profit before income tax expense was $143m for the third quarter of 2014, a decrease of $24m, or 14%, compared with the third quarter of 2013 and a decrease of $13m or 8% compared with the second quarter of 2014. Profit before income tax expense for the nine months ended 30 September 2014 was $448m, an increase of $85m, or 23% compared with the same period in 2013.

The decrease in profit before income tax expense compared with the same quarter in the previous year was mainly due to higher loan impairment charges and lower share of profits from associates. The decrease in profit before income tax expense compared with second quarter of 2014 resulted primarily from lower gains from financial investments and lower share of profits from associates, partially offset by lower specific loan impairment charges.

The increase in profit before income tax expense for the nine months ended 30 September 2014 compared with the same period last year was primarily due to an increase in other income reflecting the reduction in the fair value of an investment property held for sale that was recorded in 2013, lower specific loan impairment charges and gains from financial investments. This was partially offset by higher operating expenses primarily from increased investments in HSBC's global standards, risk and compliance activities, increases in underlying business as well as the impact of adoption of a revised methodology adopted by HSBC Group for allocating functional support costs to the global lines of business.

Financial performance by income and expense item

Net interest income for the third quarter of 2014 was $164m, a decrease of $5m, or 3%, compared with the third quarter of 2013 and marginally decreased compared with the second quarter of 2014. Net interest income for the nine months ended 30 September 2014 was $497m, a decrease of $5m, or 1%, compared with the same period in 2013. The decrease in net interest income compared with the same periods last year was primarily due to repositioning of the portfolio and recovery of interest income on impaired loans recorded in 2013.

Net fee income for the third quarter of 2014 was $79m, little changed compared with the third quarter of 2013 and marginally decreased from the second quarter of 2014. Net fee income for the nine months ended 30 September 2014 was $239m an increase of $4m or 2% compared with the same period in 2013. The increases in net fee income over comparative figures mainly arises from higher banker's acceptances.

Net trading income for the third quarter of 2014 was $6m, little changed from both the third quarter of 2013 and the second quarter of 2014. Net trading income for the nine months ended 30 September 2014 was $19m, a decrease of $3m, or 14%, compared with the same period in 2013, primarily resulting from lower foreign exchange revenues.

Other operating income for the third quarter of 2014 was $5m, an increase of $10m, compared with the third quarter of 2013 and $2m higher than the second quarter of 2014. Other operating income for the nine months ended 30 September 2014 was $14m, an increase of $51m, compared with the same period in 2013. The increase in other operating income from the comparative periods in 2013 reflected the reduction in the fair value of an investment property held for sale that was recorded in 2013.

Loan impairment charges and other credit risk provisions for the third quarter of 2014 was $11m, an increase of $16m compared with the third quarter of 2013 and a decrease of $7m, or 39%, compared with the second quarter of 2014. Loan impairment charges for the nine months ended 30 September 2014 were $41m, a decrease of $54m, or 57%, compared with the same period in 2013. The increase in loan impairment charges and other credit risk provisions for the third quarter compared with the same period last year resulted from a release of specific provisions recorded in the prior year. The decrease in provisions for the nine months ended 30 September 2014 compared with the prior period was mainly as a result of lower specific loan impairment charges in 2014.

Gains less losses from financial investments for the nine months ended 30 September 2014 compared with the same period in 2013 included gains of $16m which were recorded on the disposal of certain available-for-sale securities in the second quarter of 2014, which was not repeated in the third quarter of 2014.

Total operating expenses for the third quarter of 2014 was $100m, an increase of $4m, or 4%, compared with the third quarter of 2013 and $4m, or 4%, lower than the second quarter of 2014. Total operating expenses for the nine months ended 30 September 2014 was $305m, an increase of $27m, or 10%, compared with the same period in 2013. The increase in total operating expenses compared with 2013 was primarily from increased investments in HSBC's global standards as well as risk and compliance activities, increases in underlying businesses as well as the impact of the adoption of a revised methodology by HSBC Group for allocation of functional support costs to the global lines of business.

Share of profit in associates for the third quarter of 2014 was $nil, $9m lower than the third quarter of 2013 and $6m lower than the second quarter of 2014. Share in profit in associates for the nine months ended 30 September 2014 was $9m, a decrease of $5m, compared with the same period in 2013. The increases and decreases in the share of profit in associates over comparative periods are due to the timing of changes in the value of the bank's investment in private equity funds.

Global Banking and Markets

Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide.

Review of financial performance

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net interest income	**45**	37	46	**135**	119
Net fee income	**26**	22	22	**72**	60
Net trading income	**16**	24	15	**52**	86
Gains less losses from financial investments	**7**	2	11	**37**	48
Other operating income	**–**	–	1	**1**	–
Total operating income	**94**	85	95	**297**	313
Loan impairment charges and other credit risk provisions	**–**	(1)	(2)	**(3)**	(1)
Net operating income	**94**	84	93	**294**	312
Total operating expenses	**(30)**	(28)	(29)	**(89)**	(86)
Profit before income tax expense	**64**	56	64	**205**	226

Management's Discussion and Analysis (continued)

Overview

Profit before income tax expense was $64m for the third quarter of 2014, an increase of $8m, or 14%, compared with the third quarter of 2013 and unchanged from the second quarter of 2014. Profit before income tax expense was $205m for the nine months ended 30 September 2014, a decrease of $21m, or 9% compared with the same period in 2013. The increase in profit before income tax expense for the third quarter of 2014 compared with the same period in 2013 was primarily driven by increased fee income arising from an increase in standby fees and increased realized gains on disposals of financial instruments. The decrease in profit before income tax expense for the nine months ended 30 September 2014 compared with the same period in 2013 was due to lower trading income arising from lower spreads on foreign exchange products and lower gains on disposal from re-balancing of the financial investments portfolio. This was partially offset by increased net interest income and increased net fee income arising from higher standby and debt capital market fees.

Financial performance by income and expense item

Net interest income for the third quarter of 2014 was $45m, an increase of $8m, or 22%, compared with the third quarter of 2013 and marginally lower than the second quarter of 2014. Net interest income for the nine months ended 30 September 2014 was $135m, an increase of $16m, or 13%, compared with the same period in 2013. The increase in net interest income compared with the same periods last year was primarily due to higher investments in reverse repurchase agreements from higher level of short positions to facilitate customer transactions.

Net fee income for the third quarter of 2014 was $26m, an increase of $4m, or 18%, compared with both the third quarter of 2013 and the second quarter of 2014. Net fee income for the nine months ended 30 September 2014 was $72m, an increase of $12m, or 20%, compared with the same period in 2013. The increase in net fee income compared with the same periods last year was primarily due to higher standby fees.

Net trading income for the third quarter of 2014 was $16m, a decrease of $8m, or 33%, compared with the third quarter of 2013 and marginally increased compared with the second quarter of 2014. Net trading income for the nine months ended 30 September 2014 was $52m, a decrease of $34m, or 40%, compared with the same period in 2013. The decrease in net trading income compared with the same periods last year was mainly due to lower spreads related to foreign exchange products and the impact from debit valuation adjustments on derivative contracts due to the narrowing of our own credit spreads. The increase in net trading income compared with the second quarter of 2014 was mainly due to the impact from debit valuation adjustments on derivative contracts recorded in the second quarter.

Gains less losses from financial investments for the third quarter of 2014 was $7m, an increase of $5m, or 250%, compared with the third quarter of 2013 and a decrease of $4m, or 36%, compared with the second quarter of 2014. Gains less losses from financial investments for the nine months ended 30 September 2014 was $37m, a decrease of $11m, or 23%, compared with the same period in 2013. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities. The variances from comparative periods are primarily as a result of the bank's continuous balance sheet management activities.

Total operating expenses for the third quarter of 2014 was $30m, an increase of $2m or 7% compared with the same period in 2013 and marginally increased compared with the second quarter of 2014. Total operating expenses for the nine months ended 30 September 2014 was $89m, an increase of $3m or 3% compared with the same period in 2013. The increases over the comparative periods are primarily due to increased investments in HSBC's global standards, risk and compliance activities.

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides banking and wealth management services for our personal customers to help them to manage their finances and protect and build their financial future.

Review of financial performance

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net interest income	**105**	120	104	**311**	395
Net fee income	**56**	52	57	**165**	157
Net trading income	**4**	4	3	**12**	15
Gains less losses from financial investments	**-**	-	–	**-**	4
Other operating income	**3**	4	2	**7**	11
Total operating income	**168**	180	166	**495**	582
Loan impairment charges and other credit risk provisions	**(6)**	(13)	(7)	**(26)**	(53)
Net operating income	**162**	167	159	**469**	529
Total operating expenses	**(131)**	(137)	(135)	**(399)**	(408)
Profit before income tax expense	**31**	30	24	**70**	121

Attributable to:

Ongoing Retail Banking and Wealth Management business	**24**	15	15	**48**	51
Run-off consumer finance portfolio	**7**	15	9	**22**	70
Profit before income tax expense	**31**	30	24	**70**	121

Overview

Profit before income tax expense was $31m for the third quarter of 2014, marginally increased compared with the third quarter of 2013 and an increase of $7m, or 29%, compared with the second quarter of 2014. Profit before income tax expense was $70m for the nine months ended 30 September 2014, a decrease of $51m, or 42% compared with the same period in 2013.

Profit before income tax expense relating to the ongoing business (excluding the planned run-off consumer finance portfolio) for the third quarter of 2014 was $24m, an increase of $9m, or 60%, compared with both the third quarter of 2013 and the second quarter of 2014. Profit before income tax expense relating to ongoing business for the nine months ended 30 September 2014 was $48m, a decrease of $3m, or 6% compared with the same period in 2013. Profit before income tax expense for the third quarter of 2014 increased over the third quarter of 2013 mainly due to increased fees, lower loan impairment charges and lower operating costs, partially offset by lower net interest income. The increase over the second quarter of 2014 was due to increased net interest income arising from increased residential mortgages and lower operating expenses, partially offset by lower fee income due to reduced immigrant investor fees. Profit before income tax expense relating to ongoing business for the nine months ended 30 September 2014 decreased from the same period last year primarily due to lower net interest income driven by a decline in personal lending balances and a decline in net interest spread in a competitive, low interest rate environment as well as increased costs. This was partially offset by increases in personal lending, particularly residential mortgages, as well as increases in fees earned on wealth products and lower loan impairment charges.

Profit before income tax expense relating to the run-off consumer finance portfolio was $7m for the third quarter of 2014 and $22m for the nine months ended 30 September 2014. This compared with $15m and $70m for the same periods in 2013. This reflects the ongoing reduction in contribution from the planned run-off of the consumer finance portfolio.

Financial performance by income and expense item

Net interest income relating to ongoing business for the third quarter of 2014 was $88m, a decrease of $2m, or 2%, compared with the third quarter of 2013 and marginally increased compared with the second quarter of 2014. Net interest income relating to ongoing business for the nine months ended 30 September 2014 was $258m, a decrease of $16m, or 6%, compared with the same period in 2013. Net interest income decreased primarily due to a decline in personal lending balances and lower net interest spread in a competitive low interest rate environment. Net interest income for the third quarter of 2014 increased

Management's Discussion and Analysis (continued)

over the second quarter of 2014 mainly due to increases in residential mortgages.

Net fee income relating to ongoing business for the third quarter of 2014 was $55m, an increase of $3m, or 8%, compared with the third quarter of 2013 and marginally lower than the second quarter of 2014. Net fee income relating to ongoing business for the nine months ended 30 September 2014 was $162m, an increase of $10m, or 6%, compared with the same period in 2013. The increases in fee revenues mainly resulted from increases in sales in wealth management products. However, fee income decreased compared to the second quarter of 2014 due to the cancellation of the Federal Immigrant Investor Program.

Net trading income relating to ongoing business for the third quarter of 2014 was $4m, little changed compared with the third quarter of 2013 and the second quarter of 2014. Net trading income relating to ongoing business for the nine months ended 30 September 2014 was $12m, a decrease of $3m, or 20%, compared with the same period in 2013, mainly arising from lower foreign exchange trading income.

Loan impairment charges and other credit risk provisions relating to ongoing business for the third quarter of 2014 was $4m, a decrease of $3m, or 43%, compared with the third quarter of 2013 and unchanged compared with the second quarter of 2014. Loan impairment charges and other credit risk provisions relating to ongoing business for the nine months ended 30 September 2014 was $15m, a decrease of $12m, or 44%, compared with the same period in 2013. The decrease in loan impairment charges and other credit risk provisions is due to a reduction in collectively assessed provisions following lower loan balances.

Total operating expenses relating to ongoing business for the third quarter of 2014 was $123m, a reduction of $2m, or 2%, compared with the third quarter of 2013 and a decrease of $5m, or 5%, compared with the second quarter of 2014. Total operating expenses relating to ongoing business for the nine months ended 30 September 2014 was $377m, an increase of $6m, or 2%, compared with the same period in 2013. The variances were primarily from higher staff costs, marketing expenses relating to Premier campaigns and higher customer printing expenses as well as the bank's continued investment in HSBC's global standards as well as risk and compliance activities, partially offset by a reduction of allocated support costs, particularly in the third quarter of 2014.

Other

'Other' contains the results of movements in fair value of own debt, income and expenses related to information technology services provided to HSBC Group companies on an arm's length basis and other transactions which do not directly relate to our global lines of business.

Review of financial performance

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Net interest expense	**(11)**	(7)	**(8)**	**(26)**	(21)
Net trading income	**9**	7	**8**	**24**	21
Net expense from financial instruments designated at fair value	**(1)**	–	**(1)**	**(4)**	(3)
Other operating income	**7**	8	**7**	**20**	23
Total operating income	**4**	8	**6**	**14**	20
Total operating expenses	**(11)**	(10)	**(8)**	**(31)**	(28)
Loss before income tax expense	**(7)**	(2)	**(2)**	**(17)**	(8)

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2013 for more information regarding quarterly trends in performance for 2013 and 2012.

Summary consolidated income statement

	Quarter ended							
	Sept 30 2014 $m	June 30 2014 $m	Mar 31 2014 $m	Dec 31 2013 $m	Sept 30 2013 $m	June 30 2013 $m	Mar 31 2013 $m	Dec 31 2012 $m
Total operating income	**520**	539	532	524	522	531	584	526
Profit for the period	**170**	182	172	182	186	130	189	154
Profit attributable to the common shareholder	**163**	172	160	164	168	113	171	136
Profit attributable to preferred shareholders	**4**	8	9	16	15	15	15	16
Profit attributable to non-controlling interests	**3**	2	3	2	3	2	3	2
Basic earnings per common share	**0.32**	0.35	0.32	0.33	0.34	0.23	0.34	0.27

Accounting matters

Critical accounting policies

The results of the bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. A summary of our significant accounting policies are provided in note 2.

Refer to the 'Critical accounting policies' section of our Annual Report and Accounts 2013 for accounting policies that are deemed critical to our results and financial position, in terms of materiality of the items which the policy is applied and the high degree of judgement involved, including the use of assumptions and estimation.

Changes in presentation

In the first quarter of 2014, the bank changed its presentation of reverse repurchase and repurchase agreements. Previously, these amounts were either included in loans and advances to banks as well as loans and advances to customers or deposits by banks as well as customer accounts respectively. These amounts are now presented in their own separate categories on the face of the bank's consolidated balance sheet, which is a more appropriate disclosure for these instruments which are not representative of typical loans and deposits. Prior period presentation was changed accordingly. There is no change in total assets and liabilities, nor is there any impact on interest income and expense. Refer to note 1 for further information relating to the change.

Changes in accounting policy

Offsetting

On 1 January 2014, the bank adopted amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The adoption did not have a material effect on the bank's consolidated financial statements and as a result comparative information was not restated.

Future accounting developments

Revenue

In May 2014, the International Accounting and Standards Board's ('IASB') issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted

Financial instruments

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Reference should be made to note 1(e) on the consolidated financial statements ('Future accounting developments') for more information regarding the application of both of these new standards and their impact on the bank.

Management's Discussion and Analysis (continued)

Off-balance sheet arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact, but may not be recognized in our financial statements. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded in our consolidated balance sheet. These arrangements include: guarantees, letters of credit, and derivatives and are described in the 'Off-balance sheet arrangements' section of our Annual Report and Accounts 2013. Further information is disclosed in note 11.

Related Party Transactions

We enter into transactions with other HSBC affiliates as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, we share in the expertise and economies of scale provided by the HSBC Group. We provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas.

These related party transactions are on terms similar to those offered to non-related parties and are subject to formal approval procedures that have been approved by the bank's Conduct Review Committee.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer and Chief Financial Officer have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 September 2014, 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 2014 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Risk Management

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages risk on an enterprise wide level, as well as the management of reputational and operational risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to an obligation under contract. It arises principally from direct lending, trade finance and the leasing business, but also from other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

The bank's principal objectives of credit risk management are:

- to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework;
- to both partner with and challenge businesses in defining and implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages credit risk, collateral and other credit risk enhancements, as well as a more in depth explanation of our credit risk measures.

Diversification of credit risk

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. Diversification of credit risk is a key concept by which we are guided.

In assessing and monitoring for credit risk concentration, we aggregate exposures by product type, industry and geographic area. Exposures are measured at exposure at default ('EAD'), which reflects drawn balances as well as an allowance for undrawn amounts of commitments and contingent exposures, and therefore would not agree to the financial statements.

Wholesale and retail credit risk exposures by product type

	EAD At 30 September 2014 $m	EAD At 31 December 2013 $m
Wholesale credit risk exposures		
Sovereign		
Drawn exposures	**20,530**	22,696
Derivatives	**25**	278
Undrawn commitments	**222**	17
Other off-balance sheet exposures	**73**	–
	20,850	22,991
Banks		
Drawn exposures	**2,685**	3,275
Derivatives	**3**	2,409
Repurchase type transactions	**3,322**	16
Other off-balance sheet exposures	**554**	469
	6,564	6,169
Corporate		
Drawn exposures	**28,291**	26,511
Undrawn commitments	**11,243**	11,703
Derivatives	**21**	1,278
Repurchase type transactions	**1,629**	133
Other off-balance sheet exposures	**3,521**	2,950
	44,705	42,575
Total wholesale credit risk exposures	**72,119**	71,735
Retail credit risk exposures		
Residential mortgages	**17,992**	17,347
Home equity lines of credit	**3,047**	4,916
Other personal loan facilities	**537**	2,600
Credit cards	**2,165**	1,075
Personal unsecured revolving loan facilities	**602**	1,060
Run-off consumer finance loan portfolio	**478**	670
Other small to medium enterprises loan facilities	**1,223**	624
Total retail credit risk exposures	**26,044**	28,292
Total wholesale and retail credit risk exposures	**98,163**	100,027

Credit Quality of Financial Assets

The overall credit quality at 30 September 2014 was strong, primarily driven by the underlying quality of the wholesale portfolio and the bank's high quality relationships. The credit quality in our retail portfolio is also strong, in part resulting from the planned run-off of the consumer finance portfolio.

Management's Discussion and Analysis (continued)

Impairment allowances and provision for credit losses

Impairment allowances

	At 30 September 2014 $m	At 31 December 2013 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances (A)	**480**	445
Collectively assessed loans and advances (B)	**41,394**	40,442
- impaired loans and advances	**99**	101
- non-impaired loans and advances	**41,295**	40,341
Total gross loans and advances to customers (C)	**41,874**	40,887
Less: impairment allowances (c)	**(340)**	(363)
- individually assessed (a)	**(138)**	(157)
- collectively assessed (b)	**(202)**	(206)
Net loans and advances to customers	**41,534**	40,524
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**28.75%**	35.3%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	**0.5%**	0.5%
Total loans and advances coverage - (c) as a percentage of (C)	**0.8%**	0.9%

Movement in impairment allowances and provision for credit losses

	Nine months ended 30 September 2014			
	Customers individually assessed $m	**Customers collectively assessed $m**	**Provision for credit losses $m**	**Total $m**
Opening balance at the beginning of the period	**157**	**206**	**61**	**424**
Movement				
Loans and advances written off net of recoveries of previously written off amounts	**(60)**	**(18)**	**–**	**(78)**
Charge to income statement	**47**	**14**	**9**	**70**
Interest recognized on impaired loans and advances	**(6)**	**–**	**–**	**(6)**
Closing balance at the end of the period	**138**	**202**	**70**	**410**

Movement in impairment allowances and provision for credit losses

	Nine months ended 30 September 2013			
	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
Movement				
Loans and advances written off net of recoveries of previously written off amounts	(109)	(71)	–	(180)
Charge/(release) to income statement	107	54	(12)	149
Interest recognized on impaired loans and advances	(12)	–	–	(12)
Closing balance at the end of the period	188	200	68	456

Liquidity and funding risk

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Advances to core funding ratio

The bank emphasizes the importance of core current accounts and savings accounts as a source of stable funding to finance lending to customers, and discourages reliance on short-term professional funding.

The advances to core funding ratio describes loans and advances to customers as a percentage of the total of core customer current and savings accounts and term funding with a remaining term to maturity in excess of one year.

There have been no material changes to our liquidity and funding management strategy as described in the 'Risk management' section of our Annual Report and Accounts 2013. We continue to monitor liquidity and funding risk within our stated risk appetite and management framework.

The distinction between core and non-core deposits generally means that the bank's measure of advances to core funding is more restrictive than that which could be inferred from the published financial statements.

The table below shows the extent to which loans and advances to customers were financed by reliable and stable sources of funding.

Advances to core funding ratio

	Nine-months ended 30 September 2014 %	Year ended 31 December 2013 %
End of period	**100%**	93%
Highest	**101%**	100%
Lowest	**93%**	93%
Average	**99%**	96%

Liquid Assets

The table below shows the estimated liquidity value (before assumed haircuts) of assets categorized as liquid used for the purpose of liquidity stress testing as set out in our internal liquidity and funding management framework.

Any unencumbered asset held as a consequence of a reverse repurchase transaction with a residual contractual maturity within the relevant stress testing horizon and unsecured interbank loans maturing within three months are not included in liquid assets, as these assets are reflected as contractual cash inflows.

Estimated liquidity value

	At 30 September 2014 $m	At 31 December 2013 $m
Level 1[1]	**16,419**	17,955
Level 2[2]	**4,036**	3,960
	20,455	21,915

1 *Includes debt securities of central governments, central banks, supranationals and multilateral development banks.*
2 *Includes debt securities of local and regional governments, public sector entities and secured covered bonds.*

Net contractual cash flows

The following table quantifies the contractual cash flows from interbank and intra-Group loans and deposits, and reverse repurchase transactions, repurchase transactions (including intergroup transactions) and short positions. These contractual cash inflows and outflows should be considered alongside the level of liquid assets and are treated as such in our internal liquidity stress testing.

Management's Discussion and Analysis (continued)

Cash flows within three months

	At 30 September 2014 $m	At 31 December 2013 $m
Interbank and intra-Group loans and deposits	**919**	855
Reverse repurchase transactions, repurchase transactions and outright short positions (including intra-Group)	**7**	1,057

Contingent liquidity risk arising from committed lending facilities

The bank provides commitments to various counterparts. In terms of liquidity risk, the most significant risk relates to committed lending facilities which, whilst undrawn, give rise to contingent liquidity risk, as these could be drawn during a period of liquidity stress. Commitments are given to customers and committed liquidity facilities are provided to conduits, established to enable clients to access a flexible market-based source of finance.

The table below shows the level of undrawn commitments outstanding to conduits and customers for the five largest single facilities and the largest market sector.

The bank's contractual undrawn exposures monitored under the contingent liquidity risk structure

	At 30 September 2014 $m	At 31 December 2013 $m
Commitments to conduits		
Total lines	**245**	1,035
Largest individual lines	**194**	765
Commitments to customers		
Five largest	**1,701**	1,553
Largest market sector	**3,760**	3,644

Sources of funding

Current accounts and deposits, payable on demand or on short notice, form a significant part of our funding. We place considerable importance on maintaining the stability and growth of these deposits, which provide a diversified pool of funds.

We also access professional markets in order to maintain a presence in local money markets and to optimize the funding of asset maturities not naturally matched by core deposit funding. As part of our wholesale funding arrangements, we have a number of programs for fundraising activities, so that undue reliance is not placed on any one source of funding.

No reliance is placed on unsecured money market wholesale funding as a source of core funding. Only wholesale funding with a residual term to maturity of one year or greater is counted towards the core funding base. In addition, our stress testing assumptions require an equivalent amount of liquid assets to be held against wholesale funding maturing within the relevant stress testing horizon.

Encumbered assets

In the normal course of business, the bank will pledge or otherwise encumber assets. The pledging of assets will occur to meet the bank's payments and settlement system obligations, as security in a repurchase transaction, to support secured debt instruments or as margining requirements. Limits are in place to control such pledging.

The bank actively monitors its pledging positions. Encumbered assets are not counted towards the bank's liquid assets used for internal stress testing scenarios. We further estimate the impact of credit rating downgrade triggers, and exclude the estimated impact from liquid assets within the bank's liquidity stress testing scenarios.

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

The objective of market risk management is to identify, measure and control market risk exposures in order to optimize return on risk and to remain within the bank's risk appetite.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages market risk as well as a more in depth explanation of our market risk measures.

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.

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.

VAR by risk type for trading activities[1]

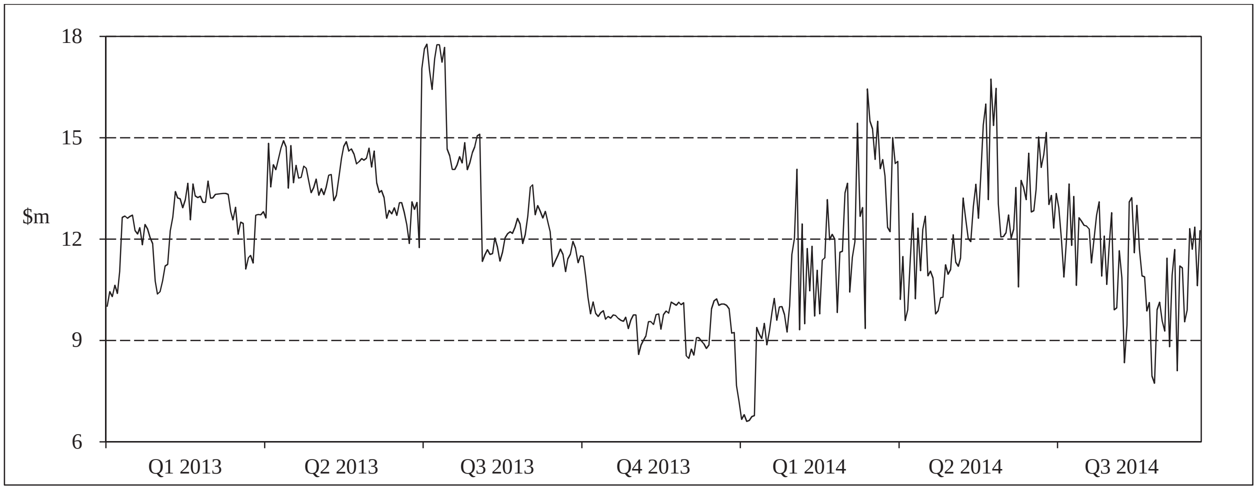
	Foreign exchange and commodity $m	Interest rate $m	Equity $m	Credit Spread $m	Portfolio diversification [2] $m	Total[3] $ml
January – September 2014						
At period end	**0.8**	**0.6**	**0.0**	**0.8**	**(1.0)**	**1.3**
Average	**0.2**	**0.4**	**0.0**	**1.0**	**(0.5)**	**1.1**
Minimum	**0.0**	**0.0**	**0.1**	**0.5**		**0.6**
Maximum	**1.0**	**1.2**	**0.1**	**2.5**		**2.5**
January – September 2013						
At period end	0.0	0.7	0.1	2.2	(0.7)	2.3
Average	0.1	1.0	0.0	1.8	(0.8)	2.1
Minimum	0.0	0.4	0.0	0.8		1.1
Maximum	0.5	1.9	0.2	4.2		4.2

Notes
1 Trading portfolios comprise positions arising from the market-making and warehousing of customer derived positions
2 Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VAR by individual risk type and the combined total VAR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.
3 The total VAR is non-additive across risk types due to diversification effects.

	Nine months ended 30 September	
Non-trading value at risk	**2014** **$m**	2013 $m
At period end	**12.3**	11.9
Average	**11.6**	13.2
Minimum	**6.6**	10.0
Maximum	**16.7**	17.8

Management's Discussion and Analysis (continued)

Daily Total VaR



Interest rate risk

Interest rate risk arises primarily out of differences in the term to maturity or repricing of our assets and liabilities both on and off-balance sheet. These interest rate risk exposures, or "gaps", are monitored against prescribed limits. We use a variety of cash and derivative instruments, principally interest rate swaps, to manage our interest rate risk. We use derivatives to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions are considered beneficial.

	At 30 September 2014	
	Economic value of equity risk Total $m	Net interest income risk Total $m
(Decrease)/increase in profit before tax as a result of:		
100 bps increase in rates	**(103)**	43
100 bps decrease in rates	**50**	(61)

Factors that may affect future results

The risk management section in the MD&A describes the most significant risks to which the bank is exposed and if not managed appropriately could have a material impact on our future financial results. Refer to the 'Factors that may affect future results' section of our Annual Report and Accounts 2013 for a description of additional factors which may affect future financial results.

Capital

Our objective in the management of capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory requirements.

Refer to the 'Capital' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below, with the exception of the assets-to-capital multiple, are presented under a Basel III 'all-in' basis, which applies certain Basel III regulatory adjustments from 1 January 2013 and phases out non-qualifying capital instruments over 10 years starting 1 January 2013. The assets-to-capital multiple is presented under a Basel III 'transitional' basis, which phases in Basel III regulatory adjustments over 4 years starting 1 January 2014 and phases out non-qualifying capital instruments over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the nine months ended 30 September 2014.

Regulatory capital ratios

Actual regulatory capital ratios and capital limits

	30 September 2014	31 December 2013
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**10.8%**	11.0%
Tier 1 capital ratio	**12.1%**	13.2%
Total capital ratio	**13.7%**	15.0%
Actual Assets-to-capital multiple	**16.8x**	15.1x
Required regulatory capital limits		
Minimum Common equity tier 1 capital ratio	**7.0%**	7.0%
Minimum Tier 1 capital ratio[1]	**8.5%**	8.5%
Minimum Total capital ratio	**10.5%**	10.5%

1 *The minimum Tier 1 capital ratio limit is effective from 1 January 2014.*

Regulatory capital

Regulatory capital and risk weighted assets

	30 September 2014 $m	31 December 2013 $m
Tier 1 capital	**4,864**	4,857
Common equity tier 1 capital	**4,314**	4,057
Gross common equity[1]	**4,486**	4,285
Regulatory adjustments	**(172)**	(228)
Additional tier 1 eligible capital[2]	**550**	800
Tier 2 capital[3]	**616**	677
Total capital available for regulatory purposes	**5,480**	5,534
Total risk-weighted assets	**40,129**	36,862

1 *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2 *Includes directly issued capital instruments and instruments issued by a subsidiary subject to phase out.*
3 *Includes directly issued capital instruments subject to phase out and collective allowances.*

Management's Discussion and Analysis (continued)

Outstanding Shares and Securities

Outstanding shares and securities

	At 29 October 2014		
	Dividend or distribution[1] $ per share or security	Number of issued shares and securities Thousands	**Carrying value** **$m**
Common shares		498,668	**1,225**
Preferred Shares			
Class 1, Series C	0.31875	7,000	**175**
Class 1, Series D	0.3125	7,000	**175**
			350
HSBC HaTS™ - Series 2015[2]	25.75		**200**

1 *Cash dividends on preferred shares are non-cumulative and are payable quarterly. Cash distributions on HSBC HaTS™ are non-cumulative and are payable semi-annually.*
2 *Presented as non-controlling interests in the consolidated balance sheet.*

During the third quarter of 2014, the bank declared and paid $80m in dividends on HSBC Bank Canada common shares, a decrease of $10m compared with the same quarter last year. The bank declared and paid $240m in dividends on common shares during the nine months ended 30 September 2014, a decrease of $30m from the same period in 2013.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. Dividends will be paid on 31 December 2014, to shareholders of record on 15 December 2014.

Financial Statements (unaudited)

Consolidated income statement

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Interest income	**478**	511	484	**1,445**	1,562
Interest expense	**(175)**	(192)	(177)	**(528)**	(567)
Net interest income	**303**	319	307	**917**	995
Fee income	**181**	174	183	**536**	521
Fee expense	**(20)**	(22)	(23)	**(60)**	(69)
Net fee income	**161**	152	160	**476**	452
Trading income excluding net interest income	**32**	31	32	**100**	111
Net interest income on trading activities	**3**	11	1	**7**	33
Net trading income	**35**	42	33	**107**	144
Net expense from financial instruments designated at fair value	**(1)**	-	(1)	**(4)**	(3)
Gains less losses from financial investments	**7**	2	27	**53**	52
Other operating income/(expense)	**15**	7	13	**42**	(3)
Total operating income	**520**	522	539	**1,591**	1,637
Loan impairment charges and other credit risk provisions	**(17)**	(9)	(27)	**(70)**	(149)
Net operating income	**503**	513	512	**1,521**	1,488
Employee compensation and benefits	**(156)**	(154)	(152)	**(467)**	(468)
General and administrative expenses	**(105)**	(105)	(111)	**(320)**	(296)
Depreciation of property, plant and equipment	**(8)**	(8)	(9)	**(25)**	(25)
Amortization and impairment of intangible assets	**(3)**	(4)	(4)	**(12)**	(11)
Total operating expenses	**(272)**	(271)	(276)	**(824)**	(800)
Operating profit	**231**	242	236	**697**	688
Share of profit in associates	**-**	9	6	**9**	14
Profit before income tax expense	**231**	251	242	**706**	702
Income tax expense	**(61)**	(65)	(60)	**(182)**	(197)
Profit for the period	**170**	186	182	**524**	505
Profit attributable to common shareholder	**163**	168	172	**495**	452
Profit attributable to preferred shareholders	**4**	15	8	**21**	45
Profit attributable to shareholders	**167**	183	180	**516**	497
Profit attributable to non-controlling interests	**3**	3	2	**8**	8
Average number of common shares outstanding (000's)	**498,668**	498,668	498,668	**498,668**	498,668
Basic earnings per common share	**$ 0.32**	$ 0.34	$ 0.35	**$ 0.99**	$ 0.91

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Profit for the period	**170**	186	182	**524**	505
Other comprehensive income/(loss)					
Available-for-sale investments[1]	**(10)**	1	6	**8**	(91)
– fair value gains/(losses)	**(6)**	3	35	**64**	(68)
– fair value (gains)/ losses transferred to income statement on disposal	**(7)**	(2)	(27)	**(53)**	(52)
– income taxes	**3**	-	(2)	**(3)**	29
Cash flow hedges[1]	**(15)**	11	(17)	**(29)**	(77)
– fair value gains/(losses)	**(22)**	(2)	88	**33**	41
– fair value (gains)/losses transferred to income statement	**2**	16	(111)	**(72)**	(145)
– income taxes	**5**	(3)	6	**10**	27
Actuarial losses on defined benefit plans[2]	**(12)**	23	(9)	**(32)**	27
– before income taxes	**(17)**	34	(11)	**(43)**	36
– income taxes	**5**	(11)	2	**11**	(9)
Other comprehensive (loss)/ income for the period, net of tax	**(37)**	35	(20)	**(53)**	(141)
Total comprehensive income for the period	**133**	221	162	**471**	364
Total comprehensive income for the period attributable to:					
– shareholder	**130**	218	160	**463**	356
– non-controlling interests	**3**	3	2	**8**	8
	133	221	162	**471**	364

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 and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated balance sheet

	Notes	**30 September 2014 $m**	30 September 2013 $m	31 December 2013 $m
ASSETS				
Cash and balances at central bank		**59**	59	165
Items in the course of collection from other banks		**89**	122	107
Trading assets	*4*	**7,707**	7,446	6,728
Derivatives	*5*	**2,953**	1,616	2,112
Loans and advances to banks		**603**	564	1,149
Loans and advances to customers		**41,534**	41,102	40,524
Reverse repurchase agreements – non-trading	*9*	**5,979**	7,637	6,161
Financial investments	*6*	**19,786**	21,178	21,814
Other assets		**372**	434	332
Prepayments and accrued income		**223**	227	206
Customers' liability under acceptances		**5,222**	5,007	4,757
Property, plant and equipment		**126**	133	137
Goodwill and intangible assets		**63**	69	68
Total assets		**84,716**	85,594	84,260
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**808**	1,277	635
Customer accounts		**49,698**	47,688	50,926
Repurchase agreements – non-trading	*9*	**2,272**	4,214	1,487
Items in the course of transmission to other banks		**69**	86	53
Trading liabilities	*7*	**3,912**	4,420	4,396
Financial liabilities designated at fair value	*8*	**426**	427	428
Derivatives	*5*	**2,770**	1,306	1,746
Debt securities in issue		**11,292**	12,387	11,348
Other liabilities		**2,126**	2,251	2,338
Acceptances		**5,222**	5,007	4,757
Accruals and deferred income		**534**	529	551
Retirement benefit liabilities		**312**	258	271
Subordinated liabilities		**239**	327	239
Total liabilities		**79,680**	80,177	79,175
Equity				
Common shares		**1,225**	1,225	1,225
Preferred shares		**350**	946	600
Other reserves		**113**	113	134
Retained earnings		**3,148**	2,903	2,926
Total shareholder's equity		**4,836**	5,187	4,885
Non-controlling interests		**200**	230	200
Total equity		**5,036**	5,417	5,085
Total equity and liabilities		**84,716**	85,594	84,260

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of cash flows

		Quarter ended			Nine months ended	
		30 September 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**231**	251	242	**706**	702
Adjustments for:						
– non-cash items included in profit before tax	*10*	**35**	25	48	**130**	197
– change in operating assets	*10*	**(560)**	(1,608)	(1,088)	**(2,420)**	(1,145)
– change in operating liabilities	*10*	**302**	1,451	858	**(118)**	3,171
– tax paid		**(17)**	(37)	(75)	**(163)**	(170)
Net cash from/(used in) operating activities		**(9)**	82	(15)	**(1,865)**	2,755
Cash flows from investing activities						
Purchase of financial investments		**(2,527)**	(5,114)	(3,974)	**(9,792)**	(13,878)
Proceeds from the sale and maturity of financial investments		**2,505**	3,778	3,776	**11,828**	13,020
Net cash flows from the sale of held for sale assets		**-**	371	-	**-**	371
Purchase of property, plant and equipment		**(2)**	(11)	(13)	**(23)**	(30)
Purchase of intangibles		**(1)**	-	(1)	**(5)**	-
Net cash (used in)/from investing activities		**(25)**	(976)	(212)	**2,008**	(517)
Cash flows from financing activities						
Dividends paid to shareholders		**(85)**	(105)	(88)	**(262)**	(315)
Distributions to non-controlling interests		**(3)**	(3)	(2)	**(8)**	(8)
Redemption of preferred shares		**-**	-	(250)	**(250)**	-
Net cash used in financing activities		**(88)**	(108)	(340)	**(520)**	(323)
Net (decrease)/increase in cash and cash equivalents		**(122)**	(1,002)	(567)	**(377)**	1,915
Cash and cash equivalents at the beginning of the period		**1,641**	4,670	2,208	**1,896**	1,753
Cash and cash equivalents at the end of the period	*10*	**1,519**	3,668	1,641	**1,519**	3,668

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated statement of changes in equity for the nine months ended 30 September 2014

	Share capital $m	Retained earnings $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholder's equity $m	Non-controlling interests $m	Total equity $m
At 1 January	**1,825**	**2,926**	**35**	**99**	**134**	**4,885**	**200**	**5,085**
Profit for the period	**-**	**516**	**-**	**-**	**-**	**516**	**8**	**524**
Other comprehensive income (net of tax)	**-**	**(32)**	**8**	**(29)**	**(21)**	**(53)**	**-**	**(53)**
Available-for-sale investments	**-**	**-**	**8**	**-**	**8**	**8**	**-**	**8**
Cash flow hedges	**-**	**-**	**-**	**(29)**	**(29)**	**(29)**	**-**	**(29)**
Actuarial losses on defined benefit plans	**-**	**(32)**	**-**	**-**	**-**	**(32)**	**-**	**(32)**
Total comprehensive income for the period	**-**	**484**	**8**	**(29)**	**(21)**	**463**	**8**	**471**
Redemption on preferred shares	**(250)**	**-**	**-**	**-**	**-**	**(250)**	**-**	**(250)**
Dividends paid on common shares	**-**	**(240)**	**-**	**-**	**-**	**(240)**	**-**	**(240)**
Dividends paid on preferred shares	**-**	**(22)**	**-**	**-**	**-**	**(22)**	**-**	**(22)**
Distributions to unit holders	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
At 30 September	**1,575**	**3,148**	**43**	**70**	**113**	**4,836**	**200**	**5,036**

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

	Share capital $m	Retained earnings $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholder's equity $m	Non-controlling interests $m	Total equity $m
At 1 January	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 losses 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

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis 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 ('HSBC Holdings'). Throughout these interim unaudited consolidated financial statements ('financial statements') the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. These financial statements should be read in conjunction with the bank's 2013 annual consolidated financial statements, which are both prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and Section 308 (4) of the Bank Act.

The financial statements are prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting'.

b *Presentation of information*

The financial statements are presented in Canadian dollars which is also the bank's 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 restated to conform with the current period presentation.

From 1 January 2014, HSBC has chosen to present non-trading reverse repurchase and repurchase agreements separately on the face of the balance sheet. Previously they were presented on an aggregate basis together within 'Loans and advances to banks', 'Loans and advances to customers', 'Deposits by banks', and 'Customer accounts'. The separate presentation aligns disclosure of reverse repurchase and repurchase agreements with market practice and provides more meaningful information in relation to loans and advances. Further explanation is provided in Note 9 on the financial statements. Comparative periods have been presented accordingly. There is no other effect of this change in presentation.

For the third quarter of 2014, HSBC has decided to present an intersegment category on the statement of financial position in Note 12 Segment Analysis. Previously the bank has presented the assets and liabilities on a net basis for transactions between global lines of business. To enhance the segment disclosure, we have chosen to present assets and liabilities on a gross basis to reflect the dedicated balances of each global line of business. Comparative periods have been presented accordingly. There is no other effect of this change in presentation.

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 judgment 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 judgment is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described in Note 2 on the consolidated financial statements of the bank's Annual Report and Accounts 2013.

d *Consolidation*

The financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 September 2014. The method adopted by the bank to consolidate its subsidiaries is described in Note 1(d) on the consolidated financial statement of the bank's Annual Report and Accounts 2013.

e *Future accounting developments*

Revenue

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The bank is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these interim financial statements.

Financial instruments

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being at amortized cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortized cost or fair value compared with IAS 39.

The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortized cost, FVOCI, lease receivables, certain loan commitments, and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of

Notes on the Financial Statements (unaudited) (continued)

financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link between it and risk management strategy and permitting the former to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at 1 January 2018, with no requirement to restate comparative periods. Hedge accounting is applied prospectively from that date.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The bank plans to early adopt the presentation of fair value gains and losses relating to an entity's own credit risk on certain liabilities, at the same time as the HSBC Group, whose early adoption is subject to endorsement by the European Union. In addition, early adoption of the presentation is subject to regulatory consent. If this presentation was applied at 30 September 2014, the effect would be to increase profit before tax by $2m and reduce other comprehensive income by the same amount with no effect on net assets.

The bank is currently assessing the impact that the rest of IFRS 9 will have on the financial statements through an HSBC Group-wide project which has been in place since 2012, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effect.

2 Summary of significant accounting policies

Except as set out below, there have been no significant changes to the accounting policies of the bank from those as disclosed in Note 2 on the consolidated financial statements of the bank's Annual Report and Accounts 2013.

IAS 32 – Offsetting

On 1 January 2014, the bank adopted Amendments to IAS 32 'Financial Instruments: Presentation' in connection with the offsetting of financial assets and financial liabilities. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32. The adoption did not have a material effect on the bank's financial statements and as a result comparative information was not restated.

3 Post-employment 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 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
	$m	$m	$m	**$m**	$m
Pension plans – defined benefit	**5**	5	5	**14**	15
Pension plans – defined contribution	**7**	9	8	**22**	22
Healthcare and other post-employment benefit plans	**3**	3	3	**9**	9
	15	17	16	**45**	46

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 2013.

4 Trading assets

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Trading assets:			
- Not subject to repledge or resale by counterparties	**7,224**	6,196	6,294
- Which may be repledged or resold by counterparties	**483**	1,250	434
	7,707	7,446	6,728
Canadian and provincial government bonds[1]	**1,802**	2,872	2,086
Debt securities	**743**	513	442
Total debt securities	**2,545**	3,385	2,528
Bankers acceptances	**2,975**	2,576	2,848
Customer trading assets	**1,580**	1,058	876
Treasury and other eligible bills	**529**	422	467
Trading assets from other banks	**54**	-	9
Equity securities	**24**	5	-
	7,707	7,446	6,728

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 in Note 2 and Note 11 of the bank's Annual Report and Accounts 2013.

Fair values of derivatives by product contract type held

	At 30 September 2014					
	Assets			**Liabilities**		
	Trading $m	**Hedging $m**	**Total $m**	**Trading $m**	**Hedging $m**	**Total $m**
Foreign exchange	**2,022**	**278**	**2,300**	**2,036**	**106**	**2,142**
Interest rate	**508**	**122**	**630**	**457**	**148**	**605**
Commodity	**23**	**-**	**23**	**23**	**-**	**23**
Gross total fair values	**2,553**	**400**	**2,953**	**2,516**	**254**	**2,770**

	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 31 December 2013					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	1,077	288	1,365	1,030	93	1,123
Interest rate	492	220	712	453	135	588
Commodity	35	-	35	35	-	35
Gross total fair values	1,604	508	2,112	1,518	228	1,746

Notes on the Financial Statements (unaudited) (continued)

Trading derivatives

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

	At 30 September 2014	At 30 September 2013	At 31 December 2013
	$m	$m	$m
Foreign exchange	**128,608**	75,059	87,334
Interest rate	**57,327**	33,069	37,745
Commodity	**316**	412	567
Total derivatives	**186,251**	108,540	125,646

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 2014		At 30 September 2013		At 31 December 2013	
	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	**20,487**	**12,182**	20,854	7,089	17,477	9,035
Foreign exchange	**3,317**	**-**	2,794	-	3,116	-
Total derivatives	**23,804**	**12,182**	23,648	7,089	20,593	9,035

Fair value of derivatives designated as fair value hedges

	At 30 September 2014		At 30 September 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**23**	**94**	33	71	60	69

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

	Quarter ended			Nine months ended	
	30 September 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
	$m	$m	$m	**$m**	$m
Gains/(losses)					
On hedging instruments	**9**	(11)	(50)	**(79)**	49
On hedged items attributable to the hedged risk	**(10)**	11	50	**77**	(50)

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 2014		At 30 September 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**278**	**106**	239	36	288	93
Interest rate	**99**	**54**	158	83	160	66

6 Financial investments

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Financial investments			
- Not subject to repledge or resale by counterparties	**18,234**	18,919	20,468
- Which may be subject to repledge or resale by counterparties	**1,552**	2,259	1,346
	19,786	21,178	21,814
Available-for-sale			
Canadian and Provincial Government bonds[1]	**14,610**	15,423	16,534
International Government bonds[1]	**2,700**	2,766	3,248
Debt securities issued by banks and other financial institutions	**1,900**	1,267	1,224
Treasury bills and other eligible bills	**572**	1,722	799
Other securities	**4**	-	9
	19,786	21,178	21,814

1 *Includes government guaranteed bonds*

7 Trading liabilities

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Other liabilities – net short positions	**3,343**	2,527	3,617
Customer trading liabilities	**462**	1,517	442
Trading liabilities due to other banks	**89**	343	300
Other debt securities in issue	**18**	33	37
	3,912	4,420	4,396

8 Financial liabilities designated at fair value

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Subordinated debentures	**426**	427	428

The carrying amount at 30 September 2014 of financial liabilities designated at fair value was $26m higher (30 September 2013: $27m higher; 31 December 2013: $28m higher) than the contractual amount at maturity. At 30 September 2014, the cumulative amount of change in fair value attributable to changes in credit risk was a $2m gain (30 September 2013: $4m gain; 31 December 2013: $2m gain).

Notes on the Financial Statements (unaudited) (continued)

9 Non-trading reverse repurchase and repurchase agreements

Non-trading reverse repurchase agreements and repurchase agreements which are measured at amortised cost, are presented as separate lines in the balance sheet. This separate presentation has been adopted effective 1 January 2014 and comparatives restated accordingly. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. The extent to which reverse repos and repos represents loans to/from customers and banks is set out below.

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Assets			
Banks	**524**	2,016	333
Customers	**5,455**	5,620	5,828
Reverse repurchase agreements - non-trading	**5,979**	7,636	6,161
Liabilities			
Banks	**553**	675	569
Customers	**1,719**	3,539	918
Repurchase agreements - non-trading	**2,272**	4,214	1,487

10 Notes on the statement of cash flows

	Quarter ended			Nine months ended	
	30 September 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
	$m	$m	$m	**$m**	$m
Non-cash items included in profit before tax					
Depreciation and amortization	**11**	8	13	**37**	25
Share based payment expense	**2**	3	3	**8**	8
Loan impairment charges and other credit risk provisions	**17**	9	27	**70**	149
Charge for defined benefit pension plans	**5**	5	5	**15**	15
	35	25	48	**130**	197
Change in operating assets					
Change in prepayment and accrued income	**(34)**	(9)	24	**(17)**	(62)
Change in net trading securities and net derivatives	**(665)**	320	(2,438)	**(1,191)**	378
Change in loans and advances to customers	**(2)**	45	(368)	**(1,080)**	1,206
Change in reverse repurchase agreements - non-trading	**(269)**	(1,830)	1,752	**373**	(2,505)
Change in other assets	**410**	(134)	(58)	**(505)**	(162)
	(560)	(1,608)	(1,088)	**(2,420)**	(1,145)
Change in operating liabilities					
Change in accruals and deferred income	**35**	42	(17)	**(17)**	1
Change in deposits by banks	**(104)**	549	267	**173**	121
Change in customer accounts	**369**	(107)	(127)	**(1,228)**	1,395
Change in repurchase agreements - non-trading	**26**	1,653	209	**785**	1,186
Change in debt securities in issue	**463**	(853)	509	**(56)**	407
Change in financial liabilities designated at fair value	**(3)**	(1)	(1)	**(2)**	(9)
Change in other liabilities	**(484)**	168	18	**227**	70
	302	1,451	858	**(118)**	3,171
Interest					
Interest paid	**174**	175	212	**547**	524
Interest received	**468**	498	512	**1,459**	1,508

	At 30 September 2014	At 30 September 2013	At 30 June 2014
	$m	$m	$m
Cash and cash equivalents			
Cash and balances at central bank	**59**	59	66
Items in the course of transmission to other banks, net	**20**	36	(132)
Loans and advances to banks of one month or less	**603**	564	438
Reserve repurchase agreements with banks of one month or less	**524**	2,017	992
T-Bills and certificates of deposits - three months or less	**313**	992	277
	1,519	3,668	1,641

Notes on the Financial Statements (unaudited) (continued)

11 Contingent liabilities, contractual commitments and guarantees

	At 30 September 2014 $m	At 30 September 2013 $m	At 31 December 2013 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**4,910**	3,590	3,940
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**36,651**	33,541	34,588
Documentary credits and short-term trade-related transaction	**551**	502	540
	37,202	34,043	35,128

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 balance sheet or our results of operations.

12 Segment analysis

We manage and report our operations according to our main global lines of business. Information on each business line is included in the Management's Discussion and Analysis and the Annual Report and Accounts 2013. Various estimate and allocation methodologies are used in the preparation of the global lines of business' 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 global lines of business using appropriate allocation formulas. Global lines of business net interest income reflects internal funding charges and credits on the global lines of business' 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 Global Banking and Markets.

	Quarter ended			Nine months ended	
	30 September 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Commercial Banking					
Net interest income	**164**	169	165	**497**	502
Net fee income	**79**	78	81	**239**	235
Net trading income	**6**	7	7	**19**	22
Gain less losses from financial investments	**-**	-	16	**16**	-
Other operating income/(expense)	**5**	(5)	3	**14**	(37)
Total operating income	**254**	249	272	**785**	722
Loan impairment (charges)/releases and other credit risk provisions	**(11)**	5	(18)	**(41)**	(95)
Net operating income	**243**	254	254	**744**	627
Total operating expenses	**(100)**	(96)	(104)	**(305)**	(278)
Operating profit	**143**	158	150	**439**	349
Share of profit in associates	**-**	9	6	**9**	14
Profit before income tax expense	**143**	167	156	**448**	363

	Quarter ended			Nine months ended	
	30 September 2014	30 September 2013	30 June 2014	**30 September 2014**	30 September 2013
	$m	$m	$m	**$m**	$m
Global Banking and Markets					
Net interest income	**45**	37	46	**135**	119
Net fee income	**26**	22	22	**72**	60
Net trading income	**16**	24	15	**52**	86
Gain less losses from financial investments	**7**	2	11	**37**	48
Other operating income	**-**	-	1	**1**	-
Total operating income	**94**	85	95	**297**	313
Loan impairment charges and other credit risk provisions	**-**	(1)	(2)	**(3)**	(1)
Net operating income	**94**	84	93	**294**	312
Total operating expenses	**(30)**	(28)	(29)	**(89)**	(86)
Profit before income tax expense	**64**	56	64	**205**	226
Retail Banking and Wealth Management					
Net interest income	**105**	120	104	**311**	395
Net fee income	**56**	52	57	**165**	157
Net trading income	**4**	4	3	**12**	15
Gains less losses from financial investment	**-**	-	-	**-**	4
Other operating income	**3**	4	2	**7**	11
Total operating income	**168**	180	166	**495**	582
Loan impairment charges and other credit risk provisions	**(6)**	(13)	(7)	**(26)**	(53)
Net operating income	**162**	167	159	**469**	529
Total operating expenses	**(131)**	(137)	(135)	**(399)**	(408)
Profit before income tax expense	**31**	30	24	**70**	121
Other					
Net interest expense	**(11)**	(7)	(8)	**(26)**	(21)
Net trading income	**9**	7	8	**24**	21
Net expense from financial instruments designated at fair value	**(1)**	-	(1)	**(4)**	(3)
Other operating income	**7**	8	7	**20**	23
Net operating income	**4**	8	6	**14**	20
Total operating expenses	**(11)**	(10)	(8)	**(31)**	(28)
Loss before income tax expense	**(7)**	(2)	(2)	**(17)**	(8)

Notes on the Financial Statements (unaudited) (continued)

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

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Other $m	Total $m
Quarter ended 30 September 2014					
Net operating income:	**243**	**94**	**162**	**4**	**503**
External	**232**	**80**	**187**	**4**	**503**
Inter-segment	**11**	**14**	**(25)**	**-**	**-**
Quarter ended 30 September 2013					
Net operating income:	254	84	167	8	513
External	251	64	190	8	513
Inter-segment	3	20	(23)	-	-
Quarter ended 30 June 2014					
Net operating income:	254	93	159	6	512
External	245	76	185	6	512
Inter-segment	9	17	(26)	-	-
Nine months ended 30 September 2014					
Net operating income:	**744**	**294**	**469**	**14**	**1,521**
External	**711**	**254**	**542**	**14**	**1,521**
Inter-segment	**33**	**40**	**(73)**	**-**	**-**
Nine months ended 30 September 2013					
Net operating income:	627	312	529	20	1,488
External	618	241	609	20	1,488
Inter-segment	9	71	(80)	-	-

Statement of financial position information

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Other $m	Intersegment $m	Total $m
At 30 September 2014						
Loans and advances to customers ……….	**16,460**	**1,521**	**23,553**	**-**	**-**	**41,534**
Customers' liability under acceptances….	**4,291**	**931**	**-**	**-**	**-**	**5,222**
Total assets……………………………......	**28,774**	**38,698**	**26,811**	**423**	**(9,990)**	**84,716**
Customer accounts………………………...	**21,209**	**4,967**	**23,522**	**-**	**-**	**49,698**
Acceptances………………………………..	**4,291**	**931**	**-**	**-**	**-**	**5,222**
Total liabilities……………………………..	**25,924**	**37,361**	**25,962**	**423**	**(9,990)**	**79,680**
At 30 September 2013						
Loans and advances to customers ………….	16,250	1,100	23,752	-	-	41,102
Customers' liability under acceptances….…	4,162	845	-	-	-	5,007
Total assets ………………………………...	27,886	39,781	25,935	405	(8,413)	85,594
Customer accounts …………………………	20,195	5,886	21,607	-	-	47,688
Acceptances ………………………………..	4,162	845	-	-	-	5,007
Total liabilities……………………………...	24,812	38,593	24,780	405	(8,413)	80,177
At 31 December 2013						
Loans and advances to customers.…………	15,881	1,203	23,440	-	-	40,524
Customers' liability under acceptances…….	3,941	816	-	-	-	4,757
Total assets ………………………………...	29,283	39,230	26,467	400	(11,120)	84,260
Customer accounts …………………………	21,986	6,185	22,755	-	-	50,926
Acceptances ………………………………..	3,941	816	-	-	-	4,757
Total liabilities ……………………………..	26,426	38,051	25,418	400	(11,120)	79,175

13 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings plc including other companies in the HSBC 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 2014 $m	30 September 2013 $m	30 June 2014 $m	**30 September 2014 $m**	30 September 2013 $m
Income Statement					
Interest income	**11**	15	11	**34**	45
Interest expense	**(2)**	(18)	(3)	**(7)**	(35)
Fee income..	**3**	3	3	**10**	10
Fee expense	**(1)**	(1)	(1)	**(3)**	(5)
Other operating income	**11**	11	11	**32**	35
General and administrative expenses	**(29)**	(28)	(28)	**(84)**	(77)

14 Fair values of financial instruments

Control framework

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 2014				
Assets				
Trading assets	**2,330**	**5,377**	**-**	**7,707**
Derivatives	**-**	**2,925**	**28**	**2,953**
Financial investments: available-for-sale	**16,537**	**3,249**	**-**	**19,786**
Liabilities				
Trading liabilities	**3,233**	**674**	**5**	**3,912**
Financial liabilities designated at fair value	**-**	**426**	**-**	**426**
Derivatives	**-**	**2,742**	**28**	**2,770**
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 designated at fair value	-	427	-	427
Derivatives	-	1,272	34	1,306
At 31 December 2013				
Assets				
Trading assets	2,754	3,974	-	6,728
Derivatives	-	2,078	34	2,112
Financial investments: available-for-sale	19,143	2,671	-	21,814
Liabilities				
Trading liabilities	3,470	917	9	4,396
Financial liabilities designated at fair value	-	428	-	428
Derivatives	-	1,712	34	1,746

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 $530m, (30 September 2013: $432m; 31 December 2013: $486m) 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 2014	**-**	**34**	**9**	**34**
Total gains or losses recognized in profit or loss	**-**	**4**	**-**	**4**
Settlements	**-**	**-**	**(1)**	**-**
Transfer out	**-**	**(10)**	**(3)**	**(10)**
At 30 September 2014	**-**	**28**	**5**	**28**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**-**	**4**	**-**	**4**

	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 2014 and 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 in Note 2 and Note 24 of the bank's Annual Report and Accounts 2013.

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At 30 September 2014		At 30 September 2013		At 31 December 2013	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Assets						
Loans and advances to banks	**603**	**603**	564	564	1,149	1,149
Loans and advances to customers	**41,534**	**41,621**	41,102	41,102	40,524	40,592
Reverse repurchase agreements	**5,979**	**5,979**	7,637	7,637	6,161	6,161
Liabilities						
Deposits by banks	**808**	**808**	1,277	1,277	635	635
Customer accounts	**49,698**	**49,723**	47,688	47,688	50,926	51,001
Repurchase agreements	**2,272**	**2,272**	4,214	4,214	1,487	1,487
Debt securities in issue	**11,292**	**11,439**	12,387	12,522	11,348	11,498
Subordinated liabilities	**239**	**237**	327	304	239	236

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 of the Annual Report and Accounts 2013.

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 2014 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 29 October 2014 and authorized for issue.

Shareholder Information

PRINCIPAL ADDRESSES:

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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)

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:

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Shareholder Relations:
Chris Young (604) 642-4389
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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:

2014	
Record Date	Payable Date
15 December	31 December

2015	
Record Date	Payable Date
13 March	31 March
15 June	30 June
15 September	30 September

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

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