HSBC Bank Canada

Third Quarter 2020 Interim Report

HSBC

HSBC Bank Canada third quarter 2020 performance

Quarter ended 30 September 2020

Total operating income

$472m ↓12%

(2019: $534m)

Profit before income tax expense

$157m ↓24%

(2019: $206m)

Profit/(loss) attributable to the common shareholder

$101m ↓28%

(2019: $141m)

Nine months ended 30 September 2020

Total operating income

$1,520m ↓6.4%

(2019: $1,624m)

Profit before income tax expense

$244m ↓60%

(2019: $603m)

Profit attributable to the common shareholder

$147m ↓64%

(2019: $411m)

At 30 September 2020

Total assets

$124.2bn ↑17%

(At 31 Dec 2019: $106.6bn)

Common equity tier 1 ratio[1]

13.1% ↑180 bps

(At 31 Dec 2019: 11.3%)

Commenting on the quarter, Linda Seymour, President and Chief Executive Officer of HSBC Bank Canada, said:

"Our results this quarter are markedly better than in the first two quarters of the year, largely due to moderating expected credit losses. This is in line with improved forward-looking economic guidance, even after factoring in the resurgence of the pandemic that is now upon us. Profits also increased in two of our three business lines compared to the second quarter. This quarter we also saw increased deposits in Commercial Banking, increased income across all products in Global Banking and Markets, and continued record growth in total relationship balances[2] in Wealth and Personal Banking. However, in the current economic environment, compressed lending margins continue to be a drag on our bottom line across the business.

"Throughout my career, I have seen many remarkable stories of resilience and COVID-19 has only served to increase my admiration for both our team and our customers on that front. Many of our customers, while cautious, have demonstrated an impressive ability to adapt and are building for a more sustainable future. As Canada continues its recovery, our people and unparalleled global network will continue to support our customers, whether it's providing great rates on mortgages and savings, market leading digital access to their accounts around the world, help in diversifying supply chains, or novel ways to make their businesses greener."

1. *Refer to the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A') for a discussion of non-IFRS financial measures.*
2. *Total relationship balances includes lending, deposits and wealth balances.*

Select awards and recognition

Best Credit Card for Paying Down Your Balance

Rates.ca (2020)

World's Best Bank for Sustainable Finance, Global Excellence in Leadership, World's Best Bank for Transaction Services

Euromoney Awards for Excellence (2020)

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Our global businesses[1, 2]

Our operating model consists of three global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology and 11 global functions.

Commercial Banking ('CMB')

We support business customers with banking products and services to help them operate and grow. Our customers range from small enterprises, through to large companies that operate globally.

Global Banking and Markets ('GBM')

We provide financial services and products to corporates, governments and institutions. Our comprehensive range of products and solutions can be combined and customized to meet our customers' specific objectives - from primary equity and debt capital to global trade and receivables finance.

Wealth and Personal Banking ('WPB')[2]

We offer a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has an international flavour with a large suite of global investment products and other specialized services available.

Quarter ended 30 September 2020

Total operating income

CMB		GBM		WPB	
$223m (2019: $256m)	↓13%	$72m (2019: $82m)	↓12%	$188m (2019: $198m)	↓5.1%

Profit/(loss) before income tax expense

CMB		GBM		WPB	
$128m (2019: $146m)	↓12%	$47m (2019: $38m)	↑24%	$12m (2019: $22m)	↓45%

Nine months ended 30 September 2020

Total operating income

CMB		GBM		WPB	
$718m (2019: $765m)	↓6.1%	$249m (2019: $261m)	↓4.6%	$575m (2019: $599m)	↓4.0%

Profit before income tax expense

CMB		GBM		WPB	
$161m (2019: $437m)	↓63%	$93m (2019: $126m)	↓26%	$55m (2019: $61m)	↓9.8%

At 30 September 2020

Customer assets[3]

CMB		GBM		WPB	
$28.7bn (At 31 Dec 2019: $30.2bn)	↓4.9%	$5.5bn (At 31 Dec 2019: $5.7bn)	↓4.1%	$31.3bn (At 31 Dec 2019: $29.5bn)	↑5.9%

1. *We manage and report our operations around three global businesses and the results presented are for these businesses. The consolidated HSBC Bank Canada results presented on the previous page also include the Corporate Centre (see page 14 of the MD&A for more information). The equivalent results for the Corporate Centre were: Total operating loss of $11m for the quarter and $22m for the nine months ended (2019 total operating loss: $2m for the quarter and $1m for the nine months ended), profit/(loss) before income tax expense was a loss of $30m for the quarter and loss of $65m for the nine months ended (2019 was a loss of: nil for the quarter and $21m for the nine months ended) and customer assets nil (2019: nil).*
2. *Effective from the second quarter of 2020, we made two changes to reportable segments. Firstly, the reallocation of Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated. Secondly, to simplify our matrix organizational structure, HSBC Holdings Group ('HSBC Group') merged Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Therefore, going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*
3. *Customer assets includes loans and advances to customers and customers' liability under acceptances.*

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Basis of preparation

HSBC Bank Canada and its subsidiary undertakings (together 'the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc ('HSBC Holdings'). Throughout the Management's Discussion and Analysis ('MD&A'), the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'.

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter and nine months ended 30 September 2020, compared to the same periods in the preceding year. The MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the quarter and nine months ended 30 September 2020 ('consolidated financial statements') and our *Annual Report and Accounts 2019*. This MD&A is dated 23 October 2020, the date that our consolidated financial statements and MD&A were approved by our Board of Directors ('the Board'). The references to 'notes' throughout this MD&A refer to notes on the consolidated financial statements for the quarter and nine months ended 30 September 2020.

The bank has prepared its consolidated financial statements in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the bank's 2019 audited annual consolidated financial statements. The bank's 2019 audited annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in consideration of the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI'), as required under Section 308(4) of the Bank Act. Certain sections within the MD&A, that are marked with an asterisk (*), form an integral part of the accompanying consolidated financial statements. 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.

Our continuous disclosure materials, including interim and annual filings, are available through a link on the bank's website at www.hsbc.ca. These documents, together with the bank's *Annual Information Form*, are also available on the Canadian Securities Administrators' website at www.sedar.com. Complete financial, operational and investor information for HSBC Holdings and the HSBC Group, including HSBC Bank Canada, can be obtained from its website, www.hsbc.com, including copies of *HSBC Holdings Annual Report and Accounts 2019*. Information contained in or otherwise accessible through the websites mentioned does not form part of this report.

Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The risk management section in the MD&A of our *Annual Report and Accounts 2019* 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. These risk factors include: credit risk, liquidity and funding risk, market risk, resilience risk, regulatory compliance risk, financial crime risk, model risk and pension risk. Additional factors that may cause our actual results to differ materially from the expectations expressed in such forward-looking statements include: general economic and market conditions, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, changes to our credit rating, climate change risk, interbank offered rate ('IBOR') transition, changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation by taxing authorities, and our ability to attract, develop and retain key personnel, risk of fraud by employees or others, unauthorized transactions by employees and human error. Despite contingency plans we have in place for resilience in the event of sustained and significant operational disruption, our ability to conduct business may be adversely affected by disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies, environmental disasters and terrorist acts. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2019* for a description of these risk factors. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document are as of the date of this document. We do not undertake any obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required under applicable securities legislation.

Who we are

HSBC Bank Canada is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances here and internationally through three global businesses: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking[1]. No international bank has our Canadian presence and no domestic bank has our international reach.

Canada is an important contributor to the HSBC Group growth strategy and a key player in the Group's work to support customers and drive growth, leveraging its footprint across all key trade corridors, including in North America, alongside the United States and Mexico, Europe and with China.

HSBC Holdings plc, the parent company of the HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,956bn at 30 September 2020, HSBC is one of the world's largest banking and financial services organizations.

Throughout our history we have been where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, helping people fulfill their hopes and dreams and realize their ambitions.

Shares in HSBC Holdings are listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. The HSBC Holdings shares are traded in New York in the form of American Depositary Receipts.

1. *Effective from the second quarter of 2020, HSBC Holdings Group ('HSBC Group') merged Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Therefore, going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*

Impact of COVID-19 and our response

The COVID-19 pandemic has had and continues to have a significant impact on people, businesses, societies and economies around the world. As we continue to prioritize the safety of our employees and customers there are a number of factors associated with the pandemic and its impact on global economies that are having a material adverse effect on financial institutions such as HSBC Bank Canada.

In Canada, government imposed restrictions on mobility and social interaction beginning in March have had a significant impact on economic activity. While some restrictions have eased over the summer, this pandemic is not static, and across Canada, local and provincial governments continue to lift and adapt restrictions in response to evolving COVID-19 cases.

Customers, employees and communities

Banking in Canada is deemed an essential service and we have been operating within our Business Continuity Plan ('BCP') to maintain services for customers across all of our lines of business since mid-March. To reduce the risk and play our part in limiting the spread and impact of this public health crisis, and by implementing new technology solutions, approximately 90% of non-branch staff are working from home and we expect this to continue through at least the balance of 2020.

To address the additional stress on our people created by the isolation in this extreme environment, we have significantly increased wellness supports including for mental health. Where employees must be on site to perform critical roles, we continue to have precautionary measures in place including enhanced cleaning, protective acrylic shields, and control and screening of customer entry. Since mid-March, our branches have been operating on reduced hours. As of 14 September, they have returned to their normal operating hours to meet customer demand. While provisioning for our physical sites, we are also accommodating the significant increase in customer use of our digital channels and call centres. We are frequently reaching out to retail, commercial and corporate customers to update them on our service plans and help them manage the impacts to their finances.

We place great importance on supporting our customers who may be experiencing financial hardship and are working across all of our lines of business to offer them flexible solutions. For further details on customer relief programs, see Credit risk section on page 19.

Finally, our COVID-19 response included a $500,000 donation to Food Banks Canada, Breakfast Club of Canada and United Way, targeting areas of need that emerged almost immediately including food insecurity and support for the most vulnerable members of society. We have also donated $500,000 to support health research, patient care and urgent needs related to COVID-19 at BC Children's Hospital Foundation, Alberta Children's Hospital Foundation, The Hospital for Sick Children ('SickKids') and Montreal Children's Hospital Foundation.

Regulators and governments

Many programs have been initiated by the Bank of Canada and Federal government to provide financial support to parts of the economy most impacted by the COVID-19 outbreak. We are committed to playing our part in the country's economic recovery and are actively participating in these programs and helping our customers to do so wherever it is appropriate. Programs include:

- The Canada Emergency Business Account ('CEBA') relief program, where funding from Export Development Canada ('EDC') provides interest-free loans of up to $40,000 to qualifying small businesses and not-for-profits to help cover COVID-19 related revenue loss. The loans are funded by the Government of Canada and the bank retains no credit risk. As at 30 September 2020, there were outstanding balances of $167m to customers through this program.
- The Business Credit Availability Program ('BCAP'), comprised of the Business Development Bank of Canada ('BDC') and Export Development Canada ('EDC') relief programs.
  - Under the EDC program, the bank will provide eligible mid-size and large businesses loans of up to $6.25m of new operating credit and cash flow term loans to support short-term liquidity needs. These loans must be used to fund certain operating costs and are 80% guaranteed by the EDC. Loans under this program are recognized on our consolidated balance sheet. As at 30 September 2020, customers were provided with financial guarantees totalling $71m.
  - Under the BDC program, the bank and the BDC will jointly provide loans to eligible businesses of up to $6.25m to meet their operational and liquidity needs. The BDC will purchase an 80% participation in these loans and this portion has been derecognized from our consolidated balance sheet as they meet the IFRS 9 criteria for derecognition of financial assets. As at 30 September 2020, customers were provided with loans totalling $79m.

For further details of the regulatory developments, see the Regulatory development section of the MD&A on page 17.

Impact on risk environment

The impact on financial crime risk and regulatory compliance has also been considered, and the bank remains vigilant regarding the effectiveness of our risk controls during this challenging period when malicious activities - such as cyber-attacks and fraud - tend to increase.

Refer to the 'Risk Management' section of our *Annual Report and Accounts 2019* for a description of how the bank manages risk across the organization and across all risk types, outlining the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

Impact on financial results

For the third quarter, expected credit losses resulted in a release of $2m, lower than the prior two quarters, as forward-looking macro-economic variables improved. For the nine months ended, the charges for expected credit losses of $328m were primarily driven by the significant deterioration in forward-looking economic guidance in the first half of 2020. This resulted in charges of $140m in the first quarter, followed by $190m in the second quarter. This is described in more detail in the Credit risk section of the MD&A on page 19. As well, lower interest rates continue to impact net interest income. The COVID-19 outbreak is expected to continue to disrupt economic activities globally and there could be further adverse impact to HSBC Bank Canada's business and results of operations.

In response, the bank increased its capital and liquidity levels. These ratios remain well in excess of the bank's minimum regulatory requirements. As a result, our common equity tier 1 ratio increased to 13.1% at 30 September 2020, compared to 11.3% at 31 December 2019 and our liquidity coverage ratio for the quarter ended 30 September 2020 increased to 201%, compared to 140% for the quarter ended 31 December 2019.

HSBC Bank Canada is part of one of the world's largest banking groups. Canada is a key global market for HSBC, with total assets in Canada of $124bn and US$2,956bn globally as of 30 September 2020. HSBC has a strong capital, funding and liquidity position and we are looking to continue to support the Canadian economy, our customers and wider society through this challenge and through the recovery beyond.

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 consolidated 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 include average balances and annualized income statement figures, as noted, are used throughout this document.

Return on average common shareholder's equity is calculated as the annualized profit attributable to the common shareholder for the period divided by average[1] common equity.

Return on average risk-weighted assets is calculated as annualized profit before income tax expense divided by the average[1] risk-weighted assets.

Operating leverage is calculated as the difference between the rates of change for operating income and operating expenses.

Net interest margin is net interest income expressed as an annualized percentage of average[1] interest earning assets.

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] on stage 3 assets as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances is calculated as the total allowance for expected credit losses[2] relating to stage 3 loans and advances to customers and customer liabilities under acceptances as a percentage of stage 3 loans and advances to customers and customers' liabilities under acceptances.

Net write-offs as a percentage of average customer advances and acceptances is calculated as annualized net write-offs as a percentage of average[1] net customer advances and customers' liabilities under acceptances.

The following supplementary financial measure calculated from IFRS figures as noted is used throughout this document.

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

1. *The net interest margin is calculated using daily average balances. All other financial measures use average balances that are calculated using quarter-end balances.*
2. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

Financial highlights

($millions, except where otherwise stated)	Footnotes	Quarter ended 30 Sep 2020	Quarter ended 30 Sep 2019	Nine months ended 30 Sep 2020	Nine months ended 30 Sep 2019
Financial performance for the period					
Total operating income		**472**	534	**1,520**	1,624
Profit before income tax expense		**157**	206	**244**	603
Profit attributable to the common shareholder		**101**	141	**147**	411
Change in expected credit losses and other credit impairment charges - (charge)/release		**2**	(17)	**(328)**	(45)
Operating expenses		**(317)**	(311)	**(948)**	(976)
Basic and diluted earnings per common share ($)		**0.18**	0.28	**0.28**	0.82
Financial measures (%)	1				
Return on average common shareholder's equity		**7.1**	11.2	**3.6**	11.2
Return on average risk-weighted assets	2	**1.5**	1.9	**0.8**	2.0
Cost efficiency ratio		**67.2**	58.2	**62.4**	60.1
Operating leverage ratio		**(13.5)**	(5.2)	**(3.5)**	(4.4)
Net interest margin		**0.88**	1.32	**1.04**	1.40
Change in expected credit losses to average gross loans and advances and acceptances	3	**n/a**	0.11	**0.66**	0.10
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.18**	0.09	**0.24**	0.07
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**47.4**	29.0	**47.4**	29.0
Net write-offs as a percentage of average loans and advances and acceptances		**0.07**	0.06	**0.09**	0.08

	Footnotes	At 30 Sep 2020	At 31 Dec 2019
Financial position at period end			
Total assets		**124,213**	106,571
Loans and advances to customers		**61,826**	61,922
Customer accounts		**73,598**	62,889
Ratio of customer advances to customer accounts (%)	1	**84.0**	98.5
Common shareholder's equity		**5,692**	5,009
Capital, leverage and liquidity non-IFRS financial measures	2		
Common equity tier 1 capital ratio (%)		**13.1**	11.3
Tier 1 ratio (%)		**15.7**	13.9
Total capital ratio (%)		**18.2**	16.4
Leverage ratio (%)		**5.8**	4.9
Risk-weighted assets ($m)		**41,376**	42,080
Liquidity coverage ratio (%)		**201**	140

1. *Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.*
2. *The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.*
3. *n/a is shown where the bank is in a net release position resulting in a negative ratio.*

Financial performance

Summary consolidated income statement

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Net interest income	**244**	313	**811**	955
Net fee income	**172**	168	**528**	498
Net income from financial instruments held for trading	**29**	36	**102**	117
Other items of income	**27**	17	**79**	54
Total operating income	**472**	534	**1,520**	1,624
Change in expected credit losses and other credit impairment charges - (charge)/release	**2**	(17)	**(328)**	(45)
Net operating income	**474**	517	**1,192**	1,579
Total operating expenses	**(317)**	(311)	**(948)**	(976)
Profit before income tax expense	**157**	206	**244**	603
Income tax expense	**(45)**	(56)	**(61)**	(165)
Profit for the period	**112**	150	**183**	438

For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.

Performance during the third quarter of 2020 has improved from the prior two quarters, with profit before tax increasing in two of our three global businesses. Lower charges from expected credit losses are the result of the improving economic outlook. Our results continue to reflect the ongoing market volatility, central bank rate cuts, and reduced customer activity which decreased operating income. Our year-to-date results have similarly been impacted by COVID-19 which has led to decreased operating income and increased expected credit losses resulting in a decline in profit before income tax expense. The safety of our employees and financial well-being of our customers remain our priorities as the impacts from the pandemic continue to be felt across our communities.

Operating income of $472m for the quarter and $1,520m for the year-to-date, represented a decrease of $62m or 12% and $104m or 6.4%, respectively from the prior year. The impact of central bank rate cuts and maintaining higher levels of highly liquid assets at lower yields had a negative impact on net interest income. Lower net interest from trading activities due to lower interest rates and change in product mix also contributed to the decrease. For the year-to-date, trading income also declined due to unfavourable movements in certain credit spreads driven by market volatility, which have not yet returned to pre-COVID-19 levels. These decreases were partly offset by increases in net fee income from cards and on-line brokerage income in Wealth and Personal Banking, higher underwriting fees in Global Banking and Markets, and an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking. Other items of income increased mainly due to higher gains on the disposal of financial investments.

For the third quarter, expected credit losses resulted in a release of $2m, as forward-looking marco-economic variables improved, partly offset by an increase in impairment charges from non-performing loans in the energy, transportation and construction sectors. For the year-to-date, as COVID-19 related economic restrictions began in March, the bank’s forward-looking economic guidance significantly deteriorated in the first half of 2020. This, together with the weakened energy sector resulted in a charge in expected credit losses of $328m for the year-to-date. Prior year charges of $17m for the quarter and $45m for the year-to-date were primarily related to an expected slowdown in GDP growth at that time.

Total operating expenses increased by $6m or 1.9% for the quarter due to HSBC Group shared service charges and streamlining initiatives in our support functions. Year-to-date, total operating expenses decreased by $28m or 2.9%, as we continue to prudently managed costs in response to the current economic environment while strategically making investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

As a result, profit before income tax expense was $157m, down $49m or 24% for the quarter and $244m for the year-to-date, down $359m or 60%.

Performance by income and expense item

For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.

Net interest income

Net interest income decreased by $69m or 22% for the quarter. This reflects the impact of margin compression due to central bank rate cuts and maintaining higher levels of highly liquid assets at lower yields.

Net interest income decreased by $144m or 15% for the year-to-date driven by the same factors as described for the quarter.

Summary of interest income by types of assets

		Quarter ended						Nine months ended					
		30 Sep 2020			30 Sep 2019			**30 Sep 2020**			30 Sep 2019		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	**Average balance**	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnote	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks		**18,759**	**12**	**0.24**	897	1	0.63	**10,595**	**19**	**0.24**	888	4	0.65
Loans and advances to customers		**62,178**	**433**	**2.77**	57,303	533	3.69	**62,437**	**1,398**	**2.99**	56,254	1,569	3.73
Reverse repurchase agreements - non-trading		**7,765**	**6**	**0.30**	8,762	49	2.26	**7,629**	**54**	**0.94**	7,981	131	2.20
Financial investments		**20,222**	**39**	**0.76**	26,120	123	1.88	**22,874**	**214**	**1.25**	25,428	378	1.99
Other interest-earning assets		**779**	**—**	**0.14**	939	6	2.28	**1,128**	**3**	**0.40**	771	13	2.21
Total interest-earning assets (A)		**109,703**	**490**	**1.78**	94,021	712	3.00	**104,663**	**1,688**	**2.15**	91,322	2,095	3.07
Trading assets and financial assets designated at fair value	*1*	**3,347**	**6**	**0.74**	7,154	31	1.68	**3,831**	**31**	**1.09**	6,247	85	1.82
Non-interest-earning assets		**12,300**	**—**	**—**	13,085	—	—	**13,269**	**—**	**—**	12,342	—	—
Total		**125,350**	**496**	**1.57**	114,260	743	2.58	**121,763**	**1,719**	**1.89**	109,911	2,180	2.65

1. Interest income and expense on trading assets and liabilities is reported in `Net income from financial instruments held for trading' in the consolidated income statement.

Summary of interest expense by types of liability and equity

		Quarter ended						Nine months ended					
		30 Sep 2020			30 Sep 2019			**30 Sep 2020**			30 Sep 2019		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	**Average balance**	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	*2*	**1,169**	**—**	**0.03**	1,003	1	0.24	**1,279**	**2**	**0.22**	950	2	0.25
Customer accounts	*3*	**67,200**	**135**	**0.80**	55,466	226	1.62	**62,542**	**479**	**1.02**	54,306	639	1.57
Repurchase agreements - non-trading		**4,461**	**4**	**0.28**	10,408	55	2.09	**6,102**	**47**	**1.02**	9,613	149	2.07
Debt securities in issue and subordinated debt		**20,601**	**91**	**1.77**	15,397	102	2.63	**19,873**	**299**	**2.01**	15,056	305	2.71
Other interest-bearing liabilities		**2,598**	**16**	**2.36**	2,353	15	2.56	**2,655**	**50**	**2.51**	2,208	45	2.71
Total interest bearing liabilities (B)		**96,029**	**246**	**1.02**	84,627	399	1.87	**92,451**	**877**	**1.27**	82,133	1,140	1.86
Trading liabilities	*1*	**2,883**	**5**	**0.69**	4,646	20	1.64	**2,802**	**20**	**0.96**	3,648	48	1.74
Non-interest bearing current accounts		**6,561**	**—**	**—**	5,626	—	—	**6,170**	**—**	**—**	5,800	—	—
Total equity and other non-interest bearing liabilities		**19,877**	**—**	**—**	19,361	—	—	**20,340**	**—**	**—**	18,330	—	—
Total		**125,350**	**251**	**0.80**	114,260	419	1.45	**121,763**	**897**	**0.98**	109,911	1,188	1.45
Net interest income (A-B)			**244**			313			**811**			955	

1. Interest income and expense on trading assets and liabilities is reported in `Net income from financial instruments held for trading' in the consolidated income statement.
2. Includes interest-bearing bank deposits only.
3. Includes interest-bearing customer accounts only.

Net fee income

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Account services	**14**	14	**47**	47
Broking income	**3**	2	**10**	6
Cards	**15**	17	**45**	48
Credit facilities	**80**	80	**235**	227
Funds under management	**50**	49	**144**	143
Imports/exports	**3**	3	**7**	9
Insurance agency commission	**1**	1	**4**	4
Other	**11**	14	**36**	37
Remittances	**9**	9	**28**	26
Underwriting	**6**	8	**35**	28
Fee income	**192**	197	**591**	575
Less: fee expense	**(20)**	(29)	**(63)**	(77)
Net fee income	**172**	168	**528**	498

Net fee income increased by $4m or 2.4% for the quarter as fee expenses declined on credit cards. This was partly offset by the impact of reduced customer activity on other fee income in Global Banking and Markets and credit card fee income in both Wealth and Personal Banking and Commercial Banking.

Net fee income increased by $30m or 6% for the year-to-date. This increase was driven by higher net fee income from cards and an increase in on-line brokerage income in Wealth and Personal Banking; higher underwriting fees in Global Banking and Markets; and an increase in credit facility fees on higher volumes of bankers' acceptances partly offset by lower credit card fees in Commercial Banking.

Net income from financial instruments held for trading

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Trading activities	**25**	24	**89**	71
Credit valuation, debit valuation and funding fair value adjustments	**3**	2	**(4)**	7
Net interest from trading activities	**1**	11	**11**	37
Hedge ineffectiveness	**–**	(1)	**6**	2
Net income from financial instruments held for trading	**29**	36	**102**	117

Net income from financial instruments held for trading decreased by $7m or 19% for the quarter. Lower net interest from trading activities due to lower interest rates and change in product mix contributed to the decrease. This was partly offset by favourable movements in credit and funding fair value adjustments driven by reduced credit spreads.

Net income from financial instruments held for trading decreased by $15m or 13% for the year-to-date as a result of lower net interest from trading activities due to lower interest rates and change in product mix. Also contributing to the decrease were unfavourable movements in credit and funding fair value adjustments mainly from increases in certain credit spreads driven by market volatility, which have not yet returned to pre-COVID-19 levels. This was partly offset by strong Markets sales and trading activities in the first half of 2020 from increased Rates trading and balance sheet management activities.

Other items of income

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Gains less losses from financial investments	**18**	10	**48**	28
Other operating income	**9**	7	**31**	26
Other items of income	**27**	17	**79**	54

Other items of income increased by $10m or 59% for the quarter, driven by higher gains on the disposal of financial investments from re-balancing the bank’s liquid asset portfolio.

Other items of income increased by $25m or 46% for the year-to-date, driven by the same factors as in the quarter along with gains from the second quarter in other operating income, related to the extinguishment of repurchased subordinated debentures.

Change in expected credit losses

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - charge/(release)	**(40)**	1	**189**	4
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge/(release)	**38**	16	**139**	41
Change in expected credit loss and other credit impairment charges - charge/(release)	**(2)**	17	**328**	45

The change in expected credit losses for the quarter resulted in a release of $2m compared to a charge of $17m in the same period in the prior year. The release for the quarter was primarily driven by improvement in forward-looking macro-economic variables, partly offset by an increase in impairment charges from non-performing loans in the energy, transportation and construction sectors. In 2019, the charge was related to an increase in impairment charges from non-performing loans in agriculture and energy, and an unfavourable economic outlook on performing loans forecast at the time.

The change in expected credit losses for the year-to-date resulted in a charge of $328m compared to a charge of $45m in the same period in the prior year. The charge for the year-to-date was primarily driven by the significant deterioration in forward-looking economic guidance related to COVID-19 coupled with impairments from non-performing loans in the energy sector in the first half of 2020. The charge in 2019 was driven by the same factors as in the quarter, partly offset by a release during the first quarter of 2019 relating to the outlook of certain customers in the energy sector at that time.

Total operating expenses

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Employee compensation and benefits	**157**	169	**471**	514
General and administrative expenses	**133**	117	**395**	389
Depreciation	**18**	18	**55**	53
Amortization and impairment of intangible assets	**9**	7	**27**	20
Total operating expenses	**317**	311	**948**	976

Total operating expenses increased by $6m or 1.9% for the quarter mainly due to HSBC Group shared service charges and streamlining initiatives in our support functions, partly offset by lower staff costs.

Total operating expenses decreased by $28m or 2.9% for the year-to-date primarily due to lower staff costs and reduced discretionary costs in response to the current economic environment, partly offset by strategic investments to grow our business, simplify our processes and provide the digital services our customers are asking for.

Income tax expense

The effective tax rate in the third quarter of 2020 was 28.1% which is higher than the statutory tax rate of 26.7% due to an increase in tax provisions. The effective tax rate for the third quarter of 2019 was 27.7%.

Movement in financial position

	At	
	30 Sep 2020	31 Dec 2019
	$m	$m
Assets		
Cash and balances at central bank	**17,159**	54
Trading assets	**3,321**	4,322
Derivatives	**5,609**	3,267
Loans and advances	**62,848**	63,091
Reverse repurchase agreements – non-trading	**8,277**	6,269
Financial investments	**20,152**	23,645
Customers' liability under acceptances	**3,624**	3,500
Other assets	**3,223**	2,423
Total assets	**124,213**	106,571
Liabilities and equity		
Liabilities		
Deposits by banks	**1,290**	1,036
Customer accounts	**73,598**	62,889
Repurchase agreements – non-trading	**4,386**	7,098
Trading liabilities	**4,009**	2,296
Derivatives	**5,783**	3,431
Debt securities in issue	**18,713**	14,594
Acceptances	**3,639**	3,505
Other liabilities	**6,003**	5,613
Total liabilities	**117,421**	100,462
Total shareholder's equity	**6,792**	6,109
Total liabilities and equity	**124,213**	106,571

Assets

Total assets at 30 September 2020 were $124.2bn, an increase of $17.6bn or 17% from 31 December 2019. Due to the impact of COVID-19, the bank strengthened its liquidity position to support our customers. Placement of these funds increased our cash and balances at central banks to $17.1bn. Derivatives increased by $2.3bn as a result of the mark-to-market changes from both foreign exchange and interest rates due to market volatility mainly from the impact of COVID-19. Non-trading reverse repurchase agreements increased by $2.0bn, partly offset by a decrease of $3.5bn in financial investments as a result of balance sheet management investment and cash management activities.

Liabilities

Total liabilities at 30 September 2020 were $117.4bn, an increase of $17.0bn or 17% from 31 December 2019. Customer accounts increased by $10.7bn as result of deposit growth in all global businesses. Increased term and wholesale funding contributed to an increase of $4.1bn in debt securities in issue. Derivatives increased by $2.4bn which corresponds with the movement within assets. Trading liabilities increased by $1.7bn with increased volume of trading activities. This was partly offset by a decrease in non-trading repurchase agreements of $2.7bn from balance sheet management activities.

Equity

Total equity at 30 September 2020 was $6.8bn, an increase of $0.7bn or 11% from 31 December 2019. The increase represents profits after tax of $0.2bn generated in the period, gains of $0.2bn recorded on account of financial assets at fair value through other comprehensive income and cash flow hedges and $0.5bn from the issuance of common shares. The increase was offset by dividends on common shares of $0.2bn declared in the period.

Global businesses

We manage and report our operations around the following global businesses: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking.

Commercial Banking

Commercial Banking ('CMB') offers a full range of commercial financial services and tailored solutions to customers ranging from small enterprises focused primarily on the domestic markets to corporates operating globally.

Review of financial performance[1, 2]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Net interest income	**116**	157	**404**	473
Non-interest income	**107**	99	**314**	292
Total operating income	**223**	256	**718**	765
Change in expected credit losses and other credit impairment charges - (charge)/release	**2**	(8)	**(262)**	(20)
Net operating income	**225**	248	**456**	745
Total operating expenses	**(97)**	(102)	**(295)**	(308)
Profit before income tax expense	**128**	146	**161**	437

Overview

Total operating income decreased by $33m or 13% for the quarter, and $47m or 6.1% for the year-to-date.

COVID-19 continues to impact income for the quarter and year-to-date as central bank rate cuts have reduced deposit margins and higher costs associated with maintaining higher levels of liquidity. Despite market volatility, CMB continued to support its customers throughout this period offering payment deferrals along with government lending schemes. Deposits continued to see strong growth in the quarter, with year-to-date balances increasing by $3bn. Loan balances declined $0.9bn in the quarter as the pandemic impacted customers' demand for credit.

Change in expected credit losses for the third quarter resulted in a release of $2m, which is significantly lower than the charges seen in the first two quarters. The improvement in the current quarter was largely a result of improved forward-looking macro-economic variables on performing loans. This improvement was partly offset by an increase in impairment charges from non-performing loans in the energy, transportation and construction sectors.

Operating expenses have decreased by $5m for the quarter as costs continue to be prudently managed in response to the current economic environment.

Profit before income tax decreased by $18m or 12% for the quarter, and $276m or 63% for the year-to-date, primarily due to a significant increase in expected credit losses and lower net interest income, partly offset by lower operating expenses.

Financial performance by income and expense item

Net interest income for the quarter and year-to-date decreased by $41m or 26% and $69m or 15%, respectively. This reflects lower margins as a result of central bank rate decreases and higher costs associated with maintaining increased liquidity. This was partly offset by higher average loans and advances and higher deposits.

Non-interest income for the quarter increased by $8m or 8.1% mainly due to higher fees from higher volumes of bankers' acceptances, partly offset by reduced customer activity impacting account service, credit card and foreign exchange fees. For the year-to-date, non-interest income increased by $22m or 7.5% driven primarily by higher bankers' acceptance fees and a higher share of income following a strong first quarter performance for derivatives in Global Markets.

Change in expected credit losses resulted in a release of $2m for the quarter and charge of $262m for the year-to-date. Third quarter charges were materially lower than the prior two quarters, as forward-looking economic scenarios improve and oil prices increase, decreasing the probability of default in certain sectors. For the nine months ended, expected credit losses of $262m were impacted by the significant deterioration in forward-looking economic guidance and the decline in oil prices in the first half of 2020, which increased the probability of default in certain sectors.

Total operating expenses for the quarter and year-to-date decreased by $5m or 4.9% and $13m or 4.2%, respectively, as we prudently manage costs in response to the current economic environment.

1. *For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.*
2. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*

Global Banking and Markets

Global Banking and Markets ('GBM') provides tailored financial services and products to major government, corporate and institutional customers worldwide.

Review of financial performance[1,2]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Net interest income	**27**	31	**94**	96
Non-interest income	**45**	51	**155**	165
Total operating income	**72**	82	**249**	261
Change in expected credit losses and other credit impairment charges - (charge)/release	**9**	(2)	**(40)**	(11)
Net operating income	**81**	80	**209**	250
Total operating expenses	**(34)**	(42)	**(116)**	(124)
Profit before income tax expense	**47**	38	**93**	126

Overview

Total operating income decreased by $10m or 12% for the quarter, and $12m or 4.6% for the year-to-date. The negative impact from central bank rate decreases and the higher costs of maintaining increased liquidity decreased net interest income for both the quarter and year-to-date. Year-to-date income was also negatively impacted by unfavourable movements in certain credit spreads driven by market volatility, which have not yet returned to pre-COVID-19 levels.

Throughout the COVID-19 related disruptions and volatile market conditions, the Banking and Markets teams worked closely with our clients to understand their unique challenges and to support them through the crisis. This increased client activity and income across all products, mainly from Markets trading and sales activities, lending activities and underwriting fees as we continue to leverage the Group's global network to provide products and solutions to meet our global clients' needs.

Profit before income tax increased by $9m or 24% for the quarter, mainly due to the release of expected credit losses from the improvement in forward-looking marco-economic variables and lower staff related operating expenses, partly offset by lower operating income, as noted above. For the year-to-date, profit before income tax decreased by $33m or 26% primarily a result of higher charges in expected credit losses in the first two quarters due to the deterioration in forward-looking economic guidance, coupled with the unfavourable movements in certain credit spreads, as discussed above.

Financial performance by income and expense item

Net interest income for the quarter decreased by $4m or 13%, and by $2m or 2.1% for the year-to-date. The decrease was due to higher costs associated with maintaining increased liquidity and the negative impact from central bank rate decreases, partly offset by a decrease in funding costs of Markets trading activities.

Non-interest income for the quarter decreased by $6m or 12% driven by lower credit fees and foreign exchange revenues. For the year-to-date, non-interest income decreased by $10m or 6.1% primarily due to unfavourable movements in credit and funding valuations. This was partly offset by higher underwriting and advisory fees.

Change in expected credit losses resulted in a decrease of $11m due to a favourable shift in forward-looking economic scenarios. The increase in charges of $29m for the year-to-date, was primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

Total operating expenses decreased by $8m or 19% for the quarter, and $8m or 6.5% for the year-to-date. Decrease in expenses was mainly due to lower staff costs.

1. *For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.*
2. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*

Wealth and Personal Banking[1]

Wealth and Personal Banking ('WPB') offers a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has an international flavour with a large suite of global investment products and other specialized services available.

Review of financial performance[2,3]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Net interest income	**115**	132	**355**	406
Non-interest income	**73**	66	**220**	193
Total operating income	**188**	198	**575**	599
Change in expected credit losses and other credit impairment charges - (charge)/release	**(9)**	(7)	**(26)**	(14)
Net operating income	**179**	191	**549**	585
Total operating expenses	**(167)**	(169)	**(494)**	(524)
Profit before income tax expense	**12**	22	**55**	61

Overview

Total operating income decreased by $10m or 5.1% for the quarter and $24m or 4% for the year-to-date. Higher net fee income and strong volume growth in total relationship balances[4] were more than offset by lower net interest income due to the central bank rate decreases and higher costs associated with maintaining increased liquidity.

We achieved record growth[5] in total relationship balances[4] and grew our overall and international client base as we invested in our branches and digital technologies, along with market-competitive products. Despite the challenging environment under COVID-19, we have continued to serve our clients and support them by keeping our branches, digital platforms and contact centres fully operational through various initiatives, including payment deferral options.

Profit before income tax expense decreased by $10m or 45% for the quarter and $6m or 9.8% for the year-to-date due to lower net interest income as noted above and an increase in expected credit losses due to the impact of COVID-19, partly offset by lower operating expenses and higher net fee income.

Financial performance by income and expense item

Net interest income for the quarter and year-to-date decreased by $17m or 13% and $51m or 13%, respectively, due to lower spreads as a result of central bank rate decreases and higher costs associated with maintaining increased liquidity, partly offset by higher volume growth in lending and deposits.

Non-interest income increased by $7m or 11% for the quarter and $27m or 14% for the year-to-date, due to higher net fee income from cards, higher treasury-related income, online broker business, and funds under management.

Change in expected credit losses resulted in a $2m increase in charges for the quarter and $12m increase in charges for the year-to-date primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

Total operating expenses for the quarter and year-to-date decreased by $2m or 1.2% and $30m or 5.7%, respectively, due to streamlining initiatives and prudent management of costs in response to COVID-19, partly offset by strategic investments to grow our business.

1. *Effective from the second quarter of 2020, HSBC Holdings Group ('HSBC Group') combined Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Therefore, going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*
2. *For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.*
3. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*
4. *Total relationship balances includes lending, deposits and wealth balances.*
5. *Record nine months since inception of WPB (previously RBWM) as a single global business in 2011.*

Corporate Centre

Corporate Centre contains other transactions which do not directly relate to our global businesses.

Review of financial performance[1,2]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Net interest income	**(14)**	(7)	**(42)**	(20)
Non-interest income	**3**	5	**20**	19
Net operating income/(loss)	**(11)**	(2)	**(22)**	(1)
Total operating expenses	**(19)**	2	**(43)**	(20)
Profit/(loss) before income tax expense	**(30)**	–	**(65)**	(21)

Overview

Net operating income for the quarter and year-to-date decreased by $9m and $21m, respectively. Net interest income decreased as liquidity costs increased. For the year-to -date, this was partly offset by an increase in other operating income from a gain related to the extinguishment of repurchased subordinated debentures in the second quarter.

Operating expenses increased by $21m for the quarter and $23m for the year-to-date primarily due to timing of shared service recoveries and streamlining initiatives in our support functions.

The impact of these movements decreased profit before income tax expense by $30m for the quarter and $44m for the year-to-date.

1. *For the quarter and nine months ended 30 September 2020 compared with the same periods in the prior year.*
2. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and nine months ended 30 September 2020.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2020			2019				2018
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**244**	249	318	313	313	319	323	335
Net fee income	**172**	178	178	179	168	174	156	164
Net income from financial instruments held for trading	**29**	47	26	48	36	33	48	26
Other items of income	**27**	28	24	21	17	19	18	40
Total operating income	**472**	502	546	561	534	545	545	565
Change in expected credit losses and other credit impairment charges - (charge)/release	**2**	(190)	(140)	(33)	(17)	(40)	12	(19)
Net operating income	**474**	312	406	528	517	505	557	546
Total operating expenses	**(317)**	(304)	(327)	(315)	(311)	(337)	(328)	(324)
Profit before income tax expense	**157**	8	79	213	206	168	229	222
Income tax expense	**(45)**	(3)	(13)	(56)	(56)	(47)	(62)	(65)
Profit for the period	**112**	5	66	157	150	121	167	157
Profit/(loss) attributable to:								
– common shareholder	**101**	(8)	54	144	141	112	158	148
– preferred shareholder	**11**	13	12	13	9	9	9	9
Basic and diluted earnings per common share ($)	**0.18**	(0.01)	0.11	0.29	0.28	0.22	0.32	0.29

Comments on trends over the past eight quarters

Net interest income decreased in the third and second quarter of 2020 due to the negative impact of central bank made rate cuts and maintaining higher levels of highly liquid assets at lower yields. Balance sheet management activities drove net interest income higher in the first quarter of 2020. From the fourth quarter of 2018 to the end of 2019, net interest income declined as a result of higher costs of liabilities to fund the growth in average interest earning assets, and lower income from balance sheet management activities.

Net fee income is comprised of income from a number of sources that can fluctuate from quarter to quarter and are impacted by business activity, number of days in the quarter and seasonality. During the third and second quarter of 2020, as a result of COVID-19 we have seen a decrease in customer activity resulting in decreased net fee income. Otherwise, the largest driver of fluctuation from quarter to quarter is underwriting fees which are event driven. Notwithstanding this, there is an underlying trend of growth in fees from credit facilities related to higher volumes of bankers' acceptances, funds under management and credit cards.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. For the third quarter of 2020, the decrease was due to unfavourable credit and funding fair value adjustments. During the second quarter of 2020, the increase was related to favourable movements in credit and funding fair value adjustments mainly driven by reduced credit spreads and lower market volatility, as well as increased Rates trading and balance sheet management activities. In the first quarter, net income from financial instruments decreased as increases in credit spreads and market volatility related to COVID-19 led to unfavourable credit and funding valuation movements. This was partly offset by strong Markets trading and sales activities. In the third and fourth quarter of 2019, net income from financial instruments held for trading increased mainly due to higher fixed income trading activities. In the second quarter of 2019, the decrease was mainly due to lower Rates trading activities. The first quarter in 2019 increased as a result of tightening credit spreads.

Other items of income include gains and losses from the sale of financial investments, which can fluctuate quarterly due to underlying balance sheet management activities. Notwithstanding this, during the second quarter of 2020, other items of income increased from a gain related to the extinguishment of repurchased subordinated debentures. In 2019, as a result of the implementation of the ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 32 of our *Annual report and Accounts 2019*, there was a reduction in income from Group entities and a related decrease in operating expenses. In 2018, other items of income included income from Group entities.

For the third quarter of 2020, expected credit losses resulted in a release of $2m, materially lower than the prior two quarters, as forward-looking macro-economic variables improved, partly offset by an increase in impairment charges from non-performing loans in the energy, transportation and construction sectors. Deterioration in forward-looking economic guidance as a result of the COVID-19 pandemic coupled with the weakened energy sector primarily due to declines in oil prices resulted in the increase in charges for expected credit losses both in the first and quarters of 2020. The charges for expected credit losses in 2019 were driven by ongoing normalization of credit losses mainly from the change in the economic forecast reflecting a slowdown in GDP growth compared to the prior year. As well, 2019 saw impairment charges spike in the second and fourth quarters from non-performing loans in the wholesale and retail trade, mining and agriculture sectors. The reversal in the first quarter of 2019 was driven by the release of provisions as the outlook for certain customers in the energy service sector improved. There was a charge of $19m in the fourth quarter of 2018 as a result of a number of small charges in the non-performing Commercial Banking portfolio, as well as an increase in expected credit losses for performing loans driven by forward-looking economic factors at the time across all of the global businesses.

From 2018 onwards, our focus has been on growing our business in support of our strategic plan. We continued to strategically make these investments in 2020. In the third quarter of 2020, total operating expenses increased due to HSBC Group shared service charges and streamlining initiatives in our support functions. In the second quarter of 2020, these investments were offset by prudent management of costs. In 2019, these investments were partly offset by a decrease in employee compensation and benefits and general and administrative expenses as a result of the implementation of the ServCo group, as described in the 'Implementation of the ServCo group' section of the MD&A and note 32 of our *Annual report and Accounts 2019*.

Economic review and outlook

The predictions and forecasts in this section are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outcomes may differ materially from the outlook presented in this section.

The Canadian economy suffered an unprecedented contraction in the first half of 2020 from health measures imposed to contain the spread of COVID-19. As a result, the level of economic output at the end of the second quarter was down 13.3% compared to that of late 2019.

Policy stimulus helped kick-start the recovery

In May and June, as restrictions started to lift, pent-up demand was unleashed, and activity and employment rebounded, particularly in sectors that could more easily implement social distancing requirements, such as manufacturing and construction. That momentum helped limit the decline in GDP growth in the second quarter and provided a solid hand off for economic activity in the second half of the year. Overall, we look for the economy to decline by 6.2% in 2020, which is a smaller decline than we had previously anticipated.

The strong initial recovery in economic activity was bolstered by the rapid and sizeable policy response in Canada that was amongst the largest in the industrialized world. Measures were implemented by the federal and provincial governments, the Bank of Canada ('BoC'), as well as other public and private entities.

One of the most important measures was the federal Canada Emergency Response Benefit ('CERB') that provided $500 per week to those out of work due to the pandemic and helped cushion the blow of lost labour income. Another was the federal Canada Emergency Wage Subsidy ('CEWS') that provided a 75% subsidy and helped encourage firms to bring back staff as soon as pandemic-related restrictions were eased. These measures helped kick-start the recovery.

We estimate that the federal fiscal response amounted to $272.9bn. Including the effect of the pandemic on government revenues and other policy actions earlier this year, the federal budget deficit is expected to hit a record $388bn, or 18% of GDP, in the 2020/21 fiscal year. This is up from the deficit of $28.1bn in late 2019. As a result, the federal debt-to-GDP ratio is projected to rise to 51.1% this year, the highest since 1999-2000.

As a result of the policy support measures, disposable income rose by 10.8% in the second quarter, as a surge in government transfers (CERB), more than offset an 8.8% decline in labour compensation. Meanwhile, as a result of lockdowns to slow the spread of COVID-19, household consumption fell by 13.7% in the second quarter. The divergence of income and spending pushed the savings rate to a record high 28.1% of disposable income. This provided ample financial resources for households as lockdowns eased.

The vigour of the initial economic recovery is also evident in the housing market, where, despite labour market impairment, home sales, and house prices have increased. Two factors supported the housing market. First, the BoC lowered its policy rate to the effective lower bound of 0.25%. Second, many mortgage holders were granted payment deferrals by lenders. The Canadian Bankers Association reported that up to 15% of the circa 4m mortgages outstanding were in deferral at some point. As a result, households who might have faced intense financial distress related to the pandemic were granted a reprieve. Hence, many households had income levels supported by CERB, while credit-related deferrals reduced some regular expenditures.

Several challenges loom

Some significant economic challenges loom. First, COVID-19 infection flare-ups could slow the pace of reopening, if not risk localized lockdowns. Second, while over two million of the jobs lost have been recovered, the labour market recovery has been uneven, with women, youth, and racial minorities lagging. As well, the number of lower wage workers remains well below pre-pandemic levels, while number of higher wage workers is more than 6% higher.

With sectors that need to more strictly enforce social distancing trailing the recovery and lingering COVID-19 risks, we look for a more moderate pace for employment gains going forward. Recovering the next one million jobs will be more difficult than the first two million, so the level of unemployment, or under-employment, will remain above pre-pandemic levels.

In addition, the uneven performances across sectors and demographic cohorts point toward some structural challenges facing economic growth in coming quarters. As a result, in the recent Throne Speech, the federal government said that it will continue to provide a high level of support to the economy as "now is not the time for austerity." With a low rate environment the federal government plans to "build back better" through targeted investments to strengthen the middle class, build resiliency, and generate growth by locking in low borrowing rates.

Meanwhile, even as some sectors require ongoing support, some of the policy support measures introduced during the pandemic are tapering or adjusting to deal with evolving challenges. For example, mortgage and credit payment deferrals are rolling off. While most mortgage holders are expected to be able to resume their scheduled payments, and make up for deferred payments, some will struggle. With the CERB program ending on 27 September, those still out of work due to the pandemic will move to a new program, the Canada Recovery Benefit, run through the employment insurance system.

Many past CERB recipients might also face additional tax burdens. CERB payments were not taxed, but those payments must be included in an individual's taxable income for 2020. Hence, in a backdrop where the economic outlook remains uncertain, many households potentially face elevated financial challenges, even as the economy seems on the mend.

We anticipate strains on household finances to reappear with increases in consumers seeking insolvency protections, and, eventually, a rise in mortgage arrears through 2021. As a result, we look for a more moderate pace of consumer spending growth through 2021. These imbalances and challenges are expected to limit GDP growth to 4.5% in 2021, and to 2.6% in 2022.

Increased debt levels

Due to the sharp decline in economic activity, and in order to pay for their policy initiatives, governments of all levels ran deeper deficits, resulting in a sharp increase in borrowing at the federal and provincial levels. In the first half of 2020, government debt securities outstanding rose by $515bn, 73% of that increase came at the federal level as the federal government bore the brunt of the fiscal response to the pandemic. Overall, general government debt is projected to rise to over 100% of GDP in 2020.

The sharp increase in government debt occurred at a time when the household, and non-financial corporate sectors are also heavily indebted. Overall, we estimate that the non-financial debt-to-GDP ratio in Canada rose to 343% in the second quarter, from 302% at the end of 2019. By comparison, Japan, the most indebted industrial nation, had a non-financial debt-to-GDP ratio of 350% at the end of 2019.

Looking ahead, even though we look for interest rates to remain low, governments might eventually face pressures to manage high debt levels, possibly through spending cuts or tax increases. Government support for pro-growth policies could ease some of these pressures. For example, many Canadian firms have brought forward information and technology investments to increase online sales. Government support for such investments could help the economy adapt to the challenges presented by COVID-19 and boost productivity growth.

Bank of Canada Framework Review

The BoC and the federal government are going to agree on a new 5-year mandate for the BoC in 2021. It is important to note that despite this agreement, the BoC operates independently of the federal government. Thus, even though monetary policy decisions might complement fiscal policy, Governor Tiff Macklem has repeatedly said that the BoC makes policy decisions based on what is required to get inflation back to target, and the economy back to potential.

Overall, we expect the 2% inflation target to remain in place, potentially with some greater flexibility and a greater focus on the condition of the job market, although we do not expect the BoC to adopt an unemployment rate target.

The policy rate is at the effective lower bound of 0.25%. We do not expect a negative policy rate, but we do anticipate the policy rate to remain at 0.25% through 2021 and 2022. The BoC will thus use the amount of quantitative easing to adjust monetary stimulus. At present, the BoC has pledged to buy a minimum of $5bn of Government of Canada bonds per week until the economic recovery is "well underway."

Regulatory developments

Like all Canadian financial institutions, we face an increasing pace of regulatory change. The summary of some key regulatory changes with the potential to impact our results or operations are described in the 'Regulatory developments' section of our *Annual report and Accounts 2019*. As a result of the COVID-19 pandemic, there were a number of regulatory developments in the first half of 2020 which are described in the 'Regulatory developments' section of our *First Quarter 2020 Interim Report* and our *Second Quarter 2020 Interim Report*. The following is a summary of some key regulatory changes announced in the third quarter of 2020 with the potential to impact our results or operations:

Continued regulatory response to COVID-19

In the third quarter of 2020, while the COVID-19 pandemic remains a key concern for the Federal Government and financial institution regulators, they have gradually resumed certain pre-COVID-19 priorities.

Office of the Superintendent of Financial Institutions ('OSFI')

On 31 August 2020, OSFI announced it is gradually phasing out the special capital treatment of loan payment deferrals that was provided to banks at the start of the COVID-19 pandemic, setting out certain updates: (i) Loans granted payment deferrals before 31 August will continue to be treated as performing loans under the Capital Adequacy Requirements ('CAR') Guideline for the duration of the deferral, up to a maximum of 6 calendar months from the effective date of the deferral; (ii) Loans granted new payment deferrals after 30 August and on or before 30 September will be treated as performing loans under the CAR Guideline for the duration of the deferral, up to a maximum of 3 calendar months from the approval date of the deferral; and (iii) Loans granted payment deferrals with approval dates after 30 September 2020 will not be eligible for the special capital treatment.

Further to OSFI's statement released on 13 July 2020 announcing plans to gradually restart its policy development work with the financial sector, on 28 September 2020, OSFI posted on its website the policy development plans for the next few quarters focusing on elements of risk management and compliance, capital and accounting. For capital, the following timeframe was announced for Deposit-Taking Institutions ('DTIs'):

- Fourth quarter 2020 – second quarter 2021: Expected Credit Loss Accounting Framework for inclusion in OSFI's CAR Guideline, exploring implications of the Expected Credit Loss Accounting Framework and the interaction with DTI regulatory capital.
- First quarter 2021: Domestic implementation of the Basel III Reform Package covering potential changes to credit risk, operational risk, market risk, the output floor, the leverage ratio and the definition of capital, as well as Pillar 3 disclosure expectations. Proportionality requirements for small and medium-sized deposit-taking institutions will also be covered, which mostly applies to the smaller banks, we will need to assess the impact based on the final requirements.

We expect OSFI's expectations regarding prudent capital management to continue to evolve and will closely monitor any changes.

Government of Canada

During the third quarter, the Government of Canada announced the expansion of the Export Development Canada ('EDC') Business Credit Availability Program ('BCAP') to include support for medium- to larger-sized businesses impacted by COVID pandemic. The program provides a AAA-rate EDC guarantee to banks on new loans between $12.5m to $80m and is available to Canadian businesses in need of additional credit to finance operational costs. In early October, HSBC extended this program to our customers.

With the Canada Emergency Response Benefit ('CERB') program ending on 27 September, the government introduced a simplified Employment Insurance ('EI') program to provide income support to those who remain unable to work and are eligible. This supplemented by the Canada Recovery Benefit ('CRB'), delivered by the Canada Revenue Agency, which provides $500 per week for up to 26 weeks to workers who have stopped working or had their employment/self-employment income reduced by at least 50% due to COVID-19 and who are not eligible for employment insurance benefits. Applications for CRB opened on 12 October.

HSBC continues to actively facilitate and participate in a number of emergency funding and loan programs by the Federal Government and will assist our customers wherever possible.

Other regulators and governments

With emergency programs and adjustments in response to COVID-19 substantially in place, regulators and governments have launched a number of significant consultations.

The Canadian Securities Administrators ('CSA') launched their consultation on the framework for self-regulatory organizations ('SROs'), requesting comment on the benefits and challenges of the current two-SRO framework. Potential impact of a consolidated SRO is the centralization of operations, and compliance and supervisory staff for certain lines of business.

The Government of Ontario's Capital Markets Modernization Taskforce published a consultation report, seeking input on ways to improve Ontario's capital markets in a post-pandemic economy, including streamlining regulatory governance structure and framework, reducing regulatory burden, enhancing investor protection, and encouraging competition for market participants. The last review of Ontario's capital markets was in 2003. Following the comment period, the Taskforce will form its final list of recommendations to Ontario's Minister of Finance.

We will monitor for any regulatory changes following these consultations and implement any operational changes as necessary to comply with the requirements.

Basel Committee on Banking Supervision ('BCBS')

On 8 July 2020, BCBS published the final revised standard for credit valuation adjustment ('CVA') which replaces an earlier version of the standard as published in December 2017. The revisions include recalibrated risk weights, and an overall recalibration of the Standardized Approach CVA as well as the Basic Approach CVA. The application of the standard to the bank will be informed by how OSFI will implement the revised framework, as part of its Basel III Reform Package.

Accounting matters

The bank's results are sensitive to the accounting policies that underlie the preparation of our consolidated financial statements. A summary of our significant accounting policies are provided in note 2 of our *Annual Report and Accounts 2019*.

The preparation of financial information requires the use of estimates and judgments, and management believes that our critical accounting estimates and judgments are those that relate to expected credit loss, valuation of financial instruments, income taxes and deferred tax assets and defined benefit obligations. There were no changes in the current period to the critical accounting estimates and judgments applied in 2019, which are stated on pages 24 and 64 of the *Annual Report and Accounts 2019*. However, the level of estimation uncertainty and judgment for the calculation of expected credit loss ('ECL') has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic as set out in 'Measurement uncertainty and sensitivity analysis of ECL estimates' section on page 21.

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 and letters of credit and are described in the 'Off-balance sheet arrangements' section of our *Annual report and Accounts 2019*.

Financial instruments

Due to the nature of the bank's business, financial instruments compose a large proportion of our balance sheet, from which the bank can earn profits in trading, interest, and fee income. Financial instruments include, but are not limited to, cash, customer accounts, securities, loans, acceptances, hedging and trading derivatives, repurchase agreements, securitization liabilities and subordinated debt. We use financial instruments for both non-trading and trading activities. Non-trading activities include lending, investing, hedging and balance sheet management. Trading activities include the buying and selling of securities and dealing in derivatives and foreign exchange as part of facilitating client trades and providing liquidity and, to a lesser extent, market making activity.

Financial instruments are accounted for according to their classification which involves the use of judgment. A detailed description of the classification and measurements of financial instruments is included in note 2 of our *Annual Report and Accounts 2019*.

The use of financial instruments has the potential of exposing the bank to, or mitigating against, market, credit and/or liquidity risks. A detailed description of how the bank manages these risks can be found in the Risk section of our *Annual Report and Accounts 2019*.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') 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 consolidated financial statements for the quarter and nine months ended 30 September 2020. The CEO and CFO are responsible 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 and nine months ended 30 September 2020 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Related party transactions

We enter into transactions with other HSBC affiliates, as part of the normal course of business, such as banking, short-term borrowing and operational services. In particular, as a member of one of the world's largest financial services organizations, we share 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 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. Further details can be found in note 29 of our *Annual Report and Accounts 2019.*

On 30 March 2020, the bank issued an additional 50,000,000 common shares to HSBC Overseas Holdings (UK) Limited. Further details can be found in the 'Outstanding shares and dividends' section of the MD&A.

On 30 June 2020, HSBC Overseas Holdings (UK) Limited, holder of the preferred shares Series G exercised its option to convert the preferred shares Series G into preferred shares Series H in accordance with their terms.

As a wholly-owned subsidiary, all of our common shares are indirectly held by HSBC Holdings.

Risk

Refer to the 'Risk Management' section of our *Annual Report and Accounts 2019* for a description of how the bank manages risk across the organization and across all risk types, outlining the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

Like many organizations, COVID-19 is impacting our business operations, employees, customers and suppliers. A summary of the impact is covered in 'Impact of COVID-19 and our response' section of the MD&A on page 4 and in the relevant sections as appropriate.

Credit risk

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Credit risk is the risk of financial loss if a customer or counterparty fails to meet a contractual obligation. Credit risk arises principally from direct lending, trade finance and the leasing business, but also from other products such as guarantees and credit derivatives.

During the year, due to the unique market conditions in the COVID-19 crisis, we expanded operational practices to provide support to customers under the current policy framework, such as the application of payment relief options outlined below. There have been no material changes to the credit risk policy.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 31 of the *Annual Report and Accounts 2019*.

Payment relief options

In response to COVID-19, we continue to work with our wholesale and personal customers who might need additional assistance to manage their working capital cycle, or supply chain and other risks, or who might need flexibility in managing their loans.

We have launched flexible solutions for our impacted customers, including payment deferral for mortgages and relief on other credit products as needed. These payment relief options allow customers to temporarily stop making their regular payments.

For the contracts that are modified, we have performed an assessment to consider reasonable and supportable information at an individual level and/or at a collective level in order to identify customers at higher susceptibility of long term economic impacts which might indicate a significant increase in credit risk. Payment deferrals are not considered to automatically trigger a significant increase in credit risk or result in the loans involved being moved into stage 2 or stage 3 for the purposes of calculating ECL, all things being equal.

The assessment not only considered reliefs, where relevant, but also other available reasonable and supportable information about lifetime risk of default.

The following table presents the number of accounts and drawn loan balances of accounts under payment relief options implemented by the bank at 30 September 2020.

		At	
		30 Sep 2020	30 Jun 2020
Personal lending			
Number of residential mortgages and home equity lines of credit accounts under payment relief	**Thousands**	**4**	5
Drawn loan balance of residential mortgages and home equity lines of credit accounts under payment relief	**$m**	**2,174**	2,467
Total residential mortgages and home equity lines of credit balance	**$m**	**29,050**	28,491
Payment relief as a proportion of total residential mortgages and home equity lines of credit	**%**	**7.5**	8.7
Number of other personal lending accounts under payment relief	**Thousands**	**1**	1
Drawn loan balance of other personal lending accounts under payment relief	**$m**	**11**	27
Total other personal lending balance	**$m**	**1,780**	1,408
Payment holidays as a proportion of total other personal lending	**%**	**0.6**	1.9
Wholesale lending			
Number of accounts under payment relief	**Thousands**	**1**	2
Drawn loan balance of accounts under payment relief	**$m**	**1,058**	2,430
Total wholesale lending balance	**$m**	**31,481**	32,850
Payment relief as a proportion of total wholesale lending	**%**	**3.4**	7.4

Summary of credit risk

The following disclosure presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

The allowance for ECL at 30 September 2020 comprised of $522m in respect of assets held at amortized cost, $47m in respect of loan commitments and financial guarantees, $2m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI'), and $9m in respect of performance guarantee contracts.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied*

	Footnotes	At 30 Sep 2020 Gross carrying/ nominal amount	30 Sep 2020 Allowance for ECL	31 Dec 2019 Gross carrying/ nominal amount	31 Dec 2019 Allowance for ECL
		$m	$m	$m	$m
Loans and advances to customers at amortized cost		**62,311**	**(485)**	62,164	(242)
– personal		**30,830**	**(79)**	29,192	(60)
– corporate and commercial		**31,481**	**(406)**	32,972	(182)
Loans and advances to banks at amortized cost		**1,022**	**–**	1,169	–
Other financial assets measured at amortized cost		**31,637**	**(37)**	11,662	(30)
– cash and balances at central banks		**17,159**	**–**	54	–
– items in the course of collection from other banks		**23**	**–**	15	–
– reverse repurchase agreements non - trading		**8,277**	**–**	6,269	–
– customers' liability under acceptances		**3,640**	**(16)**	3,505	(5)
– other assets, prepayments and accrued income	1	**2,538**	**(21)**	1,819	(25)
Total gross carrying amount on-balance sheet		**94,970**	**(522)**	74,995	(272)
Loans and other credit related commitments		**45,289**	**(44)**	42,700	(22)
– personal		**8,078**	**(2)**	7,444	(1)
– corporate and commercial		**37,211**	**(42)**	35,256	(21)
Financial guarantees	2	**1,949**	**(3)**	2,124	(2)
– personal		**8**	**–**	7	–
– corporate and commercial		**1,941**	**(3)**	2,117	(2)
Total nominal amount off-balance sheet	3	**47,238**	**(47)**	44,824	(24)
		Fair value	**Allowance for ECL**	Fair value	Allowance for ECL
		$m	**$m**	$m	$m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	4	**20,147**	**(2)**	23,625	(1)

1. *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Other assets' and 'Prepayments and accrued income' as presented within the consolidated balance sheet include both financial and non-financial assets.*
2. *Excludes performance guarantee contracts.*
3. *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4. *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognized in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

The following table provides an overview of the bank's credit risk by stage and segment, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognized.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognized.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognized.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage*

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	**51,176**	**10,692**	**443**	**62,311**	**(54)**	**(221)**	**(210)**	**(485)**	**0.1**	**2.1**	**47.4**	**0.8**
– personal	**29,131**	**1,602**	**97**	**30,830**	**(17)**	**(45)**	**(17)**	**(79)**	**0.1**	**2.8**	**17.5**	**0.3**
– corporate and commercial	**22,045**	**9,090**	**346**	**31,481**	**(37)**	**(176)**	**(193)**	**(406)**	**0.2**	**1.9**	**55.8**	**1.3**
Loans and advances to banks at amortized cost	**1,022**	**–**	**–**	**1,022**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets measured at amortized cost	**30,745**	**871**	**21**	**31,637**	**(4)**	**(12)**	**(21)**	**(37)**	**–**	**1.4**	**100.0**	**0.1**
Loan and other credit-related commitments	**35,547**	**9,662**	**80**	**45,289**	**(10)**	**(34)**	**–**	**(44)**	**–**	**0.4**	**–**	**0.1**
– personal	**7,850**	**214**	**14**	**8,078**	**(1)**	**(1)**	**–**	**(2)**	**–**	**0.5**	**–**	**–**
– corporate and commercial	**27,697**	**9,448**	**66**	**37,211**	**(9)**	**(33)**	**–**	**(42)**	**–**	**0.3**	**–**	**0.1**
Financial guarantees[2]	**1,685**	**264**	**–**	**1,949**	**(1)**	**(2)**	**–**	**(3)**	**0.1**	**0.8**	**–**	**0.2**
– personal	**6**	**2**	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– corporate and commercial	**1,679**	**262**	**–**	**1,941**	**(1)**	**(2)**	**–**	**(3)**	**0.1**	**0.8**	**–**	**0.2**
At 30 Sep 2020	**120,175**	**21,489**	**544**	**142,208**	**(69)**	**(269)**	**(231)**	**(569)**	**0.1**	**1.3**	**42.5**	**0.4**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage (continued)*

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	57,168	4,662	334	62,164	(40)	(85)	(117)	(242)	0.1	1.8	35.0	0.4
– personal	28,536	569	87	29,192	(14)	(31)	(15)	(60)	—	5.4	17.2	0.2
– corporate and commercial	28,632	4,093	247	32,972	(26)	(54)	(102)	(182)	0.1	1.3	41.3	0.6
Loans and advances to banks at amortized cost	1,169	—	—	1,169	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	11,305	331	26	11,662	(2)	(3)	(25)	(30)	—	0.9	96.2	0.3
Loan and other credit-related commitments	38,620	4,014	66	42,700	(6)	(15)	(1)	(22)	—	0.4	1.5	0.1
– personal	7,268	164	12	7,444	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	31,352	3,850	54	35,256	(5)	(15)	(1)	(21)	—	0.4	1.9	0.1
Financial guarantees[2]	1,921	201	2	2,124	(1)	(1)	—	(2)	0.1	0.5	—	0.1
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,915	200	2	2,117	(1)	(1)	—	(2)	0.1	0.5	—	0.1
At 31 Dec 2019	110,183	9,208	428	119,819	(49)	(104)	(143)	(296)	—	1.1	33.4	0.2

1. *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2. *Excludes performance guarantee contracts.*

Measurement uncertainty and sensitivity analysis of ECL estimates*

The recognition and measurement of ECL involves the use of significant judgment and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 35 of the *Annual Report and Accounts 2019*.

No changes were made to the methodology during 2020, except for the enhancements made to assess the impact of COVID-19.

Description of economic scenarios

The following table describes key macroeconomic variables and the probabilities assigned in the consensus economic scenarios as well as in the additional scenarios.

Economic scenarios[1, 2]

	Consensus Upside scenario	Consensus Central scenario	Management Downside scenario	Alternative Downside scenario
GDP growth (%)				
Annual average growth rate: 2020	**(6.7)**	**(6.8)**	**(7.7)**	**(8.7)**
Annual average growth rate: 2021	**5.6**	**5.0**	**(2.0)**	**(9.1)**
1Q22–3Q25: average growth	**2.5**	**2.3**	**3.0**	**3.9**
4Q20–3Q22: worst quarter	**(5.9) (4Q20)**	**(6.2) (4Q20)**	**(10.0) (4Q20)**	**(14.3) (2Q21)**
Unemployment rate (%)				
Annual average: 2020	**9.8**	**9.9**	**10.4**	**11.0**
Annual average: 2021	**7.5**	**8.2**	**10.0**	**11.9**
1Q22–3Q25: average	**6.5**	**6.6**	**8.7**	**10.8**
4Q20–3Q22: worst quarter	**9.4 (4Q20)**	**9.5 (4Q20)**	**11.8 (4Q20)**	**14.1 (4Q20)**
House Price Index (%)				
Annual average growth rate: 2020	**4.2**	**4.0**	**1.2**	**(1.6)**
Annual average growth rate: 2021	**2.6**	**(2.7)**	**(11.2)**	**(19.8)**
1Q22–3Q25: average growth	**6.4**	**3.8**	**3.8**	**3.9**
4Q20–3Q22: worst quarter	**(0.7) (1Q21)**	**(4.2) (2Q21)**	**(15.9) (2Q21)**	**(27.6) (2Q21)**
Brent oil prices (US$/barrel)				
Annual average: 2020	**45.5**	**42.0**	**38.8**	**35.6**
Annual average: 2021	**81.0**	**47.8**	**31.4**	**14.9**
1Q22–3Q25: average	**59.9**	**50.8**	**41.5**	**32.2**
4Q20–3Q22: worst quarter	**56.8 (4Q20)**	**47.2 (4Q20)**	**29.8 (1Q21)**	**14.3 (1Q21)**
Probability (%)	**15**	**70**	**12**	**3**

1. *Economic scenarios are based on average 4Q20-3Q25.*
2. *The quarterly update of the consensus economic scenarios did not have a material impact for the comparative period.*

Management Downside scenario

During the third quarter, the consensus Downside scenario was replaced with a management Downside scenario to reflect management's view of the dispersion of risks. Management took the view that this scenario provided a better representation of risks that lie in between the Central and the alternative Downside scenario. This scenario has been assigned a 12% probability.

Alternative Downside scenario

During the second quarter, an alternative downside scenario was created to reflect management's view of extreme risks. This 'U-shaped' scenario assumes that a number of bank's top risks crystallize simultaneously and results in an extremely severe and long-lived recession. This scenario has been assigned a 3% probability.

Critical accounting estimates and judgments

The calculation of ECL under IFRS 9 involves significant judgments, assumptions and estimates, as set out in the *Annual Report and Accounts 2019* under 'Critical accounting estimates and judgments'. The level of estimation uncertainty and judgment has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic, including significant judgments relating to:

- the selection and weighting of economic scenarios, given that it is not possible to predict the timing or impact of the virus, spread, treatment and containment, rapidly changing economic conditions in an unprecedented manner, which could be intensified by any restrictions on global trade or travel, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a widening in the distribution of economic forecasts. The key judgment is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by COVID-19. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and personal loans and portfolios is set out in the *Annual Report and Accounts 2019 page 36*. These models are based largely on historical observations and correlations with default rates.

For certain scenarios the projections at 30 September 2020 of macroeconomic variables are outside the historical observations on which IFRS 9 models have been built and calibrated to operate. Moreover, the complexities of governmental support programs and regulatory guidance on treatment of customer impacts (such as forbearance, payment holidays) and the unpredictable pathways of the pandemic have never been modelled. Consequently, in some cases and particularly in the alternative downside scenario, the bank's IFRS 9 models, generate less reliable modelled output and in-model and post model adjustments are required to ensure that an appropriate amount of ECL impairment is recognized.

These adjustments include refining model inputs and outputs and using management judgment and higher level quantitative analysis for impacts that are difficult to model. To ensure a consistent framework, we identified the model segments where results were overly conservative based on historical benchmarks and defined the worst economic inputs where the model output is considered reliable. Re-running the models with these capped economic limits established boundary conditions used by credit experts as a starting point for further adjustments based on their own structured judgment and granular analysis.

Post-model adjustments

In the context of IFRS 9, post-model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgment applied following management review and challenge. We have internal governance in place to regularly monitor post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the Loss Given Default ('LGD') of a particular portfolio was sensitive to these changes.

For wholesale lending credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For personal lending credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the personal lending ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

Wholesale portfolio analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of financial instruments subject to significant measurement uncertainty at 30 September 2020[2]	$m
Reported ECL	278
Consensus Central scenario	215
Consensus Upside scenario	146
Management Downside scenario	603
Alternative Downside scenario	1,357
Gross carrying amount[3]	114,509

ECL of financial instruments subject to significant measurement uncertainty at 31 December 2019[2]	$m
Reported ECL	105
Consensus scenarios	
Central scenario	103
Upside scenario	83
Downside scenario	141
Gross carrying amount[3]	96,846

1. *Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*
2. *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
3. *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying values but low ECL under all the scenarios.*

Personal portfolio analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers at 30 September 2020[2]	$m
Reported ECL	71
Consensus Central scenario	67
Consensus Upside scenario	63
Management Downside scenario	90
Alternative Downside scenario	148
Gross carrying amount	30,576

ECL of loans and advances to customers at 31 December 2019[2]	$m
Reported ECL	50
Consensus scenarios	
Central scenario	50
Upside scenario	47
Downside scenario	53
Gross carrying amount	28,999

1. *ECL sensitivity excludes portfolios utilizing less complex modelling approaches.*
2. *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied.*

Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees

Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees*[1]

	Quarter ended							
	30 Sep 2020				30 Sep 2019			
	Non-credit impaired		Credit-impaired		Non-credit impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period	94	263	187	544	36	102	89	227
Transfers of financial instruments:	3	(6)	3	—	12	(14)	2	—
– transfers from stage 1 to stage 2	(13)	13	—	—	(1)	1	—	—
– transfers from stage 2 to stage 1	16	(16)	—	—	13	(13)	—	—
– transfers to stage 3	—	(4)	4	—	—	(3)	3	—
– transfers from stage 3	—	1	(1)	—	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	(6)	20	—	14	(9)	3	—	(6)
New financial assets originated or purchased	4	—	—	4	2	—	—	2
Changes to risk parameters	(29)	(17)	34	(12)	—	7	21	28
Asset derecognized (including final repayments)	(2)	(2)	(1)	(5)	(1)	(1)	(3)	(5)
Assets written off	—	—	(12)	(12)	—	—	(10)	(10)
Other	1	(1)	(1)	(1)	—	—	1	1
Balance at the end of the period	65	257	210	532	40	97	100	237
ECL charge/(release) for the period	(33)	1	33	1	(8)	9	18	19
Recoveries	—	—	(6)	(6)	—	—	(4)	(4)
Other	—	—	—	—	—	—	—	—
Total ECL charge/(release) for the period	(33)	1	27	(5)	(8)	9	14	15

1. *Excludes performance guarantee contracts.*

Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees*[1]

	Nine months ended							
	30 Sep 2020				30 Sep 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**47**	**101**	**118**	**266**	43	99	89	231
Transfers of financial instruments:	**27**	**(38)**	**11**	**—**	28	(34)	6	—
– transfers from stage 1 to stage 2	**(29)**	**29**	**—**	**—**	(5)	5	—	—
– transfers from stage 2 to stage 1	**54**	**(54)**	**—**	**—**	32	(32)	—	—
– transfers to stage 3	**—**	**(15)**	**15**	**—**	—	(9)	9	—
– transfers from stage 3	**2**	**2**	**(4)**	**—**	1	2	(3)	—
Net remeasurement of ECL arising from transfer of stage	**(27)**	**40**	**—**	**13**	(23)	12	—	(11)
New financial assets originated or purchased	**10**	**—**	**—**	**10**	6	—	—	6
Changes to risk parameters	**11**	**161**	**133**	**305**	(12)	24	58	70
Asset derecognized (including final repayments)	**(3)**	**(6)**	**(5)**	**(14)**	(2)	(4)	(13)	(19)
Assets written off	**—**	**—**	**(46)**	**(46)**	—	—	(38)	(38)
Other	**—**	**(1)**	**(1)**	**(2)**	—	—	(2)	(2)
Balance at the end of the period	**65**	**257**	**210**	**532**	40	97	100	237
ECL charge/(release) for the period	**(9)**	**195**	**128**	**314**	(31)	32	45	46
Recoveries	**—**	**—**	**(10)**	**(10)**	—	—	(8)	(8)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(9)**	**195**	**118**	**304**	(31)	32	37	38

1. *Excludes performance guarantee contracts.*

	Nine months ended			
	30 Sep 2020		30 Sep 2019	
	Allowance for ECL/Other credit loss provisions	**ECL charge/ (release)**	Allowance for ECL/ Other credit loss provisions	ECL charge/ (release)
	$m	**$m**	$m	$m
As above	**532**	**304**	237	38
Other financial assets measured at amortized cost	**37**	**15**	36	7
Performance guarantee contracts	**9**	**7**	2	—
Debt instruments measured at FVOCI	**2**	**2**	1	—
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**580**	**328**	276	45

Credit quality of financial instruments*

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition.

Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

Quality classification definitions

- ‘Strong’ exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- ‘Good’ exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- ‘Satisfactory’ exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.
- ‘Sub-standard’ exposures require varying degrees of special attention and default risk is of greater concern.
- ‘Credit-impaired’ exposures have been assessed as impaired.

The five credit quality classifications, as defined above, each encompasses a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities.

The personal lending credit quality is disclosed based on a 12-month point-in-time (‘PIT’) weighted probability of default (‘PD’). The credit quality classifications for wholesale lending are based on internal credit risk ratings.

Credit quality classification

	Debt securities and other bills	Wholesale lending		Personal lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12-month Basel probability-weighted PD %
Quality classification					
Strong	A– and above	CRR1 to CRR2	0.000-0.169	Band 1 and 2	0.000-0.500
Good	BBB+ to BBB-	CRR3	0.170-0.740	Band 3	0.501-1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	CRR9 to CRR10	100.000	Band 7	100.000

Distribution of financial instruments by credit quality and stage allocation*

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	19,550	—	—	—	—	19,550	(2)	19,548
– stage 1	19,550	—	—	—	—	19,550	(2)	19,548
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	29,233	15,748	14,619	2,268	443	62,311	(485)	61,826
– stage 1	29,008	13,837	8,165	166	—	51,176	(54)	51,122
– stage 2	225	1,911	6,454	2,102	—	10,692	(221)	10,471
– stage 3	—	—	—	—	443	443	(210)	233
Loans and advances to banks at amortized cost	1,022	—	—	—	—	1,022	—	1,022
– stage 1	1,022	—	—	—	—	1,022	—	1,022
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	26,606	2,369	2,496	145	21	31,637	(37)	31,600
– stage 1	26,600	2,076	2,058	11	—	30,745	(4)	30,741
– stage 2	6	293	438	134	—	871	(12)	859
– stage 3	—	—	—	—	21	21	(21)	—
Total gross carrying amount on-balance sheet	76,411	18,117	17,115	2,413	464	114,520	(524)	113,996
Percentage of total credit quality	66.7 %	15.8 %	14.9 %	2.1 %	0.4 %	100.0 %		
Loan and other credit-related commitments	16,659	16,634	10,519	1,397	80	45,289	(44)	45,245
– stage 1	16,275	13,715	5,486	71	—	35,547	(10)	35,537
– stage 2	384	2,919	5,033	1,326	—	9,662	(34)	9,628
– stage 3	—	—	—	—	80	80	—	80
Financial guarantees[2]	1,072	526	264	87	—	1,949	(3)	1,946
– stage 1	1,071	500	113	1	—	1,685	(1)	1,684
– stage 2	1	26	151	86	—	264	(2)	262
– stage 3	—	—	—	—	—	—	—	—
Total nominal amount off-balance sheet	17,731	17,160	10,783	1,484	80	47,238	(47)	47,191
At 30 Sep 2020	94,142	35,277	27,898	3,897	544	161,758	(571)	161,187

1. *For the purposes of this disclosure gross carrying value is defined as the amortized cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
2. *Excludes performance guarantee contracts.*

Distribution of financial instruments by credit quality and stage allocation (continued)*

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	23,480	—	—	—	—	23,480	(1)	23,479
– stage 1	23,480	—	—	—	—	23,480	(1)	23,479
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	30,152	17,813	12,304	1,561	334	62,164	(242)	61,922
– stage 1	30,082	17,292	9,620	174	—	57,168	(40)	57,128
– stage 2	70	521	2,684	1,387	—	4,662	(85)	4,577
– stage 3	—	—	—	—	334	334	(117)	217
Loans and advances to banks at amortized cost	1,169	—	—	—	—	1,169	—	1,169
– stage 1	1,169	—	—	—	—	1,169	—	1,169
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	7,513	2,401	1,647	75	26	11,662	(30)	11,632
– stage 1	7,513	2,373	1,401	18	—	11,305	(2)	11,303
– stage 2	—	28	246	57	—	331	(3)	328
– stage 3	—	—	—	—	26	26	(25)	1
Total gross carrying amount on-balance sheet	62,314	20,214	13,951	1,636	360	98,475	(273)	98,202
Percentage of total credit quality	63.3 %	20.5 %	14.2 %	1.7 %	0.4 %	100.0 %		
Loan and other credit-related commitments	16,851	16,796	8,208	779	66	42,700	(22)	42,678
– stage 1	16,831	15,908	5,772	109	—	38,620	(6)	38,614
– stage 2	20	888	2,436	670	—	4,014	(15)	3,999
– stage 3	—	—	—	—	66	66	(1)	65
Financial guarantees[2]	1,151	610	241	120	2	2,124	(2)	2,122
– stage 1	1,151	610	151	9	—	1,921	(1)	1,920
– stage 2	—	—	90	111	—	201	(1)	200
– stage 3	—	—	—	—	2	2	—	2
Total nominal amount off-balance sheet	18,002	17,406	8,449	899	68	44,824	(24)	44,800
At 31 Dec 2019	80,316	37,620	22,400	2,535	428	143,299	(297)	143,002

1. *For the purposes of this disclosure gross carrying value is defined as the amortized cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
2. *Excludes performance guarantee contracts.*

Wholesale lending

Total wholesale lending for loans and advances to customers at amortized cost

	Footnote	At 30 Sep 2020 Gross carrying amount $m	30 Sep 2020 Allowance for ECL $m	31 Dec 2019 Gross carrying amount $m	31 Dec 2019 Allowance for ECL $m
Corporate and commercial					
– agriculture, forestry and fishing		**494**	**(5)**	446	(9)
– mining and quarrying	1	**1,618**	**(147)**	1,878	(42)
– manufacture		**4,795**	**(47)**	5,505	(27)
– electricity, gas, steam and air-conditioning supply		**375**	**(1)**	336	(1)
– water supply, sewerage, waste management and remediation		**104**	**(1)**	101	—
– construction		**956**	**(17)**	963	(11)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**4,898**	**(63)**	5,728	(42)
– transportation and storage		**2,860**	**(30)**	2,829	(14)
– accommodation and food		**1,401**	**(14)**	1,167	(1)
– publishing, audiovisual and broadcasting		**884**	**(6)**	1,040	(6)
– real estate		**8,411**	**(48)**	8,509	(12)
– professional, scientific and technical activities		**1,106**	**(7)**	1,181	(6)
– administrative and support services		**778**	**(15)**	1,090	(5)
– education		**162**	**—**	171	—
– health and care		**244**	**—**	244	—
– arts, entertainment and recreation		**309**	**—**	294	—
– other services		**189**	**(1)**	195	(1)
– government		**26**	**—**	25	—
– non-bank financial institutions		**1,871**	**(4)**	1,270	(5)
Total		**31,481**	**(406)**	32,972	(182)
By geography	2				
Canada		**29,411**	**(389)**	30,547	(171)
– British Columbia		**9,145**	**(63)**	9,309	(27)
– Ontario		**10,575**	**(85)**	10,486	(49)
– Alberta		**4,966**	**(183)**	5,562	(59)
– Quebec		**3,427**	**(44)**	3,812	(21)
– Saskatchewan and Manitoba		**850**	**(10)**	896	(10)
– Atlantic provinces		**448**	**(4)**	482	(5)
United States of America		**1,131**	**(8)**	1,437	(4)
Other		**939**	**(9)**	988	(7)
Total		**31,481**	**(406)**	32,972	(182)

1. *Mining and quarrying includes energy related exposures.*
2. *Provincial geographic distribution is based on the address of originating branch and foreign geographic distribution is based on the country of incorporation.*

Wholesale lending reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees*[1]

	Quarter ended							
	30 Sep 2020				30 Sep 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**76**	**225**	**171**	**472**	26	70	74	170
Transfers of financial instruments:	**(1)**	**(1)**	**2**	**—**	4	(5)	1	—
– transfers from stage 1 to stage 2	**(12)**	**12**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**11**	**(11)**	**—**	**—**	5	(5)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	—	(1)	1	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(4)**	**18**	**—**	**14**	(2)	1	—	(1)
New financial assets originated or purchased	**2**	**—**	**—**	**2**	1	—	—	1
Changes to risk parameters	**(26)**	**(29)**	**30**	**(25)**	(2)	(2)	16	12
Asset derecognized (including final repayments)	**(1)**	**(1)**	**(1)**	**(3)**	—	—	(1)	(1)
Assets written off	**—**	**—**	**(8)**	**(8)**	—	—	(6)	(6)
Other	**1**	**(1)**	**(1)**	**(1)**	—	—	1	1
Balance at the end of the period	**47**	**211**	**193**	**451**	27	64	85	176
ECL charge/(release) for the period	**(29)**	**(12)**	**29**	**(12)**	(3)	(1)	15	11
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(3)	(3)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(29)**	**(12)**	**27**	**(14)**	(3)	(1)	12	8

1. *Excludes performance guarantee contracts.*

Wholesale lending reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees*[1]

	Nine months ended							
	30 Sep 2020				30 Sep 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**32**	**70**	**103**	**205**	29	74	73	176
Transfers of financial instruments:	**11**	**(20)**	**9**	**—**	7	(12)	5	—
– transfers from stage 1 to stage 2	**(27)**	**27**	**—**	**—**	(4)	4	—	—
– transfers from stage 2 to stage 1	**37**	**(37)**	**—**	**—**	11	(11)	—	—
– transfers to stage 3	**—**	**(10)**	**10**	**—**	—	(5)	5	—
– transfers from stage 3	**1**	**—**	**(1)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(17)**	**33**	**—**	**16**	(6)	7	—	1
New financial assets originated or purchased	**7**	**—**	**—**	**7**	4	—	—	4
Changes to risk parameters	**15**	**131**	**119**	**265**	(7)	(4)	40	29
Asset derecognized (including final repayments)	**(1)**	**(2)**	**(2)**	**(5)**	—	(1)	(5)	(6)
Assets written off	**—**	**—**	**(35)**	**(35)**	—	—	(26)	(26)
Other	**—**	**(1)**	**(1)**	**(2)**	—	—	(2)	(2)
Balance at the end of the period	**47**	**211**	**193**	**451**	27	64	85	176
ECL charge/(release) for the period	**4**	**162**	**117**	**283**	(9)	2	35	28
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(3)	(3)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**4**	**162**	**115**	**281**	(9)	2	32	25

1. *Excludes performance guarantee contracts.*

The wholesale allowance for ECL during the nine months increased by $246m or 120% as compared to 31 December 2019, and the wholesale lending change in ECL for the period resulted in an income statement charge of $281m, primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 September 2020 was 1.3%, an increase of 0.7% as compared to 31 December 2019. For the nine months period, stage 3 had the largest ECL coverage increase of 14.5% and the increases for stage 1 and stage 2 were 0.1% and 0.6%, respectively.

Personal lending

Total personal lending for loans and advances to customers at amortized cost

	Footnote	At 30 Sep 2020 Gross carrying amount $m	30 Sep 2020 Allowance for ECL $m	31 Dec 2019 Gross carrying amount $m	31 Dec 2019 Allowance for ECL $m
Residential mortgages		**27,460**	**(36)**	25,855	(23)
Home equity lines of credit		**1,590**	**(5)**	1,664	(4)
Personal revolving loan facilities		**552**	**(15)**	610	(14)
Other personal loan facilities		**887**	**(8)**	665	(4)
Retail card		**293**	**(8)**	341	(9)
Run-off consumer loan portfolio		**48**	**(7)**	57	(6)
Total		**30,830**	**(79)**	29,192	(60)
By geography	1				
Canada		**30,649**	**(77)**	29,009	(58)
– British Columbia		**15,077**	**(33)**	14,327	(22)
– Ontario		**11,898**	**(26)**	11,161	(18)
– Alberta		**1,730**	**(8)**	1,663	(7)
– Quebec		**1,361**	**(4)**	1,327	(6)
– Saskatchewan and Manitoba		**335**	**(2)**	304	(2)
– Atlantic provinces		**241**	**(4)**	220	(3)
– Territories		**7**	**—**	7	—
Other		**181**	**(2)**	183	(2)
Total		**30,830**	**(79)**	29,192	(60)

1. *Geographic distribution is based on the customer address.*

Personal lending reconciliation of allowances for loans and advances to customers including loan commitments and financial guarantees*[1]

	Quarter ended 30 Sep 2020				30 Sep 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**18**	**38**	**16**	**72**	10	32	15	57
Transfers of financial instruments:	**4**	**(5)**	**1**	**—**	8	(9)	1	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	—	—	—	—
– transfers from stage 2 to stage 1	**5**	**(5)**	**—**	**—**	8	(8)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	—	(2)	2	—
– transfers from stage 3	**—**	**1**	**(1)**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	**(2)**	**2**	**—**	**—**	(7)	2	—	(5)
New financial assets originated or purchased	**2**	**—**	**—**	**2**	1	—	—	1
Changes to risk parameters	**(3)**	**12**	**4**	**13**	2	9	5	16
Asset derecognized (including final repayments)	**(1)**	**(1)**	**—**	**(2)**	(1)	(1)	(2)	(4)
Assets written off	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**18**	**46**	**17**	**81**	13	33	15	61
ECL charge/(release) for the period	**(4)**	**13**	**4**	**13**	(5)	10	3	8
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(1)	(1)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(4)**	**13**	**—**	**9**	(5)	10	2	7

1. *Excludes performance guarantee contracts.*

Personal lending reconciliation of allowances for loans and advances to customers including loan commitments and financial guarantees*[1]

	Nine months ended							
	30 Sep 2020				30 Sep 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Allowance for ECL	**Allowance for ECL**	**Allowance for ECL**	**Allowance for ECL**	Allowance for ECL	Allowance for ECL	Allowance for ECL	Allowance for ECL
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**15**	**31**	**15**	**61**	14	25	16	55
Transfers of financial instruments:	**16**	**(18)**	**2**	**—**	21	(22)	1	—
– transfers from stage 1 to stage 2	**(2)**	**2**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**17**	**(17)**	**—**	**—**	21	(21)	—	—
– transfers to stage 3	**—**	**(5)**	**5**	**—**	—	(4)	4	—
– transfers from stage 3	**1**	**2**	**(3)**	**—**	1	2	(3)	—
Net remeasurement of ECL arising from transfer of stage	**(10)**	**7**	**—**	**(3)**	(17)	5	—	(12)
New financial assets originated or purchased	**3**	**—**	**—**	**3**	2	—	—	2
Changes to risk parameters	**(4)**	**30**	**14**	**40**	(5)	28	18	41
Asset derecognized (including final repayments)	**(2)**	**(4)**	**(3)**	**(9)**	(2)	(3)	(8)	(13)
Assets written off	**—**	**—**	**(11)**	**(11)**	—	—	(12)	(12)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**18**	**46**	**17**	**81**	13	33	15	61
ECL charge/(release) for the period	**(13)**	**33**	**11**	**31**	(22)	30	10	18
Recoveries	**—**	**—**	**(8)**	**(8)**	—	—	(5)	(5)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(13)**	**33**	**3**	**23**	(22)	30	5	13

1. *Excludes performance guarantee contracts.*

The total personal lending allowance for ECL increased by $20m for the nine months period, primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

The bank recorded an ECL charge of $31m for the period on the personal lending portfolio, offset by $8m of recoveries.

The total ECL coverage for loans and advances to customers for personal lending was 0.3% at 30 September 2020, an increase of 0.1% compared to 31 December 2019.

Mortgages and home equity lines of credit

The bank's mortgage and home equity lines of credit portfolios are considered to be low-risk since the majority are secured by a first charge against the underlying real estate.

The following tables detail how the bank mitigates risk further by diversifying the geographical markets in which it operates as well as benefiting from borrower default insurance. In addition, the bank maintains strong underwriting and portfolio monitoring standards to ensure the quality of its portfolio is maintained.

Insurance and geographic distribution[1]

	Residential mortgages					**HELOC[2]**	
	Insured[3]		**Uninsured[3]**		**Total**		**Uninsured**
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**1,299**	**9 %**	**12,478**	**91 %**	**13,777**	**792**	**100 %**
Western Canada[4]	**703**	**41 %**	**996**	**59 %**	**1,699**	**178**	**100 %**
Ontario	**2,130**	**19 %**	**9,364**	**81 %**	**11,494**	**574**	**100 %**
Quebec and Atlantic provinces	**554**	**39 %**	**864**	**61 %**	**1,418**	**75**	**100 %**
At 30 Sep 2020	**4,686**	**17 %**	**23,702**	**83 %**	**28,388**	**1,619**	**100 %**

	Residential mortgages[5]					HELOC[2, 5]	
	Insured[3]		Uninsured[3]		Total		Uninsured
	$m	%	$m	%	$m	$m	%
British Columbia	960	7 %	12,393	93 %	13,353	822	100 %
Western Canada[4]	476	30 %	1,103	70 %	1,579	190	100 %
Ontario	1,298	13 %	8,919	87 %	10,217	589	100 %
Quebec and Atlantic provinces	384	29 %	933	71 %	1,317	88	100 %
At 31 Dec 2019	3,118	12 %	23,348	88 %	26,466	1,689	100 %

1. *Geographic distribution is based on the property location.*
2. *HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.*
3. *Insured mortgages are protected from potential losses caused by borrower default through the purchase of insurance coverage, either from the Canadian Housing and Mortgage Corporation or other accredited private insurers.*
4. *Western Canada excludes British Columbia.*
5. *Certain prior year amounts have been reclassified to conform to the current year presentation.*

Amortization period[1]

	Residential mortgages		
	< 20 years	> 20 years < 25 years	> 25 years < 30 years
At 30 Sep 2020	**20.3 %**	**54.3 %**	**25.4 %**
At 31 Dec 2019	20.1 %	48.0 %	31.9 %

1. *Amortization period is based on the remaining term of residential mortgages.*

Average loan-to-value ratios of new originations[1, 2]

	Quarter ended	
	Uninsured % LTV[3]	
	Residential mortgages	HELOC
	%	%
British Columbia	**59.0 %**	**55.7 %**
Western Canada[4]	**67.8 %**	**67.1 %**
Ontario	**62.3 %**	**60.7 %**
Quebec and Atlantic provinces	**64.3 %**	**65.7 %**
Total Canada for the three months ended 30 Sep 2020	**61.7 %**	**59.7 %**
Total Canada for the three months ended 31 Dec 2019	61.0 %	57.0 %

1. *All new loans and home equity lines of credit were originated by the bank; there were no acquisitions during the period.*
2. *New originations exclude existing mortgage renewals.*
3. *Loan-to-value ratios are simple averages, based on property values at the date of mortgage origination.*
4. *Western Canada excludes British Columbia.*

Potential impact of an economic downturn on residential mortgage loans and home equity lines of credit

The bank performs stress testing on its personal lending portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macro-economic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan-to-Value in the portfolio and risk mitigation strategies in place.

Credit-impaired loans

The following table provides an analysis of the gross carrying value of loans and advances to banks and customers that are determined to be impaired (stage 3 financial assets).

Credit-impaired loans and advances to banks and customers*

		At			
		30 Sep 2020		31 Dec 2019	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**346**	**(193)**	247	(102)
– agriculture, forestry and fishing		**7**	**(4)**	10	(5)
– mining and quarrying	1	**173**	**(104)**	62	(24)
– manufacture		**38**	**(22)**	39	(13)
– construction		**16**	**(10)**	13	(8)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**50**	**(25)**	51	(29)
– transportation and storage		**29**	**(13)**	7	(5)
– accommodation and food		**2**	**(2)**	—	—
– publishing, audiovisual and broadcasting		**13**	**(4)**	15	(4)
– real estate		**13**	**(4)**	8	(7)
– professional, scientific and technical activities		**—**	**—**	37	(3)
– administrative and support services		**4**	**(4)**	4	(3)
– non-bank financial institutions		**1**	**(1)**	1	(1)
Households	2	**97**	**(17)**	87	(15)
Loans and advances to banks		**—**	**—**	—	—
Total		**443**	**(210)**	334	(117)

1. *Mining and quarrying includes energy related exposures.*
2. *Households includes the personal lending portfolio.*

Renegotiated loans

The carrying amount of renegotiated loans was $209m at 30 September 2020 (31 December 2019: $135m).

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.

Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk management

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our *Annual Report and Accounts 2019* continues to apply. The bank's internal liquidity and funding risk management framework uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, and adds additional metrics, limits and overlays to address the risks that the bank considers are not adequately reflected by the external regulatory framework.

We continue to monitor liquidity and funding risk against our stated risk tolerance and management framework.

In March 2020, the financial markets became extremely volatile as the COVID-19 outbreak accelerated, causing severe disruption to business and economic activity. The bank had a strong liquidity position at the start of the disruption and took action early and throughout to further strengthen the bank's liquidity position. The bank actively raised customer deposits and accessed the wholesale term market to raise long-term funding with a covered bond issuance to meet potential future funding needs. The bank's liquidity metrics, including the LCR and liquid assets, strengthened further in the quarter. As a result, compared to the previous quarter the bank's average LCR for the three months ended September 2020 increased further to 201% from 193%.

Liquid assets

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorized as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets. Liquid assets consist of cash or assets that can be converted into cash at little or no loss of value.

Our liquid assets as at the nine months ended 30 September 2020 increased by $17bn from 31 December 2019, primarily due to an increase in customer deposits as well as an increase in short and long-term funding.

Liquid assets[1]

	At	
	30 Sep 2020	31 Dec 2019
	$m	$m
Level 1	**37,354**	18,969
Level 2a	**3,281**	4,603
Level 2b	**28**	98
Total	**40,663**	23,670

1. *The liquid asset balances stated here are as at the above dates (spot rate) and are unweighted and therefore do not match the liquid asset balances stated in the LCR calculations which are the average for the quarter and are weighted.*

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards, the bank is required to maintain a LCR above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 30 September 2020, the bank was compliant with both requirements.

As a basis to determine the bank's stable funding requirement, the bank calculates the NSFR according to Basel Committee on Banking Supervision ('BCBS') publication number 295, pending its implementation. OSFI implemented the NSFR starting effective 1 January 2020 for domestic systemically important banks ('D-SIBs'). OSFI is conducting further work to assess requirements for non D-SIBs, which includes the bank. In Europe, implementation of NSFR is expected in 2021. The NSFR requires banks to maintain a stable funding profile relative to the composition of their assets and off-balance sheet activities and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The bank's OSFI LCR is summarized in the following table. For the quarter ended 30 September 2020, the bank's average LCR of 201% is calculated as the ratio of High-Quality Liquid Assets ('HQLA') to the total net stressed cash outflows over the next 30 calendar days. HQLA is substantially comprised of Level 1 assets such as cash, deposits with central banks and highly rated securities issued or guaranteed by governments, central banks and supranational entities.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Sep 2020	30 Jun 2020
Total HQLA[2] ($m)	**40,857**	38,135
Total net cash outflows[2] ($m)	**20,283**	19,782
Liquidity coverage ratio (%)	**201**	193

1. *The data in this table has been calculated using averages of the three month-end figures in the quarter. Consequently, the LCR is an average ratio for the three months of the quarter and might not equal the LCR calculated dividing total weighted HQLA by total weighted net cash outflows.*
2. *These are weighted values and are calculated after the application of the weights prescribed under the OSFI LAR Guideline for HQLA and cash inflows and outflows.*

Market risk

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

Market risk management

Market risk management is independent of the business and is responsible for establishing the policies, procedures and limits that align with the risk appetite of the bank. The objective of market risk management is to identify, measure and control market risk exposures in order to optimize return on risk and remain within the bank's risk appetite.

Refer to the 'Risk management' section of our *Annual Report and Accounts 2019* 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

Value at Risk ('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 at 99% confidence level. The use of VaR is integrated into market risk management and calculated for all trading and non-trading portfolios to have a complete picture of risk.

VaR disclosed in the following tables and graph is the bank's total VaR for both trading and non-trading books and remained within the bank's limits.

Total VaR of $15.2m as at the nine months ended 30 September 2020 increased by $3.5m from the prior year, due to increased interest rate risk in non-trading books. Over the same period, the average Total VaR of $12.5m remained relatively unchanged. Total VaR is largely driven by non-trading VaR.

The global COVID-19 pandemic and trade tension between China and US has resulted in increased market volatility. To ease the market volatility impact in trading VaR, the business has remained within contained levels of risk. But, market volatility and additional interest rate risk at the nine months ended 30 September 2020 drove a trading VaR increase while average trading VaR remained relatively stable. The trading VaR of $2.5m at the nine months ended increased by $1.2m from the prior year. Over the same period, the average trading VaR of $1.5m, decreased by $0.2m.

Total VaR

	Nine months ended	
	30 Sep 2020	30 Sep 2019
	$m	$m
At period end	**15.2**	11.7
Average	**12.5**	12.8
Minimum	**7.2**	10.1
Maximum	**19.5**	15.7

Non-trading VaR

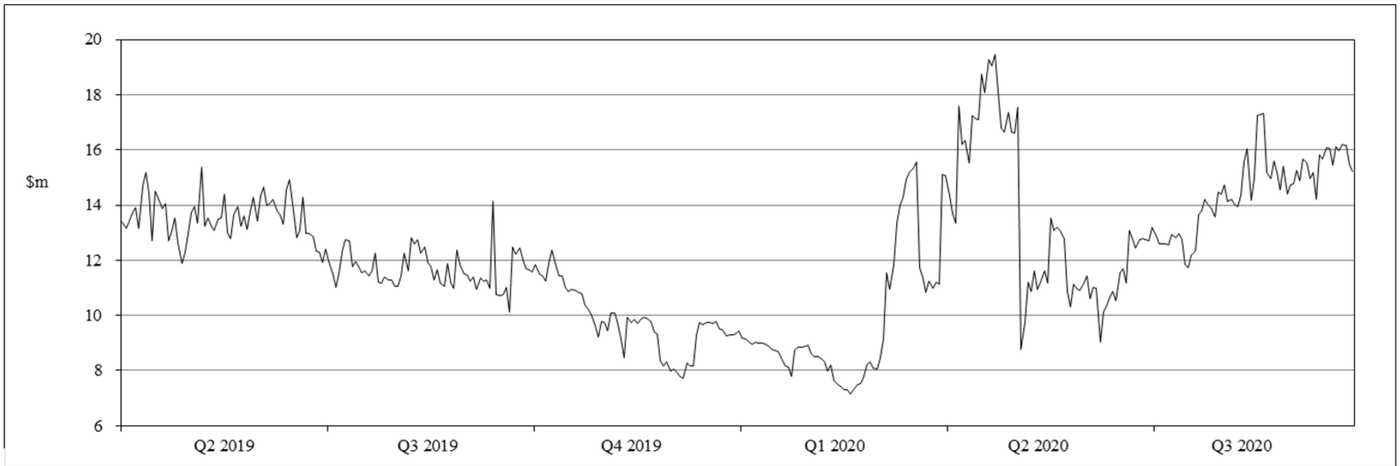
	Nine months ended	
	30 Sep 2020	30 Sep 2019
	$m	$m
At period end	**16.5**	11.6
Average	**12.8**	12.9
Minimum	**7.0**	10.6
Maximum	**19.1**	15.5

Trading VaR (by risk type)[1]

		Foreign exchange and commodity	**Interest rate**	**Equity**	**Credit spread**	**Portfolio diversification[2]**	**Total[4]**
	Footnote	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
January - Sep 2020							
At period end		**—**	**2.0**	**—**	**1.4**	**(1.1)**	**2.3**
Average		**—**	**1.3**	**—**	**0.7**	**(0.5)**	**1.5**
Minimum	*3*	**—**	**0.5**	**—**	**0.3**	**—**	**0.6**
Maximum	*3*	**0.3**	**2.6**	**—**	**1.9**	**—**	**2.7**
January - Sep 2019							
At period end		—	0.8	—	0.8	(0.3)	1.3
Average		—	1.3	—	0.9	(0.5)	1.7
Minimum	*3*	—	0.7	—	0.3	—	0.8
Maximum	*3*	0.1	2.0	—	2.5	—	3.2

1. *Trading portfolios comprise positions arising from the market-making of financial instruments and customer-driven derivatives positions. Trading is aligned to regulatory treatment.*
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 combined total VaR and the sum of the VaRs by individual risk type. A negative number represents the benefit of portfolio diversification.*
3. *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. Some small differences in figures presented are due to rounding.*
4. *The total VaR is non-additive across risk types due to diversification effects.*

Daily total VaR. 1 year history of daily figures[1]



1. *Total VaR fluctuation in the second quarter of 2020 was driven mainly by credit spread scenarios, used to estimate VaR, which reflects the market volatility observed during the COVID-19 pandemic resulting in bigger swings than in historical trends of VaR.*

Structural interest rate risk

Interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Structural interest rate risk is that which originates from the bank's non-trading assets and liabilities and shareholder's funds.

Refer to the 'Structural Interest Rate Risk' section of our *Annual Report and Accounts 2019* for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

Sensitivity of structural interest rate risk in the non-trading portfolio (before-tax impact resulting from an immediate and sustained shift in interest rates):

		30 Sep 2020		30 Sep 2019	
		Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	Footnote	**$m**	**$m**	$m	$m
100 basis point increase		**(409)**	**211**	(217)	128
25/100 basis point decrease	*1*	**84**	**(55)**	139	(128)

1. *Due to the current low interest rate environment, starting in Q2 2020, economic value of equity and earnings at risk sensitivity for a down shock scenario are measured using a 25 basis point decrease, prior period reflects a 100 basis points decrease.*

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 that, 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 2019* and the 'Impact of COVID-19 and our response' section of the MD&A on page 4 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 2019* for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below are presented under a Basel III 'all-in' basis, under which non-qualifying capital instruments are phased out over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 30 September 2020.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

		30 Sep 2020	31 Dec 2019
	Footnotes	**%**	%
Actual regulatory capital ratios	*1*		
– common equity tier 1 capital ratio		**13.1**	11.3
– tier 1 capital ratio		**15.7**	13.9
– total capital ratio		**18.2**	16.4
– leverage ratio		**5.8**	4.9
Regulatory capital requirements	*2*		
– minimum common equity tier 1 capital ratio		**7.0**	7.0
– minimum tier 1 capital ratio		**8.5**	8.5
– minimum total capital ratio		**10.5**	10.5

1. *Presented under a Basel III basis with non-qualifying capital instruments phased out over 10 years starting 1 January 2013.*
2. *OSFI target capital ratios including mandated capital conservation buffer.*

Regulatory capital

Total regulatory capital and risk-weighted assets

	Footnotes	30 Sep 2020 $m	31 Dec 2019 $m
Gross common equity	1	**5,692**	5,009
Regulatory adjustments		**(284)**	(246)
Common equity tier 1 capital	4	**5,408**	4,763
Additional tier 1 eligible capital		**1,100**	1,100
Tier 1 capital		**6,508**	5,863
Tier 2 capital	2, 4	**1,015**	1,037
Total capital		**7,523**	6,900
Risk-weighted assets ('RWA')	3	**41,376**	42,080

1. *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2. *Includes a capital instrument subject to phase out and allowances.*
3. *In April 2020, OSFI announced certain regulatory flexibility measures to support COVID-19 efforts in light of the current evolving situation. Effective 31 March 2020, OSFI lowered the capital floor factor from 75% to 70%. The revised floor factor is expected to stay in place until the first quarter 2023.*
4. *As part of the new transitional arrangements, effective 31 March 2020, a portion of allowances that would otherwise be included in tier 2 capital has instead been included in common equity tier 1 ('CET 1') capital. The impact is $54m as at 30 September 2020.*

Outstanding shares and dividends

		Nine months ended 30 Sep 2020			Year ended 31 Dec 2019		
	Footnotes	Dividend $ per share	Number of issued shares 000's	Carrying value $m	Dividend $ per share	Number of issued shares 000's	Carrying value $m
Common shares	1, 2	**0.32085**	**548,668**	**1,725**	0.86230	498,668	1,225
Class 1 preferred shares	3						
– Series G	4	**0.50000**	**—**	**—**	1.00000	20,000	500
– Series H	4	**0.20000**	**20,000**	**500**	—	—	—
– Series I		**0.86250**	**14,000**	**350**	1.15000	14,000	350
– Series K	5	**1.02189**	**10,000**	**250**	0.35560	10,000	250

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *Common shares were issued on 30 March 2020.*
3. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*
4. *Holder of the preferred shares Series G exercised their option to convert the preferred shares Series G into preferred shares Series H on 30 June 2020 in accordance with their terms; initial dividends were declared during the third quarter of 2020 and paid in accordance with their terms in the usual manner on 30 September 2020 or the first business day thereafter.*
5. *Preferred shares - Class 1, Series K were issued on 27 September 2019; initial dividends were declared during the fourth quarter of 2019 and paid in accordance with their terms in the usual manner on 31 December 2019 or the first business day thereafter.*

Dividends declared in the third quarter 2020

The bank declared regular quarterly dividends of $11m for the third quarter of 2020 on the HSBC Bank Canada Class 1 preferred shares Series H, I, and K. No dividends were declared or paid on HSBC Bank Canada common shares during the third quarter.

Dividends declared in the fourth quarter 2020

On 23 October 2020, the bank declared regular quarterly dividends for the fourth quarter of 2020 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 31 December 2020 or the first business day thereafter to the shareholder of record on 15 December 2020.

As the dividends on preferred shares for the fourth quarter of 2020 were declared after 30 September 2020, the amounts have not been included in the balance sheet as a liability. At this time, no dividends have been declared on HSBC Bank Canada common shares during the fourth quarter.

Consolidated Financial Statements

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Consolidated income statement

		Quarter ended		Nine months ended	
		30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	Notes	**$m**	$m	**$m**	$m
Net interest income		**244**	313	**811**	955
– interest income		**490**	712	**1,688**	2,095
– interest expense		**(246)**	(399)	**(877)**	(1,140)
Net fee income	*2*	**172**	168	**528**	498
– fee income		**192**	197	**591**	575
– fee expense		**(20)**	(29)	**(63)**	(77)
Net income from financial instruments held for trading		**29**	36	**102**	117
Gains less losses from financial investments		**18**	10	**48**	28
Other operating income		**9**	7	**31**	26
Total operating income		**472**	534	**1,520**	1,624
Change in expected credit losses and other credit impairment charges		**2**	(17)	**(328)**	(45)
Net operating income		**474**	517	**1,192**	1,579
Employee compensation and benefits	*3*	**(157)**	(169)	**(471)**	(514)
General and administrative expenses		**(133)**	(117)	**(395)**	(389)
Depreciation		**(18)**	(18)	**(55)**	(53)
Amortization and impairment of intangible assets		**(9)**	(7)	**(27)**	(20)
Total operating expenses		**(317)**	(311)	**(948)**	(976)
Profit before income tax expense		**157**	206	**244**	603
Income tax expense		**(45)**	(56)	**(61)**	(165)
Profit for the period		**112**	150	**183**	438
Profit/(loss) attributable to:					
– the common shareholder		**101**	141	**147**	411
– the preferred shareholder		**11**	9	**36**	27
Profit for the period		**112**	150	**183**	438
Average number of common shares outstanding (000's)		**548,668**	498,668	**532,368**	498,668
Basic and diluted earnings per common share ($)		**$ 0.18**	$ 0.28	**$ 0.28**	$ 0.82

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Profit for the period	**112**	150	**183**	438
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Debt instruments at fair value through other comprehensive income	**16**	2	**84**	99
– fair value gains	**37**	12	**160**	163
– fair value gains transferred to the income statement on disposal	**(18)**	(10)	**(48)**	(28)
– expected credit losses recognized in the income statement	**2**	—	**2**	—
– income taxes	**(5)**	—	**(30)**	(36)
Cash flow hedges	**(17)**	(9)	**151**	54
– fair value gains	**8**	(10)	**316**	126
– fair value gains reclassified to the income statement	**(31)**	(2)	**(110)**	(52)
– income taxes	**6**	3	**(55)**	(20)
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**(27)**	(1)	**(37)**	(12)
– before income taxes	**(37)**	(3)	**(50)**	(18)
– income taxes	**10**	2	**13**	6
Equity instruments designated at fair value through other comprehensive income	**(1)**	(1)	**(4)**	(1)
– fair value losses	**(1)**	(1)	**(5)**	(1)
– income taxes	**—**	—	**1**	—
Other comprehensive income for the period, net of tax	**(29)**	(9)	**194**	140
Total comprehensive income for the period	**83**	141	**377**	578
Attributable to:				
– the common shareholder	**72**	132	**341**	551
– the preferred shareholder	**11**	9	**36**	27
Total comprehensive income for the period	**83**	141	**377**	578

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	At 30 Sep 2020 $m	At 31 Dec 2019 $m
Assets			
Cash and balances at central banks		**17,159**	54
Items in the course of collection from other banks		**23**	15
Trading assets	5	**3,321**	4,322
Other financial assets mandatorily measured at fair value through profit or loss		**7**	5
Derivatives	6	**5,609**	3,267
Loans and advances to banks		**1,022**	1,169
Loans and advances to customers		**61,826**	61,922
Reverse repurchase agreements – non-trading		**8,277**	6,269
Financial investments	7	**20,152**	23,645
Other assets	8	**2,322**	1,580
Prepayments and accrued income		**231**	241
Customers' liability under acceptances		**3,624**	3,500
Current tax assets		**28**	26
Property, plant and equipment		**320**	339
Goodwill and intangible assets		**169**	155
Deferred tax assets		**123**	62
Total assets		**124,213**	106,571
Liabilities and equity			
Liabilities			
Deposits by banks		**1,290**	1,036
Customer accounts		**73,598**	62,889
Repurchase agreements – non-trading		**4,386**	7,098
Items in the course of transmission to other banks		**224**	225
Trading liabilities	9	**4,009**	2,296
Derivatives	6	**5,783**	3,431
Debt securities in issue	10	**18,713**	14,594
Other liabilities	11	**3,866**	3,384
Acceptances		**3,639**	3,505
Accruals and deferred income		**502**	600
Retirement benefit liabilities		**309**	265
Subordinated liabilities		**1,011**	1,033
Provisions		**70**	41
Current tax liabilities		**21**	65
Total liabilities		**117,421**	100,462
Equity			
Common shares		**1,725**	1,225
Preferred shares		**1,100**	1,100
Other reserves		**270**	39
Retained earnings		**3,697**	3,745
Total shareholder's equity		**6,792**	6,109
Total liabilities and equity		**124,213**	106,571

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Nine months ended	
	30 Sep 2020 $m	30 Sep 2019 $m
Profit before income tax expense	**244**	603
Adjustments for non-cash items:		
Depreciation and amortization	**82**	73
Share-based payment expense	**6**	10
Change in expected credit losses	**328**	45
Charge for defined benefit pension plans	**11**	11
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**10**	(98)
Change in net trading securities and net derivatives	**2,917**	(596)
Change in loans and advances to customers	**(186)**	(950)
Change in reverse repurchase agreements – non-trading	**(1,855)**	(1,459)
Change in other assets	**(978)**	(2,425)
Change in accruals and deferred income	**(98)**	(13)
Change in deposits by banks	**254**	(74)
Change in customer accounts	**10,709**	1,585
Change in repurchase agreements – non-trading	**(2,712)**	817
Change in debt securities in issue	**4,119**	1,384
Change in other liabilities	**671**	3,051
Tax paid	**(212)**	(165)
Net cash from operating activities	**13,310**	1,799
Purchase of financial investments	**(8,232)**	(9,529)
Proceeds from the sale and maturity of financial investments	**11,833**	8,015
Purchase of intangibles and property, plant and equipment	**(46)**	(83)
Net cash from investing activities	**3,555**	(1,597)
Issuance of common shares	**500**	—
Issuance of preferred shares	**—**	250
Dividends paid to shareholder	**(196)**	(327)
Repurchase of subordinated debentures	**(22)**	—
Lease principal payments	**(39)**	(32)
Net cash from financing activities	**243**	(109)
Net increase in cash and cash equivalents	**17,108**	93
Cash and cash equivalents at the beginning of the period	**1,357**	1,333
Cash and cash equivalents at the end of the period	**18,465**	1,426
Cash and cash equivalents comprise:		
Cash and balances at central bank	**17,159**	69
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(201)**	(288)
Loans and advances to banks of one month or less	**1,022**	1,097
Non-trading reverse repurchase agreements with banks of one month or less	**475**	523
T-Bills and certificates of deposits less than three months	**10**	25
Cash and cash equivalents at the end of the period	**18,465**	1,426
Interest:		
Interest paid	**(923)**	(1,095)
Interest received	**1,704**	2,014

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital[1]	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m
At 1 Jan 2020	**2,325**	**3,745**	**36**	**3**	**39**	**6,109**
Profit for the period	**–**	**183**	**–**	**–**	**–**	**183**
Other comprehensive income/(loss), net of tax	**–**	**(37)**	**80**	**151**	**231**	**194**
– debt instruments at fair value through other comprehensive income	**–**	**–**	**84**	**–**	**84**	**84**
– equity instruments designated at fair value through other comprehensive income	**–**	**–**	**(4)**	**–**	**(4)**	**(4)**
– cash flow hedges	**–**	**–**	**–**	**151**	**151**	**151**
– remeasurement of defined benefit plans	**–**	**(37)**	**–**	**–**	**–**	**(37)**
Total comprehensive income for the period	**–**	**146**	**80**	**151**	**231**	**377**
Dividends on common shares	**–**	**(160)**	**–**	**–**	**–**	**(160)**
Dividends on preferred shares	**–**	**(36)**	**–**	**–**	**–**	**(36)**
Issuance of common shares	**500**	**–**	**–**	**–**	**–**	**500**
Shares issued under employee remuneration and share plan	**–**	**2**	**–**	**–**	**–**	**2**
At 30 Sep 2020	**2,825**	**3,697**	**116**	**154**	**270**	**6,792**

	Share capital[1]	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m
At 1 Jan 2019	2,075	3,619	(93)	(18)	(111)	5,583
Profit for the period	–	438	–	–	–	438
Other comprehensive income/(loss), net of tax	–	(12)	98	54	152	140
– debt instruments at fair value through other comprehensive income	–	–	99	–	99	99
– equity instruments designated at fair value through other comprehensive income	–	–	(1)	–	(1)	(1)
– cash flow hedges	–	–	–	54	54	54
– remeasurement of defined benefit plans	–	(12)	–	–	–	(12)
Total comprehensive income for the period	–	426	98	54	152	578
Deemed contribution	–	13	–	–	–	13
Dividends on common shares	–	(300)	–	–	–	(300)
Dividends on preferred shares	–	(27)	–	–	–	(27)
Issuance of preferred shares	250	–	–	–	–	250
Shares issued under employee remuneration and share plan	–	2	–	–	–	2
At 30 Sep 2019	2,325	3,733	5	36	41	6,099

1. *Share capital is comprised of common shares $1,725m and preferred shares $1,100m (30 September 2019: common shares $1,225m and preferred shares $1,100m).*

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

1 Basis of preparation and significant accounting policies

HSBC Bank Canada ('the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc. ('the Parent', 'HSBC Holdings', 'HSBC Group'). Throughout these interim condensed consolidated financial statements ('Financial Statements'), the 'HSBC Group' means the Parent and its subsidiary companies.

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the bank's 2019 audited annual consolidated financial statements. The bank's 2019 audited annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in consideration of the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI'), as required under Section 308(4) of the Bank Act. Section 308(4) states that except as otherwise specified by OSFI, the financial statements shall be prepared in accordance with IFRS.

(b) Future accounting developments

'Interest Rate Benchmark Reform – Phase 2' was issued in August 2020 and includes amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including changes to contractual cash flows or hedging relationships. The amendments are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted. The bank is considering the impact of these amendments.

Future accounting developments have been disclosed in note 1(c) of the 2019 annual consolidated financial statements of the bank's *Annual Report and Accounts 2019*.

(c) Presentation of information

The bank's consolidated financial statements are presented in Canadian dollars which is also its functional currency. The abbreviation '$m' represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

Certain sections within the accompanying Management's Discussion and Analysis, that are marked with an asterisk (*), form an integral part of these consolidated financial statements.

(d) Critical accounting estimates and assumptions

Management believes that our critical accounting estimates and judgments are those that relate to expected credit loss, valuation of financial instruments, income taxes and deferred tax assets and defined benefit obligations. There were no changes in the current period to the critical accounting estimates and judgments applied in 2019, which are stated on pages 24 and 64 of the *Annual Report and Accounts 2019*. However, the level of estimation uncertainty and judgment for the calculation of ECL has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic as set out in 'Measurement uncertainty and sensitivity analysis of ECL estimates' section on page 21.

(e) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries as at 30 September 2020. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2019 annual consolidated financial statements of the bank's *Annual Report and Accounts 2019*.

(f) Significant accounting policies

There have been no significant changes to the bank's significant accounting policies which are disclosed in Note 2 (a) to (r) of the 2019 annual consolidated financial statements of the bank's *Annual Report and Accounts 2019*.

2 Net fee income

Net fee income by global business

	Quarter ended							
	30 Sep 2020				30 Sep 2019			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking[1]**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking[1]	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**10**	**1**	**3**	**14**	10	1	3	14
Broking income	**—**	**—**	**3**	**3**	—	—	2	2
Cards	**4**	**—**	**11**	**15**	5	—	12	17
Credit facilities	**67**	**13**	**—**	**80**	62	18	—	80
Funds under management	**—**	**—**	**50**	**50**	—	—	49	49
Imports/exports	**3**	**—**	**—**	**3**	2	1	—	3
Insurance agency commission	**—**	**—**	**1**	**1**	—	—	1	1
Other	**7**	**3**	**1**	**11**	6	6	2	14
Remittances	**6**	**2**	**1**	**9**	6	2	1	9
Underwriting	**—**	**6**	**—**	**6**	1	7	—	8
Fee income	**97**	**25**	**70**	**192**	92	35	70	197
Less: fee expense	**(4)**	**(1)**	**(15)**	**(20)**	(5)	(5)	(19)	(29)
Net fee income	**93**	**24**	**55**	**172**	87	30	51	168

	Nine months ended							
	30 Sep 2020				30 Sep 2019			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking[1]**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking[1]	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**30**	**5**	**12**	**47**	31	5	11	47
Broking income	**—**	**—**	**10**	**10**	—	—	6	6
Cards	**12**	**—**	**33**	**45**	15	—	33	48
Credit facilities	**193**	**42**	**—**	**235**	177	50	—	227
Funds under management	**—**	**—**	**144**	**144**	—	—	143	143
Imports/exports	**7**	**—**	**—**	**7**	8	1	—	9
Insurance agency commission	**—**	**—**	**4**	**4**	—	—	4	4
Other	**23**	**10**	**3**	**36**	19	13	5	37
Remittances	**19**	**6**	**3**	**28**	17	6	3	26
Underwriting	**1**	**34**	**—**	**35**	2	26	—	28
Fee income	**285**	**97**	**209**	**591**	269	101	205	575
Less: fee expense	**(11)**	**(7)**	**(45)**	**(63)**	(13)	(9)	(55)	(77)
Net fee income	**274**	**90**	**164**	**528**	256	92	150	498

1. *In the second quarter of 2020, HSBC Group combined Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking; therefore going forward, our global business Retail Banking and Wealth Management has been renamed to Wealth and Personal Banking. For further details, see note 4 of these interim condensed consolidated financial statements.*

3 Employee compensation and benefits

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

	Quarter ended		Nine months ended	
	30 Sep 2020	30 Sep 2019	**30 Sep 2020**	30 Sep 2019
	$m	$m	**$m**	$m
Defined benefit plans	**5**	5	**16**	16
– pension plans	**3**	3	**11**	11
– non-pension plans	**2**	2	**5**	5
Defined contribution pension plans	**10**	10	**29**	29
Total	**15**	15	**45**	45

A re-measurement of the net defined benefit liability has occurred in accordance with the bank's accounting policy as described on page 72 of the *Annual Report and Accounts 2019*.

4 Segment analysis

The bank's chief operating decision maker is the Chief Executive Officer, supported by the Executive Committee. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer and the Executive Committee. Global businesses are our reportable segments under IFRS 8 'Operating Segments'. The three global businesses are Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made. Various estimate and allocation methodologies are used in the preparation of the segment financial information. We allocate expenses directly related to earning income to the segment that earned the related income. Expenses not directly related to earning income, such as overhead expenses, are allocated using appropriate methodologies. Segments' net interest income reflects internal funding charges and credits on the global businesses' assets, liabilities and capital, at market rates, taking into account relevant terms.

Change in reportable segments

Effective from the second quarter of 2020, we have made two changes to reportable segments. Firstly, we reallocated Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparative periods have been restated. Secondly, to simplify its matrix organizational structure, HSBC Group merged Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Accordingly, going forward our global business Retail Banking and Wealth Management has been renamed to Wealth and Personal Banking. As HSBC Bank Canada did not have a separate business line for Global Private Banking, there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the Retail Banking and Wealth Management business line as a result of the structure change.

Profit for the period

	Quarter ended									
	30 Sep 2020					30 Sep 2019				
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre[1]**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**116**	**27**	**115**	**(14)**	**244**	157	31	132	(7)	313
Net fee income	**93**	**24**	**55**	**–**	**172**	87	30	51	–	168
Net income from financial instruments held for trading	**9**	**14**	**8**	**(2)**	**29**	8	18	7	3	36
Other income	**5**	**7**	**10**	**5**	**27**	4	3	8	2	17
Total operating income	**223**	**72**	**188**	**(11)**	**472**	256	82	198	(2)	534
Change in expected credit losses and other credit impairment charges	**2**	**9**	**(9)**	**–**	**2**	(8)	(2)	(7)	–	(17)
Net operating income	**225**	**81**	**179**	**(11)**	**474**	248	80	191	(2)	517
– external	**252**	**72**	**154**	**(4)**	**474**	272	81	164	–	517
– inter-segment	**(27)**	**9**	**25**	**(7)**	**–**	(24)	(1)	27	(2)	–
Total operating expenses	**(97)**	**(34)**	**(167)**	**(19)**	**(317)**	(102)	(42)	(169)	2	(311)
Profit/(loss) before income tax expense	**128**	**47**	**12**	**(30)**	**157**	146	38	22	–	206

1. *Corporate Centre is not an operating segment of the Bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

	Nine months ended									
	30 Sep 2020					30 Sep 2019				
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre[1]**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**404**	**94**	**355**	**(42)**	**811**	473	96	406	(20)	955
Net fee income	**274**	**90**	**164**	**—**	**528**	256	92	150	—	498
Net income from financial instruments held for trading	**26**	**48**	**28**	**—**	**102**	26	65	23	3	117
Other income	**14**	**17**	**28**	**20**	**79**	10	8	20	16	54
Total operating income	**718**	**249**	**575**	**(22)**	**1,520**	765	261	599	(1)	1,624
Change in expected credit losses and other credit impairment charges	**(262)**	**(40)**	**(26)**	**—**	**(328)**	(20)	(11)	(14)	—	(45)
Net operating income	**456**	**209**	**549**	**(22)**	**1,192**	745	250	585	(1)	1,579
– external	**525**	**199**	**468**	**—**	**1,192**	807	253	510	9	1,579
– inter-segment	**(69)**	**10**	**81**	**(22)**	**—**	(62)	(3)	75	(10)	—
Total operating expenses	**(295)**	**(116)**	**(494)**	**(43)**	**(948)**	(308)	(124)	(524)	(20)	(976)
Profit/(loss) before income tax expense	**161**	**93**	**55**	**(65)**	**244**	437	126	61	(21)	603

1. *Corporate Centre is not an operating segment of the bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

Balance sheet information

	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre[1]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
At 30 Sep 2020					
Loans and advances to customers	**26,496**	**4,087**	**31,243**	**—**	**61,826**
Customers' liability under acceptances	**2,247**	**1,365**	**12**	**—**	**3,624**
Total external assets	**42,109**	**34,662**	**46,978**	**464**	**124,213**
Customer accounts	**24,688**	**9,864**	**39,046**	**—**	**73,598**
Acceptances	**2,258**	**1,369**	**12**	**—**	**3,639**
Total external liabilities	**34,758**	**32,693**	**49,325**	**645**	**117,421**
At 31 Dec 2019					
Loans and advances to customers	28,240	4,178	29,504	—	61,922
Customers' liability under acceptances	1,978	1,510	12	—	3,500
Total external assets	39,594	27,153	39,615	209	106,571
Customer accounts	21,712	6,199	34,978	—	62,889
Acceptances	1,982	1,511	12	—	3,505
Total external liabilities	30,997	24,539	44,490	436	100,462

1. *Corporate Centre is not an operating segment of the bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

5 Trading assets

		At	
		30 Sep 2020	31 Dec 2019
	Footnote	**$m**	$m
Debt securities		**3,318**	4,322
– Canadian and Provincial Government bonds	1	**2,680**	3,496
– treasury and other eligible bills		**439**	464
– other debt securities		**199**	362
Equity securities		**3**	—
At the end of the period		**3,321**	4,322
Trading assets			
– not subject to repledge or resale by counterparties		**1,823**	2,170
– which may be repledged or resold by counterparties		**1,498**	2,152
At the end of the period		**3,321**	4,322

1. *Including government guaranteed bonds.*

6 Derivatives

For a detailed description of the type, use of derivatives and accounting policies, refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2019*.

Notional contract amounts and fair values of derivatives by product contract type held

	Notional contract amount[1]		Fair value – Assets			Fair value – Liabilities		
	Held for trading	Hedge accounting	Held for trading	Hedge accounting	Total	Held for trading	Hedge accounting	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Foreign exchange	**146,681**	**64**	**1,440**	**–**	**1,440**	**1,429**	**3**	**1,432**
Interest rate	**461,295**	**18,328**	**3,885**	**280**	**4,165**	**3,886**	**461**	**4,347**
Commodity	**398**	**–**	**4**	**–**	**4**	**4**	**–**	**4**
At 30 Sep 2020	**608,374**	**18,392**	**5,329**	**280**	**5,609**	**5,319**	**464**	**5,783**
Foreign exchange	148,681	958	1,562	–	1,562	1,529	58	1,587
Interest rate	393,562	26,860	1,588	117	1,705	1,620	224	1,844
Commodity	10	–	–	–	–	–	–	–
At 31 Dec 2019	542,253	27,818	3,150	117	3,267	3,149	282	3,431

1. *The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*

Derivatives in hedge accounting relationships

Fair value hedging instrument by hedged risk

	At					
	30 Sep 2020			31 Dec 2019		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Interest rate	**11,037**	**42**	**461**	14,452	72	180
Total	**11,037**	**42**	**461**	14,452	72	180

Cash flow hedging instrument by hedged risk

	At					
	30 Sep 2020			31 Dec 2019		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Foreign currency	**64**	**–**	**3**	958	–	58
Interest rate	**7,291**	**238**	**–**	12,408	44	44
Total	**7,355**	**238**	**3**	13,366	44	102

7 Financial investments

Carrying amount of financial investments

	Footnote	At 30 Sep 2020 $m	31 Dec 2019 $m
Debt securities		**20,147**	23,625
– Canadian and Provincial Government bonds	1	**11,508**	14,577
– international Government bonds	1	**2,776**	3,326
– other debt securities issued by banks and other financial institutions		**3,654**	4,105
– treasury and other eligible bills		**2,209**	1,617
Equity securities		**5**	20
At the end of the period		**20,152**	23,645
Financial investments		**20,152**	23,645
– not subject to repledge or resale by counterparties		**19,841**	20,083
– which may be repledged or resold by counterparties		**311**	3,562

1. Includes government guaranteed bonds.

8 Other assets

	At 30 Sep 2020 $m	31 Dec 2019 $m
Accounts receivable and other	**393**	350
Settlement accounts	**1,173**	710
Cash collateral	**738**	510
Other	**18**	10
At the end of the period	**2,322**	1,580

9 Trading liabilities

	At 30 Sep 2020 $m	31 Dec 2019 $m
Net short positions in securities	**4,009**	2,296
At the end of the period	**4,009**	2,296

10 Debt securities in issue

	At 30 Sep 2020 $m	31 Dec 2019 $m
Bonds and medium term notes	**9,252**	11,091
Covered bonds	**4,058**	2,266
Money market instruments	**5,403**	1,237
At the end of the period	**18,713**	14,594

Term to maturity

	At 30 Sep 2020 $m	31 Dec 2019 $m
Less than 1 year	**7,697**	4,018
1-5 years	**10,941**	10,452
5-10 years	**75**	124
At the end of the period	**18,713**	14,594

Beginning second quarter, we participated in the Insured Mortgage Purchase Program (‘IMPP’), launched by the Government of Canada as part of their response to COVID-19. Under the IMPP, we assessed whether substantially all of the risks and rewards of the loans have been transferred, in order to determine if the mortgages qualify for derecognition. Since we continue to be exposed to substantially all of the risks and rewards of ownership associated with these securitized mortgages, they do not qualify for derecognition. We continue to recognize the loans and recognize the related cash proceeds as secured financing. At 30 September 2020, the total amount of the mortgages transferred and outstanding was $481m and $480m of the associated liability was recorded as debt security in issue on our consolidated balance sheet.

11 Other liabilities

	Footnote	At 30 Sep 2020 $m	31 Dec 2019 $m
Mortgages sold with recourse		**1,878**	1,715
Lease liabilities		**262**	258
Accounts payable		**233**	256
Settlement accounts		**1,328**	915
Cash collateral		**123**	211
Other		**37**	18
Share based payment related liability		**5**	11
At the end of the period		**3,866**	3,384

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 September 2020 are consistent with those applied for the *Annual Report and Accounts 2019*.

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price Level 1 $m	Using observable inputs Level 2 $m	With significant unobservable inputs Level 3 $m	Total $m
Recurring fair value measurements				
At 30 Sep 2020				
Assets				
Trading assets	**3,189**	**132**	**—**	**3,321**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**7**	**—**	**7**
Derivatives	**—**	**5,608**	**1**	**5,609**
Financial investments	**20,100**	**52**	**—**	**20,152**
Liabilities				
Trading liabilities	**3,894**	**115**	**—**	**4,009**
Derivatives	**—**	**5,782**	**1**	**5,783**
At 31 Dec 2019				
Assets				
Trading assets	4,257	65	—	4,322
Other financial assets mandatorily measured at fair value through profit or loss	—	5	—	5
Derivatives	—	3,267	—	3,267
Financial investments	23,612	33	—	23,645
Liabilities				
Trading liabilities	2,286	10	—	2,296
Derivatives	—	3,431	—	3,431

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets $m	Financial investments $m	Trading liabilities $m
Quarter ended 30 Sep 2020			
Transfer from Level 1 to Level 2	**—**	**—**	**—**
Transfer from Level 2 to Level 1	**—**	**—**	**—**
Quarter ended 30 Sep 2019			
Transfer from Level 1 to Level 2	—	9	—
Transfer from Level 2 to Level 1	8	305	3

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained on pages 97 and 98 of the *Annual Report and Accounts 2019*.

Fair values of financial instruments not carried at fair value

		At			
		30 Sep 2020		31 Dec 2019	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	1	**61,826**	**62,096**	61,922	61,917
Liabilities					
Customer accounts		**73,598**	**73,946**	62,889	63,166
Debt securities in issue		**18,713**	**19,139**	14,594	14,722
Subordinated liabilities		**1,011**	**1,018**	1,033	1,030

1. *Loans and advances to customers specifically relating to Canada: carrying amount $58,064m and fair value $58,318m.*

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

13 Legal proceedings and regulatory matters

The bank is subject to a number of legal proceedings and regulatory matters arising in the normal course of our business. The bank does not expect the outcome of any of these proceedings, in aggregate, to have a material effect on its consolidated balance sheet or its consolidated income statement.

14 Events after the reporting period

A new methodology has become effective to discount specific USD denominated OTC derivative contracts using the Secured Overnight Financing Rate ('SOFR') replacing the Effective Federal Funds Rate ('EFFR'), which the bank has transitioned to on 16 October 2020.

On 23 October 2020, the bank declared regular quarterly dividends for the fourth quarter of 2020 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 31 December 2020 or the first business day thereafter to shareholder of record on 15 December 2020. As the dividends on preferred shares for the fourth quarter of 2020 were declared after 30 September 2020, the amounts have not been included in the balance sheet as a liability.

There have been no other material events after the reporting period which would require disclosure or adjustment to the 30 September 2020 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 23 October 2020 and authorized for issue.

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